DEVELOPMENT BANK

JOINT-STOCK COMPANY "DEVELOPMENT BANK OF THE REPUBLIC OF BELARUS"

US$500,000,000 6.75 per cent. Notes due 2024
Issue price: 100 per cent.

The US$500,000,000 6.75 per cent. Notes due 2024 (the "**Notes**") are issued by Joint-Stock Company "Development Bank of the Republic of Belarus" (the "**Issuer**" or "**DBRB**"). Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 2 May 2024 (the "**Maturity Date**").

The obligations of the Issuer under the Notes in respect of payment of principal and interest will, in certain circumstances, qualify as a secondary liability of the Republic of Belarus (the "**Secondary Liability**") pursuant to the Edict of the President of the Republic of Belarus No. 261 dated 21 June 2011 '*On establishment of the Joint-Stock Company "Development Bank of the Republic of Belarus"*' *(as amended)* ("**Edict No. 261**") and the Edict of the President of the Republic of Belarus No. 600 dated 19 December 2014 '*On separate issues of the activities of Joint-Stock Company "Development Bank of the Republic of Belarus"*' ("**Edict No. 600**").

The Secondary Liability may be amended or withdrawn at any time. Any amendment or withdrawal will not be an event of default under the Notes but will permit each Noteholder to redeem all or part of its Notes at their principal amount outstanding together with interest accrued to, but excluding, the date of redemption (see "*Terms and Conditions of the Notes—Condition 6(b)* (*Redemption at the option of Noteholders on amendment or withdrawal of the Secondary Liability*)" for further details). The Secondary Liability may only be enforced under Belarusian law and is subject to the jurisdiction of the Belarusian courts. The Republic of Belarus has not expressly waived its right to sovereign immunity with respect to the Secondary Liability.

Under Belarusian law, the Secondary Liability is classified as an "expenditure obligation" and is subordinated to any sovereign debt obligations of the Republic of Belarus. Sovereign debt of the Republic of Belarus is therefore payable in priority to any obligations of the Republic of Belarus under the Secondary Liability. Under Belarusian law, sovereign debt includes: (i) the principal amount of debt under internal and external state loans in respect of which the Republic of Belarus is the borrower or issuer of securities; and (ii) outstanding obligations in accordance with governmental guarantees issued in connection with internal and external loans. Expenditure obligations include any other payment obligations of the Republic of Belarus based on legislation or an agreement executed on behalf of the Republic of Belarus or its administrative and territorial units. See "*Description of the Secondary Liability*" and "*Risk Factors—Risks relating to the Secondary Liability*" below for further details.

The Notes will bear interest from, and including, 2 May 2019 at the rate of 6.75 per cent. per annum payable semi-annually in arrear on 2 May and 2 November of each year, commencing on 2 November 2019. Payments on the Notes will be made without deduction for, or on account of, taxes imposed or levied by or on behalf of the Republic of Belarus, subject to and to the extent described under "*Terms and Conditions of the Notes—Condition 8 (Taxation)*".

This document has been approved by the Irish Stock Exchange plc (trading as Euronext Dublin) ("**Euronext Dublin**") as listing particulars. Application has been made to Euronext Dublin for the Notes to be admitted to the Official List of Euronext Dublin (the "**Official List**") and to trading on the Global Exchange Market of Euronext Dublin (the "**Global Exchange Market**"), which is the exchange-regulated market of Euronext Dublin. The Global Exchange Market is not a regulated market for the purposes of EU Directive 2014/65/EU (as amended, "**MiFID II**"). This document constitutes the listing particulars (the "**Listing Particulars**") in respect of the admission of the Notes to the Official List and to trading on the Global Exchange Market and does not constitute a prospectus for the purposes of Directive 2003/71/EC, as amended or superseded (the "**Prospectus Directive**"). The Notes are being offered (i) in offshore transactions in reliance on, and as defined in, Regulation S (the "**Unrestricted Notes**") under the US Securities Act of 1933, as amended (the "**Securities Act**"), and (ii) in the United States only to qualified institutional buyers ("**QIBs**") as defined in Rule 144A under the Securities Act in reliance on, and in compliance with, Rule 144A (the "**Restricted Notes**").

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each prospective purchaser of the Notes is hereby notified that the offer and sale of the Notes to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

The Notes are expected to be rated "B" by S&P Global Ratings Europe Limited ("**S&P**") and "B" by Fitch Ratings Ltd. ("**Fitch**"). S&P and Fitch are established in the European Community and registered under Regulation (EC) No. 1060/2009 on credit rating agencies (the "**CRA Regulation**"). The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs). Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

An investment in the Notes involves certain risks. See "*Risk Factors*" beginning on page 6.

The Notes will be offered and sold in registered form and in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. Each series of the Notes will initially be represented by global certificates in registered form, one or more of which will be issued in respect of the Restricted Notes (the "**Restricted Global Note Certificates**") and registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**") and one of which will be issued in respect of the Unrestricted Notes (the "**Unrestricted Global Note Certificate**" and, together with the Restricted Global Note Certificates, the "**Global Note Certificates**") and registered in the name of Citivic Nominees Limited as nominee of a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**, **Luxembourg**"). It is expected that delivery of the Global Note Certificates will be made on 2 May 2019 or such later date as may be agreed (the "**Issue Date**") by the Issuer and the Joint Lead Managers (as defined under "*Subscription and Sale*"*)*. Beneficial interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Except in the limited circumstances as described herein, individual certificates will not be issued in exchange for beneficial interests in the Global Note Certificates.

Joint Lead Managers and Bookrunners

CITIGROUP **RAIFFEISEN BANK INTERNATIONAL**

30 April 2019

These Listing Particulars do not comprise a prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the "**Prospectus Regulations**") and constitute listing particulars for the purpose of giving information with regard to the Notes and the Issuer which, according to the particular nature of the Issuer, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Terms and Conditions of the Notes.

The Issuer accepts responsibility for the information contained in these Listing Particulars. To the best knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer has confirmed to the Joint Lead Managers that these Listing Particulars contain all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading; any opinions, predictions or intentions expressed in these Listing Particulars are honestly held and are not misleading; these Listing Particulars do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances they were made, not misleading; and all proper enquiries have been made to ascertain and to verify the foregoing.

Neither the Joint Lead Managers nor any of their respective directors, officers, employees, affiliates, advisers or agents has made any independent verification of the information contained in these Listing Particulars in connection with the issue or offering of the Notes (the "**Offering**") and no representation or warranty, express or implied, is made by either of the Joint Lead Managers or any of their respective directors, officers, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in these Listing Particulars is, is to be construed as, or shall be relied upon as, a representation or warranty, whether to the past or the future, by either of the Joint Lead Managers or any of their respective directors, officers, employees, affiliates, advisers or agents in any respect.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in these Listing Particulars. Any other representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers. The contents of these Listing Particulars are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

Neither the delivery of these Listing Particulars nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of these Listing Particulars.

These Listing Particulars do not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of these Listing Particulars and the Offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession these Listing Particulars come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of these Listing Particulars and other offering materials relating to the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

These Listing Particulars have been prepared by the Issuer for use in connection with the offer and sale of the Notes and the admission of the Notes to the Official List and to trading on the Global Exchange Market. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. These Listing Particulars do not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its US broker-dealer affiliate. Distribution of these Listing Particulars to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Belarus of acquiring, holding and disposing of the Notes and receiving payments of principal, interest and/or other amounts under the Notes.

STABILISATION

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**")**;** and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPSs Regulation.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

THE NOTES HAVE NOT BEEN APPROVED OR DISTRIBUTED BY THE US SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES REVIEWED OR PASSED UPON THE ACCURACY OR ADEQUACY OF THESE LISTING PARTICULARS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

GENERAL NOTICE TO PROSPECTIVE INVESTORS IN CERTAIN JURISDICTIONS

THE NOTES ARE NOT BEING OFFERED, AND MAY NOT BE ACQUIRED BY PERSONS RESIDENT IN THE FOLLOWING JURISDICTIONS: ANDORRA, ANGUILLA, ANTIGUA AND BARBUDA, ARUBA, BAHAMAS, BARBADOS, BELIZE, BERMUDA, THE BRITISH VIRGIN ISLANDS, BRUNEI, THE CARIBBEAN NETHERLANDS, THE CAYMAN ISLANDS, CHAGOS ISLANDS, CURACAO, THE COOK ISLANDS, COSTA RICA, DELAWARE (THE UNITED STATES OF AMERICA), THE DOMINICAN REPUBLIC, FIJI, FRENCH POLYNESIA, GIBRALTAR, GRENADA, JAMAICA, THE KERGUELEN ISLANDS, LABUAN, LIBERIA, LIECHTENSTEIN, MACAO, MADEIRA, MALDIVES, THE MARSHALL ISLANDS, MAURITIUS, MONACO, MONTENEGRO, MONTSERRAT, NAURU, NIUE, PANAMA, PUERTO RICO, THE REPUBLIC OF DJIBOUTI, SAINT KITTS AND NEVIS, SAINT LUCIA, SAINT VINCENT AND THE GRENADINES, SAMOA, THE SEYCHELLES, ST. MARTIN'S ISLAND, SOUTH GEORGIA AND THE SOUTH SANDWICH ISLANDS, TONGA, TURKS AND CAICOS ISLANDS, THE US VIRGIN ISLANDS, VANUATU, OR WYOMING (THE UNITED STATES OF AMERICA).

EXCHANGE RATE INFORMATION

In these Listing Particulars, unless otherwise specified, references to "**Euro**" and "**EUR**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, references to "**US dollars**", "**USD**" and "**US$**" are to the currency of the United States, references to "**Belarusian ruble**" and "**BYN**" are to the currency of the Republic of Belarus and references to "**Russian ruble**" or "**RUB**" are to the currency of the Russian Federation. On 1 July 2016, the Belarusian ruble was redenominated at the rate of old BYN10,000 to new BYN1.

The official rate published by the National Bank of the Republic of Belarus (the "**National Bank**" or "**NBB**") for US dollars and Euro on 8 April 2019 was BYN2.1415 = US$1.00 and BYN2.4042 = EUR1.00, respectively.

The following table sets out the high, low, average (calculated as the arithmetical mean) and period-end official exchange rates of the Belarusian ruble to US dollar and Euro for the years 2014 to 2018 and 2019 to date:

	High	**Low**	**Average**	**Period end**
		US$		
From 1 January 2019 to 8 April 2019	2.1788	2.0963	2.1457	2.1415
From 1 January 2018 to 31 December 2018	2.1681	1.9464	2.0377	2.1598
From 1 January 2017 to 31 December 2017	2.0378	1.8520	1.9324	1.9727
From 1 July 2016 to 31 December 2016(1)	2.0159	1.9004	1.9534	1.9585
From 1 January 2016 to 30 June 2016	22,069	18,569	20,221.29	20,053
From 1 January 2015 to 31 December 2015	18,569	11,900	15,905.05	18,569
From 1 January 2014 to 31 December 2014	11,850	9,520	10,226.90	11,850
		EUR		
From 1 January 2019 to 8 April 2019	2.4865	2.3879	2.4360	2.4042
From 1 January 2018 to 31 December 2018	2.5580	2.2898	2.4052	2.4734
From 1 January 2017 to 31 December 2017	2.4008	1.9698	2.1831	2.3553
From 1 July 2017 to 31 December 2016(1)	2.2354	2.0338	2.1450	2.0450
From 1 January 2016 to 30 June 2016	24,956	20,100	22,557.63	22,210
From 1 January 2015 to 31 December 2015	20,474	14,460	17,654.54	20,300
From 1 January 2014 to 31 December 2014	14,380	12,970	13,578.33	14,380

Source: The National Bank

(1) On 1 July 2016, the Belarusian ruble was redenominated at the rate of 10,000 old rubles to one new ruble.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "would be", "seeks", "approximately" or "anticipates" or similar expressions or the negative or other variations thereof or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout these Listing Particulars and include statements regarding DBRB's intentions, beliefs or current expectations concerning, amongst other things, DBRB's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which it operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that DBRB's actual results of operations, financial condition and liquidity and the development of the sectors and economy in which it operates may differ materially from those made in or suggested by the forward-looking statements contained in these Listing Particulars. In addition, even if DBRB's results of operations, financial condition and liquidity and the development of the sectors and economy in which it operates are consistent with the forward-looking statements contained in these Listing Particulars, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- economic and political conditions, as well as the stability of the banking sector, in the Republic of Belarus generally;
- continued support and control of DBRB by the government of the Republic of Belarus (the "**Government**");
- anticipated growth of DBRB's business;
- economic and political conditions in the countries of residence of DBRB's borrowers, which may impact their ability to repay loans owed to DBRB and, accordingly, the asset quality of DBRB's loan portfolio;
- expectations as to the impact of projects undertaken to improve cost efficiencies and enhance income growth; and
- estimates and financial targets for increasing and diversifying the composition of DBRB's loan portfolio.

Factors that could cause actual results to differ materially from DBRB's expectations are contained in cautionary statements in these Listing Particulars and include, among other things, the following:

- overall macro-economic and national and international business conditions and commodity prices;
- regional and geopolitical challenges, including changes in economic, social or political conditions in the Republic of Belarus, including changes in government;
- demand for DBRB's products or services;
- competitive factors in the sectors and economy in which DBRB and its customers compete;
- changes in regulations of the Government;
- any decline in the value of collateral securing the loans granted by DBRB to its borrowers;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- interest rate fluctuations and other capital market conditions;
- exchange rate fluctuations;
- hostilities and restrictions on the ability to transfer capital across borders; and
- the timing and impact of other uncertainties relating to future actions.

The sections of these Listing Particulars entitled "*Risk Factors*", "*Selected Financial Information and Other Data*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" "*Selected Statistical and Other Data*" and "*Business*" contain a more complete discussion of the factors that could affect DBRB's future performance and the sectors and economy in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in these Listing Particulars may or may not occur.

DBRB does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to DBRB or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in these Listing Particulars.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

IFRS Financial Statements

DBRB is required to maintain its accounts in accordance with relevant laws and regulations in the Republic of Belarus and the regulations of the National Bank. These laws and regulations require that DBRB's financial statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**") as promulgated by the International Accounting Standards Board (the "**IASB**") and accompanied by an audit opinion issued by an independent auditor. Accordingly, DBRB's audited annual consolidated financial statements set forth on pages F-2 through F-201 of these Listing Particulars, including the notes thereto as at and for the years ended 31 December 2018 (including comparative information in respect of the year ended 31 December 2017) (the "**2018 Financial Statements**") and 31 December 2017 (including comparative information in respect of the years ended 31 December 2016 and 31 December 2015) (the "**2017 Financial Statements**" and, together with the 2018 Financial Statements, the "**Financial Statements**") were prepared in accordance with IFRS.

The effect of local and global market conditions on DBRB as well as the effect of those conditions on DBRB's customers and counterparties may mean that the actual financial condition and results of operations of DBRB as at any future date or for any future period may be materially and adversely different from the financial condition and the results of operations presented as at and for the year ended 31 December 2018. Accordingly, investors should not assume that the financial condition and the results of operations presented in these Listing Particulars as at and for the year ended 31 December 2018 are an accurate indication of the actual financial condition or results of operations as at any date or for any period thereafter. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition*".

IFRS 9

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments". IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaced IAS 39 Financial Instruments: Recognition and Measurement. In October 2017, the IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

DBRB has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018 and adopted the amendments to IFRS 9 on the same date. Under the transition method chosen, comparative information (i.e., for the years ended 31 December 2017 and 2016) has not been restated. As a result of the adoption of IFRS 9, however, DBRB and its subsidiaries changed the presentation of certain captions and comparative information has been represented accordingly for the years ended 31 December 2017 and 31 December 2016. Changes in DBRB's accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described in Note 2 to the 2018 Financial Statements. See Note 5 to the 2018 Financial Statements for more information and details regarding the changes and implications resulting from the adoption of IFRS 9.

Rounding

Certain amounts which appear in these Listing Particulars have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be the sum of the figures which precede them.

US Securities and Exchange Commission Reporting Requirements

The financial information included in these Listing Particulars is not intended to comply with US Securities and Exchange Commission reporting requirements. Compliance with such requirements might require the modification or exclusion of certain financial measures and the presentation of certain other information not included herein.

Presentation of Alternative Performance Measures and Other Metrics

In these Listing Particulars, DBRB uses the following metrics in the analysis of its business and financial position, some of which it considers to constitute Alternative Performance Measures ("**APMs**"), as defined in the European Securities and Market Authority Guidelines on Alternative Performance Measures dated 5 October 2015 (the "**ESMA Guidelines**").

Set out below is a summary of the metrics used, the definition, basis of calculation and rationale for the inclusion of such metrics. For a reconciliation of certain of these measures to the relevant financial statement line items, see "*Selected Financial Information and Other Data—Reconciliations of APMs*".

Metric	Definition and basis of calculation	Rationale
Return on average total equity (ROAE)	Calculated as net income for the period divided by average total equity for the period. Average total equity is calculated as the average of the opening and closing balances for each relevant period.	Performance measure aimed at assessing the yield on equity in DBRB.
Return on average total assets (ROAA)	Calculated as net income for the period divided by average total assets. Average total assets for the period are calculated based on opening and closing balances for each relevant period.	Performance measure aimed at assessing the yield on DBRB's assets.
Net interest margin	Calculated as net interest income calculated using effective interest rate method and other interest income as a percentage of average interest-earning assets. Interest-earning assets comprise cash and cash equivalents, due from banks, loans to customers and investment securities.	Performance measure aimed at assessing the yield on DBRB's assets.
Cost to income ratio	Calculated as the sum of fee and commission expense and general administrative expenses divided by net income. For a reconciliation of this metric to the relevant financial statement line items, see "*Selected Financial Information and Other Data—Reconciliations of APMs*".	Performance measure aimed at assessing the performance of DBRB.
Bad debt ratio	Calculated as non-performing loans divided by gross loans to customers. For a reconciliation of this ratio, see "*Selected Financial Information and Other Data—Reconciliations of APMs*".	Measure aimed at assessing DBRB's credit risk.
Loans to customers/total assets	Calculated as loans to customers divided by total assets.	Liquidity measure.
Total equity/total assets	Calculated as total equity divided by total assets.	Performance measure aimed at assessing DBRB's leverage ratio.
Liquid assets/total assets	Calculated as liquid assets divided by total assets. Liquid assets comprise cash and cash equivalents, due from banks and investment securities. For a reconciliation of this metric to the relevant financial statement line items, see "*Selected Financial Information and Other Data—Reconciliations of APMs*".	Liquidity measure.
Capital adequacy ratio	Calculated as the sum of Tier 1 capital and Tier 2 capital divided by risk-weighted assets (i.e., the sum of all assets multiplied by a risk weight for each asset class).	Measure aimed at assessing DBRB's capital adequacy.
Tier 1 common capital ratio	Calculated as Tier 1 common capital divided by risk-weighted	Measure aimed at assessing DBRB's capital adequacy.

Metric	Definition and basis of calculation	Rationale
	assets (i.e., the sum of all assets multiplied by a risk weight for each asset class).	
Tier 1 total capital ratio	Calculated as Tier 1 capital divided by risk-weighted assets (i.e., the sum of all assets multiplied by a risk weight for each asset class).	Measure aimed at assessing DBRB's capital adequacy.

The capital adequacy ratio and Tier 1 common capital ratio are presented throughout these Listing Particulars both on the basis of IFRS consolidated financial statements and on the basis of standalone financial statements prepared in accordance with the National Bank methodology. Where the ratios are presented on the basis of IFRS consolidated financial statements, Basel II (International Convergence of Capital Measurement and Capital Standards) Convention ("**Basel II**") principles have been applied. Where the ratios are presented on the basis of standalone financial statements prepared in accordance with the National Bank methodology, Basel III: International Regulatory Framework for Banks ("**Basel III**") principles have been applied. The Tier 1 total capital ratio is presented on the basis of standalone financial statements prepared in accordance with the National Bank methodology applying Basel III principles.

The above metrics have been included in these Listing Particulars to facilitate a better understanding of DBRB's financial performance and condition. DBRB uses these metrics as information supplementary to its IFRS results of operations. See the Financial Statements included in these Listing Particulars. These metrics are not defined by, or presented in accordance with, IFRS. The metrics are not measures of DBRB's operating performance under IFRS and should not be considered as alternatives to any measures of performance under IFRS. In addition, other companies, including development banks, may calculate similarly titled metrics differently from DBRB. Because companies do not calculate these metrics in the same manner, DBRB's presentation of such metrics may not be comparable to other similarly titled metrics used by other companies.

MARKET AND INDUSTRY INFORMATION

Statistical data appearing in these Listing Particulars have been extracted or compiled from the records, statistics and other official public sources of information in the Republic of Belarus, and has not been independently checked or verified. The Issuer has accurately reproduced such information and, as far as the Issuer is aware and able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading. In recent years there have been significant steps taken in the Republic of Belarus to improve the accuracy and reliability of official statistics and to conform statistical methodology to international standards. However, in a transition economy in which there is a substantial amount of unofficial or unreported market economic activity, such statistical data may not accurately reflect current or historical levels of, and trends in, economic activity.

See "*Risk Factors*".

ENFORCEMENT OF FOREIGN JUDGMENTS AND FOREIGN ARBITRAL AWARDS

Foreign judgments (except for those rendered in Russia) or foreign arbitral awards will not be enforced in the Republic of Belarus until they have passed the procedure of recognition. Recognition is a formal procedure providing for participation of the parties to the dispute but without re-consideration of the merits of the dispute. The main aim of recognition is to determine whether there are any formal grounds for refusal of recognition and enforcement of foreign judgments or arbitral awards. For instance, a Belarusian court may refuse to recognise and enforce foreign judgments or arbitral awards (when applicable) if:

- enforcement of a foreign judgment or arbitral award will contradict the "public policy" of the Republic of Belarus;
- according to the Belarusian legislation or international treaties of the Republic of Belarus consideration of the case is within the exclusive competence of Belarusian courts;
- a party against which a foreign judgment or arbitral award was rendered had not been timely and duly notified about the proceedings, their time and place or due to other reasons has not been able to provide its explanations;
- a foreign judgment has not entered into force under the laws of a state on whose territory it was rendered, unless an international treaty of the Republic of Belarus allows recognition and enforcement of a judgment prior to its entry into force;
- there is a judgment of a Belarusian court rendered in a dispute between the same parties, on the same subject and on the same grounds which has already entered into force or such case is being considered by a Belarusian court provided that such proceedings started before commencement of proceedings in a foreign court or a Belarusian court first seized the case; or
- the statutory term for enforcement of a foreign judgment has expired and it has not been restored by a court.

Generally, the courts of the Republic of Belarus will not recognise judgments of a foreign court in the absence of an international and/or bilateral agreement between the Republic of Belarus and the jurisdiction in which such decision was rendered. No such agreement is currently in force between the Republic of Belarus and either of the United Kingdom or the United States.

In the absence of such agreement, the courts of the Republic of Belarus may recognise and enforce a foreign judgment on the basis of the principle of reciprocity. The Belarusian legislation does not include clear rules on the application of the principle of reciprocity. Thus, there can be no assurance that the courts of the Republic of Belarus will recognise and enforce a judgment rendered by the courts of a jurisdiction with which the Republic of Belarus has no international/bilateral agreement on the basis of the principle of reciprocity.

The Notes, the Subscription Agreement, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection therewith, as the case may be, are governed by, and construed in accordance with, English law and the Issuer and the parties thereto have agreed therein that any dispute, claim, difference or controversy arising out of or in connection therewith (including any dispute relating to their existence, validity or termination, or any non-contractual obligation or other matter arising out of or in connection with them) shall be referred to and finally resolved by arbitration under the Arbitration Rules of the London Court of International Arbitration. See "*Terms and Conditions of the Notes—Condition 18 (Governing Law and Arbitration)*".

Subject to the provisions of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards dated 10 June 1958 (to which the Republic of Belarus is a party) and the corresponding legislation of the Republic of Belarus, foreign arbitral awards are generally recognised and enforceable in the Republic of Belarus provided that the conditions to enforcement are met. With regard to arbitral awards made in the territories of non-contracting states, the Republic of Belarus has made a reservation that it will apply the provisions of the said Convention only to the extent to which those states grant reciprocal treatment.

Despite the above, recognition and enforcement of foreign judgments or arbitral awards in the Republic of Belarus may still be difficult.

In particular, if the enforcement of a foreign judgment or arbitral award conflicts with the "public policy" of the Republic of Belarus, a Belarusian court may refuse to recognise and enforce such foreign judgment or arbitral award. The laws of the Republic of Belarus do not provide any clear guidelines for determining what the "public policy" of the Republic of Belarus actually is. Although there was an attempt to summarise the court practice and provide guidance at the level of the Presidium of the Higher Economic Court (which is non-binding, but followed by the Belarusian courts), there are still different interpretations of this concept by the courts. Such ambiguity of the "public policy" concept may be used by Belarusian courts to deny recognition and enforcement of foreign judgments and arbitral awards rendered against the Issuer or the Republic of Belarus.

A Belarusian court will also ignore any dispute resolution agreement of the parties if it finds that under Belarusian law it has exclusive jurisdiction over such disputes.

In addition, if any claim is lodged with a Belarusian court in respect of a dispute covered by an arbitration agreement, the motion to dismiss the proceedings and to refer the parties to arbitration shall be made by the party objecting to the jurisdiction of the Belarusian court prior to submitting its first statement on the substance of the dispute. If no such motion is made, the Belarusian court will proceed to hear, and pass judgment on, the merits of the dispute.

Under the official interpretation of Belarusian procedural law, if any entities are located or domiciled in the Republic of Belarus, they may not agree to refer their mutual disputes to foreign arbitral tribunals or foreign courts. Arbitration under the Arbitration Rules of the London Court of International Arbitration may be operative under the laws of the Republic of Belarus only if at least one party to the dispute with the Issuer is located or domiciled outside the Republic of Belarus. A dispute between a Belarusian resident and the Issuer may be referred to arbitration under the Arbitration Rules of the London Court of International Arbitration only if there is a foreign co-claimant or co-respondent. Otherwise, a dispute between a Belarusian resident and the Issuer shall be referred to a competent court of the Republic of Belarus.

The Republic of Belarus as a sovereign state generally enjoys sovereign immunity from suits and enforcement. Although Edict No. 261 and Edict No. 600 provide a right for legal entities and natural persons acquiring the Notes (investors) to sue the Republic of Belarus on the basis of the Secondary Liability for satisfaction of the claims of such investors for the recovery of the nominal value of the Notes and/or payment of income thereunder in case of insufficiency of the Issuer's funds, it is not clear whether such legislative provision amounts to a waiver of sovereign immunity. Besides, Belarusian law lacks detailed regulation on the scope of sovereign immunities and procedures for their waiver. Moreover, the Republic of Belarus is not a party to the United Nations Convention on Jurisdictional Immunity of States and Their Property dated 2 December 2004.

In addition, there is a risk that without a waiver of sovereign immunity by the Republic of Belarus in connection with the Secondary Liability, a claimant will not be able to enforce a foreign judgment or arbitral award in the Republic of Belarus against assets of the Republic of Belarus, unless the Republic of Belarus has specifically consented to such enforcement at the time when the enforcement is sought. In addition, certain state-owned assets are exempt from court enforcement procedures in the Republic of Belarus (regardless of any sovereign immunity waiver). See "*Risk Factors—Risks relating to the Notes generally—Judgments relating to assets in the Republic of Belarus and Belarusian assets in other jurisdictions may be difficult to enforce*".

The enforcement in the Republic of Belarus of any court judgment or arbitral award against any assets of the Issuer which are subject to a mortgage, pledge, lien or other security interest or encumbrance granted by the Issuer to a third party will also be subject to the provisions of applicable laws governing such mortgages, pledges, liens, security interests or encumbrances (including, without limitation, the order of priority for the satisfaction of claims of secured and unsecured creditors from such assets). See "*Risk Factors—Risks relating to the Notes* *generally—Judgments relating to assets in the Republic of Belarus and Belarusian assets in other jurisdictions may be difficult to enforce*".

Although Belarusian law recognises choice of law principles for contractual obligations, the choice of foreign law will not exclude the application of mandatory rules of Belarusian law which cannot be excluded by the agreement of the parties. Consequently, regardless of the choice of law applicable to the relations of the parties, certain mandatory rules of Belarusian law still apply, including those relating to currency control, bankruptcy, liquidation and reorganization, taxation, capacity of legal entities, corporate governance, authority of the Issuer's officers, and the execution and form of agreements.

The choice of foreign law as extended to non-contractual obligations may not be fully enforceable in the Republic of Belarus, to the extent it is contrary to mandatory conflict of law rules provided by Belarusian law for certain non-contractual obligations (for example, those arising from torts or unjustified enrichment) which exclude the parties' agreement on choice of law.

A Belarusian court will also ignore any choice-of-law clause and apply the laws of the Republic of Belarus if it cannot ascertain the contents of the rules of the applicable foreign law as prescribed by the Civil Code of the Republic of Belarus; or if it determines that doing so would contradict "public policy" of the Republic of Belarus. See "*Risk Factors—Risks relating to the Notes generally—Belarusian courts may not enforce foreign judgments or arbitral awards and may not recognise the choice of English law as the governing law of the Notes*".

As a condition for admissibility in evidence of any documents, the courts of the Republic of Belarus will require the submission of such documents either (i) as originally executed counterparts, or (ii) as duly certified copies. For an official document issued outside the Republic of Belarus, unless a valid international agreement that the Republic of Belarus has entered into provides otherwise, such foreign official document will be admissible in evidence by a court of the Republic of Belarus if (i) such foreign official document is legalised by a Belarusian consul in the country of its issuance and accompanied by a duly certified Belarusian or Russian language translation of such official document, or (ii) an apostille is affixed to such official document by the competent authority of the country of its issuance subject to the terms of the Convention Abolishing the Requirement of Legalisation for Foreign Public Documents dated 5 October 1961 and accompanied by a duly certified Belarusian or Russian language translation of such official document.

The Tax Code of the Republic of Belarus of 19 December 2002 (General Part) and 29 December 2009 (Special Part), as amended (collectively, the "**Tax Code**") generally permits one party to pay tax for another party from its own funds, which makes the obligation of the Issuer to pay in case of any withholding or deduction such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required under Condition 8 (*Taxation*) generally enforceable in the Republic of Belarus. However, such statutory permission has only been in force since 1 January 2019 (and prior to 1 January 2019 it had been temporarily introduced for the year ended 31 December 2018) and the tax authorities are silent as to the applicability of the above-mentioned permission to gross up and as to the validity of the gross-up provisions generally. In the absence of any official interpretation or guidance and any practice regarding the validity of gross-up provisions, there is a remote risk that such general permission will not be applied to gross-up provisions such as the one contained in Condition 8 (*Taxation*). If the gross-up obligation is considered by the Issuer to be prohibited by Belarusian law, then any amounts payable to the Noteholders would be reduced by an amount equivalent to such taxation. There can be no assurance as to how a foreign judgment or an arbitral award demanding payment resulting from a failure to pay under the gross-up obligation under Condition 8 (*Taxation*) would be treated when it is to be enforced in the Republic of Belarus.

DESCRIPTION OF THE SECONDARY LIABILITY

Overview

The Secondary Liability is governed by Belarusian law and is subject to the jurisdiction of the Belarusian courts. The Republic of Belarus has not waived any right to immunity nor has it consented to enforcement in respect of the Secondary Liability. The acceptance of arbitration under the Arbitration Rules of the London Court of International Arbitration by the Issuer in respect of the Notes will not be effective in respect of the Secondary Liability.

Provided that all relevant provisions of Belarusian law are complied with, the obligations of the Issuer under the Notes in respect of payment of principal and "yield" will qualify, in certain circumstances, as a secondary liability payable by the Republic of Belarus pursuant to and subject to the terms of Edict No. 261 and Edict No. 600.

The Secondary Liability may be amended or withdrawn at any time by an Edict of the President of the Republic of Belarus. Any such amendment or withdrawal will not be an event of default under the Notes but will permit each Noteholder to redeem all or part of its Notes at their principal amount outstanding together with interest accrued to, but excluding, the date of redemption (see "*Terms and Conditions of the Notes—Condition 6(b) (Redemption at the option of Noteholders on amendment or withdrawal of the Secondary Liability)*" for further details).

Any accrued interest (including interest that continues to accrue following late payment of principal) will qualify as "yield" of the Notes for the purposes of Edict No. 600. However, there is a risk that any increased (default) interest will not qualify as "yield" and will not be covered by the Secondary Liability.

Under Belarusian law, the Secondary Liability is classified as an "expenditure obligation" and is subordinated to any sovereign debt obligations of the Republic of Belarus. Sovereign debt of the Republic of Belarus is therefore payable in priority to the Secondary Liability. Under Belarusian law, sovereign debt includes: (i) the principal amount of debt under internal and external state loans in respect of which the Republic of Belarus is the borrower or issuer of securities; and (ii) outstanding obligations in accordance with governmental guarantees issued in connection with internal and external loans. Expenditure obligations include any other payment obligations of the Republic of Belarus based on legislation or an agreement executed on behalf of the Republic of Belarus or its administrative and territorial units.

In addition, a valid Secondary Liability would represent a debt of the Republic of Belarus, and therefore non-payment under the Secondary Liability may trigger a cross-default of the existing debt obligations of the Republic of Belarus.

Operation of the Secondary Liability under Edict No. 600

Pursuant to Edict No. 600, if the Issuer establishes that it has "insufficient monetary funds" to perform its payment obligations under the Notes, it must send to the Council of Ministers of the Republic of Belarus (the "**Council of Ministers**"): (i) a letter with a formal request for it to fulfil the Issuer's payment obligations under the Notes; (ii) a draft resolution of the Council of Ministers to authorise such action (the "**Resolution**"); and (iii) documents confirming the sufficiency of measures undertaken by the Issuer to independently fulfil its obligations under the Notes. Under Edict No. 600, monetary funds are defined as "monetary funds held at the Issuer's disposal including those held on account with the National Bank and other banks, allocated into liquid assets, determined by the National Bank for the calculation of requirements of secure functioning for banks and non-bank credit and financial institutions".

Under Edict No. 600, this must be done not later than 15 days before the due date for the relevant payment obligation under the Notes. Not more than 30 days after receipt of the aforementioned documents, the Council of Ministers is required to pass the Resolution setting forth the sources for the repayment of principal and/or interest under the Notes. The principal and/or interest due under the Notes must be paid within 60 days from the date the Resolution comes into force. The Resolution shall come into force after its adoption and registration, which may be the same date or may be another date stipulated in the Resolution.

In addition, in the Terms and Conditions of the Notes, the Issuer has undertaken that, where it determines it has insufficient monetary funds within the meaning of Edict No. 600, it will send to the Council of Ministers the documents required for the initiation of the Secondary Liability under Edict No. 600 no later than 30 days before the date on which payment is due under the Notes. It should be noted, however, that whilst the Council of Ministers is permitted to pass the Resolution and the Republic of Belarus is permitted to make payments in respect of the Secondary Liability in advance of the statutory timeframes set out in Edict No. 600, neither is obliged to do so.

It should also be noted that there is no obligation for the Council of Ministers to adopt the Resolution and make payments under the Secondary Liability based solely on the Issuer's notification to it and the Secondary Liability shall only arise where it is determined by the Council of Ministers that the Issuer has insufficient monetary funds. Finally, it should be noted that the provisions of Edict No. 600 will need to be followed on each occasion the Issuer has insufficient monetary funds to make a payment on the Notes in order for a payment obligation of the Republic of Belarus to arise under the Secondary Liability.

Enforcement of the Secondary Liability

It is also possible for the Trustee to enforce the terms of the Secondary Liability separately from the procedure set out under "—*Operation of the Secondary Liability under Edict No. 600*" above.

In the event that the Issuer (i) refuses, in writing, to perform its obligations under the Notes; (ii) fails to respond to a demand for payment within a "reasonable period of time"; or (iii) recognises the claim but does not in fact perform its obligations, the Trustee acting on behalf of Noteholders may either bring separate actions for enforcement against the Issuer for any failure to meet its obligations under the Notes, and against the Republic of Belarus for failure to meet its obligations under the Secondary Liability, or a joint action for enforcement against both the Issuer and the Republic of Belarus. There is no legislative description of what constitutes a "reasonable period of time" under Belarusian law. Enforcement actions against the Republic of Belarus or against both the Republic of Belarus and the Issuer as co-defendants in respect of the Secondary Liability will need to be brought in the Belarusian courts and will be subject to Belarusian law.

The Trust Deed contains provisions for the service of a demand for payment to the Issuer by the Trustee, on behalf of the Noteholders, on notification by the Principal Paying Agent of non-payment of amounts due under the Notes.

The Secondary Liability will only be effective if the Issuer does not have sufficient monetary funds, as defined in Edict No. 600, to cover payment of all amounts due. Therefore, in the event that the Republic of Belarus challenges the effectiveness of the Secondary Liability on the basis that the Issuer does have sufficient monetary funds, it would be necessary for enforcement proceedings to be brought in a court of competent jurisdiction in the Republic of Belarus. If such a court determines that the Issuer does have sufficient monetary funds to cover the relevant payments, then the payments under the Notes will not be covered as a Secondary Liability of the Republic of Belarus.

CONTENTS

OVERVIEW OF THE ISSUER

DBRB was established in 2011 pursuant to Edict No. 261 by the Government and the National Bank in close cooperation with leading financial institutions, including the International Monetary Fund (the "**IMF**") and the World Bank. DBRB provides financial solutions in three core areas: financing of investment projects; export financing; and comprehensive support for SMEs. Since 2016, it has acted as the sole coordinator for new investment project financing under state programmes. In relation to these activities, DBRB does not compete directly with commercial banks but rather supplements the Belarusian banking system. DBRB is authorised to carry out certain activities typically performed by commercial banks without obtaining a licence from the National Bank. It does not participate in retail banking activities and only accepts deposits from government bodies and local government authorities. DBRB cooperates with leading financial organisations such as the IMF and the World Bank and maintains close links with foreign development banks such as KfW, China Development Bank and Eurasian Development Bank. In addition to its core banking activities, it provides family fund management services pursuant to Edict No. 572, as well as interbank market and currency exchange transactions services, securities issuance and brokerage services.

DBRB provides its services through its six branches located in Brest, Gomel, Vitebsk, Minsk, Grodno and Mogilev. It also has a representative office in London, United Kingdom. DBRB has two direct subsidiaries, BR-Consult, of which it owns 100 per cent., and JSC "Promagroleasing" ("**Promagroleasing**"), of which it owns 83.074 per cent. BR-Consult provides consulting services and manages the Republic of Belarus's holdings in woodworking companies. Promagroleasing provides leasing services in the Republic of Belarus, Russia and Ukraine.

The Government owns 96.212 per cent. of the share capital of DBRB, with the remaining 3.776 per cent. and 0.012 per cent. held by JSC "Belaruskali" (a 100 per cent. state-controlled entity, one of the world's largest potash producers, which received its shares in return for a contribution in kind of the property on which the DBRB's headquarters are located) and the National Bank, respectively. In 2016, the National Bank introduced banking supervision over the activities of DBRB. DBRB has consequently improved its corporate governance in accordance with the National Bank's requirements. In addition, DBRB has introduced procedures to take into account the corporate governance recommendations of the Basel Committee on Banking Supervision (the "**BCBS**"), the Organisation for Economic Cooperation and Development (the "**OECD**") and the International Finance Corporation. DBRB funds itself through capital injections from the Republic of Belarus, profit generated from its activities, the issuance of bonds, syndicated loans and family funds contributed as part of DBRB's family fund management activities.

As at 31 December 2018, DBRB had a gross loan portfolio of BYN4,838.1 million, which consisted of BYN4,350.6 million in loans made directly by DBRB and BYN487.5 million of loans transferred to DBRB. During the period from 2011 to 2014, DBRB received BYN1.7 billion of non-performing loans ("**NPLs**") from state-owned banks pursuant to state programmes. These loans are in the course of being transferred to the JSC "Asset Management Agency" (the "**Asset Management Agency**"), resulting in a significant reduction in DBRB's bad debt ratio. As at 31 December 2018, its bad debt ratio based on the IFRS definition of NPLs was 3.2 per cent. As at 31 December 2018, 21.6 per cent., 20.7 per cent., 20.1 per cent., 15.2 per cent. and 9.3 per cent. of DBRB's gross loan portfolio was attributable to the construction, agriculture, services, manufacturing and trade, respectively. As at the same date, 54.1 per cent., 21.5 per cent., 18.6 per cent. and 5.7 per cent. of the net loan portfolio was denominated in BYN, US$, EUR and RUB, respectively. As at 31 December 2018, DBRB had a capital adequacy ratio of 28.32 per cent. (on the basis of IFRS consolidated financial statements in accordance with Basel II principles). DBRB is rated "B" by S&P and Fitch, in each case with a stable outlook.

OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

The following is an overview of certain information contained in these Listing Particulars. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in these Listing Particulars. Prospective investors should also carefully consider the information set out in the section entitled "*Risk Factors*" in these Listing Particulars prior to making an investment decision. See "*Business*" for a more detailed description of the Issuer.

*Capitalised terms not otherwise defined in this overview have the same meaning as in the "Terms and Conditions of the Notes" (the "**Conditions**"). See "Terms and Conditions of the Notes" for a more detailed description of the Notes.*

Issuer	Joint-Stock Company "Development Bank of the Republic of Belarus".
Secondary Liability	The obligations of the Issuer under the Notes in respect of payment of principal and interest will, in certain circumstances, represent a secondary liability of the Republic of Belarus pursuant to Edict No. 261 and Edict No. 600. Under Belarusian law, such obligations are subordinated to any sovereign debt obligations of the Republic of Belarus. **The Secondary Liability may be amended or withdrawn at any time**.
Joint Lead Managers	Citigroup Global Markets Limited and Raiffeisen Bank International AG.
Trustee	Citibank, N.A., London Branch.
Principal Paying Agent	Citibank, N.A., London Branch.
Registrar	Citigroup Global Markets Europe AG.
Issue Price	100 per cent. of the Notes offered.
Notes Offered	US$500,000,000 6.75 per cent. Notes due 2024.
Issue Date	2 May 2019.
Maturity Date	2 May 2024.
Interest on the Notes	6.75 per cent. per annum.
Interest Payment Dates	Subject as provided in the Conditions, interest on the Notes will be payable semi-annually in arrear on 2 May and 2 November each year, commencing on 2 November 2019.
Yield	As at the Issue Date and on the basis of the Issue Price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 6.75 per cent. per annum. This is not an indication of future yield.
Status	The Notes constitute direct, general, unconditional, unsubordinated and, subject to the provisions of Condition 4 (*Negative Pledge and Covenants*), unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Denominations	The Notes will be offered and sold, and may only be transferred, in registered form, in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof.
Negative Pledge	So long as any Note remains outstanding the Issuer shall not, and shall not permit any Subsidiary to, create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest (as defined in the Conditions)) upon the whole or any part

of their respective undertakings, assets or revenues, present or future, to secure any Indebtedness (as defined in the Conditions) or any Guarantee (as defined in the Conditions) in respect of such Indebtedness unless, at the same time or prior thereto:

(i) the Issuer's obligations under the Trust Deed and the Notes are secured equally and rateably therewith (to the satisfaction of the Trustee); or

(ii) the Issuer's obligations under the Trust Deed and the Notes have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders; or

(iii) as the Trustee in its discretion shall consider to be not materially less beneficial to the interests of Noteholders.

Certain Covenants ....

The terms of the Notes contain certain covenants in addition to the Negative Pledge, including:

- Regulatory Compliance;
- Maintenance of Authorisations;
- Limitations on Change of Business;
- Limitations on Merger;
- Limitations on Transactions with Affiliates;
- Limitations on Disposal of Assets;
- Financial Information;
- Officer's Certificates; and
- Compliance Certificates,

all as further described in Condition 4 (*Negative Pledge and Covenants*).

Change of Control................................

The Conditions provide for a put option for Noteholders in the event that the Issuer is no longer 100 per cent. owned directly or indirectly by the Republic of Belarus.

See Condition 6(c) (*Redemption and Purchase—Change of Control Put Option*) for further details.

Event Put Option ....

The Conditions provide a put option for Noteholders in the event that Edict No. 600 and/or Edict No. 261 are amended or withdrawn affecting Noteholders' interests or the Secondary Liability ceases to exist.

See Condition 6(b) (*Redemption and Purchase—Redemption at the option of Noteholders on amendment or withdrawal of the Secondary Liability*) for further details.

Make Whole Redemption ....

The Conditions provide that at any time prior to the Maturity Date, the Issuer may, at its option, redeem the Notes in whole at the higher of:

(a) 100 per cent. of the nominal outstanding amount of the Notes; and

(b) the Make Whole Prepayment Amount (as defined in the Conditions),

in each case plus accrued and unpaid interest on the Notes to but excluding the Make Whole Optional Prepayment Date (as defined in the Conditions).

See Condition 6(d) (*Redemption and Purchase—Redemption at the option of the Issuer under make-whole call option*) for further details.

Events of Default.................................

The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default. If any of the events of default occurs and is continuing then the Trustee at its discretion may and, if so requested in writing by Holders of at least one fifth of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or prefunded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable.

Upon service of such notice, the principal amount of the Notes, together with accrued interest, shall become immediately due and payable without further action or formality.

On notification by the Principal Paying Agent of non-repayment of amounts due under the Notes, pursuant to the terms of the Trust Deed the Trustee shall serve a demand for payment to the Issuer, on behalf of the Noteholders, requesting payment within seven calendar days of such notice.

If the Issuer fails to pay all amounts due under the Notes, upon certain conditions the Secondary Liability of the Republic of Belarus shall arise.

See Condition 9 (*Events of Default*).

Form of Notes......................................	The Notes will be in registered form, without interest coupons. The Notes offered and sold in reliance upon Regulation S will be represented by beneficial interests in the Unrestricted Global Note Certificate deposited with a common depositary, and registered in the name of a nominee of a common depositary, in respect of interests held through Euroclear and Clearstream, Luxembourg. The Notes offered and sold in reliance upon Rule 144A will be represented by beneficial interests in the Restricted Global Note Certificate, which will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee for, DTC for and in respect of interests held through DTC. Except in limited circumstances, individual certificates for the Notes will not be issued to investors in exchange for beneficial interests in the Global Note Certificates.
Taxation and Additional Amounts	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Belarus or any political subdivision thereof or any authority therein or thereof having power to tax, subject to certain exceptions set out in Condition 8 (*Taxation*). Please also see "*Risk Factors—Risks relating to the Notes generally—Belarusian courts may not enforce gross-up obligations*".
Modification and Amendment............	A summary of the provisions for convening meetings of Noteholders and amendments is set forth under Condition 13 (*Meetings of Noteholders; Modification and Waiver*).
Use of Proceeds	The net proceeds of the issue of the Notes, amounting to approximately US$498,000,000 will be used by the Issuer for general corporate purposes.
Ratings	The Notes are expected to be rated "B" by S&P and "B" by Fitch. S&P and Fitch are established in the European Community and registered under the CRA Regulation. The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at

	any time by the assigning rating agency.
Listing and Admission to Trading.......	Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the Global Exchange Market.
Governing Law....................................	The Notes, the Subscription Agreement, the Trust Deed, the Agency Agreement (as defined in the Conditions) and any non-contractual obligations arising out of or in connection therewith, as the case may be, will be governed by English law. Obligations of the Republic of Belarus under the Secondary Liability are governed by Belarusian law.
Transfer Restrictions...........................	The Notes have not been and will not be registered under the Securities Act or any US state securities laws. Consequently, the Notes may not be offered, sold or resold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable US state securities laws. See "*Transfer Restrictions*".
Unrestricted Notes...............................	ISIN: XS1904731129 Common Code: 190473112
Restricted Notes...................................	ISIN: US25161EAA91 Common Code: 198800759 CUSIP: 25161E AA9

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in these Listing Particulars, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on DBRB's ability to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. DBRB believes that the factors described below represent the principal risks inherent in investing in the Notes, but it does not represent that the factors described below regarding the risks of holding any Notes are exhaustive. Additional risks and uncertainties not currently known to DBRB or that DBRB currently deems to be immaterial may also materially affect its ability to fulfil its obligations under the Notes. In that event, investors may lose all or part of their investment in the Notes.

Risks Relating to DBRB

DBRB is wholly owned (directly and indirectly) by the Belarusian state and is subject to government control, and the Belarusian Government's interest may conflict with interests of Noteholders.

As at the date of these Listing Particulars, the Government owns 96.212 per cent. of the share capital of DBRB, with the remaining 3.776 per cent. and 0.012 per cent. held by JSC "Belaruskali" (a 100 per cent. state-controlled entity, one of the world's largest potash producers, which received its shares in return for a contribution in kind of the property on which the DBRB's headquarters are located) and the National Bank, respectively. As a result, the Republic of Belarus has the right to determine all matters requiring a vote of shareholders, including the election of DBRB's Supervisory Board (the "**Supervisory Board**") and the setting of DBRB's dividend policy. The Supervisory Board is responsible for the approval of credit decisions for investment projects representing major transactions and DBRB's financial strategy. Key government figures, including the Prime Minister of the Republic of Belarus, are members of DBRB's Supervisory Board, allowing the Republic of Belarus to maintain significant control over DBRB's activities. As a result, the Government will influence DBRB's funding, lending and other policies.

DBRB is the principal vehicle for implementing the Government's policies to promote competitiveness and diversification of the Belarusian economy through the encouragement of investment in infrastructure projects and foreign trade and the promotion of the development of Belarusian small- and medium-sized enterprises ("**SME**") sector. The interests of the Government may conflict with the interests of DBRB's creditors and as a result, there can be no assurance that the Government will exercise influence over DBRB in a manner that is in the best interests of DBRB or the Noteholders. In particular, DBRB is required to provide funding for state programmes in accordance with the Financing Plan for Government Programmes and Activities approved annually by resolution of the Council of Ministers. See "*Business—Banking Activities—Financing of Investment Projects*" for further details of these programmes. Although borrowers pursuant to these programmes must comply with certain additional requirements, including the preparation of a business plan, in order to obtain financing, DBRB may provide financing for investment projects that it would not otherwise fund on the basis of an independent evaluation of the relevant project. In addition, DBRB has in the past been required to acquire portfolios of NPLs pursuant to state programmes. During the period from 2011 to 2014, DBRB received BYN1.7 billion of NPLs from state-owned banks pursuant to state programmes. This resulted in a significant increase in its bad debt ratio, to a peak of 18.7 per cent. as at 31 December 2016 from 0.0 per cent. as at 1 January 2012 (based on the IFRS definition of NPLs, which includes loans overdue for over 90 days). See "*Business—Banking Activities—Financing of Investment Projects—Transfers of loans to Asset Management Agency*". More generally, there can be no assurance that DBRB will not be directed to engage in activities with a lower profit margin than it would otherwise pursue or to provide financing for investment projects or to legal entities or individual entrepreneurs on non-market terms. Any such strategies or actions may not be the same as those pursued by an independent profit-oriented financial institution.

In addition, being controlled by the Government may slow DBRB's decision-making process and may subject DBRB to the risks of bureaucracy and inefficiencies commonly attributed to state-controlled companies. DBRB has in the past been supported by capital injections from the Republic of Belarus. These capital injections are subject to the Government budgeting process and may be subject to withdrawal or delay due to the political process, the fiscal situation of the Republic of Belarus or other political developments. See "*—DBRB relies on periodic capital injections and certain other transfers of monies from the Republic of Belarus to meet its funding needs*". Furthermore, there can be no assurance that the Government will not change its policies in relation to DBRB. In particular, there is a risk that any change of administration in the Republic of Belarus may result in changes in the Government's policies, and such new policies may conflict with the interests of DBRB and the Noteholders. Any such changes could have a material adverse effect on DBRB's business, results of operations, financial condition and prospects.

DBRB relies on periodic capital injections and certain other transfers of monies from the Republic of Belarus to meet its funding needs.

DBRB has since its inception received and may in the future continue to receive periodic capital injections from the Government in order to support its activities and meet its funding needs. DBRB received capital of US$2 million, US$351 million, US$446 million and US$129 million in 2011, 2012, 2013 and 2015, respectively. It did not receive any capital injections in 2014, 2016 or 2017. In August 2018, the share capital of DBRB was increased by BYN245 million. In addition to these capital injections, since 2015, DBRB has received "family funds" which it is responsible for managing pursuant to the Edict of the President of the Republic of Belarus No. 572 dated 9 December 2014 "On additional measures of state support for families with children" ("**Edict No. 572**"). See "*Business—Ancillary Activities—Family Fund Management*" for further detail. As at 31 December 2018, the amount of funds raised under the family capital management program was BYN862.7 million. These have historically been one of DBRB's primary sources of funding, in addition to the issuance of bonds and syndicated loans. The delay or failure of the Republic of Belarus to meet its funding commitments to DBRB or other obligations when they arise could have an adverse impact on DBRB's short-term liquidity and its capital adequacy ratio and could limit its ability to repay its debts or grow its loan portfolio, which could in turn have a material adverse effect on its business, results of operations, financial condition and prospects.

DBRB is not subject to banking supervision by the National Bank on the same basis as commercial banks operating in the Republic of Belarus.

DBRB is authorised to carry out certain activities typically performed by commercial banks without obtaining a licence from the National Bank. In 2016, the National Bank introduced banking supervision over the activities of DBRB and DBRB is now required to comply with capital adequacy requirements and mandatory ratios, as well as other regulatory requirements. However, certain of these requirements and ratios are less onerous than requirements and ratios customarily applicable to commercial banks and similar financial institutions in the Republic of Belarus. For example, seven out of eight risk concentration ratios applicable to commercial banks are not applicable to DBRB. See "*Monetary and Financial System—Banking Supervision*" for further detail of the regulatory requirements applicable to DBRB. Because it is not subject to banking supervision on the same basis as commercial banks, DBRB may conduct its businesses with less transparency than, and without reference to limitations and restrictions customarily imposed on, commercial banks and other financial institutions. Accordingly, DBRB may engage in activities that are more risky than those ordinarily conducted by commercial banks and other financial institutions, which could have a material adverse effect on DBRB's business, results of operations, financial condition and prospects.

Changes in the regulatory status of DBRB or changes to the regulations and policies of the National Bank and/or the Republic of Belarus may affect DBRB's profitability.

As described above under "*—DBRB is not subject to banking supervision by the National Bank on the same basis as commercial banks operating in the Republic of Belarus*", although DBRB is comprehensively regulated pursuant to Edict No. 261, it enjoys a favourable regulatory position in comparison to commercial banks operating in the Republic of Belarus. It is not required to obtain a licence from the National Bank to carry out activities that are typical for commercial banks, such as lending, attracting deposits, opening of accounts, clearing transactions and foreign exchange transactions. There can be no assurance, however, that it will retain this status or that the current regulatory regime will not change in a manner adverse to DBRB. In 2016, for example, the National Bank introduced banking supervision over the activities of DBRB, requiring DBRB to adopt certain changes to its corporate governance policies and procedures and to comply with certain capital adequacy requirements and other mandatory ratios. See "*Monetary and Financial System—Banking Supervision*". In addition, there can be no guarantee that DBRB will continue to benefit from the tax exemption for bonds issued by it (which is also applicable to other Belarusian banks), which lowers its cost of funding. The National Bank and/or the Republic of Belarus may also implement regulations or policies, or adopt new or modified legal interpretations of existing regulations or policies, relating to or affecting taxation, interest rates, inflation or exchange controls, or otherwise take action that could have a material adverse effect on DBRB's business, results of operations, financial condition and prospects.

Given the geographic concentration of its business activities, DBRB's business is significantly exposed to the risk of adverse macroeconomic and financial market conditions in the Republic of Belarus.

DBRB's business primarily involves the financing of state programmes and other infrastructure projects in the Republic of Belarus, the provision of export financing to foreign companies and banks for the purchase of Belarusian goods and the financing of Belarusian SMEs through a network of partner banks and leasing companies in the Republic of Belarus. Given the geographic concentration of its activities, economic conditions in the Republic of Belarus have a significant impact on DBRB's performance. Due in part to instability in neighbouring markets such as Ukraine and Russia, as well as global macroeconomic developments, the GDP of the Republic of Belarus declined in real terms in 2015 and 2016, although the economy subsequently returned to growth in 2017 and 2018. See "*—Risks Relating to the Republic of Belarus—The Republic of Belarus's economy remains vulnerable to external shocks and fluctuations in the global economy*" for further detail. The re-emergence of challenging macroeconomic or financial market conditions in the Republic of Belarus could have a material adverse effect on the quality of DBRB's loan portfolio, which could in turn have a material adverse effect on its business, results of operations, financial condition and prospects.

DBRB's business depends to a certain extent on demand for Belarusian exports, which are concentrated by country and sector, and may be adversely affected by the emergence of difficult economic conditions in such countries and/or sectors.

DBRB provides export finance to foreign companies and foreign banks for the purchase of Belarusian goods. As at 31 December 2018, DBRB had BYN519.6 million of export finance (including due from banks) on its balance sheet. Accordingly, its business and growth prospects depend to a certain extent on demand for Belarusian exports. Adverse changes in the level of Belarusian exports will affect demand for DBRB's export finance products and services, and could potentially reduce the size of its loan portfolio.

DBRB's export finance portfolio is concentrated in certain countries, including Russia, Ukraine, the European Union. In terms of sector, DBRB is heavily exposed to the automobile machinery and parts and metal works industries.

The recovery in many of the Republic of Belarus's principal markets for goods and services remains fragile. Any deterioration in political and economic conditions in the principal markets to which Belarusian goods are exported, particularly Russia and Ukraine or a downturn in any of the sectors to which DBRB is significantly exposed, individually or in the aggregate, may adversely affect demand for Belarusian exports. In addition, Belarusian exports may be adversely affected by the implementation of bans on the import of Belarusian products. For instance, in 2009, Russia introduced a ban on Belarusian dairy products. Any of the foregoing may result in, among other things, a decrease in loans to exporters, defaults on their obligations owed to DBRB (although in most instances such defaults would be covered by insurance arrangements) or a need for DBRB to increase impairment allowances in respect of its export finance portfolio, any of which could have a material adverse effect on DBRB's business, results of operations, financial condition and prospects.

Any future unavailability of capital markets and loan financing could have an adverse effect on DBRB's business, results of operations, financial condition and prospects.

In addition to the capital injections and other monies received from the Republic of Belarus, DBRB relies on third party financing, including financing from syndicated and bilateral loans (including from China Development Bank) and from the issuance of bonds and other debt securities, including in the international capital markets. In the aggregate, DBRB had BYN2.3 billion of liabilities due to banks and BYN1.9 billion of debt securities issued as at 31 December 2018, accounting for 39.5 per cent. and 33.4 per cent. of its total liabilities, respectively. DBRB expects to continue to rely on such financing in the future. There can be no assurance that capital markets or syndicated loan financing will continue to be available to DBRB or that such borrowings will be available on commercially reasonable terms. The global financial system and emerging market economies in particular remain subject to systemic shocks that can result in substantially eroded liquidity and increased spreads of capital markets funding. Particularly in light of the volatility in the market for emerging market debt, DBRB may have difficulty extending and/or refinancing its existing indebtedness. If at some point in the future, syndicated and bilateral loan financing and/or further bond issuances are not possible on commercially acceptable terms or at all, this could have an adverse effect on DBRB's business, results of operations, financial condition and prospects.

DBRB is subject to credit risk in relation to its borrowers and counterparties.

DBRB's business is subject to inherent risks in relation to the credit quality of borrowers, which may include legal persons and individual entrepreneurs, foreign companies and banks in relation to DBRB's export support programme or partner banks pursuant to its programme of financial support for SMEs. DBRB is also exposed to credit risk in relation to the leasing counterparties of its leasing subsidiary, Promagroleasing. See "*Business—Subsidiaries—Promagroleasing*" for further detail on the operations of Promagroleasing. Changes in the credit quality of borrowers or other counterparties can negatively affect the value of DBRB's assets and lead to increased impairment allowances. DBRB has in the past had a relatively high level of NPLs on its balance sheet. This has been due in part to its acquisition of portfolios of NPLs pursuant to state programmes, which resulted in its bad debt ratio increasing to a peak of 18.7 per cent. as at 31 December 2016 from 0.0 per cent. as at 1 January 2012 (based on the IFRS definition of NPLs, which includes loans overdue for over 90 days). Since it commenced the transfer of these loans to the Asset Management Agency (as described under "*Business—Banking Activities—Financing of Investment Projects—Transfers of loans to Asset Management Agency*"), its bad debt ratio has been decreasing. As at 31 December 2018, DBRB's bad debt ratio based on the IFRS definition of NPLs was 3.2 per cent. As at the same date, its bad debt ratio based on non-performing assets ("**NPAs**") under the National Bank's categorisation, which was introduced in April 2018, was 1.7 per cent. See "*Monetary and Financial System—Banking Sector*" for further details on the National Bank's categorisation.

Many factors affect customers' ability to repay their loans or other obligations to DBRB. Some of these factors, including adverse changes in the Belarusian economy or foreign trade due to local, national and global factors, foreign exchange rates and increased market volatility, may be difficult to anticipate and are outside of DBRB's control. DBRB's credit risk may also be affected by its growth strategy (including tenor, currency, jurisdictions and sector focus) and the robustness of its internal credit application and monitoring systems. In addition, an amendment to Edict No. 261 is currently being prepared which would grant DBRB the right to issue bank guarantees within the framework of the tasks assigned to it. It is also proposed that DBRB be permitted to finance public-private partnership ("**PPP**") projects in the Republic of Belarus. This expansion of its activities may give rise to heightened credit risk. Any failure by DBRB to manage the growth of its loan portfolio or the credit quality of the portfolio within prudent risk parameters or to monitor and regulate the adequacy of its provisioning levels could have an adverse effect on DBRB's business, results of operations, financial condition and prospects.

DBRB's impairment allowances for credit losses could prove inadequate to cover credit losses related to its loans and contingencies, including as a result of the adoption of IFRS 9.

Determining the appropriate level of allowances for credit losses necessarily requires exercise of judgment, including assumptions and estimates made in the context of changing political and economic conditions in the regions and sectors to which DBRB lends, in particular in the financial and banking sector in the Republic of Belarus. Consequently, there can be no assurance that DBRB's impairment allowances for credit losses will be adequate to cover losses in its loan portfolio. In particular, from 1 January 2018, DBRB has applied IFRS 9, which replaced the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting DBRB's Results of Operations and Financial Condition—Credit risk and provisioning*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies*" and Note 5 to the 2018 Financial Statements for further detail regarding IFRS 9 and its impact on DBRB. The level of loss allowance will generally increase as economic conditions deteriorate and decrease as economic conditions become more favourable. See "*—DBRB's business is subject to macroeconomic and financial market conditions in the Republic of Belarus*". IFRS 9 is expected to result in greater volatility in the amount of expected credit losses. If DBRB does not record impairment allowances at a level adequate to cover losses in its loan portfolio, whether as a result of the application of IFRS 9 or otherwise, its business, results of operations, financial condition and prospects could be materially adversely affected.

DBRB's loan portfolio is highly concentrated, both in terms of borrowers and industry sector, and if it were to experience a default on any of its most significant loans, this could have a material adverse effect on its business, results of operations, financial condition and prospects.

DBRB was established for a relatively narrow purpose, the financing of state programmes for the Republic of Belarus. While it has since expanded its activities to include export finance and financial support for SMEs, its loan portfolio remains highly concentrated, with a relatively small number of investment projects being financed. As at 31 December 2018, DBRB had four borrowers whose share of its loan portfolio was over 10 per cent. of equity per borrower, amounting to a total balance of BYN1.6 billion, or 32.3 per cent. of the gross loan portfolio. If any of these borrowers were to default, this could have a material adverse effect on DBRB's business. In addition, DBRB's loan portfolio is relatively concentrated by industry sector, with the construction, agriculture, services, manufacturing and trade accounting for 21.6 per cent., 20.7 per cent., 20.1 per cent., 15.2 per cent. and 9.3 per cent. of the gross loans to customers as at 31 December 2018, respectively. In addition, DBRB has exposure to the woodworking industry through its subsidiary, BR-Consult, which operates in a "crisis manager" function in relation to the woodworking enterprises acquired by the Ministry of Finance of the Republic of Belarus (the "**Ministry of Finance**") from commercial banks. As a result of this concentration, in the event of a downturn disproportionately affecting one of those industries, DBRB may experience higher losses across its loan portfolio than would be the case if it had a more diversified portfolio. Any failure to manage the concentration of its loan portfolio could have a material adverse effect on DBRB's business, results of operations, financial condition and prospects.

There can be no assurance that the collateral securing DBRB's loan portfolio will be sufficient in the event of defaults by borrowers.

DBRB typically requires collateral from borrowers, including pledges of vehicles and property and equipment, real estate, property rights and turnover, as well as the provision of warranties and guarantees. In addition, as at 31

December 2018, DBRB had BYN1.4 billion of loans on its balance sheet for which the source of repayment was funds from the budget of the Republic of Belarus or local governments. DBRB considers these types of loans to be collateralised for purposes of its financial reporting. See "*Selected Statistical and Other Data—Loans to Customers—Loans to Customers by Type of Collateral*" for further detail. As at 31 December 2018, DBRB had BYN0.1 billion of unsecured loans in its loan portfolio, representing 3.0 per cent. of gross loans to customers. Downturns in the relevant markets or a general deterioration of economic conditions may result in reductions in the value of collateral securing DBRB's loan portfolio to levels below the amounts of the outstanding principal and accrued interest on such loans. In addition, there can be no assurance that the Republic of Belarus or the relevant local government will be able to fund the penalties sourced from budgetary funds. If collateral values decline, they may not be sufficient to cover uncollectible amounts on DBRB's secured loans. A failure to recover the expected value of collateral may expose DBRB to losses, which could, in turn, have a material adverse effect on DBRB's business, results of operations, financial condition and prospects.

DBRB has a portfolio of investment securities and market risks arising from open interest rate and currency positions could adversely affect DBRB.

DBRB's financial condition and results of operations are affected by changes in the market value of its investment securities portfolio. DBRB maintains an investment securities portfolio which primarily consists of long-term Government bonds, bonds issued by Belarusian banks and corporate bonds, which accounted for 47.9 per cent., 27.7 per cent. and 12.4 per cent. of the investment securities portfolio as at 31 December 2018, respectively. Interest income derived from DBRB's investment securities portfolio amounted to BYN139.7 million for the year ended 31 December 2018, accounting for 26.4 per cent. of total interest income for the period, and BYN143.8 million for the year ended 31 December 2017, accounting for 31.6 per cent. of total interest income for the period. DBRB's income from the portfolio depends on numerous factors, some of which are beyond its control, including overall market trading activity, interest rate levels, foreign currency exchange rates and general market volatility. Although DBRB monitors closely its investment securities portfolio and securities transactions to manage its market risk, market price fluctuations may adversely affect the value of the portfolio. In addition to any direct losses that DBRB might incur, a default by the Republic of Belarus in making payments on its sovereign debt securities would have a significant negative impact on the Belarusian economy and the Belarusian banking system generally and thus would also have an adverse effect on DBRB's business, results of operations, financial condition and prospects.

DBRB may be negatively affected by volatility in interest rates.

Net interest income accounts for substantially all of DBRB's income. Its high dependence on net interest income may affect the stability of its earnings in times of high interest rate volatility. As at 31 December 2018 and 31 December 2017, the effect of a hypothetical 100 basis point increase in market interest rates on financial instruments with floating rates (holding all other variables constant) would have been a BYN17.7 million and BYN25.6 million increase in net income for the years ended 31 December 2018 and 2017, respectively. The effect of a hypothetical 100 basis point decrease in market interest rates on financial instruments with floating rates (holding all other variables constant) would have been a BYN17.7 million and BYN25.6 million decrease in net income for the years ended 31 December 2018 and 2017, respectively.

Fluctuations in interest rates can adversely affect DBRB's net interest income in a number of different ways. As at 31 December 2018 and 2017, 66.0 per cent. and 69.3 per cent. of DBRB's gross loans were at fixed rates, with the remainder being in floating rates. An increase in interest rates would generally decrease the value of DBRB's fixed rate loans and, since DBRB borrows from various international financial institutions to fund its lending activities, any such increase may raise its funding costs. An increase in interest rates could also decrease the value of fixed rate debt securities in DBRB's securities portfolio. In addition, an increase in interest rates may increase the risk of customer default, while general volatility in interest rates may result in a gap between DBRB's interest rate sensitive assets and liabilities. As a result, DBRB may incur additional costs and expose itself to other risks by adjusting such asset and liability positions.

Interest rates are highly sensitive to many factors beyond DBRB's control, including the monetary policies pursued by the National Bank, domestic and international economic and political conditions and other factors. Although DBRB uses various instruments and measures to manage exposure to interest rate risk, there can be no assurance that these instruments and measures will fully protect it from the negative effects of interest rate fluctuations. Any failure to manage the interest rate risk to which it is exposed could have a material adverse effect on DBRB's business, results of operations, financial condition and prospects.

DBRB may be adversely affected by liquidity risk.

Liquidity risk encompasses uncertainties in relation to DBRB's ability to access funding necessary to cover obligations to borrowers and satisfy maturing liabilities. It includes both the risk of unexpected increases in the cost of financing and the risk of not being able to structure the maturity dates of DBRB's liabilities reasonably in line with assets, as well as the risk of not being able to meet payment obligations on time at a reasonable price due to liquidity pressures. The long-term nature of the projects that DBRB finances may expose DBRB to increased liquidity risk if its financial liabilities are mismatched with the long-term maturities of its loans to customers. As at 31 December 2018, DBRB maintained a positive liquidity gap for maturities that were between three months to one year and more than one year, and the total net liquidity gap as at 31 December 2018 and 31 December 2017 was also positive. As at 31 December 2018, DBRB had a negative liquidity gap for maturities up to one month and between one month to three months of BYN128.9 million and BYN41.2 million, respectively. As at 31 December 2017, DBRB maintained a positive liquidity gap for maturities that were between one month and three months, between three months to one year and more than one year, and the total net liquidity gap as at 31 December 2017 was also positive. As at that date, it had a negative liquidity gap for maturities up to one month of BYN246.0 million. DBRB's principal sources of funding are capital injections and other transfers from the Republic of Belarus, family funds, syndicated loans and monies received from the issuance of bonds and other debt securities. Unlike most commercial banks, DBRB does not rely significantly on retail or corporate deposits as a source of funding (although it accepts deposits of Government bodies in connection with state programmes).

DBRB may be exposed to maturity mismatches between its assets and liabilities, which may lead to a lack of liquidity at certain times. In the event of liquidity gaps, access to other funding sources, such as capital injections from the Republic of Belarus, the syndicated loan market or the capital markets, may not be available, or may be available only following delays, at higher cost, or such funding sources may be less advantageous to DBRB in other respects. DBRB's liquidity risk could be increased by market disruptions or credit downgrades of DBRB or of the Republic of Belarus or budgetary constraints of the Republic of Belarus, which may reduce the availability of funding. DBRB's inability to meet its net funding requirements due to inadequate liquidity could adversely affect its business, results of operations, financial condition and prospects.

Fluctuations in foreign exchange rates may adversely affect DBRB's business, results of operations, financial condition and prospects.

A portion of DBRB's assets and liabilities are denominated in foreign currencies. As at 31 December 2018, 50.5 per cent. of DBRB's total assets and 56.1 per cent. of its total liabilities were denominated in foreign currencies, principally the US dollar, Russian ruble and Euro. DBRB translates such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains/(losses) realised upon the sale of such assets, to Belarusian rubles in preparing its financial statements.

Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. As a result, DBRB's reported income is affected by changes in the value of the Belarusian ruble with respect to foreign currencies (primarily the US dollar, Russian ruble and Euro).

The overall effect of exchange rate movements on DBRB's results of operations depends on the rate of depreciation or appreciation of the Belarusian ruble against other currencies in which DBRB transacts or has monetary assets and liabilities (primarily the US dollar, Russian ruble and the Euro). The Belarusian ruble has remained relatively stable against the US dollar in recent years. However, it has in the past been subject to significant volatility. For example, the Belarusian ruble depreciated significantly against the US dollar in 2011 after the National Bank lifted restrictions on the exchange rate. In January 2015, the National Bank devalued the Belarusian ruble to address economic turmoil in Russia, one of the Republic of Belarus's main trading partners, following the impact of sanctions imposed by the United States and a sliding oil price.

As at 31 December 2018 and 31 December 2017, a hypothetical appreciation of the US dollar by 30 per cent. against the Belarusian ruble (holding all other variables constant) would have had a positive impact on the profit of DBRB in the amount of BYN204.8 million and BYN132.6 million for the years ended 31 December 2018 and 2017, respectively. A hypothetical depreciation of the US dollar by 10 per cent. against the Belarusian ruble (holding all other variables constant) would have had a negative impact on profit in the amount of BYN68.3 million and BYN44.2 million for the years ended 31 December 2018 and 2017, respectively. Moreover, as occurred in the Belarusian foreign exchange crisis in 2011, any rapid depreciation of the Belarusian ruble against major international currencies may make it more difficult for Belarusian borrowers to repay their foreign currency denominated loans.

Although DBRB has adopted procedures and policies aimed at minimising foreign exchange risks, these measures may not adequately protect it from the effect of exchange rate fluctuations or may limit any benefit that DBRB might otherwise receive from favourable movements in exchange rates. Any failure to manage the foreign exchange risk to which it is exposed could have a material adverse effect on DBRB's business, results of operations, financial condition and prospects.

DBRB's risk management strategies and internal controls may leave it exposed to unidentified or unanticipated risks.

DBRB's risk management strategies and internal controls may leave it exposed to unidentified or unanticipated risks. DBRB has been strengthening its risk management systems, including through the expansion of databases being used across the organisation and increasing automation of risk management processes. DBRB aims to comply with the recommendations of the BCBS as well as the National Bank in relation to its risk management systems. Nonetheless, there can be no assurance that its risk management and internal control policies and procedures will adequately control or protect it against all credit, liquidity, market and other risks. In addition, certain risks may not be accurately quantified by DBRB's risk management systems. Some of DBRB's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures, which could be significantly greater than historical measures indicate. Any material deficiency in DBRB's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have an adverse effect on DBRB's business, results of operations, financial condition and prospects.

Operational problems or errors could have a material adverse impact on DBRB's business, results of operations, financial condition and prospects.

Similar to other financial institutions, DBRB is exposed to operational risk, which is the risk of loss resulting from inadequacy or failure of internal processes or systems or from external events. DBRB is susceptible to, among other things, fraud by employees or outsiders, including unauthorised transactions and operational errors, clerical or record-keeping errors and errors resulting from faulty computer or telecommunications systems (including disaster recovery and back-up systems). Although DBRB maintains a system of internal controls and takes steps to back up its systems, there can be no assurance that operational problems or errors will not occur or that their occurrence will not have an adverse effect on DBRB's business, results of operations, financial condition and prospects.

DBRB relies on key management and qualified personnel.

DBRB is dependent on members of its Supervisory Board and key management and qualified personnel for the implementation of its strategy. Moreover, DBRB's continued success will depend, in part, on its ability to continue to retain, motivate and attract, in cases where needed, qualified and experienced personnel. While DBRB believes that it has effective staff recruitment, training and incentive programmes in place, it is not possible to guarantee that constraints in human resources will not arise in the future. A failure to recruit, train and/or retain necessary personnel could have an adverse effect on DBRB's business, results of operations, financial condition and prospects.

DBRB's performance depends on the reliability and capacity of its information technology systems.

DBRB's financial performance and its ability to meet its strategic objectives depend upon the reliability and security of its information technology systems and its systems capacity. Disruptions in DBRB's information technology systems could occur. Additionally, the reliability and security of its information technology systems depend on human operators and future investments that may be required by evolving technologies. See "*Business—Information Technology*". There can be no assurance that a disruption (even short-term) to the normal operation of DBRB's information technology systems, or delays in increasing the capacity of the information technology systems, will not have an adverse effect on DBRB's business, results of operations, financial condition and prospects.

DBRB is subject to risks associated with anti-money laundering policies and procedures.

Although DBRB is not a commercial bank, it has implemented internal measures to prevent it from being used as a conduit for money laundering or terrorist financing. DBRB believes that it is in compliance with applicable anti-money laundering and anti-terrorist financing laws and regulations, although such measures, procedures and compliance are not automated and may not be completely effective in preventing third parties from using DBRB and its correspondent banks as a conduit for money laundering or terrorist financing without DBRB's knowledge. Furthermore, while DBRB reviews its correspondent banks' internal policies and procedures with respect to such matters, DBRB relies upon its correspondent banks to maintain and properly apply their own appropriate anti-money laundering and anti-terrorist financing procedures. If DBRB is associated with money laundering or terrorist financing, then its reputation could suffer and/or it could become subject to fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with DBRB), which could have an adverse effect on its business, results of operations, financial condition and prospects.

Risks Relating to Emerging Markets

Investment in emerging markets like the Republic of Belarus involves a high degree of risk and investors should exercise particular care in evaluating the risks involved.

Investments in securities of sovereign or corporate issuers in emerging markets, such as the Republic of Belarus, involve a higher degree of risk than investments in securities of issuers in more developed markets, including in some cases significant legal, regulatory, economic, social and political risks. In particular, the Republic of Belarus's legal system is not fully developed and presents greater risks and uncertainties than a more developed legal system. Although progress has been made since the Republic of Belarus's independence in 1991 in reforming the Republic of Belarus's economy and political and judicial systems, the necessary legal infrastructure and regulatory framework are still developing and uncertainties relating to the Belarusian legal or judicial system could have an adverse effect on the Belarusian economy and the effective transition to a market economy and broad based social and economic reforms. Higher risks associated with emerging markets also include economic instability caused by a variety of factors such as a narrow export base, reliance on imports, fiscal and current account deficits, low currency reserves, reliance on foreign loans and investments and changing legal, regulatory, economic, social and political environments. Emerging economies, such as the Republic of Belarus's economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. Prospective investors should also note that emerging economies, such as the Republic of Belarus's economy, are subject to rapid change and that the information in these Listing Particulars may become outdated relatively quickly. Disruptions experienced in the international capital markets over the last few years have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Countries located in emerging markets may be particularly susceptible to these disruptions and also to reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty. Accordingly, investors should exercise particular care in evaluating the risks involved and should decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

The Republic of Belarus is vulnerable to corruption.

Emerging economies, such as the Belarusian economy, are subject to rapid change and are vulnerable to market conditions and may also experience more instances of corruption of Government officials and misuse of public funds than more mature markets. Fighting corruption has been identified as one of the key missions for the Republic of Belarus, and it continues to work towards improving accountability, governance standards and legislative framework. In Transparency International's 2018 Corruption Perceptions Index survey of 180 countries, the Republic of Belarus was ranked 70th, although this represents a significant increase from 123rd in 2013. Government corruption can lead to the misallocation of state funds/tax revenues or the mismanagement of state projects. In addition, corruption or allegations of corruption in the Republic of Belarus may have a negative impact on its economy and reputation abroad, especially on its ability to attract foreign investment.

Risks Relating to the Republic of Belarus

The Republic of Belarus's economy remains vulnerable to external shocks and fluctuations in the global economy.

The Republic of Belarus's economy and finances have been and continue to be adversely affected by the current political and economic instability in neighbouring markets such as Ukraine and Russia, as well as by downturns in the global economy. Following its recovery from the global financial and economic crisis of 2008-2009, the Republic of Belarus's GDP growth in real terms decreased from 5.5 per cent. in 2011 to 1.7 per cent. in 2012, to 1.0 per cent. in 2013 and then increased to 1.7 per cent. in 2014. In 2015 and 2016, the Republic of Belarus's GDP declined in real terms by 3.8 per cent. and 2.5 per cent., respectively. In 2017 and 2018, the Republic of Belarus's GDP increased in real terms by 2.5 per cent. and 3.0 per cent., respectively.

In 2011, the Republic of Belarus experienced a severe balance of payments crisis related to its large current account deficit. This crisis resulted in high inflation and the depreciation of the Belarusian ruble by 180 per cent. in 2011. The crisis also resulted in a significant decline in the Republic of Belarus's real GDP growth in 2012 compared to 2011. The Belarusian economy stabilised in 2013 and 2014. However, in 2015, the Republic of Belarus again experienced adverse economic conditions, which were a result of a number of factors, including a downturn in industries that were focused on exports to Russia, which suffered due to a decline in Russia's economy following a sharp fall in global oil prices, decreased investment in the Russian economy and significant capital outflows.

International crude oil prices have fluctuated widely during the period from 2012 to 2018 as a result of global supply and demand dynamics, general economic conditions, competition from other energy sources as well as other factors. According to the US Energy Information Agency, the spot price of Brent crude oil averaged US$71.19/bbl in the year ended 31 December 2018, compared to an average of US$54.12/bbl in 2017, US$43.64/bbl in 2016, US$52.32/bbl in 2015, US$98.97/bbl in 2014, US$108.56/bbl in 2013, US$111.63/bbl in 2012 and US$111.26/bbl in 2011. The sharp decline in oil prices in 2015 and 2016 adversely affected the Russian economy as one of the largest oil exporters, and indirectly negatively affected the Belarusian economy as Russia is its main trading partner and many export industries in the Republic of Belarus are oriented towards Russia. Furthermore, as oil products represent a significant portion of the Republic of Belarus's exports, the decrease in global oil prices led to an export shortfall in oil and oil products for the Republic of Belarus. For example, exports of oil and oil products decreased by US$2.8 billion in 2016 compared to 2015 and by US$3.6 billion in 2015 compared to 2014. In each of 2017 and 2018, following the stabilisation of global oil prices, exports of oil and oil products increased by US$1.4 billion compared to 2016 and 2017, respectively. Future fluctuations in international oil prices may have a material impact on Belarusian economy and its fiscal revenues, balance of payments, external reserves and future financial condition. Moreover, since 1 January 2019, Russia has been implementing a "tax manoeuvre" in the oil sector, which provides for a gradual decrease in export customs rates for oil and basic oil products with a simultaneous increase of the tax on mineral resource extraction. At present, sales of oil by Russia to the Republic of Belarus are not subject to Russia's export duties. As the Russian mineral extraction tax rate increases, the price of oil from Russia increases for the Republic of Belarus as well, as the Republic of Belarus does not benefit from the decrease in Russian export duties as they do not apply to oil sales to the Republic of Belarus. Therefore, as a result of the "tax manoeuvre", the oil price for the Republic of Belarus will increase. The "tax manoeuvre" process is expected to be completed by 2024, at which point the Republic of Belarus will need to purchase oil from Russia at market prices. See "*The Economy of the Republic of Belarus—Fuel and Energy—Oil*".

The negative developments affecting the Russian economy in 2014 to 2015 were aggravated by the impact of the political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by the United States and the European Union in response to the perceived actions of Russia in Ukraine. The substantial deterioration in the economies of Russia and Ukraine (major trading partners of the Republic of Belarus), including sharp declines in investment demand, the devaluation of national currencies in the Eurasian Economic Union (the "**EEU**") member states, and the drop in oil prices adversely affected the Belarusian economy, and led to decreased exports and decelerating GDP growth.

Because the reactions of international investors to events occurring in one market may have a "contagion" effect, in which an entire region or class of investments is disfavoured by international investors, the Republic of Belarus could be adversely affected by negative economic or financial developments in neighbouring countries or countries with similar credit ratings, including Russia, Ukraine, Georgia and Serbia. The Republic of Belarus has been adversely affected by such contagion effects on a number of occasions previously, including following the global economic and financial crisis of 2008 to 2009 and the downturn in the Russian economy in 2015. Similar developments can be expected to affect the Republic of Belarus's economy in the future. In particular, Venezuela and Turkey have recently been experiencing currency crises. In Turkey, the lira lost over 40 per cent. of its value in 2018 due to rising inflation, Turkey's current account deficit and concerns surrounding the independence of Turkey's Central Bank. Similarly, in Venezuela, hyperinflation led to a redenomination of the Venezuelan bolivar in 2018. These events have the potential to give rise to a contagion effect in the emerging markets, which could adversely affect the Republic of Belarus.

In addition, the Belarusian economy may be affected by adverse developments in the economies of its other trading partners, including Eurozone countries. A significant reduction in the economic growth of any of the Republic of Belarus's major trading partners, such as the EU member states, Russia or Ukraine, has had in the past and is likely in the future to have a material adverse impact on the Republic of Belarus's balance of trade and adversely affect the Republic of Belarus's economy. In addition, adverse developments in the market for the Republic of Belarus's main export products, in particular, potash fertiliser, could adversely impact the Belarusian economy, which can in turn lead to the tightening of the monetary and fiscal policy. See also "*—Risks Relating to DBRB—DBRB's business depends to a certain extent on demand for Belarusian exports, which are concentrated by country and sector, and may be adversely affected by the emergence of difficult economic conditions in such countries and/or sectors*".

There can be no assurance that any crises or downturns such as those described above or similar events will not negatively affect investor confidence in markets such as the Republic of Belarus. In addition, these events may adversely affect the Republic of Belarus's economy and its ability to satisfy its obligations pursuant to the Secondary Liability.

The Belarusian currency is subject to volatility.

As a result of its reliance on external sources of financing, the Republic of Belarus has become increasingly exposed to the risk of exchange rate fluctuations. Prior to October 2011, the Belarusian ruble was pegged to a currency basket which included the US dollar, the Euro and the Russian ruble and the exchange rate was set by the National Bank. See "*Monetary and Financial System—Monetary and Exchange Rate Policy*". In 2010 and 2011, following increases in the current account deficit and pressure on foreign currency reserves, the National Bank was forced to make frequent interventions in the foreign currency market in order to maintain the fixed exchange rate for the Belarusian ruble. As a result, the Belarusian ruble depreciated by approximately 180 per cent. in 2011. In subsequent years the Belarusian ruble exchange rate has stabilised and as at 1 January 2019 (post re-denomination on 1 July 2016), the official Belarusian ruble exchange rates were as follows: BYN2.1598 to the US dollar, BYN2.4734 to the Euro and BYN3.1128 to 100 Russian rubles compared to BYN2.0053 to the US dollar, BYN2.2210 to the Euro and BYN3.1212 to 100 Russian rubles as at 1 July 2016. The official exchange rate in respect of US dollars increased by 325 per cent. from the average official exchange rate in 2011. Since 2016, the foreign currency policy of the National Bank has been based on the managed floating exchange rate principle. Currency interventions, such as foreign currency acquisition, were used solely to smooth out the fluctuations of the foreign currency basket value in volumes that guaranteed a positive balance of sales and purchases of foreign currency by the National Bank in a mid-term period. However, any future significant currency fluctuations may negatively affect the Belarusian economy in general and, as a result, have a material adverse effect on the Republic of Belarus's ability to perform its obligations pursuant to the Secondary Liability.

Inability to obtain financing from external sources could affect the ability of the Republic of Belarus to meet its financing needs, which could have a negative effect on the Republic of Belarus's economy.

The Republic of Belarus has significant external financing, which historically has been obtained to address the balance of payments deficit and support its foreign reserves. Most of the Republic of Belarus's external borrowings are from Russia, the international capital markets and certain international financial institutions ("**IFIs**") such as the IMF, the Eurasian Fund for Stabilisation and Development (the "**EFSD**") (previously known as the Anti-Crisis Fund (the "**ACF**")) and the World Bank. The total outstanding external public debt of the Republic of Belarus as at 31 December 2018 was 28.4 per cent. of GDP, compared to 16.0 per cent. of GDP as at 31 December 2014. See "*Public Finance—External Public Debt*".

For the purpose of supporting the balance of payments in the period from 2009 to 2010, the IMF provided a stand-by programme pursuant to which a loan in the amount of US$3.5 billion was provided.

In June 2011, the Republic of Belarus entered into a US$3 billion 10-year credit arrangement with the EFSD to support its balance of payments and maintain its foreign reserves. Also, in March 2016 the EFSD approved a three-year programme for the Republic of Belarus, which was supported by a financial loan in the amount of US$2 billion. During 2016-2018, the Republic of Belarus received six tranches in the amount of US$1.8 billion. Disbursement of the seventh tranche is expected during 2019 and is subject to a number of economic ratios and implementation of economic and social reforms specified in the EFSD's funding matrix. As at 31 December 2018, the total amount of external public debt owed to the EFSD was US$2,682.8 million. Funding under the EFSD credit arrangement is dependent on the Republic of Belarus's meeting certain conditions and performance criteria prior to each drawdown. There can be no assurance that the remaining tranche of the EFSD credit arrangement will be disbursed if the EFSD determines that the prior conditions have not been met. See "*Public Finance—External Public Debt—EFSD*". In 2017, the Republic of Belarus secured additional external financing from global economies and IFIs in the aggregate amount of US$0.8 billion. More generally, borrowings from IFIs are typically dependent on meeting certain requirements, performance criteria and if the Republic of Belarus is unable to meet such requirements under its existing obligations, IFIs may decline to provide external financing in the future. In addition, as at 31 December 2018, the Republic of Belarus had external public borrowings for the International Bank for Reconstruction and Development (the "**IBRD**") that included 18 loans in the aggregate amount of US$1.4 billion and borrowings from Chinese banks in the aggregate amount of US$5.1 billion.

In November 2008, Russia provided a 15-year loan facility of US$1 billion to the Republic of Belarus which was increased by US$500 million in March 2009. The Republic of Belarus received two loans under the facility in the total amount of US$2.0 billion from the Russian government in 2014 and two loans in the amount of US$870 million in 2015. Further, as at 31 December 2018, the Republic of Belarus utilised US$3.4 billion under a US$10 billion credit line available from the Russian government and US$383.2 million from Vnesheconombank for the construction of the Belarusian nuclear power plant (the "**NPP**"). In April 2017, the government of Russia agreed to extend a loan to the Republic of Belarus in 2017 for refinancing its external public debt in the amount of US$700 million. The loan was received by the Republic of Belarus in September 2017. There can be no assurance that the Republic of Belarus will continue to receive similar financial assistance from Russia in the future.

In addition, due to the unfavourable economic environment in the recent years, many large state-owned enterprises were required to incur additional indebtedness, which were backed by state guarantees, thus creating a contingent liability for the Government. See "*—The Belarusian banking sector remains highly concentrated*".

The Republic of Belarus has regularly accessed the international capital markets. In August 2010, it issued US$1 billion 8.75 per cent. notes due 2015. In January 2011, it issued a further US$800 million 8.95 per cent. notes due January 2018. In June 2017, it placed a dual tranche Eurobond offering on the international capital markets in the total amount of US$1.4 billion. In February 2018, it issued a further US$600 million 6.20 notes due in 2030. Access to the international capital markets and external financing for sovereign issuers in emerging markets, such as the Republic of Belarus, can generally be limited and there can be no assurance that such access will continue.

If the Republic of Belarus is unable to access the international capital markets or is unable to secure further external funding from Russia, IFIs or other sources, this may result in increased pressure on the Republic of Belarus's foreign exchange reserves and have an adverse impact on the Republic of Belarus's ability to meet its ongoing financing needs, including its obligations pursuant to the Secondary Liability. See "*—The Republic of Belarus has experienced liquidity difficulties in the past and continues to be subject to significant liquidity risk, including from fluctuations in its foreign reserves, increasing debt service obligations over the next several years and volatility of its currency*".

The Republic of Belarus has experienced liquidity difficulties in the past and continues to be subject to significant liquidity risk, including as a result of fluctuations in its foreign reserves, increasing debt service obligations over the next several years and the volatility of its currency.

The Republic of Belarus experienced a substantial decrease in its foreign reserves in 2010 and 2011 due to the increasing balance of payments deficit and the ongoing global economic crisis. By 1 March 2011, reserves held in foreign currencies had almost halved compared to the previous year to US$4.0 billion. Following the receipt of US$1.7 billion under the EFSD credit arrangement in 2011 and 2012 and US$2.5 billion of privatisation proceeds from the sale of a 50 per cent. stake in Open Joint-Stock Company Beltransgaz ("**Beltransgaz**"), a national gas infrastructure and transportation company, in 2011, the Republic of Belarus's foreign reserves increased to US$8.1 billion as at 31 December 2012.

Following the privatisation of Beltransgaz, in order to maintain international reserve assets and cover the current account deficit, during the period from 2011 to 2017 the Government undertook several state property privatisation transactions and other actions to attract foreign investment and financing using EFSD funds. However, due to the downturns in economies of EEU member states, which are the Republic of Belarus's principal trading partners, in 2014 and 2015 caused by the Russian-Ukrainian crisis, development opportunities for the Belarusian economy were significantly limited and total foreign reserves decreased to US$7.2 billion as at 31 December 2018. The Republic of Belarus continues to experience limited external liquidity.

The Government intends to privatise certain stakes in "Bank Dabrabyt" JSC (previously known as JSC Bank Moscow-Minsk) ("**Bank Dabrabyt**") and JSC "Belinvestbank" ("**Belinvestbank**") during 2019 to 2020. A memorandum of understanding has been concluded between the National Bank and the EBRD regarding the privatisation of Bank Dabrabyt with the objective of selling a controlling stake to an acceptable strategic investor before 1 January 2020. In addition, with the cooperation of the EBRD, the Government intends to sell no less than 75.0 per cent. of shares of Belinvestbank to a strategic investor by 1 January 2020.

In 2018, the total foreign currency public debt service and repayment was approximately US$3.9 billion. Pressure on the Republic of Belarus's liquidity may increase if the Government does not maintain its tight fiscal and monetary policy, is unable to meet conditions under existing credit arrangements or obtain further financing from external sources in the future. See "*—Inability to obtain financing from external sources could affect the ability of the Republic of Belarus to meet its financing needs, which could have a negative effect on the Republic of Belarus's economy*".

The Belarusian banking sector remains highly concentrated.

As at 31 December 2018, the banking sector of the Republic of Belarus consisted of 24 active banks, five of which were state-owned, 14 of which were controlled by foreign investors (four of these banks were 100 per cent. foreign-owned) and five of which were controlled by private non-foreign capital.

There is a high level of concentration in the banking sector, with the five largest banks, which are state-owned, holding more than half of the banking sector's assets and customer deposits. While measures have been taken to address and reduce systemic risk, including the planned privatisations of Bank Dabrabyt and Belinvestbank, such measures are ongoing and there remains a risk that further reforms may be required, the impact of which is uncertain. There is also a risk that further financial assistance to the banking sector may be needed from the

Government. For example, in December 2011, following the financial crisis, the Government conducted a recapitalisation of state-owned banks totalling approximately BYN15 trillion (BYN1.5 billion as adjusted for re-denomination) in order to increase their regulatory capital. There can be no assurance that the Government would be willing and/or able to provide such financial assistance in the future.

According to the National Bank, the share of NPAs in the Belarusian banking sector decreased to 2.0 per cent. as at 31 December 2017 compared to 4.0 per cent. as at 31 December 2016, 1.9 per cent. as at 31 December 2015 and 0.9 per cent. as at 31 December 2014. This decrease in 2017 was primarily due to the implementation by the Government of the comprehensive reform of the system of financing agricultural producers through the allocation of bad debts of defaulting agricultural organisations from banks to Asset Management Agency in order to clear the balance sheets of the banking sector as well as to release liquidity to creditworthy agricultural organisations. See "*Public Finance—Asset Management Agency*". The increase in the share of NPAs in 2015 and 2016 was mainly attributable to the generally unfavourable economic conditions in the global and Belarusian financial markets. The National Bank's introduction of amendments to requirements for classification of loans as NPAs, which was aimed at increasing the transparency and stability of the banking sector, also contributed to the increase in NPLs in 2016. In accordance with the approach adopted by the National Bank in 2016, NPAs include not only loans past due for over 90 days, but also certain unsecured or insufficiently secured loans past due or extended one or more times. Moreover, under this categorisation, NPAs include liabilities of debtors for which there is no information to permit the assessment of their financial condition, as well as non-resident debtors (excluding banks) which have no ratings or low ratings. In April 2018, the National Bank introduced a new categorisation to align the Belarusian approach to NPAs with international standards. This new categorisation increased the number of risk groups from five to six and assigned new minimum reserve requirements for each group of assets. As at 31 December 2018, the share of NPAs in the Belarusian banking sector was 5.0 per cent. compared to 3.5 per cent. as at 1 May 2018, when the share of NPAs was reported for the first time. As at 1 March 2019, the share of NPAs in the Belarusian banking sector was 6.1 per cent. The increase was mainly due in part to the continued implementation of new legislation. DBRB's bad debt ratio based on NPAs under the National Bank's categorisation was 1.7 per cent. as at 31 December 2018.

A significant portion of the balance sheets of the largest Belarusian banks includes loans to large state-owned industrial enterprises guaranteed by the Government. Due to the turmoil in the global and Belarusian economy and other negative macroeconomic developments, payments under a portion of such guaranteed loans were not made by the borrowers when due and were therefore covered by the Government under the terms of state guarantees.

To increase the efficiency of the banking sector, the Government is undertaking reforms to improve corporate governance at state-owned enterprises, to reduce political interference in decision-making and to enhance the accountability of management. In addition, the Government is implementing a strategy of gradual privatisation of state-owned banks. See "*The Economy of the Republic of Belarus—Privatisation*". However, there can be no assurance that such reforms, including those with the aim of reducing NPLs, will be successful or sufficient. Deficiencies in the Belarusian banking sector, combined with the size of NPL portfolios held by Belarusian banks, may result in the banking sector being more susceptible to a global credit market downturn or economic slowdown. See "*Monetary and Financial System*".

The Belarusian banking sector remains vulnerable, and there can be no assurance that future turmoil in the global banking sector and the wider economy will not have a negative effect on the Belarusian banking sector, which could have a material adverse effect on the trading price of the Notes.

The Republic of Belarus has complex relations with the European Union and the United States, and any tensions could have a material adverse effect on the Republic of Belarus's economy or political environment or the market value of the Notes.

The Republic of Belarus has complex relations with the European Union and the United States, each of which has raised human rights concerns and criticised the method in which certain elections in the Republic of Belarus have been conducted. See "*Overview of the Republic of Belarus—International Relations*".

Historically, the Republic of Belarus's relations with the European Union and the United States were significantly affected by flaws in the electoral system of the Republic of Belarus, identified by international observers and alleged violations of human rights in the Republic of Belarus. The European Union and the United States have criticised the method by which certain elections in the Republic of Belarus have been conducted and the manner in which certain dissidents and pro-democratic political activists have been treated. The United States has also raised human rights concerns and has expressed concerns about alleged public corruption and misuse of public assets. The Government does not accept that such criticisms are justified. Based on its objections, in 2006 and 2007, the United States imposed travel restrictions against certain Belarusian officials and has imposed sanctions against the Republic of Belarus's state-owned petrochemical company, Concern Belneftekhim, and other entities within the Concern Belneftekhim group. In addition, the United States imposed economic sanctions administered by the US Treasury Department Office of Foreign Assets Control ("**OFAC**") that prohibit US persons from engaging in economic transactions with President Lukashenko and certain other Belarusian officials or with entities in which they hold a 50 per cent. or greater interest. In September 2008, certain economic sanctions were temporarily suspended but following the presidential elections in December 2010 and reported violations of human rights, in January 2011, the United States revoked the temporary suspension and announced additional travel restrictions. Later in 2011, the United States imposed additional economic sanctions against seven Belarusian state-owned enterprises, resulting in termination of foreign trade between the designated entities and the United States.

However, the presidential elections in 2015 and parliamentary elections in 2016 were positively assessed by international observers from the Organisation for Security and Cooperation in Europe (the "**OSCE**"), Commonwealth of Independent States ("**CIS**"), Parliamentary Assembly of the Council of Europe ("**PACE**") and Shanghai Cooperation Organisation ("**SCO**") and demonstrated development in the areas of democracy and human rights. Following the development of a more constructive dialogue, the United States suspended the effect of economic sanctions with regard to Belarusian economic operators. In March 2015, sanctions were cancelled with regard to the Belarusian Oil Company ("**Beloil**") manufacturing group, and from 30 October 2015, sanctions were suspended with regard to Belneftekhim enterprises. The US Department of State also cancelled the negative recommendation to American banks concerning the underwriting of Belarusian bonds and changed the wording of the recommendation to American investors concerning cooperation with the Republic of Belarus from "negative" to "neutral or positive". In October 2018, OFAC, in consultation and coordination with the US Department of State, extended to 25 October 2019 the general licence to permit transactions involving certain Belarusian entities that are otherwise prohibited pursuant to Executive Order (E.O.) 13405. On 25 February 2016, the Council of the European Union also took the decision to cancel the majority of restrictive measures it had imposed with regard to the Republic of Belarus, save for its firearms embargo and sanctions related to four natural persons which were extended up to 28 February 2020.

The normalisation of political relations between the Republic of Belarus and the European Union and the United States has been accompanied by substantive steps aimed at the development of applied trade and economic and humanitarian cooperation. However, no assurance can be given that the Republic of Belarus's foreign policy objectives will achieve their intended aims or that new restrictions will not be imposed by the European Union or the United States or that frictions will not affect the political and economic environment in the Republic of Belarus and the market value or liquidity of the Notes. In addition, complex political relations with the European Union and the United States may have an adverse effect on investments in the Republic of Belarus and the availability of external funding from IFIs and in the international capital markets. See "*—Inability to obtain financing from external sources could affect the ability of the Republic of Belarus to meet its financing needs, which could have a negative effect on the Republic of Belarus's economy*".

A deterioration in the Republic of Belarus's relations with Russia could adversely affect the supply of fuel and energy resources to the Republic of Belarus and Russian investment in the Republic of Belarus.

The Republic of Belarus imports a significant percentage of its energy requirements from Russia, and Russia is the Republic of Belarus's most significant trading partner, accounting for 57.2 per cent. of imported goods imports and 44.1 per cent. of exported goods in 2017.

Russia was also the source of 34.7 per cent. of foreign direct investment ("**FDI**") inflows to the Republic of Belarus in the year ended 31 December 2018 and bilateral loans from Russia represented 46.8 per cent. of the total external public debt of the Republic of Belarus as at 31 December 2018.

In addition, several oil and gas pipelines from Russia to EU member states are routed through the Republic of Belarus, and a significant portion of Russian energy exports, in particular, in 2018, 49 million tonnes of Russian oil and 42 billion cubic metres of natural gas were delivered through the Republic of Belarus. Russia is constructing new oil and gas pipelines to diversify transport routes for its oil and gas exports. See "*The Economy of the Republic of Belarus—Fuel and Energy*". Notwithstanding the construction of these new pipelines, no indication has been given by the Russian government that their construction would decrease the quantity of oil to be delivered to the European Union through the Republic of Belarus. However, there can be no assurance that this will not be the case.

In the past, the Republic of Belarus and Russia have had a number of disagreements regarding the level of duty imposed on Russian crude oil exports to the Republic of Belarus, which comprise a significant part of the Republic of Belarus's energy resources and are important for the Republic of Belarus's oil refinery industry. Since 1 January 2019, Russia has been implementing a "tax manoeuvre" in the oil sector, which provides for a gradual decrease in export customs rates for oil and basic oil products with a simultaneous increase of the tax on mineral resource extraction. At present, sales of oil by Russia to the Republic of Belarus are not subject to Russia's export duties. As the Russian mineral extraction tax rate increases, the price of oil from Russia increases for the Republic of Belarus as well, as the Republic of Belarus does not benefit from the decrease in Russian export duties as they do not apply to oil sales to the Republic of Belarus. Therefore, as a result of the "tax manoeuvre", the oil price for the Republic of Belarus will increase. The "tax manoeuvre" process is expected to be completed by 2024, at which point the Republic of Belarus will need to purchase oil from Russia at market prices. See "*The Economy of the Republic of Belarus—Fuel and Energy—Oil*".

The Republic of Belarus and Russia have also had disputes regarding supplies of natural gas. In June 2010, they had a dispute regarding the timing of payments due from the Republic of Belarus to Russia for gas supplied by Russia and from Russia to the Republic of Belarus for the transit of Russian gas to the European Union, which resulted in a temporary disruption of gas flows to the European Union. In 2016, a dispute arose between Russia and the Republic of Belarus with respect to the price for natural gas supplied by Russia. Under the existing intergovernmental bilateral gas supply agreement, from January 2013, the price of natural gas for the Republic of Belarus has been determined based on the price of natural gas for consumers in the Yamalo-Nenets Autonomous Okrug of Russia, including transportation and storage costs. In addition, Russia has undertaken to guarantee that supplies of natural gas to the Republic of Belarus are in amounts sufficient for the satisfaction in full of Belarusian domestic demand. However, in May 2014, the Republic of Belarus, Russia and Kazakhstan signed the Eurasian Economic Union Treaty ("**EEUT**"), which obliged the parties to create a common EEU gas market by no later than 1 January 2025, providing for a unified equal profitability price formula which would represent a significant decrease compared to the price under the intergovernmental bilateral gas supply agreement. In April 2017, the governments of Russia and the Republic of Belarus entered into a negotiation process and a number of bilateral agreements in respect of gas transit and oil supply were executed and implemented in 2017. In addition, the creation of the EEU common gas market is expected to result in a decrease in payments for imported energy resources for end consumers in the Republic of Belarus.

A change in the policy of the Russian government or a deterioration of relations between the Republic of Belarus and Russia could lead to the oil and gas supply arrangements being renegotiated and oil and gas supplies from Russia being disrupted, which would have a material adverse effect on the Belarusian economy.

Sanctions imposed on certain Russian and Ukrainian persons and entities could have an indirect adverse impact on the Republic of Belarus's economy.

The United States and the European Union (as well as other nations, such as Australia, Canada, Japan and Switzerland) have imposed several rounds of sanctions on certain Russian and Ukrainian persons and entities in connection with the current conflict in Ukraine. The sanctions, combined with a substantial decline in global oil prices, had an adverse effect on the Russian economy, prompting downward revisions to the credit ratings of Russia and a number of major Russian companies that are ultimately controlled by Russia, caused significant capital outflows from Russia in 2014 and 2015 and impaired the ability of Russian issuers to access the international capital markets. The governments of the United States and certain EU member states, as well as certain EU officials, have indicated that they may consider additional sanctions should tensions between Russia and Ukraine continue.

While the Republic of Belarus maintains strong independent diplomatic relationships with both Russia and Ukraine and has confirmed its neutral position with respect to the tensions between Russia and Ukraine, the Republic of Belarus has significant economic and political relations with Russia. Russia and the Republic of Belarus, together with Kazakhstan, are members of the Customs Union (the "**Customs Union**") and Common Economic Space established the EEU on 1 January 2015. While the establishment of the EEU has not had an immediate significant impact on the Republic of Belarus's relationship with Russia because it is essentially a continuation of the Customs Union and Common Economic Space structures that have been in place since 1 January 2010 and 1 January 2012, respectively, the establishment and functioning of the EEU is expected to continue to strengthen the Republic of Belarus's economic relations with Russia going forward.

Russia is the main trade and economic partner of the Republic of Belarus. See "*—A deterioration in the Republic of Belarus's relations with Russia could adversely affect the supply of fuel and energy resources to the Republic of Belarus and Russian investment in the Republic of Belarus*". Sanctions imposed on certain Russian persons and entities by the United States, the European Union and other countries in connection with the conflict in Ukraine, Russia's alleged actions aimed at undermining the cybersecurity of the United States during the 2016 presidential election or other matters could prevent the Republic of Belarus from trading with certain Russian counterparties, which could have a material adverse impact on the Republic of Belarus's trade and consequently the country's economy.

The Republic of Belarus's close economic links with Russia, the existing sanctions imposed on certain Russian and Ukrainian persons and entities or any future sanctions could have a material adverse effect on the Republic of Belarus's economy, which in turn could have a material adverse effect on the trading price of the Notes.

Political considerations may impede reform, and political instability may result from both the implementation of reforms or any failure or delay in such implementation, all of which could have a negative effect on the Republic of Belarus's economy.

The President of the Republic of Belarus (the "**President**"), who is elected directly by the people of the Republic of Belarus, has a wide range of powers including the power to call elections, appoint the Prime Minister of the Republic of Belarus (the "**Prime Minister**") and the Council of Ministers as the executive arms of the Government, make judicial appointments and appointments to local executive and administrative bodies and issue edicts, decrees and directives which have the force of law. The current President is not a member of any political party and no political party or other organised body currently has any significant representation in either chamber of the National Assembly (as defined below) as the representative and legislative body of the Republic of Belarus. There is no limit on the number of terms for which the President can be elected.

Certain commentators have suggested that without structural reform and a reduction in the extent of direct state support within the Republic of Belarus's economy, the economy may not achieve sustainable growth. Progress on such reforms to date has been slow and reforms of this nature are likely to be politically unpopular. The extent to which the Republic of Belarus will be able to attract broad scale investment in the absence of significant political reform is uncertain. Further borrowing from the IMF, the IBRD and other IFIs may also be conditional on such reform.

For instance, in 2016, 2017 and 2018, annual consultations between the Republic of Belarus and the IMF took place within the framework of Article IV of the IMF agreement. The IMF was focused on the current economic policy and the forecast for the Belarusian economy's development for the coming years. On 16 January 2019, the report of the IMF staff was considered at the meeting of the IMF Board of Directors. The IMF Executive Board members welcomed the positive economic changes in the Republic of Belarus and noted the successful actions of the authorities in terms of continued economic recovery supported by improved policy frameworks, and the implementation of Financial Sector Assessment Programme (the "**FSAP**") recommendations. However, a number of risks and vulnerabilities for the economy which remained were noted, including rapidly rising public debt, high dollarisation, and uncertainty about negative spill-overs from Russia's new energy taxation system, together with delays or any failure in further implementation of reform policies. These risks and vulnerabilities could negatively affect the Republic of Belarus's economy and the Republic of Belarus's ability to satisfy its obligations pursuant to the Secondary Liability and to raise capital in the external debt markets in the future.

Failure of the Republic of Belarus to successfully implement energy sources diversification projects could adversely affect the Republic of Belarus's economy.

Electric power production is the most important industry in the fuel and energy sector of the Republic of Belarus. It is also one of the largest sectors of the economy. Between 2013 and 2018, the Republic of Belarus was able to satisfy 83.1 to 102.6 per cent. of its domestic demand for electric power. The remaining portion has been imported from Russia, Ukraine and Lithuania. In the period from 2011 to 2017, the Republic of Belarus has imported between 2.8 to 7.9 billion kWh of electricity annually. However, the Republic of Belarus's strategy is gradually to decrease imports of energy through an upgrade of its existing energy production facilities, the implementation of energy saving measures in accordance with state industrial programmes, the construction of new high efficiency generation facilities and the construction of the NPP. In March 2011, the Government signed a contract with the government of Russia for the "turnkey" construction of the NPP in the Republic of Belarus (with a total design output of up to 2,400MW). To finance the NPP, in November 2011 the Republic of Belarus and Russia signed a US$10 billion export credit loan and a US$500 million credit agreement with Vnesheconombank. As at 31 December 2018, the Republic of Belarus had utilised US$3.4 billion under the US$10 billion credit line available from the Russian government and US$383.2 million under the US$500 million credit from Vnesheconombank.

The Government expects that the implementation of the energy system modernisation programme will allow the Republic of Belarus to decrease fuel and energy consumption for power production by approximately 33.4 t.r.f/kWh and reduce corresponding costs and fuel imports. However, should the Belarusian energy system modernisation programme or NPP construction fail to be implemented or should there be significant delays in the implementation of these measures due to the absence of sufficient funding, construction breakdowns or delays, natural disasters or other factors, it may have an adverse effect on the Belarusian economy. For instance, in 2016, commissioning of the first power unit of the NPP was rescheduled from 2018 to 2019 due to construction delays. Furthermore, despite the fact the design documentation in respect of NPP has undergone an environmental review, commissioning and operation of NPP and nuclear power as an energy source in general is subject to environmental risks of equipment failures and emergencies, nuclear wastes mishandling and pollution, among other risks.

The economy of the Republic of Belarus may be affected by the aging population.

After the dissolution of the USSR, the majority of former Soviet Union states experienced increases in mortality and sharp drops in birth rates. This was true for the Republic of Belarus, although the increase in mortality was less pronounced than in other newly independent states, as the socio-economic changes were less drastic. A health crisis in the 1990s contributed to a decline in life expectancy, especially among males. In 1999, the male life expectancy at birth was only 62.2 years according to World Bank, the lowest for the past 50 years. During the 2000s, economic growth in the Republic of Belarus increased and living standards improved rapidly. As economic uncertainty subdued and incomes grew, both life expectancy and fertility increased. The Government also introduced maternity and child benefits, and these policies contributed to an increase in fertility. However, these positive developments were not sufficient to reverse the negative trend in population growth. According to the World Bank, the Belarusian population decreased from 10.2 million in 1991 to 9.5 million in 2018. More importantly for the pension system, the old-age dependency ratio (the number of persons of retirement age per 100 workers) amounted to 43 in 2015. Low post-war birth rates implied that in the 2000s, the cohorts entering retirement were relatively small. This favourable demographic environment allowed for a surplus in the Social Protection Fund (the "**SPF**"). As old-age dependency increased, 2013 became the first year with a registered SPF deficit. UN population projections suggest that age dependency will continue increasing until 2050 when it is expected to stabilise. As a result, the SPF may experience a shortfall in financing.

The current pension system in the Republic of Belarus is a pay-as-you-go scheme. The retirement ages in the Republic of Belarus are among the lowest in the region: 55 years for women and 60 years for men. For the purpose of adaptation of the pension system to an aging population, pension expense growth is systematically managed. Thus, from 1 January 2017, the pension age is being increased gradually (by six months each year), until it reaches 58 years for women and 63 years for men in 2022. As at the date of these Listing Particulars, the pension age is 56.5 years for women and 61.5 years for men. Also, the minimum length of service with payment of fees will be increased annually by six months from 16 in 2017 to 20 years by 2025. The minimum length of service is required for admission to contributory retirement pension and long service pension. See "*The Economy of the Republic of Belarus—Employment, Wages, Pensions and Social Security—Pensions and Other Benefits*". The amount of the average monthly pension upon reaching the pension age in the Republic of Belarus in 2016, 2017 and 2018 amounted to BYN292.22 (approximately US$147), BYN309.56 (approximately US$160) and BYN352.1 (approximately US$173), respectively. The average pension is approximately 40 per cent. of the average wage.

Should pension reforms and other actions taken by the Government be insufficient to remedy the effects of the aging population, such as increased pressure on the SPF and health care subsidies, an increased dependency ratio, a shortage of workforce or a reduction in capital investment, these factors could have an adverse effect on the Belarusian economy and its prospects, government finances, and the Republic of Belarus's ability to meet its obligations pursuant to the Secondary Liability.

The ongoing conflict in Ukraine may have a material adverse effect on the Belarusian economy.

The ongoing, significant, civil and political unrest relating to Ukraine is inherently volatile and uncertain. Following political unrest and the formation of a new government in Ukraine in early 2014, escalating military activities within the country and on its borders, which have included Crimea's independence vote and subsequent absorption by Russia, have combined with Ukraine's very weak economic conditions to create significant uncertainty in Ukraine, the region as a whole and global markets. Resolution of Ukraine's volatile political and economic situation will likely not be obtained for some time, and the situation could further deteriorate into increased violence and/or economic collapse. Such instability could have a material adverse effect on the Republic of Belarus's economy, particularly as a result of the impact on the global economy and the Russian economy, which could in turn have a material adverse effect on the trading price of the Notes.

Official economic data may not be directly comparable with data produced by other sources.

The statistical information contained in these Listing Particulars have, unless otherwise stated, been derived from official publications of the National Statistical Committee of the Republic of Belarus (the "**NSC**"), the National Bank, the Ministry of Finance and the Ministry of Foreign Affairs. The Republic of Belarus has adhered, since December 2004, to the Special Data Dissemination Standard of the IMF. No assurance can be given that any such information, where it differs from that provided by other sources, is more accurate or reliable than that provided by such other sources. Certain statistical information for prior years has already been adjusted and may be subject to future adjustment. Similar statistics may be obtainable from other unofficial sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. In addition, such statistics or any commentary thereto may reflect the views of those commentators, rather than those of the Government.

Risks relating to the Secondary Liability

The Secondary Liability is governed by Belarusian Law and subject to the jurisdiction of the Belarusian courts.

The Secondary Liability arises pursuant to Edict No. 261 and Edict No. 600 and is governed by Belarusian law. Any enforcement in respect of the Secondary Liability will be subject to the laws of the Republic of Belarus and in the event of a dispute, the jurisdiction of the courts of the Republic of Belarus. There can be no assurance that the courts of the Republic of Belarus will determine enforcement actions in respect of the Secondary Liability in favour of the Noteholders.

In the event there is a dispute in relation to the operation of the Secondary Liability, the Trustee will need to familiarise itself with the court process and laws of the Republic of Belarus, and appoint appropriate Belarusian counsel, in order to bring any enforcement action in respect of the Secondary Liability in the Belarusian courts. Such process may not be in line with the process or timing for enforcement of English law obligations in the English courts.

The Trustee will first need to demand payment from the Issuer. In the event that the Issuer: (i) refuses, in writing, to perform its obligations under the Notes; (ii) fails to respond to a demand for payment within a "reasonable period of time"; or (iii) recognises the claim but does not in fact perform its obligations, the Trustee acting on behalf of Noteholders may either bring separate actions for enforcement against the Issuer for any failure to meet its obligations under the Notes, and against the Republic of Belarus for failure to meet its obligations under the Secondary Liability, or a joint action for enforcement against both the Issuer and the Republic of Belarus. There is no legislative description of what constitutes a "reasonable period of time" under Belarusian law. Enforcement actions against the Republic of Belarus or against both the Republic of Belarus and the Issuer as co-defendants in respect of the Secondary Liability will need to be brought in Belarusian courts and will be subject to Belarusian law.

There can be no assurance as to the interpretation by the Belarusian courts of the Secondary Liability, nor as to their interpretation of any public policy under Belarusian law. There can be no assurance that Belarusian law, including with respect to the Secondary Liability, will not be amended in the future. There is therefore a risk that enforcement of the Secondary Liability in the courts of the Republic Belarus will not be effective. See "*Description of the Secondary Liability—Enforcement of the Secondary Liability*" and "*Risk Factors—Risks relating to the Notes generally—Judgments relating to assets in the Republic of Belarus and Belarusian assets in other jurisdictions may be difficult to enforce*".

The Secondary Liability may be withdrawn.

The Secondary Liability arises pursuant to Edict No. 261 and Edict No. 600. It may therefore be amended or withdrawn at any time by another Edict of the President of the Republic of Belarus. The amendment or withdrawal of the Secondary Liability would trigger a Secondary Liability Put Event and permit each Noteholder to redeem all or part of its Notes at their principal amount outstanding together with interest accrued to, but excluding, the date of redemption (see Condition 6(b) (*Redemption at the option of Noteholders on amendment or withdrawal of the Secondary Liability*) for further details). There can be no assurance that the Secondary Liability (and therefore any support of, or right of enforcement action against, the Republic of Belarus) will not be withdrawn at any time. See "*Description of the Secondary Liability*".

The Secondary Liability is a conditional obligation.

The Secondary Liability is a conditional obligation and will only be effective if the Issuer does not have sufficient monetary funds (as defined in Edict No. 600) to pay the amounts due under the Notes. The Secondary Liability also requires a number of procedural steps to be completed before it can be enforced by Noteholders or pursuant to Edict No. 600 against the Republic of Belarus, as outlined in "*Description of the Secondary Liability*". If the necessary procedural steps are not completed, or if the Issuer is determined to have sufficient monetary funds, then the Secondary Liability will not be effective and the Republic of Belarus will be under no obligation to pay any amounts in respect of the Notes. See "*Description of the Secondary Liability*".

The Secondary Liability is a subordinated obligation.

The Secondary Liability with respect to the Notes represents an "expenditure obligation". Under Belarusian law, "expenditure obligations" are subordinated to, and rank below, "sovereign debt" obligations of the Republic of Belarus. Sovereign debt of the Republic of Belarus is therefore payable in priority to the expenditure obligations such as the Secondary Liability. Furthermore, mandatory rules for the classification of budget expenditures and procedures for budget allocation may apply to payments pursuant to the Secondary Liability. In the event of a failure on the part of the Issuer to make payments in respect of the Notes, there can be no assurance that the

Republic of Belarus will have sufficient monetary funds available to meet any outstanding payment obligations to Noteholders. See "*Description of the Secondary Liability*".

The Republic of Belarus has not waived sovereign immunity with respect to the Secondary Liability.

The Republic of Belarus has not waived sovereign immunity with respect to the Secondary Liability. There can be no assurance that the Republic of Belarus will not claim sovereign immunity nor that the courts of the Republic of Belarus will not construe that the Republic of Belarus has the benefit of sovereign immunity and therefore prevent any enforcement of the Secondary Liability.

Risks relating to the Notes generally

Belarusian laws are subject to continuous change.

Under the principle of superiority of legislation over the contractual arrangements of the parties that exists in the laws of the Republic of Belarus, if after execution of any transaction there shall be an enactment of new mandatory rules that differ from those existing at the time of execution of such a transaction, then that transaction should be brought into conformity with the effective laws of the Republic of Belarus. Decrees and edicts issued by the President of the Republic of Belarus prevail over the laws of the Republic of Belarus adopted by the National Assembly (as defined below), unless the authority for passing a decree or an edict is granted by law rather than the Constitution of the Republic of Belarus. Acts of the President of the Republic of Belarus having priority over other laws may be issued at any time and may introduce significant changes to existing provisions of the laws of the Republic of Belarus relating to the issuance or redemption of the Notes and the execution and performance of the Issuer's obligations under the Subscription Agreement, the Trust Deed and/or the Agency Agreement (each, as defined below) or in connection with the breach, termination or invalidity thereof.

Judgments relating to assets in the Republic of Belarus and Belarusian assets in other jurisdictions may be difficult to enforce.

The Republic of Belarus is a sovereign state. There is a risk that without a waiver of sovereign immunity by the Republic of Belarus in connection with the Secondary Liability, a claimant will not be able to enforce a court judgment or arbitral award in the Republic of Belarus against assets of the Republic of Belarus, unless the Republic of Belarus has specifically consented to such enforcement at the time when the enforcement is sought. In addition, certain state-owned assets are exempt from court enforcement procedures in the Republic of Belarus (regardless of any sovereign immunity waiver), including but not limited to, the gold and currency reserves of the Republic of Belarus, exhibits forming the museum and library funds of the Republic of Belarus, its state archive and property of a military character and under the control of a military authority or defence agency. Moreover, the enforcement in the Republic of Belarus of any court judgment or arbitral award against any assets of the Issuer which are subject to a mortgage, pledge, lien or other security interest or encumbrance granted by the Issuer to a third party will be subject to the provisions of applicable laws governing such mortgages, pledges, liens, security interests or encumbrances, including, without limitation, the order of priority for the satisfaction of claims of secured and unsecured creditors from such assets.

In addition, it may not be possible to effect service of process against the Republic of Belarus in courts outside the Republic of Belarus or in a jurisdiction to which laws the Republic of Belarus has not explicitly submitted.

Belarusian courts may not enforce foreign judgments or arbitral awards and may not recognise the choice of English law as the governing law of the Notes.

Pursuant to Belarusian legislation, if the enforcement of a foreign judgment were to contravene the "public policy" of the Republic of Belarus, a Belarusian court will refuse to enforce the judgment. Belarusian courts may not enforce a judgment obtained in a court established in a country other than the Republic of Belarus unless such enforcement is provided for by an international or bilateral treaty ratified by the Republic of Belarus or on the basis of reciprocal enforcement of judgments. Such treaties are in existence in the form of a regional instrument with the majority of the CIS countries and bilateral treaties with other countries including, amongst others, Latvia, Lithuania, China, Hungary and Vietnam. There is no such treaty in effect between the Republic of Belarus and either the United Kingdom or the United States. Belarusian legislation does not include clear rules on the application of the principle of reciprocity. Thus, there can be no assurance that the courts of the Republic of Belarus will recognise and enforce a judgment rendered by courts in jurisdictions with which the Republic of Belarus has no international or bilateral treaty on the basis of the principle of reciprocity. As it may not be possible to enforce in the courts of the Republic of Belarus foreign court judgments against the Republic of Belarus that are predicated upon the laws of foreign jurisdictions, separate proceedings with re-consideration of the merits of the case may be needed in Belarusian courts.

Notwithstanding the fact that the Republic of Belarus is a party to the Convention on Recognition and Enforcement of Foreign Arbitral Awards of 10 June 1958, in accordance with which an award of the London Court of International Arbitration would be recognised and enforced by the courts of the Republic of Belarus, it may not be possible to enforce foreign arbitral awards against the Republic of Belarus or threatening the interests of the Republic of Belarus due to Belarusian courts widely interpreting "public policy" as a ground for refusing recognition and enforcement of the award. In addition, a Belarusian court will ignore any dispute resolution agreement of the parties if it finds that under Belarusian legislation it has exclusive jurisdiction over such disputes.

Although Belarusian law recognises choice of law principles for contractual obligations, the choice of foreign law will not exclude the application of mandatory rules of Belarusian law which cannot be derogated from by the agreement between the parties. According to Belarusian law, regardless of the choice of law applicable to the relations of the parties, certain mandatory rules of Belarusian law will still be applied, for instance, requirements relating to the written form of foreign trade transactions and the procedure for the approval of the issuance of the Notes. A Belarusian court may apply these mandatory rules of Belarusian law rather than the law chosen by the parties. Consequently there can be no assurance that a Belarusian court will recognise English law as the governing law of the Notes or apply only English law to the Notes. Belarusian law does not recognise the choice of law for non-contractual obligations and a Belarusian court will apply Belarusian conflicts law to determine the law governing a dispute relating to non-contractual obligations arising out of the Notes. In addition, a Belarusian court, if approached with the respective claim, will ignore any choice-of-law clause and apply the laws of the Republic of Belarus to resolve the dispute if it cannot ascertain the contents of the rules of the applicable foreign law as prescribed by the Civil Code of the Republic of Belarus or if it determines that application of the foreign law would contradict the "public policy" of the Republic of Belarus.

Belarusian courts may consider and pass a judgment on the merits of a dispute arising from the Notes, the Subscription Agreement, the Trust Deed or the Agency Agreement.

If any party were to initiate proceedings in a court of the Republic of Belarus arising out of or in connection with the Notes, the Subscription Agreement, the Trust Deed or the Agency Agreement (each as defined below), the motion to dismiss the proceedings and to refer the parties to arbitration under the Arbitration Rules of the London Court of International Arbitration would have to be made by the other party objecting to the jurisdiction of the court of the Republic of Belarus prior to the first motion of such other party regarding the substance of the dispute. If no such motion is made, the court of the Republic of Belarus would proceed to review, and to pass judgment on, the merits of the dispute.

Disputes among Belarusian residents cannot be subject to jurisdiction of foreign courts or arbitral tribunals.

Under the official interpretation of Belarusian procedural law, if any entities are located or domiciled in the Republic of Belarus, they may not agree to refer their mutual disputes to foreign arbitral tribunals or foreign courts. Arbitration under the Arbitration Rules of the London Court of International Arbitration may be operative under the laws of the Republic of Belarus only if at least one party to the dispute with the Issuer is located or domiciled outside the Republic of Belarus. A dispute between a Belarusian resident and the Issuer may be referred to arbitration under the Arbitration Rules of the London Court of International Arbitration only if there is a foreign co-claimant or co-respondent. Otherwise, a dispute between a Belarusian resident and the Issuer shall be referred to a competent court of the Republic of Belarus.

Belarusian courts may not enforce gross-up obligations.

The Tax Code generally permits one party to pay tax for another party from its own funds, which makes the obligation of the Issuer to pay in case of any withholding or deduction such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required under Condition 8 (*Taxation*) generally enforceable in the Republic of Belarus. However, such statutory permission has only been in force since 1 January 2019 (and prior to 1 January 2019 it had been temporarily introduced for the year ended 31 December 2018) and the tax authorities are silent as to applicability of the above-mentioned permission to gross up and as to the validity of the gross-up provisions generally. In the absence of any official interpretation or guidance and any practice regarding the validity of gross-up provisions, there is a remote risk that such general permission will not be applied to gross-up provisions such as the one contained in Condition 8 (*Taxation*). As a result, the provisions set forth in Condition 8 (*Taxation*) could be found to be unenforceable by the courts of the Republic of Belarus. Noteholders must therefore consider the possibility that the gross-up contained in Condition 8 (*Taxation*) is not enforceable in the Republic of Belarus before purchasing the Notes.

As at the date of these Listing Particulars, there will be no deduction or withholding in respect of payments of interest or principal to legal entities that are not carrying out activities in the Republic of Belarus through a permanent establishment. However, there can be no assurance that the legislation with respect to taxation in the Republic of Belarus will not change in the future. If the legislation of the Republic of Belarus imposes upon the Issuer an obligation to withhold tax, and the gross-up obligation under Condition 8 (*Taxation*) is not permitted or is prohibited by Belarusian law and practice, then amounts payable to Noteholders would be reduced by an amount equivalent to such taxation. There can be no assurance as to how a foreign judgment or an arbitral award demanding payment resulting from a failure to pay under the gross-up provisions in Condition 8 (*Taxation*) would be treated when it is to be enforced in the Republic of Belarus.

Individual Noteholders may become obliged to file a tax return in the Republic of Belarus if they purchase the Notes.

Payments of interest accrued on the Notes to an individual Noteholder may be subject to Belarusian personal income tax (at a rate of 13 per cent. subject to reduction in accordance with an applicable double taxation treaty). However, personal income tax will not apply to the income of an individual Noteholder under certain conditions, for example, when such income is deemed to be paid without a connection to the Notes (for example, where an individual receives proceeds from the trust management of monetary funds, subject to the requirements of a particular trust or similar arrangement established by such an individual).

In the event the income of an individual Noteholder is subject to personal income tax, a tax return may need to be filed in the Republic of Belarus as a result of receiving income under the Notes. Any individual investors should consult their tax advisers before purchasing any of, and before trading in, the Notes.

Risks relating to the Notes and the trading market

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in these Listing Particulars or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The expansion or extension of US, UK and/or EU sanctions in respect of the Republic of Belarus could adversely impact the trading market for the Notes.

If the US, UK and/or EU sanctions are expanded or a new sanctions regime is introduced in respect of the Republic of Belarus, the trading market for the Notes and the rights of the Noteholders could be adversely affected. If the US, UK or EU sanctions programmes are expanded to include additional existing or future counterparties of the Issuer, some Noteholders may sell, at a loss, their interests in any Notes due to internal compliance requirements or any laws or regulation applicable to such Noteholders.

The introduction of any large-scale sanctions on the Republic of Belarus may negatively impact its ability to satisfy its obligations under the Secondary Liability as any payments pursuant to the Secondary Liability could be frozen as a consequence of such sanctions before receipt by the Noteholders. Any such freezing of payments would be beyond the Issuer's control, as it would result from the enforcement of sanctions by the relevant payment processing banks. Consequently, the Issuer's ability to make scheduled payments of principal and interest under the Notes may be impaired. While the Issuer would consider and, to the extent possible, take available measures to discharge its obligations under the Notes, the imposition of sanctions against it could result in the Noteholders not receiving timely scheduled payments under the Secondary Liability or not receiving such payments at all and/or, as a consequence, an Event of Default may occur under the Notes.

The proceeds of the Offering will not be directed to any activity that would be prohibited for a US, UK or EU person or entity under sanctions laws, directives or regulations. The proceeds of the issue of the Notes will not be used to fund activities or persons in violation of sanctions introduced by the EU, the UK or the United States. However, should the Republic of Belarus become subject to US, UK or EU expanded sanctions, the relevant clearing systems, brokers and other market participants as well as Euronext Dublin may refuse to permit trading in or otherwise facilitate transfers of the Notes and certain Noteholders may be unable to continue to hold the Notes as a result of applicable law or internal compliance requirements all of which could compound to significantly reduce the trading market for the Notes or may otherwise materially impact the value of the Notes.

The Notes have minimum denominations.

The Notes have denominations consisting of a minimum denomination of US$200,000 plus integral multiples of US$1,000 in excess thereof, and it is possible that Notes may be traded in amounts that are not integral multiples of US$200,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than US$200,000 in the holder's account with the relevant clearing system at the relevant time may not receive an individual certificate in respect of such holding (should individual certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least US$200,000.

Credit ratings may not reflect all risks.

The Notes are expected to be rated "B" by S&P and "B" by Fitch. These ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. In addition, the Notes represent obligations of the Issuer. The Issuer has credit ratings from two international rating agencies: "B" from S&P and "B" from Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating is generally dependent on a number of factors, including public debt levels, past and projected future budget deficits and other considerations. Any adverse change in the credit ratings of the Notes, or of the Issuer, could adversely affect the trading price of the Notes.

Investors are exposed to the risk that the Republic of Belarus may not be able to, or may choose not to, perform its obligations under the Secondary Liability, including the obligations to pay principal and interest in a timely manner.

There can be no assurance that applicable English law will not change.

The Conditions are governed by English law in effect as at the date of these Listing Particulars. No assurances can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of these Listing Particulars.

Noteholders may be bound by modifications to the terms of the Notes even if they do not attend or vote at the relevant meeting.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

There is no existing market for the Notes.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the Global Exchange Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of the Notes.

In addition, securities markets in recent years have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of issuers whose securities were traded on such securities markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

The markets for emerging market debt have been subject to disruptions on account of the global financial crisis that have caused substantial volatility in the prices of securities similar to the Notes. There can be no assurance that the market for the Notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on Noteholders.

The Noteholders are required to rely on, and comply with, the procedures of Euroclear and Clearstream, Luxembourg and DTC for transfer, payment and communication with the Issuer.

The Notes will be represented by the Global Note Certificates except in certain limited circumstances described in the Global Note Certificates. The Global Note Certificates will be registered, as the case may be, in the name of Cede & Co., as nominee for DTC, or Citivic Nominees Limited as nominee of a common depositary for Euroclear and Clearstream, Luxembourg. The Individual Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. DTC, Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Note Certificates. While the Notes are represented by the Global Note Certificates, investors will be able to trade their beneficial interests only through DTC, Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of Cede & Co., as nominee for DTC, or a nominee of a common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Note Certificates must rely on the procedures of DTC, Euroclear and Clearstream, Luxembourg as well as the procedures of custodians through which they hold the Notes to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificates.

Holders of beneficial interests in the Global Note Certificates will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by DTC, Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Governmental and monetary authorities may impose exchange controls that could adversely affect exchange rates.

The Issuer will pay principal and interest on the Notes in US dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than US dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to US dollar would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Governmental and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The Notes are subject to interest rate risk.

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

The Notes may be impacted by further issuances of debt securities unless issued in a qualified reopening.

The Issuer may, from time to time, without notice to or the consent of the holders of the outstanding Notes, create and issue additional debt securities with identical terms and ranking *pari passu* with the Notes in all respects, but the additional debt securities may not be fungible for US federal income tax purposes with the Notes issued in this offering. Additional debt securities may not be fungible unless they are issued in a "qualified reopening" of the issuance of the original Notes (within the meaning of the applicable US Treasury Regulations). Whether the issuance of additional debt securities is a "qualified reopening" will depend on certain factors, such as the interval after the original offering, the yield of the outstanding Notes at that time (based on their fair market value), whether the additional debt securities would otherwise be issued with original issue discount (generally the amount by which the stated principal amount of the new notes exceeds the issue price if greater than a *de minimis* amount, "**OID**"), and whether any outstanding Notes are publicly traded or quoted at the time. If issuance of the additional debt securities is not a "qualified reopening", the additional debt securities may have OID. If such additional debt securities have OID, that may adversely affect the market value of the outstanding Notes unless the additional debt securities can be distinguished from the Notes.

The Notes may be impacted by the proposed financial transactions tax ("FTT").

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia (which has since ceased to participate), Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each other than Estonia, a "**participating Member State**").

The Commission's proposal has a very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the Commission's proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Furthermore, additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

TERMS AND CONDITIONS OF THE NOTES

The USD500,000,000 6.75 per cent. Notes due 2024 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series herewith) of Joint-Stock Company "Development Bank of the Republic of Belarus" (the "**Issuer**" or "**DBRB**") are constituted by, are subject to and have the benefit of, a trust deed dated 2 May 2019 (as amended and/or supplemented from time to time, the "**Trust Deed**") entered into between the Issuer and Citibank, N.A., London Branch as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are issued subject to and with the benefit of an agency agreement dated 2 May 2019 (as amended and/or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, Citigroup Global Markets Europe AG as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**" which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**" which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agent and the Paying Agents and any reference to an "**Agent**" is to any one of them.

Certain provisions of these Conditions are summaries of the Agency Agreement and the Trust Deed and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Trust Deed applicable to them. Copies of the Agency Agreement and the Trust Deed are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Status

(a) ***Form and denomination:*** The Notes are in registered form, in the denomination of USD200,000 and integral multiples of USD1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) ***Status of the Notes:*** The Notes constitute direct, general, unconditional, unsubordinated and, subject to the provisions of Condition 4 (*Negative Pledge and Covenants*), unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) ***Secondary Liability***: Pursuant to the Edict of the President of the Republic of Belarus No. 261 of 21 June 2011 *'On establishment of Joint-Stock Company "Development Bank of the Republic of Belarus"'* (as amended) ("**Edict No. 261**") and the Edict of the President of the Republic of Belarus No. 600 of 19 December 2014 *'On separate issues of the activities of Joint-Stock Company "Development Bank of the Republic of Belarus"'*("**Edict No. 600**"), the obligations of the Issuer under the Notes qualify, in certain circumstances, as a secondary liability of the Republic of Belarus (the "**Secondary Liability**").

2. Interpretation

In these Conditions the following expressions have the following meanings:

"**Affiliate**" of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (b) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any other Person described in (a).

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body.

"**Authorised Signatory**" means any Director or any other person or persons notified to the Trustee by any director as being an Authorised Signatory pursuant to the Trust Deed.

"**Core Tier 1 Capital**" means common equity tier 1 capital as such term is defined in the NBB Capital Regulation.

"**Core Tier 1 Capital Adequacy Ratio**" means a ratio of DBRB's Core Tier 1 Capital to the Risk Weighted Assets.

"**Director**" means the Chairperson of the Management Board of the Issuer, the Acting Chairperson of the Management Board of the Issuer or the Deputy Chairperson of the Management Board of the Issuer.

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended.

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness.

"**Group**" means the Issuer and its Subsidiaries taken as a whole.

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing.

"**Independent Appraiser**" means an investment banking, accountancy or appraisal firm of international standing appointed, at its expense, by the Issuer (with the prior written consent of the Trustee), provided it is not an Affiliate of the Issuer or the Republic of Belarus.

"**Material Adverse Effect**" means a material adverse effect on the operations and/or financial condition of the Issuer and/or its Subsidiaries or on the Issuer's ability to perform or comply with its obligations under the Notes or any document related to them or on the rights of any person thereunder.

"**Material Subsidiary**" means any Subsidiary of the Issuer which has (together with its Subsidiaries, if any, on a consolidated basis if required to consolidate) total assets that amount to no less than five (5) per cent. of the total assets of the Issuer.

"**NBB**" means the National Bank of the Republic of Belarus.

"**NBB Capital Regulation**" means the Regulation of the Board of the National Bank of the Republic of Belarus No. 137 dated 28 September 2006 (as amended, updated or supplemented from time to time).

"**Permitted Security Interest**" means any Security Interest:

(i) granted in favour of the Issuer by any Subsidiary to secure Indebtedness owed by such entity to the Issuer;

(ii) which arises pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings;

(iii) being liens or rights of set off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of set off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Issuer held by financial institutions;

(iv) arising in the ordinary course of the Issuer's or a Subsidiary's business and (i) which are necessary in order to enable the Issuer or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Issuer's or such Subsidiary's business or (ii) limited to deposits made in the name of the Issuer or such Subsidiary to secure obligations of the Issuer's or such Subsidiary's customers;

(v) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, **provided that** any such encumbrance secures only rentals and other amounts payable under such lease;

(vi) arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Issuer or any Subsidiary), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or precious metals or (c) the Issuer's foreign exchange dealings or other proprietary trading activities including, without limitation in the case of (a), (b) and (c), Repos;

(vii) granted upon or with regard to any property hereafter acquired by the Issuer or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), **provided that** the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(viii) any netting or set-off arrangement entered into by the Issuer in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;

(ix) on the property, income or assets of the Issuer or any Subsidiary securing Indebtedness, **provided that** the aggregate amount of Indebtedness so secured pursuant to this sub-paragraph (ix) at any one time shall not exceed an amount in any currency or currencies equivalent to 15% of the Issuer's total assets, determined by reference to the Issuer's most recent audited consolidated IFRS financial statements; and

(x) arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest either existing on or before the Issue Date of the Notes or permitted by any of the above exceptions, provided that the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality.

"**Regulatory Capital**" means total capital as such term is defined in the NBB Capital Regulation.

"**Regulatory Capital Adequacy Ratio**" means a ratio of DBRB's Regulatory Capital to the Risk Weighted Assets.

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for purposes of this definition, the term "securities" means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multilateral organisation.

"**Risk Weighted Assets**" means the aggregate of balance sheet assets and off-balance sheet engagements, weighted for credit and market risk in accordance with the NBB Capital Regulation.

"**Securities Act**" means the US Securities Act of 1933, as amended.

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

"**Tier 1 Capital**" means tier 1 capital as such term is defined in the NBB Capital Regulation.

"**Tier 1 Capital Adequacy Ratio**" means a ratio of DBRB's Tier 1 Capital to the Risk Weighted Assets.

"**US dollars**", "**USD**" and "**U.S. $**" means the lawful currency for the time being of the United States of America.

3. **Register, Title and Transfers**

(a) ***Register:*** The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) ***Title:*** The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) ***Transfers:*** Subject to paragraphs (f) *(Closed periods)* and (g) *(Regulations concerning transfers and registration)* below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Note may not be transferred unless the principal amount of the Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) ***Registration and delivery of Note Certificates:*** Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) *(Transfers)* above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the cities in which the Registrar and (if applicable) the relevant Transfer Agent have their respective Specified Offices.

(e) ***No charge:*** The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) ***Closed periods:*** Noteholders may not require transfers to be registered during the period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) ***Regulations concerning transfers and registration:*** All transfers of the Notes and entries on the Register are subject to the detailed regulations concerning the transfer of the Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Negative Pledge and Covenants**

(a) ***Negative pledge***

So long as any Note remains outstanding, the Issuer shall not, and shall not permit any Subsidiary to create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Indebtedness or any Guarantee in respect of such Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Trust Deed and the Notes are secured equally and rateably therewith (to the satisfaction of the Trustee) or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its discretion shall consider to be not materially less beneficial to the interests of the Noteholders.

(b) ***Regulatory Compliance***

So long as any Note remains outstanding, the Issuer shall, and shall ensure that each of its Subsidiaries shall, at all times comply, in all material respects, with all laws and regulations in any jurisdiction where the Issuer or the relevant Subsidiary does business, including but not limited to, all regulations and requirements of the NBB applicable to it, any prudential ratios or other mandatory ratios, any regulations and requirements in relation to its equity capital or capital adequacy, and (in the case of the Issuer only) shall not permit: (i) its Regulatory Capital Adequacy Ratio to fall below 10.0 per cent.; (ii) its Tier 1 Capital Adequacy Ratio to fall below 6.0 per cent.; or (iii) its Core Tier 1 Capital Adequacy Ratio to fall below 4.5 per cent.

(c) ***Maintenance of Authorisations***

The Issuer shall, and shall ensure that each Material Subsidiary shall, take all action which may be necessary to: ensure the obtaining and continuance of, all consents, licences, approvals and authorisations required in or by the laws of the Republic of Belarus or any relevant jurisdiction or regulatory authority having regulatory authority in respect of the Issuer or any Material Subsidiary in order to carry out its business activities; and make all registrations, recordings and filings which may at any time be required to be obtained or made in the Republic of Belarus or any relevant jurisdiction or regulatory authority having regulatory authority in respect of the Issuer or any Material Subsidiary in order to carry out its business activities.

(d) ***Limitation on Change of Business***

The Issuer shall not, and shall procure that no Material Subsidiary shall, make any change to the general nature or scope of business of the Issuer or the relevant Material Subsidiary, as the base may be, from that carried on at the Issue Date.

(e) ***Limitation on Merger***

(i) The Issuer shall not enter into any merger, accession, division, separation or transformation as these terms are construed by applicable Belarusian legislation, or any other reorganisation under Belarusian law (each a "**Reorganisation Event**") if it would have a Material Adverse Effect.

(ii) The Issuer shall ensure that no Subsidiary shall: (A) enter into any Reorganisation Event; nor (B) in the case of a Subsidiary incorporated in a jurisdiction other than the Republic of Belarus, participate in any event analogous under the legislation of the relevant jurisdiction to a Reorganisation Event if it would have a Material Adverse Effect.

(f) ***Limitation on Transactions with Affiliates***

The Issuer shall not, and shall ensure that no Subsidiary shall, directly, or indirectly, conduct any business or permit to exist or enter into any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property, the rendering of any service, the making of any loan or guarantee or the creation of any other contingent obligation, whether directly or indirectly) with or for the benefit of any of its respective Affiliates (each an "**Affiliate Transaction**") unless:

(i) the terms of such Affiliate Transaction are no less favourable to the Issuer or relevant Subsidiary, as the case may be, than those that would be obtained in a comparable arms-length transaction with a person that is not an Affiliate of such Person; and

(ii) if the fair market value of such Affiliate Transaction as determined by the appropriate decision-making body with the authority to make such decision of the Issuer or relevant Subsidiary, as the case may be, is in excess of USD50,000,000, such decision-making body shall have received a written opinion from an Independent Appraiser (a copy of which opinion shall be provided to the Trustee) that such Affiliate Transaction is fair to the Issuer or relevant Subsidiary, as the case may be, from a financial point of view; such written opinion of an Independent Appraiser shall be conclusive and binding on all parties.

This Condition 4(f) does not apply to (a) compensation or employee benefit arrangements with any officer or director of the Issuer or a Subsidiary, as the case may be, arising as a result of their employment contract, (b) any Affiliate Transaction between the Issuer and any of its Subsidiaries or any Affiliate Transaction between any Subsidiaries of the Issuer, (c) any Affiliate Transaction entered into prior to the Issue Date which was disclosed in the Listing Particulars, or (d) any Affiliate Transaction where the Affiliate in question is an Agency of the Republic of Belarus or a Person which is a Subsidiary of, or is otherwise owned and/or controlled by an Agency of the Republic of Belarus provided (in respect of this limb (d) only) that : (i) it relates to a transaction in respect of less than USD25,000,000; or (ii) the Issuer has certified in writing to the Trustee in advance that such transaction will not have a Material Adverse Effect.

(g) ***Limitation on Disposal of Assets***

The Issuer shall not, and shall procure that no Material Subsidiary of the Issuer shall, in any financial year, sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not, the whole or any part of its assets which results in a decrease in excess of 10% in the consolidated total assets of the Group (as determined by reference to the latest audited consolidated IFRS financial statements of the Group) to any person unless such transaction:

(i) is on an arm's length basis and on commercially reasonable terms; and

(ii) has been approved by a resolution of the relevant managing body of the relevant company resolving that the transaction complies with the requirements of this and such resolution has been adopted by a majority of the disinterested members of such relevant managing body or, if there are insufficient disinterested members, by a majority of such relevant managing body acting in good faith or, in the case of the Issuer or any of its Subsidiaries incorporated in the Republic of Belarus, approved by any relevant managing body of the Issuer or such Subsidiary (as the case may be), adopted in good faith and in accordance with the relevant requirements of the laws of the Republic of Belarus and the Issuer's or such Subsidiary's (as the case may be) constitutive documents and that a copy (in English) of such resolution has been delivered to the Trustee.

(h) ***Financial Information***

So long as any Note remains outstanding, the Issuer shall:

(i) send to the Trustee and to the Principal Paying Agent one copy of:

(A) the consolidated annual financial statements of the Issuer as soon as practicable after their date of publication and in any event not more than 150 days after the end of each financial year of the Issuer;

(B) the consolidated interim financial statements of the Issuer as soon as practicable after their date of publication and in any event not more than 90 days after the end of the first half of each financial year of the Issuer; and

(C) without undue delay, such additional information regarding the financial position of the Issuer and/or any of its Subsidiaries as the Trustee may reasonably request,

and procure that the same are made available for inspection by Noteholders at the specified offices of the Principal Paying Agent as soon as practicable thereafter;

(ii) ensure that:

(A) each set of annual financial statements delivered by it pursuant to Condition 4(h)(i)(A) is accompanied by an audit report of the relevant auditors;

(B) each set of half yearly interim financial statements delivered by it pursuant to Condition 4(h)(i)(B) is accompanied by a review report of the relevant auditors;

(C) each set of financial statements delivered pursuant to Condition 4(h)(i)(A) or (B) is prepared in accordance with IFRS, consistently applied, and certified for and on behalf of the Issuer as presenting fairly, in all material respects, its financial condition as at the end of the period to which those financial statements relate and its results of operations for such period; and

(D) all information sent to the Trustee and to the Principal Paying Agent and made available on the Issuer's website pursuant to Condition 4(h) is in the English language or accompanied by a certified translation thereof;

(iii) send to the Trustee, together with each set of audited financial statements delivered by it pursuant to Condition 4(h)(i)(A), a separate opinion (in form and substance satisfactory to the Trustee) from the auditors of the Issuer as to the adequacy of the Issuer's financial procedures, accounting systems and management information and cost control systems; and

(iv) promptly upon sending any information to the Trustee and to the Principal Paying Agent pursuant to this Condition 4(h) and in any event within seven calendar days of sending such information, make such information available on the Issuer's website; and

(v) (so long as any Notes outstanding are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act) furnish upon the request of a Noteholder or a beneficial owner of an interest therein to such Noteholder or the beneficial owner or to a prospective purchaser of the Notes designated by such Noteholder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act and will otherwise comply with the requirements of Rule 144A under the Securities Act, if at the time of such request the Issuer is not a reporting company under Section 13 or Section 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3 2(b) thereunder.

(i) ***Officer's Certificates***

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Payment Date) or promptly upon request by the Trustee (and in any event within twenty-one (21) calendar days after such request), the Issuer shall deliver to the Trustee, written notice in the form of an officer's certificate signed by an Authorised Signatory confirming: (i) whether an Event of Default has occurred or any potential Event of Default may occur, and, if so, what action the Issuer is taking or proposes to take with respect thereto; (ii) whether any Secondary Liability Put Event or Change of Control Put Event has occurred or any potential Secondary Liability Put Event or Change of Control Put Event may occur; and (iii) that the Issuer is within any borrowing limits applicable to it.

(j) ***Compliance Certificates***

No later than 30 calendar days prior to any due date for payment of principal or interest under the Notes and promptly upon request by the Trustee (and in any event within twenty-one (21) calendar days after such request), the Issuer shall deliver to the Trustee a written notice signed by an Authorised Signatory of the Issuer (a "**Compliance Certificate**") confirming: (i) whether an Event of Default has occurred or any potential Event of Default may occur, and, if so, what action the Issuer is taking or proposes to take with respect thereto; (ii) whether any Secondary Liability Put Event or Change of Control Put Event has occurred or any potential Secondary Liability Put Event or Change of Control Put Event may occur; (iii) whether the Issuer has "sufficient monetary funds" within the meaning of Edict No. 600 to pay the amount due on the upcoming payment date, and (iv) that the Issuer is within any borrowing limits applicable to it.

In the event the Issuer does not have "sufficient monetary funds" within the meaning of Edict No. 600 to pay the amount due on the upcoming payment date, it shall no later than 30 calendar days before such payment date, file all documentation required for initiation of the Secondary Liability under Edict No. 600 (or any other applicable legal act replacing, amending or supplementing Edict No. 600 as the case may be) to the Council of Ministers of the Republic of Belarus and include the copies of such filed documents in the Compliance Certificate.

5. **Interest**

(a) ***Interest Accrual:*** The Notes bear interest from (and including) 2 May 2019 (the "**Issue Date**") to (but excluding) the due date for redemption at the rate of 6.75 per cent. per annum in respect of the Notes, (the "**Rate of Interest**" in respect of the Notes) payable semi-annually in arrear on 2 May and 2 November in each year (each, an "**Interest Payment Date**") commencing on 2 November 2019, subject as provided in Condition 7 *(Payments).*

Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period".**

(b) ***Cessation of Interest:*** Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Calculation of Interest for an Interest Period:*** In respect of each Interest Period the amount of interest in respect of each Note shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) ***Calculation of Interest for any other Period:*** If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

6. **Redemption and Purchase**

(a) ***Scheduled redemption***

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 2 May 2024, subject as provided in Condition 7 (*Payments*).

(b) ***Redemption at the option of Noteholders on amendment or withdrawal of the Secondary Liability***

If at any time while any Note remains outstanding, there occurs: (i) any amendment to, or withdrawal of, Edict No. 600 and/or Edict No. 261 affecting Noteholders' interests (in the determination of Noteholders); or (ii) the Issuer's payment obligations in respect of principal and/or interest under the Notes cease to be the Secondary Liability (each a "**Secondary Liability Put Event**") each Noteholder will have the option (the "**Secondary Liability Put Option**") to require the Issuer to redeem or, at the Issuer's option, to purchase, all or part of its Notes, on the

Secondary Liability Optional Redemption Date (as defined below) at the principal amount outstanding of such Notes together with (or where purchased, together with an amount equal to) interest accrued to, but excluding, the Secondary Liability Optional Redemption Date.

Promptly upon the Issuer becoming aware that a Secondary Liability Put Event has occurred, the Issuer shall give notice (a "**Secondary Liability Put Event Notice**") to the Trustee and Noteholders in accordance with Condition 16 (*Notices*) specifying the nature of the Secondary Liability Put Event and the circumstances giving rise to it and the procedure for exercising the Secondary Liability Put Option contained in this Condition 6(b).

To exercise the Secondary Liability Put Option, a Noteholder must transfer or cause to be transferred its Notes to be so redeemed or purchased to the account of the Principal Paying Agent specified in the Secondary Liability Put Option Notice (as defined below) for the account of the Issuer within the period (the "**Secondary Liability Put Period**") of 45 days after a Secondary Liability Put Event Notice is given together with a duly signed and completed notice of exercise in the then current form obtainable from the Principal Paying Agent (a" **Secondary Liability Put Option Notice**") and in which the Noteholder may specify a bank account to which payment is to be made under this Condition 6(b).

A Secondary Liability Put Option Notice once given shall be irrevocable. The Issuer shall redeem or, at the option of the Issuer, purchase the Notes in respect of which the Secondary Liability Put Option has been validly exercised as provided above, and subject to the transfer of such Notes to the account of the Principal Paying Agent for the account of the Issuer as described above by the date which is the fifth Business Day following the end of the Secondary Liability Put Period (the "**Secondary Liability Optional Redemption Date**"). Payment in respect of such Notes will be made on the Optional Redemption Date by transfer to the bank account specified in the Secondary Liability Put Option Notice.

For the avoidance of doubt, the Issuer shall have no responsibility for any cost or loss of whatever kind (including breakage costs) which the Noteholder may incur as a result of or in connection with such Noteholder's exercise or purported exercise of, or otherwise in connection with, any Secondary Liability Put Option (whether as a result of any purchase or redemption arising therefrom or otherwise).

If 80 per cent. or more in principal amount of the Notes then outstanding have been redeemed pursuant to this Condition 6(b), the Issuer may, on not less than 30 nor more than 60 days' irrevocable notice to the Noteholders in accordance with Condition 16 (*Notices*) given within 30 days after the Optional Redemption Date, redeem on a date to be specified in such notice at its option, all (but not some only) of the remaining Notes at their principal amount, together with interest accrued to but excluding the date of redemption.

(c) ***Change of Control Put Option:*** If at any time while any Note remains outstanding there occurs a Change of Control, or a Potential Change of Control Announcement, (each, a "**Change of Control Put Event**"), each Noteholder will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem or, at the Issuer's option, to purchase all or part of its Notes, on the Optional Redemption Date (as defined below) at the principal amount outstanding of such Notes together with (or where purchased, together with an amount equal to) interest accrued to, but excluding, the Optional Redemption Date.

Where:

A "**Change of Control**" shall be deemed to have occurred if the Issuer ceases to be directly or indirectly 100 per cent. owned by the Republic of Belarus.

"**Change of Control Period**" means the period beginning on the date (the "**Relevant Announcement Date**") that is the earlier of (A) the first public announcement of a Change of Control; and (B) the date of the earliest Potential Change of Control Announcement, and ending 90 days after the Relevant Announcement Date (such 90th day, the "**Initial Longstop Date**").

"**Potential Change of Control Announcement**" means any public announcement or statement (by or on behalf of the Issuer or the Republic of Belarus) relating to any specific and near-term potential Change of Control (where "near-term" shall mean that such potential Change of Control is reasonably likely to occur, or is publicly stated (by or on behalf of the Issuer or the Republic of Belarus) to be intended to occur, within 180 days of the date of such announcement of statement).

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Trustee and the Noteholders in accordance with Condition 16 (*Notices*) specifying the nature of the Change of Control Put Event and the circumstances giving rise to it and the procedure for exercising the Change of Control Put Option contained in this Condition 6(c).

To exercise the Change of Control Put Option, a Noteholder must transfer or cause to be transferred its Notes to be so redeemed or purchased to the account of the Principal Paying Agent specified in the Change of Control Put Option Notice (as defined below) for the account of the Issuer within the period (the "**Change of Control Put Period**") of 45 days after a Change of Control Put Event Notice is given together with a duly signed and completed notice of exercise in the then current form obtainable from the Principal Paying Agent (a "**Change of Control Put Option Notice**") and in which the Noteholder may specify a bank account to which payment is to be made under this Condition 6(c).

A Change of Control Put Option Notice once given shall be irrevocable. The Issuer shall redeem or, at the option of the Issuer, purchase the Notes in respect of which the Change of Control Put Option has been validly exercised as provided above, and subject to the transfer of such Notes to the account of the Principal Paying Agent for the account of the Issuer as described above by the date which is the seventh calendar day following the end of the Change of Control Put Period (the "**Optional Redemption Date**"). Payment in respect of such Notes will be made on the Optional Redemption Date by transfer to the bank account specified in the Change of Control Put Option Notice.

For the avoidance of doubt, the Issuer shall have no responsibility for any cost or loss of whatever kind (including breakage costs) which the Noteholder may incur as a result of or in connection with such Noteholder's exercise or purported exercise of, or otherwise in connection with, any Change of Control Put Option (whether as a result of any purchase or redemption arising therefrom or otherwise).

If 80 per cent. or more in principal amount of the Notes then outstanding have been redeemed pursuant to this Condition 6(c), the Issuer may, on not less than 30 nor more than 60 days' irrevocable notice to the Noteholders in accordance with Condition 16 (*Notices*) given within 30 days after the Optional Redemption Date, redeem on a date to be specified in such notice at its option, all (but not some only) of the remaining Notes at their principal amount, together with interest accrued to but excluding the date of redemption.

(d) ***Redemption at the option of the Issuer under make whole call option***

At any time prior to the Maturity Date, the Issuer may, at its option, on giving not less than 30 nor more than 60 days' notice to the Noteholders, copied to the Trustee, in accordance with Condition 16 (Notices) (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Make Whole Optional Prepayment Date**")), redeem the Notes in whole at the higher of: (a) 100 per cent. of the nominal outstanding amount of the Notes; and (b) the Make Whole Prepayment Amount (as defined below), in each case plus accrued and unpaid interest on the Notes to but excluding the Make Whole Optional Prepayment Date.

For the purposes of this Condition:

"**Comparable Treasury Issue**" means the United States Treasury security selected by the Determination Agent as having a maturity comparable to the remaining term of the Notes from the Make Whole Optional Prepayment Date to the Maturity Date, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the Maturity Date;

"**Comparable Treasury Price**" means, with respect to any Make Whole Optional Prepayment Date, the average of three, or such lesser number as is obtained by the Determination Agent, Reference Treasury Dealer Quotations for the Make Whole Optional Prepayment Date;

"**Determination Agent**" means a financial advisor or bank being a reputable financial institution operating in the United States Treasury securities market in New York which is independent of the Issuer, appointed by the Issuer and at the Issuer's expense for the purpose of determining the Make Whole Prepayment Amount;

"**Make Whole Prepayment Amount**" means the amount equal to the present value of the Notes, plus the present value of the scheduled interest payments on such Notes from the Make Whole Optional Prepayment Date to the Repayment Date in each case, discounted to the Make Whole

Optional Prepayment Date on a semi-annual compounded basis at the adjusted U.S. Treasury Rate plus 50 basis points, all as determined by the Determination Agent;

"**Reference Treasury Dealer**" means each of the three nationally recognised firms selected by the Determination Agent that are primary U.S. Government securities dealers;

"**Reference Treasury Dealer Quotations**" means with respect to each Reference Treasury Dealer and any Make Whole Optional Prepayment Date, the average, as determined by the Determination Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Determination Agent by such Reference Treasury Dealer at 5:00 pm (New York City time) on the third business day (in New York City) immediately preceding such Make Whole Optional Prepayment Date;

"**U.S. Treasury Rate**" means either (i) the rate per annum equal to the yield, under the heading that represents the average for the week immediately preceding the third business day (in New York City) prior to the Make Whole Optional Prepayment Date, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities" for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Repayment Date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the U.S. Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the third business day (in New York City) prior to the relevant Make Whole Optional Prepayment Date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Make Whole Optional Prepayment Date, in each case calculated on the third business day (in New York City) immediately preceding the Make Whole Optional Prepayment Date.

(e) ***No other redemption***: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 6(a) (*Scheduled redemption*), 6(b) (*Redemption at the option of Noteholders on amendment or withdrawal of the Secondary Liability*), 6(c) (*Change of Control Put Option*) and 6(d) (*Redemption at the option of the Issuer under make whole call option*) above.

(f) ***Purchase***: The Issuer or any of its Subsidiaries may at any time purchase the Notes in the open market or otherwise and at any price.

(g) ***Cancellation***: All Notes so redeemed or purchased by or on behalf of the Issuer or any of its Subsidiaries shall be cancelled and may not be reissued or resold.

7. Payments

(a) ***Principal***: Payments of principal shall be made in US dollars by transfer to a US dollar account maintained by the payee and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) ***Interest***: Payments of interest shall be made in US dollars by transfer to a US dollar account maintained by the payee and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) ***Payments subject to fiscal laws:*** All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 *(Taxation).* No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) ***Payments on business days***: Where payment is to be made by transfer to a US dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the

Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in London and New York and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) ***Partial payments****:* If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) ***Record date****:* Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**")**.**

8. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of a Relevant Jurisdiction, unless the withholding or deduction of Taxes is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) the Holder of which is liable for Taxes in respect of such Note by reason of its having some connection with the Relevant Jurisdiction other than the mere holding of the Note;

(b) presented for payment in a Relevant Jurisdiction; or

(c) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions:

(a) "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

(b) "**Relevant Jurisdiction**" means the Republic of Belarus or any political subdivision thereof or any authority therein or thereof having power to tax; and

(c) Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8.

9. Events of Default

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one fifth of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or prefunded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) ***Non-payment:*** a default is made in the payment of any amount of principal or interest due in respect of the Notes or any of them and the default continues for a period of fourteen (14) calendar days in the case of interest; or

(b) ***Breach of other obligations:*** the Issuer fails to perform or observe any of its other obligations under or in respect of the Notes or the Trust Deed and such default (i) is, in the opinion of the Trustee, incapable of remedy, or (ii) being a default which is, in the opinion of the Trustee, capable of remedy remains unremedied for a period of thirty (30) calendar days after the Trustee has given written notice thereof to the Issuer; or

(c) ***Cross-default of the Issuer***:

(i) any Indebtedness of the Issuer or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any Guarantee or any Indebtedness;

provided that the aggregate amount of any such Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds USD25,000,000 (or its equivalent in any other currency or currencies); or

(d) ***Cross-default of the Republic of Belarus***:

(i) any loan or debt of the Republic of Belarus becomes due and repayable prematurely by reason of an event of default (however described);

(ii) the Republic of Belarus fails to make any payment in respect of any loan or debt on the due date for payment or at the expiry of any grace period originally applicable thereto;

(iii) any security given by the Republic of Belarus for any loan or debt becomes enforceable; or

(iv) default is made by the Republic of Belarus in making any payment due under any guarantee and/or indemnity given by it in relation to any loan, debt or other moneys of any other person,

provided that the aggregate amount of any such loan or debt of the Republic of Belarus or any loan, debt or other moneys in relation to which the Republic of Belarus has given any security, guarantee and/or indemnity is in excess of USD25,000,000; or

(e) ***Unsatisfied judgment***: one or more judgment(s) or order(s) for the payment of an amount exceeding USD10,000,000 is rendered against the Issuer or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of thirty (30) calendar days after the date(s) thereof or, if later, the date therein specified for payment; or

(f) ***Repudiation, moratorium, etc.***: the Republic of Belarus repudiates or declares a general moratorium on or in respect of its indebtedness or any part thereof or the Republic of Belarus ceases to be a member of the International Monetary Fund ("**IMF**") or to be eligible to use the general resources of the IMF; or

(g) ***Insolvency, etc.***: (i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer or any of its Material Subsidiaries or the whole or any/a substantial (in the opinion of the Trustee) part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries, (iii) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer, or any of their respective Material Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business; or

(h) ***Winding up, etc.***: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries; or

(i) ***Analogous event***: any event occurs which under applicable laws has an analogous effect to any of the events referred to in paragraphs (e) (*Unsatisfied judgment*) to (h) (*Winding up, etc.*) above; or

(j) ***Legality and validity of the Notes or the Trust Deed:*** the validity of the Notes or the Trust Deed is contested by the Issuer, or the Issuer denies any of the Issuer's obligations under the Notes or it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed or any such obligations are or become unenforceable or invalid; or

(k) ***Failure to take action, etc.***: any regulation, decree, consent, approval, licence or other authority (or any other action required to be taken, fulfilled or done), which is necessary:

(i) to enable the Issuer to perform its obligations under the Notes or the Trust Deed or for the validity or enforceability thereof; or

(ii) to make the Notes and the Trust Deed admissible in evidence in the courts of the Republic of Belarus,

expires or is withheld, revoked, terminated, is not prolonged or renewed or otherwise ceases to remain in full force and effect or such other action is not taken.

10. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten (10) years of the appropriate Relevant Date.

11. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

12. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer (and, to the extent provided therein, the Trustee) and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; **provided, however, that** the Issuer shall at all times maintain (a) a principal paying agent and a registrar and (b) a paying agent and a transfer agent in Dublin.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

13. **Meetings of Noteholders; Modification and Waiver**

(a) ***Meetings of Noteholders***: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment, to effect the exchange, conversion or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed, to change the currency of payments in which amounts due in respect of the Notes are payable, to change the quorum required at any meeting or the majority required to pass an Extraordinary Resolution, or to amend this definition (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders, who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed, holding not less than three quarters in aggregate principal amount of the Notes outstanding, will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification and waiver***: The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

(c) Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

14. **Enforcement**

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one fifth of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or prefunded to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

15. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the

Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

16. **Notices**

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail to the holders (or the first named of joint holders) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on or by which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published through more than one medium, on the date of the first publication through all required media. Noteholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 16.

17. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18. **Governing Law and Arbitration**

(a) ***Governing law:*** The Notes and the Trust Deed (including a dispute relating to their existence, validity or termination) and any non-contractual obligation or other matter arising out of or in connection with the Notes and the Trust Deed shall be governed by, and construed in accordance with, English law. The governing law of this Condition 18 shall also be the substantive law of England.

(b) ***Arbitration:*** Any dispute, claim, difference or controversy arising out of or in connection with the Notes and the Trust Deed (including any dispute relating to their existence, validity or termination, or any non-contractual obligation or other matter arising out of or in connection with the Notes or the Trust Deed) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the Arbitration Rules of the London Court of International Arbitration (the "**Rules**"), which Rules (as amended from time to time) are incorporated by reference into this Condition 18(b). For these purposes:

(i) service of any Request for Arbitration (as defined in the Rules) by or on behalf of any Noteholder must be served on the Issuer lodging the same with the Principal Paying Agent;

(ii) the seat, or legal place of arbitration, shall be London, England;

(iii) there shall be three arbitrators. The claimant(s) and the respondent(s) shall nominate an arbitrator respectively. The third arbitrator, who shall be the chairperson of the tribunal, shall be nominated by the two party-nominated arbitrators within thirty (30) days of the last of their nominations. If such nomination is not made within thirty (30) days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, the selection will be made by the LCIA Court;

(iv) the language of the arbitration shall be English; and

(v) any award of the tribunal shall be binding from the day it is made, and the Issuer hereby waives any right to refer any question of law and any right of appeal on the law and/or merits to any court.

Nothing in these dispute resolution provisions shall be construed as preventing any Noteholder from seeking conservatory or similar interim relief in any court of competent jurisdiction.

(c) ***Service of Process:***

For the purposes of any court proceedings commenced in support of, or in relation to, arbitral proceedings brought under this Condition 18, the Issuer appoints the Permanent Representative of JSC "Development Bank of the Republic of Belarus" (UK Representative Office) at Level 30, The Leadenhall Building, 122 Leadenhall Street, City of London, EC3V 4AB, United Kingdom as its agent for service of process in England and agrees that, if for any reason such agent shall cease to be such agent for service of process, it will appoint a third party agent for service of process in England. Nothing in this paragraph (c) shall affect the right of any party to serve process in any other manner permitted by law.

(d) ***Waiver of immunity:***

To the extent that the Issuer may in any jurisdiction claim for itself or its revenues, assets or properties ("**Assets**") immunities from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or legal process, in all cases related to the Notes, and to the extent that in any such jurisdiction there may be attributed to itself or its Assets such immunity (whether or not claimed), the Issuer hereby irrevocably agrees for the benefit of the Trustee and the Noteholders not to claim and confirms that any such immunity is or has been irrevocably waived to the fullest extent permitted by the laws of such jurisdiction. In particular, but without limitation, the Issuer submits to the jurisdiction of the English court and any arbitral body constituted in accordance with this Condition 18.

To the extent that the Issuer or any of its Assets may be entitled in any jurisdiction to any immunity from set-off or any similar right or remedy, and to the extent that there shall be attributed, in any jurisdiction, such an immunity, the Issuer hereby irrevocably agrees not to claim and confirms that any such immunity is or has been irrevocably waived to the fullest extent permitted by the laws of such jurisdiction with respect to any claim, suit, action, proceeding, right or remedy arising out of or in connection with the Notes. The Trust Deed also states that nothing contained in the Notes or the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) ***Consent to enforcement etc.:***

The Issuer further irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any Assets whatsoever (irrespective of their use or intended use) of any order or judgment made or given in connection with any Dispute.

(f) ***Consolidation of Disputes:***

(i) For the purpose of this paragraph (f):

"**Consolidation Order**" means an order by a Tribunal that a Primary Dispute and a Linked Dispute be consolidated and heard as one dispute in the same arbitral proceedings.

"**Linked Agreement**" means the Notes, the Trust Deed, the Subscription Agreement, the Restricted Global Note Certificate, the Unrestricted Global Note Certificate and the Agency Agreement.

"**Linked Dispute**" means any Dispute and/or any dispute, claim, difference or controversy arising out of or in connection with any Linked Agreement (including any dispute relating to its existence, validity or termination or any non-contractual obligation or other matter arising out of or in connection with it), in which a Request for Arbitration is served after a Request for Arbitration has been served in respect of a Primary Dispute.

"**Primary Dispute**" means any Dispute and/or any dispute, claim, difference or controversy arising out of or in connection with any Linked Agreement (including any dispute relating to its existence, validity or termination or any non-contractual obligation or other matter arising out of or in connection with it) in which a Request for Arbitration has been served before a Request for Arbitration is served in relation to a Linked Dispute.

"**Tribunal**" means any arbitral tribunal appointed under the Notes or any Linked Agreement.

(ii) If any Linked Dispute raises issues of fact and/or law which are substantially the same as or similar to issues raised in any Primary Dispute then, notwithstanding that a Tribunal may already have been agreed or appointed in respect of the Linked Dispute, any party (the "**Notifying Party**") to both the Primary Dispute and the Linked Dispute (the "**Notified Disputes**") may apply, by service of a written notice (a "**Consolidation Notice**") in accordance with this paragraph (f) (*Consolidation of Disputes*), to the Tribunal appointed in relation to the Primary Dispute for a Consolidation Order.

(iii) The Notifying Party must serve the Consolidation Notice on all parties to the Notified Disputes, and on any arbitrators already appointed or agreed in connection with any Notified Dispute.

(iv) The Tribunal appointed in relation to the Primary Dispute may make a Consolidation Order on hearing an application brought under paragraph (f)(ii) above if it considers it just, equitable and procedurally efficient to do so and that no party to either the Primary Dispute or the Linked Dispute would be materially prejudiced as a result. In determining whether to make a Consolidation Order, the Tribunal must take account of:

(i) the likelihood and consequences of inconsistent decisions if consolidation is not ordered;

(ii) any fault on the part of the party seeking consolidation to make a timely application; and

(iii) the likely consequences of consolidation in terms of cost and time.

(v) If the Tribunal appointed in respect of the Primary Dispute makes a Consolidation Order:

(i) it will immediately, to the exclusion of the other Tribunal appointed in a Linked Dispute, have jurisdiction to resolve finally the Notified Disputes;

(ii) it must order that notice of the Consolidation Order and its effect be given immediately to any arbitrators already appointed in relation to the Linked Dispute and to all parties to the Notified Disputes;

(iii) any appointment of an arbitrator in relation to the Linked Dispute before the date of the Consolidation Order will terminate immediately and that arbitrator will be deemed to be *functus officio.* The termination is without prejudice to:

(A) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(B) his entitlement to be paid his proper fees and disbursements; and

(C) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision;

(iv) it may also give any other directions it considers appropriate to:

(A) give effect to the Consolidation Order and make provisions for any costs which may result from it (including costs in any arbitration terminated as a result of the Consolidation Order); and

(B) ensure the proper organisation of the arbitration proceedings and the proper formulation and resolution of the issues between the parties.

(v) If a Tribunal appointed in respect of the Primary Dispute arising under a Linked Agreement makes a Consolidation Order which confers on that Tribunal jurisdiction to resolve a Linked Dispute arising under the Notes, that

Consolidation Order and the award of that Tribunal will bind the parties to the Linked Dispute arising under the Notes.

(vi) For the avoidance of doubt, where a Tribunal is appointed under the Notes or any Linked Agreement, the whole of its award (including any part relating to a Linked Dispute) is deemed for the purposes of the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958 to be contemplated by the Notes and that Linked Agreement.

(vii) Each of the Issuer and the Noteholders hereby waives any right to object to the validity and/or enforceability of any arbitral award made by a Tribunal following the grant of a Consolidation Order on the basis that such award was made in arbitral proceedings which were consolidated under this paragraph (f) (*Consolidation of Disputes*) or in accordance with an equivalent provision under another Linked Agreement.

(vi) Should the Tribunal appointed in relation to the Primary Dispute decline appointment in respect of the Linked Dispute, any rights to submit a Linked Dispute arising under the Notes to separate arbitration proceedings under Condition 18(b) *(Arbitration)* shall be unaffected.

FORM OF NOTES

The following information relates to the form, transfer and delivery of the Notes. Capitalised terms used but not defined herein have the meanings provided in the section entitled "*Terms and Conditions of the Notes*".

Form of Notes

The Unrestricted Notes will be represented by the Unrestricted Global Note Certificate, which will be deposited with the common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of Citivic Nominees Limited as nominee of a common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Unrestricted Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. By acquisition of a beneficial interest in the Unrestricted Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it acquired such beneficial interest in accordance with Regulation S. See "*Subscription and Sale*" and "*Transfer Restrictions*".

The Restricted Notes will be represented by the Restricted Global Note Certificate, which will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. Beneficial interests in the Restricted Global Note Certificate may only be held through DTC or its participants at any time. Beneficial interests in the Restricted Global Note Certificate may only be held by persons who are QIBs, holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in the Restricted Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Restricted Global Note Certificate. See "*Subscription and Sale*" and "*Transfer Restrictions*".

The Global Note Certificates will each have an ISIN number and a Common Code.

Beneficial interests in the Global Note Certificates will be subject to certain restrictions on transfer set out therein and under "*Transfer Restrictions*" and in the Agency Agreement (as defined in the Conditions) and such Global Note Certificates will bear a legend as set out under "*Transfer Restrictions*".

Except in the limited circumstances described below, owners of beneficial interests in the Global Note Certificates will not be entitled to receive physical delivery of the Notes.

Exchange of Global Note Certificates for Individual Note Certificates

The Restricted Global Note Certificate will be exchanged in whole (but not in part) for duly authenticated and completed individual note certificates (the "**Restricted Individual Note Certificates**") and the Unrestricted Global Note Certificate will be exchanged in whole (but not in part) for duly authenticated and completed individual note certificates (the "**Unrestricted Individual Note Certificates**", together with the Restricted Individual Note Certificates, the "**Individual Note Certificates**") upon the occurrence of an Exchange Event.

For these purposes an "**Exchange Event**" means that:

- in case of the Unrestricted Global Note Certificates only, Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so; or

- DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note Certificate or ceases to be a clearing agency (as defined in the United States Securities Exchange Act of 1934), or is at any time no longer eligible to act as such, and the Issuer is (in the case of DTC ceasing to be a depositary) unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or

- any of the circumstances described in Condition 9 (*Events of Default*) occurs.

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in such Global Note Certificate must provide the Registrar (as defined in the Conditions) (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person's holding). In addition, whenever the Restricted Global Note Certificate is to be exchanged for Restricted Individual Note Certificates, each person having an interest in the Restricted Global Note Certificate must provide the Registrar (through the relevant clearing system) with a certificate given by or on behalf of the holder of each beneficial interest in the Restricted Global Note Certificate stating either (i) that such holder is not transferring its interest at the time of such exchange or (ii) that the transfer or exchange of such interest has been made in compliance with the transfer restrictions applicable to the Notes and that the person transferring such interest reasonably believes that the person acquiring such interest is a QIB and is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A. The Restricted Individual Note Certificates issued in exchange for interests in the Restricted Global Note Certificate will bear the legends and be subject to the transfer restrictions set out under "*Transfer Restrictions*".

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of the Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Clearing System Accountholders

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note Certificate (each an "**Accountholder**") must look solely to DTC, Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note Certificate and in relation to all other rights arising under such Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note Certificate will be determined by the respective rules and procedures of DTC, Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note Certificate.

Transfers of Interests in the Global Note Certificates

Transfers of interests in the Global Note Certificates within DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Registrar, the Joint Lead Managers or the Agent (as defined in the Conditions) will have any responsibility or liability for any aspect of the records of any DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants relating to payments made on account of beneficial ownership interests in a Global Note Certificate or for maintaining, supervising or reviewing any of the records of DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of the Notes. Consequently, the ability to transfer interests in a Global Note Certificate to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

Subject to compliance with the transfer restrictions described under "*Transfer Restrictions*", transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will be effected by the relevant clearing systems in accordance with their respective rules and through action taken by the DTC Custodian, the Registrar and the Principal Paying Agent (as defined in the Conditions).

On or after the Issue Date, transfers of the Notes between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Note Certificate will be effected through the Agent, the DTC Custodian, the relevant Registrar and any applicable Transfer Agent (as defined in the Conditions) receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Note Certificate resulting in such transfer and (ii) two business days after receipt by the Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately. The customary arrangements for delivery versus payment between Euroclear and Clearstream, Luxembourg accountholders or between DTC participants are not affected.

For a further description of restrictions on the transfer of the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

Upon the issue of the Restricted Global Note Certificate to be held by or on behalf of DTC, DTC or the DTC Custodian will credit the respective nominal amounts of the individual beneficial interests represented by the Restricted Global Note Certificate to the account of DTC participants. Ownership of beneficial interests in the Restricted Global Note Certificate will be held through participants of DTC, including the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Restricted Global Note Certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee. DTC has advised the Issuer that it will take any action permitted to be taken by a Noteholder represented by the Restricted Global Note Certificate held by or on behalf of DTC (including, without limitation, the presentation of the Restricted Global Note Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in the Restricted Global Note Certificate are credited, and only in respect of such portion of the aggregate nominal amount of the Restricted Global Note Certificate as to which such participant or participants has or have given such direction. However, in certain circumstances, DTC will exchange the Restricted Global Note Certificate for the Restricted Individual Note Certificates (which will bear the relevant legends set out in "*Transfer Restrictions*").

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note Certificates among participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Registrar, the Joint Lead Managers or the Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their respective operations.

While the Global Note Certificates are lodged with DTC, Euroclear, Clearstream, Luxembourg or any relevant clearing system, the Individual Note Certificates will not be eligible for clearing and settlement through such clearing systems.

Amendments to Conditions

Each Global Note Certificate contains provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions. The following is a summary of those provisions:

Payments

Each payment made in respect of any Global Note Certificate will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Due Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which such Global Note Certificate is being held is open for business.

Distributions of amounts with respect to book-entry interests in the Unrestricted Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Restricted Notes holding through DTC will receive, to the extent received by the Principal Paying Agent, all distribution of amounts with respect to book-entry interests in such Notes from the Principal Paying Agent through DTC. Distributions in the United States will be subject to relevant US tax laws and regulations.

A record of each payment made will be entered in the Register by or on behalf of the Principal Paying Agent and shall be *prima facie* evidence that payment has been made.

Payment Business Day

In relation to payments made in respect of the Unrestricted Global Note Certificate, so long as the Unrestricted Global Note Certificate is held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system, the definition for "**business day**" in Condition 6(e) (*Payments on business days*) shall be amended and shall be any day which is a day on which banks are open for general business (including dealings in foreign currencies) in London and New York.

Record Date

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the Due Date. Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

Notices

Notwithstanding Condition 16 (*Notices*), while all the Notes are represented by the Global Note Certificates and the Global Note Certificates are, registered in the name of DTC's nominee or deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 16 (*Notices*) on the date of delivery to DTC and/or Euroclear and/or Clearstream, Luxembourg.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, amounting to approximately US$498,000,000 will be used by the Issuer for general corporate purposes.

The proceeds of the Offering will not be directed to any activity that would be prohibited for a US, UK or EU person or entity under sanctions laws, directives or regulations applicable to them. None of the proceeds of the issue of the Notes will be used to fund activities or persons in violation of sanctions introduced by the European Union or the United States.

CAPITALISATION

The following table sets forth the capitalisation of DBRB as at 31 December 2018. This table should be read in conjunction with "Selected Financial Information and Other Data" and "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the Financial Statements, and the notes thereto, included elsewhere in these Listing Particulars.

	As at 31 December 2018[1]	
	(US$ millions)[2]	*(BYN millions)*
Liabilities		
Due to banks	1,052.5	2,273.1
Customer accounts	446.8	965.1
Debt securities issued	890.3	1,922.9
Government grants	241.9	522.5
Other liabilities (including current and deferred income tax liability)	30.4	65.6
Total liabilities	**2,661.9**	**5,749.2**
Equity		
Share capital	785.6	1,696.7
Translation reserve	—	—
Fair value reserve of investment securities	0.5	1.0
Retained earnings	153.3	331.1
Non-controlling interest	45.6	98.5
Total equity	**985.0**	**2,127.3**
Total liabilities and equity	**3.646.8**	**7,876.4**

Notes:

(1) IFRS 16 "leases" ("**IFRS 16**") introduces a single, on-balance sheet lease accounting model for lessees. Pursuant to IFRS 16, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low volume items. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. DBRB has commenced an initial assessment of the possible impact of applying IFRS 16 on its consolidated financial statements.

(2) Converted at National Bank's exchange rate of BYN2.1598 per 1 US$ as at 31 December 2018.

Save as described above, there have been no material changes to DBRB's capitalisation since 31 December 2018.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

The selected financial information for DBRB presented below as at and for the years ended 31 December 2018, 2017 and 2016 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the Financial Statements, including the notes thereto, included elsewhere in these Listing Particulars. The results of operations for the year are not necessarily indicative of the results to be expected for any future period.

Prospective investors should read the selected financial information in conjunction with the information contained under the headings "Risk Factors", "Capitalisation", "Management's Discussion and Analysis of Results of Operations and Financial Condition", "Selected Statistical and Other Data", and "Business", as well as the Financial Statements, including the notes thereto, included elsewhere in these Listing Particulars.

Selected Information from the Consolidated Statement of Comprehensive Income and Financial Position

Consolidated Statement of Comprehensive Income

	Year ended 31 December			
	2018[1]		2017	2016
	(US$ millions)[2]	*(BYN millions)*	*(BYN millions)*	*(BYN millions)*
Interest income	244.8	528.7	454.5	499.6
Interest expense	(68.8)	(148.7)	(102.4)	(139.9)
Net interest income	**175.9**	**380.0**	**352.1**	**359.7**
Fee and commission income	4.2	9.1	3.1	4.1
Fee and commission expense	(0.9)	(1.9)	(4.9)	(3.6)
Net fee and commission income/(expense)	**3.3**	**7.2**	**(1.8)**	**0.5**
Net gain/(loss) on derivative financial instruments	0.2	0.4	(0.1)	—
Effect of initial recognition of financial instruments at fair value	(11.0)	(23.8)	(56.9)	(1.1)
Net income/(expense) from foreign exchange operations	(4.5)	9.7	10.3	21.8
Net gain on securities transactions	(0.1)	(0.3)	1.0	2.7
General administrative expenses	(36.2)	(78.2)	(59.3)	(51.3)
Recovery of allowance/(allowance) for impairment of financial instruments	30.0	64.9	5.0	(251.0)
Net other income	12.4	26.7	9.5	2.8
Non-interest expense	**(0.3)**	**(0.7)**	**(90.6)**	**(276.2)**
Income from wholesale trade of subsidiaries	43.4	93.7	67.2	100.7
Cost of wholesale trade of subsidiaries	(42.3)	(91.4)	(64.2)	(88.5)
Income from non-banking transactions	**1.1**	**2.3**	**3.0**	**12.1**
Profit before tax	**180.0**	**388.8**	**262.7**	**96.1**
Income tax (expenses)	(28.6)	(61.7)	(34.3)	15.4
Net income for the period	**151.4**	**327.1**	**228.3**	**111.5**
Total net income attributable to				
Shareholders of the Development Bank	147.0	317.5	217.1	99.9
Non-controlling interest	4.4	9.6	11.2	11.7
Other comprehensive income				
Other comprehensive income that may be subsequently reclassified to profit or loss:				
Accrual/(recovery) of fair value reserve of investment securities	(14.3)	(30.9)	0.2	—
Expected credit losses	(4.6)	(10.0)	—	—
Related deferred income tax asset	3.9	8.4	—	—
Accrual/(recovery) of translation reserve	(0.5)	(1.0)	1.1	—
Total other comprehensive (loss)/income	**(6.3)**	**(13.5)**	**1.3**	**—**
Total comprehensive income	**145.2**	**313.6**	**229.6**	**111.5**
Total other comprehensive income attributable to:				
Shareholders of the Development Bank	140.9	304.3	218.1	99.9
Non-controlling interest	4.3	9.3	11.5	11.7
Total comprehensive income	**145.2**	**313.6**	**229.6**	**111.5**

Notes:

(1) DBRB has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018 and adopted the amendments to IFRS 9 on the same date. Under the transition method chosen, comparative information (i.e., for the years ended 31 December 2017 and 2016) has not been restated. As a result of the adoption of IFRS 9, however, DBRB and its subsidiaries changed the presentation of certain captions and comparative information has been represented accordingly for the years ended 31 December 2017 and 2016. Changes in DBRB's accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described in Note 2 to the 2018 Financial Statements. See Note 5 to the 2018 Financial Statements for more information and details regarding the changes and implications resulting from the adoption of IFRS 9.

(2) For convenience, these figures have been translated into US dollars at the BYN/US$ exchange rate as reported by the National Bank as at 31 December 2018, which was BYN2.1598 per US$1.00.

Consolidated Statement of Financial Position

	As at 31 December			
	2018[1]		2017	2016
	(US$ millions)[2]	*(BYN millions)*	*(BYN millions)*	*(BYN millions)*
Assets				
Cash and cash equivalents	20.0	43.1	68.1	98.9
Due from banks	258.3	557.9	465.2	301.8
Investment securities, including those pledged under repurchase agreements	1,088.5	2,350.9	1,727.8	1,520.9
Loans to customers[3]	2,070.2	4,471.3	3,578.1	3,153.5
Investment property	2.2	4.8	20.9	—
Property and equipment and intangible assets	45.2	97.6	88.7	72.5
Current income tax asset	2.0	4.3	3.7	0.8
Deferred income tax asset	3.7	8.0	35.5	35.7
Other assets	156.7	338.5	156.9	111.2
Total assets	**3,646.8**	**7,876.4**	**6,145.0**	**5,295.2**
Liabilities				
Due to banks	1,052.5	2,273.1	1,495.6	986.1
Customer accounts	446.8	965.1	630.4	674.0
Debt securities issued	890.3	1,922.9	1,887.9	1,827.6
Government grants	241.9	522.5	372.8	232.1
Current income tax liability	2.2	4.7	4.8	2.8
Deferred income tax liability	1.1	2.4	16.0	—
Other liabilities	27.1	58.5	32.0	27.7
Total liabilities	**2,661.9**	**5,749.2**	**4,439.6**	**3,750.2**
Equity				
Share capital	785.6	1,696.7	1,451.7	1,451.7
Translation reserve	—	—	0.8	—
Fair value reserve of investment securities	0.5	1.0	0.2	—
Retained earnings	156.0	331.1	177.1	29.2
Total equity attributable to the shareholders of the Development Bank	**939.3**	**2,028.8**	**1,629.8**	**1,480.9**
Non-controlling interest	45.6	98.5	75.5	64.0
Total equity	**985.0**	**2,127.3**	**1,705.4**	**1,545.0**
Total liabilities and equity	**3,646.8**	**7,876.4**	**6,145.0**	**5,295.2**

Notes:

(1) DBRB has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018 and adopted the amendments to IFRS 9 on the same date. Under the transition method chosen, comparative information (i.e., for the years ended 31 December 2017 and 2016) has not been restated. As a result of the adoption of IFRS 9, however, DBRB and its subsidiaries changed the presentation of certain captions and comparative information has been represented accordingly for the years ended 31 December 2017 and 2016. Changes in DBRB's accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described in Note 2 to the 2018 Financial Statements. See Note 5 to the 2018 Financial Statements for more information and details regarding the changes and implications resulting from the adoption of IFRS 9.

(2) For convenience, these figures have been translated into US dollars at the BYN/US$ exchange rate as reported by the National Bank as at 31 December 2018, which was BYN2.1598 per US$1.00.

(3) Represents net loans to customers. See Note 13 to the 2018 Financial Statements and "*Selected Statistical and Other Data*".

__Selected APMs, financial ratios, regulatory required ratios and economic data__

The table below sets forth DBRB's selected APMs and financial ratios and economic data for the Republic of Belarus as at, and for the years ended, 31 December 2018, 2017 and 2016:

	As at and for the year ended 31 December		
	2018	**2017**	**2016**
	(%, except as otherwise indicated)		
Profitability Ratios			
Return on average total equity(1)	17.1	14.0	7.4
Return on average total assets(2)	4.7	4.0	2.2
Net interest margin(3)	5.7	6.5	7.4
Cost to income ratio(4)(5)	24.5	28.1	49.2
Loan Portfolio Quality			
NPLs (BYN millions)(6)	156.7	110.7	731.7
Bad debt ratio(7)	3.2	2.8	18.7
Balance Sheet Ratios and Capital Adequacy			
Loans to customers/total assets	56.8	58.2	59.6
Total equity/total assets	27.0	27.8	29.2
Liquid assets/total assets(5)(8)	37.5	36.8	36.3
Capital adequacy ratio(9)	28.32	30.79	30.45
Tier 1 common capital ratio(10)	28.31	30.77	30.45
Tier 1 total capital ratio(11)	18.89	20.68	24.98
Economic Data			
Period-end exchange rate (*BYN/US$*)	2.1598	1.9727	1.9585
Average exchange rate for period (*BYN/US$*)	2.0377	1.9324	1.9876
Inflation growth rate (CPI)(12)	5.6	4.6	10.6
GDP growth (real)(13)	3.0	2.5	(2.5)

Notes:

(1) Return on average total equity is defined as net income for the period divided by average total equity for the period. Average total equity is calculated using opening and closing balances for each relevant period.

(2) Return on average total assets is defined as net income for the period divided by average total assets for the period. Average total assets for the period are calculated based on opening and closing balances for each relevant period.

(3) Net interest margin is calculated as net interest income calculated using effective interest rate method and other interest income as a percentage of average interest-earning assets. Interest-earning assets comprise cash and cash equivalents, due from banks, loans to customers and investment securities. See "*Selected Statistical and Other Data—Average Balance Sheet and Interest Rates*".

(4) Cost to income is defined as the ratio of fee and commission expense and general administrative expenses to net income.

(5) For a reconciliation of this metric to the relevant financial statement line items, see "*—Reconciliations of APMs*" below.

(6) NPLs are presented in accordance with IFRS and include loans overdue for over 90 days. In April 2018, the National Bank introduced a new categorisation of NPAs to align the international and Belarusian approaches to NPLs. See "*Monetary and Financial System—Banking Sector*" for further details on the National Bank's categorisation of NPAs.

(7) Bad debt ratio is defined as NPLs divided by gross loans to customers. For a reconciliation of this ratio to the relevant financial statement line items, see "*—Reconciliations of APMs*" below. As at 31 December 2018, DBRB's bad debt ratio based on NPAs under the National Bank's definition (i.e., NPAs divided by total assets) was 1.7 per cent.

(8) Liquid assets comprise cash and cash equivalents, investment securities and due from banks.

(9) Calculated as the sum of Tier 1 capital and Tier 2 capital (as defined in the Basel II principles) divided by risk-weighted assets (i.e., the sum of all assets multiplied by a risk weight for each asset class assigned in accordance with Basel II principles) on the basis of IFRS consolidated financial statements.

(10) Calculated as Tier 1 common capital (as defined in the Basel II principles) divided by risk-weighted assets (i.e., the sum of all assets multiplied by a risk weight for each asset class assigned in accordance with Basel II principles) on the basis of IFRS consolidated financial statements.

(11) Calculated as Tier 1 capital (as defined in the Basel III principles) divided by risk-weighted assets (i.e., the sum of all assets multiplied by a risk weight for each asset class assigned in accordance with Basel III principles) on the basis of standalone financial statements prepared in accordance with the National Bank methodology.

(12) Based on December-to-December data for 31 December 2018, 2017 and 2016 from the NSC.

(13) Year-on-year rate according to the NSC.

Reconciliations of APMs

Set forth below are reconciliations of the APMs included in the table above to the relevant financial statement line items.

Cost to income ratio

	Year ended 31 December		
	2018	**2017**	**2016**
	(BYN millions, except as otherwise indicated)		
Fee and commission expense	1.9	4.9	3.6
General administrative expenses	78.2	59.3	51.3
Total costs	80.1	64.2	54.9
Net income for the period	327.1	228.3	111.5
Cost to income (%)	**24.5**	**28.1**	**49.2**

Liquid assets/total assets

	As at 31 December		
	2018	**2017**	**2016**
	(BYN millions, except as otherwise indicated)		
Cash and cash equivalents	43.1	34.2	98.9
Due from banks	557.9	499.0	301.8
Investment securities	2,350.9	1,727.8	1,520.9
Liquid assets	2,951.9	2,261.0	1,921.6
Total assets	7,876.4	6,145.0	5,295.2
Liquid assets/total assets (%)	**37.5**	**36.8**	**36.3**

Bad debt ratio

	As at 31 December		
	2018	**2017**	**2016**
	(BYN millions, except as otherwise indicated)		
NPLs	156.7	110.6	731.7
Gross loans to customers	4,838.1	3,954.3	3,916.9
Bad debt ratio (%)	**3.2**	**2.8**	**18.7**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following is a discussion of DBRB's results of operations and financial condition as at and for the years ended 31 December 2018, 2017 and 2016. Unless otherwise specified, the financial information set forth and discussed herein is extracted from the Financial Statements. Prospective investors should read this discussion in conjunction with the sections titled "Selected Statistical and Other Information", "Selected Historical Financial Information", "Capitalisation" and the Financial Statements and the related notes thereto and the other financial information included in these Listing Particulars. The Financial Statements have been prepared in accordance with IFRS as described in "Presentation of Financial and Other Information".

DBRB has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018 and adopted the amendments to IFRS 9 on the same date. Under the transition method chosen, comparative information (i.e., for the years ended 31 December 2017 and 2016) has not been restated. As a result of the adoption of IFRS 9, however, DBRB and its subsidiaries changed the presentation of certain captions and comparative information has been represented accordingly for the years ended 31 December 2017 and 2016. Changes in DBRB's accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described in Note 2 to the 2018 Financial Statements. See Note 5 to the 2018 Financial Statements for more information and details regarding the changes and implications resulting from the adoption of IFRS 9.

Overview

DBRB was established in 2011 pursuant to Edict No. 261 by the Government and the National Bank in close cooperation with leading financial institutions, including the IMF and the World Bank. DBRB provides financial solutions in three core areas: financing of investment projects; export financing; and comprehensive support for SMEs. Since 2016, it has acted as the sole coordinator for new investment project financing under state programmes. In relation to these activities, DBRB does not compete directly with commercial banks but rather supplements the Belarusian banking system. DBRB is authorised to carry out certain activities typically performed by commercial banks without obtaining a licence from the National Bank. It does not participate in retail banking activities and only accepts deposits from government bodies and local government authorities. DBRB cooperates with leading financial organisations such as the IMF and the World Bank and maintains close links with foreign development banks such as KfW, China Development Bank and Eurasian Development Bank. In addition to its core banking activities, it provides family fund management services pursuant to Edict No. 572, as well as interbank market and currency exchange transactions services, securities issuance and brokerage services.

DBRB provides its services through its six branches located in Brest, Gomel, Vitebsk, Minsk, Grodno and Mogilev. It also has a representative office in London, United Kingdom. DBRB has two direct subsidiaries, Unitary Enterprise "BR-Consult" ("**BR-Consult**"), of which it owns 100 per cent., and Promagroleasing, of which it owns 83.074 per cent. BR-Consult provides consulting services and manages the Republic of Belarus's holdings in woodworking companies. Promagroleasing provides leasing services in the Republic of Belarus, Russia and Ukraine.

The Government owns 96.212 per cent. of the share capital of DBRB, with the remaining 3.776 per cent. and 0.012 per cent. held by JSC "Belaruskali" (a 100 per cent. state-controlled entity, one of the world's largest potash producers, which received its shares in return for a contribution in kind of the property on which the DBRB's headquarters are located) and the National Bank, respectively. In 2016, the National Bank introduced banking supervision over the activities of DBRB. DBRB has consequently improved its corporate governance in accordance with the National Bank's requirements. In addition, DBRB has introduced procedures to take into account the corporate governance recommendations of the BCBS, the OECD and the International Finance Corporation. DBRB funds itself through capital injections from the Republic of Belarus, profit generated from its activities, the issuance of bonds, syndicated loans and family funds contributed as part of DBRB's family fund management activities.

As at 31 December 2018, DBRB had a gross loan portfolio of BYN4,838.1 million, which consisted of BYN4,350.6 million in loans made directly by DBRB and BYN487.5 million of loans transferred to DBRB. During the period from 2011 to 2014, DBRB received BYN1.7 billion of NPLs from state-owned banks pursuant to state programmes. These loans are in the course of being transferred to the Asset Management Agency, resulting in a significant reduction in DBRB's bad debt ratio. As at 31 December 2018, its bad debt ratio based on the IFRS definition of NPLs was 3.2 per cent. As at 31 December 2018, 21.6 per cent., 20.7 per cent., 20.1 per cent., 15.2 per cent. and 9.3 per cent. of DBRB's gross loan portfolio was attributable to the construction, agriculture, services, manufacturing and trade, respectively. As at the same date, 54.1 per cent., 21.5 per cent., 18.6 per cent. and 5.7 per cent. of the net loan portfolio was denominated in BYN, US$, EUR and RUB, respectively. As at 31 December 2018, DBRB had a capital adequacy ratio of 28.32 per cent. (on the basis of

IFRS consolidated financial statements in accordance with Basel II principles). DBRB is rated "B" by S&P and Fitch, in each case with a stable outlook.

Recent Developments

On 2 April 2019, DBRB and the West African Development Bank signed a loan agreement in the amount of EUR50 million. The purpose of the loan agreement is to finance exports of Belarusian products into West African countries.

Key Factors Affecting DBRB's Results of Operations and Financial Condition

Several factors have affected DBRB's results of operations and financial condition in the periods under review and may affect DBRB's results of operations and financial condition in the future, some of which are outside of DBRB's control. The following discussion identifies the most significant of these factors.

DBRB's Role as a Development Bank

DBRB was founded by the Government and the National Bank to provide infrastructure financing and support for state programmes. While it has since expanded its activities to encompass the financing of independent investment projects (which are funded through family funds and pursuant to credit facilities provided by China Development Bank), as well as export finance and financial support for SMEs, financing of investment projects has continued to account for a significant portion of its loan portfolio. As at 31 December 2018, DBRB's gross loan portfolio amounted to BYN4,838.1 million, with BYN4,012.3 million relating to the Financing Plan for Government Programmes and Activities, BYN458.9 million relating to export finance, BYN263.2 million related to independent investment projects and BYN103.7 million related to other projects. As at 31 December 2017, DBRB's gross loan portfolio amounted to BYN3,954.3 million, with BYN3,262.9 million relating to the Financing Plan for Government Programmes and Activities, BYN372.2 million related to export finance, BYN221.8 million relating to independent investment projects and BYN97.3 million related to other projects. Accordingly, DBRB's lending policies are different from those of a commercial bank, in that DBRB's business activities are generally driven by macro-economic policy in the Republic of Belarus as a whole rather than purely commercial considerations. As a development bank, DBRB does not compete with commercial lending and financial institutions in providing finance to customers and has declined lending opportunities in the past where financing was available elsewhere. Loans made by DBRB pursuant to state programmes often involve relatively large principal amounts, have longer-term maturities and are extended at preferential rates, all of which make these activities relatively high risk and low return. For instance, for lending under state programmes, the applicable interest rate is typically specified by resolutions of the President of the Republic of Belarus or the government of the Republic of Belarus.

In addition, as part of its development functions, DBRB has in the past been required to receive and manage certain assets under state programmes. Such assets may generate less income and result in a higher level of NPLs and impairment allowances and may accordingly affect the performance metrics of DBRB's loan portfolio. In particular, pursuant to a state programme, during the period from 2011 to 2014, BYN1.7 billion of NPLs was transferred to DBRB by state-owned commercial banks. As a result of these transfers, DBRB's bad debt ratio increased significantly, to a peak of 18.7 per cent. as at 31 December 2016. Commencing in 2016, DBRB has been transferring these loans to the Asset Management Agency, which has resulted in a decrease in its bad debt ratio based on the IFRS definition of NPLs to 3.2 per cent. as at 31 December 2018.

The Economic Environment in the Republic of Belarus

DBRB was established as a development bank by the Council of Ministers and the National Bank and is focused on financing investment projects with social importance, promoting exports of Belarusian companies and providing financial support for Belarusian SMEs. Given its mission of supporting the Belarusian economy, DBRB's results of operations and financial condition have been and will continue to be significantly affected by Belarusian political, regulatory and macroeconomic factors.

According to the IMF, the Belarusian economy is dependent on both the global market environment and the economies of the Republic of Belarus's major trading partners, mainly Russia, Ukraine and the European Union, which, according to the NSC, accounted for 38.4 per cent., 12.0 per cent. and 30.2 per cent. of the Republic of Belarus's total exports in the year ended 31 December 2018. The economic slowdown in Russia, sanctions between Russia and the European Union and currency depreciation in Russia in the period from 2014 to 2015 weakened external demand from this key trading partner, which led to a severe contraction in the Republic of Belarus's GDP, with GDP declining by 3.8 per cent. in 2015 according to the NSC. The economic situation in the Republic of Belarus began to improve in 2016 largely as a result of improving economic conditions in Russia, as well as the recovery of potash exports. The Republic of Belarus's real GDP grew by 3.0 per cent. in 2018, and is expected by the IMF to grow by 3.1 per cent. in 2019 and 2.5 per cent. in 2020 due to economic recovery in the Republic of Belarus's main trading partners, growth in prices for raw materials and a recovery in domestic demand. The IMF's forecasted unemployment rate for 2019 and 2020 is 0.8 per cent. According to the NSC, inflation was 10.6 per cent., 4.6 per cent. and 5.6 per cent. in 2016, 2017 and 2018, respectively.

In light of the adverse economic conditions prevailing during the period from 2014 to 2016, the level of bad assets across the Belarusian banking sector began to increase. The significant proportion of liabilities owed to banks in foreign currencies also contributed to higher credit risk. In 2016, the government took a number of decisions aimed at improving financial stability. In particular, the Financial Stability Council was established in order to strengthen the banking sector and coordinate measures aimed at improving financial stability. In the six months ended 30 June 2016, the Republic of Belarus cooperated with the IMF and the World Bank in the context of the FSAP. As part of the FSAP, stress tests were carried out by the National Bank and in July 2016, an asset quality review was carried out. This indicated that the majority of banks demonstrated sufficient levels of regulatory capital to withstand a scenario of the worsening condition of their borrowers. However, credit risk continued to be the main threat for the banking sector. Also in 2016, the Asset Management Agency was established with the aim of removing bad debts from Belarusian banks' balance sheets. DBRB has been transferring loans received by it to the Asset Management Agency since 2016.

According to the NSC, agriculture, forestry and fisheries accounted for 6.4 per cent. of Belarusian GDP, provided employment for 9.3 per cent. of the employed population and accounted for 15.3 per cent. of Belarusian exports in 2018. The Republic of Belarus is one of the world's 15 largest dairy exporters and one of the world's five largest producers of flax fibre. In 2018, on the back of unfavourable weather conditions and a decrease in yield of grains and legumes, the production of agricultural products across all types of farms decreased by 3.4 per cent. in real terms compared to 2017.

The industrial sector is the largest sector of the country's economy. According to the NSC, in 2018, the industrial sector accounted for 26.1 per cent. of Belarusian GDP and approximately 37.0 per cent. of the Republic of Belarus's fixed assets and employed 23.5 per cent. of the total labour force. According to the United Nations Industrial Development Organisation, the Republic of Belarus was ranked 47th out of 150 countries in industrial performance in 2018. The most significant contributor to industrial production is the manufacturing industry, which accounted for 88.0 per cent. of total industrial output in 2018. The most significant industries within manufacturing include food (22.9 per cent.), petroleum products (15.6 per cent.), machine building (10.3 per cent.) and chemical production (9.6 per cent.). In 2018, the value of industrial production increased across all areas other than production of computer, electronic and optical equipment.

The future stability of the Belarusian economy is dependent upon domestic and external demand conditions. The principal risks include volatility of economic activity in Russia (including volatility associated with the recent sanctions against certain Russian corporations and individuals), disorderly adjustment the external imbalances due to a tightening of global financial conditions, and existing quasi-fiscal deficits related to the excessive expansionary policies of the past.

For further detail on the Belarusian economy, see "*The Economy of the Republic of Belarus*".

Fluctuations in Interest Rates and the Refinancing Rate Set by the National Bank

Changes in interest rates and the refinancing rate set by the National Bank affect DBRB's net interest income, net interest margin and overall results of operation. Under certain loan agreements denominated in Belarusian rubles, the interest rate is pegged to the refinancing rate set by the National Bank. Floating rate bonds issued by DBRB as well as municipal securities and securities of banks included in the investment securities portfolio are also linked to the refinancing rate. The refinancing rate has gradually declined from 25 per cent. as at 9 January 2015 to 10 per cent. currently, which has generally contributed to a reduction in DBRB's net interest income during the periods under review. Interest rates set by foreign banking authorities also influence DBRB's results of operations. For instance, the interest rate for export finance loans denominated in foreign currencies other than Russian rubles is the CIRR set by the OECD. For export finance loans denominated in Russian rubles, the rate is two-thirds the refinancing rate fixed by the Central Bank of Russia. As a result, any decrease or increase in the refinancing rate of the National Bank or other banking authorities in the countries where DBRB makes export finance loans will lead to a decrease or increase in interest income on such loans.

Unlike commercial banks, DBRB does not rely to a significant degree on deposits to fund its lending activities. Rather, it relies on capital injections from the Republic of Belarus, as its principal shareholder, as well as family funds (see "*Business—Ancillary Activities—Family Fund Management*"), the issuance of bonds and syndicated loans. DBRB receives funding at below market interest rates in the form of deposits and loans attracted from state-owned banks (including under the family fund management programme), on placing of debt securities to government bodies and legal entities to finance government programmes. It recognises the benefits of these low interest rate forms of funding as government grants.

For further detail on DBRB's management of interest rate risk, see "*Risk Management*".

Fluctuations in Exchange Rates

Fluctuations in exchange rates impact DBRB's results of operations and financial condition. As at 31 December 2018, 50.5 per cent. of DBRB's total assets and 56.1 per cent. of its total liabilities were denominated in foreign currencies, principally the US dollar, Russian ruble and Euro. DBRB translates such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains/(losses) realised upon the sale of such assets, to Belarusian rubles in preparing its financial statements. Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. As a result, DBRB's reported income is affected by changes in the value of the Belarusian ruble with respect to foreign currencies (primarily the US dollar, Russian ruble and Euro).

The overall effect of exchange rate movements on DBRB's results of operations depends on the rate of depreciation or appreciation of the Belarusian ruble against other currencies in which DBRB transacts or has monetary assets and liabilities (primarily the US dollar, Russian ruble and the euro). For example, the Belarusian ruble depreciated significantly against the US dollar in 2011 after the National Bank lifted restrictions on the exchange rate. More recently, on 9 January 2015, the National Bank devalued the Belarusian ruble by 16.1 per cent. against the US dollar and increased its refinancing rate from 20 per cent. to 25 per cent. This was intended to address the impact of the depreciation of the Russian ruble on the Belarusian economy, with Belarusian goods losing price competitiveness in Russia. Subsequently, the National Bank revised its foreign currency exchange policy and reverted to floating exchange rates. In August 2015, the Belarusian ruble weakened by 15 per cent. against the US dollar due to falling oil prices and the depreciation of the Russian ruble. Both domestic and external factors continued to negatively affect the economic situation in the Republic of Belarus throughout 2015, when the Belarusian ruble depreciated by 56.7 per cent. against the US dollar. As a result, on 1 July 2016, the National Bank changed the denomination of the Belarusian ruble, with 10,000 old Belarusian rubles forming 1 new Belarusian ruble. In 2017, to support the Belarusian ruble, the National Bank reduced rates for liquidity management instruments and levels of mandatory foreign currency revenue surrender for Belarusian companies. In 2017, the exchange rate of the Belarusian ruble remained relatively stable, although in 2018 the Belarusian ruble depreciated by 9.5 per cent. against the US dollar and 5.0 per cent. against the Euro in part due to the depreciation of the Russian ruble against the US dollar and Euro, which was in turn due to the threat of sanctions imposed by the US government on the Russian Federation, and the general strengthening of the US dollar.

As at 31 December 2018, a hypothetical appreciation of the US dollar by 30 per cent. against the Belarusian ruble (holding all other variables constant) would have had a positive impact on the profit of DBRB in the amount of BYN204.8 million, while a hypothetical depreciation of the US dollar by 10 per cent. against the Belarusian ruble (holding all other variables constant) would have had a negative impact on profit in the amount of BYN68.3 million.

Credit risk and provisioning

Managing the risk that a counterparty to a financial contract with DBRB will fail to perform according to the terms and conditions of the contract and cause DBRB to suffer a loss, or "credit risk", is a key aspect of the Bank's financing and investment activities. DBRB reviews its loan portfolio to assess impairment allowances. Its approach to provisioning has changed significantly following the implementation of IFRS 9, as described in detail below. For further detail on IFRS 9, see Note 5 to the 2018 Financial Statements.

Prior to the implementation of IFRS 9

For periods prior to the implementation of IFRS 9 (i.e., the years ended 31 December 2017 and 2016), DBRB recorded impairment allowances in respect of its loan portfolio based on objective indications of impairment, which included:

- delayed payments on loan agreements;
- significant deterioration in the financial position of a borrower;
- deterioration in the business environment or negative changes in the borrower's market;

- provision of a borrower with concessions economically or legally connected with the borrower's financial difficulties that would not otherwise be provided; and
- probability of bankruptcy or other financial reorganisations of the borrower.

Impairment allowances for collectively assessed loans were defined based on available information on decrease of expected future cash flows on the group of financial assets. DBRB's judgments regarding estimated losses were based on past performance, past customer behaviour, credit quality of counterparties and general economic conditions, which were not necessarily indications of future losses.

After the implementation of IFRS 9

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments". IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaced IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

DBRB has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018 and adopted the amendments to IFRS 9 on the same date. Under the transition method chosen, comparative information (i.e., for the year ended 31 December 2017) has not been restated.

IFRS 9 replaced the "incurred loss" model in IAS 39 (which delayed recognition of impairment allowances until objective indications of a credit loss had been identified) with a forward-looking "expected credit loss" model (based on the probability weighting of credit losses even if these are unlikely and the most probably outcome is the collection of the full contractual cash flows). The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The level of the impairment loss allowance will generally increase as economic conditions deteriorate and decrease as economic conditions become more favourable. This can be intensified by a significant increase in valuation allowance for losses when financial instruments pass over stages of compliance with credit quality since initial recognition.

Results of operations for the years ended 31 December 2018, 2017 and 2016

The following table sets forth DBRB's results of operations for the years ended 31 December 2018, 2017 and 2016:

	Year ended 31 December			Change	
	2018	**2017**	**2016**	**2018/17**	**2017/16**
		(BYN millions)		*(%)*	
Interest income	528.7	454.5	499.6	16.3	(9.0)
Interest expense	(148.7)	(102.4)	(139.9)	45.1	(26.8)
Net interest income	**380.0**	**352.1**	**359.7**	**7.9**	**(2.1)**
Fee and commission income	9.1	3.1	4.1	193.5	(24.4)
Fee and commission expense	(1.9)	(4.9)	(3.6)	(61.2)	36.1
Net fee and commission income/(expenses)	**7.2**	**(1.8)**	**0.5**	**—**	**(460.0)**
Net loss on derivative financial instruments	0.4	(0.1)	—	—	—
Effect of initial recognition on financial instruments at fair value	(23.9)	(56.9)	(1.1)	(58.2)	5,072.7
Net income from foreign exchange operations	9.7	10.3	21.8	(5.8)	(52.8)
Net gain on securities transactions	(0.3)	1.0	2.7	—	(63.0)
General administrative expenses	(78.2)	(59.3)	(51.3)	31.9	15.6
Allowance for impairment of financial assets	64.9	5.0	(251.0)	—	(102.0)
Net other income	26.7	9.5	2.8	181.1	239.3
Non-interest expenses	**(0.7)**	**(90.6)**	**(276.2)**	**(99.2)**	**(67.2)**
Income from wholesale trade of subsidiaries	93.7	67.2	100.7	39.4	(33.3)
Cost of wholesale trade of subsidiaries	(91.4)	(64.2)	(88.5)	42.4	(27.5)
Income from non-banking transactions	**2.3**	**3.0**	**12.1**	**(23.3)**	**(75.2)**
Profit before tax	**388.8**	**262.7**	**96.1**	**48.0**	**(173.4)**
Income tax (expense)/benefit	(61.7)	(34.3)	15.4	79.9	—
Net income for the period	**327.1**	**228.3**	**111.5**	43.3	**104.8**

Net Interest Income

Net interest income increased by BYN27.9 million, or 7.9 per cent., to BYN380.0 million for the year ended 31 December 2018 from BYN352.1 million for the year ended 31 December 2017, after having decreased by BYN7.6 million, or 2.1 per cent., from BYN359.7 million for the year ended 31 December 2016. The increase in net interest income in 2018 was primarily due to an increase in interest income on loans to customers. The decrease in net interest income in 2017 was due to a reduction in interest income on investment securities and higher interest expenses for issued debt securities, partially offset by a reduction in interest expenses for customer accounts and bonds issued by the bank and an increase in interest rates on customer loans.

The following table sets forth the components of DBRB's net interest income for the years ended 31 December 2018, 2017 and 2016:

	Year ended 31 December			Change	
	2018	**2017**	**2016**	**2018/17**	**2017/16**
		(BYN millions)		*(%)*	
Interest income on loans to customers	308.6	247.3	258.7	24.8	(4.4)
Interest income on investment securities	139.7	143.8	195.2	(2.8)	(26.3)
Interest income on due from banks	26.9	27.4	45.7	(1.8)	(40.1)
Interest income	**475.2**	**418.5**	**499.6**	**13.6**	**(16.2)**
Interest income from finance lease receivables	53.5	36.0	—	48.3	—
Other interest income	**53.5**	**36.0**	**—**	**48.3**	—
Interest expenses for due to banks	(84.5)	(41.9)	(41.0)	101.6	2.1
Interest expenses for customer accounts	(36.9)	(33.4)	(64.8)	10.7	(48.5)
Interest expenses for bonds issued by the bank	(27.3)	(27.2)	(34.1)	0.4	(20.3)
Interest expense	**(148.7)**	**(102.4)**	**(139.9)**	**45.1**	**(26.8)**
Net interest income	**380.0**	**352.1**	**359.7**	**7.9**	**(2.1)**

Interest Income

Interest income increased by BYN74.2 million, or 16.3 per cent., to BYN528.7 million for the year ended 31 December 2018 from BYN454.5 million for the year ended 31 December 2017, after having decreased by BYN45.1 million, or 9.0 per cent., from BYN499.6 million for the year ended 31 December 2016. The increase in 2018 was primarily due to an increase in interest income on loans to customers, which was in turn due to growth in the loan portfolio and an improvement in loan portfolio quality. The decrease in 2017 was primarily due to lower interest income on investment securities, which was in turn due to a reduction in the refinancing rate set by the National Bank. Although the size of the investment securities portfolio increased, the decrease in the refinancing rate set by the National Bank led to lower interest received on floating rate bonds. This was partially offset by an increase in interest income on loans to customers primarily due to growth in the loan portfolio.

Interest income on loans to customers. Interest income on loans to customers (including interest income from finance lease receivables) increased by BYN78.8 million, or 27.8 per cent., to BYN362.1 million for the year ended 31 December 2018 from BYN283.3 million for the year ended 31 December 2017, after having increased by BYN24.6 million, or 9.5 per cent. from BYN258.7 million for the year ended 31 December 2016. The increase in 2018 was due to growth in the loan portfolio. The increase in 2017 was also due to growth in the loan portfolio, which was in turn due to growth in leasing activities.

Interest income on investment securities. Interest income on investment securities decreased by BYN4.1 million, or 2.9 per cent., to BYN139.7 million for the year ended 31 December 2018 from BYN143.8 million for the year ended 31 December 2017, after having decreased by BYN51.4 million, or 26.3 per cent. from BYN195.2 million for the year ended 31 December 2016. The decreases were due to a reduction in the refinancing rate set by the National Bank, which led to lower interest received on floating rate bonds.

Interest income on due from banks. Interest income on due from banks decreased by BYN0.5 million, or 1.8 per cent., to BYN26.9 million for the year ended 31 December 2018 from BYN27.4 million for the year ended 31 December 2017, after having decreased by BYN18.3 million, or 40.0 per cent. from BYN45.7 million for the year ended 31 December 2016. The decrease in 2017 was due to an increase in the portion of DBRB's placements with banks at interest rates far below the average interbank market rates under state programmes for the financing of start-up companies and support of the woodworking industry.

Interest Expense

Interest expense increased by BYN46.3 million, or 45.2 per cent., to BYN148.7 million for the year ended 31 December 2018 from BYN102.4 million for the year ended 31 December 2017, after having decreased by BYN37.5 million, or 26.8 per cent., from BYN139.9 million for the year ended 31 December 2016. The increase in 2018 was primarily due to an increase in interest expenses for due to banks, which in turn was due to an increase in inter-bank borrowings. The decrease in 2017 was primarily due to a reduction in interest expenses for customer accounts which in turn was due to a reduction in the refinancing rate set by the National Bank and a decrease in deposits of government bodies.

Interest expenses for due to banks. Interest expenses for due to banks increased by BYN42.6 million, or 101.7 per cent., to BYN84.5 million for the year ended 31 December 2018 from BYN41.9 million for the year ended 31 December 2017, after having increased by BYN0.9 million, or 2.2 per cent. from BYN41.0 million for the year ended 31 December 2016. The increase in 2018 was due to an increase in inter-bank borrowings.

Interest expenses for customer accounts. Interest expenses for customer accounts increased by BYN3.5 million, or 10.5 per cent., to BYN36.9 million for the year ended 31 December 2018 from BYN33.4 million for the year ended 31 December 2017, after having decreased by BYN31.4 million, or 48.5 per cent. from BYN64.8 million for the year ended 31 December 2016. The increase in 2018 was due to an increase in customer accounts. The decrease in 2017 was due to a decrease in deposits of government bodies, primarily deposits of the SPF and the Ministry of Economy of the Republic of Belarus, as well as lower interest rates due to a reduction in the refinancing rate set by the National Bank.

Interest expenses for bonds issued by the bank. Interest expenses for bonds issued by the bank remained relatively flat, increasing by BYN0.1 million, or 0.4 per cent., to BYN27.3 million for the year ended 31 December 2018 from BYN27.2 million for the year ended 31 December 2017, after having decreased by BYN6.9 million, or 20.2 per cent. from BYN34.1 million for the year ended 31 December 2016. The decrease in 2017 was primarily due to lower interest rates as a result of the reduction in the refinancing rate set by the National Bank.

Non-interest expense

Non-interest expense decreased by BYN89.9 million, or 99.2 per cent., to BYN0.7 million in the year ended 31 December 2018 from BYN90.6 million in the year ended 31 December 2017, after having decreased by BYN185.6 million, or 67.2 per cent., from BYN276.2 million in the year ended 31 December 2016. This decrease in non-interest expense in 2018 was mainly due to an increase in net income from foreign exchange operations and a decrease in effect of initial recognition of financial instruments at fair value, partially offset by higher general administrative expenses. The decrease in 2017 was due to the decrease in allowance for impairment of financial assets, which was in turn due to the transfer of NPLs to the Asset Management Agency at book value.

The following table sets forth the components of DBRB's non-interest expense for the years ended 31 December 2018, 2017 and 2016:

	Year ended 31 December			**Change**	
	2018	**2017**	**2016**	**2018/2017**	**2017/2016**
	(BYN millions)			*(%)*	
Net loss on derivative financial instruments	0.4	(0.1)	—	—	—
Effect of initial recognition of financial instruments at fair value	(23.8)	(56.9)	(1.1)	(58.2)	5,072.7
Net income from foreign exchange operations	9.7	10.3	21.8	(5.8)	(52.8)
Net gain on securities transactions	(0.3)	1.0	2.7	—	(63.0)
General administrative expenses	(78.2)	(59.3)	(51.3)	31.9	15.6
Allowance for impairment of financial assets	64.9	5.0	(251.0)	1,198.0	(102.0)
Net other income	26.7	9.5	2.8	181.1	293.3
Non-interest expense	**(0.7)**	**90.6**	**(276.2)**	**(99.2)**	**(67.2)**

Effect of initial recognition of financial instruments at fair value

DBRB recorded a charge of BYN23.8 million and BYN56.9 million in 2018 and 2017, respectively, as a result of the revaluation of loans granted to companies in the woodworking industry. Prior to 1 January 2018, these loans were designated as financial assets with indicators of impairment and include day 1 losses in fair value at initial recognition. Since 1 January 2018, they have been designated as purchased or originated credit-impaired financial assets.

Net income from foreign exchange operations

Net income from foreign exchange operations decreased by BYN0.6 million, or 5.8 per cent., to BYN9.7 million for the year ended 31 December 2018 from BYN10.3 million for the year ended 31 December 2017, after having decreased by BYN11.5 million, or 52.8 per cent. from BYN21.8 million for the year ended 31 December 2016. The decrease in 2018 was primarily due to the revaluation of the allowance for impairment of financial assets. The decrease in 2017 was primarily due to the revaluation of DBRB's long currency positions and the overall appreciation and stabilisation of the Belarusian ruble exchange rate in 2017.

General administrative expenses

General administrative expenses increased by BYN18.9 million, or 31.9 per cent., to BYN78.2 million for the year ended 31 December 2018 from BYN59.3 million for the year ended 31 December 2017, after having increased by BYN8.0 million, or 15.6 per cent., from BYN51.3 million for the year ended 31 December 2016. The increase in 2018 was primarily due to increases in taxes, other than income tax, depreciation and amortisation, staff costs and charity costs. The increase in 2017 was primarily due to higher insurance costs associated with the export finance portfolio and higher staff costs.

The following table sets forth the components of DBRB's general administrative expenses for the years ended 31 December 2018, 2017 and 2016:

	Year ended 31 December			Change	
	2018	**2017**	**2016**	**2018/2017**	**2017/2016**
	(BYN millions)			*(%)*	
Staff costs	23.5	19.4	16.1	21.1	20.5
Charity	12.3	9.8	10.6	25.5	(7.5)
Taxes, other than income tax	8.7	3.1	2.6	180.6	19.2
Depreciation and amortisation	7.0	3.5	2.8	100.0	25.0
Contributions to Social Security Fund	6.9	5.2	4.5	32.7	15.6
Insurance	4.1	7.0	2.0	(41.4)	250.0
Rent, utilities and repair expenses	2.7	2.3	1.8	17.4	27.8
Transport and fuel expenses	2.6	0.5	0.3	420.0	66.7
Consultative and information services expenses	2.1	0.9	0.9	133.3	0.0
Advertising	1.2	0.9	0.9	33.3	0.0
Office supplies and other office expenses	0.6	0.5	0.4	20.0	25.0
Expenses of subsidiaries for the sale of goods	0.6	1.2	3.4	(50.0)	(64.7)
Telecommunication and mail expenses	0.3	0.3	0.2	—	50.0
Other	5.4	4.9	4.8	10.2	2.1
Total general administrative expenses	**78.2**	**59.3**	**51.3**	**31.9**	**15.6**

Staff costs. Staff costs increased by BYN4.1 million, or 21.1 per cent., to BYN23.5 million for the year ended 31 December 2018 from BYN19.4 million for the year ended 31 December 2017, after having increased by BYN3.3 million, or 20.3 per cent., from BYN16.1 million for the year ended 31 December 2016. The increases in 2017 and 2018 were primarily due to increases in salaries and the average number of employees, from 566 in 2016 to 623 in 2017 and to 746 in 2018.

Charity. Charity costs increased by BYN2.5 million, or 25.5 per cent., to BYN12.3 million for the year ended 31 December 2018 from BYN9.8 million for the year ended 31 December 2017, after having decreased by BYN0.8 million, or 7.5 per cent., from BYN10.6 million for the year ended 31 December 2016. The changes in 2018 and 2017 were driven by changes in the number of charities supported during the period.

Taxes, other than income tax. Taxes, other than income tax, increased by BYN5.6 million, or 180.6 per cent., to BYN8.7 million for the year ended 31 December 2018 from BYN3.1 million for the year ended 31 December 2017, after having increased by BYN0.5 million, or 19.2 per cent., from BYN2.6 million for the year ended 31 December 2016. The increases in 2017 and 2018 were primarily due to an increase in the amount of VAT tax, which was in turn due to capital expenditures.

Depreciation and amortisation. Depreciation and amortisation increased by BYN3.5 million, or 100.0 per cent., to BYN7.0 million for the year ended 31 December 2018 from BYN3.5 million for the year ended 31 December 2017, after having increased by BYN0.7 million, or 25.0 per cent., from BYN2.8 million for the year ended 31 December 2016. The increases in 2017 and 2018 were primarily due to the purchase and putting into operation of significant capital assets.

Insurance. Insurance costs decreased by BYN2.9 million, or 41.4 per cent., to BYN4.1 million for the year ended 31 December 2018 from BYN7.0 million for the year ended 31 December 2017, after having increased by BYN5.0 million, or 250.0 per cent., from BYN2.0 million for the year ended 31 December 2016. The decrease in 2018 was primarily due to no new material export contracts that would be insured having been entered into. The increase in 2017 was primarily due to growth in secured export finance loans.

Recovery of allowance for impairment of financial assets

Allowance for impairment of financial assets was a recovery of BYN64.9 million for the year ended 31 December 2018 compared to a recovery of BYN5.0 million for the year ended 31 December 2017 and a charge of BYN251.0 million for the year ended 31 December 2016. The recovery of the allowance for impairment in 2017 was due to the transfer of NPLs to the Asset Management Agency at book value and the accrual of an allowance in respect of one borrower in 2016, whose debt was written off in 2017.

Net income from non-banking transactions

Income from non-banking transactions reflects the results of the trade operations of Promagroleasing. Net income from non-banking transactions decreased by BYN0.7 million, or 23.3 per cent., to BYN2.3 million for the year ended 31 December 2018 from BYN3.0 million for the year ended 31 December 2017, after having decreased by BYN9.1 million, or 75.0 per cent., from BYN12.1 million for the year ended 31 December 2016. The decrease in 2018 was due to a decrease in the profitability of trade operations, which in turn was due to the short-term nature of these operations. The decrease in 2017 was due to a decrease in the volume of export financing.

Income tax expense

DBRB recorded an income tax expense of BYN61.7 million for the year ended 31 December 2018, compared to an expense of BYN34.3 million for the year ended 31 December 2017 and a benefit of BYN15.4 million for the year ended 31 December 2016. This reflected an effective tax rate of 15.9 per cent. and 13.1 per cent. in 2018 and 2017, respectively. The increase in the effective tax rate in 2018 was due to a change in the mix of income across DBRB companies. The increase in income tax expense in 2017 was due to the increase in profit before tax as well as lower levels of tax exempt income. DBRB had tax exempt income in the years ended 31 December 2018, 2017 and 2016. The tax effect of tax exempt income was a tax benefit of BYN2.8 million, BYN20.8 million and BYN11.7 million for the years ended 31 December 2018, 2017 and 2016, respectively. DBRB also had income from transactions with securities included in the list of tax-exempt securities in the Tax Code. For further detail on tax exempt income, see Note 9 to the 2018 Financial Statements.

Financial Condition

The following table sets forth DBRB's balance sheet as at 31 December 2018, 2017, and 2016:

	As at 31 December		
	2018	2017	2016
Assets		*(BYN millions)*	
Cash and cash equivalents	43.1	68.1	—
Cash equivalents and accounts in the National Bank	—	—	66.4
Due from banks	557.9	465.2	334.3
Investment securities	2,350.9	1,727.8	1,520.9
Loans to customers	4,471.3	3,578.1	3,153.5
Investment property	4.8	20.9	—
Property and equipment and intangible assets	97.6	88.7	72.5
Current income tax asset	4.3	3.7	0.8
Deferred income tax asset	8.0	35.5	35.7
Other assets	338.5	156.9	111.2
Total assets	**7,876.4**	**6,145.0**	**5,295.2**
Liabilities			
Due to banks	2,273.1	1,495.6	986.0
Customer accounts	965.1	630.4	674.0
Debt securities issued	1,922.9	1,887.9	1,827.6
Government grants	522.5	372.8	232.1
Current income tax liability	4.7	4.8	2.8
Deferred tax liability	2.4	16.0	—
Other liabilities	58.5	32.0	27.7
Total liabilities	**5,749.2**	**4,439.6**	**3,750.2**
Equity			
Share capital	1,696.7	1,451.7	1,451.7
Translation reserve	—	0.8	—
Fair value reserve of investment securities	(1.0)	0.2	—
Retained earnings	331.1	177.1	29.2
Total equity attributable to the shareholders of the Development Bank	**2,028.8**	**1,629.8**	**1,480.9**
Non-controlling interest	98.5	75.5	64.0
Total equity	**2,127.3**	**1,705.4**	**1,545.0**
Total liabilities and equity	**7,876.4**	**6,145.0**	**5,295.2**

Assets

As at 31 December 2018, DBRB's total assets amounted to BYN7,876.4 million, compared to BYN6,145.0 million as at 31 December 2017 and BYN5,295.2 million as at 31 December 2016. The increases in total assets over the periods under review were due to growth in DBRB's loan portfolio as well as the expansion of the investment securities portfolio.

Due from banks

As at 31 December 2018, due from banks, which primarily comprise deposits placed with Belarusian banks and direct export finance and deposits placed with foreign banks, amounted to BYN557.9 million, compared to BYN465.2 million as at 31 December 2017 and BYN301.8 million as at 31 December 2016. The increases in due from banks in 2018 and 2017 were due to increases in deposits placed with Belarusian banks to support SME financing and, in 2017, an increase in direct export finance and deposits placed with foreign banks. The following table sets forth a breakdown of due from banks as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018	2017	2016
		(BYN millions)	
Resident banks	506.6	398.1	279.9
Non-resident banks	60.7	74.0	56.7
Total due from banks	**567.3**	**472.1**	**336.7**
Allowance for impairment	(9.3)	(7.0)	(2.4)
Total due from banks less allowance for impairment	**557.9**	**465.2**	**334.3**

Investment securities

As at 31 December 2018, investment securities, which primarily comprise government bonds, amounted to BYN2,350.9 million, compared to BYN1,727.8 million as at 31 December 2017, and BYN1,520.9 million as at 31 December 2016. The increases in the investment securities portfolio during the periods under review were primarily due to increases in DBRB's holdings of long-term government bonds to utilise additional family funds received by DBRB. The following table sets forth a breakdown of investment securities as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018	**2017**	**2016**
		(BYN millions)	
Long-term government bonds	1,148.9	586.9	388.5
Bonds issued by banks with floating interest rate	638.1	702.2	808.0
Bonds issued by commercial organisations	298.8	177.6	174.6
Bonds issued by local authorities	264.4	214.6	135.2
Bonds issued by the National Bank	23.3	40.9	39.8
Bonds issued by banks with fixed interest rate	27.3	37.9	36.7
Total investment securities	**2,400.8**	**1,760.1**	**1,582.9**
Allowance for impairment	(50.0)	(32.3)	(62.0)
Total investment securities less allowance for impairment	**2,350.9**	**1,727.8**	**1,520.9**

Loans to customers

As at 31 December 2018, net loans to customers amounted to BYN4,471.3 million, compared to BYN3,578.1 million as at 31 December 2017 and BYN3,153.5 million as at 31 December 2016. The increases in amortised cost of loans to customers during the periods under review were primarily due to the expansion of DBRB's lending activities and an increase in finance lease receivables. The following table sets forth a breakdown of loans to customers as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018	**2017**	**2016**
		(BYN millions)	
Loans to organisations	3,357.5	2,670.1	2,751.7
Finance lease receivables	902.0	584.8	431.1
Loans to republican and regional state administration bodies	578.6	699.5	734.1
Total loans to customers	**4,838.1**	**3,954.3**	**3,916.9**
Allowance for impairment	(366.8)	(376.2)	(763.4)
Total loans to customers less allowance for impairment	**4,471.3**	**3,578.1**	**3,153.5**

Liabilities

As at 31 December 2018, DBRB's total liabilities amounted to BYN5,749.2 million, compared to BYN4,439.6 million as at 31 December 2017, and BYN3,750.2 million as at 31 December 2016. The increases in total liabilities over the periods under review were primarily due to growth in due to banks.

Due to banks

As at 31 December 2018, due to banks amounted to BYN2,273.1 million, compared to BYN1,495.6 million as at 31 December 2017 and BYN986.1 million as at 31 December 2016. The increases in due to banks during the periods under review were primarily due to the expansion of the family fund programme (which accounts for a significant proportion of amounts due to Belarusian banks in the table below), as well as growth in bilateral loans. The following table sets forth a breakdown of due from banks as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018	2017	2016
		(BYN millions)	
Banks of the Republic of Belarus	997.5	699.8	431.7
Banks of Russia	750.8	524.2	249.7
Banks of the European Union	310.6	235.1	201.2
Other banks	214.2	36.5	—
Syndicated loans from non-resident banks	—	—	103.4
Total due to banks	**2,273.1**	**1,495.6**	**986.1**

Customer accounts

As at 31 December 2018, customer accounts, which include deposits of government bodies, family funds, deposits of local authorities and customer accounts (see "*Business—Ancillary Activities—Family Funds Management*"), amounted to BYN965.1 million, compared to BYN630.4 million as at 31 December 2017 and BYN674.0 million as at 31 December 2016. The increase in customer accounts in 2018 was due to an increase in deposits of republican state administration bodies and an increase in family capital funds. In 2017, the decrease in customer accounts was due to a refund of a deposit of the SPF and a partial refund of a deposit of the Ministry of Finance, partially offset by an increase in amounts to be transferred to the special fund. The following table sets forth a breakdown of customer accounts as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018	2017	2016
		(BYN millions)	
Deposits of republican state administration bodies	714.7	390.9	662.5
Family capital funds	119.8	58.9	—
Deposits of regional state administration bodies	84.9	136.7	—
Customer accounts	45.6	43.9	11.5
Total customer accounts	**965.1**	**630.4**	**674.0**

Debt securities issued

As at 31 December 2018, debt securities issued amounted to BYN1,922.9 million, compared to BYN1,887.9 million as at 31 December 2017 and BYN1,827.6 million as at 31 December 2016. The following table sets forth a breakdown of debt securities issued as at 31 December 2018, 2017 and 2016:

	31 December		
	2018	2017	2016
		(BYN millions)	
Bonds held by the National Bank of the Republic of Belarus	1,244.4	1,346.7	1,346.7
Debt securities with floating rate	474.2	439.0	454.8
Debt securities with fixed rate	204.3	102.2	26.2
Total debt securities issued	**1,922.9**	**1,887.9**	**1,827.6**

Equity

As at 31 December 2018, DBRB's total equity amounted to BYN2,127.3 million, compared to BYN1,705.4 million as at 31 December 2017 and BYN1,545.0 million as at 31 December 2016. The increase in 2018 was due to the BYN245 million capital increase in August 2018 as well as retained earnings, partially offset by distributions of profit from family capital fund management and dividends paid. The increase in 2017 was primarily due to retained earnings, partially offset by distributions of profit from the family capital fund management and dividends paid.

Segmental Analysis

DBRB has two reportable segments:

- lending, which includes the provision of loans, financial leasing, purchase of securities and other transactions with legal entities, as well as transactions which in economic substance relate to the servicing of legal entities and the attraction of targeted funds for financing in the form of government deposits; and

- operations in financial markets, which includes operations in the interbank and financial markets related to the attraction and placement of funds, operations for the purchase/sale of foreign exchange and other financial instruments, the purchase of Government securities, bonds issued by Belarusian banks, securities of the National Bank and securities of local executive and administrative bodies, as well as the issue of its own bonds.

To reflect the calculations that cannot be attributed to the operating segments referred to above, an additional segment "Other segment" was introduced in 2016. This segment has an auxiliary character and serves only to reflect intermediate and additional calculations.

For further information on segmental reporting, see Note 33 to the 2018 Financial Statements. The financial condition and results of operations of these segments are discussed in detail below.

Results of operations for the years ended 31 December 2018, 2017 and 2016

Lending

The following table sets forth the results of operations of the lending segment for the years ended 31 December 2018, 2017 and 2016:

	Year ended 31 December			Change	
	2018	**2017**	**2016**	**2018/2017**	**2017/2016**
		(BYN millions)		*(%)*	
Interest income calculated using effective interest rate method	314.9	256.8	N/A	22.6	N/A
Other interest income	59.2	40.8	N/A	45.1	N/A
Interest income	374.1	297.6	277.8	25.7	7.1
Interest expense	(36.9)	(33.4)	(64.8)	10.5	(48.5)
Net interest income	**337.1**	**264.2**	**213.0**	**27.6**	**24.0**
Fee and commission income	9.1	3.0	2.9	203.3	3.4
Fee and commission expense	—	—	—	—	—
Net fee and commission income	**9.1**	**2.9**	**2.8**	**213.8**	**3.6**
Net income on foreign exchange transactions	7.6	8.8	18.1	(13.6)	(51.4)
General administrative expenses	(44.5)	(33.2)	(27.9)	34.0	19.0
(Allowance) for impairment of financial instruments	(115.6)	(112.3)	(152.0)	2.9	(26.1)
Net other income	1.1	4.3	0.7	(74.4)	514.3
Income from wholesale trade of subsidiaries	93.9	75.1	117.2	25.0	(35.9)
Cost of wholesale trade of subsidiaries	(91.4)	(64.2)	(87.7)	42.4	(26.8)
Profit before taxation	**197.2**	**145.7**	**84.2**	**35.3**	**73.0**

Net Interest Income. The net interest income of the lending segment increased by BYN72.9 million, or 27.6 per cent., to BYN337.1 million for the year ended 31 December 2018, from BYN264.2 million for the year ended 31 December 2017, after having increased by BYN51.2 million, or 24.0 per cent., from BYN213.0 million for the year ended 31 December 2016. The increase in 2018 was due to an increase in interest income on loans to customers due to the expansion of the loan portfolio. The increase in 2017 was due to growth in the loan portfolio, which was in turn due to growth in leasing activities, and a decrease in interest expense, which was due to lower interest rates in respect of deposits placed with DBRB.

Profit before taxation. The profit before taxation of the lending segment increased by BYN51.5 million, or 35.3 per cent., to BYN197.2 million for the year ended 31 December 2018, from BYN 145.7 million for the year ended 31 December 2017, after having increased by BYN61.5million, or 73.0 per cent. from BYN84.2 million for the year ended 31 December 2016. The increases were primarily due to the increases in net interest income as discussed above. In 2017, the BYN39.7 million decrease in allowance for impairment of financial instruments due to the transfer of NPLs to the Asset Management Agency also contributed to the increase in profit before taxation.

This was partially offset by a BYN18.6 million decrease in income from wholesale trade of subsidiaries, which was in turn due to a decrease in volumes at Promagroleasing.

Operations in financial markets

The following table sets forth the results of operations in the financial markets segment for the year ended 31 December 2018, 2017 and 2016:

	Year ended 31 December			Change	
	2018	2017	2016	2018/2017	2017/2016
		(BYN millions)		*(%)*	
Interest income	149.2	156.7	230.9	(4.8)	(32.1)
Interest expense	(111.7)	(69.0)	(75.2)	61.9	(8.2)
Net interest income	**37.5**	**87.7**	**155.8**	**(57.2)**	**(43.7)**
Fee and commission income	—	—	—	—	—
Fee and commission expense	(1.3)	(4.7)	(3.3)	(72.3)	42.4
Net fee and commission (expenses)/income	**(1.3)**	**(4.7)**	**(3.3)**	**(72.3)**	**42.4**
Net gain/(loss) on derivative financial instruments	0.4	(0.1)	2.7	—	—
Net income on foreign exchange transactions	4.3	4.7	9.2	(8.5)	(48.9)
Net (loss)/gain on securities transactions	(0.3)	1.0	2.7	—	(63.0)
General administrative expenses	(16.9)	(11.9)	(9.9)	42.0	20.2
(Allowance)/recovery of allowance for impairment of financial instruments	(5.0)	(24.6)	4.6	(79.7)	—
Profit/(loss) before taxation	**18.6**	**52.0**	**159.0**	**(64.2)**	**(67.3)**

Net Interest Income. The net interest income of the operations in financial markets segment decreased by BYN50.2 million, or 57.2 per cent., to BYN37.5 million for the year ended 31 December 2018 from BYN87.7 million for the year ended 31 December 2017, after having decreased by BYN68.1 million, or 43.7 per cent., from BYN155.8 million for the year ended 31 December 2016 . The decreases were primarily due to a reduction in the refinancing rate set by the National Bank, which led to lower interest received on floating rate bonds in the investment securities portfolio.

Profit before taxation. The profit before taxation of the operations in financial markets segment decreased by BYN33.4 million, or 64.2 per cent., to BYN18.6 million for the year ended 31 December 2018 from BYN52.0 million for the year ended 31 December 2017, after having decreased by BYN107.0 million, or 67.3 per cent., from BYN159.0 million for the year ended 31 December 2016. The decreases were primarily due to the decreases in net interest income as discussed above. In addition, in 2017, the segment recorded BYN24.6 million in allowance for impairment losses, compared to a recovery of BYN4.6 million in 2016. This was due to a significant increase in the volume of operations in this segment.

Financial Condition

Lending

The following table sets forth the balance sheet of the lending segment as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018	2017	2016
		(BYN millions)	
Assets			
Investment securities	284.7	175.0	148.9
Loans to customers	4,471.8	3,695.4	3,382.8
Other assets	—	—	—
Total assets	**4,756.5**	**3,870.4**	**3,531.8**
Liabilities			
Customer accounts	965.1	630.4	674.0
Other liabilities	—	—	1.5
Total liabilities	**965.1**	**630.4**	**675.5**

Total assets. As at 31 December 2018, total assets for the lending segment amounted to BYN4,756.5 million, compared to BYN3,870.4 million as at 31 December 2017 and BYN3,531.8 million as at 31 December 2016. The increases were primarily due to growth in DBRB's loan portfolio.

Total liabilities. As at 31 December 2018, total liabilities for the lending segment amounted to BYN965.1 million, compared to BYN630.4 million as at 31 December 2017 and BYN675.5million as at 31 December 2016. The increase in 2018 was primarily due to an increase in deposits of republican state administration bodies and an increase in family capital funds. The decrease in 2017 was primarily due to a decrease in customer accounts.

Operations in financial markets

The following table sets forth the balance sheet of the operations in financial markets segment as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018	**2017**	**2016**
Assets			
Cash equivalents and accounts in the National Bank	43.1	92.8	98.9
Due from banks	537.2	418.2	298.4
Investment securities	2,096.8	1,576.5	1,403.3
Total assets	**2,677.1**	**2,087.5**	**1,800.6**
Liabilities			
Due to banks	2,785.2	1,855.9	1,203.9
Derivative financial liabilities	—	—	—
Debt securities issued	1,933.3	1,900.4	1,841.9
Other liabilities	0.7	0.4	0.3
Total liabilities	**4,719.2**	**3,756.8**	**3,046.1**

Total assets. As at 31 December 2018, total assets for the operations in financial markets segment amounted to BYN2,677.1 million, compared to BYN2,087.5 million as at 31 December 2017 and BYN1,800.6 million as at 31 December 2016. The increases were primarily due to growth in DBRB's investment securities portfolio as well as increases in due from banks, which were in turn due to increases in deposits placed with Belarusian banks to support SME financing and to a lesser extent, an increase in direct export finance and deposits placed with foreign banks.

Total liabilities. As at 31 December 2018, total liabilities for the operations in financial markets segment amounted to BYN4,719.2 million, compared to BYN3,756.8 million as at 31 December 2017 and BYN 3,046.1 million as at 31 December 2016. The increases were primarily due to the expansion of the family fund programme.

Capital Resources

DBRB funds its operations through capital injections from the Council of Ministers, "family funds", which it is responsible for managing pursuant to Edict No. 572, the issuance of bonds and syndicated loans.

Capital injections

DBRB received capital of US$2 million, US$351 million, US$446 million and US$129 million in 2011, 2012, 2013 and 2015, respectively. In August 2018, the share capital of DBRB was increased by BYN245 million.

Family Funds

As at 31 December 2018, family funds managed by DBRB amounted to BYN862.7 million. For further detail of family funds management, see "*Business—Ancillary Activities—Family Fund Management*".

Syndicated loans and bilateral credit lines

The following table sets forth the syndicated loans and bilateral credit lines made available to DBRB since its founding in 2011, including loans which have been repaid as well as outstanding loans as at 31 December 2018:

Date of loan	Counterparty	Currency	Amount	Date of disbursement	Repayment date	Status
			(millions)			
Syndicated loans						
31 March 2014	AKA Ausfuhrkredit-Gesellschaft m.b.H., Alfa-Bank, VTB Bank (Deutschland) AG, GLOBEXBANK, MDM Bank, JSC "Novikombank",	EUR	130	14 April 2014	13 April 2015	Repaid

Date of loan	Counterparty	Currency	Amount	Date of disbursement	Repayment date	Status
	OJSC Promsvyazbank, Russian Agricultural Bank					
21 May 2015	AKA Ausfuhrkredit-Gesellschaft mbH, "Asia-Pacific Bank" (JSC), JSC "Bank Intesa", PJSC Bank ZENIT, JSC "Globexbank", JSC "Bank Finservice", JSC "Novikombank", JSC "Promsvyazbank", JSC "Svyaz-Bank", PJSC "TRANSCAPITALBANK"	EUR	118	3 June 2015	30 November 2015	Repaid
16 November 2015	JSC "Alfa-Bank", JSC "Novikombank", PJSC "Promsvyazbank", JSC "Russian Agricultural Bank", PJSC "TRANSCAPITALBANK", PJSC "Svyaz-Bank", JSC "Bank Finservice", PJSC "AK BARS "Bank	US$/EUR	15/120	25 November 2015	24 November 2016	Repaid
6 July 2016	JSC ALFA-BANK, Public Joint-Stock Company Promsvyazbank, Public Joint-Stock Company Bank "Financial Corporation Otkritie", Transregional Commercial Bank for Communication and IT Development (public joint-stock company), Public Joint-Stock Company TRANSCAPITALBANK, Joint-Stock Company Bank Finservice, Joint-Stock Company Commercial Bank GLOBEX	EUR	50	14 July 2016	14 July 2017	Repaid
11 April 2018	Public Joint-Stock Company Bank "Financial Corporation Otkritie", JSC "NOVIKOMBANK", PJSC "AK BARS "Bank, JSC VUZ Bank, PJSC «BANK URALSIB», JSC "Bank Finservice", Nefteprombank	EUR	50	19 April 2018	20 April 2020	Fully drawn, to be repaid in 2020
Bilateral credit lines						
16 April 2014	Eximbank Hungary Plc	US$	10.0	N/A	N/A	Undrawn
10 May 2015	China Development Bank	US$	700	22 March 2017	22 March 2032	US$680,270,213.87 remains undrawn
25 November 2016	Eurasian Development Bank	US$	30	7 April 2017	2 August 2019	US$20,000,000 remains undrawn
12 October 2017	International Bank for Reconstruction and Development	US$	60	21 December 2018	15 October 2032	US$59,319,500 remains undrawn
28 July 2017	AKA Ausfuhrkredit-gesellschaft mbH, Commerzbank AG	EUR	2.9	27 October 2017	2 January 2023	Utilised
12 April 2018	BNDES	US$	72.8	17 April 2018	27 June 2028	Utilised
16 April 2018	AKA Ausfuhrkredit-gesellschaft mbH, SID Banka	EUR	30.9	22 June 2018	1 March 2026	EUR15,651,127.11 remains undrawn
27 October 2017	Khalifa Fund for Enterprise Development (UAE)	US$	25,0	N/A	15 July 2030	Undrawn
29 November 2018	Landesbank Baden-Wurttemberg, AKA Ausfuhrkredit-gesellschaft mbH,	EUR	18.7	N/A	N/A	Undrawn

China Development Bank

On 10 May 2015, DBRB and China Development Bank signed a general loan agreement for a credit facility to be utilised by DBRB in the amount of US$700 million for the financing of Belarus-China investment projects. The priority sectors for financing under this loan agreement include transport, energy, industry, infrastructure, projects of SMEs, as well as projects implemented by residents of China-Belarus industrial parks. The Chinese share in each investment project must be at least 50 per cent. of the total cost of the project. The total amount of each investment project must not be less than US$1 million. Loan maturities are based on the project payback period and must not exceed 15 years.

The loan agreement contains covenants relating to the use of funds and provides China Development Bank with the right to monitor the use of credit facilities by end borrowers (i.e., DBRB's customers). If DBRB breaches the covenants, China Development Bank has the right to demand repayment of the loan and cease all disbursements under the credit facility. All financial and other covenants established contained in the loan agreement apply only to DBRB as the borrower. See "*Business—Banking Activities—Financing of Investment Projects—Independent Investment Projects*" for further detail on DBRB's cooperation with China Development Bank.

Eurasian Development Bank

On 25 November 2016, DBRB and Eurasian Development Bank signed a loan agreement for a credit facility to be utilised by DBRB in the amount of US$30 million. The loan agreement contains covenants relating both to DBRB and the end borrowers, including covenants to comply with Belarusian law, including applicable environmental laws, as well as Eurasian Development Bank's Environmental Policy. Loans granted to end borrowers pursuant to the Eurasian Development Bank facility may not be used for child or forced labour, the production and distribution of tobacco or alcohol products, gambling, the production of weapons and military equipment, exchange operations with cash in foreign currency, investments in securities, activities prohibited by Belarusian law, real estate transactions and certain other types of transactions. DBRB is required to include these covenants in its loan agreements with the end borrowers. In the event these covenants are breached, Eurasian Development Bank has the right to demand repayment of the loan and cease all disbursements under the credit facility.

IBRD

On 12 October 2017, DBRB and the IBRD signed a loan agreement for a credit facility in the amount of US$60 million. The purpose of the credit facility is the implementation of the Project "Expanding Access to Financing for Micro, Small and Medium-sized Enterprises in the Republic of Belarus". The proceeds of the loan will be used to expand DBRB's current programmes for financial support of SMEs. The loan agreement contains covenants requiring the end borrowers to comply with the requirements of the World Bank's Project Operational Manuals, Framework Document for Environmental Protection, Anti-Corruption Guidelines, Procurement Guidelines and Hiring Consultants Guidelines. In the event these covenants are breached, the IBRD has the right to demand repayment of the loan and cease all disbursements under the credit facility. DBRB will have the corresponding right vis a vis end borrowers once it draws on the credit facility. The interest rate for a partner-bank is 4.34 per cent. in US dollars and 1.28 per cent. in Euro.

Bond issuances

DBRB has issued bonds denominated in Belarusian rubles at rates lower than those prevailing in the market. The maturities of these bonds range from 2018 to 2051. For further details of these bonds, see Note 19 to the 2018 Financial Statements.

Contingent Liabilities and Other Off-Balance Sheet Exposures

Credit related commitments

In the normal course of business, DBRB makes contractual commitments on behalf of its customers and, in order to meet the financing needs of its customers, is a party to financial instruments with off-balance sheet risk. Such commitments principally comprise loans or credit lines, whereby DBRB agrees to make payments for customers' accounts under certain conditions or in the event of default by a customer and letters of credit to guarantee the performance of customers to third parties. In return for such payments, DBRB receives a counter-indemnity from the customer. These services are normally provided on a fee-paying basis.

The following table sets forth an analysis of DBRB's credit related commitments as at 31 December 2018 and 31 December 2017 and 2016:

	As at 31 December		
	2018	2017	2016
		(BYN millions)	
Issued letters of credit	82.4	49.5	15.8
Covered	40.5	40.8	10.4
Uncovered	41.9	8.7	5.4

As at 31 December 2018, letters of credit and other commitments related to settlement operations increased by BYN32.9 million, or 66.5 per cent., to BYN82.4 million from BYN49.5 million as at 31 December 2017, after having increased in 2017 by BYN33.7 million, or 213.3 per cent., from BYN15.8 million as at 31 December 2016. Fluctuations in letters of credit and other commitments were due to the entry into and fulfilment of such commitments during the relevant periods.

Derivatives

DBRB enters into derivatives transactions, most commonly swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions, for hedging purposes and not speculative purposes. The Risk Management Department monitors risks associated with derivatives, particularly market risks, and derivative instruments (other than such instruments qualifying for hedge accounting) are periodically marked-to-market to reflect their realisable values. According to DBRB's existing policy, some of DBRB's derivative instruments qualify for hedge accounting, either through fair value or cash flow hedges. See also "*Risk Management—Market Risk—Foreign Currency Risk*".

Critical Accounting Policies

DBRB's accounting policies are integral to understanding the results of operations and financial condition presented in the Financial Statements and notes thereto. DBRB's significant accounting policies are described in Note 4 to the 2018 Financial Statements appearing elsewhere in these Listing Particulars. The preparation of the Financial Statements requires DBRB's management to make estimates and judgments. Set out below is a summary of certain significant accounting policies which DBRB's management believe to be of particular importance.

Financial instruments

Initial recognition of financial instruments

Financial assets and liabilities are recognised in the consolidated statement of financial position, when DBRB becomes a party to the contractual obligation of the relevant financial instrument.

Financial assets and liabilities are initially recognised at fair value; financial assets or financial liabilities, which are not classified as recognised at fair value through profit or loss, are recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

Classification of financial assets since 1 January 2018

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income ("**FVOCI**") or fair value through profit or loss ("**FVTPL**").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- expected credit losses and recovery of impairment losses;
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, DBRB may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, DBRB may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment. DBRB makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to DBRB's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how DBRB's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest. For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest ("**SPPI criterion**"), DBRB considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, DBRB considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit DBRB's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

DBRB holds a portfolio of long-term fixed rate loans for which it has the option to revise the interest rate following the change of key rate set by the National Bank. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. DBRB has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Instead, DBRB considers these loans as in essence floating rate loans.

Classification of financial assets before 1 January 2018

DBRB classifies financial assets at initial recognition. Financial assets classification at initial recognition is performed on the basis of intention, for which they were acquired and their financial characteristics. Subsequent reclassifications are allowed only if required by IFRS. All financial instruments are classified into the following categories:

- *Financial assets at fair value through profit or loss* are financial assets acquired principally for the purpose of sale/redemption in a short period, or forming part of a portfolio of identifiable financial instruments that are managed together, and the structure of which actually indicates the intention of making a profit in the short term, as well as financial assets, which at initial recognition are classified by DBRB as at fair value through profit or loss, or are derivative financial instruments, except when they are effective hedging instruments. Financial assets and liabilities at fair value through profit or loss are measured initially and subsequently at fair value. Fair value movements on financial assets at fair value through profit or loss are recognised in the consolidated statement of comprehensive income for respective period.
- *Held to maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that DBRB has the intent and ability to hold to maturity.
- *Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that are classified into other categories of financial instruments. Loans and receivables include amounts due from credit institutions or acquired from other banks, as well as loans and receivables from customers and other financial assets, which comply with these classification criteria.

  Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for those

  - for which there is an intention to sell immediately or in the near future and that are to be classified as held for trading, measured at initial recognition at fair value through profit or loss;
  - which, upon initial recognition, are designated as available for sale;
  - for which DBRB will not be able to cover the full amount of its initial investment for reasons other than a decrease in creditworthiness and which should be classified as available for sale.
- *Available for sale financial assets* are non-derivative financial assets that are not included into any of the other categories described above.

Classification of financial liabilities

Financial liabilities, except for those at fair value through profit and loss, are classified as the financial liabilities accounted at amortised cost.

Reclassification before 1 January 2018

Financial assets at FVTPL, including derivatives, after initial recognition are generally not reclassified to other categories of financial assets. Financial assets at FVTPL that are designated for sale could be reclassified to other categories of financial assets as follows:

- if they could correspond to the definition of loans and receivables: there was no intention of selling them in the near future with respect to these assets; they had fixed or determinable payments; did not have quotations; did not contain conditions that could prevent their owner from reimbursing virtually the entire amount of the initial investment for any reason, except for a deterioration in their credit quality - they could be reclassified to the category of loans and receivables; and

- if they did not meet the criteria for classification as loans and receivables above, they could be reclassified to the category of financial assets available for sale or held to maturity.

These reclassifications were made with the intention and the ability of DBRB to retain them for the foreseeable future (at least 12 months from the balance sheet date).

These reclassifications were made only in rare cases. A rare case is caused by a single event, which was unusual and, most likely, will not happen in the near future. An example of such a case could be the worsening of the situation on world markets.

Reclassification was carried out at fair value at the date of reclassification. This cost became a fair value or amortised cost of the reclassified financial asset. Previously recognised profit or loss was not restored.

Reclassification since 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except in the period after DBRB changes its business model for managing financial assets. DBRB should reclassify financial assets if DBRB changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by DBRB's senior management as a result of external or internal changes and must be significant to DBRB's operations and demonstrable to external parties. Accordingly, a change in DBRB's business model will occur only when DBRB either begins or ceases to perform an activity that is significant to its operations; for example, when DBRB has acquired, disposed of or terminated a business line. Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition of financial instruments

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

- the contractual rights to the cash flows from the financial asset expire;

- DBRB transfers the contractual rights to receive the cash flows of the financial asset, or if DBRB retains the right to obtain cash receipt from such asset and simultaneously assumes an obligation to pay it in full to the third party without significant delays;

- DBRB either transfers substantially all risks and rewards related to the asset, or does not transfer and does not retain all related risks and rewards, but at the same time transfers the control over this asset. The control is retained when the counterparty has no practical ability to sell the asset in its entirety to an unrelated third party without additional restrictions on the transfer.

If DBRB neither transferred nor retained substantially all risks and rewards related to the ownership of the transferred asset, and remained the control over this asset, then DBRB continues to recognise this asset to the extent that it continues to participate in this asset.

DBRB derecognises a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

When one existing financial liability is replaced with a different liability to the same creditor on significantly different terms, or where significant changes are made to the terms of the existing liability, the initial liability is derecognised and a new liability is recognised with the recognition of the difference in the carrying value of liabilities in the consolidated statement of comprehensive income.

Financial assets

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Financial liabilities

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of financial liabilities designated as at FVTPL is not recognised in profit or loss on derecognition of such financial liabilities.

Modification of financial assets and financial liabilities

Financial assets. If the terms of a financial asset are modified, DBRB evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as "substantial modification"), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by DBRB due to changes in the National Bank refinancing rate, if the loan contract entitles DBRB to do so.

DBRB performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. DBRB assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation DBRB analogises to the guidance on the derecognition of financial liabilities.

DBRB concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, DBRB recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, DBRB treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

As part of credit risk management activities, DBRB renegotiates loans to customers in financial difficulties (referred to as "forbearance activities"). If DBRB plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment DBRB concludes that modification of financial assets modified, as part of DBRB forbearance policy is not substantial, DBRB performs qualitative evaluation of whether the modification is substantial.

Financial liabilities. DBRB derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability DBRB applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. DBRB recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

DBRB performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. DBRB concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent. different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Impairment before 1 January 2018

At each reporting date, DBRB assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. If DBRB does not have objective evidence of impairment for an individually assessed financial asset (regardless of its materiality), this asset is included in a group of financial assets with similar credit risk characteristics and is assessed in scope with them for impairment.

DBRB initially assesses amounts due from banks and loans to customer on an individual basis whether there is objective evidence of impairment for individually significant financial assets, in aggregate, for financial assets that are not individually significant.

Evidence that a financial asset is credit-impaired includes the following observable data:

- any payment delay;
- significant financial difficulty of the borrower or issuer, confirmed by their financial information;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- negative change in national or local economic environment that may impact the business of the borrower or the issuer;
- a breach of contract, such as a default or past due event;
- restructuring of a loan or advance by DBRB on terms that DBRB would not otherwise consider; and
- the disappearance of an active market for a security.

Assets that are individually assessed for impairment and for which impaired losses are recognised should not be assessed for impairment on an aggregate basis.

In some cases, the information necessary to assess impairment losses on financial assets may be limited or may not fully reflect current circumstances. In such cases, DBRB uses its experience and judgment to estimate the amount of impairment losses.

In the case of objective evidence of impairment losses, the amount of the loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (which does not include future expected losses on loans that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the consolidated statement of comprehensive income.

The present value of expected future cash flows is discounted at the initial effective interest rate for the asset. If the loan is provided at a floating interest rate, the current effective interest rate will be the discount rate for estimating impairment losses. The calculation of the present value of the estimated future cash flows of financial assets provided as collateral reflects cash that can be received in the event of foreclosure, less the costs of obtaining and selling collateral, irrespective of whether the foreclosure is available.

If, in a subsequent period, the amount of the impairment loss decreases and this decrease can be objectively related to an event occurring after the impairment was recognised (such as an increase in the customer's credit rating), the previously recognised impairment loss is reversed by adjusting the provision in the consolidated statement of comprehensive income.

If the decrease in the fair value of available-for-sale financial assets is recognised in other comprehensive income and there are objective indicators of the impairment of the asset, the cumulative loss recognised in other comprehensive income is transferred from other comprehensive income to profit or loss as a reclassification adjustment, irrespective of whether the financial asset is not eliminated.

If, in a subsequent period, the fair value of debt instruments classified as available-for-sale increases and this increase is objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed and recognised in the consolidated statement of comprehensive income.

Impairment since 1 January 2018

DBRB recognises loss allowances for expected credit losses ("**ECL**") on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

DBRB measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL. ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that DBRB expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to DBRB if the commitment is drawn down and the cash flows that DBRB expects to receive; and

- financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that DBRB expects to recover.

Restructured financial assets. If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets. At each reporting date, DBRB assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;

- the restructuring of a loan or advance by DBRB on terms that DBRB would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more and a loan with internal rating "Default" are considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, DBRB considers the following factors.

- the market's assessment of creditworthiness as reflected in the bond yields;

- the rating agencies' assessments of creditworthiness;

- the country's ability to access the capital markets for new debt issuance.- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness;

- the international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Purchased or originated credit-impaired financial assets ("POCI assets"). POCI-assets are assets that are credit-impaired at initial recognition.

POCI-assets include the following assets of DBRB:

- new financial assets issued by DBRB in the framework of restructuring a credit-impaired asset (replacement of a credit-impaired asset by another asset with a similar level of credit risk);
- an asset that arose when the financial asset was derecognised as a result of a significant modification of the terms of the contracts in the framework of the restructuring of the credit-impaired financial assets;
- acquired credit-impaired financial assets;
- issuance of loans to borrowers with an internal credit rating of "*Default*".

POCI-assets do not have an allowance for impairment at the initial recognition. Instead, the amount of ECL for the entire period is included in the calculation of the effective interest rate.

For the calculation of the effective interest rate on acquired or created credit-impaired financial assets, the expected cash flows are used, taking into account the initial assessment of the ECL for the entire period. The estimated value of the contractual cash flows for the asset is reduced by the amount of ECL for the entire period of its validity. The effective interest rate is adjusted for credit risk. Upon initial recognition of POCI-assets (usually created assets), the fair value of such loans is determined based on the expected cash flows as a result of cash flows and / or forced sale of collateral.

Subsequent estimation of ECL on POCI-assets is always made in the amount equal to lifetime ECL. ECL of such assets is the amount of changes in lifetime ECL from the day of the initial recognition of the asset. The amount reflecting positive changes in the amount of lifetime ECL is recognised as an impairment gain, even if the amount of these changes is greater than the amount previously recognised in profit or loss as an impairment loss.

Interest on POCI-assets is accrued at effective interest rate, adjusted for credit risk, determined at the time of initial recognition of the asset at amortised cost.

Presentation of allowance for ECL in the consolidated statement of financial position. Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and DBRB cannot identify the ECL on the loan commitment component separately from those on the drawn component*: DBRB presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs before 1 January 2018

Assets for which there are no realistic prospects for repayment and for which all necessary procedures have been completed for the purpose of full or partial recovery, and the final amount of the loss is determined are written off against the provision for impairment. When considering whether an asset is a bad asset, the following factors are analysed by the Group: the length of the overdue debt and the prospects for its collection, the quality and adequacy of collateral, the liquidation or bankruptcy proceedings against the borrower.

Write-offs since 1 January 2018

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when DBRB determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with DBRB's procedures for recovery of amounts due.

Cash and cash equivalents

The financial statement caption includes unencumbered and easily convertible into cash balances on correspondent accounts in the National Bank, and correspondent, current and deposit accounts in other banks with the original maturity within 90 days, which can be converted into cash within a short period of time.

Due from banks

In the medium course of business, DBRB places deposits and grants loans to other banks. Funds due from other banks with a fixed maturity term are initially recognised at fair value and subsequently measured at amortized cost using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from other banks are carried net of any allowance for impairment losses, if any.

Loans to customers before 1 January 2018

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for those:

- for which there is an intention to sell immediately or in the near future and that are to be classified as held for trading, measured at initial recognition at fair value through profit or loss;
- which, upon initial recognition, are designated as available-for-sale;
- for which DBRB will not be able to cover the full amount of its initial investment for reasons other than a decrease in the creditworthiness and which should be classified as available-for-sale.

Loans to customers are initially recognised at the fair value of the amounts given, plus the related transaction costs. Subsequently, loans to customers are carried at amortised cost using the effective interest method. Loans to customers are carried net of any allowance for impairment.

Loans to customers are reflected, starting from the moment of issue of funds, or from the moment of purchasing a loan from other banks.

Loans to customers since 1 January 2018

The "*Loans to customers*" caption in the consolidated statement of financial position include:

- loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans to customers mandatorily measured at FVTPL due to non-compliance with the SPPI criterion; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

Investment securities before 1 January 2018

The "*investment securities*" caption in the consolidated statement of financial position at 31 December 2017 includes securities available for sale and recognised at fair value.

Investment securities since 1 January 2018

The "*investment securities*" caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI.

Financial guarantees and loan commitments since 1 January 2018

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

DBRB has issued no loan commitment that are measured at FVTPL.

For other loan commitments DBRB recognises loss allowance according to the method disclosed in Note 4 to the 2018 Financial Statements.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Offset of financial instruments

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

Government grants

Government grants are assistance provided by the Government, government agencies and public institutions in the form of a transfer of resources or reimbursement to DBRB in exchange for the compliance with certain obligations in the past or future relating to DBRB's operations. Government grants are not recognised unless there is reasonable assurance that DBRB will meet all the associated terms and receive these grants.

Government grants are recognised in profit or loss on a systematic basis over the periods, in which the Group recognises related costs as expenses for compensation of which the grants are intended. With respect to the recording of government grants related income, these government grants are offset against the related expense.

Contingent liabilities

Contingent liabilities are not recognised in the consolidated statement of financial position. Information on such liabilities is disclosed in the notes to the consolidated financial statements, except when the outflow of resources is unlikely.

Income of subsidiaries from wholesale trade since 1 January 2018

Income from wholesale trade is recognised when the customer receives control of goods or services. Defining the time frames of transferring control - at a specific point in time or over time - requires judgment. Under contracts that allow customer to return the goods, income is recognised to the extent that there is a very high probability that thereafter it will not be necessary to reverse this amount and reflect a significant decrease in the total amount of recognised income. Therefore, the amount of recognised income is adjusted by the amount of expected returns of goods, which is estimated based on past historical data.

Income of subsidiaries from wholesale trade before 1 January 2018

Income from wholesale trade is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of income can be measured reliably. Income is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Interest income and expenses since 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The "*effective interest rate*" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets upon initial recognition, DBRB estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets upon initial recognition, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The "*gross carrying amount of a financial asset*" measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Notes 11 and 13 to the 2018 Financial Statements.

Presentation

Interest income and expense presented in the consolidated statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- interest on finance lease receivables, presented as "*Other interest income*".

Interest income and expenses before 1 January 2018

Interest income and expenses are recognised in the consolidated statement of comprehensive income on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating effective interest rate DBRB evaluates cash flows in accordance with contractual terms of the financial instrument, but does not account for future losses on loans. This calculation includes all commission fees and duties paid and received under the contract, being integral part of effective interest rate, transaction costs and other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written off as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

SELECTED STATISTICAL AND OTHER DATA

The selected statistical information and other data set forth below have been extracted, subject to rounding, without material adjustment from the Financial Statements, which are included elsewhere in these Listing Particulars and from management reports and accounting records. The selected statistical information and other data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements, as well as the information set forth under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" included in these Listing Particulars. Unless otherwise indicated, all figures are expressed in or derived from amounts in Belarusian rubles. All average balances are calculated as the average of annual opening and closing balances and all quarterly balances for the relevant period. Were a different method of calculating averages to be used, such as using averages of more frequent balances, the averages so determined may be materially different from those set forth in these Listing Particulars.

Average Balance Sheet and Interest Rates

The following tables set forth the average balances for DBRB's interest-earning assets and interest-bearing liabilities, together with weighted average rates and the corresponding amount of interest income/(expense) for the periods indicated:

	For the year ended 31 December					
	2018			2017		
	Average balance(1)	**Average interest rate(2)**	**Interest Income/ Expense**	**Average balance(1)**	**Average interest rate(2)**	**Interest Income/ Expense**
	(BYN millions)	*(%)*	*(BYN millions)*	*(BYN millions)*	*(%)*	*(BYN millions)*
Interest-earning assets						
Cash and cash equivalents	49.0	0.2	0.1	83.8	0.2	0.2
Due from banks	542.4	4.9	26.8	383.6	7.1	27.2
Investment securities	2,016.3	6.9	139.7	1,657.5	8.7	143.8
Loans to customers(3)	3,896.6	9.3	362.1	3,235.3	8.8	283.4
Total interest-earning assets	**6,504.3**	**8.1**	**528.7**	**5,360.2**	**8.5**	**454.5**
Interest-bearing liabilities						
Due to banks	1,862.1	4.5	84.5	1,152.2	3.6	41.9
Customer accounts	794.6	4.6	36.9	641.9	5.2	33.4
Debt securities issued	1,836.5	1.5	27.3	1,825.7	1.5	27.2
Total interest-bearing liabilities	**4,493.2**	**3.3**	**148.6**	**3,619.8**	**2.8**	**102.4**
Net interest income			**380.0**			**352.1**

Notes:

(1) Average balances are calculated as the average of the opening and closing balances for the relevant period and all quarterly balances for the period.

(2) Average interest rates are calculated as the ratio of interest income/expense to the average balance for the relevant period.

(3) Includes interest income from finance lease receivables.

	For the year ended 31 December					
	2017			2016		
	Average balance(1)	Average interest rate(2)	Interest Income/ Expense	Average balance(1)	Average interest rate(2)	Interest Income/ Expense
	(BYN millions)	*(%)*	*(BYN millions)*	*(BYN millions)*	*(%)*	*(BYN millions)*
Interest-earning assets						
Cash and cash equivalents	83.8	0.2	0.2	118.3	0.4	0.4
Due from banks	383.6	7.1	27.2	298.7	15.1	45.2
Investment securities	1,657.5	8.7	143.8	1,512.4	12.9	195.2
Loans to customers(3)	3,235.3	8.8	283.4	2,928.8	8.8	258.7
Total interest-earning assets	**5,360.2**	**8.5**	**454.5**	**4,858.2**	**10.3**	**499.6**
Interest-bearing liabilities						
Due to banks	1,152.2	3.6	41.9	771.6	5.3	41.0
Customer accounts	641.9	5.2	33.4	683.0	9.5	64.8
Debt securities issued	1,825.7	1.5	27.2	1,887.1	1.8	34.1
Total interest-bearing liabilities	**3,619.8**	**2.8**	**102.4**	**3,341.7**	**4.2**	**139.9**
Net interest income			**352.1**			**359.7**

Notes:

(1) Average balances are calculated as the average of the opening and closing balances for the relevant period and all quarterly balances for the period.

(2) Average interest rates are calculated as the ratio of interest income/expense to the average balance for the relevant period.

(3) Includes interest income from finance lease receivables.

Loans to Customers

Loans to Customers by Type of Borrower

The following table sets forth an analysis of DBRB's loan portfolio by type of borrower as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		2017		2016	
	(BYN millions)	*(%)*	*(BYN millions)*	*(%)*	*(BYN millions)*	*(%)*
Loans to organisations	3,357.5	69.4	2,670.1	67.5	2,751.7	70.2
Loans to national and regional state administration bodies	578.6	12.0	699.5	17.7	734.1	18.7
Finance lease receivables	902.0	18.6	584.8	14.8	431.1	11.0
Total loans to customers	**4,838.1**	**100.0**	**3,954.3**	**100.0**	**3,916.9**	**100.0**
Allowance for impairment	(366.8)	—	(376.2)	—	(763.4)	—
Net loans to customers	**4,471.3**	**—**	**3,578.1**	**—**	**3,153.5**	**—**

As at 31 December 2018 and as at 31 December 2017, DBRB had four borrowers whose balances were over 10 per cent. of equity per borrower, compared to six such borrowers as at 31 December 2016. The total value of these balances amounted to BYN1,560.9 million, BYN1,270.9 million and BYN1,622.5 million as at 31 December 2018, 2017 and 2016, respectively.

Loans to Customers by Economic Sector

The following table sets forth an analysis of DBRB's loan portfolio by economic sector as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		2017		2016	
	(BYN millions)	*(%)*	*(BYN millions)*	*(%)*	*(BYN millions)*	*(%)*
Construction	1,044.1	21.6	1,067.0	27.0	1,063.0	27.1
Agriculture	1,001.5	20.7	718.8	18.2	901.0	23.0
Services	970.9	20.1	647.9	16.4	481.6	12.3
Manufacturing	735.8	15.2	535.1	13.5	620.6	15.8
Trade	451.2	9.3	296.6	7.5	244.8	6.2
Food industry	423.5	8.8	445.7	11.3	319.5	8.2
Light industry	105.5	2.2	85.2	2.2	77.1	2.0
Lease	93.4	1.9	146.3	3.7	208.4	5.3
Other industries	12.1	0.3	11.6	0.3	0.9	—
Total loans to customers	**4,838.1**	**100.0**	**3,954.3**	**100.0**	**3,916.9**	**100.0**
Allowance for impairment	(366.8)	—	(376.2)	—	(763.4)	—
Net loans to customers	**4,471.3**	**—**	**3,578.1**	**—**	**3,153.5**	**—**

DBRB's loan portfolio is relatively concentrated by industry sector, with the construction, agriculture, services, manufacturing and trade accounting for 21.6 per cent., 20.7 per cent., 20.1 per cent., 15.2 per cent. and 9.3 per cent. of the gross loan portfolio as at 31 December 2018, respectively.

As a percentage of total gross loans to customers, loans to customers in the construction sector as at 31 December 2018 decreased to 21.6 per cent., compared to 27.0 per cent. as at 31 December 2017. As a percentage of total gross loans to customers, loans to customers in the construction sector remained relatively flat as at 31 December 2017, compared to 31 December 2016.

As a percentage of total gross loans to customers, loans to customers in the agriculture sector as at 31 December 2018 increased to 20.7 per cent., compared to 18.2 per cent. as at 31 December 2017. As a percentage of total gross loans to customers, loans to customers in the agriculture sector decreased from 23.0 per cent. as at 31 December 2016 to 18.2 per cent. as at 31 December 2017.

As a percentage of total gross loans to customers, loans to customers in the services sector as at 31 December 2018 increased to 20.1 per cent., compared to 16.4 per cent. as at 31 December 2017. As a percentage of total gross loans to customers, loans to customers in the services sector increased from 12.3 per cent. as at 31 December 2016 to 16.4 per cent. as at 31 December 2017.

As a percentage of total gross loans to customers, loans to customers in the manufacturing sector as at 31 December 2018 increased to 15.2 per cent., compared to 13.5 per cent. as at 31 December 2017. As a percentage of total gross loans to customers, loans to customers in the manufacturing sector decreased from 15.8 per cent. as at 31 December 2016 to 13.5 per cent. as at 31 December 2017.

As a percentage of total gross loans to customers, loans to customers in the food industry sector as at 31 December 2018 decreased to 8.8 per cent., compared to 11.3 per cent. as at 31 December 2017. As a percentage of total gross loans to customers, loans to customers in the food industry sector increased from 8.2 per cent. as at 31 December 2016 to 11.3 per cent. as at 31 December 2017.

Such fluctuations in loans to customers by economic sector, for the most part, occur in the ordinary course of DBRB's business and generally results from amendments to state programmes related to infrastructure projects, support of agricultural companies or the promotion of exports of Belarusian machinery. In general, as a result of borrower concentration and the relatively large size of individual loans within the loan portfolio, the breakdown of loans granted to customers by economic sector can fluctuate significantly as a result of a single loan disbursement or repayment in a given period.

Loans to Customers by Geographic Location

As at 31 December 2018, 2017 and 2016, 89.9 per cent., 91.7 per cent., and 93.8 per cent. of total loans to customers were to customers in the Republic of Belarus. DBRB undertakes lending across all regions of the Republic of Belarus. The regional distribution across the loan portfolio varies depending on the nature and industry of investment projects being undertaken as at any given date. For a breakdown of loans provided to SMEs by region, see "*Business—Banking Activities—Comprehensive support for SMEs*".

Loans to Customers by Currency

The following table sets forth an analysis of DBRB's loan portfolio by currency as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		**2017**		**2016**	
	(BYN millions)	*(%)*	*(BYN millions)*	*(%)*	*(BYN millions)*	*(%)*
BYN	2,421.1	54.1	2,210.2	61.8	2,218.4	70.3
US$	962.5	21.5	549.2	15.3	456.6	14.5
EUR	832.0	18.6	603.0	16.9	344.1	10.9
RUB	253.2	5.7	213.7	6.0	129.2	4.1
Other currencies	2.6	0.1	2.0	0.1	5.1	0.2
Total net loans to customers	**4,471.3**	**100.0**	**3,578.1**	**100.0**	**3,153.5**	**100.0**

DBRB lends in Belarusian rubles and foreign currencies, principally US dollars and Euros, depending on customer requirements. As a matter of policy, however, DBRB only finances projects with foreign currency-denominated loans if the project or the customer has sufficient export earnings to cover such foreign currency-denominated financing. Loans to customers denominated in Belarusian rubles generally carry a higher interest rate than loans in US dollars or Euros.

In recent years, the currency mix of DBRB's loans has fluctuated. Although BYN denominated loans continue to account for a majority of the loan portfolio, the proportion of BYN denominated loans in the total loan portfolio has been decreasing, to 54.1 per cent. as at 31 December 2018 from 61.8 per cent. as at 31 December 2017 and 70.3 per cent. as at 31 December 2016. This decrease has primarily been due to increases in export financing and loans denominated in foreign currencies.

Loans to Customers by Maturity

The following table sets forth an analysis of DBRB's loan portfolio by maturity as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		**2017**		**2016**	
	(BYN millions)	*(%)*	*(BYN millions)*	*(%)*	*(BYN millions)*	*(%)*
Up to 1 month	151.9	3.4	107.8	3.0	79.2	2.5
1 month to 3 months	184.2	4.1	159.1	4.4	135.9	4.3
3 months to 1 year	923.3	20.6	703.5	19.7	577.8	18.3
More than 1 year	3,211.9	71.8	2,607.8	72.9	2,360.7	74.9
Total net loans to customers	**4,471.3**	**100.0**	**3,578.1**	**100.0**	**3,153.5**	**100.0**

Reflecting its principal mission as a development bank to provide financing for large-scale investment projects, DBRB's loan portfolio is principally comprised of loans with a maturity of greater than one year, which accounted for 71.8 per cent. of total net loans as at 31 December 2018, compared to 72.9 per cent. and 74.9 per cent. as at 31 December 2017 and 2016, respectively. In addition, loans with a maturity of between three months and one year comprised 20.6 per cent. of total net loans to customers as at 31 December 2018, compared to 19.7 per cent. and 18.3 per cent. as at 31 December 2017 and 2016, respectively.

Analysis of Loans by Credit Quality

The following tables set forth information regarding the quality of the loan portfolio and impairment allowances as at 31 December 2018, 2017 and 2016:

	As at 31 December 2018			
	Gross loans	**Impairment allowance**	**Net loans**	**Impairment allowance to gross loans**
		(BYN millions)		*(%)*
Undue	4,489.2	(220.0)	4,269.2	4.9
Overdue:	348.9	(146.8)	202.0	42.1
up to 30 days	123.2	(36.8)	86.5	29.9
from 30 days to 90 days	68.9	(9.2)	59.7	13.4
from 90 days to 180 days	47.6	(14.5)	33.2	30.5
from 180 days to 360 days	90.8	(72.7)	18.2	80.1
over 360 days	18.2	(13.7)	4.5	75.3
Total loans to customers	**4,838.1**	**(366.8)**	**4,471.3**	**7.6**

	As at 31 December 2017			
	Gross loans	**Impairment allowance**	**Net loans**	**Impairment allowance to gross loans**
		(BYN millions)		*(%)*
Loans individually assessed				
Undue	2,413.6	(246.2)	2,167.4	10.2
Overdue:	98.9	(35.1)	63.8	35.5
up to 30 days	0.6	(0.3)	0.3	50.0
from 30 days to 90 days	73.3	(11.3)	62.1	15.4
from 90 days to 180 days	1.9	(1.5)	0.4	78.9
from 180 days to 360 days	2.7	(2.5)	0.3	92.6
over 360 days	20.3	(19.5)	0.8	96.1
Total loans individually assessed	**2,512.5**	**(281.2)**	**2,231.3**	**11.2**
Loans collectively assessed				
Undue	1,303.0	(19.0)	1,284.0	1.5
Overdue:	138.8	(75.9)	62.9	54.7
up to 30 days	28.1	(3.8)	24.3	13.5
from 30 to 90 days	25.0	(1.7)	23.3	6.8
from 90 to 180 days	8.5	(1.6)	6.9	18.8
from 180 to 360 days	23.3	(14.9)	8.4	63.9
over 360 days	53.9	(53.9)	—	100.0
Total loans collectively assessed	**1,441.8**	**(94.9)**	**1,346.9**	**6.6**
Total loans to customers	**3,954.3**	**(376.2)**	**3,578.1**	**9.5**

	As at 31 December 2016			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
		(BYN millions)		(%)
Loans individually assessed				
Undue	2,056.8	(168.1)	1,889.0	8.2
Overdue:	353.9	(236.9)	117.1	66.9
up to 30 days	1.5	(0.2)	1.3	13.3
from 30 to 90 days	9.7	(5.0)	4.7	51.5
from 90 to 180 days	17.0	(11.1)	5.9	65.3
from 180 to 360 days	83.4	(25.8)	57.6	30.9
over 360 days	242.3	(194.8)	47.5	80.4
Total loans individually assessed	**2,410.7**	**(404.9)**	**2,005.8**	**16.8**
Loans collectively assessed				
Undue	993.9	(45.8)	948.1	4.6
Overdue:	512.3	(312.7)	199.6	61.0
up to 30 days	49.4	(13.3)	36.2	26.9
from 30 to 90 days	74.0	(17.2)	56.8	23.2
from 90 to 180 days	80.1	(30.5)	49.6	38.1
from 80 to 360 days	200.8	(143.8)	57.0	71.6
over 360 days	107.9	(107.9)	—	100.0
Total loans collectively assessed	**1,506.2**	**(358.5)**	**1,147.7**	**23.8**
Total loans to customers	**3,916.9**	**(763.4)**	**3,153.5**	**19.5**

Non-performing loans

The IFRS definition of NPLs includes loans overdue for over 90 days. The following table sets forth a breakdown of NPLs by activity as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		2017		2016	
	(BYN millions)	(%)	(BYN millions)	(%)	(BYN millions)	(%)
Financing of investment projects	128.8	82.2	30.3	27.3	589.4	80.6
Financial leasing	27.9	17.8	80.4	72.7	142.3	19.4
Total non-performing loans	**156.7**	**100.0**	**110.6**	**100.0**	**731.7**	**100.0**

As at 31 December 2018, DBRB's bad debt ratio based on the IFRS definition of NPLs was 3.2 per cent. Its bad debt ratio based on NPAs under the National Bank's categorisation, which was introduced in April 2018, was 1.7 per cent. See "*Monetary and Financial System—Banking Sector*" for further details on the National Bank's categorisation and how it differs from NPLs as set out in the tables above.

Loans to Customers by Collateral

The following table sets forth an analysis of DBRB's loan portfolio by type of collateral as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		2017		2016	
	(BYN millions)	*(%)*	*(BYN millions)*	*(%)*	*(BYN millions)*	*(%)*
Penalty[(1)]	1,365.0	28.2	1,139.5	28.8	1,007.1	25.7
Pledge of vehicles, property and equipment (excluding real estate)	1,315.0	27.2	938.2	23.7	699.7	17.9
Pledge of real estate	1,171.8	24.2	920.5	23.3	1,106.7	28.3
Warranties and guarantees	484.7	10.0	417.6	10.6	362.0	9.2
Pledge of property rights	191.9	4.0	265.1	6.7	389.1	9.9
Pledge of goods in turnover	23.2	0.5	22.0	0.6	70.8	1.8
Other types of collateral	142.8	3.0	105.6	2.7	24.8	0.6
Unsecured loans	143.6	3.0	145.8	3.7	256.6	6.6
Total loans to customers	**4,838.1**	**100.0**	**3,954.3**	**100.0**	**3,916.9**	**100.0**
Allowance for impairment	(366.8)		(376.2)		(763.4)	
Total net loans to customers	**4,471.3**	**100.0**	**3,578.1**	**100.0**	**3,153.5**	**100.0**

Note:

(1) Source of fulfilment of obligations is funds of the budget of the Republic of Belarus or local budgets.

Impairment allowances

DBRB estimates impairment allowances on a monthly basis according to the national standards and on a quarterly basis in accordance with IFRS. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Financial Assets Impairment*" for further detail. See also "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Key Factors Affecting DBRB's Results of Operations and Financial Condition—Credit Risk and Provisioning*" for a discussion of how IFRS 9 impacts DBRB's impairment allowances. The following tables set forth information regarding the credit quality of DBRB's loan portfolio to customers as at 31 December 2018, 2017, and 2016:

	As at 31 December 2018			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
		(BYN millions)		*(%)*
Total loans to customers	**4,838.1**	**(366.8)**	**4,471.3**	**7.6**

	As at 31 December 2017			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
		(BYN millions)		*(%)*
Loans individually assessed	2,512.5	(281.2)	2,231.3	11.2
Loans collectively assessed	1,441.8	(94.9)	1,346.9	6.6
Total loans to customers	**3,954.3**	**(376.2)**	**3,578.1**	**9.5**

	As at 31 December 2016			
	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
		(BYN millions)		*(%)*
Loans individually assessed	2,410.7	(404.9)	2,005.8	16.8
Loans collectively assessed	1,506.2	(358.5)	1,147.7	23.8
Total loans to customers	**3,916.9**	**(763.4)**	**3,153.5**	**19.5**

As at 31 December 2018, the ratio of impairment allowances to total gross loans to customers was 7.6 per cent., compared to 9.5 per cent. and 19.5 per cent. as at 31 December 2017 and 2016, respectively. The decreases in impairment allowances were primarily due to the transfer of loans to the Asset Management Agency.

Analysis of Movements in Loan Impairment Allowance

The following table sets forth an analysis of movements in impairment allowances for the years ended 31 December 2018, 2017 and 2016:

	Year ended 31 December[(1)]		
	2018	2017	2016
		(BYN millions)	
Balance at the beginning of the year/period	376.2	763.4	603.7
New financial assets originated or purchased	70.9	—	—
Financial assets that have been derecognised	(17.0)	—	—
Impairment charge/(recovery)	—	(18.2)	209.1
Recovery of allowance for earlier cancelled debts	71.5	—	—
Recoveries of amounts previously written off	—	—	—
Unwinding of discount	5.5	—	—
Net remeasurement of loss allowance	(137.3)	—	—
Effect of foreign currency movements	—	40.2	11.1
Foreign exchange	5.7	—	—
Write-offs	(54.1)	(409.2)	(60.5)
Impact of adopting IFRS 9 with regard to basis of assessment (Note 5)	45.4	—	—
Balance at the end of the year/period	**366.8**	**376.2**	**763.4**

Note:

(1) DBRB has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018 and adopted the amendments to IFRS 9 on the same date. Under the transition method chosen, comparative information (i.e., for the years ended 31 December 2017 and 2016) has not been restated. As a result of the adoption of IFRS 9, however, DBRB and its subsidiaries changed the presentation of certain captions and comparative information has been represented accordingly for the years ended 31 December 2017 and 2016. Changes in DBRB's accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described in Note 2 to the 2018 Financial Statements. See Note 5 to the 2018 Financial Statements for more information and details regarding the changes and implications resulting from the adoption of IFRS 9.

As at 31 December 2018, the loan impairment allowance amounted to BYN366.8 million, which represented a decrease of BYN9.4 million, or 2.5 per cent., from BYN376.2 million as at 31 December 2017. This represented a decrease of BYN387.2 million, or 50.7 per cent., from BYN763.4 million as at 31 December 2016. These decreases were primarily due to the continued transfer of NPLs to the Asset Management Agency.

Finance Lease Receivables

DBRB conducts all of its finance lease operations through its majority-owned subsidiary, Promagroleasing. See "*Business—Subsidiaries—Promagroleasing*".

As at 31 December 2018, DBRB's finance lease receivables increased by BYN317.2 million, or 54.2 per cent. to BYN902.0 million from BYN584.8 million as at 31 December 2017 due to the expansion of its leasing activities.

As at 31 December 2017, DBRB's finance lease receivables increased by BYN153.7 million, or 35.7 per cent., to BYN584.8 million from BYN431.1 million as at 31 December 2016.

Finance Lease Receivables by Maturity

The following table sets forth an analysis of DBRB's finance lease receivables by maturity as at 31 December 2018 and as at 31 December 2017, 2016 and 2015:

	As at 31 December					
	2018		2017		2016	
	(BYN millions)	(%)	(BYN millions)	(%)	(BYN millions)	(%)
Up to one year	230.9	18.4	218.2	26.9	150.8	25.6
One to five years	769.2	61.2	543.0	66.9	380.3	64.7
More than five years	255.8	20.4	50.2	6.2	56.9	9.7
Minimum lease payments	**1,256.0**	**100.0**	**811.4**	**100.0**	**588.0**	**100.0**
Net of deferred income	(354.0)	—	(226.6)	—	(157.0)	—
Net investment in finance lease	**902.0**	—	**584.8**	**—**	**431.1**	**—**
Net of allowance for impairment	(18.9)	—	(110.7)	—	(133.9)	—
Total net investment in finance lease	**883.1**	**—**	**474.1**	**—**	**297.2**	**—**

As at 31 December 2018, 81.6 per cent. of total finance lease receivables had over one year remaining until contractual maturity, compared to 73.1 per cent. and 74.4 per cent. of total finance lease receivables as at 31 December 2017 and 2016, respectively.

Investment Securities

DBRB's portfolio investment securities consists of bonds held by DBRB and its subsidiaries comprised of, *inter alia*, bonds issued by banks, corporates, the National Bank, Government entities and local authorities. In addition to conducting lending and leasing activities, DBRB also purchases bonds issued by companies or in respect of projects in furtherance of its role as a development bank. Such bonds are generally classified as "investment securities".

Investment Securities by Type

The following table sets forth the composition of DBRB's investment portfolio of investment securities by type as at 31 December 2018, 2017 and 2016:

	As at 31 December(1)					
	2018		2017		2016	
	(BYN millions)	*(%)*	*(BYN millions)*	*(%)*	*(BYN millions)*	*(%)*
Bonds issued by banks with floating interest rate	638.1	26.6	702.2	39.9	808.0	51.0
Long-term government bonds	1,148.9	47.9	586.9	33.3	388.5	24.5
Bonds issued by commercial organisations	298.8	12.4	177.6	10.1	174.6	11.0
Bonds issued by local authorities with floating interest rate	188.6	7.9	135.7	7.7	135.2	8.5
Bonds issued by local authorities with fixed interest rate	75.8	3.2	78.9	4.5	—	—
Bonds issued by the NBRB	23.3	1.0	40.9	2.3	39.8	2.5
Bonds issued by banks with fixed interest rate	27.3	1.1	37.9	2.2	36.7	2.3
Total investment securities	**2,400.8**	**100.0**	**1,760.1**	**100.0**	**1,582.9**	**100.0**
Allowance for impairment	(50.0)	—	(32.3)	—	(62.0)	—
Net investment securities	**2,350.9**	**—**	**1,727.8**	**—**	**1,520.9**	**—**

Note:

(1) DBRB has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018 and adopted the amendments to IFRS 9 on the same date. Under the transition method chosen, comparative information (i.e., for the years ended 31 December 2017 and 2016) has not been restated. As a result of the adoption of IFRS 9, however, DBRB and its subsidiaries changed the presentation of certain captions and comparative information has been represented accordingly for the years ended 31 December 2017 and 2016. Changes in DBRB's accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described in Note 2 to the 2018 Financial Statements. See Note 5 to the 2018 Financial Statements for more information and details regarding the changes and implications resulting from the adoption of IFRS 9.

Investment Securities by Maturity

The following table sets forth an analysis of DBRB's portfolio of investment securities by maturity as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		2017		2016	
	(BYN millions)	*(%)*	*(BYN millions)*	*(%)*	*(BYN millions)*	*(%)*
Up to 1 month	6.9	0.3	21.4	1.2	9.6	0.6
1 month to 3 months	92.9	4.0	1.9	0.1	73.7	4.8
3 months to 1 year	53.2	2.3	46.1	2.7	97.0	6.4
More than 1 year	2,197.9	93.5	1,658.4	96.0	1,340.6	88.1
Total net investment securities	**2,350.9**	**100.0**	**1,727.8**	**100.0**	**1,520.9**	**100.0**

As at 31 December 2018, 93.5 per cent. of total net investment securities had more than one year remaining until contractual maturity, compared to 96.0 per cent. and 88.1 per cent. of total net investment securities as at 31 December 2017 and 2016, respectively, in line with DBRB's mandate as a development bank.

Investment Securities by Currency

The following table sets forth an analysis of DBRB's investment securities by currency as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		2017		2016	
	(BYN millions)	*(%)*	*(BYN millions)*	*(%)*	*(BYN millions)*	*(%)*
BYN	861.1	36.6	918.1	53.1	943.3	62.0
US$	1,031.3	43.9	491.0	28.4	300.4	19.8
EUR	458.5	19.5	318.7	18.4	277.3	18.2
Total net investment securities	**2,350.9**	**100.0**	**1,727.8**	**100.0**	**1,520.9**	**100.0**

As at 31 December 2018, 43.9 per cent. of DBRB's net investment securities was denominated in US dollars, compared to 28.4 per cent. and 19.8 per cent. as at 31 December 2017 and 2016 respectively. As at 31 December 2018, 19.5 per cent. of DBRB's investment financial assets was denominated in Euros, compared to 18.4 per cent. and 18.2 per cent. as at 31 December 2017 and 2016, respectively. As at 31 December 2018, 36.6 per cent. of DBRB's investment financial assets was denominated in Belarusian rubles, compared to 53.1 per cent. and 62.0 per cent. as at 31 December 2017 and 2016, respectively.

Investment Securities by Credit Quality

The following table sets forth an analysis of DBRB's investment securities by credit quality as at 31 December 2018:

	As at 31 December 2018				
	12-month ECL	Lifetime ECL for not credit-impaired assets	Lifetime ECL for credit-impaired assets	Credit-impaired assets upon initial recognition	Total
			(BYN millions)		
Investment securities measured at amortised cost					
International rating B[(1)]	1,167.4	—	—	—	1,167.4
Without international rating					
Low risk	61.2	—	—	—	61.2
Total investment securities measured at amortised cost	**1,228.6**	—	—	—	**1,228.6**
Allowance for impairment	(50.0)	—	—	—	(50.0)
Total investment securities measured at amortised cost net of allowance for impairment	**1,178.7**	—	—	—	**1,178.7**
Investment securities measured at FVOCI					
International rating B[(1)]	1,172.2	—	—	—	1,172.2
Total investment securities measured at FVOCI	**1,172.2**	—	—	—	**1,172.2**
Allowance for impairment	(23.9)	—	—	—	(23.9)
Book value - fair value of investment securities measured at FVOCI[(2)]	**1,172.2**	—	—	—	**1,172.2**
Total investment securities including impairment allowance	**2,400.8**	—	—	—	**2,400.8**

Notes:

(1) See Note 24 to the 2018 Financial Statements for a description of the internal system of risk assessment for issuers without international credit ratings.

(2) Debt investment securities that are measured at fair value through other comprehensive income are stated at fair value, while the allowance for impairment is recognised in other comprehensive income.

BUSINESS

Overview

DBRB was established in 2011 pursuant to Edict No. 261 by the Government and the National Bank in close cooperation with leading financial institutions, including the IMF and the World Bank. DBRB provides financial solutions in three core areas: financing of investment projects; export financing; and comprehensive support for SMEs. Since 2016, it has acted as the sole coordinator for new investment project financing under state programmes. In relation to these activities, DBRB does not compete directly with commercial banks but rather supplements the Belarusian banking system. DBRB is authorised to carry out certain activities typically performed by commercial banks without obtaining a licence from the National Bank. It does not participate in retail banking activities and only accepts deposits from government bodies and local government authorities. DBRB cooperates with leading financial organisations such as the IMF and the World Bank and maintains close links with foreign development banks such as KfW, China Development Bank and Eurasian Development Bank. In addition to its core banking activities, it provides family fund management services pursuant to Edict No. 572, as well as interbank market and currency exchange transactions services, securities issuance and brokerage services.

DBRB provides its services through its six branches located in Brest, Gomel, Vitebsk, Minsk, Grodno and Mogilev. It also has a representative office in London, United Kingdom. DBRB has two direct subsidiaries, BR-Consult, of which it owns 100 per cent., and Promagroleasing, of which it owns 83.074 per cent. BR-Consult provides consulting services and manages the Republic of Belarus's holdings in woodworking companies. Promagroleasing provides leasing services in the Republic of Belarus, Russia and Ukraine.

The Government owns 96.212 per cent. of the share capital of DBRB, with the remaining 3.776 per cent. and 0.012 per cent. held by JSC "Belaruskali" (a 100 per cent. state-controlled entity, one of the world's largest potash producers, which received its shares in return for a contribution in kind of the property on which the DBRB's headquarters are located) and the National Bank, respectively. In 2016, the National Bank introduced banking supervision over the activities of DBRB. DBRB has consequently improved its corporate governance in accordance with the National Bank's requirements. In addition, DBRB has introduced procedures to take into account the corporate governance recommendations of the BCBS, the OECD and the International Finance Corporation. DBRB funds itself through capital injections from the Republic of Belarus, profit generated from its activities, the issuance of bonds, syndicated loans and family funds contributed as part of DBRB's family fund management activities.

As at 31 December 2018, DBRB had a gross loan portfolio of BYN4,838.1 million, which consisted of BYN4,350.6 million in loans made directly by DBRB and BYN487.5 million of loans transferred to DBRB. During the period from 2011 to 2014, DBRB received BYN1.7 billion of NPLs from state-owned banks pursuant to state programmes. These loans are in the course of being transferred to the Asset Management Agency, resulting in a significant reduction in DBRB's bad debt ratio. As at 31 December 2018, its bad debt ratio based on the IFRS definition of NPLs was 3.2 per cent. As at 31 December 2018, 21.6 per cent., 20.7 per cent., 20.1 per cent., 15.2 per cent. and 9.3 per cent. of DBRB's gross loan portfolio was attributable to the construction, agriculture, services, manufacturing and trade, respectively. As at the same date, 54.1 per cent., 21.5 per cent., 18.6 per cent. and 5.7 per cent. of the net loan portfolio was denominated in BYN, US$, EUR and RUB, respectively. As at 31 December 2018, DBRB had a capital adequacy ratio of 28.32 per cent. (on the basis of IFRS consolidated financial statements in accordance with Basel II principles). DBRB is rated "B" by S&P and Fitch, in each case with a stable outlook.

Strengths

DBRB believes that it has the following strengths:

Key Government agent driving the Republic of Belarus's Economic and Social Development

DBRB carries out a critical public mandate to facilitate growth and development in the Republic of Belarus. It was initially established in 2011 by the Government and the National Bank to finance investment projects in accordance with the Financing Plan for Government Programmes and Activities, which is approved annually by resolution of the Government. In this role, DBRB finances large long-term projects which serve to increase the economic potential of the Republic of Belarus and facilitate economic growth. Since 2016, it has acted as the sole coordinator for new investment project financing under state programmes. It is also a key provider of export finance in the Republic of Belarus.

Solid capital reserves and full compliance with supervisory regulations of the National Bank

DBRB enjoys a special legal status and is not subject to regulation by the National Bank on the same basis as commercial banks and similar financial institutions in the Republic of Belarus. However, it is required to comply with certain capital adequacy requirements and ratios and has also elected to comply fully with the supervisory regulations of the National Bank as if it were a commercial bank operating in the Republic of Belarus. As at 31 December 2018, it had a capital adequacy ratio of 20.90 per cent. (on the basis of standalone financial statements in accordance with the National Bank methodology), which was well in excess of the applicable regulatory requirement of 11.875 per cent. Its Tier 1 common capital ratio as at that date was 18.24 per cent. (on the basis of standalone financial statements in accordance with the National Bank methodology), compared to the regulatory requirement of 6.375 per cent. Similarly, it had a net stable funding ratio ("**NSFR**") of 105.9 per cent. as at 31 December 2018, which was in excess of the regulatory requirement of 100 per cent.

Strong governance practices

Following the introduction of banking supervision over the activities of DBRB in 2016, DBRB has improved its corporate governance in accordance with the National Bank's requirements. In addition, DBRB has introduced procedures to take into account the corporate governance recommendations of the BCBS, the OECD and the International Finance Corporation.

Strengthened balance sheet as a result of the ongoing transformation of assets in the Belarusian banking sector

DBRB's balance sheet has strengthened significantly through the transfer of NPLs to the Asset Management Agency. Pursuant to a state programme, during the period from 2011 to 2014, BYN1.7 billion of NPLs was transferred to DBRB by state-owned commercial banks. Commencing in 2016, DBRB has been transferring these loans to the Asset Management Agency, which was established with the aim of removing bad debts from Belarusian banks' balance sheets. For further detail regarding the Asset Management Agency, see "*Public Debt—Asset Management Agency*". These transfers and the accrual of an allowance in respect of one borrower in 2016, whose debt was written off in 2017, have resulted in a significant reduction in DBRB's bad debt ratio based on the IFRS definition of NPLs from a peak of 18.7 per cent. as at 31 December 2016 to 3.2 per cent. as at 31 December 2018.

Strong support from the Government through capital injections and representation on the Supervisory Board

DBRB is wholly owned by the Government (directly and through JSC "Belaruskali", a 100 per cent. state-controlled entity) and the National Bank. The Government provides support to DBRB in a number of ways. For instance, it has in the past regularly injected capital into DBRB in order to support its activities and meet its funding needs. DBRB received capital of US$2 million, US$351 million, US$446 million and US$129 million in 2011, 2012, 2013 and 2015, respectively. It did not receive any capital injections in 2014, 2016 or 2017. In August 2018, the share capital of DBRB was increased by BYN245 million. In addition to these capital injections, since 2015, DBRB has received "family funds" which it is responsible for managing pursuant to Edict No. 572. See "*Business—Ancillary Activities—Family Fund Management*" for further detail. The Government also supports DBRB through the Supervisory Board, whose *ex officio* Chairperson is the Prime Minister. The Supervisory Board includes the Chairperson (Prime Minister) and two other representatives of the Government, as DBRB's major shareholder. This is balanced by the inclusion of five independent directors with business, science and public service backgrounds.

Strategic partnerships with international entities

In line with its role in facilitating the development of the Belarusian economy, DBRB has entered into several strategic partnerships with international entities such as China Development Bank, Eurasian Development Bank, KfW and the IBRD. In particular, in May 2015, DBRB signed a general loan agreement with China Development Bank for a credit facility to be utilised by DBRB in the amount of US$700 million for the financing of Belarus-China investment projects. DBRB has received support from the IBRD in relation to its programme of financial support for SMEs and in 2017, the IBRD granted DBRB a credit facility to be used for SME support. In November 2016, DBRB entered into a loan agreement with Eurasian Development Bank. Management believes that in 2018 DBRB was the second financial institution in the Republic of Belarus by the volume of funds provided by non-residents. Since its establishment, non-residents have provided approximately US$2.5 billion to DBRB.

History

DBRB was founded to provide infrastructure financing and support for state programmes. In addition, during the period from 2011 to 2014, BYN1.7 billion of NPLs was transferred to DBRB by state-owned commercial banks pursuant to state programmes. DBRB also has the status of a Government agent to service Government borrowings and borrowings guaranteed by the Government.

In 2013, the Presidential Edict pursuant to which DBRB was established was expanded, providing it with the Secondary Liability (see "*Risk Factors—Risks Relating to the Secondary Liability*") in respect of bonds issued by DBRB and the right to provide export finance to support major projects. Also in 2013, DBRB opened branches in Grodno, Mogilev, Vitebsk, Brest and Gomel and a 62.5 per cent. stake in Promagroleasing was contributed to DBRB by the Government. In January 2013, DBRB entered into a framework agreement on cooperation between itself and China Development Bank. Subsequently, in May 2015, the parties signed a general loan agreement for a credit facility to be utilised by DBRB in the amount of US$700 million for the financing of Belarus-China investment projects.

In August 2014, DBRB introduced a programme of financial support for SMEs. Also in 2014, it entered into its first syndicated loan with a syndicate of Western European and Russian financial institutions in the amount of EUR130 million, which it repaid in 2015. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources—Syndicated Loans*".

In 2015, pursuant to a Presidential Edict, the assets of banks' lending to the woodworking and timber industries were purchased by the Ministry of Finance and transferred to DBRB for management. The London representative office was also opened in 2015. In 2015, DBRB opened a branch in Minsk.

In 2016, the Belarusian legislation regarding export financing changed, including a determination that DBRB would be the sole channel for granting loans to non-residents for export financing. DBRB was named the Best National Development Bank Emerging Markets by Euromoney in 2016. Also in 2016, DBRB transferred the first tranche of loans which were initially transferred to it by state-owned commercial banks to the Asset Management Agency. See "*Public Finance—Asset Management Agency*" for details regarding the establishment of the Asset Management Agency.

It has continued to transfer loans to the Asset Management Agency in 2017, significantly reducing its bad debt ratio. Since July 2017, DBRB has acted as the co-manager for sovereign Eurobond issuances by the Republic of Belarus. In 2017, pursuant to a Presidential Edict, a scheme for lending to non-residents purchasing goods from other non-resident dealers of Belarusian enterprises was introduced.

Banking Activities

DBRB provides financial solutions in three core areas: financing of investment projects, including infrastructure financing; export financing; and comprehensive support for SMEs. The solutions it provides in each of these areas are described in detail below.

Financing of Investment Projects

DBRB finances investment projects in two different ways:

- in accordance with the Financing Plan for Government Programmes and Activities approved annually by resolution of the Government; and
- independent investment projects funded through family funds and pursuant to credit facilities provided by China Development Bank.

As at 31 December 2018, DBRB's gross loan portfolio amounted to BYN4,838.1 million. Of this amount, BYN4,012.3 million related to the Financing Plan for Government Programmes and Activities, BYN458.9 million related to export finance, BYN263.2 million related to independent investment projects and BYN 103.7 million related to other projects. As at 31 December 2017, DBRB's gross loan portfolio amounted BYN3,954.3 million. Of this amount, BYN3,262.9 million related to the Financing Plan for Government Programmes and Activities BYN372.2 million related to export finance, BYN221.8 million related to independent investment projects and BYN 97.3 million on other projects. The average maturity of loans for the financing of investment projects was 9.3 years as at 31 December 2018.

Financing Plan for Government Programmes and Activities

Pursuant to state programmes, DBRB grants loans in Belarusian rubles or foreign currencies to legal entities and individual entrepreneurs included in the schedule of financing of state programmes and activities approved annually by the Government. Funding of a project approved by the Government by DBRB is conditional on an approval of a business plan, feasibility study (for infrastructure and non-profit investment projects) or cash flow plan (for leasing arrangements) by DBRB. Loan maturities are based on the project payback period and may not exceed 15 years. The applicable interest rate is specified by resolutions of the President of the Republic of Belarus or the Government, failing which by DBRB. The amount of any loan granted pursuant to a state programme must not exceed 80 per cent. of the borrower's total investment in fixed assets. To obtain financing pursuant to state programmes, legal persons and individual entrepreneurs can participate in tenders held by DBRB for the purpose of selecting investment projects to be realised within the time frames set forth in state programmes. Winners of tenders are included in the schedule of financing referred to above. See "*—Loan Portfolio*" below for detail regarding the types of projects that are financed pursuant to the Financing Plan for Government Programmes and Activities. The average maturity of loans for the financing of investment projects in accordance with the Financing Plan for Government Programmes and Activities was 9.3 years as at 31 December 2018.

Independent investment projects

Independent investment projects are financed through family funds, as described in further detail under "*—Ancillary activities—Family funds management*", and pursuant to credit facilities provided by China Development Bank. The priority sectors for financing via family funds include industry, construction, transport and communications and provision of services (other than trading, intermediary services, insurance, lottery activities, gambling and electronic interactive games). The amount of each loan must not exceed 80 per cent. (or, in the case of start-ups, 70 per cent.) of the borrower's total investment in fixed assets of the relevant investment project. Loan maturities are based on the project payback period and must not exceed 15 years.

In addition, on 10 May 2015, DBRB and China Development Bank signed a general loan agreement for a credit facility to be utilised by DBRB in the amount of US$700 million for the financing of Belarus-China investment projects. For example, on 17 November 2017, DBRB entered into a US$16.4 million loan agreement to finance a US$25.9 million battery plant in Brest. The priority sectors for financing under this loan agreement include transport, energy, industry, infrastructure, projects of SMEs, as well as projects implemented by residents of China-Belarus industrial parks. The Chinese share in each investment project must be at least 50 per cent. of the total cost of the project. The total amount of each investment project must not be less than US$1 million. Loan maturities are based on the project payback period and must not exceed 15 years. For further detail, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources—Syndicated Loans—China Development Bank*".

DBRB considers the following criteria in selecting independent investment projects:

- economic efficiency of the project;
- financial feasibility of the project, considering own resources, borrowings and project finance funds;
- for foreign currency loans, the potential for matching of foreign currency denominated liabilities on DBRB's balance sheet;
- project readiness;
- other sources of financing for the relevant project; and
- the availability of security.

For independent investment projects in amounts exceeding US$50 million or the foreign currency equivalent, DBRB is required to seek independent review of the project by international entities included in Vault Consulting 50 and local entities set forth in a Resolution of the Supervisory Board.

Transfers of loans to the Asset Management Agency

Pursuant to a state programme, during the period from 2011 to 2014, BYN1.7 billion of NPLs was transferred to DBRB by state-owned commercial banks. Commencing in 2016, DBRB has been transferring these loans to the Asset Management Agency. The following table provides a breakdown of DBRB's loan portfolio between loans transferred from banks to DBRB and loans originated by DBRB as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		**2017**		**2016**	
	(BYN millions)	*(%)*	*(BYN millions)*	*(%)*	*(BYN millions)*	*(%)*
Transferred loans	487.5	10.1	646.8	16.4	1,002.1	25.6
Loans originated by the Group	4,350.6	89.9	3,307.5	83.6	2,914.8	74.4
Total	**4,838.1**	**100.0**	**3,954.3**	**100.0**	**3,916.9**	**100.0**

In the years ended 31 December 2016 and 2017, loans in the amount of BYN69.0 million and BYN93.3 million, respectively, of a number of agricultural enterprises were transferred to the Asset Management Agency as part of the state's work on a comprehensive reform of the system for financing agricultural production. All such loans had been previously transferred to the DBRB from state-owned banks pursuant to state programmes at their outstanding amounts plus accrued interest. Upon these loans being transferred to DBRB, the allowance was accounted for in accordance with IAS 39. No loans were transferred to the Asset Management Agency during 2018.

Certain of these loans were transferred to the Asset Management Agency during the relevant periods in exchange for cash equal to the outstanding amount due for each loan and accrued interest. At the date of the transfer of each loan to the Asset Management Agency, the reserves for those transferred loans were reversed and recognised as income in the consolidated statement of comprehensive income. The amounts of these reversals recognised as income was BYN39.5 million and BYN68.6 million in the years ended 31 December 2016 and 2017, respectively. There were no reserve reversals in 2018.

Loan portfolio

DBRB's key current projects include:

- financing made available to Promagroleasing for the purposes of purchasing modern agricultural equipment and machinery from industrial entities to be further leased out to Belarusian companies. The amount to be funded is approximately BYN1,333.7 million;

- financing of the construction of the second runway at the Minsk National Airport, which will provide capacity for the Airbus A380, and rebuilding the runway at the airdrome in Orsha, in the aggregate amount of approximately US$255 million;

- financing of the construction of facilities for the Second European Games to be held in 2019. The amount to be funded is approximately EUR79.1 million;

- financing of the reconstruction of an electric power sub-station in the Minsk region. The amount to be funded is approximately EUR30.9 million;

- financing of the construction of eight commercial dairy plants pursuant to a tender. The amount to be funded is approximately BYN137.6 million; and

- financing of the first stage of construction of the third undeground line of the Minsk metro. The amount to be funded is approximately BYN265.0 million.

DBRB has also completed the following projects:

- financing of the construction of a stadium in Borisov, which is the only football stadium in the Republic of Belarus authorised by the UEFA to hold Champions League group stage games, in the amount of BYN17.4 million, which was completed in September 2013;

- financing of the purchase of the UE "Minskmetrostroy" mechanised tunnel boring machine which will facilitate uninterrupted tunnelling and will accelerate the construction of the third underground line of the Minsk metro, in the amount of EUR9.6 million, which was completed in June 2016;

- financing of the acquisition of three Boeing NG737 jets for the national air carrier, Belavia, in the amount of US$79.9 million, which was completed in December 2016;

- financing of the purchase of three Embraer airplanes for the national air carrier, Belavia, in the amount of US$72.8 million, which was completed in June 2018;

- financing of the reconstruction of the automobile roads R-23 Minsk-Mikashevichi, which was completed in December 2017, in the amount of BYN94.5 million and US$30.7 million and R-58 Minsk-Kalachi-Myadel, which was completed in December 2017, in the amount of US$20.4 million;

- financing of the construction of the second ring road around Minsk with a total road length of over 160 kilometres and a throughput of approximately 20,000 automobiles per day, in the amount of US$65 million and BYN250.5 million, which was completed in December 2016; and

- financing of the construction of a bridge over the Pripyat river located at the 17th kilometre of the automobile road R-88 Zitkovich-Davyd-Haradok-Ukrainian border (Verkhny Terebzhov), which was completed in December 2018, in the amount of BYN24.7 million.

Export Support

In 2013, the powers of DBRB were expanded by a Presidential Edict, which granted it the right, among other things, to support large Belarusian export projects (over US$1 million). In 2016, Belarusian legislation regarding export financing changed. Pursuant to the Presidential Edict No. 534 dated 25 August 2006, DBRB was determined to be the sole channel for granting loans with state support to non-residents for export financing. Export financing is limited to cover industrial goods included in a list of goods set forth in the Resolution of the Council of Ministers. The financial support provided by DBRB for export projects takes the form of:

- direct export finance, encompassing credits granted to foreign companies (including affiliated companies of the subsidiary Promagroleasing in Russia) purchasing goods of Belarusian exporters;
- interbank export finance, encompassing loans granted to foreign banks with a view to their subsequent financing of foreign companies purchasing Belarusian goods; and
- export leasing services provided by Promagroleasing.

DBRB has signed agreements with a number of foreign banks and export credit agencies that provide credit facilities for financing the acquisition of goods from residents of the Republic of Belarus. See "*—Ancillary activities—International activities*". DBRB also cooperates with its leasing subsidiary, Promagroleasing, in relation to the financing of export of domestic equipment. See "*—Subsidiaries—Promagroleasing*". Since 2013, DBRB has provided over US$700 million of export finance loans and over US$350 million of export leasing services. It is the only institution in the Republic of Belarus providing export finance loans pursuant to export credit agency insurance. As at 31 December 2018 and 2017, it had BYN 458.9 million and BYN372.2 million of export financing on its balance sheet, accounting for 9.5 per cent. and 8.3 per cent. of its loan portfolio, respectively. The average maturity of the export finance portfolio (excluding export lease arrangements of Promagroleasing) was 2.8 years as at 31 December 2018.

The interest rate for export finance loans denominated in foreign currencies other than Russian rubles is the Commercial Interest Reference Rate ("**CIRR**") set by the OECD. For export finance loans denominated in Russian rubles, the rate is two-thirds the refinancing rate fixed by the Central Bank of Russia. The financing period for export finance loans is up to five years, or, for large scale investment projects, ten years. The amount of the credit granted must be no less than US$1 million. Borrowers must participate in the relevant project with their own funds at a level of 15 per cent. of the contract cost. Export risks must be insured with state support by Beleximgarant, with the cost of insurance borne by the borrower.

Comprehensive support for SMEs

In August 2014, DBRB introduced a programme of financial support for SMEs with the aim of facilitating the dynamic development of SME entrepreneurship in the Republic of Belarus. Pursuant to this programme, DBRB organises support by providing SMEs with access to loans and financial leasing. The programme is implemented through national partner banks and leasing organisations with experience cooperating with SMEs via a two-stage mechanism. The first stage entails the provision of financial resources to partner banks and leasing companies. In the second stage, the partner banks and leasing companies select borrowers from among SMEs in line with parameters agreed with DBRB, assess their creditworthiness and the projects they intend to implement and take decisions regarding financing in accordance with terms agreed with DBRB. These relationships enable DBRB to provide support across the entire territory of the Republic of Belarus due to the branch networks of partner banks and the channels of leasing companies with which DBRB cooperates. DBRB also engages in direct financing of leasing companies by purchasing their bonds, following which the funds are used to purchase property to be leased out to SMEs.

The World Bank expert group thoroughly studied DBRB's programme of financial support for SMEs during its visit to the Republic of Belarus in 2014. The programme was positively received by these experts and was considered to be an important step in solving the problem of lack of long-term financing for SMEs and expanding the institutional activities of DBRB. In 2017, the IBRD granted DBRB a credit facility to be used for SME support within a separate project known as "Micro, Small and Medium Enterprise Access to Finance Project in the Republic of Belarus". To facilitate this, the IBRD and DBRB signed a loan agreement which specifies the granting of US$60 million of financing over a 15-year period. These funds are to be used for SME financing by Belarusian banks complying with the World Bank's requirements. Participating banks will be able to grant loans to end borrowers with the purpose of investment and working capital financing based upon their own assessment of borrowers' creditworthiness and related factors. In addition, the project provides funding for strengthening of DBRB operational effectiveness, designing and rolling out new financing instruments, implementing robust operating policies and procedures of corporate governance, advanced banking technologies and project implementation. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources—Syndicated Loans*" for further detail of the IBRD credit facility.

Since 2015, DBRB has been a partner of Global Entrepreneurship Week and a co-organiser of the VI International Entrepreneurship Forum, pursuant to which the leading partner banks are awarded for cooperation in financial support of SMEs.

From the end of 2015, DBRB has also provided support to start-up companies (defined as SMEs that have conducted their business for a period of less than one year from the time of state registration, or which have not conducted any business prior to the year in which a loan is applied for).

In 2018, the BYN product line was updated to include products in local ("Support for start-up companies", "Support for regions and women's entrepreneurship", "Support for exporting enterprises", "Support for enterprises of the industrial sector, agriculture, forestry and fisheries", "Support for enterprises of trade and services", "Support for social entrepreneurship") and foreign ("Support for SMEs from World Bank resources (US dollars)", "Support for SMEs from resources at the World Bank (Euro)", "Support for SMEs from the resources of the Khalifa Fund for Enterprise Development (US dollars)") currencies.

In January 2019, DBRB launched a new product in the area of financial support of SMEs. This product entails support for social entrepreneurship and is designed for SMEs involved in solving social problems. The interest rate for this product is defined as two-thirds of the refinancing rate of the National Bank.

Currently, DBRB cooperates with 10 local partner banks and leasing companies. Its local partner banks include OJSC Belgazprombank, OJSC BNB Bank, JSC Belinvestbank, CJSC MTBank, CJSC Alfa-Bank, Bank Dabrabyt, Priorbank JSC, JSC Belagroprombank, OJSC Paritetbank and CJSC BTA Bank.

Since the inception of the programme for the comprehensive support of SMEs in 2014 until 1 January 2019, DBRB has completed financing for approximately 3,000 projects with a total value of over BYN750 million (approximately US$350 million). The development plan of the Republic of Belarus for the period 2016 to 2020 contemplates US$250 million of support for SMEs. As at 31 December 2018, DBRB had BYN290.3 million of SME loans on its balance sheet. As at 31 December 2017, DBRB had BYN143.0 million of SME loans on its balance sheet. Maturities of SME loans must not exceed five years and ten years for Belarusian ruble-denominated and US dollar-denominated loans, respectively.

DBRB categorises its SME financing into financing for micro enterprises, small enterprises, individual entrepreneurs and medium enterprises. To qualify for SME financing, a borrower's revenue should not exceed BYN25 million in the year preceding the year of funding. Micro enterprises are defined as enterprises with up to 15 employees (inclusive), small enterprises are defined as enterprises with 16 to 100 employees (inclusive) and medium enterprises are defined as enterprises with 101 to 250 employees (inclusive).

The following table provides a breakdown of SME loans portfolio by type of borrower as at 31 December 2018, 2017 and 2016:

	Year ended 31 December		
	2018	**2017**	**2016**
		%	
Micro enterprises	56	57	56
Small enterprises	26	26	27
Individual entrepreneurs	15	14	13
Medium enterprises	3	3	4
Total	**100**	**100**	**100**

SME loans primarily include financing for the transport (passenger and cargo transportation), manufacturing, services, construction, agricultural, forestry and trade sectors. The key areas of financing are equipment purchases, motor vehicles purchases and real estate investment, which accounted for 31 per cent., 54 per cent. and 15 per cent. of the portfolio as at 31 December 2018.

The following table sets forth a breakdown of SME loans by size of financing as at 31 December 2018, 2017 and 2016:

	Year ended 31 December		
	2018	2018	2018
		%	
Up to BYN50,000	38	41	44
BYN50,000-100,000	25	23	23
BYN100,001 - 200,000	22	24	23
BYN200,001 - 1 million	13	11	9
More than BYN1 million	2	2	1
Total	**100**	**100**	**100**

Potential additional banking activities

An amendment to Edict No. 261 is currently being prepared which would grant DBRB the right to issue bank guarantees within the framework of the tasks assigned to it. It is also proposed that DBRB be permitted to finance PPP projects in the Republic of Belarus. These proposed amendments are in line with the recommendations of the IMF and the World Bank.

Ancillary activities

In addition to its core banking activities, DBRB provides certain ancillary services, which are described below.

International activities

DBRB cooperates with leading financial organisations such as the IMF and the World Bank and maintains close links with foreign development banks such as KfW, China Development Bank and Eurasian Development Bank. Since July 2014, DBRB has been a special member of the Association of Development Financial Institutions of Asia and Pacific ("**ADFIAP**"). DBRB also cooperates with export credit agencies such as Exiar, Euler Hermes, Eximbanka SR, MEHIB, Coface, SACE and KUKE. DBRB's aim is to become a key partner among Belarusian banks for foreign financial institutions. In 2017, the volume of import and export letters of credit of DBRB amounted to EUR53.1 million.

Investment import financing

DBRB finances projects aimed at the purchasing of foreign goods and services by attracting foreign credit lines pursuant to insurance coverage granted by export credit agencies. These are tied credits which are granted for payment of 85 per cent. of the cost of import contracts. DBRB has collaborated with leading foreign banks and export credit agencies in this area, including Commerzbank, AKA Bank, VUB BANKA, Intesa Sanpaolo, ABN AMRO Bank N.V., VTB Bank, EXIM Bank, BGK, Euler, Hermes, SACE, Coface and KUKE.

Direct export finance

DBRB engages in cooperation in the area of export financing with a range of leading foreign banks in countries that account for a significant volume of goods exported from the Republic of Belarus. DBRB has entered into export credit agreements with countries including Russia (Bank Saint Petersburg, Bank ZENIT), Mongolia (XacBank, Golomt Bank), Vietnam (Vietnam-Russia Bank), Laos (Banque Pour Le Commerce Exterieur Lao Public) and a range of African countries covered by multinational financial institutions, including Trade and Development Bank of COMESA and African Export-Import Bank.

Family fund management

Since 2015, DBRB has provided family fund management services pursuant to Edict No. 572. In January 2015, the Republic of Belarus introduced an additional measure of state support for Belarusian families at the birth or adoption of a third or subsequent child by providing payments in the amount of US$10,000 to each such family. DBRB manages the family funds until the relevant child reaches the age of 18, at which point the funds are transferred to the child. As at 31 December 2018, family funds managed by DBRB amounted to BYN862.7 million.

DBRB manages family funds based on the principles of diversification and risk minimisation. It is permitted to invest family funds in the following financial instruments, all of which must be denominated in US dollars:

- loans granted by DBRB for independent investment projects (see "*—Banking Activities—Financing of Investment Projects—Independent Investment Projects*" above);

- deposits with partner banks for the financing of SMEs (see "*—Banking Activities—Comprehensive support for SMEs*" above);
- government securities of the Republic of Belarus;
- bonds of the National Bank;
- deposits with the National Bank;
- corporate bonds of companies resident in the Republic of Belarus;
- bonds of banks resident in the Republic of Belarus;
- deposits with banks resident in the Republic of Belarus; and
- funds in correspondent accounts.

The structure of the family investment portfolio is determined annually pursuant to DBRB's Credit Policy. See "*Risk Management*". In accordance with the Credit Policy approved by the Supervisory Board in December 2017, in 2018, the amount of family funds invested in relevant financial instruments should not exceed the values set forth below, expressed as a percentage of the amount of family funds at DBRB's disposal:

- loans: maximum of 60 per cent.;
- corporate bonds: maximum of 60 per cent.;
- deposits with partner banks for the financing of SMEs: maximum of 30 per cent.; and
- government securities, bonds of the National Bank and deposits with the National Bank: maximum of 50 per cent.

During 2017, the most significant amount of family funds were directed towards financing the construction of the second runway at the Minsk National Airport, the financing of the reconstruction of the automobile roads R-23 Minsk-Mikashevichi and R-58 Minsk-Kalachi-Myadel, the construction of a dairy plant and the development of Belarusian Railways.

Pursuant to Edict No. 572, DBRB must transfer annually a portion of the profits accumulated through its family funds management activities to a special purpose fund. These funds are subsequently transferred to the budget of the Republic of Belarus. The amount to be allocated to the special purpose fund is determined by the Supervisory Board of DBRB upon the approval of the Ministry of Finance. As at 31 December 2018, the special purpose fund amounted to US$55.5 million, including US$25.7 million, US$18.4 million, and US$9.9 million from the management of family funds received in 2018, 2017, and 2016, respectively.

Interbank market transactions

In accordance with relevant legislation, DBRB carries out the following transactions in the interbank market:

- placement of temporarily available funds in interbank deposits;
- attraction of interbank loans; and
- transactions in the foreign exchange market.

Transactions involving interbank deposit arrangements as well as the attraction of interbank loans are carried out in accordance with general agreements signed with counterparty banks, failing which in accordance with separate interbank loan or deposit agreements. The most significant currencies for these transactions include US dollars, Euros, Russian rubles and Belarusian rubles.

Currency exchange transactions

DBRB offers clients the full range of services in the domestic currency exchange market, including:

- purchases of currency from DBRB in the over-the-counter currency market; and
- sales of currency to DBRB in the over-the-counter currency market.

Securities issuance

Since July 2017, DBRB has acted as the co-manager for sovereign Eurobond issuances by the Republic of Belarus. In June 2017, the Republic of Belarus issued a dual-tranche Eurobond in the aggregate amount of US$1.4 billion and in February 2018 it issued a Eurobond in the amount of US$600 million. Citigroup and Raiffeisen Bank International acted as joint lead managers and bookrunners on the Eurobond transactions.

Brokerage services

DBRB offers its clients brokerage services in relation to the following types of securities:

- short-term and long-term state bonds;
- bonds of local executive and regulatory bodies;
- short-term bonds of the National Bank;
- corporate stocks of legal entities resident in the Republic of Belarus; and
- bonds of legal entities resident in the Republic of Belarus.

Brokerage services include the following:

- purchase/sale of securities in the exchange market;
- purchase/sale of securities at auctions held by the National Bank;
- purchase/sale of securities over-the-counter;
- placement of public announcements on the purchase/sale of securities on the Belarusian Quotation Automated System of the Belarusian Currency and Stock Exchange;
- organisation of issuance of clients' securities; and
- registration of deals in the over-the-counter market.

Branch network

Pursuant to the resolutions of the Supervisory Board and to improve DBRB's organisational structure, the branch network of DBRB was fully established in 2015, following the opening of the branches in 2013. DBRB has branches in all regional centres of the Republic of Belarus, including Brest, Gomel, Vitebsk, Minsk, Grodno and Mogilev. Branches are separate subdivisions of DBRB rather than separate legal entities, have no independent balance sheet and carry out their activities on the basis of the Standard Regulations of the Branch approved by the Supervisory Board of DBRB.

Branches perform "front office" functions to work with clients and to support projects. The main activities of the branches include:

- collection and preliminary analysis of documents required to obtain DBRB funding;
- support in relation to implementation of investment projects;
- resolution of operational issues related to full and timely payment of current debts owed to DBRB; and
- formulating mechanisms for outstanding payables repayment and collection.

In addition to its branches, DBRB also has a representative office in London, United Kingdom, which it opened in 2015. The activities of the representative office include integration with the international financial markets, the development of partner relationships with leading participants in the financial, investment and banking communities and the strengthening of trading and economic relations between DBRB's clients and foreign partners.

Subsidiaries

DBRB has two direct subsidiaries, BR-Consult, of which it owns 100 per cent., and Promagroleasing, of which it owns 83.074 per cent. The remaining 16.926 per cent. of Promagroleasing is owned by three state companies (Beleximgarant, Belagroprombank and Belarusian National Reinsurance Company) and the Government. According to the Edict of the President of the Republic of Belarus No. 272 dated 9 July 2018, DBRB increased the share capital of Promagroleasing by BYN200 million in September 2018 to BYN533.7 million. In December 2018, DBRB increased the share capital of BR-Consult by BYN30 million to BYN197.5 million.

BR-Consult

BR-Consult was founded at the end of 2014 to provide consulting services in various fields. Currently, BR-Consult arranges training seminars and conferences for the employees of DBRB and other local banks. BR-Consult also operates in a "crisis manager" function in relation to the woodworking enterprises acquired by the Ministry of Finance from commercial banks. In the longer term, DBRB intends that BR-Consult will operate as an outsourcing centre providing various kinds of business services for DBRB and its partners.

As at 31 December 2018, 2017 and 2016, BR-Consult had total assets of BYN199.8 million. BYN169.2 million and BYN62.2 million, respectively. The equity of BR-Consult was BYN199.5 million, BYN168.9 million and BYN62.0 million as at those dates, respectively. BR-Consult had net income of BYN0.7 million, BYN1.0 million and BYN0.4 million for the years ended 31 December 2018, 2017 and 2016, respectively.

Promagroleasing

Promagroleasing provides leasing services in the Republic of Belarus, Russia and Ukraine. It was established in 2001 in order to provide international leasing services and to promote products made in the Republic of Belarus to foreign markets through leasing. Pursuant to a Presidential Edict dated 24 January 2013, the state-owned share in the Promagroleasing was transferred to DBRB in full.

Promagroleasing is the leading provider of international leasing services in the Belarusian market, with a market share of over 95 per cent. Its primary objective is to provide financial leasing for equipment and machinery produced by Belarusian companies. Promagroleasing has a subsidiary in the Republic of Belarus and its own branch network abroad including subsidiaries and joint ventures in Russia and Ukraine. The subsidiaries in Mozambique and the Kingdom of Bahrain are largely inactive and have been or are being wound down. It specialises in export supplies under leasing arrangements for modern goods, including construction equipment, agricultural, forestry machinery, energy systems, freight train and other industrial and technological equipment. In 2015, Promagroleasing joined the programme of financial support for SMEs launched by DBRB in August 2014.

Promagroleasing provides leasing under state programmes, export financial leasing, leasing on commercial terms, import (investment) leasing and leasing for SMEs.

As at 31 December 2018, 2017 and 2016, Promagroleasing had total assets of BYN2,041.8 million, BYN1,261.1 million and BYN938.9 million. The equity of Promagroleasing was BYN598.8 million, BYN406.0 million and BYN349.0 million as at those dates, respectively. Promagroleasing had net income of BYN13.1 million, BYN67.6 million and BYN35.9 million for the years ended 31 December 2018, 2017 and 2016, respectively.

Leasing under state programmes

In order to provide the agricultural sector and other branches of economy with modern machinery and equipment, Promagroleasing offers legal entities registered in the Republic of Belarus leasing of machinery and equipment produced in the Eurasian Economic Union within the framework of Edict of the President of the Republic of Belarus No. 146 dated 2 April 2015 "On financing of modern machinery and equipment purchase".

Export financial leasing

Promagroleasing provides non-residents of the Republic of Belarus services that enable them to lease Belarusian machinery and fixed assets for periods between one and seven years.

Leasing on commercial terms

Promagroleasing provides leasing of Belarusian machinery and equipment, real estate, computer equipment and other fixed assets on commercial terms (i.e., not pursuant to state programmes) to legal entities and individual entrepreneurs registered in the Republic of Belarus for periods between one and five years (or one and six years for real estate).

Import (investment) leasing

Promagroleasing provides leasing services to legal entities and individual entrepreneurs registered in the Republic of Belarus to allow them to lease machinery and fixed assets produced abroad for periods between three and five years.

Leasing for SMEs

For detail on Promagroleasing's involvement in DBRB's programme of financial support for SMEs, see "*Banking Activities—Comprehensive support for SMEs*".

Employees

For the years ended 31 December 2018, 2017 and 2016, the average number of employees at DBRB and its subsidiaries was 746, 623 and 566, respectively.

As at 31 December 2018, approximately 99.5 per cent. of DBRB's employees were members of a trade union with which a collective bargaining agreement entered into on 27 October 2015. On 17 October 2018, a new collective bargaining agreement was signed for a period of three years.

DBRB's policy in the area of human resources management is focused on forming a staff of highly qualified specialists capable of efficient realisation of DBRB's goals, on their motivation and social security and on creating conditions for obtaining new knowledge and skills.

DBRB monitors its employee incentives on a continuous basis. In 2017, it made certain improvements to its bonus scheme. In 2016, similar changes were made in relation to incentivising employees to identify independent investment projects to be financed by DBRB and appropriately incentivising branch heads in regional markets.

In 2017, DBRB introduced a new type of financial assistance for its employees for housing construction or purchase. DBRB is continuing to implement measures relating to additional social guarantees to its employees such as various ad hoc payments and pension insurance. DBRB also offers a medical insurance programme for its employees.

DBRB is focused on training its employees and in 2018 employees participated in 80 educational events. Corporate training courses in the area of corporate governance have been a particular focus of DBRB's training activities. Since 2017, advanced training of the members of the Supervisory Board has also been mandatory.

Information technology

DBRB has developed its own internal documentation and information network protection systems to facilitate efficient communication and data management and protection. Since 2014, DBRB has invested more than BYN12.3 million in the development of information technology systems and has strengthened its internal procedures to ensure that the most critical information is backed up regularly and secure. The systems are being periodically improved and implemented and approximately US$3.6 million has been budgeted for investments in information technology in 2019-2021, mostly to automate business processes and secure their safe use.

One of DBRB's most significant goals in the area of information technology is increasing automation of business lines and key processes. In 2017, DBRB focused on projects in the area of loan document flow, personnel management, financial planning and budgeting. DBRB has also successfully adjusted and transferred its information systems to use International Bank Account Numbers.

DBRB has also recently completed the first of two stages of creating a high-tech connected disaster proof data processing centre. In the area of information security, DBRB has also recently implemented a system for protecting confidential information and ensuring the safety of information systems.

Supervision

DBRB is comprehensively regulated pursuant to Edict No. 261. While it is not required to obtain a licence from the National Bank to carry out activities that are typical for commercial banks, such as lending, attracting deposits, opening of accounts, clearing transactions and foreign exchange transactions, in 2016, the National Bank introduced banking supervision over the activities of DBRB, requiring DBRB to adopt certain changes to its corporate governance policies and procedures and to comply with certain capital adequacy ratios. See "*Monetary and Financial System—Banking Supervision*" for a description of banking supervision in the Republic of Belarus and the applicability of such supervision to DBRB.

Social responsibility

DBRB prides itself on its open and transparent relations with Belarusian society. In 2016, DBRB was awarded a gold medal for "Active Social Position" in the national Brand of the Year contest as a leader in the financial sector. DBRB continues to support a variety of social projects.

DBRB's social responsibility policy is centred around the sponsorship of various projects aimed at improving citizens' quality of life and working towards the overall goal of improving the country's economy.

Support for teenagers and other children forms the cornerstone of DBRB's social responsibility programme. In August 2013, DBRB launched a School Bus Programme, providing sponsor donation to purchase 330 specially equipped school buses to transport children in rural communities to and from schools. DBRB also provides sponsor donation to Minsk Suvorov Military School and a children's home for orphaned children in Minsk.

In addition to education, DBRB believes in the need to facilitate sport development amongst young children and teenagers. Since 2014, in its capacity as General Partner alongside the Belarusian Football Association and the Minsk City Executive Committee, DBRB has provided donations to an annual football tournament for children under seventeen, known as the "Development Cup". DBRB also provided sponsor loans to the Department of Education, Sport and Tourism of the Drogichin District Executive Committee in order to finance repairs of the gymnasium buildings and sports facilities belonging to a secondary school. Under its "Young Tennis Aces" programme, DBRB also provides sponsor loans to rising tennis stars.

DBRB proudly invests in healthcare in the Republic of Belarus, directing its funds towards increasing the resources and improving the facilities of domestic healthcare establishments. Most recently, DBRB has purchased key equipment for the Research and Treatment Centre for Child Oncology and Haematology, and has also offered sponsor loans to repair and purchase treatment equipment to the Aleksandrov National Cancer Centre.

In 2018, a new social programme "Healthy Baby" was launched to equip perinatal centers with modern high-tech equipment, which should further contribute to the development of perinatal care and improve the quality of medical services, lower infant and child mortality rates and reduce child disability in general.

RISK MANAGEMENT

General

DBRB's operations are subject to a variety of risks, some of which are not within its control. These include risks relating to changes in interest rates and foreign exchange rates, declines in liquidity and deterioration in the credit quality of its loan and securities portfolios. DBRB regularly monitors and manages the maturities of its loans, interest rate exposure, exchange rate exposure and credit quality in order to minimise the effect of any changes to DBRB's profitability and liquidity position.

The Supervisory Board has overall responsibility for the organisation and efficient performance of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures, as well as determining tolerance levels to the risks inherent in DBRB's activities and approving significantly large exposures. The Supervisory Board has established the Risk Management Committee to assist in supervising DBRB's risk management systems.

The Management Board is responsible for monitoring and implementing risk mitigation measures and ensuring that DBRB, BR-Consult, Promagroleasing and their respective subsidiaries operate within established risk parameters. The principal documents governing the standard risk management requirements for DBRB and its subsidiaries are Risk Management Policies approved by the Supervisory Board and the Management Board. The Risk Management Department is responsible for the development and maintenance of DBRB's risk management policies.

The Management Board has adopted internal risk management regulations based on the recommendations of the BCBS and the National Bank and the latest developments in international banking practice. The Risk Management Department is responsible for ensuring that levels of risk are controlled in accordance with these regulations. The Risk Management Department is also responsible for identifying and monitoring risks on an on-going basis. The Head of the Risk Management Department reports directly to the Deputy Chairperson of the Management Board, who supervises Risk Management Department which, in turn, reports to the Supervisory Board.

DBRB has established the Credit Committee, Distressed Assets Management Committee and the Financial Committee which assist the Management Board and are responsible for implementing and monitoring DBRB's risk policies, including policies on liquidity, credit and market risks, as well as credit committees in each of its six regional branches. The basic credit policy of DBRB is set out and governed by the Credit Policy approved by the Supervisory Board. Further internal regulations and instructions approved by the Management Board provide for a multi-stage system of making decisions by collegial authorised bodies (*i.e.*, the Credit Committee and the Management Board) to grant credit facilities. DBRB monitors loan status and the financial condition and solvency of its borrowers on a regular basis. See "*—Principal Committees—Credit Committee*".

DBRB's risk management policies aim to identify, analyse and manage the risks faced by DBRB, to set limits and controls on risks (including concentration, industry and country limits) and to monitor compliance with those limits and risk levels more generally. Risk management policies and procedures are reviewed regularly in order to reflect changes in market conditions, products and services offered by DBRB, as well as to reflect best practice standards.

In particular, DBRB pays special attention to the analysis and control of risks that could affect the achievement of its long-term strategic goals and key performance indicators, as approved by the Supervisory Board. DBRB develops risk mitigation plans as part of its risk management system with the aim of eliminating the causes of risk and to mitigate the consequences of risk events. The Risk Management Department undertakes a comprehensive review of the risks faced by DBRB on an annual basis, including a review of the risk assessment maps. DBRB works, on an ongoing basis, to optimise and improve its risk management system. In particular, in the year ended 31 December 2018, DBRB introduced new commodity and strategic risk management policies and approved new internal regulations on the assessment of capital adequacy. It also developed approaches to cyber-risk management and introduced a factor assessment of operational risk in relation to the procurement of goods, works and services. In the year ended 31 December 2018, DBRB also created new units within the Risk Management Department and split the credit underwriting functions, risk management policies and portfolio monitoring functions between the new units.

Principal Committees

Credit Committee

The Credit Committee implements DBRB's credit policies in accordance with the Credit Policy and additional internal controls. All members of the Credit Committee are appointed by the Management Board, which decides upon the number of members and their terms of appointment. The Credit Committee is a committee that reports to the Management Board. The Credit Committee consists of eight members. The principal responsibilities of the Credit Committee include the organisation and supervision of DBRB's lending processes based on the principles of transparency and the transparent allocation of responsibility between departments. The Credit Committee also assists with the development of processes for the efficient use of borrowed funds through the provision of credit instruments and with the supervision of the application of DBRB's lending policy, credit process and credit risk management process, as well as the use of DBRB's resources, across DBRB's offices. The Credit Committee monitors the quality and profitability of DBRB's loan portfolio.

The following table sets forth the members of the Credit Committee:

	Role on the Credit Committee	Other Roles within DBRB
Tatsiana Sasnouskaya	Chairperson	First Deputy Chairperson of the Management Board
Ivan Varenitsa	Deputy Chairperson	Deputy Chairperson on of the Management Board
Inna Starovoitova	Member	Head of the Banking Operations Department
Olga Metelskaya	Member	Head of Legal Department
Siarhei Staliarchuk	Member	Head of the International Business Department
Pavel Gorodetskiy	Member	Deputy Head of the IT Security Division
Dmitry Tsekhanovich	Member	Head of the Risk Management Department
Alina Kafarova	Member	Head of the Analytics and Strategic Planning Department
Gennady Khomich	Member	Head of the Export Finance Department

Regional Branch Credit Committees

A local credit committee is also established in each of the six regional branches. The regional branch credit committees are also committees, each comprising at least four members who are appointed by the head of the respective regional branch, the chairperson and its deputy.

Financial Committee

The overall asset and liability position of DBRB is monitored and managed by the Financial Committee. The Financial Committee is a committee that consists of eight members as at the date of these Listing Particulars and reports to the Management Board. All members of the Financial Committee are appointed by the Management Board. The Financial Committee is headed by the Chairperson and is comprised of representatives of the Management Board, the Treasury, the Risk Management Department, the Finance and Economic Department and the Banking Operations Department.

The Financial Committee assists the Management Board by comprehensively managing the assets and liabilities of DBRB, ensuring adequate liquidity levels and compliance with sustainable operation safeguards approved by the Supervisory Board and ensuring diversity of the financial instruments employed by DBRB. The Financial Committee also formulates policies in relation to the management and control of liquidity and market risks. The Financial Committee co-ordinates the risk management activities of the various management divisions with the aim of optimising the ratio of risks to profitability and the management of assets and liabilities. The Financial Committee also decides on the purchase of state bonds. The Financial Committee meets on an ad hoc basis, although in practice, meetings are held approximately four times per month.

The following table sets forth the members of the Financial Committee as at the date of these Listing Particulars:

	Role on the Financial Committee	Other Roles within DBRB
Andrey Zhishkevich	Chairperson	Chairperson of the Management Board
Natallia Yasinskaya	Member	Deputy Chairperson of the Management Board
Maryia Arlouskaya	Member	Chief Accountant
Ivan Varenitsa	Member	Deputy Chairperson of the Management Board, Chairperson of the Distressed Assets Management Committee
Tatsiana Sasnouskaya	Member	First Deputy Chairperson of the Management Board
Igor Brilevich	Member	Head of Treasury
Dmitry Tsekhanovich	Member	Head of the Risk Management Department
Sergey Yablonskiy	Member	Head of the Finance and Economic Department
Inna Starovoitova	Member	Head of the Banking Operations Department

Risk Management Committee

For details of the Risk Management Committee, see "*Supervisory Board—Supervisory Board Committees—Risk Management Committee*".

Liquidity Risk

Liquidity risk is the risk that DBRB will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched as business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. DBRB maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. DBRB's liquidity policy is reviewed and approved by the Management Board and requires: (i) the projection of cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto; (ii) maintenance of a diverse range of funding sources; (iii) management of the concentration and profile of debts; (iv) maintenance of debt funding plans; (v) maintenance of a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flows; and (vi) maintaining liquidity and funding contingency plans.

DBRB's monthly liquidity position is monitored by the Risk Management Department and reports in respect of DBRB's liquidity position are presented to senior management on a monthly basis. Decisions relating to liquidity management are made by the Financial Committee and implemented by the relevant department.

The following table provides certain information as to DBRB's liquidity as at the dates indicated:

	As at 31 December		
	2018	**2017**	**2016**
		(%)	
Total debt/equity[1]	267.2	257.2	240.8
Liquid assets/total assets[2]	37.5	36.8	36.3

Notes:

(1) Total debt comprises amounts due to banks, customer accounts, debts securities issued and government grants.

(2) Liquid assets comprise cash and cash equivalents, investment securities and due from banks.

For further information on DBRB's management of liquidity risk, see Note 23(c) to the 2018 Financial Statements.

In addition, DBRB carries out calculations of its capital adequacy ratio, Tier 1 common capital ratio, Tier 1 total capital ratio, NSFR, total large exposures ratio, leverage ratio and currency risk limits in accordance with the requirements of National Bank. The following table sets forth these ratios as at the dates indicated (which differ from the corresponding ratios on the basis of the IFRS consolidated financial statements presented elsewhere in these Listing Particulars).

	2018 National Bank Requirement	**As at 31 December**		
		2018	**2017**	**2016**
		(%)		
Capital adequacy ratio[(1)]	Not less than 11.875%[(2)]	20.90	24.27	30.51
Tier 1 total capital ratio[(3)]	Not less than 6.0%	18.89	20.68	24.98
Tier 1 common capital ratio[(4)]	Not less than 6.375%[(5)]	18.24	19.77	23.55
Leverage ratio	Not less than 3.0%	18.7	22.3	23.6
NSFR[(6)]	Not less than 100.0%	105.9	110.3	N/A
Total large exposures ratio[(7)]	Not more than 800.0%	203.6	165.7	191.1
Economic capital ratio[(8)]	Not more than 100.0%	55.8	N/A	N/A
Net open foreign currency position[(9)]	Not more than 10.0%	1.45	3.22	5.76
USD		0.81	3.10	5.76
EUR		0.12	2.30	*0.18*
RUB		0.52	0.20	0.75

Notes:

(1) Calculated as the sum of Tier 1 capital and Tier 2 capital (as defined in the Basel III principles) divided by risk-weighted assets (i.e., the sum of all assets multiplied by a risk weight for each asset class assigned in accordance with Basel III principles) on the basis of standalone financial statements in accordance with the National Bank methodology.

(2) Including the 2018 capital conservation buffer established by the Resolution of the National Bank No. 180 dated 18 May 2017 ("**Resolution No. 180**") and set at 1.875 per cent. as at the date of these Listing Particulars.

(3) Calculated as Tier 1 capital (as defined in the Basel III principles) divided by risk-weighted assets (i.e., the sum of all assets multiplied by a risk weight for each asset class assigned in accordance with Basel III principles) on the basis of standalone financial statements prepared in accordance with the National Bank methodology.

(4) Calculated as Tier 1 capital (as defined in the Basel III principles) divided by risk-weighted assets (i.e., the sum of all assets multiplied by a risk weight for each asset class assigned in accordance with Basel III principles) on the basis of standalone financial statements prepared in accordance with the National Bank methodology.

(5) Including the 2018 capital conservation buffer and the 2018 countercyclical capital buffer established by Resolution No. 180 and set at 1.875 per cent. and within a range of zero per cent. and 2.5 per cent., respectively.

(6) Calculated as the ratio of longer-term, stable sources of funding employed by DBRB to the required amount of stable funding, minimum and maximum values within the preceding reporting month. The ratio is applicable from 1 January 2018.

(7) Calculated as the ratio of total large risks to the bank regulatory capital. DBRB considers all risks on one borrower exceeding 10 per cent of the regulatory capital of DBRB as large.

(8) Calculated as the ratio of economic capital to available capital and applicable from 1 April 2018. Economic capital is the amount of risk capital held by a bank to enable it to cover losses. Available capital is the amount of risk capital available to a bank to cover losses.

(9) Calculated as the difference between the sum of balance sheet assets and off-balance sheet assets in one currency and the sum of balance sheet liabilities and off-balance sheet liabilities in the same currency.

Maturities

The following tables set forth a breakdown of DBRB's assets and liabilities by remaining contractual maturity as at the dates indicated:

	As at 31 December 2018				
	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**More than 1 year**	**Total**
			(BYN millions)		
Cash and cash equivalents	43.1	—	—	—	43.1
Due from banks	20.3	1.7	44.4	491.5	557.9
Investment securities	6.9	92.9	53.2	2,197.9	2,350.9
Loans to customers	151.9	184.2	923.3	3,211.9	4,471.3
Other financial assets	5.3	—	—	—	5.3
Total financial assets	**227.5**	**278.8**	**1,020.9**	**5,901.3**	**7,428.5**
Due to banks	126.3	132.3	800.7	1,213.8	2,273.1
Customer accounts	49.2	104.0	46.7	765.1	965.1
Debt securities issued	137.4	83.6	148.2	1,553.7	1,922.9
Other financial liabilities	43.5	—	—	—	43.5
Total financial liabilities	**356.4**	**320.0**	**995.6**	**3,532.6**	**5,204.6**
Net position	**(128.9)**	**(41.2)**	**25.3**	**2,368.7**	**2,223.9**

	As at 31 December 2017				
	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total
			(BYN millions)		
Cash equivalents and accounts in the National Bank	68.1	—	—	—	68.1
Due from banks	3.7	23.4	94.2	343.8	465.2
Investment securities	21.4	1.9	46.1	1,658.4	1,727.8
Loans to customers	107.8	159.1	703.5	2,607.8	3,578.1
Other financial assets	5.8	—	—	—	5.8
Total financial assets	**206.9**	**184.4**	**843.8**	**4,610.0**	**5,845.0**
Due to banks	314.1	3.7	193.7	984.1	1,495.6
Customer accounts	48.5	5.0	19.6	557.3	630.4
Debt securities issued	69.5	51.2	40.9	1,726.2	1,887.9
Other financial liabilities	20.7	—	—	—	20.7
Total financial liabilities	**452.9**	**60.0**	**254.2**	**3,267.6**	**4,034.6**
Net position	**(246.0)**	**124.4**	**589.6**	**1,342.4**	**1,810.4**

	As at 31 December 2016				
	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total
			(BYN millions)		
Cash equivalents and accounts in the National Bank	66.4	—	—	—	66.4
Due from banks	33.4	8.5	89.9	202.6	334.3
Investment securities	9.6	73.7	97.0	1,340.6	1,520.9
Loans to customers	79.2	135.9	577.8	2,360.7	3,153.5
Other financial assets	18.4	—	—	—	18.4
Total financial assets	**207.0**	**218.1**	**764.6**	**3,903.8**	**5,093.5**
Due to banks	53.4	65.1	426.2	441.4	986.0
Customer accounts	61.8	7.6	46.4	558.2	674.0
Debt securities issued	22.2	16.7	63.9	1,724.8	1,827.6
Other financial liabilities	21.3	—	—	—	21.3
Total financial liabilities	**158.6**	**89.3**	**536.5**	**2,724.4**	**3,509.0**
Net position	**48.3**	**128.8**	**228.1**	**1,179.4**	**1,584.5**

For further information on DBRB's management of maturity gaps, see Note 23(c) to the 2018 Financial Statements.

Credit Risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on its obligation to DBRB. Loans provided to customers, finance lease receivables, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements, investment securities and accounts receivable are all considered financial assets subject to credit risk. DBRB has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio risk concentration and the establishment of the Credit Committee to actively monitor DBRB's credit risk. See "*—Principal Committees—Credit Committee*".

The impairment of loans to customers is estimated by management through the application of judgments and use of subjective assumptions. Due to the significance of loans to customers as a portion of DBRB's assets and the related estimation uncertainty, impairment of loans was identified as a key audit matter in the Independent Auditors' Report on the 2018 Financial Statements. Accordingly, as part of the audit, DBRB's auditors applied procedures that included (i) testing the design and operating effectiveness of internal controls over timely allocation of loans into credit risk stages; (ii) for a sample of loans estimated for ECL collectively on the basis of internal rating model, for which a potential change in ECL estimate may have a significant impact on the consolidated financial statements, testing whether stages are correctly assigned by DBRB by analysing financial and non-financial information, as well as assumptions and professional judgments applied by DBRB; (iii) for loans to customers assigned to stages 1 and 2, where ECL are assessed collectively, testing the design and implementation of the related models, and reconciling the model input data against the primary documents on a sample basis; (iv) analysing the overall adequacy of the add-on adjustment to account for different scenarios and forward-looking information by comparison with auditor's estimate considering current and future economic situation and business environment of certain categories of borrowers; (v) for a sample of stage 3 purchase or originated credit-impaired loans, where ECL are assessed individually, critically assessing assumptions used by

DBRB to forecast future cash flows, including estimated proceeds from realisable collateral and their expected disposal terms based on our understanding and publicly available market information, focusing specifically on those loans to customers that potentially may have the most significant impact on the financial statements; (vi) assessing the predictive capability of DBRB ECL valuation models by comparing the estimates made as at 1 January 2018 with the actual results for 2018; and (vii) confirming that the consolidated financial statements disclosures appropriately reflect the DBRB's exposure to credit risk. See also "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Key Factors Affecting DBRB's Results of Operations and Financial Condition—Credit Risk and Provisioning*" for a discussion of how IFRS 9 impacts DBRB's impairment allowances.

Market Risk

Market risks arise from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices. The objective of DBRB's market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on such risk. DBRB manages such risk by setting open position limits in relation to financial instruments, interest rate, maturity and currency positions, all of which are monitored on a regular basis and reviewed and approved by DBRB's Supervisory Board.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. DBRB is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur. DBRB adopts certain measures to minimise these risks by trying to link its borrowing and lending rates.

The principal objective of DBRB's interest rate management activities is to enhance profitability by limiting the effect of adverse interest rate movements on interest income through managing interest rate exposure. In this respect, DBRB undertakes cash flow interest rate sensitivity analysis of its net income or loss and equity (net of taxes) to changes in interest rates, as well as fair value interest rate sensitivity analysis of equity as the result of changes in the fair value of its available-for-sale financial assets as a result of changes in interest rates. DBRB's management of interest rate risks, by monitoring of the interest rate gap, is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios. See Note 23(a)(i) to the 2018 Financial Statements.

The following table sets forth an analysis of the sensitivity of DBRB's net income or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point ("**bp**") symmetrical fall or rise in all yield curves and positions of interest-earning assets and liabilities existing as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		2017		2016	
	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity
	(BYN millions)					
100 bp increase	17.7	13.3	25.6	19.2	17.8	13.4
100 bp decrease	(17.7)	(13.3)	(25.6)	(19.2)	(17.8)	(13.4)

The following table sets forth an analysis of the sensitivity of DBRB's net income or loss and equity (net of taxes) as a result of changes in the fair value of investment securities due to changes in interest rates (repricing risk), based on positions existing as at 31 December 2018, 2017 and 2016 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves:

	As at 31 December		
	2018	2017	2016
	(BYN millions)		
100 bp increase	(39.7)	(23.9)	(13.7)
100 bp decrease	53.0	33.0	19.9

For further information on DBRB's management of interest rate risk, see Note 23 to the 2018 Financial Statements.

Foreign Currency Risk

DBRB is exposed to foreign currency risk as a result of fluctuations in foreign exchange rates and mismatches between its assets and liabilities, as well as through its off-balance sheet activities involving exposures to instruments denominated in different currencies. In order to effectively manage currency risk, the Management Board has approved the Currency Risk Management Policy, which provide guidelines for the identification, assessment and control and monitoring of currency risk. DBRB monitors its currency positions and the market situation on a daily basis and stress-tests its currency positions regularly. See "*Risk Factors—Risks Relating to DBRB—Fluctuations in foreign exchange rates may adversely affect DBRB's business, results of operations, financial condition and prospects*". For further information on DBRB's management of foreign currency risk, see Note 23(a)(ii) to the 2018 Financial Statements.

The following table sets forth a breakdown of DBRB's financial assets and liabilities by currency as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018	2017	2016
	(*BYN millions*)		
Assets			
Foreign currency-denominated assets			
EUR	1,393.8	1,051.2	738.3
US$	2,072.8	1,140.3	818.2
RUB	284.0	268.9	176.6
Other	3.2	2.9	7.1
BYN-denominated assets	3,674.8	3,381.8	3,353.3
Liabilities			
Foreign currency-denominated liabilities			
EUR	1,343.1	1,077.9	727.1
US$	1,385.2	686.9	426.2
RUB	192.4	150.8	114.9
BYN-denominated liabilities	2,283.9	2,119.0	2,240.7

As at 31 December 2018, DBRB was within its open position limits for convertible and non-convertible currencies it has set for the purposes of managing foreign currency risk.

The following table shows the net foreign currency position of DBRB as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018	2017	2016
Net long foreign currency position (*BYN millions*)	833.0	547.5	471.9
Net foreign currency position as a percentage of total equity (%)	39.2	32.1	30.5
Net foreign currency position as a percentage of foreign currency liabilities (%)	28.5	28.6	37.2

DBRB enters into derivatives transactions, most commonly currency swap agreements, to hedge some of its foreign currency risk. As at 31 December 2018, BYN833.2 million of foreign currency exposure was hedged. Management revises its assumptions applied to currency swap valuations on a regular basis in line with changes in the base market terms.

The following table sets forth an analysis of the sensitivity of DBRB's net income or loss and equity (net of taxes) to changes in exchange rates, based on a simplified scenario of a 30 per cent. appreciation or 10 per cent. depreciation of the foreign currencies presented in the balance sheet against the Belarusian ruble as at 31 December 2018, 2017 and 2016:

	As at 31 December					
	2018		2017		2016	
	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity
	(*BYN millions*)					
Strengthening of EUR by 30%	1.8	1.9	(8.0)	(5.7)	3.4	2.7
Weakening of EUR by 10%	(0.6)	(0.6)	2.7	1.9	(1.1)	(0.9)
Strengthening of US$ by 30%	204.8	157.1	132.6	101.8	104.1	80.1
Weakening of US$ by 10%	(68.3)	(52.4)	(44.2)	(33.9)	(34.7)	(26.7)
Strengthening of RUB by 30%	42.4	34.3	38.8	31.5	32.1	26.3
Weakening of RUB by 10%	(14.1)	(11.4)	(12.9)	(10.5)	(10.7)	(8.8)

Country Risk

Country risk is the risk of losses resulting from failure by the foreign counterparties to perform their obligations due to economic, political and social changes or due to unavailability of payment currency in the country of their operation.

With respect to country risk management, DBRB created a country risk assessment map for the purpose of assessing, monitoring and controlling country risks. DBRB has also established limits for amounts due from banks which are exposed to country risk.

The following table sets forth a breakdown of DBRB's financial assets and liabilities by region as at 31 December 2018, 2017 and 2016:

	As at 31 December		
	2018	2017	2016
		(BYN millions)	
Financial Assets			
Belarus	6,907.0	5,420.3	4,804.5
CIS	291.8	224.2	174.3
OECD	89.5	23.3	0.7
Other	140.2	177.2	114.0
Financial Liabilities			
Belarus	3,917,1	3,233.7	2,949.8
CIS	787.8	561.7	357.8
OECD	312.2	235.2	201.2
Other	187.5	4.1	—

Operational Risk

Operational risk is the risk of losses resulting from inadequacies or failures of internal processes, people and systems, or external events.

DBRB employs operational risk identification, assessment, reporting and control processes, as well as the periodic monitoring of the control system, to manage operational risk. Such processes are carried out on a regular basis and in accordance with the Operational Risk Management Policy approved by the Management Board. DBRB considers that its risk culture is an important factor in its ability to achieve its strategic goals. Accordingly, DBRB intends to introduce self-assessment of operational risk by its employees to enhance the risk management processes.

Reputational Risk

Reputational risk is the risk of losses resulting from the negative public opinion about the financial stability of DBRB, the quality of its services or the nature of its activities as a whole.

Reputational risk may arise due to shortcomings in the organisation of DBRB's activities, malfunctioning of electronic banking systems, failure to follow the business partnership practices, violations of public morality and ethical principles in the banking industry, suspected involvement of DBRB or its employees in illegal financial transactions as well as illegal activities.

DBRB also participates in sustainable social and cultural development of the Republic of Belarus, including regular support of major social projects.

Anti-Money Laundering, Anti-Corruption and Anti-Bribery Policies and Procedures

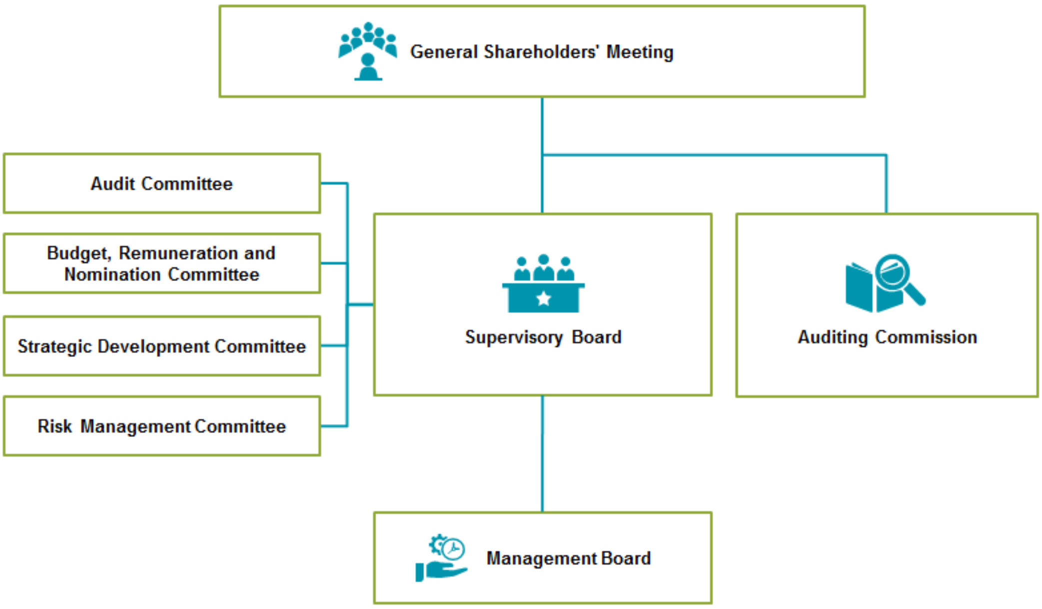
In addition to mandatory statutory requirements as set out in the Law of the Republic of Belarus No. 165-Z dated 30 June 2014 "On measures to prevent the legalisation of proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction", DBRB has developed internal know-your-customer and anti-money laundering policies, including procedures in relation to: (i) verifying information provided by customers in order to permit identification of customers, including ultimate owners and beneficiaries (both prior to establishing business relations with DBRB and at the time of entering into transactions); (ii) evaluation of the client to determine its risk profile; (iii) implementing additional monitoring and due diligence requirements in respect of activities identified as potentially high risk; (iv) identifying any suspicious transactions and further assessing these against anti-money laundering safeguards; (iv) notifying authorised bodies in regard to any suspicious transactions; and (v) refusing to proceed with transactions or suspending transactions in the event that a customer fails to provide supporting documentation or provides false or inaccurate documentation or DBRB otherwise believes the transaction is suspicious. These policies include the Rules for Internal Control with respect to Combating Money Laundering, Financing of Terrorism and Financing of Spread of Weapons of Mass Destruction, adopted on 9 April 2015 and most recently updated and approved by the Management Board on 18 June 2018. In order to implement these policies to the highest standard, DBRB provides on-going anti-money laundering training to all relevant employees.

In addition to mandatory statutory requirements in respect of anti-corruption and anti-bribery as set out in the Law of the Republic of Belarus No. 305-Z dated 15 July 2015 "On Combating Corruption", the Management Board approved DBRB's anti-corruption policy on 4 May 2018. DBRB is entitled to refuse to conduct business with persons or entities included on applicable sanctions lists. See "*Risk Factors—Risk Factors relating to the Republic of Belarus—The Republic of Belarus is vulnerable to corruption*".

DBRB's Internal Control Service is responsible for the management of compliance risks, including functions related to the prevention and counteraction to money laundering, financing of terrorism and financing of spread of weapons of mass destruction, as well as the identification and prevention of corruption; effective settlement of conflicts of interest and control over compliance by DBRB's employees with professional ethics requirements. The Head of the Internal Control Service is appointed by the Chairperson of the Management Board with the approval of the Supervisory Board, and reports directly to the former.

MANAGEMENT

The following simplified organisation chart sets forth the management reporting lines and principal business units of DBRB as at the date of these Listing Particulars:



General

The DBRB Charter provides for the following corporate governing bodies:

- the General Shareholders' Meeting, which represents the highest corporate governing authority of DBRB. As at the date of these Listing Particulars 96.212 per cent. of the share capital in DBRB is held directly by the Government. The shareholder rights pertaining to the shares owned by the Government are held by the State Committee on Property of the Republic of Belarus;

- the Supervisory Board, which is responsible for the oversight of the general management of DBRB and the approval of its strategic and operational plans;

- the Management Board, which is responsible for the day-to-day management and administration of DBRB; and

- the Auditing Commission, which is responsible for the internal control over financial and economic activities of DBRB and reports to General Shareholders' Meeting.

Supervisory Board

The Supervisory Board must consist of eight members elected by the General Shareholders' Meeting. At least three members of the Supervisory Board must be independent directors. The Prime Minister is the *ex officio* Chairperson of the Supervisory Board. As at the date of these Listing Particulars, the Supervisory Board consists of eight members, including the Chairperson of the Supervisory Board, two other representatives of the Government, as DBRB's major shareholder, and five independent directors. The Supervisory Board is tasked with, among other things, the general management of DBRB's activities, the determination of DBRB's priority business areas, the effective implementation of DBRB's objectives, the approval of DBRB's strategic development plans, the efficient operation of DBRB's risk management system and the control of DBRB's financial and economic activities.

The activities of the Supervisory Board are governed by the Charter of DBRB and Supervisory Board's operating procedure which was approved on 18 January 2012 and which sets forth the role of the Supervisory Board and rights, duties and responsibilities of its members.

As at the date of these Listing Particulars, the members of DBRB's Supervisory Board are:

Name	Other Positions	Date Appointed	Date of Birth
Sergei Roumas (Chairperson)	Prime Minister	18 August 2018	1 December 1969
Maksim Yermalovich (Deputy Chairperson, State Representative)	Minister of Finance of the Republic of Belarus	8 October 2018	26 June 1977
Dmitry Krutoy (State Representative)	Minister of Economy of the Republic of Belarus	8 October 2018	10 January 1981
Vladimir Dmitriev (independent director)	Chairperson of the Strategic Development Committee, Member of the Budget, Remuneration and Nomination Committee	26 March 2018	25 August 1953
Mikhail Kovalev (independent director)	Chairperson of the Risk Management Committee, Member of the Strategic Development Committee	26 March 2018	2 May 1947
Sergei Novitskiy (independent director)	Chairperson of the Budget, Remuneration and Nomination Committee, Member of the Audit Committee	26 March 2018	26 August 1962
Aleksandr Shvets (independent director)	Chairperson of the Audit Committee, Member of the Budget, Remuneration and Nomination Committee and the Risk Management Committee	26 March 2018	28 March 1965
Daniel Krutzinna (independent director)	Member of the Risk Management Committee, the Audit Committee and the Strategic Development Committee	26 March 2018	3 December 1974

Information regarding the members of the Supervisory Board is set out below:

Sergei Roumas graduated from the Yaroslavl Higher Military Financial College and the Academy of Public Administration of the Cabinet of Ministers of the Republic of Belarus. Mr. Roumas holds a PhD degree in Economics from the Academy of Public Administration of the Cabinet of Ministers of the Republic of Belarus. Between 1992 and 2005, he held senior positions with various banks in the Republic of Belarus. Between 2005 and 2010, he served as the Chairperson of the Management Board of JSC Belagroprombank. From 2010 to 2012, he held the position of the Deputy Prime Minister of the Republic of Belarus. From August 2012 to August 2018, Mr. Roumas acted as the Chairperson of the Management Board of DBRB.

Maksim Yermalovich graduated from the Academy of Public Administration under the aegis of the President of the Republic of Belarus. From 2002 to 2007, Mr. Yermalovich held various positions with the Ministry of Finance. Between 2007 and 2011, he was the Head of the Main Department of Budget Policy of the Ministry of Finance. From 2011 to August 2018, Mr. Yermalovich was the Deputy Minister of Finance of the Republic of Belarus and the First Deputy Minister of Finance of the Republic of Belarus. In August 2018, he was appointed the Minister of Finance of the Republic of Belarus.

Dmitry Krutoy graduated from the Belarusian State Technological University and the Academy of Public Administration under the aegis of the President of the Republic of Belarus. Between 2010 and 2014, he served as a deputy head of the main department of forest complex of the Ministry of Economy of the Republic of Belarus. From 2014 to August 2018, Mr. Krutoy was the Deputy Minister of Economy of the Republic of Belarus and the First Deputy Minister of Economy of the Republic of Belarus. In August 2018, he was appointed the Minister of Economy of the Republic of Belarus.

Vladimir Dmitriev holds a Doctor of Economics degree from the Moscow Financial Institute. Between July 2002 and May 2004, he served as a Deputy Chairperson of the Management Board of the Foreign Trade Bank (JSC Vneshtorgbank). Between 2004 and 2007, he held the position of the Chairperson of the Bank for Foreign Economic Affairs. Between 2007 and 2016, Mr. Dmitriev served as the Acting Chairperson of the State Corporation "Bank for Development and Foreign Economic Affairs" (Vnesheconombank). In April 2016, he was appointed the Vice-President of the Chamber of Commerce and Industry of Russia. Mr. Dmitriev is the Chairperson of the Strategic Development Committee and a member of the Budget, Remuneration and Nomination Committee of the Supervisory Board of DBRB.

Mikhail Kovalev holds a Doctor of Physics and Mathematics degree from the Belarusian State University. He was the Dean of the Economics Faculty of the Belarusian State University for more than 19 years. Since May 2018, he has held the position of Professor of the Analytical Economy and Econometrics Faculty of the

Belarusian State University. Mr. Kovalev is the Chairperson of the Risk Management Committee and a member of the Strategic Development Committee of the Supervisory Board of DBRB.

Sergei Novitskiy graduated from the Minsk Radio-Technical Institute. Since 2004, he has served as the CEO of JLLC Henkel Bautechnik. Mr. Novitskiy is the Chairperson of the Budget, Remuneration and Nomination Committee and a member of the Audit Committee of the Supervisory Board of DBRB.

Aleksandr Shvets graduated from the Minsk Suvorov Military School, the Belarusian State University and the Academy of Public Administration under the President of the Republic of Belarus. In October 2010, he was appointed Chairperson of the Republican Civic Organisation "Belarusian Scientific and Industrial Association". Since October 2016, Mr. Shvets has been serving as the Chairperson of the Republican Union of Industrialists and Entrepreneurs. Mr. Shvets is the Chairperson of the Audit Committee, a member of the Budget, Remuneration and Nomination Committee and a member of the Risk Management Committee.

Daniel Krutzinna graduated from Potsdam University and the John F. Kennedy School of Government at Harvard University. Mr. Krutzinna has been the Senior Director of LLC Civitta BY, an independent management consulting firm, since 2013. He is a member of the Risk Management Committee, the Audit Committee and the Strategic Development Committee.

The business address of the members of the Supervisory Board is the registered office of DBRB, namely, 35 Masherova prospect, Minsk, 220002, the Republic of Belarus.

Management Board

The Management Board of DBRB is an executive body consisting of eight members elected by the Supervisory Board of DBRB. The Management Board is headed by the Chairperson of the Management Board, who is appointed by the Supervisory Board of DBRB. The Management Board is responsible for the day-to-day management of DBRB's activities and reports to the General Shareholders' Meeting and the Supervisory Board of DBRB.

As at the date of these Listing Particulars, the members of the Management Board are:

Name	Other Positions	Date Appointed	Age	Date of Birth
Andrey Zhishkevich	Chairperson of the Management Board, Chairperson of the Financial Committee	6 December 2018	45	18 August 1973
Tatsiana Sasnouskaya	First Deputy Chairperson of the Management Board and Chairperson the Woodworking Enterprises Management Committee	20 August 2018	44	17 October 1974
Vasili Shved	Deputy Chairperson of the Management Board, Chairperson of the IT Committee	12 February 2013	58	10 June 1960
Natallia Yasinskaya	Deputy Chairperson of the Management Board (responsible for risk management in DBRB)	4 November 2013	42	13 October 1975
Ivan Varenitsa	Deputy Chairperson of the Management Board, Chairperson of the Distressed Assets Management Committee	11 January 2016	41	21 December 1976
Maryia Arlouskaya	Chief Accountant	10 October 2011	52	19 August 1966
Siarhei Staliarchuk	Head of the International Business Department	28 December 2012	37	13 February 1981

Andrey Zhishkevich graduated from the Belarusian State University and obtained his PhD in Economics from the Scientific and Research Institute of Economy of the Ministry of Economy of the Republic of Belarus. Mr. Zhishkevich started his career in Belvnesheconombank in 1995. He was appointed the head of Credit and Project Financing Unit of the Crediting and Investments Department, Deputy Director of the Crediting and Investments Department – Head of the Credit and Project Financing Unit of CJSC Bank for International Trade and Investment in 1999. From 2002 to 2005, Mr Zhishkevich was the Deputy Chairperson of the Management Board of CJSC Minsk Transit Bank and he was the Chairperson of the Management Board of the same bank from 2005 to December 2018. In December 2018, he was appointed the Chairperson of the Management Board of DBRB and the Chairperson of the Financial Committee.

Tatsiana Sasnouskaya graduated from the State Economic University of the Republic of Belarus. From 1993 to 2011, she held various positions with JSC Belagroprombank. In August 2011, she was appointed the Deputy Chairperson of the Management Board of DBRB. She has served as the First Deputy Chairperson of the Management Board of DBRB since November 2013. From August 2018 to December 2018, she was Acting

Chairperson of the Management Board of DBRB. She is also the Chairperson of the Woodworking Enterprises Management Committee.

Vasili Shved graduated from the Novosibirsk Higher Command Military-Political General Service School named after 60th anniversary of the Great October, the Military University and the State Economic University of the Republic of Belarus. From 1977 to 1994, he served in the Military Force. In 1995, he began his career in the banking industry where he held various positions with Belarusian banks until 2001. From 2001 to 2005, he held senior positions in various commercial entities. In 2005, he resumed his banking career with JSC Belagroprombank where he held the position of a Deputy Chairperson of the Management Board from 2010 to 2012. In February 2013, he was appointed the Deputy Chairperson of the Management Board of DBRB. Mr. Shved is the Chairperson of the IT Committee.

Natallia Yasinskaya holds a PhD degree in Economics from the Belarusian State University. Between 1997 and 2008, she held various positions with JSC Savings Bank Belarusbank and JSC Belagroprombank. From 2008 to 2013, she was a Deputy Chairperson of the Management Board of JSC Belagroprombank. She has served as the Deputy Chairperson of the Management Board of DBRB since November 2013.

Ivan Varenitsa graduated from the Belarusian State University and the State Economic University of the Republic of Belarus. Between 1997 and 2016, he held various positions with OJSC Priorbank. In January 2016, he was appointed the Deputy Chairperson of the Management Board of DBRB. Mr. Varenitsa is the Chairperson of the Distressed Assets Management Committee.

Maryia Arlouskaya graduated from the Belarusian State Institute of National Economy named after V.V. Kuybyshev. Between 1995 and 2011, she held various positions with JSC Savings Bank Belarusbank. She has served as the Chief Accountant of DBRB since October 2011.

Siarhei Staliarchuk graduated from the State Economic University of the Republic of Belarus. Between 2005 and 2012, he held various positions with JSC Savings Bank Belarusbank. In December 2012, he was appointed the Head of International Business Department of DBRB.

The business address of the members of the Management Board is the registered office of DBRB, namely, 35 Masherova prospect, Minsk, 220002, the Republic of Belarus.

Auditing Commission

The Auditing Commission is a supervisory body established pursuant to Belarusian legislation and the Charter of DBRB that facilitates shareholder control over financial and business activities as well as management. The Auditing Commission consists of two members who are elected annually by the General Shareholders' Meeting. The members of the Auditing Commission are independent in their activities and report only to the shareholders.

The current members of the Auditing Commission are Mikhail Prokhorik and Maxim Kremenitsky.

Board Committees

The Supervisory Board has established the following committees:

Audit Committee

The Audit Committee is responsible for ensuring the functioning of the internal control system and the Internal Audit Service. The Audit Committee also selects an external auditor of DBRB.

The current members of the Audit Committee are Aleksandr Shvets, Sergei Novitskiy, Daniel Krutzinna, Natalia Kostenevich and Igor Reutovich, three of whom are independent.

Budget, Remuneration and Nomination Committee

The Budget, Remuneration and Nomination Committee is responsible for financial planning and budget implementation, formation and application of the remuneration and compensation system, improvement of the corporate governance, selection and evaluation of candidates for the Supervisory Board. The Budget, Remuneration and Nomination Committee assesses the efficiency of the Supervisory Board and its members on annual basis.

The current members of the Budget, Remuneration and Nomination Committee are Sergei Novitskiy, Vladimir Dmitriev, Aleksandr Shvets, Natallia Yasinskaya and Albina Sychevskaya.

Risk Management Committee

The role of the Risk Management Committee is to manage, assess, monitor and limit risks, stress test DBRB and develop measures to limit risks.

The current members of the Risk Management Committee are Mikhail Kovalev, Aleksandr Shvets, Daniel Krutzinna, Natallia Yasinskaya and Dmitry Tsekhanovich.

Strategic Development Committee

The role of the Strategic Development Committee is to devise and implement strategic development plans for DBRB and its key performance indicators, as well as to develop the priority business areas for DBRB.

The current members of the Strategic Development Committee are Vladimir Dmitriev, Daniel Krutzinna, Mikhail Kovalev, Tatsiana Sasnouskaya and Natallia Yasinskaya.

Other Committees and Support Bodies

The Management Board is also assisted by the Credit Committee, the Distressed Assets Management Committee, the IT Committee, the Financial Committee, and the Woodworking Enterprises Management Committee.

The Distressed Assets Management Committee assists with assessing the loan performance of potentially default debtors and advising on the strategy for working with insolvent debtors, including enforcement of security. The IT Committee is responsible for the organisation of DBRB's electronic systems, their maintenance and further digitalisation of DBRB's activities, and the Woodworking Enterprises Management Committee carries out the organisation of corporate management of the woodworking industry enterprises where DBRB acts as the Government-mandated operational manager, *inter alia*, advising on the development plans of the enterprises and setting and monitoring their key performance parameters.

The following table sets forth the current members of the Distressed Assets Management Committee:

	Role on the Distressed Assets Management Committee	**Other Roles within DBRB**
Ivan Varenitsa	Chairperson	Deputy Chairperson of the Management Board
Pavel Gorodetskiy	Deputy Chairperson	Deputy Head of the IT Security Division
Inna Starovoitova	Member	Head of the Banking Operations Department
Olga Metelskaya	Member	Head of Legal Department
Andrey Taradeyko	Member	Head of Distressed Assets Department
Mikhail Russiyanov	Member	Head of Pledge Management Division
Dmitry Tsekhanovich	Member	Head of the Risk Management Department

The following table sets forth the current members of the IT Committee:

	Role on the IT Committee	**Other Roles within DBRB**
Vasili Shved	Chairperson	Deputy Chairperson of the Management Board
Olga Kireeva	Deputy Chairperson	Head of IT Department
Natallia Yasinskaya	Member	Deputy Chairperson of the Management Board
Maryia Arlouskaya	Member	Chief Accountant
Dmitry Karikh	Member	Deputy Head of Organisational changes Department
Pavel Gorodetskiy	Member	Deputy Head of the IT Security Division
Fedor Sukhovenko	Member	Head of the Software Maintenance Division
Oleg Snigir	Member	Head of the Settlement Centre Business Transformation Division of the HR Department

The following table sets forth the current members of the Woodworking Enterprises Management Committee:

	Role on the Woodworking Enterprises Management Committee	Other Roles within DBRB
Tatsiana Sasnouskaya	Chairperson	First Deputy Chairperson of the Management Board, Chairperson of the Credit Committee and the Woodworking Enterprises Management Committee
Irina Konepo	Deputy Chairperson	Executive Director
Ivan Varenitsa	Member	Deputy Chairperson of the Management Board, Chairperson of the Distressed Assets Management Committee
Vasili Shved	Member	Deputy Chairperson of the Management Board, Chairperson of the IT Committee
Siarhei Staliarchuk	Member	Head of the International Business Department
Anatoly Buben	Member	Head of the DBRB regional branch in Grodno
Ivan Gavrilovets	Member	Head of the DBRB regional branch in Gomel
Pavel Dzik	Member	Head of the DBRB regional branch in Minsk
Sergey Lapekho	Member	Head of the DBRB regional branch in Vitebsk
Vladimir Yankovskiy	Member	Head of the DBRB regional branch in Mogilev

Internal Audit Service

The Internal Audit Service is tasked with ensuring the organisation of and conducting, DBRB's internal audits and developing an annual audit plan based on the recommendations of the Audit Committee, as well as a map of DBRB's audit risks, including DBRB's risk matrix and risk register. The Internal Audit reports and is accountable to the Supervisory Board and is supervised by the Audit Committee. The Internal Audit Service carries out its activities in compliance with the legislation of the Republic of Belarus, internal regulations of DBRB and the International Professional Practices Framework, the Code of Ethics and guidances promulgated by the Institute of Internal Auditors. The Internal Audit Service conducts its activities in line with specially designed methodologies and the annual audit plan.

The activities of the Internal Audit Service are aimed at providing the Supervisory Board with an objective, independent assessment of, and advisory services with regard to, the status of DBRB's internal control, risk management and corporate governance systems.

The Head of the Internal Audit Service is appointed by the Chairperson of the Management Board and approved by the Supervisory Board. The Supervisory Board approves the annual plan for the Internal Audit Service and key performance indicators applicable to the Internal Audit Service and the Head of the Internal Audit Service. The activity report of the Internal Audit Service is submitted to the Audit Committee and the Supervisory Board on an annual basis.

Corporate Governance

In March 2018, the General Shareholders' Meeting approved DBRB's Code of Corporate Governance which is aimed to establish efficient and transparent corporate governance system in order to ensure financial stability and long-term functioning of DBRB.

As at the date of these Listing Particulars DBRB's Code of Corporate Governance sets out the general rules with respect to the corporate and organisational structure of DBRB's main governing bodies, information disclosure and financial control and provides for the following principles:

- protection of the rights of DBRB's shareholders, ensuring shareholder participation in DBRB's management;
- strict division of powers between DBRB's governing bodies and coordination of their activities;
- balance between the interests of DBRB, its shareholders, the members of DBRB's governing bodies, other interested parties and the Government;
- transparency of DBRB's activities and disclosure of information in accordance with applicable rules.

Management Remuneration

The total compensation paid or accrued to the members of the Supervisory Board and the Management Board amounted to BYN1.2 million for each of the years ended 31 December 2018, 2017 and 2016. In the years ended 31 December 2018, 2017 and 2016, DBRB paid bonuses amounting to BYN0.1 million, BYN0.2 million and BYN0.2 million to the Management Board, respectively. See "*Share Capital and Related Party Transactions—Related Party Transactions—Transactions with the Supervisory Board and Management Board*".

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Supervisory Board and the Management Board of DBRB towards DBRB and their private interests or other duties.

DBRB maintains a Conflict of Interest Management Policy which is aimed at preventing and settlement of any conflicts of interest in DBRB's activity, its potential adverse effect for DBRB, its employees, shareholders and clients.

SHARE CAPITAL AND RELATED PARTY TRANSACTIONS

Share Capital

As at 31 December 2018, DBRB's outstanding share capital consisted of 150,058,610 ordinary shares with a nominal value of BYN10.00 per share, all of which were issued and fully paid. Each ordinary share carries one vote.

In August 2018, the share capital of DBRB was increased by BYN245 million. Following this capital increase, the Government owns 96.212 per cent. of the share capital of DBRB, with the remaining 3.776 per cent. and 0.012 per cent. held by JSC "Belaruskali" (a 100 per cent. state-controlled entity, one of the world's largest potash producers, which received its shares in return for a contribution in kind of the property on which the DBRB's headquarters are located) and the National Bank, respectively, as shown in the table below.

	As at the date of these Listing Particulars	
	Number of ordinary shares	**Shareholding**
Shareholder		*(%)*
Government	144,374,290	96.212
JSC "Belaruskali"	5,666,770	3.776
National Bank	17,550	0.012
Total	**150,058,610**	**100.000**

History of DBRB's share capital

The following table sets forth the changes in DBRB's share capital that have occurred from the date of DBRB's incorporation to the date hereof.

Date of event	Share capital	Number of ordinary shares	Event
5 August 2011	BYN2,000,000	200,000	Share distribution to the shareholders in relation to DBRB's incorporation
27 December 2012	BYN302,000,000	30,200,000	Share capital increase of BYN300 million through contribution of the Republic of Belarus
14 March 2013	BYN389,504,540	38,950,454	Share capital increase of BYN87.5 million through in kind contribution of the Republic of Belarus
29 March 2013	BYN519,504,540	51,950,454	Share capital increase of BYN130 million by own means of DBRB
29 July 2013	BYN519,507,440	51,950,744	Share capital increase of BYN2,900 by own means of DBRB
13 November 2013	BYN565,729,920	56 572 992	Share capital increase of BYN46.2 million through contribution in kind by a new shareholder
30 December 2013	BYN845,729 920	84,572,992	Share capital increase of BYN280 million through contribution of the Republic of Belarus
18 June 2014	BYN915,729,920	91,572,992	Share capital increase of BYN70 million from the retained earnings of DBRB
13 April 2015	BYN948,084,000	94,808,400	Share capital increase of BYN32.4 million from the retained earnings of DBRB
25 April 2015	BYN998,084,000	99,808,400	Share capital increase of BYN50 million through contribution of the Republic of Belarus
27 May 2015	BYN1,048,084,000	104,808,400	Share capital increase of BYN50 million through contribution of the Republic of Belarus
30 July 2015	BYN1,081,084,000	108,108,400	Share capital increase of BYN33 million through contribution of the Republic of Belarus
31 August 2015	BYN1,114,084,000	111,408,400	Share capital increase of BYN33 million through contribution of the Republic of Belarus
24 September 2015	BYN1,148,084,000	114,808,400	Share capital increase of BYN34 million through contribution of the Republic of Belarus
4 November 2016	BYN1,255,586,100	125,558,610	Share capital increase of BYN 107.5 million from the retained earnings of DBRB
23 August 2018	BYN1,500,586,100	150,058,610	Share capital increase of BYN245 million through contribution of the Republic of Belarus

Related Party Transactions

General

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operation decisions, as defined in IAS 24, Related Party Disclosures and revised IAS 24, Related Party Disclosures (effective from 1 February 2015). In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions with the Supervisory Board and Management Board

In each of 2018, 2017 and 2016, the total remuneration of members of the Supervisory Board and the Management Board, including payroll and related taxes, was BYN1.2 million. In 2018, 2017 and 2016, DBRB paid bonuses amounting to BYN0.1 million, BYN0.2 million and BYN0.2 million, respectively, to the Management Board.

Transactions with other Related Parties

DBRB enters into certain transactions with the National Bank and other organisations and banks controlled by the Republic of Belarus. DBRB also enters into certain transactions with government bodies of the Republic of Belarus. See Note 29 to the 2018 Financial Statements.

Debt securities purchased by the National Bank, loans from banks controlled by the Republic of Belarus, customer accounts of government bodies of the Republic of Belarus and Government grants comprise significant sources of DBRB's funding. In addition, DBRB extends financing to state-controlled companies and government bodies of the Republic of Belarus. As at 31 December 2018, DBRB had BYN3,694.2 million of outstanding loans to state-controlled companies and government bodies of the Republic of Belarus at an average interest rate of 5.5 per cent.

The Companies Law and DBRB's Conflict of Interest Management Regulation provide that in the event that a member of the Supervisory Board has a conflict of interest in relation to an investment project or other transaction, such member must inform the Supervisory Board of the conflict and shall not participate in the vote to approve such transactions. Any vote shall then be passed by a majority of the remaining non-conflicted members. Only if there are insufficient non-conflicted members of the Supervisory Board to pass a vote, shall a decision to approve a transaction be taken by DBRB's general meeting of shareholders.

Dividends

In March 2019, DBRB declared dividends in the amount of BYN30.5 million for the year ended 31 December 2018.

The following table presents dividends declared and paid by DBRB during the years ended 31 December 2018, 2017 and 2016.

	As at 31 December		
	2018	2017	2016
		(BYN millions)	
Dividends payable as at the beginning of the period	—	—	—
Dividends declared during the period	33.5	32.9	34.5
Dividends paid during the period	(33.5)	(32.9)	(34.5)
Dividends payable as at the end of the period	—	—	—

OVERVIEW OF THE REPUBLIC OF BELARUS

Location and Population

The Republic of Belarus is a country in Eastern Europe bordering Russia to the East, Poland to the West, Lithuania and Latvia to the North and Ukraine to the South. The distances from Minsk to Moscow, Warsaw, Vilnius, Riga and Kiev are 700 kilometres, 550 kilometres, 215 kilometres, 470 and 580 kilometres, respectively.

The area of the territory of the Republic of Belarus is 207.6 thousand square kilometres and the length of the state border is 2,969 kilometres. At its widest points, the Republic of Belarus stretches for 560 kilometres from north to south and for 650 kilometres from west to east. The terrain of the Republic of Belarus is predominantly flat, and includes many lakes and marshlands. Forest covers approximately one third of the country.

The Republic of Belarus is crossed by numerous oil, gas and oil related product pipelines, railways, highways, navigable waterways and telecommunication lines between Western Europe and Russia and Asian countries. The most direct transportation routes linking Russia with the countries of Western Europe, and the Baltic and Black Seas, are through the Republic of Belarus.

The Republic of Belarus is a unitary, democratic, social state of law. The effective Constitution of the Republic of Belarus was adopted in 1994 and amended by national referenda on 24 November 1996 and 17 October 2004.

Administratively, the Republic of Belarus is divided into six regions (oblasts) (Brest, Vitebsk, Gomel, Grodno, Mogilev and Minsk) plus the city of Minsk (the capital of the Republic of Belarus), 118 districts, 115 cities and towns and 86 urban villages. As at 1 January 2018, the population of the Republic of Belarus was estimated at 9.5 million people, with 78.4 per cent. of the population living in cities and urban centres. The city of Minsk has a population of 2.0 million, approximately 20 per cent. of the total population. According to 2009 census data, ethnic Belarusians constitute more than 80 per cent. of the Republic of Belarus's total population. Other ethnic groups include Russians, Poles, Ukrainians, Jews and others. The national languages of the Republic of Belarus are Belarusian and Russian.

The following table sets forth a breakdown of the Republic of Belarus's population by age and gender as at the beginning of 2018.

		Gender		
	Percentage of Population	Male	Female	Total Population (Male and Female)
Age				
0-15	17.7	865,855	817,257	1,683,112
Working age (male 16-60 and six months, female 16-55 and six months)	57.2	2,859,707	2,571,640	5,431,347
Above working age (male over 60 and six months, female over 55 and six months)	25.1	695,972	1,681,392	2,377,364
Total	**100.00**	**4,421,534**	**5,070,289**	**9,491,823**

Source: National Statistical Committee

Approximately 50 per cent. of the Belarusian population identify themselves as holding religious beliefs, of which approximately 80 per cent. are Belarusian orthodox Christians.

Freedom of religion is guaranteed in the Constitution of the Republic of Belarus. The country has more than 3,524 religious organisations of 25 confessions and directions. Among them are Orthodox communities, Roman Catholic, Pentecostal (Christians of Evangelical Faith), Baptist, Seventh Day Adventist, Lutheran, Jewish and Muslim. The leading role in the religious life of the country is provided by the Belarusian Orthodox Church.

History

From the early 10th century until the 13th century a number of different states existed on the territory of present day the Republic of Belarus, with the principalities of Polotsk, Turov and Novgorod being the most important.

These principalities formed a large confederation within Kievan Russia where the relations between the princes were based on suzerainty and vassalage. During the 10th to 12th centuries, some of the major principalities became independent and were ruled by local dynasties, but from the middle of the 13th century until the end of the 18th century, the Belarusian lands formed a part of the Grand Duchy of Lithuania. The Grand Duchy existed as a fully independent sovereign state from the middle of the 13th century until 1569, when it became one of the two federated entities within the Polish Commonwealth *(Rzecz Pospolita).*

After *Rzecz Pospolita* was divided, Belarus became part of the Russian Empire and lost its separate identity, as reflected in the official name, the North-Western Lands, given to it in 1840. From 1801, the ethnic territory of the Belarusians formed part of the Minsk, Mogilev, Vitebsk, Grodno and Vilnia provinces of Russia.

During World War I, when still occupied by German troops, the Belarusian People's Republic was proclaimed as a national bourgeois-democratic state on 25 March 1918. It failed, however, to become an independent country, having insufficient time to form a constitution or to set state boundaries.

On 1 January 1919, the Belarusian Soviet Socialistic Republic ("**BSSR**") was formed. Its political and economic life was under the control of a central government. Non-communist parties and organisations were banned, and administrative functions were performed by the Communist Party machinery. At the same time, the Constitution of the BSSR declared that all power was delegated to the Councils of Workers', Peasants' and Soldiers' Deputies.

On 27 July 1990, the Declaration of State Sovereignty was adopted. Following the collapse of the Soviet Union, the Republic of Belarus officially declared independence on 25 August 1991.

Government

The Constitution and the President

The Republic of Belarus is a presidential republic, governed by the President, the Council of Ministers and the National Assembly (as defined below). The Republic of Belarus's current constitution (the "**Constitution**") was adopted in 1994, with amendments and additions adopted by national referenda held on 24 November 1996 and 17 October 2004, and is the fifth constitution in the history of the Republic of Belarus's constitutional development. The Constitution defines the Republic of Belarus as a unitary democratic social state of law. The Constitution is the basis for the development of the Republic of Belarus's legislation.

The legal status, duties and powers of the President are determined by the Constitution and the Law of the Republic of Belarus No. 3602-XII dated 21 February 1995 entitled "On the President of the Republic of Belarus". The Constitution and this law provide that the President is the head of state and the guarantor of the Constitution and the civil and human rights of the Republic of Belarus and that the President is to be elected directly by the people of the Republic of Belarus for renewable terms of office of five years. Alexander Lukashenko has been the President since 1994 and following amendments made to the Constitution in 2004, there is no longer any limit on how many times the President can be re-elected.

The President has a wide range of powers. He calls regular and extraordinary elections to the House of Representatives (as defined below), the Council of the Republic (as defined below) and local representative bodies; appoints the Prime Minister upon confirmation by the House of Representatives; appoints the Council of Ministers; makes appointments to local executive and administrative bodies; and appoints the chairperson of each of the constitutional and supreme courts from among the judges of those courts upon confirmation by the Council of the Republic. The President also appoints six of the twelve judges of the constitutional court (with the remaining six appointed by the Council of the Republic) and all judges of the courts of general jurisdiction. The President signs bills, grants pardons to convicted citizens, introduces national and public holidays and confers state awards, ranks and titles and performs other functions. The President forms and heads the Security Council of the Republic of Belarus and is the Commander-in-Chief of the Armed Forces of the Republic of Belarus.

In accordance with the Constitution, the President can issue edicts, decrees and orders on the basis of and in accordance with the Constitution, which have binding force in the territory of the Republic of Belarus.

The last Presidential elections took place in 2015. Four candidates participated in the elections, including the incumbent President, Mr. Lukashenko. A number of parties and associations were represented in the elections, including the Liberal Democratic Party of the Republic of Belarus, the Belarusian Social Democratic party "Hramada" and the Belarusian Patriotic Party. Mr. Lukashenko ran as an independent candidate and did not represent any political party. 87.2 per cent. of the electorate took part in the 2015 elections, and Mr. Lukashenko was elected as President by 83.5 per cent. of the votes.

The next presidential elections are expected to be held by August 2020.

The Executive Power

Executive power in the Republic of Belarus is exercised by the Government, as represented by the Council of Ministers. The Council of Ministers comprises the Prime Minister, his deputies and his ministers. In addition, the

Council of Ministers may include heads of other national bodies of public administration. In its activities the Council of Ministers is accountable to the President, who appoints its members and receives a quarterly report on the work done by the Council of Ministers. The Council of Ministers is also responsible to the National Assembly (as defined below).

The Prime Minister is appointed by the President with the consent of the House of Representatives. In the event of two consecutive failures by the House of Representatives to appoint a Prime Minister the President has the right to appoint an acting Prime Minister, dissolve the House of Representatives and call a new election. The Council of Ministers normally acts for the duration of the President's term of office and relinquishes its responsibility when a new President is elected. The President can dismiss the Council of Ministers at any time according to the procedure stipulated by the Constitution.

The Legislature and Main Political Parties

The representative and legislative body of the Republic of Belarus is the national assembly (the "**National Assembly**"). It comprises two chambers: the house of representatives as further discussed below (the "**House of Representatives**") and the council of the republic as further discussed below (the "**Council of the Republic**").

The House of Representatives consists of 110 deputies directly elected by the people of the Republic of Belarus for renewable terms of four years. The election of deputies is carried out on the basis of universal, free, equal and direct voting by secret ballot. The Council of the Republic is made up of territorial representatives and consists of 64 members, 48 of which are elected by the local Councils of Deputies for each of the six regions of the Republic of Belarus (which each elect eight members), eight of which are elected by the Council of Deputies for the city of Minsk and eight of which are appointed by the President. Unlike members of the Council of the Republic, a deputy of the House of Representatives may also be a member of the Council of Ministers. No person may be a member of both chambers of the National Assembly at the same time, nor can a member of either chamber hold either the office of President or be a judge. Each chamber of the National Assembly gathers for two regular sessions a year. The first session opens on 2 October and lasts no longer than 80 days. The second session opens on 2 April and lasts no longer than 90 days. Extraordinary meetings can be called by a Presidential edict.

The duties of the House of Representatives include, among other things, consideration of draft legislation, setting the timetable for elections of the President, approving the President's candidate for the position of Prime Minister and approving or declining the Government's programmes of activities. The House of Representatives also has the power to pass a vote of no-confidence in the Government. The President has the power to dissolve, and call for new elections to, the House of Representatives.

The Council of the Republic performs the following duties:

- approving or declining proposed amendments to the Constitution and draft legislation passed by the House of Representatives;
- approving the appointment by the President of senior judicial officers, senior officers within the National Bank, the attorney-general and the chairperson of the central electoral commission;
- electing six judges of the constitutional court;
- electing six members of the central electoral commission;
- overruling decisions of local Councils of Deputies that do not comply with applicable law and dissolution of those bodies in the event of systematic non-compliance and in certain other cases prescribed by law;
- investigation of serious allegations initiated by the House of Representatives against the President and dismissal of the President if there are grounds for such dismissal; and
- considering and approving presidential edicts on establishing a state of emergency and the imposition of martial law, full or partial mobilisation and performing other duties.

The central electoral commission is the state body responsible for the preparation and running of the state elections for the office of the President, the House of Representatives, the Council of the Republic, the local Councils of Deputies, and the running of national referenda (the "**Central Electoral Commission**"). The President appoints six members of the Electoral Commission, including the Chairperson, and the remaining six members are appointed by the Council of the Republic. The Electoral Commission's term of office is five years.

The latest elections to the House of Representatives were held in September 2016. The current composition of the House of Representatives includes 94 independent deputies who do not belong to any political party (and who have not announced their party membership), eight deputies from the Communist Party of Belarus, three deputies from the Republican Party of Labour and Justice, three deputies from the Belarusian Patriotic Party, one deputy from the Liberal Democratic Party of Belarus and one deputy from the United Civil Party.

The latest elections to the Council of the Republic were also held in September 2016. The current composition of the Council of the Republic comprises 64 members and does not have any dominant political party.

As at 1 January 2018, there were 15 political parties registered in the Republic of Belarus, including the Liberal Democratic Party, the Belarusian Social Sports Party, the Belarusian Party "Green", Social Democratic Party of Popular Accord, the Belarusian Agrarian Party, the Republican Party, the Conservative Christian Party - BPF, the Republican Party of Labour and Justice, the Belarusian left party "Fair world", the United civil party, the Belarusian patriotic party, the Belarusian Social Democratic party "Hramada" and the Communist party of Belarus.

The next elections to the House of Representatives and the Council of the Republic are to be held by September 2020. To avoid a potential conflict with the presidential elections, the elections to the House of Representatives and the Council of the Republic may be held in 2019.

The Constitution of the Republic of Belarus provides for several forms of direct democracy, including referenda, direct elections and the All-Belarusian Assembly.

Judicial System

The Republic of Belarus has a separate constitutional court and courts of general jurisdiction. The formation of emergency courts is prohibited. The constitutional court is responsible for ensuring that presidential edicts and orders and legislation from the National Assembly, as well as any other exercise of constitutional power, comply with the Constitution (the "**Constitutional Court**"). The system of courts of general jurisdiction consists of the supreme court of the Republic of Belarus, regional courts, economic regional courts and district courts. The courts of general jurisdiction oversee criminal, administrative and civil cases.

The Constitutional Court is comprised of 12 judges who cannot be older than 70 years of age. Six judges of the Constitutional Court are appointed by the President with the remainder being elected by the Council of the Republic. Judges of the Constitutional Court shall be appointed for 11 years and may be appointed for a new term. Members of the Constitutional Court cannot be removed until the end of their term. The Chairperson of the Constitutional Court is appointed by the President with the consent of the Council of the Republic. The term of office of the Chairperson of the Constitutional Court is five years.

All judges of the Supreme Court and the courts of general jurisdiction are appointed and may be removed by the President.

Local Government

Local government within the Republic of Belarus is organised on a regional, district, city, town, settlement and village basis on the principle of self-government for regional and local issues. Such self-government is exercised by citizens through local Councils of Deputies, executive and administrative authorities, other local authorities, local referenda, meetings and other forms of direct participation in government and public affairs.

The heads of local executive and administrative bodies are appointed (and dismissed) by the President, and these appointments are confirmed by the local Councils of Deputies.

Local Councils of Deputies (including the Council of Deputies for the city of Minsk) make decisions based on current legislation and have exclusive powers on the following issues:

- approval of economic and social development programmes and local budgets. including reports on their outcomes;
- the imposition of local taxes and duties;
- the management of municipal property; and
- holding local referenda.

Local Deputies are elected for renewable terms of four years by the relevant constituencies. The most recent local elections took place in the Republic of Belarus on 18 February 2018.

International Relations

Overview

The geopolitical and geoeconomic positions of the Republic of Belarus, its experience in nation-building and international cooperation and the export-oriented nature of its economy (exports account for over 60 per cent. of GDP) provide multiple avenues for the development of Belarusian foreign policy.

While the Republic of Belarus applies a consistent approach to the development of relations with foreign states, the Republic of Belarus concentrates its international relations efforts on certain countries.

The Republic of Belarus prioritises its relationships with its neighbours, most notably Russia. Strategic relations with Russia are based on the framework of the Union State (as described below under "*—Relations with Russia*") and other integration associations among former Soviet constituent republics, which in some instances have been initiated by the Republic of Belarus in which it is an active participant.

The most important of those integration associations is the EEU, an economic union whose launch has marked a new phase in Eurasian integration.

In the international arena, the Republic of Belarus has been promoting the concept of partnership of integration projects. The Republic of Belarus is located at the junction of the EEU and the EU and is committed to forming sustainable mechanisms of a full-scale dialogue between these unions, which entails the gradual convergence between the EEU and the EU and the development of a common economic space spanning "from Lisbon to Vladivostok" or possibly even further at a later stage. The processes within the EEU benefit from the simultaneous development of integration under the aegis of the Shanghai Cooperation Organisation, the Silk Road Economic Belt and the Association of Southeast Asian Nations.

Constructive cooperation with other CIS member states, which is a focus area of Belarusian foreign policy, is directed at fostering mutually beneficial multifaceted economic ties and ensuring reciprocal backing for CIS partners in international and regional fora.

Among former Soviet constituent republics, Ukraine is the most important trade and economic partner for the Republic of Belarus after Russia.

As a neighbour having a vested interest in the earliest possible settlement of the crisis in Ukraine, the Republic of Belarus has consistently acted to facilitate its partial de-escalation. Since 2014, Minsk has been the venue for holding consultations in the form of the three-party contact group under the framework of the Minsk agreements, which represent an internationally recognised mechanism for resolving the existing conflict by political and diplomatic means.

Minsk has proved its relevance as an international venue where solutions to complicated global and regional problems can be proposed and discussed. The Republic of Belarus strives to contribute to the resolution of global problems and to address challenges and threats. The President of the Republic of Belarus has gone on record in favour of resuming broad-based, international dialogue on strengthening confidence, security and cooperation matters similar to the Helsinki process. This initiative was supported by experts during large scale international events held in Minsk in 2018, including the expert initiative forum "Minsk Dialogue" entitled "Eastern Europe: searching for safety for all" (23-25 May); an international conference under the aegis of the OSCE entitled "Preventing and fighting terrorism in digital age" (9-10 October); and meetings of the Main Group of the Munich Security Conference (31 October – 1 November).

As far as the West is concerned, the Republic of Belarus prioritises efforts to normalise relations and to intensify cooperation with the EU and the United States, a process which has been gathering momentum in recent years. This has opened up new opportunities for further diversified interaction between the Republic of Belarus and the EU primarily in the commercial, economic, and investment fields.

Cultivating relations countries along a "foreign policy arc", including Asian, Latin American, Middle Eastern and African countries, is also of growing importance to the Belarusian foreign policy.

In Asia, Latin America, the Middle East, and Africa, the Republic of Belarus has been seeking closer political and economic ties with traditional and new partners and fostering cooperation with the most important among them. In particular, the Republic of Belarus has increasingly been cooperating with China.

Relations with IFIs

For further information on the Republic of Belarus's relations with the EFSD, the IMF, the World Bank and certain other IFIs, see "*Public Debt—Relationships with IFIs*".

Relations with Russia

The Republic of Belarus has traditionally had close ties with Russia and Russia remains the Republic of Belarus's largest and most important political and economic partner and is one of the Republic of Belarus's most significant trading partners.

In 1999, a Treaty on Establishing a Union State (the "**Union Treaty**") between the two countries was signed. This treaty set a goal of creating an economic union in which there is free movement of goods, services, capital and labour and equal conditions by which businesses may operate and in which there are equal rights across the areas of employment, wages, education, health care and other social benefits. Currently, the governing bodies of the Union State are the Higher State Council of the Union State and the Council of Ministers of the Union State. The Permanent Committee of the Union State functions as their working apparatus. The deputies of the Parliaments of both countries formed the Parliamentary Assembly of the Union State of Belarus and Russia.

The goals of the Union Treaty are addressed step-by-step (with the deepening of integration in economic and social spheres). Relations between Russia and the Republic of Belarus are based on the irrevocable principle of preserving the sovereignty of the two states. The two countries also cooperate in a common defence policy and coordinate with respect to foreign policy. Belarusian and Russian cooperation in the military field has developed gradually. The regional force grouping of the armed forces of the Republic of Belarus and the armed forces of Russia and a unified regional air defence system are in operation. The countries effectively cooperate in the military and technical sphere.

In order to develop bilateral trade, the Republic of Belarus and Russia signed a bilateral free trade agreement on 13 November 1992, a treaty establishing a Belarus-Russian customs union on 6 January 1995 and a treaty on improving trade and economic cooperation on 23 March 2007. The aggregate value of trade between the two countries in 2017 amounted to US$32.5 billion, which represented an increase of 23.8 per cent. compared to 2016. Exports from the Republic of Belarus to Russia in 2017 amounted to US$12.9 billion, which represented an increase of 17.8 per cent. compared to 2016. Imports from Russia for this period amounted to US$19.6 billion, which represented an increase of 28.0 per cent. compared to 2016. The aggregate value of trade for the year ended 31 December 2018 amounted to US$35.5 billion, which represented an increase of 9.4 per cent. compared to 2017. Exports from the Republic of Belarus to Russia for the year ended 31 December 2018 amounted to US$12.9 billion, which represented an increase of 0.4 per cent. compared to the same period in 2017. Imports from Russia for this period amounted to US$22.6 billion, which represented an increase of 15.4 per cent. compared to the same period in 2017.

The Republic of Belarus's exports to Russia principally comprise transport vehicles, milk and dairy products, meat, furniture, spare parts for tractors and automobiles, and its imports from Russia principally comprise oil, oil products, gas, cars, metal products and chemicals.

A number of oil and gas pipelines from Russia to the EU and a significant portion of Russian oil and gas exports run through the Republic of Belarus. In 2018, the transit of natural gas through the Republic of Belarus amounted to 42 billion cubic metres.

Russia is the main source of FDI in the Republic of Belarus and is the principal provider of external funding to the Republic of Belarus. FDI sourced from Russia totalled US$2,962.0 million, or 34.7 per cent. of all raised FDI, and US$2,848.9 million, or 37.3 per cent., in 2018 and 2017, respectively.

Relations with Russia and Kazakhstan under the Customs Union, Common Economic Space and member states of the EEU

Since 2007, the presidents of the Republic of Belarus, Russia and Kazakhstan signed a number of treaties for the creation of a three-member Customs Union, to advance cooperation and integration. A Common Customs Code entered into force as amongst all three countries on 6 July 2010. The Customs Union is viewed as a transitional step towards the formation of a common economic space.

In November 2011, the Republic of Belarus, Russia and Kazakhstan signed a framework of 17 joint agreements for the establishment of the Common Economic Space (the "**CES**") to promote free movement of goods, services, capital and workforce within it. The agreements set out common principles in respect of competition, industry subsidies and currency management policies.

On 29 May 2014 the Presidents of the Republic of Belarus, the Republic of Kazakhstan and Russia signed the EEUT, which became effective 1 January 2015. The EEU is an international economic organisation whose main goals are as follows:

- providing conditions for sustainable development of economies of the member states for advances in the living standards of their populations;
- striving for establishment of a common market of goods, services, capital and labour resources within the framework of the EEU; and
- comprehensive modernisation, cooperation and improving competitiveness of national economies in globalisation environment.

At present, five states are members of the EEU: the Republic of Armenia (from 2 January 2015), the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic (from 12 August 2015), and Russia.

The Eurasian Economic Commission (the "**EAEC**") was established in November 2011. The EAEC is a supranational governing body and acts as the regulatory body of the EEU. The decisions of the EAEC are binding on each of the EEU member states. The EAEC carries out its functions in accordance with the EEUT and international agreements of the EEU in the following areas: customs tariff and non-tariff regulation; customs administration; technical regulation; sanitary, veterinary and quarantine phytosanitary measures; crediting and distribution of import custom duties, creating trade regimes with third party countries; external trade statistics; macroeconomic, competition, currency and energy policies; industrial and agricultural subsidies; natural monopolies; government and/or municipal procurement; mutual trade in services and investments; transport and forwarding; intellectual property rights; labour migration; financial markets (including banking, insurance, currency and securities markets); other areas specified by the EEUT and international agreements of the EEU.

The EEU Customs Code entered into force on 1 January 2018.

Relations with CIS States

Cooperation between the Republic of Belarus and other CIS states is based on bilateral treaties and constitutes an important objective of the Republic of Belarus's foreign policy. The key trade partners of the Republic of Belarus among the CIS countries are Russia, Ukraine, Kazakhstan, Azerbaijan and Moldova.

In October 2011, the Republic of Belarus, Armenia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Ukraine signed an agreement on the establishment of a free trade zone which abolishes customs duties among the parties and restricts unilateral introduction of foreign trade protection measures within the free trade zone. In May 2013, the Protocol on Application of the Agreement on the Free Trade Zone as of 18 October 2011 was signed by the parties as well as the Republic of Uzbekistan. At the date of these Listing Particulars, this Protocol has not become effective in respect of Tajikistan.

Following on from the Free Trade Area Agreement in June 2016, the Republic of Belarus, Armenia, Kyrgyzstan, Russia and Tajikistan signed the Protocol on Rules and Procedures of Regulation of state procurement determining the goals and principles of regulation in the field of state procurement, as well as the terms of introduction of technologies ensuring disclosure and transparency of procurement.

The volume of external trade between the Republic of Belarus and CIS countries in 2017 amounted to US$38.6 billion (an increase of 23.6 per cent., or US$7.5 billion, compared to 2016). Exports to CIS countries amounted to US$17.5 billion (an increase of 19.4 per cent., or US$2.9 billion), and imports from CIS countries amounted to US$21.1 billion (an increase of 27.3 per cent., or US$4.6 billion).

In the year ended 31 December 2018, the volume of external trade between the Republic of Belarus and CIS countries amounted to US$43.0 billion (an increase of 11.5 per cent., or US$4.4 billion, compared to the same period in 2017). Exports to CIS countries in the year ended 31 December 2018 amounted to US$18.7 billion (an increase of 7.0 per cent., or US$1.2 billion), and imports from CIS countries amounted to US$24.3 billion (an increase of 15.3 per cent., or US$3.2 billion).

Milk and dairy products, meat and meat by-products, sugar, trucks and lorries, tractors and tractive units, and tyres are the main commodity items of Belarusian export to CIS countries.

Cooperation with the WTO

The Republic of Belarus applied to join the WTO in 1993. Until 2005, seven meetings of the WTO Working Party on the Republic of Belarus's accession were held. The Republic of Belarus renewed WTO membership negotiations in 2016.

Two meetings of the WTO Working Party on the Republic of Belarus' accession were held in 2017, and one in 2018. The meetings were accompanied by full-scale negotiations with WTO members. An extensive package of documents to be negotiated was prepared, including answers to the questions from interested WTO members, a draft working party report, a report on state-owned trading enterprises, an updated Legislative Action Plan and thematic questionnaires.

In September 2017, a special meeting on state support for agriculture in the Republic of Belarus was held at the WTO headquarters, where materials on domestic support for agriculture and a report on industrial subsidies were considered.

In July 2017, the first draft working party report was circulated among WTO members, which typically precedes the transition to the final stage of negotiations. The 11th meeting of the WTO Working Party on the Republic of Belarus's accession took place on 15 February 2019 in Geneva.

As at 21 March 2019, twenty bilateral market access protocols have been concluded.

Relations with the EU

The EU is the second most important trade and economic partner of the Republic of Belarus and a key provider of international technical assistance.

In recent years, there have been more positive dynamics in the relationship between the Republic of Belarus and the EU. After the Republic of Belarus undertook a number of measures in line with the EU's recommendations, including measures for the liberalisation of social life and activation of dialogue and interaction with the Office for Democratic Institutions and Human Rights at the OSCE in the context of presidential (2015) and parliamentary (2016) elections, the EU has initiated a process for the normalisation of relations with the Republic of Belarus, including the activation of bilateral contacts and mitigation of the earlier restrictions.

On 15 February 2016, the EU Council for Foreign Affairs approved the so-called "Belarus resolutions", providing for further steps to strengthen political relations with the Republic of Belarus, as well as the expansion of trade and economic cooperation, *inter alia,* through engagement with European financial institutions (including the European Investment Bank (the "**EIB**") and the EBRD).

On 25 February 2016, the EU Council also took the decision to cancel the majority of restrictive measures it had imposed with regard to the Republic of Belarus, save for a firearms embargo and sanctions related to four natural persons. On 27 February 2017, the EU decided to make biathlon equipment exempt from the arms embargo and on 28 February 2018 the EU also exempted small-gauge sporting weapons and ammunition.

Summit-level contacts and visits by the chief executives of European entities and EU member states to the Republic of Belarus have resumed.

Johannes Hahn, the EU Commissioner for European Neighbourhood Policy and Enlargement Negotiations, visited the Republic of Belarus in April and June 2015 and again in January, June and October 2018. In March 2016, the EU Special Representative for Human Rights, Stavros Lambrinidis, visited the Republic of Belarus. In June 2018, Mariya Gabriel, the EU Commissioner for Digital Markets and Society, visited the Republic of Belarus. In August 2018, Vytenis Andriukaitis, the EU Commissioner for Healthcare and Food Products Safety visited the Republic of Belarus. In February 2019, the EU Commissioner for Budget and Human Resources, Günther Oettinger, visited the Republic of Belarus.

The Belarus-EU Coordinating Group (the "**CG**") was created in 2016 with the purpose of continuing structured, political dialogue and a regular discussion of key issues and priority areas of interaction between the Republic of Belarus and the EU. As at the date of these Listing Particulars, five meetings of the CG have taken place, with the latest one taking place in Brussels on 12-13 December 2018. The scope of sectoral interaction with the European Commission has also been expanded and expert dialogues occur on a regular basis in the fields of ecology, economics and finance, customs and foreign trade.

In 2015, the dialogue with the EU with regard to human rights was renewed, with five meetings having taken place up to the date of these Listing Particulars. The latest such meeting took place on 17 July 2018 in Minsk.

The normalisation of political relations has been accompanied by substantive steps aimed at the development of trade and economic and humanitarian cooperation.

On 6 September 2016, the decision of the European Commission on the application of the mandate of the EIB for the Republic of Belarus was published in the official journal of the EU, which became effective on 26 September 2016. The signing of the framework agreement between the Republic of Belarus and the EIB, which will lay the legal foundation for implementation of the EIB's projects in the Republic of Belarus, was completed on 15 May 2017. The agreement came into effect on 9 August 2017.

During the visit of Alexander Stubb, Vice-President of the EIB, to Minsk on 20-21 November 2018, the EIB signed the first credit agreements to support SMEs in the amount of EUR50 million (JSC Belagroprombank) and EUR25 million (JSC Belarusbank) and to reconstruct a Minsk water treatment plant in the amount of EUR85 million.

With the support of the EU, on 7 September 2016, the Board of Directors of the EBRD approved the strategy for the Republic of Belarus for 2016-2019, which provides for deep involvement of the EBRD to work with the Belarusian state sector, so long as the Republic of Belarus follows the path of economic reforms. In 2018, EBRD funding in the Republic of Belarus totalled approximately EUR400 million. For the first time in its history, the Republic of Belarus was ranked in the top ten countries by the volume of EBRD funding.

On 7 February 2017, the EU Council abolished import quotas on Belarusian textile products. The Republic of Belarus is holding negotiations on entering the WTO.

In 2016, the Republic of Belarus and the European Commission jointly held for the first time a Belarusian Investment Forum in Vienna. On 27 October 2017, a Belarus - European Economic Forum took place in Luxembourg with the participation of the Prime Minister.

Since 2016, the EU has doubled its assistance to the Republic of Belarus under annual bilateral programmes to EUR 28-30 million. In 2018-2020, the amount of raised funds under these programmes is expected between EUR83 million and EUR107 million. At the same time, the Republic of Belarus continued to participate in a new cycle of cross-border cooperation programme of the EU "Latvia-Lithuania-Belarus" and "Poland-Belarus-Ukraine" for 2014-2020 (with the total budget exceeding EUR300 million), as well as in regional and topical programmes of the EU in the fields of energy efficiency, education, nuclear safety, integrated border management, migration, and other spheres.

On 13 October 2016, in a meeting of Ministers of the Interior of the EU member states in Luxembourg among the Republic of Belarus, the EU and seven of its member states, the Declaration on Mobility Partnership was signed. In October 2018, the Republic of Belarus commenced the realisation of the Mobility Partnership project on prevention of illegal migration, funded for up to EUR7 million.

The Republic of Belarus participates in the Eastern Partnership ("**EaP**"), the EU's initiative which was launched in Prague in May 2009 with the purpose of improving political, economic and trade relations between the EU and its six Eastern neighbours, being Armenia, Azerbaijan, the Republic of Belarus, Georgia, Moldova and Ukraine.

The Foreign Minister of the Republic of Belarus, Vladimir Makei, led the Belarusian delegation at the Brussels EaP Summit on 24 November 2017. During the summit, the parties signed an arrangement to include the Republic of Belarus in the indicative TEN-T network maps.

According to the indicative plan of action of the European Commission and the World Bank approved in January 2019 relating to investing in the parts of Trans-European transport networks in the territory of the Eastern Partnership provides that realisation of these projects in the Republic of Belarus will require approximately EUR1 billion of foreign investments until 2030.

On the basis of the final declaration of the Riga summit of the "Eastern Partnership" in May 2015, the Republic of Belarus and the EU commenced negotiations on bilateral priorities of the partnership for the period until 2020, covering four areas: strengthening of state institutions and efficient state governance; economic development and market opportunities; connectivity, power engineering, environment protection and climate change; mobility and interpersonal contacts.

The Republic of Belarus and the EU have continued to negotiate in relation to simpler visa procedures and readmission since 2014. As at the date of these Listing Particulars, the draft visa agreement is generally agreed.

The Republic of Belarus cooperates with the EU in the field of transport and environment. Having the status of observer in the Northern Dimension ("**ND**"), the Republic of Belarus participates in activities of the Northern Dimension Environmental Partnership ("**NDEP**"), the Northern Dimension Partnership on Transportation and

Logistics ("**NDPTL**") and the Northern Dimension Partnership in Public Health and Social Wellbeing. In particular, a number of projects are being implemented in the environment-oriented sphere, financed by the NDEP Fund, Nordic Investment Bank ("**NIB**") and the EBRD. Activation of project activities and elaboration of opportunities of getting financial support of the project in the transport sphere is an important area of participation of the Republic of Belarus in the NDPTL. In June 2017, the Republic of Belarus acceded to the Eastern European Energy Efficiency and Environment Partnership ("**E5P**"). Currently, a number of projects in the area of waste disposal, waste water treatment and energy saving are being realised in the Republic of Belarus under the E5P and the NDEP.

The Republic of Belarus maintains good relations with a number of the EU member states, such as Great Britain (Great Britain's expected exit from the EU is not expected to affect its bilateral relations with the Republic of Belarus), Germany, Italy, France, Spain, Austria, Belgium, the Netherlands, Poland, Latvia, Hungary, the Czech Republic, Romania, Slovenia and Slovakia.

Political dialogue with these states has been improving, with the federal presidents of Austria and Germany, the prime ministers of Latvia and Slovakia and the foreign ministers of Austria, Belgium, Hungary, Germany, Latvia and Slovakia all visiting the Republic of Belarus in 2017-2019, while the Prime Minister was hosted in Hungary, Italy, Luxembourg, and Slovakia and the Minister of Foreign Affairs of the Republic of Belarus was hosted in Belgium, Great Britain, Germany, Spain, Latvia and the Czech Republic.

The Republic of Belarus provides for the transit of goods, services and energy products to the EU, developing the relevant infrastructure and maintaining smooth functioning and safety of mainstream gas and oil pipelines coming from Russia to the EU. A significant portion of Russian energy exports to EU countries run through the Republic of Belarus. The Republic of Belarus is implementing a number of programmes aimed at improving industrial standards to the EU level. The Republic of Belarus is seeking to become a supplier of food and agricultural products to EU markets and is therefore developing its certification system.

After declining in 2015 and 2016, the volume of the bilateral trade with the EU has been growing since 2017. In 2017, bilateral trade reached US$14.5 billion (an increase of 29.7 per cent. compared to 2016). Belarusian exports to the EU in 2017 amounted to US$7.8 billion (an increase of 38.6 per cent. compared to 2016), while imports from the EU amounted to US$6.7 billion (an increase of 19.4 per cent. compared to 2016). The positive trade balance reached US$1.1 billion, compared to US$136.2 million in 2016. The EU's share of total Belarus exports amounted to 26.8 per cent. in 2017 (24 per cent. in 2016), and Russia's share amounted to 44.1 per cent. in 2017 (46.5 per cent. in 2016).

In the year ended 31 December 2018 the Republic of Belarus' exports to the EU amounted to US$10.2 billion (an increase of 29.9 per cent. compared to 2017), while imports from the EU for the year ended 31 December 2018 amounted to US$7.1 billion (an increase of 7.4 per cent. compared to 2017). The positive trade balance reached US$3.1 billion compared to US$1.1 billion for the same period in 2017.

In 2018, the Republic of Belarus attracted US$5.4 billion in investments from EU member states, of which US$4.6 billion was in the form of FDI, compared to US$5.2 billion and US$4.2 billion in 2017, respectively.

Participation in the Central European Initiative

The Republic of Belarus has been a member of the Central European Initiative ("**CEI**") since 1996. In 2017, the Republic of Belarus presided over the CEI for the first time. The main topic of the Belarusian presidency was the "Promotion of connectivity in a Wider Europe", which included the development of transport and logistical infrastructure, harmonisation of standards and customs procedures, introduction of modern information technologies for simplification of trade and development of cross-border services and other measures for barrier-free trade and economic and investment cooperation.

During the Belarusian presidency, various summits and meetings took place: the summit of the CEI Heads of Governments, a meeting of foreign ministers, an informal meeting of foreign ministers under the auspices of the UN General Assembly, ministerial conferences on connectivity and science, a CEI Parliamentary Assembly session, a business forum on energy efficiency, a meeting of the heads of chambers of commerce and various scientific seminars.

It is upon a motion from the Republic of Belarus that the CEI Plan of Action for 2018-2020 has come to include cooperation at different levels as part of the EU-EaP neighbourhood policy as a strategic guideline. It also incorporates specific subjects for project implementation, including the development of information and communication technologies, the encouragement of the digital economy, the establishment of digital transport corridors from the Mediterranean to the Baltic, the expansion of transit links and assistance with the setting-up of logistics chains with a view to creating a common digital market in Central and Eastern Europe (the "**CEE**") and on the European continent as a whole, and the maintenance and promotion of connectivity between the EU and China, with an ever greater role for CEE countries.

Relations with the OSCE

The Republic of Belarus is involved in the OSCE, which is the largest regional forum for political dialogue among 57 participant states on a wide range of issues, including military-political, economic-environmental and human dimensions of security.

Starting from 2014, the Republic of Belarus has been making consistent efforts to help resolve the crisis in neighbouring Ukraine, including by providing the venue and facilitating regular meetings of the Trilateral Contact Group on Ukraine and its thematic working groups. Meetings of heads and political directors of Foreign Ministries of the "Normandy Format" states in Minsk in 2016-2017 strengthened the image of the Republic of Belarus as a reliable partner and security provider in the OSCE region.

Overall, the Republic of Belarus advocates for the initiation of an extensive international dialogue with regard to security in order to de-escalate tensions on the European continent.

The 26th Annual session of the OSCE Parliamentary Assembly, which was held for the first time in Minsk in July 2017, confirmed, *inter alia*, the important role of the Republic of Belarus in promoting approaches to overcome the confidence deficit among the participating States of the OSCE.

On 9-10 October 2018, a high-level international conference on "Preventing and fighting terrorism in digital age" was held in Minsk reflecting the Republic of Belarus's increasingly prominent role. This was the first OSCE event organised in the Republic of Belarus. This event received a positive international response.

The Republic of Belarus conducts pragmatic and constructive cooperation with the OSCE Secretariat and the OSCE Office for Democratic Institutions and Human Rights (the "**ODIHR**"), including within the framework of project interaction (female leadership, gender equality, the rule of law and development of human rights education).

In order to further improve election legislation and its practical application, the Republic of Belarus continues to develop a constructive dialogue with ODIHR and other international institutions.

Relations with the Council of Europe

The Council of Europe (the "**CoE**") is an international organisation comprising 47 European countries, including the 28 EU member states. The Republic of Belarus is not currently a member of the CoE, however, it is a party to a number of conventions adopted by the CoE's member states, including the 1998 Criminal Law Convention on Corruption and the 1999 Civil Convention on Corruption. The Republic of Belarus is also a member of the Group of States against Corruption, which is the CoE's monitoring body against corruption.

The Action Plan of the CoE for the Republic of Belarus in 2016-2018 was successfully realised which included projects in the spheres of democracy, human rights and the rule of law. A new document for the next project period is currently under discussion.

The Republic of Belarus participates in the implementation of the "Partnership for Good Governance" program, the CoE and the EU umbrella program, which covers cooperation with the "Eastern Partnership" countries in various fields (including fight against corruption and cybercrime and reforming the judicial system).

Relations with the United States

The development of relations with the United States is one of the priorities of Belarusian foreign policy.

Through mutual efforts, since 2012, Belarus - US relations have gradually normalised. The Republic of Belarus and the United States have cooperated in areas of mutual interest, including international security, non-proliferation and combating transnational organised crime. Belarus - US cooperation in the military field was also re-established. The two countries are working together to develop bilateral economic cooperation. Following the development of a constructive dialogue, the United States has lifted or suspended all economic sanctions against Belarusian economic entities. Interagency contacts and visit exchanges of business and state officials have been intensifying as well.

The United States made a balanced assessment of the results of the 2015 presidential elections and the 2016 parliamentary elections in the Republic of Belarus. The remaining concerns of the United States regarding human rights and democracy are the subject of continuing bilateral discussions. Since 2015, the two sides have also been engaged in a human rights and democracy dialogue.

The US Department of State has cancelled the negative recommendation issued to US banks concerning cooperation with the Republic of Belarus in the placement of Belarusian bonds (Eurobonds) in the United States and has revised the wording of the recommendation given to US investors regarding possible capital investments in and other cooperation with the Republic of Belarus from negative to neutral or positive.

In September 2014, New York hosted the Belarusian Investment Forum with the support of the United States. At the event, a high-ranking representative of the US Department of State encouraged American businesses to develop economic cooperation with the Republic of Belarus.

In March 2015, the United States lifted sanctions against PA "Belorusneft" imposed in 2011 for cooperation with Iran in the oil sphere on the part of the enterprise.

On 30 October 2015, the United States suspended sanctions against the "Belneftekhim" group and its subsidiaries. Since October 2018, the period of sanctions suspension has increased from 6 to 12 months.

In December 2016, on invitation of the US Department of State, a high-level Belarusian economic delegation visited the United States. During the visit, government representatives of the two states discussed the issues of systemic development of the Belarus – US economic, trade and investment cooperation.

In March 2018, the Export-Import Bank of the United States approved the inclusion of the Republic of Belarus in the list of countries to which short-term and mid-term export loans could be provided for transactions of American exporters with government and private counter-parties.

In March 2019, the Republic of Belarus lifted the restrictions applicable since 2008 limiting the number of staff that may be present in the US Embassy in Minsk. The parties are now negotiating the issue of restoring a mutual diplomatic presence up to the level of ambassadors.

The parties develop interregional cooperation at the level of Belarusian regions and cities and certain US states. Honorary consulates of the Republic of Belarus are now operating in Texas, Florida and Utah. The US Embassy in the Republic of Belarus provides assistance in organising visits of representatives of American companies to the Republic of Belarus.

The Belarus - US forum of small- and medium-sized businesses, the first of its kind in the history of bilateral relations, was held in the United States in April 2017.

The United States is one of the main investors in the Belarusian economy. In 2018, 176 joint ventures and foreign enterprises with American capital were acting in the Republic of Belarus.

In 2017, the United States invested US$66.7 million in the Republic of Belarus (an increase of 30.5 per cent. compared to 2016), including US$55.1 million of direct investments (an increase of 14.3 per cent.), of which US$20.6 million was FDI on a net basis (an increase of 37.0 per cent.).

In 2018, the United States invested US$71.8 million in the Republic of Belarus (an increase of 7.7 per cent. compared to 2017), including US$54.5 million of direct investments (a decrease of 1.2 per cent. compared to 2017), of which US$25.5 million of direct investments on a net basis (an increase of 24.2 per cent.).

The United States provides technical and humanitarian assistance to the Republic of Belarus relating to significant social, economic, science and technology, cultural and other projects.

Exports from the Republic of Belarus to the United States in 2017 amounted to US$225.5 million (a 72.7 per cent. increase compared to 2016). The negative trade balance in 2017 reached US$153.8 million. In 2018, exports from the Republic of Belarus to the United States amounted to US$274.4 million, representing a 21.7 per cent. increase compared to 2017. The negative trade balance totalled US$162.8 million (an increase of 5.9 per cent. as compared to 2017).

In 2018, exports of services from the Republic of Belarus to the United States reached a historic high and amounted to US$712.1 million (a 25.2 per cent. increase compared to 2017), while imports of services reached US$87.5 million (a 7.7 per cent. increase). Computer, telecommunications and information services accounted for 91 per cent. of exports. Services of Hi-Tech Park residents account for a significant portion of exports of computer services.

In June 2018, the United States extended the regime of normal trade relations for the Republic of Belarus for another year, until July 2019.

The US government has continued the practice of applying restrictive tariff measures against some categories of Belarusian exports.

In January 2018, anti-dumping measures against carbon and alloyed steel rods from the Republic of Belarus were set at the rate of 280.02 per cent.

In October 2018, anti-dumping measures set up in 2001 against building bars produced by Belarusian Steel Works were extended by another five years. The anti-dumping duty for Belarusian building bars is 114.53 per cent. The Republic of Belarus consistently advocates for the complete lifting of US sanctions and the normalisation of Belarus-US relations. The Republic of Belarus and the United States have continued to collaborate to improve bilateral relations, facilitate dialogue and resolve issues of mutual concern.

Relations with countries in Latin America and Caribbean countries

The strengthening of relations of the Republic of Belarus with Latin American countries, as well as major regional integration groups, is an important goal of Belarusian foreign policy.

Argentina, Brazil, Ecuador, Colombia, Mexico and Cuba are the key trade partners of the Republic of Belarus in Latin America. At the same time, the Republic of Belarus is focused on the development and growth of external trade relations with other Latin American and Caribbean countries.

In 2017, Belarusian exports to Latin American and Caribbean countries amounted to US$619.2 million, representing an increase of 5.1 per cent. compared to 2016. In 2017, imports from Latin American and Caribbean countries amounted to US$421.6 million, representing an increase of 37.1 per cent. compared to 2016.

In 2018, the total volume of foreign trade between the Republic of Belarus and Latin American and Caribbean countries amounted to US$1.4 billion, representing an increase of 30.5 per cent. or US$317.6 million compared to 2017. Exports to Latin American and Caribbean countries amounted to US$853.8 million, representing an increase of 37.9 per cent. or US$234.5 million, while imports amounted to US$504.6 million, representing an increase of 19.7 per cent. or US$83.1 million compared to 2017.

Relations with Asian countries

Developing foreign trade cooperation with countries in Asia has become increasingly important for the Republic of Belarus's foreign policy. The Republic of Belarus intends to further diversify its export markets and focus on developing cooperation with China, India, Vietnam, Indonesia, Pakistan and other countries in South-East Asia, Australia, Korea and Japan. Principal types of goods exported to Asia are potash fertilisers, dairy products, vehicles and ferrous metals. The Republic of Belarus intends to diversify the types of goods exported to Asia in the future and to increase exports of services.

In 2018, the volume of external trade with Asian countries amounted to US$9.1 billion (12.6 per cent. of the total external trade volume of the Republic of Belarus). Exports amounted to US$3.8 billion (11.2 per cent. of the total volume of export), while imports amounted to US$5.3 billion (13.8 per cent. of the total import volume).

In 2017, the volume of external trade with Asian countries amounted to US$7.9 billion (12.4 per cent. of the total external trade volume of the Republic of Belarus) compared to US$6.5 billion in 2016. Exports to Asian countries amounted to US$3.0 billion (10.3 per cent. of the total volume of Belarusian exports in 2017) compared to US$2.6 billion in 2016, while imports amounted to US$4.9 billion (14.3 per cent. of the total import volume) as compared to US$3.9 billion in 2016.

China is one of the largest creditors and investors in the Republic of Belarus. The Chinese Export-Import bank and the China Development Bank are the leaders in the financing of the joint Belarusian-Chinese projects in the Republic of Belarus among Chinese financial institutions.

The Republic of Belarus positions itself as a bridge between China and the countries of the EU within the framework of the Chinese initiative "One Belt, One Road".

In May 2017, the Edict of the President of the Republic of Belarus No. 166 "On the development of a special legal regime of the China-Belarus Industrial park "Great Stone"" (the "**Great Stone Park**") came into force. The Edict is aimed at guaranteeing a favourable legal regime for the residents of the industrial park in comparison with the other regimes in the Republic of Belarus and EEU countries. In January 2019, there were 41 residents registered in the Great Stone Park, of which 18 were registered during 2018. As at 20 March 2019, the number of residents was 43.

The Republic of Belarus is actively developing cooperation with Hong Kong (China). In January 2017, an agreement on the mutual visa abolition and an agreement on avoidance of double taxation and prevention of revenue and property fiscal evasion were signed.

In 2018, the volume of trade between the Republic of Belarus and mainland China amounted to US$3.7 billion. The volume of Belarusian exports was US$482.4 million, representing an increase of 33.4 per cent. compared to 2017, and the total volume of Belarusian imports was US$3.2 billion, representing an increase of 14.9 per cent. compared to 2017. The negative trade balance in 2018 amounted to US$2.7 billion.

In 2017, the volume of trade between the Republic of Belarus and mainland China amounted to US$3.1 billion. The volume of Belarusian exports was US$361.5 million, representing a decrease of 23.5 per cent. compared to 2016, and the total volume of Belarusian imports was US$2.7 billion, representing an increase of 28.9 per cent. compared to 2016. The negative trade balance in 2017 amounted to US$2.4 billion.

In 2018, the Republic of Belarus received gross investment from China in the amount of US$339.9 million, including US$186.9 million in direct investment (compared to US$271.9 million and US$112.8 million, respectively, in 2017 and US$251.2 million and US$99.5 million, respectively, in 2016).

Principal Belarusian export items in the year ended 31 December 2018 included potash fertiliser (US$280.1 million), polyamide plastics (US$45.9 million), raw flax and processed flax (US$7.6 million), condensed and powdered milk and cream (US$37.3 million), stone products (US$6.8 million), whey (US$21.0 million).

The President of the Republic of Belarus visited China on a working visit from 8-10 June 2018. During the visit, he signed an agreement on visa-free travel for the holders of regular passports, and 2018 has been proclaimed the Year of Belarus Tourism in China. Also in June 2018, a new agreement was signed with China on its gratis technical and economic assistance to the Republic of Belarus in the amount of approximately US$120 million.

The Republic of Belarus is also focused on strengthening cooperation with India. The visit of the President of the Republic of Belarus to India in September 2017 laid the foundation for further improving and developing the relationship between the two countries. The Republic of Belarus and India agreed to cooperate in the development of the international transport corridor "North-South".

Member states of the Association of South East Asian Nations are considered as promising for diversification and increase of Belarusian exports. The October 2016 Agreement on Establishment of the Free Trade Zone between the EEU and Vietnam can be utilised as a foothold for establishment of joint enterprises aimed at the common market of the Association of Southeast Asian Nations.

The Republic of Belarus has also been strengthening cooperation with member states of the SCO. The Republic of Belarus advocates for the bolstering the SCO economic might as one of the major factors for stability in the Eurasian region and throughout the world. The Republic of Belarus sees the establishment of transcontinental transport corridors, including related transport, energy, communications and customs arrangements, as a promising area of multilateral commercial and investment cooperation between EEU and SCO nations. Blending China's Silk Road Economic Belt initiative and the EEU may become a key aspect of such joint work.

Other potentially productive lines of cooperation among SCO member states comprise information, food and nuclear security, and IT development, as declared by the President of the Republic of Belarus at the SCO summit in Qingdao, China, on 9-10 June 2018.

THE ECONOMY OF THE REPUBLIC OF BELARUS

Introduction

The years immediately after the Republic of Belarus acquired its independence in 1991 were accompanied by a severe economic crisis. Until the mid-1990s, the Republic of Belarus's basic macroeconomic indicators consistently worsened, primarily as a result of the economic disintegration of the Soviet Union, poor management of and low efficiency in its economy and misdirected economic stabilisation measures.

Since 1996, the social and economic policy of the Republic of Belarus has been focused on transforming the economy into a socially oriented market economy.

However, the pace of reform has been slow and some commentators have criticised the Republic of Belarus for failing to reform its economy sufficiently from a state-dominated system and for not actively promoting the private sector. In particular, such commentators have pointed to the Government's emphasis on full employment, the widespread use of subsidies and the absence of large scale privatisations as factors which have prevented the expansion of non-traditional sectors within the economy.

The Republic of Belarus's economy remains dominated by the state and is planned and administered by the Government. The public sector represents approximately 47 per cent. of GDP.

In 2007 and 2008, the Republic of Belarus's economy developed rapidly, resulting in increases in internal consumption rates, favourable foreign trade conditions and growth in the levels of financing and investment. After the end of 2008, the Republic of Belarus's economy began to be increasingly affected by the global economic crisis. As a result, GDP growth significantly slowed and the Republic of Belarus recorded marginally positive real GDP growth of 0.2 per cent. in 2009. In order to boost the economy, improve competitiveness at the global level and attract FDI, starting from 2008, the Government implemented a range of structural economic policy measures. In particular, the Government reduced the extent of state regulation of the economy, liberalised price regulations and antimonopoly laws, and decreased the tax burden on businesses. The Government simplified the procedures for registration, licensing and liquidation of enterprises and implemented certain measures to foster the development of innovation and information technologies. In 2010, the Government, supported by the World Bank, established the National Agency of Investment and Privatisation ("**NAIP**"), aiming to improve the competitiveness of the Belarusian economy at the global level, and to increase the volume of FDI. As a result, in 2010-2014 the Belarusian economy gradually recovered from the consequences of the global economic crisis, with GDP growing at 1.7 per cent. in 2014.

Social and economic development dynamics in the Republic of Belarus have largely been determined by global trends, which were marked by a substantial deterioration in external economic conditions in 2015 and 2016. These included the contraction of the Russian and Ukrainian economies (the major trading partners of the Republic of Belarus), including a sharp fall in investment demand, the devaluation of national currencies in the EEU member states and a drop in prices in the oil and potash fertiliser markets, as well as adverse condition in the markets for other Belarusian exports. The unfavourable external economic environment limited opportunities for growth the Belarusian economy and led to decreased exports and declining GDP in real terms. Real GDP in 2015 and 2016 declined by 3.8 per cent. and 2.5 per cent., respectively.

The adaptation to external conditions during 2015-2016 led to the tightening of monetary and fiscal policy. The macroeconomic stabilisation measures taken by the Government and the National Bank included fiscal consolidation, enhanced control of money supply, switching to a more flexible exchange rate regime, exchange rate adjustment, and alignment of wage increases with rises in labour productivity. Authorities also introduced measures to stimulate and support export sales (including a reduction in the mandatory sale of foreign currency revenues of export-oriented companies) and to stabilise the financial positions of enterprises. In 2016, such actions resulted in recovery dynamics of industrial production volumes, and increased physical volumes of goods for export.

2017 was characterised by a steady recovery of economic activity and consolidation of the emerging positive trends in the economy of the Republic of Belarus. GDP in current prices for 2017 amounted to BYN105.7 billion and increased in real terms by 2.5 per cent. compared to 2016. Industry was the main driver of growth (recording an increase of 6.1 per cent. as compared to 2016), with growth resulting from improvements in quality parameters, such as the minimum level of inventories for the last five years, growth in the profitability of sales and increases in net profit. The volume of investments in fixed assets increased by 5.1 per cent. in 2017 compared to 2016.

In 2017, the level of inflation decreased to 4.6 per cent. (December 2017 to December 2016), which is the lowest value for the last ten years (in 2016, the inflation rate was 10.6 per cent.) and stability in the domestic currency market increased (this facilitated a reduction in normative mandatory sales of foreign currency earnings of enterprises from 20 per cent. in 2016 to 10 per cent. in 2017 and a complete abolition of such mandatory sales in 2018). Confidence in the national currency and monetary policy also improved. The Belarusian ruble's exchange rate versus major currencies also stabilised and gold and foreign currency reserves increased (by US$2.4 billion to US$7.3 billion as at 1 January 2018).

In 2017, interest rates on new loans denominated in Belarusian rubles almost halved (from 20.5 per cent. in December 2016 to 11.3 per cent. in December 2017).

The Belarusian economy continued its growth in 2018, driven by renewed growth in exports, investment activity, and household disposable income in 2017. In 2018, GDP grew by 3.0 per cent. compared to 2017, while industrial output increased by 5.7 per cent. The growing of proceeds of enterprises and the balance achieved on the monetary market resulted in an increase in lending to enterprises and a 5.1 per cent. increase in capital investment in 2018 compared to 2017. Inflation in December 2018 was 5.6 per cent. compared to December 2017.

The non-observed economy in the Republic of Belarus amounted to approximately 10 per cent in 2014-2017. The Government has introduced and is implementing a strategic plan for combating the shadow economy through complex control measures over industries which have historically had a high risk of concealment of income. Such measures have included, *inter alia,* the mandatory installation of taxi meters (which led to an increase in tax income in respect of the taxi industry in 2016), the introduction of electronic tracking systems and electronic invoices systems. Control measures have been targeted at both legal entities and individuals.

In 2016, due to the fall in global oil prices (the average price of Urals crude oil in 2016 amounted to US$42 per barrel compared to the initial forecast of US$50 per barrel used in budget preparation), the budget of the Republic of Belarus experienced a shortfall in export duties on oil and oil products and oil export fees in an aggregate amount of approximately BYN1 billion.

In 2017, a more cautious approach to budget planning based on an expectation of a modest recovery in oil prices was adopted. The initial forecast for the socio-economic development of the economy in 2017 was based on an average annual price for Urals crude oil of US$45 per barrel with a more conservative estimate for the budget of US$35 per barrel. A more dynamic recovery in oil prices made it possible to revise this estimate for 2017 to US$53 per barrel in line with the actual crude oil price in 2017.

In 2018, the Republic of Belarus continued to base its annual state budget on a more conservative price for Urals oil. For social and economic forecasts, a price of US$53 per barrel was used. The actual average price of Urals oil in 2018 was US$70 per barrel, which allowed the Republic of Belarus to make an early repayment of external public debt in the amount of US$0.4 billion in December 2018.

The 2019 budget of the Republic of Belarus was formed based on an average annual crude oil price of US$60 per barrel.

The Law of Russian Federation "On customs tariff" and the Tax Code of Russian Federation were amended with effect from 1 January 2019. According to these amendments, the "tax manoeuvre" is to be completed within six years by decreasing the export customs duty for crude oil by 5 per cent. per year to zero by 2024, with a simultaneous increase in the mineral extraction tax.

This will lead to a price increase for Russian crude oil supplied to the Republic of Belarus and to a decrease in proceeds from export customs duties for oil products. The 2019 budget of the Republic of Belarus has been prepared incorporating a decrease in proceeds from these export duties. Moreover, to guarantee the efficiency of oil processing in the Republic of Belarus, excise duties for oil products have been decreased by 25 per cent. with effect from 1 January 2019.

Gross Domestic Product

Between 2011 and 2018, the average annual increase in the Republic of Belarus's GDP in real terms was approximately 1.1 per cent.

The following table sets forth information on the Republic of Belarus's GDP in nominal terms and in real terms for the periods indicated:

	Year ended 31 December				
	2014	2015	2016[(1)]	2017[(1)]	2018[(1)(4)]
Nominal GDP, total					
At current prices, BYN million	805,792,707	899,098,124	94,949.0	105,748.2	121,568.3
At current prices, US$ million[(2)]	78,536	55,317	47,479	54,698	59,586
Real GDP growth, total (%)	1.7	(3.8)	(2.5)	2.5	3.0
Nominal GDP, per capita					
At current prices, BYN million	85.0	94.7	9.99[(3)]	11.13[(3)]	12.82[(3)]
At current prices, US$ thousand	8.3	5.8	5.0	5.8	6.3
Real GDP growth per capita	1.6	(4.0)	(2.6)	2.5	3.2

Source: National Statistical Committee

Notes:

(1) Post re-denomination of the Belarusian ruble. See "*Exchange Rate Information*".

(2) Calculated using the average exchange rate for the relevant year.

(3) BYN thousands.

(4) Preliminary estimates.

In 2018, GDP amounted to BYN121.6 billion, representing an increase of 3.0 per cent. in real terms compared to 2017, which was mainly due to the continuing increase in Belarusian industry. GDP for 2017 was BYN105.7 billion, which represented an increase of 2.5 per cent. compared to 2016, mainly due to an expansion in industrial output and the stabilisation of global oil prices.

The following tables set forth the structure and growth rates of GDP for the periods indicated:

	Year ended 31 December					
	2014			2015		
	GDP	Structure	Nominal growth	GDP	Structure	Nominal growth
	(BYN million)	*(%)*		*(BYN million)*	*(%)*	
Final consumption expenditure	536,508,508	66.6	23.7	609,580,484	67.8	13.6
of which:						
Households	420,821,860	52.2	23.9	470,058,692	52.3	11.7
General government	110,830,927	13.8	23.0	134,161,262	14.9	21.1
Non-profit institutions serving households	4,855,721	0.6	19.4	5,360,530	0.6	10.4
Gross capital formation	280,746,519	34.8	7.9	261,050,469	29.0	(7.0)
of which:						
Gross fixed capital formation	267,719,502	33.2	7.3	257,630,415	28.6	(3.8)
Changes in inventories	13,027,017	1.6	—	3,420,054	0.4	—
Net exports of goods and services	(6,199,878)	(0.8)	—	959,380	0.1	—
Statistical discrepancy	(5,262,442)	(0.6)	—	27,507,791	3.1	—
GDP	**805,792,707**	**100**	**20.1**	**899,098,124**	**100**	**11.6**

Source: National Statistical Committee

	Year ended 31 December								
	2016[1]			2017[1]			2018[2]		
	GDP	Structure	Nominal growth	GDP	Structure	Nominal growth	GDP	Structure	Nominal Growth
	(BYN million)	*(%)*		*(BYN million)*	*(%)*		*(BYN million)*	*(%)*	
Final consumption expenditure	66,619.0	70.2	9.3	74,138.8	70.1	11.3	84,520.2	69.5	14.0
of which:									
Households	51,121.5	53.8	8.8	56,843.4	53.7	11.2	64,683.5	53.2	13.8
General government........	14,862.5	15.7	10.8	16,552.6	15.7	11.4	18,993.9	15.6	14.7
Non-profit institutions serving households..........	635.0	0.7	18.5	742.8	0.7	17.0	842.8	0.7	13.5
Gross capital formation ..	25,140.2	26.4	(3.7)	29,641.6	28.1	17.9	33,431.6	27.5	12.8
of which:									
Gross fixed capital formation	24,155.1	25.4	(6.2)	27,661.6	26.2	14.5	31,460.7	25.9	13.7
Changes in inventories....	985,1	1.0	—	1,980	1.9	—	1,970.9	1.6	—
Net exports of goods and services	(181.0)	(0.2)	—	223,6	0.2	—	1,389.7	1.1	—
Statistical discrepancy	3,370.8	3.6	—	1,744.2	1.6	—	2,226.8	1.9	—
GDP	**94,949.0**	**100**	**5.6**	**105,748.2**	**100**	**11.4**	**121,568.3**	**100**	**15.0**

Source: National Statistical Committee

Notes:

(1) 2016, 2017 and 2018 data post re-denomination of the Belarusian ruble. See "*Exchange Rate Information*".

(2) Preliminary estimate.

Principal Sectors of the Economy

The following table illustrates the breakdown of the public sector and private sector in the Republic of Belarus as a percentage of total GDP as at the dates indicated:

	As at 31 December				
	2014	**2015[(2)]**	**2016[(2)]**	**2017**	**2018[(2)]**
			(%)		
Public sector[(1)]	46.0	46.5	46.7	46.0	45.7
Private sector	54.0	53.5	53.3	54.0	54.3
Total GDP	**100.0**	**100.0**	**100.0**	**100,0**	**100.0**

Source: National Statistical Committee

Notes:

(1) Includes companies where the state owns at least 50 per cent. plus one share.

(2) Preliminary estimates.

The following tables set forth the Republic of Belarus's GDP by economic sector and as a percentage of gross value added ("**GVA**") for the periods indicated:

	Year ended 31 December					
	2014			**2015**		
	BYN billion[(1)]	*% of GVA*	*Real growth[(2)]*	*BYN billion[(1)]*	*% of GVA*	*Real growth[(2)]*
Agriculture, forestry and fishing	58,847.5	8.3	2.5	56,492.2	7.2	(2.4)
Construction	83,377.6	11.7	(1.3)	70,488.6	9.0	(10.2)
Industry	201,704.2	28.3	2.4	223,447.3	28.7	(6.2)
Trade	98,054.8	13.8	7.2	109,273.6	14.0	(2.1)
Transport	45,890.4	6.4	1.2	49,712.9	6.4	(6.4)
Other activities[(3)]	223,917.0	31.5	0.6	270,258.2	34.7	(0.2)
GVA	**711,791.5**	**100.0**	**2.0**	**779,672.8**	**100.0**	**(3.9)**
Net taxes on products	94,001.2		(0.1)	119,425.3		(3.2)
GDP	**805,792.7**		**1.7**	**899,098.1**		**(3.8)**

Source: National Statistical Committee

Notes:

(1) Nominal value. 2014-2015 before re-denomination. See "*Exchange Rate Information*".

(2) Rate of real annual growth, percentage.

(3) Includes services on temporary accommodation and catering; information and communications; financial and insurance activities; real estate, rental and services to consumers; public administration, professional, scientific and technical activities; administrative and ancillary services; education; health and social services; artwork; sports; entertainment and leisure; and other services.

	Year ended 31 December								
	2016			**2017**			**2018[(4)]**		
	BYN billion[(1)]	*% of GVA*	*Real growth[(2)]*	*BYN billion[(1)]*	*% of GVA*	*Real growth[(2)]*	*BYN billion[(1)]*	*% of GVA*	*Real growth[(2)]*
Agriculture, forestry and fishing	6.5	8.0	3.8	8.0	8.7	4.3	7.8	7.5	(4.0)
Construction	5.4	6.6	(15.8)	5.6	6.1	(4.6)	6.5	6.3	4.2
Industry	24.0	29.2	(0.5)	27.8	30.3	6.0	31.8	30.5	5.4
Trade	10.4	12.7	(7.3)	10.9	11.9	3.8	12.2	11.7	5.8
Transport	5.4	6.6	0.3	6.1	6.6	6.3	7.1	6.8	3.7
Other activities[(3)]	30.3	36.9	(1.0)	33.3	36.4	(0.5)	38.7	37.2	1.3
GVA	**82.0**	**100.0**	**(2.6)**	**91.7**	**100.0**	**2.5**	104.1	100.0	3.0
Net taxes on products	12.9		(1.3)	14.0		2.8	17.5		3.6
GDP	**94.9**		**(2.5)**	**105.7**		**2.5**	**121.6**		**3.0**

Source: National Statistical Committee

Notes:

(1) Nominal value. 2016, 2017 and 2018 data post re-denomination of the Belarusian ruble. See "*Exchange Rate Information*".

(2) Rate of real annual growth, percentage.

(3) Includes services on temporary accommodation and catering; information and communications; financial and insurance activities; real estate, rental and services to consumers; public administration, professional, scientific and technical activities; administrative and ancillary services; education; health and social services; artwork; sports; entertainment and leisure; and other services.

(4) Preliminary estimates.

The table below shows the volume of produced industrial production in each sector for the periods indicated:

	Year ended 31 December[1]									
	2014		2015		2016		2017		2018[2]	
	BYN million	*(%)*	*BYN million*	*(%)*	*BYN million*	*(%)*	*BYN million*	*(%)*	*BYN million*	*(%)*
Total Industry................................	**67,434.8**	**100.0**	**73,959.0**	**100.0**	**81,794.9**	**100.0**	**94,306.0**	**100.0**	**110,069.1**	**100.0**
of which:										
Mining industry...............................	896.7	1.3	901.5	1.2	1,014.4	1.2	1,195.9	1.3	1,494.7	1.4
Processing industry.........................	59,776.4	88.6	64,391.6	87.1	70,051.9	85.7	83,052.5	88.0	97,538.7	88.6
Food, beverages and tobacco	16,100.9	23.9	17,667.9	23.9	20,724.5	25.3	23,180.0	24.6	25,151.7	22.9
Textiles, clothing, leather and fur goods	2,580.0	3.8	2,583.3	3.5	3,236.6	4.0	3,683.1	3.9	3,893.0	3.5
Wood and paper products, printing and reproduction of recorded information media	1,998.2	3.0	2,404.3	3.3	3,158.2	3.9	3,890.2	4.1	4,994.4	4.5
Coke and refined petroleum products	10,984.6	16.3	12,113.1	16.4	10,496.7	12.8	13,218.1	14.0	17,125.3	15.6
Chemical products	6,177.1	9.2	7,666.9	10.4	6,682.8	8.2	8,365.9	8.9	10,523.3	9.6
Basic pharmaceutical products and medicines	513.1	0.8	846.3	1.1	997.6	1.2	1,139.0	1.2	1,240.5	1.1
Rubber and plastic products, other non-metallic mineral products..............................	6,011.3	8.9	5,448.2	7.4	6,128.8	7.5	7,155.7	7.6	7,670.4	7.0
Metallurgical production Finished metal products, except machinery and equipment	4,371.9	6.5	4,632.7	6.3	4,943.4	6.0	6,131.5	6.5	7,432.7	6.8
Computer, electronic and optical equipment	806.4	1.2	973.8	1.3	1,282.6	1.6	1,573.7	1.7	1,680.1	1.5
Electric equipment production	1,589.4	2.4	1,781.2	2.4	2,271.1	2.8	2,490.1	2.6	2,709.2	2.5
Machinery and equipment not included into other categories	3,989.6	5.9	3,555.2	4.8	4,507.6	5.5	6,070.8	6.4	7,768.4	7.1
Vehicles and equipment..................	2,397.3	3.6	2,177.7	2.9	2,635.5	3.2	2,732.0	2.9	3,485.2	3.2
Production of other finished products; repair and installation of machinery and equipment	2,256.7	3.3	2,541.2	3.4	2,986.6	3.7	3,422.3	3.6	3,864.7	3.5
Electricity, gas, steam, hot water and air conditioning supply.........................	5,583.1	8.3	7,405.3	10.0	9,388.5	11.5	8,551.3	9.1	9,308.8	8.5
Water supply; collection, treatment and disposal activities, activities to eliminate pollution...	1,178.6	1.8	1,260.6	1.7	1,340.0	1.6	1,506.4	1.6	1,726.9	1.6

Source: National Statistical Committee

Note:

(1) All years post re-denomination of the Belarusian ruble. See "*Exchange Rate Information*".

(2) Preliminary estimates.

Industry

The industrial sector of the Republic of Belarus includes the mining industry, the processing industry, the supply of electric power, gas, steam, hot water and air conditioning, water supply, waste collection, treatment and disposal and pollution mitigation operations. The processing industry accounts for over 88 per cent. of the industrial sector and includes the following types of economic activities: the manufacturing of food products, beverages and tobacco products, textile goods, clothing, leather and fur goods, wooden and paper products; graphic printing and reproduction of recorded information media; the manufacturing of coke, petrochemical and chemical products, basic pharmaceutical products and medicines, manufacturing of rubber and plastic goods, other non-metallic mineral products; metallurgical production and the manufacturing of finished metal goods other than machines and equipment, the manufacturing of computer hardware, electronic and optical equipment, manufacturing of electric equipment, machines and machinery not included in other groups, manufacturing of the means of transport and transport equipment, manufacturing of other finished goods, repairs and assembling of machines and equipment.

The table below shows the percentage change in the rate of industrial production in real terms for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018[(1)]
	(increase/decrease over comparable period of previous period, in %)				
Total Industry	**1.9**	**(6.6)**	**(0.4)**	**6.1**	**5.7**
of which:					
Mining industry	55.6	(7.8)	(0.8)	3.3	3.1
Processing industry	0.1	(7.1)	(0.1)	6.9	5.8
Food, beverages and tobacco	(1.5)	(1.2)	2.5	3.5	3.7
Textiles, clothing, leather and fur goods	(3.9)	(15.0)	4.7	5.1	4.0
Wood and paper products, printing and reproduction of recorded information media	4.3	(7.1)	10.2	14.1	13.8
Coke and refined petroleum products	8.5	0.5	(17.0)	(0.1)	1.4
Chemical products	28.9	6.2	(3.7)	9.8	6.2
Basic pharmaceutical products and medicines	2.0	38.5	4.4	10.1	8.9
Rubber and plastic products, other non-metallic mineral products	(7.0)	(15.4)	(4.8)	4.0	2.0
Metallurgical production. Finished metal products, except machinery and equipment	1.9	(9.7)	0.1	4.1	1.5
Computer, electronic and optical equipment	5.1	4.8	3.0	5.9	(0.4)
Electric equipment production	(20.4)	(20.2)	10.7	5.2	4.1
Machinery and equipment not included into other categories	(21.4)	(24.9)	5.8	25.6	13.3
Vehicles and equipment	(23.2)	(13.3)	12.1	(9.4)	14.1
Production of other finished products; repair and installation of machinery and equipment	(11.0)	(5.1)	2.6	8.7	6.5
Electricity, gas, steam, hot water and air conditioning supply	3.1	(2.6)	(0.9)	2.7	7.0
Water supply; collection, treatment and disposal activities, activities to eliminate pollution	0.6	(7.6)	(7.6)	0.1	(0.1)

Source: National Statistical Committee

(1) Preliminary estimates.

A significant portion of industrial output is attributable to state-owned enterprises and enterprises with state participation. The following table illustrates the structure of industrial output in current prices for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018
			(%)		
Public sector	13.0	14.8	15.3	14.1	14.5
Private sector(2)	87.0	85.2	84.7	85.9	85.5
of which private sector with state participation	58.9	57.4	54.7	56.3	63.4
Total output	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Statistical Committee

Note:

(1) Preliminary estimates. Except small organisations without departmental affiliation and micro-organisations.

(2) Includes companies with foreign investment.

In 2016, the system of economic targeting in the Republic of Belarus changed. Previously, ministers overseeing specific industries determined obligatory output targets (such as volume of production, level of energy and material consumption, wage growth, etc.) for state-owned enterprises. Since 2016, the Government has set key performance indicators ("**KPIs**") such as net profit, profitability, costs reduction in production and realisation of goods (works, services), growth rate of goods and services export (for foreign trade organisations), for state-owned enterprises and companies where the state owns the majority of equity. KPIs represent guidelines for enterprises with state share, which are required to report to the relevant supervisory boards (higher public bodies – for unitary enterprises) regarding their performance versus these indicators.

A number of processing industries, such as metallurgical production, the manufacturing of petrochemical and chemical products, the manufacturing of machines and equipment, electric equipment, computer hardware, electronic and optical equipment, vehicles and equipment, basic pharmaceutical products and medicines, clothing and footwear, and the supply of electric power and steam consume considerable amounts of imported resources, which are imported primarily from CIS countries (mainly from Russia). In turn, these countries and EU countries are the main consumers of finished products produced in the Republic of Belarus. On the other hand, the manufacturing of meat and dairy products, the timber and lumber industry as well as the pulp and paper industry mainly use Belarusian raw materials.

In 2018, industrial output increased by 5.7 per cent., with machines and equipment not included in other groups growing by 13.3 per cent. compared to 2017, manufacturing of wood and paper products, printing and reproduction of recorded information media growing by 13.8 per cent., vehicles and transport equipment growing by 14.1 per cent. and basic pharmaceutical products and medicines growing by 8.9 per cent.

In 2017, the volume of industrial production increased in real terms in the majority of industries compared to 2016. The manufacturing of food products, beverages and tobacco products increased by 3.5 per cent.; textile goods, clothing and leather and fur goods increased by 5.1 per cent.; wood and paper products, printing and reproduction of recorded information media increased by 14.1 per cent.; chemical products production increased by 9.8 per cent., basic pharmaceutical products and medicines increased by 10.1 per cent.; rubber and plastic products and other non-metallic mineral products increased by 4.0 per cent.; metallurgical production and finished metal products increased by 4.1 per cent.; computer hardware, electronic and optical equipment increased by 5.9 per cent.; electric equipment increased by 5.2 per cent.; machines and equipment not included in other groups increased by 25.6 per cent.; and the manufacturing of other finished products; repairs, machine and equipment assembly increased by 8.7 per cent. In 2017, the production of oil products, vehicles and equipment declined.

Trade and Catering

In 2017, the Republic of Belarus had 62,333 retail trade facilities and 12,978 catering facilities. Catering facilities included canteens (35.4 per cent. of the total number of public catering facilities), cafes, bars and eateries (28.4 per cent.), restaurants, including fast food restaurants (4.9 per cent.), mini cafes and cafeterias (17.0 per cent.) and other catering facilities (14.1 per cent.). The share of private and foreign property in the Republic of Belarus in the volume of retail turnover is more than 90 per cent. and in the turnover of public catering is more than 75 per cent.

In 2017, retail trade turnover amounted to BYN40.2 billion, which represented an increase of 4.4 per cent. in real terms compared to 2016.

In 2017, retail trade turnover of legal entities amounted to BYN35.0 billion, which represented an increase of 5.4 per cent. in real terms compared to 2016. Turnover of public catering in 2017 amounted to BYN2.2 billion, which represented an increase of 5.6 per cent. in real terms compared to 2016.

The recovery of the economy and increasing consumer demand contributed to growth in retail trade turnover, which reached BYN44.7 billion in 2018 (an increase of 8.4 per cent. in real terms compared to 2017). Retail trade turnover of legal entities reached BYN39.9 billion (an increase of 10.8 per cent. compared to 2017), and turnover of public catering reached BYN2.4 billion (an increase of 9.4 per cent. compared to 2017).

Construction

In 2018, the construction sector began to recover, with the total volume of construction contract work increasing by 2.2 per cent. in 2018.

In 2017, the volume of construction contract work decreased by 3.7 per cent. compared to the previous year. The GVA of the construction sector decreased to 5.3 per cent. of GDP (5.4 per cent. in 2018). The volume of housing construction also decreased, with the total area of housing construction decreasing from 5.5 million square metres in 2011 to 3.8 million square metres in 2017.

In 2016, the volume of contract work decreased by 14.8 per cent. compared to 2015. The GVA of the construction sector was 5.7 per cent. of GDP in 2016 compared to 7.8 per cent. in 2015.

Transport

By virtue of its geographical position, the Republic of Belarus is at the centre of the basic transport routes that connect Western Europe with the East and the regions of the Black Sea coast with the countries of the Baltic Sea. The transport sector accounted for approximately 5.8 per cent., 5.8 per cent. and 5.7 per cent. of GDP in 2018, 2017 and 2016, respectively. The Republic of Belarus's transportation infrastructure includes:

- pipelines for the transportation of natural gas, oil, and oil products across the Republic of Belarus's territory;
- a well-developed network of railways, part of which is included in international transport corridors No. 2 and No. 9;
- a well-developed network of public automobile roads;
- regular and charter air routes from Minsk and regional airports (Brest, Vitebsk, Grodno, Gomel); and
- navigable internal waterways in the Republic of Belarus.

Moreover, the Republic of Belarus is an important link in the Economic Silk Road belt, which provides for close cooperation with China on the modernisation of transport infrastructure, including the construction and reconstruction of roads and railways and electrification of sectors of the Belarusian railway.

Given the importance of the Republic of Belarus's transport routes for the Belarusian economy, maintaining transport infrastructure is an important priority for the Government. Investment in the maintenance and modernisation of the transport infrastructure is financed through the relevant enterprises operating in the transportation sector and the public sector budget among others by means of raising funds from the EBRD (road P80), the World Bank (M-5 and M-6 highways), the EIB (highway M-7\E28 and road border transition point "Kamenny Log") as well as within the framework of the PPP mechanism (a pilot project with the EBRD for the reconstruction of the M-10 highway). In 2018, expenditure of the republican budget for the financing of the Republic of Belarus's road network amounted to approximately BYN0.7 billion (approximately US$0.35 billion). Maintenance of the oil and gas pipeline networks in 2018 was financed by the relevant enterprises operating the respective networks.

The following table sets forth data on freight transportation in the Republic of Belarus for the periods indicated:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
Freight transportation volume, *thousand tonnes*	467,486	447,212	417,643	439,471	455,503
Freight turnover, *million tonnes-kilometres*	131,402	125,957	125,820	133,348	138,838

Source: National Statistical Committee

Communications

The Republic of Belarus has completed the modernisation of its international and long-distance telecommunications networks through the replacement of analogue equipment with digital equipment and has been taking further proactive measures to develop national information and telecommunications infrastructure, which includes the construction of multi-service networks for electronic telecommunications and the implementation of intellectual platforms (multiservice IMS platforms). This has created conditions for providing each user with a whole set of services, ranging from telecommunications and broadband Internet connections to Internet protocol ("**IP**") television broadcasting services.

The Republic of Belarus was the first among the CIS countries to have fully switched to digital on-air TV broadcasting: 99.45 per cent. of the territory of the Republic of Belarus is covered with the first multiplex, which broadcasts eight television programmes included in the mandatory public package; 95.12 per cent. is covered with the second multiplex, which broadcasts 18 television programmes; and 93.66 per cent. of the territory is covered with the third multiplex, which broadcasts 18 television programmes.

There are three mobile electric telecommunications operators in the Republic of Belarus providing services to the general public, as well as one infrastructure operator. As at 31 December 2018, mobile telecommunications services cover 98.2 per cent. of the territory of the Republic of Belarus. In addition, a long-term evolution ("**LTE**") mobile electric telecommunications network and LTE-based services have been developing rapidly. During 2018, 815 LTE base stations were put into operation, which facilitated an increase in the coverage of cell movable telecommunications services of LTE standard from 68.5 per cent. to 75.7 per cent. The aggregate number of base stations built from the time of project launch is 1,668. The services are available in Minsk, all regional and district centres as well as in other populated settlements with over 50,000 inhabitants.

From 2011 to the end of the third quarter of 2018, the share of the GVA of the information and communications technology sector in total GDP increased from 2.8 per cent. to 4.9 per cent.

Information technology

In the past several years, the Republic of Belarus has earned the reputation of the leading information technology ("**IT**") developer in the Eastern European region. Belarusian IT companies have regularly appeared in the internationally recognised Global Outsourcing 100 and Software 500 lists. At the end of 2018, six Belarusian companies were listed in the Global Outsourcing 100 list and ten companies were included in Software 500 list at the end of 2018. In December 2016, The Wall Street Journal nicknamed the Republic of Belarus "The Silicon Valley of Eastern Europe" and Forbes in November 2018 called the Republic of Belarus "a global centre of artificial intelligence development". In 2005, the Hi-Tech Park ("**HTP**") was established in the Republic of Belarus for the development of the software industry and the attraction of foreign investment. The HTP is now one of the leading innovative IT clusters in Europe, with over 45,000 software engineers experienced in different fields of software development. Companies resident in the HTP enjoy special preferences, such as (i) a favourable tax regime until 2049, including exemptions from profit tax and value added tax ("**VAT**"); (ii) lower personal income tax; (iii) exterritorial principle of registration (the company can become a resident of the HTP even if its legal registered address is outside the territory of the HTP); and (iv) access to a qualified workforce.

Several major international companies have already opened research and development ("**R&D**") centres in the Republic of Belarus, including Google, Yandex, SK hynix (the world's second largest memory chipmaker and the world's fifth largest semiconductor company, based in South Korea) and IAC (a large American media and Internet company, with over 150 brands across 100 countries).

In December 2017, the decree "On Digital Economy Development" that, *inter alia,* legalised initial coin offerings ("**ICOs**"), cryptocurrencies and smart contracts in the Republic of Belarus, was signed by the President of the Republic of Belarus and came into force on 28 March 2018 (the "**Decree on Digital Economy Development**"). Adoption of the Decree on Digital Economy Development makes the Republic of Belarus the world's first jurisdiction with comprehensive legal regulation of businesses based on blockchain technology. The Decree on Digital Economy Development does not include any restrictions or special requirements for the creation, issue, storage, sale or exchange of digital tokens, or for the operation of cryptocurrency exchanges and platforms. Activities related to mining, creation, acquisition and sale of digital tokens will remain tax-free until 2023. On 19 December 2018, Currency.com received the first licence for cryptocurrency exchange from the HTP. The developers believe the project is the first one in the world: it allows trading and investments in traditional financial instruments using both cryptocurrency and fiat money.

The Decree on Digital Economy Development provides for, *inter alia:*

- broader spheres of activities and access to the HTP with its wide range of tax exemptions and benefits. Apart from IT, companies operating in other high-tech sectors will qualify for HTP residency;
- further improvement/liberalisation of the operating environment for HTP residents: lifting restrictions on capital flows and in the area of foreign trade operations;
- the extension of existing benefits for HTP residents to 2049;
- new legal doctrines (English law) to be introduced;
- legislative framework for implementation of blockchain technology, use of tokens and cryptocurrencies;
- abolition of permit requirement for residents of the HTP such that foreign specialists can be employed; and
- arranging of IT education within the HTP's framework.

As a result of the Decree on Digital Economy Development adoption, the HTP's performance indicators improved significantly. Exports of software and IT-services by HTP companies in 2018 amounted to approximately US$1,400 million, representing a 38 per cent. increase as compared to 2017. As at 1 January 2019, the HTP hosted 454 residents. In 2018, 267 new companies were registered in the HTP. The number of employees grew by more than 10,000 people.

Due to the HTP's activities in the sphere of computer services, export per capita the Republic of Belarus is included into top-30 states (as per UNCTAD data for 2018).

According to the International Finance Corporation (the "**IFC**"), by 2020 the revenue of the IT sector in the Republic of Belarus is expected to reach US$3-4 billion. As at 31 December 2018, 51.8 per cent. of HTP residents are companies with Belarusian capital and 48.2 per cent. are companies with foreign and joint capital. In 2016, 91 per cent. of software produced in the HTP was exported, with 43 per cent. exported to the United States, 49 per cent. to Europe and 5 per cent. to Russia and other CIS countries.

The following table sets forth data on the IT sector in the Republic of Belarus for the periods indicated:

	Year ended 31 December		
	2016	**2017**	**2018**
Export of IT services, US$ million	958.9	1,206.7	1,585.6
Share of IT services in total amount of export of services, %	14.0	15.4	18.2
HTP IT services export, US$ million	811.0	1,009.1	1,396.6
Share of HTP IT services in export of IT services, %	84.6	84.4	88.8

Source: National Statistical Committee

Agriculture, Forestry and Fishing

In 2018, 405.4 thousand people, or 9.3 per cent. of the total work force, were engaged in the agriculture, forestry and fishing sectors. According to a 2018 estimate, agriculture, forestry and fishing accounted for 6.4 per cent. of GDP. In 2017, agriculture, forestry and fishing accounted for 7.6 per cent. of GDP compared to 6.9 per cent in 2016.

Following the disintegration of the Soviet Union and the economic disruption experienced in the Republic of Belarus in the early 1990s, agricultural production and exports of agricultural and food products from the Republic of Belarus contracted sharply. Beginning in 2000, as a result of measures supporting large agricultural enterprises, agricultural production gradually started to grow again. In parallel, the Government began to encourage greater agricultural specialisation, placed more emphasis on modernisation of equipment and introduced more advanced agricultural technologies. These measures proved to be successful in restoring the profitability of a majority of agricultural enterprises. From 2005 to 2010, the Government implemented a state programme for the revitalisation and development of rural areas. The programme provided for subsidies for the purchase and application of organic and mineral fertilisers to improve the fertility of lands, lime treatment of sour lands and measures relating to the effective use of ameliorative systems. Emphasis was placed on innovative solutions, reconstruction and modernisation of the agricultural sector and upgrading tractors and machinery of agricultural enterprises.

In 2016, the implementation of the next Government program aimed at developing agrarian businesses, based on increasing competitiveness, efficiency and exports, commenced.

In 2011-2015, the Government implemented a programme for the continued development of rural areas. The programme provided for subsidies for large-scale investment projects and for the purchase of fertilisers, protective equipment, fuels, lubricants and spare parts. The emphasis of the programme is on increasing the effectiveness of the agricultural industry, updating it technologically and promoting its export potential. In addition to the programme, the Government implemented measures encouraging consolidation among meat and milk producers within regions and country-wide, to increase efficiency and benefit from economies of scale.

As a result of these actions, in the period from 2011 to 2016, the production of agricultural products at farms of all categories grew by 13.6 per cent. The production of grain (in after-treatment weight) increased to 7.5 million tonnes in 2016 compared to 7 million tonnes in 2010. The production of meat increased to 1.7 million tonnes in 2016 compared to 1.4 million tonnes in 2010, an increase of 19.8 per cent.

In 2016, the production of agricultural products at farms of all categories grew by 3.3 per cent. in real terms compared to 2015. During the same period, the production of meat increased by 1.0 per cent. and the production of milk grew by 1.3 per cent. In 2016, the total volume of grain produced (in after-treatment weight) decreased by 13.8 per cent. compared to 2015, primarily as a result of unfavourable weather conditions.

In 2017, on the back of increased demand, the production of agricultural products at all types of farms increased by 4.2 per cent. in real terms compared to 2016. Milk production in 2017 increased by 2.5 per cent., and meat production decreased by 0.1 per cent. Grain production (in after-treatment weight) in 2017 was approximately 8.0 million tonnes, an increase of 7.1 per cent. compared to 2016.

In 2018, the production of agricultural products decreased by 3.4 per cent. compared to in 2017.

The table below sets forth the volume of agricultural production at farms of all categories:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
Agricultural products (in current prices)[(1)]	128,991	135,378	15,502	18,043	19,025[(2)]
Including:					
crop production	61,350	60,582	7,177	8,464	8,812[(2)]
livestock production...	67,641	74,796	8,325	9,579	10,213[(2)]
Total harvest of grain crops and grain legume crops (in after-treatment weight), *thousand tonnes*...	9,564	8,657	7,461	7,993	6,151
Production of main types of livestock products realisation of cattle and poultry livestock for slaughter (in live weight), *thousand tonnes*	1,548	1,661	1,678	1,676	1,729
production of milk, *thousand tonnes*	6,703	7,047	7,140	7,322	7,345

Source: National Statistical Committee

Notes:

(1) The data is given in accordance with the National Classification of the Republic of Belarus OKRB 005-2011 "Types of economic activity". 2014-2015 data in BYN billions. 2016-2018 data in BYN million reflecting the re-denomination of the Belarusian ruble. See "*Exchange Rate Information*".

(2) Preliminary estimates.

The table below sets forth changes in production volumes of agricultural products at farms of all categories in real terms for the periods indicated:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018[(1)]**
Agricultural products (in comparable prices)...........................	3.1	(2.5)	3.3	4.2	(3.4)
of which:					
crops	9.6	(9.7)	5.9	6.2	(6.1)
livestock	(2.9)	4.8	1.0	2.4	(0.9)

Source: National Statistical Committee

Notes:

(1) Preliminary estimates.

To facilitate the further development of the agricultural sector and an increase in exports, key priorities for the Government include improving the quality control of production and competitiveness of Belarusian agricultural products in foreign markets. At present, the process for the accession of the Republic of Belarus to the WTO has intensified. The Republic of Belarus's membership in the WTO is expected to help increase the competitiveness of Belarusian goods and services, strengthen the Republic of Belarus's position in international trade and increase the attractiveness of the business and investment climate. See "*Overview of the Republic of Belarus—International Relations—Cooperation with the WTO*".

Fuel and Energy

The fuel and energy industry (the "**FEI**") of the Republic of Belarus forms a key component of the Republic of Belarus's economy and includes the extraction, transportation, storage, manufacture and distribution of the main energy carriers: natural gas, oil and oil products, solid fuels, and electrical and thermal energy. The FEI has well-developed production infrastructure, including a network of oil and gas pipelines, as well as power transmission lines. Intensive development of the sector took place in the 1960s and 1970s, with the construction of power plants, electricity and heating networks, and gas and oil pipelines to create a solid energy base for developing all other parts of the economy, particularly the heavy machinery manufacture and metallurgy and chemical and petrochemical subsectors. The energy system of the Republic of Belarus is a continuously developing complex.

Approximately 85 per cent. of total domestic consumption of fuel and energy came from imports in 2017. Natural gas consumption represents approximately 60 per cent. of the total domestic consumption of fuel and energy resources. Russia accounts for more than 90 per cent. of total fuel and energy imports.

The NPP project is expected to allow the Republic of Belarus to partially reduce its reliance on imported natural gas, reduce the price of electric power and raise the energy security of the Republic of Belarus. See "*—NPP*".

The basic purpose of the Energy Policy implemented by the Republic of Belarus is to maximise efficiency in the consumption of fuel and energy resources, achieving energy security. To implement a system-based approach in the energy field for the period through 2035, the Concept of Energy Security of the Republic of Belarus (the "**Concept**") has been developed and introduced. The Concept outlines the following basic principles for the long-term development of the country's fuel and energy complex with the below objectives:

- to improve the energy independence of the country;
- to increase the diversity of suppliers and energy resource types;
- to maintain security of fuel and energy supply to end consumers, ensure the condition of the main production facilities and investments in the FEI basic capital remain at acceptable levels;
- to reduce the percentage of GDP attributed to the energy industry; and
- to improve the resistance of the county's economy to the changing prices for imported energy resources.

Implementation of the energy conservation policy in the Republic of Belarus in the period 2005-2017 led to an increase in GDP across the country by 50.7 per cent. with almost no increase in the consumption of fuel and energy resources ("**FER**"). In fact, gross consumption of FER increased by just 1.2 per cent. by 2017 compared to 2005. In recent years, significant work has been done to commit local FER to the Republic of Belarus's fuel and energy balance.

According to Government statistics, energy independence of the Republic of Belarus (the share of primary energy production in the gross consumption of FER) in 2018 amounted to 15.5 per cent., while the share of primary energy production from renewable energy sources accounted for 6.1 per cent. of the gross consumption of FER. Sustainable energy and increased energy efficiency are key priorities in order to lower the cost of energy supplies. To that end, the Republic of Belarus is implementing several renewable energy projects, including the construction of windmills and hydro power plants. The fuel and energy sector faces the task of reducing the economic risks associated with dependence on these sources of energy. In parallel, there is a focus on maintaining the level of domestic energy supplies for the Republic of Belarus's fuel and energy sector, including alternative and renewable energy sources.

Oil

The table below sets forth data relating to oil consumption in the Republic of Belarus for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018
	(million tonnes)				
Processing	22.3	23.0	18.6	18.1	18.2
Extraction	1.65	1.65	1.65	1.65	1.67
Imports from Russia	22.5	22.9	18.1	18.07	18.25
Imports from other countries	—	—	0.04	0.06	—
Exports from the Republic of Belarus	1.62	1.62	1.62	1.62	1.64

Source: National Statistical Committee.

The table below sets forth data on transit of Russian oil through JSC "Gomeltransneft-Druzhba":

	Year ended 31 December				
	2014	2015	2016	2017	2018
Amount of oil transit through JSC "Gomeltransneft-Druzba" (*million tonnes*)	49.0	52.4	52.8	49.6	49.0
Proceeds from transit of crude oil from Russia through the territory of Belarus, *US$ million*	223.3	168.4	180.4	204.8	201.2

Source: Belarusian State Concern for Oil and Chemistry (Belneftekhim Concern)

The Republic of Belarus and Russia have had a number of disputes in the past regarding the level of duty to be imposed on Russian crude oil exports to the Republic of Belarus, including a dispute in the Economic Court of the CIS in 2010. The Republic of Belarus withdrew its claim against Russia in the Economic Court of the CIS following the implementation of the new agreement with Russia in December 2010 and the launch of the Customs Union. Under the new agreement, Russia has abolished duties on crude oil and oil products exported to the Republic of Belarus. Export duties on exports of crude oil from Russia and oil products produced from crude oil imported from Russia to countries outside the Customs Union will be paid to Russia. The Republic of Belarus and Russia agree the quantity of crude oil supplies at the intergovernmental level on an annual basis. Terms of supply are agreed by Belarusian processing plants and Russian crude oil suppliers.

Since 1 January 2019, Russia has been implementing the final stage of the "tax manoeuvre" in the oil sector, stipulating a gradual decrease in export customs rates for oil during the period 2019-2024, with a simultaneous increase in the tax on mineral resource extraction. With the lowering of the export customs rate, the cost of Russian oil for the Republic of Belarus in comparable conditions increases, approximately, by the customs duty change value. As a result of oil tax reform finalisation in Russia, the Republic of Belarus will need to start purchasing oil at global market prices around 2024.

The Republic of Belarus and Russia agree the amount of crude oil supplied at the intergovernmental level on an annual basis. The table below shows the agreed amounts of crude oil supplies from Russia, the amount of crude oil actually supplied and average prices for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018
Agreed amount of crude oil supplies from Russia, *million tonnes*	23.0	23.0	24.0	24.0	24.0
Crude oil supplied from Russia, *million tonnes*	22.5	22.9	18.1	18.02	18.2
Average price per 1 tonne, *US$*	338.9	247.2	218.7	294.0	373.8

Source: National Statistical Committee, Belarusian State Concern for Oil and Chemistry (Belneftekhim Concern)

Proceeds for the transit of Russian crude oil through JSC "Gomeltransneft-Druzhba" were US$201.2 million, US$204.8 million, US$180.4 million and US$168.4 million in 2018, 2017, 2016 and 2015, respectively.

In April 2017, the governments of the two countries reached an agreement on the annual delivery of Russian oil to the Republic of Belarus in the period from 2017 to 2024 by pipeline transport in the amount of 24 million tonnes. This agreement is fixed in the Protocol on Amendments to the Intergovernmental Agreement on Measures to Settle Trade and Economic Cooperation in the Field of Oil and Oil Products Export of 12 January 2007 (the "**Protocol**").

Global crude oil prices have fluctuated widely in 2014-2018 in response to global supply and demand, general economic conditions, competition from other energy sources and other factors. According to the US Energy Information Agency, the average spot price of Brent crude oil was US$71.19/bbl in 2018, compared to US$54.12 in 2017, US$43.64/bbl in 2016, US$52.32/bbl in 2015 and US$98.97/bbl in 2014. Following the stabilisation of global oil prices, export of oil and oil products increased by US$1.4 billion in 2017 as compared to 2016 and by US$1.4 billion in 2018 as compared to 2017. The sharp decline in oil prices in 2015-2016 adversely affected the Russian economy as one of the largest oil exporters, and indirectly had a negative effect on the Belarusian economy as Russia is its main trading partner and many export industries of the Republic of Belarus are oriented towards Russia. Furthermore, as oil products represent a significant portion of Belarusian exports, the decrease in global oil prices led to decreasing exports of oil and oil products for the Republic of Belarus. For instance, the export of oil and oil products decreased by US$2.8 billion in 2016 as compared to 2015 and by US$3.6 billion in 2015 as compared to 2014.

Electricity

Electric power production is the most important industry in the fuel and energy sector in the Republic of Belarus. This is one of the largest sectors of the economy, which is traditionally in possession of high technical and engineering resources, making it a key industry in the economy as a whole. Production facilities of the Republic of Belarus's energy system have sufficient capability to satisfy domestic demand. Nevertheless, when economically expedient, the Republic of Belarus imports a portion of electric power to diversify the power supplies of the country. The main producer of electricity in the Republic of Belarus is the state production association of power industry "Belenergo" (GPO "**Belenergo**").

The table below shows electricity consumption, production and imports in the Republic of Belarus for periods indicated:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
	(billion kWh, besides the percentage)				
Domestic consumption	38,035	36,704	36,339	36,929	37,794
Domestic production	34,717	34,083	33,318	34,343	38,784
% of total consumption	91.3	92.9	91.7	93.0	102.6
Imports from Russia	1,425	2,815	3,181	2,733	—
% of total consumption	3.7	7.7	8.8	7.4	—
Imports from Ukraine	2,401	1	—	—	—
% of total consumption	6.3	0.003	—	—	—
Imports from Baltic States	—	—	—	—	—
% of total consumption	—	—	—	—	—

Source: Ministry of Energy

Given newly launched high efficiency generation facilities and the planned launch of the NPP, no electric power has been imported into the country since 2018.

The Republic of Belarus is focused on the upgrading of main production facilities of its energy system and the implementation of energy saving measures in accordance with state industrial programs. This allows to increase efficiency of electric and thermal energy production facilities and allowed to include local fuel and energy resources, including renewable resources, to the country's energy balance.

The implementation of the energy system modernisation programme for the period from 2014 to 2018 has facilitated:

- a decrease in the fuel consumption required to produce 1 kWh of electric power by 11.5 g r.f. (from 246.8 to 235.3 g r.f. per 1 kWh);
- a reduction in energy consumption across the electric grid by 1.0 percentage point (from 9.35 per cent. to 8.35 per cent.); and
- an increase in electric power production at the power sources of GPO Belenergo by 3.2 billion kWh (from 31.6 to 34.8 billion kWh).

In 2016, the Power Industry Development Programme 2016-2020 and the Complex Plan for Electric Power Production Development through 2025 were approved, providing for the launch of the NPP. In 2018, the cross-industry complex action plan of power consumption increase until 2025 was approved.

In May 2014, the Republic of Belarus, Russia and Kazakhstan signed the EEUT, which obliged the parties to create a common electric power market not later than 1 June 2019. During the period from 2015 to 2018, the parties have been implementing a number of preparatory measures, including the adoption of the EEU Common Electric Power Market Concept by the Supreme Eurasian Economic Council and preparation of the EEU Common Electric Power Market Program. The creation of the EEU common electric power market is aimed at establishing competitive relations in the field of interstate energy product supply to promote growth in the number of suppliers of such resources and diversity of prices offered for such resources. The expected result of such actions is a decrease in payments for imported energy resources for end consumers in the Republic of Belarus.

Before the creation of the EEU Common Electric Power Market, the Republic of Belarus (GPO "**Belenergo**") and Russia (PJSC "**Inter RAO**") co-operated within the framework of bilateral contracts for power supplies. Electricity imported by the Republic of Belarus shall not be charged export duty in Russia.

NPP

Since 2010, the Republic of Belarus has been increasing its electrical production infrastructure in order to diversify its energy production facilities. In March 2011, the Government of the Republic of Belarus signed a contract with the government of Russia for the "turnkey" construction of the NPP in the Republic of Belarus (with a total design output of up to 2,400MW).

To start construction of the power plant, in 2012, the Republic of Belarus entered a number of design and development contracts with Atomstroyexport, a branch of Rosatom, the Russian national nuclear corporation. To finance the NPP construction in the Republic of Belarus, in November 2011, the Republic of Belarus and Russia signed a US$10 billion export credit loan, which fully covers the expected expenses required to put the NPP into operation. In January 2012, a contract for exploration works and the development of design documentation on the NPP was signed, stipulating the stage by stage issuing of design documents, including for preparatory works (e.g., the foundation pit). The contract for the development of the design documentation has been fulfilled.

In March 2012, the contract for preparatory works was signed. The works on the production facilities and the foundation pit for the first unit of the NPP have been performed in full. The production facilities (62 units) required for construction of the NPP were commissioned in 2015. At the stage of preparatory works in 2011, the Republic of Belarus completed the main NPP infrastructure construction projects (the pioneering production base required for construction of the NPP, external power supply networks, access motor road, access relating to rail track). Construction of residential infrastructure (e.g. housing and schools for employees and their families) for the NPP is in progress.

As at the date of these Listing Particulars, full-scale works under the general contract are in progress on the construction of the first and second power units of the NPP. The commissioning of the NPP is scheduled for 2020.

All of the nuclear energy industry development works in the Republic of Belarus, including the creation of national nuclear infrastructure required for the development of nuclear power industry, as well as the NPP construction, are performed in compliance with recommendations of the International Atomic Energy Agency.

The NPP will allow the Republic of Belarus to:

- annually decrease the consumption of imported natural gas to increase the energy security of the Republic of Belarus;
- reduce greenhouse gas emissions;
- ensure the removal of obsolete and inefficient generating capacities from the Belarusian energy system;
- improve the economy of the country and the development of other branches of the national economy;
- provide a powerful impetus for the development of the region surrounding the NPP site.

Natural Gas

The Republic of Belarus imports natural gas from Russia. The Republic of Belarus transports natural gas through the "Yamal-Europe" pipeline, which accounts for about 25 per cent. of Russia's gas exports, as well as through "Gazprom Transgaz Belarus" (previously Beltransgaz). According to the bilateral intergovernmental agreement with Russia entered into in 2011, gas transport pipelines in the territory of the Republic of Belarus belong to "Gazprom" and are managed and maintained by "Gazprom Transgaz Belarus". In accordance with Russian legislation, natural gas supplied to the Republic of Belarus is exempt from the Russian export duty at the level of 30 per cent.

The table below shows the data of domestic consumption, import of natural gas, price for the imported gas and the price for gas transit through the territory of the Republic of Belarus in the periods indicated.

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
			(billion cubic metres)		
Domestic consumption	20.05	18.79	18.64	19.014	20.330
Import from Russia	20.05	18.79	18.64	19.014	20.330
			(US$/thousand cubic metres)		
Price of imported natural gas	166.4	140.6	132.8	142.26	129.0
			(US$ million)		
Price of the gas transited through Belarus	505.7	424.8	356.1	363.5	336.1

Source: Ministry of Energy

In November 2011, the Republic of Belarus and Russia signed a Long Term Natural Gas Supply Contract (the "**LT Contract**") for an undetermined period. The LT Contract provides for a significant reduction in natural gas prices for the Republic of Belarus starting from 1 January 2012 (US$165.6/thousand cubic metres) compared to the average price in the fourth quarter of 2011 (US$305.7/thousand cubic metres). The LT Contract stipulated a fixed price of natural gas for 2012. From 2013 through 2017, the price of natural gas for the Republic of Belarus under the LT Contract has been determined based on the price of natural gas for consumers in the Yamalo-Nenets Autonomous Okrug of Russia plus the cost of transporting natural gas from the place of extraction to the border of the Republic of Belarus, the costs of storing natural gas in Russia's underground tanks and the expenses of PJSC "Gazprom" for the sale of natural gas. In accordance with the amendments to the LT Contract on gas supplies for the Republic of Belarus for the period 2018-2019 signed on 13 April 2017, the price for natural gas imported from Russia during each settlement year will be fixed at US$129 and US$127 per thousand cubic metre, respectively. In the LT Contract it is stipulated that Russia will guarantee supplies of natural gas to the Republic of Belarus in amounts sufficient for satisfaction of domestic demand in the Republic of Belarus in the full amount.

In August 2012, the Republic of Belarus and PJSC "Gazprom" announced the launch of a new programme to promote the use of natural gas as motor fuel. In November 2012, PJSC "Gazprom" announced the implementation of a broad scale programme of investment in "Gazprom Transgaz Belarus" to upgrade the gas supply and storage facilities in order to ensure efficient use of such facilities and a 30 per cent. growth of the Russian gas transport to the EU through the Republic of Belarus.

The Republic of Belarus takes part in developing documents defining approaches to creating and functioning of common energy markets for gas and electric power. The programme for the formation of the common gas market of the EEU was approved by the Resolution of the Supreme Eurasian Economic Council No. 18 dated 6 December 2018.

In May 2014, the Republic of Belarus, Russia and Kazakhstan signed the EEUT, which obliged the parties to create a common EEU gas market not later than 1 January 2025.

The creation of the EEU common gas market is aimed at establishing competition in the supply of interstate energy products to promote growth in the number of suppliers of such resources and diversity of prices offered for such resources. This is expected to lead to a decrease in payments for imported energy resources for end consumers in the Republic of Belarus while the Republic of Belarus's proceeds from the transit of natural gas through its territory are not expected to be materially affected.

On actions to reduce the scope of state price regulation

In 2011-2016, the Republic of Belarus has adopted a number of measures to significantly reduce the scope of state price regulation. Currently, the EEUT and the Law of the Republic of Belarus No. 255-Z dated 10 May 1999 "On Pricing" (as amended) constitute the legal framework for regulated prices in the Republic of Belarus. The Belarusian laws stipulate that regulated prices (tariffs) in the Republic of Belarus are applicable to: (i) goods produced (sold) and services provided (rendered) by natural monopolies, as well as goods (work, services) of legal entities and individual entrepreneurs included in the State Register of Economic Entities Occupying a Dominant Position on commodity markets of the Republic of Belarus (republican and local levels); and (ii) certain goods (works, services), a specific list which is adopted by the President or the Council of Ministers once the President has ordered it (such lists includes, amongst other things, essential goods and services such as housing services and utilities, transport communication, catering products sold in educational institutions, medications and medical care). This list has been expanded several times. In 2016, it was expanded to include five items of major social importance (milk and dairy products, meat, bread, eggs, fresh chicken and baby food) and in 2017 it was expanded to include potatoes and fresh vegetables.

In order to implement the provisions of the EEUT, in 2014, the Council of Ministers adopted a resolution providing that prices for socially important goods, previously controlled on a regular basis, can be regulated for no more than 90 days in one year in case of a significant increase in prices, sharp shortage of certain goods or certain imbalance in the market.

Inflation

Before 2008, the Government relied primarily on price controls to reduce inflation. Regulated prices (tariffs) were applied to a wide range of goods or services produced or supplied in the Republic of Belarus that were intended for domestic consumption. As a result of measures taken by the Government to stabilise the balance of payments and the economy, the inflation rate declined from 16.2 per cent in 2014 to 5.6 per cent. in 2018 (the 2018 target estimate was for inflation not to be higher than 6 per cent.).

In accordance with the Main Directions of Monetary Policy for 2019, the National Bank and the Government set a target to limit the inflation rate of the consumer price index to not higher than 5.0 per cent.

The following table sets out past values of the consumer price index and target values going forward:

	As at December						
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Index of consumer prices to December of the previous year, %	116.2	112.0	110.6	104.6	105.6	105.0(1)	105.0(1)

Source: National Bank

Notes:

(1) Targets.

The following table presents the percentage of increase in consumer prices and producer prices for each of the periods indicated:

	As at December				
	2014	**2015**	**2016**	**2017**	**2018**
			(%)		
Consumer price index increase (to December of the previous year)	16.2	12.0	10.6	4.6	5.6
Monthly average(1)	1.3	0.9	0.8	0.4	0.5
Increase in the price index of industrial production manufacturers(2) (to December of the previous year)	12.6	17.0	8.9	11.2	6.4
Monthly average(1)	1.0	1.3	0.7	0.9	0.5

Source: National Statistical Committee

Notes:

(1) Average monthly growth rate of the relevant index.

(2) Calculations in accordance with OKRB 005-2011 classifications.

Employment, Wages, Pensions and Social Security

Wages

Starting from 2011, there have been significant changes in government regulation of wages, including the liberalisation of remuneration in commercial organisations and the extension of the rights of employers. A new regulatory framework was adopted in 2010 and 2011, which was aimed at reducing administrative barriers and restrictions for entrepreneurs. These employers are granted broad rights and can apply various labour remuneration systems, taking into account the effectiveness of each employee and the financial possibilities of entrepreneurial activities.

Remuneration for employees who work in public (budgetary) organisations is based on a tariff system, which includes centrally fixed wage grades and tariff coefficients in the 27-grade Common Tariff Scale and a first class wage rate fixed by the Government. Increases in remuneration levels of such employees is achieved by means of increases in the first class wage rate. During the period from 2011 to 2017, the first class wage rate for remuneration of budgetary employees was increased 16 times from BYN15.1 to BYN33.0 (after re-denomination of the Belarusian ruble). In general, during this period, the first class wage rate increased more than by two times. As a result, for the period from 2011 to 2017, the nominal accrued average monthly wage of budgetary employees increased by 3.9 times. In 2018, the nominal accrued average monthly wage of budgetary employees increased by 19.6 per cent. compared to 2017. In the first two months of 2019, the nominal accrued average monthly wage of budgetary employees increased by 13.8 per cent. compared to the first two months of 2018.

From 1 January 2020, remuneration for budgetary employees shall be paid on the basis of the tariff system which includes the base salary rate and an 18-grade tariff scale.

The minimum wage is the governmental minimum social standard in the field of remuneration of labour of employees. The procedure for setting the minimum wage was revised in 2014. In accordance with the revised Law of the Republic of Belarus No. 124-Z dated 24 April 2014 "On Determination of and Procedure for Increase of the Minimum Wage" the minimum monthly wage has been established on an annual basis, taking into account economic opportunities for the central and local budgets, as well as employers, in material goods and services, the level of employment and labour productivity, the forecast value of growth in consumer prices and the level of nominal accrued average monthly earnings. Collective bargaining agreements could provide for a higher minimum monthly wage.

The monthly minimum wage is established by the Council of Ministers. The minimum wage amounted to 128.6 per cent. of the subsistence minimum budget for the able-bodied population, established by the Ministry of Labour and Social Protection of the Republic of Belarus (BYN237.2 in December 2018, or approximately US$111). In January 2019, the monthly minimum wage was set at BYN330 (approximately US$153). In January 2018 it was set at BYN305 (approximately US$152). In January 2018, 2017 and 2016, the monthly minimum wage was set at BYN305 (approximately US$153), BYN265 (approximately US$136) and BYN230 (approximately US$121).

The table below shows data regarding the fluctuation of the wage index for the periods indicated:

	Year ended 31 December									
	2014		**2015**		**2016**		**2017**		**2018**[3]	
	BYN	*(%)*[1]	*BYN*	*(%)*[1]	*BYN*	*(%)*[1]	*BYN*	*(%)*[1]	*BYN*	*%*
Average Monthly Nominal Accrued Wage[2]	605.24	19.6	671.5	10.9	722.7	7.6	822.8	13.9	958.1	17.1
Real Wage	—	1.3	—	(2.3)	—	(3.8)	—	7.5	—	11.6

Source: National Statistical Committee

Notes:

(1) Change of the index as compared to the same period of the previous year, %.

(2) Taking re-denomination into account. See "*Exchange Rate Information*".

(3) Excluding micro-organisations and small organisations without departmental subordination.

In 2018, growth in the real monthly wage accelerated to 11.6 per cent. and the average monthly nominal accrued wage for the same period amounted to BYN958.1 (excluding micro-organisations and small organisations without departmental affiliation).

In 2017, the nominal average monthly wage in the Republic of Belarus increased by 13.9 per cent. compared to 2016, reaching BYN822.8 (about US$426). The increase in real wages for the same period was 7.5 per cent. During 2016, the nominal accrued average monthly wage increased by 7.6 per cent. to reach BYN722.7 (post re-denomination, approximately US$361 (average weighted exchange rate in 2016)). The decrease in real wages for the same period amounted to 3.8 per cent.

The table below shows the nominal accrued average monthly wage according to types of economic activity for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018[3]
	(BYN million)[2]				
Agriculture, forestry and fishing	458.37	492.83	506.9	585.2	687.6
Industry	634.95	686.14	750.9	869.1	1,049.2
Construction	760.44	754.71	736.2	818.8	1,021.9
Wholesale and retail trade; repair of cars and motorcycles	559.80	620.05	665.5	769.3	899.4
Transport activities, warehousing, postal and courier activities	615.41	673.71	730.0	813.3	1,043.3
Information and communication	1,036.37	1,579.1	2,033.1	2,376.6	2,775.1
Other activities[1]	540.17	619.79	657.3	726.4	810.5
Total	**605.24**	**671.50**	**722.7**	**822.8**	**958.1**

Source: National Statistical Committee

Notes:

(1) With regard to services of temporary accommodation and food; financial and insurance activities; real estate transactions; professional, scientific and technical activities; activities in the field of administrative and auxiliary services; governmental management; education; healthcare and social services; creative work, sports, entertainment and leisure; provision of other types of services.

(2) Taking re-denomination into account. See "*Exchange Rate Information*".

(3) Excluding micro-organisations and small organisations without departmental subordination.

Employment

In recent years, the Belarusian labour market has been characterised by a reduction in labour resources, which is primarily the result of a decrease in the size of the employable population.

In 2018, the size of employed population decreased by 18.2 thousand people, or by 0.4 per cent., as compared to 2017.

In 2018, 80.5 thousand people (2.7 per cent. of the average monthly number of the workforce) were partially unemployed or on forced leave (a 39.9 per cent. decrease compared to the same period of 2017), and in 2017, 133.9 thousand people (4.5 per cent. of the average monthly number of the workforce) were partially unemployed or on forced leave (a 46.9 per cent. decrease compared to 2016).

As at 31 December 2018, 12,481 people were registered as unemployed, representing a 45.4 per cent. decrease compared to 31 December 2017. As at 31 December 2017, 22,863 people were registered as unemployed, representing a 35.3 per cent. decrease compared to 31 December 2016. The registered level of unemployment as at 31 December 2018 amounted to 0.3 per cent. of the size of the workforce and 0.5 per cent. as at 31 December 2017.

According to a household sample survey studying employment issues in 2018, the number of unemployed persons was 244.9 thousand, while the actual unemployment rate was 4.8 per cent of the workforce.

The table below sets forth certain data on employment in the periods indicated:

	Average for the year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**[(6)]
	(thousand people)				
Labour resources[(1)] on average for the period	5,934.7	5,874.8	5,797.6	5,745.6	5,730.1
% of total size of population	62.6	61.9	61.0	60.5	60.4
Employed[(2)] on average for the period	4,550.5	4,496.0	4,405.7	4,353.6	4,335.5
Unemployed people[(3)] as at the end of the period	24.2	43.3	35.3	22.9	12.5
Number of unemployed people as percentage of the workforce as at the end of the period	0.5	1.0	0.8	0.5	0.3
Number of unemployed (as per International Labour Organisation("**ILO**") methodology)[(4)]	226.9	272.8	301.8	293.4	244.9
Actual unemployment rate as % of the workforce (as per ILO methodology)[(5)]	5.1	5.2	5.8	5.6	4.8

Source: National Statistical Committee, Ministry of Labour and Social Protection of Population.

Notes:

(1) Labour resources are defined as the population that is involved in the economy or are able to work, including those who do not work for any reason. Labour resources comprise the able-bodied population of employable age and employed persons who are older or younger than the employable age. The able-bodied population of employable age is the resident population of employable age (from 16 years to the established retirement age), except unemployed persons who receive pensions, including: disability pension, group I and II (including disabled pensioners among national servicemen); pension for length of service; and contributory retirement pension. Apart from the resident population, in the course of calculation of the size of able-bodied population of employable age, the number of foreign citizens involved in economy of the Republic of Belarus is considered.

(2) Population involved in economy (employed population) comprises people who work for a wage or salary, as well as self-employed persons who work to gain profit or income, as well as persons who are temporarily absent. The size of employed population comprises people who perform work (assist) in organisations, the founder (participant) of which is a member of a household or a relative. The difference between the total number of labour resources and number of employed persons is determined by the fact that a certain portion of labour resources are not engaged in searching for jobs during a certain period of time, for example, persons who are on maternity leave, on leave to attend to a child up to the age of three years; persons who study in educational institutions and who do not combine study with labour activities; and persons who manage a household.

(3) Unemployed people registered in labour, employment and social protection bodies are able-bodied citizens who are permanently resident in the territory of the Republic of Belarus, who do not have job and salary, who registered in labour, employment and social protection bodies at their permanent place of residence with the purpose of searching for suitable work, who are searching for jobs and are ready to commence such work.

(4) According to the recommendations of the ILO, unemployed persons are persons of 15-74 years of age corresponding to the following criteria during the survey week: have no work (gainful occupation); job-hunting by all means available; ready to start working.

(5) The actual unemployment rate is a ratio of unemployed persons of 15-74 years of age to the workforce (employed and unemployed) of this age group.

(6) Preliminary estimates.

There is an ongoing trend of redistribution of the number of employed people from the public to private sector. For a breakdown of the public and private sectors (including state participation in the private sector) as a percentage of GDP, see "*—Principal Sectors of the Economy*". The following table sets forth the average distribution of employed persons among the public and private sectors of the Republic of Belarus's economy for the periods indicated:

	Average for the year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**[(2)]
	(thousand people)				
Involved in economy – total	4,550.5	4,496.0	4,405.7	4,353.6	4,335.5
Whereas:					
Public sector	1,771.6	1,765.3	1,769.7	1,744.7	1,720.5
Private sector[(1)]	2,778.9	2,730.7	2,636.0	2,608.9	2,615.0
	(% of total)				
Public sector	39.0	39.3	40.2	40.1	39.7
Private sector[(1)]	61.0	60.7	59.8	59.9	60.3

Source: National Statistical Committee

Notes:

(1) Includes companies with foreign investment, reformed companies and companies with state participation.

(2) Preliminary estimates.

The following table sets forth the annual average distribution of persons employed in the principal sectors of the Republic of Belarus's economy for the periods indicated:

	Average for the year ended 31 December				
	2014	2015	2016	2017	2018[(2)]
	(thousand people)				
Agriculture, forestry and fishing	428.2	430.7	425.1	416.6	405.4
Industry	1,117.2	1,063.8	1,027.1	1,023.3	1,018.1
Construction	376.7	350.3	308.0	280.7	274.5
Wholesale and retail sale; repair of cars and motorcycles	649.7	650.6	633.5	616.3	625.7
Transport activities, warehousing, postal and courier activities	305.4	300.3	297.0	299.0	298.7
Information and communication	91.7	96.1	98.8	104.5	109.5
Other types of economic activities[(1)]	1,581.6	1,604.2	1,616.2	1,613.2	1,603.6
Total	**4,550.5**	**4,496.0**	**4,405.7**	**4,353.6**	**4,335.5**

Source: National Statistical Committee

Notes:

(1) Services of temporary accommodation and food; financial and insurance activities; real estate transactions; professional, scientific and technical activities; activities in the field of administrative and auxiliary services; governmental management; education; healthcare and social services; creative work, sports, entertainment and leisure; provision of other types of services; private household activities relating to hiring domestic servants.

(2) Preliminary estimates.

Unemployment Benefits

Since 1 January 2007, unemployment benefits have been financed by the SPF, a state extra-budgetary fund managed by the Ministry of Labour and Social Protection.

The amount of unemployment benefits ranges from 70 per cent. to 200 per cent. of a so-called base rate, a metric set by the Government and adjusted from time to time. As at 1 January 2019, the base rate amounted to BYN24.5 (approximately US$11.3).

In December 2018, the average monthly unemployment compensation amounted to BYN26.4 (approximately US$12.2), which amounted to 2.4 per cent. of the average nominal wage, and in December 2017, the average monthly unemployment compensation amounted to BYN26 (approximately US$13, or 2.7 per cent. of the average nominal wage).

The duration of unemployment benefits may not exceed 26 calendar weeks within each 12 month period calculated from the date of registration as being unemployed. For unemployed persons that have worked for 25 years or more for men or 20 years or more for women, the duration of unemployment benefits is increased by two weeks for each year of work above these thresholds.

During 2019-2023, no substantial changes are expected in unemployment benefits expenditures.

Pensions and Other Benefits

In the Republic of Belarus, there is a solidarity pension system with defined benefits.

The main source of financing pensions is mandatory contributions for pension insurance, paid by employers and employees to the state extra-budgetary SPF.

The size of the average pension awarded upon reaching the pension age was BYN352.11 (approximately US$172.9) in 2018, BYN309.56 (approximately US$160.2) in 2017 and BYN292.22 (approximately US$147) in 2016.

Pensions are periodically raised (taking into account growth in earnings and changes in the cost of living) on the basis of targeted Decrees of the Head of State within the budget of the SPF, but in any event at least once a year. In general, the old-age pension is maintained at a level of around 40 per cent. of the average salary of employees. In recent years, pension expenditures accounted for approximately 9 per cent. of GDP.

For the purpose of adaptation of the pension system to the aging population, pension expense growth is systematically managed. From 1 January 2017, the retirement age has gradually been increased (every year for 6 months) until reaching the age of 58 years for women and 63 years for men in 2022. The requirements for the length of service to qualify for a pension are also being raised to 20 years.

Pension terms for 2019 are as follows:

- for men: reaching the age of 61 years 6 months, having length of service of at least 25 years, including work with the payment of contributions to the social security fund for at least 17 years;

- for women: reaching the age of 56 years 6 months, having length of service of at least 20 years, including work with the payment of contributions to the social security fund for at least 17 years.

The state pension can be supplemented by pension payments from programmes of voluntary pension insurance in insurance organisations. Employers and employees can participate in these programmes voluntarily at their own expense.

Government Sponsored Social Assistance

According to the National Statistical Committee of the Republic of Belarus, in 2018, the share of the population of the Republic of Belarus that lived below minimum living standards decreased and amounted to 5.6 per cent., compared to 5.9 per cent. in 2017. The low-income population includes the population with the level of per capita disposable resources below the subsistence minimum budget. The value of the monthly subsistence minimum budget per capita average in 2018 amounted to BYN210.6 (approximately US$103.2). See "*—Employment, Wages, Pensions and Social Security—Wages*".

To keep the income of this group of people at a guaranteed minimum level, a system of state social targeted assistance has been in operation in the Republic of Belarus since 2001. Since this time, almost 3 million people have received targeted assistance, with total payments amounting to more than BYN362.5 million (taking account of the re-denomination of the Belarusian ruble). In 2018, targeted social assistance was received by 302,347 citizens, and the total amount of state targeted social assistance amounted to BYN92.5 million. Targeted assistance is provided in the form of monthly payments and one-off payments for food, medicine, clothing and certain other items.

FDI and Privatisation

FDI

Attracting FDI is an important priority for the Government. FDI comprises capital from purchasers of shares by foreign investors through direct investment in enterprises, reinvested earnings and intercompany loans, where the foreign investor holds at least 10 per cent. of a Belarusian company's shares or voting power. FDI is a component of total foreign investment, which is a broader category including direct, portfolio, capital and other investments in the form of cash, shares and other securities, credit, technology, machinery and equipment, and intellectual and other property. The principal document regulating investment in the Republic of Belarus is the Law No. 53-Z dated 12 July 2013 "On Investments", which provides explicit and transparent definitions for "investment" and "investor" and related rules governing the methods of investment and fundamental guarantees of protection for investors.

In line with their Belarusian peers, foreign investors enjoy the advantages of the preferential investment regimes and guarantees of their rights and investment protection.

The Presidential Edict No. 10 dated 6 August 2009 "On the creation of additional conditions for making investments in the Republic of Belarus" (as amended) enables an investor to secure additional guarantees of protection for its capital inputs, as well as preferences and privileges for the implementation of an investment project, by entering into an appropriate investment agreement with the Republic of Belarus. The Republic of Belarus is seeking to attract further investment through an attractive tax and customs regime, including the performance of six existing free economic zones (one in each region) where a special tax and customs regime is applicable to residents of such zones. These special tax and customs regimes make it easier for local businesses to achieve higher profitability, which in turn makes such businesses more attractive for foreign investors. Further, the Government has sought to encourage investment in rural areas of the Republic of Belarus by establishing beneficial tax regulations for such areas. The Republic of Belarus's Government attracts investors through establishing unrestricted FDI access to diversified range of assets and lifting restrictions on profit repatriation. The Republic of Belarus also attracts FDI in respect of such investment projects as the Great Stone Park, the HTP, and the Avgustov Canal tourist and recreation park. The main areas pursued by the above regimes are aimed at fostering high-tech, import-substituting and export-oriented industries.

The main benefits available to the residents of the Great Stone Park include the following:

- Exemption from (i) real estate tax on the objects located in the Great Stone Park, irrespective of the purposes of their use, and (ii) land tax on the sites located in the Great Stone Park until 14 June 2062;

- Exemption from profit tax in respect of the profits of the residents of the Great Stone Park from the sale of goods (works, services) produced by them in the Great Stone Park territory for a period of 10 years. After this period, the profit tax is paid at a rate reduced by 50 per cent. in respect of the profits of the residents of the Great Stone Park from the sale of goods, works or services produced by them in the Great Stone Park;

- Non-inclusion of the exchange rate differences in the composition of non-operating income or expenses for the purpose of profit tax calculation for the entire duration of the special legal regime until 14 June 2062;

- Full VAT credit for residents in respect of purchasing (import) of goods (works, services), proprietary rights, which are used for development of the Great Stone Park design plans, constructing, equipping of the objects in the Great Stone Park; and

- Personal income tax reduction to nine per cent. of the employment income paid by the residents of the Great Stone Park (until 1 January 2027) and an option to pay social security contributions in the amount not exceeding average monthly wage in the Republic of Belarus.

Advantages of the Great Stone Park include the following:

- "one-stop shop" services for residents;

- status of "territorial" special economic zone which provides maximum privileges and simplifications for both logistical and production activities under the EAEU Customs Code;

- lower prices for energy carriers;

- discount prices for natural gas and electric power;

- a local logistics area offering simplified customs clearance arrangements;

- possibility to build facilities according to applicable foreign regulations;

- possibility to execute a number of foreign exchange transactions other than in compliance with the applicable requirements of currency control legislation;

- visa-free entry for persons interested in or having already made investment in the Great Stone Park for up to 180 days; and

- "grandfather clause" protecting residents from any legislative changes increasing the tax load.

The residents of the free economic zones (the "**FEZ**") of the Republic of Belarus enjoy the following main benefits:

- Exemption from profit tax in respect of profits of FEZ residents deriving from sale of goods (works, services) of their own production to other FEZ residents or for export;

- Exemption from real estate tax within a three-year period starting from the date of registration of the company as a FEZ resident on buildings and structures created (acquired) within this period; on buildings and structures constructed in FEZ regardless of the purpose for which they are used, *provided that* during the preceding quarter the goods (works, services) of the resident's own production were exported and (or) sold to other FEZ residents;

- Exemption from land tax for land plots: (i) at facilities design and construction stages. This exemption is limited to a five-year period starting from the date of registration of the company as a FEZ resident; (ii) on land plots in the territory of the FEZ regardless of the purpose or the use of the land plots, *provided that* during the preceding quarter the goods (works, services) of the resident's own production were exported and (or) sold to other FEZ residents;

- Exemption from payment of state duty for obtaining special permits for the right to work in the Republic of Belarus to foreign citizens and stateless persons who are attracted by a FEZ resident for the implementation of an investment project on the territory of the FEZ; and

- Exemption from the VAT charged by customs authorities upon a FEZ resident's placement of any goods manufactured or otherwise obtained using foreign goods (which are covered by the free customs zone procedure) under the customs procedure of clearance for domestic use.

Attracting FDI is also possible within the framework of the private-public partnership (under the Law of the Republic of Belarus No. 345-Z dated 30 December 2015 "On Private-Public Partnership" (as amended)).

Due to the work on improvements of the business environment conducted in recent years the Republic of Belarus is consistently rated top-40 countries with the best business environment according to Doing Business report of the World Bank.

According to the Doing Business 2019 report, the Republic of Belarus ranks 37 among 190 countries under survey (38th in Doing Business 2018) and received 75.77 points out of 100 in terms of favourable conditions for doing business (as compared to 75.05 points last year).

According to the report, the Republic of Belarus is among the leaders in "Property registration" (the 5th place) and in the top-30 countries with the best conditions for doing business in "Access to power supply system" (the 20th place), "International trade" (the 25th place), "Contract performance security" (the 29th place) and "Company's registration"(the 29th place).

According to the World Bank, conditions for receiving credit have improved (+5 points and the 85th place in 2018). At the same time other areas still require reforming such as "Minority investors' protection" (-11 points), "Insolvency resolution" (-4 points) and "Taxation" (-3 points).

Doing Business 2019 report covered the period from 2 June 2017 to 1 May 2018. Due to the lack of law enforcement practice, the survey does not include a number of business improvement actions realised at the end of 2017 and in 2018 as a part of the "simplification of documentation" reform approved by the President, including the following:

- entities are allowed not to use seals;
- stamp duty for the entity's state registration can be paid electronically (through unified payment and information space);
- the procedure of obtaining a construction permit for assembly works has been simplified;
- the list of objects subject to obligatory state environmental review has been shortened;
- the procedures of state sanitary and hygienic expertise of design documentation for the construction of social, industrial, transport and engineering insfrastructure purposes and the receipt of the customer's certificate of compliance have been abolished;
- tax administration has been simplified;
- time limits for export and import customs clearance have been shortened; and
- electronic services in court procedures have been introduced.

The above reforms shall be included into the next submission to the World Bank.

The Government participates in some infrastructure and investment projects by issuing State guarantees or by becoming a party to investment agreements. The parties may have disagreements on commercial and other matters while implementing such projects and, as a result, the Government could become subject to legal claims by investors.

Litigation

As at the date of these Listing Particulars, the Government is subject to three investment claims:

- In March 2018, CJSC Delta Bank, the shareholder of Delta Belarus Holdings BV filed a claim with the International Centre for Settlement of Investment Disputes ("**ICSID**") against the Republic of Belarus. The subject of the dispute is a banking organisation, CJSC "Delta Bank", which was controlled by Delta Holding and was declared bankrupt in 2015 by the Belarusian authorities due to certain unauthorised activities relating to the bank's capital. The liquidation proceedings against the bank have not yet been completed. The claimant asserts that the bankruptcy was not deliberate and disputes the legality of withdrawal of funds from the banking organisation. In September 2018, a tribunal consisting of three members was constituted and on 21 November 2018, the court issued the first judgment on procedural issues. The defendant believes the claim has no merit and plans to defend its position.

- In January 2018, the Russian non-public joint-stock company GRAND EXPRESS brought a claim against the Republic of Belarus in the ICSID. The claim challenges the Government's (as a creditor) taking possession and ownership of certain assets of a Belarusian joint venture company that declared bankruptcy in 2017 and in which the plaintiff had an interest. The total amount of the claim is approximately US$200 million. In August 2018, the tribunal consisting of three members was constituted. On 3 October 2018, the first court session in the form of a telephone conference call was held. On 5 October 2018, the tribunal issued a judgment on procedural issues. In February 2019, the plaintiff filed a memorandum on the merits. The defendant believes the claim has no merit and plans to defend its position.

- In November 2017, the Republic of Belarus received a notification that arbitration proceedings pursuant to Article 3 of the UNCITRAL 2013 Arbitration Rules have been initiated by the Russian limited liability company "MANOLIUM-PROCESSING" in connection with an investment dispute. The claim challenges the expropriation of the plaintiff's assets by the defendant, which was undertaken due to the failure of the plaintiff to perform some of its obligations under the investment agreement relating to the construction of a hotel in Minsk. The total amount of the claim is approximately US$200 million. The Republic of Belarus responded to the claim in December 2017, and the first hearing is scheduled for 29 July 2019-2 August 2019 in The Hague. The defendant believes the claim has no merit and plans to defend its position.

The following table sets forth certain data regarding FDI as at and for the periods indicated:

	As at and for the year ended 31 December				
	2014	2015	2016	2017	2018
			(US$ million)		
FDI (received by the Republic of Belarus in the given period)	10,168.9	7,241.4	6,928.6	7,634.2	8,537.1
FDI on a net basis(1)	1,811.7	1,611.8	1,307.2	1,246.8	1,634.9
FDI (the amount accumulated in the Republic of Belarus as at the end of the reporting period)	6,655.8	6,436.5	6,722.3	7,429.6	7,936.6

Source: National Statistics Committee

(1) FDI on a net basis (net of the indebtedness owed to the direct investors for goods, work or services).

In 2014-2018, the FDI inflow amounted to US$40.5 billion. As at 31 December 2018, the amount of FDI accumulated in the Republic of Belarus increased to US$7,936.6 million from US$7,429.6 million and US$6,722.3 million as at 31 December 2017 and 2016, respectively.

The following table shows net FDI inflows in the Republic of Belarus by country of origin (excluding the banking sector, real estate sales and taxes to the budget) for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018
			(%)		
CIS	**30.1**	**39.0**	**34.8**	**31.0**	**44.4**
including Russia	28.3	38.1	33.0	29.1	41.7
EU countries, including	**52.4**	**51.0**	**53.8**	**52.9**	**33.8**
Cyprus	20.5	33.2	25.6	30.6	13.5
Germany	2.4	2.1	2.4	2.5	5.5
Poland	1.9	1.9	1.5	3.7	3.4
Latvia	1.6	0.4	1.9	5.9	2.5
Great Britain	5.1	3.6	1.4	1.7	2.4
Ireland	0.0	0.0	0.1	0.3	2.8
USA	1.9	1.9	1.4	2.0	2.1
UAE	0.1	0.9	0.9	1.8	3.6
China (including Hong Kong and Chinese Taipei)	4.1	3.0	3.3	3.8	9.3

Source: National Statistical Committee

During 2014-2018, Russia and the EU countries remained the largest investors in the economy of the Republic of Belarus. In 2018, Russia continued to be the leader by volume in net FDI in the Republic of Belarus (41.7 per cent. of the total net FDI volume), with the EU in second place (33.8 per cent.).

The following table shows net FDI inflows in the Republic of Belarus by the sectors in which FDI has been received (excluding proceeds from real estate sales and taxes to the budget) for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018
			(%)		
Industrial sector	36.6	26.1	38.7	38.0	31.1
Financial and insurance activities	20.9	18.3	11.1	17.2	26.8
Transport activities	1.6	9.7	14.3	6.1	18.1
Wholesale and retail; repairs of cars and motorcycles	15.5	18.5	8.2	9.4	6.5
Communications	1.8	2.4	12.4	12.8	0.5
Construction	5.5	3.1	6.0	3.2	4.7
Real estate operations	12.1	15.9	3.7	3.0	2.7
Agriculture, forestry and fishing industry	1.7	5.0	-	0.6	1.2
Other	4.3	4.0	5.6	9.7	8.4

Source: National Statistical Committee

In 2014-2018, net FDI was mostly attributable to the industrial sector and the financial and insurance sectors. At the end of 2018, the net FDI inflow in manufacturing industry was 31.1 per cent. of the total volume, in finance and insurance – 26.8 per cent., transportation – 18.1 per cent.

Privatisation

Privatisation in the Republic of Belarus first began in 1991 when the Government adopted a programme which covered all the basic forms of denationalisation and privatisation, including, sales at auction, tenders and the free transfer of shares of relevant enterprises to members of labour collectives in exchange for privatisation vouchers made available to the population. In order to create favourable conditions for investment activities by acquiring state property in the Republic of Belarus, a number of significant acts of legislation have been adopted over the recent years, with account to global practice and expertise.

In the Republic of Belarus, privatisation could be a two-stage process. The first stage is the transformation of a state enterprise into an open joint-stock company with 100 per cent. of the shares initially being owned by the state. The second stage involves the sale of some or all of the shares to one or more investors. Privatisation is generally an open process and shares are offered for sale by public tender. Privatisation of state-owned property was one of the most significant steps in the transformation of the Republic of Belarus from a centralised planned economy and resulted in the formation of a private sector and the creation of a number of market institutions (such as joint-stock companies, banks and insurance companies).

Prior to September 2012, the Government introduced privatisation based on three-year privatisation plans. The last such plan was for 2011 to 2013.

In May 2010, the President established NAIP. The function of NAIP is to liaise with investors to encourage FDI and to ensure that privatisation measures are implemented in an efficient, professional and transparent manner. NAIP is also authorised to represent interests of the Republic of Belarus in the area of investments into the Republic of Belarus. NAIP provides interaction between investors and republican state administration bodies, other state bodies affiliated to the Government of the Republic of Belarus, local executive and regulatory agencies. NAIP provides for consultations and investors' support during all stages of preparation and realisation of investment projects. The key priorities of NAIP are as follows:

- information and advisory support of investment activities in the territory of the Republic of Belarus;
- preparation, drawing, presentation and updating of investment projects and proposals; and
- providing transparent mechanisms of cooperation with state bodies and agencies.

In September 2012, the President abolished the old system of privatisation planning and, consequently, the 2011 to 2013 privatisation plan was abolished. In October 2012, the Government approved a new plan for 2011-2013 providing for transformation of state enterprises into open joint-stock companies. Under the plan, 35 enterprises were reformed in 2011, 15 enterprises were reformed in 2012, and 78 in 2013. Although no plan was adopted for 2014-2017, privatisation has continued.

Under new privatisation principles in force since October 2012, privatisation is carried out on a case-by-case basis and any enterprise in the country can be privatised. The State Property Committee has issued recommendations for the sale of shares and enterprises representing property complexes. The recommendations have been approved by the Government and distributed to the State authorities, organisations, regional executive committees and Minsk city executive committee as guidance.

Belarusian legislation provides equal rights to foreign and domestic investors for participating in the privatisation of state property. The following persons may participate in the process of privatisation: individuals, including individual entrepreneurs, foreign citizens and stateless persons, as well as legal entities of the Republic of Belarus, except for state-owned organisations and business entities, in the authorised fund of which the shares (participatory interests) owned by the Republic of Belarus and/or its administrative and territorial units exceed 50 per cent., foreign states and their administrative and territorial units, international organisations, foreign legal entities, as well as foreign unincorporated organisations.

In 1991-2017, over 5,000 state enterprises were reformed. The so-called "small" privatisation has been virtually completed in full in the sphere of retail trade, services (catering and amenity services), consumer goods manufacturing, food industry, wood-working industry, construction, the processing of agricultural products and agriculture servicing sector.

In 2011-2018, over 350 state unitary enterprises were transformed into open joint-stock companies in such industries as petrochemical, machine-building and instrument-making industry, so that these companies could be subsequently privatised using foreign investments, where practical. Such major national enterprises as MAZ, BELAZ, BELOMO, Minsk Motor Plant, Integral, Belaruskali and others have been transformed into joint-stock companies.

In 2011-2016, 12 transactions were concluded with non-residents of the Republic of Belarus for the sale of shares in business entities owned by the Republic of Belarus, for BYN73,321 million (before re-denomination) and US$2,525.8 million. In 2017, shares of five joint-stock companies belonging to the Republic of Belarus were offered for sale at auctions in the trading system of the Belarusian Currency and Stock Exchange OJSC (the "**Belarusian Exchange**") in the form of a simple standard auction with the announcement of the starting price. Buyers showed interest in the shares of three joint-stock companies. To date no sales have been completed. In 2018, a decision was made to sell the shares of other eight joint-stock companies on the Belarusian Exchange. As of the date of the Listing Particulars, the sales activities are still in process.

The chart below sets forth the annual privatisation receipts for the periods indicated:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
			(US$ million)		
Privatisation revenue	5.3	—	—	—	—

Source: National Statistical Committee

Starting from 2012, NAIP has been implementing a Pilot Project of "Support for Privatisation" (the "**Project**") with the assistance and methodological support from the World Bank. The main task of the Pilot Project is to elaborate, by engaging competent experts, a clear-cut, objective and transparent system for the Republic of Belarus to attract strategic investments for state enterprises during their privatisation, based on the best international expertise, which system would facilitate the appearance of an effective owner and would bring the enterprises up to a new level of development, as well as would foster the inflow of direct private investments into the national economy.

The purposes of the Project are:

- to attract private investments to the enterprises being privatised, in order to upgrade technologies, expand the distribution markets and ensure efficient and socially responsible governance, with the investment options including a wide range of financial instruments, among them the full or partial sell-off of state-owned shareholdings in the enterprises at competitive prices in a public and transparent manner, investor purchases of additional share offerings, and the launch of joint ventures; and

- to expand the share of the private sector in the economy in order to increase the competitiveness of the economy.

Currently, the NAIP is undertaking a package of measures to attract strategic investors for five enterprises (one of which is in the food processing industry, two are in the chemical industry and the other two are in consumer goods manufacturing) with predominant government equity participation. At this stage, actions are taken to increase quality of enterprises as investment vehicles. These actions are determined on the basis of recommendations issued by experts who diligenced financial, operational and legal affairs of these enterprises.

In order to promote privatisation, the NAIP engaged consulting firms to implement the strategy of attracting investors, cooperating with potential investors and drafting the investment documentation.

In addition, in 2017-2020, the Government intends to finalise the privatisation of two state-owned banks:

JSC "Bank Dabrabyt" (previously known as Bank Moscow-Minsk)

Pre-privatisation of JSC "Bank Dabrabyt" is being conducted with the cooperation of the EBRD in line with the memorandum of understanding between the National Bank and the EBRD dated 28 September 2016 (the "**Memorandum**"). In accordance with the Memorandum, financing agreements totalling EUR 20 million were concluded. Moreover, the EBRD engaged a technical consultant who provided advisory services to the bank in 2017 and 2018.

The financial consultant prepared and circulated information materials to potential investors (about 60 financial institutions and companies). Banking institutions from Turkey, Russia and the Republic of Belarus showed interest in a more detailed due diligence of JSC "Bank Dabrabyt" business.

Other strategic investors are also engaged in the process. In 2018, meetings with representatives of large Chinese corporations were held. If these Chinese investors or other significant market players become interested, the National Bank will initiate procedures for the sale of shares in JSC "Bank Dabrabyt". The deadline for the sale of shares in JSC "Bank Dabrabyt" is 1 January 2020.

Belinvestbank

On 13 May 2005, the Republic of Belarus and the EBRD executed a memorandum (the "**Belinvestbank Memorandum**"), which requires a privatisation of Belinvestbank to be finalised by 1 January 2020. The Government intends to sell no less than 75 per cent. of shares in Belinvestbank to a strategic investor.

In accordance with the Belinvestbank Memorandum, the EBRD is considering an option of buying 10-25 per cent. of shares in Belinvestbank. Eurasian Development Bank also showed interest in purchasing a stake in Belinvestbank.

In 2018, the Government and the EBRD exchanged letters on further realisation of the Belinvestbank Memorandum and continued work on its implementation. In its letter dated 8 November 2018, the EBRD presented a road map for an acquisition of a stake in JSC Belinvestbank by May 2019.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

For the year ended 31 December 2018, the Republic of Belarus's balance of payments deficit amounted to US$0.1 billion as compared to a surplus of US$1.4 billion in 2017.

In 2018, the foreign trade operations of the Republic of Belarus provided for a current account deficit of US$0.3 billion, or 0.4 per cent. of GDP (compared to a deficit of US$0.9 billion, or 1.7 percent. of GDP, in 2017). The financial account balance (excluding operations with reserve assets and related items) in 2018 was positive and amounted to US$31.6 million (the negative balance of 2017 amounted to US$1.7 billion).

The table below sets out the Republic of Belarus's balance of payments for the periods indicated:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**(1)
			(US$ million)		
Balance Sheet Items					
I. Current account	(5,227.7)	(1,831.0)	(1,611.9)	(945.2)	(265.6)
as a per cent. of GDP for the period.	(6.7)	(3.2)	(3.3)	(1.7)	(0.4)
1. Goods and services	(488.9)	100.7	(32.0)	82.9	693.8
Export	43,302.9	32,797.8	29,926.9	36,529.5	41,970.2
Import	43,791.8	32,697.1	29,958.9	36,446.6	41,276.4
1.1. Goods	(2,635.4)	(2,142.5)	(2,511.3)	(2,978.9)	(2,651.3)
Exports (in FOB prices)	35,423.3	26,164.3	23,099.8	28,690.2	33,249.4
Import (in FOB prices)	38,058.7	28,306.8	25,611.1	31,669.1	35,900.7
1.2. Services	2,146.5	2,243.2	2,479.3	3,061.8	3,345.1
Export	7,879.6	6,633.5	6,827.1	7,839.3	8,720.8
Import	5,733.1	4,390.3	4,347.8	4,777.5	5,375.7
2. Primary income	(2,414.3)	(2,465.8)	(2,191.5)	(2,058.1)	(2,387.7)
Credit	900.4	607.8	672.5	909.4	986.0
Debit	3,314.7	3,073.6	2,864.0	2,967.5	3,373.7
3. Secondary income	(2,324.5)	534.1	611.6	1,030.0	1,428.3
Credit	1,902.8	1,430.3	1,546.0	2,259.8	2,716.3
Debit	4,227.3	896.2	934.4	1,229.8	1,288.0
II. Capital account	7.7	4.6	6.5	1.5	20.4
Credit	10.0	6.1	10.0	5.7	22.2
Debit	2.3	1.5	3.5	4.2	1.8
Balance according to current account and capital account					
Net lending (+) / net borrowings (-)	*(5,220.0)*	*(1,826.4)*	*(1,605.4)*	*(943.7)*	*(245.2)*
III. Financial account (balance according to financial account)					
Net lending (+) / net borrowings (-)*	*(2,260.4)*	*(702.1)*	*(1,228.9)*	*(1,730.2)*	*31.6*
3.1. Direct investment	(1,788.6)	(1,545.7)	(1,124.0)	(1,208.5)	(1,433.6)
Net acquisition of financial assets	73.4	106.6	122.9	67.8	41.3
Net incurrence of liabilities	1,862.0	1,652.3	1,246.9	1,276.3	1,474.9
3.2. Portfolio investments	19.6	952.1	(646.1)	(1,264.8)	593.1
Net acquisition of financial assets	23.1	8.9	(42.6)	(6.5)	80.8
Net incurrence of liabilities	3.5	(943.2)	603.5	1,258.3	(512.3)
Including the government sector	0.0	(989.7)	(2.7)	1,394.8	(200.8)
3.3. Financial derivatives	29.6	24.7	2.3	(0.2)	(0.2)
Net acquisition of financial assets	2.0	0.5	(0.8)	(0.9)	2.1
Net incurrence of liabilities	(27.6)	(24.2)	(3.1)	(0.7)	2.3
3.4. Other investments	(521.0)	(133.2)	538.9	743.3	872.3
Net acquisition of financial assets	(218.0)	442,4	(929.8)	60.6	1,392.4
3.4.1. Other equity Participation instruments	0.0	0.0	0.0	0.0	0.0
3.4.2. Debt instruments	(218.0)	442.4	(929.8)	60.6	1,392.4
3.4.2.1. The National Bank	77.0	61.0	8.6	(61.4)	116.0
3.4.2.2. Depository institutions, except for the National Bank	(157.6)	345.7	(531.9)	(1,588.9)	174.2
3.4.2.3. The government sector	0.0	0.0	0,0	0.0	0.0
3.4.2.4. Other sectors	(137.4)	35.7	*(406.5)*	*1,710.9*	*1,102.2*
Foreign cash and bank deposits	*30.1*	*278.6*	*163.9*	*1,078.8*	*651.8*
Loans and borrowings	*88.4*	*(37.2)*	*(48.3)*	*51.5*	*62.0*
Insurance, pension programs, standard protection plans	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Trade credits and advances	*(249.4)*	*(188.5)*	(522.9)	575.0	403.1
Other receivables	*(6.5)*	*(17.2)*	0.8	5.6	(14.7)
Net incurrence of liabilities	303.0	575.6	(1,468.7)	(682.7)	520.1

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018[(1)]**
			(US$ million)		
3.4.1. Other equity participation instruments...	0.0	0.0	0.0	0.0	0.0
3.4.2. Debt instruments	303.0	575.6	(1,468.7)	(682.7)	520.1
3.4.2.1. The National Bank	988.5	(393.8)	(769.3)	(343.8)	(12.7)
3.4.2.2. Depository institutions, except for the National Bank	(212.2)	(637.5)	(644.3)	(1,583.1)	623.3
3.4.2.3. The government sector	(1,365.4)	1,158.8	1,040.6	915.9	551.6
3.4.2.4. Other sectors	892.1	448.1	*(1,095.7)*	328.3	(642.1)
Loans and borrowings	*846.3*	*732.6*	*(729.8)*	*367.3*	*(175.9)*
Insurance, pension programs, standard protection plans	*(0.2)*	*0.0*	*0.1*	*0.0*	*0.0*
Trade credits and advances	*54.0*	*(292.2)*	(370.5)	(45.6)	*(440.0)*
Other payables	*(8.0)*	*7.7*	4.5	6.6	(26.3)
IV. Statistical net errors and omissions.	(450.7)	504.2	859.1	577.2	170.1
V. Balance sheet overall balance	**(3,410.3)**	**(620.1)**	**482.6**	**1,363.7**	**(106.7)**
VI. Financing	**(3,410.3)**	**(620.1)**	**482.6**	**1,363.7**	**(106.7)**
6.1. Reserve assets	(1,410.3)	(620.1)	482.6	2,063.7	(106.7)
6.2. Loans and borrowings from the IMF	0.0	0.0	0.0	0.0	0.0
6.3. Exceptional financing	2,000.0	0.0	0.0	700.0	0.0

Source: National Bank

Note:

(1) Preliminary estimates.

Current Account

The surplus in foreign trade in goods and services for the year ended 31 December 2018 amounted to US$0.7 billion, or 1.2 per cent. of GDP, compared to US$0.1 billion, or 0.2 per cent. of GDP, in 2017. The deficit of foreign trade in goods amounting to US$2.7 billion was offset by a surplus in foreign trade in services in the amount of US$3.3 billion.

The 14.6 per cent. growth in foreign trade turnover in 2018 was due to the 15.9 per cent. increase in export and the 13.4 per cent. increase in import of goods. Growth of the total value of export was due to both an increase in average export prices (a 10.1 per cent. growth in 2018 compared with 2017) and an increase in volumes (a 4.8 per cent. growth in 2018 compared with 2017). The increase in total export value was due to growing volumes of deliveries of the main categories of goods. The highest growth rates were in chemical products, mineral goods, base metals and transport vehicles.

Import growth in 2018 was due to an increase in average prices (6.9 per cent. growth in 2018 compared with 2017) and an increase in volumes (5.0 per cent. growth in 2018 compared with 2017). The main negative impact on the balance of foreign trade in goods was in intermediate goods, both energy and non-energy.

The negative primary income balance was US$2.4 billion in the year ended 31 December 2018 (compared to negative US$2.1 billion in the year ended 31 December 2017) resulting from net payments of investment income (US$3.0 billion) exceeding the net inflow of income from compensation of temporary employees (US$0.6 billion).

Capital Account

In accordance with the IMF methodology, the capital account shows capital transfers receivable and payable between residents and non-residents and the acquisition and disposal of non-produced, non-financial assets (such as natural resources, contracts, licences and goodwill) between residents and non-residents. In the year ended 31 December 2018, the Republic of Belarus recorded a capital account surplus of US$20.4 million.

Financial Account

The financial account records transactions that involve financial assets and liabilities that take place between residents and non-residents. In 2018, the Republic of Belarus remained a "net borrower" of financial resources from the global economy. The financial account balance in standard representation of payment balance (including operations with reserve assets) in 2018 was negative and amounted to US$75.1 million (in 2017 the negative balance was US$366.5 million).

Net foreign borrowings of financial resources by the Republic of Belarus were mainly due to a net inflow of FDI (largely due to reinvested earnings of foreign owners) and an accumulation of external liabilities of the government sector. The FDI inflow in the Republic of Belarus (subject to withdrawals) amounted to US$1.5 billion, representing a 15.6 per cent. increase compared to 2017. US$0.8 billion of FDI in 2018 was attributable to reinvested profits of Belarusian financial and non-financial organisations. US$613.0 million of FDI representing 41.6 per cent. of net inflow of FDI in 2018 came from Russia. Large volumes of FDI in 2018 were received from residents of Cyprus, China and Germany. Processing industry, transport and wholesale trade were the key industries for FDI in 2018.

In the year ended 31 December 2018, foreign economic operations with portfolio investment provided net lending to the rest of the world in the amount of US$0.6 billion compared to net borrowing of financial resources of US$1.3 billion in the year ended 31 December 2017.

Operations with other investments (such as deposits, credits and loans, trade loans and prepayments, other foreign assets (except reserve assets) and liabilities) in 2018 ensured net lending to the global economies of US$0.9 billion compared to net borrowing of US$43.3 billion in the year ended 31 December 2017.

Foreign Trade

The Republic of Belarus is implementing a multi-faceted foreign trade policy and actively participates in the international integration processes. The Republic of Belarus maintains trade relations with more than 200 countries. Exports are one of the main priorities of the development of the Belarusian economy and account for more than half of the country's GDP.

In 2018, exports grew across all markets, including by US$2.3 billion, or 29.9 per cent., to EU member states (representing the fastest growing export rate), US$1.2 billion, or 7.0 per cent., to CIS countries, including EEU countries where the export increase was US$239.5 million, or 1.8 per cent., and by US$48.3 million, or 0.4 per cent., to Russia.

The main driver of growth in Belarusian exports was an increase in average export prices, primarily prices for energy sources and other intermediate goods such as fertilisers and ferrous metals. An increase in consumer export resulted from the growth in volumes of both food and non-food commodity groups. At the same time average export prices for food products decreased, primarily prices for dairy products and sugar, while prices for non-food consumer goods increased. Export of investment goods was characterised by a minor increase in both average prices and volumes.

In 2018, the foreign trade deficit amounted to US$4.7 billion, compared to US$5.1 billion in 2017 and US$4.1 billion in 2016. The main reason for the decrease in the foreign trade deficit in 2018 compared to 2017 was a larger increase in average export prices compared to an increase in average import prices and an increase in export volumes.

In 2018, foreign trade turnover in goods of the Republic of Belarus amounted to US$72.1 billion, which represented an increase of 13.6 per cent. compared to 2017. In 2017, foreign trade turnover of goods in the Republic of Belarus amounted to US$63.5 billion in 2017, which represented an increase of US$12.3 billion, or 24.1 per cent., compared to 2016.

In 2018, exports of goods amounted to US$33.7 billion, representing a 15.3 per cent. increase compared to 2017, while imports of goods amounted to US$38.4 billion, representing a 12.2 per cent. increase compared to 2017. In 2017, exports of goods amounted to US$29.2 billion, representing a 24.2 per cent. increase compared to 2016, while imports of goods amounted to US$34.3 billion, representing a 24.0 per cent. increase compared to 2016. Exports of goods amounted to US$23.5 billion in 2016, representing a 11.7 per cent. decrease compared to 2015, and to US$26.7 billion in 2015, representing a 26.1 per cent. decrease. In 2016, the Republic of Belarus imported US$27.6 billion of goods, representing a 8.9 per cent. decrease compared to 2015, and US$30.3 billion of goods was imported in 2015, representing a 25.2 per cent. decrease.

The following table shows the Republic of Belarus's trade balance by principal geographic area for the periods indicated:

	2014	2015	2015 / 2014 (%)	2016	2016 / 2015 (%)	2017	2017 / 2016 (%)	2018	2018/2017 (%)
					(US$ million)				
Foreign trade in goods-total									
turnover	76,582.9	56,951.9	74.4	51,147.2	89.8	63,474.9	124.1	72,135.0	113.6
export	36,080.5	26,660.4	73.9	23,537.3	88.3	29,240.0	124.2	33,726.1	115.3
import	40,502.4	30,291.5	74.8	27.609.9	91.1	34,234.9	124.0	38,408.9	112.2
balance	(4,421.9)	(3,631.1)		(4,072.6)		(4,994.9)		(4,682.8)	
CIS countries									
turnover	45,294.6	32,419.0	71.6	31,193.4	96.2	38,564.4	123.6	43,018.3	115.5
export	21,107.5	14,076.2	66.7	14,647.7	104.1	17,493.4	119.4	18,723.1	107.0
import	24,187.1	18,342.8	75.8	16,545.7	90.2	21,071.0	127.3	24,295.2	115.3
balance	(3,079.6)	(4,266.6)		(1,898.0)		(3,577.6)		(5,572.1)	
Russian Federation									
turnover	37,371.2	27,541.6	73.7	26,254.8	95.3	32,496.8	123.8	35,561.3	109.4
export	15,181.0	10,398.4	68.5	10,948.0	105.3	12,897.7	117.8	12,946.0	100.4
import	22,190.2	17,143.2	77.3	15,306.8	89.3	19,599.1	128.0	22,615.3	115.4
balance	(7,009.2)	(6,744.8)		(4,358.8)		(6,701.4)		(9,669.3)	
Countries outside CIS									
turnover	31,288.3	24,532.9	78.4	19,953.8	81.3	24,910.5	124.8	29,116.7	116.9
export	14,973.0	12,584.2	84.0	8,889.6	70.6	11,746.6	132.1	15,003.0	127.7
import	16,315.3	11,948.7	73.2	11,064.2	92.6	13,163.9	119.0	14,113.7	107.2
balance	(1,342.3)	635.5		(2,174.6)		(1,417.3)		889.3	

Source: National Statistical Committee

The Republic of Belarus exports more than 1,000 commodity items, including mineral products (oil and oil products, liquefied gas, salt, cement), chemical products (fertilisers, chemical fibres and yarns, caprolactam, tyres), foodstuffs (dairy products, meat products and sugar) and feedstock. A wide range of Belarusian sophisticated products, agricultural equipment, cargo vehicles and cars, buses, carriages, road-building machinery, technological equipment and electrical equipment, TV sets, refrigerators, gas stoves, washing-machines, microelectronic goods and optical instruments, is in stable demand externally. The Government is focused on fostering growth in the technology space, as described in "*The Economy of the Republic of Belarus—Principal Sectors of the Economy—Information Technology*".

In recent years, Belarusian export has been diversifying, with a decrease in the share of mineral products (mainly oil products) and an increase in the share of certain other product groups. The share of mineral products in the total export volume decreased from 34.2 per cent. in 2014 to 25.9 per cent. in 2018, while the share of chemical products increased from 17.3 per cent. to 19.1 per cent., ferrous and non-ferrous metals and metal objects– from 6.5 per cent. to 7.2 per cent., wood and paper/pulp products – from 2.8 per cent. to 4.9 per cent. Foodstuffs and agricultural feedstock represented a significant share in total export volumes, comprising 15.3 per cent. in both 2014 and 2018.

The US$3.1 billion export shortfall in 2016 was largely caused by a decline in overseas deliveries of a narrow group of goods: oil and oil products, which declined by US$2.8 billion, potassium and nitrogen fertilisers, which declined by US$768.3 million, liquefied gas, which declined by US$69.8 million and certain types of unalloyed steel products, which declined by US$136.1 million.

A US$4.5 billion increase in total exports in 2018 compared to 2017 was due to a significant increase in the export of intermediary goods of Belarusian origin, including oil products (by US$1.2 billion), potash fertilisers (by US$459.2 million), ferrous metals (by US$249.1 million), crude oil (by US$203.3 million) and rip-sawn timber (by US$176.6 million).

At the same time, there was an increase in exports of investment and non-food consumer goods, including high added-value products such as cargo vehicles (by US$268.7 million), TV sets (by US$39.8 million), passenger cars for 10 or more passengers (by US$37.5 million), automobiles (by US$20.6 million) and refrigerators and freezers (by US$13.5 million). In 2016, exports of road-building machinery increased 2.4 times, automobiles increased 2.0 times, buses increased 1.6 times, agricultural machinery increased by 33.8 per cent. and tractors and cargo vehicles increased by 10.8 per cent. Significant growth was also achieved for certain items included in household appliances, light industry goods, woodworking products and foodstuffs.

The following table shows the commodity composition of Belarusian exports for the periods indicated:

	2014		2015		2016		2017		2018	
	US$ million	*% of total export volume*	*US$ million*	*% of total export volume*	*US$ million*	*% of total export volume*	*US$ million*	*% of total export volume*	*US$ million*	*% of total export volume*
Food industry products and feedstock	5,528.0	15.3	4,368.6	16.4	4,164.1	17.7	4,904.3	16.8	5,172.7	15.3
Chemical industry production, rubber (including chemical fibres and yarns)	6,227.2	17.3	5,682.9	21.3	4,736.0	20.1	5,386.0	18.4	6,458.5	19.1
Machines and equipment	2,923.5	8.1	2,042.6	7.6	2,382.1	10.1	2,756.8	9.5	2,786.8	8.3
Wood and paper-pulp products	1,017.3	2.8	859.1	3.2	1,013.0	4.3	1,319.2	4.5	1,656.8	4.9
Ferrous, non-ferrous metals and metalware	2,361.9	6.5	1,737.3	6.5	1,614.5	6.9	2,056.8	7.0	2,416.1	7.2
Mineral products	12,327.3	34.2	7,935.0	29.8	5,053.8	21.5	7,160.8	24.5	8,476.5	25.9
Textile and textile products	913.7	2.5	642.3	2.4	780.8	3.3	849.3	2.9	921.5	2.7
Hides, furs and goods made of them	80.8	0.2	77.1	0.3	70.2	0.3	79.5	0.3	72.6	0.2
Means of transport	2,548.9	7.1	1,647.9	6.2	1,972.7	8.4	2,532.4	8.6	2,784.7	8.3
Other products	2,151.9	6.0	1,667.6	6.3	1,750.1	7.4	2,185.8	7.5	2,709.9	8.1
Total	**36,080.5**	**100**	**26,660.4**	**100**	**23,537.3**	**100**	**29,240.0**	**100**	**33,726.1**	**100**

Source: National Statistical Committee

The principal market for Belarusian exports is Russia. In 2018, export to Russia was US$12.9 billion (a 0.4 per cent. increase compared to 2017). Belarusian export to Russia was US$12.9 billion in 2017 (a 17.8 per cent. increase compared to 2016) and US$10.9 billion in 2016 (a 5.3 per cent. increase compared to 2015), which was due in part to an overall increase in export volumes. In 2017 and 2016, exports to Russia accounted for 44.1 per cent. and 46.5 per cent. of Belarusian exports, respectively.

The EU is the second largest export market for the Republic of Belarus. In 2018, exports to the EU increased by US$2.3 billion, representing a 29.9 per cent. increase compared to 2017, and its share amounted to 30.2 per cent. Exports to the EU amounted to US$7.9 billion in 2017 representing an increase of 38.6 per cent. compared to 2016. The share of the EU in the exports of the Republic of Belarus increased to 26.8 per cent in 2017 from 24.0 per cent. in 2016. US$5.7 billion of goods was exported to EU countries in 2016.

For the purposes of increasing possibilities to expand exports into Asia, Africa, America and Oceania countries, the Republic of Belarus is working with its trade partners to improve access to foreign markets by entering into trade agreements.

In 2017, exports to Asia, Africa, America and Oceania amounted to US$4.3 billion, which represented growth of 18.4 per cent. compared to 2016. This was due to a 10.8 per cent. increase in exports of potash fertilisers, a 250 per cent. increase in exports of condensed and powdered milk and cream a 180 per cent. increase in exports of semi-finished products from plain steel, a 50 per cent. increase in exports of trucks, a 720 per cent. increase in sugar exports, a 38.5 per cent. increase in exports of tractors and cargo vehicles, a 90 per cent. increase in exports of petroleum products, a 520 per cent. increase in butter exports and a 840 per cent. increase in exports of seamless ferrous metal tubes, pipes and shapes.

In 2018, the Republic of Belarus exported goods to 17 new countries. The total volume of export to these countries amounted to US$446,000. The key export goods are automobiles, potash fertilisers, electric equipment for ignition and running of internal combustion engines, wheat and rye-wheat flour.

Some of the traditional products for Belarusian exports have entered new markets: oil products (Malta, India, the Philippines and Madagascar), potash fertilisers (Mozambique, El Salvatore, Niger and Cambodia), trucks (Serbia, Indonesia, China, the Philippines and Ethiopia), cheese and quark (Iraq and Bulgaria), tractors including truck tractors (Ireland, Cambodia, Canada, India and Senegal), furniture and its parts (Saudi Arabia, Myanmar, Ireland, Syrian Arab Republic and Qatar), butter (Denmark, Serbia, Saudi Arabia, Morocco and Uzbekistan), condensed and powdered milk and cream (the Bolivarian Republic of Venezuela, Japan, the Islamic Republic of Iran, Lithuania, Cameroon and Bangladesh).

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The table below shows the classification of exports by geographical allocation for the periods indicated:

	2014	Share in total volume, %	2015	Share in total volume, %	2016	Share in total volume, %	2017	Share in total volume, %	2018	Share in total volume, %
					(US$ million)					
Exports – total	**36,080.5**	**100.0**	**26,660.4**	**100.0**	**23,537.3**	**100.0**	**29,240.0**	**100.0**	**33,726.1**	**100**
Russia	15,181.0	42.1	10,398.4	39.0	10,948.0	46.5	12,897.7	44.1	12,946.0	38.4
EU countries	10,667.9	29.6	8,549.0	32.1	5,655.9	24.0	7,870.0	26.8	10,183.8	30.2
particularly:										
UK	2,928.9	8.1	2,940.5	11.0	1,079.7	4.6	2,382.1	8.1	3,072.9	9.1
Netherlands	1,708.9	4.7	1,149.7	4.3	926.9	3.9	1,102.4	3.8	1,428.9	4.2
Germany	1,654.1	4.6	1,086.2	4.1	944.3	4.0	1,118.1	3.8	1,455.4	4.3
Lithuania	1,038.5	2.9	964.0	3.6	767.0	3.3	848.3	2.9	1,156.2	3.4
Poland	843.9	2.3	766.3	2.9	814.5	3.5	1,084.1	3.7	1,344.6	4.0
Latvia	501.5	1.4	598.1	2.2	269.9	1.1	349.8	1.2	485.6	1.4
Ukraine	4,063.7	11.3	2,514.9	9.4	2,845.7	12.1	3,364.7	11.5	4,063.5	12.0
China	640.3	1.8	781.0	2.9	472.7	2.0	361.5	1.2	482.4	1.4
Kazakhstan	879.4	2.4	525.1	2.0	363.9	1.5	592.2	2.0	783.7	2.3
Brazil	709.5	2.0	521.2	2.0	441.0	1.9	439.9	1.5	585.3	1.7
Other countries	3,938.7	10.8	3,370.8	12.6	2,810.1	12.0	3,744.0	12.8	4,681.4	14.0

Source: National Statistical Committee

Belarusian imports primarily comprise energy resources (oil and natural gas), primary products, materials, and components (metals and metalware, feedstock for chemical production, machine parts) and technological equipment.

In 2018, imports amounted to US$38.4 billion, of which 29.6 per cent., or US$11.4 billion, were mineral products, 24.2 per cent., or US$9.3 billion, were machinery, equipment and transport, 14.2 per cent., or US$5.4 billion, were chemical industry products, and 11.3 per cent., or US$4.4 billion, were food products and agricultural raw materials.

Imports amounted to US$34.2 billion in 2017, representing an increase of US$6.6 billion, or 24.0 per cent. compared to 2016. The increase was due to increases in import of machinery, equipment and transport (which accounted for US$1.6 billion of the increase), chemical products (which accounted for US$0.9 billion of the increase) and food and agricultural feedstock (which accounted for US$0.5 billion of the increase).

The share of machines, equipment and transport in Belarusian import volumes decreased slightly from 18.3 per cent. in 2014 to 18.0 per cent. in 2018 and the share of food industry products and agricultural feedstock decreased from 11.8 per cent. in 2014 to 11.3 per cent. in 2018. The share of chemical industry goods and rubber remained unchanged at 14.2 per cent. in both 2014 and 2018, while the share of textile and textile products increased from 2.1 per cent. in 2014 to 3.0 per cent. in 2018.

The following table sets forth a breakdown of Belarusian imports by commodity for the periods indicated:

	2014		2015		2016		2017		2018	
	US$ million	*% of total import volume*	*US$ million*	*% of total import volume*	*US$ million*	*% of total import volume*	*US$ million*	*% of total import volume*	*US$ million*	*% of total import volume*
Food industry products and feedstock	4,788.7	11.8	4,406.2	14.5	4,026.4	14.6	4,523.6	13.2	4,354.8	11.3
Chemical industry production, rubber (including chemical fibres and yarns)	5,737.5	14.2	4,106.2	13.6	4,121.9	14.9	4,987.5	14.6	5,448.8	14.2
Machines and equipment	7,386.2	18.3	5,422.6	17.9	4,838.8	17.5	6,082.3	17.8	6,897.6	18.0
Wood and paper-pulp products	887.3	2.2	598.2	2.0	568.9	2.1	672.3	2.0	783.2	2.0
Ferrous, non-ferrous metals and metalware	3,703.9	9.1	2,535.1	8.4	2,505.8	9.1	3,411.3	10.0	3,809.1	9.9
Mineral products	12,146.9	30.0	9,429.3	31.1	7,582.8	27.5	9,919.9	29.0	11,350.6	29.6
Textile and textile products	843.8	2.1	585.3	1.9	802.7	2.9	1,035.4	3.0	1,161.5	3.0
Hides, furs and goods made of them	158.9	0.4	80.5	0.3	90.3	0.3	122.1	0.4	124.1	0.3
Means of transport	2,850.7	7.0	1,659.2	5.5	1,484,5	5.4	1,821.5	5.3	2,383.4	6.2
Other products	1,998.5	4.9	1,468.9	4.8	1,587.8	5.7	1,659.0	4.7	2,095.8	5.5
Total	**40,502.4**	**100**	**30,291.5**	**100**	**27,609.9**	**100**	**34,234.9**	**100**	**38,408.9**	**100**

Source: National Statistical Committee

In 2018, imports from CIS countries reached US$24.3 billion, while imports from non-CIS countries amounted to US$14.1 billion.

In 2017, imports from CIS countries reached US$21.1 billion, or 61.5 per cent., of total imports, representing a 27.3 per cent. increase compared to 2016, while imports from non-CIS countries amounted to US$13.2 billion, or 38.5 per cent., of total imports, representing an increase of 19.0 per cent. compared to 2016.

In 2016, imports from CIS countries amounted to US$16.5 billion, or 59.9 per cent. of total imports, representing a 9.8 per cent. decrease compared to 2015. Imports from non-CIS countries amounted to US$11.1 billion, or 40.1 per cent., of total imports, representing a decrease of 7.4 per cent. compared to 2015.

In 2015, imports from CIS countries amounted to US$18.3 billion, or 60.6 per cent. of total imports, representing a 24.2 decrease compared to 2014, while imports from non-CIS countries amounted to US$11.9 billion, or 39.4 per cent., of total imports, representing a 26.8 decrease compared to 2014.

Russia accounts for more than half of imports in value terms. In 2018, imports from Russia amounted to US$22.6 billion. In 2017, imports from Russia grew by US$4.3 billion to reach US$19.6 billion. In 2017, imports from Russia increased across a wide range of goods. In 2016, US$15.3 billion of goods were imported from Russia, which represented 55.4 per cent. of total imports, a decrease of 10.7 per cent. compared to 2015. US$17.1 billion of goods were imported from Russia in 2015, which represented 56.6 per cent. of total imports, a decrease of 22.7 per cent. compared to 2014.

The EU has consistently had a high share of Belarusian imports, at around 20 per cent. In 2018, imports from the EU amounted to US$7.1 billion. Imports from the EU countries in 2017 increased by US$1.2 billion compared to 2016 to reach US$6.7 billion. The Republic of Belarus imported US$5.5 billion of goods from the EU in 2016, representing a 5.4 per cent. decrease compared to 2015 and in 2015 it imported US$5.8 billion of goods from the EU in 2015, representing a decrease of 38.3 per cent. compared to 2014.

In 2017, imports from Asian countries increased to US$4.9 billion, or 14.3 per cent. of total imports in 2017. In 2016 and 2015, imports from Asian countries amounted to US$3.9 billion, which represented 14.0 per cent. and 12.8 per cent. of total imports in 2016 and 2015, respectively.

China is the most significant source of imports among the Asian countries. In 2018, imports from China amounted to US$3.2 billion, which represented a 14.9 per cent. increase compared to the year ended 31 December 2017. In 2017, imports from China increased to US$2.7 billion, which represented an increase of 28.9 per cent. The Republic of Belarus imported US$2.1 billion of goods from China in 2016, a decrease of 11.3 per cent. compared to 2015.

In 2018, average import prices and volumes of deliveries in physical terms increased by 6.9 per cent. and 5.0 per cent., respectively. In 2017, average import prices increased by 9.4 per cent. and volumes increased by 13.3 per cent. In 2016, average import prices decreased by 6.4 per cent. and volumes decreased by 2.6 per cent. In 2015, average import prices and volumes decreased by 15.6 per cent. and 11.4 per cent., respectively, compared to 2014.

The table below sets forth a breakdown of Belarusian imports by geography for the periods indicated:

	2014	Share in total volume, %	2015	Share in total volume, %	2016	Share in total volume, %	2017	Share in total volume, %	2018	Share in total volume, %
					(US$ million)					
Import – total	**40,502.4**	**100.0**	**30,291.5**	**100.0**	**27,609.9**	**100.0**	**34,230.7**	**100.0**	**38,408.9**	**100**
Russia	22,190.2	54.8	17,143.2	56.6	15,306.8	55.4	19,599.1	57.2	22,615.3	58.9
EU countries	9,448.6	23.3	5,833.5	19.3	5,519.7	20.0	6,653.4	19.4	7,148.1	18.6
particularly:										
Germany	2,465.3	6.1	1,385.5	4.6	1,332.6	4.8	1,727.1	5.0	1,846.0	4.8
Poland	1,535.0	3.8	1,085.8	3.6	1,185.2	4.3	1,339.0	3.9	1,206.4	3.1
Italy	1,165.9	2.9	636.7	2.1	576.4	2.1	693.8	2.0	788.8	2.1
France	424.2	1.0	320.7	1.1	243.3	0.9	299.7	0.9	324.7	0.8
Lithuania	365.4	0.9	277.8	0.9	265.5	1.0	318.4	0.9	356.7	0.9
Czech Republic	411.6	1.0	275.7	0.9	192.5	0.7	197.5	0.6	275.7	0.7
Netherlands	482.6	1.2	211.1	0.7	209.9	0.8	300.4	0.9	323.2	0.8
China	2,373.2	5.9	2,401.2	7.9	2,129.5	7.7	2,745.3	8.0	3,155.7	8.2
Ukraine	1,688.9	4.2	951.5	3.1	985.4	3.6	1,220.8	3.6	1,402.0	3.7
Turkey	463.2	1.1	487.9	1.6	734.9	2.7	807.6	2.4	800.8	2.1
USA	507.6	1.3	445.9	1.5	515.3	1.9	379.3	1.1	437.2	1.1
Other countries	3,830.7	9.4	3,028.3	10.0	2,418.3	8.7	2,829.4	8.3	2,849.8	7.4

Source: National Statistical Committee

MONETARY AND FINANCIAL SYSTEM

The National Bank

The National Bank was established as the central bank of the Republic of Belarus in December 1990 following the enactment of the Belarusian laws entitled "On the National Bank of the Republic of Belarus" and "On Banks and Banking Activities in the Republic of Belarus". The National Bank was established on the basis of the Belarusian Republican Bank of the USSR State Bank, which had represented the Belarusian banking system prior to independence.

The National Bank is a central bank and a government body of the Republic of Belarus, which carries out its activities in accordance with the Constitution, the Charter of the National Bank, the Bank Code, relevant Belarusian legislation and legal acts passed by the President and is independent in its activity. The National Bank is accountable to the President. The Charter of the National Bank sets out provisions relating to its status as a legal entity, its functions, its operations, the organisation of its activities, its property and its governing bodies. In particular, the Charter of the National Bank provides that the National Bank's objectives are to:

- support price stability;
- ensure stability of the banking system of the Republic of Belarus; and
- ensure that the Republic of Belarus's payment system functions in an efficient, reliable and secure manner.

The governing body of the National Bank is the Board of the National Bank. The number of the Board members is determined by the President. Currently, the Board of the National Bank comprises eight members. Each member of the Board of the National Bank is appointed by the President (and approved by the Council of the Republic). The duties of the Board of the National Bank include:

- reviewing and submitting to the President, in concert with the Government, the monetary policy guidelines for the forthcoming financial year;
- providing the annual performance report of the National Bank for approval of the President;
- establishing, with the agreement of the President, the rate of foreign capital participation in the banking system;
- making decisions regarding the regulation of credit relations and money circulation, establishment of settlement procedures and foreign exchange regulation and other duties.

Development Bank of the Republic of Belarus

The Republic of Belarus financial sector assessment prepared by the World Bank and published in November 2009 recommended that the authorities establish a dedicated agency that would take over all existing government-directed loans and associated state funding from state-owned commercial banks. This agency was to become the sole channel of budget funding for state development programmes. The objective was to reduce the role of the Government in the governance of state-owned commercial banks, limit excessive credit growth stimulated by directed lending, allow commercial banks to operate on competitive terms and thereby improve the allocation of credit across the economy, increase the transparency of directed lending and support the implementation of monetary policy. This recommendation was echoed in subsequent IMF reports. It is planned that the Government will gradually reduce the volume of direct lending to state-owned enterprises (up to BYN1.2 billion in 2018 compared to BYN1.7 billion in 2017). This form of funding is expected to be narrowed over time with the expansion of lending on a commercial basis.

Following this recommendation, DBRB was established in 2011 as a joint-stock company under Edict No. 261, which was last amended on 31 May 2016. In accordance with the provisions of Edict No. 261, DBRB did not need to receive special permission (in the form of a licence) for performing banking activities as specified in Edict No. 261. Edict No. 261 explicitly prohibits DBRB from providing banking services to individuals, opening current (settlement) accounts for legal entities and individual entrepreneurs and using cash. In 2016, DBRB became subject to regulations of the National Bank in terms of banking supervision with some exceptions in comparison with commercial banks.

The Government owns 96.212 per cent. of the share capital of DBRB. Key government figures, including the Prime Minister, the Minister of Finance and the Minister of Economy of the Republic of Belarus are members of

DBRB's Supervisory Board, allowing the state to maintain close oversight of the DBRB's activities. DBRB's Supervisory Board also includes five independent directors.

For further detail on DBRB's activities, see "*Business*".

Monetary and Exchange Rate Policy

The Belarusian ruble was introduced as the official currency of the Republic of Belarus in May 1992. On 1 January 2000, the Belarusian ruble was redenominated at a rate of old BYN1,000 to new BYN1. Further, in 1 July 2016, the Belarusian ruble was redenominated at a rate of old BYN10,000 to new BYN1.

At the beginning of 2009, the National Bank changed from the peg of the Belarusian ruble to the US dollar and the Russian ruble, to the peg of the ruble to a currency basket including the US dollar, the Euro and the Russian ruble (in equal proportions). See "*Risk Factors—Risks Relating to the Republic of Belarus—The Belarusian currency is subject to volatility*". This change allowed the National Bank greater flexibility in responding to currency price fluctuations. The move to shadow the US dollar and the Euro was motivated by the importance of such currencies in foreign economic operations, as demonstrated by the volumes of such currencies traded in the domestic money market and by the volume of the savings in these currencies across the population. The move to shadow the Russian ruble as an intermediary monetary target is based on Russia being the Republic of Belarus's most important foreign trading partner, its main market for non-raw material exports and its main supplier of manufacturing resources.

In 2015-2018, the foreign currency policy of the National Bank was based on the managed floating exchange rate principle. Currency interventions were used solely to smooth out the fluctuations of the foreign currency basket value in volumes that guaranteed a positive balance of sales and purchase of foreign currency by the National Bank in a mid-term period.

As at 1 November 2016, the foreign currency basket configuration was modified: the Russian ruble share was increased to 50 per cent. (from 40 per cent.), the US dollar's share remained at 30 per cent. and the Euro's share was decreased to 20 per cent.(from 30 per cent.). This was done in order to take account of the significant share of Russia in the Republic of Belarus's exports.

The depreciation of the Belarusian ruble against the foreign currency basket in 2017 amounted to 6.0 per cent. Over the same period the depreciation of the Belarusian ruble against US dollar was 0.7 per cent., as compared to 15.2 per cent. against the Euro and 5.7 per cent., against the Russian ruble.

The Belarusian ruble strengthened against the foreign currency basket during 2018 by 1.1 per cent compared to 31 December 2017. Over the same period the depreciation of the Belarusian ruble against the US dollar and Euro was 9.5 per cent. and 5.0 per cent., respectively, while the appreciation of Belarusian ruble against Russian ruble was 9.2 per cent.

The following table sets out the average official exchange rates of the Belarusian ruble for the indicated currencies for the periods indicated (calculated as the arithmetical mean):

	2014	2015	2016(1)	2017(1)	2018
Exchange Rate					
US$	10,226.90	15,905.05	1.9876	1.9324	2.0366
EUR	13,578.33	17,654.54	2.2001	2.1831	2.4054
Russian rubles	270.64	261.35	2.9744(2)	3.3124(2)	3.2563(2)

Source: National Bank

Notes:

(1) Post re-denomination of the Belarusian ruble. See "*Exchange Rate Information*".

(2) Per RUR100.

In accordance with the Charter of the National Bank, the main objective of the National Bank's monetary policy is to ensure price stability.

In 2016-2018, monetary and credit policy was aimed at maintaining macroeconomic stability and controlling inflation. Consumer inflation decreased from 10.6 per cent. in 2016 to 5.6 per cent. in 2018.

The following table sets out the index of consumer prices for the previous years and the target estimates for the future:

	As at December						
	2014	2015	2016	2017	2018	2019	2020
Index of consumer prices, in % to December of the previous year	116.2	112.0	110.6	104.6	105.6	105.0[(1)]	105.0[(1)]

Source: National Bank

Notes:

(1) Targets.

Liquidity and Money Supply

To regulate the money supply and the liquidity of the banking sector, the National Bank uses standing facilities (such as overnight credit, fixed rate deposits and swaps), performs bilateral operations (fixed lombard credit and two-way swaps) and open market operations (lombard credit auctions, repo operations, swap auctions, auctions on issuance of short-term Belarusian ruble bonds and deposit auctions). The National Bank's operations are divided into liquidity support operations and liquidity withdrawal operations.

The following table sets out the monetary indices for the periods indicated:

	As at 31 December				
	2014	2015	2016[(1)]	2017[(1)]	2018[(1)]
	(BYN billion unless otherwise specified)				
Index					
Cash in circulation (M0)	13,923.8	14,236.1	1,790.6	2,346.6	2,991.6
Active monetary aggregates in BYN (M1)	41,764.6	42,733.3	5,324.6	7,302.9	8,615.7
Monetary aggregates in BYN (M2*)	90,844.5	90,496.3	10,807.7	14,070.2	16,899.0
Rate of growth as compared to previous year, (%)	14.5	(0.4)	19.4	30.2	20.1
Broad monetary aggregates (M3)	239,442.7	326,938.8	33,935.0	39,848.5	43,232.9
Rate of growth as compared to previous year, (%)	23.9	36.5	3.8	17.4	8.5
M_3 to GDP, (%)	27.67	33.45	35.71		
Monetary base	39,139.1	44,962.5	4,579.1	7,169.3	8,623.9
Deposits in BYN	76,227.5	74,899.5	8,849.1	11,340.0	13,002.7
Transferable	27,840.8	28,497.2	3,533.9	4,956.4	5,624.2
Other	48,386.7	46,402.3	5,315.1	6,383.6	7,378.5
Deposits in foreign currency	137,705.6	218,787.8	20,842.4	23,113.1	23,998.1
Transferable	23,394.9	35,478.6	3,274.5	5,129.7	6,1815
Other	114,310.7	183,309.2	17,567.9	17,983.5	17,816.6
Credit advanced by banks	313,988.6	377,771.2	35,851.0	38,762.5	44,061.0

Source: National Bank

Note:

(1) Post re-denomination of the Belarusian ruble. See "*Exchange Rate Information*".

In 2018, changes in monetary aggregates reflected the National Bank's policy of control over the money supply as part of the monetary targeting regime aimed at reducing inflation and maintaining macroeconomic stability. In 2018, the monetary aggregate in Belarusian rubles M2* increased by 20.1 per cent., broad monetary aggregate M3 increased by 8.5 per cent. (the average M3 aggregate increased in annual terms by 8.1 per cent.) and natural persons' term deposits increased by 3.9 per cent. In addition, with a view to maintaining banking sector stability, the National Bank issued US dollar-denominated bonds to absorb excess foreign currency liquidity from the market for the purpose of boosting liquidity reserves.

Gold and Foreign Exchange Reserves

The Republic of Belarus's gold and foreign exchange reserves consist largely of foreign currency reserves held in deposit accounts with banks outside the Republic of Belarus or invested in securities and treasury bills issued by non-Belarusian issuers, gold holdings, IMF special drawing rights ("**SDRs**") and other assets. The Republic of Belarus calculates its foreign reserve assets on the basis of the Special Data Dissemination Standard of the IMF.

The table below sets out total foreign reserve assets held by the National Bank as at the dates indicated:

	As at 31 December				
	2014	2015	2016	2017	2018
			(US$ million)		
Foreign currency	2,882.8	1,953.7	2,420.1	4,282.2	4,203.5
Gold(1)	1,637.1	1,432.2	1,720.3	1,939.9	1,934.7
Other assets	538.7	515.2	499.8	529.5	517.1
Other assets(2)	0.5	274.7	286.9	563.7	502.2
Total gold and foreign exchange reserve assets	**5,059.1**	**4,175.8**	**4,927.2**	**7,315.3**	**7,157.6**

Source: National Bank

Notes:

(1) Gold was valued per ounce at US$1,199.25, US$1,062.25, US$1,159.10, US$1,296.50 and US$1,281.65 as at 31 December 2014, 2015, 2016, 2017 and 2018, respectively.

(2) Including assets such as reverse repos, funds in trusts and accrued interest.

Due to the need to maintain gold and foreign exchange reserves and cover the current account deficit, in 2011-2016, the Government stepped up its efforts to privatise state property and attract foreign investment and financing using EFSD funds. In 2011, the Republic of Belarus topped up its international reserve assets by US$2.5 billion following the privatisation of Beltransgaz. See "*The Economy of the Republic of Belarus—Privatisation*".

As at 31 December 2018, gold and foreign exchange reserves amounted to US$7.2 billion, a decrease of US$0.2 billion compared to 1 January 2018, which corresponds to 2.1 months of imports of goods and services. The reduction of gold and foreign currency reserves was due to the repayment by the Government and the National Bank of a significant amount of foreign and internal liabilities in foreign currency.

The Republic of Belarus repaid Eurobonds in January 2018 in the amount of US$0.8 billion and subsequently issued Eurobonds in February 2018 in the amount of US$0.6 billion.

The Government and the National Bank will continue to work towards increasing gold and foreign exchange reserves and to improve their structure by reduction of the debt financing in order to be able to reach their target of covering three months of imports of goods and services by 2020.

Interest Rates

In 2018, the National Bank pursued a policy of maintaining interest rates at a positive level in real terms.

Amidst stabilisation of the monetary and foreign exchange markets, the refinancing rate was lowered in 2018 from 11 per cent. to 10 per cent. per annum, the rate on standing facilities designed to support liquidity were lowered from 12 per cent. to 11.5 per cent. per annum and the rate on standing facilities to absorb liquidity remained at 8 per cent. per annum.

In December 2018, the average interest rates on the credit and deposit market were at the following levels:

- on new term bank deposits in Belarusian rubles - 7.5 per cent. per annum;
- on new term bank deposits in foreign currency - 1.2 per cent. per annum;
- on new bank loans in Belarusian rubles - 10.8 per cent. per annum; and
- on new bank loans in foreign exchange - 4.9 per cent. per annum.

The table below shows the average refinancing rate, the average interbank market annual rate, average rate on new deposits and average rate on new loans as a rate per annum for each of the periods indicated (excluding loans issued on preferential conditions in accordance with decisions of the President of the Republic of Belarus covered by the funds of the national and local authorities).

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
			(% per annum)		
Index					
Average refinancing rate	21.5	24.9	21.2	13.4	10.3
Average interbank market annual rate	25.3	30.9	21.3	9.6	10.7
Average rate for new term deposits:					
in BYN	28.4	29.7	15.4	6.3	7.1
in foreign currency	4.9	4.9	3.2	1.7	1.1
Rate for new loans:					
in BYN	35.5	38.4	26.3	13.9	11.2
in foreign currency	9.2	10.0	8.8	6.5	5.2

Source: National Bank

Banking Sector

As at 31 December 2018, the banking sector of the Republic of Belarus consisted of 24 active banks, five of which were state-owned, 14 of which were controlled by foreign investors (four of these banks were 100 per cent. foreign-owned) and five of which were controlled by private non-foreign capital. As at 31 December 2018, five representative offices of foreign banks were active in the territory of the Republic of Belarus: two of Russian banks, one of a Chinese bank, one of a German bank and one of an interstate bank. As at 31 December 2018, the share of foreign investment in the total volume of the authorised funds registered by Belarusian banks totalled 19.62 per cent.

In 2008, the Decree of the President of the Republic of Belarus No. 2 dated 4 November 2008 "On Guarantees of Safety of Monetary Funds of Natural Persons Placed on Accounts and (or) in Bank Deposits" (as amended) came into force. Pursuant to this decree, the state guarantees safety of natural persons' monetary funds in Belarusian rubles and foreign currencies placed in current and/or term deposit accounts with Belarusian banks. The mentioned decree provides for 100 per cent. reimbursement of funds (with no limitation on the amount) in the currency of the account in the event the National Bank revokes the licence of the relevant bank.

The following table sets out certain data relating to the banking sector in the Republic of Belarus as at the dates indicated:

	As at 31 December				
	2014	2015	2016	2017	2018
	(post-redenomination)				
Total number of banks [1]	31	26	24	24	24
Banks in which the share ownership of state exceeds 50%	5	5	5	5	5
Banks in which the share ownership of foreign investors exceeds 50%	20	16	14	14	14
Other banks	6	5	5	5	5
Total equity of banks, *BYN million*	6,507.9	8,001.5	8,628.7	9,631.4	10,607.4
Total assets of banks, *BYN million*[2]	48,153.1	63,046.3	64,467.0	66,679.6	73,706.4
Total loans to customers (gross), *BYN million*	31,398.9	37,777.1	35,851	38,762.5	44,061.0
of which:					
in national currency	15,429.4	16,183.3	15,761.8	19,077.7	22,723.2
in foreign currency	15,969.5	21,593.9	20,089.1	19,684.8	21,337.8
Total provisions for impairment, *BYN million*	1,118.2	1,916.6	2,319.1	2,688.4	3,486.5
Total deposits, *BYN million*	21,427.3	29,520.7	29,946.0	34,795.5	37,489.8
of which:					
in national currency	7,656.7	7,616.1	9,019.7	11,579.6	13,392.2
in foreign currency	13,770.6	21,904.6	20,926.3	23,215.8	24,097.6
Tier 1 total capital adequacy ratio, %[3]	11.5	13.0	13.0	12.8	12.5
Capital adequacy ratio, %[4]	17.4	18.7	18.6	18.5	17.7

Source: National Bank

Notes:

(1) Excluding those banks which are in the process of being liquidated.

(2) Including those banks which are in the process of being liquidated.

(3) The minimum Tier 1 total capital adequacy ratio set by the National Bank starting from 1 January 2016 is 6 per cent.

(4) The minimum regulatory capital adequacy ratio is 11.875 per cent. (including the 2018 capital conservation buffer established by Resolution No. 180 and set at 1.875 per cent. as of the date of these Listing Particulars).

The following table sets out certain data relating to the Belarusian banking sector as at the dates indicated:

	As at 31 December				
	2014	2015	2016	2017	2018
Return on total assets, in %	1.7	1.0	1.3	1.4	1.6
Return on the regulatory capital, in %	13.1	8.4	10.8	9.6	10.7
Revenue, BYN million[1]	759.4	585.9	884.9	886.7	1,096.3
Problem assets (Group III, IV, V)[2], BYN million[1]	1,445.0	2,767.2	5,139.8	5,549.2	2,789.3
of which, in local currency, BYN million[1]	587.8	1,011.2	2,028.4	1,928.4	684.1
Net interest margin, %[3]	4.2	4.0	5.2	5.1	4.5

Source: National Bank

Notes:

(1) Post re-denomination.

(2) From 1 April 2018, NPAs include the assets which are subject to credit risk and are classified into V-VI risk groups, as well as restructured debt, which is classified in IV-VI risk groups.

(3) Net interest margin is defined as the ratio of the difference between interest income and interest expense to the average value of assets that generate income for the year.

The following table sets forth the share of distressed assets, NPLs and NPAs as at the dates indicated:

	As at 31 December				
	2014	2015	2016	2017	2018
The share of problem assets (III-V risk groups) in assets subject to credit risk, %(1)	4.4	6.8	12.8	12.9	—
The share of problem assets (IV and V risk groups) in assets subject to credit risk, %(1)	0.9	1.9	4.0	2.0	—
The share of NPAs in assets subject to credit risk, %(2)	—	—	—	—	5.0

Source: National Bank

Notes:

(1) This classification of NPAs ceased to apply on 1 April 2018.

(2) From 1 April 2018, NPAs include assets which are subject to credit risk and are classified into V-VI risk groups, as well as restructured debt, which is classified in IV-VI risk groups.

As at 31 December 2018, the total assets of the Belarusian banking sector reached the equivalent of US$34.1 billion. At that date, deposits amounted to the equivalent of US$17.4 billion, and own capital amounted to the equivalent of US$4.9 billion. The average profitability of regulatory capital in the banking sector reached 11.0 per cent. as at 31 December 2018.

The increase in the share of NPLs in 2015 and 2016 was mainly attributable to the generally unfavourable economic conditions in the global and Belarusian financial markets. The National Bank's introduction of amendments to requirements for classification of loans as NPLs, which was aimed at increasing the transparency and stability of the banking sector, also contributed to the increase in NPLs in 2016. In accordance with the approach adopted by the National Bank in 2016, NPLs include not only loans past due for over 90 days, but also certain unsecured or insufficiently secured loans past due or extended one or more times. Moreover, under this categorisation, NPLs include liabilities of debtors for which there is no information to permit an assessment of their financial condition, as well as non-resident debtors (excluding banks) which have no ratings or low ratings.

In April 2018, the National Bank introduced a new categorisation to align the international and Belarusian approaches to NPLs. This new categorisation introduced a concept of non-performing assets, or NPAs, and increased the number of risk groups from five to six and assigned new minimum reserve requirements for each group of assets. NPAs include assets which are subject to credit risk and are classified into V-VI risk groups, as well as restructured debt, which is classified in IV-VI risk groups. Prior to 1 April 2018, the share of problem assets was calculated as the ratio of problem assets subject to credit risk (attributed to the III-V risk groups) to all assets subject to credit risk. The share of NPAs was calculated as the ratio of NPAs subject to credit risk (classified as IV-V risk groups) to all assets subject to credit risk.

As at 31 December 2018, the share of NPAs in the Belarusian banking sector was 5.0 per cent. DBRB's bad debt ratio based on NPAs under the National Bank's categorisation was 1.7 per cent. as at the same date. As at 1 March 2019, the share of NPAs in the Belarusian banking sector was 6.1 per cent. The increase was mainly due to the continued implementation of new legislation.

The following table sets out information regarding deposits in the Belarusian banking sector by the type of customer as at the date indicated:

	As at 31 December				
	2014	2015	2016	2017	2018
	(BYN million) (post-redenomination)				
Deposits by public sector	1,882.1	2,149.2	2,553.8	3,884.6	3,667.1
Deposits by private sector	5,360.5	7,141.2	7,307.8	9,475.0	10,051.9
Deposits by natural persons	13,433.3	19,272.0	19,074.2	20,103.5	22,174.3
Deposits by non-banking credit and finance institutions	751.4	958.3	1,010.1	1,332.3	1,596.4
Total deposits	**21,427.3**	**29,520.7**	**29,946.0**	**34,795.5**	**37,489.8**

Source: National Bank

The following table sets out certain data regarding the loan portfolio of the Belarusian banking sector by the type of borrower as at the dates indicated:

	As at 31 December				
	2014	2015	2016	2017	2018
	(BYN million) (post-redenomination)				
Total loan portfolio	31,398.86	37,777.12	35,851.0	38,762.5	44,061.0
of which:					
loans to public sector	14,413.56	16,994.65	15,759.8	15,619.8	16,499.0
loans to private sector[(1)]	10,334.2	13,198.06	11,860.2	12,613.9	13,901.5
loans to natural persons	6,293.61	6,878.84	7,155.4	9,031.9	11,596.4
loans to non-banking credit and finance institutions	357.49	705.57	1,075.6	1,496.9	2,064.0
NPAs[(2)]	309.7	767.5	1,625.2	856.9	—

Source: National Bank

Notes:

(1) Private sector includes enterprises with state participation. See "*The Economy of the Republic of Belarus—Principal Sectors of the Economy*".

(2) Assets that are subject to credit risk and classified as assets of IV and V group of risk.

Banking Supervision

The principal document setting out the legislative scope of banking activities in the territory of the Republic of Belarus is the Banking Code adopted in 2000 (the "**Banking Code**"). The Banking Code codifies the fundamental elements of banking supervision in the Republic of Belarus as well as the rights and responsibilities of the National Bank in respect of its banking regulatory functions. In 2012, amendments were made to the Banking Code which significantly broadened the scope of banking supervision. In particular, the National Bank was granted the power to set requirements for corporate governance and risk management systems and to monitor Belarusian banks' compliance with such requirements.

The National Bank is the central bank and the state body of the Republic of Belarus. The National Bank regulates credit relations and money circulation and determines the procedure for settlements. The primary objectives of the National Bank in the field of banking supervision are to maintain the stability of the banking system of the Republic of Belarus and to protect interests of depositors and other creditors.

The basic provisions relating to the operation of banks and other non-banking credit and finance institutions operating in the territory of the Republic of Belarus are specified in certain regulatory and legal acts of the National Bank, including:

- procedures for state registration and licensing of banks and non-banking credit and finance institutions;
- instructions on the secure functioning requirements (ratios) for banks and non-banking credit and finance institutions;
- instructions on the corporate governance requirements for banks and non-banking credit and finance institutions;
- instructions on the requirements to organisation of risk management systems at banks and non-banking credit and finance institutions;
- instructions on the requirements to organisation of internal control systems at banks and non-banking credit and finance institutions;
- instructions on the disclosure of information by banks and non-banking credit and finance institutions, including information regarding shareholders and ultimate beneficial owners of a bank to ensure data transparency for market participants and other interested individuals;
- instructions on the supervision of banking activity on a consolidated basis;
- procedures for prudential supervision that may be applied by the National Bank to banks and non-banking credit and finance institutions for breach of prudential or other mandatory regulations;

- instructions on procedures for the creation and use of a special reserve for possible losses on the assets of a bank and non-banking credit and finance institutions subject to credit risk; and
- procedures for the audit of banks non-banking credit and finance institutions, banking groups and banking holdings.

The current banking supervision system in the Republic of Belarus entails supervision of banks on an individual and consolidated basis and overall risk analysis of the banking system in general.

Supervision of banks and non-banking credit and finance institutions on an individual and consolidated basis includes:

- registering and licensing banks and non-banking credit and finance institutions;
- off-site documentary supervision based on submitted balance sheets and financial statements, prudential reporting, audit reports and other relevant information;
- on-site supervision based on inspections and audits to assess the financial condition, the internal control and risk management policies of banks and their compliance with prudential and other mandatory regulations; and
- reorganising insolvent banks and non-banking credit and finance institutions and supervising procedures for revocation of banking licences.

DBRB is not a commercial bank and it is not subject to the same level of banking supervision. In particular, procedures for licensing of banks and non-banking credit and finance institutions, instructions on supervision of banking activity on a consolidated basis and special reorganisation procedures of the insolvency regulation are not applicable to DBRB. In 2016, the National Bank introduced banking supervision over the activities of DBRB, requiring DBRB to adopt certain changes to its corporate governance policies and procedures and to comply with prudential and other requirements in the area of secure functioning. DBRB is required to comply with all requirements applicable to commercial banks except for minimal size of regulatory capital, LCR, norms of participation in statutory funds of other commercial entities and seven out of eight risk concentration ratios applicable to commercial banks (which are set out below).

Overall macroprudential supervision of the banking system in general includes:

- evaluation of systemic risks and analysis of the sector-wide trends and financial indicators;
- improving early detection mechanisms for risks in the financial system; and
- developing appropriate response measures.

Under the Banking Code, the National Bank shall establish prudential regulation of banking activities in the Republic of Belarus and supervise compliance therewith. The system of prudential regulation adopted by the National Bank is based on recommendations from the Basel Committee on Banking Supervision and includes:

- minimum capital requirements for newly established and existing banks;
- capital adequacy required to support the main risks associated with banking activities (credit, market and operational risks);
- liquidity management;
- concentration risk and currency risks limits; and
- provisioning requirements to cover possible losses on assets and off-balance operation subject to credit risk.

For details of the National Bank's minimum capital and capital adequacy, liquidity management requirements and its currency risk limits, see "*Risk Management — Liquidity Risk*".

The National Bank's concentration risk limits include the following:

- maximum exposure ratio for one debtor;

- maximum exposure ratio for a group of debtors;
- total large exposures ratio;
- maximum exposure ratio for one related party and related individuals;
- maximum exposure ratio for one related party and related legal entities;
- maximum exposure ratio for one corporate related party and related persons;
- total exposure ratio for corporate related parties and related persons and individual related parties and related legal entities; and
- total exposure ratio for individual related parties and related individuals.

Of these eight ratios, the only ratio applicable to DBRB is the total large exposures ratio. See "*Risk Management—Liquidity Risk*" for details of this ratio.

For further detail regarding credit risk and provisioning, see "*Risk Management—Credit Risk*".

The National Bank is working on improving the banking supervision and capital adequacy standards in the Republic of Belarus based on standards of the Basel Committee of Banking Supervision (Basel II and Basel III).

The IMF and World Bank mission to the Republic of Belarus in its FSAP in 2016 acknowledged considerable progress in the development of the banking supervision system. Similarly, in its 2017 staff report the IMF recognised the steps the Republic of Belarus has taken to address financial sector risks and encouraged the Republic of Belarus's continued implementation of the FSAP recommendations. There is a wide range of statutory and regulatory rules in place as well as an established process of banking supervision which includes inspections and remote supervision, constant implementation of the Basel norms of capital adequacy, an established process of formation of reports as part of the Internal Capital Adequacy Assessment Procedures, and an improved methodology of banks classification according to level of risk.

In 2016, the National Bank in close cooperation with IMF specialists carried out an independent Asset Quality Review ("**AQR**") of nine Belarusian banks, which accounted for more than 92 per cent. of the banking sector's aggregate assets. DBRB was not subject to the AQR. International audit companies such as KPMG, Deloitte, Ernst & Young, PricewaterhouseCoopers, PKF were engaged to conduct the AQR procedure. The main goal of the AQR was to receive an independent assessment of the credit risk assumed by the banks and whether its compensation could be covered by existing capital. The results of the AQR showed that the banking sector's capital level is sufficient to successfully counter possible effects of negative events.

In May 2017, the second stage of the AQR of Belarusian banks was completed. The procedure involved a review of 15 banks that did not participate in the first stage of this procedure in 2016. These 15 banks accounted for approximately 7 per cent. of the banking sector's aggregate assets. An analysis of the results of the assessment showed that the adjustments to the capital adequacy ratio based on the results of the diagnostic study are generally insignificant and, given the small proportion of the assets of the evaluated banks, do not have a significant impact on the stability of the entire banking sector.

In 2009, legislation on credit histories came into effect in the Republic of Belarus, pursuant to which a database of credit histories of natural and legal persons of the Republic of Belarus was created. All credit institutions must provide information regarding their borrowers to the database. The law is aimed at achieving enhanced transparency of the banking system with a more efficient system for transferring accurate information about future and existing borrowers and a more accurate assessment of credit risk. In 2011, the National Bank implemented minimum requirements towards a complex system of credit risk assessment for the purpose of creating special reserves to cover possible losses. Banks were given an opportunity to develop their own comprehensive systems of assessing the credit risk of borrowers as well as the market risk of securities prone to devaluation. Meanwhile, cancellation of the approval procedure and granting banks broader independence in creating special reserves is accompanied by establishing minimum requirements to signs of financial imbalance and other negative factors which must be used by banks in creation of their own systems of assessment of borrowers' financial soundness.

Starting in 2012, in accordance with the plan to implement Basel III standards, a methodology of estimating the capital, leverage, and liquidity indicators was developed and all Belarusian banks were supervised in their estimates of these indicators. As at 1 January 2016, capital indicators with regard to the Basel III conservation buffer and leverage were introduced as mandatory rules of safe functioning. The NSFR indicators as well as the liquidity risk monitoring tools have been introduced as mandatory requirements for banks since 1 January 2018.

Since 1 January 2018, a countercyclical buffer and a buffer of systemic significance have also been established, serving as supplements to the Tier 1 base capital. The methodology for determining systemically important banks, non-bank credit and financial organisations was approved. In order to improve corporate governance, minimum requirements for the organisation of a system of rewards and compensations in banks have been established. The requirements to the risk management system of banks, DBRB and non-bank credit and financial organisations have been expanded by including the cyber-risk in the operational risks' scope. The plans of the National Bank for 2018-2019 envisage the further implementation of the Basel Committee's standards in terms of new standardised approaches to calculating the magnitude of credit and operational risk, a new approach to calculating market risk.

The National Bank establishes the procedure for the creation and use of special reserves by banks, DBRB, and non-banking credit and finance organisations to cover potential losses on assets and operations not reflected in the balance sheet.

Significant changes in relation to identifying and assessing risk sources, classifying indebtedness and creating special reserves came into effect on 1 April 2018. The principal developments are described below.

Changes to risk groups

The number of risk groups has been expanded from five to six and each has been assigned a name. Depending on the level of credit risk, assets exposed to credit risk fall under the following groups:

- standard group (I risk group) - reserve requirement: from 0.5 per cent. to 2 per cent.;
- supervised group (II risk group) - reserve requirement: from 5 per cent. to 20 per cent.;
- supervised group (III risk group) - reserve requirement: from 20 per cent. to 30 per cent.;
- supervised group (IV risk group) - reserve requirement: from 30 per cent. to 50 per cent.;
- doubtful group (V risk group) - reserve requirement: from 50 per cent. to 100 per cent.; and
- default group (VI risk group) - reserve requirement: 100 per cent.

In addition to the increase in the number of the risk groups, the procedure for asset classification has also been changed to depend on applicable assessment criteria. Credit risk shall now be assessed with special emphasis on the borrower's repayment discipline and the number of days by which the performance of its obligations has been delayed.

Furthermore, the concept of NPAs has been introduced to include assets which are subject to credit risk and are classified within the V-VI risk groups, as well as restructured debt, which is classified within the IV-VI risk groups.

Definition of "high quality collateral" and the classification of assets secured by such collateral

A category of "high quality collateral" which includes security in the form of guarantees issued by the Government and the National Bank, pledges of local currency securities of the Republic of Belarus and the National Bank, guarantees, suretyships and pledges of securities of governments and central banks of other countries which have international "A" ratings, "A" rated banks, international financial organisations and development banks, or insurance of payment default or payment non-performance risks or business insurance by "A" rated insurance company, or in the form of deposit of monetary funds or bank's own debt securities, was introduced.

Debt secured by high quality collateral is classified into I risk group, regardless of the existence of any negative information regarding the debtor and/or presence of any signs of its financial instability, which requires a special reserve in the minimum amount of 0.5 per cent. to 2.0 per cent of the total amount of the collateral within this group.

In case the indebtedness under loans is:

- overdue from eight to 30 days with no signs of financial instability the indebtedness falls under III risk group, which requires a special reserve between 20 per cent. and 30 per cent.; and
- from eight to 30 days for secured loans (up to seven days – for unsecured loans) with signs of financial instability, and for secured loans overdue from 31 to 90 days, irrespective of whether any signs of financial

instability are present, the indebtedness falls into IV risk group, which requires reserves between 30 per cent. and 50 per cent.

Indebtedness under secured loans overdue from 91 to 180 days (for unsecured – from eight to 30 days with signs of financial instability and from 31 to 90 days irrespective of any financial instability) shall be classified into V risk group, which requires provisions from 50 per cent. to 100 per cent. Indebtedness under secured loans overdue for over 180 days and under unsecured loans overdue from 91 to 180 days belong to VI risk group, which requires 100 per cent. provisioning.

Definition of "restructured indebtedness" and classification

The restructuring of indebtedness means revisions of certain terms and conditions of a loan agreement relating to term, payments, and the execution of an agreement with the debtor to provide for a new asset to result in the termination of obligations between the bank and the debtor under the loan agreement (e.g., an extension of a new loan or an acquisition of debtor's debt securities) due to the debtor's inability to fulfil its obligations to a bank carried out in order to create conditions that would ensure timely fulfilment of obligations by the debtor to the bank.

One key indication of the restructuring is the debtor's inability to honour its obligations to the bank.

Restructured indebtedness shall not be classified into a risk group of a level lesser than that to which they belonged before the decision to proceed with the restructuring was made. Following that decision, the indebtedness falling under I-III risk groups shall be treated as falling under IV risk group. Restructured indebtedness may be reclassified if there are no overdue payments within one year after the restructuring and if there is no doubt about the debtor's ability to repay its debt. No restructured indebtedness may be reclassified into I risk group.

Procedure for classification and creation of special reserves in respect of assigned receivables

The list of assets for which special reserves shall be created by a bank has been extended to include receivables due from a third party assigned by a debtor in favour of a bank, extension of advances or other prepayments, deferred or instalment payments for any goods, works, or services (commercial loan), and the execution of an agreement relating to disposal of assets by a bank resulting from the termination of liabilities regarding assets exposed to credit risks in return for a deferred or instalment payment arrangement granted to a debtor.

Changes to classification of securities in banks' trading portfolio

Classification of securities exposed to devaluation risks was harmonised with that of securities held until maturity.

Nonetheless, it is still provided that no special reserves are required in regard to securities in the trading portfolio that are assessed by the bank at fair value.

Changes to the procedure for creating special reserves for contingent liabilities which may be forgone by the bank once the counterparty starts to show any signs of financial instability and/or there emerges other negative information in its respect

Banks have the right to refrain from classifying, and creating special reserves for contingent liabilities if a bank entitled to repudiate such obligations after counterparty's financial standing deteriorates or upon the emergence of negative information about its ability to perform the obligations to the bank.

Failure by a bank to exercise its discretion means that the respective asset shall be classified according to the general procedure and the bank shall create applicable special reserves.

Miscellaneous

Some adjustments have also been made to address practical experience of applying prescribed approaches to classification and creation of special reserves. While the range of minimum requirements applicable to the signs of financial instability and negative information has been decreased, banks are now obliged to list those signs and that negative information in their internal documents with due regard to their respective business models, operating efficiency rates, and risk profiles, in particular, risk tolerances.

Approaches of identifying and assessing risk sources for factoring operations were brought up to date. In classifying indebtedness under recourse factoring, banks have been entitled to choose between a debtor and a person to be targeted by recourse for solvency assessment purposes. In classifying indebtedness under factoring based on a multifactor model providing for a guarantee by an import factor to perform the obligations to the bank in the event of the debtor's default, the bank may choose between the debtor and the import factor for solvency assessment purposes.

The approach to the treatment of assets as encumbered assets was also adjusted.

Existing requirements to classification and formation of special reserves do not apply to the bonds issued by the Republic of Belarus, the National Bank, the governments or central banks of "A" rated countries, "A" rated banks, international financial organisations and development banks. Should those assets be classified as encumbered, the banks shall identify the risk source, classify such assets and create special reserves in respect of such assets.

Banks are also obliged to create special reserves in the amount of 100 per cent. of an asset's value where a bank has no right to claim compensation for the value of such encumbered asset disposed of by third parties.

Assets shall not be classified as encumbered for the purposes of classifying assets and creating special reserves if the right to dispose of such assets arises from the bank's non-performance of its obligations.

In 2015, more stringent requirements were introduced for the formation of special reserves for credits issued to legal entities and natural persons in Belarusian ruble at unreasonably high interest rates to reduce the loan burden of borrowers and subsequently to reduce the banks' credit risk. Moreover, starting from 2016 stricter approaches were introduced to classification and formation of special reserves for certain asset types, particularly, encumbered assets.

The National Bank has the power to change prudential requirements in relation to specific banks depending on each bank's financial condition and compliance with the capital adequacy rules and other mandatory requirements of the National Bank. In 2015-2016, the National Bank revoked the licences of five banks. Only one of them was declared bankrupt, and the decision in question was made taking into account the information received from the bank's temporary administration, due to the bank's failure to comply with several licence requirements and the formation of poor financial situation which in turn led to the bank's failure to perform its obligations to depositors and other creditors. For three banks, the revocation of licence was mainly due to non-compliance with the licensing requirement for the amount of regulatory capital of the bank, lack of clear prospects of increasing the capital, violation of other banking legislation requirements that could have endangered the interests of the bank's depositors and other creditors, in some cases coupled with the losses sustained by the bank and the results of its inspection. One more bank's licence was revoked because of its shareholders' decision to liquidate the bank. As at 1 February 2019, one of the five banks completed the liquidation process (and was excluded from the Unified State Register of Legal Entities and Individual Entrepreneurs).

In May 2012, the National Bank increased the minimum capital requirements for all banks, irrespective of them being licenced to grant loans. Starting from 1 January 2014, all banks were required to have the minimum capital totalling the equivalent of EUR15 million. Starting from 1 January 2015, all banks were required to have the minimum capital totalling the equivalent of EUR25 million. Starting from 1 July 2018 the minimum regulatory capital requirement for all banks was set at BYN54.19 billion. Taking into account that the established minimum regulatory capital requirement is adjusted for the consumer prices index every quarter, effective from 1 October 2018 its value amounts to BYN54.35 million re-denominated.

The state-provided guarantee of deposits and increased demand for capital helped to largely prevent the outflow of deposits from the Belarusian banking sector. In December 2011, the Government conducted a recapitalisation of state-owned banks totalling approximately BYN15 trillion (BYN1.5 billion as adjusted for denomination) to increase their regulatory capital.

Subsequent increases of state-owned banks' charter funds were conducted in December 2013 (by BYN130 million), December 2014 (by BYN 7.2 million), July 2015 (by BYN1.1 billion), December 2015 (by BYN 33.3 million), September 2016 (by BYN107.6 million), May 2017 (by BYN427.9 million), June 2018 (by BYN 8.8 million), November 2018 (by BYN 11.0 million).

Structure of the Banking Sector

Assets

As at 31 December 2018, the assets of state-owned banks JSC Savings Bank Belarusbank, JSC "Belagroprombank", OJSC "Belinvestbank", OJSC "Bank Dabrabyt", OJSC "Paritetbank" accounted for 64.9 per cent. of total banking assets of the Republic of Belarus. The table below sets forth information regarding the five largest commercial banks in the Republic of Belarus as at 31 December 2018 (excluding DBRB):

	As at 31 December 2018[1]			
	Total Assets	**% of Banking Sector Assets**	**Total Equity**	**% of Total Banking Sector Equity**
	(US$ billion)			
JSC Savings Bank Belarusbank	14.5	42.4	1.8	35.6
JSC "Belagroprombank"	5.0	14.6	0.8	16.7
BPS-Sberbank	2.1	6.1	0.3	6.7
Bank BelVEB OJSC	2.0	6.0	0.3	5.8
Belgazprombank	2.1	6.1	0.3	6.7

Source: National Bank

Note:

(1) For convenience, these figures have been translated into US dollars at the BYN/US$ exchange rate as reported by the National Bank as at 31 December 2018, which was BYN2.1598 per US$1.00.

Liabilities

The following table sets forth a breakdown of the banking system's liabilities by currency for the periods indicated:

	As at 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
	(post-redenomination)				
Total liability of the banking system, BYN million	48,153.1	63,046.3	64,467.0	66,679.6	73,706.4
of which:					
in Belarusian ruble	22,829.7	23,827.7	24,641.5	29,270.0	32,828.9
in foreign currency	25,323.4	39,218.7	39,825.6	37,409.6	40,877.5

Source: National Bank

The change between 2014 and 2016 in the share of liabilities in foreign currency in the total volume of liabilities of banks was mainly due to the change in the Belarusian ruble exchange rate relative to foreign currencies and the corresponding revaluation of liabilities in foreign currency.

Anti-Money Laundering Legislation and Measures

The Republic of Belarus takes an active part in the fight against money laundering and the financing of terrorism.

In 2003, the Department of Financial Monitoring of the Republic of Belarus was created. The Department carries out activities aimed at prevention of legalisation of illegally acquired financings and combating financing of terrorism (AML / CFT). The Department of Financial Monitoring of the Republic of Belarus has been a member of the Group of Financial Intelligence Units "Egmont" since 2007.

On 6 October 2004, the Republic of Belarus became a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism ("**EAG**"). EAG has been an associate member of the Financial Action Task Force ("**FATF**") since June 2010.

In order to bring national legislation into line with international standards, on 30 June 2014, the Law of the Republic of Belarus No. 165-Z "On measures to prevent the legalisation of proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction" was adopted.

In 2000, the Republic of Belarus adopted an anti-money laundering law and, in 2004, established a government body similar to FATF to combat corruption. Each government body has a designated unit monitoring corruption and the Government periodically adopts programmes on anticorruption measures.

Anti-Corruption Legislation and Measures

The Republic of Belarus places particular importance on combating corruption. The Law of the Republic of Belarus "On Combating Corruption" was adopted on 15 July 2015 and entered into force on 24 January 2016. This act provides for the extension of the system of measures to combat corruption, in particular, limitation of joint government servicing of close relatives, prohibition of appointment to executive positions of persons which were discharged by discrediting circumstances, introducing an institute of social control for the purpose of combating corruption, simplifying of administrative procedures, and providing of education on anticorruption issues.

The Republic of Belarus has ratified and fulfilled the requirements of the main international instruments on the fight against corruption, such as the Council of Europe Criminal Law Convention on Corruption, signed in Strasbourg on 27 January 1999; the United Nations Convention against Transnational Organised Crime dated 15 November 2000, signed by the Republic of Belarus on 14 December 2000; the United Nations Convention against Corruption of 31 October 2003; and the Civil Law Convention on Corruption of 4 November 1999.

Domestic Capital Markets

Government Securities

The Ministry of Finance as the issuer of government securities is actively pursuing efforts to develop the domestic financial market. In order to attract temporary free monetary funds of legal entities and individuals, residents and non-residents of the Republic of Belarus to finance the republican budget deficit and refinance the public debt the Ministry of Finance allocates government bonds denominated in Belarusian rubles and government bonds denominated in foreign currency on the domestic financial market. The government bonds may be short-term with maturity period of up to one year ("**GKO**") and long-term with maturity period of more than one year ("**GDO**"). Bondholders may be legal entities and individuals, both residents and non-residents of the Republic of Belarus. Government bonds may have a fixed or floating interest rate or may be issued at a discount to the principal. Government bonds may be placed through a direct sale agreement entered into between the Ministry of Finance and the purchaser of the government bonds, or through the Belarusian Exchange, including in the form of organising auctions.

As at 31 December 2018, the outstanding principal amount of government bonds was US$4,115.0 million. As at 31 December 2018, the weighted average interest rate on foreign currency borrowings, raised in the domestic market, amounted to 5.95 per cent. per annum. The weighted average interest rate on bonds denominated in Belarusian rubles, amounted to 3.24 per cent. per annum. For more detailed information, see "*Public Debt—Internal Public Debt*".

Corporate Securities

The securities market of the Republic of Belarus is characterised by a sufficiently high level of functional and technological development of the basic elements of the infrastructure.

The national electronic trading platform, the Belarusian Exchange, where the trading of securities of various types is concentrated - shares and bonds.

The Belarusian Exchange aims to further develop its automated trade technologies to increase their speed, reliability and transparency. Being a full-fledged member of the Federation of Euro-Asian Stock Exchanges and an associate member of the World Federation of Exchanges, the Belarusian Exchange seeks to introduce best practices of the world exchange industry into its operations.

A two-level depositary system consisting of the Republican Central Securities Depository and several second-level depositories perform automated accounting, settlement and storage of securities.

Securities (stocks and bonds) are issued by economic entities and circulated on the market mainly in non-documentary (electronic) form. In the process of providing exchange trading and settlement and clearing procedures, the possibilities of electronic document circulation and electronic digital signature are actively used.

The standards and technologies of functioning of the Belarusian depository system provide an opportunity for integration into the global financial market. The Republican Central Securities Depository has established correspondent relations with a number of foreign depositories.

In accordance with the Partnership Agreement concluded with the Association of National Numbering Agencies, the Republican Central Securities Depository acts as the National Numbering Agency of the Republic of Belarus.

This allows the Republican Central Securities Depository to assign international identification codes to the issues of securities of Belarusian issuers. Further integration of the Belarusian stock market into the global depository and settlement and clearing system will make the securities market even more open and understandable for foreign investors, will open up standard entry/exit opportunities for investors to the market.

The key element of the securities market infrastructure are the professional participants of the securities market (brokers, dealers and trustees), whose activities are licenced and regulated by the state.

As at 1 January 2019, there were 61 professional participants of the securities market in the Republic of Belarus (24 banks, the National Bank, DBRB and 35 non-banking enterprises), of which 58 professional participants conducted dealer activity, 58 conducted brokerage activity, and 22 conducted trust management activity.

The development of the bond market and the infrastructure necessary for this is one of the priorities in the Republic of Belarus in the formation of the modern financial market. Over the past few years, a wide range of debt instruments - state bonds, bank bonds, corporate bonds, municipal and housing bonds - has been introduced into the practice of the market.

The Belarusian Exchange is represented by shares issued by open and closed joint-stock companies. As at 1 January 2019, there are 4,411 joint-stock companies in the Republic of Belarus, 2,338 of which are open joint-stock companies.

The total market value of all shares listed on the Belarusian Exchange as at 1 January 2019 is BYN32.7 billion. The total volume of shares of open joint-stock companies increased by 4.3 per cent. compared to 1 January 2018.

In 2018 the volume of transactions for the purchase and sale of shares in the secondary market amounted to BYN471.0 million.

The market of corporate bonds is represented by debt instruments issued by banks, as well as enterprises of the real sector of the economy. The total number of bond issuers as at 1 January 2019 is 206, among which 23 are banks, DBRB and 182 non-banking enterprises.

The total value of issue of corporate bonds of various types as at 1 January 2019 is BYR16.0 billion, which is 21.2 per cent. higher compared to 1 January 2018. As at 1 January 2019, the share of banks' bonds accounted for 53.1 per cent. of the total volume of all bond issues, with the share of enterprises comprising the remaining 46.9 per cent.

In accordance with the Belarusian legislation, the nominal value of bonds issued in the territory of the Republic of Belarus can be expressed both in Belarusian rubles and in foreign currency. As at 31 December 2018, among all corporate bonds traded on the territory of the Republic of Belarus, the share of bonds denominated in Belarusian rubles was 48.6 per cent., in US dollars - 36.1 per cent., in Euro - 11.1 per cent. and in Russian rubles - 4.2 per cent.

The volume of purchase and sale transactions on the secondary market of corporate bonds in the Republic of Belarus amounted to BYN18.3 billion in 2018.

The Republic of Belarus actively develops the securities market in every aspect, including development of legislation, creation of new financial instruments, improvements to the investor protection system, making the market more transparent and bringing securities issuance and circulation mechanisms and access to financial markets in line with the international best practices.

The table below provides information on transactions of purchase and sale of shares of open joint-stock companies and corporate bonds made in the secondary market for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018
	(post-redenomination)				
Corporate bonds - purchase and sale transactions, the organised secondary market					
Number of transactions	1,446	1,600	1,773	1,645	2,021
Value of transactions, *BYN million*	2,471.8	3,325.7	2,309.1	1,663.9	3,150.5
Corporate bonds - purchase and sale transactions, uncoordinated secondary market					
Number of transactions	3,662	5,182	6,514	4,466	8,528
Value of transactions, *BYN million.*	4,476	8,762	7,142	5,560.7	15,194.3
Shares of OJSC - purchase and sale transactions, organised secondary market					
Number of transactions	5,815	3,257	2,805	3,622	2,909
Value of transactions, *BYN million.*	47.9	20.2	50.3	84.2	95.7
Shares of OJSC - purchase and sale transactions, uncoordinated secondary market					
Number of transactions	4,817	2,872	1,269	1,268	1,987
Value of transactions, *BYN million*	116.8	36.7	8.1	108.9	375.3

Source: Ministry of Finance

Regulation of the securities market

The functions of state regulation of the securities market are performed by the Ministry of Finance in the Republic of Belarus.

The Republic of Belarus applies a policy of intensive development of the securities market, including the development of legislation, formation of new financial instruments, improving the systems for investors' protection, increasing market transparency, setting out issue mechanisms, securities trading and access to financial markets to comply with best international practice. In recent time a number of strategic innovations and projects has been implemented that are expected to significantly improve the conditions for functioning of the financial markets and create new growth areas for Belarusian economy.

In 2016, the Law of the Republic of Belarus No. 231-Z dated 5 January 2015 "On the Securities Market" came into force implementing a comprehensive approach to regulating the securities market. The development of this law took into account international standards of financial market regulation. The law pays significant attention to the protection of investors' rights, ensuring equal conditions for an access to market information for various categories of investors and transparency of securities issuers.

The adoption in 2016 of the Edict of the President of the Republic of Belarus of 3 March 2016 No. 84 "On Issues of Issue and Circulation of Shares Using Foreign Depositary Receipts" was an important step in creating conditions for the entry of Belarusian enterprises through the mechanisms of issuing shares to international markets using depositary receipts.

The Presidential Edict No. 154 dated 11 May 2017 "On financing commercial organisations for the assignment of rights (claims)" entered into force on 1 July 2018. The edict is designed to establish a legal framework for financing business entities for the assignment of rights (claims) under loans, credits, and other indebtedness by issuing new type of bonds.

The Law of the Republic of Belarus No. 52-Z dated 17 July 2017 "On Investment Funds" entered into force on 23 July 2018. The law is aimed at forming an institute and mechanisms for collective investments, which is an important step allowing a wide number of investors to use securities market instruments.

These legal acts were developed in close cooperation with international experts and organisations.

The Republic of Belarus is focused on developing relations with international organisations, studying best practice across global stock markets and applying mechanisms and regulatory conditions of advanced economies to the Belarusian securities market. This is aimed at developing the Belarusian stock market, enhancing the investment possibilities of the various market players, among others through attracting international investors. The strategic area for the Ministry of Finance is joining the International Organisation of Securities Commissions. Initially, the Ministry of Finance is planning to join this international organisation as an associated member.

The Republic of Belarus pays special attention to its interaction in the area of securities market development in the EEU. The Government plans to complete the formation of the common financial market of the EEU by 2025. As part of this work, barriers for rendering service are proposed to be lifted and free movement of capital among between member states is to be promoted. A number of core documents for the common financial market are negotiated, including a concept of the EEU common financial market's formation, a road map of formation for the common EEU stock exchange space, an agreement on the admission of brokers and dealers of one EEU member state to trading (with trade organisers) on exchanges of other member-states and an agreement on mutual access to placement and trading of securities on an exchange with EEU member states.

In November 2018, an agreement on harmonisation of financial market legislation of EEU member states was signed at the meeting of the Council of the Eurasian Economic Commission.

The key areas for the development of the securities market in the Republic of Belarus provide for the following:

- creation of necessary conditions for business entities to raise investment (including foreign investments) and for business entities and physical persons to participate in financial markets transactions;
- development of collective investments and securitisation mechanisms;
- development of trading, clearing and depositary infrastructure of the securities market;
- unification of approaches to stock market regulation and supervision in accordance with best international practices;
- increasing securities market transparency, market players' financial literacy, protection of rights and lawful interests of securities market customers;
- establishment of a procedure of issuance and trading of bonds intended for eligible investors, adopting a new infrastructure for securities market practice. Bonds for eligible investors shall expand the nomenclature of debt financial instruments and shall be issued according to simplified procedure, which shall create conditions for raising investments by growing companies;
- possible issue and trading of new types of bonds – with separate trading of par value and coupons. Investors will be able to buy and sell bond coupons separately from par value, thus increasing the demand for financial instruments in general, motivating issuers to issue long-term bonds;
- providing for a tax regime which incentivises investment operations of stocks as well as investor's income from stock operations;
- creation of a stock exchange mechanism for direct access to trading of separate securities of various groups of investors, including physical persons; and
- forming legal conditions for corporate actions in joint-stock companies to apply remote access systems, which will decrease entities' costs related to holding general shareholders' meetings and at the same time increase the efficiency of their activities and investors' interest in purchases of shares.

The aforementioned actions are aimed at reviving and intensive development of all aspects of the securities market, comprehensive engagement of stock market players, mechanisms and instruments in solving the tasks of developing the economy of the Republic of Belarus.

Insurance Market

As at 31 December 2018, 16 insurance organisations were operating on the insurance market of the Republic of Belarus, including eight state-owned companies and companies in which over 50 per cent. of their authorised capital are owned by the state and six insurance companies with foreign capital.

As at 31 December 2018, the assets of the insurance organisations amounted to US$1,748.6 million; compared to US$1,636.7 million in 2017, US$1,415.9 million in 2016, US$1,587.0 million in 2015 and US$2,067.3 million in 2014. As at 31 December 2018, the ratio of insurance reserves to the total assets of the insurance organisations amounted to 43.9 per cent. compared to 40.9 per cent. in 2017, 38.0 per cent. in 2016, 34.6 per cent. in 2015 and 33.3 per cent. in 2014.

As at 31 December 2018, the ratio of government securities to the total insurance reserves amounted to 40.6 per cent., compared to 29.3 per cent. in 2017, 48.3 per cent. in 2016, 42.8 per cent. in 2015 and 29.0 per cent. in 2014.

As at 31 December 2018, the ratio of bank deposits to the total insurance reserves amounted to 31.6 per cent. compared to 35.8 per cent. in 2017, 31.2 per cent. in 2016, 43.2 per cent. in 2015 and 45.9 per cent. in 2014. As at 31 December 2018, 0.04 per cent of insurance reserves were invested in securities issued by Belarusian banks (except for shares) or securities issued by the local executive and regulatory authorities; while in 2017 such reserves amounted to 3.5 per cent.; in 2016 - 0.2 per cent. In 2014-2015, no reserves were invested in such securities.

As at 31 December 2018, the remaining 12.2 per cent. of the insurance reserves were invested in other investment facilities and placed on bank accounts (current, currency and special accounts) compared to 15.8 per cent., 9.7 per cent., 14.0 per cent. and 25.1 per cent. in 2017, 2016, 2015 and 2014, respectively.

As at 31 December 2018, the insurance premiums under direct insurance and co-insurance contracts amounted to US$602.0 million compared to US$554.0 million in 2017; US$496.8 million in 2016; US$518.6 million in 2015 and US$711.4 million in 2014, respectively.

The following table sets out the main indicators of the insurance market for the periods indicated:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
Assets of the insurance organisations, *US$ million*	2,067.3	1,587.0	1,415.9	1,636.7	1,748.6
Ratio of insurance reserves to the total assets of the insurance organisations, *per cent.*	33.3	34.6	38.0	40.9	43.9
Ratio of government securities to the total insurance reserves, per cent.	29.0	42.8	48.3	29.3	40.6
Ratio of bank deposits to the total insurance reserves, *per cent.*	45.9	43.2	31.2	35.8	31.6
Share of insurance reserves invested in securities issued by Belarusian banks (except for shares) or securities issued by the local executive and regulatory authorities, *per cent.*	—	—	0.2	3.5	0.04
Share of the insurance reserves invested in other investment facilities and placed on bank accounts (current, currency and special accounts), *per cent.*	25.1	14.0	9.7	15.8	12.2
Insurance premiums under direct insurance and co-insurance contracts, *US$ million*	711.4	518.6	496.8	554.0	602.0

Source: Ministry of Finance

PUBLIC FINANCE

Budget of the Public Sector of the Republic of Belarus

The consolidated budget of the public sector of the Republic of Belarus (the "**Public Sector Budget**") consists of the Republic of Belarus's consolidated budget (the republican budget and local budgets), the budgets of state extrabudgetary funds and monetary funds from income-generating activities of budget organisations. There are four state extrabudgetary funds in total: the SPF, the State Extrabudgetary Fund of Universal Services at the Ministry of Communications and Informatisation, the State Extrabudgetary Fund of the Department for Punishment Execution at the Ministry of Internal Affairs and the State Extrabudgetary Fund of Civil Aviation (the latter three being referred to herein as the "**Other Funds**"). The largest fund among the four is the SPF budget. Prior to 2010, the SPF had been included in the republican budget.

In the Republic of Belarus, a budgetary classification has been applied since 2006, which has been developed based on the guidelines of the IMF on the public finance statistics GFSM-2001 and their updated version GFSM-2014. The budgetary classification is a unified classification and is used for the preparation, approval and performance of the republican budget and local budgets, state special purpose budgetary and extrabudgetary funds, as well as the extrabudgetary funds of budget-financed institutions and organisations.

In 2016, the Republic of Belarus's Public Sector Budget generated a surplus of BYN1,397.4 million, or 1.5 per cent. of GDP. In 2016, the revenues of the Public Sector Budget amounted to BYN38,886.5 million, or 41.0 per cent. of GDP, while expenditures amounted to BYN37,489.1 million, or 39.5 per cent. of GDP.

In 2017, the Republic of Belarus's Public Sector Budget generated a surplus of BYN3,137.3 million, or 3.0 per cent. of GDP. The revenues of the Public Sector Budget amounted to BYN42,917.2 million, or 40.8 per cent. of GDP, while expenditures amounted to BYN39,779.7 million, or 37.8 per cent. of GDP.

According to preliminary estimates, in 2018, the surplus of the Public Sector Budget amounted to BYN4,918.9 million, or 4.0 per cent. of GDP, and the revenues of the Public Sector Budget amounted to BYN50,847.9 million, or 41.8 per cent. of GDP, while expenditures amounted to BYN45,929.0 million, or 37.8 per cent. of GDP for the period.

The following table sets out the Public Sector Budget of the Republic of Belarus for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018
	(BYN million (post re-denomination))				
Revenues					
Tax revenues	18,901.7	22,276.7	23,852.2	26,340.5	31,491.8
including:					
income tax	3,209.2	3,700.9	3,937.9	4,338.6	5,162.7
profit tax	1,999.4	2,181.9	2,325.0	2,915.1	3,277.7
property taxes	961.8	1,233.6	1,592.3	1,615.4	1,737.2
VAT	6,982.9	7,267.1	8,235.0	9,247.7	10,551.5
excise taxes	2,123.1	1,944.2	2,185.6	2,342.5	2,621.8
tax revenues from foreign trade	1,841.5	3,918.6	3,431.8	3,546.6	5,501.5
other taxes(1)	1,783.8	2,030.4	2,144.6	2,334.6	2,639.4
Revenues of the SPF(2)	9,307.5	10,450.6	10,329.9	11,225.3	13,119.3
Non-tax revenues(3)	3,001.4	3,828.0	4,648.3	5,284.0	6,162.8
Revenues of Other Funds	—	25.0	56.1	67.5	74.0
Total revenues	**31,210.6**	**36,580.3**	**38,886.5**	**42,917.3**	**50,847.9**
Expenditures (economic classification)					
Current expenses	16,876.1	20,184.9	22,272.6	23,233.2	26,375.8
including:					
wages and salaries	5,222.4	6,129.0	6,520.1	7,090.7	8,582.3
charges on wages and salaries	1,434.5	1,692.4	1,803.2	1,946.2	2,321.2
debt service payments	834.2	1,504.9	1,869.2	2,085.7	2,354.9
subsidies and current transfers(4)	5,334.9	6,043.2	6,392.8	5,939.3	6,171.9
other expenses	4,050.1	4,815.4	5,687.3	6,171.3	6,945.5
Capital expenditures	4,306.3	3,622.2	3,470.3	4,353.6	5,903.3
Expenditures of the SPF(5)	9,392.6	10,791.4	11,516.3	12,236.8	13,586.1
Credit and loans granted less repayment	(199.8)	703.2	159.8	(96.2)	—
Financial reserve	—	—	—	—	—
Expenditures of Other Funds	—	9.8	70.1	52.3	63.8
Total expenditures	**30,375.2**	**35,311.5**	**37,489.1**	**39,779.7**	**45,929.0**
Surplus balance (deficit)	**835.4**	**1,268.8**	**1,397.4**	**3,137.6**	**4,918.9**
% of GDP for the period	**1.0**	**1.4**	**1.5**	**3.0**	**4.0**
Financing	(835.4)	(1,268.8)	(1,397.4)	(3,137.6)	(4,918.9)
including:					
domestic financing	(257.1)	590.6	(1,248.8)	(6,869.4)	(5,998.0)
external financing	(578.3)	(1,859.4)	(148.6)	3,731.8	1,079.1
For information: revenues from the sale of state property (including shares)	*35.3*	*12.9*	*17.9*	*4.7*	*100.0*

Source: Ministry of Finance

Notes:

(1) Other taxes include various taxes imposed by the central government and local government authorities. See *Revenues of the Public Sector Budget.*

(2) After consolidation in the amount of subventions transferred from republican budget to SPF.

(3) After consolidation in the amount of subventions transferred from SPF to local budget.

(4) Subsidies and current transfers include such payments to the population, as scholarships, pensions to military officers administered through the central government budget, together with subsidies for the reimbursement of mortgage interest for home buyers.

(5) After consolidation in the amount of subventions transferred from SPF to local budget.

The following table sets forth certain information related to the Government's budget for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018
	(BYN million (post re-denomination))				
Revenues					
Tax revenues............................	10,231.7	12,743.0	13,091.8	14,431.8	18,656.9
including:					
Profit tax....................................	656.7	817.3	727.3	1.020.7	1,287.6
VAT...	4,818.2	5,014.3	5,682.1	6,380.9	7,960.1
Excise taxes	2,123.1	1,944.2	2,185.6	2,342.5	2,621.8
Tax revenues from foreign trade	1,841.5	3,918.6	3,431.8	3,546.6	5,501.5
Other taxes(1).............................	792.2	1,048.6	1,065.0	1,141.1	1,285.9
Non-tax revenues......................	1,947.1	3,141.4	3,209.8	2,905.3	2,816.6
Gratuitous payments.................	641.3	836.9	1,461.8	2,434.7	2,915.7
Total revenues...........................	**12,820.2**	**16,721.3**	**17,763.4**	**19,771.8**	**24,389.2**
Expenditures (economic classification)					
Current expenses	10,754.8	12,848.1	14,767.8	15,050.3	16,545.7
of which:					
wages and salaries	2,008.3	2,305.3	2,413.1	2,672.9	3,321.6
charges on wages and salaries ..	348.3	395.9	407.6	451.6	540.3
debt service payments	725.2	1,348.5	1,729.0	1,876.4	2,145.7
subsidies and current transfers(2)	6,090.9	6,755.6	7,887.6	7,514.5	7,485.2
other expenses...........................	1,582.1	2,042.7	2,330.5	2,534.9	3,052.9
Capital expenditures.................	1,769.7	1,576.7	1,763.4	2,022.4	3,182.8
Credits and loans granted less repayments................................	(246.5)	789.4	219.2	(71.8)	—
Financial reserve.......................	—	—	—	—	—
Total expenditures..................	**12,278.0**	**15,214.1**	**16,750.4**	**17,000.9**	**19,728.5**
Surplus balance (deficit)(2)	542.2	1,507.2	1,013.0	2,770.9	**4,660.7**
% of GDP.................................	**0.7**	**1.7**	**1.1**	**2.6**	**3.8**
Financing...................................	(542.2)	(1,507.2)	(1,013.0)	(2,770.9)	(4,660.7)
including:					
domestic financing	36.1	352.3	(864.4)	(6,502.7)	(5,739.8)
external financing.....................	(578.3)	(1,859.4)	(148.6)	3,731.8	1.079.1

Source: Ministry of Finance

Notes:

(1) Other taxes include various taxes imposed by the central government authorities.

(2) Including the governmental grants from the republican budget to the SPF budget to cover non-insurance expenses.

Public Sector Budget Revenues

In 2018, Public Sector Budget revenues amounted to BYN50,847.9 million, or 41.8 per cent. of GDP. Revenues increased by 18.5 per cent. compared to 2017. Tax revenues are the main income source for the budget of the Republic of Belarus and in 2018 they amounted to 61.9 per cent of the aggregate income of the Public Sector Budget. The income of the SPF totalled 25.8 per cent. of the income of Public sector budget.

In 2017, the Public Sector Budget revenues amounted to BYN42,917.2 million, an increase of 10.4 per cent. compared to 2016. Tax revenues represented the principal source of budgetary revenues, accounting for 61.4 per cent. of the total Public Sector Budget revenues in 2017 compared to 61.3 per cent. in 2016.

In 2016, the Public Sector Budget revenues amounted to BYN38,886.5 million. Tax revenues represented the principal source of budgetary revenues, accounting for 61.3 per cent. of the total Public Sector Budget revenues in 2016. The other significant contributor to budgetary revenues is revenues of the SPF, comprised mainly of contributions paid by employers and employees. SPF revenues amounted to 26.6 per cent of the Public Sector Budget revenues in 2016.

VAT accounted for 20.8 per cent., 21.5 per cent. and 21.2 per cent. of the total Public Sector Budget revenues in years ended 31 December 2018, 2017 and 2016, respectively. VAT is levied on a range of goods and services. VAT rate is currently established at 20 per cent.

Revenues from foreign trade duties, profit tax, income tax, and excise duties accounted for 10.8 per cent., 6.4 per cent., 10.2 per cent. and 5.2 per cent., respectively, of the total Public Sector Budget's revenues in the year ended 31 December 2018.

Revenues from foreign trade duties, profit tax, income tax, and excise duties accounted for 8.3 per cent., 6.8 per cent., 10.1 per cent. and 5.5 per cent., respectively, of the total Public Sector Budget's revenues in 2017. Revenues from foreign trade duties, profit tax, income tax, and excise duties accounted for 8.8 per cent., 6.0 per cent., 10.1 per cent. and 5.6 per cent., respectively, of the total Public Sector Budget's revenues in 2016.

Corporate profit tax is levied at a flat rate of 18 per cent. on gross revenues of enterprises and 25 per cent. for banks, insurance organisations and micro-financial entities. Income tax is levied at a flat rate of 13 per cent. on non-business individuals' income and 16 per cent. for business income of individual entrepreneurs, advocates and notaries. Individual entrepreneurs are individuals engaged in commercial and entrepreneurial activities without establishing a separate legal entity registered in such capacity. They are subject to income tax on income from the relevant entrepreneurial activities. All other individuals pay income tax on their employment income and other earnings, where there is a taxable item. The unified tax rates levied on individual entrepreneurs and other individuals are set per month in BYN according to the Tax Code depending on the types of activity and place of business (Minsk, regional centres, large cities and other settlements). Such rates can be decreased (but no more than twice) by regional councils and Minsk city Councils. Excise taxes are levied on a range of goods, including alcohol, alcoholic beverages, non-food and food products containing alcohol, tobacco products, car gasolines, diesel fuel and marine fuel, liquefied hydrocarbon gas and compressed natural fuel gas used as car fuel, as well as oil for diesel and/or injector engines. Unified excise tax rates are applicable to excisable goods whether imported or manufactured.

Foreign trade payments include customs duties, VAT and excise taxes levied on imported goods. Within the customs territory of the EEU, a Common Customs Tariff of the EEU is applied which is a code of import customs duties rates arranged in line with a unified EEU classification of foreign trade goods. Import customs duties apply to various commodity items, such as tea, coffee, food products, photo and video equipment, textile products, fuel and metals. In the customs territory of the EEU a mechanism is applied whereby import customs duties are credited and allocated among the budgets of the EEU member countries based on specific ratios (the ratio for the Republic of Belarus is 4.56 per cent.).

Export customs duties apply to oil and oil products, potash fertilisers, timber, rapeseed and rawhide exported out of the EEU customs territory. Russia and the Republic of Belarus apply the same rates of export customs duties to oil and oil products exported.

VAT and excise duties are levied on goods intended for foreign trade based on the country of destination. This principle provides for the application of the zero per cent value added tax and/or exemption from excise taxes on the exports of goods and the levying of VAT and excise taxes on the imports of the goods.

The Republic of Belarus applies the main VAT rate at 20 per cent., while the rate of 10 per cent. is applicable to a number of goods, including food products and goods for children, according to a list approved by the President of the Republic of Belarus. There are also other VAT rates for specific services and goods, e.g. 25 per cent. rate is applied for telecommunications services.

The table below shows the structure of revenues of the consolidated budget broken down by main revenue sources for the periods indicated:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
			(% of total revenues)		
Total revenues	100.0	100.0	100.0	100.0	100.0
including:					
income tax	14.6	13.9	13.8	13.7	13.7
profit tax	9.1	8.2	8.2	9.2	8.7
property taxes	4.4	4.6	5.6	5.1	4.6
VAT	31.8	27.3	28.9	29.2	28.0
excise taxes	9.7	7.3	7.7	7.4	7.0
tax revenues from foreign trade	8.4	14.7	12.0	11.2	14.6
interest for the use of budgetary monetary funds	1.7	2.4	2.0	1.3	1.1
dividends on shares (participation interests) owned by the state	4.8	5.7	3.3	5.6	4.1
Other	15.5	15.9	18.5	17.3	18.2

Source: Ministry of Finance

Public Sector Budget Expenditure

In 2016, the Public Sector Budget expenditure increased by 6.2 per cent. to reach BYN37,489.1 million. As a percentage of GDP, expenditure increased by 0.2 per cent. in 2016 compared to 2015.

In 2017, the Public Sector Budget expenditure increased by 6.1 per cent. to reach BYN39,779.7 million. The key focus areas of the Government's investment programme include construction of the NPP (see "*The Economy of the Republic of Belarus—Principal Sectors of the Economy—Fuel and Energy—NPP*"), the development of an affordable healthcare system and social housing.

In 2018, the Public Sector Budget expenditure amounted to BYN45,929.0 million, or 37.8 per cent. of GDP. The expenditure increased by 15.5 per cent. as compared to 2017. The share of expenditures in the country's GDP increased by 0.2 per cent in 2018 as compared to 2017.

The table below shows a breakdown of the Public Sector Budget expenditure by functional classification for the periods indicated:

	Year ended 31 December				
	2014	2015	2016	2017	2018
	(BYN million (post re-denomination))				
Expenditures (functional classification)					
Education[(1)]	3,681.6	4,186.4	4,593.7	4,914.8	5,632.8
Environmental protection[(2)]	79.4	78.8	77.3	84.6	95.9
Judicial power, law enforcement and safety[(3)]	1,408.8	1,598.9	1,687.9	1,892.1	2,344.1
National defence[(4)]	736.8	925.3	1,044.5	1,015.0	1,353.9
National economy	3,356.8	3,881.7	4,253.3	4,280.8	4,806.2
Physical education, sport, culture and mass media[(5)]	684.8	773.6	864.2	937.2	1,158.1
Public health[(6)]	2,967.8	3,497.7	3,953.9	4,305.1	4,896.4
General public expenses[(7)]	4,750.8	6,296.9	6,901.3	7,267.0	8,228.8
Social policy (including SPF)	10,978.0	12,448.9	12,525.7	13,448.6	15,387.6
Utilities and residential construction[(8)]	1,730.5	1,613.5	1,517.2	1,582.2	1,961.4
Other Funds	-	9.8	70.1	52.3	63.8
Total expenditures	**30,375.2**	**35,311.5**	**37,489.1**	**39,779.7**	**45,929.0**

Source: Ministry of Finance

Notes:

(1) Includes the expenses relating to the operation of schools, colleges, universities and other educational organisations, the expenses of state authorities exercising control and supervision over the education system (including wages of staff, transport expenses and other current expenses), the financing of state programmes and various educational science projects, the publishing of textbooks and educational materials.

(2) Includes the expenses relating to the maintenance and recovery of specially protected natural sites, environmental monitoring, maintenance of the state register of natural resources and the expenses of environmental protection authorities.

(3) Includes expenses on judiciary power, law enforcement authorities, prosecution authorities, border control services, the penitentiary system, state security services, notary offices, customs authorities, the expenses relating to dealing with the consequences of emergency situations and natural disasters, programmes and projects in the sphere of law enforcement and the provision of safety and other expenses.

(4) Includes expenses on the defence and military security of the State, maintenance of the armed forces of the Republic of Belarus, other military expenses, except for the expenses relating to military educational and medical requirements, as well as pensions.

(5) Includes expenses on cultural events, support for mass media, national film production, publications and periodicals, as well as the expenses on state regulation of the above spheres and state programmes.

(6) Includes expenses on the maintenance of public healthcare organisations (wages, healthcare institutions, transport, communications and other current expenses), costs of medical services, centralised purchases of medicines and medical equipment, state sanitary and epidemiological supervision and research in the sphere of public health.

(7) Includes expenses on the servicing of public debt, contributions to international organisations, formation of reserve funds, expenditures on scientific research, salaries of government officials and other similar expenses, as well as expenses on the state investment programme.

(8) Includes subsidies for the reimbursement of the part of the entities' costs on rendering housing and utility services, the financing of overhauls and current repairs of residential housing.

Each functional line item of the Public Sector Budget expenditure includes current expenses, capital expenditure and subsidies. The most significant subsidies are discussed separately below.

The largest expenditure item in the Public Sector Budget is social policy, funded primarily through the funds of the SPF, expenses on which in 2018 amounted to BYN15,387.6 million. The SPF's expenses relate to social protection, including, for example, child care allowances, the provision of free baby food for children under two years of age and the financing of programmes relating to medical support for children living in areas polluted by the Chernobyl accident and disabled children. Expenses relating to youth policy include various scholarships for young people distinguished in science, education, culture or sports. Starting from 2015, expenses in relation to social policy have included allowances for additional support for multi-child families forming the so-called "family capital" (See "*Business—Ancillary Activities—Family Fund Management*" for details of DBRB's role in managing family capital).

The share of expenditures relating to social policy in the total expenditure of the Public Sector Budget remained relatively constant at 33.4 per cent., 33.8 per cent. and 33.5 per cent. in 2016, 2017 and 2018, respectively.

General public expenditures, expenditures relating to education and expenditures relating to public health accounted for 17.9 per cent., 12.3 per cent. and 10.7 per cent., of total expenditures in 2018, respectively. General public expenditures, expenditures relating to education and expenditures relating to public health accounted for

18.3 per cent., 12.4 per cent., 10.8 per cent., of total expenditures in 2017, respectively. General public expenditures, expenditures relating to education and expenditures relating to public health accounted for 18.4 per cent., 12.3 per cent. and 10.5 per cent., of total expenditures in 2016, respectively. General public expenditures, expenditures relating to education and expenditures relating to public health accounted for 17.8 per cent., 11.9 per cent. and 9.9 per cent., of total expenditures in 2015, respectively.

Wages and salaries of employees (including charges) engaged in the public sector accounted for 22.1 per cent., 22.2 per cent. and 23.7 per cent. of total expenditures of the Public Sector Budget in 2016, 2017 and 2018, respectively.

The following table shows a breakdown of expenditures on subsidies by industries for the periods indicated:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
			(BYN million (post re-denomination))		
Subsidies					
Agriculture	1,376.3	1,466.7	1,701.6	1,134.4	1,075.9
Fuel and energy	60.2	64.7	69.3	85.9	106.2
Industrial sector, construction and architecture	427.6	638.2	606.6	763.4	792.3
Physical education, sports, culture and mass media	73.6	74.1	77.4	80.6	91.5
Transportation	277.9	274.4	329.8	305.9	356.7
Utility subsidies	1,173.0	1,077.1	866.3	879.2	879.0
Other[(1)]	116.1	136.5	161.7	142.4	192.0
Total	**3,504.7**	**3,731.8**	**3,812.8**	**3,391.8**	**3,493.6**

Source: Ministry of Finance

Note:

(1) Other subsidies include the compensations for the interest provided to the banks in respect of discounted loans extended to legal entities, the subsidies for the facilitation of employment and the subsidies for the development of small and medium-sized businesses.

Agricultural subsidies include interest rate subsidies for credit facilities advanced by Belarusian banks to agricultural enterprises, the reimbursement of the difference between regulated prices for certain essential food products and the cost of sales incurred by agricultural producers, subsidies for the purchase of mineral fertilisers, the financing of research in the area of agricultural science and other subsidies supporting the agricultural sector.

Utilities subsidies include a partial reimbursement of costs on housing and utility services provided to population, and funds repairs and maintenance of residential housing. The Government plans to phase out subsidies on housing and utilities services to population by 2025.

Transportation subsidies include the reimbursement of the difference between regulated prices (tariffs) set by the regional executive committees, Minsk city executive committees (as agreed with the Ministry of Anti-Monopoly Regulation and Trade of the Republic of Belarus) for transportation services and the cost of sales incurred by transport enterprises.

Transportation subsidies include the reimbursement of the difference between regulated prices (tariffs) set by the Government for transportation services and the cost of sales incurred by transport enterprises.

Physical education, sports, culture and mass media subsidies include subsidies supporting sport clubs, cultural organisations, film production, mass media, publishing houses and video rental enterprises.

Budget Process

The preparation of a draft republican budget commences at least ten months before the beginning of the following financial year. The Ministry of Finance develops preliminary draft budgets and issues directions pursuant to which ministries and other state authorities must submit to the Ministry of Finance materials necessary for the preparation of the draft republican budget for the following financial year.

The draft republican budget, in the form of a draft law, together with the calculations, analytical and other materials, is then presented to the Government for consideration and, by 1 September of the relevant year, the draft law and the estimated indicators for the consolidated budget are forwarded to the President for consideration. The law on the republican budget for the following financial year is adopted by the Parliament of the Republic of Belarus by 1 December of the year preceding the following financial year.

Local budgets are to be considered and approved by the relevant local Councils of Deputies.

A report regarding the performance of the republican budget for the reporting financial year is prepared by 1 March of the year following the reporting financial year and is introduced as a draft law to be considered by the Government.

The Government forwards the draft law on the approval of the report regarding the performance of the republican budget for the reporting financial year to the State Control Committee of the Republic of Belarus for the Committee to prepare, in the manner prescribed by law, an opinion on the performance of the republican budget for the reporting financial year, and also forwards the draft law to the President of the Republic of Belarus.

The President of the Republic of Belarus introduces to the House of Representatives a draft law on the approval of the report regarding the performance of the republican budget for the financial year within five months of the end of the relevant financial year.

Reports on performance against local government budgets are to be considered and approved by the corresponding local Councils of Deputies.

Annually, starting from 2016, medium-term financial programmes are developed and approved at the national and local level, and a systematic transition to the performance-oriented method of budget planning is carried out.

2019 Public Sector Budget

Based on the projections of the Ministry of Finance, the Public Sector Budget for 2019 has been prepared with a surplus of BYR1.6 billion, or 1.3 per cent. of GDP, with the revenues accounting for 37.9 per cent. of GDP and expenses accounting for 36.6 per cent. of GDP. The surplus of the budget is expected to be used to repay a portion of outstanding public debt.

The 2019 Public Sector Budget was prepared in accordance with a conservative scenario of economic development, assuming the following average annual parameters: (i) consumer price index (inflation) of 105.3 per cent.; (ii) GDP growth rate of 102.1 per cent.; (iii) refinancing rate of 10.0 per cent. per annum; (iv) oil price of US$60 per barrel (Urals); and (v) US dollar exchange rate of 2.2160 Belarusian rubles and 69 Russian rubles against the US dollar.

The Law of the Republic of Belarus No. 160-Z "On the Republican Budget for the Year 2019" was adopted on 30 December 2018. The Law of the Republic of Belarus No. 158-Z "On the Budget of State Extrabudget Fund of Social Protection of Population of the Republic of Belarus for the Year 2019" was adopted on 30 December 2018.

For purposes of forecasting the socio-economic development of the country and GDP for 2019, the price of oil used was US$65 per barrel (Urals).

Tax Reforms

In recent years, a number of gradual changes to the tax system have been implemented in order to improve the investment climate in the Republic of Belarus, to reduce the tax burden and to stimulate growth in the private sector.

From 2011, local contributions for the development of territories, which had been levied on net profit, and service tax were abolished; the rates of environmental tax were reduced; and the requirement of advance payment of VAT and excise taxes was annulled.

From 2012, the profit tax rate was reduced from 24 per cent. to 18 per cent.; a reduced profit tax rate was introduced for enterprises that manufacture innovative and high-tech products; a mechanism for carrying loss onto future periods and a mechanism for accelerated depreciation of equipment and immovable property for profit tax purposes, were introduced. In addition, the tax rate applicable to SMEs using the simplified taxation system was reduced from 8 per cent. to 7 per cent. for entities not paying VAT and from 6 per cent. to 5 per cent. for entities paying VAT.

From 2013, the tax rate applicable for the simplified taxation system was reduced to 5 per cent. for entities not paying VAT and to 3 per cent. for entities paying VAT.

From 2014, organisations became entitled to deduct, for profit tax purposes, expenses on research and development applying a multiplying factor of up to 1.5. The depreciation premium was transformed into an investment deduction, which made it possible, in addition to depreciation charges, to reduce taxable profit by an additional 20 per cent. of the value of equipment and by 10 per cent. of the value of immovable property. In order to simplify tax accounting, the calendar quarter was set as the reporting period for profit tax purposes, with tax being paid based on the actual financial and business indicators for the given quarter. A special order of calculation for profit tax to be paid in respect of the fourth quarter was established.

From 2015, the profit tax rate was increased for banks and insurance companies from 18 per cent. to 25 per cent.; the personal income tax rate was increased from 12 per cent. to 13 per cent.; the zero per cent VAT rate was set for services involving technical maintenance and repairs of cargo vehicles belonging to non-residents of the Republic of Belarus; the local Councils of Deputies became entitled to increase (or reduce) the tax rates on real estate and land tax by not more than 2.5 times for certain categories of taxpayers (instead of 2.0 times).

From 2016, methodologies for supervising transfer pricing in the Republic of Belarus were improved. The term "beneficial owner" was defined in the Tax Code and a list of documents to certify beneficial ownership was introduced. From 1 July 2016, a mechanism for the flow of electronic VAT invoices was implemented.

From 2017, tax rates on gambling have been raised, depending on income (no more than 2.3 times). Improved tax control due to the introduction of a category of "economically justified costs" (based on a certain criteria provided for by the tax law, expenses can be qualified as economically justified or unreasonable).

From 1 January 2019, the new version of the Tax Code specifies a number of measures aimed at decreasing the tax burden, facilitating economic growth and creating favourable investment conditions, including the following:

- a 1.5 times increase in the size of investment deduction from profit tax (for buildings, constructions, transferring units – from 10 to 15 per cent., for machinery, equipment and transport vehicles – from 20 to 30 per cent.);
- up to a 6 per cent. decrease of profit tax rate and personal income tax rate on dividends provided that within the preceding three years profits have not been distributed among Belarusian shareholders and a full tax exemption if profit has not been distributed among Belarusian shareholders within the preceding five years;
- profit tax benefits for operations with corporate bonds for an unlimited period;
- readjustment of the revenue criteria for a simplified taxation system applied by entities - for the forward-looking inflation rate (5.3 per cent., from BYN1,851,100 to BYN1,949,208), by individual entrepreneurs – by more than twice (from BYN202,700 to BYN420,000);
- a 1.5 times increase (from BYN492,000 to BYN738,000) of the revenue criteria for accounting in ledger of income and expenditure of entities and individual entrepreneurs applying the simplifying tax system;
- an exemption for newly constructed facilities and land plots on which they are built from property taxes (real estate and land tax) in the first year of operation with decreasing coefficients to such tax rates within further four years;
- an abatement of the levy imposed on foreign vehicles using public roads of the Republic of Belarus
- an exemption from real estate tax of facilities under construction;
- abolishing the right of a local council to increase real estate taxes imposed upon real estate objects which are not used or are inefficiently used, as well as abolishing the right of a local council to increase the land tax on land plots occupied by such objects; and
- a decrease in increasing coefficients set up by local councils on property tax rates from 2.5 to 2 times, from 2020.

As far as the simplification of taxes and levies collection is concerned, from 1 January 2019, the new version of the Tax Code provides for the following actions:

- convergence of tax management and accounting (including by means of eliminating the temporary differences when recognising some types of income and expenses);
- simplification of tax management of scaled expenses;
- the right to pay VAT by payers of a unified tax on imputed income;

- increased possibilities for entities to apply simplified accounting when applying the simplified tax scheme due to a 1.5 times increase (from BYN492,000 to BYN738,000) in the gross revenue criterion as set up for the ledger of income and expenditures;

- principle of self-imposed unified tax for individual entrepreneurs; and

- the right for individual entrepreneurs to determine sales revenue on accrual basis (for shipment date) when general taxation system and simplified tax system are applied.

Moreover, from 1 January 2019 the new version of the Tax Code simplifies tax administration, including the following:

- new approaches to suspending operations on payers' accounts with indebtedness for current payments to the budget, due to risk-oriented approach providing for payers' segregation into risk groups;

- an introduction of the new method of tax liability performance bond – a bank guarantee;

- improvements of the procedure of accounts receivables collection;

- changes in approaches to fines;

- improvements of transfer pricing control;

- set-offs and returns of overpaid taxes periods are increased from three to five years;

- individuals are allowed to apply to any tax authority (not only at the place of their residence).

The table below shows the tax burden for the periods indicated:

Year ended 31 December				
2014	**2015**	**2016**	**2017**	**2018**
24.3%	25.6%	25.1%	24.9%	25.9%

Source: Ministry of Finance

According to the "Doing Business 2019" report of the World Bank, the Republic of Belarus was in 99th position in terms of Taxation out of 190 countries being studied, having improved its rating by 84 points against 2011.

Social Protection Fund

In the Republic of Belarus, the funds of the state social insurance are managed by the SPF, which was founded on 1 July 1993 as a successor to the Pension Fund and the Social Insurance Fund of the Republic of Belarus.

The SPF finances pensions and allowances payable by law, measures for facilitating employment and other expenses envisaged by legislation on state social insurance. The sources of financing are the mandatory insurance contributions payable by employers and employees, contributions for professional pension insurance and other payments for state social insurance. These funds form the budget of the state extrabudgetary fund of social protection of population of the Republic of Belarus (the "**budget of the fund**"), which is managed by the SPF.

From 2010, the budget of the fund was excluded from the budget and is to be approved through a law on an annual basis. The funds of state social insurance are national property. The fund of the budget is managed via a single treasury account of the Ministry of Finance. A report on the performance of the budget of the fund is submitted to the Ministry of Finance on a quarterly basis.

The following table shows certain financial information relating to the SPF for the periods indicated:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
	(BYN million (post re-denomination))				
Revenues	9,440.3	10,478.5	11,749.2	12,461.5	13,929.9
including:					
contributions for state social insurance	9,124.8	9,715.2	10,090.8	11,004.2	12,911.6
non-tax revenues[(1)]	182.7	235.9	239.1	221.1	207.8
subventions out of the budget[(2)]	132.8	527.4	1,419.3	1,236.2	810.6
Expenditures	9,417.6	10,819.3	11,542.1	12,263.7	13,614.9
including:					
Pensions	7,443.3	8,413.0	8,920.5	9,558.9	10,604.8
Allowances	1,835.1	2,251.2	2,451.0	2,602.6	2,899.0
other[(3)]	139.2	155.1	170.6	102.2	111.1
Balance (deficit / surplus)	**22.7**	**(340.8)**	**207.1**	**197.8**	**315.0**

Source: Ministry of Finance

Notes:

(1) Including the interest payable by the banks for the use of monetary funds, fines for breaching legislation and other receipts.

(2) From 2014, non-insurance expenses are to be reimbursed to the budget of the fund out of the budget.

(3) Including expenses on health resort treatment and rehabilitation of the population, measures to facilitate employment of the population, the financing of specialised educational sports institutions of trade unions, the financing of the SPF's activities and other expenses.

In 2018, the SPF budget generated a BYN315.0 million surplus, including a BYN12,911.6 million surplus in state social insurance funds and a BYN115.5 million surplus in professional pension insurance funds. The total revenues of the budget of the SPF amounted to BYN13,929.9 million, while expenditures amounted to BYN13,614.9 million.

The 2017 budget of the SPF generated a surplus of BYN197.8 million. The total revenues of the budget of the SPF amounted to BYN12,461.5 million, while expenditures amounted to BYN12,263.7 million.

In order to cover temporary cash shortages in the SPF budget in 2017, a budgetary loan in the amount of BYN449.0 million was received from the republican budget and repaid.

PUBLIC DEBT

The following table sets out information on the Republic of Belarus's public debt broken down into external debt and domestic debt as at the dates indicated.

	As at 31 December				
	2014	2015	2016	2017	2018
	(US$ million, except percentages)				
External public debt					
Multilateral loans	***2,964.5***	***2,584.1***	***3,115.4***	***3,724.9***	***3,668.3***
IMF	79.3	—	—	—	—
IBRD	589.8	641.8	724.6	821.8	904.5
EBRD and Nordic Investment Bank	0.2	0.2	1.8	67.2	81.0
EFSD	2,295.2	1,942.1	2,389.0	2,835.9	2,682.8
Bilateral loans	**7,815.7**	**9,062.2**	**9,729.7**	**10,801.9**	**11,225.7**
Russia	5,176.8	6,187.9	6,608.5	7,602.4	7,904.5
Germany	—	—	—	—	—
USA	33.6	30.3	26.3	22.7	19.0
China	2,490.1	2,844.3	3,094.9	3,176.8	3,302.2
Venezuela	115.2	—	—	—	—
Bonds	***1,800.0***	***800.0***	***800.0***	***2,200.0***	***2,000.0***
External public debt, total	**12,580.2**	**12,446.3**	**13,645.1**	**16,726.8**	**16,894.0**
as percentage of GDP	**16.0**	**21.9**	**28.4**	**30.7**	**28.4**
Domestic public debt					
State securities	4,082.7	5,247.6	5,225.5	4,651.3	4,115.0
Domestic public debt, total	**4,082.7**	**5,247.6**	**5,225.5**	**4,651.3**	**4,115.0**
As a percentage of GDP	**5.5**	**9.5**	**10.8**	**8.6**	**7.0**
Total public debt	**16,662.9**	**17,693.9**	**18,870.6**	**21,378.1**	**21,009.0**
As a percentage of GDP	**21.5**	**31.4**	**39.2**	**39.3**	**35.4**

Source: Ministry of Finance

As at 31 December 2018, the Republic of Belarus had total public debt of US$21,009.0 million, comprising US$16,894.0 million of external public debt and US$4,115.0 million of domestic public debt.

The increases in external public debt in 2017 and 2018 resulted from an increase in external government loans entered into to refinance existing public debt and to realise investment projects, including the construction of the NPP, and the issuance of Eurobonds.

The following table sets out information on the Republic of Belarus's public debt broken down into denomination currencies as at the dates indicated.

	As at 31 December				
	2014	2015	2016	2017	2018
	(US$ million, except percentages)				
External public debt	12,580.2	12,446.3	13,645.1	16,726.8	16,894.0
Domestic public debt denominated in foreign currencies	2,663.9	4,359.1	4,411.6	3,838.0	3,429.3
Domestic public debt denominated in Belarusian ruble	1,418.8	888.5	813.9	813.3	685.7
Total public debt	**16,662.9**	**17,693.9**	**18,870.6**	**21,378.1**	**21,009.0**
Public debt denominated in foreign currencies, as a percentage of total	91.5	95.0	95.7	96.2	96.7
Public debt denominated in Belarusian ruble, as a percentage of total	8.5	5.0	4.3	3.8	3.3
As a percentage of GDP	**21.5**	**31.4**	**39.2**	**39.1**	**35.4**

Source: Ministry of Finance

As at 31 December 2018, the Republic of Belarus's domestic public debt was denominated in US dollars (50.5 per cent.), Euro (32.7 per cent.), Belarusian rubles (16.7 per cent.) and Russian rubles (0.1 per cent.). As at 31 December 2018, the Republic of Belarus's external public debt was denominated in US dollars (91.6 per cent.), Russian rubles (5.1 per cent.), Euro (0.9 per cent.) and Chinese renminbi (2.4 per cent.).

As at 31 December 2018, 69.8 per cent. of domestic public debt was at fixed rates and 30.2 per cent. was at floating rates. As at 31 December 2018, 49.8 per cent. of external public debt was at fixed rates and 50.2 per cent. was at floating rates.

The following table provides information on the residual maturity profile of the Republic of Belarus's public debt as at 31 December 2018:

	As at 31 December 2018				
	Up to 1 year	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
			(US$ million)		
External public debt	1,505.1	1,600.2	6,012.4	7,776.3	16,894.0
Domestic public debt	711.4	932.8	1,220.8	1,250.0	4,115.0
Domestic public debt denominated in foreign currency	606.2	852.5	931.0	1,039.6	3,429.3
Domestic public debt denominated in BYN	105.2	80.3	289.8	210.4	685.7
Total	**2,216.5**	**2,533.0**	**7,233.2**	**9,026.3**	**21,009.0**

Source: Ministry of Finance

Debt Management

The public debt of the Republic of Belarus is managed in accordance with the Budget Code of the Republic of Belarus, the Strategy for Debt Management of the Republic of Belarus in 2015-2020 (the "**Debt Management Strategy**"), as well as other regulations.

Under the Budget Code, the Republic of Belarus unconditionally undertakes to service and repay its external public debt which is payable from the sources of the republican budget and other property owned by the Government. Payments to service and repay public debt have priority as compared to other payments under the central government budget.

In March 2015, the Government approved the Debt Management Strategy, which provides for targets, rules and measures that is intended allow the Republic of Belarus to manage the maturities of its public debt profile and to avoid a significant concentration of payments in the next five years and going forward (subject to the required accumulation of foreign currency reserves and the fiscal position of the Republic of Belarus). The Debt Management Strategy targets a lower cost of borrowing, a longer average maturity and the establishment of a benchmark yield curve. The Debt Management Strategy contemplates that (i) resources mobilised in the form of non-project related government loans in foreign currencies should be used only for the purposes of public debt repayment and gold and foreign currency reserve replenishment; (ii) debt service obligations should be payable from the revenues of republican budget; and (iii) funding sources should be diversified and portfolio risks decreased. The Debt Management Strategy sets out a limit of public debt to GDP at 45 per cent.

The principles on which the Debt Management Strategy is based have been supported by international rating agencies and international financial organisations including the IMF and World Bank. For example, the EFSD has included compliance with the Debt Management Strategy in its funding matrix as a principal controlling mechanism in providing financial support to the Republic of Belarus.

Furthermore, the Government sets limits on external and domestic public debt in the relevant central government budget law for a respective financial year. The Law of the Republic of Belarus "On the Republican Budget for the Year 2019" of 30 December 2018 No. 160-Z established a limit of external public debt in the amount of US$21 billion and domestic public debt in the amount of BYN10 billion (approximately US$4.6 billion; exchange rate as at 31 December 2018).

External Public Debt

The external public debt of the Republic of Belarus is the sum of the principal debt of the Republic of Belarus under external government loans and liabilities of the Government guaranteeing external loans.

The Republic of Belarus began incurring external public debt in 1992 and, as at 31 December 2018, the total amount of external public debt was US$16,894.0 million. As at 31 December 2018, all existing external public debt is long-term. The existing external public indebtedness of the Republic of Belarus has an average rate of interest of 4.9 per cent. and an average maturity of 5.6 years.

The following table provides information on breakdown of the Republic of Belarus's external public debt between investment projects debt and other indebtedness as at the dates indicated:

	As at 31 December				
	2014	2015	2016	2017	2018
			(%)		
Investment projects	31.7	41.0	43.9	40.7	46.9
Other indebtedness	68.3	59.0	56.1	59.3	53.1

Source: Ministry of Finance

As at 31 December 2018, bilateral loans amounted to US$11,225.7 million (or 66.5 per cent. of total external public debt), loans from international financial organisations amounted to US$3,668.3 million (or 21.7 per cent. of total external public debt) and bonds amounted to US$2,000.0 million (or 11.8 per cent. of total external public debt). The largest portion of external public debt is attributable to Russia, which accounted for US$7,904.5 million, or 46.8 per cent. of total external public debt. The remaining portion of external public debt was attributable to China (US$3,302.2 million, or 19.6 per cent. of total external public debt), EFSD (US$2,682.8 million, or 15.9 per cent. of total external public debt), bonds (US$2,000.0 million, or 11.8 per cent. of total external public debt), IBRD (US$904.5 million, or 5.3 per cent. of total external public debt), EBRD and NIB (US$81.0 million, or 0.5 per cent. of total external public debt) and the US (US$19.0 million, or 0.1 per cent. of total external public debt).

The attraction of project-related loans is made to implement foreign-currency-generating investment projects in strategically important spheres. Main creditors for such purposes are China, Russia and IBRD, described below.

Russia

As discussed above, loans granted by the Russian Government and Russian banks accounted for a significant portion of external debt of the Republic of Belarus. This trend has continued over the last several years. In particular, in 2015, the Russian government granted two loans to the Republic of Belarus in the amount of US$870 million with a maturity of 10 years. In September 2017, the Russian government granted a loan to the Republic of Belarus for refinancing its external public debt in the amount of US$700 million. Moreover, the construction of the NPP is financed by loans received from the Russian Government (US$10 billion) and Vnesheconombank (US$500 million). As at 31 December 2018, the Republic of Belarus had utilised US$3.4 billion under the US$10 billion credit line available from the Russian Government and US$383.2 million under the US$500 million credit from Vnesheconombank.

EFSD

The Republic of Belarus actively cooperates with the EFSD. In June 2011, in order to support its balance of payments and maintain its foreign currency reserves, the Republic of Belarus entered into a US$3 billion 10-year credit agreement with the EFSD (previously known as the ACF) which provided with a three-year grace period. The agreement provided for the introduction of a programme of economic measures by the Government and the National Bank. In 2011-2013, the Government and the National Bank implemented the programme, which resulted in the granting of five tranches totalling US$2.6 billion. In 2014, the Republic of Belarus commenced the repayment of this debt.

In March 2016, the Republic of Belarus entered into a new loan agreement with the EFSD to provide funding in the amount of US$2 billion by way of seven tranches during 2016-2018. The primary purpose of the funding was to support the reforms of the Government and the National Bank to create conditions that are expected to lead to sustainable growth of the economy through improved economic policy and the implementation of structural reforms (such as establishing an independent antimonopoly authority, liberalising prices for goods and services, developing a new conceptual framework for state-owned asset management, strengthening the social safety net in the context of potential growth in unemployment, reducing the role of the state in economic activity, privatising state-owned assets and restructuring the state-owned sector). During 2016-2018, the Republic of Belarus received six tranches in the amount of US$1.8 billion. Disbursement of the seventh tranche is expected during 2019 and is subject to a number of economic ratios and implementation of economic and social reforms specified in the EFSD's funding matrix.

As at 31 December 2018, the total amount of external public debt owed to the EFSD was US$2,682.8 million.

IBRD

As at 31 December 2018, the Republic of Belarus had external public debt of the IBRD that included 18 loans in the aggregate amount of US$1.4 billion, 17 loans in the amount of US$1.2 billion was attracted for implementation of infrastructure projects in the Republic of Belarus, and one loan in the amount of US$0.2 billion was made with a purpose of supporting structural reforms in the economy, as well as implementation of measures to manage the consequences of the global financial crisis. The outstanding debt on IBRD loans as at 31 December 2018 amounted US$904.5 million, or 5.4 per cent. of external public debt. In recent years, the loan agreements were made to finance the following projects: in 2015, to modernise a transit route in the amount of US$250 million, to develop forest industry in the amount of US$40.7 million, to enhance the education system in the amount of US$50 million; in 2016, to advance the public finance management system in the amount of US$10.0 million; in 2017, to improving selected aspects of the quality of the health care delivery in the amount of US$125 million; in 2018, to develop the forest industry in the amount of EUR12.0 million.

China

As part of diversification of sources for financing projects and substituting foreign government loans, the President of the Republic of Belarus issued Edict No. 163 dated 8 May 2018 "On a China-Belarus Investment Fund" ("**Edict No. 163**") providing for the establishment of CJSC "China-Belarus Investment Fund Management Company" as a joint venture with the equity participation of CITIC Construction Co., Ltd. (60 per cent.) and JSC Savings Bank Belarusbank (40 per cent.) (the "**Fund**").

To enhance the investment appeal of the Fund and attract investors to the Republic of Belarus, the Edict grants a number of tax and currency control preferences and benefits. The Fund's assets is expected to be invested in efficient investment projects in the Republic of Belarus through purchases of shares or bonds issued by Belarusian legal entities carrying out such projects.

In order to diversify sources of refinancing public debt, the Ministry of Finance is considering sovereign renminbi-denominated bonds in the domestic financial markets of the People's Republic of China (panda bonds) and the Special Administrative Region of Hong Kong (dim sum bonds).

To implement investment projects, the Republic of Belarus closely cooperates with Chinese banks. As at 31 December 2018, the Republic of Belarus had loan agreements in the aggregate amount of US$5.1 billion, 87.4 per cent. of which is attributable to Export-Import Bank of China and 12.6 per cent. to China Development Bank (see "*Business—Banking Activities—Financing of Investment Projects—Independent Investment Projects*" for further detail on DBRB's cooperation with China Development Bank). The agreements made to implement the projects in the following industries:

- cement industry (US$529.1 million);
- power sector (US$1,351.5 million);
- pulp and paper industry (US$961.8 million);
- road construction (US$662.1 million);
- railroads (US$64.0 million);
- development of the Great Stone Park (US$170.0 million). See "*Economy of the Republic of Belarus—FDI and Privatisation—FDI*";
- car industry (US$158.7 million);
- telecommunications (US$258.6 million);
- textile industry (US$51.8 million);

- machinery manufacturing (US$271.7 million); and
- agricultural industry (US$624.6 million).

The outstanding debt as at 31 December 2018 amounted to US$3,302.2 million.

Bonds

As at the date of these Listing Particulars, three issues of bonds with an aggregate principal amount of US$2,000 million listed on Euronext Dublin were outstanding.

Debt Payment Record and Estimated Debt Service

The Republic of Belarus adheres to a balanced approach towards public debt management. The core principles include unconditional and timely service of debt obligations. The payments to service and repay public debt have priority as compared to other payments under the central government budget.

Foreign currency public debt repayments in 2018 totalled US$3.9 billion, including repayments of domestic public debt in the amount of US$1.1 billion (US$0.8 billion – the principal amount, US$0.3 billion – debt servicing); repayments of external public debt in the amount of US$2.8 billion (US$2.0 billion – the principal amount, US$ 0.8 billion – debt servicing).

In 2019, public debt repayments shall be partially covered by non-debt related sources, mainly by export custom duties on crude oil and oil products. Borrowings in the amount of US$1.5 billion are planned. These borrowings include domestic market borrowings in the amount of US$ 0.3 billion and external market borrowings in the amount of US$1.2 billion.

The following table sets out the Republic of Belarus's total external and domestic public debt service for the periods indicated:

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
	(US$ million, except percentages)				
Payments for servicing and repaying external public debt, total	**5,079.7**	**2,607.8**	**1,445.4**	**1,698.6**	**2,790.4**
of which:					
Principal	4,563.0	2,016.4	892.5	1,029.4	1,997.3
Interest	516.7	591.4	552.9	669.2	793.1
Payments for servicing and repaying domestic public debt, total	**406.7**	**2,045.8**	**2,114.4**	**1,688.1**	**1,190.4**
of which:					
Principal	227.3	1,793.7	1,799.6	1,388.6	923.9
Interest	179.4	252.1	314.8	299.5	267.1
Payments for servicing and repaying public debt, total	**5,486.4**	**4,653.6**	**3,559.8**	**3,386.7**	**3,981.4**
of which:					
Principal	4,790.3	3,810.1	2,692.1	2,418.0	2,921.2
Interest	696.1	843.5	867.7	968.7	1,060.2

Source: Ministry of Finance

The following table sets out details of the projected payments for the years 2019-2025. The expected debt service payments have been calculated on the basis of the Republic of Belarus's debt portfolio, as well as prevailing interest and exchange rates as at 31 December 2018:

	2019	2020	2021	2022	2023	2024	2025
				(US$ million)			
Payments for servicing and repaying external public debt, total	**2,371.1**	**2,535.4**	**2,8738**	**2,769.0**	**3,409.8**	**2,171.1**	**1,960.8**
of which:							
Principal[(1)]	1,512.5	1,642.4	2,047.7	2,036.0	2,799.2	1,672.4	1,533.0
Interest	858.6	893.0	826.1	733.0	610.6	498.7	427.8
Payments for servicing and repaying domestic public debt, total	**922.2**	**1,097.8**	**408.0**	**694.4**	**420.2**	**359.5**	**392.2**
of which:							
Principal	711.4	932.8	285.3	589.2	346.2	296.1	342.1
Interest	210.8	164.9	122.7	105.1	74.0	63.3	50.1
Payments for servicing and repaying public debt, total	**3,293.3**	**3,632.8**	**3,281.8**	**3,463.3**	**3,830.0**	**2,527.5**	**2,353.0**
of which:							
Principal	2,223.9	2,574.9	2,333.0	2,625.2	3,145.4	1,968.5	1,875.1
Interest	1,069.4	1,057.9	948.8	838.1	684.6	562.0	477.9

Source: Ministry of Finance

Note:

(1) Including planned utilisation of the project finance facilities concluded prior to 31 December 2018 but not yet disbursed.

Domestic Public Debt

Domestic public debt of the Republic of Belarus is the sum of the principal debt of the Republic of Belarus under domestic government loans and the liabilities of the Government guaranteeing domestic loans.

As at 31 December 2018, domestic public debt amounted to US$4,115.0 million, which represented a decrease compared with 31 December 2017. This decrease was due to an early repayment of certain liabilities by the Ministry of Finances in 2018. As at 31 December 2018, the share of securities with fixed interest rate was 69.8 per cent., the share of securities with floating interest rate was 30.2 per cent.

As at 31 December 2018, the weighted average interest rate on foreign currency denominated securities was 5.95 per cent., the average terms of foreign currency denominated securities was 6.3 years and the average term to maturity was 3.8 years. As at 31 December 2018, the weighted average interest rate on Belarusian rubles denominated securities was 3.24 per cent, the average terms of Belarusian rubles denominated securities was 7.4 years and the average term to maturity was 4.0 years.

The following table sets out the Republic of Belarus's state securities broken down by type as at the dates indicated:

	As at 31 December				
	2014	2015	2016	2017	2018
			(US$ million)		
GKOs	58.1	0.3	0.2	0.1	—
of which:					
in foreign currency	0.3	0.3	0.2	0.1	—
in BYN	57.8	—	—	—	—
GDOs	4,024.6	5,247.3	5,225.3	4,651.2	4,115.0
of which:					
in foreign currency	2,663.6	4,358.8	4,411.4	3,837.9	3,429.1
in BYN	1,361.0	888.5	813.9	813.3	685.7
Total	**4,082.7**	**5,247.6**	**5,225.5**	**4,651.3**	**4,115.0**

Source: Ministry of Finance

Government Guarantees

As at 31 December 2018, the Republic of Belarus had issued state guarantees with regard to debt in the amount of US$3,068.5 million, representing 5.1 per cent. of GDP.

The following table sets out certain information regarding the government guarantees as at the dates indicated.

	As at 31 December				
	2014	2015	2016	2017	2018
	(US$ million, except percentages)				
Underlying debt	**5,734.1**	**5,021.6**	**3,986.9**	**3,931.7**	**3,068.5**
Percentage of GDP	**7.8**	**9.4**	**8.3**	**7.2**	**5.1**
of which:					
external guaranteed debt	2,270.5	2,725.2	1,975.6	2,136.9	1,679.8
percentage of GDP	3.0	5.0	4.1	3.9	2.8
domestic guaranteed debt	3,463.6	2,296.4	2,011.3	1,794.8	1,388.7
percentage of GDP	4.8	4.4	4.2	3.3	2.3
repaid guaranteed debt (executed guarantees)	319.5	440.1	314.8	214.7	151.2
percentage of GDP	0.4	0.8	0.7	0.4	0.3

Source: Ministry of Finance

As at 31 December 2018, the total amount of guaranteed public debt amounted to US$3,068.5 million, including US$679.8 million of external guaranteed debt and US$1,388.7 million of domestic guaranteed debt. The volume of guaranteed public debt has significantly decreased recently and the Government is planning to continue the implementation of actions aimed to decrease the guaranteed public debt, in particular by decreasing guarantees granted to secure obligations of foreign enterprises.

As at 31 December 2018, 56.8 per cent. of domestic guaranteed public debt was attributable to industrial companies, 31.6 per cent. was attributable to construction companies, 9.1 per cent - to agricultural companies, 2.5 per cent. was attributable to companies operating in other industries.

One of the largest exposures is a loan agreement dated 17 June 2016 in the amount of US$1.4 billion, which was signed between JSC Savings Bank Belarusbank and the China Development Bank under the guarantee of the Government for financing the Slavkaliy investment project for the construction of a new mining and processing complex. The goal of the project is to create a modern commercial enterprise for the extraction and processing of potash ore in the Republic of Belarus based on the existing reserves of Nezhinsky, Smolovskiy and Lubansky potassium salt sections, using the latest technological achievements in the field of extraction and processing of potash fertilisers.

The amount of guaranteed debt is subject to limits established by law on the budget for a respective financial year. For 2019, the amount of guarantees with regard to external public debt was limited to US$3.0 billion while the amount of guarantees with regard to domestic public debt was limited to 3.1 billion Belarusian rubles (approximately US$1.44 billion, exchange rate as at 31 December 2018) These limits are set in addition to the existing limitations on the overall existing public debt annually set by the budget laws, which do not include guaranteed debt.

Asset Management Agency

In 2016, the Republic of Belarus created the Asset Management Agency. The purpose of the establishment of the Asset Management Agency was to create conditions for the comprehensive reform of the system of financing agricultural producers through the allocation of bad debts of defaulting agricultural organisations from banks to the Asset Management Agency in order to clear the balances of banking sector as well as to release liquidity to creditworthy agricultural organisations.

The main objectives of the Asset Management Agency are:

- acquisition of assets and pledges formed as a result of loans provided by the banks and DBRB to agricultural organisations from the banking sector;
- participation in the pre-trial rehabilitation of borrowers;
- provision of deferral (instalment) payment of principal on loans;

- provision of deferral (instalment) repayment of interest on loans charged by the banks and DBRB prior to the assignment of assets;
- return of the proceeds to the budget of the Republic of Belarus.

In November 2016, the Council of Ministers and the National Bank adopted a list of assets to be acquired by the Asset Management Agency from the respective borrowers. The list contains more than 270 companies. In 2016-2017, total amount of assets transferred to the Asset Management Agency equalled BYN772.4 million.

See "*Business—Banking Activities—Financing of Investment Projects—Transfers of loans to Asset Management Agency*" for detail of DBRB's transfer of loans to the Asset Management Agency.

Debt of or Guaranteed by Local and Municipal Authorities

Under the Budget Code of the Republic of Belarus, debt of local and municipal authorities may be issued in the form of securities placed on the local financial market, guarantees, budget loans and other debt obligations that were previously treated as debt of local and municipal authorities under Belarusian laws. Local and municipal authorities cannot attract external public debt and since 2018 they are not entitled to issue bonds denominated in foreign currency.

Local and municipal authorities unconditionally undertake to service and repay their debt obligations. The respective payments under debt are provided in the relevant budget, as well as supported by property owned by the relevant debtor.

The limits to attract debt by local and municipal authorities are adopted by a local Council of Deputies on annual budget and subject to approval by the Ministry of Finance. The debt of local and municipal authorities has no recourse to the central government budget.

The following table sets out certain information regarding debt and guarantees issued by local and municipal authorities as at the dates indicated.

	As at 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
	(US$ million, except percentages)				
Debt and guaranteed debt	**3,378.5**	**2,439.2**	**2,575.1**	**2,662.0**	**2,319.8**
Percentage of GDP	**5.0**	**5.1**	**5.3**	**4.9**	**4.0**
of which:					
Debt	885.6	665.0	1,127.4	1,529.6	1,442.8
percentage of GDP	1.3	1.4	2.3	2.8	2.5
guaranteed debt	2,492.9	1,774.2	1,447.7	1,132.4	877.0
percentage of GDP	3.7	3.7	3.0	2.1	1.5

Source: Ministry of Finance

Relations with IFIs

Borrowings from IFIs have played a significant role in fostering economic and structural reforms in the Republic of Belarus. The resources of these organisations provide long-term support for economic growth and stability of the Republic of Belarus's financial system. The Republic of Belarus's relationships with IFIs demonstrate its commitment to reforming certain economic areas, improving the country's investment environment and increasing the share of foreign investment in the economy.

IBRD (World Bank)

The Republic of Belarus has been a member of the World Bank since 1992. During the whole period of cooperation between 1992 and 2018, the total volume of World Bank investments in the Belarusian economy amounted to about US$1.7 billion.

In June 2017, the World Bank Group's Partnership Strategy for the Republic of Belarus for 2014 -2017 financial years ended. During the implementation of this strategy, the Bank signed loan agreements for a total amount of about US$655 million.

As at 1 January 2019, the World Bank portfolio included eight investment projects totalling approximately US$790.1 and two grants totalling US$7.3 million.

The main financing is aimed at implementing infrastructure projects in such areas as sustainable energy, development of forestry industry, transit potential, improving the efficiency of public services (water supply and sanitation, solid waste management, heat supply modernisation), projects aimed at strengthening human capacity in health and education and the modernisation of public finance management system.

In addition, in partnership with the World Bank in 2015, the Road Map for Structural Reforms of the Republic of Belarus was developed. The main part of the activities of the Road Map was implemented in 2015-2017, and together with the bank, work was begun to update the document for 2018-2020.

In April 2018, the board of directors of the World Bank approved a new Framework Strategy for the World Bank Group's Partnership for the Republic of Belarus for 2018-2022 fiscal years. The World Bank prepared the Framework Strategy in consultation with the Government. The Framework Strategy is based on the main priorities of social and economic development. The purpose of the Framework Strategy for the 2018-2022 financial years is to support sustainable and inclusive growth and raise living standards with a focus on three linked areas: (i) creating opportunities for private sector growth and improving public investments, (ii) supporting high level of human potential, and (iii) strengthening the contribution of infrastructure to climate change management, economic growth and human development.

EFSD (formerly ACF)

In order to address its balance of payments difficulties and maintain its international reserve assets the Republic of Belarus entered into a US$3 billion 10-year credit arrangement with the EFSD (formerly ACF) in June 2011, which provided for a three years' grace period and the implementation of a set of economic policy measures by the Government and the National Bank.

In 2011-2013, the Republic of Belarus received five loan tranches in the aggregate amount of US$2.56 billion. The Republic of Belarus received the first (US$0.8 billion) and second (US$0.44 billion) tranches in June and December 2011, the third tranche (US$0.44 billion) in June 2012, the fourth (US$0.44 billion) and fifth (US$0.44 billion) tranches in June and April 2013, the sixth (US$0.2 billion) tranche in October 2018. Implementation of programme measures enabled the Republic of Belarus to decrease the deficit on its current account of balance of payments, stabilise the situation on the currency market, prevent a serious bank crisis, avoid disequilibrium of state finances and keep the population's employment level high.

On 25 March 2016, the EFSD took the decision to approve a new three-year programme for the Republic of Belarus, which was supported by a financial loan in the amount of US$2 billion. The loan will be granted in seven tranches subject to the fulfilment of conditions of the economic policy measure matrix and the structural transformations of the Government and the National Bank. As at the date of these Listing Particulars, the EFSD had granted six tranches in the aggregate amount of US$1.8 billion.

The EFSD programme includes measures directed at the macrofinancial stabilisation of economy, the creation of favourable conditions for the improvement of the business climate and the development of the private sector, and the reform of the goods and services market. Their successful implementation will promote the sequential liberalisation of prices, the cancellation of obligatory indicators for state enterprises, and better business initiative.

The performance of quantitative indices during the implementation of the EFSD programme will make it possible to increase gold and foreign currency reserves to at least 2 months of imports; decrease directed lending to 1.7 per cent of GDP; ensure the growth of the level of the payment of tariffs for housing and utility services by the population up to 70 per cent.; and meet the budget in the sector of state administrative bodies in its comprehensive definition on a debt-neutral basis.

IMF

The Republic of Belarus's membership in the IMF played an important role in the development of international financial relations, including financial and economic cooperation with foreign investors. In 1993 and 1995 at the first stages of transformation of Belarusian economy, credit resources of the IMF facilitated structural reforms in the economy, as well as made it possible to maintain the exchange rate. Due to the global economic crisis, the Republic of Belarus's relationship with the IMF became especially important.

For the purpose of supporting the balance of payment in the period of 2009-2010 the stand-by arrangement program was in effect in the Republic of Belarus. The loan amounted to US$3.5 billion.

In 2015, the Republic of Belarus settled the program liabilities towards the IMF. Implementation of the loan program made it possible to sort out the budget and tax policy, correct the exchange rate in combination with transition to a more flexible regime, toughen the credit policy, limit the scale of directed lending, commence the reforming of financial sector and structural transformations. The measures implemented brought down the influence of negative external factors on the Belarusian economy. Implementation of the national economic program was declared one of the best in the CIS region by the IMF Executive Director W. Kiekens.

In 2015-2017, the Government and the National Bank worked with the IMF on the issue of the new credit program within the framework of extended fund facility in order to support the reforming of the national economy. The maximum amount of access within the framework of this tool can reach 435 per cent. of the state quota in the IMF. The parties defined key elements of such program that are directed at increasing the effectiveness of the state enterprise sector, including strengthening budget and tax policy and the sustainability of state debt, pursuing a monetary, credit and exchange rate policy aimed at ensuring price and financial steadiness as well as strengthening stability of financial sector and intensifying its commitment to market principles.

Currently, the negotiations between the IMF and the Republic of Belarus concerning the extended fund facility program have been put on hold; however the consultative dialogue continues. The Republic of Belarus and the IMF do not have disagreements on the direction of the policy measures, aims and tasks; the question is in the speed of implementation of the number of structural measures, i.e. in tactics. The Republic of Belarus aims at a greater flexibility in policy terms and measures and is continuing its dialogue with the IMF.

In 2017, consultations of the Republic of Belarus and the IMF took place within the framework of Article IV of the IMF agreement; the credit program with the IMF was not discussed. The IMF's attention was focused on the current economic policy and forecast of the Belarusian economy's development for the coming years. On 13 December 2017, the report of the IMF staff was considered at the meeting of the IMF Board of Directors. In general, the IMF Executive Board members welcomed the positive economic changes in the Republic of Belarus and noted the successful actions of the authorities in terms of the decrease in inflation and the current account deficit, as well as the growth of gold and foreign exchange reserves. However, they noted that a number of risks and vulnerabilities for the economy remained and highlighted that additional efforts are necessary for achieving higher rates of growth.

The IMF Executive Board members mainly agreed with the staff on the evaluation trend, and noted the importance of further active interaction with the IMF. The IMF Executive Board members made a positive evaluation of the work done in strengthening financial stability, as well as the results of monetary policy and its inflation targeting. The main discussion was focused on the three issues: 1) speed of the structural reforms; 2) budget policy and management of the public debt with account of the broad interpretation of the budget deficit and public debt suggested by the staff; and 3) financial stability in the context of the still high dollarisation of the economy and the level the NPLs.

The Republic of Belarus continues to actively interact with the IMF. In the year ended 31 December 2018, the latter provided the Republic of Belarus with technical assistance in terms of improving the accuracy of government budget revenue projections and management of tax benefits. As part of the Government and the National Bank's programme of creating a problem asset market in the Republic of Belarus, the IMF provided technical assistance to upgrade legal and institutional foundations underlying that programme and ran a workshop featuring guest speakers from Poland, Hungary, China, and Germany. Another IMF mission paid a short-term visit to the Republic of Belarus at the beginning of July 2018 to perform a preliminary overview of the economic situation and prepare for annual Article IV consultations in November 2018.

The IMF revised the growth rate for the Republic of Belarus upwards in the World Economic Outlook published in October 2018. In 2019 and 2020, the IMF expects the economy to grow at a rate of 3.1 per cent. and 2.5 per cent., respectively. The visits of the mission under Article IV of the Articles of Agreement of the IMF take place annually.

IFC

The Republic of Belarus became the first independent state that formed after the collapse of the Soviet Union which joined the IFC in 1992. From 1992, the IFC has implemented more than 50 investment projects totalling approximately US$690 million in the Republic of Belarus. In the Republic of Belarus, the IFC is conducting both financial support to private sector organisations and advisory services to the Government in the areas of private sector development, business conditions improvement and SMEs support.

The IFC's strategy in the Republic of Belarus is focused on the following: improvement of the investment climate and assistance to development of private sector by means of supporting small and middle enterprises; assistance to development of private segment of banking sector by means of investing and counselling; assistance to development and modernisation of private companies in real sector by means of direct investments and technical examination with a special focus on manufacturing, agricultural business, and energy efficiency.

Investment projects in 2015-2017 were focused on manufacturing of construction materials (Alutech Group of Companies), food retail sale (Rublyovsky outlet chain), banking sector (Belarusky Narodny Bank, MTBank), commercial and residential property ("A-100 development", "Strominvest").

IFC is considering the possibility of expanding investment activities in the Republic of Belarus through:

- support projects based on public-private partnership mechanisms;
- financing projects in the banking sector of the Republic of Belarus;
- financing of projects aimed at supporting the development of the private sector, including through the trade finance line.

In addition to investment activities, IFC provides advisory assistance to the Government, organisations and private companies on issues related to improving the investment climate, the development of food exports.

During the implementation of the World Bank Group Partnership Strategy for 2014-2017 fiscal years, IFC invested US$75 million in the financial sector, retail trade in food, commercial and residential real estate, and in the production of building materials in the Republic of Belarus. In addition, IFC raised funds from other financial institutions in the amount of US$6 million and provided trade financing for US$155 million.

In 2017, the IFC continued to provide counselling assistance to the Government, other state bodies, organisations and private companies on issues related to improvement of investment climate, improvement of foodstuff safety control system, as well as rendering consultation services to bank institutions.

In 2018, the IFC drafted the new Advisory Program using grants to be received from the EU and Swedish International Development Authority.

Multilateral Investment Guarantee Agency

The Republic of Belarus has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1992. In July 2011, the Government of the Republic of Belarus and MIGA concluded the agreements on legal protection of guaranteed foreign investments and use of local currency. The agreements were ratified by the Republic of Belarus in May 2012. Ratification of agreements completed the fulfilment by the Republic of Belarus of the conditions of its membership in the MIGA and created legal basis that allows MIGA to apply its guaranteed obligations to the Republic of Belarus.

During the implementation of the World Bank Group's Partnership Strategy for 2014-2017 fiscal years, MIGA issued guarantees worth US$123 million (a project with Priorbank OJSC to provide guarantees in the financial sector).

In 2018, the Government approved the issue of a guarantee to the project implemented by Raiffeisen Bank International AG (investor) through Priorbank JSC in the amount of EUR142.5 million.

EBRD

The Republic of Belarus became a member of the EBRD in 1992. The total volume of financial resources provided by the EBRD for the period of 1992-2018 amounted to approximately EUR2.3 billion, from which about EUR516 million account for the current portfolio in 2017. In September 2016, the new EBRD strategy for the Republic of Belarus for 2016-2019 was approved, which does not stipulate any restrictions with regard to political and economic components in particular for the public sector. Approval of the fully-fledged Strategy made it possible to broaden the portfolio of the Bank's operations in the Republic of Belarus with regard to pre-privatisation assistance to state organisations and is expected to contribute to the expansion of the EBRD's activities in the Republic of Belarus.

Vice-Presidents of the EBRD Philip Bennett and Betsy Nelson (11 - 15 March 2017), President of the EBRD Suma Chakrabarti (12 - 14 September 2017, 3-4 March 2019), Vice-President of the EBRD Alain Pilloux (3 - 8 June 2018), Managing Directors of the EBRD (10 - 14 September 2018) visited the Republic of Belarus to discuss topical issues of cooperation at the highest level.

In 2018, the EBRD entered into agreements amounting to approximately EUR360 million, which exceeds the volume of transactions for 2017 (EUR163 million) by 2.3 times. At the same time the share of sovereign loans was approximately 35 per cent.

The EBRD is working to increase the competitiveness of the real sector of the economy work on the pre-privatisation support of organisations in the financial and real sectors of the economy. In particular, JSC Belinvestbank and JSC "Bank Dabrabyt" and a number of state-owned enterprises, including OJSC "Mostovdrev" and OJSC "Krinitsa".

On 14 September 2017, the credit agreement was signed to promote the capitalisation of Belinvestbank through the provision of a subordinated loan by the Republic of Belarus, providing for an external state loan of EUR50 million from the EBRD and a subordinated loan of the Republic of Belarus to Belinvestbank in the Tier 2 capital.

As part of the pre-privatisation assistance of JSC "Bank Dabrabyt" (previously known as JSC Bank Moscow-Minsk) on 27 June 2017, JSC "Bank Dabrabyt" and the EBRD signed agreements on the allocation of financial resources in the amount of up to US$19 million for lending to small and medium-sized businesses and trade finance.

The work in the area of pre-privatisation assistance to a number of real sector entities started in 2016. OJSC Baranovichi Cotton Production Amalgamation and OJSC Krinitsa are preparing to participate in EBRD program "Advice for small businesses", under which the grants are supposed to be given for actions increasing the efficiency of the enterprises. On 27 April 2018, a memorandum of understanding was signed between the Government and the EBRD on pre-privatisation assistance to OJSC Krinitsa. Conditions of the privatisation of OJSC Krasnoselskstroymaterialy are still under discussion and the EBRD will consider participating in the deal in case the resolution on selling the enterprise is approved.

On June 5, 2018 a Memorandum of Understanding was signed between the China-Belarus industrial park "The Great Stone" and the EBRD.

To assist the Government in improving the management of state property, restructuring and modernisation of organisations, on 13 September 2017, a memorandum of understanding was signed between the Government and the EBRD on improving the management of state-owned enterprises in the Republic of Belarus. The provisions of this memorandum are supposed to be implemented within two years and include drafting and implementing proposals on best international practices in corporate governance in organisations within the system of the State Property Committee and creating of a specialised managing structure (state corporation).

In addition, the EBRD continues to support the development of small and medium-sized businesses in the Republic of Belarus.

In 2017, DBRB and the EBRD signed a memorandum of understanding aimed to realise certain initiatives in various areas, including SMEs support, pre-privatisation and co-financing.

In addition, on 13 September 2017, an agreement was signed between the EU and the EBRD on the allocation of EUR6 million for the development of the Small Business Advisory Program in the Republic of Belarus, which began in 2011 and is intended to assist in the development of micro, small and medium-sized enterprises with the involvement of Belarusian and foreign consultants. As at 1 December 2018, 48 projects were launched in line with the agreement.

The total amount of financing by the EBRD to the private sector in 2018 made about EUR 244 million.

As part of efforts to improve the sustainability and quality of public infrastructure services, the EBRD is continuing to implement its current projects and started preparing new projects in the water supply and sanitation sector. As at the date of these Listing Particulars, five investment projects are implemented in public sector with EBRD financing in the total amount of EUR170.7 million. To fund three of these projects, the following loan agreements in the total amount of EUR 131.4 million were entered into in 2018, including:

- reconstruction of the section of the road P-80 Sloboda – Papernya, 0.000 kilometer – 14.770 kilometre;
- a solid waste project in Pukhovichi; and
- a frame program "Green Cities 2" and project "Reconstruction of Minsk waste water treatment plant".

In addition, the EBRD is actively developing a dialogue on developing the transit potential of the Republic of Belarus and managing the country's road economy. Work is underway to prepare a pilot project on the terms of a public-private partnership for the reconstruction of the section of the M-10 highway. On 26 November 2018, the Edict of the President of the Republic of Belarus No. 461 "On reconstruction of the automobile road" was adopted. The project roadshow was held in the EBRD's headquarters in London on 16 January 2019. As of the date of these Listing Particulars, prequalification documents on selecting a private partner are being prepared.

Among the most significant investment projects of the EBRD in the private sector in the Republic of Belarus are the following: Olivaria Brewery (granting of a loan and investment to charter capital of US$8 million); VMG Industry foreign limited liability company (loans for the total amount of up to EUR26.45 million); Heineken Breweries (loans of EUR5 million); "Stadler Belarus - rolling stock" project (volume of financing is EUR26 million); Kronospan MDF (loan of EUR100 million); Medin Group of Companies (of EUR4.16 million); Amtel: hotel complex (investments of US$50 million in the charter capital of Amtel Properties Development Ltd.); Minsk Soft Drink Factory CJSC (loan of EUR5 million); increasing incapacity of the current factory manufacturing chip boards and medium density fibreboard in Smorgon (EUR50 million); factories of Mark Formelle Group of Companies (loan for the total amount of EUR3.4 million); "Belarus:" Zubr Capital Fund - 1" (US$25 million) and others.

Eurasian Development Bank

The Republic of Belarus became a full member of Eurasian Development Bank ("**EDB**") in June 2008. The representative office of the EDB in Minsk commenced its work in November 2010. The Government and EDB entered into and started working on a Programme of investment interaction in 2018-2020. As at 1 January 2018, the investment portfolio of the EDB in the Republic of Belarus amounted to US$478 million. EDB mostly invests in the energy, transport, and industrial sectors, and employs trade finance tools in finance sector. Since the commencement of its activities in the Republic of Belarus, the EDB has implemented 26 projects valued at approximately US$980.0 million.

Organisation for Economic Cooperation and Development

On 26 January 2018, the position of the Republic of Belarus in the classification of the OECD on country credit risks was updated to reflect the transfer of the Republic of Belarus to the sixth credit risk group. The position of the Republic of Belarus in the classification has improved for the first time since 1999. Prior to that reclassification, for 19 years since its initial assessment, the Republic of Belarus has consistently been represented in the group of countries with the highest level of credit risk (seventh group).

The transfer of the Republic of Belarus to the sixth OECD classification group is expected to allow to reduce the insurance premiums on export credits provided by foreign banks to Belarusian importing enterprises, which in turn is expected to reduce the cost of credit for such companies.

Other institutions

The Republic of Belarus also currently implements a number of other projects together with international financial institutions and development banks, as well as carrying out its activities to expand cooperation with international financial institutions.

In September 2016, the European Commission took a decision on applying the mandate of European Investment Bank to the Republic of Belarus. On 15 May 2017, the Framework Agreement between the Republic of Belarus and the EIB, regulating the Bank's activities in the Republic of Belarus, was signed. The framework agreement was ratified by the Law of the Republic of Belarus No. 43-Z of 17 July 2017 and entered into force on 9 August 2017.

On 20-21 November 2018, EIB Vice-President Aleksander Stubb visited the Republic of Belarus. During the visit the respective credit agreements were signed for the following projects:

- Project "Reconstruction of Minsk waste water treatment plant": Minsk city executive committee reached an agreement with the EIB and the EBRD on the financing an infrastructure project "Reconstruction of Minsk waste water treatment plant" in accordance with which each of the EIB and the EBRD will fund EUR84 million, which represents 50 per cent. of the project; and

- Granting of credit lines to Belarusian banks for the purposes of SME financing. In particular, the EIB granted a credit line to JSC JSSB Belarusbank (EUR25 million) and JSC Belagroprombank (EUR50 million).

Additionally, the Belarusian party and the EIB are negotiating funding for the following investment projects:

- Project "Transport communication of Belarus": the Ministry of Transportation and Communications is negotiating a loan with the EIB in the amount of EUR110 million to realise an infrastructure project "Transport communication in Belarus" under which the EIB intends to realise the following components on account of raised credit resources:

- reconstruction and modernisation of the road M-7\E28 Minsk – Oshmyany – Border of Lithuania (Kamenny Log);
- modernisation of the infrastructure in the territory of the road border transition point "Kamenny Log".

- Project "Increasing the efficiency and quality of public utilities": the Ministry of Housing and Utilities Services is negotiating the possibility of funding from the World Bank and the EIB for the project "Increasing the efficiency and quality of public utilities". The World Bank is expected to grant financing in the amount of US$100 million for the project's components related to reconstruction and construction of water supply and sanitation facilities as well as solid waste treatment. The EIB is expected to grant financing in the amount of US$70 million for water supply and sanitation facilities.

- Project "Expanding sustainable energy use": the Department of Energy Efficiency of the State Standard jointly with the World Bank's representative office are preparing documents for raising World Bank and EIB resources totalling US$200 million for a joint project on expanding a sustainable energy use. The EIB is ready to take part in co-financing of the project in the amount of up to US$100 million.

The Republic of Belarus cooperates with NIB on the basis of the framework agreement entered into in 2010. In the Republic of Belarus NIB jointly with the EBRD is implementing a program on water sector. In particular, the respective credit agreement between the Republic of Belarus and NIB was concluded in December 2012 according to which the bank granted a loan of EUR21.2 million for financing the reconstruction of water treatment recovery plants in Brest and Grodno.

In 2015, the framework agreement between the Republic of Belarus and Nordic Environment Finance Corporation ("**NEFCO**") was ratified and became effective. Ratification of the framework agreement made it possible to commence counselling work in the field of preparation of agreements concerning certain facilities in the Republic of Belarus and determination of volumes of provided resources. At present the parties are defining the future projects which can be implemented using NEFCO funding. In January 2019, the Republic of Belarus agreed with NEFCO's proposal to grant credit resources amounting to EUR190,000 to the state forestry enterprise "Cherikov forestry enterprise" for the purpose of purchasing a mobile flaker in order to increase the volumes of bio-fuel production (chip fuel) on account of wood resources.

GROSS EXTERNAL DEBT

Gross external debt, at any given time, is defined as the outstanding amount of actual current and not contingent liabilities that require payments of principal and/or interest by the debtor at some point in the future and that are owed to non-residents by residents of any economy.

The following table sets forth certain information with respect to the Republic of Belarus gross external debt as at the dates indicated.

	As at 31 December				
	2014	2015	2016	2017	2018
			(US$ million)		
Gross External Debt of the Republic of Belarus	**40,023.8**	**38,258.5**	**37,516.5**	**39,929.3**	**39,043.8**
Short-term	**12,822.3**	**11,469.6**	**10,618.1**	**9,720.7**	**9,604.8**
Long-term	**27,201.5**	**26,788.9**	**26,898.4**	**30,208.6**	**29,439.0**
General Government Sector	**13,117.1**	**12,972.5**	**14,151.4**	**17,261.2**	**17,410.4**
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	13,117.1	12,972.5	14,151.4	17,261.2	17,410.4
Central Bank	**2,187.2**	**1,744.6**	**1,475.4**	**1,111.5**	**794.6**
Short-term	978.2	531.8	81.4	116.9	94.1
Long-term	1,209.0	1,212.8	1,394.0	994.6	700.5
Deposit Organisations, except for Central Bank	**7,381.4**	**6,442.1**	**5,914.9**	**4,492.3**	**4,892.3**
Short-term	2,423.9	2,187.2	2,075.6	1,248.8	1,769.7
Long-term	4,957.5	4,254.9	3,839.3	3,243.5	3,122.6
Other Sectors(1)	**15,636.0**	**15,363.1**	**14,141.5**	**15,035.6**	**13,910.9**
Short-term	9,420.2	8,750.6	8,461.1	8,355.0	7,741.0
Long-term	6,215.8	6,612.5	5,680.4	6,680.6	6,169.9
Direct Investment: intercompany financing	**1,702.1**	**1,736.2**	**1,833.3**	**2,028.7**	**2,035.6**
Gross External Debt/GDP, %(2)	**50.9**	**67.3**	**78.0**	**73.0**	**65.5**

Source: National Bank

Notes:

(1) Other sectors include (i) the other financial corporations, and (ii) nonfinancial corporations, households and non-profit institutions serving households (NPISHs). Financial corporations consist of all corporations that are principally engaged in providing financial services, including insurance and pension fund services, to other institutional units. The production of financial services is the result of financial intermediation, financial risk management, liquidity transformation, or auxiliary financial services. Non-financial corporations, households and non-profit institutions serving households (NPISHs) are corporations whose principal activity is the production of market goods or nonfinancial services; physical persons in structure of households; and NPISHs.

(2) Gross external debt in per cent. of GDP for the years ended 31 December 2014, 2015, 2016, 2017 and 31 December 2018. The annual GDP volume is calculated as the sum of figures in US dollars for the 12 preceding months.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Belarus of acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of these Listing Particulars and is subject to any change in law that may take effect after such date.

Belarusian Taxation

Non-Resident Legal Entities

Payments of Principal and Interest to Foreign Legal Entities

Under the Tax Code any payments of principal (upon redemption or at maturity) and interest in respect of the Notes payable by the Issuer (or by the Republic of Belarus in the event of enforcement of the Secondary Liability) to foreign legal entities that are not carrying out activities in the Republic of Belarus through a permanent establishment are subject to a zero (0) per cent. withholding tax rate regardless of whether they are beneficially entitled to such amounts or not.

Capital Gains of Foreign Legal Entities

Capital gains of foreign legal entities (that are not carrying out activities in the Republic of Belarus through a permanent establishment) from the sale of the Notes will either not be subject to taxation in the Republic of Belarus or be subject to a zero (0) per cent. withholding tax rate (regardless of whether they are beneficially entitled to such amounts or not), depending on whether or not such Notes are placed, circulated, traded, or deposited in the Republic of Belarus.

Corporate Income Tax

Foreign legal entities that do not have a permanent establishment in the Republic of Belarus will not be subject to corporate income tax in the Republic of Belarus with respect to payments of principal or interest relating to the Notes.

Foreign legal entities carrying out activities in the Republic of Belarus through a permanent establishment may be subject to an 18 per cent. corporate income tax in the Republic of Belarus in respect of income derived from the Notes and should consult their own tax advisers.

Resident Legal Entities

Belarusian legal entities may be subject to an 18 per cent corporate income tax in the Republic of Belarus in respect of income derived from the Notes and should consult their own tax advisers.

Resident and Non-Resident Individuals

Payments of Principal to and Capital Gains of Individuals

Payments of principal to and capital gains of individual Noteholders (whether resident or non-resident in the Republic of Belarus) in respect of the Notes are exempt from personal income tax in the Republic of Belarus under the Tax Code.

Payments of Interest to Individuals

Payments of interest accrued on the Notes to an individual Noteholder may be subject to Belarusian personal income tax (at a rate of 13 per cent. subject to reduction in accordance with an applicable double taxation treaty). However, personal income tax will not apply to the income of an individual Noteholder under certain conditions, for example, when such income is deemed to be paid without a connection to the Notes (for example, where an individual receives proceeds from the trust management of monetary funds, subject to the requirements of a particular trust or similar arrangement established by such an individual).

In the event that income of an individual Noteholder is subject to the personal income tax, a tax return may need to be filed in the Republic of Belarus as a result of receiving income under the Notes. Any individual investors should consult their tax advisers before purchasing any of, and before trading in, the Notes.

Gross-up

Condition 8 (*Taxation*) includes a gross-up provision in the event that any tax is withheld or deducted in the Republic of Belarus. The Tax Code generally permits one party to pay tax for another party from its own funds, which makes the obligation of the Issuer to pay in case of any withholding or deduction such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required generally enforceable in the Republic of Belarus. However, such statutory permission has only been in force since 1 January 2019 (and prior to that it had been temporarily introduced for the year ended 31 December 2018) and the tax authorities are silent as to the applicability of the above-mentioned permission to gross up and as to the validity of gross-up provisions generally. In the absence of any official interpretation or guidance and any practice regarding the validity of gross-up provisions, there is a remote risk that Condition 8 (*Taxation*) could be found to be unenforceable by the courts of the Republic of Belarus. If legislation of the Republic of Belarus imposes upon the Issuer an obligation to withhold tax and the gross-up obligation under Condition 8 (*Taxation*) is considered by the Issuer to be prohibited by Belarusian law, then amounts payable to Noteholders would be reduced by an amount equivalent to such taxation. There can be no assurance as to how a foreign judgment or an arbitral award demanding payment resulting from a failure to pay under the gross-up obligation under Condition 8 (*Taxation*) would be treated when it is to be enforced in the Republic of Belarus. See also "*Risk Factors—Risks relating to the Notes generally—Belarusian courts may not enforce gross-up obligations*".

United States Federal Income Taxation

The following is a summary of certain US federal income tax consequences of the purchase, ownership or disposition of the Notes by a US Holder (as defined below). The Issuer has not and will not seek any rulings from the US Internal Revenue Service (the "**IRS**") regarding the matters discussed below. There can be no assurance that the IRS will not take positions concerning the tax consequences of the purchase, ownership or disposition of the Notes that are different from those discussed below. This summary does not address, except as set forth below, aspects of US federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax exempt organisations, partnerships or other pass-through entities (or investors in such entities), dealers or traders in securities or currencies or to holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for US federal income tax purposes or that have a functional currency other than the US dollar, certain US expatriates, persons subject to the alternative minimum tax, US Holders who are required to include certain items of revenue in income no later than when such item is taken into account in their financial statements, US Holders who hold their Notes through non-US intermediaries, or holders that own (directly, indirectly or by attribution) 10% or more of the vote or value of the Issuer's stock. Moreover, this summary does not address non-US taxes, the US federal estate and gift tax, the Medicare tax on net investment income or the alternative minimum tax consequences of the purchase, ownership or disposition of the Notes, and does not address the US federal income tax treatment of holders that do not acquire the Notes as part of the initial distribution at their initial "issue price".

This summary is based on the US Internal Revenue Code of 1986, as amended (the "**Code**"), existing and proposed US Treasury Regulations, administrative pronouncements and judicial decisions, each as at the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations, which could affect the tax considerations described herein.

For purposes of this description, a US Holder is a beneficial owner of the Notes who for US federal income tax purposes is (i) an individual citizen or resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or any State thereof, including the District of Columbia; (iii) an estate the income of which is subject to US federal income taxation regardless of its source; or (iv) a trust that either (a) is subject to the supervision of a court within the United States and has one or more US persons with authority to control all substantial decisions or (b) has a valid election in effect under applicable Treasury regulations to be treated as a US person.

If a partnership (including any other entity or arrangement treated as a partnership for US federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax adviser as to the consequences of purchasing, owning or disposing of the Notes.

The following discussion does not purport to be legal advice to prospective investors generally or to any particular prospective investor. Prospective investors should consult their own tax adviser with respect to the US federal, state, local and non-US tax consequences of purchasing, owning or disposing of the Notes.

Interest

This section assumes that the Notes will be issued with no more than a de minimis amount of OID (as defined below). Therefore, the amount of any payments or accruals of stated interest on a Note including any additional amounts will be includible in a US Holder's gross income as ordinary interest income in accordance with the US Holder's usual method of tax accounting. A US Holder who generally reports taxable income using the accrual method of accounting must include payments of interest in income as they accrue. A US Holder who generally reports taxable income using the cash method of accounting must include payments of interest in income when actually or constructively received.

In addition to interest on the Notes, a US Holder must include any non-US tax withheld from the interest payment as ordinary interest income even though the US Holder does not in fact receive it and must include as ordinary income any additional amounts paid in respect of such tax withheld. For foreign tax credit purposes, interest on the Notes (including any additional amounts) will generally be treated as foreign source income for US federal income tax purposes and will be categorized as passive or general category income depending on the holder's specific circumstances. Prospective purchasers of Notes should consult their own tax advisers concerning the applicability of foreign tax credit and source of income rules attributable to the Notes.

Original Issue Discount

If the issue price of a Note is less than its principal amount by more than a de minimis amount, US holders will be subject to special US federal income tax rules with respect to this OID. OID will be considered to be de minimis if it is less than 0.25% of the principal amount multiplied by the number of complete years to maturity. US holders of Notes must include OID in income calculated on a constant yield method before the receipt of cash attributable to the income, and will generally have to include in income increasingly greater amounts of OID over the life of the Notes. US holders should consult their own tax advisers regarding the consequences of holding Notes that are treated as being issued with OID.

Sale, Exchange or Retirement

A US Holder will generally recognise gains or losses on the sale or other taxable disposition of a Note in an amount equal to the difference between the amount realised on the sale or other disposition and the US Holder's tax basis in the Note. A US Holder's tax basis in a Note generally will be the amount paid for the Note. Except to the extent attributable to accrued but unpaid interest (which will be taxable as ordinary income to the extent not previously included in income), gain or loss recognised on the sale or other disposition of a Note will be a capital gain or loss and will generally be treated as from sources within the United States. In the case of a US Holder that is an individual, estate or trust, the maximum marginal federal income tax rate applicable to capital gains is currently lower than the maximum marginal rate applicable to ordinary income if the Notes are held for more than one year. The deductibility of capital losses is subject to limitations under the Code. Any capital gains or losses that arise when a US Holder sells or disposes of a Note generally will be treated as US source income, or loss allocable to US source income, for foreign tax credit purposes. Therefore, a US Holder may not be able to claim a credit for any Belarusian taxes imposed upon a disposition of a Note unless the holder has sufficient other income from foreign sources and other requirements are met.

Further Issuances

The Issuer may, from time to time, without notice to or the consent of the holders of the outstanding Notes, create and issue additional debt securities with identical terms and ranking pari passu with the Notes in all respects, but the additional debt securities may not be fungible for US federal income tax purposes with the Notes issued in this offering. Additional debt securities may not be fungible unless they are issued in a "qualified reopening" of the issuance of the original Notes (within the meaning of the applicable US Treasury Regulations). Whether the issuance of additional debt securities is a "qualified reopening" will depend on certain factors, such as the interval after the original offering, the yield of the outstanding Notes at that time (based on their fair market value), whether the additional debt securities would otherwise be issued with OID, and whether any outstanding Notes are publicly traded or quoted at the time. If issuance of the additional debt securities is not a "qualified reopening", the additional debt securities may have OID. If such additional debt securities have OID, that may adversely affect the market value of the outstanding Notes unless the additional debt securities can be distinguished from the Notes.

Backup Withholding and Information Reporting

In general, payments of principal and interest on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to certain US Holders are subject to information reporting and may be subject to backup withholding, unless a US Holder provides an accurate taxpayer identification number or certification of exempt status or otherwise complies with the applicable backup withholding requirements.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will generally be allowed as a refund or credit against a US Holder's US federal income tax liability provided the holder timely submits the required information to the IRS.

US Holders should consult their own tax advisers regarding any filing or reporting requirements that may apply to their purchase, ownership and disposition of Notes.

Foreign Financial Asset Reporting

Certain US Holders who, during any taxable year, hold any interest in any "specified foreign financial asset" generally will be required to file with their US federal income tax returns a statement setting forth certain information if the aggregate value of all such assets exceeds $50,000. "Specified foreign financial asset" generally includes any financial account maintained with a non-US financial institution and may also include the Notes if they are not held in an account maintained with a US financial institution. Depending on the aggregate value of a US Holder's investment in specified foreign financial assets, the US Holder may be obligated to file IRS Form 8938 under this provision. Substantial penalties may be imposed and the period of limitations on assessment and collection of US federal income taxes may be extended, in the event of a failure to comply. Persons considering an investment in the Notes should consult with their own tax advisers as to the possible application to them of this filing requirement.

The above summary is for general information only, and is not intended to constitute a complete analysis of all tax considerations relating to the purchase, ownership and disposition of the Notes. Prospective purchasers of the Notes should consult their own tax advisers concerning the tax considerations to them in light of their particular situations.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and Raiffeisen Bank International AG (the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated 30 April 2019 (the "**Subscription Agreement**"), severally and not jointly, agreed with the Issuer, subject to the satisfaction of certain conditions to subscribe for the Notes in the amounts as follows:

	Principal amount of Notes
Citigroup Global Markets Limited	US$250,000,000
Raiffeisen Bank International AG	US$250,000,000
Total	**US$500,000,000**

The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to the closing of the issue of the Notes. The Issuer will also reimburse the Joint Lead Managers for certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain losses, including liabilities under the Securities Act, incurred in connection with the issue of the Notes.

The Joint Lead Managers and their respective affiliates may have engaged in transactions with the Issuer in the ordinary course of their banking business, including provision of loan financing, and the Joint Lead Managers may have performed various investment banking, financial advisory and other services for the Issuer, for which they receive customary fees, and the Joint Lead Managers and their respective affiliates may provide such services and receive such fees in the future.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and undertaken to the Issuer that it proposes to offer the Notes for resale (a) to persons they reasonably believe to be QIBs, within the meaning of Rule 144A under the Securities Act, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) in "offshore transactions" (as defined in Rule 902(k) under the Securities Act) in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Joint Lead Manager has represented and warranted to the Issuer and each other Joint Lead Manager that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Belarus

No action constituting an "advertisement" of the Notes may be undertaken in the Republic of Belarus. The Notes may not be offered to an unlimited number of persons in the Republic of Belarus.

Russian Federation

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer and each other Joint Lead Manager that the Notes will not be offered, transferred or sold as part of their initial distribution to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless and to the extent permitted by Russian law.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

General

Each Joint Lead Manager has acknowledged that no action has been or will be taken in any jurisdiction by it that would permit a public offering of the Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required.

Each Joint Lead Manager has undertaken to the Issuer that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes these Listing Particulars or any related offering material, in all cases at its own expense.

Persons into whose hands these Listing Particulars come are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession, or distribute such offering material, in all cases at their own expense.

TRANSFER RESTRICTIONS

Unrestricted Notes

Each purchaser of the Unrestricted Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of these Listing Particulars and the Notes, will be deemed to have represented, agreed and acknowledged that:

(a) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and:

(i) it is located outside the United States (within the meaning of Regulation S); and

(ii) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

(b) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except:

(i) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or

(ii) to the Issuer; or

(iii) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB,

in each case in accordance with any applicable securities laws of any State of the United States;

(c) it understands that the Issuer, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Notes represented by an interest in the Restricted Global Note Certificate may also be transferred to a person who wishes to hold such Notes in the form of an interest in the Unrestricted Global Note Certificate, but only upon receipt by the Registrar of a written certification from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any interest in a Note represented by the Unrestricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in a Note represented by the Restricted Global Note Certificate will, upon transfer, cease to be an interest in a Note represented by the Unrestricted Global Note Certificate and become an interest in a Note represented by the Restricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Notes represented by the Restricted Global Note Certificate.

Restricted Notes

Each purchaser of the Restricted Notes in reliance on Rule 144A, by accepting delivery of these Listing Particulars, will be deemed to have represented, agreed and acknowledged as follows (terms used in the following paragraphs that are defined in Rule 144A have the respective meanings given to them in Rule 144A):

(a) the purchaser is (a) a QIB, (b) acquiring the Notes for its own account or for the account of one or more QIBs, (c) not formed for the purpose of investing in the Notes or the Issuer and (d) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;

(b) the purchaser understands that (1) the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) pursuant to an effective registration statement under the Securities Act or (e) to the Issuer or any of its respective affiliates, in each case in accordance with any applicable securities laws of any State of the United States and (2) it will, and each subsequent Noteholder represented is required to, notify any purchaser of the Restricted Notes from it of the resale restrictions applicable to the Restricted Notes;

(c) the purchaser understands that the Restricted Global Note Certificate and any Restricted Individual Note Certificate will bear a legend to the following effect, unless the relevant Issuer determines otherwise in accordance with applicable law:

"THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) TO THE ISSUER, OR ITS AFFILIATES".

(d) if it is acquiring any Notes for the account of one or more QIBs the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

(e) the purchaser understands that the Issuer, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Upon the transfer, exchange or replacement of the Restricted Global Note Certificate or the Restricted Individual Note Certificates, or upon specific request for removal of the legend, the Issuer will deliver only the Restricted Global Note Certificate or one or more Restricted Individual Note Certificates that bear such legend or will refuse to remove such legend, unless there is delivered to the Issuer and the Registrar such satisfactory evidence (which may include a legal opinion) as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Any interest in the Restricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note Certificate will, upon transfer, cease to be an interest in the Restricted Global Note Certificate and become an interest in the Unrestricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in the Unrestricted Global Note Certificate.

Prospective purchasers that are QIBs are hereby notified that sellers of the Restricted Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

GENERAL INFORMATION

1. Authorisation.

The issue of the Notes has been authorised by the Resolution of the Supervisory Board No. 19 dated 11 June 2018, the Resolution of the Supervisory Board No. 30 dated 8 October 2018 and the Resolution of the Supervisory Board No. 11 dated 2 April 2019.

The issue of the Notes is within the limits established for the issue of bonds by the Issuer in the year of 2019 pursuant to the Resolution of the Council of Ministers and the National Bank No. 59/1 dated 29 January 2019 "On Determination of Limits of Volume of Issuance of Bonds of Joint-Stock Company "Development Bank of the Republic of Belarus" for the year 2019".

The Secondary Liability arises pursuant to Edict No. 261 and Edict No. 600.

2. Listing of Notes

Application has been made to Euronext Dublin to admit the Notes to listing on the Official List and to have the Notes admitted to trading on the Global Exchange Market. It is expected that admission of the Notes to the Official List and to trading on the Global Exchange Market will be granted on or before the Issue Date, subject only to the issue of the Notes.

3. Listing Agent

Walkers Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the Global Exchange Market for the purposes of the Prospectus Directive.

4. Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the previous 12 months which may have, or have had in the recent past, a significant effect on the Issuer's financial position.

Other than as disclosed in "*The Economy of the Republic of Belarus—Litigations*", the Republic of Belarus is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Republic of Belarus is aware) during the previous 12 months which may have, or have had in the recent past, a significant effect on its financial position.

5. Significant Change

Since 31 December 2018, there has been no material adverse change in the prospects of the Issuer nor has there been any significant change in the financial or trading position of the Issuer and its Subsidiaries since 31 December 2018.

Since 31 December 2018, there have been no significant changes relating to the tax and budgetary systems, gross public debt, foreign trade and balance of payment figures, foreign exchange reserves, financial position and resources and income and expenditure figures of the Republic of Belarus.

6. Documents Available for Inspection

For as long as the Notes are listed on the Official List of Euronext Dublin and admitted to trading on the Global Exchange Market, physical copies of the following documents will be available for inspection from the specified office of the Principal Paying Agent in London:

(a) the Listing Particulars and any supplement thereto;

(b) the constitutive documents of the Issuer;

(c) the Agency Agreement and the Trust Deed; and

(d) the audited annual consolidated financial statements of the Issuer as of and for the years ended 31 December 2018, 31 December 2017, and 31 December 2016.

For the life of these Listing Particulars, electronic copies of the Law of the Republic of Belarus "On the Republican Budget for the Year 2019" of 30 December 2018 No. 160-Z (in the Russian language) may be obtained from the national legal website of the Republic of Belarus (www.pravo.by). No English translation of such budget law is available.

In addition, these Listing Particulars will be available, in electronic format, on the website of Euronext Dublin (www.ise.ie).

7. Language

The language of these Listing Particulars is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

8. Websites

Any reference to websites in these Listing Particulars is for information purposes only, and such websites shall not form any part of these Listing Particulars.

9. Interested Persons

No person involved in the Offering has any interest in the Offering which is material to the Offering.

10. Yield

The yield to maturity of the Notes is 6.75 per cent. The yield to maturity is calculated as at the pricing date on the basis of the Issue Price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes. It is not an indication of future yield.

11. Delivery of Global Note Certificates

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC.

Unrestricted Notes	ISIN: XS1904731129 Common Code: 190473112
Restricted Notes	ISIN: US25161EAA91 Common Code: 198800759 CUSIP: 25161E AA9

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Joint-Stock Company
“Development Bank of the Republic of Belarus”

Consolidated Financial Statements
for the year ended 31 December 2018
and Independent Auditors’ Report

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KPMG

Independent Auditors' Report

To the Shareholders and Management of Joint-Stock Company "Development Bank of the Republic of Belarus"

Opinion

We have audited the consolidated financial statements of Joint-Stock Company "Development Bank of the Republic of Belarus" (hereinafter referred to as "the Development Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2018 and Notes, comprising of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018 as well as its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Belarus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses allowance for loans to customers

See Notes: 7 "Movement of allowances for impairment of financial instruments"; 13 "Loans to Customers" and 23 "Risk Management".

The key audit matter	How the matter was addressed in our audit
Loans to customers represent 57% of assets and are stated net of allowance for expected credit losses (hereinafter, the "ECL") that is estimated on a regular basis and is sensitive to assumptions used.	We analyzed the key aspects of the Group's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of financial risks management specialists.
From 1 January 2018 the Group has implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:	To analyze the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate we included in our audit procedures the following:
– timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 Financial Instruments (hereinafter, "IFRS 9"));	– we tested the design and operating effectiveness of internal controls over timely allocation of loans into credit risk stages. – for a sample of loans estimated for ECL collectively on the basis of internal rating model, for which a potential change in ECL estimate may have a significant impact on the consolidated financial statements, we tested whether stages are correctly assigned by the Group by analyzing financial and non-financial information, as well as assumptions and professional judgments applied by the Group.
– assessment of probability of default (PD) and loss given default (LGD);	– for loans to customers assigned to Stages 1 and 2, where ECL are assessed collectively, we tested the design and implementation of the related models, and reconciled the model input data against the primary documents on a sample basis.
– assessment of add-on adjustment to account for different scenarios and forward-looking information;	– we analyzed the overall adequacy of the add-on adjustment to account for different scenarios and forward-looking information by comparison with our own estimate considering current and future economic situation and business environment of certain categories of borrowers.
– expected cash flows forecast for loans to customers classified in Stage 3 and those purchased or originated credit-impaired loans.	– for a sample of Stage 3 purchased or originated credit-impaired and loans, where ECL are assessed individually, we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from

Due to the significant volume of loans to customers, adoption of the new ECL model and the related ECL allowance estimation uncertainty, this area is a key audit matter.	realisable collateral and their expected disposal terms based on our understanding and publicly available market information. We specifically focused on those loans to customers that potentially may have the most significant impact on the financial statements. We assessed the predictive capability of the Group's ECL valuation models by comparing the estimates made as at 1 January 2018 with the actual results for 2018. We also confirmed that the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

Adoption of IFRS 9 Financial instruments by the Bank from 1 January 2018

See Notes: 5 "Transition to IFRS 9"; 7 "Movement of allowances for impairment of financial instruments".

The key audit matter	How the matter was addressed in our audit
The core operations of the Group are related to transactions with financial instruments, with financial assets representing the major part of the Group's assets. From 1 January 2018, the Group has adopted a new standard for financial instruments, IFRS 9, which provides significant changes to the classification and recognition of financial assets. Due to the adoption of new requirements, which provide significant changes to the effective accounting principles for financial instruments, and due to a significant impact of the new standard on the consolidated financial position and performance of the Group, this area is a key audit matter.	We analysed the definition of business models used by the Group to manage financial assets by making inquiries of responsible employees, reviewing the Group's internal documentation and analyzing internal business processes on selected significant financial instruments portfolios. We checked the correctness of the Group's assessment of whether contractual cash flows are solely payments of principal and interest by analyzing primary documents and contractual terms for a sample of financial instruments. We also checked whether the Group has correctly identified and accounted for significant modifications of loans to customers by both a general analysis of the main areas of focus in the Bank's revision of loan terms and the analysis of primary documents for sampled loans to customers. We also confirmed that the consolidated financial statements provide an adequate disclosure of key financial instruments classification and measurement aspects as well as the effect of the adoption of IFRS 9 by the Group.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's consolidated financial reporting process.

Auditors' Responsibility for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention

in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosure, and whether the consolidated financial statements present the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Irina Vereschagina

Partner

Director of KPMG LLC

1 April 2019

Minsk

Republic of Belarus

Consolidated Statement of Financial Position

In thousands of Belarusian Rubles	**Notes**	**31 December 2018**	**31 December 2017 restated***
Assets			
Cash and cash equivalents	10	43 134	68 112
Due from banks	11	557 904	465 150
Investment securities	12	2 350 879	1 727 808
including those pledged under repurchase agreements		*87 751*	*40 060*
Loans to customers	13	4 471 265	3 578 120
Investment property	14	4 840	20 920
Property and equipment and intangible assets	15	97 617	88 732
Current income tax asset		4 344	3 704
Deferred income tax asset	9	7 980	35 520
Other assets	16	338 482	156 904
Total assets		**7 876 445**	**6 144 970**
Liabilities			
Due to banks	17	2 273 134	1 495 630
Customer accounts	18	965 064	630 437
Debt securities issued	19	1 922 924	1 887 880
Government grants	20	522 466	372 830
Current income tax liability		4 693	4 795
Deferred income tax liability	9	2 371	15 993
Other liabilities	21	58 519	32 041
Total liabilities		**5 749 171**	**4 439 606**
Equity			
Share capital	22	1 696 694	1 451 694
Foreign currency translation reserve		26	784
Fair value reserve of investment securities		968	199
Retained earnings		331 087	177 143
Total equity attributable to the shareholders of the Development Bank		**2 028 775**	**1 629 820**
Non-controlling interest	28	98 499	75 544
Total equity		**2 127 274**	**1 705 364**
Total liabilities and equity		**7 876 445**	**6 144 970**

** The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).*

The notes on pages 14-101 form an integral part of these consolidated financial statements.

On behalf of the Management:

A.K. Zhishkevich
Chairman of the Management Board

M.A. Arlouskaya
Chief Accountant

Minsk
1 April 2019

Consolidated Statement of Comprehensive Income

In thousands of Belarusian Rubles	Notes	For the year ended 31 December 2018	For the year ended 31 December 2017 restated*
Interest income calculated using effective interest rate method	6	475 221	418 450
Other interest income	6	53 459	36 043
Interest expenses	6	(148 646)	(102 421)
Net interest income		**380 034**	**352 072**
Fee and commission income		9 093	3 076
Fee and commission expenses		(1 930)	(4 897)
Net fee and commission income/(expenses)		**7 163**	**(1 821)**
Net gain/(loss) on derivative financial instruments		372	(110)
Effect of initial recognition of financial instruments at fair value	13	(23 815)	(56 915)
Net income from foreign exchange operations		9 677	10 297
Net (loss)/gain on securities transactions		(259)	973
General administrative expenses	8	(78 188)	(59 304)
Recovery of allowance for impairment of financial instruments	7	64 904	4 972
Net other income		26 653	9 470
Non-interest expenses		**(656)**	**(90 617)**
Income from wholesale trade of subsidiaries		93 705	67 218
Cost of wholesale trade of subsidiaries		(91 412)	(64 190)
Income from non-banking transactions		**2 293**	**3 028**
Profit before tax		**388 834**	**262 662**
Income tax expenses	9	(61 713)	(34 318)
NET INCOME FOR THE YEAR		**327 121**	**228 344**
TOTAL NET INCOME FOR THE YEAR, ATTRIBUTABLE TO			
Shareholders of the Development Bank		317 532	217 130
Non-controlling interest		9 589	11 214
Basic earnings per share (BYN)	32	2,36	1,73
Diluted earnings per share (BYN)	32	2,36	1,73

Consolidated Statement of Comprehensive Income (continued)

In thousands of Belarusian Rubles	**Notes**	**For the year ended 31 December 2018**	**For the year ended 31 December 2017 restated***
NET INCOME FOR THE YEAR		**327 121**	**228 344**
Other comprehensive income			
Other comprehensive income, that may be subsequently reclassified to profit or loss:			
(Accrual)/recovery of fair value reserve of investment securities		(30 859)	199
Expected credit losses		9 978	-
Related deffered income tax asset	9	8 389	-
(Accrual)/recovery of foreign currency translation reserve		(1 040)	1 069
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME		**(13 532)**	**1 268**
TOTAL COMPREHENSIVE INCOME		**313 589**	**229 612**
TOTAL COMPREHENSIVE INCOME, ATTRIBUTABLE TO			
Shareholders of the Development Bank		304 282	218 109
Non-controlling interest		9 307	11 503
TOTAL COMPREHENSIVE INCOME		**313 589**	**229 612**

** The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).*

The notes on pages 14-101 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of Belarusian Rubles	**Notes**	**Share capital**	**Foreign currency translation reserve**	**Fair value reserve of investment securities**	**Retained earnings**	**Total equity attributable to the shareholders of the Development Bank**	**Non-controlling interest**	**Total**
Balance as at 1 January 2017		**1 451 694**	4	**-**	**29 212**	**1 480 910**	**64 041**	**1 544 951**
Total comprehensive income								
Net income for the year		-	-	-	217 130	217 130	11 214	228 344
Other comprehensive income, that may be subsequently reclassified to profit or loss		-	780	199	-	979	289	1 268
Total comprehensive income for the year		**-**	**780**	**199**	**217 130**	**218 109**	**11 503**	**229 612**
Transactions with shareholders of the Development Bank								
Distribution of profit from the family capital fund management	18	-	-	-	(36 275)	(36 275)	-	(36 275)
Dividends paid	22	-	-	-	(32 924)	(32 924)	-	(32 924)
Total transactions with shareholders of the Development Bank		**-**	**-**	**-**	**(69 199)**	**(69 199)**	**-**	**(69 199)**
Balance as at 31 December 2017		**1 451 694**	**784**	**199**	**177 143**	**1 629 820**	**75 544**	**1 705 364**

Consolidated Statement of Changes in Equity (continued)

In thousands of Belarusian Rubles	Notes	Share capital	Foreign currency translation reserve	Fair value reserve of investment securities	Retained earnings	Total equity attributable to the shareholders of the Development Bank	Non-controlling interest	Total
Balance as at 31 December 2017 restated*		**1 451 694**	**784**	**199**	**177 143**	**1 629 820**	**75 544**	**1 705 364**
Impact of adopting IFRS 9	5	-	-	13 261	(74 739)	(61 478)	13 648	(47 830)
Restated balance as at 1 January 2018		**1 451 694**	**784**	**13 460**	**102 404**	**1 568 342**	**89 192**	**1 657 534**
Total comprehensive income/(loss)								
Net income for the year		-	-	-	317 532	317 532	9 589	327 121
Other comprehensive loss, that may be subsequently reclassified to profit or loss		-	(758)	(12 492)	-	(13 250)	(282)	(13 532)
Total comprehensive income/(loss) for the year		**-**	**(758)**	**(12 492)**	**317 532**	**304 282**	**9 307**	**313 589**
Transactions with shareholders of the Development Bank								
Contributions to share capital	22	245 000	-	-	-	245 000	-	245 000
Distribution of profit from the family capital fund management	18	-	-	-	(55 318)	(55 318)	-	(55 318)
Dividends paid	22	-	-	-	(33 531)	(33 531)	-	(33 531)
Total transactions with shareholders of the Development Bank		**-**	**-**	**-**	**(88 849)**	**(88 849)**	**-**	**(88 849)**
Balance as at 31 December 2018		**1 696 694**	**26**	**968**	**331 087**	**2 028 775**	**98 499**	**2 127 274**

** The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).*

The notes on pages 14-101 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

In thousands of Belarusian Rubles	**For the year ended 31 December 2018**	**For the year ended 31 December 2017 restated***
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	505 015	453 737
Interest paid	(141 195)	(98 762)
Fees and commission received	9 073	3 136
Fees and commission paid	(1 678)	(4 811)
General administrative expenses	(71 214)	(55 752)
Other receipts, net	12 739	18 880
	312 740	**316 428**
(Increase)/decrease in operating assets		
Due from banks	(90 796)	(150 359)
Loans to customers	(756 522)	(418 200)
Derivative financial instruments	372	(110)
Other assets	(208 930)	(64 305)
Increase/(decrease) in operating liabilities		
Due to banks	599 544	415 386
Customer accounts	278 814	(116 296)
Government grants	151 784	142 434
Other liabilities	18 868	3 366
Net cash inflow from operating activities before tax	**305 874**	**128 344**
Income tax paid	(19 782)	(13 141)
Net cash inflow from operating activities	**286 092**	**115 203**
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investment securities	1 219 221	1 259 152
Purchase of investment securities	(1 777 621)	(1 409 312)
Acquisition of property and equipment and intangible assets	(15 992)	(19 824)
Proceeds from disposal of property and equipment and intangible assets	104	86
Sale of investment property	23 570	
Net cash outflow from investing activities	**(550 718)**	**(169 898)**

Consolidated Statement of Cash Flows (continued)

In thousands of Belarusian Rubles	**For the year ended 31 December 2018**	**For the year ended 31 December 2017 restated***
CASH FLOWS FROM FINANCING ACTIVITIES (NOTE 31)		
Issue of shares	245 000	-
Proceeds from issue of debt securities	535 829	303 833
Repayment of debt securities	(510 876)	(246 283)
Dividends paid	(33 531)	(32 924)
Net cash inflow from financing activities	**236 422**	**24 626**
Net cash and cash equivalents outflow	**(28 204)**	**(30 069)**
Effect of exchange rate fluctuations on cash and cash equivalents	3 226	(726)
Cash and cash equivalents at the beginning of the period (Note 10)	68 112	98 907
Cash and cash equivalents at the end of the period (Note 10)	**43 134**	**68 112**

** The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).*

The notes on pages 14-101 form an integral part of these consolidated financial statements.

1. Principal activities

These consolidated financial statements include the financial information of Joint-Stock Company “Development Bank of the Republic of Belarus” (hereinafter referred to as “Development Bank” or JSC “Development Bank of the Republic of Belarus”) and consolidated financial information of the Development Bank’s subsidiaries – Joint-Stock Company “Promagroleasing” (hereinafter referred to as JSC “Promagroleasing”) and Unitary Enterprise “BR-Consult” (hereinafter collectively referred to as “the Group”).

State registration of Joint-Stock Company “Development Bank of the Republic of Belarus” was performed on 1 August 2011 in accordance with the Edict of the President of the Republic of Belarus No. 261 “On establishment of Joint-Stock Company “Development Bank of the Republic of Belarus” dated 21 June 2011 (hereinafter referred to as Edict No. 261). Since 5 August 2016, the Development Bank is subject to a number of requirements of the National Bank of the Republic of Belarus (hereinafter – “the National Bank”) regarding the supervision provided for banks and non-banking financial institutions.

Financing of investment projects in the framework of state programs and activities is carried out in accordance with the annual financing plan. The financing plan of the Development Bank in 2018 was approved by Resolution of the Council of Ministers of the Republic of Belarus No. 200 dated 15 March 2018 as amended. Formation of the financing plan is carried out in two directions: directed lending and non-directed lending. As part of the implementation of the IMF conditions for a gradual reduction in directed lending to the economy, the limits of directed lending to banks and the Development Bank in 2018 were approved by Resolution of the Council of Ministers of the Republic of Belarus No. 1046 dated 29 December 2017, as amended.

Legal address of the Development Bank: 35 Masherova Ave., Minsk, Republic of Belarus.

The core activity of the Development Bank is the financing of investment projects and activities undertaken to acquire goods for further transfer under finance lease according to decisions of the President of the Republic of Belarus and/or the Government of the Republic of Belarus, as well as those included in programs approved by the President of the Republic of Belarus and/or the Government of the Republic of Belarus i.e. development of the financing system of state programs and activities.

In August 2014 the Development Bank initiated a program of financial support for small and medium-sized enterprises, the program is carried out with the assistance of partner banks - residents of the Republic of Belarus. Starting from 2015 the Development Bank manages the funds of family capital in accordance with the Edict of the President of the Republic of Belarus No. 572 “On additional measures of state support for families with children” dated 9 December 2014 (hereinafter - Edict No. 572).

The Development Bank performs the following banking transactions:
- funding of projects included in state programs and activities;
- attraction of budget funds into deposits;
- opening and keeping correspondent and other accounts, which are directly related to the tasks to be executed by the Development Bank and operations related thereto;
- opening and keeping special accounts for legal entities participating in state programs and events in order to accumulate funds intended to repay the debt to the Development Bank, as well as to repay a part of loan interests from the budget funds;
- non-cash settlements through correspondent and other accounts opened in the name of the Development Bank in the National Bank and other banks;

- foreign transactions directly related to the tasks to be executed by the Development Bank, and its operations;
- granting export loans for the amount not less than 1 million US dollars to organizations residents of the Republic of Belarus to acquire goods from other residents of the Republic of Belarus and lease them out to non-resident organizations of the Republic of Belarus, as well as to non-resident organizations of the Republic of Belarus, including foreign banks, to pay or to prepay for goods (works, services) acquired from residents of the Republic of Belarus;
- special accounts opening and keeping for entities in accordance with the Edict of the President of the Republic of Belarus dated 2 April 2015 No. 146 “On the financing of the purchase of modern technology and equipment” as amended and supplemented;
- special accounts opening and keeping for woodworking companies in accordance with the Edict of the President of the Republic of Belarus dated 24 June 2015 No. 257 “On issues associated with acquisition of banks’ assets, which arose from lending to woodworking companies, and on defining of limit of internal public debt” (hereinafter – “woodworking companies”).

In accordance with the provisions of Edict No. 261 the Development Bank does not need to receive special permission (license) for performing banking activities in order to perform the above transactions.

The Development Bank has a license to carry out professional and exchange activities in the securities market.

The Bank is the parent company of Unitary Enterprise “BR-Consult” (hereinafter – UE BR-Consult). The percentage of ownership as at 31 December 2018 and 31 December 2017 was 100%. Unitary Enterprise “BR-Consult” manages the shares of woodworking companies owned by the Republic of Belarus.

Unitary Enterprise “BR-Consult” is a parent company of Limited Liability Company “BR-Forest” (hereinafter referred to as LLC “BR-Forest”) with a 100% ownership interest. LLC “BR-Forest” was registered on 31 May 2017 and provides timber logging services to enterprises of the woodworking industry in the Republic of Belarus.

Unitary Enterprise “BR-Consult” is a parent company of Limited Liability Company “BR-Wood” (hereinafter - LLC “BR-Wood”) with a 100% ownership interest. LLC “BR-Wood” was registered on July 17, 2018 and is engaged in organizing new sawing and pellet productions.

The Development Bank is a parent company of JSC “Promagroleasing”. As at 31 December 2018 and 31 December 2017 the share was 83,07% and 72,93%, respectively. JSC “Promagroleasing” renders leasing services.

JSC “Promagroleasing” is a parent company of the following subsidiaries:

Name	**Country of registration**	**Type of business activity**	**Ownership**
LLC “Promagroleasing-Center”	Russian Federation	Financial leasing	100%
LLC “Promagroleasing-Ukraine”	Ukraine	Financial leasing	100%
LLC “Oblmehotryad”	Republic of Belarus	Agriculture	100%

The average number of employees of the Group for the year ended 31 December 2018 and the year ended 31 December 2018 was 746 and 623 employees, respectively.

Information on the shareholders of the Development Bank is presented below:

Name	31 December 2018 Share (%)	31 December 2017 Share (%)
Council of Ministers of the Republic of Belarus	96,212	95,473
JSC “Belaruskali”	3,776	4,513
National Bank	0,012	0,014
Total	**100,000**	**100,000**

Certain matters of corporate governance

In 2016, the National Bank introduced banking supervision over the activities of the Development Bank. In this regard, the Development Bank has improved the system of corporate governance primarily in accordance with the requirements of the National Bank regarding banking supervision. In addition, the methodological procedures were developed taking into account international documents on corporate governance recommended by the Basel Committee on Banking Supervision, the Organization for Economic Cooperation and Development, the International Finance Corporation, the documents of the State Property Committee of the Republic of Belarus, and best practices for building effective corporate governance in organizations.

The corporate governance system of the Development Bank is aimed at maintaining its financial stability and ability to operate on a long-term basis as a loss-free financial organization.

The Development Bank has an institution of independent directors and the committees of the Supervisory Board are established for preliminary consideration of the most important issues within the competence of the Supervisory Board. As at 31 December 2018 the Supervisory Board of the Development Bank consisted of 5 independent directors (62,5 per cent of the Supervisory Board). Four committees of the Supervisory Board operate under the leadership of the independent directors of the Development Bank:
- Risk Management Committee;
- Audit Committee;
- Strategic Development Committee;
- Committee on Budget, Remunerations and Appointments.

The Risk Management Committee performs internal monitoring of the implementation of the Strategic Development Plan of the Development Bank and decisions of the Supervisory Board, taken in relation to the Development Bank's risks, internal monitoring of the state and development of the Development Bank's risk management system, risk profile and tolerance indicators of risks specific for the Development Bank, performs assessment of the effectiveness of risk management at the Development Bank, takes decisions on the risks within its authority defined by the Supervisory Board, submits to the Supervisory Board recommendations on risk management, proposals for improving the risk management system and reports on the risk management status and the Development Bank’s risk level. The majority of the above functions is also conducted by the Risk Management Committee in respect of the Group.

The Audit Committee is responsible for considering the issues of the internal control system operation on a consolidated basis, for providing of the proper operation of the Internal Audit Sector of the Development Bank, choosing of an audit organization that performs an external audit of the Development Bank and interaction with this organization. The Committee submits to the Supervisory Board reports on the functioning of the internal control system and on activities of Internal Audit Sector.

Strategic Development Committee conducts preliminary consideration of the draft of the development strategy of the Development Bank, indicative performance indicatiors for the Development Bank with further consideration of the reports on their implementation and performance, strategy in the area of supporting of small and medium enterprises, elaborates proposals on its improvement , monitors its performance and evaluates the prospects of further development of this area, agrees the concepts of developing new areas in Development Bank's operation. The Committee issues recommendations on improving approaches to family capital management and performs other functions.

The Committee on Budget, Remunerations and Appointments considers the financial planning and monitoring of budget execution, support, development and improving of corporate governance, selection and assessment of the candidates to the Supervisory Board, arranging of annual self-assessment of the efficiency of the Supervisory Board and its members activities, formation of remuneration and compensation systems and defining the order of its application, as well as all forms of labour remuneration and payments used in the Development Bank as determined by labour remuneration system subject to legislation requirements.

The Development Bank applies unified methods of organizing and improving the Group's corporate governance system taking into account the scope, nature and goals of the Group's members.

Belarusian business environment

The Group’s operations are primarily located in Belarus. Consequently, the Group is exposed to the economic and financial markets of Belarus, which display emerging market characteristics. The legal, tax and regulatory frameworks continue to develop but are subject to varying interpretations of their requirements and frequent changes, which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Belarus. The monetary policy regulations adopted by the National Bank and effective over the past two years, have resulted in reduced inflation and a less-volatile Belarusian Ruble. However, the fairly recent devaluation of the Belarusian Ruble and the subsequent period of high inflation still leads to a certain level of uncertainty in the business environment.

The consolidated financial statements reflect management’s assessment of how the Belarusian business environment has impacted the operations and financial position of the Group. The business environment in the future may differ from management’s assessment.

2. Basis of presentation

Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”).

These consolidated financial statements have been prepared on the Group’s going concern assumption. The Management believes that the going concern assumption is appropriate for the Group due to sufficient capital adequacy ratio (Note 24), and that on the basis of previous experience, short-term liabilities will be refinanced in the medium course of business.

Functional currency and presentation currency

The functional currency of each consolidated entity of the Group is the currency of the country where the entity performs its main activity. The functional currency of the Development Bank, JSC “Promagroleasing”, LLC “Oblmekhotryad”, UE “BR-Consult”, LLC “BR-Forest” and LLC “BR-

Wood" is Belarusian Ruble. The presentation currency of these consolidated financial statements of the Group is Belarusian Ruble.

These consolidated financial statements are presented in thousands of Belarusian Rubles (hereinafter – thousands of Rubles or thousands of Belarusian Rubles).

Basis of measurement

These consolidated financial statements are prepared on the historical cost basis, except for the records on the investment securities that are measured at fair value through other comprehensive income and derivative financial instruments that are measured at fair value.

Use of estimates and judgements

In preparing these consolidated financial statements, management has made professional judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

Applicable to 2018 only:
- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 4.
- information on establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL is presented in Note 23.

Applicable to 2018 and 2017:
- to determine Levels of fair value hierarchy the Group uses judgment with regard to the definition of an active market. The description of measurement methods and key input data for financial instruments carried at fair value is presented in Note 26.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the consolidated financial statements for the year ended 31 December 2018 includes in the following.

(a) Impairment of financial instruments

Applicable to 2018 only:

Assessment of whether credit risk on the financial asset has increased significantly since its initial recognition and incorporation of forward-looking information in the measurement of ECL – Note 23.

Applicable to 2017 only:

Impairment allowances for individually assessed loans are defined based on specific assessment and constitute the most reliable assessment of the Group’s management as for future cash flows, which are expected to be received by the Group.

Loan impairment occurs as a result of one or many events happening after loan’s initial recognition that have influence on expected future cash flows, which can be assessed with a reasonable degree of reliability. Objective indications of impairment include:

- delayed payments on loan agreement;
- significant deterioration in financial position of a borrower;
- deterioration in business environment, negative changes in the borrower’s markets;
- provision of a borrower with concessions economically or legally connected with the borrower's financial difficulties that would not otherwise be provided;
- probability of bankruptcy or other financial reorganizations of a borrower.

Impairment allowances for collectively assessed loans are defined based on available information on decrease of expected future cash flows on the group of financial assets. The Group’s judgements about estimated losses are based on the past performance, the past customer behavior, the credit quality of counterparties and general economic conditions, which are not necessarily indications of future losses (Note 13).

(b) Determination of fair value of investment securities

The Group measures the fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for identical instruments.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as the prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of investment financial assets is based on quoted market prices or over-the-counter price quotations. Determination of fair value of financial instruments, which have no active market, is less objective and requires use of judgments based on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments, for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting independently of each other.

(c) Determination of fair value of assets raised on terms other than market ones

Bonds acquired by the Group within government programs of support of branches of the economy due to the specifics of state lending programs and issuer types, form a separate market segment. Therefore, the Management believes that the contractual interest rates are market rates for such bonds, and therefore the Group recognizes bonds at fair value upon initial recognition, which is equal to the nominal value.

Loans acquired by the Group from other state-owned banks and those issued by the Group in accordance with the resolutions of state authorities, not having similar financial instruments in the market, were granted under state programs, and due to their uniqueness, as well as the specifics of state lending program and final borrower types, form a separate market segment. Therefore, the Management believes that the contractual interest rates are market rates for such loans, and therefore the Group recognizes loans at fair value upon initial recognition, which is equal to the nominal value.

Loans issued by the Group to other banks within the frames of financial support programs to small and medium entities and within the frames of programs of financing woodworking companies by other banks do not have similar financial instruments in the market, were granted under state programs and the resolutions of state authorities, and due to their uniqueness, as well as the specifics of state lending program and end counter-party types, form a separate market segment. Therefore, the Management believes that the contractual interest rates are market rates for such loans, and therefore the Group recognizes loans at fair value upon initial recognition, which is equal to the nominal value.

Loans issued by the Group directly to the woodworking companies are recognized at fair value upon initial recognition. The fair value of loans is calculated based on the expected future cash flows at a discount rate reflecting the current market assessment of the temporary value of cash and the risks for these loans. The difference between the nominal value and fair value at initial recognition is recorded in the item “Effect of initial recognition of financial instruments at fair value” of the consolidated statement of comprehensive income.

(d) Determination of fair value of financial liabilities raised on terms other than market ones

Initial recognition of financial liabilities of the Group is performed on fair value. In case of attraction of financial liabilities at interest rates, which are different from the market ones, in order to form the interrelated assets at interest rates, which including the margin of the Development Bank, are also different from the market ones, fair value of the financial liabilities is determined as nominal value of the financial liabilities.

In case of raising liabilities that do not have related assets on terms other than market ones fair value of liabilities is measured according to the following valuation technique: discounting of liabilities at interest rate determined as average market rate for similar liabilities at the date of initial recognition. In case of raising liabilities from entities controlled by the Government benefit from government loans is recognized as a government grant and is measured as the difference between initial cost of liability and actually received amount. Government grant is systematically recognized in consolidated statement of comprehensive income over periods when the Group recognizes expenses, which grants should compensate.

(e) Recognition of deferred taxes

Deferred tax liabilities are generally recognized for all taxable temporary differences, except when temporary differences arise from initial recognition (other than in a business merger) of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(f) Assessment of the necessity to consolidate the financial statements of the woodworking companies

In accordance with Edict of the President of the Republic of Belarus dated 24 June 2015 No. 257 "On issues associated with acquisition of banks' assets, which arose from lending to woodworking enterprises, and on defining of limit of internal public debt" (hereinafter - Edict No. 257) the Group participates in the management of business activities of the entities of the woodworking industry. On the basis of the relevant resolutions of the authorities of the Republic of Belarus and the powers of the Group in respect of the order of interaction between the Group and the entities of the woodworking industry, these entities are not subject to consolidation in preparing the consolidated financial statements of the Group for the following reasons:

- the Group is not exposed to risks associated with variable returns from the participation in the management of the woodworking companies;
- management rights are transferred on the basis of decisions of the state authorities of the Republic of Belarus and the period of management can be limited by the decisions of the state authorities of the Republic of Belarus;
- business plans developed in the framework of Edict No. 257, under which the activities of the woodworking companies are conducted, are subject to agreement by the concern "Bellesbumprom", the Ministry of Economy and the Ministry of Finance of the Republic of Belarus.

Changes in accounting policies and presentation

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" (hereinafter – "IFRS 9"). IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 "Financial Instruments: Recognition and Measurement" (hereinafter – "IAS 39").

In October 2017, the IASB issued "Prepayment Features with Negative Compensation" (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018 and early adopted amendments to IFRS 9 on the same date. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Group’s accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (hereinafter – “FVOCI”) and fair value through profit or loss (hereinafter – “FVTPL”). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts, which is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 5.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 5.

Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 5.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the year ended 31 December 2017 and as at 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.
- The determination of the business model within which a financial asset is held was made on the basis of the facts and circumstances that existed at the date of initial application.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

3. Application of new and revised standards and interpretations

Amendments to the standards effective for reporting periods beginning on or after 1 January 2018

The Group applied the following amendments to IFRS that became effective for reporting periods beginning on or after 1 January 2018:

- Amendments to IAS 7 Disclosure Initiative (effective for annual reporting periods starting from 1 January 2017 or after this date. Earlier application is permitted). According to amendments new disclosures are required that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes both related and not related to cash flows.
  In order to meet the new disclosure requirements, the Group presented a reconciliation of the balance of liabilities at the beginning and at the end of the reporting period with disclosure of changes in the financial activities.
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual reporting periods starting from 1 January 2017 or after this date. Earlier application is permitted). Amendments clarify accounting of deferred tax assets related to unrealized loss arising on debt instruments measured at fair value. The amendments did not have any significant impact on the Group’s consolidated financial statements.
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions, IFRS 10 Consolidated Financial Statements and IAS 28 Sale or Contribution of Assets in a Transaction Between an Investor and its Associated or Joint Enterprise. The amendments did not have any significant impact on the Group’s consolidated financial statements.

Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application if permitted; however, the Group has not early adopted the following new or amended standards in the preparing these Consolidated Financial Statements.

IFRS 16 Leases

IFRS 16 “Leases” (hereinafter – “IFRS 16”) introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases — Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 “Revenue from Contracts with Customer” at or before the date of initial application of IFRS 16.

The Group commenced an initial assessment of the possible impact of applying IFRS 16 to its consolidated financial statements. To date, the most significant identified impact is the need for the Group to recognize assets and liabilities under operating lease agreements regarding premises. In addition, the nature of the costs recognized for these contracts will change, because, in accordance with IFRS 16, instead of the lease expenses that are evenly recognized over the life of the contract, the Group will have to reflect the cost of depreciation of assets in the form of the right to use and interest expenses related to the lease obligations. The Group has not yet decided whether it will use optional simplifications. In respect of financial leases, the Group does not expect significant impact on the financial statements.

As a lessee, the Group can either apply the standard using a:
- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the chosen approach consistently to all of its leases. Currently, The Group plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet selected the type of transition.

As a lessor, the Group, when transferring in IFRS 16, is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

The Group has not yet quantified the impact of IFRS 16 on its assets and liabilities. The quantitative effect will depend, in particular, on which method of transition to the new standard will be chosen, the extent to which the Group will use practical simplification and exemption from recognition, as well as which new lease agreements will be entered into by the Group. The Group plans to disclose information on the selected transition option and quantitative information before applying the standard.

Other standards

The following new standards and amendments are not expected to have a significant impact on the Group's consolidated financial statements:
- Annual Improvements to IFRSs 2014-2017 Cycle – Amendments to IAS 1 "Presentation of Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures";
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 "Share-based Payment");
- Transfers of Investment Property (Amendments to IAS 40 "Investment Property");
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures");
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration";
- IFRIC 23 "Uncertainty over Income Tax Treatments".

4. Significant accounting policies

Financial instruments

Initial recognition of financial instruments

Financial assets and liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual obligation of the relevant financial instrument.

Financial assets and liabilities are initially recognized at fair value; financial assets or financial liabilities, which are not classified as recognized at fair value through profit or loss, are recognized at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

Classification of financial assets since 1 January 2018

On initial recognition a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated at the Group's discretion as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset provide for appearance in due time of cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognized in other comprehensive income, except for the following items, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:
- interest revenue calculated using the effective interest method;
- expected credit losses and recovered impairment losses;
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an investment into equity instruments that is not held for trading, the Group may at its own discreption take an irrevocable decision to record subsequent changes in fair value of investments in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the initial cost of the investment, in which case they are recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may at its own discretion without the right of subsequent reclassification designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. More specifically, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation but as part of an overall assessment of how the Group’s stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (“SPPI criterion”), the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to revise the interest rate following the change of key rate set by the National Bank. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Instead, the Group considers these loans as in essence floating rate loans.

Classification of financial assets before 1 January 2018

The Group classifies financial assets at initial recognition. Financial assets classification at initial recognition is performed on the basis of intention, for which they were acquired and their financial characteristics. Subsequent reclassifications are allowed only if required by IFRS. All financial instruments are classified into the following categories.

Financial assets at fair value through profit or loss are financial assets acquired principally for the purpose of sale/redemption in a short period, or forming part of a portfolio of identifiable financial instruments that are managed together, and the structure of which actually indicates the intention of making a profit in the short term, as well as financial assets, which at initial recognition are classified by the Group as at fair value through profit or loss, or are derivative financial instruments, except when they are effective hedging instruments. Financial assets at fair value through profit or loss are measured initially and subsequently at fair value. Fair value movements on financial assets at fair value through profit or loss are recognized in the consolidated statement of comprehensive income for respective period.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that are classified into other categories of financial instruments. Loans and receivables include amounts due from credit institutions or acquired from other banks, as well as loans and receivables from customers and other financial assets, which comply with these classification criteria.

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for those:
- for which there is an intention to sell immediately or in the near future and that are to be classified as held for trading, measured at initial recognition at fair value through profit or loss;
- which, upon initial recognition, are designated as available for sale;
- for which the Group will not be able to cover the full amount of its initial investment for reasons other than a decrease in creditworthiness, and which should be classified as available for sale.

Available for sale financial assets are non-derivative financial assets that are not included into any of the other categories described above.

Classification of financial liabilities

Financial liabilities, except for those at fair value through profit and loss, are classified as the financial liabilities accounted at amortized cost.

Reclassification before 1 January 2018

Financial assets at FVTPL, including derivatives, after initial recognition are generally not reclassified to other categories of financial assets.

Financial assets at FVTPL that are designated for sale could be reclassified to other categories of financial assets as follows:
- if they could correspond to the definition of loans and receivables: there was no intention of selling them in the near future with respect to these assets; they had fixed or determinable payments; did not have quotations; did not contain conditions that could prevent their owner from reimbursing virtually the entire amount of the initial investment for any reason, except for

a deterioration in their credit quality - they could be reclassified to the category of loans and receivables;
- if they did not meet the criteria for classification as loans and receivables above, they could be reclassified to the category of financial assets available for sale or held to maturity.

These reclassifications were made with the intention and the ability of the Group to retain them for the foreseeable future (at least 12 months from the balance sheet date).

These reclassifications were made only in rare cases. A rare case is caused by a single event, which was unusual and, most likely, will not happen in the near future. An example of such a case could be the worsening of the situation on world markets.

Reclassification was carried out at fair value at the date of reclassification. This cost became a fair value or amortized cost of the reclassified financial asset. Previously recognized profit or loss was not restored.

Reclassification since 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The Group should reclassify financial assets only if the Group changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Group’s senior management as a result of external or internal changes and must be significant to the Group’s operations and demonstrable to external parties. Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition of financial instruments

Derecognition of financial assets (or, if applicable, of the part of a financial asset or of the part of the group of similar financial assets) takes place only when:
- the contractual rights to the cash flows from the financial asset expire;
- the Group transfers the contractual rights to receive the cash flows of the financial asset, or if the Group retains the right to obtain cash receipt from such asset and simultaneously assumes an obligation to pay it in full to the third party without significant delays;
- the Group either transfers substantially all risks and rewards related to the asset, or does not transfer and does not retain all related risks and rewards, but at the same time transfers the control over this asset. The control is retained when the counterparty has no practical ability to sell the asset in its entirety to an unrelated third party without additional restrictions on the transfer.

If the Group neither transferred nor retained substantially all risks and rewards related to the ownership of the transferred asset, and remained the control over this asset, than the Group continues to recognize this asset to the extent that it continues to participate in this asset.

The Group derecognizes a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

When one existing financial liability is replaced with a different liability to the same creditor on significantly different terms, or where significant changes are made to the terms of the existing liability, the initial liability is derecognized and a new liability is recognized with the recognition of the difference in the carrying value of liabilities in the consolidated statement of comprehensive income.

Financial assets

From 1 January 2018 any cumulative gain/loss recognized in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities.

Financial liabilities

From 1 January 2018 any cumulative gain/loss recognized in other comprehensive income in respect of financial liabilities designated as at FVTPL is not recognized in profit or loss on derecognition of such financial liabilities.

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as “substantial modification”), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value. Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Group due to changes in the National Bank refinancing rate, if the loan contract entitles the Group to do so.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:
- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset. If such modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

As part of credit risk management activities, the Group renegotiates loans to customers in financial difficulties (referred to as "forbearance activities"). If the Group plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognized as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Group concludes that modification of financial assets modified as part of the Group's forbearance policy is not substantial, the Group performs qualitative evaluation of whether the modification is substantial.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortized cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:
- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Impairment before 1 January 2018

At each reporting date, the Group assesses whether financial assets or groups of financial assets are credit-impaired. Impairment losses are recognized when incurred as a result of one or more events (“loss events”) occurring after the initial recognition of financial assets that have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group does not have objective evidence of impairment for an individually assessed financial asset (regardless of its materiality), this asset is included in a group of financial assets with similar credit risk characteristics and is assessed in scope with them for impairment.

The Group initially assesses amounts due from banks and loans to customers on individual basis whether there is objective evidence of impairment for individually significant financial assets and, in aggregate, for financial assets that are not individually significant.

Evidence that a financial asset is credit-impaired includes the following observable data:
- any payment delay;
- significant financial difficulty of the borrower or issuer, confirmed by their financial information;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- negative change in national or local economic environment, that may impact the business of the borrower of issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- the disappearance of an active market for a security.

A significant or prolonged decline in the fair value of an available for sale equity investment to a value below the actual cost of that security is an objective indication of impairment.

Assets that are individually assessed for impairment and for which impairment losses are recognized should not be assessed for impairment on an aggregate basis.

In some cases, the information necessary to assess impairment losses on financial assets may be limited or not fully reflect current circumstances. In such cases, the Group uses its experience and judgment to estimate the amount of impairment losses.

In the case of objective evidence of impairment losses, the amount of the loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (which does not include future expected losses on loans that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognized in the consolidated statement of comprehensive income.

The present value of expected future cash flows is discounted at the initial effective interest rate for the asset. If the loan is provided at a floating interest rate, the current effective interest rate will be the discount rate for estimating impairment losses. The calculation of the present value of the estimated future cash flows of financial assets provided as collateral reflects cash that can be received in the event of foreclosure, less the costs of obtaining and selling collateral, irrespective of whether the foreclosure is available.

If, in a subsequent period, the amount of the impairment loss decreases and this decrease can be objectively related to an event occurring after the impairment was recognized (such as an increase in the customer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision in the consolidated statement of comprehensive income.

If the decrease in the fair value of available for sale financial assets is recognized in other comprehensive income and there are objective indicators of the impairment of the asset, the cumulative loss recognized in other comprehensive income is transferred from other comprehensive income to profit or loss as a reclassification adjustment, irrespective of whether the financial asset is not eliminated.

If, in a subsequent period, the fair value of debt instruments classified as available for sale increases and this increase is objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed and recognized in the consolidated statement of comprehensive income.

Impairment since 1 January 2018

Estimates for the allowance for expected credit losses used by the Group are also outlined in Note 23.

The Group recognises loss allowances for expected credit losses (hereinafter – “ECL”) on the following financial instruments that are not measured at FVTPL:
- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Expected loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If under the parties` mutual agreement the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more and a loan with internal rating “Default” are considered impaired.

When assessing whether an investment in Government bonds (other financial assets) where Gevernment is the borrower is credit-impaired, the Group considers the following factors:

- The market’s assessment of creditworthiness as reflected in the bond yields.
- The rating agencies’ assessments of creditworthiness.
- The country’s ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as ‘lender of last resort’ to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Purchased or originated credit-impaired financial assets (hereinafter – “POCI-assets”)

POCI-assets are assets that are credit-impared at initial recognition.

POCI-assets include the following assets of the Group:

- new financial assets issued by the Group in the framework of restructuring a credit-impared asset (replacement of a credit-impared asset by another asset with a similar level of credit risk);

- an asset that arose when the financial asset was derecognized as a result of a significant modification of the terms of the contracts in the framework of the restructuring of the credit-impared financial assets;
- acquired credit-impared financial assets;
- issuance of loans to borrowers with an internal credit rating of "Default".

POCI-assets do not have an allowance for impairment at the initial recognition. Instead, the amount of ECL for the entire period is included in the calculation of the effective interest rate.

For the calculation of the effective interest rate on acquired or created credit-impared financial assets, the expected cash flows are used, taking into account the initial assessment of the ECL for the entire period. The estimated value of the contractual cash flows for the asset is reduced by the amount of ECL for the entire period of its validity. The effective interest rate is adjusted for credit risk.

Upon initial recognition of POCI-assets (usually created assets), the fair value of such loans is determined based on the expected cash flows as a result of cash flows and / or forced sale of collateral.

Subsequent estimation of ECL on POCI-assets is always made in the amount equal to lifetime ECL. ECL of such assets is the amount of changes in lifetime ECL from the day of the initial recognition of the asset. The amount reflecting positive changes in the amount of lifetime ECL is recognized as an impairment gain, even if the amount of these changes is greater than the amount previously recognized in profit or loss as an impairment loss.

Interest on POCI-assets is accrued at effective interest rate, adjusted for credit risk, determined at the time of initial recognition of the asset.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:
- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for ECL for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance for ECL is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance for ECL is disclosed and is recognized in the fair value reserve.

Write-offs before 1 January 2018

Assets for which there are no realistic prospects for repayment and for which all necessary procedures have been completed for the purpose of full or partial recovery, and the final amount of the loss is determined are written off against the provision for impairment. When considering whether an asset is a bad asset, the following factors are analyzed: the length of the overdue debt and the prospects for its collection, the quality and adequacy of collateral, the liquidation or bankruptcy proceedings against the borrower, etc.

Write-offs since 1 January 2018

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

Cash and cash equivalents

The financial statement caption includes free balances on correspondent accounts in the National Bank, correspondent, current and deposit accounts in other banks with the original maturity within 90 days, which can be converted into cash within a short period of time.

Due from banks

In the medium course of business, the Group places deposits and grants loans to other banks. Funds due from other banks with a fixed maturity term are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

Loans to customers before 1 January 2018

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for those:
- for which there is an intention to sell immediately or in the near future and that are to be classified as held for trading, measured at initial recognition at fair value through profit or loss;
- which, upon initial recognition, are designated as available for sale;
- for which the Group will not be able to cover the full amount of its initial investment for reasons other than a decrease in the creditworthiness and which should be classified as available for sale.

Loans to customers are initially recognized at the fair value of the amounts given, plus the related transaction costs. Subsequently, loans to customers are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment.

Loans to customers are reflected, starting from the moment of issue of funds, or from the moment of purchasing a loan from other banks.

Loans to customers since 1 January 2018

“Loans to customers” caption in the consolidated statement of financial position include:
- loans to customers measured at amortized cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- loans to customers mandatorily measured at FVTPL due to non-compliance with the SPPI-criterion; these are measured at fair value with changes recognized immediately in profit or loss; and
- finance lease receivables.

Investment securities before 1 January 2018

The “investment securities” caption in the consolidated statement of financial position at 31 December 2017 includes securities available for sale and recognized at fair value.

Investment securities since 1 January 2018

The “investment securities” caption in the consolidated interim statement of financial position includes:
- debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- debt securities measured at FVOCI.

Financial guarantees and loan commitments since 1 January 2018

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortized amount and the amount of loss allowance.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Group recognises loss allowance according to the method disclosed in Note 4.

Liabilities arising from financial guarantees and loan commitments are included into allowances.

Offset of financial instruments

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

Government grants

Government grants are assistance provided by the Government, government agencies and public institutions in the form of a transfer of resources or reimbursement to the Group in exchange for the fulfillment of certain conditions in the past or future, relating to the Group’s operations. Government grants are not recognized unless there is reasonable assurance that the Group will meet all the associated terms and receive these grants.

Government grants are recognized in profit or loss on a systematic basis over the periods, in which the Group recognizes as expenses the related costs, for compensation of which the grants are intended. With respect to the recording of government grants related to income, these government grants are offset against the respective expenses.

Property and equipment

Property and equipment are recorded at historical cost net of accumulated depreciation and allowance for impairment. Property and equipment, acquired prior to 1 January 2015, are recorded at historical cost, adjusted for hyperinflation, net of accumulated depreciation and impairment allowance.

Depreciation

Depreciation of an item of property and equipment is charged from the moment the property and equipment is put into operation. Depreciation is charged on a straight-line basis during the following useful lives:

Property and equipment group	Average annual depreciation rate
Buildings	1,1%
Vehicles	16,7%
Computer equipment, furniture and other equipment	16,6%

Residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

The residual value and useful lives are reviewed and, if necessary, adjusted at each reporting date.

Intangible assets

Intangible assets are recorded at historical cost net of accumulated amortization and allowance for impairment. Intangible assets, acquired prior to 1 January 2015, are recorded at historical cost adjusted for hyperinflation less accumulated amortization and impairment allowance.

Software and acquired licenses for software are capitalized based on expenses for acquisition, implementation and adjustment of special software.

Intangible assets are amortized using straight-line method of amortization during the expected useful lives, and recorded in profit or loss. Average annual amortization rate for intangible assets was 24,4% as at 31 December 2018 (26,8% as at 31 December 2017).

Investment property

Investment property includes property used to receive rental income, capital increase or both (including property under construction). Investment property is initially recorded at acquisition cost, including acquisition expenses.

Subsequently, investment property is recorded at historical cost less accumulated depreciation and impairment losses. Depreciation is accrued on a straight-line basis based on the useful life of the objects, which is 50 years.

Non-financial assets impairment

Other non-financial assets other that deferred tax assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of the fair value less costs to sell and its value in use. In determining the value in use, the estimated future cash flows are discounted to their current present value using a pre-tax discount rate that reflects the current market assessment of the temporary value of cash and the risks of this asset. For an asset that does not generate cash inflows that are largely independent of cash flows generated by other assets, the recoverable amount is determined by the group of assets that generate cash, to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or a group of cash-generating assets exceeds its recoverable amount.

All impairment losses from non-financial assets are recognized in profit or loss and are reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss on an asset is recoverable to the extent that the carrying amount of the asset does not exceed the carrying amount (less depreciation) that would have been incurred if the impairment loss was not recorded in the consolidated financial statements.

Assets for which there are no realistic probability for repayment and in respect of which all necessary procedures have been completed for the purpose of full or partial recovery and the final amount of the loss is determined are written off against the impairment allowance. When considering the issue of recognizing an asset as a bad asset, the following factors are analyzed by the Group: the duration of the overdue and the probability of its collection, the quality and adequacy of collateral, the liquidation or bankruptcy proceedings against the borrower, etc.

Operating lease

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

Finance lease

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

The Group as a lessor recognizes leased assets within loans granted, which are initially measured in the amount equal to net investment in the lease. Subsequently net investments in the lease are recognized in the consolidated statement of financial position net of expected credit losses.

The Group recognizes the finance income based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Share capital

Share capital is recognized at initial cost restated for inflation. Expenses for shares issue are recorded directly in equity. Non-cash contributions are included into the share capital at fair value of the contributed assets. Ordinary shares are accounted for as share capital.

Family capital fund management

The funds raised by the Development Bank in the framework of family capital asset management program are recognized at fair value of acquired resources. The difference between the fair value and the amount received is recognized as a government grant (Note 20).

The funds, which are to be transferred to a special fund in order to accumulate part of income generated from family capital management, for the subsequent transfer of these funds to the republican budget (Note 18) are recognized as a distribution of retained earnings as liabilities in “Customer accounts”.

Contingent liabilities

Contingent liabilities are not recognized in the consolidated statement of financial position. Information on such liabilities is disclosed in the notes to the consolidated financial statements, except when the outflow of resources is unlikely.

Provisions

Provisions are recognized in the consolidated financial statements when the Group has a legal or constructive obligation arising as a result of past events prior to the reporting date. Meanwhile, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are determined by discounting the estimated future cash flows using a pre-tax discount rate that reflects the current market valuation of the temporary value of cash and, if applicable, the specific risks of the obligation.

Short-term employee benefits

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

According to the requirements of the legislation of the Republic of Belarus the Group makes statutory payments to the Social Security Fund of the Ministry of Labor and Social Security of the Republic of Belarus from its employee salaries.

The Group carries no further pension obligations in respect of its retired and former employees.

Taxation

Tax expenses are recognized in the consolidated financial statements in accordance with requirements of the legislation of the Republic of Belarus. Income tax expense in the consolidated statement of comprehensive income includes current tax payments and changes in the amount of deferred income tax.

The current tax expense is calculated based on taxable profit for the period using tax rates that have been enacted during the reporting period. Current income tax balances include amounts due to state budget or due from state budget in relation to the taxable profit and deductible expenses of the current or previous periods.

Deferred tax is recognized in respect of temporary differences between the carrying values of assets and liabilities defined for the purposes of their presentation in consolidated financial statements and their tax base. Deferred tax is not recognized for the following temporary differences:
- differences related to goodwill initial recognition in consolidated financial statements which do not decrease the tax base;
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that where the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will allow to reimburse this deffered tax asset.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In addition, there are various operating taxes in the Republic of Belarus applicable to the Group. These taxes are recognized as operating expenses.

Interest income and expenses since 1 January 2018

Effective interest rate

Interest income and expenses are recognized in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets upon initial recognition, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets upon initial recognition, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The "amortized cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The "gross carrying amount of a financial asset" measured at amortized cost is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 4.

Presentation

Interest income and expenses presented in the consolidated statement of comprehensive income include:
- interest income and expenses calculated using the effective interest method on financial assets and financial liabilities measured at amortized cost;
- interest income calculated using effective interest method on debt instruments measured at FVOCI;
- interest income on finance lease receivables, presented as “Other interest income”.

Interest income and expenses before 1 January 2018

Interest income and expenses are recognized in the consolidated statement of comprehensive income on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating effective interest rate the Group evaluates cash flows in accordance with contractual terms of the financial instrument, but does not account for future losses on loans. This calculation includes all commission fees and duties paid and received under the contract, being integral part of effective interest rate, transaction costs and other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written off as a result of an impairment, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Commissions and other income and expenses

Commission fees for origination of loans, commission fees for loans servicing and other commission fees being integral part of overall income from loans, as well as corresponding income on transactions, are recognized as deferred income and amortized as interest income during expected period of validity of financial instrument using effective interest rate method.

Other commission fees, as well as other income and expenses are recorded in income or loss as at the date of provision of corresponding service.

Finance lease payments

Finance lease payments are recognized in profit or loss on a straight-line basis throughout the lease term. The amount of benefits received reduces the total amount of lease expenses over the whole lease term.

Income of subsidiaries from wholesale trade since 1 January 2018

Income from wholesale trade is recognized when the customer receives control of goods or services. Defining the time frames of transferring control - at a specific point in time or over time - requires judgment.

Under contracts that allow customer to return the goods, income is recognized to the extent that there is a very high probability that thereafter it will not be necessary to reverse this amount and reflect a significant decrease in the total amount of recognized income. Therefore, the amount of recognized income is adjusted by the amount of expected returns of goods, which is estimated based on past historical data.

Income of subsidiaries from wholesale trade before 1 January 2018

Income from wholesale trade is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of income can be measured reliably. Income is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Foreign currency

Foreign currency transactions are accounted for at the exchange rates set by the National Bank against respective foreign currencies at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency (foreign currencies) are translated into Belarusian Rubles at the reporting date rate. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Belarusian Rubles at the exchange rates set by National Bank against respective foreign currencies at the date of fair value determination. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost (or historical cost restated for inflation) are translated into Belarusian Rubles at the exchange rates set by the National Bank against respective foreign currencies at the date of acquisition.

The exchange rates of the Belarusian Ruble to the main Group’s operational foreign currencies are presented below:

Reporting date	**Euro**	**US Dollar**	**Russian Ruble**
31 December 2016	2,0450	1,9585	0,032440
31 December 2017	2,3553	1,9727	0,034279
31 December 2018	2,4734	2,1598	0,031128

Basis of consolidation

The consolidated financial statements include financial statements of the Development Bank and the companies controlled by the Development Bank and the companies controlled by the subsidiaries of the Development Bank. A company is considered as controlled by the Development Bank when the Development Bank is exposed to risks of variable returns from its involvement with the investee or has a right to acquire such returns, and also has power to affect the amount of the returns in exercising its competence.

The Group measures the non-controlling interest proportionally to the share of net assets of acquired company. Gains and losses of subsidiary companies for the reporting period are related to the Group’s share and to the non-controlling shareholders even if this results in a negative balance in the consolidated statement of financial position. Non-controlling interests are included in the consolidated statement of financial position within equity, separately from the Group’s equity. Non-controlling interests in profit or loss are recognized in the consolidated statement of comprehensive income.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

In the consolidated financial statements significant intra-group transactions and balances, related income and expenses are eliminated.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Foreign operations

Assets and liabilities of foreign companies, controlled by the subsidiary of the Development Bank, including goodwill and amounts of adjustments to fair value in case of acquisition are translated into Belarusian Rubles at relevant exchange rate as at the reporting date. Income and expenses of foreign subsidiaries are translated into Belarusian rubles at the rate applicable at the date of the transaction. It is also possible to recalculate at the average exchange rates for the reporting period, if fluctuations in rates during the reporting period were not significant. Foreign currency differences are recognized in other comprehensive income and recorded as part of equity in accumulated translation reserve, excluding part of the accumulated translation reserve attributable to non-controlling interest. However, if a foreign operation is not a 100% subsidiary of the Group, then part of these foreign currency differences is referred in the appropriate proportion to the non-controlling interest.

Loss of control

When control over subsidiary is lost, the Group ceases to recognize its assets and liabilities, as well as non-controlling interests and other capital components attributable to such subsidiary. Any positive or negative difference arisen as a result of loss of control is recognized within profit or loss for the period. If the Group keeps a share of investments in former subsidiary that share is measured at fair value as at the date of loss of control. Subsequently that share is recognized as an investment in associated entity (using equity method) or as a financial asset available for sale, depending on the extent of the Group’s influence on that subsidiary.

Related parties transactions

The Group is controlled by the state and discloses transactions with related parties such as other state-owned companies and key management personnel when these transactions are significant.

Preparation of consolidated statement of cash flows

The consolidated statement of cash flows was prepared using direct method.

Operating segments

The operating segment is a Group’s component that represents commercial activities related to income and expenses received by the Group (including income and expenses related to transactions with the Group’s other components), and for which there is financial information that is regularly assessed by the Group's management when allocating resources between segments and conducting an analysis of their financial performance. The segment activity analysis is presented in Note 33.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date in the principal market, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

5. Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group’s financial assets and financial liabilities as at 1 January 2018.

In thousands of Belarusian Rubles	**Note**	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets					
Cash and cash equivalents	10	Loans and receivables	Amortized cost	68 112	68 112
Due from banks	11	Loans and receivables	Amortized cost	465 150	464 279
Investment securities	12	Available for sale	Amortized cost	1 099 959	1 078 378
Investment securities	12	Available for sale	FVOCI	627 849	627 849
Loans to customers	13	Loans and receivables	Amortized cost	3 578 120	3 532 767
Other financial assets	16	Loans and receivables	Amortized cost	5 793	6 072
Total financial assets				**5 844 983**	**5 777 457**
Financial liabilities					
Due to banks	17	Amortized cost	Amortized cost	1 495 630	1 495 630
Customer accounts	18	Amortized cost	Amortized cost	630 437	630 437
Debt securities issued	19	Amortized cost	Amortized cost	1 887 880	1 887 880
Other financial liabilities	21	Amortized cost	Amortized cost	20 676	20 676
Total financial liabilities				**4 034 623**	**4 034 623**
Provisions for contingent liabilities	21	Not applicable	Not applicable	6 435	1 075
Total provisions for contingent liabilities				**6 435**	**1 075**

The Group’s accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 4. The application of these policies resulted in the reclassifications set out in the table above and explained below.

Some investment securities purchased as part of state programs are held by the Group in a separate portfolio for the purpose of supporting long-term profitability. These investment securities can be sold, but such sales are not expected to occur more often than occasionally. The Group believes that these securities are held within the business model, the purpose of which is to withhold assets to receive the contractual cash flows. These assets are classified as measured at amortized cost in accordance with IFRS 9.

The remaining part of investment debt securities is held by the Group in separate portfolios to meet daily liquidity requirements. The Group is looking for ways to minimize the cost of managing liquidity and for this purpose actively manages the portfolio income. Such revenues consist of payments received under the contract, as well as from profits and losses from the sale of financial assets. This investment strategy often leads to significant sales volumes. The Group believes that in accordance with IFRS 9, these securities are held within the framework of a business model, the purpose of which is achieved both through the receipt of contractual cash flows and through the sale of financial assets.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

In thousands of Belarusian Rubles	**IAS 39 carrying amount as at 31 December 2017**	**Reclassification**	**Remeasurement**	**IFRS 9 carrying amount as at 1 January 2018**
Financial assets				
Amortized cost				
Cash and cash equivalents				
Opening balance	**68 112**			
Remeasurement			-	
Closing balance				**68 112**
Due from banks				
Opening balance	**465 150**			
Remeasurement			(871)	
Closing balance				**464 279**
Investment securities				
Opening balance	**-**			
Reclassified from "Available for sale"		1 099 959		
Remeasurement			(21 581)	
Closing balance				**1 078 378**
Loans to customers				
Opening balance	**3 578 120**			
Remeasurement			(45 353)	
Closing balance				**3 532 767**
Other financial assets				
Opening balance	**5 793**			
Remeasurement			279	
Closing balance				**6 072**
Total measured at amortized cost	**4 117 175**	1 099 959	(67 526)	**5 149 608**
Available for sale				
Opening balance	**1 727 808**			
Reclassified to measured at FVOCI – debt securities		(627 849)	-	
Reclassified to measured at amortized cost		(1 099 959)	-	
Closing balance				**-**
FVOCI – debt securities				
Investment securities				
Opening balance	**-**			
Reclassified from "Available for sale"		627 849		
Remeasurement			-	
Closing balance				**627 849**
Total measured at FVOCI	**1 727 808**	**(1 099 959)**	**-**	**627 849**
Financial liabilities				
Amortized cost				
Due to banks	**1 495 630**		-	**1 495 630**
Customer accounts	**630 437**		-	**630 437**
Debt securities issued	**1 887 880**		-	**1 887 880**
Other financial liabilities	**20 676**		-	**20 676**
Total measured at amortized cost	**4 034 623**	**-**	**-**	**4 034 623**
Provisions for contingent liabilities				
Opening balance	**6 435**			
Remeasurement			(5 360)	
Closing balance				**1 075**
Total provisions for contingent liabilities	**6 435**	-	(5 360)	**1 075**

The fair value of investment securities reclassified from the category "Securities available for sale" in accordance with IAS 39 to amortized cost category in accordance with IFRS 9 as of 31 December 2017 was 1 099 959 thousand of Rubles. At the same time, the amortized cost of these investment securities was also 1 099 959 thousand of Rubles, due to the fact that these investment securities are traded on the domestic market and in most cases are traded at a value close to the nominal taking into account the coupon yield due at the auction date.

Therefore, the effect of reclassification to the category “Investment securities measured at amortized cost” in accordance with IFRS 9 is not material.

Effective interest rates on securities reclassified to “Investment securities measured at amortized cost” under IFRS 9 are as follows:
- bonds with floating rate issued by banks – RR*;
- bonds with fixed interest rate issued by banks – from 2,5% to 5%;
- bonds issued by corporate bodies – from 5% to 9,11%;
- bonds with floating interest rates issued by local authorities – from ½ RR to RR+2%;
- bonds with fixed interest rates issued by local authorities – from 2% to 3%.

** RR – refinancing rate, established by the National Bank*

The following table shows the effects of the transition to IFRS 9 on retained earnings, fair value reserve of investment securities and non-controlling interest as at 1 January 2018.

In thousands of Belarusian Rubles	**Retained earnings**	**Fair value reserve of investment securities**	**Non-controlling interest**	**Total**
Opening balance under IAS 39 as at 31 December 2017	**177 143**	**199**	**75 544**	**252 886**
Recognition of expected credit losses under IFRS 9:				
Loans to customers	(61 935)	-	16 582	(45 353)
Investment securities measured at FVOCI	(13 261)	13 261	-	-
Investment securities measured at amortized cost	(21 246)	-	(335)	(21 581)
Due from banks	(863)	-	(8)	(871)
Other financial assets	170	-	109	279
Provision for contingent liabilities	5 360	-	-	5 360
Tax recognition effect	17 697	(661)	(2 700)	14 336
Opening balance under IFRS 9 as at 1 January 2018	**102 404**	**13 460**	**89 192**	**205 056**

When assessing the occurrence of default on financial assets, the Group takes into account information obtained from its own and external sources. For portfolios for which the Group does not have sufficient historical information, comparative information from external sources is used. Portfolios for which comparative information from external sourses was used is represented below:

In thousands of Belarusian Rubles	**Position exposed to credit risk as at 31 December 2017**	**Comparative information from external sources**	
		Probability of default for 12 months	**The amount of loss in case of default**
Funds with the National Bank and other banks	540 249	From 0,112% to 13,248% depending on the rating of the bank or the state *	From 81,658% to 98,875% depending on the country of residence of the bank **
Investment securities (with the exception of bonds issued by commercial organizations)	1 582 540	From 2,260% to 9,780% depending on the rating of the issuer ***	From 89,762% to 99,987%, depending on the issuer's type and country of residence **

** S&P study on default levels of financial institutions or sovereign bonds*
*** External data on bank defaults*
**** S&P study on default levels of sovereign bonds and defaults of financial institutions*

6. Net interest income

In thousands of Belarusian Rubles	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest income calculated using effective interest rate method		
Interest income on loans to customers	308 617	247 312
Interest income on investment securities	139 733	143 772
Interest income on due from banks	26 871	27 366
	475 221	**418 450**
Other interest income		
Interest income from finance lease receivables	53 459	36 043
	53 459	**36 043**
Interest expenses		
Interest expenses for loans from other banks	(84 453)	(41 881)
Interest expenses for customer accounts	(36 931)	(33 374)
Interest expenses for bonds issued by the bank	(27 262)	(27 166)
	(148 646)	**(102 421)**

7. Movement of allowances for impairment of financial instruments

The following tables show the reconciliation of provisions for losses at the beginning and the end of the period by classes of financial instruments. The comparative information for the year ended 31 December 2017 is the calculation of the allowance for impairment and reflects the basis of measurement in accordance with IAS 39.

In thousands of Belarusian Rubles	Due from banks	Investment securities	Loans to customers	Other financial assets and contingent liabilities	Total
At 1 January 2017	**2 413**	**62 027**	**763 410**	**5 871**	**833 721**
Accruals / (recovery) for the period	4 437	(4 499)	(18 247)	13 337	**(4 972)**
Foreign currency differences	137	(204)	40 242	83	**40 258**
Provision write-off	-	(25 000)	(409 248)	-	**(434 248)**
At 31 December 2017	**6 987**	**32 324**	**376 157**	**19 291**	**434 759**

The movements of allowance for impairment of financial instruments for the year ended 31 December 2018 are shown below in terms of the stages of estimated expected credit losses:

In thousands of Belarusian Rubles	Stage 1*	Stage 2*	Stage 3*	POCI*	Total
Due from banks					
At 1 January 2018 (under IAS 39)					**6 987**
Impact of adopting IFRS 9 with regard to the changes in the basis of assessment (Note 5)					**871**
At 1 January 2018 (under IFRS 9)	**765**	**4 571**	**2 522**	**-**	**7 858**
Transfer to 12-month ECL	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	(4 800)	4 800	-	-
Originated or purchased financial assets	584	-	-	-	**584**
Write-offs	-	-	(2 359)	-	**(2 359)**
Net remeasurement of loss allowance**	(265)	-	3 681	-	**3 416**
Foreign exchange	17	229	(396)	-	**(150)**
Total at 31 December 2018	**1 101**	**-**	**8 248**	**-**	**9 349**

In thousands of Belarusian Rubles	**Stage 1***	**Stage 2***	**Stage 3***	**POCI***	**Total**
Investment securities measured at amortized cost					
At 1 January 2018 (under IAS 39)					**32 324**
Impact of adopting IFRS 9 with regard to the changes in the basis of assessment (Note 5)					**21 581**
At 1 January 2018 (under IFRS 9)	**53 905**	**-**	**-**	**-**	**53 905**
Transfer to 12-month ECL	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-	-
Originated or purchased financial assets	11 381	-	-	-	**11 381**
Financial aessets that have been derecognized***	(763)	-	-	-	**(763)**
Net remeasurement of loss allowance**	(14 659)	-	-	-	**(14 659)**
Foreign exchange	103	-	-	-	**103**
Total at 31 December 2018	**49 967**	**-**	**-**	**-**	**49 967**
Investment securities measured at FVOCI					
At 1 January 2018 (under IAS 39)					**-**
Impact of adopting IFRS 9 with regard to the changes in the basis of assessment (Note 5)					**13 261**
At 1 January 2018 (under IFRS 9)	**13 261**	**-**	**-**	**-**	**13 261**
Transfer to 12-month ECL	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-	-
Originated or purchased financial assets	12 188	-	-	-	**12 188**
Financial aessets that have been derecognized***	(354)	-	-	-	**(354)**
Net remeasurement of loss allowance**	(2 137)	-	-	-	**(2 137)**
Foreign exchange	942	-	-	-	**942**
Total at 31 December 2018	**23 900**	**-**	**-**	**-**	**23 900**
Loans to customers					
At 1 January 2018 (under IAS 39)					**376 157**
Impact of adopting IFRS 9 with regard to the changes in the basis of assessment (Note 5)					**45 353**
At 1 January 2018 (under IFRS 9)	**50 510**	**230 678**	**140 322**	**-**	**421 510**
Transfer to 12-month ECL	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	(65 381)	93 629	(28 248)	-	-
Transfer to lifetime ECL credit-impaired	(513)	(26 364)	26 877	-	-
Originated or purchased financial assets	68 604	2 273	-	-	**70 877**
Write-offs	-	-	(54 079)	-	**(54 079)**
Recovery of allowance for earlier cancelled debts	-	-	71 543	-	**71 543**
Unwinding descount	-	-	5 522	-	**5 522**
Net remeasurement of loss allowance**	(10 702)	(104 782)	(11 829)	(26 985)	**(154 298)**
Foreign exchange	659	2 166	2 920	-	**5 745**
Total at 31 December 2018	**43 177**	**197 600**	**153 028**	**(26 985)**	**366 820**
Other financial assets					
At 1 January 2018 (under IAS 39)					**12 856**
Impact of adopting IFRS 9 with regard to the changes in the basis of assessment (Note 5)					**(279)**
At 1 January 2018 (under IFRS 9)	**-**	**939**	**11 638**	**-**	**12 577**
Transfer to 12-month ECL	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	(200)	200	-	-
Originated or purchased financial assets	-	288	1 456	-	**1 744**
Net remeasurement of loss allowance**	-	(60)	(8 072)	-	**(8 132)**
Foreign exchange	-	(7)	165	-	**158**
Total at 31 December 2018	**-**	**960**	**5 387**	**-**	**6 347**

In thousands of Belarusian Rubles	**Stage 1***	**Stage 2***	**Stage 3***	**POCI***	**Total**
Provision for contingent liabilities					
At 1 January 2018 (under IAS 39)					**6 435**
Impact of adopting IFRS 9 with regard to the changes in the basis of assessment (Note 5)					**(5 360)**
At 1 January 2018 (under IFRS 9)	**1 075**	**-**	**-**	**-**	**1 075**
Originated or purchased financial assets	10 802	-	-	-	**10 802**
Net remeasurement of loss allowance **	(1 075)	-	-	-	**(1 075)**
Foreign exchange	-	-	-	-	**-**
Total at 31 December 2018	**10 802**	**-**	**-**	**-**	**10 802**

** Stage 1 – 12-monts expected credit losses.*
Stage 2 – Lifetime expected credit losses for not credit-impared assets.
Stage 3 – Lifetime expected credit losses for credit-impared assets.
POCI – Credit-impared assets upon initial recognition.
*** - including repayment effect (early repayment)*
**** - excluding repayment effect (early repayment)*

8. General administrative expenses

In thousands of Belarusian Rubles	**For the year ended 31 December 2018**	**For the year ended 31 December 2017**
Staff costs	23 512	19 409
Charity	12 321	9 799
Taxes, other than income tax	8 747	3 129
Depreciation and amortization	7 003	3 508
Contributions to the Social Security Fund	6 908	5 158
Insurance	4 144	6 964
Rent, utilities and repair expenses	2 707	2 253
Transport and fuel expenses	2 590	458
Consultative and information services expenses	2 062	900
Advertising	1 222	934
Office supplies and other office expenses	604	500
Expenses of subsidiaries for the sale of goods	595	1 166
Telecommunication and mail expenses	345	256
Other	5 428	4 870
Total general administrative expenses	**78 188**	**59 304**

9. Income tax

The Group provides for taxes based on the tax accounting maintained and prepared in accordance with the tax legislation of the Republic of Belarus for entities of the Group - residents of the Republic of Belarus, in accordance with the tax legislation of the Russian Federation and Ukraine for components of the Group - residents of the Russian Federation and Ukraine, respectively.

Due to the fact that certain expenses are non-deductible for tax purposes, as well as in view of the non-taxable income, the Group is subject to certain permanent tax differences.

During the years ended 31 December 2018 and 31 December 2017, the national rate of income tax for the Belarusian companies was 18%. During the years ended 31 December 2018 and 31 December 2017, the national rate of income tax for Belarusian banks and the Development Bank amounted to 25%. During the years ended 31 December 2018 and 31 December 2017, income tax rate for the companies - residents of the Russian Federation and the Ukraine was 20% and 18%, respectively.

Offset of deferred tax assets and liabilities of the individual Group companies in the consolidated statement of financial position is not performed.

Movements of deferred income tax balances of the Group are presented below:

In thousands of Belarusian Rubles	**31 December 2018** In profit/ loss	Effect of transition to IFRS 9	In other compre-hensive income	Total	**31 December 2017** Total
Tax effect of temporary differences that reduce income tax base					
Investment securities	12 796	-	8 389	21 185	**5 846**
Loans to customers	-	-	-	-	**14 691**
Finance lease receivables	19 571	(11 145)	-	8 426	**24 693**
Other assets	2 803	(1 386)	-	1 417	**2 441**
Due to banks	-	-	-	-	**1 681**
Other liabilities	1 661	-	-	1 661	**325**
Total tax effect of temporary differences that reduce income tax base	**36 831**	**(12 531)**	**8 389**	**32 689**	**49 677**
Offset against deferred tax liability				(12 736)	**(8 886)**
Deferred tax asset				**19 953**	**40 791**
Unrecognized deferred tax asset				(11 973)	**(5 271)**
Total recognized deferred tax asset				**7 980**	**35 520**

In thousands of Belarusian Rubles	**31 December 2018** In profit/ loss	Effect of transition to IFRS 9	In other compre-hensive income	Total	**31 December 2017** Total
Tax effect of temporary differences that give rise to income tax base					
Cash and cash equivalents	(214)	214	-	-	**(6)**
Due from banks	(6 024)	-	-	(6 024)	**(7 496)**
Loans to customers	(33 063)	25 992	-	(6 410)	**(14 321)**
Investment property	(167)	-	-	(167)	**(503)**
Property and equipment and intangible assets	(2 506)	-	-	(2 506)	**(2 553)**
Deferred tax liability	**(41 974)**	**26 867**	**-**	**(15 107)**	**(24 879)**
Offset against deferred tax asset				12 736	**8 886**
Net deferred tax liability				**(2 371)**	**(15 993)**
Net deferred tax position				**5 609**	**19 527**

Changes in net deferred tax position are as follows:

Deferred tax position as at 1 January 2017	**35 717**
In profit or loss	(16 190)
Deferred tax position as at 31 December 2017	**19 527**
In profit or loss	(36 643)
Effect of transition to IFRS 9	14 336
In other comprehensive income	8 389
Deferred tax position as at 31 December 2018	**5 609**

The table below presents the comparison of the theoretical income tax expense with the actual income tax expense:

In thousands of Belarusian Rubles	**For the year ended 31 December 2018**	**For the year ended 31 December 2017**
Profit before tax	**388 834**	**262 662**
Income tax rate	25%	25%
Tax on the income tax rate	97 209	65 666
Tax effect of tax-exempt income	(2 819)	(20 797)
Tax effect of non-deductible expenses	4 599	5 289
Movement of unrecognized deferred tax assets	6 702	5 272
Effect of differences in income tax rates applied to the entities of the Group	(9 161)	49
Tax-exempt income on securities and other permanent differences	(34 817)	(21 160)
Income tax expense	**61 713**	**34 318**

Tax-exempt income from securities is the income from transactions with securities, which are included in the list of the securities, income from transactions with which is not considered in determining gross profit in accordance with the Tax Code of the Republic of Belarus.

Income tax expenses are presented as follows:

In thousands of Belarusian Rubles	**For the year ended 31 December 2018**	**For the year ended 31 December 2017**
Current income tax expenses	25 070	18 128
Deferred income tax expenses	36 643	16 190
Income tax expenses	**61 713**	**34 318**

10. Cash and cash equivalents

In thousands of Belarusian Rubles	**31 December 2018**	**31 December 2017**
Current and correspondent accounts with banks	34 909	32 498
Accounts with banks with initial maturity up to 90 days	8 216	33 897
Due from the National Bank	9	1 717
Total cash and cash equivalents	**43 134**	**68 112**

Current and correspondent accounts in banks are mainly balances on transactions with major international banks, leading Belarusian banks with an international long-term rating of at least “B-”, assigned by international rating agencies S&P and/or Fitch, as at 31 December 2017.

Information on the stages of estimating the expected credit losses and the ratings of banks at 31 December 2018 is represented in the table below. Unless otherwise noted, the amounts of financial assets in the table reflect the values of the gross carrying amount.

In thousands of Belarusian Rubles	**12-monts expected credit losses**	**Lifetime expected credit losses for not credit-impared assets**	**Lifetime expected credit losses for credit-impared assets**	**Credit-impared assets upon initial recognition**	**Total**
Cash and cash equivalents, measured at amortized cost					
International rating:					
B	30 035	-	-	-	**30 035**
BBB+	2 279	-	-	-	**2 279**
BBB-	10 116	-	-	-	**10 116**
CCC/C	194	-	-	-	**194**
Without international rating*:					
Medium risk	509	1	-	-	**510**
Total Cash and cash equivalents	**43 133**	**1**	**-**	**-**	**43 134**
Allowance for impairment	-	-	-	-	-
Total Cash and cash equivalents net of allowance for impairment	**43 133**	**1**	**-**	**-**	**43 134**

**Description of internal sysmem of risk assessment for banks without international credit rating is in Note 23.*

11. Due from banks

Amounts due from banks are represented by deposits primarily placed with resident banks of the Republic of Belarus with the “B” long-term rating. Amounts due from non-resident banks are represented by export credits and deposits placed in other banks, mainly having an international long-term rating in the range from “B” to “BBB-”, or not having an international rating as at 31 December 2018 and 31 December 2017.

The table below provides information on the credit quality of due from banks, measured at amortized cost, as at 31 December 2018. Unless otherwise noted, the amounts of financial assets in the table reflect the gross carrying amount.

In thousands of Belarusian Rubles	**12-monts expected credit losses**	**Lifetime expected credit losses for not credit-impared assets**	**Lifetime expected credit losses for credit-impared assets**	**Credit-impared assets upon initial recognition**	**Total**
Due from banks measured at amortized cost					
International rating:					
B	412 949	-	-	-	**412 949**
Without international rating*:					
Medium risk	93 616	-	60 688	-	**154 304**
Total due from banks	**506 565**	**-**	**60 688**	**-**	**567 253**
Allowance for impairment	(1 101)	-	(8 248)	-	**(9 349)**
Total due from banks net of allowance for impairment	**505 464**	**-**	**52 440**	**-**	**557 904**

**Description of internal sysmem of risk assessment for banks without international credit rating is in Note 23.*

The amount of placements in 2018 amounted to 3 378 928 thousand of Rubles, which led to an increase in the allowance for impairment by 584 thousand of Rubles.

The amount of repayments in 2018 amounted to 3 288 132 thousand of Rubles, which led to a decrease in the allowance for impairment by 132 thousand of Rubles.

The transfer of funds in banks from Stage 2 to Stage 3 in the amount of 66 266 thousand of Rubles led to an increase in the allowance for impairment by 4 245 thousand of Rubles.

(a) Cash concentration in other banks

In thousands of Belarusian Rubles	**31 December 2018**	**31 December 2017**
Resident banks	506 565	398 118
Non-resident banks	60 688	74 019
Total due from banks	**567 253**	**472 137**
Allowance for impairment*	(9 349)	(6 987)
Total due from banks net of allowance for impairment	**557 904**	**465 150**

** Comparative data as of 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.*

As at 31 December 2018 and 31 December 2017 there were no deposits placed by the Group with banks, which amounted to more than 10% of the Group's equity.

As at 31 December 2018 the total of 184 873 thousand of Rubles (31 December 2017: 169 169 thousand of Rubles), denominated in Belarusian Rubles and foreign currencies were placed with agent banks at interest rates far below the average interbank market rates under the programs of Start-up companies financing and support of woodworking enterprises. These investments mature in 2019-2023. These assets form a separate market segment due to the specific character of the financing program and the end recipients of the resources. Therefore, the Management believes that the contractual interest rates are market rates for such financial instruments and the Group recognizes amounts due from banks at fair value upon initial recognition, which is equal to the par value.

(b) Maximum credit risk

The maximum credit risk on amounts due from other banks is equal to their net carrying value, as recorded in the consolidated statement of financial position.

12. Investment securities

In thousands of Belarusian Rubles	**Range of interest rates***	**Maturity**	**31 December 2018**	**31 December 2017**
Investment securities measured at FVOCI				
Long-term government bonds	4,5% - 7,625%	2019 - 2030	1 148 935	586 920
including those pledged under repo transactions	*4,5% - 6,9%*	*2020 - 2030*	*87 751*	*30 529*
Bonds issued by the National Bank	3,46% - 3,87%	2019	23 285	40 928
Total investment securities measured at FVOCI			**1 172 221**	**627 848**
Investment securities measured at amortized cost				
Bonds issued by banks with floating interest rate	RR – RR+2%	2019 - 2051	638 084	702 240
including those pledged under repo transactions	-		-	*9 531*
Bonds issued by commercial organizations	5% - 8,4%	2019 - 2025	298 789	177 592
Bonds issued by local authorities with floating interest rate	½ RR – RR+2%	2019 - 2028	188 597	135 724

In thousands of Belarusian Rubles	**Range of interest rates***	**Maturity**	**31 December 2018**	**31 December 2017**
Bonds issued by local authorities with fixed interest rate	2% - 3%	2024 - 2027	75 811	78 859
Bonds issued by banks with fixed interest rate	2,5% - 5%	2019 - 2024	27 344	37 869
Total investment securities measured at amortized cost			**1 228 625**	**1 132 284**
Total investment securities			**2 400 846**	**1 760 132**
Allowance for impairment**			(49 967)	(32 324)
Total investment securities net of allowance for impairment			**2 350 879**	**1 727 808**

** RR – refinancing rate, established by the National Bank*
*** Comparative data as of 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.*
****Comparative data as of 31 December 2017 reprsent the amounts of securities classified as available for sale under IAS 39*

As at 31 December 2018 bonds issued by local authorities in the amount of 43 205 thousand of Rubles (31 December 2017: 68 078 thousand of Rubles), denominated in Belarusian Rubles at interest rates from 50% to 75% of the refinancing rate of the National Bank were obtained in accordance with government programs of support of linen, dairy and agricultural branches of the economy. These bonds mature in 2019-2028. These bonds form a separate market segment due to the specific character of government lending programs and the issuers’ type. Therefore, the Management believes that the contractual interest rates are market rates for such bonds, and therefore the Group recognizes the bonds at fair value upon initial recognition, which is equal to the nominal value.

The investment securities were issued by state authorities and “B” rated banks as at 31 December 2018 (“B-” as at 31 December 2017) in the national and foreign currencies except for the securities issued by non-rated commercial entities. Approaches to defining the fair value of investment securities and the analysis by levels of the fair value sources hierarchy are described in Note 26.

The table below provides information on the credit quality of investment securities, measured at amortized cost, as at 31 December 2018. Unless otherwise noted, the amounts of financial assets in the table reflect the gross carrying amount.

					31 December 2018
In thousands of Belarusian Rubles	**12-monts expected credit losses**	**Lifetime expected credit losses for not credit-impared assets**	**Lifetime expected credit losses for credit-impared assets**	**Credit-impared assets upon initial recognition**	**Total**
Investment securities measured at amortized cost					
International rating B	1 167 414	-	-	-	**1 167 414**
Without international rating*:					
Low risk	61 211	-	-	-	**61 211**
Total investment securities measured at amortized cost	**1 228 625**	**-**	**-**	**-**	**1 228 625**
Allowance for impairment	(49 967)	-	-	-	**(49 967)**
Total investment securities measured at amortized cost net of allowance for impairment	**1 178 658**	**-**	**-**	**-**	**1 178 658**

**Description of internal sysmem of risk assessment for issuers without international credit rating is in Note 23.*

The table below provides information on the credit quality of investment securities, measured at FVOCI, as at 31 December 2018. Unless otherwise noted, the amounts of financial assets in the table reflect the amounts of fair value.

					31 December 2018
In thousands of Belarusian Rubles	**12-monts expected credit losses**	**Lifetime expected credit losses for not credit-impared assets**	**Lifetime expected credit losses for credit-impared assets**	**Credit-impared assets upon initial recognition**	**Total**
Investment securities measured at FVOCI					
International rating B	1 172 221	-	-	-	**1 172 221**
Total investment securities measured at FVOCI	**1 172 221**	**-**	**-**	**-**	**1 172 221**
Allowance for impairment	(23 900)	-	-	-	**(23 900)**
Book value – fair value of investment securities measured at FVOCI*	**1 172 221**	**-**	**-**	**-**	**1 172 221**

** Debt investment securities that are measured at fair value through other comprehensive income are stated at fair value, while the allowance for impairment is recognized in other comprehensive income.*

The amount of new investment securities measured at FVOCI in 2018 amounted to 1 595 343 thousand of Rubles, which led to an increase in the allowance for impairment by 12 188 thousand of Rubles. The amount of new investment securities measured at amortized cost in 2018 amounted to 182 278 thousand of Rubles, which led to an increase in the allowance for impairment by 11 381 thousand of Rubles.

The amount of sales and redemptions of investment securities measured at FVOCI in 2018 amounted to 1 003 606 thousand of Rubles, which led to a decrease in the allowance for impairment by 354 thousand of Rubles. The amount of redemption of investment securities measured at amortized cost in 2018 amounted to 215 615 thousand of Rubles, which led to a decrease in the allowance for impairment by 763 thousand of Rubles.

The investment securities traded on the domestic market are generally traded at close to par value, taking into account the coupon yield due at the auction date. Respectively, the effect of revaluation at fair value is insignificant.

As at 31 December 2018 bonds issued by banks amounting to 5 241 thousand of Rubles (31 December 2017: 10 850 thousand of Rubles) were pledged as collateral for counter guarantee granted to a Subsidiary of the Group.

As at 31 December 2018 long-term government bonds with the fair value of 29 681 thousand of Rubles (31 December 2017: 28 805 thousand of Rubles) were provided as collateral for the performance of obligations by third parties.

As at 31 December 2018 the investment securities with the fair value of 87 751 thousand of Rubles, were provided as collateral for funds raised under repo transactions with banks (Note 17) in the amount of 88 521 thousand of Rubles, with maturity no later than October 2019.

As at 31 December 2017 the investment securities with the fair value of 40 060 thousand of Rubles, were provided as collateral for funds raised under repo transactions with banks (Note 17) in the amount of 39 567 thousand of Rubles, with maturity in January 2018.

13. Loans to customers

In thousands of Belarusian Rubles	31 December 2018	31 December 2017
Loans to organizations	3 357 517	2 670 054
Finance lease receivables	901 954	584 768
Loans to republican and regional state administration bodies	578 614	699 455
Total loans to customers	**4 838 085**	**3 954 277**
Allowance for impairment*	(366 820)	(376 157)
Total loans to customers net of allowance for impairment	**4 471 265**	**3 578 120**

** Comparative data as of 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.*

Participation in government loan granting programs

Loans acquired by the Group from other state-owned banks and granted by the Group within the frames of state programs realization due to their uniqueness as well as the specifics of the borrower type and state programs themselves form a separate market segment due to absence of similar financial instruments at the market. Therefore, the Management believes that the contractual interest rate up to 7,5% per annum for loans in Belarusian Rubles is the market rate for such loans.

The Group initially recognizes the loans granted at fair value equal to the nominal value.

The Group has also issued loans denominated in foreign currencies at the rates up to 9%, which is close to the rates, at which the loans are granted by the commercial banks of the Republic of Belarus, including the funds raised with syndicated loans at the rate close to the rates, at which the commercial banks of the Republic of Belarus raise funds.

(a) The quality of loan portfolio

The following table presents the information on the impairment of the loans to customers as at 31 December 2018:

In thousands of Belarusian Rubles	Gross amount of loans	Allowance for impairment	Loans less allowance for impairment	Share of allowance for impairment in the gross amount of loans
Undue	4 489 221	(219 981)	4 269 240	4,9%
Overdue:	348 864	(146 839)	202 025	42,1%
from 1 to 29 days	123 226	(36 773)	86 453	29,8%
from 30 to 89 days	68 941	(9 207)	59 734	13,4%
from 90 to 179 days	47 638	(14 473)	33 165	30,4%
from 180 to 359 days	90 813	(72 656)	18 157	80,0%
over 360 days	18 246	(13 730)	4 516	75,2%
Total loans	**4 838 085**	**(366 820)**	**4 471 265**	**7,6%**

The following table presents the information on the impairment of the loans to customers as at 31 December 2017:

In thousands of Belarusian Rubles	**Gross amount of loans**	**Allowance for impairment***	**Loans less allowance for impairment**	**Share of allowance for impairment in the gross amount of loans**
Undue	3 716 576	(265 184)	3 451 392	7,1%
Overdue:	237 701	(110 973)	126 728	46,7%
from 1 to 29 days	28 685	(4 108)	24 577	14,3%
from 30 to 89 days	98 377	(12 981)	85 396	13,2%
from 90 to 179 days	10 425	(3 168)	7 257	30,4%
from 180 to 359 days	26 040	(17 342)	8 698	66,6%
over 360 days	74 174	(73 374)	800	98,9%
Total loans	**3 954 277**	**(376 157)**	**3 578 120**	**9,5%**

** Comparative data as of 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.*

The following table presents the information on the impairment of the loans to customers as at 31 December 2017:

In thousands of Belarusian Rubles	**Gross amount of loans**	**Allowance for impairment***	**Loans less allowance for impairment**	**Share of allowance for impairment in the gross amount of loans**
Loans individually assessed				
Undue	2 413 601	(246 164)	2 167 437	10,2%
Overdue:	98 901	(35 075)	63 826	35,5%
from 1 to 29 days	567	(284)	283	50,1%
from 30 to 89 days	73 342	(11 262)	62 080	15,4%
from 90 to 179 days	1 932	(1 543)	389	79,9%
from 180 to 359 days	2 740	(2 466)	274	90,0%
over 360 days	20 320	(19 520)	800	96,1%
Total loans individually assessed	**2 512 502**	**(281 239)**	**2 231 263**	**11,2%**

In thousands of Belarusian Rubles	**Gross amount of loans**	**Allowance for impairment***	**Loans less allowance for impairment**	**Share of allowance for impairment in the gross amount of loans**
Loans collectively assessed				
Undue	1 302 975	(19 020)	1 283 955	1,5%
Overdue:	138 800	(75 898)	62 902	54,7%
from 1 to 29 days	28 118	(3 824)	24 294	13,6%
from 30 to 89 days	25 035	(1 719)	23 316	6,9%
from 90 to 179 days	8 493	(1 625)	6 868	19,1%
from 180 to 359 days	23 300	(14 876)	8 424	63,8%
over 360 days	53 854	(53 854)	-	100,0%
Total loans collectively assessed	**1 441 775**	**(94 918)**	**1 346 857**	**6,6%**
Total loans	**3 954 277**	**(376 157)**	**3 578 120**	**9,5%**

** Comparative data as of 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.*

The table below provides information on the credit quality of loans to customers at 31 December 2018. Unless otherwise noted, the amounts of financial assets in the table reflect the gross carrying amount.

In thousands of Belarusian Rubles	**12-monts expected credit losses**	**Lifetime expected credit losses for not credit-impared assets**	**Lifetime expected credit losses for credit-impared assets**	**Credit-impared assets upon initial recognition**	**Total**
Loans to customers					
Low risk*	557 551	398 186	-	-	**955 737**
Medium risk*	1 754 776	313 664	-	21 161	**2 089 601**
High risk*	2 600	611 916	-	2 037	**616 553**
Defoult*	-	-	178 035	96 205	**274 240**
Finance lease receivables for which rating* is undetermined					
Undue	-	795 891	-	-	**795 891**
from 1 to 89 days	-	78 083	-	-	**78 083**
over 90 days	-	-	27 980	-	**27 980**
Total loans to customers	**2 314 927**	**2 197 740**	**206 015**	**119 403**	**4 838 085**
Allowance for impairment	(43 177)	(197 600)	(153 028)	26 985	**(366 820)**
Total loans to customers net of allowance for impairment	**2 271 750**	**2 000 140**	**52 987**	**146 388**	**4 471 265**

** Description of internal sysmem of risk assessment for borrowers without international credit rating is in Note 23.*

As at 31 December 2018 loan portfolio included 38 loans with extended maturity in the gross carrying amount of 73 294 thousand of Rubles (as at 31 December 2017 – 32 loans in the amount of 71 617 thousand of Rubles).

To the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the impairment allowance on loans as at 31 December 2018 would be 44 713 thousand of Rubles lower/higher (31 December 2017: 35 781 thousand of Rubles).

Significant changes in the gross carrying amount of the loan portfolio are explained below:

In thousands of Belarusian Rubles	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount under IAS 39 as at 31 December 2017					**3 954 277**
Effect of POCI assests changes					**(12 671)**
Gross carrying amount under IFRS 9 as at 1 January 2018	**2 044 917**	**1 606 076**	**178 392**	**112 221**	**3 941 606**
Transfer to Stage 2	(365 996)	407 266	(41 270)	-	-
Transfer to Stage 3	(4 933)	(133 031)	137 964	-	-
Originated or purchased financial assets	842 456	489 218	-	4 750	**1 336 424**
Financial aessets that have been derecognized	(185 350)	(54 693)	(11 536)	-	**(251 579)**
Write-offs	-	-	(54 079)	-	**(54 079)**
Unwinding of discount	-	-	5 965	-	**5 965**
Other changes	(16 167)	(117 096)	(9 421)	2 432	**(140 252)**
Gross carrying amount as at 31 December 2018	**2 314 927**	**2 197 740**	**206 015**	**119 403**	**4 838 085**

(b) Analysis of collateral

The following table presents information on loans by types of collateral, data is based on the carrying amount of loans, but not on the fair value of collateral:

In thousands of Belarusian Rubles	**31 December 2018**	**31 December 2017**
Penalty*	1 365 027	1 139 527
Pledge of vehicles, property and equipment (excluding real estate)	1 315 018	938 171
Pledge of real estate	1 171 791	920 456
Guarantees and suretyships	484 734	417 648
Pledge of property rights	191 906	265 062
Pledge of goods in turnover	23 201	21 992
Other types of collateral	142 812	105 648
Unsecured loans	143 596	145 773
Total loans to customers	**4 838 085**	**3 954 277**
Allowance for impairment**	(366 820)	(376 157)
Total loans to customers net of allowance for impairment	**4 471 265**	**3 578 120**

**The source of fulfillment of obligations are funds of the republican or local budget.*
*** Comparative data as of 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.*

The table above excludes the cost of overcollateralization.

From 1 January 2018 the Group changed its approaches of the valuation of the collateral taken. Since the Group focuses on the creditworthiness of borrowers, the Group generally does not review the assessed value of collateral, except in cases where the credit risk of the loan has increased significantly and the loan is more closely monitored. Accordingly, the Group does not review on a regular basis the estimated value of collateral accepted for all loans to customers. For loans for which evidence of impairment has been identified, the Group reviews the estimated collateral value, as the present value of collateral may be used in assessment of ECL as a part of credit risk management.

The possibility of non-impaired loans recovery depends more on the borrower's creditworthiness than on the collateral value, and the Group does not always assess the collateral value at each reporting date.

Until 1 January 2018, when assessing the impairment of loans to individually significant customers, the Group determined the estimated value of collateral at the balance sheet date. As of 31 December 2017, the fair value of collateral for loans that are assessed on an individual basis is as follows:

		31 December 2017	
In thousands of Belarusian Rubles	**Fair value of collateral**	**Fair value of collateral is not assessed**	**Gross value of loans**
Pledge of real estate	572 092	-	572 092
Pledge of vehicles, property and equipment (excluding real estate)	290 700	-	290 700
Guarantees and suretyships	-	287 768	287 768
Pledge of property rights	219 872	-	219 872
Other types of collateral	30 355	-	30 355
Pledge of goods in turnover	988	-	988
Penalty	-	-	1 047 893
Unsecured loans	-	-	62 834
	1 114 007	**287 768**	**2 512 502**

(c) Disclosure by branches of economy

In thousands of Belarusian Rubles	**31 December 2018**	**31 December 2017**
Construction	1 044 095	1 067 020
Agriculture	1 001 477	718 787
Services	970 878	647 859
Manufacturing	735 771	535 133
Trade	451 216	296 591
Food industry	423 543	445 699
Light industry	105 540	85 203
Lease	93 422	146 346
Other industries	12 143	11 639
Total loans to customers	**4 838 085**	**3 954 277**
Allowance for impairment*	(366 820)	(376 157)
Total loans to customers net of allowance for impairment	**4 471 265**	**3 578 120**

** Comparative data as of 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.*

(d) Credit risk concentration

As at 31 December 2018 the Group had four borrowers, whose share was over 10% of equity per borrower. The total value of these balances amounted to 1 560 859 thousand of Rubles.

As at 31 December 2017 the Group had four borrowers, whose share was over 10% of equity per borrower. The total value of these balances amounted to 1 270 903 thousand of Rubles.

(e) Finance lease receivables

The components of finance lease receivables are presented as follows:

In thousands of Belarusian Rubles	**31 December 2018**	**31 December 2017**
Up to one year	230 890	218 205
One to five years	769 237	543 036
More than five years	255 823	50 162
Minimum lease payments	**1 255 950**	**811 403**
Deferred income	(353 996)	(226 635)
Net investment in finance lease, before allowance for impairment	**901 954**	**584 768**
Allowance for impairment*	(18 889)	(110 698)
Total net investment in finance lease	**883 065**	**474 070**
Up to one year	166 311	162 001
One to five years	553 261	376 996
More than five years	182 382	45 771
Net investment in finance lease, before allowance for impairment	**901 954**	**584 768**
Allowance for impairment*	(18 889)	(110 698)
Total net investment in finance lease	**883 065**	**474 070**

** Comparative data as of 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.*

As at 31 December 2017 finance lease receivables with carrying amount of 9 091 thousand of Rubles, were pledged as collateral for bank loans granted to the subsidiaries of the Group.

(f) Effect of initial recognition of financial instruments at fair value

The effect of the initial recognition of financial instruments at fair value is represented by the difference between the nominal and fair value determined at the initial recognition, taking into account the Group's assessment of the probability of repayment of the borrowings granted, with respect to loans issued by the Group to woodworking companies.

The fair value of loans issued by the Group to woodworking companies is calculated based on the expected future cash flows at a discount rate reflecting the current market assessment of the temporary value of cash and the risks of these loans. The difference between the nominal value and fair value of loans at initial recognition is recorded in the item “Effect of initial recognition of financial instruments at fair value” of the statement of comprehensive income. Untill 1 January 2018 such loans were designated as financial assets with indicators of impairment. Since 1 January 2018 these loans were designated as credit-impaired upon initial recognition.

The total amount of undiscounted expected credit losses upon initial recognition on financial assets originally recognized during 2018 amounted to 10 640 thousand of Rubles.

14. Investment property

Investment property is represented by real estate in the form of trade areas in large cities of the Republic of Belarus, which is provided for operating lease to third parties.

Management believes that fair value of investment property is consistent with the carrying amount. The fair value of investment property is categorised within Level 3 of the fair value hierarchy.

Information on movements of investment property is presented as follows:

In thousands of Belarusian Rubles	**For the year ended 31 December 2018**	**For the year ended 31 December 2017**
Historical cost		
Opening balance	**21 220**	**-**
Additions	-	21 220
Sales	(16 207)	-
Closing balance	**5 013**	**21 220**
Accumulated depreciation		
Opening balance	**(300)**	**-**
Charge for the period	(300)	(300)
Sales	427	-
Closing balance	**(173)**	**(300)**
Residual value	**4 840**	**20 920**

In August 2018, 2 investment property objects were sold for a total amount of 23 570 thousand of Rubles.

For the year ended 31 December 2018 and the year ended 31 December 2017, total amount of all rental payments amounted to 2 186 thousand of Rubles and 2 621 thousand of Rubles, respectively.

15. Property and equipment and intangible assets

In thousands of Belarusian Rubles	**Buildings and constructions**	**Computer equipment, furniture and other equipment**	**Vehicles**	**Investments in property and equipment and intangible assets**	**Intangible assets**	**Total**
Historical cost						
As at 1 January 2017	**55 965**	**12 127**	**1 776**	**6 646**	**3 422**	**79 936**
Additions	-	-	-	20 130	-	**20 130**
Disposals	(194)	(507)	(85)	-	(11)	**(797)**
Commissioning and transfers	4 162	2 541	3 282	(12 672)	2 687	**-**
As at 1 January 2018	**59 933**	**14 161**	**4 973**	**14 104**	**6 098**	**99 269**
Additions	-	-	-	16 332	-	**16 332**
Disposals	(6)	(305)	(66)	(307)	(8)	**(692)**
Commissioning and transfers	6 948	9 630	9 816	(27 738)	1 344	**-**
At 31 December 2018	**66 875**	**23 486**	**14 723**	**2 391**	**7 434**	**114 909**
Accumulated depreciation						
As at 1 January 2017	**(1 991)**	**(3 592)**	**(713)**	**-**	**(1 138)**	**(7 434)**
Charge for the period	(748)	(1 578)	(311)	-	(871)	**(3 508)**
Write-off on disposal	10	305	85	-	5	**405**
As at 1 January 2018	**(2 729)**	**(4 865)**	**(939)**	**-**	**(2 004)**	**(10 537)**
Charge for the period	(784)	(2 549)	(2 134)	-	(1 536)	**(7 003)**
Write-off on disposal	-	175	66	-	7	**248**
At 31 December 2018	**(3 513)**	**(7 239)**	**(3 007)**	**-**	**(3 533)**	**(17 292)**
Residual value						
As at 1 January 2017	**53 974**	**8 535**	**1 063**	**6 646**	**2 284**	**72 502**
As at 1 January 2018	**57 204**	**9 296**	**4 034**	**14 104**	**4 094**	**88 732**
At 31 December 2018	**63 362**	**16 247**	**11 716**	**2 391**	**3 901**	**97 617**

Intangible assets of the Group are mainly represented by the software and license rights to use it.

16. Other assets

In thousands of Belarusian Rubles	**31 December 2018**	**31 December 2017**
Financial assets less allowance for impairment	*5 337*	*5 793*
Accounts receivable	11 383	17 342
Other	301	1 307
Allowance for impairment*	(6 347)	(12 856)
Non-financial assets	*333 145*	*151 111*
Prepayments to suppliers of subsidiaries of the Group	235 757	111 281
Tax receivable, other than income tax	92 130	34 760
Inventory	3 953	3 968
Deferred expenses	1 305	1 102
Total other assets	**338 482**	**156 904**

** Comparative data as of 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.*

17. Due to banks

In thousands of Belarusian Rubles	**31 December 2018**	**31 December 2017**
Banks of the Republic of Belarus	997 497	699 800
Banks of the Russian Federation	750 837	524 243
Banks of the European Union	310 622	235 130
Other banks	214 178	36 457
Total due to banks	**2 273 134**	**1 495 630**

As at 31 December 2018 amounts under repurchase agreements are represented by short-term loans in the amount of 88 521 thousand of Rubles received from seven Belarusian banks with maturities no later than October 2019 that are collateralized by government long-term bonds with the fair value of 87 751 thousand of Rubles (Note 12).

As at 31 December 2017 amounts under repurchase agreements are represented by short-term loans in the amount of 39 567 thousand of Rubles received from two Belarusian banks with maturities in January 2018 that are collateralized by debt securities in US dollars and Belarusian Rubles with the fair value of 30 529 thousand of Rubles and 9 531 thousand of Rubles, respectively (Note 12).

The funds attracted from Belarusian banks are mainly represented by attracted funds within the framework of the family capital management program, the terms of which are determined by the state program under the Edict No. 572. As at 31 December 2018 and 31 December 2017 the amount of funds raised under the family capital management program is 862 748 thousand of Rubles and 556 771 thousand of Rubles, respectively. Nominal interest rate on attracted funds within the framework of family capital is 1Y Libor for US dollars.

18. Customer accounts

In thousands of Belarusian Rubles	31 December 2018	31 December 2017
Deposits of the republican state administration bodies	714 731	390 938
Family capital funds	119 778	58 875
Deposits of the regional state administration bodies	84 923	136 695
Customer accounts	45 632	43 929
Total customer accounts	**965 064**	**630 437**

Deposits of republican state administration bodies as at 31 December 2018 are presented also by deposits of the Ministry of Finance of the Republic of Belarus, including the amount of 40 052 thousand of Rubles (31 December 2017: 84 344 thousand of Rubles) denominated in Belarusian Rubles with fixed rates from 0,001% to 1,0% per annum, the amount of 198 891 thousand of Rubles (31 December 2017: 190 045 thousand of Rubles) denominated in Euro with fixed rate of 1,5% per annum. The maturity of these deposits is in 2019–2022.

The deposits of the Ministry of Finance stated above were provided to the Development Bank for the acquisition of assets of the systemically important banks in 2012–2013 under the orders of the President of the Republic of Belarus and the Council of Ministers of the Republic of Belarus, and for the acquisition in 2014 of the bonds issued by the local authorities, the proceeds from the sale of which are used by the local authorities for the financing of the linen industry. Contractual interest rates for these loans and bonds are below average market interest rates. Due to the direct usage of the deposits for the acquisition of loans and bonds, the Management believes that contractual deposit rates are market rates for such deposits.

The Group initially recognized deposits at fair value equal to the par value.

Under the terms of the government program under the Edict No. 572 the Development Bank annually transfers a part of the profit to a special fund of the Development Bank for the accumulation of the part of income generated from managing the family capital funds, for subsequent transfer of these funds to the republican budget in the order and amounts determined by the Supervisory Board of the Development Bank in coordination with the Ministry of Finance. Transfer of funds to the republican budget is intended to be made at the end of each reporting period of family capital management. The order, the amount and timing of the return of the funds is determined by the Council of Ministers of the Republic of Belarus.

The changes in the balance of funds to be transferred to the budget is presented below:

In thousands of Belarusian Rubles	For the year ended 31 December 2018	For the year ended 31 December 2017
Balance at the beginning of the period	**58 875**	**22 438**
Allocation of profit from family capital management	55 318	36 275
Revaluation of the balance of funds to be transferred to the budget	5 585	162
Balance at the end of the period	**119 778**	**58 875**

19. Debt securities issued

In thousands of Belarusian Rubles	Range of interest rates*	Maturity	31 December 2018	31 December 2017
Bonds held by the National Bank	RR	2023 - 2051	1 244 389	1 346 669
Debt securities with floating rate	RR - RR+2%	2019 - 2025	474 225	438 986
Debt securities with fixed rate	2% - 6%	2019 - 2027	204 310	102 225
Total debt securities issued			**1 922 924**	**1 887 880**

** RR – refinancing rate, established by the National Bank*

As at 31 December 2018 bonds in the amount of 14 054 thousand of Rubles (as at 31 December 2017: 11 906 thousand of Rubles), nominated in Belarusian Rubles were issued by the Group at the interest rates lower than those prevailing in the securities market. Due to the specificity of the counterparties and the direction of use of the attracted amounts the benefit of low interest rate debt securities is treated as a government grant and determined as the difference between the fair value and the amount received (Note 20).

20. Government grants

In thousands of Belarusian Rubles	For the year ended 31 December 2018	For the year ended 31 December 2017
Balance at the beginning of the period	**372 830**	**232 148**
Amortization for the period	(2 274)	(2 651)
Additions for the period	151 910	143 333
Balance at the end of the period	**522 466**	**372 830**

The Group recognized as a government grant the amount of benefits provided to the Group by low interest rates on deposits attracted from state-owned banks under the family capital management program, on placing of own debt securities to government bodies and legal entities to finance government programs. As at 31 December 2018 and 31 December 2017 the amount of government grant referred to the funds attracted under the family capital management program is 512 060 thousand of Rubles and 360 150 thousand of Rubles, respectively. At initial recognition these deposits and borrowings are recognized at fair value measured using appropriate market interest rates for instruments that are considered to be similar, if any. The difference between the fair value and the amount received is recognized as a government grant. Subsequent to initial recognition, the Group recognizes in profit or loss part of the state subsidy in the amount equal to the amortization charge of the relevant liability.

21. Other liabilities

In thousands of Belarusian Rubles	31 December 2018	31 December 2017
Financial liabilities	*43 501*	*20 676*
Due to suppliers	42 756	20 154
Other	745	522
Non-financial liabilities	*15 018*	*11 365*
Provision for contingent liabilities (Note 27)	10 802	6 435
Taxes payable, other than income tax	1 320	2 617
Other	2 896	2 313
Total other liabilities	**58 519**	**32 041**

22. Share capital

(a) Issued capital

The majority stake of the Development bank is owned by the Republic of Belarus. The State Property Committee of the Republic of Belarus acts as holder of the shares of the Council of Ministers of the Republic of Belarus.

As at 31 December 2018 and 31 December 2017, declared, issued and fully paid share capital consisted of 150 058 610 and 125 558 610 ordinary shares. The par value of shares is 10 Rubles.

As at 31 December 2018 the share capital was 1 696 694 thousands of Rubles, including in the hyperinflation effect of 230 134 thousands of Rubles and fair value adjustment of increase in share capital through investment of shares of JSC “Promagroleasing” in the amount of (34 026) thousand of Rubles.

On 14 August 2018 the additional increase of the share capital of the Development Bank at the expense of republican budget amounted to 245 000 thousand of Rubles in accordance with the Decree of the President of the Republic of Belarus.

All common (ordinary) shares are fully paid, give the right to one vote, as well as the right to receive dividends and participation in residual assets.

(b) Dividends

According to the Belarusian legislation, the Development Bank distributes profits in the following two ways:

- as generation of and contributions to the funds;
- as dividends.

As at 31 December 2018 the Group’s dividends for 2017 in the amount of 33 531 thousand of Rubles were declared and paid, including 26 246 thousand of Rubles of the Development Bank. Total dividends per 1 share of the Development Bank amounted to 0,27 Rubles in 2017.

As at 31 December 2017 the Group’s dividends for 2016 in the amount of 32 924 thousand of Rubles were declared and paid, including 29 147 thousand of Rubles of the Development Bank. Total dividends per 1 share of the Development Bank amounted to 0,26 Rubles in 2016.

Payment of dividends is made on the basis of resolution of the General Meeting of Shareholders through the distribution of net profit recognized in the financial statements prepared in accordance with the Belarusian legislation.

23. Risk management

The Group maintains and develops the risk management system in compliance with the requirements of international risk management standards, including the recommendations of the Basel Committee on Banking Supervision as well as the requirements and recommendations of the National Bank.

The top-level document that defines standard requirements for the Development Bank and the members of the Group regarding the organization of the risk management system is the Risk Management Policy in the Group, according to which the main objectives of the risk management system in the Group are:

- ensuring long-term financial reliability of the Group members while attaining its strategic objectives;
- ensuring capital adequacy under international financial reporting standards to cover the risks of the Group.

These objectives are achieved by completing the following tasks:
- developing the adequate risk management organizational structure that complies with the nature, complexity and volumes of transactions performed;
- making each Group’s employee understand the importance of procedures designed to identify risks and measures taken to reduce the Group’s exposure as well as ensure personal involvement and accountability for high performance within their roles and responsibilities;
- formation of a risk management process, both at the level of deals (transactions) performed and at the portfolio level, which implies the aggregation of homogeneous deals (transactions);
- creation of effective interaction within the framework of the information exchange system between the Group's participants, ensuring regular information about the risks in the Group at all levels of the organizational and functional structure of the risk management system.

The organizational structure of the risk management system of the Group is represented at five levels:

The first level is represented by the Supervisory Board, which provides for organizing risk management system, the elimination of conflicts of interest and the conditions of their occurrence in the risk management process, establishes the business strategy, monitors the effectiveness of the risk management system. Risk Management Committee, Audit Committee, Committee on Budget, Remunerations and Appointments, Strategic Development Committee are established and operate under the Supervisory Board.

The second level is represented by the Management Board, which organizes the risk management system and ensures that the goals and objectives established by the Supervisory Board in this area are met. Within the frames of powers and responsibilities established by the Management Board of the Development Bank the Committees (such as Credit and Finance Committees, Committee on Toxic Assets Management) are functioning.

The third level is represented by an officer responsible for risk management in the Development Bank and the risk management department.

The functions of the Risk Officer in the Development Bank are:
- regularly monitors the provision of independent risk management functions, as well as general control over the level of risks of the Development Bank, including risk tolerance approved by the Supervisory Board;
- organizes the development of risk management strategies of the Development Bank as an integral part of its development strategy;
- organizes planning of actions aimed at the development of strategic goals, including the development of risk management;
- makes proposals for improving the activities related to the organization of the risk management system, eliminating the conflict of interests and the conditions for its occurrence in the risk management process;
- performs other functions.

Risk management department's responsibilities include:

- independent assessment, monitoring, risk limiting and control, stress testing of the Group's exposure to risk factors, with the elaboration of measures designed to limit and optimize risks;
- ensuring the continuous informing of the Management bodies and the Risk Officer on risk management issues.

The fourth level is represented by other units engaged in risk management within their competence.

The fifth level is represented by the Internal Audit sector, which assesses the effectiveness of the risk management system as well as monitors its compliance with local regulatory legal acts regulating risk management issues.

The Group risks are monitored using the consolidated risk-profile, management reporting to be considered by the Supervisory Board, Risk Management Committee of the Supervisory Board, Management Board, officer responsible for risk management in the Development Bank, executive directors supervising the activities of JSC "Promagroleasing" and UE "BR-Consult".

The Group identifies the following main types of risks that have or may have an impact on its activity:

- market risk (interest risk and currency risk);
- credit risk;
- liquidity risk;
- country risk;
- operational risk;
- other risks (reputation risk, strategic risk).

(a) Market risk

Market risk is the risk that the Group will incur losses or failure to receive the expected capital gains from the changes in the value of balance sheet and off-balance sheet items related to the trading portfolio as well as the value of items denominated in foreign currencies and commodities as a result of changes in market prices of financial instruments and commodities due to changes in foreign currency exchange rates, market interest rates and other factors.

Market risk arises from open positions on interest rate, currency and equity financial instruments that are exposed to general and specific market movements and changes in the level of market prices volatility.

(i) Interest rate risk

Interest rate risk is the risk of losses and failure to receive the expected capital gains from changes in the value of balance sheet and off-balance sheet items due to fluctuations in interest rates.

The interest rate policy is aimed at determining the optimal approaches to setting interest rates on raised/allocated funds and receiving interest income, which allows to cover maintenance expenses of the Group and to make specific allowance for potential losses on off-balance assets and operations. The total Group's interest rate risk is most significantly affected by the interest rate risk of the Development Bank. The implementation of the Development Bank's interest rate policy is carried out by structural units responsible for developing the rationale for the interest rates applied and funds raising/allocation decisions as well as by the Finance Committee of the Development Bank (except for the cases when the cost of income generating assets and paid liabilities is determined in regulatory legal acts as well as by the Supervisory Board of the Development Bank and the Management Board of the Development Bank).

In the interest rate risk management process the following basic tools (methods) are used:
- establishment and control of interest rate risk tolerance indicators set up by the Supervisory Board of the Development Bank;
- development and analysis (for consideration by the Finance Committee) of the Plan of Financing Government Programs and Activities by the Development Bank in conjunction with the resource provision of the planned lending operations, indicating the value of loans (including the reimbursement/compensation of losses of the Development Bank) and funding;
- elaboration of the issues of the systemically important banks’ assets transfer to the balance sheet of the Development Bank in conjunction with the planned funding (its terms and cost);
- development and analysis of the Forecast Balance sheet, the budget of the Development Bank, funding matrix;
- exercising the Group’s rights under contractual relationships to terminate contracts early (in accordance with the law);
- forming the system of key interest rate risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to interest rate risk factors;
- conducting a comprehensive assessment of interest rate risk level through formation of risk assessment analysis card of the Development Bank and the Group;
- planning of the profitability of operations (including, the target weighted average return depending on funding sources);
- application of standard interest rates, inclusion in loan agreements of clauses providing the possibility for the Development Bank to revise interest rates in the event of occurrence of events specified in the contract;
- development and analysis of the interest rate risk profile;
- assessment of the impact of interest rate risk on interest income and the financial result of the Group;
- analysis of the structure of income assets and paid obligations for the detection of concentration zones (in particular, the terms of the return obtained non-targeted resources, financing of target assets by non-targeted obtained resources);
- formation and analysis of the revaluation schedule of assets and liabilities sensitive to changes of the interest rate;
- analysis of drafts of local regulations of the Development Bank on the use of instruments to reduce various types of interest risk;
- assessment of the negative impact of liquidity and credit risk factors on the Group’s interest rate risk;
- monitoring and analysis of the macroeconomic parameters of the Republic of Belarus to determine a possible scenario for further dynamics of the basic indicators (in particular, inflation, exchange rate dynamics, current account balance) that can influence the further trend of interest rate changes.

Cash flow sensitivity analysis to changes in interest rates

The sensitivity analysis of profit or loss for the year to changes in market interest rates on financial instruments with floating rates is based on a simplified scenario of a parallel decrease or increase in yield curves by 100 basis points and positions on interest-bearing assets and liabilities in effect as at 31 December 2018 and 31 December 2017, and can be represented as follows:

	31 December 2018		31 December 2017	
In thousands of Belarusian Rubles	**Profit (or loss)**	**Equity**	**Profit (or loss)**	**Equity**
Increase of interest rates by 100 basis points	17 673	13 268	25 572	19 186
Decrease of interest rates by 100 basis points	(17 673)	(13 268)	(25 572)	(19 186)

Sensitivity analysis of fair value changes of investment securities to interest rate changes

Equity sensitivity analysis to fair value changes of financial assets due to interest rate changes (prepared based on positions effective as at 31 December 2018 and 31 December 2017, and simplified scenario of parallel increase or decrease of interest rates in yield curves by 100 basis points) can be represented as follows.

	31 December 2018		31 December 2017	
In thousands of Belarusian Rubles	**Increase by 100 b.p.**	**Decrease by 100 b.p.**	**Increase by 100 b.p.**	**Decrease by 100 b.p.**
Investment securities FVOCI	(39 668)	52 962	(23 909)	32 973
Net effect on equity	**(39 668)**	**52 962**	**(23 909)**	**32 973**

Influence on equity is determined taking into account the tax effect calculated with the use of the theoretical income tax rate applicable to the Development Bank and relevant entity of the Group.

(ii) Currency risk

Currency risk is the risk of losses and failure to receive expected capital gains from changes in the value of the Group’s balance sheet and off-balance sheet items denominated in foreign currencies due to changes in foreign currency exchange rates.

The Group has assets and liabilities denominated in foreign currencies. Currency risk arises when the available or expected assets in any foreign currency are either above or below the available or expected liabilities denominated in the same currency.

The Group applies the following instruments to manage currency risk:
- ensuring compliance with the standard for limiting currency risk established for the Development Bank by the National Bank;
- establishment and control of currency risk tolerance indicators;
- implementation of the Credit Policy according to which loans in foreign currency are provided for the realization by borrowers of currency-repaid investment projects and (or) if the borrower has revenue in foreign currencies in the amount enough to fulfill its obligations to the Development Bank;
- forming the system of key currency risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to currency risk factors;
- conducting a comprehensive assessment of exchange risk level through formation of risk assessment analysis card of the Development Bank and the Group;
- application of hedging instruments, particularly, performing currency transactions and transactions with financial instruments (forward transactions, swap transactions);
- diversification of currency structure of assets and liabilities;
- formation of proposals to eliminate currency risk.

The following table shows the structure of financial assets and liabilities by currency as at 31 December 2018:

In thousands of Belarusian Rubles	**BYN**	**EUR**	**USD**	**RUB**	**Other currencies**	**Total**
Assets						
Cash and cash equivalents	3 042	8 847	20 260	10 564	421	**43 134**
Due from banks	387 245	94 411	58 392	17 856	-	**557 904**
Investment securities	861 144	458 456	1 031 279	-	-	**2 350 879**
Loans to customers	2 421 056	831 971	962 492	253 194	2 552	**4 471 265**
Other financial assets	2 330	80	350	2 390	187	**5 337**
Total assets	**3 674 817**	**1 393 765**	**2 072 773**	**284 004**	**3 160**	**7 428 519**
Liabilities						
Due to banks	27 007	1 042 130	1 159 926	44 071	-	**2 273 134**
Customer accounts	472 933	235 271	119 897	136 963	-	**965 064**
Debt securities issued	1 752 668	65 383	104 873	-	-	**1 922 924**
Other financial liabilities	31 327	321	513	11 334	6	**43 501**
Total liabilities	**2 283 935**	**1 343 105**	**1 385 209**	**192 368**	**6**	**5 204 623**
Net currency position	**1 390 882**	**50 660**	**687 564**	**91 636**	**3 154**	**2 223 896**

Fair value of derivative foreign-currency denominated financial instruments is included in this analysis by currencies. The analysis of currency risk of derivative financial instruments as at 31 December 2018 is presented in the following table:

In thousands of Belarusian Rubles	**BYN**	**EUR**	**USD**	**RUB**	**Other currencies**	**Total**
Claims under derivative financial instruments	-	4 947	-	49 629	-	54 576
Liabilities under derivative financial instruments	-	(49 468)	(4 948)	-	-	(54 416)
Net position on derivative financial instruments	**-**	**(44 521)**	**(4 948)**	**49 629**	**-**	**160**
Total open currency position	**1 390 882**	**6 139**	**682 616**	**141 265**	**3 154**	**2 224 056**

The following table shows the structure of financial assets and liabilities by currency as at 31 December 2017:

In thousands of Belarusian Rubles	**BYN**	**EUR**	**USD**	**RUB**	**Other currencies**	**Total**
Assets						
Cash and cash equivalents	3 132	10 844	39 804	13 705	627	68 112
Due from banks	249 055	118 208	59 946	37 941	-	465 150
Investment securities	918 057	318 737	491 014	-	-	1 727 808
Loans to customers	2 210 246	602 971	549 205	213 710	1 988	3 578 120
Other financial assets	1 307	391	338	3 500	257	5 793
Total assets	**3 381 797**	**1 051 151**	**1 140 307**	**268 856**	**2 872**	**5 844 983**
Liabilities						
Due to banks	50 359	788 186	627 929	29 156	-	1 495 630
Customer accounts	235 680	219 333	58 875	116 549	-	630 437
Debt securities issued	1 817 562	70 318	-	-	-	1 887 880
Other financial liabilities	15 381	99	52	5 119	25	20 676
Total liabilities	**2 118 982**	**1 077 936**	**686 856**	**150 824**	**25**	**4 034 623**
Net currency position	**1 262 815**	**(26 785)**	**453 451**	**118 032**	**2 847**	**1 810 360**

Fair value of derivative foreign-currency denominated financial instruments is included in this analysis by currencies. The analysis of currency risk of derivative financial instruments as at 31 December 2017 is presented in the following table:

In thousands of Belarusian Rubles	**BYN**	**EUR**	**USD**	**RUB**	**Other currencies**	**Total**
Claims under derivative financial instruments	-	-	-	11 392	-	11 392
Liabilities under derivative financial instruments	-	-	(11 382)	-	-	(11 382)
Net position on derivative financial instruments	**-**	**-**	**(11 382)**	**11 392**	**-**	**10**
Total open currency position	**1 262 815**	**(26 785)**	**442 069**	**129 424**	**2 847**	**1 810 370**

As at 31 December 2018 and 31 December 2017, 45.5% and 39.0% of loan portfolio respectively are represented by foreign currency loans. Depending on the borrowers’ cash flows, the increase of foreign currency exchange rates against the Belarusian Ruble (BYN), all other things being equal, may have negative impact on the ability of borrowers to repay loans, which in turn increases the likelihood of future loan losses.

Sensitivity analysis of profit or loss for the period resulting from changes in exchange rates (based on the positions effective as at 31 December 2018 and 31 December 2017 and a simplified scenario of 30% appreciation and 10% depreciation of the foreign currencies presented in the balance sheet against the Belarusian Ruble) can be presented as follows:

	31 December 2018		**31 December 2017**	
In thousands of Belarusian Rubles	**Profit (or loss)**	**Equity**	**Profit (or loss)**	**Equity**
Strengthening of EUR by 30%	1 842	1 857	(8 036)	(5 745)
Weakening of EUR by 10%	(614)	(619)	2 679	1 915
Strengthening of USD by 30%	204 785	157 113	132 621	101 756
Weakening of USD by 10%	(68 262)	(52 371)	(44 207)	(33 919)
Strengthening of RUB by 30%	42 380	34 321	38 827	31 475
Weakening of RUB by 10%	(14 127)	(11 440)	(12 942)	(10 492)

Influence on equity is determined taking into account the tax effect calculated with the use of the theoretical income tax rate applicable to the Development Bank and relevant entity of the Group.

(b) Credit risk

The Group is exposed to credit risk, which is the risk of the Group incurring loss or failing to receive the expected income due to non-fulfillment, untimely or incomplete fulfillment of financial or other property obligations to the Group by debtors under contract terms or the law.

The main purpose of credit risk management is keeping the credit risk at an acceptable level to ensure the financial stability of the Group.
This objective is achieved by performing the following tasks:

- establishment and control of credit risk tolerance indicators;
- organization of the lending process that ensures the proper separation of powers and responsibilities, eliminates conflicts of interest in decision making and performing transactions exposed to credit risk;

- competitive selection of investment projects in cases determined by law;
- identification and analysis of credit risk factors at the borrower (group of related borrowers) level/financed project level, as well as at the loan portfolio level;
- keeping the methodological procedures on performance of transactions exposed to credit risk, organization of lending process and the credit risk management system up to date;
- ensuring good operation of the credit risk monitoring system, which allows to identify negative trends in credit risk changes at the borrower (group of related borrowers) level, as well as at the loan portfolio level;
- use of credit risk limits system and exercising control over compliance with those limits;
- forming the system of key credit risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to credit risk factors;
- conducting a comprehensive assessment of credit risk level through formation of risk assessment analysis card of the Development Bank and the Group;
- use of modern information systems, software and hardware that enable the collection, processing and analysis of information in order to manage credit risk;
- assessment of credit risk level (size) made by risk management department independently from business units;
- continuous and timely preparation and submission of management reporting on credit risk to the Supervisory Board, the Risk Management Committee of the Supervisory Board, the Management Board, the Credit Committee, the Risk Officer in the Development Bank.

In order to minimize credit risk the Group organizes the lending process according to the following principles:
- collective decision-making;
- separation of decision-making powers subject to risk exposure;
- decision-making based on prudent risk assessment;
- monitoring credit-related transactions until the client fulfills his obligations to the Group in full;
- comprehensive assessment of risk exposure during consideration and decision-making.

The credit risk management system operates at the borrower level/financed project level and the loan portfolio level.

The credit risk management at the borrower level/financed project level aims at minimizing risks of each credit transaction and includes:
- assigning credit rating to the client based on the relevant internal regulations;
- classifying customers' debt by credit risk level and forming of allowances for potential losses on transactions exposed to credit risk;
- assessment of compliance with credit risk limits at the client level;
- considering business plans of all investment projects by specialized structural unit;
- making report on feasibility (non-feasibility) of the credit transaction by the lending service;
- performing risk expertise of credit transactions by risk management, including the assessment of customer, project, collateral risks;
- considering the credit transaction by the authorized body of the Group;
- performance of credit monitoring until the client fulfills his obligations to the Group in full, including:
  - allocating a risk area to the project according to early warning signals;
  - developing a system of measures to address distressed projects including involving local authorities, ministries and state agencies.

Credit risk management at the loan portfolio level is carried out by the following ways:
- portfolio structuring based on segment analysis and monitoring indicators of credit risk concentration;

- portfolio diversification by maturities, currencies, types of collateral, industries;
- control of compliance with credit risk limits at the loan portfolio level set by the authorities, credit portfolio quality (with inclusion in the system of material incentives);
- assessment of compliance of planned and actual indicators of the credit risk level (size);
- monitoring trends in indicators of debt volume, structure (by maturities, industries, currencies etc.) and (potentially) bad debt share;
- continuous keeping and analyzing customer and industry databases based on internal and external sources;
- organization of work with bad debts.

In assessing the expected credit loss, the Group assesses whether there has been a significant increase in the credit risk of a financial asset since its initial recognition.

Significant increase in credit risk

In making an assessment whether there has been a significant increase in the credit risk of a financial instrument since its initial recognition, the Group considers reasonable and verified information that is appropriate and available without undue expenses or effort. The evaluation includes both quantitative and qualitative information, as well as analysis, which is based on the Group's historical experience, expert evaluation of credit quality and predictive information.

The criteria for determining a significant increase in credit risk are different depending on the portfolio and include both quantitative changes in the probability of default and qualitative factors, including the “limiter” indicator in terms of the delay. When assessing for a significant increase in credit risk, the expected credit loss for the remaining full term is corrected with due allowance for the amendment of repayment period.

Based on an expert assessment of credit quality and, where is possible, relevant historical experience, the Group can conclude that there has been a significant increase in credit risk of a financial instrument if certain qualitative indicators indicate this which are indicators of a significant increase in the credit risk, the effect of which cannot be timely identified completely as part of quantitative analysis.

Below is a list of qualitative characteristics, and the identification of them the Group recognizes a significant increase in the credit risk:
- a reduction in the international credit rating of a counterparty bank or a sovereign securities issuer, or a decrease in the rating calculated on the basis of the Group's internal methodology, from the initial recognition by one step but not below the pre-default level (the “Ca” rating by the methodology of Moody's, “CC-”- according to S & P methodology, “CC”- according to Fitch methodology);
- a decrease in the internal credit rating of the borrower to the level of “high” with the initial recognition of an asset with internal credit ratings “low” or “medium”;
- the availability at the reporting date of information on major litigation, where the borrower acts as a defendant;
- loss-making activities of the counterparty bank;
- failure by the counterparty bank to comply with the standards of safe operation established by the regulator.

As a characteristic of a “limiter” indicative a significant increase in the credit risk for a financial asset since its initial recognition, the Group considers the existence of a delay in this asset for more than 30 days, or for assets in banks and sovereign debts over 10 days. The number of days of arrears is determined by counting the number of days, starting from the earliest day, when full payment was not received. Dates of payment are determined without taking into consideration the grace period that can be provided to the borrower.

Forecast information

Group includes forecast information both in the assessment for a significant increase in credit risk since the initial recognition of the financial instrument and in the assessment of expected credit losses. The group uses expert judgment to evaluate the forecast information. This assessment is also based on information obtained from external sources. External information may include economic data and forecasts published by government bodies, such as the National Bank of Belarus, the Ministry of Finance, and other official sources of information.

Group has identified and documented a list of the main factors affecting the assessment of credit risk and credit losses for each portfolio of financial instruments and, using historical data analysis, assessed the relationship between macroeconomic variables, credit risk and credit losses. Forecasts of GDP are defined as a key factor. Economic scenarios used as at December 31, 2018, included the following key performance indicators for the Republic of Belarus and the selected regions for the years ended 31 December 2019 and 2020.

	2019	***2020***
Growth of GDP of the Republic of Belarus	Basic rate 2,89%	Basic rate 2,32%
Growth of GDP of the USA	Basic rate 2,3%	Basic rate 2,13%
Growth of GDP of Eurozone	Basic rate 1,5%	Basic rate 1,7%
Growth of GDP of Russian Federation	Basic rate 1,5%	Basic rate 1,8%
Growth of GDP of Central America	Basic rate 1,8%	Basic rate 1,3%

The projected ratios between the key indicator, the events of default and the level of losses for various portfolios of financial assets were developed on the basis of historical data analysis for the last 3-10 years.

The use of internal classification by credit ratings

Counterparty banks

For banks, which have an international rating, the classification is carried out according to that rating. Ratings set by Moody's methodology, S&P and Fitch are taken into account.

For banks, which do not have an international rating, quasi-rating is calculated. For quasi-rating calculation Group uses the combination of factors used by international rating agencies and compare key performance indicators with a set of similar banks which have an international rating. When determining the quasi-rating, the rating of the country in which the bank is a resident is used.

The final rating calculated by internal methodology is divided into “Low” - corresponds to the investment-grade credit risk by the methodology of Moody's, S&P and Fitch, “Medium” is the level of credit risk defined between non-investment grade and highly speculative according to methodology of Moody's, S&P and Fitch, “High” - corresponds to a substantial and extremely speculative risk by the methodology of Moody's, S&P and Fitch and “Default” - corresponds to the default rating by the methodology of Moody's, S&P and Fitch.

Government bodies

For the government bodies rating corresponds to the long-term credit rating of the Republic of Belarus, which, as at December 31, 2018 is set by S&P and Fitch at B level and by Moody's at B3 level, which corresponds to the “Medium” risk level by the Group's internal methodology.

Corporate clients

The internal credit rating is determined in accordance with the Development Bank’s internal methods and is divided into “Low”, “Medium”, “High” and “Default”.

“Low” risk is assigned to borrowers who have a stable and positive financial performance, without restructuring facts and without overdue debt over 30 days.

“Medium” risk is assigned to borrowers who have a positive financial performance, without restructuring facts during the previous 12 months before the reporting date, rescheduling of maturity dates within 2 years preceding the reporting date as well as without overdue debt over 30 days, but for which for certain quantitative and qualitative performance indicators Group assigns a medium risk. These indicators include: assessments of financial condition, state of payments, growth dynamics, turnover estimates, debt burden, business risk and credit history.

“High” risk is assigned to borrowers whose obligations to the Group have not been defaulted and for which at least one of the following conditions is met:
- there is a rescheduling of intermediate maturities dates for the borrower’s financial assets within 2 years preceding the reporting date;
- there is an overdue debt over 30 days and less than 90 days as at reporting date.

“Default” is assigned to borrowers for which at least one of the following conditions is met:
- significant weakening of financial standing of the company;
- there is an overdue debt over 90 days;
- forced restructuring due to financial difficulties of the debtor, within the previous 12 months before the reporting date.

The Group also applies the concept of cure of credit debt. Cure of credit debt is a way out of the state of default due to improved credit quality of debt.

The observation period for determining the cure of credit debt after a forced restructuring is 12 months, after the presence of overdue debt more than 90 days – the period of the debtor's full repayment of his debt, increased by 90 days. In the event of bankruptcy of the debtor or write-off of the financial asset, cure of the credit debt is impossible.

The maximum exposure to credit risk is generally recorded in the Carrying amount of financial assets in the consolidated statement of financial position and in the amount of unrecognized contractual commitments. Possible netting of assets and liabilities is not significant for reduction of the potential credit risk.

The maximum exposure to credit risk in respect of financial assets as at 31 December 2018 and 31 December 2017 may be presented as follows:

In thousands of Belarusian Rubles	**31 December 2018**	**31 December 2017**
Assets		
Cash and cash equivalents	43 134	68 112
Due from banks	557 904	465 150
Investment securities	2 350 879	1 727 808
Loans to customers	4 471 265	3 578 120
Other financial assets	5 337	5 793
Total maximum exposure	**7 428 519**	**5 844 983**

(c) Liquidity risk

Liquidity risk is a risk of the Group’s losses, failure to receive the expected income due to the inability to fulfill its obligations on time and in full. Liquidity risk arises as a result of imbalance of terms of the Group’s financial assets and financial liabilities (including untimely fulfillment of financial obligations by one or more counterparties) and (or) an unexpected need for immediate and simultaneous fulfillment of the Group’s financial obligations.

The Group distinguishes the following types of liquidity risk:
- funding liquidity risk is a risk of losses, failure to receive the expected income due to inability to efficiently satisfy its current or future needs (expected or unexpected) in cash and (or) property for collateral;
- market liquidity risk is a risk of losses, failure to receive the expected income due to inability to easily sell or acquire assets (liabilities) at fair market value due to lack of market depth, which does not allow to increase the volume of transactions without a significant change in their prices or destabilization of the market.

The Group applies the following basic tools to manage liquidity risk:
- ensuring compliance with the standards established by the National Bank;
- establishment and control of liquidity risk tolerance indicators;
- forming the system of key liquidity risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to liquidity risk factors;
- conducting a comprehensive assessment of liquidity risk level through formation of risk assessment analysis card of the Development Bank and the Group;
- liquidity planning;
- linking (primarily in terms of direct lending) of the Development Bank's active operations with resources for amounts, timing and cost (including at the planning stage), including:
  - development and analysis of the Development Bank's Forecast Balance sheet, including linking of the expected active operations with funding sources;
  - cash flow planning and analysis to determine the liquidity gap (deficit/surplus) and to identify the main liquidity risk factors within the preparation/performance analysis of the Development Bank's Forecast Balance sheet by currency;
  - a daily forecast of the Development Bank's cash flows by currency by the Treasury;
- diversification of the Development Bank's resources and their investment directions (for financial instruments, counterparties, maturities, currencies);
- creation and maintenance of liquidity reserves of the Development Bank;
- purposeful maintenance at a minimum level of the amount of obtained funds subject to the risk of early withdrawal;

- maintaining the amount of obtained resources with long maturity (family capital funds, deposits of the Ministry of Finance, funds raised through the issuance of bonds of the Development Bank, and interbank loans with long maturities);
- control over the indicators of liquidity crisis;
- development of the Financing Plan in situations of the liquidity crisis of the Development Bank, a list of key activities aimed at restoring liquidity and identifying responsible structural units for their implementation;
- monitoring the environment making an impact on the Group's liquidity management process (developments in international financial markets, the liquidity of the banking system of the Republic of Belarus, the availability of refinancing instruments of the National Bank to commercial banks).

The table below represents an analysis of financial assets and liabilities by contractual maturities (Carrying amount) as at 31 December 2018 (the analysis is made based on ultimate contractual maturities and actual payments may differ):

In thousands of Belarusian Rubles	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	31 December 2018 Carrying amount
Financial assets					
Cash and cash equivalents	43 134	-	-	-	**43 134**
Due from banks	20 286	1 719	44 351	491 548	**557 904**
Investment securities	6 870	92 900	53 242	2 197 867	**2 350 879**
Loans to customers	151 878	184 172	923 298	3 211 917	**4 471 265**
Other financial assets	5 337	-	-	-	**5 337**
Total financial assets	**227 505**	**278 791**	**1 020 891**	**5 901 332**	**7 428 519**
Financial liabilities					
Due to banks	126 282	132 329	800 674	1 213 849	**2 273 134**
Customer accounts	49 231	104 020	46 684	765 129	**965 064**
Debt securities issued	137 402	83 631	148 233	1 553 658	**1 922 924**
Other financial liabilities	43 501	-	-	-	**43 501**
Total financial liabilities	**356 416**	**319 980**	**995 591**	**3 532 636**	**5 204 623**
Net position as at 31 December 2018	**(128 911)**	**(41 189)**	**25 300**	**2 368 696**	**2 223 896**

The table below represents an analysis of financial assets and liabilities by contractual maturities (Carrying amount) as at 31 December 2017:

In thousands of Belarusian Rubles	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**More than 1 year**	**31 December 2017 Carrying amount**
Financial assets					
Cash and cash equivalents	68 112	-	-	-	**68 112**
Due from banks	3 721	23 373	94 213	343 843	**465 150**
Investment securities	21 428	1 916	46 087	1 658 377	**1 727 808**
Loans to customers	107 798	159 076	703 491	2 607 755	**3 578 120**
Other financial assets	5 793	-	-	-	**5 793**
Total financial assets	**206 852**	**184 365**	**843 791**	**4 609 975**	**5 844 983**
Financial liabilities					
Due to banks	314 116	3 723	193 723	984 068	**1 495 630**
Customer accounts	48 549	5 011	19 625	557 252	**630 437**
Debt securities issued	69 545	51 228	40 873	1 726 234	**1 887 880**
Other financial liabilities	20 676	-	-	-	**20 676**
Total financial liabilities	**452 886**	**59 962**	**254 221**	**3 267 554**	**4 034 623**
Net position as at 31 December 2017	**(246 034)**	**124 403**	**589 570**	**1 342 421**	**1 810 360**

Further analysis of the liquidity risk considers contractual amounts of future payments on financial liabilities that are payable in accordance with the payment terms. Such amounts include future interest payments and may differ from amounts stated in the financial statements. The maturities in the item “Debt securities issued”, in particular, are up to 2051 and its interest rate is equal to the refinancing rate of the National Bank. Consequently, contractual amounts are significantly higher than carrying amounts.

In thousands of Belarusian Rubles

Financial liabilities	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total as at 31 December 2018	Carrying amount as at 31 December 2018
Due to banks	127 767	136 758	824 205	2 861 566	3 950 296	**2 273 134**
Customer accounts	53 585	112 519	75 859	793 288	1 035 251	**965 064**
Debt securities issued	144 523	126 306	320 590	2 812 801	3 404 220	**1 922 924**
Other financial liabilities	43 501	-	-	-	43 501	**43 501**
Total future payments on financial liabilities	**369 376**	**375 583**	**1 220 654**	**6 467 655**	**8 433 268**	**5 204 623**
Derivative financial liabilities, including:						
inflow	*(54 576)*	-	-	-	*(54 576)*	**-**
outflow	*54 416*	-	-	-	*54 416*	**-**
Total flows of derivative financial liabilities	***(160)***	**-**	**-**	**-**	***(160)***	**-**

In thousands of Belarusian Rubles

Financial liabilities	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total as at 31 December 2017	Carrying amount as at 31 December 2017
Due to banks	314 893	6 910	224 307	1 774 705	2 320 815	**1 495 630**
Customer accounts	50 370	8 543	34 949	590 599	684 461	**630 437**
Debt securities issued	86 187	83 601	182 542	6 372 755	6 725 085	**1 887 880**
Other financial liabilities	20 676	-	-	-	20 676	**20 676**
Total future payments on financial liabilities	**472 126**	**99 054**	**441 798**	**8 738 059**	**9 751 037**	**4 034 623**
Derivative financial liabilities, including:						
inflow	*(11 392)*	-	-	-	*(11 392)*	**-**
outflow	*11 382*	-	-	-	*11 382*	**-**
Total flows of derivative financial liabilities	***(10)***	**-**	**-**	**-**	***(10)***	**-**

(d) Country risk

The country risk is a risk of the Group’s losses, failure to receive the expected income as a result of non-fulfilment of obligations by foreign counterparties due to economic, political, social changes and due to the fact that the currency of monetary obligation may not be available to the counterparty due to the nature of legislation (regardless of the financial position of the counterparty). Within the framework of country risk management, the Group uses the following basic methods or tools:

- establishment and control of country risk tolerance indicators;
- internal control of the Anti-Money Laundering/Combating the Financing of Terrorism and Spreading of Mass Destruction Weapons line based on data provided by clients in the questionnaires;
- conducting a comprehensive assessment of country risk level through formation of risk assessment analysis card of the Development Bank and the Group;
- monitoring of country risk through the formation and analysis of the country risk profile of the Development Bank;
- establishment by the Development Bank of country limits for active operations exposed to country risk;
- forming the system of key country risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to country risk factors.

The information on the geographic concentration of financial assets and liabilities as at 31 December 2018 is presented below:

In thousands of Belarusian Rubles	**The Republic of Belarus**	**Countries of the Commonwealth of Independent States**	**Countries of the Organization for Economic Cooperation and Development**	**Other**	**Total**
Cash and cash equivalents	30 037	10 784	2 313	-	**43 134**
Due from banks	505 464	-	-	52 440	**557 904**
Investment securities	2 350 879	-	-	-	**2 350 879**
Loans to customers	4 018 205	278 419	87 224	87 417	**4 471 265**
Other financial assets	2 424	2 583	8	322	**5 337**
Total financial assets	**6 907 009**	**291 786**	**89 545**	**140 179**	**7 428 519**
Due to banks	997 497	776 060	312 093	187 484	**2 273 134**
Customer accounts	965 064	-	-	-	**965 064**
Debt securities issued	1 922 924	-	-	-	**1 922 924**
Other financial liabilities	31 595	11 716	145	45	**43 501**
Total financial liabilities	**3 917 080**	**787 776**	**312 238**	**187 529**	**5 204 623**
Open position	**2 989 929**	**(495 990)**	**(222 693)**	**(47 350)**	**2 223 896**

The information on the geographic concentration of financial assets and liabilities as at 31 December 2017 is presented below:

In thousands of Belarusian Rubles	**The Republic of Belarus**	**Countries of the Commonwealth of Independent States**	**Countries of the Organization for Economic Cooperation and Development**	**Other**	**Total**
Cash and cash equivalents	11 192	34 266	22 654	-	**68 112**
Due from banks	398 118	-	-	67 032	**465 150**
Investment securities	1 727 808	-	-	-	**1 727 808**
Loans to customers	3 280 776	187 157	270	109 917	**3 578 120**
Other financial assets	2 390	2 815	336	252	**5 793**
Total financial assets	**5 420 284**	**224 238**	**23 260**	**177 201**	**5 844 983**
Due to banks	699 800	556 691	235 130	4 009	**1 495 630**
Customer accounts	630 437	-	-	-	**630 437**
Debt securities issued	1 887 880	-	-	-	**1 887 880**
Other financial liabilities	15 551	5 032	51	42	**20 676**
Total financial liabilities	**3 233 668**	**561 723**	**235 181**	**4 051**	**4 034 623**
Open position	**2 186 616**	**(337 485)**	**(211 921)**	**173 150**	**1 810 360**

(e) Operational risk

Operational risk is a risk of the Group’s losses and (or) additional expenses as a result of non-compliance of the rules and procedures of performing banking operations and other transactions established by the Group with the legislation or failure of the personnel to comply with them, their incompetence or errors made by personnel of the Group, inadequacy or failure of systems used by the Group, including information systems, as well as due to external factors.

Operational risk management is carried out by:
- establishment and control of operational risk tolerance indicators;
- optimal distribution of authorities, responsibilities and the order of communication in the process of operational risk management;
- formation of appropriate control environment;
- elimination of conflicts of interest and the conditions for their occurrence;
- optimization of current business processes;
- development of system of limits and restrictions;
- forming the system of key operational risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to operational risk factors;
- conducting a comprehensive assessment of operational risk level through formation of risk assessment analysis card of the Development Bank and the Group;
- identifying and analyzing the main operational risk factors, keeping an internal and external database on operational risk;
- investigation of operational risk facts in order to optimize processes, systems, technologies;
- development of systems designed for banking operations automatization and information security;
- use of outsourcing;
- identification of customers and financial monitoring of their operations;
- hiring qualified personnel, development of employees’ motivation;
- development of action plans in case of unexpected situations related to operational risk;
- conducting a self-assessment of operational risk by means of questionnaire;

- factor assessment of operational risk in respect of procurement of goods (works, services) including those related to information technologies and information security with indicative cost of procurement exceeding 196 thousand Rubles;
- internal auditing.

(f) Reputational risk

Reputational risk is a risk of the Group’s losses, failure to receive the expected income as a result of reduction of customer base, decrease in other development indicators due to negative public opinion about the financial stability of the Group, the quality of services provided or the nature of activities as a whole.

Reputational risk may arise due to shortcomings in the organization of activities, malfunctioning of electronic banking systems, non-compliance with the legislation, local regulations of the Group, failure to follow the business partnership practices, violations of public morality and ethical principles in banking industry, suspected involvement of the Group or its employees in illegal financial transactions as well as illegal activities.

The following procedures are carried out as part of reputational risk management:
- establishment and control of reputational risk tolerance indicators;
- arranging for economic, internal, physical and information security, banking and business secrecy;
- identifying and analyzing the main reputational risk factors, controlling the cases of damage to business reputation;
- forming the system of key reputational risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to reputational risk factors;
- conducting a comprehensive assessment of the level of reputational risk through the formation of a risk assessment analysis card of the Development Bank and the Group;
- effective recruiting and staff placement;
- cooperation with mass media, promotion of the web-site;
- regular publication of financial statements and disclosures;
- participation of the Group in promoting sustainable social and cultural development of the state, including regular support of socially significant projects, through the provision of sponsorship.

(g) Strategic risk

Strategic risk is a risk of the Group’s losses, failure to receive the expected income as a result of errors (shortcomings) in making decisions that determine the Group's business strategy and development, and which results in nonrecognition or incomplete recognition of possible dangers that may threaten the Group's operations, incorrect or insufficiently substantiated determination of perspective areas of activity where the Group can achieve advantages over competitors, lack or provision of incomplete volume of necessary resources (financial, logistical, human resources) and organizational measures that should ensure the achievement of the objectives of the Group's activities.

The following procedures are carried out as part of strategic risk management:
- strategic planning for the year (elaborating key performance indicators of the Development Bank, tolerance indicators for risks specific for the Development Bank, plan of actions for strategic development plan realization);
- regular comprehensive stress testing of risks;
- forming the system of key strategic risk indicators and their regular monitoring;

- conducting comprehensive assessment of strategic risk level through formation of risk assessment analysis card of the Development Bank and the Group;
- monitoring of strategic risk events.

In 2016 the Supervisory Board of the Development Bank approved the Strategic Development Plan for 2016-2020 and the plan of the main activities for the implementation of the Strategy.

24. Capital management

As at 31 December 2018 and 31 December 2017 the capital adequacy ratio of the Group calculated in accordance with the requirements of the Basel Capital Accord, as set in the International Convergence of Capital Measurement and Capital Standards (adopted in July 1988, updated in November 2005) and the Amendment to the Basel Capital Accord, which incorporated market risks (updated in November 2005), was as follows:

In thousands of Belarusian Rubles	**31 December 2018**	**31 December 2017**
Tier 1 Capital		
Share capital	1 696 694	1 451 694
Retained earnings	331 087	177 143
Total tier 1 Capital	**2 027 781**	**1 628 837**
Translation reserve	26	784
Fair value reserve of investment securities	968	199
Total tier 2 Capital	**994**	**983**
Total capital	**2 028 775**	**1 629 820**
Risk weighted assets	7 163 099	5 293 180
Tier 1 adequacy ratio	28,31%	30,77%
General capital adequacy ratio	28,32%	30,79%

Since 2016 the Development Bank has been subject to the requirements for the adequacy of regulatory capital, calculated on the basis of current legal requirements. The minimum level of the adequacy of regulatory capital established for the Development Bank is at least 10%, the established adequacy ratio with regard to the conservation buffer as at 31 December 2018 is 11,875% (as at 31 December 2017 – 11,25%). The Development Bank fulfilled all the requirements for supervisory regulation established by the National Bank as at 31 December 2018.

25. Economic environment

Tax legislation

The current Belarusian tax legislation mainly examines tax consequences of transactions on the basis of their legal form and their accounting in accordance with the Belarusian accounting rules. Correspondingly, the Group can structure its operations in such a way so that to use the opportunities, provided by the Belarusian tax legislation for the purpose of reduction of the common effective tax rate. The results of such adjustments do not influence the amount of income before taxation and tax charges presented in these consolidated financial statements.

If any transaction is disputed by tax authorities, additional amounts of taxes can be charged and significant fines and penalties are probable.

As at 31 December 2018 the Management believes that the Group adheres to the adequate interpretations of the current legislation and the Group’s position in relation to tax issues will be supported by the controlling authorities.

Certain provisions of Belarusian business and tax legislation in particular may contain different treatments and may be applied inconsistently. In addition, interpretations made by the Management may be different from official interpretations and compliance established by law may be disputed by the controlling authorities. As a result, the Group may be subject to additional tax payments and fines and other preventive actions. The Management of the Group considers that it has made the required tax and other payments and no additional provisions are needed in the consolidated financial statements. The previous financial years remain open for consideration by the controlling authorities.

Legal claims

Periodically in the course of the Group’s activities, customers and counterparties claim against the Group. The Management believes that as a result of investigation of the cases, the Group will not incur significant losses and accordingly no provision was created in the consolidated financial statements.

26. Fair value of financial instruments

Fair value definition

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value is the quotation of financial instrument in an active market.

Hierarchy of fair value of financial instruments

For the purpose of disclosure of fair value information, the Development Bank has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability, and the level of the hierarchy of sources of fair value.

In thousands of Belarusian Rubles

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total Carrying amount**
Assets measured at fair value				
Investment securities	-	1 172 222	-	1 172 222
	-	**1 172 222**	**-**	**1 172 222**
Assets, for which fair value is disclosed				
Cash and cash equivalents	43 134	-	-	43 134
Due from banks	-	-	557 904	557 904
Investment securities	-	336 604	842 053	1 178 657
Loans to customers	-	-	4 471 265	4 471 265
Other financial assets	-	-	5 337	5 337
	43 134	**336 604**	**5 876 559**	**6 256 297**
Liabilities, for which fair value is disclosed				
Due to banks	-	1 410 386	862 748	2 273 134
Customer accounts	-	-	965 064	965 064
Debt securities issued	-	358 433	1 564 491	1 922 924
Other financial liabilities	-	-	43 501	43 501
	-	**1 768 819**	**3 435 804**	**5 204 623**

In thousands of Belarusian Rubles

31 December 2017	Level 1	Level 2	Level 3	Total Carrying amount
Assets measured at fair value				
Investment securities	-	823 020	904 788	1 727 808
	-	**823 020**	**904 788**	**1 727 808**
Assets, for which fair value is disclosed				
Cash and cash equivalents	68 112	-	-	68 112
Due from banks	-	-	465 150	465 150
Loans to customers	-	-	3 578 120	3 578 120
Other financial assets	-	-	5 793	5 793
	68 112	**-**	**4 049 063**	**4 117 175**
Liabilities, for which fair value is disclosed				
Due to banks	-	927 172	568 458	1 495 630
Customer accounts	-	-	630 437	630 437
Debt securities issued	-	126 304	1 761 576	1 887 880
Other financial liabilities	-	-	20 676	20 676
	-	**1 053 476**	**2 981 147**	**4 034 623**

Information on fair value of financial instruments recognized in the consolidated financial statements at fair value

As at 31 December 2018 and 31 December 2017 the fair value of investment securities, which interest rates and terms of circulation are close to market conditions, corresponds to their carrying amount. Investment securities classified as Level 2 are measured at fair value using observable inputs: trade value of similar debt securities with similar levels of risk, maturity and currency, and using information on the quotations of identical securities, on markets that are not active.

Recognition of securities acquired by the Group in accordance with government programs of support to sectors of the economy, contractual interest rates of which are lower than market rates, due to the specifics of government programs and categories of issuers is performed at nominal value (Note 2). As at 31 December 2018 and 31 December 2017 fair value of investment securities, interest rates of which are below market average rates, corresponds to their carrying amount. These securities are included in Level 3 of the fair value hierarchy.

Information on fair value of financial instruments not recognized in the consolidated financial statements at fair value

The carrying amount of cash, accounts with the National Bank, other financial assets and liabilities due to the short-term nature of these financial instruments approximates their fair value.

The carrying amount of due to banks, debt securities issued with interest rates, which were consistent with average market rates at the time of initial recognition, approximates their fair value as at the reporting date due to the fact that for the majority of these financial instruments variable interest rates corresponding to the current market rates are set. Part of due from banks and debt securities issued, which do not have similar financial instruments at the market and was provided under government programs, and because of their uniqueness as well as the specifics of Government loan program and the category of borrowers, form a separate market segment, the Management of the Group recognizes such instruments at fair value, which is equivalent to the book value.

For the borrowings with fixed rates, attracted from banks by the Group's subsidiaries, the fair value was determined via discounted future cash flows using current rates for debts with similar terms, credit risk and maturity.

Loans received by the Group from other state-owned banks and granted by the Group do not have similar financial instruments at the market, they were provided under government programs, and because of their uniqueness as well as the specifics of Government loan program and the category of borrowers make a separate market segment. The Management of the Group recognizes such instruments at fair value, which is equivalent to the nominal value. Interest rates on the majority of deposit contracts are set lower than the market average, however, due to the fact that these deposits are attracted to form the corresponding low-interest assets, the Management of the Group recognizes such instruments at fair value, which is equivalent to the nominal value. Accordingly, as at the reporting date, it is assumed that the fair value of these financial instruments approximates their carrying amount.

The table below represents the information on the financial liabilities, fair value of which differs from the Carrying amount. The difference is observed in debt securities issued and amounts due to banks attracted without forming relevant interrelated assets, for which the interest rates at the time of initial recognition did not correspond to the market average.

	31 December 2018		**31 December 2017**	
In thousands of Belarusian Rubles	Fair value	Carrying amount	Fair value	Carrying amount
Due to banks	2 273 134	2 273 134	1 495 645	1 495 630
Debt securities issued	1 928 127	1 922 924	1 893 221	1 887 880

The table below represents the valuation methods used for the assessment of financial instruments, which fair value significantly differs from the carrying amount, and for which significant unobservable inputs are used:

Type	**Valuation method**	**Significant unobservable data**
Loans from banks	Discounting of future cash flows	Future cash flows, denominated in the Belarusian Rubles (BYN), are discounted at the refinancing rate of the National Bank increased by a corresponding margin, denominated in the foreign currency – at the rate for similar instruments prevailing in the market as of reporting date
Debt securities issued	Discounting of future cash flows	Future cash flows are discounted at the refinancing rate of the National Bank

Movement of financial instruments that are measured at fair value and related to Level 3 of the fair value hierarchy

As at 31 December 2017, financial assets recorded at fair value and related to Level 3 of the fair value hierarchy include bonds acquired by the Group in accordance with government programs of support to sectors of the economy, contractual interest rates of which are lower than market rates. Initial recognition due to the specifics of government programs and categories of issuers is performed at nominal value (Note 2). As at 31 December 2017 fair value of investment securities, interest rates of which are below market average rates, corresponds to their carrying amount. Upon transition to IFRS 9 these securities were reclassified to the category of measured at amortized cost (Note 5).

Reconciliation of financial instruments that are measured at fair value and related to Level 3 of the fair value hierarchy is presented below:

In thousands of Belarusian Rubles	**For the year ended 31 December 2018**	**For the year ended 31 December 2017**
Opening balance	**904 788**	**933 224**
Impact of IFRS 9 on classification	(904 788)	-
Acquisition	-	175 644
Settlement and sales	-	(290 728)
Income recognized in the statement of comprehensive income	-	86 648
Closing balance	**-**	**904 788**

27. Contingent liabilities

In the medium course of its business to meet the needs of customers, the Group uses instruments that do not qualify for recognition criteria in the consolidated statement of financial position. These instruments include commitments on loans and unutilized credit lines, letters of credit issued and similar commitments, which carry credit risks of varying degrees.

The maximum Group’s exposure for contingent liabilities is equivalent to the contractual cost of those instruments in the event of default by the other party of its obligations under the transaction and the impairment of all counterclaims and security.

In regard to the contingent liabilities, the Group applies the same credit policies as for financial instruments presented in the consolidated statement of financial position.

As at 31 December 2018 and 31 December 2017, the provision for contingent liabilities recognized in “Other liabilities” amounted to 10 802 thousand of Rubles and 6 435 thousand of Rubles, respectively.

As at 31 December 2018 and 31 December 2017, the Group had not any non-cancellable operational lease liabilities.

As at 31 December 2018 and 31 December 2017, nominal amounts or amounts under the contracts amounted to as follows:

In thousands of Belarusian Rubles	**31 December 2018**	**31 December 2017**
Issued letters of credit	82 398	49 511
- covered	*40 512*	*40 770*
- uncovered	*41 886*	*8 741*

28. Non-controlling interest

The following table presents the information attributable to Group's subsidiaries with significant non-controlling interests before excluding intra-group balances.

JSC “Promagroleasing”	**31 December 2018**	**31 December 2017**
The percentage of non-controlling interest	16,93%	27,07%
Net investment in leases	883 065	474 070
Other assets	591 594	411 258
Liabilities	(892 857)	(606 259)
Net assets	**581 802**	**279 069**
Non-controlling interest	**98 499**	**75 544**

	For the year ended 31 December 2018	**For the year ended 31 December 2017**
Average percentage of non-controlling interest	23,74%	27,07%
Income	177 549	130 359
Comprehensive income	54 973	42 494
Comprehensive income attributable to non-controlling interests	**9 307**	**11 503**
Net changes in cash and cash equivalents	**12 773**	**(1 475)**

29. Transactions with related parties

The majority stake of the Development Bank belongs to the Council of Ministers of the Republic of Belarus, which has ultimate control over the Group. The Council of Ministers of the Republic of Belarus does not prepare publicly available financial statements.

Since the establishment the Development Bank has carried out its activities primarily within the performance of certain Edicts of the President of the Republic of Belarus and Resolutions of the Council of Ministers of the Republic of Belarus.

Transactions with related parties are performed by the Development Bank at the conditions equivalent to market conditions, except for the transactions under government lending programs and raising tied funds (Note 2). Conditions of transactions with investment securities are represented in Note 12, loans to customers – Note 13, customer accounts – Note 18, debt securities issued – Note 19.

Transactions of the Group with related parties are presented as follows.

							31 December 2018
In thousands of Belarusian Rubles	**State-owned organizations (under common control of the state)**	**Banks (under common control of the state)**	**Government bodies**	**The National Bank**	**Key management personnel**	**Total transactions with related parties**	**Total financial reporting item**
Cash and cash equivalents	-	29 042	-	9	-	**29 051**	**43 134**
Due from banks	100	283 167	-	-	-	**283 267**	**557 904**
Investment securities	239 698	637 719	1 388 445	23 285	-	**2 289 147**	**2 350 879**
Loans to customers, before allowance for impairment	3 112 777	-	581 429	-	-	**3 694 206**	**4 838 085**
Allowance for impairment of loans to customers	(180 424)	-	(14 878)	-	-	**(195 302)**	**(366 820)**
Current income tax asset	-	-	3 442	-	-	**3 442**	**4 344**
Deferred income tax asset	-	-	7 488	-	-	**7 488**	**7 980**
Other assets	173 607	-	91 476	-	-	**265 083**	**338 482**
Due to banks	-	932 718	-	-	-	**932 718**	**2 273 134**
Customer accounts	45 379	-	919 432	-	-	**964 811**	**965 064**
Debt securities issued	278 954	276 703	11 992	1 244 389	-	**1 812 038**	**1 922 924**
Government grants	3 706	512 060	6 700	-	-	**522 466**	**522 466**
Current income tax liability	-	-	4 693	-	-	**4 693**	**4 693**
Deferred income tax liability	-	-	2 204	-	-	**2 204**	**2 371**
Other liabilities	37 506	542	2 751	-	106	**40 905**	**58 519**

							For the year ended 31 December 2018
In thousands of Belarusian Rubles	**State-owned organizations (under common control of the state)**	**Banks (under common control of the state)**	**Government bodies**	**The National Bank**	**Key management personnel**	**Total transactions with related parties**	**Total financial reporting item**
Interest income calculated using effective interest rate method	151 906	63 155	199 233	2 645	-	**416 939**	**475 221**
Other interest income	22 099	-	211	-	-	**22 310**	**53 459**
Interest expense	(14 189)	(38 599)	(37 260)	-	-	**(90 048)**	**(148 646)**
Fee and commission income	6 648	2	1 845	-	-	**8 495**	**9 093**
Fee and commission expense	(133)	(262)	(658)	(8)	-	**(1 061)**	**(1 930)**
Net other income	13 004	-	45	-	-	**13 049**	**26 653**
Net (loss)/gain on securities transactions	(506)	(160)	-	-	-	**(666)**	**(259)**
Net gain on derivative financial instruments	-	36	-	-	-	**36**	**372**
Cost of wholesale trade of subsidiaries	(51 929)	-	-	-	-	**(51 929)**	**(91 412)**
General administrative expenses	-	-	-	-	(1 171)	**(1 171)**	**(78 188)**
Effect of initial recognition of financial instruments at fair value	(11 144)	-	-	(12 671)	-	**(23 815)**	**(23 815)**
Recovery of allowance for impairment of financial instruments	63 794	4 767	(10 348)	804	-	**59 017**	**64 904**
Income tax expenses	-	-	(64 210)	-	-	**(64 210)**	**(61 713)**

							31 December 2017
In thousands of Belarusian Rubles	**State-owned organizations (under common control of the state)**	**Banks (under common control of the state)**	**Government bodies**	**The National Bank**	**Key management personnel**	**Total transactions with related parties**	**Total financial reporting item**
Cash and cash equivalents	-	8 824	-	1 717	-	**10 541**	**68 112**
Due from banks	-	233 706	-	-	-	**233 706**	**465 150**
Investment securities	108 944	727 254	801 503	40 928	-	**1 678 629**	**1 727 808**
Loans to customers, before allowance for impairment	2 321 640	-	716 491	-	-	**3 038 131**	**3 954 277**
Allowance for impairment of loans to customers*	(205 881)	-	(21 253)	-	-	**(227 134)**	**(376 157)**
Current income tax asset	-	-	3 111	-	-	**3 111**	**3 704**
Deferred income tax asset	-	-	32 455	-	-	**32 455**	**35 520**
Other assets	87 979	-	34 753	-	-	**122 732**	**156 904**
Due to banks	-	620 925	-	-	-	**620 925**	**1 495 630**
Customer accounts	43 875	-	586 508	-	-	**630 383**	**630 437**
Debt securities issued	137 974	331 026	10 159	1 346 669	-	**1 825 828**	**1 887 880**
Government grants	4 021	360 276	8 533	-	-	**372 830**	**372 830**
Current income tax liability	-	-	4 793	-	-	**4 793**	**4 795**
Deferred income tax liability	-	-	15 839	-	-	**15 839**	**15 993**
Other liabilities	14 323	378	1 770	-	46	**16 517**	**32 041**

** Comparative data as of 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.*

							For the year ended 31 December 2017
In thousands of Belarusian Rubles	**State-owned organizations (under common control of the state)**	**Banks (under common control of the state)**	**Government bodies**	**The National Bank**	**Key management personnel**	**Total transactions with related parties**	**Total financial reporting item**
Interest income calculated using effective interest rate method	128 803	89 955	148 420	7 445	-	**374 623**	**418 450**
Other interest income	13 016	-	340	-	-	**13 356**	**36 043**
Interest expense	(13 630)	(23 257)	(32 858)	-	-	**(69 745)**	**(102 421)**
Fee and commission income	233	-	2 022	-	-	**2 255**	**3 076**
Fee and commission expense	(94)	(3 852)	(5)	-	-	**(3 951)**	**(4 897)**
Net other income	2 964	-	-	-	-	**2 964**	**9 470**
Net (loss)/gain on securities transactions	865	244	-	-	-	**1 109**	**973**
Net gain on derivative financial instruments	-	(110)	-	-	-	**(110)**	**(110)**
Cost of wholesale trade of subsidiaries	(63 983)	-	-	-	-	**(63 983)**	**(64 190)**
General administrative expenses	-	-	-	-	(1 172)	**(1 172)**	**(59 304)**
Effect of initial recognition of financial instruments at fair value	(56 915)	-	-	-	-	**(56 915)**	**(56 915)**
Recovery of allowance for impairment of financial instruments	20 087	-	(503)	-	-	**19 584**	**4 972**
Income tax expenses	-	-	(35 842)	-	-	**(35 842)**	**(34 318)**

30. Offset of financial assets and financial liabilities

Disclosure of information in the table below includes information on financial assets and financial liabilities that are subject of a legally valid master netting agreement or similar agreements applicable to similar financial instruments, regardless of whether they are offset in the consolidated statement of financial position or not.

Similar financial instruments include sale and repurchase transactions, reverse repurchase transactions, agreements of securities borrowing and lending.

The table below represents financial assets and financial liabilities that are subject of a legally valid master netting agreement or similar agreements.

In thousands of Belarusian Rubles	31 December 2018					
Types of financial liabilities	**Full amounts of recognized financial liabilities**	**Total sums of recognized financial instruments which were set off in the Statement of Financial Position**	**Net amount of financial instruments in the Statement of Financial Position**	**Cost of financial instruments that were not offset in the statement of financial position**		**Net amount**
				Financial instruments (including non-cash collateral)	**Received cash collateral**	
Sale and repurchase transactions, lending of securities or similar agreements	88 521	-	88 521	(88 521)	-	-
Total financial liabilities	**88 521**	**-**	**88 521**	**(88 521)**	**-**	**-**

In thousands of Belarusian Rubles	31 December 2017					
Types of financial liabilities	**Full amounts of recognized financial liabilities**	**Total sums of recognized financial instruments which were set off in the Statement of Financial Position**	**Net amount of financial instruments in the Statement of Financial Position**	**Cost of financial instruments that were not offset in the statement of financial position**		**Net amount**
				Financial instruments (including non-cash collateral)	**Received cash collateral**	
Sale and repurchase transactions, lending of securities or similar agreements	39 567	-	39 567	(39 567)	-	-
Total financial liabilities	**39 567**	**-**	**39 567**	**(39 567)**	**-**	**-**

31. Reconciliation of changes in liabilities and cash flows from financing activities

Reconciliation of balances in the consolidated Statement of Financial Position as at the beginning and end of the period for liabilities arising from financial activities is as follows:

In thousands of Belarusian Rubles	**For the year ended 31 December 2018**	**For the year ended 31 December 2017**
Balance of the issued debt securities at the beginning of the year	**1 887 880**	**1 827 577**
Cash flow		
Addition	535 829	303 833
Repayment	(510 876)	(246 283)
Total changes due to cash flows from financing activities	**24 953**	**57 550**
Non-cash changes		
Effect of exchange rate fluctuations	5 638	878
Total non-cash changes	**5 638**	**878**
Other changes		
Interest paid	(24 957)	(27 043)
Interest received	27 262	27 166
Amortization of government grants	2 148	1 752
Total other changes	**4 453**	**1 875**
Balance of the issued debt securities at the end of the year	**1 922 924**	**1 887 880**

32. Earnings per Share

Basic earnings per Group's share are equal to diluted earnings per share. The table below represents the calculation of earnings per share.

	For the year ended 31 December 2018	**For the year ended 31 December 2017**
Profit attributable to holders of ordinary shares, BYN thousand	317 532	217 130
Weighted average number of ordinary shares	134 351 761	125 558 610
Earnings per share, BYN	**2,36**	**1,73**

33. Segment Analysis

The Group has the following reportable segments:

- the segment for working with legal entities "Lending" - includes the provision of loans, financial leasing, purchase of securities and other transactions with legal entities, as well as transactions in its economic essence related to the servicing of legal entities and attraction of targeted funds for financing in the form of government deposits;
- the segment for work in financial markets "Operations in financial markets" - includes operations in the interbank and financial markets related to the attraction and placement of funds, operations for the purchase / sale of foreign exchange and other financial instruments, the purchase of government securities of the Republic of Belarus, bonds issued by the banks of the Republic of Belarus, securities of the National Bank and securities of local executive and administrative bodies, as well as issue of own bonds by the Development Bank.

To reflect the calculations that can not be attributed to the selected operating segments, an additional segment "Other segment" is introduced. This segment has an auxiliary character and serves only to reflect intermediate and additional calculations.

The accounting policies for the operating segments are consistent with the main accounting policies described in these consolidated financial statements.

The financial results of operating segments are formed by reflecting:
- direct income and expenses of the operating segment;
- redistributed / allocated (indirect) revenues and expenses of the segment;
- transfer revenues and segment costs.

The information on the operating segments is given below:

In thousands of Belarusian Rubles	Lending	Operations in financial markets	Other segment	Total in management accounting	Total amount of adjustments under IFRS	Total IFRS for the year ended 31 December 2018
Interest income calculated using effective interest rate method	314 890	149 181	-	**464 071**	11 150	**475 221**
Other interest income	59 160	-	-	**59 160**	(5 701)	**53 459**
Interest expense	(36 931)	(111 715)	-	**(148 646)**	-	**(148 646)**
Net interest income	**337 119**	**37 466**	**-**	**374 585**	**5 449**	**380 034**
Fee and commission income	9 093	-	-	**9 093**	-	**9 093**
Fee and commission expense	(31)	(1 333)	(566)	**(1 930)**	-	**(1 930)**
Net fee and commission income/(expense)	**9 062**	**(1 333)**	**(566)**	**7 163**	**-**	**7 163**
Net gain/(loss) on derivative financial instruments	-	372	-	**372**	-	**372**
Effect of initial recognition of financial instruments at fair value	-	-	-	**-**	(23 815)	**(23 815)**
Net income from foreign exchange operations	7 557	4 254	698	**12 509**	(2 832)	**9 677**
Net (loss)/gain on securities transactions	-	(259)	-	**(259)**	-	**(259)**
General administrative expenses	(44 486)	(16 926)	(23 072)	**(84 484)**	6 296	**(78 188)**
Recovery of allowance for impairment of financial instruments	(115 631)	(4 953)	-	**(120 584)**	185 488	**64 904**
Net other income	1 122	-	23 435	**24 557**	2 096	**26 653**
Income from wholesale trade of subsidiaries	93 865	-	-	**93 865**	(160)	**93 705**
Cost of wholesale trade of subsidiaries	(91 412)	-	-	**(91 412)**	-	**(91 412)**
Profit before tax	**197 196**	**18 621**	**495**	**216 312**	**172 522**	**388 834**
Income tax expenses	-	-	(25 634)	**(25 634)**	(36 079)	**(61 713)**
NET INCOME FOR THE YEAR	**197 196**	**18 621**	**(25 139)**	**190 678**	**136 443**	**327 121**

In thousands of Belarusian Rubles	**Lending**	**Operations in financial markets**	**Other segment**	**Total in management accounting**	**Total amount of adjustments under IFRS**	**Total IFRS 31 December 2018**
Cash and cash equivalents	-	43 134	-	**43 134**	-	**43 134**
Due from banks	-	537 151	-	**537 151**	20 753	**557 904**
Investment securities	284 713	2 096 779	-	**2 381 492**	(30 613)	**2 350 879**
Loans to customers	4 471 793	-	-	**4 471 793**	(528)	**4 471 265**
Investment property	-	-	4 840	**4 840**	-	**4 840**
Property and equipment and intangible assets	-	-	87 521	**87 521**	10 096	**97 617**
Current income tax asset	-	-	4 344	**4 344**	-	**4 344**
Deferred income tax asset	-	-	932	**932**	7 048	**7 980**
Other assets	-	-	342 221	**342 221**	(3 739)	**338 482**
Total assets	**4 756 506**	**2 677 064**	**439 858**	**7 873 428**	**3 017**	**7 876 445**
Due to banks	-	2 785 194	-	**2 785 194**	(512 060)	**2 273 134**
Customer accounts	965 064	-	-	**965 064**	-	**965 064**
Debt securities issued	-	1 933 330	-	**1 933 330**	(10 406)	**1 922 924**
Government grants	-	-	-	**-**	522 466	**522 466**
Current income tax liability	-	-	4 693	**4 693**	-	**4 693**
Deferred income tax liability	-	-	-	**-**	2 371	**2 371**
Other liabilities	-	684	52 843	**53 527**	4 992	**58 519**
Total liabilities	**965 064**	**4 719 208**	**57 536**	**5 741 808**	**7 363**	**5 749 171**

In thousands of Belarusian Rubles	**Lending**	**Operations in financial markets**	**Other segment**	**Total in management accounting**	**Total amount of adjustments under IFRS**	**Total IFRS for the year ended 31 December 2017**
Interest income calculated using effective interest rate method	256 819	156 709	-	**413 528**	4 922	**418 450**
Other interest income	40 796	-	-	**40 796**	(4 753)	**36 043**
Interest expense	(33 374)	(69 047)	-	**(102 421)**	-	**(102 421)**
Net interest income	**264 241**	**87 662**	**-**	**351 903**	**169**	**352 072**
Fee and commission income	2 975	-	101	**3 076**	-	**3 076**
Fee and commission expense	(35)	(4 742)	(120)	**(4 897)**	-	**(4 897)**
Net fee and commission income/(expense)	**2 940**	**(4 742)**	**(19)**	**(1 821)**	**-**	**(1 821)**
Net gain/(loss) on derivative financial instruments	-	(110)	-	**(110)**	-	**(110)**
Effect of initial recognition of financial instruments at fair value	-	-	-	**-**	(56 915)	**(56 915)**
Net income from foreign exchange operations	8 800	4 746	675	**14 221**	(3 924)	**10 297**
Net (loss)/gain on securities transactions	-	973	-	**973**	-	**973**
General administrative expenses	(33 208)	(11 917)	(12 973)	**(58 098)**	(1 206)	**(59 304)**
Recovery of allowance for impairment of financial instruments	(112 284)	(24 583)	-	**(136 867)**	141 839	**4 972**
Net other income	4 285	-	(1 897)	**2 388**	7 082	**9 470**
Income from wholesale trade of subsidiaries	75 124	-	-	**75 124**	(7 906)	**67 218**
Cost of wholesale trade of subsidiaries	(64 190)	-	-	**(64 190)**	-	**(64 190)**
Profit before tax	**145 708**	**52 029**	**(14 214)**	**183 523**	**79 139**	**262 662**
Income tax expenses	-	-	(17 376)	**(17 376)**	(16 942)	**(34 318)**
NET INCOME FOR THE YEAR	**145 708**	**52 029**	**(31 590)**	**166 147**	**62 197**	**228 344**

In thousands of Belarusian Rubles	**Lending**	**Operations in financial markets**	**Other segment**	**Total in management accounting**	**Total amount of adjustments under IFRS**	**Total IFRS 31 December 2017**
Cash and cash equivalents	-	92 790	-	**92 790**	(24 678)	**68 112**
Due from banks	-	418 166	-	**418 166**	46 984	**465 150**
Investment securities	174 983	1 576 539	-	**1 751 522**	(23 714)	**1 727 808**
Loans to customers	3 695 442	-	-	**3 695 442**	(117 322)	**3 578 120**
Investment property	-	-	20 920	**20 920**	-	**20 920**
Property and equipment and intangible assets	-	-	78 519	**78 519**	10 213	**88 732**
Current income tax asset	-	-	3 704	**3 704**	-	**3 704**
Deferred income tax asset	-	-	835	**835**	34 685	**35 520**
Other assets	-	-	193 083	**193 083**	(36 179)	**156 904**
Total assets	**3 870 425**	**2 087 495**	**297 061**	**6 254 981**	**(110 011)**	**6 144 970**
Due to banks	-	1 855 906	-	**1 855 906**	(360 276)	**1 495 630**
Customer accounts	630 437	-	-	**630 437**	-	**630 437**
Debt securities issued	-	1 900 434	-	**1 900 434**	(12 554)	**1 887 880**
Government grants	-	-	-	**-**	372 830	**372 830**
Current income tax liability	-	-	4 795	**4 795**	-	**4 795**
Deferred income tax liability	-	-	83	**83**	15 910	**15 993**
Other liabilities	-	432	37 441	**37 873**	(5 832)	**32 041**
Total liabilities	**630 437**	**3 756 772**	**42 319**	**4 429 528**	**10 078**	**4 439 606**

34. Subsequent events

According to the National Statistics Committee of the Republic of Belarus, the increase in consumer prices in January-February 2019 was 2,2%.

Joint-Stock Company
“Development Bank of the Republic of Belarus”

Consolidated Financial Statements
for the years ended 31 December 2017,
31 December 2016 and 31 December 2015

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Independent Auditors' Report

To the Shareholders and Management of Joint-Stock Company "Development Bank of the Republic of Belarus"

Opinion

We have audited the consolidated financial statements of Joint-Stock Company "Development Bank of the Republic of Belarus" (hereinafter referred to as "the Development Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, 31 December 2016 and 31 December 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2017, 31 December 2016 and 31 December 2015, and Notes, comprising of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, 31 December 2016 and 31 December 2015 and its consolidated financial performance and its consolidated cash flows for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Belarus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit Client: JSC "Development Bank of the Republic of Belarus"

Entered in the Unified State Register of Legal Entities No.191683861

Minsk, Belarus

Independent auditor: KPMG, Limited Liability Company, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Entered in the Unified State Register of Legal Entities No.191434140.

Emphasis of Matter

We draw attention to Note 2 of the consolidated financial statements, which describes that management has prepared the consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 for the purposes of a planned bond issuance. The Group previously issued consolidated financial statements in accordance with IFRS for those years, and these consolidated financial statements are, in all material respects, consistent with the previously issued consolidated financial statements of the Group except for certain adjustments made to the presentation of consolidated financial position, financial performance and cash flows. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan impairment allowance

See Note 13 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Impairment of loans to customers is assessed by the Group's Management based on the professional judgement, using a number of subjective assumptions. Due to significance of loans to customers (58%, 60% and 59% of the Group's total assets as at 31 December 2017, 2016 and 2015 respectively) and associated material uncertainty, this matter is the key audit matter. We focused on the most significant loans and analyzed adequacy of the collective allowance for loans impairment in comparison with the historical losses. We also analyzed the assumptions and methodology used in calculation of the impairment allowance on loans, with respect to which there are indicators of impairment.	– We have assessed and tested the entity and operating effectiveness of controls with respect to indication of loans impairment. – We have critically assessed the appropriateness of key assumptions used by the Group in calculation of allowance for loans, in respect to which impairment assessment is performed on a collective basis. The assessment also included recalculation of allowances based on the Group's historical losses. – With respect to sampling of loans, for which impairment assessment is performed on individual basis, and potential change in the allowance of which has significant effect on the consolidated financial statements, we have critically assessed assumptions used by the Group in determining expected future cash flows from operating activities and sale of collateral based on our understanding of the relevant industry and other available market information. We have also analyzed, whether disclosures in the consolidated financial statements appropriately reflect the Group's exposure to the credit risk.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditors’ Responsibility for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosure, and whether the consolidated financial statements present the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Irina Vereschagina

Partner

Director of KPMG LLC

22 August 2018

Consolidated Statement of Financial Position

In thousands of Belarusian Rubles (BYN)	Notes	31 December 2017	31 December 2016	31 December 2015
Assets				
Cash equivalents and accounts in the National Bank	10	34 215	66 395	53 626
Due from banks	11	499 047	334 255	252 803
Securities available for sale	12	1 727 808	1 520 897	1 507 390
Loans to customers	13	3 578 120	3 153 477	2 856 721
Investment property	14	20 920	-	-
Property and equipment and intangible assets	15	88 732	72 502	64 902
Current income tax asset		3 704	757	-
Deferred income tax asset	9	35 520	35 717	29 527
Other assets	16	156 904	111 181	78 802
Total assets		**6 144 970**	**5 295 181**	**4 843 771**
Liabilities				
Due to banks	17	1 495 630	986 053	678 965
Derivative financial liabilities		-	-	78
Customer accounts	18	630 437	673 983	681 530
Debt securities issued	19	1 887 880	1 827 577	1 849 177
Government grants	20	372 830	232 148	111 881
Current income tax liability		4 795	2 761	518
Deferred income tax liability	9	15 993	-	19 329
Other liabilities	21	32 041	27 708	14 922
Total liabilities		**4 439 606**	**3 750 230**	**3 356 400**
Equity				
Share capital	22	1 451 694	1 451 694	1 344 192
Translation reserve		784	4	-
Fair value reserve (securities available for sale)		199	-	-
Retained earnings		177 143	29 212	90 792
Total equity attributable to equity holders of the Development Bank		**1 629 820**	**1 480 910**	**1 434 984**
Non-controlling interests	28	75 544	64 041	52 387
Total equity		**1 705 364**	**1 544 951**	**1 487 371**
Total liabilities and equity		**6 144 970**	**5 295 181**	**4 843 771**

The notes on pages 11-96 form an integral part of these consolidated financial statements.

On behalf of the Management:

S.N. Rumas
Chairman of the Management Board

M.A. Arlouskaya
Chief Accountant

Minsk
17 August 2018

Consolidated Statement of Comprehensive Income

In thousands of Belarusian Rubles (BYN)	Notes	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest income	6	454 493	499 630	479 243
Interest expense	6	(102 421)	(139 947)	(115 490)
Net interest income		**352 072**	**359 683**	**363 753**
Fee and commission income		3 076	4 075	2 779
Fee and commission expense		(4 897)	(3 554)	(1 772)
Net fee and commission (expenses)/income		**(1 821)**	**521**	**1 007**
Net (loss)/gain on derivative financial instruments		(110)	8	(1 919)
Effect of initial recognition of financial instruments at fair value	13	(56 915)	(1 099)	-
Net income from foreign exchange operations		10 297	21 798	33 620
Net gain on securities transactions		973	2 680	5 854
General administrative expenses	7	(59 304)	(51 306)	(43 198)
Allowance for impairment of financial assets	7	4 972	(251 038)	(236 918)
Net other income		9 470	2 763	3 417
Non-interest expense		**(90 617)**	**(276 194)**	**(239 144)**
Income from wholesale trade of subsidiaries		67 218	100 656	69 625
Cost of wholesale trade of subsidiaries		(64 190)	(88 546)	(67 366)
Income from non-banking transactions		**3 028**	**12 110**	**2 259**
Profit before tax		**262 662**	**96 120**	**127 875**
Income tax (expenses)/benefit	9	(34 318)	15 385	2 756
NET INCOME FOR THE YEAR		**228 344**	**111 505**	**130 631**
TOTAL NET INCOME FOR THE YEAR ATTRIBUTABLE TO				
Shareholders of the Development Bank		217 130	99 853	143 748
Non-controlling interest		11 214	11 652	(13 117)
Other comprehensive income				
Other comprehensive income that may be subsequently reclassified to profit or loss:				
Fair value reserve (securities available for sale)		199	-	-
Translation reserve		1 069	6	-
TOTAL OTHER COMPREHENSIVE INCOME		**1 268**	**6**	**-**
TOTAL COMPREHENSIVE INCOME		**229 612**	**111 511**	**130 631**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO				
Shareholders of the Development Bank		218 109	99 857	143 748
Non-controlling interest		11 503	11 654	(13 117)
TOTAL COMPREHENSIVE INCOME		**229 612**	**111 511**	**130 631**
Basic earnings per share (BYN)	32	1,73	0,86	1,39
Diluted earnings per share (BYN)	32	1,73	0,86	1,39

The notes on pages 11-96 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of Belarusian Rubles (BYN)	Notes	Share capital	Translation reserve	Fair value reserve (securities available for sale)	(Accumulated deficit)/ retained earnings	Total equity attributable to the shareholders of the Development Bank	Non-controlling interest	Total
Balance as at 1 January 2015		**1 111 838**	**-**	**-**	**(3 582)**	**1 108 256**	**65 504**	**1 173 760**
Comprehensive income								
Net profit for the period		-	-	-	143 748	143 748	(13 117)	130 631
Total comprehensive income for the year		**-**	**-**	**-**	**143 748**	**143 748**	**(13 117)**	**130 631**
Transactions with shareholders								
Contributions to share capital	22	200 000	-	-	-	200 000	-	200 000
Distribution of profit from the family capital fund management	18	-	-	-	(2 823)	(2 823)	-	(2 823)
Dividends paid	22	-	-	-	(14 197)	(14 197)	-	(14 197)
Contribution to share capital due to reallocation of retained earnings	22	32 354	-	-	(32 354)	-	-	-
Total transactions with shareholders		**232 354**	**-**	**-**	**(49 374)**	**182 980**	**-**	**182 980**
Balance as at 31 December 2015		**1 344 192**	**-**	**-**	**90 792**	**1 434 984**	**52 387**	**1 487 371**
Balance as at 1 January 2016		**1 344 192**	**-**	**-**	**90 792**	**1 434 984**	**52 387**	**1 487 371**
Total comprehensive income								
Net income for the year		-	-	-	99 853	99 853	11 652	111 505
Other comprehensive income that may be subsequently reclassified to profit or loss		-	4	-	-	4	2	6
Total comprehensive income for the year		**-**	**4**	**-**	**99 853**	**99 857**	**11 654**	**111 511**
Transactions with shareholders of the Development Bank								
Distribution of profit from the family capital fund management	18	-	-	-	(19 459)	(19 459)	-	(19 459)
Dividends paid	22	-	-	-	(34 472)	(34 472)	-	(34 472)
Contribution to share capital due to reallocation of retained earnings	22	107 502	-	-	(107 502)	-	-	-
Total transactions with shareholders		**107 502**	**-**	**-**	**(161 433)**	**(53 931)**	**-**	**(53 931)**
Balance as at 31 December 2016		**1 451 694**	**4**	**-**	**29 212**	**1 480 910**	**64 041**	**1 544 951**

Consolidated Statement of Changes in Equity (continued)

In thousands of Belarusian Rubles (BYN)	Notes	Share capital	Translation reserve	Fair value reserve (securities available for sale)	(Accumulated deficit)/ retained earnings	Total equity attributable to the shareholders of the Development Bank	Non-controlling interest	Total
Balance as at 1 January 2017		**1 451 694**	**4**	**-**	**29 212**	**1 480 910**	**64 041**	**1 544 951**
Total comprehensive income								
Net income for the year		-	-	-	217 130	217 130	11 214	228 344
Other comprehensive income that may be subsequently reclassified to profit or loss		-	780	199	-	979	289	1 268
Total comprehensive income for the year		**-**	**780**	**199**	**217 130**	**218 109**	**11 503**	**229 612**
Transactions with shareholders of the Development Bank								
Distribution of profit from the family capital fund management	**18**	-	-	-	(36 275)	(36 275)	-	(36 275)
Dividends paid	**22**	-	-	-	(32 924)	(32 924)	-	(32 924)
Total transactions with shareholders		**-**	**-**	**-**	**(69 199)**	**(69 199)**	**-**	**(69 199)**
Balance as at 31 December 2017		1 451 694	784	199	177 143	1 629 820	75 544	1 705 364

The notes on pages 11-96 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

In thousands of Belarusian Rubles (BYN)	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received	453 737	498 398	467 130
Interest paid	(98 762)	(138 947)	(110 847)
Fees and commission received	3 136	4 077	2 533
Fees and commission paid	(4 811)	(3 338)	(1 648)
General administrative expenses	(55 752)	(48 439)	(41 072)
Other receipts, net	18 880	31 467	4 858
	316 428	**343 218**	**320 954**
(Increase)/decrease in operating assets			
Due from banks	(150 359)	(69 108)	(80 324)
Loans to customers	(418 200)	(450 331)	(664 547)
Derivative financial instruments	(110)	(70)	(2 258)
Other assets	(64 305)	(43 075)	(44 401)
Increase/(decrease) in operating liabilities			
Due to banks	415 386	286 073	190 686
Customer accounts	(116 296)	(57 969)	128 729
Government grants	142 434	124 264	89 708
Other liabilities	3 366	12 049	3 044
Net cash inflow/(outflow) from operating activities before tax	**128 344**	**145 051**	**(58 409)**
Income tax paid	(13 141)	(1 736)	(3 733)
Net cash inflow/(outflow) from operating activities	**115 203**	**143 315**	**(62 142)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of securities available for sale	1 259 152	985 618	454 209
Purchase of securities available for sale	(1 409 312)	(1 033 061)	(746 455)
Acquisition of property and equipment and intangible assets	(19 824)	(10 504)	(5 797)
Proceeds from disposal of property and equipment and intangible assets	86	55	744
Net cash outflow from investing activities	**(169 898)**	**(57 892)**	**(297 299)**

Consolidated Statement of Cash Flows (continued)

In thousands of Belarusian Rubles (BYN)	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares	-	-	200 000
Proceeds from issue of debt securities	303 833	602 378	878 836
Repayment of debt securities	(246 283)	(627 373)	(754 021)
Dividends paid	(32 924)	(34 472)	(14 197)
Net cash inflow/(outflow) from financing activities	**24 626**	**(59 467)**	**310 618**
Net (decrease)/increase in cash and cash equivalents	**(30 069)**	**25 956**	**(48 823)**
Effect of exchange rate fluctuations on cash and cash equivalents	(726)	(494)	36 340
Cash and cash equivalents at the beginning of the year (Note 10)	**98 907**	**73 445**	**85 928**
Cash and cash equivalents at the end of the year (Note 10)	**68 112**	**98 907**	**73 445**

The notes on pages 11-96 form an integral part of these consolidated financial statements.

1. Principal activities

These consolidated financial statements include the financial information of Joint-Stock Company “Development Bank of the Republic of Belarus” (hereinafter referred to as “Development Bank” or JSC “Development Bank of the Republic of Belarus”) and consolidated financial information of the Development Bank’s subsidiaries – Joint-Stock Company “Promagroleasing” (hereinafter referred to as JSC “Promagroleasing”) and Unitary Enterprise “DB-Consult” (hereinafter collectively referred to as “the Group”).

State registration of Joint-Stock Company “Development Bank of the Republic of Belarus” was performed on 1 August 2011 in accordance with the Edict of the President of the Republic of Belarus No. 261 “On establishment of Joint-Stock Company “Development Bank of the Republic of Belarus” dated 21 June 2011 (hereinafter referred to as Edict No. 261). Since 5 August 2016, the Development Bank is subject to a number of requirements of the National Bank of the Republic of Belarus (hereinafter – “the National Bank”) regarding the supervision provided for banks and non-bank financial institutions.

In accordance with the agreements reached by the Ministry of Economy of the Republic of Belarus with the IMF to exclude infrastructure projects from directed lending, the relevant changes were made to the Resolution of the Council of Ministers of the Republic of Belarus dated 29 December 2016 No. 1102 that specifies the limits and directions of directed lending by the banks and JSC “Development Bank of the Republic of Belarus”, and the plan of financing of state programs and activities by JSC “Development Bank of the Republic of Belarus” in 2017 proposing two options: directed and non-directed lending was approved by the Resolution of the Council of Ministers of the Republic of Belarus dated 22 May 2017 No. 375.

Legal address of the Development Bank: 35 Masherova Ave., Minsk, Republic of Belarus.

The main activity of the Development Bank is the financing of investment projects and activities undertaken to acquire goods for further transfer under finance lease according to decisions of the President of the Republic of Belarus and/or the Government of the Republic of Belarus, as well as those included in programs approved by the President of the Republic of Belarus and/or the Government of the Republic of Belarus i.e. development of the financing system of state programs and activities.

In August 2014 the Development Bank initiated a program of financial support for small and medium-sized businesses, the program is carried out with the assistance of partner banks - residents of the Republic of Belarus. Starting from 2015 the Development Bank manages the funds of family capital in accordance with the Edict of the President of the Republic of Belarus No. 572 “On additional measures of state support for families with children” dated 9 December 2014.

The Development Bank performs the following banking transactions:

- funding of projects included in state programs and activities;
- attraction of budget funds into deposits;
- opening and keeping correspondent and other accounts, which are directly related to the tasks to be executed by the Development Bank and operations related thereto;
- opening and keeping special accounts for legal entities participating in state programs and activities in order to accumulate funds intended to repay the debt to the Development Bank, as well as to repay a part of loan interests from the budget funds;

- non-cash settlements through correspondent and other accounts opened in the name of the Development Bank in the National Bank and other banks;
- foreign transactions directly related to the tasks to be executed by the Development Bank, and its operations;
- granting export loans for the least amount of 1 million US Dollars to resident organizations of the Republic of Belarus to acquire goods from other residents of the Republic of Belarus and lease them out to non-resident organizations of the Republic of Belarus, as well as to non-resident organizations of the Republic of Belarus, including foreign banks, to pay for goods (works, services) acquired from residents of the Republic of Belarus;
- special accounts opening and keeping for entities in accordance with the Edict of the President of the Republic of Belarus dated 2 April 2015 No. 146 “On the financing of the purchase of modern technology and equipment in 2015-2017”;
- special accounts opening and keeping for woodworking companies in accordance with the Edict of the President of the Republic of Belarus dated 24 June 2015 No. 257 “On issues associated with acquisition of banks’ assets, which arose from lending to woodworking companies, and on defining of limit of internal public debt” (hereinafter – “woodworking companies”).

In accordance with the provisions of Edict No. 261 the Development Bank does not need to receive special permission (license) for performing banking activities in order to perform the above transactions.

The Development Bank has a license to carry out professional and exchange activities in the securities market, valid until 14 March 2023.

The Bank is the parent company of Unitary Enterprise “DB-Consult” (hereinafter – UE DB-Consult). The percentage of ownership as at 31 December 2017, 31 December 2016 and 31 December 2015 was 100%. Unitary Enterprise “DB-Consult” manages the shares of woodworking companies owned by the Republic of Belarus.

Unitary Enterprise “DB-Consult” is a parent company of Limited Liability Company “DB-Forest” (hereinafter referred to as LLC “DB-Forest”) with a 100% ownership interest. LLC “DB-Forest” was registered on 31 May 2017 and provides timber logging services to enterprises of the woodworking industry in the Republic of Belarus.

The Development Bank is a parent company of JSC “Promagroleasing”. As at 31 December 2017, 31 December 2016 and 31 December 2015 the share was 72,93%. JSC “Promagroleasing” renders leasing services.

JSC “Promagroleasing” is a parent company of the following subsidiaries:

Name	**Country of registration**	**Type of business activity**	**Ownership**
LLC “Promagroleasing-Center”	Russian Federation	Financial leasing	100%
LLC “Promagroleasing-Ukraine”	Ukraine	Financial leasing	100%
PCUE “Oblmehotryad”	Republic of Belarus	Agriculture	100%

In May 2016, the procedure for the voluntary liquidation of the subsidiary OJSC "Industrial group SHT" (the share of ownership - 53%).

In August 2017, the procedure for the voluntary liquidation of the subsidiary LLC "Promagroleasing South" (the share of ownership - 76%) was completed. The entity did not conduct business in the reporting and comparative periods, and therefore the effect of discontinuing operations was not presented in the consolidated financial statements.

The average number of employees of the Group for the year ended 31 December 2017, the year ended 31 December 2016 and the year ended 31 December 2015 was 623, 566 and 503 employees, respectively.

Information on the shareholders of the Development Bank is presented below:

	31 December 2017	**31 December 2016**	**31 December 2015**
Name	**Share (%)**	**Share (%)**	**Share (%)**
Council of Ministers of the Republic of Belarus	95,473	95,473	95,473
JSC "Belaruskali"	4,513	4,513	4,513
National Bank	0,014	0,014	0,014
Total	**100,000**	**100,000**	**100,000**

Certain matters of corporate governance

In 2016, the National Bank introduced banking supervision over the activities of the Development Bank. In this regard, the Development Bank has improved the system of corporate governance primarily in accordance with the requirements of the National Bank regarding banking supervision. In addition, the methodological procedures were developed taking into account international documents on corporate governance recommended by the Basel Committee on Banking Supervision, the Organization for Economic Cooperation and Development, the International Finance Corporation, the documents of the State Property Committee of the Republic of Belarus, and best practices for building effective corporate governance in organizations.

The corporate governance system of the Development Bank is aimed at improving the efficiency of the Development Bank's activities, its stability, maintaining acceptable risk levels and building an effective internal control system, including ensuring the reliability of financial statements of the Development Bank.

The Development Bank has an institution of independent directors and established committees of the Supervisory Board for preliminary consideration of the most important issues within the competence of the Supervisory Board. As at 31 December 2017 the Supervisory Board of the Development Bank consisted of 5 independent directors (62.5 per cent of the Supervisory Board). The following committees of the Supervisory Board operate under the leadership of the independent directors of the Development Bank:

- Risk Management Committee;
- Audit Committee;
- Strategic Development Committee;
- Committee on Budget, Remunerations and Appointments.

The Risk Management Committee performs internal monitoring of the implementation of risk management policies of the Development Bank and decisions of the Supervisory Board, taken in relation to risk profile and tolerance of risks relevant for the Development Bank, performs assessment of the effectiveness of risk management at the Development Bank, takes decisions on the risks within its authority defined by the Supervisory Board, submits to the Supervisory Board recommendations on risk management, proposals for improving the risk management system and reports on the risk management status and the Development Bank’s risk level.

The Audit Committee ensures the efficiency of the internal control system on a consolidated basis, performs general management of the Internal Audit Sector of the Development Bank, chooses an audit organization that performs an external audit of the Development Bank, and interaction with this organization. The Committee submits to the Supervisory Board reports on the functioning of the internal control system and on activities of Internal Audit Sector and proposals for their improvement.

Strategic Development Committee approves the project of development strategy and monitors its implementation, defines strategy in the area of supporting of small and medium enterprises. The Committee issues recommendations on development of current business activities and establishment of new business activities of the Development Bank, improving approaches to family capital management and on organization of funding base for fulfilling Development Bank’s objectives.

The Committee on Budget, Remunerations and Appointments considers the financial planning and monitoring of budget execution, increasing the efficiency of activities, motivation and remuneration of employees of the Development Bank. The Committee submits to the Supervisory Board regular reports on the development of staff motivation policy and budgeting system by the Development Bank. As part of the selection and evaluation of candidates for the Supervisory Board members, the committee interviews candidates for the Supervisory Board, decides on the compliance of candidates to the Supervisory Board with the established requirements and determines the final list of candidates to the Supervisory Board members to be submitted to the General Meeting of Shareholders. Within the framework of organizing an annual self-assessment of the effectiveness of the activities of the Supervisory Board and its members, the committee determines the main approaches to the procedure for conducting such a self-assessment and preliminary consideration of its results, monitors the implementation of the plan of measures to improve the effectiveness of the Supervisory Board.

The system of corporate governance of the Development Bank is being formed taking into account the best practices in that area, scale and nature of the transactions of the Development Bank and is aimed at achieving the strategic goals of the Group.

Belarusian business environment

The Group’s operations are primarily located in Belarus. Consequently, the Group is exposed to the economic and financial markets of Belarus, which display emerging market characteristics. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations of their requirements and frequent changes, which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Belarus. The monetary policy regulations, adopted by the National Bank and effective over the past two years, have resulted in reduced inflation and a less-volatile Belarusian Ruble. However, the fairly recent devaluation of the Belarusian Ruble, and the subsequent period of high inflation, still leads to a certain level of uncertainty in the business environment.

The consolidated financial statements reflect management’s assessment of how the Belarusian business environment has impacted the operations and financial position of the Group. The business environment in the future may differ from management’s assessment.

2. Basis of presentation

The Group prepared consolidated financial statements in accordance with IFRS for prior periods, ending on December 31, 2015, December 31 2016 and December 31. The consolidated financial statements of the Group with notes thereto for the periods indicated have been corrected for a more correct and appropriate presentation for the purpose of forecasted bond issues.

The consolidated statement of comprehensive income was supplemented by information on basic and diluted earnings per share, notes to the consolidated financial statements were supplemented with information on earnings per share (Note 32), operating segments (Note 33) and subsequent events (Note 34). The disclosure of information on the Group's transition to International Financial Reporting Standards 9 “Financial Instruments” from 1 January 2018 (Note 3) was supplemented by quantitative data.

Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards.

These consolidated financial statements have been prepared on the Group’s going concern assumption. The Management believes that the going concern assumption is appropriate for the Group due to sufficient capital adequacy ratio (Note 24), and that on the basis of previous experience, short-term liabilities will be refinanced in the normal course of business.

Functional currency and presentation currency

The functional currency of each consolidated entity of the Group is the currency of the country where the entity performs its main activity. The functional currency of the Development Bank, JSC “Promagroleasing” and Unitary Enterprise “DB-Consult” and JSC “DB-Forest” is Belarusian Ruble. The presentation currency of these consolidated financial statements of the Group is Belarusian Ruble.

These consolidated financial statements are presented in thousands of Belarusian Rubles (hereinafter – thousands of Rubles).

Basis of measurement

These consolidated financial statements are prepared on the historical cost basis, except for the records on the securities available for sale and derivative financial instruments that are measured at fair value.

Use of estimates and judgements

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter – IFRS) requires the Management to make estimates and assumptions that affect the reported amounts of assets and liabilities of the Group, disclosures of contingent assets and liabilities as at the reporting date and reported income and expenses for the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable. Although these estimates and assumptions are based on management's best knowledge of current events and Group's operations, actual results may differ from those estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period, in which the estimate is revized, and in any future periods affected. These consolidated financial statements reflect management's assessment of the potential impact of the Belarusian business environment on the operations and the financial position of the Group. However, future developments in the business environment may differ from management's assessment.

The significant areas of estimation uncertainty and judgments in applying accounting policies that have the most significant impact on amounts recognized in the consolidated financial statements, include impairment allowances on loans to customers, determination of fair value of securities available for sale, determining the fair value at initial recognition of the assets, which terms are different from the market, valuation of the initial recognition of financial liabilities raised on terms other than market ones; recognition of deferred tax assets; assessment of the necessity to consolidate the financial statements of the woodworking companies.

Impairment allowance on loans to customers

Impairment allowances for individually assessed loans are defined based on specific assessment and constitute the most reliable assessment of the Group's management as for future cash flows, which are expected to be received by the Group.

Loan impairment occurs as a result of one or many events happening after loan's initial recognition that have influence on expected future cash flows on the loan, which can be assessed with a reasonable degree of reliability. Objective indications of impairment include:

- delayed payments on loan agreement;
- significant deterioration in financial position of a borrower;
- deterioration in business environment, negative changes in the borrower's markets;
- provision of a borrower with concessions economically or legally connected with the borrower's financial difficulties that would not otherwise be provided;
- probability of bankruptcy or other financial reorganizations of a borrower.

Impairment allowances for collectively assessed loans are defined based on available information on decrease of expected future cash flows on the group of financial assets. The Group's judgements about estimated losses are based on the past performance, the past customer behavior, the credit quality of counterparties and general economic conditions, which are not necessarily indications of future losses (Note 13).

Determination of fair value of securities available for sale

The Group measures the fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for identical instruments.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as the prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets available for sale is based on quoted market prices or over-the-counter price quotations. Determination of fair value of financial instruments, which have no active market, is less objective and requires use of judgments based on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments, for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting independently of each other.

Determination of fair value of assets raised on terms other than market ones

Bonds acquired by the Group within government programs of support of branches of the economy due to the specifics of state lending programs and issuer types, form a separate market segment. Therefore, the Management believes that the contractual interest rates are market rates for such bonds, and therefore the Group recognizes bonds at fair value upon initial recognition, which is equal to the nominal value.

Loans acquired by the Group from other state-owned banks and those issued by the Group in accordance with the resolutions of state authorities, not having similar financial instruments in the market, were granted under state programs, and due to their uniqueness, as well as the specifics of state lending program and borrower types, form a separate market segment. Therefore, the Management believes that the contractual interest rates are market rates for such loans, and therefore the Group recognizes loans at fair value upon initial recognition, which is equal to the nominal value.

Loans issued by the Group to other banks within the frames of financial support programs to small and medium entities and woodworking companies, not having similar financial instruments in the market, were granted under state programs and the resolutions of state authorities, and due to their uniqueness, as well as the specifics of state lending program and end counter-party types, form a separate market segment. Therefore, the Management believes that the contractual interest rates are market rates for such loans, and therefore the Group recognizes loans at fair value upon initial recognition, which is equal to the nominal value.

Loans issued by the Group directly to the woodworking companies are recognized at fair value upon initial recognition. The fair value of loans is calculated based on the expected future cash flows at a discount rate reflecting the current market assessment of the temporary value of cash and the risks for these loans. The difference between the nominal value and fair value at initial recognition is recorded in the item “Effect of initial recognition of financial instruments at fair value" of the statement of comprehensive income.

Determination of fair value of financial liabilities raised on terms other than market ones

Initial recognition of financial liabilities of the Group is performed on fair value. In case of attraction of financial liabilities at interest rates, which are different from the market ones, in order to form the interrelated assets at interest rates, which including the margin of the Development Bank, are also different from the market ones, fair value of the financial liabilities is determined as nominal value of the financial liabilities.

In case of raising liabilities that do not have related assets on terms other than market ones, fair value of liabilities is measured according to the following valuation technique: discounting of liabilities at interest rate determined as average market rate for similar liabilities at the date of initial recognition. In case of raising liabilities from entities controlled by the Government, benefit from government loans is recognized as a government grant and is measured as the difference between initial cost of liability and actually received amount. Government grant is systematically recognized in statement of comprehensive income over periods when the Group recognizes expenses, which grants should compensate.

Recognition of deferred taxes

Deferred tax liabilities are generally recognized for all taxable temporary differences, except when temporary differences arise from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Assessment of the necessity to consolidate the financial statements of the woodworking companies

In accordance with Edict of the President of the Republic of Belarus dated 24 June 2015 No. 257 "On issues associated with acquisition of banks' assets, which arose from lending to woodworking enterprises, and on defining of limit of internal public debt" the Group participates in the management of business activities of the entities of the woodworking industry. On the basis of the relevant resolutions of the authorities of the Republic of Belarus and the power of the Group with respect to the order of interaction between the Group and the entities of the woodworking industry, these entities are not subject to consolidation when preparing the consolidated financial statements of the Group for the following reasons:

- the Group is not exposed to risks associated with variable returns from the participation in the management of the woodworking companies;
- management rights are transferred on the basis of decisions of the authorities of the Republic of Belarus and the period of management may be limited by the decisions of the authorities of the Republic of Belarus;
- business plans developed in the framework of the above-mentioned Edict, under which the activities of the woodworking companies are conducted, are subject to agreement by the concern "Bellesbumprom", the Ministry of Economy and the Ministry of Finance of the Republic of Belarus.

3. Application of new and revised standards and interpretations

Amendments to the standards effective for reporting periods beginning on or after 1 January 2017

The Group applied the following amendments to IFRS that became effective for reporting periods beginning on or after 1 January 2017:

- Amendments to IAS 7 *Disclosure Initiative* (effective for annual reporting periods starting from 1 January 2017 or after this date. Earlier application is permitted*)*. According to amendments, new disclosures are required that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes both related and not related to cash flows.

  In order to meet the new disclosure requirements, the Group presented a reconciliation of the balance of liabilities at the beginning and at the end of the reporting period with disclosure of changes in the financial activities.

- Amendments to IAS 12: *Recognition of Deferred Tax Assets for Unrealized Losses* (effective for annual reporting periods starting from 1 January 2017 or after this date. Earlier application is permitted). Amendments clarify accounting of deferred tax assets related to unrealized loss arising on debt instruments measured at fair value. The amendments did not have any significant impact on the Group's consolidated financial statements.

- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*, IFRS 10 *Consolidated Financial Statements* and IAS 28 *Sale or Contribution of Assets in a Transaction Between an Investor and its Associated or Joint Enterprise*. The amendments did not have any significant impact on the Group's consolidated financial statements.

New standards and interpretations not yet effective

The following new Standards and Interpretations are not yet effective for the period ended 31 December 2017, and have not been applied in preparing these consolidated financial statements. The Group plans to apply such Standards and Interpretations, applicable to the Group's operations, after they come into effect.

a) IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* (hereinafter – IFRS 9). IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement* (hereinafter – IAS 39).

In October 2017, the IASB issued *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on assessments undertaken to date, the cumulative effect (including tax) of the application of the standard, which will be reflected in the opening balance of the Group's retained earnings and reserves, as of 1 January 2018, is approximately estimated in the amount of 2 549 thousands of Rubles, including:

- decrease by approximately 3 389 thousands or Rubles, related to the application of requirements related to impairment;
- increase by approximately 840 thousands of Rubles, related to the reflection of the effect of deferred taxes.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Group will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group’s stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interests on the outstanding principal amount (SPPI criterion), the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group’s claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and;
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

All of the Group’s loans to legal entities contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Impact assessment

As at 31 December 2017 the process of assessing the effect of classification of financial instruments was completed.

The change in the classification of financial instruments did not have a significant impact on retained earnings and reserves of the Group.

Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

Under IFRS 9, no impairment loss is recognized on equity investments.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive;

- financial assets that are credit-impaired at the reporting date*:* the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Definition of default

Under IFRS 9, the Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group.

In assessing whether a borrower is in default, the Group will consider indicators that are:

- qualitative: facts of debt restructuring due to financial difficulties of the borrower, bankruptcy or opening of a bankruptcy proceeding and withdrawal of a license to carry out the main activity;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group;
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities, the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

Credit risk grades

The Group will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Group will collect performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading.

The Group will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default.

The Group’s approach to incorporating forward-looking information into this assessment is discussed below.

Determining whether credit risk has increased significantly

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group’s internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential deterioration of the customer’s creditworthiness. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset’s credit risk has increased significantly reflects comparison of:

- the remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revized terms.

The revized terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The forbearance policy applies to corporate loans. The Group Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group’s forbearance policy, the estimate of PD will reflect whether the modification has improved or restored the Group’s ability to collect interest and principal and the Group’s previous experience of similar forbearance action. As part of this process, the Group will evaluate the borrower’s payment performance against the modified contractual terms and consider various behavioural indicators.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset~~.~~. LGD estimates will be calibrated for different economic scenarios. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default taking into account three monthly interest payments.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECLs considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group will measure ECLs over a period longer than the maximum contractual period if the Group’s contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group’s exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period will be estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Forward-looking information

Under IFRS 9, the Group will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. This assessment is based on internal as well as on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the Republic of Belarus. The Group will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
- the remaining amount of the change in the fair value will be presented in profit or loss.

The Group does not designate any financial liabilities as at FVTPL at its own discretion, currently, it does not have intentions to do so.

The following tables represents the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Group's financial liabilities as at 1 January 2018.

Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group will recalculate the gross carrying amount of the financial asset (or the amortized cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. *Under IAS 39, the Group does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.*

The Group does not expect a material impact from adopting these new requirements.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except for recalculation of data for the previous period. The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at 1 January 2018.

b) IFRS 16 Leases

IFRS 16 Leases (hereinafter – IFRS 16) introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 (Revenue from Contracts with Customer) at or before the date of initial application of IFRS 16.

The Group commenced an initial assessment of the possible impact of applying IFRS 16 to its consolidated financial statements. To date, the most significant identified impact is the need for the Group to recognize assets and liabilities under operating lease agreements regarding premises. In addition, the nature of the costs recognized for these contracts will change, because, in accordance with IFRS 16, instead of the lease expenses that are evenly recognized over the life of the contract, the Group will have to reflect the cost of depreciation of assets in the form of the right to use and interest expenses related to the lease obligations. The Group has not yet decided whether it will use optional simplifications. In respect of financial leases, the Group does not expect significant impact on the financial statements.

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the chosen approach consistently to all of its leases. Currently, The Group plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet selected the type of transition.

As a lessor, the Group, when transferring in IFRS 16, is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

The Group has not yet quantified the impact of IFRS 16 on its assets and liabilities. The quantitative effect will depend, in particular, on which method of transition to the new standard will be chosen, the extent to which the Group will use practical simplification and exemption from recognition, as well as which new lease agreements will be entered into by the Group. The Group plans to disclose information on the selected transition option and quantitative information before applying the standard.

c) IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers (hereinafter – IFRS 15) establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 11 *Construction Contracts*, IAS 18 *Revenue* and IFRIC 13 *Customer Loyalty Programs*.

IFRS 15 comes into force with respect to annual periods, beginning on or after 1 January 2018. The Group did not early apply this standard.

The Group is currently conducting a detailed assessment of the impact of IFRS 15 on its consolidated financial statements. Assessment of the impact is performed with respect to the fee and commission income received by the Group from rendering banking services.

The initial analysis indicates that IFRS 15 will not have a significant impact on the timing of recognition or measurement of fee and commission income. The Group plans to apply IFRS 15 in its consolidated financial statements for the year ended 31 December 2018, and use a retrospective approach.

d) Other standards

The following new standards and amendments are not expected to have a significant impact on the Group’s consolidated financial statements:

- Annual Improvements to IFRSs 2014-2017 Cycle – Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures*;
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-based Payment*);
- Transfers of Investment Property (Amendments to IAS 40 *Investment Property*);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*);
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*;
- IFRIC 23 *Uncertainty over Income Tax Treatments*.

4. Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities.

Financial instruments

Initial recognition of financial instruments

Financial assets and liabilities are recognized in the statement of financial position, when the Group becomes a party to the contractual obligation of the relevant financial instrument.

Financial assets and liabilities are initially recognized at fair value; financial assets or financial liabilities, which are not classified as recognized at fair value through profit or loss, are recognized at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

Classification of financial assets

The Group classifies financial assets at initial recognition. Financial assets classification at initial recognition is performed on the basis of intention, for which they were acquired and their financial characteristics. Subsequent reclassifications are allowed only if required by IFRS. All financial instruments are classified into the following categories.

Financial assets at fair value through profit or loss are financial assets acquired principally for the purpose of sale/redemption in a short period, or forming part of a portfolio of identifiable financial instruments that are managed together, and the structure of which actually indicates the intention of making a profit in the short term, as well as financial assets, which at initial recognition are classified by the Group as at fair value through profit or loss, or are derivative financial instruments, except when they are effective hedging instruments. Financial assets and liabilities at fair value through profit or loss are measured initially and subsequently at fair value. Fair value movements on financial assets at fair value through profit or loss are recognized in the consolidated statement of comprehensive income for respective period.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that are classified into other categories of financial instruments. Loans and receivables include amounts due from credit institutions or acquired from other banks, as well as loans and receivables from customers and other financial assets, which comply with these classification criteria.

Available for sale financial assets are non-derivative financial assets that are not included into any of the other categories described above.

Classification of financial liabilities

Financial liabilities, except for those at fair value through profit and loss, are classified as the financial liabilities accounted at amortized cost.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date in the principal market, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Derecognition of financial instruments

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

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

If the Group neither transferred nor retained substantially all risks and rewards related to the ownership of the transferred asset, and remained the control over this asset, than the Group continues to recognize this asset to the extent that it continues to participate in this asset.

The Group derecognizes a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

When one existing financial liability is replaced with a different liability to the same creditor on significantly different terms, or where significant changes are made to the terms of the existing liability, the initial liability is derecognized and a new liability is recognized with the recognition of the difference in the carrying value of liabilities in the consolidated statement of comprehensive income.

Cash equivalents and accounts in the National Bank

The financial statement caption includes balances on correspondent and term accounts in the National Bank and on correspondent and current accounts in other banks.

Cash and cash equivalents for the purposes of the consolidated statement of cash flows

Cash and cash equivalents for the purposes of the consolidated statement of cash flows include unrestricted balances on correspondent accounts in the National Bank, correspondent, current and deposit accounts in other banks with the original maturity within 90 days, which can be converted into cash within a short period of time.

Due from banks

In the normal course of business, the Group places deposits and grants loans to other banks. Funds due from other banks with a fixed maturity term are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from other banks are carried net of any allowance for impairment losses, if any.

Loans and receivables

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

(a) those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;

(b) those that the Group upon initial recognition designates as available for sale;

(c) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recognized at the fair value plus related transaction costs. Subsequently, loans to customers are carried at amortized cost using the effective interest rate method. Loans to customers are carried net of any allowance for impairment losses.

Loans to customers are recognized when loans are granted to borrowers or acquired from other banks.

Financial assets impairment

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

Funds due from banks and loans to customers are initially assessed individually for objective evidence of impairment for individually significant financial assets and collectively for financial assets, which are not individually significant.

Main criteria for determining objective evidence of loss due to impairment of financial assets include:

(a) delinquency in any ordinary payment;

(b) significant financial difficulties of the borrower evidenced by the financial information available to the Group;

(c) probability of bankruptcy or other financial reorganization of the borrower or issuer;

(d) negative changes in national or local economic conditions that affect the borrower’s or the issuer’s business;

(e) breach of contract, such as refusal or evasion to make interest or principal payments;

(f) the lender granting to the borrower or issuer a concession for economic or legal reasons relating to the borrower’s or issuer’s financial difficulty that the lender would not otherwise consider;

(g) disappearance of an active market for a security.

A significant or prolonged decline in the fair value of an investment in an equity security available for sale to a value below the actual cost of that security is an objective indication of impairment.

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

In some cases the data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

If there is any objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset shall be reduced through use of an allowance account and the amount of the loss shall be recognized in the consolidated statement of comprehensive income.

Present value of estimated future cash flows is discounted at the original effective interest rate of an asset. If the loan is issued at the floating interest rate, future cash flows are discounted at the current effective interest rate. The present value of estimated cash flows of financial assets received as collateral is the amount, which may be recovered through the sale of collateral less expenses on transferring and selling of collateral, irrespective of possibility of repossession of collateral.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss shall be reversed by adjusting an allowance account in the consolidated statement of comprehensive income.

If the decrease in fair value of financial assets available for sale is recognized in other comprehensive income and there are objective indications of impairment of the asset, the accumulated loss recognized in other comprehensive income is transferred from other comprehensive income to profit or loss as a reclassification adjustment, though the financial asset is not derecognized.

If in a subsequent period fair value of debt instruments classified as available for sale increases and this increase is objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment adjustment loss is reversed and recognized in the consolidated statement of comprehensive income.

Non-financial assets impairment

Other non-financial assets other that deferred tax assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of the fair value less costs to sell and its value in use. In determining the value in use, the estimated future cash flows are discounted to their current present value using a pre-tax discount rate that reflects the current market assessment of the temporary value of cash and the risks of this asset. For an asset that does not generate cash inflows that are largely independent of cash flows generated by other assets, the recoverable amount is determined by the group of assets that generate cash, to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or a group of cash-generating assets exceeds its recoverable amount.

All impairment losses from non-financial assets are recognized in profit or loss and are reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss on an asset is recoverable to the extent that the carrying amount of the asset does not exceed the carrying amount (less depreciation) that would have been incurred if the impairment loss was not recorded in the consolidated financial statements.

Assets for which there are no realistic probability for repayment and in respect of which all necessary procedures have been completed for the purpose of full or partial recovery and the final amount of the loss is determined are written off against the impairment allowance.

When considering the issue of recognizing an asset as a bad asset, the following factors are analyzed by the Group: the duration of the overdue and the probability of its collection, the quality and adequacy of collateral, the liquidation or bankruptcy proceedings against the borrower, etc.

Offset of financial instruments

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

Government grants

Government grants are assistance provided by the Government, government agencies and public institutions in the form of a transfer of resources or reimbursement to the Group in exchange for the fulfillment of certain conditions in the past or future, relating to the Group’s operations. Government grants are not recognized unless there is reasonable assurance that the Group will meet all the associated terms and receive these grants.

Government grants are recognized in profit or loss on a systematic basis over the periods, in which the Group recognizes as expenses the related costs, for compensation of which the grants are intended. With respect to the recording of government grants related to income, these government grants are offset against the related expense.

Property and equipment

Property and equipment are recorded at historical cost net of accumulated depreciation and allowance for impairment. Property and equipment, acquired prior to 1 January 2015, are recorded at historical cost, adjusted for hyperinflation, net of accumulated depreciation and impairment allowance.

Depreciation

Depreciation of an item of property and equipment is charged from the moment the property and equipment is put into operation. Depreciation is charged on a straight-line basis during the following useful lives:

Property and equipment group	Average annual depreciation rate
Buildings	1,2%
Vehicles	13,9%
Computer equipment, furniture and other equipment	13,3%

Residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

The residual value and useful lives are reviewed and, if necessary, adjusted at each reporting date.

Intangible assets

Intangible assets are recorded at historical cost net of accumulated amortization and allowance for impairment. Intangible assets, acquired prior to 1 January 2015, are recorded in the consolidated financial statements at historical cost adjusted for hyperinflation less accumulated amortization and impairment allowance.

Software and acquired licenses for software are capitalized based on expenses for acquisition, implementation and adjustment of special software.

Intangible assets are amortized using straight-line method of amortization during the expected useful lives, and recorded in profit or loss. Average annual amortization rate for intangible assets is 26.8%.

Investment property

Investment property includes property used to receive rental income, capital increase or both (including property under construction). Investment property is initially recorded at acquisition cost, including acquisition expenses.

Subsequently, investment property is recorded at historical cost less accumulated depreciation and impairment losses. Depreciation is accrued on a straight-line basis based on the useful life of the objects, which is 50 years.

Operating lease

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

Finance lease

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

The Group as a lessor recognizes leased assets within loans granted, which are initially measured in the amount equal to net investment in the lease. Subsequently net investments in the lease are recognized in the consolidated statement of financial position net of allowance for possible impairment of their value.

The Group recognizes the finance income based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Share capital

Share capital is recognized at initial cost restated for inflation. Expenses for shares issue are recorded directly in equity. Non-cash contributions are included into the share capital at fair value of the contributed assets. Ordinary shares are accounted for as share capital.

Family capital fund management

The funds raised by the Development Bank in the framework of family capital asset management program are recognized at fair value of acquired resources. The difference between the fair value and the amount received is recognized as a government grant (Note 20).

The funds, which are to be transferred to a special fund in order to accumulate part of income generated from family capital fund, for the subsequent transfer of these funds to the republican budget (Note 18) are recognized as a distribution of retained earnings and as liabilities in “Customer accounts”.

Contingent liabilities

Contingent liabilities are not recognized in the consolidated statement of financial position. Information on such liabilities is disclosed in the Notes to the consolidated financial statements, except when the outflow of resources is unlikely.

Provisions

Provisions are recognized in the consolidated financial statements when the Group has a legal or constructive obligation arising as a result of past events prior to the reporting date. Meanwhile, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are determined by discounting the estimated future cash flows using a pre-tax discount rate that reflects the current market valuation of the temporary value of cash and, if applicable, the specific risks of the obligation.

Short-term employee benefits

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

According to the requirements of the legislation of the Republic of Belarus the Group makes statutory payments to the Social Security Fund of the Ministry of Labor and Social Security of the Republic of Belarus from its employee salaries.

The Group carries no further pension obligations in respect of its retired and former employees.

Taxation

Tax expenses are recognized in the consolidated financial statements in accordance with requirements of the legislation of the Republic of Belarus. Income tax expense in the consolidated statement of comprehensive income includes current tax payments and changes in the amount of deferred income tax.

The current tax expense is calculated based on taxable profit for the period using tax rates that have been enacted during the reporting period. Current income tax balances include amounts due to state budget or due from state budget in relation to the taxable profit and deductible expenses of the current or previous periods.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for consolidated financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the following temporary differences:

- initial recognition of goodwill not deductible for tax purposes,
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that where the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In addition, there are various operating taxes in the Republic of Belarus applicable to the Group. These taxes are recognized as operating expenses.

Income and expense recognition

Interest income and expenses are recognized in the consolidated statement of comprehensive income on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating effective interest rate the Group evaluates cash flows in accordance with contractual terms of the financial instrument, but does not account for future losses on loans. This calculation includes all commission fees and duties paid and received under the contract, being integral part of effective interest rate, transaction costs and other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written off as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Commission fees for origination of loans, commission fees for loans servicing and other commission fees being integral part of overall income from loans, as well as corresponding income on transactions, are recognized as deferred income and amortized as interest income during expected period of validity of financial instrument using effective interest rate method.

Other commission fees, as well as other income and expenses are recorded in income or loss as at the date of provision of corresponding service.

Finance lease payments

Finance lease payments are recognized in profit or loss on a straight-line basis throughout the lease term. The amount of benefits received reduces the total amount of lease expenses over the whole lease term.

Income of subsidiaries from wholesale trade

Income from wholesale trade is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of income can be measured reliably. Income is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Foreign currency

Foreign currency transactions are accounted for at the exchange rates set by the National Bank against respective foreign currencies at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency (foreign currencies) are translated into Belarusian Rubles at the reporting date rate. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Belarusian Rubles at the exchange rates set by National Bank against respective foreign currencies at the date of fair value determination. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost (or historical cost restated for inflation) are translated into Belarusian Rubles at the exchange rates set by the National Bank against respective foreign currencies at the date of acquisition.

The exchange rates of the Belarusian Ruble to the main Group’s operational foreign currencies are presented below:

Reporting date	Euro	US Dollar	Russian Ruble
31 December 2014	1,1438	1,1850	0,021450
31 December 2015	2,0300	1,8569	0,025533
31 December 2016	2,0450	1,9585	0,032440
31 December 2017	2,3553	1,9727	0,034279

Basis of consolidation

The consolidated financial statements include financial statements of the Development Bank and the companies controlled by the Development Bank and the companies controlled by the subsidiaries of the Development Bank. A company is considered as controlled by the Development Bank when the Development Bank is exposed to risks of variable returns from its involvement with the investee or has a right to acquire such returns, and also has power to affect the amount of the returns in exercising its competence.

The Group measures the non-controlling interest proportionally to the share of net assets of acquired company. Gains and losses of subsidiary companies for the reporting period are related to the Group’s share and to the non-controlling shareholders even if this results in a negative balance for the non-controlling shareholders in the consolidated statement of financial position. Non-controlling interests are included in the consolidated statement of financial position within equity, separately from the Group’s equity. Non-controlling interests in profit or loss are recognized in the consolidated statement of comprehensive income.

When necessary, adjustments were made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

In the consolidated financial statements significant intra-group transactions and balances, related income and expenses are eliminated.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Foreign operations

Assets and liabilities of foreign companies, controlled by the subsidiary of the Development Bank, including goodwill and amounts of adjustments to fair value in case of acquisition are translated into Belarusian Rubles at relevant exchange rate as at the reporting date. Income and expenses of foreign subsidiaries are translated into Belarusian Rubles at the rate applicable at the date of the transaction. It is also possible to recalculate at the average exchange rates for the reporting period, if fluctuations in rates during the year were not significant. Foreign currency differences are recognized in other comprehensive income and recorded as part of equity in translation reserve, excluding part of the reserve attributable to non-controlling interest. However, if a foreign operation is not a 100% subsidiary of the Group, then part of these foreign exchange differences is referred in the appropriate proportion to the non-controlling interest.

Loss of control

When control over subsidiary is lost, the Group ceases to recognize its assets and liabilities, as well as non-controlling interests and other capital components attributable to the Group. Any positive or negative difference arisen as a result of loss of control is recognized within profit or loss for the period. If the Group keeps a share of investments in former subsidiary that share is measured at fair value as at the date of loss of control. Subsequently that share is recognized as an investment in associated entity (using equity method) or as a financial asset available for sale, depending on the extent of the Group’s influence on that subsidiary.

Transactions with related parties

The Group is controlled by the state and discloses transactions with related parties such as other state-owned companies and key management personnel when these transactions are significant.

Preparation of statement of cash flows

The consolidated statement of cash flows was prepared using direct method.

Operating segments

The operating segment is a component that represents operating activities that involve revenues and expenses and for which there is financial information that is regularly assessed by the Group's management when allocating resources and conducting an analysis of financial performance. The segment activity analysis is presented in Note 33.

5. Changes in accounting policy

In 2017, the Group applied the criteria for recognizing assets as uncollectible and changed the accounting procedures for such assets (Note 4). In preparing the consolidated financial statements for the years ended 31 December 2016 and 31 December 2015 the Group did not write off bad debts. In 2017, the Group amended its accounting policies. The criteria for writing off credit related debts are defined as follows: overdue debts of more than 270 days and / or the Group determined that there is no probability for debt collection taking into account the already implemented measures for debt recovery. In assessing the probability for repayment, the Group analyzes the quality and adequacy of collateral, the liquidation or bankruptcy procedure against the borrower, etc. The decision to write-off bad debts is made by the collegiate bodies of the Group. These consolidated financial statements, subject to these changes, will provide reliable and more relevant information about the quality of assets. These changes did not affect the Group's profit and net assets for the reported and comparable periods.

The changes related to the review of the criteria for classifying assets as bad debts are reflected retrospectively in Notes 7, 13 and 29, where the amounts of the gross value of loans and the amount of the provision for reserves as of 31 December 2016 and 31 December 2015, were adjusted accordingly.

6. Net interest income

In thousands of Belarusian Rubles	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest income			
Interest income on loans to customers	283 355	258 729	226 074
Interest income on securities available for sale	143 772	195 241	214 115
Interest income on due from banks	27 366	45 660	39 054
	454 493	**499 630**	**479 243**
Interest expense			
Interest expenses for due to banks	(41 881)	(41 028)	(38 527)
Interest expenses for customer accounts	(33 374)	(64 778)	(54 529)
Interest expenses for bonds issued by the bank	(27 166)	(34 141)	(22 434)
	(102 421)	**(139 947)**	**(115 490)**

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015, the interest income on assets with indications of impairment determined in conducting the valuation on an individual basis consisted mainly of interest income on loans to customers in the amount of 66 386 thousands of Rubles, 73 409 thousands of Rubles and 4 583 thousands of Rubles, respectively.

7. Allowance for impairment of financial assets

Movement of allowance for impairment of financial assets is presented as follows:

In thousands of Belarusian Rubles	Due from banks	Securities available for sale	Loans to customers	Other assets and contingencies	Total
At 1 January 2015	**-**	**-**	**385 565**	**-**	**385 565**
Additions	1 899	25 000	208 329	1 690	**236 918**
Foreign currency differences	-	-	44 501	-	**44 501**
Provision write-off	-	-	(34 657)	-	**(34 657)**
At 1 January 2016 (restated)	**1 899**	**25 000**	**603 738**	**1 690**	**632 327**
Charge	-	37 724	209 110	4 204	**251 038**
Foreign currency differences	514	(697)	11 102	(23)	**10 896**
Write-off	-	-	(60 540)	-	**(60 540)**
At 1 January 2017 (restated)	**2 413**	**62 027**	**763 410**	**5 871**	**833 721**
Charge/ (recovery) for the period	4 437	(4 499)	(18 247)	13 337	**(4 972)**
Foreign currency differences	137	(204)	40 242	83	**40 258**
Write-off	-	(25 000)	(409 248)	-	**(434 248)**
At 31 December 2017	**6 987**	**32 324**	**376 157**	**19 291**	**434 759**

8. *General administrative expenses*

In thousands of Belarusian Rubles	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Staff costs	19 409	16 137	12 144
Charity	9 799	10 610	6 390
Insurance	6 964	1 975	2 792
Contributions to the Social Security Fund	5 158	4 471	3 317
Depreciation and amortization	3 508	2 849	2 109
Taxes, other than income tax	3 129	2 640	9 261
Rent, utilities and repair expenses	2 253	1 768	1 223
Expenses of subsidiaries for the sale of goods	1 166	3 448	2 246
Advertising	934	853	611
Consultative and information services expenses	900	869	955
Office supplies and other office expenses	500	407	442
Transport and fuel expenses	458	273	229
Telecommunication and mail expenses	256	226	176
Other	4 870	4 780	1 303
Total general administrative expenses	**59 304**	**51 306**	**43 198**

9. Income tax

The Group provides for taxes based on the tax accounting maintained and prepared in accordance with the tax legislation of the Republic of Belarus for entities of the Group - residents of the Republic of Belarus, in accordance with the tax legislation of the Russian Federation and Ukraine for components of the Group - residents of the Russian Federation and Ukraine, respectively.

Due to the fact that certain expenses are non-deductible for tax purposes, as well as in view of the non-taxable income, the Group is subject to certain permanent tax differences.

During the years ended 31 December 2017, 31 December 2016 and 31 December 2015, the national rate of income tax for the Belarusian companies was 18%. During the years ended 31 December 2017, 31 December 2016 and 31 December 2015, the national rate of income tax for Belarusian banks and the Development Bank amounted to 25%. During the years ended 31 December 2017, 31 December 2016 and 31 December 2015, income tax rate for the companies - residents of the Russian Federation and the Ukraine was 20% and 18%, respectively.

Offset of deferred tax assets and liabilities of the individual Group companies in the consolidated statement of financial position is not performed.

Movements of deferred income tax balances of the Group as at 31 December 2017, 2016 and 2015 are presented below:

In thousands of Belarusian Rubles	31 December 2017	31 December 2016	31 December 2015
Tax effect of temporary differences that give rise to a net deferred tax asset			
Securities available for sale	5 846	7 833	3 316
Loans to customers	14 691	5 282	-
Finance lease receivables	24 693	35 724	36 610
Other assets	2 441	4 125	1 386
Due to banks	1 681	-	-
Customer accounts	-	26	45
Other liabilities	325	-	191
Total tax effect of temporary differences that give rise to a net deferred tax asset	**49 677**	**52 990**	**41 548**
Offset against deferred tax liability	(8 886)	(17 273)	(12 021)
Deferred tax asset	**40 791**	**35 717**	**29 527**
Unrecognized deferred tax asset	(5 271)	-	-
Total recognized deferred tax asset	**35 520**	**35 717**	**29 527**
Tax effect of temporary differences that give rise to a net deferred tax liability			
Cash equivalents and accounts in the National Bank	(6)	-	-
Due t3o banks	(7 496)	(364)	-
Loans to customers	(14 321)	-	(19 683)
Investment property	(503)	-	-
Property and equipment and intangible assets	(2 553)	(2 582)	(2 636)
Due from banks	-	-	(594)
Other liabilities	-	(14 327)	(8 437)
Deferred tax liability	**(24 879)**	**(17 273)**	**(31 350)**
Offset against deferred tax asset	8 886	17 273	12 021
Net deferred tax liability	**(15 993)**	**-**	**(19 329)**
Net deferred tax position	**19 527**	**35 717**	**10 198**

Movements of net deferred tax position during 2017, 2016 and 2015 are as follows:

Deferred tax position as at 1 January 2015	**(891)**
In profit or loss	11 089
Deferred tax position as at 1 January 2016	**10 198**
In profit or loss	25 519
Deferred tax position as at 1 January 2017	**35 717**
In profit or loss	(16 190)
Deferred tax position as at 31 December 2017	**19 527**

The table below presents the comparison of the theoretical income tax expense with the actual income tax expense:

In thousands of Belarusian Rubles	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
Profit before tax	**262 662**	**96 120**	**127 875**
Income tax rate	25%	25%	25%
Tax on the income tax rate	65 666	24 030	31 969
Tax effect of tax-exempt income	(20 797)	(11 694)	(10 869)
Tax effect of non-deductible expenses	5 289	4 995	10 553
Movement of unrecognized deferred tax assets	5 271	-	-
Effect of differences in income tax rates applied to the entities of the Group	49	(3 823)	3 031
Tax-exempt income from securities and other permanent differences	(21 160)	(28 893)	(37 440)
Income tax expense/(benefit)	**34 318**	**(15 385)**	**(2 756)**

Tax-exempt income from securities is the income from transactions with securities, which are included in the list of the securities, income from transactions with which is not considered in determining gross profit in accordance with the Tax Code of the Republic of Belarus.

(Expense)/benefit on income tax are presented as follows:

In thousands of Belarusian Rubles	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
Expenses on current income tax	(18 128)	(10 134)	(8 333)
(Expense)/benefit on deferred income tax	(16 190)	25 519	11 089
Income tax (expense)/benefit	**(34 318)**	**15 385**	**2 756**

10. Cash equivalents and accounts in the National Bank

In thousands of Belarusian Rubles	**31 December 2017**	**31 December 2016**	**31 December 2015**
Current and correspondent accounts with banks	32 498	66 379	53 625
Due from the National Bank	1 717	16	1
Total cash equivalents and accounts in the National Bank	**34 215**	**66 395**	**53 626**

Current and correspondent accounts in banks are mainly represented by the balances on operations with largest foreign banks, leading banks of the Republic of Belarus with the “B-/B3” long-term rating or above.

Cash and cash equivalents in the consolidated statement of cash flow include the following items:

In thousands of Belarusian Rubles	**31 December 2017**	**31 December 2016**	**31 December 2015**
Current and correspondent accounts with banks	32 498	66 379	53 625
Accounts with banks with initial maturity up to 90 days	33 897	32 512	19 819
Due from the National Bank	1 717	16	1
Total cash and cash equivalents	**68 112**	**98 907**	**73 445**

11. Due from banks

Amounts due from banks are represented by deposits primarily placed with resident banks of the Republic of Belarus, predominantly with the “B-” long-term rating. Amounts due from non-resident banks are represented by export credits and deposits placed in other banks, mainly having an international long-term rating in the range from “B” to “BBB-”, or not having an international rating.

(a) Cash concentration in other banks

In thousands of Belarusian Rubles	**31 December 2017**	**31 December 2016**	**31 December 2015**
Resident banks	398 118	279 926	221 987
Non-resident banks	107 916	56 742	32 715
Total due from banks	**506 034**	**336 668**	**254 702**
Allowance for impairment	(6 987)	(2 413)	(1 899)
Total due from banks less allowance for impairment	**499 047**	**334 255**	**252 803**

As at 31 December 2017, 31 December 2016 and 31 December 2015 there were no deposits placed by the Group with banks, which amounted to more than 10% of the Group’s equity.

As at 31 December 2017 the total of 169 169 thousands of Rubles (31 December 2016: 101 623 thousand of Rubles, 31 December 2015: 23 thousand of Rubles), denominated in Belarusian Rubles (BYN) and foreign currencies were placed with agent banks at interest rates far below the average interbank market rates under the programs of Start-up companies financing and support of woodworking enterprises. These investments mature in 2018-2023. These assets form a separate market segment due to the specific character of the financing program and the end recipients of the resources. Therefore, the Management believes that the contractual interest rates are market rates for such financial instruments and the Group recognizes amounts due from banks at fair value upon initial recognition, which is equal to the nominal value.

(b) Maximum credit risk

The maximum credit risk on amounts due from other banks is equal to their net carrying value, as recorded in the consolidated statement of financial position.

12. Securities available for sale

In thousands of Belarusian Rubles	Range of interest rates*	Maturity**	31 December 2017	31 December 2016	31 December 2015
Bonds issued by banks with floating interest rate	“RR***-3,5%” – “RR”	2019 - 2051	702 240	808 040	891 910
including pledged under repo transactions	*RR*	*2019*	*9 531*	-	-
Long-term government bonds	5,5% – 8,95%	2018 - 2027	586 920	388 545	226 489
including pledged under repo transactions	*6,5%*	*2022*	*30 529*	-	-
Bonds issued by commercial organizations	5,5% – 9%	2019 - 2023	177 592	174 629	117 845
Bonds issued by local authorities with floating interest rate	“½ RR” – “RR+2%”	2018 - 2027	135 724	135 239	173 770
Bonds issued by local authorities with fixed interest rate	2% – 3%	2024 - 2027	78 859	-	-
Bonds issued by the National Bank	5,5%	2018	40 928	39 759	102 879
Bonds issued by banks with fixed interest rate	3% – 6%	2019 - 2024	37 869	36 712	19 497
Total securities available for sale			**1 760 132**	**1 582 924**	**1 532 390**
Allowance for impairment			(32 324)	(62 027)	(25 000)
Total securities available for sale net of allowance for impairment			**1 727 808**	**1 520 897**	**1 507 390**

** The interest rate ranges are indicated for securities available for sale as at 31 December 2017*
*** Maturity dates are indicated for securities available for sale as at 31 December 2017*
**** RR - the refinancing rate established by the National Bank*

As at 31 December 2017 bonds issued by local authorities in the amount of 68 078 thousands of Rubles (31 December 2016: 80 986 thousands of Rubles, 31 December 2015: 132 158 thousand of Rubles), denominated in Belarusian Rubles at interest rates from 50% to 75% of the refinancing rate of the National Bank were obtained in accordance with government programs of support of linen, dairy and agricultural branches of the economy. These bonds mature in 2019–2020. These bonds form a separate market segment due to the specific character of government lending programs and the issuers’ type. Therefore, the Management believes that the contractual interest rates are market rates for such bonds, and therefore the Group recognizes the bonds at fair value upon initial recognition, which is equal to the nominal value.

The securities available for sale were issued by state authorities and “B-” rated banks in the national and foreign currencies except for the securities issued by non-rated entities. Approaches to defining the fair value of securities available for sale and the analysis by levels of the fair value sources hierarchy are described in Note 26.

The securities available for sale traded on the domestic market are generally traded at close to par value, taking into account the coupon yield due at the auction date. Respectively, the effect of revaluation at fair value is insignificant.

As at 31 December 2017 bonds issued by banks amounting to 10 850 thousands of Rubles (31 December 2016: 10 597 thousand of Rubles, 31 December 2015: 10 213 thousand of Rubles) were pledged as collateral for counter guarantee granted to a Subsidiary of the Group.

As at 31 December 2017 long-term government bonds with the fair value of 28 805 thousands of

Rubles (31 December 2016: 25 010 thousands of Rubles, 31 December 2015: 0 thousands of Rubles) were provided as collateral for the performance of obligations by third parties.

As at 31 December 2017 the securities available for sale with the fair value of 40 060 thousands of Rubles, were provided as collateral for funds raised under repo transactions with banks (Note 17) in the amount of 39 567 thousands of Rubles, with maturity in January 2018.

13. Loans to customers

In thousands of Belarusian Rubles	**31 December 2017**	**31 December 2016 (restated)**	**31 December 2015 (restated)**
Loans to commercial organizations	2 657 196	2 746 352	2 505 956
Loans to republican and regional state administration bodies	699 455	734 062	565 624
Finance lease receivables	584 768	431 079	379 826
Loans to non-commercial organizations	8 756	2 661	2 898
Loans to non-banking financial organizations	4 102	2 733	6 155
Total loans to customers	**3 954 277**	**3 916 887**	**3 460 459**
Allowance for impairment	(376 157)	(763 410)	(603 738)
Total loans to customers net of allowance for impairment	**3 578 120**	**3 153 477**	**2 856 721**

Participation in government loan granting programs

Loans acquired by the Group from other state-owned banks and granted by the Group in terms of resolutions of state authorities do not have similar financial instruments in the market, were issued under government credit programs and they constitute a separate market segment due to their uniqueness as well as the specific character of the government credit programs and borrowers' type. Therefore, the Management believes that the contractual interest rate up to 7,5% per annum for loans in Belarusian Rubles is the market rate for such loans.

The Group initially recognizes the loans granted at fair value equal to the nominal value.

The Group has also issued loans denominated in foreign currencies at the rates up to 11%, which is close to the rates, at which the loans are granted by the commercial banks of the Republic of Belarus, including the funds raised with syndicated loans at the rate close to the rates, at which the commercial banks of the Republic of Belarus raise funds.

(a) The quality of loan portfolio

The following table presents the information on the impairment of the loans to customers as at 31 December 2017:

In thousands of Belarusian Rubles	**Gross amount of loans**	**Allowance for impairment**	**Loans less allowance for impairment**	**Share of allowance for impairment in the gross amount of loans**
Loans individually assessed				
Undue	2 413 601	(246 164)	2 167 437	10,2%
Overdue:	98 901	(35 075)	63 826	35,5%
up to 30 days	567	(284)	283	50,1%
from 31 to 90 days	73 342	(11 262)	62 080	15,4%
from 91 to 180 days	1 932	(1 543)	389	79,9%
from 181 to 360 days	2 740	(2 466)	274	90,0%
over 360 days	20 320	(19 520)	800	96,1%
Total loans individually assessed	**2 512 502**	**(281 239)**	**2 231 263**	**11,2%**
Loans collectively assessed				
Undue	1 302 975	(19 020)	1 283 955	1,5%
Overdue:	138 800	(75 898)	62 902	54,7%
up to 30 days	28 118	(3 824)	24 294	13,6%
from 31 to 90 days	25 035	(1 719)	23 316	6,9%
from 91 to 180 days	8 493	(1 625)	6 868	19,1%
from 181 to 360 days	23 300	(14 876)	8 424	63,8%
over 360 days	53 854	(53 854)	-	100,0%
Total loans collectively assessed	**1 441 775**	**(94 918)**	**1 346 857**	**6,6%**
Total loans	**3 954 277**	**(376 157)**	**3 578 120**	**9,5%**

The following table presents the information on the impairment of the loans to customers as at 31 December 2016 (restated):

In thousands of Belarusian Rubles	**Gross amount of loans**	**Allowance for impairment**	**Loans less allowance for impairment**	**Share of allowance for impairment in the gross amount of loans**
Loans individually assessed				
Undue	2 056 820	(168 051)	1 888 769	8,2%
Overdue:	353 917	(236 864)	117 053	66,9%
up to 30 days	1 454	(194)	1 260	13,3%
from 31 to 90 days	9 687	(4 972)	4 715	51,3%
from 91 to 180 days	17 032	(11 091)	5 941	65,1%
from 181 to 360 days	83 418	(25 800)	57 618	30,9%
over 360 days	242 326	(194 807)	47 519	80,4%
Total loans individually assessed	**2 410 737**	**(404 915)**	**2 005 822**	**16,8%**
Loans collectively assessed				
Undue	993 865	(45 814)	948 051	4,6%
Overdue:	512 285	(312 681)	199 604	61,0%
up to 30 days	49 427	(13 255)	36 172	26,8%
from 31 to 90 days	73 953	(17 189)	56 764	23,2%
from 91 to 180 days	80 121	(30 487)	49 634	38,1%
from 181 to 360 days	200 845	(143 811)	57 034	71,6%
over 360 days	107 939	(107 939)	-	100,0%
Total loans collectively assessed	**1 506 150**	**(358 495)**	**1 147 655**	**23,8%**
Total loans	**3 916 887**	**(763 410)**	**3 153 477**	**19,5%**

The following table presents the information on the impairment of the loans to customers as at 31 December 2015 (restated):

In thousands of Belarusian Rubles	**Gross amount of loans**	**Allowance for impairment**	**Loans less allowance for impairment**	**Share of allowance for impairment in the gross amount of loans**
Loans individually assessed				
Undue	1 380 360	(138 287)	1 242 073	10,0%
Overdue:	489 716	(272 825)	216 891	55,7%
up to 30 days	1 480	(43)	1 437	2,9%
from 31 to 90 days	101 182	(22 230)	78 952	22,0%
from 91 to 180 days	80 328	(27 293)	53 035	34,0%
from 181 to 360 days	83 934	(55 361)	28 573	66,0%
over 360 days	222 792	(167 898)	54 894	75,4%
Total loans individually assessed	**1 870 076**	**(411 112)**	**1 458 964**	**22,0%**
Loans collectively assessed				
Undue	1 177 701	(49 882)	1 127 819	4,2%
Overdue:	412 682	(142 744)	269 938	34,6%
up to 30 days	65 335	(5 373)	59 962	8,2%
from 31 to 90 days	152 914	(9 783)	143 131	6,4%
from 91 to 180 days	47 021	(14 891)	32 130	31,7%
from 181 to 360 days	63 815	(29 100)	34 715	45,6%
over 360 days	83 597	(83 597)	-	100,0%
Total loans collectively assessed	**1 590 383**	**(192 626)**	**1 397 757**	**12,1%**
Total loans	**3 460 459**	**(603 738)**	**2 856 721**	**17,4%**

Overall decrease in the percentage of allowance for impairment in the gross loan portfolio as at 31 December 2017 compared to 31 December 2016 is due to write-off of uncollectible loans against the formed allowance. Total write-off of bad debt against the allowance for the period from 31 December 2016 to 31 December 2017 amounted to 409 248 thousands of Rubles (Note 7).

In 2017, loans in the amount of 93 318 thousands of Rubles (in 2016: 68 999 thousands of Rubles) of a number of agricultural enterprises were transferred to the Asset Management Agency as part of the state's work on a comprehensive reform of the system for financing agricultural production. Management believes that the transfer of such assets to the Asset Management Agency made at par value is presented as repayment of loans, and the amount of the reserve previously created for such assets is restored in the statement of comprehensive income, as the loan is considered repaid.

As at 31 December 2017, 31 December 2016 and 31 December 2015 there were no loans in the loan portfolio that were overdue and not impaired.

The amount of outstanding debt assessed on an individual basis for which objective evidence of impairment was identified as at 31 December 2017 is 1 089 875 thousands of Rubles, the allowance formed is 192 522 thousands of Rubles.

The amount of outstanding credit debt assessed on an individual basis for which objective evidence of impairment was identified as at 31 December 2016 is 733 495 thousands of Rubles, and the allowance of 152 842 thousands of Rubles was formed.

The amount of outstanding credit debt assessed on an individual basis for which objective evidence of impairment was identified as at 31 December 2015 is 80 901 thousands of Rubles, and the allowance of 5 301 thousands of Rubles was formed.

As at 31 December 2017 loan portfolio included 32 loans with extended maturity in the gross amount of 71 617 thousands of Rubles (as at 31 December 2016 – 48 loans in the amount of 250 960 thousands of Rubles, as at 31 December 2015 – 9 loans with extended maturity amounting to 158 497 thousand of Rubles).

(b) Analysis of collateral

The following table presents information on loans by types of collateral, data is based on the carrying amount of loans, but not on the fair value of collateral:

In thousands of Belarusian Rubles	**31 December 2017**	**31 December 2016 (restated)**	**31 December 2015 (restated)**
*Penalty**	1 139 527	1 007 126	788 057
Pledge of vehicles, property and equipment (excluding real estate)	938 171	699 707	723 321
Pledge of real estate	920 456	1 106 707	944 580
Warranties and guarantees	417 648	362 011	292 132
Pledge of property rights	265 062	389 095	317 451
Pledge of goods in turnover	21 992	70 823	42 827
Other types of collateral	105 648	24 789	27 750
Unsecured loans	145 773	256 629	324 341
Total loans to customers	**3 954 277**	**3 916 887**	**3 460 459**
Allowance for impairment	(376 157)	(763 410)	(603 738)
Total loan to customers less allowance for impairment	**3 578 120**	**3 153 477**	**2 856 721**

** The source of fulfillment of obligations are funds of the republican or local budget.*

In assessing the impairment of loans to individually significant customers, the Group determines the estimated value of collateral at the reporting date. As at 31 December 2017, 31 December 2016 and 31 December 2015 the fair value of collateral for loans that are assessed on an individual basis is as follows:

In thousands of Belarusian Rubles

	31 December 2017			**31 December 2016**			**31 December 2015**		
	Fair value of collateral	Fair value of collateral is not determined	Gross amount of loan	Fair value of collateral	Fair value of collateral is not determined	Gross amount of loan	Fair value of collateral	Fair value of collateral is not determined	Gross amount of loan
Pledge of real estate	572 092	-	572 092	554 849	-	554 849	397 332	-	397 332
Pledge of vehicles, property and equipment (excluding real estate)	290 700	-	290 700	219 736	-	219 736	154 527	-	154 527
Warranties and guarantees	-	287 768	287 768	-	208 550	208 550	-	158 070	158 070
Pledge of property rights	219 872	-	219 872	337 705	-	337 705	217 030	-	217 030
Other types of collateral	30 355	-	30 355	10 639	-	10 639	7 199	-	7 199
Pledge of goods in turnover	988	-	988	7 629	-	7 629	7 362	-	7 362
Penalty	-	-	1 047 893	-	-	902 190	-	-	710 870
Unsecured loans	-	-	62 834	-	-	169 439	-	-	229 545
	1 114 007	**287 768**	**2 512 502**	**1 130 558**	**208 550**	**2 410 737**	**783 450**	**158 070**	**1 881 935**

(c) Disclosure by branches of economy

In thousands of Belarusian Rubles	**31 December 2017**	**31 December 2016 (restated)**	**31 December 2015 (restated)**
Construction	1 067 020	1 062 963	863 115
Agriculture	718 787	900 971	942 769
Services	647 859	481 591	290 616
Manufacturing	535 133	620 606	462 741
Food industry	445 699	319 542	289 931
Trade	296 591	244 818	351 285
Lease	146 346	208 364	187 507
Light industry	85 203	77 179	70 262
Other industries	11 639	853	2 233
Total loans to customers	**3 954 277**	**3 916 887**	**3 460 459**
Allowance for impairment	(376 157)	(763 410)	(603 738)
Total loan to customers less allowance for impairment	**3 578 120**	**3 153 477**	**2 856 721**

(d) Credit risk concentration

As at 31 December 2017 the Group had four borrowers, whose share was over 10% of equity per borrower. The total value of these balances amounted to 1 270 903 thousands of Rubles.

As at 31 December 2016 the Group had six borrowers, whose share was over 10% of equity per borrower. The total value of these balances amounted to 1 622 484 thousands of Rubles.

As at 31 December 2015 the Group had three borrowers, whose share was over 10% of equity per borrower. The total value of these balances amounted to 892 501 thousand of Rubles.

(e) Finance lease receivable

The components of finance lease receivables are presented as follows:

In thousands of Belarusian Rubles	**31 December 2017**	**31 December 2016**	**31 December 2015**
Up to one year	218 205	150 753	132 392
One to five years	543 036	380 346	294 370
More than five years	50 162	56 932	117 395
Minimum lease payments	**811 403**	**588 031**	**544 157**
Net of deferred income	(226 635)	(156 952)	(164 331)
Net investment in finance lease	**584 768**	**431 079**	**379 826**
Allowance for impairment	(110 698)	(133 865)	(136 103)
Total finance lease receivables	**474 070**	**297 214**	**243 723**
Up to one year	162 001	110 515	92 148
One to five years	376 996	285 858	256 532
More than five years	45 771	34 706	31 146
Net investment in finance lease	**584 768**	**431 079**	**379 826**
Allowance for impairment	(110 698)	(133 865)	(136 103)
Total net investment in finance lease	**474 070**	**297 214**	**243 723**

As at 31 December 2017 finance lease receivables with carrying amount of 9 091 thousands of Rubles (31 December 2016: 11 129 thousands of Rubles, 31 December 2015: 23 302 thousand of Rubles), were pledged as collateral for bank loans granted to the subsidiaries of the Group.

(f) Key assumptions and judgments for estimating loan impairment

The Group estimates loan impairment for loans to customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 6,6% on average in the loans portfolio;
- the decrease in the fair value of the main types of collateral in case of sale is 50% for real estate, 20% -50% for transportation and equipment.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans as at 31 December 2017 would be 35 781 thousands of Rubles lower/higher (31 December 2016: 31 535 thousands of Rubles, 31 December 2015: 28 567 thousands of Rubles).

(g) Effect of initial recognition of financial instruments at fair value

The effect of the initial recognition of financial instruments at fair value is represented by the difference between the nominal and fair value determined at the initial recognition, taking into account the Group's assessment of the probability of repayment of the borrowings granted, with respect to loans issued by the Group to woodworking companies.

The fair value of loans issued by the Group to woodworking companies is calculated based on the expected future cash flows at a discount rate reflecting the current market assessment of the temporary value of cash and the risks of these loans. The difference between the nominal value and fair value of borrowings at initial recognition is recorded in the item “Effect of initial recognition of financial instruments at fair value” of the statement of comprehensive income.

14. Investment property

Investment property is represented by real estate in the form of trade areas in Minsk and other large cities of the Republic of Belarus, which is provided for operating lease to third parties.

Management believes that fair value of investment property is consistent with the carrying amount. The fair value of investment property is categorized within Level 3 of the fair value hierarchy.

Information on movements of investment property is presented as follows:

In thousands of Belarusian Rubles	**For the year ended 31 December 2017**
Historical cost	
As at 1 January 2017	**-**
Additions	21 220
As at 31 December 2017	**21 220**
Accumulated depreciation	
As at 1 January 2017	**-**
Charge for the period	(300)
As at 31 December 2017	**(300)**
Carrying value as at 1 January 2017	**-**
Carrying value as at 31 December 2017	**20 920**

Total amount of all rental payments for the reporting period amounted to 2 621 thousands of Rubles.

15. Property and equipment and intangible assets

In thousands of Belarusian Rubles	**Buildings and constructions**	**Computer equipment, furniture and other equipment**	**Vehicles**	**Investments in property and equipment and intangible assets**	**Intangible assets**	**Total**
Historical cost						
As at 1 January 2015	**54 076**	**8 746**	**1 349**	**404**	**853**	**65 428**
Additions	-	-	-	5 371	1	5 372
Disposals	(276)	(747)	(49)	-	(17)	(1 089)
Commissioning and transfers	2 001	1 684	63	(4 534)	786	-
As at 31 December 2015	**55 801**	**9 683**	**1 363**	**1 241**	**1 623**	**69 711**
Additions	-	-	-	10 786	-	10 786
Disposals	-	(96)	(198)	(245)	(22)	(561)
Commissioning and transfers	164	2 540	611	(5 136)	1 821	-
As at 31 December 2016	**55 965**	**12 127**	**1 776**	**6 646**	**3 422**	**79 936**
Additions	-	-	-	20 130	-	20 130
Disposals	(194)	(507)	(85)	-	(11)	(797)
Commissioning and transfers	4 162	2 541	3 282	(12 672)	2 687	-
As at 31 December 2017	**59 933**	**14 161**	**4 973**	**14 104**	**6 098**	**99 269**
Accumulated depreciation/amortization						
As at 1 January 2015	**(682)**	**(1 933)**	**(511)**	**-**	**(345)**	**(3 471)**
Charge for the period	(596)	(1 081)	(184)	-	(248)	(2 109)
Write-off on disposal	26	680	48	-	17	771
As at 31 December 2015	**(1 252)**	**(2 334)**	**(647)**	**-**	**(576)**	**(4 809)**
Charge for the period	(739)	(1 292)	(234)	-	(584)	(2 849)
Write-off on disposal	-	34	168	-	22	224
As at 31 December 2016	**(1 991)**	**(3 592)**	**(713)**	**-**	**(1 138)**	**(7 434)**
Charge for the period	(748)	(1 578)	(311)	-	(871)	(3 508)
Write-off on disposal	10	305	85	-	5	405
As at 31 December 2017	**(2 729)**	**(4 865)**	**(939)**	**-**	**(2 004)**	**(10 537)**
Net book value						
As at 31 December 2017	**57 204**	**9 296**	**4 034**	**14 104**	**4 094**	**88 732**
As at 31 December 2016	**53 974**	**8 535**	**1 063**	**6 646**	**2 284**	**72 502**
As at 31 December 2015	**54 549**	**7 349**	**716**	**1 241**	**1 047**	**64 902**
As at 1 January 2015	**53 394**	**6 813**	**838**	**404**	**508**	**61 957**

Intangible assets of the Group are mainly represented by the software and license rights to use it.

16. Other assets

In thousands of Belarusian Rubles	31 December 2017	31 December 2016	31 December 2015
Financial assets less allowance for impairment	*5 793*	*18 439*	*10 712*
Accounts receivable	17 342	22 325	11 897
Other	1 307	451	505
Allowance for impairment	(12 856)	(4 337)	(1 690)
Non-financial assets	*151 111*	*92 742*	*68 090*
Prepayments to suppliers of subsidiaries of the Group	111 281	78 039	32 291
Tax receivable, other than income tax	34 760	6 501	23 928
Inventory	3 968	2 333	6 301
Deferred expenses	1 102	5 869	5 570
Total other assets	**156 904**	**111 181**	**78 802**

17. Due to banks

In thousands of Belarusian Rubles	31 December 2017	31 December 2016	31 December 2015
Banks of the Republic of Belarus	699 800	431 741	121 590
Banks of the Russian Federation	524 243	249 720	98 043
Banks of the European Union	235 130	201 220	154 832
Other banks	36 457	-	273 140
Syndicated loan from non-resident banks	-	103 372	31 360
Total due to banks	**1 495 630**	**986 053**	**678 965**

As at 31 December 2017 amounts under repurchase agreements are represented by short-term loans in the amount of 39 567 thousands of Rubles received from two Belarusian banks with maturities in January 2018 that are collateralized by debt securities in US Dollars and Belarusian Rubles with the fair value of 30 529 thousands of Rubles and 9 531 thousands of Rubles, respectively (Note 12).

The funds attracted from Belarusian banks are mainly represented by attracted funds within the framework of the family capital management program, the terms of which are determined by the state program under the Edict of the President of the Republic of Belarus No. 572 “On additional measures of state support to families with children” dated 9 December 2014. As at 31 December 2017, 31 December 2016 and 31 December 2015 the amount of funds raised under the family capital management program is 565 771 thousands of Rubles, 352 580 thousands of Rubles and 93 941 thousands of Rubles, respectively. Nominal interest rate on attracted funds within the framework of family capital is 1Y Libor for US Dollars.

18. Customer accounts

In thousands of Belarusian Rubles	31 December 2017	31 December 2016	31 December 2015
Deposits of the government bodies	586 508	662 470	655 973
Customer accounts	43 929	11 513	25 557
Total customer accounts	**630 437**	**673 983**	**681 530**

Deposits of government bodies as at 31 December 2017 are presented also by deposits of the Ministry of Finance of the Republic of Belarus, including the amount of 84 344 thousands of Rubles (31 December 2016: 117 341 thousands of Rubles, 31 December 2015: 282 554 thousand of

Rubles) denominated in Belarusian Rubles with fixed rates from 0,001% to 1,0% per annum, the amount of 190 045 thousands of Rubles (31 December 2016: 163 927 thousands of Rubles, 31 December 2015: 160 320 thousand of Rubles) denominated in Euro with fixed rate of 1,5% per annum. The maturity of these deposits is in 2019–2022. The remaining deposits are represented by attracted funds from local government authorities in Belarusian Rubles with maturities in 2018-2021 and rates from 2,2% to 11%.

These deposits of the Ministry of Finance were provided to the Development Bank for the acquisition of assets of the systemically important banks in 2012–2013 under the orders of the President of the Republic of Belarus and the Council of Ministers of the Republic of Belarus, and for the acquisition in 2014 of the bonds issued by the local authorities, the proceeds from the sale of which are used by the local authorities for the financing of the linen industry. Contractual interest rates for these loans and bonds are below average market interest rates. Due to the direct usage of the deposits for the acquisition of loans and bonds, the Management believes that contractual deposit rates are market rates for such deposits.

The Group initially recognized deposits at the fair value equal to the nominal value.

Under the terms of the government program under the Edict of the President of the Republic of Belarus No. 572 “On additional measures of state support to families with children” dated 9 December 2014, the Development Bank annually transfers a part of the profit to a special fund for the accumulation of the part of income generated from managing the family capital funds, for subsequent transfer of these funds to the republican budget in the order and amounts determined by the Supervisory Board of the Development Bank in coordination with the Ministry of Finance. Transfer of funds to the republican budget is intended to be made at the end of each reporting period of family capital management. The order, the amount and timing of the return of the funds is determined by the Council of Ministers of the Republic of Belarus. The amount due to transfer to the budget is recognized in the interim consolidated statement of financial position under “Customer accounts” line as liabilities to the budget.

The changes in the balance of funds to be transferred to the budget is presented below:

In thousands of Belarusian Rubles	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
Balance at the beginning of the period	**22 438**	**2 823**	**-**
Allocation of profit from family capital management	36 275	19 459	2 823
Revaluation of the balance of funds to be transferred to the budget	162	156	-
Balance at the end of the period	**58 875**	**22 438**	**2 823**

19. Debt securities issued

In thousands of Belarusian Rubles	**Range of interest rates ***	**Maturity**	**31 December 2017**	**31 December 2016**	**31 December 2015**
Bonds held by the National Bank	RR	2023 - 2051	1 346 669	1 346 669	1 346 669
Debt securities with floating rate	RR	2018 - 2025	438 986	454 754	380 569
Debt securities with fixed rate	2% - 6,35%	2018 - 2027	102 225	26 154	121 939
Total debt securities issued			**1 887 880**	**1 827 577**	**1 849 177**

**RR – refinancing rate, established by the National Bank*

As at 31 December 2017 bonds in the amount of 11 906 thousands of Rubles (as at 31 December 2016: 10 154 thousands of Rubles, 31 December 2015: 6 157 thousand of Rubles), nominated in Belarusian Rubles were issued by the Group at the interest rates lower than those prevailing in the securities market. Due to the specificity of the counterparties and the direction of use of the attracted amounts the benefit of low interest rate debt securities is treated as a government grant and determined as the difference between the fair value and the amount received (Note 20).

20. Government grants

In thousands of Belarusian Rubles	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
Balance at the beginning of the period	**232 148**	**111 881**	**22 173**
Amortization for the period	(2 651)	(5 893)	(3 574)
Additions for the period	143 333	126 160	93 282
Balance at the end of the period	**372 830**	**232 148**	**111 881**

The Group recognized as a government grant the amount of benefits provided to the Group by low interest rates on deposits and loans attracted from state-owned banks, including under the family capital management program, on placing of own debt securities to government bodies and legal entities to finance government programs. As at 31 December 2017, 31 December 2016 and 31 December 2015 the amount of government grant refereed to the attracted under the family capital management program is 360 150 thousands of Rubles, 216 817 thousands of Rubles and 90 567 thousands of Rubles, respectively. At initial recognition these deposits and borrowings are recognized at fair value measured using appropriate market interest rates for instruments that are considered to be similar, if any. The difference between the fair value and the amount received is recognized as a government grant. Subsequent to initial recognition, the Group recognizes in profit or loss part of the state subsidy in the amount equal to the amortization charge of the relevant liability.

21. Other liabilities

In thousands of Belarusian Rubles	**31 December 2017**	**31 December 2016**	**31 December 2015**
Financial liabilities	*20 676*	*21 342*	*10 343*
Due to suppliers	20 154	20 950	8 620
Other	522	392	1 723
Non-financial liabilities	*11 365*	*6 366*	*4 579*
Provision for contingent liabilities (Note 27)	6 435	1 534	-
Taxes payable, other than income tax	2 617	472	-
Other	2 313	4 360	4 579
Total other liabilities	**32 041**	**27 708**	**14 922**

22. Equity

a) Issued capital

The majority stake of the Development bank is owned by the Republic of Belarus. The State Property Committee of the Republic of Belarus acts as holder of the shares of the Council of Ministers of the Republic of Belarus.

As at 31 December 2017 and 31 December 2016 declared, issued and fully paid share capital consisted of 125 558 610 ordinary shares, as at 31 December 2015 - 114 808 400 ordinary shares. The par value of shares is 10 Rubles.

As at 31 December 2017 and 31 December 2016 the share capital was 1 451 694 thousands of Rubles, as at 31 December 2015 - 1 344 192 thousands of Rubles, including in the hyperinflation effect of 230 134 thousands of Rubles and fair value adjustment of increase in share capital through investment of shares of JSC "Promagroleasing" in the amount of 34 026 thousands of Rubles.

28 October 2016 the Development Bank increased the size of the share capital due to retained earnings by 107 502 thousands of Rubles. The additional issue of shares was distributed among all shareholders in proportion to the number of shares owned by them.

On 13 April 2015 the Development Bank increased its share capital by 32 354 thousand of Rubles using retained earnings. Additional issue of shares was allocated to the shareholders proportionally to their shares.

During the period from April to September 2015 in accordance with the order of the President of the Republic of Belarus funds amounting to 200 000 thousand of Rubles were transferred as a contribution to the share capital of the Development Bank from the funds provided for in the national budget.

All common (ordinary) shares are fully paid, give the right to one vote, as well as the right to receive dividends and participation in residual assets.

b) Dividends

According to the Belarusian legislation, the Development Bank distributes profits in the following two ways:

- as generation of the funds and contributions to the funds recorded under Belarusian accounting standards;
- as dividends.

As at 31 December 2017 the Group's dividends for 2016 in the amount of 32 924 thousands of Rubles were declared and paid, including 29 147 thousands of Rubles of the Development Bank. Total dividends per 1 share of the Development Bank amounted to 0,26 Rubles in 2016.

As at 31 December 2016 dividends for 2015 in the amount of 34 472 thousands of Rubles were declared and paid. Total dividends per 1 share amounted to 0,33 Rubles in 2015.

As at 31 December 2015 dividends for 2014 in the amount of 14 197 thousand of Rubles were declared and paid. Total dividends per 1 share amounted to 0,12 Rubles in 2014.

Payment of dividends is made on the basis of resolution of the General Meeting of Shareholders through the distribution of net profit recognized in the financial statements prepared in accordance with the Belarusian legislation.

23. Risk management

The Group maintains and develops the risk management system in compliance with the requirements of international risk management standards, including the recommendations of the Basel Committee on Banking Supervision as well as the requirements and recommendations of the National Bank.

The top-level document that defines standard requirements for the Development Bank and the members of the Group regarding the organization of the risk management system is the Risk Management Policy in the Group, according to which the main objectives of the risk management system in the Group are:

- ensuring long-term financial reliability of the Group members while attaining its strategic objectives;
- ensuring capital adequacy under international financial reporting standards to cover the risks of the Group.

These objectives are achieved by completing the following tasks:

- developing of the adequate risk management organizational structure that complies with the nature, complexity and volumes of transactions performed;
- making each Group's employee understand the importance of procedures designed to identify risks and measures taken to reduce the Group's exposure as well as ensure personal involvement and accountability for high performance within their roles and responsibilities;
- formation of a risk management process, both at the level of deals (transactions) performed and at the portfolio level, which implies the aggregation of homogeneous deals (transactions);
- creation of effective interaction within the framework of the information exchange system between the Group's participants, ensuring regular information about the risks in the Group at all levels of the organizational and functional structure of the risk management system.

The organizational structure of the risk management system of the Group is represented at five levels:

The first level is represented by the Supervisory Board, which provides for organizing risk management system, the elimination of conflicts of interest and the conditions of their occurrence in the risk management process, establishes the business strategy, monitors the effectiveness of the risk management system. Risk Management Committee, Audit Committee, Committee on Budget, Remunerations and Appointments, Strategic Development Committee are established and operate under the Supervisory Board.

The second level is represented by the Management Board, which organizes the risk management system and ensures that the goals and objectives established by the Supervisory Board in this area are met. Within the frames of powers and responsibilities established by the Management Board of the Development Bank the Committees (such as Credit and Finance Committees, Committee on Toxic Assets Management) are functioning.

The third level is represented by the risk management department whose responsibilities include:

- independent assessment, monitoring, risk limiting and control, stress testing of the Group's exposure to risk factors, with the elaboration of measures designed to limit and optimize risks;
- ensuring the continuous informing of the Management bodies and the executive in charge of risk management on risk management issues.

The fourth level is represented by other units engaged in risk management within their competence.

The fifth level is represented by the Internal Audit sector, which assesses the effectiveness of the risk management system as well as monitors its compliance with local regulatory legal acts regulating risk management issues.

The Group identifies the following main types of risks that have or may have an impact on its activity:

- market risk (interest risk and currency risk);
- credit risk;
- liquidity risk;
- country risk;
- operational risk;
- other risks (reputation risk, strategic risk).

a) Market risk

Market risk is the risk that the Group will incur losses or failure to receive the expected capital gains from the changes in the value of balance sheet and off-balance sheet items related to the trading portfolio as well as the value of items denominated in foreign currencies and commodities as a result of changes in market prices of financial instruments and commodities due to changes in foreign currency exchange rates, market interest rates and other factors.

Market risk arises from open positions on interest rate, currency and equity financial instruments that are exposed to general and specific market movements and changes in the level of market prices volatility.

(i) Interest rate risk

Interest rate risk is the risk of losses and failure to receive the expected capital gains from changes in the value of balance sheet and off-balance sheet items due to fluctuations in interest rates.

The interest rate policy is aimed at determining the optimal approaches to setting interest rates on raised/allocated funds and receiving interest income, which allows to cover maintenance expenses of the Group and to make specific allowance for potential losses on assets and operations that are not reflected in the balance sheet. The total Group’s interest rate risk is most significantly affected by the interest rate risk of the Development Bank. The implementation of the Development Bank’s interest rate policy is carried out by structural units responsible for developing the rationale for the interest rates applied and funds raising/allocation decisions as well as by the Finance Committee of the Development Bank (except for the cases when the cost of income generating assets and paid liabilities is determined in normative legal acts as well as by the Supervisory Board of the Development Bank and the Management Board of the Development Bank).

In the interest rate risk management process the following basic tools (methods) are used:

- establishment and control of interest rate risk tolerance indicators;
- development and analysis (for consideration by the Finance Committee) of the Plan of Financing Government Programs and Activities by the Development Bank in conjunction with the resource provision of the planned lending operations, indicating the value of loans (including the reimbursement/compensation of losses of the Development Bank) and funding;
- elaboration of the issues of the systemically important banks’ assets transfer to the balance sheet of the Development Bank in conjunction with the planned funding (its terms and cost);
- development and analysis of the Forecast Balance sheet, the budget of the Development Bank, funding matrix;
- exercising the Group’s rights under contractual relationships to terminate contracts early (in accordance with the law);
- forming the system of key interest rate risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to interest rate risk factors;
- planning of the profitability of operations (including, the target weighted average return depending on funding sources);
- application of standard interest rates, inclusion in loan agreements of clauses providing the possibility for the Development Bank to revise interest rates in the event of occurrence of events specified in the contract;
- development and analysis of the interest rate risk profile;
- assessment of the impact of interest rate risk on interest income and the financial result of the Group;
- assessment of the negative impact of liquidity and credit risk factors on the Group’s interest rate risk.

Cash flow sensitivity analysis to changes in interest rates

The sensitivity analysis of profit or loss for the year to changes in market interest rates on financial instruments with floating rates is based on a simplified scenario of a parallel decrease or increase in yield curves by 100 basis points and positions on interest-bearing assets and liabilities in effect as at 31 December 2017, 31 December 2016 and 31 December 2015, and can be represented as follows:

	31 December 2017		**31 December 2016**		**31 December 2015**	
In thousands of Belarusian Rubles	**Profit (or loss)**	**Equity**	**Profit (or loss)**	**Equity**	**Profit (or loss)**	**Equity**
Increase of interest rates by 100 basis points	25 572	19 186	17 821	13 374	5 351	4 017
Decrease of interest rates by 100 basis points	(25 572)	(19 186)	(17 821)	(13 374)	(5 351)	(4 017)

Sensitivity analysis of fair value changes of securities available for sale to interest rate changes

Equity sensitivity analysis to fair value changes of financial assets available for sale due to interest rate changes (prepared based on positions effective as at 31 December 2017, 31 December 2016 and 31 December 2015, and simplified scenario of parallel increase or decrease of interest rates in yield curves by 100 basis points) can be represented as follows.

	31 December 2017		**31 December 2016**		**31 December 2015**	
In thousands of Belarusian Rubles	**Increase by 100 b.p.**	**Decrease by 100 b.p.**	**Increase by 100 b.p.**	**Decrease by 100 b.p.**	**Increase by 100 b.p.**	**Decrease by 100 b.p.**
Securities available for sale	(23 909)	32 973	(13 677)	19 928	(6 910)	12 295
Net effect on equity	**(23 909)**	**32 973**	**(13 677)**	**19 928**	**(6 910)**	**12 295**

Influence on equity is determined taking into account the tax effect calculated with the use of the theoretical income tax rate applicable to the Development Bank and relevant entity of the Group.

(ii) Currency risk

Currency risk is the risk of losses and failure to receive expected capital gains from changes in the value of the Group’s balance sheet and off-balance sheet items denominated in foreign currencies due to changes in foreign currency exchange rates.

The Group has assets and liabilities denominated in foreign currencies. Currency risk arises when the available or expected assets in any foreign currency are either above or below the available or expected liabilities denominated in the same currency.

The Group applies the following instruments to manage currency risk:

- ensuring compliance with the standard for limiting currency risk established for the Development Bank by the National Bank;
- establishment and control of currency risk tolerance indicators;
- implementation of the Credit Policy according to which loans in foreign currency are provided for the realization by borrowers of currency-repaid investment projects and (or) if the borrower

has revenue in foreign currencies in the amount enough to fulfill its obligations to the Development Bank;

- forming the system of key currency risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to currency risk factors;
- application of hedging instruments, particularly, performing currency transactions and transactions with financial instruments (forward transactions, swap transactions);
- diversification of currency structure of assets and liabilities;
- forming proposals on currency risk limitation.

The following table represents the structure of financial assets and liabilities by currency as a 31 December 2017:

In thousands of Belarusian Rubles	BYN	EUR	USD	RUB	Other currencies	Total
Assets						
Cash equivalents and accounts in the National Bank	3 132	10 844	19 463	675	101	34 215
Due from banks	249 055	118 208	80 287	50 971	526	499 047
Securities available for sale	918 057	318 737	491 014	-	-	1 727 808
Loans to customers	2 210 246	602 971	549 205	213 710	1 988	3 578 120
Other financial assets	1 307	391	338	3 500	257	5 793
Total assets	**3 381 797**	**1 051 151**	**1 140 307**	**268 856**	**2 872**	**5 844 983**
Liabilities						
Due to banks	50 359	788 186	627 929	29 156	-	1 495 630
Customer accounts	235 680	219 333	58 875	116 549	-	630 437
Debt securities issued	1 817 562	70 318	-	-	-	1 887 880
Other financial liabilities	15 381	99	52	5 119	25	20 676
Total liabilities	**2 118 982**	**1 077 936**	**686 856**	**150 824**	**25**	**4 034 623**
Net currency position	**1 262 815**	**(26 785)**	**453 451**	**118 032**	**2 847**	

Fair value of derivative foreign-currency denominated financial instruments is included in this analysis by currencies. The analysis of currency risk of derivative financial instruments as at 31 December 2017 is presented in the following table:

In thousands of Belarusian Rubles	BYN	EUR	USD	RUB	Other currencies	Total
Claims under derivative financial instruments	-	-	-	11 392	-	11 392
Liabilities under derivative financial instruments	-	-	(11 382)	-	-	(11 382)
Net position on derivative financial instruments	**-**	**-**	**(11 382)**	**11 392**	**-**	**10**
Total open currency position	**1 262 815**	**(26 785)**	**442 069**	**129 424**	**2 847**	

The following table represents the structure of financial assets and liabilities by currency as at 31 December 2016:

In thousands of Belarusian Rubles	**BYN**	**EUR**	**USD**	**RUB**	**Other currencies**	**Total**
Assets						
Cash equivalents and accounts in the National Bank	1 857	58 366	4 499	1 434	239	66 395
Due from banks	176 082	58 492	56 513	43 146	22	334 255
Securities available for sale	943 279	277 258	300 360	-	-	1 520 897
Loans to customers	2 218 449	344 139	456 561	129 208	5 120	3 153 477
Other financial assets	13 585	52	310	2 805	1 687	18 439
Total assets	**3 353 252**	**738 307**	**818 243**	**176 593**	**7 068**	**5 093 463**
Liabilities						
Due to banks	28 234	554 313	403 506	-	-	986 053
Customer accounts	368 421	172 759	22 438	110 365	-	673 983
Debt securities issued	1 827 577	-	-	-	-	1 827 577
Other financial liabilities	16 461	26	267	4 538	50	21 342
Total liabilities	**2 240 693**	**727 098**	**426 211**	**114 903**	**50**	**3 508 955**
Net currency position	**1 112 559**	**11 209**	**392 032**	**61 690**	**7 018**	

Fair value of derivative foreign-currency denominated financial instruments is included in this analysis by currencies. The analysis of currency risk of derivative financial instruments as at 31 December 2016 is presented in the following table:

In thousands of Belarusian Rubles	**BYN**	**EUR**	**USD**	**RUB**	**Other currencies**	**Total**
Claims under derivative financial instruments	-	-	-	45 142	-	45 142
Liabilities under derivative financial instruments	-	-	(45 046)	-	-	(45 046)
Net position on derivative financial instruments	**-**	**-**	**(45 046)**	**45 142**	**-**	**96**
Total open currency position	**1 112 559**	**11 209**	**346 986**	**106 832**	**7 018**	

The following table represents the structure of financial assets and liabilities by currency as at 31 December 2015:

In thousands of Belarusian Rubles	**BYN**	**EUR**	**USD**	**RUB**	**Other currencies**	**Total**
Assets						
Cash equivalents and accounts in the National Bank	1 695	31 718	19 018	1 180	15	53 626
Due from banks	154 175	35 990	51 062	11 576	-	252 803
Securities available for sale	1 065 679	166 411	275 300	-	-	1 507 390
Loans to customers	2 282 740	278 331	102 868	183 334	9 448	2 856 721
Other financial assets	2 343	125	546	5 702	1 996	10 712
Total assets	**3 506 632**	**512 575**	**448 794**	**201 792**	**11 459**	**4 681 252**
Liabilities						
Due to banks	27 649	481 677	169 202	-	437	678 965
Derivative financial instruments	78	-	-	-	-	78
Customer accounts	404 895	161 351	2 824	112 460	-	681 530
Debt securities issued	1 741 595	107 582	-	-	-	1 849 177
Other financial liabilities	6 562	1 620	59	1 755	347	10 343
Total liabilities	**2 180 779**	**752 230**	**172 085**	**114 215**	**784**	**3 220 093**
Net currency position	**1 325 853**	**(239 655)**	**276 709**	**87 577**	**10 675**	

Fair value of derivative foreign-currency denominated financial instruments is included in this analysis by currencies. The analysis of currency risk of derivative financial instruments as at 31 December 2015 is presented in the following table:

In thousands of Belarusian Rubles	**BYN**	**EUR**	**USD**	**RUB**	**Other currencies**	**Total**
Claims under derivative financial instruments	-	153 257	-	-	-	153 257
Liabilities under derivative financial instruments	-	-	(127 987)	(25 533)	-	(153 520)
Net position on derivative financial instruments	**-**	**153 257**	**(127 987)**	**(25 533)**	**-**	**(263)**
Total open currency position	**1 325 853**	**(86 398)**	**148 722**	**62 044**	**10 675**	

As at 31 December 2017, 31 December 2016 and 31 December 2015, 39.0%, 29.7% and 20.1% of loan portfolio respectively are represented by foreign currency loans. Depending on the borrowers’ cash flows, the increase of foreign currency exchange rates against the Belarusian Ruble (BYN), all other things being equal, may have negative impact on the ability of borrowers to repay loans, which in turn increases the likelihood of future loan losses.

Sensitivity analysis of profit or loss for the period resulting from changes in exchange rates (based on the positions effective as at 31 December 2017, 31 December 2016 and 31 December 2015 and a simplified scenario of 30% appreciation and 10% depreciation of the foreign currencies presented in the balance sheet against the Belarusian Ruble (BYN) can be presented as follows:

	31 December 2017		**31 December 2016**		**31 December 2016**	
In thousands of Belarusian Rubles	**Profit (or loss)**	**Equity**	**Profit (or loss)**	**Equity**	**Profit (or loss)**	**Equity**
Strengthening of EUR by 30%	(8 036)	(5 745)	3 363	2 689	(25 919)	(19 259)
Weakening of EUR by 10%	2 679	1 915	(1 121)	(896)	8 640	6 420
Strengthening of USD by 30%	132 621	101 756	104 096	80 084	44 617	34 090
Weakening of USD by 10%	(44 207)	(33 919)	(34 699)	(26 695)	(14 872)	(11 363)
Strengthening of RUB by 30%	38 827	31 475	32 050	26 304	18 613	16 091
Weakening of RUB by 10%	(12 942)	(10 492)	(10 683)	(8 768)	(6 204)	(5 364)

Influence on equity is determined taking into account the tax effect calculated with the use of the theoretical income tax rate applicable to the Development Bank and relevant entity of the Group.

(b) Credit risk

The Group is exposed to credit risk, which is the risk of the Group incurring loss or failing to receive the expected income due to non-fulfillment, untimely or incomplete fulfillment of financial or other property obligations to the Group by debtors under contract terms or the law.

The main purpose of credit risk management is keeping the credit risk at an acceptable level to ensure the financial stability of the Group.

This objective is achieved by performing the following tasks:

- establishment and control of credit risk tolerance indicators;
- organization of the lending process that ensures the proper separation of powers and responsibilities, eliminates conflicts of interest in decision making and performing transactions exposed to credit risk;
- identification and analysis of credit risk factors at the borrower (group of related borrowers) level/financed project level, as well as at the loan portfolio level;
- keeping the methodological procedures on performance of transactions exposed to credit risk, organization of lending process and the credit risk management system up to date;
- ensuring good operation of the credit risk monitoring system, which allows to identify negative trends in credit risk changes at the borrower (group of related borrowers) level, as well as at the loan portfolio level;
- use of credit risk limits system and exercising control over compliance with those limits;
- forming the system of key credit risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to credit risk factors;
- use of modern information systems, software and hardware that enable the collection, processing and analysis of information in order to manage credit risk;
- assessment of credit risk level (size) made by risk management department independently from business units;
- continuous and timely preparation and submission of management reporting on credit risk to the Supervisory Board, the Risk Management Committee of the Supervisory Board, the Management Board, the Credit Committee, the executive in charge of risk management in the Development Bank.

In order to minimize credit risk the Group organizes the lending process according to the following principles:

- collective decision-making;
- separation of decision-making powers subject to risk exposure;
- decision-making based on prudent risk assessment;
- monitoring credit-related transactions until the client fulfills his obligations to the Group in full;
- comprehensive assessment of risk exposure during consideration and decision-making.

The credit risk management system operates at the borrower level/financed project level and the loan portfolio level.

The credit risk management at the borrower level/financed project level aims at minimizing risks of each credit transaction and includes:

- assigning credit rating to the client based on the relevant internal regulations;
- assessment of compliance with credit risk limits at the client level;
- considering business plans of all investment projects by specialized structural unit;
- making report on feasibility (non-feasibility) of the credit transaction by the lending service;
- performing risk expertise of credit transactions by risk management, including the assessment of customer, project, collateral risks;
- considering the credit transaction by the authorized body of the Group;
- performance of credit monitoring until the client fulfills his obligations to the Group in full, including:
  - allocating a risk area to the project according to early warning signals;
  - developing a system of measures to address distressed projects including involving local authorities, ministries and state agencies.

Credit risk management at the loan portfolio level is carried out by the following ways:

- portfolio structuring based on segment analysis and monitoring indicators of credit risk concentration;
- portfolio diversification by maturities, currencies, types of collateral, industries;
- control of compliance with credit risk limits at the loan portfolio level set by the authorities, credit portfolio quality (with inclusion in the system of material incentives);
- assessment of compliance of planned and actual indicators of the credit risk level (size);
- monitoring trends in indicators of debt volume, structure (by maturities, industries, currencies etc.) and (potentially) bad debt share;
- continuous keeping and analyzing customer and industry databases based on internal and external sources;
- organization of work with bad debts;
- classifying customers’ debt by credit risk level and forming of allowances for potential losses on transactions exposed to credit risk.

The maximum exposure to credit risk is generally recorded in the Carrying amount of financial assets in the consolidated statement of financial position and in the amount of unrecognized contractual commitments. Possible netting of assets and liabilities is not significant for reduction of the potential credit risk.

The maximum exposure to credit risk in respect of financial assets as at 31 December 2017, 31 December 2016 and 31 December 2015 may be presented as follows:

In thousands of Belarusian Rubles	31 December 2017	31 December 2016	31 December 2015
Assets			
Cash equivalents and accounts in the National Bank	34 215	66 395	53 626
Due from banks	499 047	334 255	252 803
Securities available for sale	1 727 808	1 520 897	1 507 390
Loans to customers	3 578 120	3 153 477	2 856 721
Other financial assets	5 793	18 439	10 712
Total maximum exposure	**5 844 983**	**5 093 463**	**4 681 252**

(c) Liquidity risk

Liquidity risk is a risk of the Group’s losses, failure to receive the expected income due to the inability to fulfill its obligations on time and in full. Liquidity risk arises as a result of imbalance of terms of the Group’s financial assets and financial liabilities (including untimely fulfillment of financial obligations by one or more counterparties) and (or) an unexpected need for immediate and simultaneous fulfillment of the Group’s financial obligations.

The Group distinguishes the following types of liquidity risk:

- funding liquidity risk is a risk of losses, failure to receive the expected income due to inability to efficiently satisfy its current or future needs (expected or unexpected) in cash and (or) property for collateral;
- market liquidity risk is a risk of losses, failure to receive the expected income due to inability to easily sell or acquire assets (liabilities) at fair market value due to lack of market depth, which does not allow to increase the volume of transactions without a significant change in their prices or destabilization of the market.

The Group applies the following basic tools to manage liquidity risk:

- ensuring compliance with the standards established by the National Bank;
- establishment and control of liquidity risk tolerance indicators;
- forming the system of key liquidity risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to liquidity risk factors;
- linking (primarily in terms of direct lending) of the Development Bank's active operations with resources for amounts, timing and cost (including at the planning stage), including:
  - development and analysis of the Development Bank's Forecast Balance sheet, including linking of the expected active operations with funding sources;
  - cash flow planning and analysis to determine the liquidity gap (deficit/surplus) and to identify the main liquidity risk factors within the preparation/ performance analysis of the Development Bank's Forecast Balance sheet by currency;
  - a daily forecast of the Development Bank's cash flows by currency by the Treasury;
- diversification of the Development Bank's resources and their investment directions (for financial instruments, counterparties, maturities, currencies);
- creation and maintenance of liquidity reserves of the Development Bank;
- development of the Financing Plan in situations of the liquidity crisis of the Development Bank, a list of key activities aimed at restoring liquidity and identifying responsible structural units for their implementation;

- monitoring the environment making an impact on the Group's liquidity management process (developments in international financial markets, the liquidity of the banking system of the Republic of Belarus, the availability of refinancing instruments of the National Bank to commercial banks).

The table below represents an analysis of financial assets and liabilities by contractual maturities (Carrying amount) as at 31 December 2017 (the analysis is made based on ultimate contractual maturities and actual payments may differ):

In thousands of Belarusian Rubles	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**More than 1 year**	**31 December 2017 Carrying amount**
Financial assets					
Cash equivalents and accounts in the National Bank	34 215	-	-	-	34 215
Due from banks	37 618	23 373	94 213	343 843	499 047
Securities available for sale	21 428	1 916	46 087	1 658 377	1 727 808
Loans to customers	107 798	159 076	703 491	2 607 755	3 578 120
Other financial assets	5 793	-	-	-	5 793
Total financial assets	**206 852**	**184 365**	**843 791**	**4 609 975**	**5 844 983**
Financial liabilities					
Due to banks	314 116	3 723	193 723	984 068	1 495 630
Customer accounts	48 549	5 011	19 625	557 252	630 437
Debt securities issued	69 545	51 228	40 873	1 726 234	1 887 880
Other financial liabilities	20 676	-	-	-	20 676
Total financial liabilities	**452 886**	**59 962**	**254 221**	**3 267 554**	**4 034 623**
Net position as at 31 December 2017	**(246 034)**	**124 403**	**589 570**	**1 342 421**	**1 810 360**

The table below represents an analysis of financial assets and liabilities by contractual maturities (Carrying amount) as at 31 December 2016:

In thousands of Belarusian Rubles	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**More than 1 year**	**31 December 2016 Carrying amount**
Financial assets					
Cash equivalents and accounts in the National Bank	66 395	-	-	-	66 395
Due from banks	33 365	8 489	89 850	202 551	334 255
Securities available for sale	9 609	73 740	96 994	1 340 554	1 520 897
Loans to customers	79 154	135 863	577 756	2 360 704	3 153 477
Other financial assets	18 439	-	-	-	18 439
Total financial assets	**206 962**	**218 092**	**764 600**	**3 903 809**	**5 093 463**
Financial liabilities					
Due to banks	53 365	65 057	426 222	441 409	986 053
Customer accounts	61 758	7 589	46 428	558 208	673 983
Debt securities issued	22 175	16 679	63 893	1 724 830	1 827 577
Other financial liabilities	21 342	-	-	-	21 342
Total financial liabilities	**158 640**	**89 325**	**536 543**	**2 724 447**	**3 508 955**
Net position as at 31 December 2016	**48 322**	**128 767**	**228 057**	**1 179 362**	**1 584 508**

The table below represents an analysis of financial assets and liabilities by contractual maturities (carrying value) as at 31 December 2015:

In thousands of Belarusian Rubles	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**More than 1 year**	**31 December 2015 carrying value**
Financial assets					
Cash and accounts in the National Bank	53 626	-	-	-	53 626
Due from banks	28 583	5 552	104 592	114 076	252 803
Securities available for sale	22 650	1 491	149 285	1 333 964	1 507 390
Loans to customers	69 978	112 316	473 039	2 201 388	2 856 721
Other assets	10 712	-	-	-	10 712
Total financial assets	**185 549**	**119 359**	**726 916**	**3 649 428**	**4 681 252**
Financial liabilities					
Due to banks	1 507	79 304	430 287	167 867	678 965
Derivative financial instruments	78	-	-	-	78
Customer accounts	29 688	19 131	50 742	581 969	681 530
Debt securities issued	28 843	50 973	105 997	1 663 364	1 849 177
Other liabilities	10 343	-	-	-	10 343
Total financial liabilities	**70 459**	**149 408**	**587 026**	**2 413 200**	**3 220 093**
Net position as at 31 December 2015	**115 090**	**(30 049)**	**139 890**	**1 236 228**	**1 461 159**

Further analysis of the liquidity risk considers contractual amounts of future payments on financial liabilities that are payable in accordance with the payment terms. Such amounts include future interest payments and may differ from amounts stated in the financial statements. The maturities in the item "Debt securities issued", in particular, are up to 2051 and its interest rate is equal to the refinancing rate of the National Bank. Consequently, contractual amounts are significantly higher than carrying amounts.

In thousands of Belarusian Rubles

Financial liabilities		Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total as at 31 December 2017	Carrying amount as at 31 December 2017
Due to banks		314 893	6 910	224 307	1 774 705	2 320 815	1 495 630
Customer accounts		50 370	8 543	34 949	590 599	684 461	630 437
Debt securities issued		86 187	83 601	182 542	6 372 755	6 725 085	1 887 880
Other financial liabilities		20 676	-	-	-	20 676	20 676
Total potential future payments on financial liabilities		**472 126**	**99 054**	**441 798**	**8 738 059**	**9 751 037**	**4 034 623**
Derivative financial liabilities, including							
	inflow	*(11 392)*	-	-	-	*(11 392)*	-
	outflow	*11 382*	-	-	-	*11 382*	-
Total potential flows of derivative financial liabilities		***(10)***	**-**	**-**	**-**	***(10)***	

In thousands of Belarusian Rubles

Financial liabilities		Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total as at 31 December 2016	Carrying amount as at 31 December 2016
Due to banks		54 024	68 466	443 571	864 104	1 430 165	986 053
Customer accounts		64 945	13 769	72 817	669 859	821 390	673 983
Debt securities issued		49 158	69 964	300 618	9 634 585	10 054 325	1 827 577
Other financial liabilities		21 342	-	-	-	21 342	21 342
Total potential future payments on financial liabilities		**189 469**	**152 199**	**817 006**	**11 168 548**	**12 327 222**	**3 508 955**
Derivative financial liabilities, including							
	inflow	*(45 142)*	-	-	-	*(45 142)*	-
	outflow	*45 046*	-	-	-	*45 046*	-
Total potential flows of derivative financial liabilities		***(96)***	**-**	**-**	**-**	***(96)***	

In thousands of Belarusian Rubles

Financial liabilities	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total as at 31 December 2015	Carrying value as at 31 December 2015
Due to banks	2 077	84 754	445 742	216 758	749 331	678 965
Customer accounts	35 760	29 851	95 262	861 398	1 022 271	681 530
Debt securities issued	65 153	121 213	417 505	13 015 505	13 619 376	1 849 177
Other liabilities	10 343	-	-	-	10 343	10 343
Total potential future payments on financial liabilities	**113 333**	**235 818**	**958 509**	**14 093 661**	**15 401 321**	**3 220 015**
Derivative financial liabilities, including:						78
inflow	*(18 270)*	-	-	-	*(18 270)*	-
outflow	*18 348*	-	-	-	*18 348*	-
Total potential flows of derivative financial liabilities	***78***				***78***	

(d) Country risk

The country risk is a risk of the Group’s losses, failure to receive the expected income as a result of non-fulfilment of obligations by foreign counterparties due to economic, political, social changes and due to the fact that the currency of monetary obligation may not be available to the counterparty due to the nature of legislation (regardless of the financial position of the counterparty). Within the framework of country risk management, the Group uses the following basic methods or tools:

- establishment and control of country risk tolerance indicators;
- internal control of the Anti-Money Laundering/Combating the Financing of Terrorism and Spreading of Mass Destruction Weapons line based on data provided by clients in the questionnaires;
- conducting an integrated assessment of the country risk level of the Development Bank by creating a country risk assessment map for the purpose of assessing, monitoring and controlling of country risks;
- monitoring of country risk through the formation and analysis of the country risk profile of the Development Bank;
- establishment by the Development Bank of country limits for active operations exposed to country risk;
- forming the system of key country risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to country risk factors.

The information on the geographic concentration of financial assets and liabilities as at 31 December 2017 is presented below:

In thousands of Belarusian Rubles	**The Republic of Belarus**	**Countries of the Commonwealth of Independent States**	**Countries of the Organization for Economic Cooperation and Development**	**Other**	**Total**
Cash equivalents and accounts in the National Bank	11 192	369	22 654	-	34 215
Due from banks	398 118	33 897	-	67 032	499 047
Securities available for sale	1 727 808	-	-	-	1 727 808
Loans to customers	3 280 776	187 157	270	109 917	3 578 120
Other financial assets	2 390	2 815	336	252	5 793
Total financial assets	**5 420 284**	**224 238**	**23 260**	**177 201**	**5 844 983**
Due to banks	699 800	556 691	235 130	4 009	1 495 630
Customer accounts	630 437	-	-	-	630 437
Debt securities issued	1 887 880	-	-	-	1 887 880
Other financial liabilities	15 551	5 032	51	42	20 676
Total financial liabilities	**3 233 668**	**561 723**	**235 181**	**4 051**	**4 034 623**
Open position	**2 186 616**	**(337 485)**	**(211 921)**	**173 150**	**1 810 360**

The information on the geographic concentration of financial assets and liabilities as at 31 December 2016 is presented below:

In thousands of Belarusian Rubles	**The Republic of Belarus**	**Countries of the Commonwealth of Independent States**	**Countries of the Organization for Economic Cooperation and Development**	**Other**	**Total**
Cash equivalents and accounts in the National Bank	40 414	25 943	38	-	66 395
Due from banks	279 926	9 738	-	44 591	334 255
Securities available for sale	1 520 897	-	-	-	1 520 897
Loans to customers	2 956 513	134 954	609	61 401	3 153 477
Other financial assets	6 744	3 648	7	8 040	18 439
Total financial assets	**4 804 494**	**174 283**	**654**	**114 032**	**5 093 463**
Due to banks	431 741	353 092	201 220	-	986 053
Customer accounts	673 983	-	-	-	673 983
Debt securities issued	1 827 577	-	-	-	1 827 577
Other financial liabilities	16 493	4 693	17	139	21 342
Total financial liabilities	**2 949 794**	**357 785**	**201 237**	**139**	**3 508 955**
Open position	**1 854 700**	**(183 502)**	**(200 583)**	**113 893**	**1 584 508**

The information on the geographic concentration of financial assets and liabilities as at 31 December 2015 is presented below:

In thousands of Belarusian Rubles	**The Republic of Belarus**	**Countries of the Commonwealth of Independent States**	**Countries of the Organization for Economic Cooperation and Development**	**Other**	**Total**
Cash and accounts in the National Bank	20 648	12 183	20 795	-	53 626
Due from banks	221 988	1 979	-	28 836	252 803
Securities available for sale	1 507 390	-	-	-	1 507 390
Loans to customers	2 659 494	195 716	1 053	458	2 856 721
Other financial assets	3 899	6 660	94	59	10 712
Total financial assets	**4 413 419**	**216 538**	**21 942**	**29 353**	**4 681 252**
Due to banks	121 590	402 543	154 832	-	678 965
Derivative financial liabilities	78	-	-	-	78
Customer accounts	681 415	115	-	-	681 530
Debt securities issued	1 849 177	-	-	-	1 849 177
Other liabilities	8 169	2 105	37	32	10 343
Total financial liabilities	**2 660 429**	**404 763**	**154 869**	**32**	**3 220 093**
Open position	**1 752 990**	**(188 225)**	**(132 927)**	**29 321**	**1 461 159**

(e) Operational risk

Operational risk is a risk of the Group’s losses and (or) additional expenses as a result of non-compliance of the rules and procedures of performing banking operations and other transactions established by the Group with the legislation or failure of the personnel to comply with them, their incompetence or errors made by personnel of the Group, inadequacy or failure of systems used by the Group, including information systems, as well as due to external factors.

Operational risk management is carried out by:

- establishment and control of operational risk tolerance indicators;
- optimal distribution of authorities, responsibilities and the order of communication in the process of operational risk management;
- formation of appropriate control environment;
- elimination of conflicts of interest and the conditions for their occurrence;
- optimization of current business processes;
- development of system of limits and restrictions;
- forming the system of key operational risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to operational risk factors;
- identifying and analyzing the main operational risk factors, keeping an internal and external database on operational risk;
- investigation of operational risk facts in order to optimize processes, systems, technologies;
- development of systems designed for banking operations automatization and information security;
- use of outsourcing;
- identification of customers and financial monitoring of their operations;
- hiring qualified personnel, development of employees’ motivation;
- development of action plans in case of unexpected situations related to operational risk;
- internal auditing.

(f) Reputational risk

Reputational risk is a risk of the Group’s losses, failure to receive the expected income as a result of reduction of customer base, decrease in other development indicators due to negative public opinion about the financial stability of the Group, the quality of services provided or the nature of activities as a whole.

Reputational risk may arise due to shortcomings in the organization of activities, malfunctioning of electronic banking systems, non-compliance with the legislation, local regulations of the Group, failure to follow the business partnership practices, violations of public morality and ethical principles in banking industry, suspected involvement of the Group or its employees in illegal financial transactions as well as illegal activities.

The following procedures are carried out as part of reputational risk management:

- establishment and control of reputational risk tolerance indicators;
- arranging for economic, internal, physical and information security, banking and business secrecy;
- identifying and analyzing the main reputational risk factors, controlling the cases of damage to business reputation;

- forming the system of key reputational risk indicators and their regular monitoring;
- regular stress testing of the Development Bank's exposure to reputational risk factors;
- effective recruiting and staff placement;
- cooperation with mass media, promotion of the web-site;
- regular publication of financial statements and disclosures;
- participation of the Group in promoting sustainable social and cultural development of the state, including regular support of socially significant projects, through the provision of sponsorship.

(g) Strategic risk

Strategic risk is a risk of the Group's losses, failure to receive the expected income as a result of errors (shortcomings) in making decisions that determine the Group's business strategy and development, and which results in nonrecognition or incomplete recognition of possible dangers that may threaten the Group's operations, incorrect or insufficiently substantiated determination of perspective areas of activity where the Group can achieve advantages over competitors, lack or provision of incomplete volume of necessary resources (financial, logistical, human resources) and organizational measures that should ensure the achievement of the objectives of the Group's activities.

The following procedures are carried out as part of strategic risk management:
- establishment and control of strategic risk tolerance indicators;
- regular comprehensive stress testing of risks;
- forming the system of key strategic risk indicators and their regular monitoring.

In 2016 the Supervisory Board of the Development Bank approved the Strategic Development Plan for 2016-2020 and the plan of the main activities for the implementation of the Strategy.

24. Capital management

As at 31 December 2017, 31 December 2016 and 31 December 2015 the capital adequacy ratio of the Group calculated in accordance with the requirements of the Basel Capital Accord, as set in the International Convergence of Capital Measurement and Capital Standards (adopted in July 1988, updated in November 2005) and the Amendment to the Basel Capital Accord, which incorporated market risks (updated in November 2005), was as follows:

In thousands of Belarusian Rubles	**31 December 2017**	**31 December 2016**	**31 December 2015**
Tier 1 Capital			
Share capital	1 451 694	1 451 694	1 344 192
Retained earnings	177 143	29 212	90 792
Total tier 1 Capital	**1 628 837**	**1 480 906**	**1 434 984**
Tier 2 Capital			
Translation reserve	784	4	-
Fair value reserve (securities available for sale)	199	-	-
Total tier 2 Capital	**983**	**4**	**-**
Total capital	**1 629 820**	**1 480 910**	**1 434 984**
Risk weighted assets	5 293 180	4 862 965	4 401 142
Tier 1 adequacy ratio	30,77%	30,45%	32,60%
General capital adequacy ratio	30,79%	30,45%	32,60%

Since 2016 the Development Bank has been subject to the requirements for the adequacy of regulatory capital, calculated on the basis of current legal requirements. The minimum level of the adequacy of regulatory capital established for the Development Bank is at least 10%, the established adequacy ratio with regard to the conservation buffer as at 31 December 2017 is 11,25% (as at 31 December 2016 – 10,625%). As at 31 December 2017 and 31 December 2016 the Development Bank fulfilled all the requirements for supervisory regulation established by the National Bank in respect of the Development Bank.

25. Economic environment

Tax legislation

The current Belarusian tax legislation mainly examines tax consequences of transactions on the basis of their legal form and their accounting in accordance with the Belarusian accounting rules. Correspondingly, the Group can structure its operations in such a way so that to use the opportunities, provided by the Belarusian tax legislation for the purpose of reduction of the common effective tax rate. The results of such adjustments do not influence the amount of income before taxation and tax charges presented in these consolidated financial statements.

If any transaction is disputed by tax authorities, additional amounts of taxes can be charged and significant fines and penalties are probable.

As at 31 December 2017 the Management believes that the Group adheres to the adequate interpretations of the current legislation and the Group’s position in relation to tax issues will be supported by the controlling authorities.

Certain provisions of Belarusian business and tax legislation in particular may contain different treatments and may be applied inconsistently. In addition, interpretations made by the Management may be different from official interpretations and compliance established by law may be disputed by the controlling authorities. As a result, the Group may be subject to additional tax payments and fines and other preventive actions. The Management of the Group considers that it has made the required tax and other payments and no additional provisions are needed in the consolidated financial statements. The previous financial years remain open for consideration by the controlling authorities.

Legal claims

Periodically in the course of the Group’s activities, customers and counterparties claim against the Group. The Management believes that as a result of investigation of the cases, the Group will not incur significant losses and accordingly no provision was created in the consolidated financial statements**.**

26. Fair value of financial instruments

Fair value definition

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value is the quotation of financial instrument in an active market.

Hierarchy of fair value of financial instruments

For the purpose of disclosure of fair value information, the Development Bank has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability, and the level of the hierarchy of sources of fair value.

In thousands of Belarusian Rubles

As at 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total Carrying amount**
Assets measured at fair value				
Securities available for sale	-	823 020	904 788	1 727 808
	-	**823 020**	**904 788**	**1 727 808**
Assets, for which fair value is disclosed				
Cash equivalents and accounts in the National Bank	34 215	-	-	34 215
Due from banks	-	-	499 047	499 047
Loans to customers	-	-	3 578 120	3 578 120
Other financial assets	-	-	5 793	5 793
	34 215	**-**	**4 082 960**	**4 117 175**
Liabilities, for which fair value is disclosed				
Due to banks	-	927 172	568 458	1 495 630
Customer accounts	-	-	630 437	630 437
Debt securities issued	-	126 304	1 761 576	1 887 880
Other financial liabilities	-	-	20 676	20 676
	-	**1 053 476**	**2 981 147**	**4 034 623**

In thousands of Belarusian Rubles

As at 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total Carrying amount**
Assets measured at fair value				
Securities available for sale	-	587 673	933 224	1 520 897
	-	**587 673**	**933 224**	**1 520 897**
Assets, for which fair value is disclosed				
Cash equivalents and accounts in the National Bank	66 395	-	-	66 395
Due from banks	-	-	334 255	334 255
Loans to customers	-	-	3 153 477	3 153 477
Other financial assets	-	-	18 439	18 439
	66 395	**-**	**3 506 171**	**3 572 566**
Liabilities, for which fair value is disclosed				
Due to banks	-	625 063	360 990	986 053
Customer accounts	-	-	673 983	673 983
Debt securities issued	-	101 260	1 726 317	1 827 577
Other financial liabilities	-	-	21 342	21 342
	-	**726 323**	**2 782 632**	**3 508 955**

In thousands of Belarusian Rubles

As at 31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total carrying value**
Assets measured at fair value				
Securities available for sale	-	358 942	1 148 448	1 507 390
	-	**358 942**	**1 148 448**	**1 507 390**
Assets, for which fair value is disclosed				
Cash and accounts with the National Bank	53 626	-	-	53 626
Due from banks	-	252 803	-	252 803
Loans to customers	-	-	2 856 721	2 856 721
Other financial assets	-	-	10 712	10 712
	53 626	**252 803**	**2 867 433**	**3 173 862**
Liabilities measured at fair value				
Derivative financial liabilities	-	-	78	78
	-	**-**	**78**	**78**
Liabilities, for which fair value is disclosed				
Due to banks	-	664 234	14 731	678 965
Customer accounts	-	-	681 530	681 530
Debt securities issued	-	78 164	1 771 013	1 849 177
Other financial liabilities	-	-	10 343	10 343
	-	**742 398**	**2 477 617**	**3 220 015**

Information on fair value of financial instruments recognized in the consolidated financial statements at fair value

As at 31 December 2017, 31 December 2016 and 31 December 2015 the fair value of securities available for sale, which interest rates and terms of circulation are close to market conditions, corresponds to their carrying amount. Securities available for sale classified as Level 2 are measured at fair value using observable inputs: trade value of similar debt securities with similar levels of risk, maturity and currency, and using information on the quotations of identical securities, on markets that are not active.

Recognition of securities acquired by the Group in accordance with government programs of support to sectors of the economy, contractual interest rates of which are lower than market rates, due to the specifics of government programs and categories of issuers is performed at nominal value (Note 2). As at 31 December 2017, 31 December 2016 and 31 December 2015 fair value of securities available for sale, interest rates of which are below market average rates, corresponds to their carrying amount. These securities are included in Level 3 of the fair value hierarchy.

Information on fair value of financial instruments not recognized in the consolidated financial statements at fair value

The carrying amount of cash, accounts with the National Bank, other financial assets and liabilities due to the short-term nature of these financial instruments approximates their fair value.

The carrying amount of due from banks, due to banks, debt securities issued with interest rates, which were consistent with average market rates at the time of initial recognition, approximates their fair value as at the reporting date due to the fact that for the majority of these financial instruments variable interest rates corresponding to the current market rates are set. Part of due from banks and debt securities issued, which do not have similar financial instruments at the market and was provided under government programs, and because of their uniqueness as well as the specifics of Government loan program and the category of borrowers, form a separate market segment, the Management of the Group recognizes such instruments at fair value, which is equivalent to the book value.

For the borrowings with fixed rates, attracted from banks by the Group's subsidiaries, the fair value was determined via discounted future cash flows using current rates for debts with similar terms, credit risk and maturity.

Loans received by the Group from other state-owned banks and granted by the Group do not have similar financial instruments at the market, they were provided under government programs, and because of their uniqueness as well as the specifics of Government loan program and the category of borrowers make a separate market segment, the Management of the Group recognizes such instruments at fair value, which is equivalent to the nominal value. Interest rates on the majority of deposit contracts are set lower than the market average, however, due to the fact that these deposits are attracted to form the corresponding low-interest assets, the Management of the Group recognizes such instruments at fair value, which is equivalent to the nominal value. Accordingly, as at the reporting date, it is assumed that the fair value of these financial instruments approximates their carrying amount.

The table below represents the information on the financial liabilities, fair value of which differs from the Carrying amount. The difference is observed in debt securities issued and amounts due to banks attracted without forming relevant interrelated assets, for which the interest rates at the time of initial recognition did not correspond to the market average.

	31 December 2017		**31 December 2016**		**31 December 2015**	
In thousands of Belarusian Rubles	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying value
Due to banks	1 495 645	1 495 630	985 770	986 053	677 243	678 965
Debt securities issued	1 893 221	1 887 880	1 829 048	1 827 577	1 847 988	1 849 177

The table below represents the valuation methods used for the assessment of financial instruments, which fair value significantly differs from the carrying amount, and for which significant unobservable inputs are used:

Type	**Valuation method**	**Significant unobservable data**
Loans from banks	Discounting of future cash flows	Future cash flows, denominated in the Belarusian Rubles (BYN), are discounted at the refinancing rate of the National Bank increased by a corresponding margin, denominated in the foreign currency – at the rate prevailing in the market at the time of recognition
Debt securities issued	Discounting of future cash flows	Future cash flows are discounted at the refinancing rate of the National Bank

Movement of financial instruments that are measured at fair value and related to Level 3 of the fair value hierarchy

Financial assets recorded at fair value and related to Level 3 of the fair value hierarchy include bonds acquired by the Group in accordance with government programs of support to sectors of the economy, contractual interest rates of which are lower than market rates. Initial recognition due to the specifics of government programs and categories of issuers is performed at nominal value (Note 2). As at 31 December 2017, 31 December 2016 and 31 December 2015 fair value of securities available for sale, interest rates of which are below market average rates, corresponds to their carrying amount.

Reconciliation of financial instruments that are measured at fair value and related to Level 3 of the fair value hierarchy is presented below:

In thousands of Belarusian Rubles	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
Opening balance	**933 224**	**1 055 603**	**1 121 842**
Acquisition	175 644	6 900	35 677
Settlement and sales	(290 728)	(281 537)	(266 050)
Income recognized in the statement of comprehensive income	86 648	152 258	189 134
Movement of allowance for impairment	-	-	(25 000)
Closing balance	**904 788**	**933 224**	**1 055 603**

27. Contingent liabilities

In the normal course of its business to meet the needs of customers, the Group uses instruments that do not qualify for recognition criteria in the consolidated statement of financial position. These instruments include commitments on loans and unutilized credit lines, letters of credit issued and similar commitments, which carry credit risks of varying degrees.

The maximum Group’s exposure for contingent liabilities is equivalent to the contractual cost of those instruments in the event of default by the other party of its obligations under the transaction and the impairment of all counterclaims and security.

In regard to the contingent liabilities, the Group applies the same credit policies as for financial instruments presented in the consolidated statement of financial position.

As at 31 December 2017, 31 December 2016 and 31 December 2015, the provision for contingent liabilities recognized in “Other liabilities” amounted to 6 435 thousands of Rubles, 1 534 thousands of Rubles and 1 565 thousand of Rubles, respectively (Note 21).

As at 31 December 2017, 31 December 2016 and 31 December 2015, the Group did not have any non-cancellable operational lease liabilities.

As at 31 December 2017 and 31 December 2016, 31 December 2015 nominal amounts or amounts under the contracts amounted to as follows:

In thousands of Belarusian Rubles	**31 December 2017**	**31 December 2016**	**31 December 2015**
Issued letters of credit	49 511	15 775	62 459
- covered	*40 770*	*10 422*	*25 224*
- uncovered	*8 741*	*5 353*	*37 235*

28. Non-controlling interest

JSC "Promagroleasing"	31 December 2017	31 December 2016	31 December 2015
The percentage of non-controlling interest	**27,07%**	**27,07%**	**27,07%**
Net investment in leases	474 070	297 214	240 649
Other assets	411 258	293 915	213 252
Liabilities	(606 259)	(354 553)	(260 377)
Net assets	**279 069**	**236 576**	**193 524**
Non-controlling interest	**75 544**	**64 041**	**52 387**
Average percentage of non-controlling interest	**27,07%**	**27,07%**	**28,66%**
Income	130 359	171 286	168 125
Comprehensive income	42 494	43 051	(45 770)
Comprehensive income attributable to non-controlling interests	**11 503**	**11 654**	**(13 118)**
Net changes in cash and cash equivalents	**(1 475)**	**11 776**	**(7 243)**

29. Transactions with related parties

The majority stake of the Development Bank belongs to the Council of Ministers of the Republic of Belarus, which has ultimate control over the Group. The Council of Ministers of the Republic of Belarus does not prepare publicly available financial statements.

Since the establishment the Development Bank has carried out its activities primarily in accordance with the rendition of certain Edicts of the President of the Republic of Belarus and Resolutions of the Council of Ministers of the Republic of Belarus.

Transactions with related parties are performed by the Development Bank at the conditions equivalent to market conditions, except for the transactions under government lending programs and raising related funds (Note 2). Conditions of transactions with securities available for sale are represented in Note 12, loans to customers – Note 13, customer accounts – Note 18, debt securities issued – Note 19.

Transactions with related parties are presented as follows.

							31 December 2017
In thousands of Belarusian Rubles	**State-owned organizations (under common control of the state)**	**Banks (under common control of the state)**	**Government bodies**	**The National Bank**	**Key management personnel**	**Total transactions with related parties**	**Total financial reporting item**
Cash equivalents and accounts with in National Bank	-	8 824	-	1 717	-	10 541	34 215
Due from banks	-	233 706	-	-	-	233 706	499 047
Securities available for sale	108 944	727 254	801 503	40 928	-	1 678 629	1 727 808
Loans to customers, before allowance for impairment	2 321 640	-	716 491	-	-	3 038 131	3 954 277
Allowance for impairment of loans to customers	(205 881)	-	(21 253)	-	-	(227 134)	(376 157)
Current income tax asset	-	-	3 111	-	-	3 111	3 704
Deferred income tax asset	-	-	32 455	-	-	32 455	35 520
Other assets	87 979	-	34 753	-	-	122 732	156 904
Due to banks	-	620 925	-	-	-	620 925	1 495 630
Customer accounts	43 875	-	586 508	-	-	630 383	630 437
Debt securities issued	137 974	331 026	10 159	1 346 669	-	1 825 828	1 887 880
Government grants	4 021	360 276	8 533	-	-	372 830	372 830
Current income tax liability	-	-	4 793	-	-	4 793	4 795
Deferred income tax liability	-	-	15 839	-	-	15 839	15 993
Other liabilities	14 323	378	1 770	-	46	16 517	32 041

							For the year ended 31 December 2017
In thousands of Belarusian Rubles	**State-owned organizations (under common control of the state)**	**Banks (under common control of the state)**	**Government bodies**	**The National Bank**	**Key management personnel**	**Total transactions with related parties**	**Total financial reporting item**
Interest income	141 819	89 955	148 760	7 445	-	387 979	454 493
Interest expense	(13 630)	(23 257)	(32 858)	-	-	(69 745)	(102 421)
Fee and commission income	233	-	2 022	-	-	2 255	3 076
Fee and commission expense	(94)	(3 852)	(5)	-	-	(3 951)	(4 897)
Net other income	2 964	-	-	-	-	2 964	9 470
Net gain on securities transactions	865	244	-	-	-	1 109	973
Net loss on derivative financial instruments	-	(110)	-	-	-	(110)	(110)
Cost of wholesale trade of subsidiaries	(63 983)	-	-	-	-	(63 983)	(64 190)
General administrative expenses	-	-	-	-	(1 172)	(1 172)	(59 304)
Effect of initial recognition of financial instruments at fair value	(56 915)	-	-	-	-	(56 915)	(56 915)
Allowance for impairment of financial assets	20 087	-	(503)	-	-	19 584	4 972
Income tax expenses	-	-	(35 842)	-	-	(35 842)	(34 318)

							31 December 2016
In thousands of Belarusian Rubles	**State-owned organizations (under common control of the state)**	**Banks (under common control of the state)**	**Government bodies**	**The National Bank**	**Key management personnel**	**Total transactions with related parties**	**Total financial reporting item**
Cash equivalents and accounts in the National Bank	-	39 953	-	16	-	39 969	66 395
Due from banks	-	157 469	-	-	-	157 469	334 255
Securities available for sale	100 099	833 976	523 783	39 759	-	1 497 617	1 520 897
Loans to customers, before allowance for impairment (restated)	2 369 329	-	748 133	-	-	3 117 462	3 916 887
Allowance for impairment of loans to customers (restated)	(601 941)	-	(7 767)	-	-	(609 708)	(763 410)
Deferred income tax asset	-	-	33 147	-	-	33 147	35 717
Other assets	59 546	-	5 122	-	-	64 668	111 181
Due to banks	-	380 813	-	-	-	380 813	986 053
Customer accounts	11 488	-	662 470	-	-	673 958	673 983
Debt securities issued	88 012	344 679	8 657	1 346 669	-	1 788 017	1 827 577
Government grants	4 272	217 842	10 034	-	-	232 148	232 148
Current income tax liability	-	-	2 748	-	-	2 748	2 761
Other liabilities	10 961	229	436	-	58	11 684	27 708

							For the year ended 31 December 2016
In thousands of Belarusian Rubles	**State-owned organizations (under common control of the state)**	**Banks (under common control of the state)**	**Government bodies**	**The National Bank**	**Key management personnel**	**Total transactions with related parties**	**Total financial reporting item**
Interest income	97 891	160 176	157 423	9 927	-	425 417	499 630
Interest expense	(16 818)	(14 997)	(65 048)	-	-	(96 863)	(139 947)
Fee and commission income	1 145	-	2 148	-	-	3 293	4 075
Fee and commission expense	(99)	(2 317)	-	-	-	(2 416)	(3 554)
Net other income	1 499	-	-	-	-	1 499	2 763
Net gain on securities transactions	(50)	11	6	(619)	-	(652)	2 680
Cost of wholesale trade of subsidiaries	-	-	-	-	-	-	(88 546)
General administrative expenses	-	-	-	-	(1 216)	(1 216)	(51 306)
Effect of initial recognition of financial instruments at fair value	(1 099)	-	-	-	-	(1 099)	(1 099)
Allowance for impairment of financial assets	(242 571)	-	(5 344)	-	-	(247 915)	(251 038)
Income tax benefit	-	-	15 158	-	-	15 158	15 385

In thousands of Belarusian Rubles	State-owned organizations (under common control of the state)	Banks (under common control of the state)	Government bodies	The National Bank of the Republic of Belarus	Key management personnel	Total transactions with related parties	Total by category in accordance with the financial statements
							31 December 2015
Cash and accounts with the National Bank	-	20 463	-	1	-	20 464	53 626
Due from banks		147 747				147 747	252 803
Securities available for sale	92 845	901 193	400 259	102 880	-	1 497 177	1 507 390
Loans to customers, before allowance for impairment	2 093 530	-	579 986	-	-	2 673 516	3 460 459
Allowance for impairment of loans to customers	(434 487)	-	(2 423)	-	-	(436 910)	(603 738)
Deferred income tax assets	-	-	27 556	-	-	27 556	29 527
Other assets	30 493	264	18 875	-	-	49 632	78 802
Due to banks	-	121 590	-	-	-	121 590	678 965
Customer accounts	25 529	-	655 973	-	-	681 502	681 530
Debt securities issued	146 661	312 159	4 860	1 346 669	-	1 810 349	1 849 177
Government grants	4 472	93 578	13 831	-	-	111 881	111 881
Current income tax liabilities	-	-	280	-	-	280	518
Deferred income tax liabilities	-	-	19 329	-	-	19 329	19 329
Other liabilities	5 226	74	64	-	59	5 423	14 922

In thousands of Belarusian Rubles	State-owned organizations (under common control of the state)	Banks (under common control of the state)	Government bodies	The National Bank of the Republic of Belarus	Key management personnel	Total transactions with related parties	Total by category in accordance with the financial statements
							For the year ended 31 December 2015
Interest income	31 758	193 976	57 741	2 749	-	286 224	479 243
Interest expense	(11 845)	(8 065)	(54 176)	-	-	(74 086)	(115 490)
Fee and commission income	1 215	-	425	-	-	1 640	2 779
Fee and commission expense	(168)	(330)	(107)	-	-	(605)	(1 772)
Net other income	2 848	-	-	-	-	2 848	3 417
Net loss from derivative financial instruments	-	(621)	-	-	-	(621)	(1 919)
Net income from securities transactions	(982)	10	7 503	-	-	6 531	5 854
Remuneration to key management personnel	-	-	-	-	(1 053)	(1 053)	(43 198)
Allowance for impairment of financial assets	(177 862)	-	(1 315)	-	-	(179 177)	(236 918)
Benefit on income tax	-	-	2 878	-	-	2 878	2 756

30. Offset of financial assets and financial liabilities

Disclosure of information in the table below includes information on financial assets and financial liabilities that are subject of a legally valid master netting agreement or similar agreements applicable to similar financial instruments, regardless of whether they are offset in the consolidated statement of financial position or not.

Similar financial instruments include sale and repurchase transactions, reverse repurchase transactions, agreements of securities borrowing and lending.

The table below represents financial assets and financial liabilities that are subject of a legally valid master netting agreement or similar agreements as at 31 December 2017. As at 31 December 2016 and 31 December 2015 there were no such agreements.

In thousands of Belarusian Rubles	31 December 2017		
	Full amounts of recognized financial liabilities	**Cost of financial instruments that were not offset in the statement of financial position**	**Net amount**
Types of financial liabilities			
Sale and repurchase transactions, lending of securities or similar agreements	(39 567)	39 567	-
Total financial liabilities	**(39 567)**	**39 567**	**-**

31. Reconciliation of changes in liabilities and cash flows from financing activities

Reconciliation of balances in the Consolidated Statement of Financial Position as at the beginning and end of the period for liabilities arising from financial activities is as follows:

In thousands of Belarusian Rubles	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**
Balance of the issued debt securities at the beginning of the year	**1 827 577**	**1 849 177**
Cash flow		
Addition	303 833	602 378
Repayment	(246 283)	(627 373)
Total changes due to cash flows from financing activities	**57 550**	**(24 995)**
Non-cash changes		
Effect of exchange rate fluctuations	878	240
Other changes		
Interest paid	(27 043)	(34 983)
Interest received	27 166	34 141
Amortization of government grants	1 752	3 997
Balance of the issued debt securities at the end of the year	**1 887 880**	**1 827 577**

32. Earnings per share

Basic earnings per Group’s share are equal to diluted earnings per share. The table below represents the calculation of earnings per share.

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit for the period attributable to holders of ordinary shares, BYN thousand	217 130	99 853	143 748
Weighted average number of ordinary shares	125 558 610	116 717 590	103 755 217
Earnings per share, BYN	**1,73**	**0,86**	**1,39**

33. Segment analysis

As at 31 December 2017, the Group has the following reportable segments:

- the segment for working with legal entities "Lending" - includes the provision of loans, financial leasing, purchase of securities and other transactions with legal entities, as well as transactions in its economic essence related to the servicing of legal entities and attraction of targeted funds for financing in the form of government deposits;

- the segment for work in financial markets "Operations in financial markets" - includes operations in the interbank and financial markets related to the attraction and placement of funds, operations for the purchase / sale of foreign exchange and other financial instruments, the purchase of government securities of the Republic of Belarus, bonds issued by the banks of the Republic of Belarus, securities of the National Bank and securities of local executive and administrative bodies, as well as issue of own bonds by the Development Bank.

To reflect the calculations that can not be attributed to the selected operating segments, an additional segment "Other segment" is introduced. This segment has an auxiliary character and serves only to reflect intermediate and additional calculations.

The accounting policies for the operating segments are consistent with the main accounting policies described in these financial statements.

The financial results of operating segments are formed by reflecting:

- direct income and expenses of the operating segment;
- redistributed / allocated (indirect) revenues and expenses of the segment;
- transfer revenues and segment costs.

The information on the operating segments is given below:

In thousands of Belarusian Rubles	**Lending**	**Operations in financial markets**	**Other segment**	**Total in management accounting**	**Total amount of adjustments under IFRS**	**Total IFRS for the year ended 31 December 2017**
Interest income	297 615	156 709	-	454 324	169	454 493
Interest expenses	(33 374)	(69 047)	-	(102 421)	-	(102 421)
Net interest income	**264 241**	**87 662**	**-**	**351 903**	**169**	**352 072**
Fee and commission income	2 975	-	101	3 076	-	3 076
Commission expenses	(35)	(4 742)	(120)	(4 897)	-	(4 897)
Net commission expense / income	**2 940**	**(4 742)**	**(19)**	**(1 821)**	**-**	**(1 821)**
Net other income	4 285	-	(1 897)	2 388	7 082	9 470
Net loss from operations with derivative financial instruments	-	(110)	-	(110)	-	(110)
Effect of initial recognition of financial instruments at fair value	-	-	-	-	(56 915)	(56 915)
Net Income on Foreign Exchange Transactions	8 800	4 746	675	14 221	(3 924)	10 297
Net income from operations with securities	-	973	-	973	-	973
Revenues of subsidiaries from wholesales	75 124	-	-	75 124	(7 906)	67 218
Value of products on wholesale sales of subsidiaries	(64 190)	-	-	(64 190)	-	(64 190)
General administrative expenses	(33 208)	(11 917)	(12 973)	(58 098)	(1 206)	(59 304)
Provision for impairment of financial assets	(112 284)	(24 583)	-	(136 867)	141 839	4 972
Profit /(loss) before taxation	**145 708**	**52 029**	**(14 214)**	**183 523**	**79 139**	**262 662**
Income tax expenses	-	-	(17 376)	(17 376)	(16 942)	(34 318)
NET PROFIT /(LOSS)	**145 708**	**52 029**	**(31 590)**	**166 147**	**62 197**	**228 344**

In thousands of Belarusian Rubles	**Lending**	**Operations in financial markets**	**Other segment**	**Total in management accounting**	**Total amount of adjustments under IFRS**	**Total IFRS 31 December 2017**
Cash equivalents and accounts with the National Bank	-	58 893	-	58 893	(24 678)	34 215
Amounts due from banks	-	452 063	-	452 063	46 984	499 047
Securities available for sale	174 983	1 576 539	-	1 751 522	(23 714)	1 727 808
Loans to customers	3 695 442	-	-	3 695 442	(117 322)	3 578 120
Investment property	-	-	20 920	20 920	-	20 920
Fixed assets and intangible assets	-	-	78 519	78 519	10 213	88 732
Current income tax asset	-	-	3 704	3 704	-	3 704
Deferred income tax asset	-	-	835	835	34 685	35 520
Other assets	-	-	193 083	193 083	(36 179)	156 904
TOTAL ASSETS	**3 870 425**	**2 087 495**	**297 061**	**6 254 981**	**(110 011)**	**6 144 970**
Amounts due to banks	-	1 855 906	-	1 855 906	(360 276)	1 495 630
Customer deposits	630 437	-	-	630 437	-	630 437
Debt securities in issue	-	1 900 434	-	1 900 434	(12 554)	1 887 880
Current income tax liabilities	-	-	4 795	4 795	-	4 795
Deferred tax liabilities	-	-	83	83	15 910	15 993
Government grants	-	-	-	-	372 830	372 830
Other liabilities	-	432	37 441	37 873	(5 832)	32 041
TOTAL LIABILITIES	**630 437**	**3 756 772**	**42 319**	**4 429 528**	**10 078**	**4 439 606**

In thousands of Belarusian Rubles	**Lending**	**Operations in financial markets**	**Other segment**	**Total in management accounting**	**Total amount of adjustments under IFRS**	**Total IFRS for the year ended 31 December 2016**
Interest income	277 754	230 926	-	508 680	(9 050)	499 630
Interest expenses	(64 778)	(75 169)	-	(139 947)	-	(139 947)
Net interest income	**212 976**	**155 757**	**-**	**368 733**	**(9 050)**	**359 683**
Fee and commission income	2 868	-	1 207	4 075	-	4 075
Commission expenses	(28)	(3 348)	(178)	(3 554)	-	(3 554)
Net commission (expense) / income	**2 840**	**(3 348)**	**1 029**	**521**	**-**	**521**
Net other income	701	-	2 128	2 829	(66)	2 763
Net income from operations with derivative financial instruments	-	8	-	8	-	8
Effect of initial recognition of financial instruments at fair value	-	-	-	-	(1 099)	(1 099)
Net Income on Foreign Exchange Transactions	18 072	9 214	944	28 230	(6 432)	21 798
Net income from operations with securities	-	2 680	-	2 680	-	2 680
Revenues of subsidiaries from wholesales	117 243	-	-	117 243	(16 587)	100 656
Value of products on wholesale sales of subsidiaries	(87 745)	-	-	(87 745)	(801)	(88 546)
General administrative expenses	(27 892)	(9 903)	(19 377)	(57 172)	5 866	(51 306)
Provision for impairment of financial assets	(152 018)	4 584	-	(147 434)	(104 703)	(251 038)
Profit/(loss) before taxation	**84 177**	**158 992**	**(15 276)**	**227 893**	**(131 773)**	**96 120**
Income tax (expenses)/benefit	-	-	(10 134)	(10 134)	25 519	15 385
NET PROFIT/ (LOSS)	**84 177**	**158 992**	**(25 410)**	**217 759**	**(106 254)**	**111 505**

In thousands of Belarusian Rubles	**Lending**	**Operations in financial markets**	**Other segment**	**Total in management accounting**	**Total amount of adjustments under IFRS**	**Total IFRS 31 December 2016**
Cash equivalents and accounts with the National Bank	-	66 368	-	66 368	27	66 395
Amounts due from banks	-	330 869	-	330 869	3 386	334 255
Securities available for sale	148 881	1 403 347	-	1 552 228	(31 331)	1 520 897
Loans to customers	3 382 764	-	-	3 382 764	(229 287)	3 153 477
Fixed assets and intangible assets	-	-	62 130	62 130	10 372	72 502
Current income tax asset	-	-	757	757	-	757
Deferred income tax asset	-	-	-	-	35 717	35 717
Other assets	151	-	121 378	121 529	(10 348)	111 181
TOTAL ASSETS	**3 531 796**	**1 800 584**	**184 265**	**5 516 645**	**(221 464)**	**5 295 181**
Amounts due to banks	-	1 203 895	-	1 203 895	(217 842)	986 053
Customer deposits	673 983	-	-	673 983	-	673 983
Debt securities in issue	-	1 841 883	-	1 841 883	(14 306)	1 827 577
Current income tax liabilities	-	-	2 761	2 761	-	2 761
Government grants	-	-	-	-	232 148	232 148
Other liabilities	1 534	346	25 828	27 708	-	27 708
TOTAL LIABILITIES	**675 517**	**3 046 124**	**28 589**	**3 750 230**	**-**	**3 750 230**

In thousands of Belarusian Rubles	Lending	Operations in financial markets	Other segment	Total in management accounting	Total amount of adjustments under IFRS	Total IFRS for the year ended 31 December 2015
Interest income	224 932	253 092	-	478 024	1 219	479 243
Interest expenses	(54 529)	(60 961)	-	(115 490)	-	(115 490)
Net interest income	**170 403**	**192 131**	**-**	**362 534**	**1 219**	**363 753**
Fee and commission income	1 099	-	1 680	2 779	-	2 779
Commission expenses	(19)	(1 680)	(73)	(1 772)	-	(1 772)
Net commission (expense) / income	**1 080**	**(1 680)**	**1 607**	**1 007**	**-**	**1 007**
Net other income	1 647	-	1 756	3 403	14	3 417
Net loss from operations with derivative financial instruments	-	(1 919)	-	(1 919)	-	(1 919)
Net Income on Foreign Exchange Transactions	20 938	11 623	1 079	33 640	(20)	33 620
Net income from operations with securities	-	5 854	-	5 854	-	5 854
Revenues of subsidiaries from wholesales	73 289	-	-	73 289	(3 664)	69 625
Value of products on wholesale sales of subsidiaries	(67 366)	-	-	(67 366)	-	(67 366)
General administrative expenses	(24 110)	(11 256)	(7 435)	(42 801)	(397)	(43 198)
Provision for impairment of financial assets	(128 887)	(2 537)	-	(131 424)	(105 494)	(236 918)
Profit/(loss) before taxation	46 994	192 216	(2 993)	236 217	(108 342)	127 875
Income tax (expenses)/benefit	-	-	(8 333)	(8 333)	11 089	2 756
NET PROFIT/ (LOSS)	**46 994**	**192 216**	**(11 326)**	**227 884**	**(97 253)**	**130 631**

In thousands of Belarusian Rubles	**Lending**	**Operations in financial markets**	**Other segment**	**Total in management accounting**	**Total amount of adjustments under IFRS**	**Total IFRS 31 December 2015**
Cash equivalents and accounts with the National Bank	-	53 458	-	53 458	168	53 626
Amounts due from banks	-	250 627	-	250 627	2 176	252 803
Securities available for sale	116 667	1 403 986	-	1 520 653	(13 263)	1 507 390
Loans to customers	2 960 045	-	-	2 960 045	(103 324)	2 856 721
Fixed assets and intangible assets	-	-	54 328	54 328	10 574	64 902
Deferred income tax asset	-	-	-	-	29 527	29 527
Other assets	163	-	104 159	104 322	(25 520)	78 802
TOTAL ASSETS	**3 076 875**	**1 708 071**	**158 487**	**4 943 433**	**(99 662)**	**4 843 771**
Amounts due to banks	-	772 543	-	772 543	(93 578)	678 965
Derivative financial liabilities	-	78	-	78	-	78
Customer deposits	681 530	-	-	681 530	-	681 530
Debt securities in issue	-	1 867 480	-	1 867 480	(18 303)	1 849 177
Current income tax liabilities	-	-	518	518	-	518
Deferred tax liabilities	-	-	-	-	19 329	19 329
Government grants	-	-	-	-	111 881	111 881
Other liabilities	-	130	14 792	14 922	-	14 922
TOTAL LIABILITIES	**681 530**	**2 640 231**	**15 310**	**3 337 071**	**19 329**	**3 356 400**

34. Subsequent events

According to the National Statistics Committee of the Republic of Belarus, the increase in consumer prices in January-June 2018 was 3,4%.

As at the date of approval of these consolidated financial statements, the refinancing rate of the National Bank was 10 % (11% as at 31 December 2017).

In February 2018 the International Rating Agency *Fitch Ratings* increased the long-term credit rating of the Development Bank from B- to B. The rating is forecasted as “stable”.

At the beginning of 2018 the Republic of Belarus moved from the seventh to the sixth group of countries according to the credit risk classification in the rating of the Organization for Economic Co-operation and Development (OECD) that unites developed world countries.

In March 2018 the General meeting of Shareholders of the Development Bank declared payment of dividends on shares for 2017. The amount of declared dividends was 26 246 thousands of Rubles, which is equivalent to 0,21 Rubles per share.

In June 2018 the Supervisory Board of the Development Bank approved the attraction of external borrowing by issuing on the international financial market Eurobonds for up to 600 000 thousand rubles with a maturity of at least three years.

In August 2018, the General Meeting of Shareholders of the Development Bank decided to increase the statutory fund through a cash deposit of 245,000 thousand rubles.

THE ISSUER

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