Priorbank
Joint Stock Company

RZB Group

Belarus Market Update

Presentation by Andrey Filazafovich, Executive Director at Priorbank JSC,

June 2017

Belarus: Key Economic Figures & Developments

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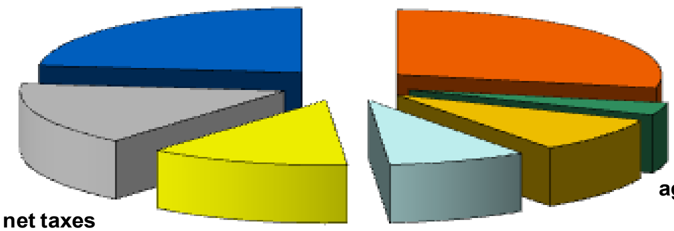
Structure of Gross Domestic Product

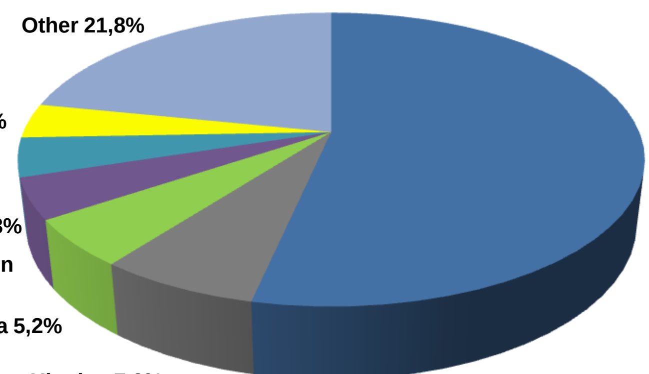
* as of 01.04.2017



- Highly open economy with exports-to-GDP ratio at around 60%, Russia is the main trading partner and market for food exports and machinery; EU is the key market for oil product exports
- Growing share of services in exports (transit location, focus on IT)
- GDP per capita of around USD 5 thsd.
- First signs of recovery recently: GDP recorded 0.5% yoy growth for 4m 2017, industrial output up by 5.4%, supported by strong (24% yoy) increase in exports attributable to non-oil exports. The fall in capital investment and retail sales slowed down.
- Higher commodity prices and anticipated recovery in export markets might give a positive impulse to Belarusian exports in 2017. Gradual return to growth at 1.5-2.0% expected from 2018 going forward.

	2014	2015	2016	2017 f	2018f
Real GDP, bn USD	76.2	56.7	47.4	51.3	49.8
Real GDP, % yoy	1.6	- 3.8	- 2.6	- 0.5	1.5
General budget, % of GDP	1.1	1.8	1.5	0.0	0.0
CPI, eop % yoy	16.2	12.0	10.6	11.0	9.0
Unemployment rate, %	0.5	1.0	0.8	2.0	2.0
EUR/BYN (avg)	13 575	17 610	2.20	2.11	2.50
USD/BYN (avg)	10 216	15 865	1.99	2.05	2.38
Current account balance, USD bn	- 5.22	- 1.84	- 1.7	-1.8	-1.8
FX Reserves, USD bn	5.1	4.2	4.9	4.4	4.5
External debt, USD bn	40.0	38.3	37.6	37.1	37.9

Main trading partners



Source: National Statistical Committee of Belarus, National Bank of Belarus, Raiffeisen Research

Belarus: External Accounts & BYN

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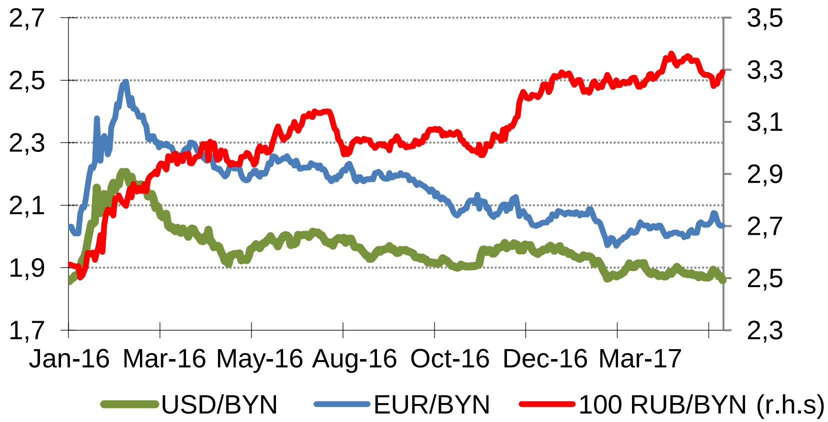
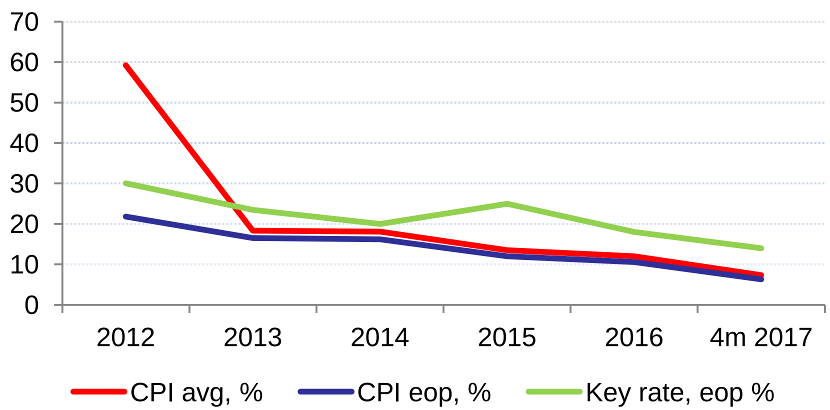
BYN stable recently

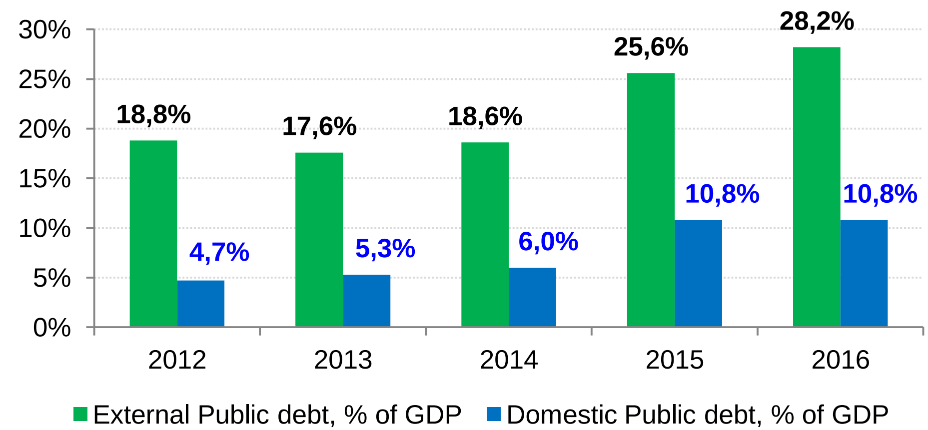


Inflation on a downward trend



- Prudent monetary and fiscal policies lately facilitated readjustment of external imbalances, contributed to BYN stability and deceleration of inflation rates: 6.3% yoy in April 2017. Key rate cut from 18% to 13% yoy by end-May.
- The level of gross external debt at USD 38.0 bn (~80% of GDP) is comparable to most CEE countries. External public debt of USD 13.9 bn or around 28% of GDP is relatively low.
- Scheduled repayments on external debt were fully redeemed in 2016 thanks to internal FX proceeds and savings and loan tranches from the Eurasian Fund for Stabilization and Development. In 2017, Belarus continues negotiations with the IMF on a new USD 3 bn loan, plans Eurobond, implements EFSD program of structural reforms.

Public debt at moderate levels



Source: National Statistical Committee of Belarus, National Bank of Belarus, Raiffeisen Research

Foreign Debt

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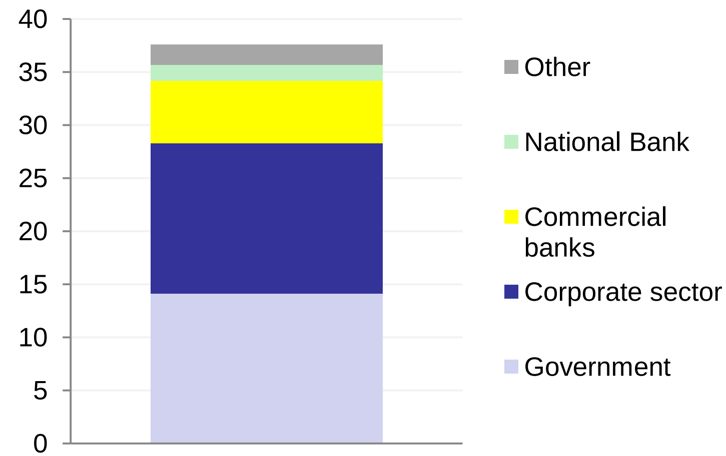
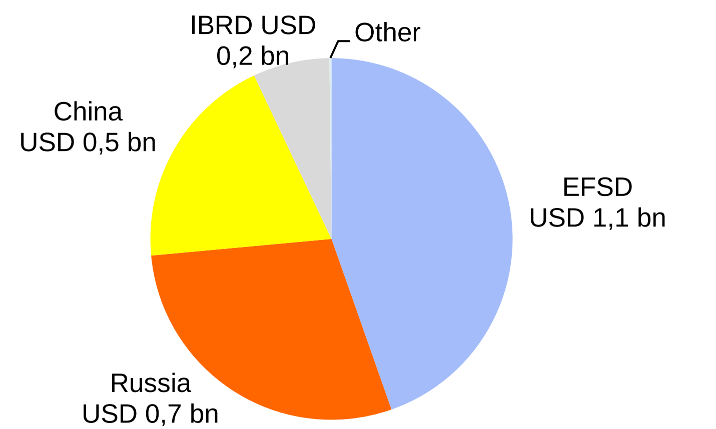
- Moderate level of foreign public debt, key lender – Russia (Government and banks + EFSD), low share of bonds (less than 6%)
- Debut sovereign Eurobond in July 2010, followed by RUB bond in December 2010 and second sovereign Eurobond in January 2011; only one outstanding issue of USD 0.8 bn maturing in January 2018
- Ministry of Finance plans to tap the market with a new Eurobond this year
- Cooperation with IMF: Stand-By Arrangement USD 3.52 bn in January 2009 successfully completed, the loan fully repaid. New Fund -supported program of reforms is on the agenda.
- 2 credit facilities from the Eurasian Fund for Stabilization and Development (EFSD) to support a package of reforms (USD 3 bn disbursed in 2011 - 2013 and USD 2 bn agreed in March 2016)

Sovereign Bonds		
	Details	Status
Debut Eurobond	USD 1 bn, July 2010; 5y, coupon 8.75%	Redeemed in 2015
RUB Bond	RUB 7 bn, December 2010, 2y, 8.7%	Redeemed in 2012
Second Eurobond	USD 0.8 bn, January 2011, 7y, 8.95%	Outstanding, mature in January 2018
Cooperation with Financial Institutions		
IMF Stand-By Arrangement	USD 3.5 bn, January 2009 3.5y after 15m program; LIBOR+0.75%	Successfully completed
EFSD (ex-EurAsEC)	USD 3 bn, June 2011, 10y variable interest rate	6 tranches in 2011-2013 received
EFSD	USD 2 bn, March 2016, 10y with 5y grace period	Ongoing, 7 tranches in 2016-2018, 3 tranches worth USD 1.1 bn received

Gross External Debt, USD bn



Main Lenders to Belarus in 2016-2017



Source: Ministry of Finance of Belarus, National Bank of Belarus, Raiffeisen Research

Bond Market

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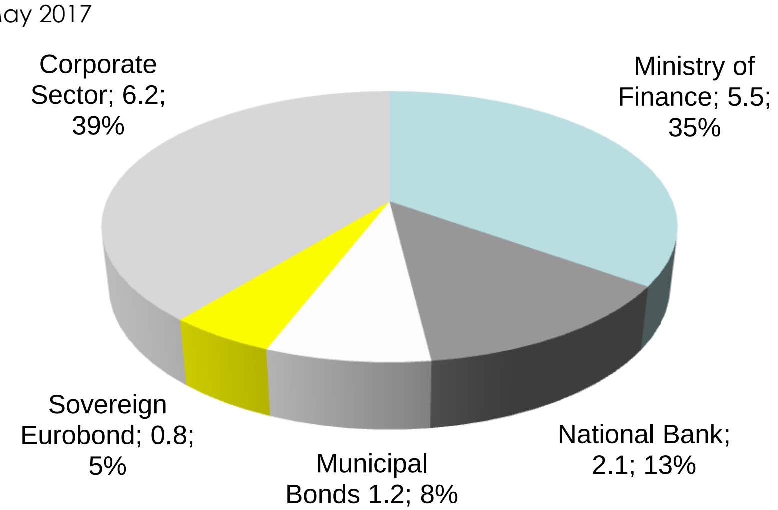
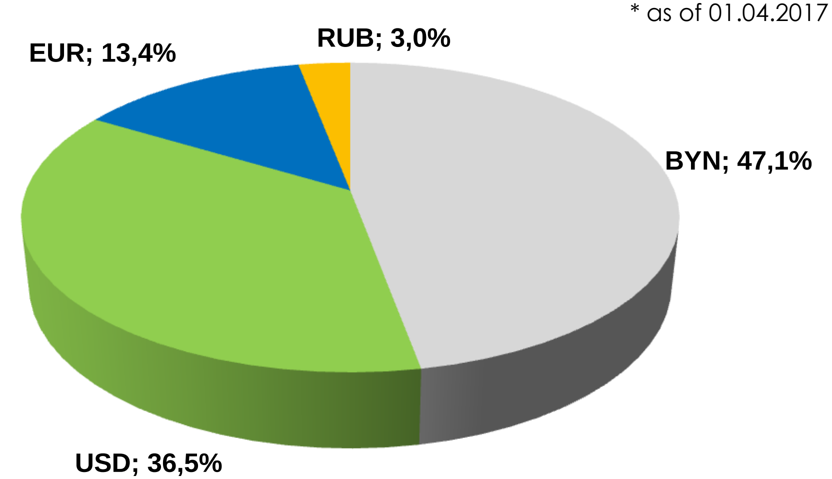
Bond Market Structure, USD bn, %



Corporate Bonds by Currencies



✓ State bonds (including issues by the National Bank) domineer the market accounting for over 50% of the total market volume of ~USD 16 bn in May 2017

✓ National Bank: active player in local FCY bond market recently; 28 outstanding issues total of over USD 2 bn in June, average tenor – 1 year, yield range 4.3%-6.8%

✓ MinFin: only FCY bonds issued lately purposed to repay external FX denominated debt, outstanding amount of around USD 4 bn as of 01 June, yield range 4.7%-8.2%

✓ Limited interest of corporate sector in bond instruments so far due to easy access to credit

✓ Lower cost of borrowings via FCY bonds (yields in the range of 8-10% vs 14-17% on BYN bonds) and stable BYN exchange rate are a strong argument in favor of FCY bonds currently - first publicly offered FCY corporate bonds (retailer Evrotorg, developer Sigmaplus)

✓ Ongoing local FX market liberalization is set to reduce administrative costs related to FCY bond issue for private individual investors

Banking Sector

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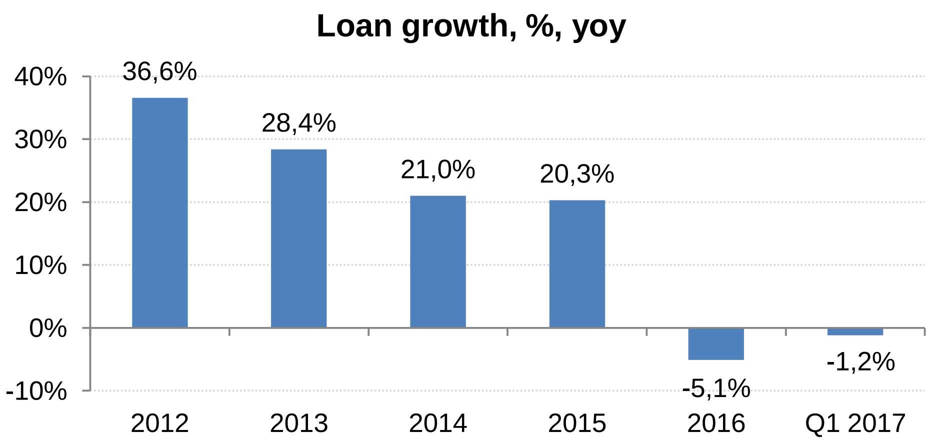

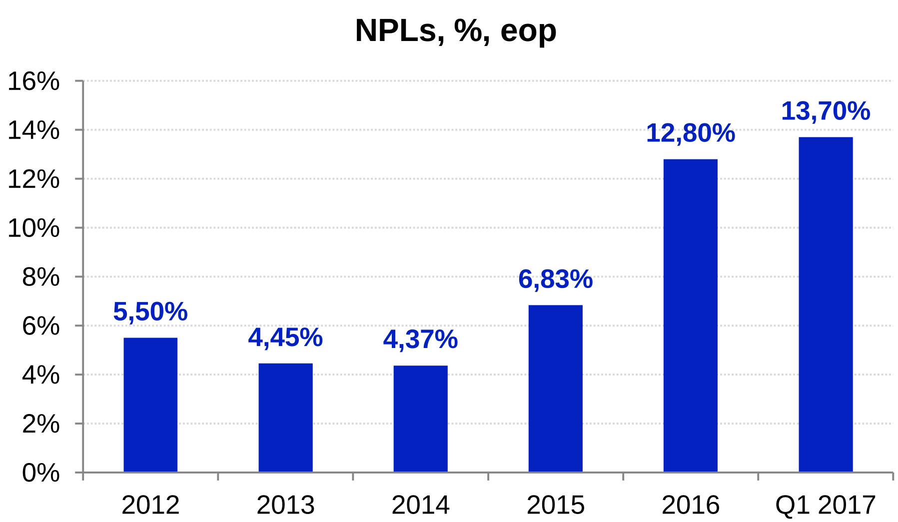

- ✓ Baking landscape: 24 banks, state-owned banks domineer in the market with 67% of total assets; high concentration – top 5 banks account for 79% of assets; funded-by-Russia banks control almost 25%, Priorbank (owned by Austrian Raiffeisenbank) ranks 7th with around 4% market share.
- ✓ Privatizations of several state-owned banks in line with EFSD program projected shortly.
- ✓ Lending currently suppressed by deteriorated fundamentals and a surge in NPLs in recessionary environment.
- ✓ Decline in interest rates did not boost lending (down by 5% in 2016 and 1.2% in Q1 2017). Banks are cautious of borrowers' deteriorating capacity to repay. Limited effect also due to high loan dollarization at 56%.
- ✓ Key risks: the share of NPLs doubled in 2016 - Q1 2017 to 13.7% amid less government support and high corporate leverage.
- ✓ Opportunities: Ample room for lending to private individuals - low loan-to-deposit ratio and good payment discipline.
- ✓ Interest rate policies promote de-dollarization. Falling household income limits propensity to save. BYN deposits increase slightly in Q1 2017, FCY deposits broadly stable.

Source: National Statistical Committee of Belarus, National Bank of Belarus, Raiffeisen Research

Investment Potential

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IT, High technology production

✓Highly qualified local personnel
✓Production based on own R&D

Food industry

✓High-quality in-house agricultural resources
✓Open Russian & the Customs Union markets
✓Contract manufacturing arrangements

Pharmaceutical Industry

✓Good production facilities
✓Import substitution possibilities
✓Contract manufacturing arrangements

Wood Processing

✓Local resources
✓Modernized equipment
✓Contract manufacturing arrangements

Telecommunications

✓High penetration of services in the market
✓Infrastructure development possibilities

Transport & logistics

✓Strategically profitable transit location
✓Road infrastructure development

Why Belarus?

✓Well-developed industries with highly qualified workforce

✓Favorable transit location, access to broad Russian market, proximity to EU markets

✓37th out of 190 economies on ease of doing business according to the World Bank's Doing Business 2017 report, the ranking improved from 91st in 2010

✓Broad range of benefits to foreign investors

- ❖ standard preferential regimes for companies registered in small towns and rural areas, free economic zones, hi-tech park, China-Belarus industrial park Great Stone

- ❖ additional/individual tax and customs benefits, preferences for land and real estate use, personalized state support and financial government guarantees under an investment agreement with Belarus

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