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REPORT
of the National Bank of the Republic of Belarus
for 2017

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Introduction

The Report of the National Bank for 2017 was prepared in accordance with Article 46 of the Banking Code of the Republic of Belarus (hereinafter – the “Banking Code”).

In 2017, the monetary policy of the Republic of Belarus as part of the unified economic policy was implemented in line with the Monetary Policy Guidelines of the Republic of Belarus for 2017 approved by Edict of the President of the Republic of Belarus No. 359 dated October 3, 2016, having regard to the current macroeconomic situation.

The National Bank’s activities in 2017 were aimed at attaining the main monetary policy targets and performing the functions of the central bank assigned thereto by legislation of the Republic of Belarus.

Chapter 1

Economic and financial situation in the Republic of Belarus

1.1. Macroeconomic conditions of monetary policy implementation and banking sector development*

The situation in the economy of the Republic of Belarus in 2017 was characterized by maintenance of macroeconomic and financial stability, considerable slowing-down of inflationary processes, increased volumes of manufactured products, ensured foreign economic balancing, as well as the growing households’ investment activity and incomes in real terms.

In the year under review, the **volume of Gross Domestic Product (hereinafter – “GDP”)** amounted to BYN105.2 billion, having increased (in comparable prices) by 2.4% on the 2016 level (in 2016, it dropped by 2.5%) (Attachment 1.1).

Retail turnover (in comparable prices) went up in 2017 by 3.8% compared with 2016 (in 2016, it dropped by 4.2% on a year earlier).

Households’ real wages grew up in 2017 by 6.2% compared with 2016 (in 2016, it declined by 4%); real disposable money income went up by 2.4% (in 2016, declined by 6.9%).

Investment in fixed capital increased (in comparable prices) by 5.2% on a year earlier (in 2016, dropped by 17.4%). The annual volume of investments in fixed capital totaled BYN20.4 billion; their share in GDP – 19.4% (19.7% in 2016).

* This section was prepared based on the National Statistical Committee’s data.

In the technological structure of investment in fixed capital the expenditures for construction and installation works (50.1%) were dominating, while investments in assets (machinery, equipment, and vehicles) amounted to 38.8% and other works and costs – 11.1% of the total volume of capital investments.

Industrial output increased in 2017 (in comparable prices) by 6.1% versus 2016 (in 2016, declined by 0.4%).

Finished industrial stock at the enterprises' warehouses amounted as at January 1, 2018 to BYN3.9 billion, having risen by 5.2% since the beginning of the year. With respect to the monthly average volume of production it amounted as at January 1, 2017 to 61.3% compared with 66.9% as at January 1, 2017.

Financial condition of non-financial organizations in 2017 compared with 2016 (Attachment 1.2) improved to a considerable degree:

- revenues from the sale of products, goods, works, and services amounted in 2017 to BYN192.3 billion, having grown in nominal terms by 12.3% compared with 2016; and

- profit from the sale of products totaled BYN15.7 billion, a 25.4% growth (in nominal terms) compared with 2016. At the same time, profit before tax went up by 84%; net profit – doubled.

The real values of revenues from the sale of products, goods, works, services, as well as all profit indicators went up.

The return on sales increased from 7.3% in 2016 to 8.2% in 2017; return on sold products – from 9.1% to 10.2% respectively.

In 2017, 1,127 organizations (15.3%) were in the red compared with 1,413 organizations (19.2%) in 2016. In 2017, the amount of net loss per one organization in the red in the republic on average totaled BYN2.1 million (in 2016, BYN1.9 million).

Budgetary policy in 2017 remained well-balanced.

According to the data of the Ministry of Finance, in 2017 the Government ran a **consolidated budget** surplus of BYN2.9 billion or 2.8% of GDP (1.3% of GDP in 2016).

In 2017, consolidated budget revenues grew by 10.9%, amounting to BYN31.6 billion (30% of GDP in 2016 and 2017) (Attachment 1.3). Consolidated budget expenses amounted to BYN28.7 billion (27.3% of GDP versus 28.8% of GDP in 2016).

According to the data of the Ministry of Finance, in 2017 the **republican budget** ran a surplus as well in the amount of BYN2.8 billion, or 2.7% of GDP (in 2016, 1.1% of GDP). Republican budget revenues grew in 2017 compared with 2016 by 11.3% and totaled BYN19.8 billion (18.8% of GDP versus 18.7% of GDP in 2016). Republican budget expenses totaled BYN17 billion (16.2% of GDP compared with 17.6% of GDP in 2016).

According to the Ministry of Finance's data, as at January 1, 2018, **the Government debt of the Republic of Belarus** amounted to BYN42.2 billion, growing over 2017 by BYN5.2 billion (or by 14.1%).

As at January 1, 2018, the Government domestic debt totaled BYN9.2 billion (8.6% of GDP), having dropped over 2017 by BYN1.1 billion (adjusted for the currency translation differences), or by 10.3%.

In 2017, domestic government bonds for legal and natural persons denominated in foreign exchange and in Belarusian rubles worth USD449.9 million and BYN200 million, respectively, were placed. In the year under review, government bonds for legal and natural persons denominated in foreign exchange and in Belarusian rubles worth USD1,290.6 million and BYN189.7 million, respectively, were retired.

The Government external debt amounted as at January 1, 2018 to USD16.7 billion (30.7% of GDP), having increased over 2017 by USD3.1 billion (adjusted for the currency translation differences), or by 22.6%. In 2017, the Government attracted external loans in the amount of USD4,040.7 million; repaid – USD1,029.4 million.

1.2. The balance of payments and gross external debt

In 2017, the balance of payments of the Republic of Belarus ran a surplus. The current account deficit reduced due to the improvement in the results of foreign trade in services and the balance of secondary income.

The deficit of the current account of the balance of payments totaled USD0.9 billion, or 1.7% of GDP, having dropped by USD0.7 billion compared with 2016 (Attachment 1.4).

In the year under review, the surplus of foreign trade in goods and services totaled USD66 million (in 2016, the deficit worth USD70.6 million was observed).

According to the balance of payments, in 2017 the balance of foreign trade in goods was characterized by the deficit in the amount of USD2.9 billion (in 2016, USD2.5 billion). At that, the balance of foreign trade in energy goods worsened by USD0.7 billion due to the growth in the physical volumes of imports of oil products, amounting to minus USD3.4 billion. The balance of foreign trade in non-energy goods totaled USD0.5 billion, compared with USD0.2 billion in 2016.

In 2017, exports of goods grew by 24%, or by USD5.6 billion, amounting to USD28.7 billion. The growth in the delivery of intermediate non-energy goods made the major impact on the dynamics of export. Moreover, the National Bank's foreign exchange transactions constrained the strengthening of the Belarusian ruble, maintaining thereby the price competitiveness of the national import. The real effective exchange rate index of the Belarusian ruble,

as measured by the producer price index, dropped in December 2017 by 6.6% versus December 2016 (Attachment 1.5).

Imports of goods increased in 2017 by 23.3%, or by USD6 billion, amounting to USD31.6 billion. Recovery of economic growth and investments in fixed capital accounted for the increase in the investment imports by USD0.8 billion. The consumer imports went up by USD1.1 billion due to the increase in the households' real income and growth in consumer lending. The imports of intermediate goods went up by USD4.8 billion, including that of energy goods – by USD2.3 billion.

Activization of foreign trade in services made a positive impact on the improvement of the balance of current account. The exports of services grew by 14.5%, totaling USD7.8 billion. The imports of services went up by 10%, amounting to USD4.8 billion. The surplus of foreign trade in services totaled USD3 billion (up by 22.5% compared with 2016) and compensated the deficit in the trade in goods.

The balance of primary income improved by USD0.1 billion and stood at minus USD2.1 billion, that was caused by an increase in remuneration of labour from abroad.

The balance of secondary income totaled USD1.1 billion against USD0.6 billion in 2016.

According to the financial account (excluding reserve assets), net borrowing from other countries totaled USD2.5 billion versus USD1.2 billion in 2016.

Attraction of financial resources to the Republic of Belarus at the expense of foreign direct investments amounted to USD1.2 billion (in 2016, USD1.1 billion). At the same time, the inflow of foreign direct investments (excluding reinvested incomes) was still at a low level – USD0.6 billion in 2017 compared with USD0.4 billion in 2016.

The Government and the National Bank of the Republic of Belarus attracted in 2017 on net basis USD2.6 billion, including at the expense of credits of the Government of the Russian Federation and the Eurasian Fund for Stabilization and Development – USD1.5 billion and due to placement of securities – USD1.4 billion. In 2017, net lending to the rest of the world by the banking sector totaled less than USD0.1 billion; by the other sectors – USD1.4 billion.

In 2017, the balance of payments ran a surplus of USD2.1 billion compared with USD0.5 billion in 2016.

As at January 1, 2018, **gross external debt of the Republic of Belarus** amounted to USD39.9 billion, or 73.4% of GDP, increasing over 2017 by USD2.4 billion (Attachment 1.6).

As at January 1, 2018, the external debt of the government agencies sector of the Republic of Belarus totaled USD17.3 billion, having grown over

2017 by USD3.1 billion, or by 21.9% (with long-term credits and loans accounting for 84.2% of obligations of this sector).

The National Bank's external debt dropped over 2017 by USD0.4 billion, or by 24.7%, amounting as at January 1, 2018 to USD1.1 billion. Long-term credits and loans (46%) and debt securities (43.5%) accounted for, practically, the whole amount of the National Bank's debt.

The banking sector's liabilities (excluding intercompany financing) went down over 2017 by USD1.4 billion, or by 24.1%, amounting to USD4.5 billion as at January 1, 2018. At that, both the long-term and the short-term liabilities were reduced, by USD0.6 billion and USD0.8 billion respectively.

Debt liabilities of the other sectors (excluding intercompany financing) went up by USD0.9 billion, or by 6.1%, amounting to USD15 billion as at January 1, 2018. The growth in debt liabilities was due to the increase in the long-term credits and loans by USD1 billion.

Over the recent years, a stable trend towards switching from the short-term to the long-term borrowing has been observed in the Republic of Belarus. As at January 1, 2018, long-term borrowings accounted for 75.7% of the total volume of borrowings.

1.3. Financial sector

1.3.1. Banking sector

1.3.1.1. Institutional characteristics

As at January 1, 2018, the banking activities in the Republic of Belarus were carried out by 24 banks and three non-bank financial institutions. Four banks underwent bankruptcy or liquidation (JSC "Delta Bank", CJSC "BIT-Bank", CJSC "N.E.B. Bank", and JSC "Eurobank"). The total number of banks' organizational units (branches, banking services centers, settlement and cash centers, and exchange offices) dropped over 2017 by 1.8%, amounting as at January 1, 2018 to 3,616.

As at January 1, 2018, there were five representative offices of foreign banks in the Republic of Belarus, including those of the Russian Federation (representative offices of two banks), Latvia, and Germany, as well as a representative office of the Interstate Bank. Belarusian Banks had eight representative offices abroad.

Foreign capital participated in the authorized capital of 19 banks. In 14 banks the share of foreign investors in the authorized capital exceeded 50% (of which four banks were wholly-foreign owned). Capital from Russia, Austria, Cyprus, Iran, Switzerland, Kazakhstan, United Arab Emirates, Poland,

Lebanon, Georgia, the USA, Great Britain, Germany, and other countries participates in the authorized capital of the Belarusian banks.

As at January 1, 2018, the banks' aggregate registered authorized capital amounted to BYN5.2 billion, having increased over 2017 by 9.8%.

Institutional development of the banking sector in 2017 was characterized by an insignificant redistribution of shares in the aggregate authorized capital of the banking sector between the groups of banks by the form of ownership:

- the share of banks controlled by the Government grew up from 80.2% to 81.3%, with the share of the above-mentioned banks in the banking sector's authorized capital declining from 61.4% to 61.2% and in the banking sector's assets – from 66.8% to 65.2%;

- the share of foreign banks* declined from 17.1% to 16.3%. The share of such banks in the aggregate authorized capital went up from 35% to 35.1% and in the banking sector's assets – from 30.7% to 31.9%; and

- the share of banks of private form of ownership dropped from 2.7% to 2.4%. The share of these banks in the banking sector's assets went up by 0.3 percentage point and amounted to 2.9% and in the aggregate regulatory capital – from 3.6% to 3.7%.

1.3.1.2. Sustainability and efficiency of the banking sector

In 2017, the banking sector retained sustainability.

As at January 1, 2018, banks' regulatory capital* totaled BYN9.9 billion, having increased over 2017 by 12.7% in nominal terms. The main sources of the regulatory capital growth in the banking sector as a whole were: increase in the registered authorized capital, growth in funds established at the expense of banks' profit, and provision of resources to owners in the form of subordinated credits (loans). As at January 1, 2018, the regulatory capital/GDP ratio was 9.4%.

In the year under review the banking sector's income had the following structure** : interest income – 68.8%, commission income – 18.2%, other banking income – 10%, other operational income – 2.9%, and receipts under written-off debts – 0.1%.

In the structure of expenditures*** the interest expenses totaled 32.9%, other operational expenditures – 34.6%, other banking expenditures – 5.5%, and commission expenses – 6.6%. Net allocations to reserves in 2017 totaled 17.4%.

Profit* obtained by banks in 2017 totaled BYN886.7 million, having grown by 0.2% in nominal terms compared with 2016. A slight increase in the operating banks' profit was due to the continued formation by banks of special

* Foreign banks are banks in which the share of foreign investors in the authorized capital exceeds 50%.

** The data prior to confirmation by the audit organization.

*** The structure of incomes and expenditures is given with due regard to balancing of reserves.

provisions to cover potential losses under assets exposed to credit risk and transactions, which are not reported on the balance sheet (hereinafter – the “special provisions”).

At the end of 2017, the banking sector’s return on assets was 1.36% (1.33% in 2016) and return on regulatory capital – 9.55% (in 2016, 10.78%).

The banking sector’s assets exposed to credit risk grew over 2017 by 7.5% to BYN43.2 billion (as at January 1, 2018). As at January 1, 2018, bad assets of the functioning banks (assets classified under risk Groups III, IV, and V) totaled BYN5.5 billion. At that, on the background of low paying capacity of borrowers, the share of bad assets in the assets exposed to credit risk totaled 12.9% as at January 1, 2018 (as at January 1, 2017 it stood at 12.8%). The trend towards the bad assets growth in the banking sector was restrained due to the implementation by the National Bank and the Government of the Republic of Belarus of a number of measures aimed at reducing bad debt and increasing the degree of coverage by special provisions of the assets exposed to credit risk.

Transfer of a part of bad assets to the JSC “Asset Management Agency” (in 2017, banks transferred bad assets worth BYN205.6 million thereto) was conducive to the settlement of the banks’ bad debt, primarily of the state-owned ones, as well.

Banks met the major secure functioning requirements:

- regulatory capital adequacy ratio (characterizes the coverage of assumed risks) – 18.49%, with the prescribed minimum requirement for an individual bank being 10% (with account of the conservation buffer – 11.25%);
- ratio of liquid assets to total assets – 27.7% (the prescribed requirement being at least 20%);
- short-term liquidity (the ratio of actual liquidity to required liquidity) – 1.9% (the requirement being at least 1);
- instant liquidity (the ratio of assets on demand to liabilities on demand) – 164% (the requirement being at least 20%); and
- current liquidity (the ratio of current assets to current liabilities) – 121.6% (the requirement being at least 70%).

1.3.2. Non-bank sector

1.3.2.1. Institutional characteristics

As at January 1, 2018, 103 leasing organizations were in the Register of Leasing Organizations. In 2017, the number of leasing organizations in the Register increased by eight (16 organizations were included and eight organizations were struck off).

Foreign capital participated in the authorized capital of 31 leasing organizations. At that, in 28 leasing organizations the share of foreign investors’ participation in the authorized capital totaled 50% and more (of

which 13 organizations were wholly-foreign owned). Capital from Cyprus, Estonia, Russia, Latvia, Lithuania, the USA, Germany, Austria, the Great Britain, and other countries participated in the authorized capital of leasing organizations. One foreign organization, the place of activities of which was the building ground of the Belarusian nuclear power station, carried out leasing activities in the Republic of Belarus through its permanent representative office.

Banking capital participated in the authorized capital of 11 leasing organizations.

The leasing organizations' aggregate authorized capital totaled BYN438.5 million as at January 1, 2018, having increased over 2017 by 13.6%.

The volume of the leasing organizations' leasing portfolio and its share in GDP went up over 2017. As at January 1, 2018, the ratio of the aggregate price of the leasing agreements entered into by the leasing organizations in 2017 to GDP totaled 2%.

As at January 1, 2018, 121 microfinance organizations (five consumer cooperatives, eight funds, and 108 legal persons engaged in lombard activities) were on the Register of Microfinance Organizations. In 2017, the number of microfinance organizations in the Register went up by six, with 20 organizations being included therein and 14 organizations being excluded therefrom.

The aggregate authorized capital of the profit-making microfinance organizations (lombards) totaled BYN3.4 million as at January 1, 2018, having grown over 2017 by 13.3%. Capital from Russia, Lithuania, the USA, Georgia, and other countries participated in the lombards' authorized capital.

The activities of microfinance organizations in 2017 were characterized by the growing volume of provided monetary funds, number of borrowers, and number of microloan agreements.

As at January 1, 2018, 10 organizations were included in the Register of Forex Companies. In 2017, the number of forex companies in the Register grew by four (five organizations were included therein and one organization was excluded therefrom).

In the authorized capital of nine forex companies participated foreign capital from Russia, Cyprus, the Great Britain, Poland, Kazakhstan, Saint Vincent and the Grenadines, and other countries. At that, the share of foreign investors in the authorized capital of eight forex companies totaled 100%.

According to the reports as at January 1, 2018, the aggregate authorized capital of forex companies totaled BYN4 million, having grown 2.5 times over 2017.

Save the forex companies, JSC "MTBank" carried out activities involving transactions initiated by natural and legal persons with non-deliverable over-the-counter financial instruments (activities in the over-the-counter forex market), which established the banking forex platform (MTBankFX) within the joint project with the Swiss bank DukascopyBankSA.

Due to an increase in the number of the Belarusian forex companies the number of clients of such organizations, the volume of transactions carried out thereby, and the amounts of monetary funds in foreign exchange placed by clients with a view to opening and/or maintaining their open foreign exchange position went up as well, with other indicators of activities in the over-the-counter forex market being improved.

1.3.2.2. Key indicators of the leasing and microfinance organizations' activities and activities in the over-the-counter forex market

As at January 1, 2018, the aggregate leasing portfolio* totaled BYN2.8 billion (a growth by 22.5% over 2017), or 14.3% of the economic entities' debt owed to banks under the long-term credits (as at January 1, 2017 – 11.6%).

The amount of the aggregate net profit of the leasing organizations in 2017 stood at BYN213.4 million, being higher than the value of this indicator in 2016 by 24.5%.

The share of the lessees' overdue liabilities under leasing payments in the total volume of their liabilities under the financial lease (leasing) agreements totaled 5.6% as at January 1, 2018.

Financial leasing operations accounted for more than 99% of the leasing organizations' leasing portfolio. Liabilities under agreements entered into in the national currency amounted to 74.6% of the leasing portfolio.

Five leasing organizations established with participation of banks' capital ("ASB Leasing" LLC, OJSC "Promagroleasing", "VTB Leasing" JLLC, "Raiffeisen - Leasing" JLLC, and OJSC "Agroleasing") accounted for about 70% (BYN1.9 billion) of the aggregate leasing portfolio.

As at January 1, 2018, the export leasing operations** accounted for 2.2% of the total leasing portfolio. The majority of export operations (about 80%) was carried out by OJSC "Promagroleasing".

The volume of new business (the aggregate value of the agreements entered into by the leasing organizations) stood in 2017 at BYN2.1 billion, having nearly doubled compared with the value of this indicator in 2016. The volume of the leasing companies' new business totaled 17% of the volume of the long-term credits issued by banks to the economic entities over 2017.

Over 2017, more than 410 thousand items of leasing were passed to lessees, exceeding by 243 thousand items the indicator of 2016.

According to the reports as at January 1, 2018, the microfinance organizations' assets totaled BYN28.3 million, own capital – BYN16.5 million, liabilities – BYN11.8 million, and net profit obtained over the year – BYN3 million. Compared with January 1, 2017, the microfinance organizations' assets

* An amount of the lessees' debt to lessors under leasing payments as at the reporting date.

** International leasing, where a lessor and a seller (deliverer) of an item of leasing are entities of the Republic of Belarus, while a lessee is an entity of other state.

grew by BYN4.8 million (20.4%), own capital – by BYN1.5 million (10%), and liabilities – by BYN3.3 million (38.8%). Net profit of the microfinance organizations in 2017 went down by BYN0.7 million, being less than net profit in 2016 by 18.9%.

The amount of microloans granted in 2017 totaled BYN118.3 million, an increase by BYN17.4 million, or by 17.2%, compared with 2016.

Consumer cooperatives granted BYN0.9 million (the same amount as in 2016). The whole amount was allocated to natural persons for the purposes of developing business and entrepreneurial activities. In 2017 Q4, the average daily rate on microloans totaled 0.5%*, being 0.3 percentage points lower than in 2016.

Funds granted BYN9.3 million (an increase by BYN5.3 million, or 2.3 times, compared with 2016). The microloans to natural persons for the purposes related to business and entrepreneurial initiative accounted for BYN8.4 million, or 90.3% (in 2016, BYN3.6 million, or 90%). In 2017 Q4, the average rate on microloans stood at 1.5%, remaining unchanged compared with 2016.

Lombards granted BYN108.2 million (an increase by BYN12.2 million, or 12.7%, compared with 2016). Microloans issued versus pledged items from precious metals and stones accounted for BYN88.5 million, or 81.8% (85.5% in 2016). In 2017 Q4, the average rate on microloans amounted to 1%, a decline by 0.1 percentage point versus 2016.

According to the reports as at January 1, 2018, the forex companies' assets totaled BYN7 million, own capital – BYN2.6 million, and liabilities – BYN4.4 million. As compared with January 1, 2017, the forex companies' assets went up by BYN4.3 million (2.6 times), own capital – BYN1.4 million (2.2 times), and liabilities – BYN2.9 million (2.9 times).

The amount of funds in foreign exchange invested by the clients of forex companies for the purpose of opening or maintaining their open position (the amount of marginal security) totaled USD2 million as at January 1, 2018. With a view to meeting their liabilities to clients on repaying marginal security in the unconditional manner, the forex companies, in line with legislation, build up and place secured capital, the amount of which totaled USD1 million as at

* With a view to cutting down the price of microloans granted by non-profit-making microfinance organizations and ensuring the greater degree of accessibility of monetary funds by the natural persons, whose activities involve development of entrepreneurship and business initiative and small and medium-sized business entities, Resolution of the Board of the National Bank of the Republic of Belarus No. 20 “On the Maximum Amount of Interest in Annual Terms (Annual Interest Rate) on Microloans” dated January 19, 2018 was approved. This Resolution provides for the maximum amount of the annual interest rate on the microloans granted by consumer cooperatives (the double amount of the National Bank's refinance rate set as of the day of entering into the microloan agreement) and funds (the amount of the National bank's refinance rate set as of the day of entering into the microloan agreement).

January 1, 2017, on current (settlement) bank accounts with a special functioning regime, which were opened with no less than two banks or non-bank financial institutions.

In 2017, the average number of clients of forex companies and Joint - Stock Company “Minsk Transit Bank” per quarter totaled 2,300. In 2017, the clients of forex companies and Joint - Stock Company “Minsk Transit Bank” initiated over one million transactions worth USD15.5 billion (having regard to the leverage). 70% of transactions brought about a positive financial result for clients.

In line with Edict of the President of the Republic of Belarus No. 231 “On Carrying Out Activities in the Over-the-counter Forex Market” dated June 4, 2015, the National Forex Center establishes a guarantee fund at the expense of forex companies’, banks’, and non-bank financial institutions’ contributions, for the purpose of discharging their obligations to clients involving repayment of marginal security. The functions of the National Forex Center are assigned to the JSC “Belarusian Currency and Stock Exchange”. As at January 1, 2017, the guarantee fund of the National Forex Center amounted to USD0.8 million.

1.3.3. Financial market

In 2017, the financial market was developing, on the whole, in line with the directions determined by the Strategy of Development of the Financial Market of the Republic of Belarus till 2020, approved by Resolution of the Council of Ministers and the National Bank of the Republic of Belarus No. 229/6 dated March 28, 2017. The financial market was transformed towards improvement of the level of its diversification and sustainability, including development of the non-bank sectors of the financial market and increase in their share in the financial sector’s assets.

1.3.3.1. Foreign exchange market

In 2017, the volume of the domestic foreign exchange market totaled USD62.8 billion, a decline by 10.4% versus the level of 2016. The stock market volume amounted to USD8.9 billion and the over-the-counter market volume stood at USD41.7 billion, having dropped over 2017 by 3.6% and 16.2% respectively. The cash foreign exchange market turnover totaled USD12.2 billion, having grown by 10.2% versus 2016.

In the year under review, resident economic entities sold foreign exchange worth USD18.2 billion, an increase by 12.6% (by USD2 billion) compared with 2016, and purchased foreign exchange in the amount of USD19.1 billion, an increase by 16.6% (by USD2.7 billion) compared with 2016 (Attachment 1.7).

As a result, net demand for foreign exchange by resident economic entities in 2017 stood at USD0.9 billion (in 2016, USD0.2 billion).

The average mandatory sale of foreign exchange in 2017 totaled USD0.175 billion.

Foreign exchange purchased by resident economic entities in the domestic foreign exchange market in 2017 was, mainly, used to repay credits (USD6.3 billion or 32.8% of the total volume purchased over the year), procure raw products and materials (USD3.1 billion or 16.1%), purchase equipment and components (USD2.3 billion or 12%), and foods and agricultural products (USD1.4 billion or 7.6%), fuel and power resources (USD1.2 billion or 6.4%), and consumer goods (USD1.1 billion or 5.8%). A total of 80.7% of the foreign exchange purchased by resident economic entities was used for the above-mentioned purposes.

In 2017, households were, mainly, net sellers of foreign exchange. Households sold over 2017 USD1.8 billion on a net basis (in 2016, USD1.9 billion). At that, net supply under operations involving foreign exchange in cash totaled USD2.2 billion; net demand under operations involving non-cash foreign exchange amounted to USD0.46 billion (Attachment 1.8).

The operations involving the US dollars dominated the Belarusian foreign exchange market (50.1%). The share of this currency in foreign exchange operations fell by 6.8 percentage points compared with 2016, with the share of euro decreasing from 23.9% to 23.8% and the share of the Russian ruble increasing to a significant degree from 18.8% to 25.7%. The volume of operations involving other foreign currencies remained insignificant (0.5%).

The official exchange rate of the Belarusian ruble dropped over 2017 versus the US dollar by 0.7% (up to BYN1.9727/USD1), the euro – by 15.2% (up to BYN2.3553/USD1), and the Russian ruble – by 5.7% (up to BYN3.4279/RUB100). In the year under review the price of the currency basket grew by 6%.

1.3.3.2. Interbank credit market

In the year under review the interbank credit market was affected by the stable surplus of the banking system's liquidity, that led to a decline in the banks' activities therein. The volume of operations carried out by banks in the interbank market dropped from BYN23 billion to BYN19 billion versus the previous year.

In 2017, unsecured interbank credits in the national currency continued to be one of the main instruments regulating banks' liquidity. Resident banks of the Republic of Belarus and non-resident banks, the share of transactions of which totaled 6.4% of the total volume of transactions, were involved in activities in this segment of the money market.

The structure of the interbank market changed compared with 2016 as to reduction in the terms of lending. Intraday interbank credits accounted in 2016 for 73%, while in 2017 such credits totaled 84% of the aggregate interbank market. At that, the share of transactions concluded for the term of 2-7 days dropped over the year from 26% to 15%.

At the same time, the banks continued in 2017 to attract/place resources in the national currency in the interbank market through repo transactions. In the year under review, the share of such operations in the total volume of the interbank market as to the balance of amounts owed grew up due to a decline in the volumes of unsecured market, amounting to 46.6% versus 29.5% a year earlier.

The interest rates in the intraday ruble interbank market were within the interest rate band formed by the standing facilities designed to regulate banks' liquidity and came close to its lower bound (Attachment 1.9).

1.3.3.3. Credit and deposit markets

The credit market. In 2017, banks provided loans to the economy, mainly, on the long-term basis. The share of such loans in the total amount of debt under credit totaled 73.5% as at January 1, 2018 (74.8% as at January 1, 2017).

Credits to the economic entities accounted for the major part of banks' credit portfolio in the year under review. As at January 1, 2018, the debt under such credits totaled BYN29,730.6 million, having increased over the year by BYN1,042.7 million, or by 3.6%.

In the structure of debt under credit by the types of economic activity the credits granted to the processing enterprises prevailed, the amount of debt of which totaled BYN16,344.4 million, or 55% of the total debt under credit. Debt under credits issued to the enterprises and organizations representing wholesale and retail trade, vehicles and motorcycles maintenance (BYN4,852.3 million, or 16.3%), agriculture, forestry and fishery (BYN2,322.5 million, or 7.8%), as well as other types of economic activities (BYN2,518.3, or 8.5%) remains high as well.

According to the information of banks and JSC "Development Bank of the Republic of Belarus" (hereinafter – the "Development Bank"), in 2017, within Resolution of the Council of Ministers of the Republic of Belarus No. 1102 "On Granting Credits Under Government Programs and Measures" dated December 29, 2016, credits worth BYN1,669.6 million were granted (by banks – worth BYN1,179.1 million and by the Development Bank – worth BYN490.5 million), or 87.9% of the amount of limits of directed lending approved for a year.

Debt under credits issued by banks and the Development Bank under government programs and measures following the decisions of the President

and the Council of Ministers of the Republic of Belarus totaled BYN16,081 million as at January 1, 2018, having dropped since the beginning of the year by BYN1,686.6 million, or by 9.5%, of which the debt under credits issued by banks amounted to BYN12,732.1 million (a drop by BYN1,500.5 million, or by 10.6%) and the debt under credits granted by the Development Bank totaled BYN3,348.9 million (a drop by BYN186.2 million, or by 5.3%).

As at January 1, 2018, the share of debt under credits granted by banks and the Development Bank under government programs and measures in the banks' and the Development Bank's claims on the economy stood at 35.5%, having dropped over 2017 by 6%.

In 2017, banks granted credits worth BYN500.2 million for house construction within implementation of Resolution of the Council of Ministers of the Republic of Belarus No. 1113 "On Measures on Fulfilling the Assignments for 2017 on Housing Construction, Volumes of Putting into Operation and Financing Housing Construction and Objects of Engineering and Transport Infrastructure in 2018" dated December 29, 2016. Soft credits were issued in the amount of BYN271.2 million, including credits granted at the rates reduced by 50% of the refinance rate of the National Bank for persons registered as being in need of improved housing conditions – worth BYN68.9 million. Credits granted under banks' terms and conditions stood at BYN229 million, of which for housing construction (reconstruction), the interest on and/or principal amount of which is paid by citizens at the expense of subsidies – worth BYN96.3 million.

Depository market. In 2017, funds attracted from natural persons (including bank deposits, bank deposits in precious metals, saving certificates and bonds) rose by BYN1,289.2 million, or by 6.2%, amounting as at January 1, 2018 to BYN22,017.3 million.

Funds attracted from natural persons in the national currency grew over the year by BYN1,009.6 million, or by 22.3%, amounting as at January 1, 2018 to BYN5,531.6 million; funds attracted in foreign exchange went up by BYN279.6 million in the equivalent, or by 1.7%, totaling BYN16,485.7 million in equivalent as at January 1, 2018.

Bank deposits were the most popular banking products with natural persons for placement of temporary free funds. They grew over the year under review by BYN1,030.1 million, or by 5.4%, amounting as at January 1, 2018 to BYN20,103.1 million (91.3% of the total volume of attracted natural persons' funds).

Despite the fact that foreign exchange component still dominated the structure of the natural persons' deposits, over 2017 the share of households' deposits in foreign exchange dropped from 76.3 to 72.5%, while the share of deposits in the national currency in the total volume of funds went up from 23.7% to 27.5%.

Natural persons' bank deposits* in the national currency grew over 2017 by BYN1,010.8 million, or by 22.4%, amounting as at January 1, 2018 to BYN5,530.9 million, of which bank time deposits and deposits in escrow went up by BYN390,2 million, or by 13.2%, amounting to BYN3,340.9 million.

Natural persons' bank deposits in foreign exchange (in dollar terms) decreased by USD43.7 million, or by 0.6%, amounting as at January 1, 2018 to USD7, 386.9 million. Time deposits and deposits in escrow dropped by USD309.3 million, or by 4.4%, amounting to USD6,689.6 million.

The bulk of bank deposits was placed with JSC "JSSB Belarusbank", JSC "Belagroprombank", "Belinvestbank" JSC, "Priorbank" JSC, BPS-Sberbank, and Bank BelVEB OJSC, the share of which in the natural persons' deposit market amounted as at January 1, 2018 to 85.2% of the total volume of deposits with banks, or BYN17,116.8 million.

In 2017, the legal persons' bank deposits grew by BYN3,731.6 million, or by 35.1%, amounting to BYN14,350.1 million as at January 1, 2018.

Legal persons' bank deposits in the national currency grew over 2017 by BYN1,480.1 million, or by 34.2%, amounting as at January 1, 2018 to BYN5,809.1 million.

Legal persons' deposits in foreign exchange (in dollar terms) grew by USD1,118.2 million, or by 34.8%, amounting as at January 1, 2018 to USD4,329.6 million.

Legal persons' time deposits and deposits in escrow in the national currency and foreign exchange (in ruble terms) amounted as at January 1, 2018 to BYN7,829.6 million, or 54.6% of the legal persons' total deposits.

An improvement in the structure of the banks' deposit portfolio was observed in 2017, which manifested itself in the increased share of the natural persons' irrevocable and long-term deposits.

Thus, the share of irrevocable deposits in the total volume of the natural and legal persons' deposits in the national currency went up from 26.9% in December 2016 to 45.1% in December 2017, of which the share of the natural persons' irrevocable deposits grew up from 32.9% to 52.4% and the share of the legal persons' deposits – from 19.4% to 36.4%.

The share of the long-term irrevocable deposits in the total volume of the natural and legal persons' deposits in Belarusian rubles went up from 19.9% in December 2016 to 38.4% in December 2017, of which the share of the natural persons' irrevocable deposits increased from 27.7% to 46.1%; the share of the legal persons' long-term irrevocable deposits – from 5.8% to 17.9%.

At the same time, an improvement in the banks' deposit portfolio in foreign exchange was observed.

* Here and hereinafter in subparagraph 1.3.3.3 of paragraph 1 of this Report the information on the natural persons' bank deposits is given based on the methodology of calculation of broad money supply.

Thus, the share of irrevocable deposits in the total volume of the natural and legal persons' deposits in foreign exchange went up from 26% in December 2016 to 37.3% in December 2017.

The share of the long-term irrevocable deposits in the total volume of the natural and legal persons' deposits in foreign exchange grew up from 19.3% in December 2016 to 38.9% in December 2017.

In 2017, the fundamental principles of the National Bank's interest rate policy – ensuring of the excess of the return on savings in the national currency over the return on savings in foreign exchange and ensuring of positive interest rates in the economy in real terms – remained in place. The National Bank also focused on the improvement of the structure and well-balancing of the deposit market, including an increase in the share of long-term deposits, primarily, on the long-term basis.

Implementation of the measures taken in 2017 in the field of the interest rate policy resulted in a significant decline in the level of interest rates on fresh credits and fresh natural and legal persons' deposits, which had been gradually declining over the whole period (Attachments 1.10 - 1.11). As a result, the rates on fresh banks' credits in Belarusian rubles fell to a record low. The interest rates on the households' deposits in the national currency continued to ensure the safety of savings and were more attractive compared with deposits in foreign exchange.

The interest rate on the natural persons' fresh time bank deposits in the national currency averaged 7.5% per annum in December 2017, having dropped by 6.8 percentage points versus December 2016. The interest rate on the natural persons' fresh time bank deposits in foreign exchange averaged 1.1% per annum, a drop by 1.2 percentage points compared with December 2016.

The interest rates on the legal persons' fresh time bank deposits in the national currency averaged 5.6% per annum in December 2017, having decreased by 3 percentage points versus December 2016. The interest rates on the legal persons' fresh time bank deposits in foreign exchange averaged 1.5% per annum, having dropped by 1 percentage point compared with December 2016.

The interest rate on fresh bank credits* in the national currency issued to legal persons averaged 11.4% per annum in December 2017, having dropped by 9.4 percentage points versus December 2016. The interest rate on fresh bank credits* issued to natural persons in the national currency averaged 11.1% per annum, having dropped by 8.3 percentage points versus December 2016.

The interest rate on fresh bank credits* in foreign exchange issued to legal persons averaged 5.7% per annum in December 2017, having dropped by 2.6 percentage points compared with December 2016.

* Excluding soft credits granted pursuant to decisions of the President and the Government of the Republic of Belarus at the expense of the republican and local government agencies.

1.3.3.4. Government securities market

With a view to refinancing the government debt and stabilizing financial and economic state of individual industrial enterprises, the Ministry of Finance** placed in 2017 in the domestic financial market:

- government bonds denominated in Belarusian rubles worth BYN200 million by means of sale to a legal person under agreement (1 issue); and

- government bonds denominated in foreign exchange worth USD449.9 million in equivalent, including by means of sale under agreements with legal persons worth USD128.6 million in equivalent (5 issues) and placement on the JSC “Belarusian Currency and Stock Exchange” worth USD321.3 million (7 issues).

In 2017 as a whole, an amount equivalent to BYN1,053.5 million was obtained by the budget due to placement of government bonds.

The portfolio of government securities placed in the domestic financial market declined over 2017 versus early 2017 by BYN1,058.6 million, or by 10.3%, totaling BYN9,175.6 million as at January 1, 2018, including:

- government long-term bonds denominated in the national currency – BYN1,604.5 million (the share in the total volume of government securities - 17.5%);

- government long-term bonds denominated in foreign exchange – BYN7,570.6 million (82.5%); and

- other government securities – BYN0.5 million (0.01%).

As at January 1, 2017, government long-term bonds accounted for 100% of the government securities portfolio.

In the structure of government securities, bonds with variable yield accounted for 44% and bonds with fixed interest yield – 56% (as at January 1, 2017, the share of government bonds with variable yield totaled 34.5%, with fixed yield – 65.5%).

In 2017, the volume of transactions involving placement of government bonds in the regulated market totaled BYN611,7 million in the equivalent, a drop by 43.9% versus 2016. 1,305 government bonds were placed in the regulated market (1,433 in 2016).

The number of transactions carried out in the course of circulation of government securities in the regulated market totaled BYN2,216.6 million in the equivalent, a 2.2 times decline compared with 2016. 1,460 transactions involving government bonds were carried out in the regulated market in the year under review (952 deals in 2016).

** This section was prepared with the use of the data of the Ministry of Finance.

In 2017, professional participants of the securities market registered 190 transactions involving purchase/sale of government bonds in the non-regulated market worth BYN429.5 million in the equivalent (a 2.7 times increase versus 2016).

1.3.3.5. Corporate securities market

The growing share of the corporate segment of the securities market became the trend of the securities market development in 2017. Thus, the volume of issue of shares and corporate bonds went up by 29.3%, amounting to BYN6,420.9 (in 2016, BYN4,965.4 million). The share of this segment in the total volume of the shares and bonds issue* in the year under review reached 71.4% (in 2016, 50.1%) (Attachment 1.12). The share of the corporate bonds market went up from 20.4% to 49.5%.

Growth of the corporate segment was caused by a 3.2 times increase in the volume of issue of banks' bonds and a 7.4 times increase in the volume of issue of the exchange-traded bonds by non-bank organizations.

In 2017, the volume of the issues of shares registered in the Government Securities Register totaled BYN1,968.9 million, dropping by 33% compared with 2016 (BYN2,939.3 million).

As at January 1, 2018, the total volume of listed issues of the operating issuers' shares amounted to BYN31,136.8 million, increasing by 6.8% over the year, with the ratio of the volume of shares in circulation to GDP (according to the preliminary data) totaling 29.6% (as at January 1, 2017, 30.9%).

In 2017, the National Bank agreed upon 45 issues of banks' bonds issued in line with sub-paragraph 1.8 of paragraph 1 of Edict of the President of the Republic of Belarus No. 277 "On Certain Issues of the Securities Market Regulation" dated April 28, 2006 worth BYN 2,021 million in the equivalent, an increase by BYN1,468.1 million, or 3.7 times, compared with 2016. At that, 16 issues of bonds denominated in the national currency worth BYN696 million, or 34.4% of the total volume of approved issue, were agreed upon.

Over the year under review, 342 issues of corporate bonds of 112 issuers worth BYN4,452 were registered. This volume of issue exceeds more than twice the volume of issue in 2016. The volume of bonds issued by banks in 2017 totaled BYN1,647.3 million, having grown more than three times compared with 2016. The share of banks' bonds in the total volume of issued corporate bonds went up from 25.7% in 2016 to 37% in 2017.

In 2017, the share of corporate bonds issued in foreign exchange dropped from 65.8% to 51.3%.

Thus, as at the beginning of 2018, 577 issues of corporate bonds of 181 issuers worth BYN13,206.2 million, or 12.6% of GDP, were in circulation (as

* Excluding the volume of issue of the National Bank's bonds.

at January 1, 2017, BYN13,072.1 million, or 13.9% of GDP).

The volume of corporate bonds issued in foreign exchange amounted as at January 1, 2018 to 49.8% of the total volume of corporate bonds in circulation (as at January 1, 2017, 50.1%). Despite a decline in the share of circulating corporate bonds denominated in foreign exchange, foreign exchange risk in the corporate securities market is still rather high.

In 2017, the volume of registered issues of housing bonds, which certify the contribution by their owners of definite amounts of funds for construction of a certain size of a total area of a housing accommodation, totaled BYN324.2 million, a 1.7 times increase versus 2016.

According to Edict of the President of the Republic of Belarus No. 537 “On Issuance of Bonds by Banks” dated August 28, 2006, banks were granted the right to issue bonds secured by the right to claim the repayment of the principal amount of debt and payment of interest under the credits issued thereby for construction, reconstruction, or acquisition of housing against security of real estate (mortgage bonds). In 2017 as in 2016, mortgage bonds were not registered. The total volume of mortgage bonds issues circulating as at January 1, 2018 amounted to BYN210 million.

In the year under review, 78 issues of bonds of local executive and administrative authorities of 34 issuers worth BYN1,512.4 million in the equivalent were registered, exceeding by 34.6% the volume of issue in 2016. At that, bonds denominated in foreign exchange accounted for 52.7% of issue.

As at January 1, 2018, bonds of local executive and administrative authorities worth BYN2,855.6 million were in circulation, a 50.3% increase over the year.

As at January 1, 2018, 62 professional participants were acting in the securities market, including 24 banks, one non-bank financial institution, the National Bank, and the Development Bank, of which there were 59 brokers, 59 dealers, 32 participants involved in depository activities, 20 participants – in securities trust management, one participant – in the activities on organizing securities trading, and one – in clearing activities.

In 2017, corporate bonds worth BYN485.4 million were placed on the floor of the JSC “Belarusian Currency and Stock Exchange”, a 2.4 times increase compared with 2016. 2,200 deals involving placement of banks’ and enterprises’ bonds were registered in the regulated market in the year under review (in 2016 – 269 deals).

In 2017 as in a previous year, there were no deals involving placement of shares in the regulated market.

The weighted average yield in the primary market stood at:

- on banks’ bonds denominated in Belarusian rubles – 9.9% per annum (in 2016, 18.3% per annum);

- on banks’ bonds denominated in the US dollars – 4.3% per annum (in 2016, 4.9% per annum);

- on other legal persons' bonds denominated in Belarusian rubles – 15.3% per annum (in 2016, 20.2% per annum); and

- on other legal persons' bonds denominated in the US dollars – 8.7% per annum (in 2016, 11.6% per annum).

In 2017, the total volume of the secondary trading in corporate securities in the regulated market totaled BYN1,748.1 million, declining by 25.9% compared with 2016, including in shares – BYN84.2 million (BYN50.3 million in 2016); in corporate bonds – BYN1,663.9 million (BYN2,309.1 million in 2016).

In 2017, transactions involving circulation of corporate bonds in the regulated market stood at 24.5% of the total amount of trades in the secondary stock market (in 2016, 27.7%).

The weighted average yield in the secondary market stood at:

- on banks' bonds denominated in Belarusian rubles – 12.7% per annum (in 2016, 21.2% per annum);

- on banks' bonds denominated in the US dollars – 0.1 % per annum (in 2016, 12.2% per annum);

- on other legal persons' bonds denominated in Belarusian rubles – 24.1% per annum (in 2016, 33.3% per annum); and

- on other legal persons' bonds denominated in the US dollars – 5.5% per annum (in 2016, the transactions were carried out at par value).

In 2017, transactions worth BYN8,002.3 million were registered in the non-regulated market (in 2016, BYN9,352.3 million), including purchase/sale transactions involving securities worth BYN6,834.6 million (in 2016, BYN7,752.6 million). The share of purchase/sale transactions involving corporate bonds in the total volume of purchase/sale transactions involving securities in the non-regulated market stood at 81.4%.

1.3.3.6. Trust management carried out by banks

Being professional participants of the securities market the Belarusian banks are entitled to carry out trust management of monetary funds as well as securities.

In 2017, seven banks worked as trust managers: Alfa-Bank, “Priorbank” JSC, BPS-Sberbank, JSC “JSSB Belarusbank”, JSC “Belagroprombank”, Bank BelVEB OJSC, and Belgazprombank, which started to provide the functions involving trust management at the end of 2017.

The volume of monetary funds and securities held by banks in trust management grew over 2017 by 29.3%, amounting as at January 1, 2018 to BYN553.2 million (as at January 1, 2017 – BYN427.8 million).

Securities placed in trust management are represented by:

- the shares of profit-making organizations being property of government employees and placed thereby in trust management of JSC “JSSB Belarusbank” for the time of government service in line with Article 20 of the

Law of the Republic of Belarus “On Combating Corruption” dated July 15, 2015; and

- the shares of the JSC “Asset Management Agency” placed in trust management of JSC “Belagroprombank” in December 2016 on the basis of Edict of the President of the Republic of Belarus No. 268 “On Establishment and Activities of the JSC “Asset Management Agency”” dated July 14, 2016.

As at January 1, 2018, securities worth BYN446.5 million were placed in trust management.

Monetary funds placed by obligees in trust management, including bank management funds, grew over 2017 almost twice, amounting as at January 1, 2018 to BYN92.2 million.

The structure of investment of monetary funds placed in trust management did not undergo any changes over the year under review: investment in securities accounted for its major part (98.5% as at January 1, 2018).

As at January 1, 2018, two bank management funds of the trust manager “Priorbank” JSC (“Raiffeisen - Assets Portfolio - USD” and “Raiffeisen - Assets Portfolio - EUR”) were in operation. The value of the funds’ net assets totaled USD603.2 thousand and EUR630.2 thousand (as at January 1, 2017 – USD902.6 thousand and EUR817.3 thousand).

153 natural persons, including one non-resident, were obligees of the above-mentioned funds as at January 1, 2018 (201 natural persons, including three non-residents, as at January 1, 2017).

In 2017, the level of yield of the bank management funds’ was positive (“Raiffeisen - Assets Portfolio - USD – 4.948% per annum” and “Raiffeisen - Assets Portfolio - EUR” – 3.314% per annum).

1.3.3.7. The National Bank’s securities market

In 2017, the National Bank placed bonds denominated in Belarusian rubles worth BYN42,661.5 million at placement value, or worth BYN42,852.8 million at face value, with BYN44,091.8 being repaid at face value. As at January 1, 2018, the volume of the circulating National Bank’s bonds denominated in Belarusian rubles totaled BYN577.7 million at face value, being 3.1 times lower than the volume of the National Bank’s bonds denominated in Belarusian rubles circulating as at January 1, 2017.

In 2017, the National Bank also placed bonds denominated in hard currency:

- in the US dollars – worth USD1,457.1 million at actual value, or worth USD1,527.9 million at face value, with USD1,701.3 million being repaid at face value. As at January 1, 2018, the volume of circulating bonds denominated in the USD dollars totaled USD1,527.9 million, being by 10.2% lower than the level of January 1, 2017; and

- in euro – worth EUR25 million at placement value, or worth EUR25.6 million at face value, with EUR376.2 million being repaid at face value. As at January 1, 2018, the volume of circulating bonds denominated in euro totaled EUR429.4 million, being by 44.9% lower than the level of January 1, 2017.

The volume of banks' investments in debt and equity instruments of the securities market totaled BYN13,675.6 million*, of which the National Bank's securities accounted for BYN3,133 million, or 22.9%, including bonds denominated in hard currency worth BYN2,569 million, or 82%.

In 2017, 1,713 transactions worth BYN2,152.6 million in the equivalent were carried out with the National Bank's bonds in the secondary regulated securities market on the floor of the JSC "Belarusian Currency and Stock Exchange", an increase by BYN1,177.9 million (2.2 times) versus 2016. The share of repo transactions in the total volume of the secondary regulated (stock exchange) market of the National Bank's bonds totaled 51%, or 1,176 transactions worth BYN1,098.2 million in the equivalent.

1,603 transactions worth BYN1,756.9 million in equivalent were carried out with the National Bank's bonds denominated in hard currency, an increase by BYN815.1 million in equivalent compared with 2016.

110 transactions worth 395.8 million were carried out with the National Bank's bonds denominated in Belarusian rubles, an increase by 362.9 million compared with 2016.

In 2016, the volume of registered purchase/sale deals involving transactions with the National Bank's bonds denominated in hard currency totaled BYN160.1 million in equivalent in the over-the-counter market (in 2015, no deals involving these bonds were registered).**

Chapter 2

National Bank's activities

In 2017, the National Bank's activities were aimed at maintaining price stability and ensuring secure, sustainable and efficient functioning of the banking sector. The work on developing the financial market and payment system, liberalization of the foreign exchange relations, strengthening confidence in the national monetary unit and decreasing dollarization of the economy continued.

* According to the data of banks' balance-sheets, excluding the incomes planned to be received in the form of interest.

** Transactions involving the National Bank's bonds denominated in Belarusian rubles were carried out on the floor of the JSC "Belarusian Currency and Stock Exchange" only.

2.1. Monetary policy

2.1.1. Monetary policy target

In 2017, the monetary policy preserved the main targets and was conducive to ensuring sustainable and well-balanced development of the economy by means of maintaining price stability.

Curbing inflation, measured by the Consumer Price Index, down to 9% was the major monetary policy target in 2017. In the year under review the level of inflation was below the forecasted indicator. According to the National Statistical Committee's data, **the consumer prices grew** in 2017 by 4.6% (December-on-December), in 2016 by 10.6% (Attachment 2.1).

Consumer prices and tariffs grew to the utmost in the sphere of services (by 9.5%) (in 2016, by 17.6%). In the goods market the prices for food products and non-foods grew by 4.2% and 2% respectively (in 2016, by 10.4% and 6.8% respectively).

The core inflation went down from 10% in 2016 to 2.5% in 2017 and, according to the National Bank's estimates, led to the increase in the consumer prices by 1.8 percentage points (the share of this indicator totaled 39.9 % in 2017 against 72.4 % in 2016).

According to estimates, regulated prices and tariffs grew over 2017 by 8.1% compared with 15.4% in 2016, contributing to the growth in the consolidated consumer price index by 1.9 percentage points (the share of this indicator was 41.3% against 29.4% in 2016).

The prices for fruit and vegetable products in the year under review grew by 19% (in 2016 dropped by 3.1%), ensuring the growth in the aggregate consumer price index by 0.9 percentage points (the share of this factor amounted to 18.7% against minus 1.8% in 2016).

The inflationary processes slowed down in 2017 due to the following factors:

- maintenance of moderately tough monetary conditions being conducive to restraining the money supply growth rates;
- dynamics of the Belarusian ruble exchange rate against the foreign currencies (due to the favourable situation in the external markets); and
- moderate growth rates of the administratively regulated prices and tariffs.

The following factors made, in their turn, the upward pressure on the consumer prices growth:

- dynamics of prices for fruit and vegetable products as a result of unfavourable weather conditions at the beginning of 2017; and
- high inflationary expectations of the economic entities.

Industrial producers' prices rose in 2017 by 11.2% compared with

8.9% in 2016, with prices for investment goods increasing by 8.1%, for intermediate goods – by 14.8%, and for consumer goods – by 4.6%.

2.1.2. Monetary policy implementation

In the year under review, the monetary policy was still implemented in the monetary targeting regime, where control over the monetary supply is the main instrument of achieving the ultimate target on curbing inflation. The increase in the broad money supply, being an indicator which is closely connected to the dynamics of prices, was defined as an intermediate target; the level of the ruble money base – as the transactional one.

At the end of 2017, the increase in the average broad money supply totaled 15.3% (December-to-December), with the forecast being 12-16%.

The exchange rate policy was conducted in the exchange rate managed floating regime. The National Bank carried out foreign exchange interventions in order to smooth peak fluctuations of the currency basket value in the volumes ensuring positive balance of the foreign exchange purchase and sale.

The National Bank influenced the short-term money market, mainly, by means of changing the volumes of its transactions aimed at regulating the banks' liquidity.

In 2017, under the conditions of considerable liquidity surplus, the National Bank conducted solely the transactions designed to withdraw liquidity, with the auctions involving the National Bank's ruble bonds allocation accounting for the major share.

In addition to the regular transactions for the term of seven days in accordance with the schedule of the main transactions, the auctions on allocation of the National Bank's ruble bonds for the period of fulfillment of the reserve requirements (28 and 35 days) were carried out. Since 2017 Q2, the schedule had been modified to include the monthly auctions for the term of 91 days.

In 2017, the average daily balance of debt under the liquidity withdrawal transactions totaled BYN1,990 million (in 2016 – BYN962.5 million).

In the period under review, the National Bank conducted the policy aimed at decreasing the rates on the transactions designed to regulate liquidity, as well as shrinking the interest rates band, determined by the rates on standing transactions.

In December 2017, the average interest rate on the overnight interbank credits totaled 9.7% per annum, having decreased by 0.8 percentage points compared with December 2016.

In 2017, the refinance rate was gradually decreased from 18% to 11% per annum, the rate on standing transactions designed to provide liquidity (upper limit of the interest rates band) – from 23% to 12% per annum, the rate on

standing transactions designed to withdraw liquidity (the lower limit of the interest rates band) – from 11% to 8% per annum.

With the purpose of increasing the attractiveness of savings in Belarusian rubles and decreasing the level of dollarization of the economy the approaches to provisioning by banks were changed. In 2017, the ratio of required reserves in respect of attracted funds in the Belarusian rubles was decreased from 7.5% to 4%; from the attracted funds in foreign exchange was gradually increased from 7.5% to 17%.

2.1.3.Key monetary indicators

As at January 1, 2018, the broad money supply (M3) amounted to BYN39.8 billion, having increased by BYN5.9 billion, or by 17.4% over 2017. As at January 1, 2018, foreign exchange component of the broad money supply in the dollar equivalent totaled BYN13.1 billion, having increased by BYN1.3 billion, or by 10.7% (Attachment 2.2).

The share of foreign exchange constituent in the broad money supply decreased, and as at January 1, 2018, amounted to 64.7% (as at January 1, 2017 – 68.2%).

As at January 1, 2018, the ruble money supply (M2*) totaled BYN14.1 billion, having increased over the year by BYN3.3 billion, or by 30.2%. Among the main constituents of the ruble money supply (M2*) transferrable deposits grew at the utmost – by BYN1.4 billion, or by 40.3%. The share of transferable deposits in the structure of the ruble money supply (M2) amounted to 35.2%* as at the given date, having increased by 2.5 percentage points over the year under review.

Over 2017, the ruble money base increased by BYN2.7 billion. The main factors of growth were the increase in the net ruble claims of the National Bank on banks by BYN1.6 billion (mainly, as a result of replacing the short-term instruments of excessive liquidity withdrawal at banks by the extra contributions to the required reserves fund) and foreign exchange transactions of the National Bank in the amount of BYN1.6 billion. A decrease in the net ruble claims of the National Bank on the Government of the Republic of Belarus by BYN0.7 billion contributed to the shrinkage of the ruble money base.

As of January 1, 2018, international reserve assets amounted to USD7.3 billion (2.4 months of the goods and services import), a USD2.4 billion increase in the year under review.

The growth in international reserve assets was due to:

- receipts worth USD1.9 billion from export duties for oil and oil products, other taxes and other net revenues in foreign exchange to the accounts of the Ministry of Finance;

- receipts worth USD1.5 billion from the sale of bonds in foreign exchange by the National Bank;
- sale of eurobonds worth USD1.4billion;
- positive balance of foreign exchange sale and purchase by the National Bank on the floor of the JSC “Belarusian Currency and Stock Exchange” totaling USD 0.8 billion;
- receipt of trenches of the Eurasian Fund for Stabilization and Development in the amount of USD0.8 billion;
- receipt of the credit from the Government of the Russian Federation in the amount of USD0.7 billion;
- issue by the Ministry of Finance of the Government securities worth USD0.4 billion in the domestic market; and
- increase in the price of monetary gold in the amount of USD0.2 billion.

In 2017, the Government and the National Bank of the Republic of Belarus repaid the external and domestic obligations in foreign exchange worth USD5.9 billion. Over the year, foreign exchange obligations of the National Bank decreased by USD0.9 billion.

2.2. Supervision of banks’ activities

2.2.1. Streamlining regulatory legal framework for banking supervision

In 2017, the work was going on to streamline regulatory legal framework governing banking supervision and bring it into line with international standards having regard to the experience of practical application (Attachment 2.3).

With a view to implementing new capital, leverage and liquidity Basel III international standards as prudential requirements for the banks of the Republic of Belarus, Resolution of the Board of the National Bank of the Republic of Belarus No.180 “On Approval of the Instructions on the Procedures for Determining Systemically Important Banks and Non-bank Financial Institutions and Amending and Modifying Certain Regulatory Legal Acts of the National Bank of the Republic of Belarus” dated May 18, 2017 (came into force on January 1, 2018) defined the liquidity indicators as secure functioning requirements and set the minimum values of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) in the amount of 100%, as well as requirements to submission of the reports on meeting them and analytical information on the instruments of the liquidity risk monitoring.

In addition to the Basel standard of calculating the LCR in foreign exchange with a breakdown by core foreign currencies, the requirement to calculate this indicator in aggregate by all types of foreign currencies was

established with a view to streamlining the foreign exchange liquidity management.

According to the above-mentioned Resolution, the NSFR reflecting the availability of funding in the middle-term and long-term perspective, was set as the secure functioning requirement for the JSC “Development Bank of the Republic of Belarus”, that corresponds to the specific nature of its activities.

Besides, this Resolution set the countercyclical buffer and the buffer of systemic significance that serve as a supplement to the value of the bank’s Tier 1 capital adequacy ratio, as well as the procedures for classifying banks as the systemically important ones in order to take measures designed to limit their risks, the growth of which may hamper the sustainable functioning of the banking sector. At that, the value of the countercyclical capital buffer is envisaged within the range of 0-2.5 percentage points.

The National Bank’s decision on the assignment of banks and non-bank financial institutions to the systemically important ones is based on the annual assessment involving four indicators in the aggregate (the scale of the bank’s activities, interconnection of a bank with resident banks, importance of a bank for the economy, and interconnection of a bank with non-residents). When a bank is defined as a systemically important one, depending on the assessment results, it is assigned to Group I or Group II with further application of the buffer of systemic importance in the amount of 1.5 or 1 percentage points respectively.

At the same time, the National Bank established the procedures for the mandatory application of sanctions in the form of prohibition to pay dividends to the bank’s shareholders until a violation is remedied in case the banks, non-bank financial institutions, and the JSC “Development Bank of the Republic of Belarus” do not comply with the prescribed regulatory capital adequacy ratios, the amount of which is calculated with account of the conservation buffer, and (or) the countercyclical buffer, and (or) the systemic significance buffer.

The number of measures on limiting the foreign exchange and credit risks was taken.

With the aim of stimulating the decrease in the foreign exchange component in the assets of the Belarusian banks and foreign exchange risk assumed thereby, as well as the consecutive implementation of the IMF’s recommendations based on the results of the FSAP in the Republic of Belarus, the approaches to the assessment of the foreign exchange revenues adequacy were adjusted for the purpose of timely and full repayment of debt in foreign exchange.

With the purpose of creating special provisions, such revenues are recognized as adequate in case a debtor has a sufficient incoming monetary flow in foreign exchange coinciding with the currency of the debt, and (or) in the freely convertible currency reduced by the outgoing monetary flow in any foreign currency in the corresponding period. At the same time, with the aim of

ensuring a greater degree of flexibility of approaches to the assessment of risks by banks with a view to further streamlining supervisory procedures and introducing the risk-oriented supervision, the abandonment of strict regulation of the specific list of indicators characterizing the debtors' economic activities, and eased control over banks in assessing risks, were envisaged.

With a view to further streamlining the approaches to the establishment of special reserves and implementing the IMF's recommendations based on the results of the FSAP in the Republic of Belarus in a consecutive manner, significant changes were made in the approaches to establishing the source of credit risk and its assessment, classification of debt under the groups of risk, as well as the concept of the restructured debt and approaches to its classification and composition of the non-performing assets were defined.

When calculating the adequacy of the bank's regulatory capital, an increased risk of debt under credit and securities of systemically important borrowers (legal persons – the largest debtors of the Belarusian banks, excluding the general government, the National Bank, banks, non-bank financial institutions, and the JSC “Development Bank of the Republic of Belarus”), which are assigned to credit risk group VIII with a risk level of 150%, was envisaged.

Within the framework of restructuring the bad debt and reducing the debt burden of the real sector of the economy, the limit values of participation ratios in the authorized fund of one commercial organization and the total value of the bank's participation in the authorized funds of commercial organizations, the core activity of which is not a banking and/or financial one, were increased from 5% to 10% and 25% of the regulatory capital of a bank and a non-bank financial institution, respectively. The ratio of the natural persons' attracted funds and the bank's assets with limited risk was excluded from the list of secure functioning requirements due to the lack of the need for its further application.

In 2017, implementation of the international standards in the sphere of corporate governance, organization of the risk management and internal control systems continued; minimum requirements to the organization of the remuneration and compensation at banks, the JSC “Development Bank of the Republic of Belarus” and non-bank financial organizations were established.

The National Bank provided recommendations on improvement of the reports on risks, management of the interest risk of the banking portfolio, external and internal audit, activities of the audit committees at banks, and their interaction with the supervisory bodies, based on the international standards of the Basel Committee on Banking Supervision and best foreign practice.

The second stage of the diagnostic research initiated by the National Bank and aimed at reviewing assets quality of 15 banks, that did not participated in the first stage of the diagnostic research in 2016, was carried out. Taking into account the results of the research and the aggregate share of the banks' assets

involved in the procedure, the adjustments made as a result of the assets quality review did not influence the banking sector sustainability in a significant manner.

In 2017, as part of endeavors to improve the system of combating money laundering, terrorism financing, and financing the proliferation of weapons of mass destruction, the work on the implementation of FATF international standards* in the legislation of the Republic of Belarus was continued. Resolution of the Board of the National Bank of the Republic of Belarus No. 24 “On Establishing Requirements on Providing Reporting 1050 “On Financial Transactions Subject to Special Control”” dated January 18, 2017 and approving the Instructions on the procedures of compiling and submitting reporting 1050 “On Financial Transactions Subject to Special Control” set requirements for banks, non-bank financial institutions, and the JSC “Development Bank of the Republic of Belarus” as to submitting reporting 1050 “On Financial Transactions Subject to Special Control”.

The reporting is used for carrying out the off-site control over the activities of banks in terms of complying with the legislation on combating money laundering, terrorism financing and financing the proliferation of weapons of mass destruction, analyzing the banks’ involvement in the conduct of suspicious financial operations, and selecting an object for the on-site inspection.

2.2.2. Off-site supervision

In 2017, within the framework of the off-site supervision of banks (bank holding companies), non-bank financial institutions and the JSC “Development Bank of the Republic of Belarus” (hereinafter for the purposes of this section – the “banks”), the activities of the National Bank were aimed at ensuring their stable and safe functioning, protecting the interests of their depositors and other creditors, including by means of taking the timely supervisory response measures, minimizing the risks accepted by banks, increasing the effectiveness of their activities, as well as preventing bankruptcy of the banking sector’s participants.

During 2017, control over banks’ compliance with the secure functioning and other prudential requirements was ensured and assessment of banks’ financial sustainability was conducted on a permanent basis. Measures aimed at decreasing the bad assets and increasing the share of coverage of assets exposed to the credit risk by special provisions were taken with respect to separate banks.

* FATF (The Financial Action Task Force) is an inter-governmental body establishing the standards and developing the policy in the sphere of combating money laundering and terrorism financing.

The work aimed at increasing banks' capitalization, improving corporate governance and preventing performance of non-core activities thereby from happening, decreasing the share of bad assets, relieving the liquidity deficit, as well as tackling other issues stemming from their activities, was carried out to prevent negative tendencies and eliminate or prevent the situations threatening the interests of depositors and other creditors. In separate cases, the supervisory response measures were taken with respect to banks on the basis of a motivated judgment.

Within the framework of developing risk-oriented methods of banking supervision, attention was paid to the issues of the efficient risks management, primarily, of the credit, foreign exchange and liquidity risks, prospects for further functioning of banks, as well as revealing problems at banks at early stages of their occurrence, including with the use of the integral indicators of the level of major bank risks in relation to banks (the maps of risks).

The National Bank continued to consider strategic plans of banks' development in order to assess their ability to ensure financial reliability and sustainability in the long-term perspective.

The National Bank issued permissions to banks to participate in the authorized funds of other legal persons, having regard to the assessment of effectiveness and expediency of such investments.

As a result of audits of banks, control over the completeness and timeliness of fulfilling the National Bank's instructions and recommendations by banks was carried out.

In the year under review, meetings with the heads of liquidation commissions of the banks undergoing liquidation were organized for discussion of urgent issues arising in the process of banks' liquidation. In 2017, the CJSC "InterPayBank" was excluded from the Single State Register of Legal Persons and Independent Entrepreneurs due to accomplishment of the liquidation procedures.

The National Bank continued to constructively cooperate with international financial institutions, the Association of Belarusian Banks, and supervisory bodies of other countries.

With the purpose of improving the quality of auditing, meetings with the organizations performing external audit at banks were carried out, in the course of which the urgent issues of banks' activities and interaction of audit organizations with banks and the National Bank were discussed.

2.2.3. Audits of banks

In 2017, the National Bank conducted 19 audits of the Belarusian banks, of which 11 audits were scheduled, including 5 full-scope and 6 limited-scope audits. Non-scheduled audits were conducted on the initiative of the National

Bank (2 audits) and under orders from law enforcement authorities and courts (6 audits).

The following banks were audited: JSC “Absolutbank”, Reshenie Bank Joint-Stock Company, CJSC “BIT-Bank”, JSC “BSB Bank”, CJSC “BTA Bank”, JSC “MTBank”, TC BANK JSC, JSC “Development Bank of the Republic of Belarus”, JSC “Belagroprombank”, Belorussian–Russian Belgazprombank Joint Stock, “Belinvestbank” JSC, Open Joint Stock Company “BPS-Sberbank”, JSC “Technobank”, Fransabank OJSC, and “Priorbank” JSC.

The supervisory audits at banks were aimed at identifying and assessing risks in a timely manner, establishing their real financial state directly on-site, and revealing situations threatening the interests of creditors and depositors.

In the course of audit, particular emphasis was placed on the quality of banks’ assets, compliance of the amount of established reserves with the level of risks being taken, and the efficiency of functioning of the corporate management, internal control and risk management systems.

During the audit of the operational risk, the main attention was given to the issues of the quality of management of the IT risk, as well as the risks related to personnel and processes.

Based on the results of the performed audits, the instructions to remedy identified violations and prevent them from happening in the future were directed to the banks, as well as the recommendations on the actions to be taken to prevent emergence of conditions conducive to committing violations, and (or) creating the situation threatening secure functioning of a bank, interests of its depositors and other creditors or stability of the banking system.

One of the audits resulted in the application of the enforcement measure in the form of revocation of the special permit (license) to engage in banking activities as it pertains to carrying out separate bank operations.

2.3. Control of leasing and microfinance organizations’ activities and activities in the over-the-counter Forex market

2.3.1. Off-site control

In 2017, the National Bank implemented off-site control over the timeliness and urgency of the reports submitted by leasing and microfinance organizations, as well as the reports related to the activities in the OTC Forex market, compliance with the financial regulations and requirements applied to the consumer cooperatives and Forex companies, and authenticity of data provided by the microfinance organizations to the Credit Register.

In 2017, the National Bank monitored on a permanent basis the official sites of the leasing and microfinance organizations and forex companies in the

Internet for the purpose of checking the availability of information specified by legislation, as well as monitored the Internet with respect to availability of the undue advertisement of the economic entities that are not included in the corresponding registers of the National Bank.

As a result of such work and on the initiative of the National Bank, the authorized bodies took decisions on initiation of administrative proceedings against the persons distributing undue advertisement, as well as on the limitation of access to the corresponding web-sites (in the year under review, the access to more than 30 websites was limited).

The control over the timeliness and authenticity of the information submitted for inclusion into the registers of leasing and microfinance organizations and forex companies was carried out.

In the course of consideration of citizens' appeals, the measures designed to protect the financial services consumers' rights and satisfy the well-reasoned complaints of the citizens were taken.

In case of reveal of violations in the activities of leasing and microfinance organizations, as well as legislation regulating the order and conditions of carrying out operations with the non-deliverable financial instruments (activities in the OTC Forex market) initiated by natural and legal persons, corresponding warnings were sent, and administrative sanctions were imposed against those responsible for the violations.

2.3.2. Audits of leasing and microfinance organizations

In 2017, the National Bank conducted 26 scheduled audits of economic entities, including 9 audits of leasing organizations and 17 audits of microfinance organizations within the framework of exercising control over leasing and microfinance organizations' compliance with legislation. A non-scheduled audit was conducted with respect to one economic entity involved in lombard activities.

As at January 1, 2018, 103 leasing organizations and 121 microfinance organizations carried out economic activities.

In the course of audits, the main emphasis was given to the leasing and microfinance organizations' compliance with the requirements of legislation regulating leasing and microfinance activities.

2.4. Regulation of credit and deposit operations and non-cash settlements

In 2017, with a view to increasing sustainability of the banking sector and developing it, regulation of banking operations was further improved.

2.4.1. Improvement of regulatory legal acts governing credit and deposit operations

In 2017, improvement of regulatory legal acts governing credit and deposit operations was continued.

With the aim of protecting the rights of consumers of financial services provided by banks while carrying out banking operations, the National Bank updated and sent to banks the recommendations on increasing the quality of banking retail services and improving the work of banks involving submission of information when lending to natural persons and attracting funds of natural persons in bank deposits.

The draft law envisaging a comprehensive adjustment of the Banking Code of the Republic of Belarus, which includes, inter alia, bringing it into line with Decree of the President of the Republic of Belarus No. 7 “On Attracting Monetary Funds in Deposits” dated November 11, 2015 and Edict of the President of the Republic of Belarus No. 471 “On the Issues of Financing Against the Assignment of a Monetary Claim (Factoring)” dated November 23, 2015, was prepared.

Considerable attention in the above-mentioned draft law was given to the issues of protection of the banking services consumers’ rights. In particular, the order of setting the amount of interest on loans and deposits and approaches to their accrual, as well as the order of priority of debt repayment under credit contracts, and priority of satisfying the depositors’ and other creditors’ claims, are specified.

In 2017, the information placed on the banks’ websites, which is obtained from the call-centers, during the visits to (checks of) the banking products sales points, as well as in the course of consideration of the natural and legal persons’ appeals, was monitored in order to ensure transparency and improve the quality of the banking services provided to households in the course of lending and attracting monetary funds into deposits.

On May 1, 2017, Resolution of the Board of the National Bank of the Republic of Belarus No. 253 “On Some Issues of Granting Loans to Natural Persons and Financing Against the Assignment of a Monetary Claim (Factoring)” dated April 18, 2014, which provided for the obligation of the applying borrower to present a certificate confirming the receipt of income to the bank, ceased to be effective. Taking into account the need to ensure more flexible approaches to the assessment of the natural persons’ solvency and create conditions for development of modern banking services with the use of remote channels of banking service, the validity of the above-mentioned Resolution was not extended.

311 drafts of the regulatory legal acts covering the issues of granting loans to the economic entities, extending terms of their repayment, attracting

funds of the international financial organizations with a view to implementing investment projects, as well as determining the measures of government support and ways of ensuring repayment of obligations under loan agreements, were submitted to the National Bank for consideration thereby.

In concert with the regional executive committees, the National Bank continued to define more exactly the provisions of drafts of the regulatory legal acts focused on financial recovery and improvement of efficiency of the agricultural enterprises in the Brest, Gomel, Grodno and Mogilev regions.

The National Bank participated in the development of the Edict of the President of the Republic of Belarus No. 155 “On The Joint Stock Companies “Belagroprombank” and “Asset Management Agency”” dated May 11, 2017, providing for the creation of conditions for sustainable functioning of these economic entities. This decision of the Head of the state defined approaches to participation of the JSC “Belagroprombank” in lending within the number of events carried out as part of the current activities of the agricultural companies, as well as the mechanism of transfer to the JSC “Asset Management Agency” of agricultural enterprises’ debt to other banks (excluding the JSC “Belagroprombank”) and the JSC “Development Bank of the Republic of Belarus”, which made it possible to continue formation and approval of the lists of transferred assets.

2.4.2. Streamlining regulation of non-cash settlements

In 2017, the work was going on to streamline the regulatory legal acts, governing the execution of non-cash settlements (Attachment 2.4).

The Register of Bank Guarantees was established with a view to providing conditions for secure work of the economic entities with bank guarantees, excluding frauds in this sphere on the part of the unreliable participants, protecting investors’ interests while taking decisions on the transaction with account of legitimacy of security provided thereunder, as well as easing the procedure of issuing bank guarantees. With a view to defining the order of its formation and maintenance, Resolution of the Board of the National Bank of the Republic of Belarus No. 12 “On Approval of the Instructions on the Procedures of Formation and Maintenance of the Register of Bank Guarantees” dated January 11, 2017 was adopted. Since July 2017, the Register of Bank Guarantees has been functioning with the use of the blockchain technology, which makes it possible to include therein not only the information on bank guarantees, but also the bank guarantees themselves.

As part of the Eurasian Economic Commission’ work on modifying the Treaty on the Eurasian Economic Union (EEU), the National Bank made suggestions as to revealing and eliminating barriers, withdrawals and limitations in the EEU domestic market with regard to recognition of bank

guarantees, placed in the national registers for participation in the procedures of state (municipal) procurements implemented by the EEU member – states.

For the purpose of implementing the national policy on digitalization of the economy and extending the use of electronic messages in settlements, Resolution of the Board of the National Bank of the Republic of Belarus No. 73 “On Amending and Modifying the Instructions on Bank Remittance” dated February 21, 2017 was adopted, which provides for the annulment of settlement documents in hard copies.

With the purpose of switching to the standard ISO 20022 “Financial Services - Universal financial industry message scheme” (hereinafter – the “ISO 20022 methodology”) and implementing it in the payment system of the Republic of Belarus, the Board of the National Bank of the Republic of Belarus adopted Resolution No. 195 “On the Peculiarities of Banks’ and Non-bank Financial Institutions’ Work with the Settlement and Other Documents in Connection with Switching to New Account Numbers and New Bank Identification Codes” dated May 24, 2017, which provides for the organization of banks’ work and provision of information to customers during the period of switching to new account numbers and new bank identification codes.

In order to fulfil the enforcement authorities’ payment orders in a timely manner and reduce the risks of increase in tax due, the draft Edict of the President of the Republic of Belarus “On Streamlining Non-Cash Settlements” was developed and submitted to the Council of Ministers for consideration thereby.

A new type of the banking remittance (settlements by means of direct debiting of an account) and a new instrument of settlements (bank payment obligation) were enshrined in the Draft Law of the Republic of Belarus “On Amending and Modifying the Banking Code of the Republic of Belarus” (adopted in the first reading by the Chamber of Representatives of the National Assembly of the Republic of Belarus on November 9, 2017).

2.5. Formation of credit histories and provision of credit reports

In 2017, the National Bank continued to form credit histories of natural and legal persons and provide the users of credit histories and subjects of credit histories with credit reports.

As of January 1, 2018, there were 4.98 million credit histories formed in the Credit Registry, including 4.93 million credit histories of natural persons and 0.05 million credit histories of legal persons. In the period under review, the number of credit histories grew by 4.7%. Credit histories contain information on 26.96 million credit transactions, of which 6.19 million credit transactions are the current ones.

All the Belarusian banks and microfinance organizations were the sources of formation of credit histories. As of January 1, 2018, 118 microfinance

organizations were connected to the Credit Registry as the sources of formation of credit histories.

In 2017, the main users of credit histories were banks and mobile operators. As many as 3.05 million requests for credit histories were submitted by banks to the Credit Registry (of which credit reports were presented on 2.77 million of them), 0.44 million requests for credit histories were submitted by the mobile operators (of which credit reports were presented on 0.34 million of them). In addition to banks and mobile operators, the users of credit histories who have online connection to the Credit Registry include 80 legal persons, among which there are 20 microfinance organizations, 38 leasing companies, 12 trading organizations, insurance companies, credit brokers and others. The National Bank continued to provide scoring assessment of the natural persons' creditworthiness on the basis of the Credit Registry data, which makes it possible to evaluate the probability of the overdue indebtedness occurrence for more than 90 days within the subsequent 12 months. In the year under review, 70% of credit reports were provided to the credit histories users based on the scoring assessment.

For the purpose of easing the on-line access of natural persons to their own credit histories and improving the promptness of examining entirety, accuracy and topicality of the credit history data, since October 2017 the Credit Registry's web-portal has been connected to the interbank system of identification, which makes it possible for all the natural persons, being clients of the banking system, to obtain their credit reports and apply for modification and (or) amendment thereof in the remote mode. In 2017, natural persons filed 15.6 thousand requests for credit histories via the web-portal of the Credit Register, of which 14.9 thousand requests were satisfied by submission of credit reports in the electronic form.

In order to decrease the costs associated with the hard-copy paperwork and improve the promptness of provision of information to the employees involved in special investigation activities, the technology of submitting credit reports to the authorized employees of the Ministry of Internal Affairs and the General Prosecutor's Office in the electronic form through the special web-portal of the Credit Register on the interaction with the government bodies was developed and coordinated with the involved authorities in 2017.

In 2017, the agreement on the interaction of the EEU member - states in the field of exchange of the data included in the credit histories was drafted, the enactment of which will make it possible to provide equal possibilities to the EEU member - states' residents in receiving a full complex of financial services at banks located in the territory of other EEU member - states and enhance protection of credit organizations from credit risks.

2.6. Regulation of leasing and microfinance organizations' activities and activities in the over-the-counter Forex market

In 2017, the regulatory legal acts governing the leasing and microfinance organizations' activities, as well as activities in the over-the-counter Forex market, were further streamlined (Attachment 2.5).

2.6.1. Regulation of leasing activities

In order to regulate legal relations in the sphere of residential premises leasing in a comprehensive manner and establish additional requirements, designed to protect consumer rights, to the leasing organizations working in this segment, Edict of the President of the Republic of Belarus No.109 "On Amending Edicts of the President of the Republic of Belarus on the Issues of Leasing Activities" dated April 6, 2017 and regulatory legal acts, bringing the legislative acts in line with the given Edict, were adopted.

As at January 1, 2018, LLC "ASB Leasing" and JSC "Agroleasing" notified the National Bank of their intention to carry out leasing activities with the residential premises.

As at January 1, 2018, 140 residential real estate objects for the amount of BYN20 million were leased out.

As part of work on financial consumers' rights protection, Resolution of the Council of Ministers of the Republic of Belarus No. 831 dated November 4, 2017 "On Amending Resolution of the Council of Ministers of the Republic of Belarus No. 285 dated March 16, 2005" was adopted, which was developed with participation of the National Bank and other involved government agencies. According to this Resolution, leasing and microfinance organizations shall maintain a customer comment book at servicing points. With the purpose of safeguarding the interests and protecting the rights of consumers of financial services rendered by the leasing and microfinance organizations, the natural and legal persons' appeals were considered.

2.6.2. Regulation of the microfinance organizations activities

With a view to increasing financial stability of the consumer cooperatives and strengthening prompt off-site control over their activities, Resolution of the Board of the National Bank No. 805 "On Certain Issues of Activities of the Non-commercial Microfinance Organizations Established in the Legal and Organizational Form of a Consumer Cooperative" dated December 23, 2014 was modified and amended in the following manner:

- the minimum amount of the unit fund was increased from 50 to 100 basic units;

- the ratio of total liquidity was established in the amount of 100%; and
- the list of criteria to be complied with by the consumer cooperative, entitled to attract monetary funds of its members – natural persons who are not the founders of the given consumer cooperative, was amended to include the requirement on absence of losses for the previous year according to the profit and loss statement.

Within improvement of the commercial microfinance market, modifications were made to Resolution of the Board of the National Bank of the Republic of Belarus No. 692 “On Introducing the Forms of Application and Certificate on Inclusion in the Register of Microfinance Organizations, the Minimum Amount of the Authorized Capital of the Commercial Microfinance Organization, and Adoption of the Instructions on Procedures of Creation and Maintenance of the Register of Microfinance Organizations” dated November 14, 2014, which provides for an increase in the minimum amount of the authorized capital of commercial microfinance organizations (lombards) from BYN25 thousand to BYN50 thousand since July 1, 2018. The given measure will contribute to creation of a more efficient, transparent and competitive market of microfinancing due to an improvement of financial sustainability of the legal persons involved in lombard activities, as well as an increase in the level of their founders’ responsibility.

2.6.3. Regulation of the activities in the OTC Forex market

In 2017, the international experience of streamlining methods and approaches used in regulation of activities in the OTC Forex market was studied. In particular, the analysis of innovations in the European legislation in the area of financial markets activities regulation, including improvement of transactions in the OTC Forex market, was conducted: Directive 2014/65/EU of the European Parliament and of the Council of the European Union of 15 May 2014 “On Markets in Financial Instruments” (MiFID II) and Regulation (EU) No 600/2014 of the European Parliament and of the Council of the European Union of 15 May 2014 “On Markets in Financial Instruments” (MiFIR). Based on the conducted analysis, the work on comprehensive adjustment of the legislative acts of the Republic of Belarus was organized with respect to the issues of further development of the OTC Forex market within the Belarusian jurisdiction.

With the purpose of ensuring appropriate submission of reports on this kind of activities by the Forex companies, banks and non-bank financial institutions carrying out activities in the OTC Forex market, Resolution of the Board of the National Bank of the Republic of Belarus No. 72 “On Establishing the Reporting Forms on the Activities in the OTC Forex Market and Approval of the Instructions on the Volume, Terms and Procedures of Compilation and Submission of Reports on the Issues of Carrying out Activities in the OTC

Forex Market” dated February 12, 2016 was amended as a result of coming into force of the National accounting and reporting standard “Individual Accounting”.

2.7. Foreign exchange regulation and foreign exchange control

According to the earlier adopted policy documents, in 2017 the National Bank in concert with the Government of the Republic of Belarus was carrying out consecutive and stage-by-stage implementation of the measures on liberalization of foreign exchange relations and dedollarization of the economy.

The significance of the given measures was conditioned by the need to preserve the Belarusian ruble stability, lifting existing barriers and excessive administrative procedures in the course of conducting business.

In 2017, with a view to dedollarizing the economy:

- the issuance to legal persons of individual permissions for carrying out settlements in foreign exchange with natural persons while rendering services associated with air freight and medical services thereto, as well as services under the natural persons’ insurance contracts, envisaging long-term life insurance, including the supplementary pension insurance, was terminated;

- the measures designed to create conditions for increasing attractiveness of savings in the Belarusian rubles and improving the deposit market structure were taken; and

- a number of Edicts of the President of the Republic of Belarus, the Civil Code of the Republic of Belarus and the Banking Code of the Republic of Belarus were amended to exclude the use of foreign exchange in settlements, including pegging of different tariffs thereto.

As a part of liberalization of foreign exchange relations, the following measures were taken in the year under review:

- the requirement regarding registration by banks of the natural persons’ passport details upon purchasing of foreign exchange thereby was annulled;

- the terms of completion of foreign trade operations were increased up to 180 days for export and up to 90 days for import;

- the amount of the mandatory sale of foreign exchange revenues by the economic entities was decreased to 10%; and

- the restrictions for targeted purchase of foreign exchange by resident economic entities were lifted.

The National Bank monitored the external accounts receivable of the economic entities of the Republic of Belarus on the ongoing basis. According to the National Statistical Committee’s data, during 2017, the external accounts receivable increased by 11.6% (from USD3,716.4 million as at January 1, 2017 up to USD4,147.7 million as at January 1, 2018); overdue debt decreased by 2.6% (from USD466.8 million to USD454.8 million). As at January 1, 2018,

the aggregate share of the debt prolonged by the National Bank accounted for 19.4% of the total volume of the external accounts receivable.

The facts of violating the deadlines for completion of foreign trade transactions worth USD43.9 million were revealed in respect of 592 economic entities as a result of monitoring conducted in 2017.

The National Bank adopted regulatory legal acts for the purpose of implementing measures aimed at improving foreign exchange regulation and foreign exchange control (Attachment 2.6).

2.8. Financial stability monitoring

In accordance with Article 26 of the Banking Code, in the year under review the National Bank carried out financial stability monitoring, the main aim of which was to identify and assess threats to the banking sector's sustainability, as well as the vulnerabilities of the Belarusian financial system.

The indicators characterizing the systemic risks of financial stability and sources thereof were identified and analyzed on a regular basis. The results of financial stability monitoring were reflected in the analytic review "The Financial Stability of the Republic of Belarus", posted on the official website of the National Bank in the global computer network Internet.

In 2017, the financial stability of the Republic of Belarus was ensured. The financial sector of the country remained stable with regard to the most significant risks. The key indicators of financial stability had values within the acceptable ranges. The banks and the JSC "Development Bank of the Republic of Belarus" met, in general, the secure functioning requirements. The stable functioning of the insurance sector and sector of other financial intermediaries was preserved. Stable and continuous functioning of the payment system of the country was ensured, the main risks were limited, and the threat of their growth into the systemic risk was prevented from happening.

From the point of view of the potential losses, credit risk in the banking sector remains the most significant one. Despite the growth in the indicators of the revenues and profits and decrease in the share of the loss-making enterprises, the settlement discipline of the enterprises does not improve in a substantial way. The risk for financial stability of the country is conditioned by the volume of the gross external debt, including due to the significant cost of its servicing. The significant level of fiscal risks is still in place.

Under the conditions of existing risks, the complex of measures designed to ensure financial stability has been implemented. The Government and the National Bank of the Republic of Belarus took a number of measures aimed at decreasing the banks' bad debt, including by means of partial transfer of bad assets to the JSC "Asset Management Agency" and formation of the problem assets market.

For the purpose of strengthening the system of financial protection and coordinating measures designed to enhance financial stability, the interdepartmental Council on the financial stability was established, which is functioning in an efficient manner. During the meetings of the Council the issues requiring coordination of interaction between the National Bank and the Government of the Republic of Belarus were considered.

The basics of the macroprudential policy in the Republic of Belarus were formed by means of using the instruments of:

- the countercyclical buffer being the supplement to the value of the Tier I capital adequacy ratio of a bank and the JSC “Development Bank of the Republic of Belarus”, established to smooth the phases of the financial cycle, including the limitation of risks assumed during the period of the excessive growth of lending to the economy, and to maintain the level of lending and risks coverage after the end of such period; and

- systemic significance buffer representing the supplement to the value of the Tier I capital adequacy ratio of a bank and a non-bank financial institution, established to prevent and smooth structural systemic risks and reduce the negative impact on the sustainability of the banking system, caused by the deterioration of the financial condition of the bank or the non-bank financial institution attributed to the systemically important ones.

With a view to limiting the systemic liquidity risks, on January 1, 2018 the liquidity coverage ratio and the net stable funding ratio (Basel III liquidity indicators) were set as the secure functioning requirements.

In 2017, the second stage of the assets quality review (AQR) initiated by the National Bank was completed. Taking into the account the results of the assessment, the capital adequacy ratio, including the conservation buffer, as the key indicator of the banking sector’s sustainability against accepted risks, stood at an appropriate level, which ensured successful combating of the possible impact of negative events.

Financial stability was strengthened due to the activities of the National Bank and the Government of the Republic of Belarus in the field of the qualitative transformation of the financial market, increase in the degree of its development and efficiency of functioning. The Strategy of Development of the Financial Market of the Republic of Belarus until 2020, the main directions of which are tackling the problem of bad debt in the banking sector, replacing directed lending by market products in a gradual manner, and enhancing competitiveness

2.9. Accounting and reporting

In 2017, the work on bringing the national accounting and reporting system and financial statements into line with international principles, rules,

and standards, as well as improving regulatory legal acts of the National Bank in the field of accounting and reporting and financial statements continued.

For the purpose of applying International Financial Reporting Standards (IFRS) as the technical regulatory legal acts by the publicly significant institutions (banks, non-bank financial institutions, insurance companies, and separate joint-stock companies) while compiling financial statements, Resolution of the Council of Ministers of the Republic of Belarus No. 830/12 “On Implementing the International Financial Reporting Standards in the Republic of Belarus and Interpretations Thereof Accepted by the International Financial Reporting Standards Fund” dated November 4, 2017 was adopted. The given Resolution incorporates explanations and adjustments to separate IFRS brought into operation as technical regulatory legal acts in the Republic of Belarus in 2016.

In the year under review, the following national standards were developed on the basis of the corresponding IFRS:

National accounting and financial reporting standard 40 “Investment Property” (NFRS 40), approved by Resolution of the Board of the National Bank of the Republic of Belarus No. 412 dated October 13, 2017, which defined the principles of recognition, derecognition and assessment of the investment property in the accounting and disclosure of information about it in accounting (financial) reports for banks, non-bank financial institutions, and JSC “Development Bank of the Republic of Belarus”; and

National accounting and financial reporting standard 17 “Lease” (NFRS 17), approved by Resolution of the Board of the National Bank of the Republic of Belarus No. 413 dated October 13, 2017, which established requirements to the classification of lease for the purpose of its reflection in accounting, approaches to assessment and accounting of the assets, obligations, income, expenses, arising from the lease contracts, as well as the requirements to the disclosure of information complying with the lease classification in accounting (financial) reports for banks, non-bank financial institutions, and JSC “Development Bank of the Republic of Belarus”.

The Instructions on accounting of operations, associated with the transfer of fixed assets to the financial lease (leasing) or rent at banks or non-bank financial institutions of the Republic of Belarus, approved by Resolution of the Board of the National Bank of the Republic of Belarus No. 238 dated April 14, 2014, was annulled due to the changes in approaches to accounting of operations involving transfer of property into lease.

In 2017, regulatory legal framework on accounting and financial reporting was improved with regard to the practice of application and modification of legislation (Attachment 2.7).

2.10. Cash circulation

In 2017, cash circulation increased by 5% compared with 2016 (by BYN4.4 billion) and amounted to BYN93.7 billion. The issue of cash in circulation (M0) totaled BYN555.9 million.

In the year under review, the share of monetary aggregate M0 in the ruble money supply accounted for 16.3 - 18.3%. As at January 1, 2018, this indicator totaled 16.7% (as at January 1, 2017, 16.6%).

In connection with the redenomination of the legal tender of the Republic of Belarus conducted in 2016, the monetary units of the 2000 series were replaced by monetary units of the 2009 series. In 2017, the monetary units of the 2000 series were almost totally withdrawn from circulation.

Exchange of monetary units of the 2000 series for the monetary units of the 2009 series was conducted at banks, non-bank financial institutions and structural units of the National Bank without limitations and commissions.

Since January 1, 2017, the banknotes and coins of the 2009 series are accepted as the only legal tender.

As at January 1, 2018, the National Bank issued banknotes and coins of the 2009 series worth BYN3 billion.

20-ruble notes (33.1%), 10-ruble notes (23.7%), and 50-ruble notes (23%) accounted for the largest share in the total amount of banknotes of the 2009 series in circulation. 5-ruble notes, 100-ruble notes totaled 19.1% and 1% accordingly. The share of 200-ruble notes and 500-ruble notes stood at 0.1%.

1-ruble kopecks (27%) accounted for the largest share in the total amount of kopecks of the 2009 series in circulation. Coins with the denomination of 2, 5, 10, and 20 totaled 15.7%, 14.3%, 13.1% and 9.6% respectively. The share of coins with denomination of 50 kopecks, 1 and 2 rubles accounted for 7% of each denomination.

In the year under review, commemorative coins of 11 names were put into circulation by the National Bank. 47,403 commemorative coins were sold in the domestic market, and 13,589 commemorative coins – in the external market by mints.

With a view to preventing money counterfeiting the National Bank took preventive measures to inform households and banking system about authenticity features of the National Bank's banknotes and foreign notes, and made available, in a timely manner, information on newly revealed ways of forging banknotes for the cashiers of the banks. As a result of the work done, 1,034 counterfeit banknotes were identified and withdrawn from cash circulation (1,129 counterfeit banknotes in 2016), including 492 US dollar notes, 340 Russian ruble notes, 153 euro notes, 43 Belarusian ruble notes (20 of them of the 2000 series), and 6 notes denominated in other currencies.

2.11. Payment system

In 2017, the payment system of the Republic of Belarus satisfied the needs of the real sector of the economy, banking system and other financial institutions of the Republic of Belarus in full in terms of timely and efficient conduct of settlements in the Republic of Belarus.

2.11.1. Payment system management

In the year under review, with the aim of managing the payment system of the Republic of Belarus, the National Bank streamlined regulatory legal framework of the payment system, the pricing policy in the sphere of settlements and charge for the settlement services of the National Bank, collected, accumulated and analyzed the indicators characterizing the state of the payment system of the Republic of Belarus.

In the reporting year, the regulatory legal framework of the payment system was streamlined on the basis of the measures on introduction of the methodology of the ISO 20022 standard into the payment system of the Republic of Belarus. Resolutions of the Board of the National Bank of the Republic of Belarus No. 442 “On the Standards of Settlements Execution” dated November 8, 2017 and No. 484 “On Approving the Instructions on the Procedures of Application of the methodology of International Standard ISO 20022 “Universal financial industry message scheme” in the payment system of the Republic of Belarus” dated December 5, 2017, which set the need of developing standards of carrying out payments and requirements to development and implementation of the messages created in line with the methodology of the ISO 20022 standard into the payment system.

A number of regulatory legal acts specifying in detail separate aspects of conducting interbank settlements in Belarusian rubles and procedures for maintaining the manual of bank identification codes and working with the electronic documents in the central archive of the interbank settlements of the National Bank were developed (Attachment 2.8).

The pricing policy in the field of settlement services provided by the National Bank was aimed at covering the costs associated with the ASIS* operation at the expense of incomes, obtaining income in the amount ensuring a

* The key functional component of the ASIS of the National Bank of the Republic of Belarus is the BISS (Belarus Interbank Settlement System). The BISS is a gross interbank settlement system in which settlements of urgent and non-urgent money transfers as well as settlements based on the results of clearing within the related systems (settlement and clearing system for securities, settlement systems for transactions using bank payment cards and an automated information system of a single settlement and information space) are effected on a real-time basis. The participants in the BISS are the National Bank, banks, non-bank financial institutions, and the JSC “Belarusian Currency and Stock Exchange”.

sufficient level of funds investment in its development, as well as reorienting the payment flow to the first half of the business day.

In 2017, the National Bank adopted a new edition of the Strategy of risk-management in the payment system of the Republic of Belarus, which defined the benchmarks in risk-management in the payment system of the Republic of Belarus aimed at ensuring its effective, reliable and secure functioning.

Within monitoring of financial stability, the information on sustainable functioning of the payment system and risks inherent therein was submitted to the Committee on the financial stability on a quarterly basis.

Collection, accumulation and analysis of data on the functioning of the payment system of the Republic of Belarus and its subsystems and analysis of influence of the critical service providers on the payment system were conducted. The results of the analysis are included in the annual report on the oversight of the payment system of the Republic of Belarus.

2.11.2. Functioning and development of the automated system of interbank settlements

In 2017, the National bank ensured effective, reliable and secure functioning of the payment system of the Republic of Belarus.

The Settlement Centre of the National Bank carried out technical implementation of the National Bank's functions involving organization and conduct of interbank settlements.

Within the framework of implementing functions of technical operator, the Settlement Centre of the National bank ensured development and maintenance of the applied software of the ASIS, exploitation and service of software and hardware complexes of the ASIS's functional systems.

In 2017, the National Bank ensured compliance of the software and hardware complexes of the ASIS with the requirements of the technical codes of the established practice and standards of the Republic of Belarus in ensuring the technical possibility of carrying out interbank settlements.

Unauthorized access to the ASIS, violation of security measures and information protection were prevented from happening.

As at January 1, 2018, the annual parameter of banks' accessibility to the ASIS averaged 99.99% of the production time, with the level defined by the Monetary Policy Guidelines of the Republic of Belarus for 2017 being not lower than 99.7%.

As at January 1, 2018, there were 34 direct participants of the BISS system, including 3 special participants and 31 indirect participants.

A decline in the number of indirect participants of the BISS system by 5 units compared with the previous year was caused by the optimization of the branch network of the JSC "ASB Belarusbank" and JSC "Belagroprombank".

In the year under review, 73 million payment instructions worth BYN565,768.6 million were effected in the BISS (Attachments 2.9 and 2.10). Compared with 2016, payment instructions effected in the BISS grew by 4.1% in terms of their number and by 9.4% in terms of their amount. The average daily turnover amounted to BYN2,236.2 million in terms of payments value and 0.3 million in terms of their number.

In 2017, risk-based supervision of the BISS was carried out, working capacity of the software and hardware complexes and failures in the operation of the automated systems of its participants were monitored, results of monitoring were analyzed on a regular basis, recommendations were produced, and their implementation was followed up.

Within the framework of measures designed to mitigate operational risk in the ASIS, Contingency Plan for Business Continuity and Recovery Procedures of the ASIS, the lists of the ASIS's crucial and reserve personnel, as well as instructions determining the actions of personnel in the event of failure and crisis situations in the operation of the ASIS, the procedure for preparing and verifying the operability of the software and hardware complex of the ASIS during the transition to the industrial mode of operation at the backup computer center were updated.

Complex tests of the ASIS, designed to check the performance by the personnel of the National Bank, banks and non-bank financial institutions of the activities envisaged by the contingency plans for business continuity and recovery procedures of the ASIS participants in the event of failure of the main communication channels, software and hardware complexes "Shluz" and software complexes "Istok", were carried out.

In 2017, with a view to developing and streamlining the payment system with account of global trends, the National bank in concert with the banking community considered the possibility of establishment of the service of instant payments making it possible for the participants of the payment market to carry out payments on a 24-hour basis seven days a week in the mode which approximates the real time mode most closely. The above-mentioned work resulted in the approval of the Concept of Creation of the Instant Payments Service Available 24/7/365 by the Board of the National Bank. Following the implementation of the instant payments service, the time of a payment execution from the moment of its initiation by a payer till the receipt of funds to the account of a payee must be no more than a minute. The launch of this service in the industrial exploitation is planned for January 1, 2019.

2.11.3. Development of the system for non-cash settlements of retail payments

The bank payment card (hereinafter – the “card”) is the payment instrument, which is most frequently used for non-cash settlements by the households.

As of January 1, 2018, the number of bank payment cards that have been put into circulation totaled 13.9 million, of which 4.8 million cards of the domestic payment system BelCard (34.7% of the total number of cards) and 4.6 million cards of payment system VISA (33.5% of the total number of cards), 3.5 million cards of payment system MasterCard (25.6% of the total number of cards), and 0.9 million co-badging BelCard/Maestro cards (6.3% of the total number of cards).

As many as 4,404 ATMs, 3,294 self-service payment and reference terminals installed by banks, and 150,946 payment terminals operating in 115,272 trading (servicing) organizations were functioning in the Republic of Belarus as of January 1, 2018.

Over 2017, the share of non-cash transactions in transactions involving cards amounted to 83.1% in terms of their number and 44.7% in terms of their amount (over 2016, these indicators stood at 79.8% and 38.6% respectively).

In the year under review, the e-money market was developing in the Republic of Belarus following the global trends.

As of January 1, 2018, transactions involving these means of payment were carried out by OJSC Belgazprombank, OJSC “Technobank”, OJSC “Paritetbank”, Reshenie Bank Joint-Stock Company, “Priorbank” JSC, JSC “JSSB Belarusbank”, “Bank Moscow–Minsk” JSC, CJSC “Alfa-Bank”, and OJSC “BPS-Sberbank”. The following systems of settlements based on the e-money were operating: EasyPay, WebMoney Transfer, iPay, V-coin, e-Pay, Belqi, “Berlio”, “MTS Money”, “OSMP”, “Rosberliocard”, Euroberlio, “eCard ABB”, “Yandex.Money” as well as e-money the access to which is provided by means of issuing the prepaid cards of the MasterCard, VISA and BelCard systems.

In 2017, the efforts aimed at developing the system for non-cash settlements of retail payments were taken within the framework of the Strategy for Digital Banking Development in the Republic of Belarus in 2016-2020 approved by Resolution of the Board of the National Bank of the Republic of Belarus No. 108 dated March 2, 2016. This document determines an indicative indicator of the share of non-cash money turnover in the retail turnover, which should total at least 40% by January 1, 2021. Based on the data of the National Statistical Committee, in the year under review this figure stood at 35.4% (30% in 2016).

The National Bank in concert with the involved government agencies

conducted work on improving the legislative norms with the aim of further extending the sphere of using cashless settlements of retail payments (Attachment 2.8):

- amendments and modifications aimed at protecting the rights of consumers of banking services - cardholders, expanding the channels of customers' access to banking services, further increasing the efficiency and attractiveness of electronic money as a payment instrument were introduced; and

- the procedures for determining the acceptable amount of cash monetary funds in settlements executed between an economic entity and a natural person in payments for goods (works and services) were clarified, as well as additional measures on encouraging households to conduct non-cash payments involving cards and systems of remote banking services were implemented.

2.11.4. Functioning and development of the interbank identification system

The creation of the interbank identification system became a significant step in the development of digital banking in the Republic of Belarus.

Currently, all banks of the country are connected to the interbank identification system for uploading data on natural persons to the system. 14 banks, including the National Bank, provided the possibility to identify natural persons by means of the interbank identification system for the purpose of rendering banking services. Citizens of the Republic of Belarus may become banks' customers without the need for personal presence in the branch of the bank and can carry out a number of operations, including opening settlement and deposit accounts, issuing cards, as well as filing an application for a loan. As of January 1, 2018, more than 5 million natural persons have been identified in the systems of remote banking services through the interbank identification system using a mobile phone number or e-mail address.

With a view to further expanding the possibilities for increasing the availability of financial services it is planned to include insurance, leasing, and microfinance organizations, professional participants in the securities market and other organizations in the list of the interbank identification system's participants.

2.11.5. Introduction of international standards

In 2017, the National Bank carried out activities on implementing the ISO 20022 methodology in the country's payment system.

As part of the first stage of the implementation of the ISO 20022 methodology organizational arrangements for the transition on July 4, 2017 to the international structure of account number (IBAN) and bank identification code (BIC) were conducted with the participation of the banking community and the republican government bodies. In order to reduce the risk of delayed settlement due to the change in the account number and bank identification code, the National Bank for the transition period until January 1, 2018 created and posted on the official website of the National Bank in the global computer network the reference and information resource “IBAN Calculator”, which made it possible to calculate the IBAN account number based on the previous account number.

A commercial operation of the Internet resource “ISO 20022BY Repository”, placed on the interbank information server of IRS “Bank”, was carried out. The main objectives of this resource are the creation of adapted Russian-language documentation for the formation of financial messages according to the methodology of the international standard ISO 20022 and provision of conditions for obtaining information.

With a view to carrying out the reverse engineering process as one of the basic tools of the ISO 20022 methodology, the following documents were developed and approved for the further stages of implementing the ISO 20022 methodology:

- “Models of monetary funds transfer. Album of charts”;
- “Use of ISO 20022 messages in the implementation of monetary funds transfer on the payer’s initiative. Album of charts”; and
- “Table of correspondence of payment (accompanying) messages and regulatory legal acts governing them with the ISO 20022 messages (“payments” field)”.

The implementation of the ISO 20022 methodology in the payment system of the Republic of Belarus was carried out in conjunction with the similar activities of the central (national) banks of the EEU member states within the framework of the payment systems integration. These issues were considered at the meetings of the Working Group on the Coordination of Developing National Payment Systems established in line with the agreement concluded between the National Bank of the Republic of Belarus, the National Bank of the Republic of Kazakhstan and the Central Bank of the Russian Federation in 2015 (in 2016, the Central Bank of the Republic of Armenia and the National Bank of the Kyrgyz Republic joined the above-mentioned agreement). The coordination of interaction included the exchange of draft documents, preparation of analytical information based on the materials submitted by experts, as well as videoconferences with regard to the exchange of practical experience in this sphere.

2.11.6. Development of the single settlement and information space

The automated information system “Settlement” of the Single Settlement and Information Space (hereinafter – the AIS “Settlement”) ensures the possibility for conducting various payments (tax and non-tax ones) to the republican and local budgets (hereinafter – “payments to the budget”). Government agencies and organizations levy the following payments to the budget:

- customs payments of legal and natural persons – State Customs Committee;
- taxes, fees, fines for natural persons and individual entrepreneurs – Ministry of Taxes and Duties;
- payments to Department for Safety and Security, Department of Citizenship and Migration, Department of State Automobile Inspection, including fines for violation of traffic rules, payments for services of interdistrict examination departments, address-inquiry bureau and authorization system, fines for other administrative offenses, payments for services rendered by institutions accountable to Department for Execution of Judgements, vehicle fleets of the Ministry of Internal Affairs, information and publishing centers, a polygraphic center, institutions reporting to the Main Directorate of the Commander of Internal Troops – Ministry of Internal Affairs;
- payments for services rendered by enterprises, branches and bureau of agencies of state registration and land cadastre – State Property Committee;
- state fee for obtaining an extract from the Unified State Register of Legal Persons and Individual Entrepreneurs for natural and legal persons through a web portal, payment of lawyers’ legal services, payments to the courts, the Belarusian Chamber of Notaries, enforcement proceedings, state fees and payments to the departments of registration and civil status – Ministry of Justice;
- payment for school textbooks, centralized and rehearsal testing, payments for educational services provided in institutions of higher, secondary special, general secondary and primary education, sports and music schools, art schools – Ministry of Education;
- fare for toll roads in an increased amount, fare on public roads, payment for services of the State Institution “State Inspectorate for Small Boats” – Ministry of Transport and Communications;
- state fee for issuance of permits by the Republican Unitary Enterprise for Telecommunications Supervision “BelGIE”, payment to electric power industry enterprises for connection to power grids – Ministry of Energy;
- payments for services of veterinary stations (laboratories), state inspectorates for seed production – Ministry of Agriculture and Food;

- compulsory insurance contributions – Social Protection Fund of the Ministry of Labor and Social Protection;
- payment of a state fee – State Border Committee;
- payments on account of privatization of housing facilities, payment of commercial housing rent, repayment of debts by a court decision - district executive committees;
- payment of administrative procedures - state archives (by regions, cities);
- payment of permits for hunting – UE “Belgosokhota”; and
- state fee received from natural persons, individual entrepreneurs and organizations for issuing a permit to admit a vehicle to participate in a road traffic - UE “Beltekhosmotr”.

As of January 1, 2018, agreements on organizing payments by means of AIS “Settlement” were concluded with 2,419 service providers, which collect payments to the budget. Payments under 30,084 services related to the payment of state duties and payments made in the course of administrative procedures, taxes, fees (duties) and other payments to the budget were performed with the use of a single settlement and information space.

The total amount of payments conducted by means of a single settlement and information space for the year 2017 amounted to BYN7,937.24 million, including payments to the budget – BYN1,107.90 million (13.96% of the total payments received through AIS “Settlement”).

In 2017, 16.69 million payments to the budget worth BYN1,107.9 million were carried out in AIS “Settlement” (in 2016, 11.37 million payments worth BYN 784.1 million). The increase in the accepted payments stood at 46.8% in terms of quantity and 41.3% in terms of amount.

For the purpose of expanding the possibility of making payments to the budget in non-cash form OJSC “Non-bank Financial Institution “SSIS” conducts on a regular basis the activities aimed at connecting government agencies and organizations to AIS “Settlement”.

2.12. Financial literacy

In 2017, the activities on improving the population’s financial literacy were carried out in accordance with the Joint Action Plan of Government Agencies and Financial Market Participants on Improving Financial Literacy of the Population of the Republic of Belarus for 2013-2018 approved by Resolution of the Council of Ministers of the Republic of Belarus and the National Bank of the Republic of Belarus No. 31/1 dated January 17, 2013.

The Interagency Coordinating Council for Improvement of Financial Literacy of Population, which was established in accordance with Resolution of the Council of Ministers of the Republic of Belarus and the National Bank of the Republic of Belarus No. 1009/15 “On Interagency Coordinating Council for

Improvement of Financial Literacy of Population” dated November 2, 2012, coordinated the activities on enhancing financial literacy.

In the reporting year, with a view to increasing financial literacy of citizens of different age categories, as well as improving population’s access to financial services the following arrangements and projects were implemented:

- in concert with the Ministry of Education a week of financial literacy of children and youth (Global Money Week), in which around 500,000 young people participated, was held. The employees of the National Bank, banks, financial market associations and other organizations delivered a speech at the training events;

- a competition for the best work on economic theme among students of higher education institutions of the Republic of Belarus was conducted;

- a republican competition on financial literacy among students of general secondary education was carried out. In view of the inclusion of the additional (fourth) stage in the program, about 32,000 pupils of the 10th-11th grades from all districts and regions of the Republic of Belarus took part in the event. In order to prepare students for the competition more effectively, methodical recommendations were developed, including a description of the themes of the competition assignments, recommended sources of information, and examples of questions with answers and explanations;

- updated information required by citizens for making appropriate financial decisions, news coverage and announcement of upcoming events in the field of financial literacy were placed at the Unified Internet Portal of the Households’ Financial Literacy at a regular basis (<http://fingramota.by>);

- a continuous work and updating of accounts on financial literacy in social networks (Facebook, V Kontakte, Odnoklassniki) were organized;

- a number of joint projects with the printed media (newspapers “Nastaunitskaya Gazeta”, “Perekhodnyj Vozrast”, “Znamya Yunosti”, weekly newspaper “7 Dnej”, and magazine “Chto Pochem”) was implemented;

- lessons on financial literacy in the state educational institution “Usyazhskaya secondary school” in Smolevichi district of Minsk region, the children’s camp Dreamcamp, the private social and pedagogical educational institution “SOS-Children’s village Borovlyany” and other educational institutions of the Republic of Belarus were prepared and conducted;

- the work of volunteers from the students of the “Legal Clinic” training laboratory of the Belarusian State University was organized with the purpose of holding thematic lectures and interactive lessons that promote the growth of the young generation’s financial literacy;

- the School of Financial Literacy for teachers of the city of Minsk and Minsk region, in which about 150 teachers were trained, was established at the premises of Minsk State Palace of Children and Youth; and

- in concert with Minsk Regional Institute for Educational Development a curriculum of facultative studies “Fundamentals of Financial Literacy” was developed for students of the 8th-9th grades of general secondary education, which includes such basic areas of financial literacy as the family (personal) budget, property and savings, borrowings, professions in the financial sphere, money and money circulation, digital banking, investments, taxes and fees. This training program was approved by the scientific and methodological institution “National Institute of Education” of the Ministry of Education and published on the National Education Portal (www.adu.by).

Currently, the National Bank takes an active part in the implementation of the technical assistance project on financial education in the CIS countries, initiated by the International Financial Education Network, which was established in 2008 by the Organization for Economic Cooperation and Development, and is implemented with the financial support of the Ministry of Finance of the Russian Federation.

The objectives of the project are the development and implementation of specific recommendations on the main policy directions in the financial literacy sphere, as well as technical assistance in developing, implementing and scientifically sound assessing the efficiency of national strategies in the field of financial education in the selected CIS countries (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan).

2.13. Research activities

In 2017, economic studies of the National Bank were aimed at obtaining new knowledge, developing methodologies, recommendations and instruments designed to enhance the efficiency of measures aimed at ensuring dynamic and sustainable development of the monetary sphere, banking, payment and financial systems of the Republic of Belarus. Research activities contributed to improving human resources and strengthening position of the National Bank in the academic community.

In the reporting year, employees of the National Bank fulfilled 27 studies. The results of studies were published in the section of “Scientific Publications” of the periodical “Bankauski Vesnik” (27 research articles), a special issue of “Studies of the Bank” (two articles), and other domestic and foreign publications. Published studies were posted on the official website of the National Bank in the global computer network Internet.

The most significant studies included:

- “Tools of Macroprudential Policy: European Experience, Prospects for Belarus”. The paper reviews the experience of implementing macroprudential policy tools by member countries of the European Union and explores the feasibility of using LTV and LTI instruments in the Republic of

Belarus, as well as outlines possible directions for improving the National Bank's macroprudential policy as the domestic financial sector develops;

- "Dynamic Factor Model for Forecasting the Gross Domestic Product of the Republic of Belarus". In order to assess the current GDP level of the Republic of Belarus and its short-term forecast, an approach is proposed that consists in constructing an appropriate dynamic factor model and applying the Kalman filter. Estimates obtained as a result of approbation of the proposed toolkit prove its high predictive accuracy;

- "Estimation of the Aggregate Factor Productivity: the State-Space Model". A methodology based on the construction of a state-space model and aimed at estimating the aggregate factor productivity is proposed. The implementation of this model makes it possible to reduce the degree of uncertainty and decrease the number of assumptions with regard to the dynamics of the analyzed indicator. The calculations result in the assessment of the contribution of the aggregate factor productivity to the GDP growth over the analyzed time horizon and the definition of GDP elasticity by capital (0.46). In general, the results of calculations are consistent with the calculations presented in earlier studies, where the aggregate factor productivity was estimated as the remainder of the Solow model; and

- "Nonlinearity of the Exchange Rate Transfer Effect on Inflation in the Republic of Belarus". Based on the construction of nonlinear econometric models, the nonlinearity and asymmetry of the exchange rate transfer effect on consumer prices in the Republic of Belarus is assessed depending on various conditions (the economic cycle phase, the intensity of inflation processes, monetary conditions, the direction of the exchange rate changes). The obtained results show that the short-term transfer effect of the exchange rate in the Republic of Belarus is higher during the periods of rapid economic growth of the economy and money supply, significant intensity of inflation processes and inflationary expectations, as well as at high rates of the national currency weakening.

In addition, in the year under review the studies aimed at addressing such topical issues as credit risk assessment, premiums for systematic risks and credit cycle, forecasting macroeconomic indicators using the SVAR model, the impact of the financial sector on inclusive growth, increase in the confidence in the banking sector, as well as the development of the financial market and securities market were carried out.

The National Bank's employees involved in research gave lectures at the higher education establishments of the Republic of Belarus, the Training Center of the National Bank, developed academic programs for institutions of higher education of the Republic of Belarus, made presentations at international scientific conferences, peer-reviewed scientific articles, conducted a scientific management of diploma works and practical training of students and master degree's students.

2.14. International cooperation

In 2017, within the Treaty on the Eurasian Economic Union the streamlining of the EEU member states' legal framework was continued.

The National Bank took an active part in finalizing and coordinating draft international treaties:

- on cooperation between the member states of the Eurasian Economic Union in the field of exchanging information included in the credit histories;
- on admission of brokers and dealers of one member state of the Eurasian Economic Union to stock exchanges (organizers of trade) of other member states;
- on the Advisory Council for Currency Policy of the Member States of the Eurasian Economic Union; and
- on auditing activities in the territory of the Eurasian Economic Union.

Two meetings of the Advisory Council for Currency Policy of Central Banks of the EEU Member States and two meetings of Advisory Committee on Financial Markets were held, at which the issues of developing monetary, foreign exchange and financial spheres were discussed in order to work out coordinated solutions and prepare appropriate proposals for harmonizing the legislations of the EEU member states in the financial sector.

Representatives of the National Bank participated in the work of other advisory committees of the EEU member states.

As part of the activities of the Interbank Currency Board of the National Bank of the Republic of Belarus and the Central Bank of the Russian Federation a special attention was given to the payment and settlement, monetary and foreign exchange fields. In particular, the currency terms of export and import contracts on goods between residents of the two countries were analyzed, as well as the issues of developing digital banking technologies in the Republic of Belarus and the Russian Federation were considered.

The meeting of the Advisory Council of the Central Banks of the Republic of Belarus and Ukraine was held, where the economic situation and monetary policy of the two countries, approaches to the liberalization of foreign exchange legislation, the development of national payment systems, the results of functioning of the banking systems of the Republic of Belarus and Ukraine, as well as the experience of regulating non-performing loans and others issues were discussed.

The state and development of the banking sector and foreign exchange markets, the state of balance of payments and the dynamics of international reserves, monetary policy issues, measures to ensure the banking sector's financial stability were discussed at the meetings of the Eurasian Council of the

Central (National) Banks. The Program for the Professional Training of the Staff of Central (National) Banks for 2018 and the Regulations on the Coordination Council on the Issues of Issuance of Banknotes, Development of a Numismatic Market, Combating with Counterfeiting, as well as reports of the relevant councils were approved.

In 2017, meetings of the Board of the Interstate Bank were held, at which the results of the bank's activities in the reporting period, the financial position of the Interstate Bank and other issues were discussed.

At the meeting of the Regional Consultative Group on space of the CIS countries of the Financial Stability Board possible approaches to the regulation of digital financial technologies and products were discussed.

Cooperation with the IMF and the World Bank was traditionally carried out as part of the National Bank's participation in Spring and Annual Meetings of the Board of Governors of the IMF and the World Bank, the implementation of technical cooperation on urgent issues, and during consultations on Article IV of the Articles of Agreement with the IMF.

In 2017, within the framework of a two-year project, the IMF provided technical assistance to the National Bank aimed at improving the capacity of the Quarterly Prediction Model (QPM). In the course of project implementation, the structure of the model was improved, its configuration was performed, and the forecast part was developed. As a result of the annual cooperation, the QPM was ready to be used as a tool for assessing the current situation of the economy and building scenario forecasts. An agreement was reached between the National Bank and the IMF to provide technical assistance from the IMF in order to improve the existing information policy of the National Bank in the context of the planned transition to the inflation targeting regime.

Based on the findings of consultations on Article IV of the Articles of Agreement with the IMF held on October 26 - November 10, 2017, the results of monetary policy and work on strengthening financial stability against the background of declining inflation and growing gold and foreign exchange reserves, as well as measures designed to reduce the dollarization of the economy and switch to the inflation targeting regime in the medium-term were highly appreciated.

In 2017, with the active participation of the World Bank's experts, the activities aimed at strengthening the financial protection system (preparation of the Concept of the System of Regulating Problem Banks, development of approaches to improve the deposit guarantee system) and converging the national accounting system with IFRS were continued.

Cooperation with the Eurasian Fund for Stabilization and Development was carried out within the framework of the implementation of the Matrix of Economic Policy and Structural Adjustment Measures of the Government and the National Bank of the Republic of Belarus to Receive the Support in the Form of Financial Credit of the Eurasian Fund for Stabilization and

Development. In 2017, the Republic of Belarus obtained three tranches of the credit worth USD800 million.

In the reporting year, in the course of the meetings with the management and experts of the European Bank for Reconstruction and Development, including at the Annual Meeting of the bank's Board of Governors, the implementation of directions of cooperation for 2016 - 2019 in the framework of a new full-fledged Strategy for the Republic of Belarus, approved in September 2016, including the implementation of the Memorandum of Understanding between the National Bank of the Republic of Belarus and the European Bank for Reconstruction and Development concerning the privatization of "Bank Moscow-Minsk" JSC, the Memorandum of Understanding between the Government of the Republic of Belarus and the European Bank for Reconstruction and Development regarding the privatization of "Belinvestbank" JSC, were analyzed. The Memorandum of Understanding between the National Bank of the Republic of Belarus, the Ministry of Finance of the Republic of Belarus and the European Bank for Reconstruction and Development regarding their cooperation and action plan within the European Bank for Reconstruction and Development Small and Medium-sized Enterprises Local Currency Programme in the Republic of Belarus was signed. Strategic directions of cooperation within the framework of this Strategy are reflected in the roadmap of cooperation between the Republic of Belarus and the European Bank for Reconstruction and Development.

Coordinated actions of the Government of the Republic of Belarus and the National Bank aimed at ensuring macroeconomic stabilization and financial sustainability of the country made it possible to improve the position of the Republic of Belarus in the classification of the Organization for Economic Cooperation and Development (OECD) by country credit risks. In the current version of the classification the Republic of Belarus is transferred to the sixth group.

Two meetings of the working group on the accession of the Republic of Belarus to the World Trade Organization, as well as bilateral negotiations with the concerned WTO member countries to determine the conditions for the access of foreign suppliers of goods and services to the Belarusian market, including banking and financial services, were held. Following the negotiations a clarifying information in the draft report of the working group was included and responses to additional questions of the WTO member countries were prepared.

Within the scope of its competence, the National Bank continued the work on coordinating the agreements on the creation of free trade zones of the EEU member states with Egypt, Israel, India, Cambodia, Serbia, Singapore.

As part of development of bilateral cooperation the negotiations of the National Bank's management with the management of the Bank of Lithuania,

the Bank of Latvia, and central banks of a number of African and Asian countries were organized and held.

2.15. Staffing and staff training

In 2017, measures aimed at streamlining the organizational structure, functions, and number of employees of the National Bank were implemented. As the result, the number of the National Bank's staff was decreased (excluding the personnel in charge of buildings security and maintenance) by 267.5 employees, civil servants – by 284 employees.

The average age of civil servants remained unchanged compared with 2016 and stood at 42 years.

The share of the employees who have more than 10 years of work record in the banking sphere accounted for 60.3% of the total number of the National Bank's personnel, including civil servants – 69.4%.

Civil servants that are graduates of the institutions of higher education accounted for 100%, of which 40% obtained the diplomas of additional higher education or retraining in other fields. 18 employees of the National Bank have a degree.

Great attention was paid to studying advanced domestic and foreign experience. In 2017, 1,385 employees were trained in the Republic of Belarus, of which 313 managers and employees included in the managerial personnel reserve, received training in the development of managerial and communication skills, and 151 employees – in project management.

252 employees of the National Bank participated in international seminars and courses and 65 employees completed remote training under the IMF programs. The National Bank organized and conducted 10 training events with the participation of international experts, in which 153 employees of the bank took part.

The corresponding work aimed at attracting the international technical assistance of the European Union within the framework of the Twinning project “Strengthening the National Bank of the Republic of Belarus” was carried out.

2.16. Internal audit

In 2017, internal audit activities of the National Bank were aimed at improving the internal control and risk management system. International professional standards of internal audit, international standards in the field of information technologies security, international methodology in the sphere of management, control and audit of information technologies CobiT, project Management PMBOK, and international best practices were used in the process of organization and performance of internal audit.

The selection of objects for auditing in 2017 was conducted based on the results of the explicit quantitative risk assessment of the audited objects with regard to the strategic objectives of the National Bank's activities. In line with Resolution of the Board of the National Bank of the Republic of Belarus No. 602 "On Approving the Plan of Carrying Out Audits and Inspections by Internal Audit Directorate for 2017 - 2019" dated December 6, 2016, audits of the National Bank's processes and information technologies ensuring the functioning thereof, audits of projects in the sphere of information technologies, as well as inspections of safekeeping of cash and other valuables in the National Bank's vaults and cash offices were carried out.

The audit was performed on the basis of a risk-based approach with the assessment of the adequacy and efficiency of the internal control and risk management system in the National Bank's activities. When performing engagements, the audited processes' efficiency, the adequacy of internal control procedures and risk management at all stages of the process implementation, as well as the National Bank's compliance with legislative and other regulatory requirements were assessed. In the course of audit of information technologies, the priority was given to the issues of organizing and conducting project activities on the creation and implementation of automated information systems, ensuring the security of information systems, and the effective organization of information technology management processes.

According to the results of the audit, the owners and participants of the audited processes ensured the performance of functions assigned thereto, and the internal control and risk management systems that they applied were sufficiently adequate for the nature and scale of the operations (functions performed). For the purpose of minimizing risks in the National Bank's activities, local regulatory legal acts were amended, measures aimed at optimizing the processes of the National Bank, increasing the efficiency and security of the National Bank's information system functioning, as well as improving the internal control and risk management system were taken. The specialists of Internal Audit Directorate controlled the timeliness, adequacy, and the entirety of follow-up of the recommendations and execution of instructions which were made based on the audits findings.

During the year under review, Internal Audit Directorate coordinated the activities on collaboration with the audit firm Ernst & Young LLC in the process of auditing the annual financial statements of the National Bank for 2016 and carrying out interim audit procedures to audit the annual financial statements for 2017. In accordance with the agreement reached on the application of International Standard of Audit 610 "Using the Work of Internal Audit" within the framework of regulations agreed with the external auditor, the specialists of Internal Audit Directorate assisted in carrying out the procedures for updating the National Bank's business processes, testing controls based on the sample

produced by Ernst & Young LLC, as well as the procedures for detailed substantive testing of transactions and account balances determined by the above-mentioned audit organization.

The main objectives of interaction with Ernst & Young LLC included the improvement of the National Bank's control environment, the application of risk-based audit approaches, increase in the efficiency of external audit by establishing a constructive process of communication between internal and external audit.

Chapter 3

Annual financial statements

The annual financial statements of the National Bank are compiled in accordance with legislation of the Republic of Belarus and regulatory legal acts of the National Bank.

In the year under review, operations stemming from the tasks and functions stipulated in the Banking Code of the Republic of Belarus, the Statute of the National Bank of the Republic of Belarus approved by Edict of the President of Belarus No. 320 dated June 13, 2001, and the Republic of Belarus Monetary Policy Guidelines for 2017 were performed.

According to the opinion of the audit firm Ernst & Young LLC, the National Bank's annual financial statements present fairly, in all material aspects, the financial position of the National Bank as at January 1, 2018, and its financial performance in 2017.

BALANCE SHEET
as of 1 January 2018

National Bank of the Republic of Belarus

(BYN, thousand)

No.	Description	Index	Note	2017	2016 (re-calculated)
1.	ASSETS				
2.	Cash	1100		88,612	77,445
3.	Precious metals and precious stones	1101	4	4,047,661	3,560,905
4.	Securities	1102	5	2,261,881	2,504,658
5.	Funds with banks	1103	6	9,972,833	5,747,842
6.	Loans and other asset operations with customers	1104	7	12,249	12,834
7.	Derivative financial assets	1105		–	–
8.	Long-term financial investments	1106	8	233,364	160,700
9.	Fixed and intangible assets	1107	9	134,027	164,125
10.	Other assets	1108	10	297,990	659,677
11.	TOTAL assets	110		17,048,617	12,888,186
12.	LIABILITIES				
13.	Cash in circulation	1200		3,102,579	2,410,887
14.	Precious metals and precious stones	1201	11	82,575	105,721
15.	Amounts due to international financial institutions	1202	12	4,745	4,747
16.	Amounts due to banks	1203	13	5,115,211	4,361,406
17.	Amounts due to customers	1204	14	11,939,878	6,496,076
18.	Required reserves of banks	1205		313,893	165,124
19.	Securities of the National Bank	1206	15	4,606,821	6,787,809
20.	Derivative financial liabilities	1207		–	–
21.	Other liabilities	1208	16	1,536	1,987
22.	TOTAL liabilities	120		25,167,238	20,333,757
23.	EQUITY				
24.	Statutory fund	1211		25,000	25,000
25.	Reserve fund and other funds	1212	17	832	37,146
26.	Accumulated deficit	1213	18	(11,229,583)	(10,132,365)
27.	Balance sheet items revaluation reserve	1214	19	3,085,130	2,624,648
28.	TOTAL equity	121		(8,118,621)	(7,445,571)
29.	TOTAL liabilities and equity	12		17,048,617	12,888,186

Chairman of the Board

P.V. Kallaur

Head of the Accounting and Reporting
Directorate – Chief Accountant

V.A. Semenov

Signing date 14 March 2018

STATEMENT
of income
for 2017

National Bank of the Republic of Belarus

(BYN, thousand)

No.	Description	Index	Note item	2017	2016
1.	Interest income	2011	20	329,535	529,175
2.	Interest expenses	2012	20	(860,645)	(957,847)
3.	Net interest expenses	201	20	(531,110)	(428,672)
4.	Fee and commission income	2021	21	2,434	2,637
5.	Fee and commission expenses	2022	21	(2,272)	(2,414)
6.	Net fee and commission income	202	21	162	223
7.	Net loss from foreign currency transactions	203	22	(149,984)	(389,222)
8.	Net gain from operations with precious metals and precious stones	204	23	1,193	10,795
9.	Net loss from operations with securities	205	24	(3,143)	(621)
10.	Net loss from operations with derivative financial instruments	206	25	–	(569,587)
11.	Dividend income	207		6,201	4,350
12.	Net charge to provisions	208	26	(1,315)	(4,048)
13.	Other expenses	2091	27	(544,801)	(156,469)
14.	Other income	2092	27	89,241	49,193
15.	Other expenses, net	209	27	(455,560)	(107,276)
16.	Allocations to the budget	210		(166)	(362)
17.	LOSS	2		(1,133,722)	(1,484,420)

Chairman of the Board

P.V. Kallaur

Head of the Accounting and Reporting
Directorate – Chief Accountant

V.A. Semenov

Signing date 14 March 2018

STATEMENT
of changes in equity
in 2017

National Bank of the Republic of Belarus

(BYN, thousand)

No.	Description of indicators	Index	Own equity items indicators					Total own equity
			Statutory fund	Reserve fund	Other funds	Retained earnings (loss) (re-calculated)	Balance sheet items revaluation funds (re-calculated)	
Section I. For the year preceding the reporting year								
1.	Balance as at January 1, 2016	3011	25,000	35,972	832	(8,648,242)	2,247,780	(6,338,658)
2.	Change of equity items, including:	3012	–	342	–	(1,484,123)	376,868	(1,106,913)
2.1.	comprehensive income	30121	x	x	x	(1,484,420)	377,507	(1,106,913)
2.2.	distribution of profit	30122	–	342	–	(342)	x	–
2.3.	transfer of the amounts of revaluation of disposed property equipment and intangible assets to retained earnings	30123	x	x	x	639	(639)	–
2.4.	other changes	30124	–	–	–	–	–	–
3.	Balance as at January 1, 2017	3013	25,000	36,314	832	(10,132,365)	2,624,648	(7,445,571)
Section II. For the reporting period								
4.	Balance as at January 1, 2017	3011	25,000	36,314	832	(10,132,365)	2,624,648	(7,445,571)
5.	Changes of equity items, including:	3012	–	(36,314)	–	(1,097,218)	460,482	(673,050)
5.1.	comprehensive income	30121	x	x	x	(1,133,722)	460,672	(673,050)
5.2.	distribution of profit	30122	–	639	–	(639)	x	–
5.3.	transfer of the amounts of revaluation of disposed property equipment and intangible assets to retained earnings	30123	x	x	x	190	(190)	–
5.4.	other changes	30125	–	(36,953)	–	36,953	–	–
6.	Balance as at January 1, 2018	3013	25,000	–	832	(11,229,583)	3,085,130	(8,118,621)

Chairman of the Board

P.V. Kallaur

Head of the Accounting and Reporting
Directorate – Chief Accountant

V.A. Semenov

Signing date 14 March 2018

INFORMATION
on comprehensive income
for 2017

National Bank of the Republic of Belarus

(BYN, thousand)

No.	Description	Index	Note item	2017	2016
1.	Loss	301211	18	(1,133,722)	(1,484,420)
2.	Other components of comprehensive income, including:	301212	19	460,672	377,507
2.1.	revaluation of fixed assets and non-installed equipment	3012121		(5)	–
2.2.	revaluation of intangible assets	3012122		–	–
2.3.	translation differences from foreign exchange revaluation	3012123		–	–
2.4.	revaluation of precious metals	3012124		460,078	378,268
2.5.	revaluation of securities	3012125		599	(761)
2.6.	revaluation of hedging instruments	3012126		–	–
2.7.	revaluation of precious stones	3012127		–	–
2.8.	revaluation of other balance sheet items	3012128		–	–
3.	TOTAL comprehensive income	30121		(673,050)	(1,106,913)

Chairman of the Board

P.V. Kallaur

Head of the Accounting and Reporting
Directorate – Chief Accountant

V.A. Semenov

Signing date 14 March 2018

STATEMENT
of the formation and use of reserves
for 2017

National Bank of the Republic of Belarus

(BYN, thousand)

No.	Item	Index	Statutory fund	Reserve fund	Other funds	Fixed assets and noninstalled equipment revaluation reserve	Intangible assets revaluation reserve	Translation differences funds from foreign exchange revaluation fund (re-calculated)	Precious metals and precious stones revaluation reserves	Securities revaluation reserve	Hedging instrument revaluation reserve	Other balance sheet items revaluation reserve	Total
Section I. For the year preceding the reporting year													
1.	Balance as at January 1, 2016	4011	25,000	35,972	832	122,007	–	–	2,125,718	55	–	–	2,309,584
2.	Paid into reserves by allocating profit	4012	–	342	–	x	x	x	x	x	x	x	342
3.	Paid into reserves by using other sources	4013	–	–	–	6	–	–	3,857,200	75	–	–	3,857,281
4.	Reserves used	4014	–	–	–	(645)	–	–	(3,478,932)	(836)	–	–	(3,480,413)
5.	Balance as at January 1, 2017	4015	25,000	36,314	832	121,368	–	–	2,503,986	(706)	–	–	2,686,794
Section II. For the reporting year													
6.	Balance as at January 1, 2017	4011	25,000	36,314	832	121,368	–	–	2,503,986	(706)	–	–	2,686,794
7.	Paid into reserves by allocating profit	4012	–	639	–	x	x	x	x	x	x	x	639
8.	Paid into reserves by using other sources	4013	–	–	–	431	–	–	2,665,668	1,024	–	–	2,667,123
9.	Reserves used	4014	–	(36,953)	–	(626)	–	–	(2,205,590)	(425)	–	–	(2,243,594)
10.	Balance as at January 1, 2018	4015	25,000	–	832	121,173	–	–	2,964,064	(107)	–	–	3,110,962

Chairman of the Board

P.V. Kallaur

Head of the Accounting and Reporting
Directorate – Chief Accountant

V.A. Semenov

Notes to the annual financial statements of the National Bank for 2017

1. Corporate information

The National Bank is the central bank and state body of the Republic of Belarus. It operates exclusively in the interests of the Republic of Belarus. In concert with the Government of the Republic of Belarus, the National Bank pursues a unified monetary policy of the Republic of Belarus.

The primary objectives of the National Bank are:

- to maintain price stability;
- to ensure the stability of the banking system of the Republic of Belarus;
- and
- to ensure the efficient, reliable and secure functioning of the payment system.

The National Bank operates in accordance with the Constitution of the Republic of Belarus, the Banking Code of the Republic of Belarus, laws of the Republic of Belarus and regulatory legal acts of the President of the Republic of Belarus and is independent in its activities.

The National Bank is accountable to the President of the Republic of Belarus.

As of 1 January 2018, the National Bank comprised a head office, five region main departments, a Training Center and a Settlement Center.

The Bank's registered legal address is 20, Nezavisimosty Ave., 220008 Minsk, Republic of Belarus.

2. Basis of accounting and reporting

The National Bank maintains its accounting records and prepares the annual financial statements in accordance with the Banking Code of the Republic of Belarus, the Law of the Republic of Belarus "On Accounting and Reporting" dated 12 July 2013, the Instructions on the Procedure for Organizing Accounting Policy at the National Bank of the Republic of Belarus approved by Resolution No. 407 of the Board of the National Bank of the Republic of Belarus dated 27 September 2010, the Instructions for Recording in Accounting the Operations of the National Bank of the Republic of Belarus approved by Resolution No. 770 of the Board of the National Bank of the Republic of Belarus dated 23 December 2013, the Instructions for the Compilation and Presentation of the Annual Financial Statements by the National Bank of the Republic of Belarus approved by Resolution No. 633 of the Board of the National Bank of the Republic of Belarus dated 28 December 2011, the

Instructions for Organizing Accounting at the National Bank of the Republic of Belarus approved by Resolution No. 419 of the Board of the National Bank of the Republic of Belarus dated 30 September 2010, and the national standards of the financial statements adopted by the National Bank.

The annual financial statements of the National Bank for the year ended 31 December 2017 comprise:

Balance sheet (Form 1)

Statement of income (Form 2)

Statement of changes in equity (Form 3)

Statement of the formation and use of reserves (Form 4)

Statement of maintenance costs of the National Bank (Form 6)

Statement of capital investments budget executions (Form 7)

Statement of profit and its allocation (Form 8), and

Notes to the annual financial statements.

Presentation currency of these annual financial statements is Belarusian ruble. These annual financial statements are prepared in thousands of Belarusian rubles ("BYN") in whole numbers. Accumulated loss, negative results by other equity items, expenses, loss for the reporting year, provisions and accumulated amortization are presented in brackets.

Amounts due from and due to JSC "Development Bank of the Republic of Belarus" and JSC "Belarusian Currency and Stock Exchange" are recorded in the annual financial statements in the respective items specified for banks.

The annual financial statements are prepared based on the balance sheet data of the National Bank. The annual financial statements do not include reports of the legal entities where the National Bank has an interest in equity and (or) which are controlled by the National Bank.

3. Summary of significant accounting policies

Accounting and reporting are based on the principles of going concern, independence, accrual, adequacy of income and expenses, credibility, predominance of the economic substance, prudence, neutrality, completeness, transparency, consistency and appropriateness.

The National Bank applies the combined accounting system using the automated banking system "Transaction activities" and local program packages.

3.1. Assets and liabilities denominated in foreign currency

Assets and liabilities arising from dealing in foreign currency are divided into monetary and non-monetary items for accounting purposes.

Transactions in foreign currency resulting in monetary items are reported in two measurements – the amount in a foreign currency and the equivalent

amount in Belarusian rubles – and are recorded in accounting at the official exchange rate of the Belarusian ruble to the relevant foreign currency set by the National Bank (hereinafter, the "official rate") at the date of recording. Monetary items are revalued to reflect changes in the official exchange rate.

Non-monetary items are recognized in accounting by translating their amounts into Belarusian rubles at the official exchange rate at the date of recording, using the method of currency position accounts. Thereafter, non-monetary items are recorded exceptionally in Belarusian rubles. Non-monetary items are not revalued.

Translation differences arising from revaluation of monetary items denominated in foreign currency are charged to offset account for dealing in foreign currency on a daily basis. Accumulated foreign exchange gains (losses) are recorded on the last working day and should be taken to the following accounts:

- to the balance sheet account for recognizing the foreign exchange revaluation reserve (in case of a positive difference); and
- to the balance sheet account for recognizing the foreign exchange revaluation reserve or to the balance sheet account for expenses arising from dealing in foreign currency if cash on the balance sheet account for recognizing the foreign exchange revaluation reserve is not available (in case of a negative difference) (Note 22).

The financial result of currency exchange operations arising from dealing in foreign currencies at the exchange rates other than the official exchange rate is taken to the gain or loss arising from dealing in foreign currency on a daily basis (Note 22).

As of 1 January 2018, the official exchange rates used for translating the assets and liabilities denominated in foreign currency were as follows:

Currency	Official exchange rate, BYN
1 Australian dollar (AUD)	1.5370
1000 Armenian drams (AMD)	4.1551
100 hryvnias (UAH)	7.0119
10 Danish kroner (DKK)	3.1611
1 US dollar (USD)	1.9727
1 euro (EUR)	2.3553
10 zlotys (PLN)	5.6242
100 yens (JPY)	1.7482
1 Canadian dollar (CAD)	1.5636
10 Chinese yuans (CNY)	3.0184
10 Norwegian kroner (NOK)	2.3876
100 Russian rubles (RUB)	3.4279
100 soms (KGS)	2.8430
1000 tenges (KZT)	5.9552
1 pound sterling (GBP)	2.6540
10 Swedish kronor	2.3894
1 Swiss franc (CHF)	2.0116

3.2. Precious metals and precious stones

Operations with precious metals in standard bars shall be recognized on the balance sheet accounts at accounting prices set by the National Bank and valid at the date of recording the operation.

Precious metals in small bars shall be recorded at actual acquisition cost.

Commemorative, bullion (investment) coins made of precious metals that are minted by the National Bank are accounted for at their nominal value.

Other precious metal coins, and precious metals in other forms and shapes are accounted for at their acquisition price.

Precious metals are written off the balance sheet accounts, including in case of sale, at their carrying amount.

The financial result from the National Bank's dealing with precious metals is determined as the difference between the carrying amount of precious metals and transaction (agreement) price. The financial result is recognized on the balance sheet accounts for income (expenses) arising from dealing with precious metals for accounting purposes (Note 23).

Revaluation of precious metals in standard bars shall be performed in proportion to changes in accounting prices.

Results of revaluation of precious metals reflected on balance sheet accounts at the date of revaluation are taken to:

the amount of a positive difference - balance sheet account for recognizing the precious metals revaluation reserve (Note 19); and

the amount of a negative difference - balance sheet account for recognizing the precious metals revaluation reserve; if cash on the balance sheet account for recognizing the precious metals revaluation reserve is not available - balance sheet account for expenses arising from dealing with precious metals (Notes 19 and 23).

Precious stones acquired by the National Bank are accounted for at their actual acquisition cost.

Precious stones sold are written off from the accounts for recognizing precious stones at their carrying amount.

Financial result arising from the National Bank's dealing with precious stones is determined as the difference between the consideration received and carrying amount of precious stones. The amount of the financial result as of the date of consideration receipt shall be taken to the balance sheet accounts for income (expenses) arising from dealing with precious stones (Note 23).

Precious stones are not subject to mandatory regular revaluation.

3.3. Securities

Securities acquired by the National Bank, except for securities acquired under repo agreements and on behalf of the customers, are accounted for at their acquisition price, including income paid (accumulated) in the form of interest, which shall be recorded separately. The amount of income in the form of discount is recorded as interest income accrued over the maturity period of a security from the date of its acquisition through the date of its redemption or sale. Securities are subsequently recorded within the category of financial assets, to which they have been classified.

Revaluation of securities at fair value shall be carried out on a monthly basis as of the last working day of the reporting month in case of their reclassification from one category to another or in case of derecognition.

Results of changes in the fair value (revaluation) of securities recognized at fair value are recorded at the date of revaluation as related to:

securities classified as "Financial assets at fair value through profit or loss" – on balance sheet accounts for income (expenses) arising from dealing with securities (Note 24); and

securities classified as "Financial assets available for sale" – on the balance sheet account for recognizing securities revaluation reserve (Note 19).

Income (expenses) arising from the change in the fair value of securities accumulated in the securities revaluation reserve are recorded until their disposal, except for formation of special provision for potential losses in respect of the assets exposed to credit risk.

Securities are written off the balance sheet accounts at their carrying amount.

Gains or losses from sale of securities are recorded as gains or losses from operations with securities (Note 24).

Securities received by the National Bank under repo agreements are recorded on the off-balance sheet accounts, and advances are recorded as financing transactions on the balance sheet accounts (Note 6).

Gains arising from financing under repo agreements are recorded as interest income (Note 20).

3.4. Securities of the National Bank

The National Bank issues securities bearing income in the form of interest or discount. Securities issued by the National Bank are recognized as they are placed (sold) at their nominal value. Expenses are recorded as interest expenses (Note 20). Upon issue of the securities bearing income in the form of discount, the amount of discount is recorded in deferred expenses and is subsequently taken to interest expenses over the period of maturity of securities.

Securities issued by the National Bank are derecognized as they are repurchased by the National Bank, including with the purpose of their subsequent sale.

3.5. Long-term financial investments

Long-term financial investments of the National Bank in statutory funds of legal entities are recorded in Belarusian rubles at the acquisition price, and cash contributions to form the assets are recorded in the amount of funds transferred by the National Bank.

3.6. Loans and deposits

Loans (borrowings) issued to the banks and customers and deposits placed are recorded as cash paid upon their issue (placement) taking into account the repayment made.

Loans received and deposits attracted are recorded in the amount of cash received (attracted) by the National Bank subject to the payments made.

3.7. Provisions

Special provisions for overall bank risks (hereinafter, "special provisions") are accrued to cover potential losses with respect to the assets of the National Bank in accordance with certain regulatory legal acts of the National Bank.

Special provisions with respect to assets denominated in foreign currency and exposed to credit risk, as well as provisions with respect to accrued and unearned income in foreign currency on such assets are accrued in the currency of these assets or income. Other special provisions are accrued in Belarusian rubles.

Amounts charged to special provisions are taken to the expenses of the National Bank in full (Note 26).

Decrease (reversal) of special provisions accrued is taken to the income of the National Bank in the reporting period when such decrease (reversal) takes place and when the amount for debt repayment, previously written off against provisions, is received.

Special provisions are used to write off losses with respect to the assets, for which these provisions have been accrued, upon the decision of the Board of the National Bank.

Assets, in respect of which special provisions have been accrued, are recorded in the balance sheet less the amount of the provisions accrued.

The National Bank accrues a provision for expected amounts of payments for short-term vacations of the employees of the National Bank, including payments for unused vacation and contributions for compulsory social insurance for occupational accidents and diseases to the budget of the state non-budgetary Social Security Fund of the Republic of Belarus (hereinafter, the "vacation provision").

Vacation provision is accrued in Belarusian rubles.

Contributions to the vacation provisions are charged to the expenses of the National Bank in full (Note 27):

for the accumulating paid vacations – not later than on the last working day of the reporting year; and

for the non-accumulating paid vacations – in the reporting period, in which they are accrued (settled) (directly upon commencement of a vacation).

The accumulated amount of the vacation provision is used in the month when an employee takes a vacation.

If there is no vacation provision or its accumulated amount is insufficient, the deficient amount for vacation payment is charged to the respective expenses and (or) deferred expenses accounts.

3.8. Derivative financial instruments

Derivative financial instruments are recognized as assets at fair value if their net fair value is positive (fair value of the claims exceeds the fair value of the liabilities) within "Derivative financial assets," or as liabilities if their net fair value is negative (fair value of the liabilities exceeds the fair value of claims) within "Derivative financial liabilities" in the balance sheet.

Fair value of claims and liabilities with respect to derivative financial instruments is defined in currency of the deal made with subsequent retranslating into Belarusian rubles at the official exchange rate using the discounted cash flow analysis and the market rates related to the respective financial instruments.

Fair value of derivative financial instruments and the amounts of claims and liabilities under an agreement to be executed in the future are recognized on the respective balance sheet accounts and on off-balance sheet accounts, respectively.

Revaluation of derivative financial instruments shall be carried out on a monthly basis as of the last working day of the reporting month upon their reclassification from one category to another or in case of derecognition.

Movements in the fair value of the derivative financial instruments (revaluation results) accumulated at the end of the reporting year are recorded on a net basis within "Other assets" and "Other liabilities" upon net negative difference and net positive difference, respectively. Upon execution of the

agreement, the accumulated changes are taken to the balance sheet accounts for income or expenses arising from dealing with the derivative financial instruments (Note 25).

3.9. Fixed assets and intangible assets

Recognition, initial or subsequent measurement and derecognition of fixed assets shall be performed in accordance with National Financial Reporting Standard 16 "Fixed Assets" (NFRS 16) approved by Resolution No. 708 of the Board of the National Bank of the Republic of Belarus dated 28 December 2012.

Recognition, initial or subsequent measurement and derecognition of intangible assets shall be performed in accordance with National Financial Reporting Standard 38 "Intangible Assets" (NFRS 38) approved by Resolution No. 25 of the Board of the National Bank of the Republic of Belarus dated 14 January 2013.

Fixed assets and intangible assets are recorded for accounting purposes at cost if revaluation is not required in accordance with the legislation, or at the revalued amount.

Measurement of the initial cost of fixed assets and intangible assets occurs before their delivery and bringing into a condition in which they are suitable for use (before putting into operation).

Revalued amount is the cost of fixed assets after their revaluation.

Revaluation of fixed assets, non-installed equipment, installed equipment and ready-to-operate equipment as a part of construction in progress and investments in fixed assets is carried out in accordance with Edict No. 622 of the President of the Republic of Belarus "On Revaluation of Fixed Assets, Income-Bearing Investments in Tangible Assets, Construction in Progress and Non-installed Equipment" dated 20 October 2006.

The amounts of revaluation of disposed fixed assets recognized in the equity, except for fixed assets contributed as non-cash contributions in the statutory fund of another legal entity, are taken in full to the account for recording retained earnings (uncovered loss) of prior years.

Fixed and intangible assets are depreciated on a monthly basis in accordance with:

The Instructions on the Procedure of Depreciation of Fixed Assets and Amortization of Intangible Assets approved by Resolution No. 37/18/6 of the Ministry of Economy of the Republic of Belarus, Ministry of Finance of the Republic of Belarus, Ministry of Architecture and Construction of the Republic of Belarus dated 27 February 2009; and

Resolution No. 161 of the Ministry of Economy of the Republic of Belarus "On Establishing Standard Useful Lives of Fixed Assets and Deeming

as no Longer Effective Certain Resolution of the Ministry of Economy of the Republic of Belarus" dated 30 September 2011, as modified by regulations of the National Bank.

Fixed assets and intangible assets are depreciated using a straight-line method and the amortization charges are taken to the expenses of the National Bank on a monthly basis.

The useful lives, standard service lives of fixed assets and useful lives of intangible assets can be established and revised by the decision of the authorized commission.

The useful lives of fixed assets are as follows:

Buildings and structures – from 6 to 100 years;

Computers – from 1 to 7 years;

Motor vehicles – from 6 to 10 years; and

Other fixed assets – from 1 to 58 years.

The useful lives for intangible assets are from 1 to 19 years.

3.10. Cash in circulation

The National Bank has an exclusive right to issue money and organize its circulation. Banknotes and coins issued into circulation by the National Bank, as well as commemorative, bullion (investment) coins and commemorative banknotes are recorded for the accounting purposes at their nominal value.

3.11. Balances on accounts with the National Bank

Balances on accounts with the National Bank include:

Precious metals;

Amounts due to international financial institutions;

Amounts due to banks;

Amounts due to customers; and

Obligatory reserves of banks.

Balances on the accounts with the National Bank are recorded at nominal value of liabilities except for precious metals, which are recorded at accounting prices.

Balances on accounts with the National Bank are derecognized upon discharge of liabilities, their replacement by new liabilities, withdrawal or expiry of liabilities.

3.12. Equity

The National Bank's equity comprises:

Statutory fund;

Reserve fund and other funds;
Accumulated deficit;
Balance sheet items revaluation reserve.

Information on the sources of formation and use of the reserves is disclosed in the statement of changes in equity (Form 3) and the statement of the formation and use of reserves (Form 4).

3.13. Loss of the reporting year

Loss of the reporting year is the financial result of the National Bank's operations for the reporting period. Financial result of the operations (profit or loss) of the National Bank is determined as the difference between the gains received and losses incurred during the calendar year in the course of the National Bank's activities in accordance with the Banking Code of the Republic of Belarus and other legislative acts.

Information on the loss of the reporting year is disclosed in the statement of income (Form 2).

3.14. Income and expenses

The National Bank recognizes income and expenses in accordance with the requirements of the Instructions on Recognizing in Accounting Income and Expenses of the National Bank of the Republic of Belarus, Banks and Non-bank Financial Institutions of the Republic of Belarus approved by Resolution No. 125 of the Board of the National Bank dated 30 July 2009, on an accrual basis, the Instructions on the Procedure for Organizing Accounting Policy at the National Bank of the Republic of Belarus, and other regulations of the National Bank. Income and expenses are recognized in the reporting period to which they relate, irrespective of the actual date of their receipt or payment.

When interest income on the operations related to placement (issue) of cash, precious metals and precious stones, income as an interest or discount on securities acquired is recognized for accounting purposes, the probability of interest income is defined in accordance with the Instructions on Defining Probability of Interest Income and Other Income Directly Associated With Assets at the National Bank of the Republic of Belarus approved by Resolution No. 588 of the Board of the National Bank dated 29 December 2010.

Criteria for defining the possibility of receiving income from asset operations with the banks of the Republic of Belarus and other legal entities include the classification of assets bearing credit risk by certain groups of risk in accordance with the Instruction on the Procedure for Forming and Using Special Provisions for Possible Losses on Assets Exposed to Credit Risk and

for Unearned Income on Such Assets approved by Resolution No. 508 of the Board of the National Bank dated 9 November 2011.

Income accrued from placements with non-resident banks of the loans received from the International Monetary Fund and other external government loans received by the Government of the Republic of Belarus, and external loans received under the guarantees of the Government of the Republic of Belarus, shall be transferred to the republican budget in accordance with Article 31 of the Budget Code of the Republic of Belarus. Such income is recognized as accounts receivable for the accounting purposes.

Interest income on securities of JSC "Development Bank of the Republic of Belarus" and local executive and regulatory authorities to be transferred in accordance with Edict No. 593-dsp of the President of the Republic of Belarus "On Improving the Asset Structure of the National Bank" dated 23 December 2011, is recorded as interest expenses (Note 20).

3.15. Taxation of the National Bank

In accordance with the Tax Code of the Republic of Belarus, the National Bank is released from taxes and levies (duties, except for customs duties).

The National Bank is not released from the obligation to perform the duties of a tax agent, including withholding taxes and levies (duties) from salary payments and other income accrued (transferred).

3.16. Changes in comparative information

Resolution No. 733 of the Board of the National Bank "On Amending and Supplementing the Instructions on the Procedure for Organizing Accounting Policy at the National Bank of the Republic of Belarus" dated 9 December 2015, has changed the procedure for recognizing accumulated foreign exchange gains (losses) arising from revaluation of monetary items denominated in foreign currency, starting 1 January 2016.

Foreign exchange gains (losses) accumulated by 1 January 2016 were taken to balance sheet account 5052 "Retained earnings (uncovered loss) of prior years," according to Resolution No. 537 of the Board of the National Bank "On the Transfer of the Foreign Exchange Revaluation Reserve" dated 27 December 2017.

Changes in the comparative information included in the balance sheet as of 1 January 2017 are provided in the table below.

Item	Note	2016	Change	2016 (as changed)
Accumulated deficit	18	(3,435,351)	(6,697,014)	(10,132,365)
Balance sheet items revaluation reserve	19	(4,072,366)	6,697,014	2,624,648

Changes in the comparative information included in the statement of changes in equity for 2016 are provided in the table below.

Item	Index	Retained earnings (loss)	Balance sheet items revaluation reserve
Balance as of 1 January 2016	3011	(1,951,228)	(4,449,234)
Balance as of 1 January 2016 (as changed)	3011	(8,648,242)	2,247,780
Balance as of 1 January 2017	3013	(3,435,351)	(4,072,366)
Balance as of 1 January 2017 (as changed)	3013	(10,132,365)	2,624,648

Changes in the comparative information included in the statement of the formation and use of reserves for 2016 are provided in the table below.

Item	Index	Foreign exchange revaluation reserve
Balance as of 1 January 2016	4011	(6,697,014)
Balance as of 1 January 2016 (as changed)	4011	—
Balance as of 1 January 2017	4015	(6,697,014)
Balance as of 1 January 2017 (as changed)	4015	—

Resolution No. 506 of the Board of the National Bank "On Amending the Instructions for the Compilation and Presentation of the Annual Financial Statements by the National Bank of the Republic of Belarus" dated 15 December 2017, introduced changes in the statement of profit and its allocation (Form 8), according to which the statement shall disclose profit of the reporting year (Index 2), undistributed profit of past years (Index 3) and allocation of profit that requires approval.

Changes in the comparative information included in the statement of profit and its allocation for 2016 are provided in the table below.

Item	Index	2016	2016 (as changed)
Loss	2	(1,484,420)	—
Profit	2	—	—

Item	Index	2016	2016 (as changed)
Undistributed profit of past years	3	—	639
Allocation of profit of past years that requires approval:			
requires approval:	321	—	639
Reserve fund	3213	—	639

4. Precious metals and precious stones

	2017	2016
Gold, other precious metals and precious stones	1,313,187	1,177,834
Precious metal deposits	2,516,372	1,866,101
Correspondent accounts in precious metals	218,102	516,970
Total	4,047,661	3,560,905
Provisions	—	—
Total	<u>4,047,661</u>	<u>3,560,905</u>

An increase in the item results from placing funds on deposits in non-resident banks and changes in the accounting prices for precious metals in standard bars established by the National Bank.

5. Securities

	2017	2016
Securities at fair value through profit or loss:		
Securities of foreign governments	272,981	423,357
Securities of banks	62,238	146,377
Other securities	47,676	26,405
Total	382,895	596,139
Provisions	—	—
Total	<u>382,895</u>	<u>596,139</u>
Securities available for sale:		
Securities of banks	1,413,692	1,415,114
Securities of the republican government bodies	454,261	474,108
Securities of local government bodies	11,033	12,983
Securities of foreign governments	—	4,976
Other securities	—	5,352
Total	1,878,986	1,912,533
Provisions	—	(4,014)
Total	<u>1,878,986</u>	<u>1,908,519</u>
Total	<u>2,261,881</u>	<u>2,504,658</u>

Securities at fair value through profit or loss include bonds of foreign governments, non-resident banks and non-resident financial institutions. This

portfolio has been formed as part of the National Bank's participation in the Reserves Advisory and Management Program (RAMP) of the World Bank's Treasury.

Securities available for sale include securities of non-resident banks, JSC "Development Bank of the Republic of Belarus," the republican government bodies, and local government bodies.

Securities of non-resident banks were purchased in order to increase the effectiveness of managing foreign currency denominated reserves.

Bonds of JSC "Development Bank of the Republic of Belarus" were acquired by the National Bank on the primary market during their placement under Edict No. 593-dsp of the President of the Republic of Belarus dated 23 December 2011.

Securities of the republican government bodies include interest-bearing long-term government bonds of the Republic of Belarus denominated in Belarusian rubles.

Securities of local government bodies include the bonds of local executive and regulatory authorities denominated in Belarusian rubles and acquired by the National Bank for the purpose of implementing objectives of social and economic development of the regions of the Republic of Belarus.

The unearned interest income on bonds of JSC "HORIZONT-BELINVEST-DEVELOPER" was written off in the reporting year against the special provision created for this item.

6. Amounts due from banks

	2017	2016
Loans	227,128	250,805
Deposits	5,920,949	2,634,887
Amounts on correspondent accounts	2,710,185	2,299,960
Amounts received under repurchase transactions	1,112,101	561,909
Other amounts	2,470	281
Total	9,972,833	5,747,842
Provisions	-	-
Total	9,972,833	5,747,842

The item "Loans" includes liabilities under loans granted to:

Resident banks in order to finance investment import from the People's Republic of China, and subsequent lending aimed at completing investment projects; and

The People's Bank of China (in Belarusian rubles) under a bilateral agreement on currency swap.

The item "Deposits" includes amounts placed with non-resident banks under a time bank deposit agreement in foreign currency.

Foreign currency denominated amounts placed on correspondent accounts with non-resident banks increased by BYN422,564 thousand and amounted to BYN2,481,310 thousand as of the reporting date. Foreign currency denominated amounts placed on correspondent accounts with resident banks decreased by BYN12,339 thousand and amounted to BYN228,875 thousand as of the reporting date.

Amounts placed with non-resident banks resulting from purchase of securities of foreign issuers and subject to repurchase are included in the item "Amounts received under repurchase transactions." Securities received by the National Bank as collateral under repurchase transactions are recognized on off-balance sheet account at present value of USD563.7 million (equivalent to BYN1,112,010 thousand). Fund placement transactions are one-day.

Interest income accrued on funds of the Government of the Republic of Belarus placed with non-resident banks and receivable from them is included in the item "Other amounts".

7. Loans and other asset operations with customers

	2017	2016
Loans (borrowings)	602	12,834
Amounts due from (placed with) international financial institutions	11,640	–
Other amounts	7	6
Total	12,249	12,840
Provisions	–	(6)
Total	12,249	12,834

Amounts due from individuals (employees of the National Bank) under loans (borrowings) which were previously issued as loans for real estate financing are included in the item "Loans (borrowings)."

In the reporting year, the National Bank assigned to JSC "Belinvestbank" the right of claim under loan agreements pursuant to which the National Bank issued loans for real estate financing to its employees, except for loans issued on subsidized terms according to Edict No. 185 of the President of the Republic of Belarus "On Granting Subsidized Loans and Lump Sum Subsidies to Citizens for Construction (Reconstruction) or Purchase of Residential Premises" dated 14 April 2000 and Edict No. 13 of the President of the Republic of Belarus "On Certain Aspects of Providing Government Support to Citizens for Construction (Reconstruction) or Purchase of Residential Premises" dated 6 January 2012.

Amounts provided to the International Bank for Reconstruction and Development under the Reserves Advisory and Management Program (RAMP) of the World Bank's Treasury are included in the item "Amounts due from (placed with) international financial institutions".

Cash used in settlements on bank card transactions is included in the item "Other amounts."

8. Long-term financial investments

	2017	2016
Participation interests	9,205	9,205
Investments in legal entities	224,159	151,495
Total	233,364	160,700
Provision	–	–
Total	<u>233,364</u>	<u>160,700</u>

This item and changes in investments of the National Bank for the reporting year are presented in the following table.

Investment	2017		2016	
	Participation interest in the statutory fund, % (at par)	Carrying amount	Participation interest in the statutory fund, % (at par)	Carrying amount
Participation interests				
JSC "Banking Processing Center"	39.17	6,344	39.17	6,344
Interstate Bank, Moscow	8.40	1	8.40	1
JSC "Belinvestbank"	1.16	2,684	1.16	2,684
JSC "Development Bank of the Republic of Belarus"	0.01	176	0.01	176
Investments in legal entities				
JSC "Belarusian Currency and Stock Exchange"	99.98	13,917	99.98	10,642
JSC "Bank Moscow-Minsk"	99.75	58,804	99.75	58,804
JSC "Sanatorium Ozerny"	99.61	19,651	99.61	19,148
JSC "Belarusian Interbank Settlement Center"	99.00	67,990	–	–
JSC "Sanatorium Ruzhansky"	97.62	42,372	97.62	42,159
JSC "Center for Banking Technologies"	94.10	217	94.10	217
CJSC "Bank Finance Telenetwork"	64.50	675	64.50	524
OJSC "Non-bank Financial Institution "SSIS"	51.78	10,533	51.78	10,001
State Institution "Agency of Deposit Compensation"	x	10,000	x	10,000

Increase in long-term financial investments of the National Bank resulted from:

a cash and a non-cash contribution to the statutory fund of JSC "Belarusian Interbank Settlement Center" in accordance with Edict No. 371 of the President of the Republic of Belarus "On the Belarusian Interbank Settlement Center" dated 10 October 2017; and

an increase in the nominal value of shares of JSC "Belarusian Currency and Stock Exchange," JSC "Sanatorium Ozerny", JSC "Sanatorium

Ruzhansky", CJSC "Bank Finance Telenetwork", OJSC "Non-bank Financial Institution "SSIS".

Cash contribution to form assets of the State Institution "Agency for the Guaranteed Repayment of Natural Persons' Bank Deposits" is accounted for in the amount of cash transferred by the National Bank in accordance with Decree No. 22 of the President of the Republic of Belarus "On Safety Guarantees for Households' Deposits" dated 4 November 2008.

9. Fixed and intangible assets

	2017	2016
Fixed assets	173,797	218,419
Intangible assets	16,955	14,334
Non-installed equipment and construction materials	23,251	18,920
Investments in fixed assets and construction in progress	2,529	9,535
Investments in intangible assets	5,372	2,351
Total	221,904	263,559
Depreciation and amortization	(87,877)	(99,434)
Total	134,027	164,125

9.1. Value of fixed and intangible assets

Groups	Balance as of 1 January 2017	Additions (commissioned)	Disposals	Change resulting from revaluation	Balance as of 1 January 2018
Buildings and structures	119,381	4,098	19,843	–	103,636
Other fixed assets	99,038	8,835	37,712	–	70,161
Intangible assets	14,334	3,733	1,112	–	16,955
Non-installed equipment and construction materials	18,920	12,670	8,339	–	23,251
Investments in fixed assets and construction in progress	9,535	6,898	13,904	–	2,529
Investments in intangible assets	2,351	6,579	3,558	–	5,372
Total	263,559	42,813	84,468	–	221,904

9.2. Accumulated depreciation and amortization

Groups	Balance as of 1 January 2017	Accrued depreciation and amortization charges	Depreciation and amortization charges on disposed fixed assets	Change resulting from revaluation	Balance as of 1 January 2018
Buildings and structures	23,938	1,923	3,867	–	21,994
Other fixed assets	67,618	8,118	21,177	–	54,559
Intangible assets	7,878	4,429	983	–	11,324
Total	99,434	14,470	26,027	–	87,877
Net book value	164,125	x	x	x	134,027

In accordance with Edict No. 622 of the President of the Republic of Belarus dated 20 October 2006, Resolution No. 27 of the Board of the National Bank of the Republic of Belarus "On Revaluation of Fixed Assets, Construction in Progress and Non-installed Equipment" dated 20 January 2017 and Resolution No. 21 of the Board of the National Bank of the Republic of Belarus "On Revaluation of Fixed Assets, Construction in Progress and Non-installed Equipment" dated 19 January 2018, revaluation of fixed assets, non-installed equipment, installed equipment and ready-to-operate equipment within construction in progress and investments in fixed assets was not performed as of 1 January 2017 and 1 January 2018.

Revalued cost of fully depreciated fixed assets and fully amortized intangible assets, which continue to be in use, is as follows:

Buildings and structures – BYN642 thousand;
 Computers – BYN10,065 thousand;
 Motor vehicles – BYN1,760 thousand;
 Other fixed assets – BYN20,667 thousand; and
 Intangible assets – BYN2,924 thousand.

10. Other assets

	2017	2016
Deferred expenses	289,837	651,647
Settlements with debtors	1,621	2,577
Accrued fees, other banking and operating income	3,331	2,506
Other assets	3,245	2,991
Total	298,034	659,721
Provision	(44)	(44)
Total	<u>297,990</u>	<u>659,677</u>

Decrease in the item "Deferred expenses" occurred because part of the value of the shares of agricultural organizations transferred free of charge under Edict No. 593-dsp of the President of the Republic of Belarus dated 23 December 2011, was taken to expenses (Note 27).

11. Precious metals and precious stones

	2017	2016
Precious metal deposits	36,888	41,709
Amounts on correspondent accounts	255	19,574
Other amounts	45,432	44,438
Total	<u>82,575</u>	<u>105,721</u>

Amounts placed by the Ministry of Finance on unallocated metals accounts of customers are included in the item "Other amounts".

12. Amounts due to international financial institutions

	2017	2016
Amounts due to the International Monetary Fund	4,732	4,735
Amounts due to the International Bank for Reconstruction and Development	13	12
Total	<u>4,745</u>	<u>4,747</u>

13. Amounts due to banks

	2017	2016
Loans	1,122,302	1,811,545
Deposits	40,026	439,994
Amounts on correspondent accounts	3,891,652	2,092,458
Other amounts	61,231	17,409
Total	<u>5,115,211</u>	<u>4,361,406</u>

Amounts of loans from non-resident banks, including the loan in Chinese yuans under a bilateral agreement on currency swap between the National Bank of the Republic of Belarus and the People's Bank of China, are included in the item "Loans". A decrease in this item mainly results from the discharge by the National Bank of its obligations.

A decrease in the item "Deposits" results from completion of transaction to attract as deposits cash of resident banks in Belarusian rubles.

Other amounts include:

accrued interest expenses in the amount of interest income on bonds of JSC "Development Bank of the Republic of Belarus," payable to JSC "Development Bank of the Republic of Belarus";

amounts transferred by resident banks under cash transactions; and

amounts for finalizing settlements with resident banks in accordance with the correspondent account agreements.

14. Amounts due to customers

	2017	2016
Deposits	1,980,573	1,532,944
Balances on current (settlement) accounts	6,775,171	3,372,544
External government loans raised by the Republic of Belarus, the Government	3,156,320	1,566,800
Other amounts	27,814	23,788
Total	<u>11,939,878</u>	<u>6,496,076</u>

The item "Other amounts" includes:

Budget funds of the Union State;

Non-budgetary funds on accounts of the Ministry of Finance;

Accrued interest expenses in the amount of interest income on bonds of local executive and regulatory authorities payable to the state budget; and

Interest income accrued on amounts (received by the Government of the Republic of Belarus) placed with non-resident banks which is payable to the state budget in accordance with Article 31 of the Budget Code of the Republic of Belarus.

15. Securities of the National Bank

	2017	2016
Bonds	4,606,821	6,787,809
Total	<u>4,606,821</u>	<u>6,787,809</u>

Securities issued by the National Bank include bonds in Belarusian rubles and freely convertible currency providing for income in the form of discount, and bonds in freely convertible currency providing for income in the form of interest, maturing in 2018 through 2019 and acquired by resident banks and non-resident banks.

The National Bank issues bonds in the course of monetary regulation activities, as well as for the purposes of formation of gold and foreign currency reserves of the Republic of Belarus.

16. Other liabilities

	2017	2016
Settlements with creditors	1,032	1,302
Accrued fees, other banking and operating expense	480	662
Other liabilities	24	23
Total	<u>1,536</u>	<u>1,987</u>

17. Reserve fund and other funds

	2017	2016
Reserve fund	–	36,314
Other funds	832	832
Total	<u>832</u>	<u>37,146</u>

Amounts from the reserve fund of the National Bank were used in the reporting year to cover losses of the National Bank, pursuant to Resolution

No. 323 of the Board of the National Bank "On Using the Reserve Fund to Cover Losses of the National Bank" dated 8 August 2017.

The loan fund totaling BYN832 thousand did not change in 2017.

Information on the sources of formation and use of the reserves of the National Bank is disclosed in the statement of changes in equity and the statement of the formation and use of reserves (Note 28).

18. Accumulated deficit

	2017	2016
Uncovered loss of prior years	(10,096,051)	(8,648,584)
Retained earnings on disposed fixed assets	190	639
Loss of the reporting year	(1,133,722)	(1,484,420)
Total	<u>(11,229,583)</u>	<u>(10,132,365)</u>

Loss of the National Bank for 2017 amounted to BYN1,133,722 thousand; specifically, income totaled BYN448,172 thousand and expenses totaled BYN1,581,894 thousand.

19. Balance sheet items revaluation reserve

	2017	2016
Fixed assets and non-installed equipment revaluation reserve	121,173	121,368
Precious metals revaluation reserve	2,964,064	2,503,986
Securities revaluation reserve	(107)	(706)
Total	<u>3,085,130</u>	<u>2,624,648</u>

Information on the sources of formation and use of the revaluation reserve for balance sheet items is disclosed in the statement of changes in equity (Form 3) and the statement of the formation and use of reserves (Form 4).

20. Net interest expenses

	2017	2016
Interest income on:	<u>329,535</u>	<u>529,175</u>
operations with precious metals	7,535	10,512
amounts due from banks	131,303	220,602
securities at fair value through profit or loss	5,695	6,451
securities available for sale	184,195	290,786
settlements with customers	<u>807</u>	<u>824</u>

	2017	2016
Interest expenses on:	(860,645)	(957,847)
operations with precious metals	(43)	(153)
settlements with banks	(196,237)	(308,082)
securities of the National Bank	(446,087)	(497,286)
loans received	(71,103)	(100,787)
operations involving budget funds and other state funds	(111,216)	(32,288)
amounts due to customers	(29,884)	(13,233)
other amounts due to customers	(1,636)	(3,356)
other	(4,439)	(2,662)
Total	<u>(531,110)</u>	<u>(428,672)</u>

A decrease in interest income mainly results from the decrease in the refinancing rate from 18% to 11% p.a. and the reduction in the volume of refinancing for resident banks amid excessive liquidity of the banking system.

A decrease in interest expenses on settlements with banks mainly results from the decrease in the refinancing rate in 2017, and a decrease in interest expenses on loans received results from the discharge by the National Bank of its obligations.

An increase in interest expenses on operations involving budget funds and other state funds, and amounts due to customers results from the growth in amounts deposited by the Ministry of Finance and the State Institution "Agency for the Guaranteed Repayment of Natural Persons' Bank Deposits".

The item "Other" includes interest expenses on cash placed on correspondent accounts and on deposits with non-resident banks at negative interest rates.

21. Net fee and commission income

	2017	2016
Fee and commission income on:	2,434	2,637
account maintenance	328	145
securities transactions	46	41
transactions with foreign currency	59	102
provision of access to the AIS "Settlement," receipt and distribution of payments in the AIS "Settlement"	–	1,097
provision of credit reports	1,919	1,160
other	82	92
Fee and commission expenses on:	(2,272)	(2,414)
account maintenance	(1,184)	(1,016)
transactions involving bank cards	(19)	(18)
securities transactions	–	(1)
transactions with foreign currency	(5)	(7)
consulting services and investment management provided by IBRD	(659)	(987)
other	(405)	(385)
Total	<u>162</u>	<u>223</u>

An increase in fee and commission income on account maintenance relates to introducing additional commissions for the maintenance of correspondent accounts in euro, and an increase in such income on provision of credit reports results from higher tariffs and a larger number of credit reports provided.

A decrease in fee and commission expenses on consulting services and investment management provided by the International Bank for Reconstruction and Development results from a decrease in investments in bonds issued by the US Government.

The absence of fee and commission income from services on receipt and distribution of payments in the system of the unified settlement and information framework relates to the establishment of OJSC "Non-bank Financial Institution "SSIS" in 2016.

22. Net loss from foreign currency transactions

	2017	2016
Gains from foreign currency transactions:		
financial result from currency exchange transactions	16,988	105,907
	<u>16,988</u>	<u>105,907</u>
Losses from foreign currency transactions:		
translation differences from foreign exchange revaluation	(166,972)	(495,129)
financial result from currency exchange transactions	(160,299)	(417,626)
	<u>(6,673)</u>	<u>(77,503)</u>
Total	<u>(149,984)</u>	<u>(389,222)</u>

A decrease in translation differences from foreign exchange revaluation is due to a decrease in the negative value of the currency position and a slower rate of weakening of the Belarusian ruble against major currencies.

23. Net gain from operations with precious metals and precious stones

	2017	2016
Gains from operations with precious metals	1,314	7,591
Gains from operations with precious stones	145	3,452
Losses from operations with precious metals	(263)	(239)
Losses from operations with precious stones	(3)	(9)
Total	<u>1,193</u>	<u>10,795</u>

Income includes positive differences between the realizable value and the carrying amount of precious metals and precious stones.

A decrease in gains from operations with precious metals results from a decrease in sales of small bars to legal entities and individuals on the domestic market.

A decrease in gains from operations with precious stones occurred because only certified diamonds were sold on the domestic market in the reporting year, whereas non-certified diamonds were not sold.

Losses from operations with precious metals mainly comprise the cost of changes in the location of precious metals. Losses from operations with precious stones comprise costs to write off packaging and quality certificate forms for precious stones.

24. Net loss from operations with securities

	2017	2016
Gains from operations with securities:		
at fair value through profit or loss	2,278	7,967
available for sale	2,278	7,960
	–	7
Losses from operations with securities:		
at fair value through profit or loss	(5,421)	(8,588)
available for sale	(4,543)	(8,527)
	(878)	(61)
Total	(3,143)	(621)

This item includes the result of changes in the fair value of bonds of non-resident banks acquired by the National Bank and the result of changes in the fair value of bonds of non-resident banks accumulated in the revaluation reserve, which is recorded within income (expense) upon disposal (redemption) of bonds.

25. Net loss from operations with derivative financial instruments

	2017	2016
Gains from derivatives:		
Swaps	–	9,428
	–	9,428
Losses from derivatives:		
Forwards	–	(579,015)
Swaps	–	(572,733)
	–	(6,282)
Total	–	(569,587)

26. Net charge to provisions

	2017	2016
Charges to provisions:		
For securities transactions	(1,351)	(4,064)
For settlements with customers	(1,338)	(4,014)
For other transactions	(13)	(18)
	–	(32)

	2017	2016
Decrease in provisions:	36	16
For settlements with customers	19	12
For other transactions	17	4
Total	<u>(1,315)</u>	<u>(4,048)</u>

The item reflects charges to provisions and decrease (reversal) of provisions.

27. Other expenses, net

	2017	2016
Other expenses:	(544,801)	(156,469)
Long-term financial investments	(403,000)	(32,693)
Staff costs	(52,021)	(47,164)
Disposal of property	(32,757)	(6,514)
Depreciation and amortization charges	(14,470)	(11,988)
Fixed assets and inventories	(11,254)	(12,461)
Manufacture and delivery of banknotes and coins	(6,610)	(551)
Creation of material and technical basis for educational institutions	(5,535)	(5,666)
Support to educational institutions	(4,650)	(2,923)
Acquisition and maintenance of software	(4,646)	(3,805)
Consulting, audit, informational, marketing, advertising and other received services	(2,095)	(2,072)
Gratuitous (sponsor) support	(1,432)	(79)
Payment system operation	(515)	(459)
Transportation, delivery of documents	(287)	(292)
On redenomination of the official currency of the Republic of Belarus	–	(24,302)
Other	(5,529)	(5,500)
Other income:	89,241	49,193
Long-term financial investments	45,473	7,727
Settlement services	19,088	12,679
Cash services to banks	7,000	6,804
Transportation, delivery of documents	5,927	8,100
Services provided by the Settlement Center	3,995	3,783
Sale of coins and banknotes	3,149	5,622
Disposal of property	140	205
Other	4,469	4,273
Total	<u>(455,560)</u>	<u>(107,276)</u>

Expenses on long-term financial investments comprise expenses to partially write down shares in agricultural organizations recognized as deferred expenses in accordance with Edict No. 593-dsp of the President of the Republic of Belarus dated 23 December 2011.

An increase in expenses on disposal of property results from making a non-cash contribution to the statutory fund of JSC "Belarusian Interbank Settlement Center."

An increase in expenses on the manufacture and delivery of banknotes and coins results from taking to expenses the cost of precious metals used to mint bullion (investment) coins.

Other expenses mainly comprise communication fees, write-down of acquired goods and produce of canteens, tools and administrative materials, medications, entertainment expenses, expenses for campaigns to enhance financial literacy, and expenses to publish the Bankauski Vesnik magazine.

Income from long-term financial investments include income arising from the National Bank's non-cash contribution to the statutory fund of JSC "Belarusian Interbank Settlement Center."

Other income mainly comprises income from paid services, canteen services, leasing, compensation for utilities and other expenses.

28. Statement of changes in equity. Statement of the formation and use of reserves

In accordance with clause 33 of the Charter of the National Bank of the Republic of Belarus, the statutory fund of the National Bank comprises BYN25,000 thousand and is fully provided as of the reporting date.

The reserve fund of the National Bank is formed through deductions from the reporting period profit and other sources allowed by legislation. The retained earnings of BYN639 thousand, resulting from the transfer of revaluation amounts on fixed assets disposed in 2016, were included in the reserve fund in 2017, in accordance with Edict No. 182 of the President of the Republic of Belarus "On Approving the Statement of the National Bank for 2016" dated 25 May 2017.

In accordance with clause 35 of the National Bank's Charter, the reserve fund is formed to cover potential losses arising from the National Bank's operations for which no special provisions for general banking risks are created, including risks associated with the issuance of guarantees. Amounts from the reserve fund were used in 2017 to cover losses of the National Bank (Note 17).

Other funds formed in accordance with clause 34 of the National Bank's Charter comprise a loan fund totaling BYN832 thousand as of 1 January 2018.

The balance sheet items revaluation reserve is formed as follows:

Revaluation reserve for fixed assets and non-installed equipment of BYN121,173 thousand. Revaluation of fixed assets retired in the reporting period in the amount of BYN190 thousand, which was transferred to retained earnings;

Revaluation reserve for precious metals amounted to BYN2,964,064 thousand. In 2017, an increase of BYN460,078 thousand results from the revaluation of monetary precious metals performed in proportion to changes in accounting prices; and

Securities revaluation reserve was negative at BYN107 thousand, including accumulated revaluation of securities available for sale. On disposal of securities, the accumulated revaluation result is transferred to balance sheet accounts for income (expenses) arising from dealing with securities (Note 24).

Resolution No. 163 of the Board of the National Bank of the Republic of Belarus dated 17 March 2015 approved the Plan of Actions to Increase the Equity of the National Bank and to Achieve Break-even Operations in 2015-2018, which comprises a set of measures to cover the negative capital of the National Bank and to improve financial results.

29. Statement of maintenance costs of the National Bank

In accordance with "Estimates of Current Expenses and Capital Expenditures of the National Bank of the Republic of Belarus for 2017" approved by the President of the Republic of Belarus on 24 December 2016 (No. 09/520-155) and adopted by Resolution No. 660 of the Board of the National Bank "On Approving the Estimates for Current Expenses and Capital Expenditures of the National Bank of the Republic of Belarus for 2017 and the Estimates for Capital Expenditures of the National Bank of the Republic of Belarus for 2017 by Cost Items" dated 30 December 2016, the limit of expenses to maintain costs of the National Bank was established at BYN118,312 thousand, while the actual amount was BYN90,301 thousand (76.3%).

Maintenance costs of the National Bank for 2017 totaled BYN90,301 thousand (5.7% of the total current expenses) and increased by BYN1,225 thousand (1.4%) compared with 2016.

Staff costs amounted to BYN52,021 thousand and are in line with the legislation and regulatory legal acts of the National Bank concerning remuneration.

Expenses on the use of land plots, buildings, structures, other fixed assets, as well as materials, amounted to BYN11,254 thousand. These expenses comprise cost of electricity, heating, water supply, security, alarm system, repair and maintenance, maintenance of vehicles, etc. A decrease in these expenses relates to lower costs of repair and maintenance.

Expenses on consulting, audit, informational, marketing, advertising and other received services totaled BYN2,095 thousand.

Depreciation and amortization charges totaled BYN14,470 thousand. Depreciation and amortization charges were calculated based on the statutory rates. A benefit of BYN7,858 thousand results from the fact that at 1 January 2017 no revaluation was made with regard to fixed assets, non-installed equipment, installed equipment and ready-to-operate equipment recognized as construction in progress and investments in fixed assets.

Costs arising from the disposal of long-term financial investments and property totaled BYN167 thousand. A decrease in these expenses results from a non-cash contribution made in 2016 to the statutory fund of OJSC "Non-bank Financial Institution "SSIS" pursuant to Edict No. 478 of the President of the Republic of Belarus "On the Development of Digital Banking Technologies" dated 1 December 2015.

Payment system costs totaled BYN515 thousand. An increase in these costs relates to the need to carry out maintenance of the software tools used in the automatic restart system of the AS IBS central complex.

Other operating expenses totaled BYN9,779 thousand. These expenses comprise expenses on the acquisition and maintenance of software (other than software required to operate the payment system), communication, printing and entertainment expenses, expenses to publish the Bankauski Vesnik magazine, expenses on canteen services, administrative materials, medications, sports, recreation and cultural events, statutory payments to the budget, and other expenses. An increase in these expenses results from growing software maintenance service costs, a free-of-charge transfer of costs incurred to create engineering infrastructure facilities in the town of Uzda to the balance sheet of RUP "Minskenergo" in accordance with Resolution No. 15 of the Board of the National Bank "On the Free-of-charge Transfer of the Engineering Infrastructure Facilities in the Town of Uzda" dated 12 January 2017, as well as expenses to determine the value of the assets transferred as non-cash contribution to the statutory fund of JSC "Belarusian Interbank Settlement Center" in accordance with Edict No. 371 of the President of the Republic of Belarus dated 10 October 2017, and as non-cash contribution to the statutory fund of JSC "Non-bank Credit and Financial Institution Belincasgroup" in accordance with Edict No. 45 of the President of the Republic of Belarus "On Setting up an Open Joint-stock Company" dated 1 February 2018.

30. Statement of capital investments budget execution

In accordance with "Estimates of Current Expenses and Capital Expenditures of the National Bank of the Republic of Belarus for 2017", the capital expenditures of the National Bank total BYN44,063 thousand.

In 2017, capital expenditures of the National Bank totaled BYN16,521 thousand (utilization rate is 37.5%), with a benefit of BYN27,542 thousand.

In accordance with "Estimates of Current Expenses and Capital Expenditures of the National Bank of the Republic of Belarus for 2017", the capital expenditures in the reporting period comprised the following:

Capital construction and reconstruction – BYN2,688 thousand against planned BYN6,933 thousand (utilization rate is 38.8%), in particular:

Reconstruction of the automatic gaseous fire suppression unit in the multi-purpose building at 7, Kalvariyskaya str., Minsk – BYN756 thousand;

Upgrading of the uninterrupted power supply system of the equipment room in the building at 7, Kalvariyskaya str., Minsk – BYN385 thousand;

Reconstruction of certain premises of the specialized financial institution building at 14, Lenina str., Minsk – BYN343 thousand;

Upgrading of the automatic gaseous fire suppression unit in the building at 72a, Kalinovskogo str., Minsk – BYN231 thousand;

Upgrading of the local area network – BYN229 thousand;

Upgrading of the air conditioning system in server rooms in the buildings at 20, Nezavisimosty Ave. and 14, Lenina str., Minsk – BYN167 thousand;

Reconstruction of certain premises on Floors 1 and 2 of the specialized financial institution building at 20, Nezavisimosty Ave., Minsk – BYN107 thousand; and

Other construction – BYN470 thousand.

Measures to develop software and technical infrastructure for the payment system – BYN2,910 thousand against planned BYN13,457 thousand (utilization rate is 21.6%), in particular:

Implementation of the project to set up the automated information system "Submission of banking information" – BYN860 thousand;

Upgrading of the telecommunication layer of the distributed software and technical package used in the automated system of interbank settlements through the use of the three-website architecture – BYN773 thousand;

Purchase of licensed software – BYN480 thousand;

Upgrading of the control system for the software and technical package used in the automated system of interbank settlements – BYN415 thousand;

Renewal of the subscription for networking appliances manufactured by Fortinet and Cisco – BYN168 thousand; and

Other expenses – BYN214 thousand.

Hardware, software and network equipment – BYN8,320 thousand against planned BYN18,491 thousand (utilization rate is 45%), in particular:

Upgrading of the software and technical package used in the automated banking system "Transaction activities" – BYN1,438 thousand;

Upgrading of the subscriber unit used to access SWIFT – BYN1,143 thousand;

Upgrading of the software and technical package used in the automated banking system "Credit register" – BYN792 thousand;

Purchase and maintenance of licensed software – BYN755 thousand;

Extension of upgrade for software and the event monitoring system used in the National Bank's information system – BYN590 thousand;

Creation of an automated information system for managing the budget of the National Bank – BYN554 thousand;

Development and upgrading of the information analytics system – BYN401 thousand;

Upgrading of the automated system used for maintaining the electronic data bank of document forms, documents with a certain degree of security, and printed materials – BYN400 thousand;

Purchase of computer hardware and accessories – BYN366 thousand;

Upgrading of the workstation virtualization system – BYN319 thousand;

Upgrading of the corporate system of servers and server functions – BYN240 thousand;

Automation of the processes used to manage gold and foreign currency valuables – BYN230 thousand;

Upgrading of the data backup system – BYN187 thousand;

Maintenance and development of the document information system – BYN158 thousand;

Creation of an automated system for managing access to information resources of the National Bank's information system – BYN150 thousand;

Development of an automated system for regulation of the securities market – BYN135 thousand;

Development and implementation of a corporate project management system – BYN131 thousand; and

Other expenses – BYN331 thousand.

Equipment to enhance safety and protect information – BYN2,283 thousand against planned BYN4,329 thousand (utilization rate is 52.7%), in particular:

Systems, hardware and software packages, and certain security, fire alarm, fire and emergency alert devices – BYN2,233 thousand; and

Engineering protection devices – BYN50 thousand.

Maintenance equipment for vehicles and buildings – BYN52 thousand against planned BYN59 thousand (utilization rate is 88.1%). Amounts allocated for this item were used to purchase equipment that supports the operation of buildings, technological equipment and other fixed assets.

Other capital expenditures – BYN268 thousand against planned BYN781 thousand (utilization rate is 34.3%). This item includes expenses to purchase communication equipment, office appliances, furniture, publications for the collection of reference information, R&D costs, and other expenses.

31. Segment information

For the purposes of management decision-making, the National Bank identifies the following three major operating segments:

Management of gold and foreign currency reserves – placement of funds in precious metals on correspondent accounts and deposits with non-resident

banks, placement of foreign currency funds on correspondent accounts and term deposits with resident and non-resident banks, provision of foreign currency funds to non-resident banks under repurchase transactions, lending to resident banks in foreign currency and lending to non-resident banks in Belarusian rubles, conducting operations with securities purchased under the World Bank Treasury's Reserves Advisory and Management Program (RAMP) that the National Bank participates in, provision of cash to the International Bank for Reconstruction and Development under RAMP, investment of renminbi into securities issued by banks of the People's Republic of China, placement of foreign currency funds by resident banks on correspondent accounts, purchases and sales of precious metals and precious stones;

Formation of gold and foreign currency reserves – placement of funds in Belarusian rubles and attraction of foreign currency funds on term deposits with resident banks (deposit exchange), attraction of funds (precious metals) on correspondent accounts of resident banks, on term deposits and unallocated bullion accounts of customers, attraction of funds of non-resident banks on foreign currency-denominated term deposits, foreign currency-denominated borrowings from foreign counterparties, conducting currency conversion operations and operations with derivative financial instruments, issuance of foreign currency-denominated bonds; and

Regulating liquidity of the banking system – attracting funds in Belarusian rubles on term deposits with resident banks, placement of funds in Belarusian rubles by resident banks on correspondent accounts and with the obligatory reserve, lending to resident banks as part of refinancing, conducting swaps with resident banks and operations with securities issued by JSC "Development Bank of the Republic of Belarus" and local executive and regulatory authorities, issuance of bonds in Belarusian rubles.

Operating segments are classified as reporting segments provided at least one of the following criteria is met:

The operating segment's income makes at least 10% of the total income of all operating segments for the same reporting period;

Profit or loss of the operating segment makes at least 10% of the higher of total profit of all profit-making operating segments or total loss of all loss-making operating segments for the same reporting period; and

The operating segment's assets make at least 10% of the total assets of all operating segments for the same reporting period.

For the purposes of segment information, income, expenses, assets and liabilities are distributed on a straight-line basis using the actual accounting data on each segment.

The tables below contain information about income, expenses, assets and liabilities of the National Bank for the reporting period and comparable information for the preceding year.

2017	Management of gold and foreign currency reserves	Formation of gold and foreign currency reserves	Regulating liquidity of the banking system	Other (unallocated)	Total
Interest income	145,499	–	182,921	1,115	329,535
Interest expenses	(4,437)	(324,164)	(390,943)	(141,101)	(860,645)
Net interest expenses	141,062	(324,164)	(208,022)	(139,986)	(531,110)
Fee and commission income	144	–	–	2,290	2,434
Fee and commission expenses	(836)	–	–	(1,436)	(2,272)
Net fee and commission income	(692)	–	–	854	162
Net loss from foreign currency transactions	–	(149,984)	–	–	(149,984)
Net gain from operations with precious metals and precious stones	1,193	–	–	–	1,193
Net loss from operations with securities	(3,143)	–	–	–	(3,143)
Net loss from operations with derivative financial instruments	–	–	–	–	–
Dividend income	–	–	–	6,201	6,201
Net charge to provisions	–	–	–	(1,315)	(1,315)
Other expenses	(6)	–	–	(544,795)	(544,801)
Other income	–	–	–	89,241	89,241
Other expenses, net	(6)	–	–	(455,554)	(455,560)
Allocations to the budget	–	–	–	(166)	(166)
Financial result	138,414	(474,148)	(208,022)	(589,966)	(1,133,722)
Assets	13,157,426	1,248,688	1,370,734	1,271,769	17,048,617
Liabilities	584,647	5,234,038	4,187,403	15,161,150	25,167,238

Income and expenses of the National Bank from operations with major external customers for 2017 exceed 10% of the total respective income and expense and relate to the below segments:

Management of gold and foreign currency reserves – net gain from operations with precious metals and precious stones with JSC "JSSB Belarusbank";

Regulating liquidity of the banking system – interest income and interest expenses from transactions with JSC "Development Bank of the Republic of Belarus," and interest expenses from transactions with JSC "JSSB Belarusbank"; and

Other – interest expenses from transactions with the Ministry of Finance of the Republic of Belarus, fee and commission income from transactions with JSC "JSSB Belarusbank," fee and commission expenses from transactions with JSC "Belinvestbank," and other income from transactions with JSC "JSSB Belarusbank".

2016	Management of gold and foreign currency reserves	Formation of gold and foreign currency reserves	Regulating liquidity of the banking system	Other (unallocated)	Total
Interest income	104,983	322	422,388	1,482	529,175
Interest expenses	(2,662)	(470,629)	(439,035)	(45,521)	(957,847)
Net interest expenses	102,321	(470,307)	(16,647)	(44,039)	(428,672)
Fee and commission income	–	–	–	2,637	2,637
Fee and commission expenses	(1,165)	–	–	(1,249)	(2,414)
Net fee and commission income	(1,165)	–	–	1,388	223
Net loss from foreign currency transactions	–	(380,596)	(8,626)	–	(389,222)
Net gain from operations with precious metals and precious stones	10,795	–	–	–	10,795
Net loss from operations with securities	(621)	–	–	–	(621)
Net loss from operations with derivative financial instruments	–	(572,425)	2,838	–	(569,587)
Dividend income	–	–	–	4,350	4,350
Net charge to provisions	–	–	–	(4,048)	(4,048)
Other expenses	(3)	–	–	(156,466)	(156,469)
Other income	–	–	–	49,193	49,193
Other expenses, net	(3)	–	–	(107,273)	(107,276)
Allocations to the budget	–	–	–	(362)	(362)
Financial result	111,327	(1,423,328)	(22,435)	(149,984)	(1,484,420)
Assets	8,750,604	1,057,596	1,415,163	1,664,823	12,888,186
Liabilities	588,555	6,888,372	3,859,484	8,997,346	20,333,757

Income and expenses of the National Bank from operations with major external customers for 2016 exceed 10% of the total respective income and expense and relate to the below segments:

Formation of gold and foreign currency reserves – net expense from operations with derivative financial instruments with JSC "SB Belarusbank" and CJSC "Alfa-Bank," and interest expenses from transactions with JSC "JSSB Belarusbank"; and

Regulating liquidity of the banking system – interest income and expense from transactions with JSC "Development Bank of the Republic of Belarus," interest income from transactions with JSC "Belagroprombank," and interest expenses from transactions with JSC "JSSB Belarusbank."

32. Risk management

The Board of the National Bank approved the Risk Management Policies that establish goals and objectives of the risk management system of the

National Bank, types of risks, principles and approaches to risk management, organizational structure of the risk management system, including powers and functional responsibilities of its participants, and regulate the major steps in the risk management process.

The risk management system is a combination of interrelated components, including the organizational structure, powers and responsibilities of officers, local regulations that define risk management policies, rules and procedures, and the risk management process, designed to achieve the goals and fulfill the objectives of the National Bank, and ensure the stability of its operations.

Risk management at the National Bank is a continuous cyclic process that consists of risk identification, assessment, response, control and monitoring, and covers all risks that are material for the National Bank's operations as the central bank and for supporting its activities.

The goal of risk management is to ensure a high level of financial stability, effectiveness and authority of the National Bank as the basis for successfully achieving its goals and performing its functions.

There were some changes in the organizational structure of the risk management system in 2017, involving redistribution of powers and responsibilities among the participants of this system. As of 1 January 2018, the functional responsibilities for risk identification, assessment, response, control and monitoring were distributed among the Board of the National Bank, Risk Management Committee, Risk Management Department, Internal Audit Directorate, and other structural units of the head office and structural units of the National Bank (hereinafter, "structural units").

Board of the National Bank

The Board of the National Bank carries out strategic management for all types of risks of the National Bank, which includes defining conceptual approaches to establishing the risk management system in the National Bank and future development areas. The Board of the National Bank determines the procedure for managing all risks that are material for the operations of the National Bank, makes final decisions on such risks, and exercises overall control over the operation of the risk management system.

Risk Management Committee

The Risk Management Committee has been responsible for tactical risk management at the National Bank since 1 November 2017. The main tasks of this collegial body are to coordinate financial and non-financial risk management activities, monitor the level of risks at the National Bank, and

discuss and make risk response decisions based on the results of such monitoring. Risk Management Committee also has some risk management powers, which were previously given to or actually performed by Financial Market Operations Committee (financial risks), as well as the functions of the liquidated Risk Management Commission (non-financial risks).

Risk Management Department

Risk Management Department has been responsible for organizing and coordinating risk management activities at the National Bank since 1 March 2017. This department performs some financial risk management functions, which were previously performed by International Operations Directorate and Monetary Operations Directorate, and non-financial risk management functions, which were previously performed by Risk Management Department of Internal Audit Directorate.

Internal Audit Directorate

Internal Audit Directorate assesses the effectiveness of the risk management system and develops recommendations to eliminate identified deficiencies.

Structural units

Structural units, which are directly engaged in transactions and processes, perform their risk management functions, including ensuring compliance with internal regulatory acts, requirements and restrictions (limits) set for risks, as well as identify and assess risks inherent in their activities and implement risk mitigation (reduction) and control measures.

Financial risk mitigation (reduction) instruments

The National Bank uses the following instruments to mitigate (reduce) financial risks:

Limits on transactions with counterparties;

Minimum allowable ratings for counterparties, issuers, and securities;

The structure of assets by currency (the required percentage shares of foreign currencies in total assets denominated in foreign currencies);

The structure of assets in precious metals (the required percentage shares of precious metals in total assets in precious metals);

Securing operations by highly liquid collateral;

Applying a collateral ratio for assets accepted as collateral;

Differentiation of the collateral ratio depending on the type of collateralized securities;

Diversification of types of operations and their terms;

Establishing and monitoring limits for counterparties and transaction volumes, etc.

Making a special provision for possible losses from assets exposed to credit risk;

Segregation of duties between the Board of the National Bank, Financial Market Operations Committee, Risk Management Committee, Deputies of the Chairperson of the Board, and structural units;

Collegial decision-making mechanism;

Detailed procedures, and automated and standardized business processes;
and

Other requirements and restrictions (limits).

Risk control

Risk control involves the implementation of measures designed to mitigate (reduce) risk and contain it within the established risk tolerance parameters.

Based on the segregation of control functions by performance time, the National Bank's risks are subject to preliminary control (before starting a transaction), current control (in the course of executing and formalizing a transaction) and subsequent control (after completing and formalizing a transaction).

Structural units arrange and carry out preliminary, current and subsequent control. In addition, subsequent control is carried out by Risk Management Committee and Risk Management Department within the scope of their competencies, as well as by Internal Audit Directorate in the course of audits and revisions.

32.1. Credit risk

Credit risk is the risk that the National Bank will incur a loss or will not receive income because its debtor fails to discharge its financial or other property obligations.

Credit risk of the National Bank is limited since the assets are either placed with highly reliable banks or secured by liquid assets.

The National Bank controls credit risk by setting limits for counterparties or transactions. The limits are determined based on the analysis of the financial position of the counterparty, its rating and business reputation. The limits are

controlled by structural units that conduct transactions and Risk Management Department.

Below is the analysis of credit quality based on the National Bank's classification of financial assets exposed to credit risk:

Item	Neither overdue nor impaired financial assets			Impaired financial assets	Overdue financial assets	Total as of 1 January 2018
	High grade	Standard grade	Sub-standard grade			
Securities	440,177	1,810,671	11,033	–	–	2,261,881
Amounts due from banks	9,168,791	804,042	–	–	–	9,972,833
Loans and other asset operations with customers	11,640	–	609	–	–	12,249
Other financial assets	–	2,040	1,270	9	1	3,320
Total	9,620,608	2,616,753	12,912	9	1	12,250,283

Item	Neither overdue nor impaired financial assets			Impaired financial assets	Overdue financial assets	Total as of 1 January 2017
	High grade	Standard grade	Sub-standard grade			
Securities	1,127,727	1,362,610	12,983	–	1,338	2,504,658
Amounts due from banks	4,675,319	1,037,534	34,989	–	–	5,747,842
Loans and other asset operations with customers	–	–	12,818	16	–	12,834
Other financial assets	–	1,409	1,066	9	–	2,484
Total	5,803,046	2,401,553	61,856	25	1,338	8,267,818

The National Bank's classification of borrowers is based on the credit ratings assigned by international rating agencies.

Financial assets are rated with "High grade" if they are placed with central banks, in state securities, securities with at least A3 rating (Moody's Analytics) and (or) at least A- rating (Fitch or Standard & Poor's); and placed with counterparties having a minimum long-term creditworthiness rating not lower than A3 (Moody's Analytics) and (or) at least A- (Fitch or Standard & Poor's).

Financial assets are rated with "Standard grade" if they are placed in securities having a rating below A- (Fitch or Standard & Poor's), and placed with counterparties having a long-term creditworthiness rating not lower than A3 (Moody's Analytics) and (or) A- (Fitch or Standard & Poor's).

"Sub-standard grade" includes financial assets which are placed with unrated counterparties.

Impaired assets comprise assets for which special provisions have been accrued.

The table below shows maximum exposure of financial assets to credit risk.

Item	Total maximum risk exposure at the end of the reporting period	
	2017	2016
Securities	2,261,881	2,504,658
Amounts due from banks	9,972,833	5,747,842
Loans and other asset operations with customers	12,249	12,834
Other financial assets	3,320	2,484
Total financial assets	12,250,283	8,267,818
Obligations related to provision of funds	50,554	357,955
Total exposure to credit risk	12,300,837	8,625,773

The maximum credit risk exposure for financial assets recorded on balance sheet accounts is limited to the carrying amounts of these assets less any special provisions. For off-balance sheet liabilities, the maximum credit risk exposure represents the maximum amount of the National Bank's obligations to its counterparties related to provision of funds.

Where financial instruments are recorded at fair value, the amounts shown above represent the current but not the maximum credit risk exposure that could arise in the future as a result of changes in values of financial instruments.

The National Bank accepts various types of collateral securing the discharge of obligations to decrease the maximum credit risk. The fair value of the collateral matches its carrying amount.

In pursuance of the regulation on forming and using special provisions, the amount of the provision is calculated on a monthly basis. The special provision was accrued in full.

The special provision is calculated based on the classification of assets depending on counterparty type, debt currency, availability of duly documented collateral, and the period of default.

The table below contains information about movements in special provisions for the reporting period.

Provision	Total as of 1 January 2017	Provision (increase) by charges	Decrease (reversal) of provisions	Use of provisions	Total as of 1 January 2018
Provision for possible losses, including:	15	13	19	–	9
for loans to individuals	6	13	19	–	–
for settlements with debtors	9	–	–	–	9
Provisions for uncollected interest income on bonds	4,014	1,338	–	5,352	–

Provision	Total as of 1 January 2017	Provision (increase) by charges	Decrease (reversal) of provisions	Use of provisions	Total as of 1 January 2018
Provisions for uncollected other operating income	35	–	–	–	35
Total, including for assets classified into below risk groups:	4,064	1,351	19	5,352	44
Group III	6	x	x	x	–
Group IV	4,014	x	x	x	–
Group V	–	x	x	x	–
Group VI	44	x	x	x	44

The effect of the country risk on the National Bank's operations, and information about the geographical concentration of financial assets and liabilities for the reporting year, and comparable information for the preceding year are provided in the tables below.

Item	Republic of Belarus	OECD	CIS and other states	Total as of 1 January 2018
Financial assets				
Cash	88,612	–	–	88,612
Securities	1,821,704	382,895	57,282	2,261,881
Amounts due from banks	349,026	8,721,995	901,812	9,972,833
Loans and other asset operations with customers	609	11,640	–	12,249
Long-term financial investments	233,363	–	1	233,364
Other financial assets	3,320	–	–	3,320
Total	2,496,634	9,116,530	959,095	12,572,259
Financial liabilities				
Cash in circulation	3,102,579	–	–	3,102,579
Amounts due to international financial institutions	–	4,745	–	4,745
Amounts due to banks	3,880,588	–	1,234,623	5,115,211
Amounts due to customers	11,939,876	2	–	11,939,878
Securities of the National Bank	4,606,821	–	–	4,606,821
Other financial liabilities	150	333	–	483
Total	23,530,014	5,080	1,234,623	24,769,717
Net position	(21,033,380)	9,111,450	(275,528)	(12,197,458)

Item	Republic of Belarus	OECD	CIS and other states	Total as of 1 January 2017
Financial assets				
Cash	77,445	–	–	77,445
Securities	1,851,039	601,115	52,504	2,504,658
Amounts due from banks	415,197	3,598,669	1,733,976	5,747,842
Loans and other asset operations with customers	12,834	–	–	12,834
Long-term financial investments	160,699	–	1	160,700
Other financial assets	2,468	16	–	2,484
Total	2,519,682	4,199,800	1,786,481	8,505,963
Financial liabilities				
Cash in circulation	2,410,887	–	–	2,410,887
Amounts due to international financial institutions	–	4,747	–	4,747
Amounts due to banks	2,467,391	–	1,894,015	4,361,406
Amounts due to customers	6,496,076	–	–	6,496,076
Securities of the National Bank	6,787,809	–	–	6,787,809
Other financial liabilities	381	467	23	871
Total	18,162,544	5,214	1,894,038	20,061,796
Net position	(15,642,862)	4,194,586	(107,557)	(11,555,833)

32.2. Liquidity risk

Liquidity risk is the risk that the National Bank will incur losses due to inability to meet its financial obligations in full when they fall due.

To limit this risk, the National Bank manages assets and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral, which could be used to secure additional funding if required. The National Bank maintains a portfolio of assets that can be easily liquidated for cash in the event of an unforeseen interruption of cash flow.

Liquidity risk is managed based on the currency position, current liquidity, and cash flow projections.

Liquidity risk is distributed based on the remaining maturity of financial liabilities (as counted from the reporting date), and for undiscounted cash flows (principal debt and interest) – based on the earliest period when the liability could be required to be settled.

The tables below contain information about liquidity risk distribution for the reporting year and for the preceding year.

Financial liabilities	Less than 3 months	From 3 to 12 months	From 1 year to 5 years	More than 5 years	Total as of 1 January 2018
Cash in circulation	3,102,579	–	–	–	3,102,579
Amounts due to international financial institutions	4,745	–	–	–	4,745
Amounts due to banks	4,054,323	102,279	1,084,993	–	5,241,595
Amounts due to customers	11,940,975	–	–	–	11,940,975
Securities of the National Bank	1,877,840	2,377,664	396,261	–	4,651,765
Other financial liabilities	483	–	–	–	483
Undiscounted financial liabilities, net	20,980,945	2,479,943	1,481,254	–	24,942,142

Financial liabilities	Less than 3 months	From 3 to 12 months	From 1 year to 5 years	More than 5 years	Total as of 1 January 2017
Cash in circulation	2,410,887	–	–	–	2,410,887
Amounts due to international financial institutions	4,747	–	–	–	4,747
Amounts due to banks	2,593,995	828,422	1,113,222	–	4,535,639
Amounts due to customers	6,496,076	–	–	–	6,496,076
Securities of the National Bank	3,302,751	2,815,855	867,850	–	6,986,456
Other financial liabilities	871	–	–	–	871
Undiscounted financial liabilities, net	14,809,327	3,644,277	1,981,072	–	20,434,676

The table below shows the maturity of contractual liabilities. Each undrawn loan commitment is included in the period containing the earliest date it can be drawn down.

Date	Less than 3 months	From 3 to 12 months	From 1 year to 5 years	More than 5 years	Total
As of 1 January 2018	50,554	–	–	–	50,554
As of 1 January 2017	300,000	30,000	27,955	–	357,955

32.3. Currency risk

Currency risk is the risk that the National Bank will incur losses or will fail to receive income due to changes in the value of financial instruments denominated in foreign currency resulting from adverse changes in foreign currency rates.

In order to mitigate (reduce) currency risk in transactions with gold and foreign currency assets, the Board of the National Bank has approved the required structure of the National Bank's assets denominated in foreign currency.

Currency risk is controlled by complying with the percentage shares of foreign currencies in total assets denominated in foreign currencies.

The table below shows the effect on equity of changes in the official rate of the Belarusian ruble to the US dollar, euro and Russian ruble. These changes stand for assessment of the maximum possible changes in the official rate. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items at the end of the reporting period.

Currency	2017		2016	
	Change in official rate, %	Effect on equity, BYN thousand	Change in official rate, %	Effect on equity, BYN thousand
USD	+6	(298,505)	+13	(726,458)
EUR	-3	14,287	+18	(344,137)
RUB	-1	5,688	-4	(20,761)
USD	+5	(248,754)	+8	(447,051)
EUR	-4	19,049	+13	(248,544)
RUB	-4	22,753	-9	(46,712)

All other variables are held constant.

32.4. Interest rate risk

Interest rate risk is the risk that the National Bank will incur losses or will fail to receive income due to adverse changes in market interest rates.

The major part of assets placed in fixed maturity instruments bear a fixed interest rate; consequently, the National Bank bears substantively no interest rate risk on such instruments.

The table below shows the sensitivity of the statement of income for one year to possible changes in interest rates for financial instruments with a floating interest rate:

Currency	2017		2016	
	Changes in interest rate, basis points	Effect on profit (loss), BYN thousand	Changes in interest rate, basis points	Effect on profit (loss), BYN thousand
BYN	-50	75	-200	(320)
USD	+10	(986)	+20	(1,959)
EUR	+70	4	-	-
BYN	-150	226	-400	(640)
USD	-10	986	-20	1,959
EUR	-70	(4)	-	-

All other variables are held constant.

32.5. Commodity risk

Commodity risk is the risk that the National Bank will incur losses or lose income due to adverse changes in market prices for precious metals because of changes in the financial market conditions.

In order to mitigate (reduce) commodity risk in transactions with gold and foreign currency assets, the Board of the National Bank approved the structure of precious metals.

Commodity risk is controlled by means of complying with the percentage shares of assets in precious metals in the general structure of assets in precious metals.

The table below provides for the effect on the equity of changes in accounting prices on precious metals due to possible changes in precious metals prices at the global markets.

Precious metals	2017		2016	
	Change in accounting price, %	Effect on equity, BYN thousand	Change in accounting price, %	Effect on equity, BYN thousand
Gold	+4	146,083	+5	159,379
Silver	+3	274	+8	577
Platinum	+3	1,322	+6	1,652
Palladium	+11	9,000	+9	3,901

All other variables are held constant.

32.6. Operating risk

Operating risk is the risk that the National Bank will incur losses due to inadequate internal processes, errors or incompetence of the National Bank's employees, failure or breakdown of the technological, informational and (or) other systems used by the National Bank, non-compliance of transactions and other deals with the requirements of the applicable legislation or internal practices and procedures or breaches by the National Bank's employees, and due to external factors.

Operating risk is managed through the procedures to identify, assess, control and monitor risks and, where necessary, take measures to limit (minimize) such risks. The National Bank has procedures in place to collect data on operational incidents, systematize and analyze them. Operating risks are controlled based on the approaches determined by Risk Management Policies of the National Bank of the Republic of Belarus.

33. Assessment of fair values of financial instruments

The National Bank uses the following assessment methods to determine and disclose fair values of financial instruments:

Quoted prices (unadjusted) at active markets for identical assets or liabilities (Level 1);

Techniques, for which all inputs, which have a significant effect on the fair value, are observable at the market, either directly or indirectly (Level 2); and

Techniques, for which all inputs, which have a significant effect on the fair value, are not observable at the market (Level 3).

For the purpose of fair value disclosures, the National Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability, and the fair value hierarchy.

The tables below contain information about fair values for the reporting period and comparable information for the preceding year.

Item	Item valuation date	Fair value measurement techniques			Total as of 1 January 2018
		Quoted prices at active markets	Significant observable inputs	Significant unobservable inputs	
Assets measured at fair value	30.12.2017	440,177	1,367,443	–	1,807,620
Securities:					
at fair value through profit or loss		382,895	–	–	382,895
available for sale		57,282	1,367,443	–	1,424,725
Assets for which fair values are disclosed	30.12.2017	10,073,085	–	306,049	10,379,134
Cash		88,612	–	–	88,612
Securities available for sale		–	–	302,243	302,243
Amounts due from banks		9,972,833	–	–	9,972,833
Loans and other asset operations with customers		11,640	–	486	12,126
Other financial assets		–	–	3,320	3,320
Liabilities measured at fair value	30.12.2017	–	–	–	–
Liabilities for which fair values are disclosed	30.12.2017	–	21,666,655	483	21,667,138
Amounts due to international financial institutions		–	4,745	–	4,745
Amounts due to banks		–	5,115,211	–	5,115,211
Amounts due to customers		–	11,939,878	–	11,939,878

Item	Item valuation date	Fair value measurement techniques			Total as of 1 January 2018
		Quoted prices at active markets	Significant observable inputs	Significant unobservable inputs	
Securities of the National Bank		–	4,606,821	–	4,606,821
Other financial liabilities		–	–	483	483

Item	Item valuation date	Fair value measurement techniques			Total as of 1 January 2017
		Quoted prices at active markets	Significant observable inputs	Significant unobservable inputs	
Assets measured at fair value	30.12.2016	653,619	1,381,218	–	2,034,837
Securities:					
at fair value through profit or loss		596,139	–	–	596,139
available for sale		57,480	1,381,218	–	1,438,698
Assets for which fair values are disclosed	30.12.2016	5,825,287	–	228,142	6,053,429
Cash		77,445	–	–	77,445
Securities available for sale		–	–	217,552	217,552
Amounts due from banks		5,747,842	–	–	5,747,842
Loans and other asset operations with customers		–	–	8,106	8,106
Other financial assets		–	–	2,484	2,484
Liabilities measured at fair value	30.12.2016	–	–	–	–
Liabilities for which fair values are disclosed	30.12.2016	–	17,650,038	871	17,650,909
Amounts due to international financial institutions		–	4,747	–	4,747
Amounts due to banks		–	4,361,406	–	4,361,406
Amounts due to customers		–	6,496,076	–	6,496,076
Securities of the National Bank		–	6,787,809	–	6,787,809
Other financial liabilities		–	–	871	871

The following describes the methodologies and assumptions used to determine fair values for those financial instruments, which are already recorded at fair value.

Securities at fair value through profit or loss are represented by quoted bonds of foreign issuers denominated in foreign currency. As a rule, the fair value of bonds of foreign issuers is represented by their public price quoted at the international market according to Reuters and Bloomberg.

Securities available for sale are represented by quoted bonds issued by banks of the People's Republic of China and bonds issued by local authorities and JSC "Development Bank of the Republic of Belarus" whose value is determined on the basis of inputs observable at the market.

Set out below is a comparison by class of the carrying amounts and fair values of financial instruments that are not carried at fair value in the financial statements.

Item	As of 1 January 2018			As of 1 January 2017		
	Carrying amount	Fair value	Unrecognized gain (loss)	Carrying amount	Fair value	Unrecognized gain (loss)
Financial assets	12,338,895	12,186,754	(152,141)	8,345,263	8,088,266	(256,997)
Cash	88,612	88,612	–	77,445	77,445	–
Securities	2,261,881	2,109,863	(152,018)	2,504,658	2,252,389	(252,269)
Amounts due from banks	9,972,833	9,972,833	–	5,747,842	5,747,842	–
Loans and other asset operations with customers	12,249	12,126	(123)	12,834	8,106	(4,728)
Other financial assets	3,320	3,320	–	2,484	2,484	–
Financial liabilities	24,769,717	24,769,717	–	20,061,796	20,061,796	–
Cash in circulation	3,102,579	3,102,579	–	2,410,887	2,410,887	–
Amounts due to international financial institutions	4,745	4,745	–	4,747	4,747	–
Amounts due to banks	5,115,211	5,115,211	–	4,361,406	4,361,406	–
Amounts due to customers	11,939,878	11,939,878	–	6,496,076	6,496,076	–
Securities of the National Bank	4,606,821	4,606,821	–	6,787,809	6,787,809	–
Other financial liabilities	483	483	–	871	871	–
Total unrecognized change in unrealized fair value	x	x	(152,141)	x	x	(256,997)

The table does not include values for non-financial assets and non-financial liabilities.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments, which are not recorded at fair value in the financial statements.

It is assumed that fair values of financial assets and financial liabilities that are liquid or have a short-term maturity approximate their carrying

amounts. This assumption is also applied to demand deposits and accounts without specific maturity; and

Fair values of the financial instruments whose carrying amounts do not approximate their fair values were determined by discounting future cash flows using the refinancing rate of the National Bank ruling at the reporting date.

Fair values of long-term financial investments are considered to be equal to their purchase price since such instruments do not have quoted prices at the active market.

34. Subsequent events

At the beginning of 2018, the National Bank continued to gradually decrease the refinancing rate. At the date of signing the financial statements, the refinancing rate was 10.5% p.a.

Together with other legal entities, the National Bank founded JSC "Non-bank Credit and Financial Institution "Belincasgroup" and contributed cash in the amount of BYN18,891 thousand to its statutory fund in February 2018.

Chairman of the Board

P.V. Kallaur

Head of the Accounting
and Reporting Directorate –
Chief Accountant

V.A. Semenov

14 March 2018

Conclusion

In 2017, the key purpose of the monetary policy was attained. Inflation, which is measured by the Consumer Price Index, totaled 4.6%, with the forecast indicator being no more than 9%. The decline in inflation was primarily affected by the maintenance of moderately tight monetary conditions being conducive to retaining the money supply growth rates within the established limits (12-16%). The average broad money supply increased over the year by 15.3%.

Maintenance of macroeconomic stability and slowing down of inflationary processes predetermined further decrease in the level of interest rates in the economy. In the year under review, the refinance rate dropped from 18% to 11% per annum. Consequently, the interest rates in the credit and deposit market declined. Rates on banks' new loans in Belarusian rubles reached a historic low, which ensured a gradual recovery in the lending growth rates.

The situation in the deposit market was characterized by the growth of deposits in the national currency. The structure of the deposit market was improved, which manifested itself in the growth of the share of irrevocable deposits in the national currency with the longer terms against the background of declining deposits in foreign exchange.

In 2017, the task to increase gold and foreign exchange reserves was completed. International reserve assets grew by USD2.4 billion (given the revaluation and other changes), with the forecast being at least USD0.5 billion. At that, external and domestic liabilities in foreign exchange were repaid by the Government of the Republic of Belarus and the National Bank to the full extent.

Measures taken by the National Bank (reduction in the rate of mandatory sale of foreign exchange earnings by economic entities, an increase in the deadlines for the completion of foreign trade export and import operations, the cancellation of the requirement to register passport data by banks when natural persons purchase foreign exchange) contributed to further liberalization of foreign exchange relations.

Improving analytical and instrumental means of macroprudential regulation, developing a system of monitoring and ensuring financial stability, increasing the quality of anti-crisis management and the system of supervision of financial market participants ensured a sustainable functioning of the banking sector.

In 2017, within the scope of stabilizing the situation with the banks' problem assets, a number of measures aimed at improving the quality of credit risk management were taken. In particular, the second stage of asset quality review of fifteen Belarusian banks initiated by the National Bank was

completed. These measures resulted in a slowdown in the growth of the share of problem assets in the assets exposed to credit risk.

For the purpose of ensuring a qualitative transformation of the financial market and improving the level of its development and efficient functioning, the Strategy for the Development of the Financial Market of the Republic of Belarus until 2020 was developed and is being implemented. The primary areas of this document include the solution of the problem of “bad” debts in the banking sector, gradual replacement of directed lending with market products, as well as the promotion of competition.

The development of the remote channels of bank servicing, the single settlement and information space, digital bank technologies on the basis of implementing interbank identification system for the provision of financial services to banks’ customers made it possible to increase the speed and security of non-cash payments and expand the scope of their application.

Efficient, sound, and secure functioning of the payment system of the Republic of Belarus was ensured by dint of improving regulatory legal framework, tariff policy, developing software and hardware infrastructure and electronic document management, introducing international standards, limiting (reducing) risks in the payment system, and carrying out supervision of the payment system.

A legal basis for the development of microfinance and leasing activities, as well as activities in the Forex market was established.

MAIN
macroeconomic parameters of social and
economic development of the Republic of Belarus
in 2017

Indicators	(in comparable prices, %)	
	2017 to 2016	For information: 2016 to 2015
Gross domestic product (GDP)	102.4	97.5
GDP labour productivity	103.6	99.5
Industrial products	106.1	99.6
Profitability of sales in organizations of industry, %	9.3	8.0
The share of innovative products shipped by organizations, the main economic activity of which is manufacturing of industrial products in the total volume of products shipped, %	17.5	16.3
Agricultural products	104.1	103.4
Export of goods and services according to the methodology of the balance of payments	121.8	91.3
Balance of foreign trade in goods and services, % of GDP	0.1	-0.1
Reduction in GDP's energy/output ratio	+0.5	+1.2
Households' disposable real money income	102.4	93.1
Foreign direct investments on a net basis (excluding the amounts owed to direct investor for goods [works, services]), USD bn	1.2	1.3
Placing houses in use at the expense of all financing sources, million square meters	3.8	4.3

DYNAMICS
of financial results of organizations

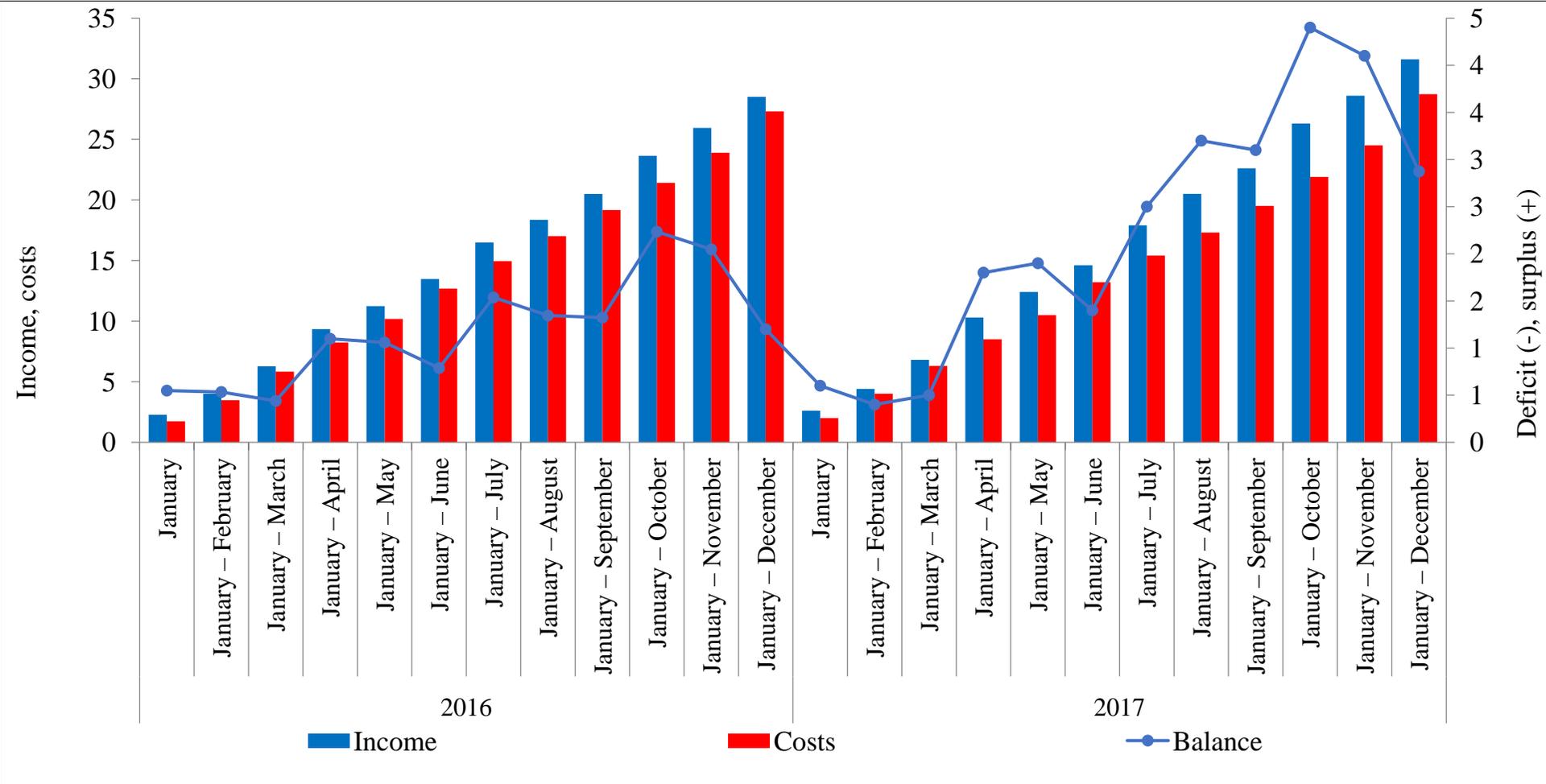
(BYN mln)

Indicators	2016	2017	Growth rate, %
Proceeds from sale of products, goods, works, and services	171,298.5	192,329.7	112.3
Taxes and fees accrued from proceeds	21,685.7	22,626.4	104.3
% of proceeds	12.7	11.8	x
Cost of sold products, goods, works, and services	137,078.6	153,981.6	112.3
% of proceeds	80.0	80.1	x
Profit/losses (-) from sold products, goods, works, and services	12,534.1	15,721.7	125.4
Profit, losses (-) before tax	5,911.2	10,876.0	184.0
Net profit, losses (-)	4,166.4	8,471.8	203.3
Profitability of sales, %	7,3	8,2	x
Profitability of sold products, goods, works, and services, %	9,1	10,2	x
Share of loss-making organizations in their total number, %	19,2	15,3	x
Net loss amount of the loss-making organizations	2,628.2	2,404.1	91.5
Funds obtained from the budget to cover losses related to state regulation of prices and tariffs and to compensate for current expenses	1,950.6	1 884,9	96,6

DYNAMICS

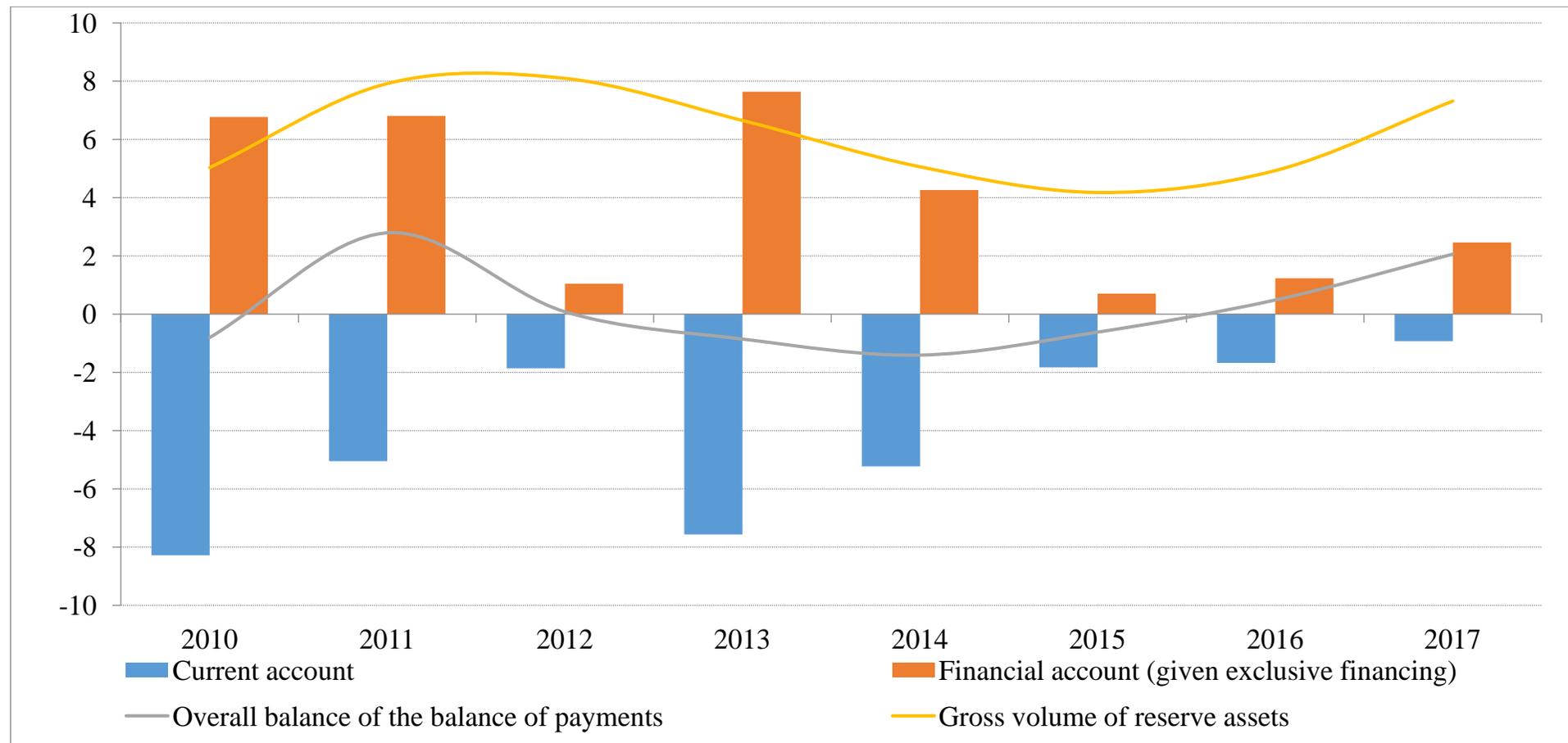
of the income, costs, deficit (-)/surplus(+) of the
Republic of Belarus consolidated budget in 2016 –
2017

(on a cumulative total from the beginning of the year, BYN bn)



CHANGE
in main indicators of the balance of payments in 2010 – 2017

(USD mln)

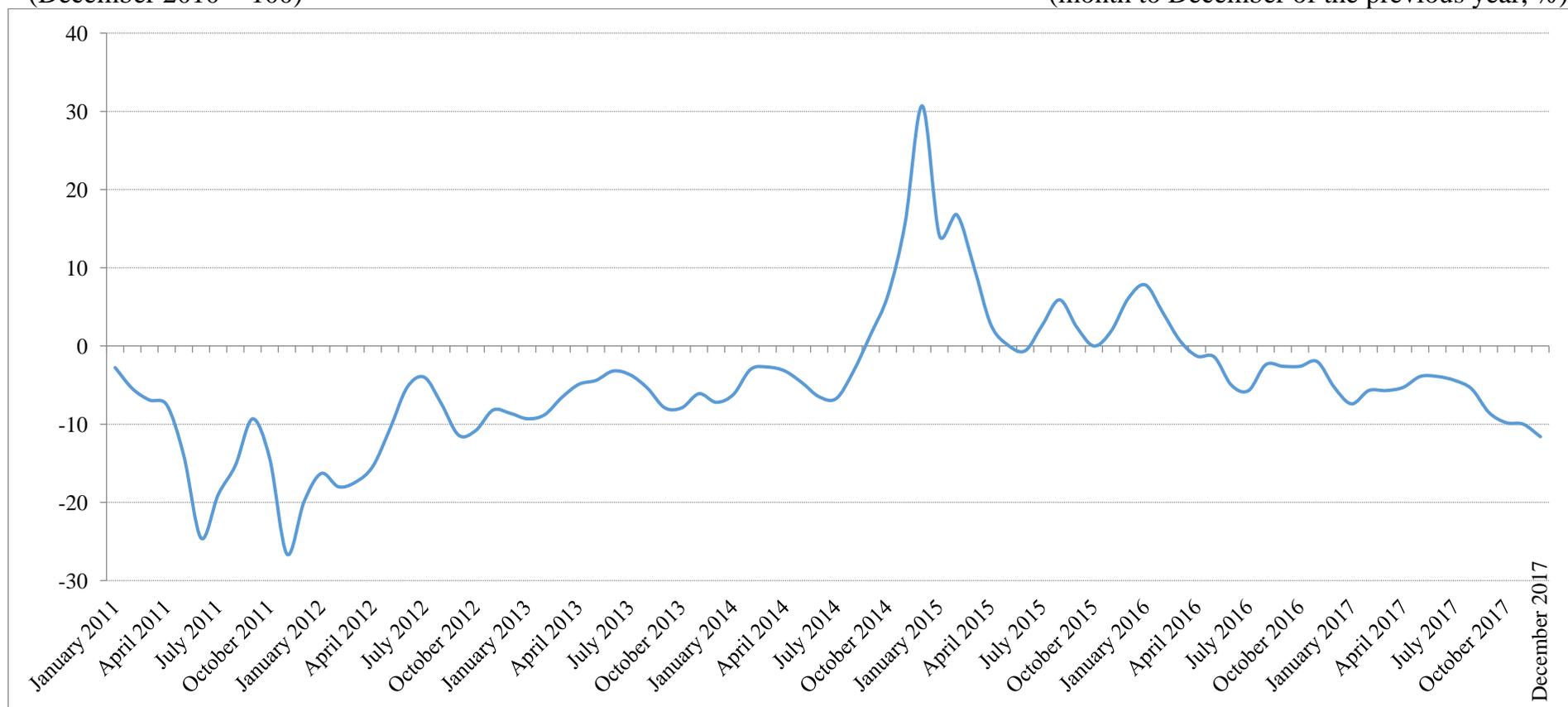


CHANGE

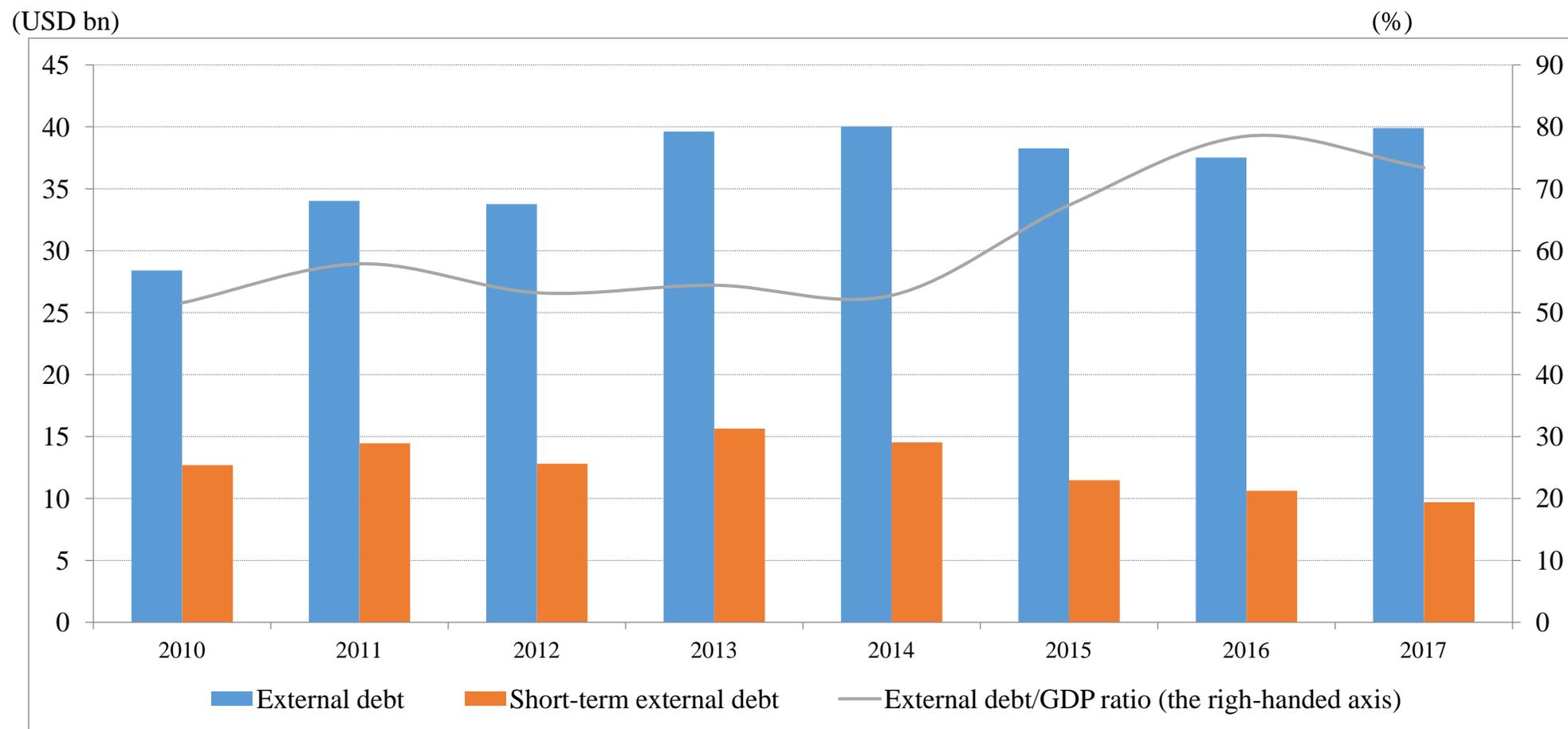
in the index of the Belarusian ruble
real effective exchange rate
calculated using industrial products
producer price index

(December 2010 = 100)

(month to December of the previous year, %)



EXTERNAL DEBT of the Republic of Belarus in 2010 – 2017



INFORMATION

on foreign exchange purchase/sale by
resident economic entities* of the
Republic of Belarus in the domestic
foreign exchange market in 2016 – 2017

(USD mln)

Years	Operations	January	February	March	April	May	June	For the first half of the year, total
2016	Sold	1,016.6	1,149.3	1,291.2	1,381.7	1,338.5	1,339.7	7,517.0
	Purchased	1,214.8	1,133.6	1,270.3	1,265.8	1,367.6	1,408.6	7,660.5
	Balance of sale and purchase	198.2	-15.8	-20.9	-115.9	29.1	68.8	143.5
2017	Sold	1,279.3	1,223.4	1,522.3	1,500.2	1,618.7	1,670.2	8,814.2
	Purchased	1,292.3	1,228.7	1,587.3	1,374.6	1,707.8	1,742.0	8,932.6
	Balance of sale and purchase	13.0	5.2	65.0	-125.7	89.1	71.8	118.5

Years	Operations	July	August	September	October	November	December	For the year, total
2016	Sold	1,374.3	1,547.1	1,317.4	1,360.5	1,409.0	1,617.6	16,143.0
	Purchased	1,233.5	1,602.8	1,387.7	1,239.9	1,354.6	1,870.0	16,349.0
	Balance of sale and purchase	-140.9	55.7	70.3	-120.6	-54.5	252.5	206.1
2017	Sold	1,573.7	1,536.5	1,485.3	1,577.6	1,481.9	1,709.6	1,8178.7
	Purchased	1,531.4	1,703.8	1,673.0	1,619.3	1,693.7	1,904.8	1,9058.7
	Balance of sale and purchase	-42.2	167.3	187.8	41.7	211.9	195.2	880.0

* Economic entities – commercial and non-commercial organizations, independent entrepreneurs, and non-bank financial institutions.

INFORMATION

on foreign exchange purchase/sale by
natural persons in 2016 – 2017

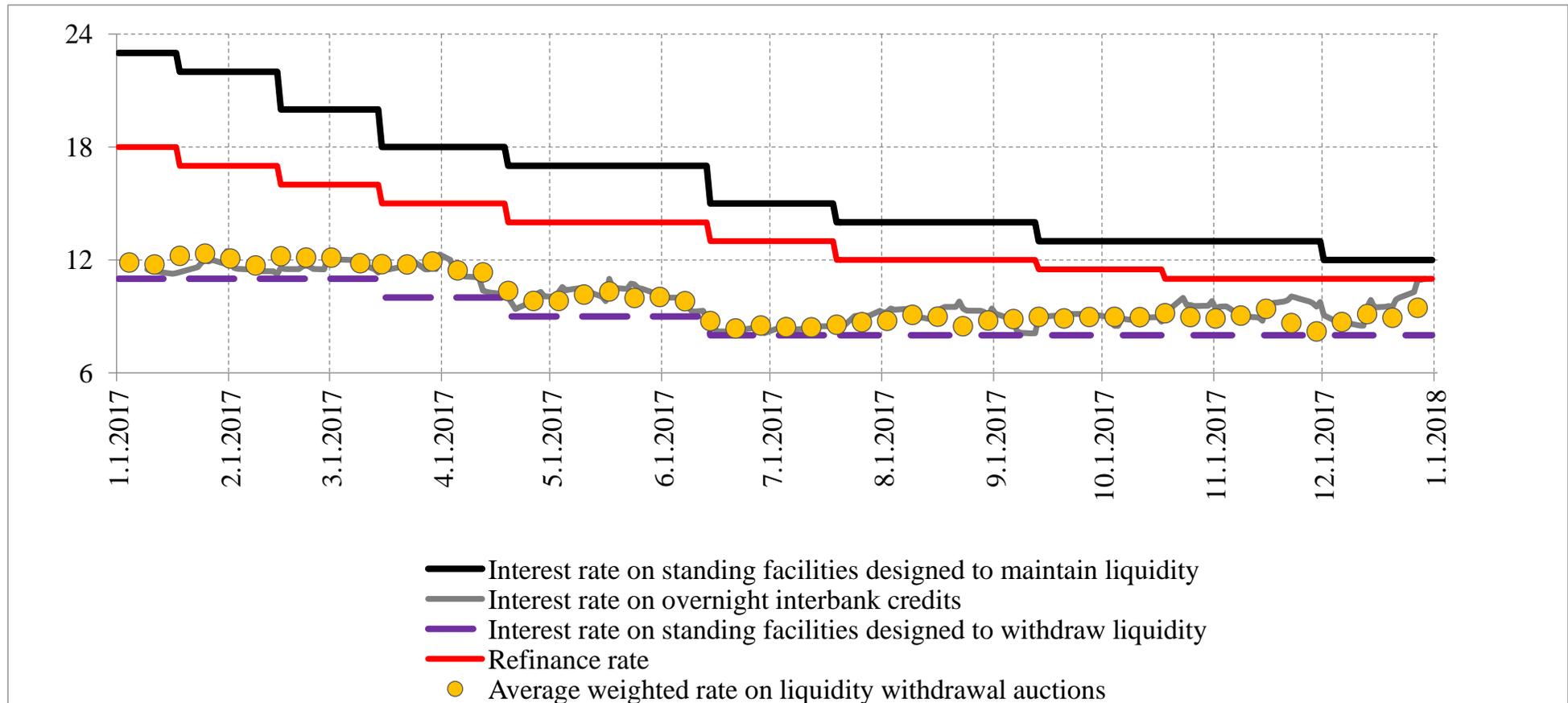
(USD mln)

Years	Operations	January	February	March	April	May	June	For the first half of the year, total
2016	Sold	440.7	567.4	641.2	629.6	681.1	683.5	3,643.5
	Purchased	630.1	420.8	450.2	430.9	464.5	612.9	3,009.3
	Balance of sale and purchase	189.4	-146.6	-191.0	-198.7	-216.6	-70.6	-634.2
2017	Sold	564.4	583.6	680.6	650.8	730.3	750.4	3,960.1
	Purchased	433.1	422.6	472.6	434.4	495.4	568.3	2,826.4
	Balance of sale and purchase	-131.3	-161.0	-208.0	-216.4	-234.9	-182.1	-1,133.7

Years	Operations	July	August	September	October	November	December	For the year, total
2016	Sold	641.7	751.8	680.0	645.4	610.8	644.2	7,617.4
	Purchased	389.2	469.8	417.8	440.2	451.5	545.5	5,723.4
	Balance of sale and purchase	-252.5	-282.0	-262.3	-205.2	-159.3	-98.6	-1,894.0
2017	Sold	715.8	777.7	724.3	745.9	694.4	678.5	8,296.6
	Purchased	607.3	628.7	528.1	598.1	629.5	719.5	6,537.7
	Balance of sale and purchase	-108.5	-149.0	-196.2	-147.8	-64.9	41.0	-1,759.0

DYNAMICS
of the interest rate in the intraday interbank market
and the interest rates on the National Bank's operations

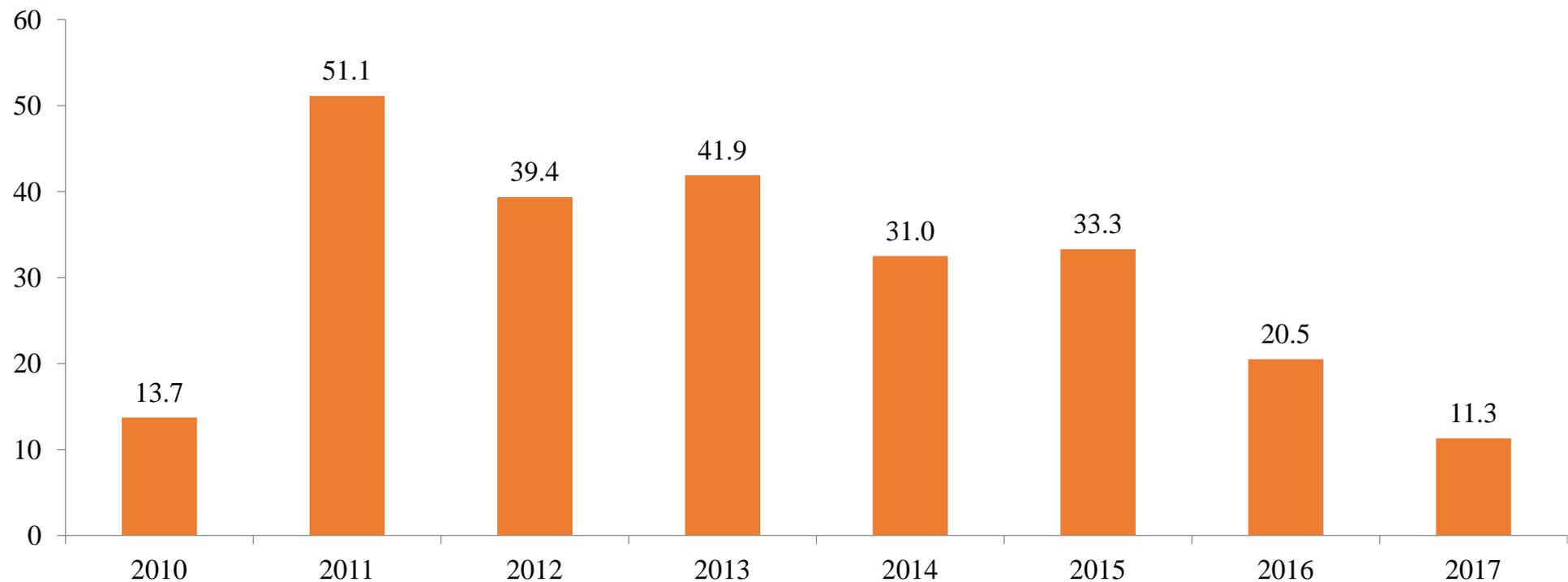
(% per annum)



DYNAMICS

of average interest rates on banks'
new ruble loans* as of year-end

(% per annum)

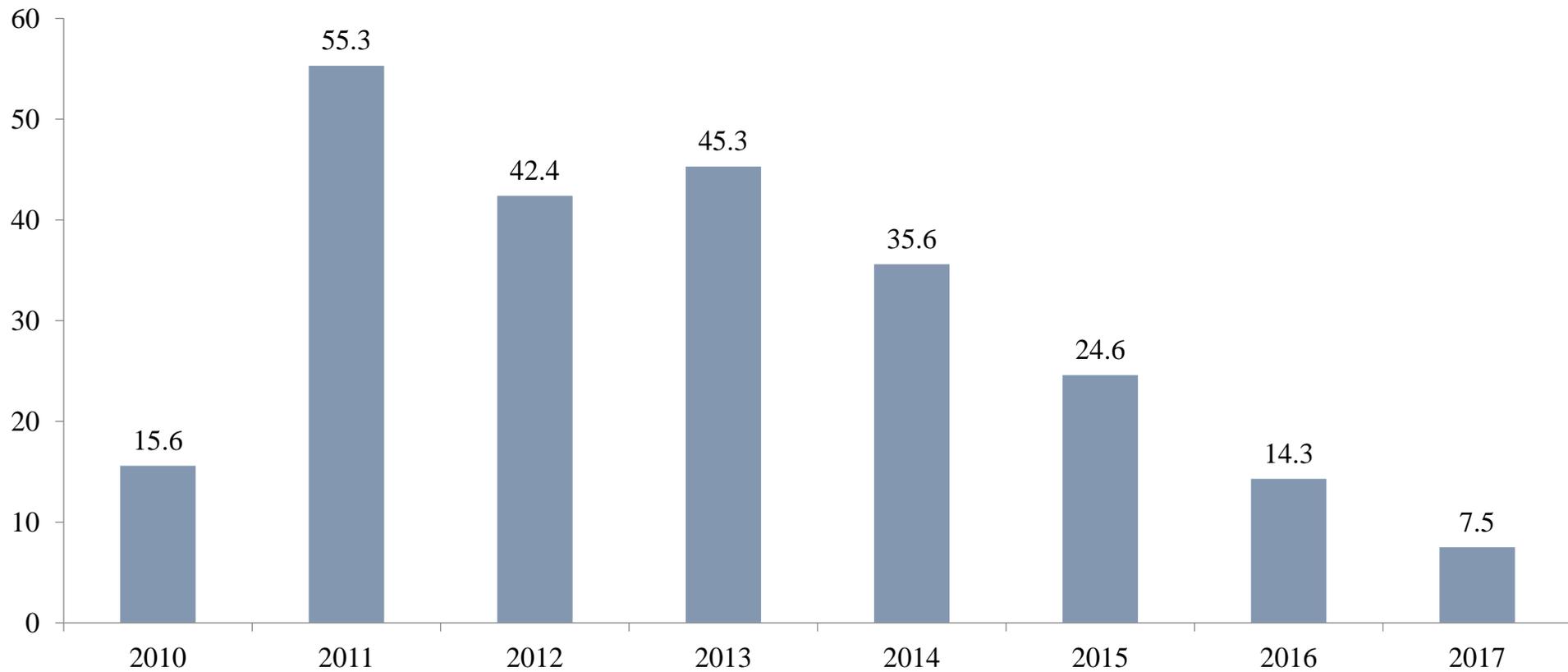


* Excluding loans granted on preferential terms by decisions of the President of the Republic of Belarus, the Government of the Republic of Belarus at the expense of the funds of the republican and local government bodies.

DYNAMICS

of average interest rates on natural
persons' new term ruble deposits as of
year-end

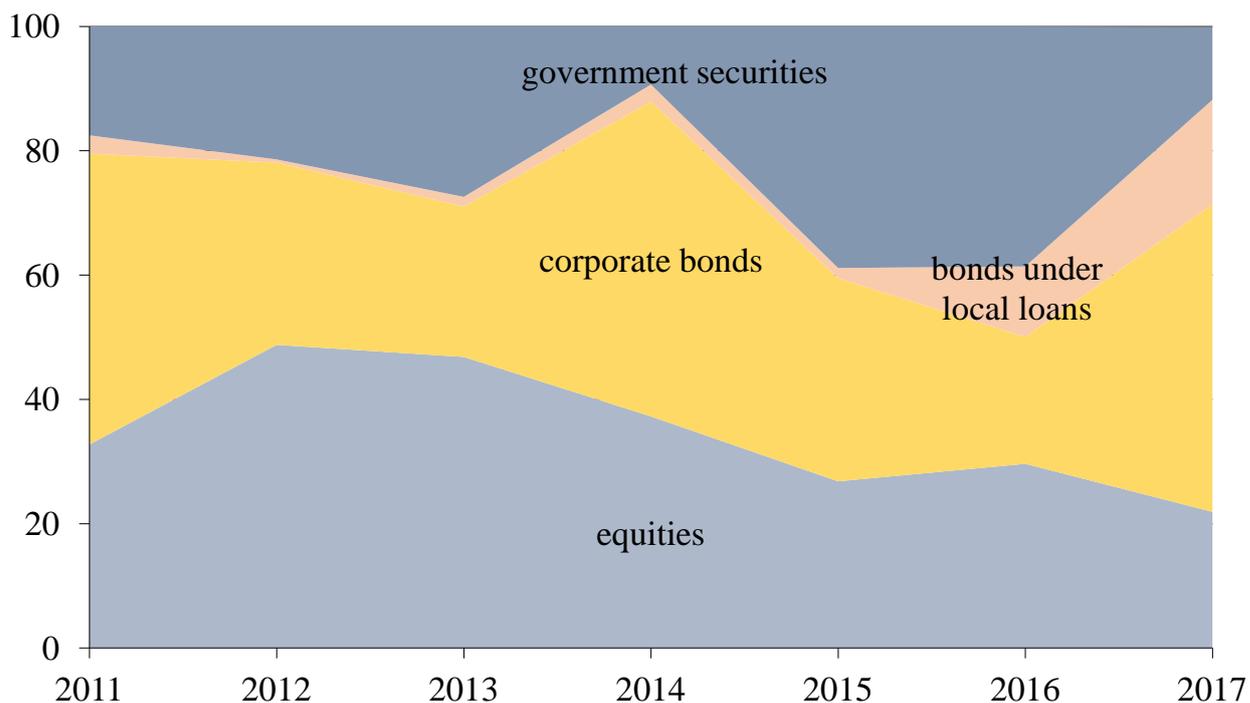
(% per annum)



INFORMATION
on securities market

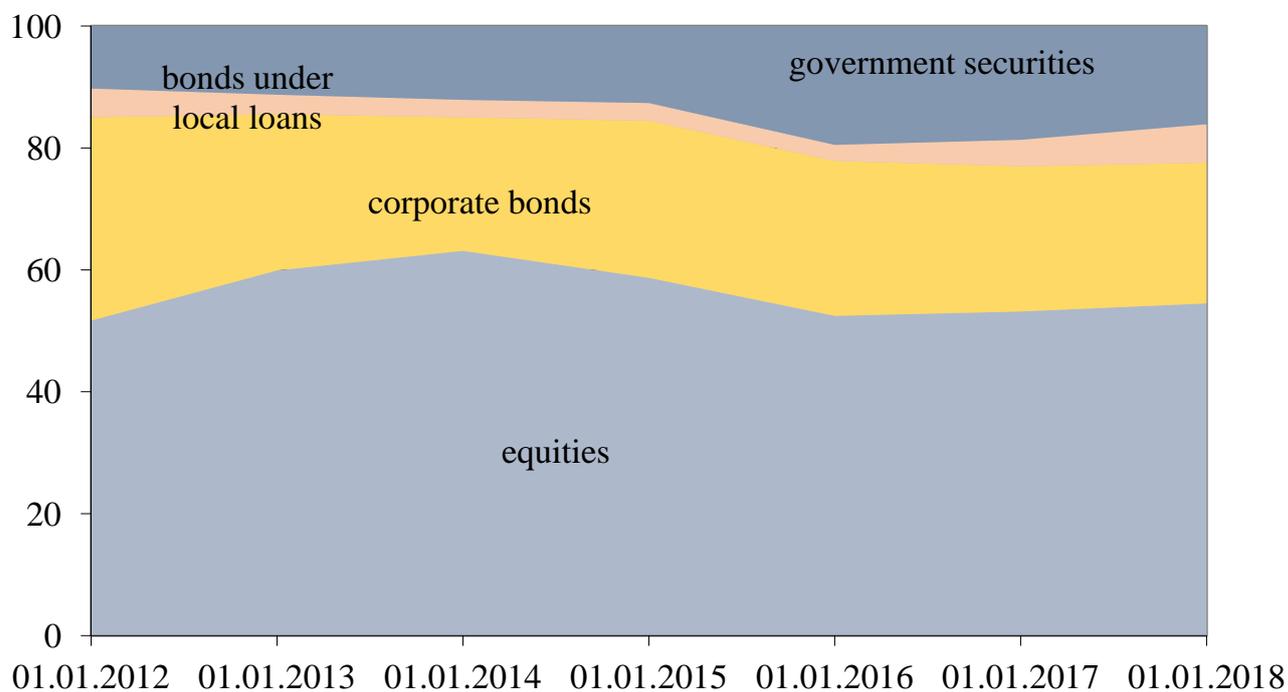
(%)

Structure of annual issue of the securities market's main instruments



(%)

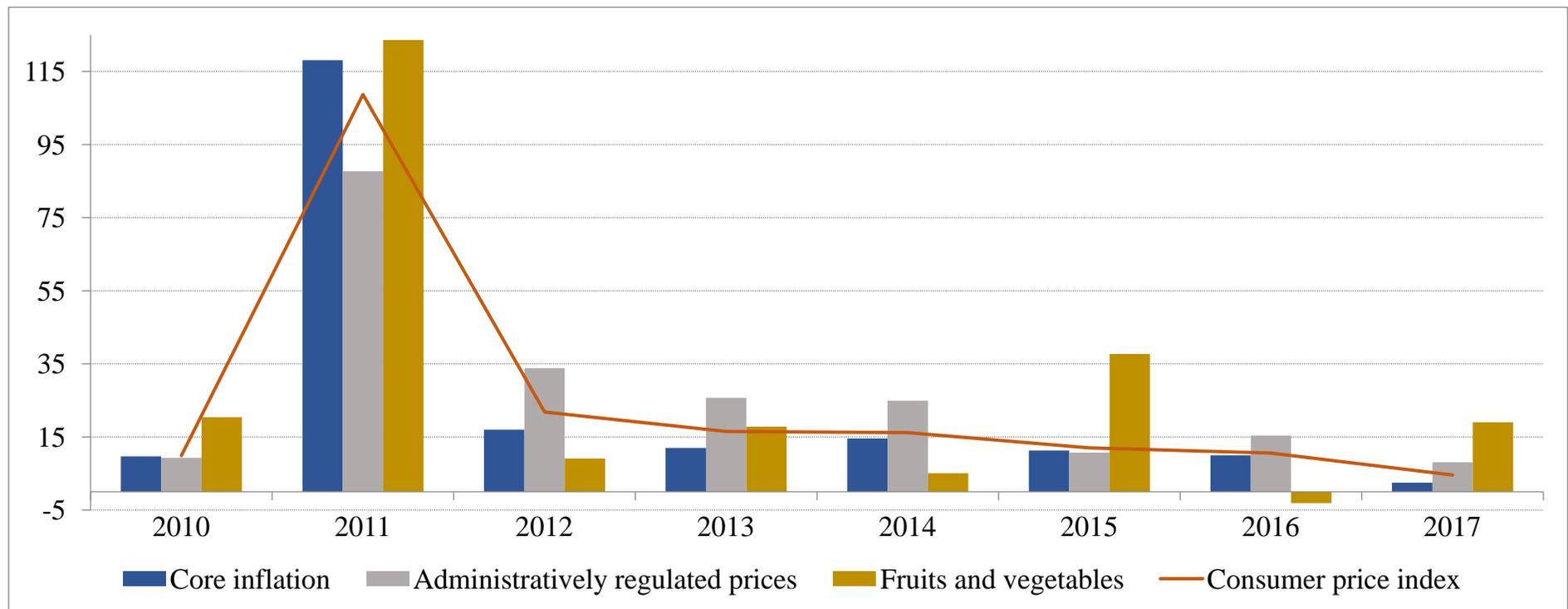
Dynamics of the change in the ratio of the securities market's main instruments



DYNAMICS

of growth in consumer prices, core inflation, and regulated prices and tariffs for paid services offered to households and fruits and vegetables in 2010 – 2017

(%, December to December)



DYNAMICS

of broad money supply in 2017

(BYN bn)

Indicators	Actual as at		Growth	
	01.01.2017	01.01.2018	BYN bn	%
1. Cash in circulation - M0	1.79	2.35	0.56	31.0
2. Transferable deposits	3.53	4.96	1.42	40.3
natural persons	1.57	2.19	0.62	39.5
legal persons *	1.96	2.77	0.80	40.8
Monetary aggregate - M1	5.32	7.30	1.98	37.2
3. Other deposits	5.32	6.38	1.07	20.1
natural persons	2.95	3.34	0.39	13.2
legal persons *	2.36	3.04	0.68	28.7
4. Securities issued by banks (outside bank circulation) in national currency	0.17	0.38	0.22	128.3
Ruble money supply M2*	10.81	14.07	3.26	30.2
Broad money - M3	33.94	39.85	5.91	17.4
<i>For information:</i>				
Deposits in foreign exchange (USD bn)	10.64	11.72	1.07	10.1
natural persons	7.43	7.39	-0.04	-0.6
legal persons *	3.21	4.33	1.12	34.8
Deposits in precious metals (USD mln)	45.3	70.0	24.7	54.5

*

Legal persons – commercial institutions, non-commercial institutions, and independent entrepreneurs, non-bank financial institutions.

Regulatory legal acts
adopted in 2017 as part of endeavors
to improve regulatory and legal basis,
regulating the sphere of banking
supervision

Resolution of the Board of the National Bank of the Republic of Belarus No. 11 “On Certain Issues on the Formation by Banks, Joint-Stock Company “Development Bank of the Republic of Belarus” and Non-bank Financial Institutions of Special Reserves to Cover Possible Losses on Assets and Transactions Not Recorded on the Balance Sheet” of January 10, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 98 “On Introducing Amendments and Modifications to Certain Regulatory Legal Acts of the National Bank of the Republic of Belarus” dated March 14, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 131 “On Amending the Instructions on the Procedures for the Formation and Use by Banks, Joint-Stock Company “Development Bank of the Republic of Belarus” and Non-bank Financial Institutions of Special Reserves to Cover Possible Losses on Assets and Transactions Not Recorded on the Balance Sheet” dated April 4, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 180 “On Approving the Instructions on the Procedure for Determining Systemically Important Banks, Non-bank Financial Institutions and Introducing Amendments and Modifications to Certain Regulatory Legal Acts of the National Bank of the Republic of Belarus” of May 18, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 322 “On Annuling Separate Structural Elements of Resolutions of the Board of the National Bank of the Republic of Belarus and Certain Resolutions of the Board of the National Bank of the Republic of Belarus” dated August 8, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 505 “On Introducing Amendments and Modifications to Certain Resolutions of the National Bank of the Republic of Belarus” dated December 15, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 536 “On Introducing Amendments and Modifications to Certain Regulatory Legal Acts of the National Bank of the Republic of Belarus” of December 27, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 544 “On Introducing Amendments and Modifications to Resolution of the National Bank of the Republic of Belarus No. 557 dated October 30, 2012” dated December 29, 2017.

Regulatory legal acts
adopted in 2017 as part of endeavors
to streamline the regulation of banking operations

Resolution of the Board of the National Bank of the Republic of Belarus No. 12 “On Approving the Instructions on the Procedures for the Formation and Maintenance of the Register of Bank Guarantees” of January 11, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 73 “On Introducing Amendments and Modifications to the Instructions on Bank Transfer” dated February 21, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 195 “On the Peculiarities of the Activities of Banks and Non-bank Financial Institutions with Settlement and Other Documents with Regard to the Transition to New Account Numbers and New Bank Identification Codes” of May 24, 2017.

Regulatory legal acts
adopted in 2017 regulating the activities
of forex companies, leasing and
microfinance organizations

Edict of the President of the Republic of Belarus No. 109 “On Changes in Edicts of the President of the Republic of Belarus on Leasing Activities” of April 6, 2017.

Resolution of the Council of Ministers of the Republic of Belarus No. 575 “On Introducing Amendments and Modifications to Resolutions of the Council of Ministers of the Republic of Belarus No. 1737 of December 28, 2006 and No. 1145 of December 27, 2013” dated August 1, 2017.

Resolution of the Council of Ministers of the Republic of Belarus No. 617 “On Introducing Amendments and Modifications to Certain Resolutions of the Council of Ministers of the Republic of Belarus” dated August 16, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 328 “On Introducing Amendments and Modifications to the Instructions on the Volume of and Procedures for Disclosing Information on Leasing Activities and the Financial State of Leasing Organizations Included in the Register of Leasing Organizations” of August 11, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 341 “On Amending and Modifying Resolution of the Board of the National Bank of the Republic of Belarus No. 552 of August 29, 2014” dated August 22, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 397 “On Introducing Amendments and Modifications to Certain Regulatory Legal Acts of the National Bank of the Republic of Belarus” dated September 28, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 482 “On Amending Resolution of the Board of the National Bank of the Republic of Belarus No. 692 of November 14, 2014” of December 5, 2017.

Regulatory legal acts
adopted in 2017
as part of endeavors to streamline
foreign exchange regulation and
foreign exchange control

Edict of the President of the Republic of Belarus No. 192 “On Annulling the Edict of the President of the Republic of Belarus” dated May 29, 2017.

Edict of the President of the Republic of Belarus No. 221 “On Amending the Edict of the President of the Republic of Belarus” of 23 June 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 84 “On Introducing Modifications to Resolution of the Board of the National Bank of the Republic of Belarus No. 52 of April 22, 2009” dated March 6, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 218 “On Annulling Resolution of the Board of the National Bank of the Republic of Belarus No. 478 of October 31, 2011” dated June 1, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 223 “On Introducing Amendments and Modifications to the Instructions on the Procedures for Drawing Up and Submitting by Banks Report 1044 “On Targeted Use of Foreign Gratuitous Aid in the Form of Cash” and Information on the Receipt of Monetary Funds by Natural Persons Obtained from Abroad” of June 6, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 368-1 “On Introducing Amendments to Resolution of the Board of the National Bank of the Republic of Belarus No. 129 dated September 13, 2006” of September 6, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 538 “On Certain Issues of Foreign Exchange Regulation and Foreign Exchange Control” of December 28, 2017.

Regulatory legal acts
adopted in 2017 as part of endeavors
to streamline the regulatory and legal
basis of the accounting and financial
reporting

Resolution of the Board of the National Bank of the Republic of Belarus No. 248 “On Introducing Amendments and Modifications to Resolution of the Board of the National Bank of the Republic of Belarus No. 124 dated March 21, 2012, Annuling Certain Resolutions of the Board of the National Bank of Belarus and a Separate Structural Element of Resolution of the Board of the National Bank of the Republic of Belarus No. 343 dated June 3, 2015” of June 23, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 414 “On Amending and Modifying Resolution of the Board of the National Bank of the Republic of Belarus No. 506 of August 29, 2013” dated October 16, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 449 “On Amending and Modifying Certain Regulatory Legal Acts of the National Bank of the Republic of Belarus” of November 10, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 470 “On Amending and Modifying Resolution of the Board of the National Bank of the Republic of Belarus No. 507 of November 9, 2011” dated November 29, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 471 “On Accounting of Property Trust Management Operations” of November 29, 2017.

Regulatory legal acts
adopted in 2016-2017 as part of endeavors
to improve the payment system
of the Republic of Belarus

Edict of the President of the Republic of Belarus No. 71 “On Amending the Edict of the President of the Republic of Belarus” dated March 9, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 662 “On Introducing Amendments and Modifications to the Rules for the Conduct of Operations with Electronic Money” dated December 30, 2016.

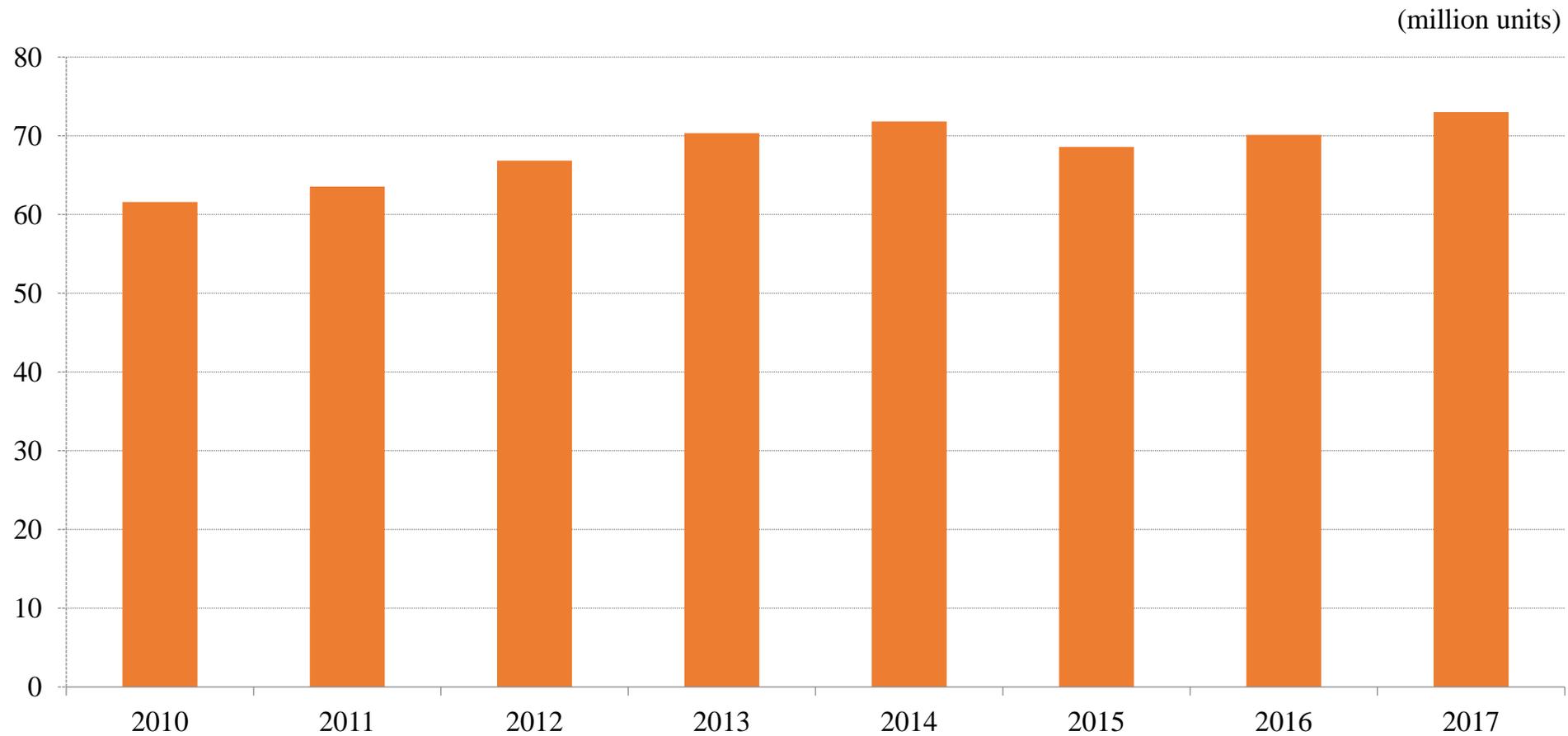
Resolution of the Board of the National Bank of the Republic of Belarus No. 40 “On Amending and Modifying Resolution of the Board of the National Bank of the Republic of Belarus No. 34 of January 18, 2013” dated January 26, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 141 “On Amending and Modifying Resolution of the Board of the National Bank of the Republic of Belarus No. 472 dated August 7, 2015 and Annuling Resolution of the Board of the National Bank of the Republic of Belarus No. 90 of February 22, 2016, and a Separate Structural Element of Resolution of the Board of the National Bank of the Republic of Belarus No. 291 dated May 31, 2016” of April 13, 2017.

Resolution of the Board of the National Bank of the Republic of Belarus No. 302 “On Amending and Modifying the Instructions on the Automated Subsystem for Documentary Synchronization of Archives of the BISS System Participants” of July 26, 2017.

DYNAMICS

of number of payment instructions
settled via the BISS in 2010 – 2017



DYNAMICS
of amounts of payment instructions
settled via the BISS in 2010 – 2017

