

National Bank of the Republic of Belarus

Report on Banking System
and Banking Supervision
Development in the
Republic of Belarus

(January – June 2004)

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Opening address

The purpose of this new publication of the National Bank of the Republic of Belarus is to promote awareness of domestic and foreign banking communities as well as all interested parties of the state and directions of the national banking system development and current norms and rules of the Belarusian banks' regulation and supervision. By deepening the methodology of analysis and streamlining the structure and contents of the Report, the National Bank of the Republic of Belarus will work to improve this new publication, bringing it closer to the existing international standards of periodic financial stability reporting.

Over the first half of 2004, the National Bank and the entire banking system were endeavoring to fulfill the tasks arising out of the key priorities of social and economic development of the Republic of Belarus, Monetary Policy Guidelines for 2004, and Banking System Development Concept until 2010.

These tasks are as follows:

- consistent deepening of stability in the monetary sphere;
- creation of favorable conditions for developing the real sector of the economy, continued economic growth, raising standards of living, and fulfilling other main social and economic development indicators; and
- strengthening the banking system, enhancing the efficiency of services rendered to enterprises and households, including a broader range of banking services, attraction of money, and higher quality of lending.

The first six months of 2004 are characterized by positive trends in banking system development. The banking system continued to grow in nominal and real terms, however the rate of growth was somewhat slower than over the same period in 2003. At the same time, a number of qualitative indicators of banking system performance, i.e., the share of the earning assets, profitability, and problem debt dynamics, improved compared with the first half of 2003.

The majority of the indicators of banks' stable and liquid functioning at the system-wide level enjoyed positive dynamics.

Reliability of banks and banking supervision is the focus of the National Bank's attention. In line with the recommendations provided by the international financial institutions, methodology and practice of supervision over individual banks and the banking system as a whole is developing.

Since this is the first publication of the Report in question, we have incorporated organizational and methodological materials therein and provided statistical and analytical data for several preceding years with a view to imparting a wider knowledge of the Belarusian banking system and banking supervision to the domestic and foreign communities.

The National Bank of the Republic of Belarus will be consistently endeavoring to make its activities transparent and to provide the general public with information about the main directions of the country's banking system and banking supervision development.

Petr P. Prokopovich

Chairman of the Board, National Bank of the Republic of Belarus

1. Banking regulation and supervision in the Republic of Belarus

1.1. Legal and organizational backing of banking regulation and supervision and staffing thereof. Objectives, tasks, and powers of the National Bank of the Republic of Belarus in the banking regulation and supervision sphere

The current banking supervision system in the Republic of Belarus is chiefly in conformity with the international standards. It comprises the following stages: licensing of banks and non-bank credit and financial institutions (hereinafter referred to as "banks"), off-site supervision on the basis of reporting, on-site supervision in the form of inspections, imposition of appropriate sanctions on banks violating banking legislation and financially-troubled banks, as well as reorganization and liquidation of banks, if necessary.

The legislative fundamentals of banking supervision have been set forth in the Banking Code of the Republic of Belarus and are made specific in regulatory legal acts of the National Bank of the Republic of Belarus.

The National Bank of the Republic of Belarus (hereinafter referred to as "the National Bank") is the banking supervision agency. Its functions, in accordance with legislation, include state registration of banks' activity and licensing of banking activities, as well as regulation of banks' activity as regards its security and liquidity and supervision thereof.

The primary objective of banking supervision is to ensure stability of the banking system and confidence therein and reduction of risk of loss for banks' creditors and depositors.

In accordance with the Concept of Banking Supervision Development and Improvement in the Republic of Belarus which was approved by Resolution of the Board of the National Bank No. 19 dated January 31, 2003, and which determines the national strategy of banking supervision development in the medium term, the chief strategic task of banking supervision is to prevent systemic banking crises. Other primary tasks are to:

- ensure adequate control of admittance to the banking system of bona fide and financially sound investors enjoying a credible record;
- control over professionalism and reputation of the banks' top management;
- set prudential limits of banking activities risks and capital and reserve adequacy requirements which would be in conformity with international practice and would take into account the economic situation in the country;
- exercise efficient current supervision over banks' performance by analyzing official reports and carrying out banks' inspections;
- timely apply remedial measures which ensure the maintenance (or restoration) of banks' paying capacity, liquidity, and soundness; and

– remove banks whose situation cannot be improved from the market in a timely fashion and minimize the after-effects of banks' bankruptcies for the banking system and creditors.

Enshrined in the Banking Code of the Republic of Belarus are the rights and powers of the National Bank which allow it to exercise prudential regulation of banks' performance.

A system of prudential requirements to banks based on the world experience and recommended by the Basel Committee on Banking Supervision has been established. This system includes the following major requirements:

- capital adequacy required to cover the risks of banking activities (at present, mainly a bank's credit risk is taken into account);
- liquidity management, including coordination of a bank's requirements and obligations regarding funds placement and attraction maturities as well as requirements to a bank's assets structure in respect of the liquidity level;
- restriction of major credit risks, including restriction of risk per client, per group of interrelated clients, per bank-related client (insider) and persons associated therewith, as well as restriction of the total amount of risks per all insiders and total amount of major risks; and
- establishment of reserves to cover potential losses on assets subject to credit risk, reserves against securities depreciation, and some other reserves.

1.1.1. Organizational framework of banking supervision

Supervisory agency functions at the National Bank are entrusted to the Banking Supervision Directorate and relevant units of the regional Main Departments of the National Bank.

A Committee for Ensuring Banking System Stability functions on an ongoing basis. It is a collective body which generates optimal management decisions on currently central issues of banking system development pertaining to:

- the improvement of the regulatory and legal framework in the field of banking supervision and foreign exchange regulation; and
- the maintenance of banking system stability and development of measures designed to protect the interests of banks' depositors and creditors.

Decisions of said Committee are binding on organizational units of the National Bank.

The Committee is headed by the Chairman of the Board of the National Bank, its members comprise the Deputy Chairman in charge of banking supervision, heads of the Banking Supervision Directorate, Foreign Exchange Regulation and Foreign Exchange Control Directorate, Legal Directorate, and Department of the Secretariat of the Board.

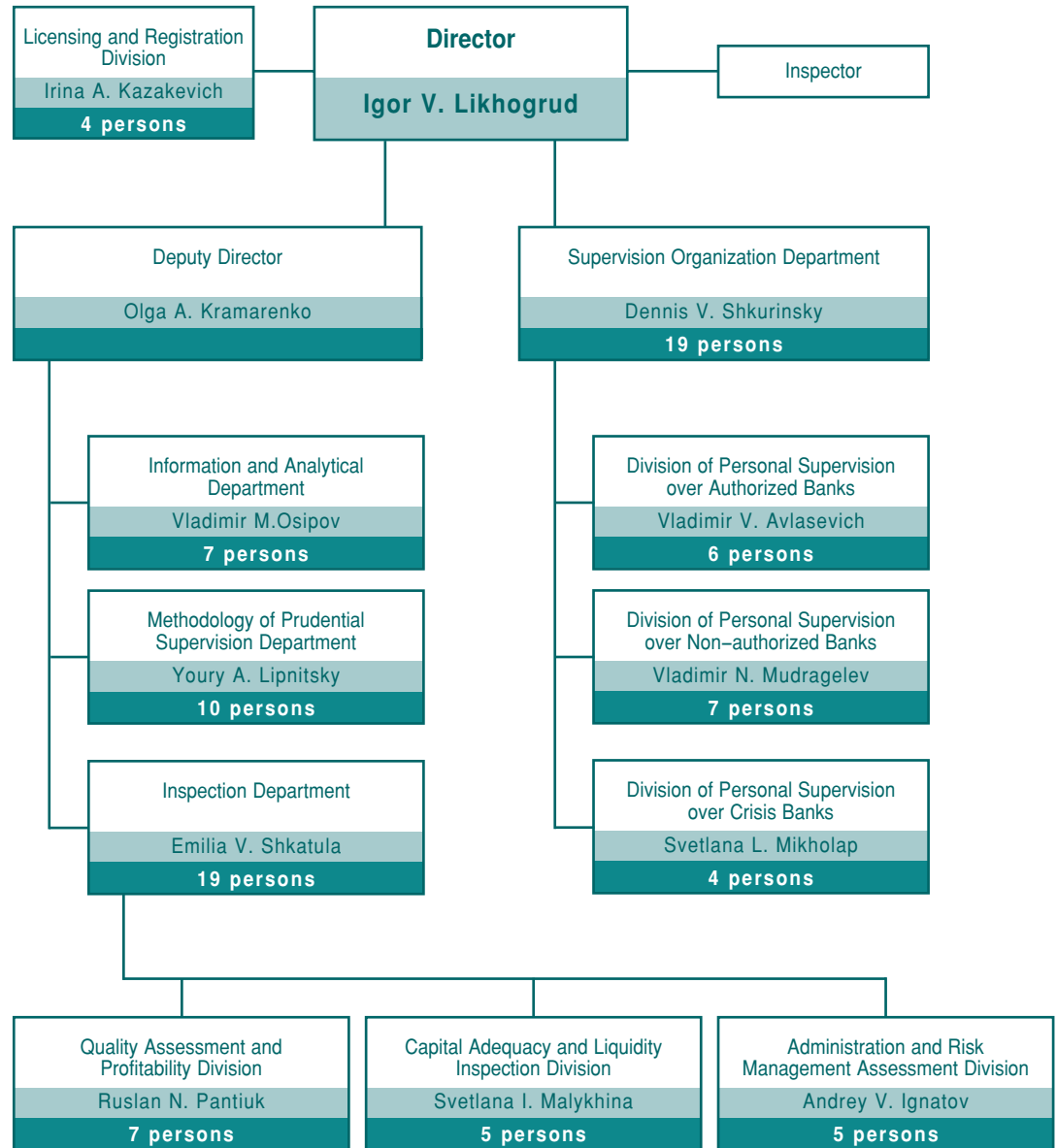
1.1.2. Banking supervision staff

Banking supervision at the National Bank is carried out by 129 specialists, of whom 53.5% are employees of regional agencies and 46.5% are employed at the Banking Supervision Directorate of the main office.

Of the total number of the Banking Supervision Directorate staff, 98.3% are graduates of higher educational establishments, 31.7% are under 30 years of age, and 18.3% have been working in the banking system for 15 years or more.

Banking Supervision Directorate

62 persons



Over the first half of 2004, around 40 employees, or 30% of the banking supervisors, have attended either training courses or workshops in and outside Belarus, the main institution for skill upgrading being the Training Center of the National Bank.

1.2. Methodological foundations of banking regulation and supervision. Compliance with international principles and approaches in the course of banking regulation and supervision

1.2.1. Extent to which underlying principles of effective banking supervision are complied with

Self-assessment of Belarusian banking supervision conformity to the Core Principles for Effective Banking Supervision laid down by the Basle Committee on Banking Supervision suggests that the bulk of the principles are being fulfilled to one degree or another. It is largely the principles pertaining to independence of a banking supervision agency and its provision with required resources as well as supervision on a consolidated basis that are only partially fulfilled.

To achieve better compliance with the Basle Principles, the National Bank has worked out and submitted to the National Assembly draft amendments to the Banking Code and has been working on a systematic basis to remedy revealed shortcomings within the purview granted thereto by law.

1.2.2. Banks registration; licensing of banking activities

The Banking Code of the Republic of Belarus prescribes that banking activities may be carried out only on the basis of licenses issued by the National Bank. A list of banking operations has been determined. Procedures for state registration of banks and licensing of banking activities are in place, and these are further detailed in the Instructions on procedures for state registration and licensing of banks' and non-bank credit and financial institutions' activities approved by Resolution of the Board of the National Bank No. 175 dated June 28, 2001.

At the licensing stage, legality of origins of the capital coming into the banking system and qualifications of heads of banks' executive bodies are subject to close scrutiny. The National Bank has drafted amendments to the Banking Code designed to improve the relevant articles of the Code. It is recommended to empower the National Bank to assess the quality of business plans of banks to be set up and business reputation of nominees to executive positions and deny state registration, should the assessment prove negative.

1.2.3. Economic standards system

One of the major prudential requirements which the National Bank places on banks with a view to maintaining stability and sustainability of the Belarusian banking system is banks' mandatory compliance with a number of economic standards, including capital adequacy, liquidity, major risks restriction, etc.

The Banking Code prescribes mandatory economic standards and main principles of computing indices which characterize fulfillment thereof. Note that the National Bank has the right to set specific values of economic standards, to determine methods of computing indices which are used to evaluate their fulfillment, and to set, if required, additional economic standards.

To improve the economic standards system, the National Bank has redrafted the regulatory legal act that lays down standards for banks which will come into effect in

2005. The Instruction on economic standards for banks and non-bank credit and financial institutions approved by Resolution of the Board of the National Bank No. 92 dated June 28, 2004, provides for the following.

Capital adequacy computation includes market and operational risks coverage requirements. A modified assessment of credit risks based on the standardized approach stipulated by Basle-2 accord is used.

Credit risk assessment is based on information about potential losses resulting from assets operations with different counterparties (countries, banks, and other legal persons). This information is derived from outside rating agencies.

The minimal capital adequacy requirement is 8%.

For the purpose of obtaining by the National Bank of more efficient and adequate information about the state of risks, the new Instruction provides for a daily compliance by banks with the major economic standards, such as capital adequacy, liquidity, maximum size of major risks, and others.

1.2.4. Requirements to set up special reserves for covering potential losses on assets

In accordance with the Banking Code of the Republic of Belarus, banks are obliged to classify, on an ongoing basis, assets as to their reliability and to set up reserves for covering potential losses thereon. In furtherance of this standard, the National Bank has imposed requirements to create special reserves for covering potential losses on assets subject to credit risk as well as against securities depreciation.

1.2.5. Supervision on consolidated basis

Where a bank owns more than 50% of the voting shares of another legal person, such bank is required to furnish to the National Bank consolidated reports on its performance, having regard to the activities of subsidiary legal persons.

Reports contain information on relationship between own funds and banks' assets, having regard to subsidiary legal persons, as well as on major credit risks and risks with respect to the insiders.

The National Bank has drafted amendments to the Banking Code empowering it to exercise consolidated supervision over banks, having regard to their subsidiary and parent legal persons, as well as legal persons which are able to substantially affect in other ways performance and financial situation of banks. To this end, the concepts of banking groups and banking holdings as well as the National Bank's rights to set certain economic standards on a consolidated basis and to apply supervisory sanctions to banks and other legal persons which are members of banking groups and banking holdings have been devised.

1.2.6. Corporate governance and internal control at banks

In accordance with the Banking Code, the National Bank has been evaluating professional appropriateness of nominees to the positions of heads of executive bodies both when the bank is being established and when new persons are appointed to said positions. Where any breach in a bank's performance is revealed, the National Bank is entitled to reevaluate, as a supervisory sanction, the appropriateness of such officials for their positions.

The National Bank places major emphasis on the quality of banks' internal audit. Over the first half of 2004, recommendations on the organization of the internal control system at banks and non-bank credit and financial institutions were redrafted following recommendations of the Basle Committee on Banking Supervision and forwarded to banks.

1.2.7. Dealing with problem banks

In addition to the Banking Code, this task is regulated by the norms of the Law of the Republic of Belarus "On Economic Insolvency (Bankruptcy)". The above legislative acts stipulate two forms of the National Bank's interference in the management of problem banks, i.e., placing the bank under provisional management of the National Bank or appointment of provisional administration of the bank.

In furtherance of the afore-mentioned legislative norms, the National Bank has devised the Rules for appointing and terminating provisional administration to manage a bank approved by Resolution of the Board of the National Bank No. 4 dated January 25, 2001, and the Rules for placing a bank and non-bank credit and financial institution under provisional management of the National Bank of the Republic of Belarus approved by Resolution of the Board of the National Bank No. 71 dated March 29, 2001.

1.3. Regulating access to the banking services market

One of the components of banking supervision is regulation of access to the banking services market.

Subjects willing to operate in the banking market of the Republic of Belarus must meet the criteria that would, as early as the initial stage, ensure their financial solvency and professional competence as well as the opportunity to compete with other market participants.

In accordance with the Banking Code of the Republic of Belarus and other legislative acts, the National Bank, when registering new credit institutions and issuing licenses thereto with a view to admitting investors to the banking services market, exercises control over compliance with the following requirements:

- minimum amount of authorized capital in respect of a newly established (reorganized) bank;
- maximum amount of non-cash contributions in the authorized capital;
- educational attainments and professional level of candidates nominated to the positions of heads of executive bodies and chief accountant of a bank;
- financial situation of founders (shareholders) and their business reputation;
- conformity of a bank's constituent documents to legislative requirements of the Republic of Belarus;
- compliance of a bank with technical requirements prescribed for certain banking transactions; and
- raising authorized capital from investors' own funds.

As at July 1, 2004, there were 34 banks registered in the Republic of Belarus. Of these, three banks – Open Limited Liability Company "BelBaltia", Closed Joint-Stock Company "BelComBank", and Open Joint-Stock Company "Belorusskiy Birzhevoy Bank" – were adjudged bankrupt by the Economic Court and liquidation proceedings were initiated against these banks. No non-bank credit and financial institutions have been registered in the Republic of Belarus.

In 2001–2003, the National Bank carried out state registration of nine banks, of which six banks are residents of free economic zones. In the first half of 2004, Open Joint-Stock Company “COMBelBank” was registered.

Since January 2001, four banks have been dropped from the Single State Register of Legal Persons and Independent Entrepreneurs.

In 2001–2003, six banks were reorganized, which fact did not adversely affect sustainability of their operations. In bank reorganization, state registration of appropriate legal activities is not the only function of the National Bank. It also engages in a thorough financial analysis, evaluates the capacity of banks in the process of reorganization to fulfill economic norms and prudential requirements as well as professional appropriateness of heads of executive bodies and chief accountant of a bank, and considers transferring powers of reorganized banks granted thereto under licenses to the newly established bank.

Licensing (delicensing) is an effective mechanism of regulating access to the banking services market.

In granting additional powers under license to a bank, a number of requirements are placed on such bank. The main of them are: lack of losses, fulfillment of economic norms set by the National Bank, establishment of reserves for covering potential losses on doubtful and bad assets in prescribed amounts, compliance with requirements to establish required reserves deposited with the National Bank, and lack of debt to the budget and government off-budgetary funds over the recent 12 months.

As at July 1, 2004, 31 bank had a general and master license, 18 banks were licensed to attract natural persons' funds on deposit, and three banks were licensed to engage in transactions involving precious metals.

The National Bank exercises control over the purchase by investors of large blocks of shares from banks operating in the Republic of Belarus. Where, as a result of one or several transactions, a legal or natural person, or a group of legal and/or natural persons bound by a contract, or a group of legal persons which are subsidiaries of or dependent on each other acquire(s) more than 5% of shares in the authorized capital, the National Bank must be notified; if more than 10% of shares is bought, the National Bank's authorization must be sought.

In acquiring the Belarusian banks' shares, foreign investors are required to file with the National Bank a document substantiating their legal status and the balance sheet for the previous year confirmed by an auditor.

1.4. Off-site supervision

Off-site supervision is a component part of the ongoing supervision over a bank and is based on the analysis of balance sheet and prudential reports, inspection materials, and other relevant information provided by banks. The Supervision Organization Department, a body within the Banking Supervision Directorate of the National Bank of the Republic of Belarus, is charged with off-site supervision.

The primary objective of off-site supervision is to adopt the entire range of supervisory response measures which help ensure a bank's safe and liquid functioning.

Banking supervision in the Republic of Belarus is aimed at early identification of potential problems in certain areas of a bank's operation and effecting timely adjustments by both making appropriate recommendations to a bank's executive bodies and/or owners and applying adequate sanctions to banks.

World experience of off-site supervision and modern trends of its development have necessitated qualitative improvement of banking supervision arrangements in the Republic of Belarus through adoption by off-site supervision bodies of methods and instruments for assessing banking activities risks (risk-oriented supervision).

Improvements, in the first place, were made in streamlining and bettering approaches to the assessment of major risks in banking activities (such as credit, foreign exchange, and liquidity loss risks), devising criteria of and procedures for identification and determination of the level of interest rate, operational, and legal risks, as well as other banking risks whose "materialization" may adversely affect safe and liquid functioning of a bank.

In 2001, supervision over banks was centralized, i.e., supervision over Belarusian banks is carried out by the main office of the National Bank regardless of the location of a bank's head office. Also, three groups of banks have been identified (authorized, non-authorized, and crisis banks) which explains the current organization of the Supervision Organization Department:

- Division of personal supervision over authorized banks;
- Division of personal supervision over non-authorized banks; and
- Division of personal supervision over crisis banks.

The need for such specialization arises from varying extent of influence trends in financial situation of said banks exert on sustainability of the banking system. And, of course, techniques of supervision over these groups of banks vary to a certain extent.

In exercising supervision over the authorized banks which include OJSC "Belagroprombank", OJSC "Belpromstroibank", JSSB "Belarusbank", OJSC "Belvnesheconombank", OJSC "Belinvestbank", and "Priorbank" OJSC, specifics of their operation, their share in the banking system, specifics of their transactions, and amount of capital and assets are taken into consideration.

Great significance of this group of banks for the banking system and economy of the Republic of Belarus occasioned the need for a more thorough approach towards analysis of financial condition and assessment of development trends. In particular, each of the above banks is supervised by one specialist from the Supervision Organization Department (hereinafter referred to as "the bank supervisor"). Besides, financial situation of the authorized banks is regularly discussed by collective management agencies of the National Bank. For example, in the first half of 2004 the Board of the National Bank on 10 occasions considered issues relating to the operation of the authorized banks (of which reports of managers of said banks were heard on four occasions).

The fact that non-authorized banks do not have substantial impact on banking system stability determines the need for priority identification, in the course of supervision, of principal targets and weak spots in the operation of these banks. Such an approach allows, on the one hand, to localize problems of a particular bank and, on the other, swiftly identify the most efficient measures of supervisory response.

Each specialist from the division of personal supervision over non-authorized banks is responsible for several banks.

A bank's operation under crisis conditions, i.e., in accordance with legislation, the bank is placed under provisional management of the National Bank or provisional administration is appointed to run the bank, a court of law files a petition in bankruptcy against the bank, etc.) is not an "ordinary" course of banking operations, which calls for the need to use specific ways and mechanisms of supervision over such banks.

The main prerequisite for effective documentary supervision is real assessment of a bank's financial situation and prospects of its operation. This is only possible if an equal approach to all banks from the point of view of both establishing prudential norms and restrictions and applying supervisory response measures to banks is ensured.

In this connection, under the Concept of Belarusian Banking System Development for 2001-2010 and the Concept of Belarusian Banking Supervision Development and Improvement, preparatory measures were implemented in 2003 and the first half of 2004 to abandon, beginning in 2005, the practice of granting to banks privileges and preferences when computing economic standards as well as other forms of individual approach.

Determining banks' real financial situation and trends of their development is impossible without a comprehensive analysis of their performance and assessment of all emerging risks of banking activities. Improving forms and ways of realizing analytical functions is also one of the most pressing tasks of off-site supervision.

As part of implementing said direction of activity, establishment and automation of a comprehensive system for analyzing financial situation of banks is underway. Once completed, this system will ensure an integrated structure of collection, processing, and submission of data on performance of each bank registered in the Republic of Belarus which are necessary to determine real financial situation of banks and identification and assessment of the level of existing risks.

Today, it is possible to automatically receive, on users' requests, electronic versions of banks' aggregated balance sheets and the bulk of prudential reporting forms and to submit, based on the above data and using software, information on a bank's performance in the form most suitable for the user.

Another important aspect of effective bank supervision is organization by the bank supervisor of cooperation with its management. This is essential both for obtaining as complete information as possible on different aspects of a commercial bank's operation in order to take in a quick way adequate response measures and for identifying the best ways of tackling problems emerging in the bank.

That is why of particular importance is participation of Supervision Organization Department specialists in comprehensive inspections of banks in which they are involved as deputy inspection heads. For example, over the first half of 2004 bank supervisors took part in nine comprehensive inspections.

1.5. Bank inspections

The National Bank inspects banks in order to determine on site their real financial situation and to assess the risks assumed by the bank, the state of the internal control system, organization of management, compliance with the prescribed prudential requirements, accuracy of transactions in book-keeping, and validity of information filed with the National Bank. Also, inspectors are tasked with identifying situations endangering creditors' and depositors' interests as well as breaches of legislation governing banking activities and of the statutes and internal documents of a bank, and causes and conditions thereof.

Pursuant to the inspection schedule approved by a resolution of the Board of Directors of the National Bank, in 2004, comprehensive inspections will be conducted in 17 banks, of which nine banks have already been inspected in the first half of the year.

In the course of inspections a great deal of attention is paid to the quality of assets, accuracy of their classification, and completeness of the established special reserve on assets subject to credit risk. Following inspections, the level of credit, interest rate, foreign exchange, and legal risks, liquidity loss risk, and quality of their management are assessed. Banks' capital adequacy with respect to their transactions as well as completeness and accuracy of establishing main and additional capital are also inspected. Particular attention is paid to banks' compliance with anti-money laundering laws and organization of internal control with a view to fulfilling the principle "know your client".

Following a comprehensive inspection, protocols are prepared indicating revealed breaches of legislation governing banking activities and a statement is made as to the bank's financial situation.

Such statements contain assessments of the above risks on the basis of inspection findings and of the management of a bank and an analysis of a bank's income and expenditure and internal control system organization. They also include recommendations on how the bank should eliminate revealed shortcomings and streamline the system of management.

Findings of comprehensive inspections and response measures suggested by the Banking Supervision Directorate are considered and approved by the National Bank's Committee for Ensuring Banking System Stability. Following each inspection, it is a standard practice to discuss its findings at an enlarged session in the bank concerned attended by the Deputy Chairman of the Board of the National Bank responsible for the banking supervision unit, the management of the Banking Supervision Directorate, the head of the inspection, heads and members of the bank's management bodies, and specialists of the medium level of management.

1.6. Countering legitimization (laundering) of illegal income

In accordance with the Law of the Republic of Belarus "On Measures Designed to Prevent Legitimization of Illegal Income", the National Bank has been charged, within its purview, with exercising control over banks' compliance with the provisions of the Law in question. Banks are required by the Law to register transactions subject to special control in a special blank form and forward it within 24 hours to the tax authority at the place where relevant financial transactions have been carried out as well as to the State Control Committee of the Republic of Belarus in cases where such transactions involve foreign exchange.

The National Bank, taking into account the recommendations of FATF and Basle Committee on Banking Supervision, has devised the Recommendations on internal control system organization in banks with a view to following the principle "know your client". In inspecting banks, specialists of the National Bank consider banks' compliance with legislation pertaining to combating laundering of illegal money and organization of banks' internal control system in order to follow the principle "know your customer". If necessary, information on revealed violations of registration of transactions subject to special control is communicated to the State Control Committee of the Republic of Belarus.

In June 2004, the IMF's technical assistance mission on anti-money laundering and combating the financing of terrorism visited the Republic of Belarus. The mission ana-

lyzed current Belarusian legislation pertaining to these issues and came up with recommendations and proposals which will be considered and taken into account while redrafting the Law of the Republic of Belarus "On Measures Designed to Prevent Legitimization of Illegal Income".

1.7. External audit of banks

In accordance with article 34 of the Banking Code of the Republic of Belarus, banks are audited by National Bank representatives or, on the instructions of the National Bank, by audit organizations (auditors) licensed by the National Bank to audit banks.

An audit organization (auditor) must draw up the auditors' report including information on credibility of financial statements of a bank, observance of mandatory standards established by the National Bank, internal controls, and other provisions set forth by legislation of the Republic of Belarus and the statutes of the bank.

In accordance with article 23 of the Law of the Republic of Belarus "On Auditing", the National Bank determines auditing procedures at banks and non-bank credit and financial institutions; devises methodology of audits at banks and non-bank credit and financial institutions; and exercises control over compliance with procedures for auditing at banks and non-bank credit and financial institutions.

In accordance with article 34 of the Banking Code, when auditing banks and non-bank credit and financial institutions, representatives of the National Bank as well as audit organizations (auditors) whose services are enlisted by the National Bank shall have the right to:

- examine accounts and other documents of banks and non-bank credit and financial institutions; and
- require administration and officers of a bank or non-bank credit and financial institution to provide information on all matters relating to the activity and operations thereof.

In accordance with the Rules for compiling and presenting an annual report by Belarusian banks and Instructions on making forms of financial reports submitted by banks to the National Bank approved by Resolution of the Board of the National Bank No. 20 dated January 31, 2003, banks' reports must be confirmed by external audit every year.

In accordance with Belarusian legislation, banks' annual reports for 2003 and relevant audit opinions as well as prudential reporting forms certified by external auditors have been sent by banks to the National Bank which is using same for off-site inspections.

Auditing procedures in the banking system of the Republic of Belarus are governed by the Rules for licensing and auditing activities in the banking system of the Republic of Belarus approved by Resolution of the Board of the National Bank No. 129 dated July 2, 2003. Pursuant to this document, audit organizations and auditors-independent entrepreneurs that are licensed by the Ministry of Finance of the Republic of Belarus to engage in audit activities and that have a relevant additional license from the National Bank may carry out audit in the banking system.

Licenses permitting audit in the banking system are issued on the basis of a decision of the National Bank's central examination board following interviews with auditors and heads of audit organizations.

Listed below are audit organizations and auditors licensed to carry out external audit of banks in the Republic of Belarus as at July 1, 2004:

Foreign Enterprise "Deloitte & Touche"
 Foreign Enterprise "Ernst & Young"
 Audit Limited Liability Company "Auditel"
 Additional Liability Company "Vladaudit"
 Auditors-independent entrepreneurs – 6 persons.

1.8. Ensuring information transparency of banks

Banks' information transparency (provided statutory bank secrecy is preserved) is one of the most efficient ways of developing healthy competition, maintaining a high level of discipline in the banking services market, and protecting the interests of creditors and depositors. In the Republic of Belarus, procedures for disclosure by banks of information on financial situation, powers under licenses, and professional level of managers are set forth in the following regulatory document of the National Bank – The Rules for the publication of information and contents of published information to be used for the assessment of soundness of a bank and non-bank credit and financial institution approved by Resolution of the Board of the National Bank No. 176 dated June 28, 2001.

In accordance with this document, the following information shall be provided by banks to legal and natural persons without any restrictions and free of charge:

- a copy of the decision on state registration of a bank;
- current location (legal addresses), phone numbers of the bank, its affiliates, branches, representative offices, and other organizational units for inquiries;
- the last, first, and patronymic names of the members of the bank's executive bodies and chief accountant; information on their educational background and qualifications; in cases provided by legislation - an appraisal of their professional appropriateness by a special qualification committee of the National Bank; and procedures for receiving customers;
- the bank's work regime;
- copies of the National Bank's licenses permitting banking business; information on current powers under licenses;
- a list of banking operations and other currently performed activities; fees for performing such operations and activities;
- the size of the registered authorized capital; information on the equity capital as of the first day of the previous month;
- the most recent annual balance sheet, profit and loss statement in the form prescribed by the National Bank and confirmed by an audit organization;
- the balance sheet and profit and loss statement as of April 1, July 1, and October 1 of the current year. Banks are obliged to publish the above statements in the official republican mass media and file them with the National Bank indicating the place of publication within 45 days of the reporting date;
- when advertising securities – the amount of dividends (interest) paid on such securities during the last financial year, date and number of registration of the advertised securities issue, place of registration thereof, and place of familiarization with the terms and conditions of the issue;
- when advertising attraction of funds at interest – the amount of interest paid on different types of deposits during the last financial year with breakdown by months (quarters) if payments were made monthly (quarterly); and

– the bank's form of guaranteeing return of funds attracted from natural persons; terms and conditions, sources, time, and amounts of guaranteed repayments.

In addition to quarterly reports, based on article 120 of the Banking Code of the Republic of Belarus, banks are required to publish in the official republican mass media annual reports (balance sheet, profit and loss statement, and report on changes in their capital) certified by an audit organization not later than April 25 of the year following the year under review.

Said information is also posted on the National Bank's website (www.nbrb.by) and is available in the National Bank's information publication "Bankauski Vesnik" ("Bank Bulletin").

Most of the Belarusian banks have own websites on which they post information subject to mandatory disclosure as well as additional information about themselves.

With banks' consent, the National Bank publishes certain financial data about banks in its monthly compilation "Bulletin of Banking Statistics".

Today, directions of using in the Republic of Belarus provisions of Pillar III of recently adopted by the Basle Committee on Banking Supervision new capital accord Basle-2, which define requirements for disclosure by banks of information on their performance are being considered.

1.9. Guaranteeing return of natural persons' deposits

In accordance with the Banking Code of the Republic of Belarus, to guarantee the return of funds attracted by banks from natural persons, various forms of guaranty may be developed in the country. Importantly, the safety and return of funds deposited by natural persons with state-established banks and with banks where the state holds more than 50% of the voting shares is guaranteed by the state.

At present, there are several regulatory documents stipulating procedures for guaranteeing natural persons' deposits.

Since 1996, regulations concerning the guarantee fund established under the National Bank have been in place. Nowadays, the use of the fund is governed by the Rules for guaranteeing the return of the funds attracted by banks from natural persons approved by Resolution of the Board of the National Bank No. 75 dated March 29, 2001. This form of guarantee covers majority of the state-controlled banks as well as all the non-state-controlled banks licensed to attract funds from natural persons.

In accordance with the above document, the guarantee fund's money is used to return to natural persons funds deposited with banks where a bank is unable, if it goes bust, to meet its own obligations to natural persons. The limit of funds a natural person deposited in accounts and deposits with one bank regardless of the number of types of accounts and deposits of a given person subject to the return at the expense of the guarantee fund should the bank fail is set in the amount equivalent to USD1000.

Decree of the President of the Republic of Belarus No. 4 "On Guaranteeing Safety of Natural Persons' Funds in Foreign Exchange Held in the Accounts and Deposits with Banks of the Republic of Belarus" dated April 20, 1998, prescribes that the state guarantees absolute safety of natural persons' foreign exchange funds in accounts and deposits with banks authorized to service state programs, i.e., OJSC "Belarusbank", OJSC "Belagroprombank", OJSC "Belpromstroibank", OJSC "Belinvestbank", OJSC "Belvnesheconombank", and "Priorbank" OJSC. Such funds will be returned with inter-

est accrued thereon in the currency of the account or deposit at the first request of the depositors.

In pursuance of said document, the Rules ensuring compliance with commitments for the return to natural persons of foreign exchange funds in accounts and deposits with authorized banks of the Republic of Belarus approved by Resolution of the Board of the National Bank No. 33.14 dated December 27, 2000, have been worked out.

To create uniform conditions of guarantees for depositors of all banks and to promote competitiveness in the natural persons' deposit market, the Law of the Republic of Belarus "On Repayment of Bank Deposits of Natural Persons" which is being agreed and preliminarily considered by the national legislative body has been drafted.

1.10. Cooperation with international financial institutions and supervisory agencies of other countries

1.10.1. Cooperation with the IMF

Cooperation with the IMF has been maintained since 1992 when the Republic of Belarus joined this international institution. With the IMF's assistance a modern banking supervision system has been established and is in place in the country.

In December 2003, an IMF mission visited the National Bank with a view to providing technical assistance in the field of banking supervision. On completion of its work, the mission came up with a report "The Republic of Belarus. The State of the Banking System, Banking Supervision and Restructuring of Banks".

The mission evaluated the current state of banking supervision in the Republic of Belarus using the materials of self-assessment (made by the Banking Supervision Directorate prior to the arrival of the mission) of compliance with the Core Principles for Effective Banking Supervision, legislative and regulatory framework, and prospective directions of improving banking supervision.

The mission made a thorough examination of the National Bank's Concept of Banking Supervision Development and Improvement in the Republic of Belarus.

A number of findings of the mission pertaining to banking supervision development in the country and present shortcomings largely coincided with those of the Banking Supervision Directorate. Measures designed to remedy them have been stipulated in the Concept of Banking Supervision Development and Improvement as well as in the appropriate plan of actions.

1.10.2. Cooperation with the Banking Supervision of Central and Eastern Europe Group (BSCEE Group)

Beginning in 1996, the National Bank has been a member of the BSCEE Group which is a regional entity of the Basle Committee on Banking Supervision.

Within the Group, its members share experience regarding regulation and supervision over national banking systems development and hold, on an annual basis, conferences for heads of national supervisory agencies. Also, several seminars have been held. A compilation containing information about banking systems of the Group member-states is published. The National Bank takes part in all these activities.

An international seminar "New Basel Capital Accord: Rules, Implementation, and Building Internal Ratings-based Systems for Measuring Credit Risk" was held on May 10–14, 2004, at the Training Center of the National Bank of the Republic of Belarus.

Its attendants discussed the key elements of the new Basle capital accord (Basle-2): approaches to risk assessment based on internal ratings, the use of external assessment in the standard approach, methods of credit risk reduction, dealing with the operating risk problem, supervisory inspection, and market discipline.

The seminar was attended by 31 participant from 16 member-states of the Group. Presentations were made by specialists from the Financial Stability Institute, Deutsche Bundesbank (Germany), and ING-Bank (the Netherlands).

1.10.3 Cooperation with supervisory agencies of other countries

The National Bank is endeavoring to establish and develop contacts and exchange of information with foreign banking supervision agencies. Of particular interest is cooperation with those countries which have representative offices of Belarusian banks and whose banks have set up subsidiaries and representative offices in the Republic of Belarus.

By mid-2004, nine bilateral agreements with foreign banking supervision agencies had been concluded, chiefly from the CIS member-states and Baltic countries. A Memorandum of Understanding in the field of banking supervision was signed with the Central Bank of Cyprus.

Bilateral agreements regarding cooperation between national banking supervision agencies provide for mutual exchange of information on current national banking legislation, banking supervision norms and requirements, including consolidated supervision. Said agreements (memorandums) envisage provision of information to the banking supervision agencies of the subsidiary's host country about material changes affecting the founding credit organization. Information concerning a ban on and restriction of the range of banking business, appointment of provisional administration, reorganization, and loss of license is communicated.

Where there is no formal agreement (memorandum), such information may be furnished on request from the host country's banking supervision agency.

When requested by foreign banking supervision agencies as part of the signed agreements (memorandums) as well as on an informal basis, the National Bank, having obtained the consent of a relevant credit and financial institution, provides supervisory information.

1.11. Banking supervision system development outlook

In order to continue enhancing the effectiveness of banking supervision, it is intended to improve, on a scheduled basis, both supervisory requirements proper and supervision implementation procedures.

Switching from formal control over the attainment of numerical values of prudential norms to a largely qualitative assessment of banks' financial condition has been identified as the main strategic direction of banking supervision development. Such an assessment would be made on a comprehensive basis including criteria that evade formalization and mathematical evaluation and that characterize the quality of bank management, internal control systems, and consistency of banks' risk assessment, on the one hand, and their real state and procedures for management thereof, on the other.

At the licensing stage, the primary task will be the development of requirements to the business reputation of bank managers and procedures for and methods of evaluating business plans of the banks being established.

In the course of current supervision (both off-site and on-site) procedures for and methods of analyzing banks' performance, identifying problems as early as possible, and timely and effective application of supervisory sanctions will continue developing.

With the adoption by legislature of amendments to the Banking Code of the Republic of Belarus, development of methods of and procedures for consolidated supervision over bank groups and bank holdings will become a special direction of supervision improvement in this country.

During the second half of 2004, an external assessment of the Belarusian financial sector under the FSAP program is scheduled to be effected jointly with the IMF and the World Bank including the assessment of conformance of the banking sector to the Core Principles for Effective Banking Supervision of the Basle Committee.

2. State and dynamics of the banking system of the Republic of Belarus

2.1. General economic conditions of banking system functioning

Social and economic development of the Republic of Belarus in the first half of 2004 was characterized by positive dynamics of the main macroeconomic indicators.

As a result of dynamic and sustainable performance of the principal sections of the economy, GDP grew by 110.3% with respect to the same period in 2003, the 2004 forecast being 109-110%.

The rate of growth of investment in the fixed capital in January – June 2004 amounted to 121.7% compared with the same period in 2003, the forecast being 120%.

Economic growth in 2004 is accompanied by better financial performance of the economy's real sector organizations.

Profitability of sold products, works, and services in the first half of 2004 grew up to 13.9% against 9.3% in January-June 2003, and sales profitability up to 8.4% against 5.7%. In the first six months, the level of profitability of sold industrial output was 16.2%, the forecast for 2004 being 12.5%.

Growth of household income and lower inflation rates boosted consumption in January – June 2004. For example, in the domestic consumer market retail turnover, including public catering, via all channels of realization increased 13% compared with the same period in 2003, the forecast for 2004 being 8–9%.

At the same time, the gain in the volume of consumer goods was not accompanied by an adequate increase in their realization. In industry, the finished stock is still big. As at July 1, 2004, it accounted for 58.2% of the average monthly output, including 154.8% in light industry and 71.3% in food industry.

In early 2004, around BYR240,000, or nearly USD115, per Belarusian resident was placed, on average, in bank deposits and savings certificates. As at July 1, 2004, the figure increased to nearly BYR310,000, or about USD145. Regrettably, the Republic of Belarus in this respect lags not only western European countries or Japan, but also the Russian Federation and Kazakhstan.

Accelerated economic growth in this country creates favorable environment for enhancing stability of banks and the banking system as a whole.

2.2. Macroeconomic and macroprudential indicators of banking system development

Monetary policy in January-June 2004 was pursued in accordance with the Monetary Policy Guidelines of the Republic of Belarus for 2004 at a time of an overall increase in business and investment activity, continued growth trends of the economy's qualitative indicators, and positive achievements in foreign economic activity.

Money supply parameters in January-June 2004 were compiled when the situation in the domestic foreign exchange market was favorable which fact was reflected in the excess of foreign exchange supply over demand therefor in the market as a whole.

The major factors of positive development were the following:

- a more vigorous process of attracting unorganized household savings by banks due to, above all, growing credibility in the national currency. Net sales of foreign exchange by households in the first six months of 2004 amounted to USD48.4 million against its purchase in the amount of USD25.6 million compared with the same period in 2003; and

- growth of a relative share of sold foreign exchange proceeds. Where in the first half of 2003 enterprises sold in the foreign exchange market 44.3% of their proceeds, during the same period in 2004 the figure grew to 50.8%. Along with an increase in inflow of foreign exchange by 38.6%, this process ensured a substantial growth of foreign exchange supply by economic entities in the domestic market.

Interest rate policy in 2004 is aimed at maintaining positive interest rate values in the economy which are conducive to the growth of savings in the national currency and greater access to credit resources for economic entities. These targets are being met, in the first place, by regulating the refinance rate and interest rates on the National Bank's transactions in the money market.

In a situation where inflationary processes were slowing and the Belarusian ruble exchange rate was becoming substantially stable, the National Bank reduced the base refinance rate from 28% per annum in early 2004 to 19% on July 19, 2004. The average level of the refinance rate in January-June 2004 was 24.9% per annum. In real terms, given the actual level of inflation during that period, the refinance rate was 0.8% per month, on average.

The average ratio of required reserves as a share of all attracted funds amounted to 8.07% (8.26%, as at January 1, 2004), while the average ratio of required reserves as a share of resources attracted in Belarusian rubles amounted to 8.21% (8.81%, as at January 1, 2004) and as a share of resources attracted in foreign exchange to 7.89% (7.66%, as at January 1, 2004).

Current economic situation, primarily slowing down of inflationary processes and interest rate policy measures taken in this connection, facilitated a positive decrease across the entire spectrum of interest rates on the financial market.

According to the data for the first half of 2004, the interest rate on newly granted credits decreased by 7.1 percentage points compared to December 2003, amounting to 23.8% per annum. Over the first half of the year it amounted to 27.2% per annum on the average, compared to 44.6% per annum over the same period in 2003. The level of average monthly interest rate fell 1.5 times in real terms, to 0.9% in the first half of 2004, compared to 1.4% in the first half of 2003.

In June 2004, the average level of interest rate on newly attracted time deposits decreased by 6.9 percentage points (to 16.9%), compared to December 2003 (23.8%). Over the first half of 2004 on the average, the above-mentioned interest rate decreased 1.6 times compared to the same period in 2003, and amounted to 20.8% per annum. In real terms, over the first half of 2004, the interest rate on fresh time deposits amounted to 0.4%, compared to 0.6% in the first half of 2003.

In spite of declining levels of interest rates on time deposits, a tendency towards a boosted growth of funds that were placed in this instrument in the first half of 2004

was supported by a significant excess of profitability of the instrument over the rates of depreciation of the Belarusian ruble exchange rate.

In the first half of 2004, macroprudential indicators of the Belarusian banking system's activities were characterized by the following.

As regards capital adequacy, the indicator "own funds (capital) / risk-weighted assets ratio" fluctuated within the 25–26% band in the system as a whole, exceeding more than twice the standard set forth in respect of an individual bank (no less than 10%).

The indicator "fixed capital / risk-weighted assets ratio" had even more favorable value. It fluctuated within the 20–22% band, the standard for an individual bank being "no less than 5%".

Implementation of a system of measures initiated by the National Bank and supported by the President of the Republic of Belarus which is aimed at strengthening credit discipline among borrowers and improving the quality of banks' portfolios continues in 2004. It has had a positive impact on the dynamics and the level of the key indicators characterizing banks' assets quality.

Since mid-2002, the quality of the credit portfolio has been steadily improving. Over the first half of 2004, the share of problem debts in the total volume of credit debts on banks' balance sheets decreased from 3.7% to 2.8%.

Over the same period, the indicator "clients' and banks' problem debts minus actually established reserve to cover problem debts / own capital ratio" which integrally characterizes the level of credit risks in the system dropped from 7.1% to 3.9%.

The decrease in credit risks in the system as a whole can also be observed in the dynamics of the following indicators. The aggregate amount of major credit risks to own capital ratio for the system as a whole decreased in January – June 2004 from 113.1% to 96.9%. The number of banks with major credit risks exceeding 25% (for insiders -15%) of the bank's own capital dropped from 16 to 9.

If we compare the total amount of credits that were not repaid to banks (problem credits on banks' balances, problem off-balance sheet credits, and interest on credits not received by banks in full) and the volume of credits granted we can observe positive dynamics too. This ratio decreased over the first half of 2004 from 9.6% to 7.9%.

The completeness of the establishment of a special reserve to cover potential losses on assets subject to credit risk (actually established reserve / estimated reserve) increased during the period under consideration from 51.6% to 62.0%.

Indicators characterizing the banking system's profitability were somewhat lower compared to the indicators for the same period in 2003. As at July 1, 2004, return on assets amounted to 0.66% (0.67% in the previous year) and profitability of the share capital to 4.92% (5.55%).

Liquidity indicators were moving, to a certain extent, in different directions. As at July 1, 2004, compared with a year earlier, the proportion of liquid and total assets improved significantly - 27.6% and 17.0%, respectively, the banks' standard being "no less than 20%".

Instantaneous liquidity (demand assets to demand liabilities ratio) was maintained at a high level – 55.9% as of July 1, 2004 (54.0% as of July 1, 2003), the standard being "no less than 20%".

However, liquidity indicators which take into account longer periods of resources attraction and placement tended to decline. For example, the short-term liquidity indicator with maturities of attracted and placed resources up to one year decreased from

1.31 as at July 1, 2003, to 1.02 as at July 1, 2004, the standard being “no less than 1”. It was caused by the accelerated growth of long-term credits (primarily for housing) compared to the banks’ long-term resources.

Evaluating the extent to which a number of quantitative indicators stipulated in the Concept of the Belarusian Banking System Development for 2001-2010 were fulfilled, the following results can be noted as at July 1, 2004.

The banking system’s own capital amounted to BYR2,369.8 billion, a 6.1 times increase compared with the start of 2001 (the Concept of the Banking System Development stipulated a 5-6 times increase by January 1, 2006).

The banks’ own capital to GDP ratio amounted to 5.7%. According to the Concept, this value must be reached by January 1, 2006.

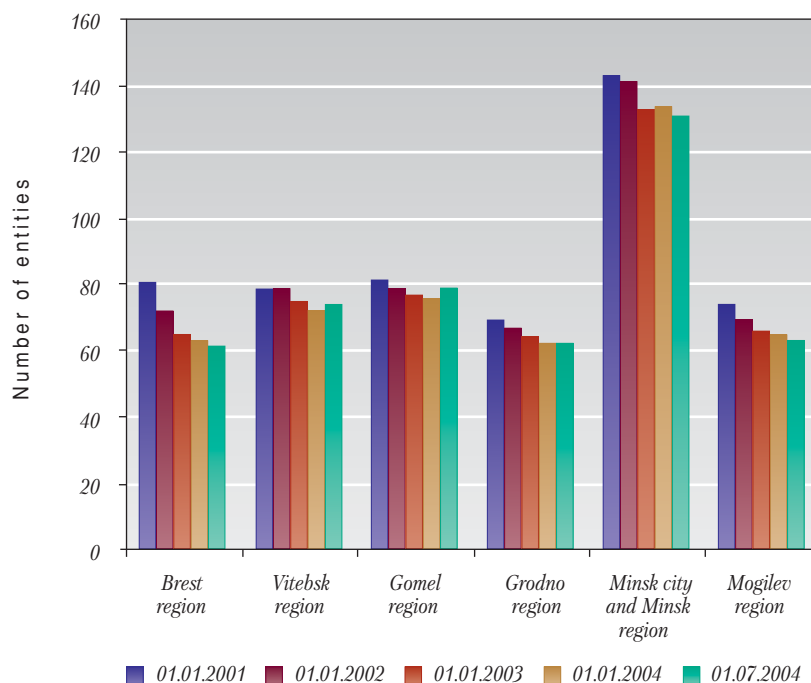
The volume of the banks’ resource base amounted to BYR11,766.6 billion, a 4.6 times increase compared with the start of 2001. According to the Concept, by January 1, 2006 the resource base is expected to increase 7.5 times.

2.3. Institutional aspects of development

2.3.1 Quantitative and structural characteristics of the banking system

In 2001–2004, state registration of 10 new banks was effected. As at July 1, 2004, there was 31 bank operating under normal conditions, taking into account reorganiza-

1. Regional Distribution of Banks’ Branches Operating in the Republic of Belarus in 2000–2004

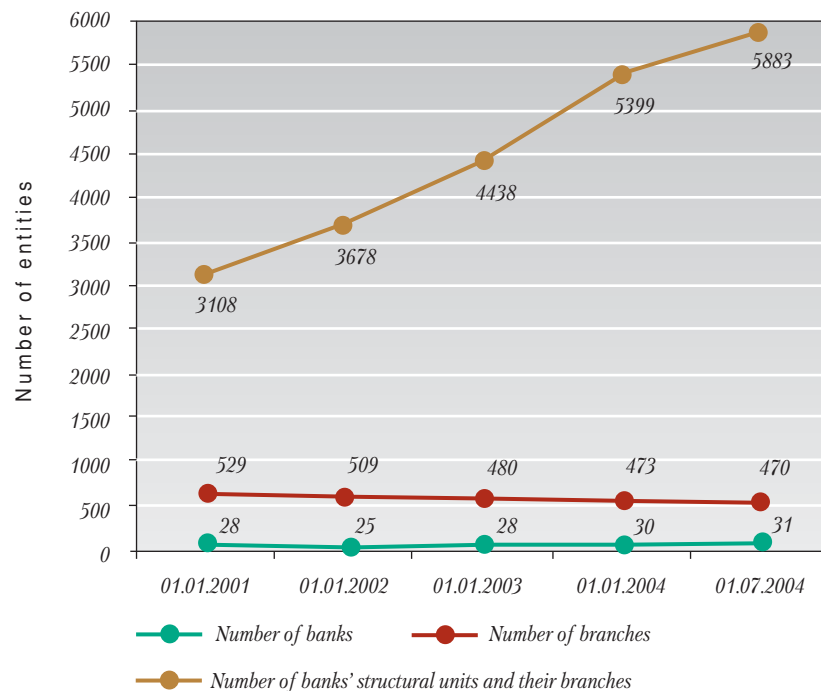


tion and liquidation procedures. All banks (except one) are located in Minsk. Open Joint-Stock Company "Joint-Stock Commercial Bank "Raton"" (resident of the free economic zone "Gomel-Raton"), which was registered in 2003, is located in Gomel. The bulk of banks' branches are also located in Minsk and Minsk region.

In 2001–2004, the number of banks' operating branches dropped by 59 separate structural units, or by 11.2%. The main reason for it was the streamlining of the branch network of Joint-Stock Savings Bank "Belarusbank": in 2001-2003 the number of its branches decreased by 24 and in the first half of the current year by two. By mid-2004, 147 branches of Joint-Stock Savings Bank "Belarusbank" were operating in the Republic of Belarus.

The reduction in the number of branches was accompanied by growth in the number of other structural units of banks and their branches (settlement and cash centers, banking services centers, exchange offices, foreign exchange cash offices, etc.). In 2001-2003, the number of such structural units increased by 2291 and over the first half of 2004 by 484, or by 8.9%.

*Number of Banks and Branches Operating
in the Republic of Belarus and their Structural Units*

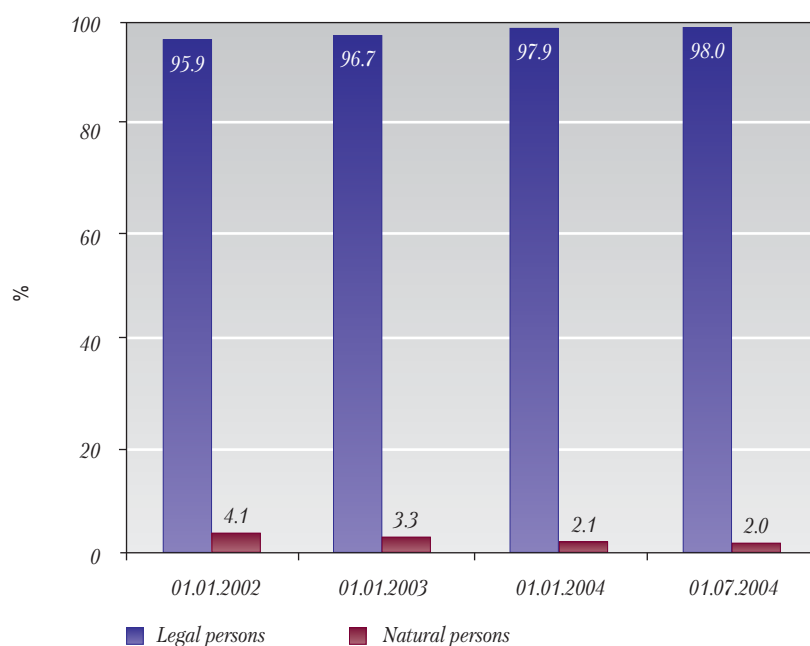


2.3.2. Structure of banks' authorized capital

As at July 1, 2004, the aggregate amount of the banks' authorized capital was BYR1,611.7 billion. The bulk of that sum is comprised of legal persons' funds (98%). In 2002–2004, legal persons' share in the banks' authorized capital increased by 2.1 percentage points.

Funds of Government agencies and legal persons based on state ownership account for the main share of legal persons' deposits in the Belarusian banks' authorized capital – 88.4% as at July 1, 2004, the share of foreign investors being 9.1%.

*Dynamics of the Authorized Capital Structure
(Legal and Natural Persons), %*



2.3.3. Government participation in the banking system

Participation of Government agencies and legal persons based on state ownership in the Belarusian banks' authorized capital is governed by a number of the country's social and economic tasks which would be best tackled with active support on the part of banks.

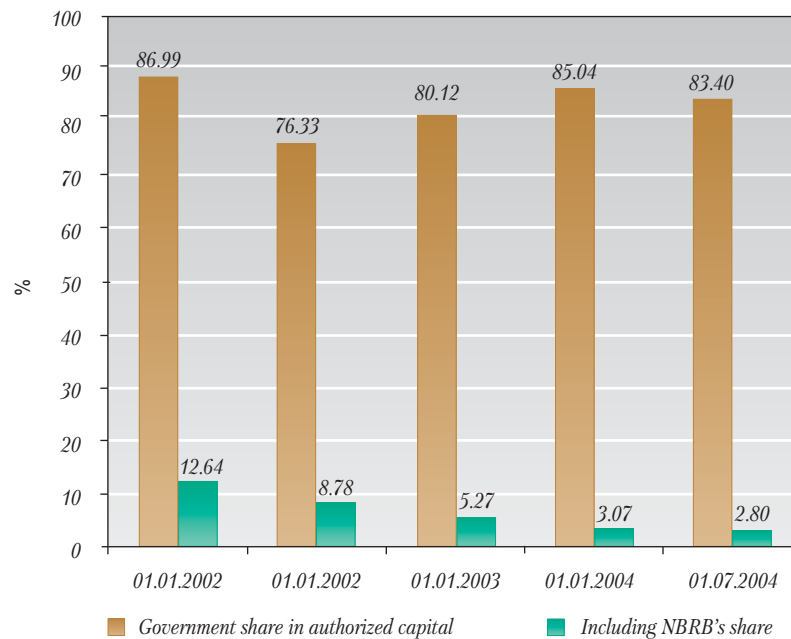
The Government participates in authorized capital of a limited number of banks. At the same time, it seeks to secure concentration of the public financial resources at these banks.

As at July 1, 2004, the state share in the banking system's aggregate authorized capital amounted to around 83%.

Keeping the share of Government agencies and legal persons based on state ownership at a high level is conditioned by the Government's decision to retain the majority stake in four out of six authorized banks: Joint-Stock Savings Bank "Belarusbank", Open Joint-Stock Company "Belagroprombank", Open Joint-Stock Company "Belpromstroibank", and Open Joint-Stock Company "Belinvestbank". The above-mentioned task is stipulated in the Concept of the Belarusian Banking System Development for 2001–2010.

Retaining the majority stake in said banks is dictated by the need to ensure qualitative performance of their functions related to household services (guaranteed deposits safety, granting of credits, and provision of a broad range of other banking services), by assumption of risks related to financial support of industry and agricultural and industrial complex, by expansion of investment activity, as well as by other tasks of primary importance which are part of state social and economic development programs.

Dynamics of Growth (Decline) in the Share of Government Authorities and Legal Persons Based on State Ownership in Belarusian Banks' Authorized Capital, %.



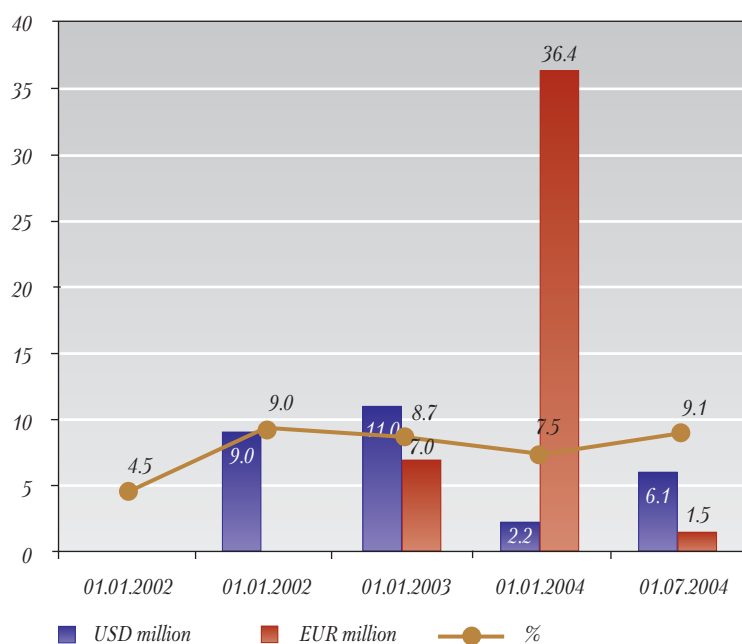
As the importance of the four above-mentioned banks in lending to state programs and activities is increasing, the state will be gradually withdrawing from the body of shareholders of other banks in order to principally complete withdrawal in 2005–2007.

2.3.4. Foreign capital participation in the banking system

Investments of non-residents of the Republic of Belarus are one of the main sources of increasing the Belarusian banks' capital.

The problem of improving investment climate and stimulating attraction of foreign investments in the national economy is dealt with by the Investment Code of the Republic of Belarus and the National Program of Attracting Investments into the Economy of the Republic of Belarus for the Period Up to 2010. These documents envisage a complex of measures aimed at improving tax and customs legislation, legislation in the sphere of ownership relations, investment and business activities, development of free economic zones, establishment of investment infrastructure, and provision of a number of preferences to foreign investors.

Dynamics of Growth (Decline) in the Volume of Foreign Investments and their Share in Belarusian Banks' Authorized Capital



As a result, foreign investors display higher interest in investing their capital in the Belarusian economy, including the banking and financial sector.

At present, out of 31 operating banks 26 are banks with foreign capital. Foreign capital exceeds 50% of authorized capital in 11 banks, 7 banks are wholly foreign-owned.

As at July 1, 2004, the share of foreign capital in the aggregate authorized capital of the Belarusian banks amounted to 9.03%, a 1.5 percentage points increase compared with the start of the year. On the whole, the analysis of changes in the foreign capital share in the banking system in 2001–2004 suggests that it ranged from 7.5 to 11.0%.

The absolute volumes of annual foreign investments in the banking system of the Republic of Belarus have been gradually increasing. In 2001, they amounted to about USD9 million; in 2002, to about USD11 million and EUR7 million; in 2003, to EUR36.4 million and USD2.2 million; and over the first half of 2004, to USD6.1 million and EUR1.5 million.

In the total amount of investments in the banks' authorized capital in 2001-2003, non-residents' investments exceeded USD22 million and EUR43 million.

Foreign investments into the banking system of the Republic of Belarus were made by Russia, Latvia, Lithuania, Libya, Cyprus, Switzerland, China (Hong Kong), Germany, USA, the British Commonwealth, Finland, Luxemburg, France, Kazakhstan, and other countries.

11 representative offices of foreign banks are operating in the Republic of Belarus (Russian, Lithuanian, Latvian, German, and Polish banks).

2.4. Assets and liabilities structure

The first half of 2004 saw further strengthening of creditors' and depositors' confidence in the banking sector which results in the growth of the banks' resource base. Its volume over the period increased from BYR9,744.3 billion to BYR11,543.1 billion, or by 17.3%.

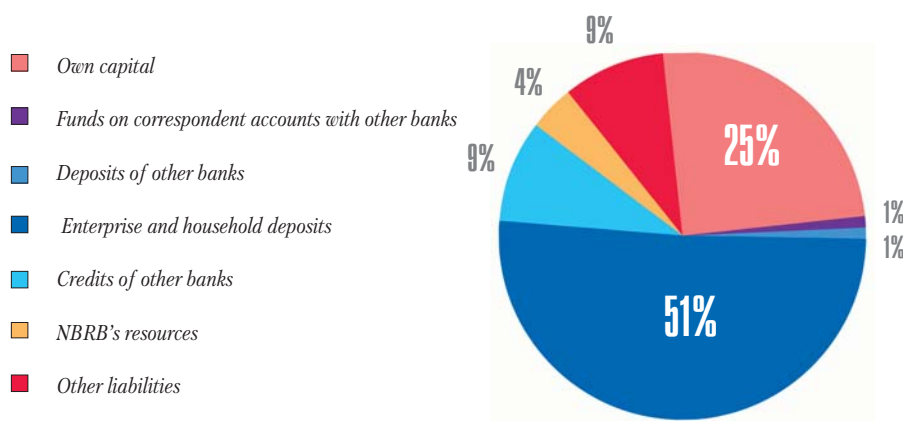
The main source of expanding the resource base were enterprise and household deposits which accounted for 44.7% of the total increment in the banking sector liabilities (funds of natural persons accounted for 37.7% of the total increment in the banking sector's liabilities).

As at July 1, 2004, natural persons' funds amounted to BYR3,056.1 billion, or 26.5% of the banking sector's liabilities.

The volume of natural persons' deposits in the national currency enjoyed the quickest growth. The total amount of deposits increased by 28.5%, whereas the increment in the national currency amounted to 50.8% and in foreign exchange only to 6.2%.

Deposits in Belarusian rubles prevail in the structure of household deposits – 58.8% as at July 1, 2004.

Liabilities Structure as at July 1, 2004



Joint-Stock Savings Bank "Belarusbank" which has amassed 61.6% of the total household deposits in the banking system is dominant on the private deposits market. Overall, six major authorized banks that have Government guarantees regarding deposits repayment account for 95.6% of the total volume of natural persons' deposits in the Belarusian banks.

The structure of deposits by currencies varies. The proportion of deposits in Belarusian rubles and foreign exchange in six authorized banks is 60.8% to 39.2%, whereas at other banks it is 16.1% to 83.9%, respectively, i.e., the share of foreign exchange deposits in non-authorized banks prevails significantly.

A second important source of expanding the resource base were the balances of enterprises' and institutions' funds deposited in the settlement and current accounts. Over the first half of the year, they increased by 22.1%, amounting to BYR2,097.0 billion as at July 1, 2004. The share of balances in the settlement and current accounts in the banking sector's aggregate liabilities increased from 17.4% to 18.2%.

In the structure of funds attracted during the period under consideration the volume and, correspondingly, the share of attracted interbank credits and deposits decreased slightly (from BYR1,027.8 billion to BYR962.8 billion, or by 6.3%).

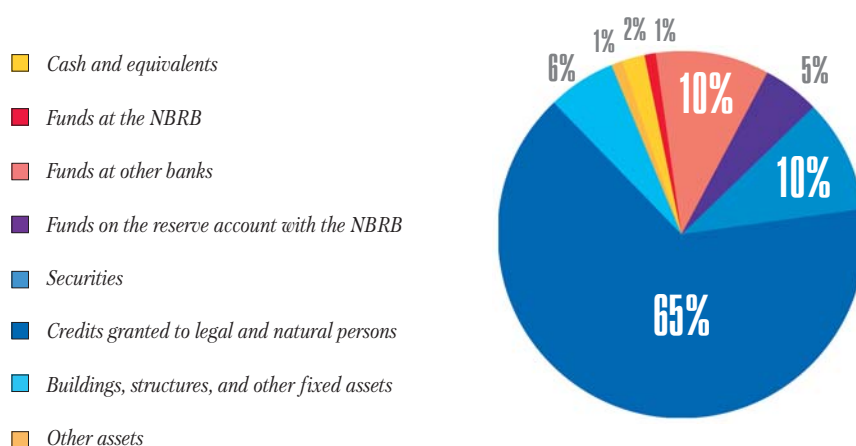
In January – June 2004, the aggregate assets of the banking sector increased by BYR1.8 trillion, or by 18.4%, amounting to BYR11,789.9 billion. The increase in the banks' credit operations was the main factor of the banking sector's assets growth.

Since the beginning of 2004, the volume of credits granted to banks by legal persons and natural persons increased by BYR1,401.6 billion, or by 22%, amounting to BYR7,767.4 billion as of July 1, 2004.

The share of credit investments in the aggregate assets of operating banks increased over the first half of the year from 63.9% to 65.9%.

Provision of credits to the real sector of the economy by the banking system as a whole increased by 21.6% and amounted to BYR7,736.4 billion, the figures for the six major banks being 22.3% and BYR6,941.8 billion, respectively. The increase in lending to the real sector of the economy was, on the one hand, due to a higher enterprise demand for credits with a view to financing production development as well as due to

Assets Structure as at July 1, 2004



lower cost of banks' credits. On the other hand, growth in the supply of credits by banks was caused by the reduction of profitability of other segments of the financial market and by the expansion in the banks' resource base.

Lending in the national currency increased by 25.8%, amounting to BYR4,015.3 billion, in foreign exchange by 17.5%, amounting to the equivalent of USD1,726.7 million.

In the first half of 2004, banks' investments in securities increased by BYR271.5 billion, or by 31.9%.

Expansion of banks' lending operations as well as securities market operations brought about a decline in the share of funds placed on the correspondent account with the National Bank and in the interbank credits (from 13.5% to 10.6%).

2.5. Financial results

The banks' profits over the first half of 2004 amounted to BYR75.5 billion (BYR51.1 billion over the same period in 2003). All banks operated at a profit, except for three banks which incurred losses in the amount of BYR3 billion.

Over the first half of 2004, the banking system profitability indicators were as follows:

- profit / expenditures – 6.35% (six major banks, 5.73%);
- profit / assets – 0.66% (0.62%);
- profit / authorized capital – 4.98% (4.59%); and
- profit / own capital – 3.19% (3.08%).

Profitability of the banking system over the first half of 2004 compared to the same period of the previous year by the indicators

- "profit / expenditures" increased by 0.98 percentage point;
- "profit / assets" decreased by 0.01 percentage point;
- "profit / authorized capital" decreased by 0.54 percentage point; and
- "profit / own capital" decreased by 0.07 percentage point.

Decrease in the profitability indicators "profit / authorized capital" and "profit / own capital" was caused, above all, by the increase in the authorized capital of the authorized banks – Joint-Stock Savings Bank "Belarusbank" and Open Joint-Stock Company "Belagroprombank".

Comparison of profitability of operation of the banking sector and the economy of the Republic of Belarus over the first half of 2004 produced the following results. Profitability of the economy (profit to prime cost of the sold goods, products, works, and services) amounted to 13.9% as of July 1, 2004, profitability of the banking sector (profit to banks' total expenses) to 6.35%.

The authorized banks had a critical impact on the level of the banking system profitability – 5.73% (4.83% a year ago). They bear the main burden of credit support to public social and economic programs which affects this indicator.

Profitability of other banks amounted to 11.61%, on average (10.05% in the previous year), i.e., it was close to the effectiveness of the economy as a whole.

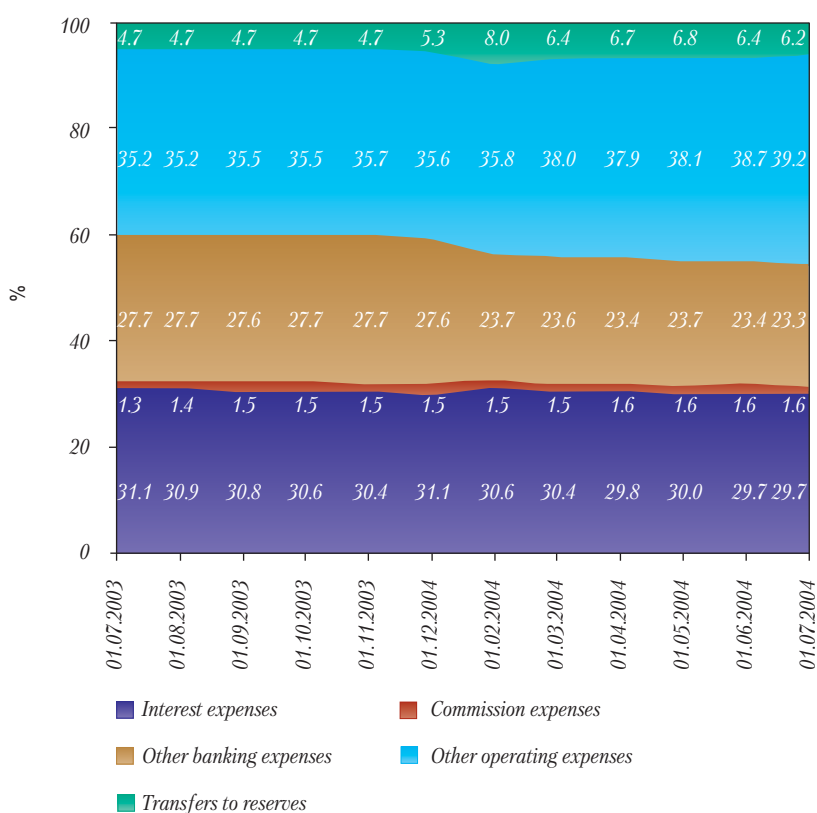
Profitability of one authorized bank and eight non-authorized banks exceeded the average value for the economy. In this group of banks, the best individual result was 85.31% and the lowest one 18.19%.

Over the first half of 2004, profitability of the banking sector was lower compared to that of the national economy as a whole. However, this indicator improved compared with the previous year.

2.6. Structure of incomes and expenditures

Slowing down of inflationary processes, a drop in the base refinance rate, and interest rate policy measures taken by banks in this regard contributed to the decrease of the entire spectrum of interest rates on the financial market.

*Banking System's Expenses Structure.
July 2003 — July 2004*

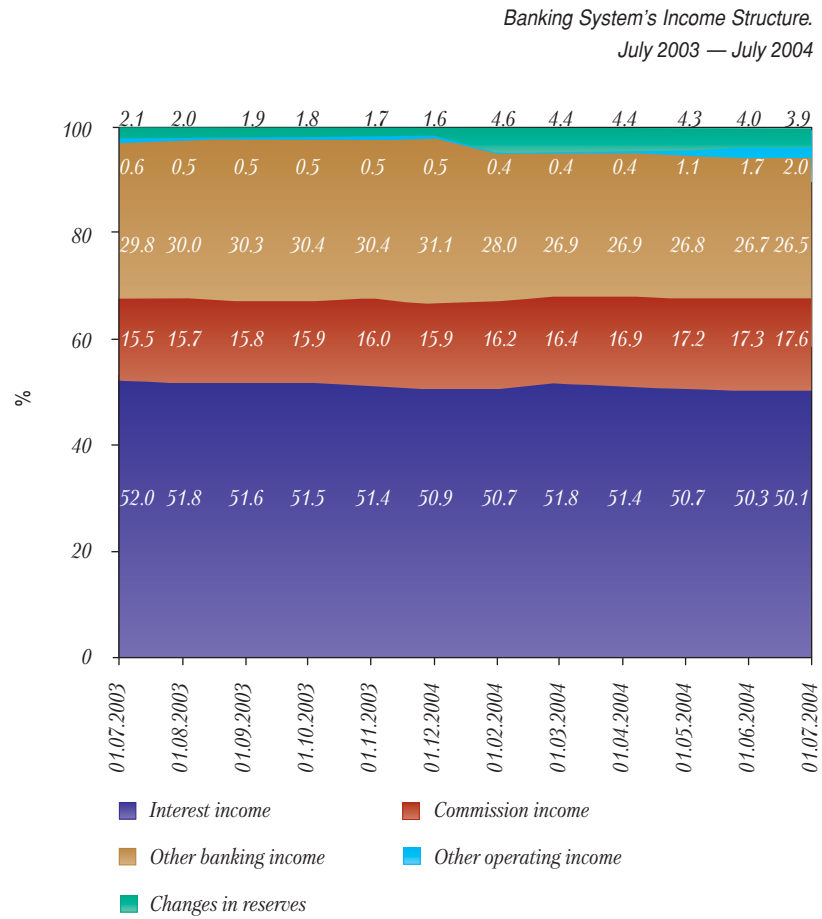


This resulted in a slight decrease in the share of interest incomes and interest expenditures in banks' incomes and expenditures from 52.0% (64.6% as at January 1, 2004) to 50.1% and from 31.1% (38.5% as at January 1, 2004) to 29.7%, respectively (diagrams illustrate this process during the year starting from July 1, 2003).

The share of incomes earned by banks on the securities and foreign exchange markets (other incomes of banks) fell from 29.8% to 26.5% and the share of commission incomes increased from 15.5% to 17.6%.

In the structure of expenditures, the decrease in the share of other banking expenses (related to the foreign exchange and securities operations) from 27.7% to

23.3% and in the share of interest expenses compensated the increase in the share of operating expenses (staff costs, payments to the budget, income tax) from 35.2% to 39.2%.



The Belarusian banking system as a whole is characterized by the absence of sharp fluctuations in the structure of incomes and expenditures. The diagrams graphically illustrate both the relative value of the key items of incomes and expenditures and their mutual dynamics during the year.

2.7. Major risks of banking activities and compliance with standards of safe and liquid functioning

According to the recommendations of the Basel Committee on Banking Supervision, the major risks related to banking activities include: credit risk, country risk, payment risk, market risk, liquidity risk, operational risk, strategic risk, and reputation risk. The National Bank requires banks to have in place adequate procedures for managing risks aimed at their timely identification, evaluation, monitoring, and control. Credit risk, foreign exchange risk, and liquidity risk are most important for the Republic of Belarus.

2.7.1. Credit risk

The first half of 2004 was characterized by a considerable increase in lending (since the beginning of the year, credits to customers grew by BYR1,374.9 billion, or by 21.6%). During the period under consideration ruble credits grew by BYR823.2 billion, or by 25.8%, and credits in foreign exchange by BYR551.7 billion, or by 17.5%.

The above-mentioned leading growth of ruble credits suggests that the sphere of national currency usage is widening, creditors' and borrowers' confidence in the national currency is increasing, and the foreign exchange market is stable.

The main volume of lending operations is concentrated in the banks authorized by the Government of the Republic of Belarus to service public programs of social and economic development. They account for around 90% of total clients' credit debts.

According to banks' reports, as at July 1, 2004, the share of the standard assets in the assets subject to credit risk amounted to 95.4% (94.8% as at January 1, 2004). Correspondingly, the share of the assets in respect of which banks are obliged to establish reserves to cover potential losses decreased from 5.2% to 4.6%. As at July 1, 2004, the substandard assets accounted for 2.5% of the assets subject to credit risk, doubtful assets 0.4%, and bad assets 1.6%.

By mid-2004, the share of the standard assets in the assets subject to credit risk exceeded 95% in 27 banks out of 31.

27 banks created a special reserve to cover potential losses on assets subject to credit risk in the amount equal to the estimated value of the special reserve.

As at July 1, 2004, in the system as a whole the ratio of the actually established special reserve on the substandard assets to the total volume of such assets amounted to 20% (the standard of the National Bank being 30%), on doubtful assets to 34.1% (50%), and on bad assets to 59% (100%).

Despite rather high value of indicators of the credit portfolio quality, the banking system of the Republic of Belarus fails to compensate the existing credit risk in full.

At the same time, a positive trend towards remedying this deficiency is observed. For comparison, as at January 1, 2004, the special reserve covered 13.3% of the substandard assets, 30.7% of doubtful assets, and 53.3% of bad ones.

As at July 1, 2004, the total actually established special reserve amounted to BYR141.7 billion, a BYR21.5 billion increase during six months.

Over the first half of 2004, the number of violations of the economic standard "Maximum risk per client (per group of interrelated clients)" (set in the amount of "no more than 25% of a bank's own capital") declined from 31 (in 16 banks) to 20 (in 10 banks).

One bank exceeded the standard "Maximum size of major risks" (set in the amount of "no more than 600% of a bank's own capital").

Since the start of 2004, the aggregate amount of major risks (claims to a customer or a group of interrelated customers that exceed 10% of a bank's own capital) in the banking system increased from BYR2,315.1 billion to BYR2,829.0 billion. The ratio of the total amount of major credit risks to the aggregate own capital of the banking system increased from 107.8% to 119.4%.

The number of violations of the standard "Maximum risk per borrower-insider" (set in the amount of "no more than 15% of a bank's own capital") increased during the first six months of 2004 from four (in three banks) to seven (in five banks).

2.7.2. Market risk

The requirements to the banks' capital to cover market risks have been worked out and will come into force in early 2005.

Since the securities market in the Republic of Belarus is underdeveloped and the volumes of the banks' assets subject to market risk (except foreign exchange risk) are therefore small, the lack of such requirements does not significantly affect the quality of supervision over the banks' capital adequacy.

Foreign exchange risk is controlled in the following way. According to article 117 of the Banking Code, the National Bank establishes a standard of foreign exchange risk (open foreign exchange position) for banks. This standard is a percentage ratio of foreign exchange position value to the authorized bank's own funds (capital).

The aggregate value of foreign exchange position with respect to all kinds of foreign currencies may not exceed 20% of a bank's own funds. The value of foreign exchange position with respect to each individual type of foreign exchange may not exceed 10% of a bank's own funds. The value of foreign exchange position on forward transactions with respect to each individual type of foreign exchange may not exceed 10% of a bank's own funds.

Banks submit reports on their foreign exchange position to the National Bank within the first business day of each calendar week for each business day of the previous week.

In the first half of 2004, the foreign exchange component in the volume of banking operations was declining. Where as at January 1, 2004, claims in foreign exchange amounted to 42.1% of the banking system's gross assets (liabilities to 42.5%), as at July 1, 2004, foreign exchange assets amounted to 39.8% of the gross assets (liabilities to 39.9%).

Five banks violated the standard of foreign exchange risk in January 2004, three in February and April, and one in March, May, and June.

As at July 1, 2004, banks' liabilities in foreign exchange exceeded claims in the equivalent of BYR32.1 billion, or 1.3% of the banking system's own capital.

There is no revaluation of securities with respect to changes in their market value in the Republic of Belarus. According to the Rules for accounting in banks located in the Republic of Belarus, securities are recorded at the acquisition cost. The problem of evaluating changes in the securities portfolio value is partially tackled by applying the Rules for the establishment by banks of reserves against securities depreciation.

The amount of reserves to be established depends upon the quality of the financial instruments included into the securities portfolio and changes in the market value of listed securities.

In the course of inspections (both comprehensive and thematic), the National Bank examines availability of risk management and internal control systems in banks, their quality, observance of the established foreign exchange risk standard (open foreign exchange position), and reliability of submitted reports.

2.7.3. Liquidity risk

Rules regulating banks' and non-bank credit and financial institutions' activities, approved by Resolution of the Board of the National Bank № 173 dated June 28, 2001, stipulate that banks must have a local regulatory legal act governing their policy in the field of liquidity management and control officially approved by an authorized body (General Meeting of Shareholders, Board, etc.). Provisions of such regulatory legal act must be strictly observed by the bank's structural units whose decisions influence the state of liquidity.

The above-mentioned document must stipulate that corresponding bodies of a bank receive information on the state of liquidity on a regular basis or immediately, in cases where current or predicted state of liquidity deteriorates significantly.

The Rules require banks to include, as a minimum, the following provisions into their regulatory legal act on liquidity management:

- the body responsible for the development and implementation of a corresponding policy;
- procedures for taking liquidity management decisions; and
- the sharing of powers and responsibilities in the sphere of liquidity management between governing bodies and structural units.

The National Bank has established four liquidity standards:

- instantaneous liquidity, which characterizes the ratio of the sum of demand assets and demand and overdue liabilities (the standard value being "no less than 20%");
- current liquidity, which characterizes the ratio of the sum of assets with remaining maturities of up to 1 month, including demand assets to liabilities with the remaining repayment period of up to 1 month, including demand and overdue liabilities (the standard value being "no less than 70%");
- short-term liquidity, which characterizes the ratio of assets with maturities of up to 12 months to liabilities with the period of execution of up to 12 months (the standard value being "no less than 1"); and
- the minimum ratio of high-liquid to total assets (the standard value being "no less than 20%").

Since the beginning of the year, there were no significant changes in the total number of banks that fail to comply with the liquidity standards (three banks as at January 1, 2004, and two banks as at July 1, 2004).

At the same time, the first half of 2004 was characterized by a slight decline in the banking system liquidity. This is due to the following trend: while the share of long-term (over one year) assets in the banks' assets dropped since the beginning of the year from 28.1% to 27.6%, the share of long-term liabilities in the total volume of the banks' liabilities (excluding own capital) tumbled even more drastically – from 11.3% to 8.7%.

As a result, as at July 1, 2004, the deficit of long-term liabilities for covering long-term assets amounted to 1.9%, whereas at the beginning of the year banks' long-term liabilities (including own funds) exceeded long-term assets by 4.8%.

During the first half of the year, instantaneous liquidity in the system as a whole improved (as at July 1, 2004 it was 55.9% compared to 55.5% as at January 1, 2004). Other liquidity indicators had negative dynamics: short-term liquidity was 1.0% (1.2%), current liquidity 57.8% (60.9%), and the ratio of the liquid assets to the total assets 27.6% (29.1%).

2.7.4. Own capital adequacy

Own capital of the banking system increased in the first six months of 2004 by BYR322.5, or by 15.8%, amounting to BYR2,369.8 billion as at July 1, 2004.

First-tier (fixed) capital amounted to 82.4% of the banking system's own capital. The main source of its establishment was authorized capital of the banks – 82% of fixed capital. Additional (second-tier) capital which includes profit, funds established at the expense of profit, subordinated credits, and fixed assets revaluation amounted to 21.2% of the banks' own capital.

The banks' own capital is adjusted downwards by the amount of the underestablished reserve to cover potential losses on the banks' assets subject to credit risk. As at July 1, 2004, the sum of adjustment amounted to BYR87.0 billion, or 3.7% of own capital.

The main source of own capital growth in the first half of 2004 was the increase in the banks' authorized capital by BYR154.7 billion. The increment of the banks' aggregate authorized capital during the period under consideration was due to the investments by Government authorities (BYR111.4 billion), from the banks' profit (BYR13.9 billion), and from other sources (BYR39.8 billion).

The banks' funds (reserve fund, development fund, etc.) grew significantly – by BYR115.2 billion, or 1.9 times.

As at July 1, 2004, the capital adequacy indicator in the banking system was 25.1% compared to 26.0% as at January 1, 2004. A certain decline in capital adequacy was occasioned by leading growth of the banks' total assets subject to credit risk (by 20.2%) compared to the rate of own capital growth.

As at July 1, 2004, one bank failed to meet the capital adequacy standard. Its share in the total gross assets of the banking sector amounted to 0.3%.

As at July 1, 2004, the level of adequacy of own capital of six major banks amounted to 24.1% (25.3%, as at January 1, 2004). Their share in the total gross assets amounted to 88.0%.

3. Statistical Attachment

Number of Financial Institutions
(as at the end of the year)

Table 1

Type of financial institutions	1995	1996	1997	1998	1999	2000	2001	2002	2003	01.07.2004
Banks *	40	38	38	37	36	31	25	28	30	31

* Number of banks operating under normal conditions.

Structure of Banks' Total Registered Authorized Capital Broken Down by Investors' Form of Ownership

Table 2

Investor's form of ownership	2003	July 1, 2004
Government investment (Government and state-owned legal persons)	85.04%	83.44%
Other Belarusian investment	7.44%	7.53%
Total domestic investment	92.48%	90.97%
Foreign investment	7.52%	9.03%
Total investment	100.00%	100.00%

Banks' Assets Distribution

%

Table 3

First three big banks		First five big banks	
2003	01.07.2004	2003	01.07.2004
69.12	69.13	83.87	86.45

Table 4

Distribution of Market Shares (in Gross Assets)
By Groups of Banks (banks are grouped
by the size of own capital)

	1998		1999		2000		2001		2002		2003		01.07.2004	
	Banks	Share	Banks	Share	Banks	Share	Banks	Share	Banks	Share	Banks	Share	Banks	Share
Banks' own capital	26	100.00%	27	100.00%	28	100.00%	25	100.00%	28	100.00%	30	100.00%	31	100.00%
of which:														
negative capital	2	13.51%	1	0.79%	2	1.82%	0	0.00%	1	3.57%	1	3.33%	1	3.23%
up to BYR1 billion	16	8.47%	10	3.85%	1	0.06%	2	0.25%	2	7.14%	0	0.00%	0	0.00%
BYR1 billion to BYR10 billion	8	78.02%	14	41.25%	18	10.70%	11	10.65%	7	25.00%	7	23.33%	7	22.58%
BYR10 billion to BYR40 billion	0	0.00%	0	0.00%	5	33.24%	8	24.90%	13	46.43%	16	53.33%	16	51.61%
over BYR40 billion	0	0.00%	2	54.11%	2	54.18%	4	64.20%	5	17.86%	6	20.00%	7	22.58%

Structure of Assets and Liabilities of the Banking System

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Table 5

	2000	2001	2002	2003	01.07.2004
Assets					
1 Monetary funds, gold, precious metals	1.0%	2.2%	2.3%	2.5%	2.3%
2 Assets of the National Bank of the Republic of Belarus	2.6%	1.3%	1.4%	2.1%	1.0%
3 Correspondent accounts with other banks	9.4%	13.3%	11.5%	11.4%	9.6%
4 Required reserves	0.0%	5.7%	4.6%	4.4%	4.5%
5 Securities	4.6%	8.2%	9.1%	8.5%	9.5%
6 Credits granted to households and enterprises	29.2%	60.5%	63.0%	63.9%	65.9%
7 Fixed and intangible assets	2.3%	7.1%	6.3%	5.5%	5.8%
8 Other assets	50.9%	1.7%	1.8%	1.7%	1.4%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities					
1 Settlement and current account balances	43.5%	36.4%	20.0%	22.3%	22.9%
2 Correspondent accounts of other banks	2.0%	2.7%	2.1%	2.0%	1.3%
3 Deposits of other banks	1.9%	2.2%	1.0%	1.8%	1.5%
4 Deposits of enterprises and households	20.9%	37.3%	51.2%	50.9%	51.4%
5 Interbank credits	10.1%	21.4%	18.0%	15.5%	13.1%
6 Other liabilities	21.6%	0.0%	7.7%	7.5%	9.8%
Total liabilities	100.0%	100.0%	100.0%	100.0%	100.0%

Dynamics of the Off-Balance Assets and Banks' Balance Currency Ratio

Table 6

	1998	1999	2000	2001	2002	2003	01.07.2004
Total off-balance accounts / balance accounts	143.80%	157.16%	131.63%	193.10%	197.71%	175.74%	155.44%

Table 7

Quality of the Banking System Assets
BYR mln

Assets classification	1998	1999	2000	2001	2002	2003	01.07.2004
Total credit	241,607.5	524,344.4	1,701,805.3	2,726,594.8	4,286,479.8	6,959,087.8	8,089,847.5
Extended credit	12,396.3	19,285.7	72,207.0	75,675.4	64,518.7	30,394.2	22,845.5
Overdue credit	3,455.3	6,304.9	36,037.7	78,163.9	76,672.9	58,182.6	45,844.6
Doubtful credit	24,108.3	43,132.6	150,129.1	238,841.9	214,643.3	165,927.5	156,833.1
Overdue interest up to 30 days	1,951.2	3,756.1	13,415.9	15,642.1	8,552.5	7,286.0	11,181.3
over 30 days	9,945.0	17,554.3	75,936.3	116,725.8	167,565.5	180,738.9	173,864.2
Actually established reserve	12,106.2	30,617.5	122,294.3	137,937.5	66,208.5	109,201.9	132,600.7

Share of Banks' Assets and Liabilities in Foreign Exchange

Table 8

Assets in foreign exchange / total assets					
1999	2000	2001	2002	2003	01.07.2004
40.28%	55.75%	49.02%	45.57%	42.87%	39.76%
Liabilities in foreign exchange / total liabilities					
1999	2000	2001	2002	2003	01.07.2004
38.80%	54.16%	47.62%	44.59%	42.08%	39.20%

Structure of the Banking System Deposits and Credits by Form of Clients' Ownership

Table 9

	Deposits		Credits	
	2003	01.07.2004	2003	01.07.2004
Government commercial enterprises	17.5%	18.4%	31.8%	29.4%
Natural persons	46.9%	50.4%	18.1%	19.6%
Private sector	34.0%	29.5%	49.7%	50.5%
Non-bank financial institutions	1.6%	1.7%	0.4%	0.5%
Total	100.0%	100.0%	100.0%	100.0%

Structure of Credits and Deposits by Maturities

Table 10

Types of deposits	2003	01.07.2004	Types of credits	2003	01.07.2004
Demand deposits	49.30%	46.68%	Long-term credits	47.60%	46.48%
Time deposits	50.70%	53.32%	Short-term credits	52.40%	53.52%
Total	100.00%	100.00%	Total	100.00%	100.00%

Table 11

Structure of Banks' Income and Expenses

	1998	1999	2000	2001	2002	2003	01.07.2004
Income							
1 Interest income	29.9	165.9	551.1	604.2	903.4	1,120.1	632.4
2 Commission income	5.9	25.3	65.5	147.1	250.0	354.9	221.9
3 Other banking income	12.6	41.5	96.3	356.5	498.4	189.0	335.1
4 Other operational income	1.0	2.1	3.2	5.4	8.1	41.3	25.2
5 Changes in reserves	0.7	2.1	6.2	15.1	20.7	29.3	48.8
6 Incidental income	0.0	0.0	0.2	0.0	0.2	0.5	0.1
Total	50.1	236.9	722.5	1,128.3	1,680.8	1,735.1	1,263.5
Expenses							
1 Interest expenses	19.6	103.0	387.1	370.6	525.4	617.0	352.4
2 Commission expenses	1.0	3.4	6.4	17.8	25.4	31.9	19.3
3 Other banking expenses	8.0	31.1	54.6	307.0	437.2	607.9	276.7
4 Other operating expenses	15.0	74.0	215.5	365.1	579.3	231.6	465.8
5 Transfers to reserves	4.4	16.1	40.4	39.1	59.7	115.2	73.9
6 Incidental expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	48.0	227.6	704.0	1,099.6	1,627.0	1,603.6	1,188.1
Economic profit	2.1	9.3	18.5	28.7	53.8	131.5	75.4

Table 12

Macroeconomic Indicators of Belarusian Banking System Activities

Indicators	Years	01.01	01.02	01.03	01.04	01.05	01.06	01.07	01.08	01.09	01.10	01.11	01.12
		Gross assets (liabilities) of the banking system											
Amount (BYR bn)	2003	10,975.9	11,380.3	11,866.8	12,823.1	13,204.6	13,650.4	14,549.5	14,896.9	15,457.1	16,441.4	17,320.1	18,202.6
	2004	16,882.2	17,093.2	17,938.4	19,163.1	19,470.2	20,100.5	20,888.7					
	2003	42.0	42.5	43.3	45.6	45.9	46.4	47.8	47.7	48.0	49.7	50.9	52.1
	2004	47.0	46.4	47.6	49.6	49.5	49.8	50.2					
% to money supply	2003	279.5	287.1	289.6	301.1	297.7	296.5	300.0	291.1	297.1	305.5	308.3	320.1
	2004	275.3	281.5	289.1	295.8	288.9	290.8	287.9					
including net assets (BYR bn)	2003	6,709.5	7,032.3	7,159.1	7,542.6	7,736.0	7,994.9	8,338.3	8,579.8	8,793.1	9,269.0	9,639.9	10,163.7
	2004	10,585.5	10,440.6	11,021.8	11,539.7	11,652.7	11,926.7	12,348.9					
% of GDP	2003	25.7	26.3	26.1	26.8	26.9	27.2	27.4	27.5	27.3	28.0	28.3	29.1
	2004	29.5	28.4	29.3	29.9	29.6	29.5	29.7					
% of money supply	2003	170.9	177.4	174.7	177.1	174.4	173.7	171.9	167.7	169.0	172.2	171.6	178.7
	2004	172.6	172.0	177.6	178.1	172.9	172.6	170.2					
Capital of the banking system													
Amount (BYR bn)	2003	1,212.8	1,205.2	1,483.4	1,519.2	1,532.0	1,554.5	1,568.8	1,581.4	1,607.8	1,653.0	1,677.4	1,699.5
	2004	2,047.3	2,079.3	2,155.7	2,205.3	2,321.7	2,338.5	2,369.8					
% of GDP	2003	4.6	4.5	5.4	5.4	5.3	5.3	5.2	5.1	5.0	5.0	4.9	4.9
	2004	5.7	5.6	5.7	5.7	5.9	5.8	5.7					
% of assets**	2003	13.2	12.6	15.0	14.8	14.3	14.0	13.6	13.2	12.9	12.8	12.5	12.2
	2004	14.1	13.9	14.0	13.8	14.1	13.7	13.5					

Table 12 (continued)

Macroeconomic Indicators of Belarusian Banking System Activities

Indicators	Years	01.01	01.02	01.03	01.04	01.05	01.06	01.07	01.08	01.09	01.10	01.11	01.12
Credits to the real sector of the economy including overdue debts													
Amount (BYR bn)	2003	3,122.5	3,151.7	3,207.6	3,337.4	3,447.7	3,590.9	3,723.2	3,768.5	3,934.8	4,188.1	4,384.6	4,596.2
	2004	4,605.8	4,553.8	4,599.2	4,814.0	5,272.9	5,305.4	5,621.1					
% of GDP	2003	11.9	11.8	11.7	11.9	12.0	12.2	12.2	12.1	12.2	12.7	12.9	13.0
	2004	12.8	12.4	12.2	12.5	13.4	13.1	13.5					
% of assets**	2003	33.9	33.0	32.4	32.4	32.2	32.3	32.2	31.4	31.6	32.4	32.7	32.5
	2004	31.8	30.4	29.8	30.1	32.0	31.2	32.0					
% of money supply	2003	79.5	79.5	78.3	78.4	77.7	78.0	76.8	73.7	75.6	77.8	78.0	79.8
	2004	75.1	75.0	74.1	74.3	78.2	76.8	77.5					
Securities purchased by banks													
Amount (BYR bn)	2003	639.8	650.0	680.8	761.1	763.3	803.5	836.9	910.1	925.7	904.2	877.2	880.6
	2004	932.8	972.0	938.0	970.9	1,125.5	1,205.8	1,230.7					
% of GDP	2003	2.4	2.4	2.5	2.7	2.7	2.7	2.8	2.9	2.9	2.7	2.6	2.5
	2004	2.6	2.6	2.5	2.5	2.9	3.0	3.0					
% of assets**	2003	6.9	6.8	6.9	7.4	7.1	7.2	7.2	7.6	7.4	7.0	6.5	6.3
	2004	6.4	6.5	6.1	6.1	6.8	7.1	7.0					

Table 13

Macroprudential Indicators of Belarusian Banking Sector Activities

№	Description	Years												
		01.01	01.02	01.03	01.04	01.05	01.06	01.07	01.08	01.09	01.10	01.11	01.12	
A	B	1	2	3	4	5	6	7	8	9	10	11	12	13
Capital adequacy														
1	Own funds (capital) / risk-weighted assets ratio, %	2003	24.16	22.84	27.07	26.31	25.70	24.82	24.10	23.93	23.12	23.33	22.76	22.26
		2004	26.02	26.33	25.91	25.65	26.66	26.18	25.06					
2	Fixed capital / risk-weighted assets ratio, %	2003	19.18	19.61	20.92	20.60	20.24	19.48	18.81	18.59	17.82	17.71	17.13	16.58
		2004	21.65	21.54	20.49	21.01	22.23	21.73	20.66					
3	Own capital / gross assets ratio, %	2003	11.05	10.59	12.50	11.85	11.60	11.39	10.78	10.62	10.40	10.05	9.68	9.34
		2004	12.13	12.16	12.02	11.51	11.92	11.63	11.35					
4	Excess of obtained off-balance guarantees (obligations) over granted off-balance guarantees (obligations) / own capital, %	2004	658.80	657.90	655.59	673.15	667.25	701.50	716.76					
Assets quality														
5	Share of problem debt in total credit debt, %	2003	8.30	9.02	9.18	8.60	7.80	7.55	6.93	6.47	5.62	5.09	4.77	4.76
		2004	3.66	3.87	3.82	3.48	3.21	3.13	2.79					
6	Assets risk ratio (subject to credit risk assets minus estimated reserve / assets subject to credit risk)	2004	96.98	96.94	97.10	97.38	97.32	97.35	97.40					
7	Problem clients' and banks' debt minus actually established reserve to cover clients' and banks' problem debt / own capital ratio, %	2003	23.88	27.07	22.71	21.84	19.61	19.21	17.81	16.12	13.47	11.96	11.30	11.26
		2004	7.10	7.19	7.17	6.51	5.13	5.05	3.92					

Table 13 (continued)

Macroprudential Indicators of Belarusian Banking Sector Activities

№	Description	Years	01.01 01.02 01.03 01.04 01.05 01.06 01.07 01.08 01.09 01.10 01.11 01.12														
			A	B	1	2	3	4	5	6	7	8	9	10	11	12	13
15	Clients' credit debt in foreign exchange / clients' aggregate credit debt ratio, %	2004	49.82	49.63	48.99	49.03	49.32	49.10	51.90								
16	Clients' deposits / clients' credit debt ratio, %	2004	61.51	63.72	64.85	62.97	64.23	62.51	60.96								
17	Sum of large (over 10%) interrelated credits / own capital ratio, %	2004	3.78	2.74	2.60	2.34	2.52	3.41	3.57								
18	Number of banks with credit risks exceeding 25% (for insiders – 15%) of own capital	2004	16	9	10	9	11	10	9								
19	Risk-weighted assets / net assets ratio, %	2004	66.93	66.64	66.32	65.92	66.75	67.36	68.13								
Incomes and Profits																	
20	Return on assets (ROA), %	2003	0.96	0.14	0.20	0.31	0.44	0.55	0.67	0.80	0.93	1.09	1.27	1.45			
		2004	1.53	0.12	0.24	0.31	0.43	0.53	0.66								
21	Return on equity (ROE), %	2003	9.51	1.16	1.58	2.46	3.57	4.44	5.55	6.60	7.84	9.31	10.94	12.90			
		2004	13.28	0.88	1.76	2.35	3.23	3.95	4.92								
22	Interest margin / gross incomes, %	2003	22.49	22.30	22.51	22.38	22.53	22.51	22.53	22.50	22.44	22.64	22.73	22.68			
		2004		21.60	23.23	22.65	22.58	22.08	22.16								
23	Non-interest expenditures / gross incomes, %	2003	65.55	61.89	64.83	65.12	65.31	65.40	65.41	65.49	65.51	65.51	65.48	65.65			
		2004		64.55	65.02	65.68	66.07	66.03	66.14								

Table 13 (continued)

Macroprudential Indicators of Belarusian Banking Sector Activities

№	Description	Years	01.01	01.02	01.03	01.04	01.05	01.06	01.07	01.08	01.09	01.10	01.11	01.12	
			1	2	3	4	5	6	7	8	9	10	11	12	13
A	B														
Liquidity															
24	Liquid assets / total assets rate, %	2003	16.04	16.47	15.82	16.35	16.56	16.69	16.99	17.67	16.01	28.88	29.01	28.16	
		2004	29.13	28.48	30.61	31.78	29.68	29.10	27.61						
25	Actual liquidity / required liquidity ratio (short-term liquidity)	2003	1.39	1.46	1.31	1.38	1.25	1.22	1.31	1.30	1.17	1.20	1.17	1.13	
		2004	1.19	1.16	1.18	1.23	1.18	1.19	1.02						
26	Demand assets / demand liabilities (instantaneous liquidity) ratio, %	2003	52.58	55.76	56.32	53.62	53.85	54.30	53.98	54.51	50.73	50.37	52.88	61.98	
		2004	55.54	61.49	73.24	73.57	69.02	57.87	55.90						
27	Current assets / current liabilities (current liquidity) ratio, %	2003	67.25	67.18	66.35	65.51	61.53	63.15	62.68	59.30	58.36	64.01	66.20	65.52	
		2004	60.85	64.99	69.41	68.18	63.99	62.21	57.76						
28	Clients' deposits / clients' credit debt ratio, %	2003	64.10	64.16	65.68	63.94	64.12	63.72	63.54	64.86	63.37	63.10	62.36	60.93	
		2004	61.51	63.72	64.85	62.97	64.23	62.51	60.96						
Indicators of Management Quality															
29	Gross incomes / gross losses, %	2004		106.79	106.80	105.93	106.18	106.09	106.35						
30	Staff costs / non-interest expenditures, %	2003	18.45	22.76	20.69	19.57	19.12	19.08	19.22	19.09	19.08	18.96	18.85	18.73	
		2004		25.37	23.56	21.63	20.73	20.74	20.55						
31	Gross incomes per worker on payroll, on average, BYR million	2004		4.51	9.00	13.72	18.61	23.32	28.16						

Diagram 1. Dynamics of Banks Compliance with the Own Capital Adequacy Standard (no less than 10%).
July 2003 – June 2004

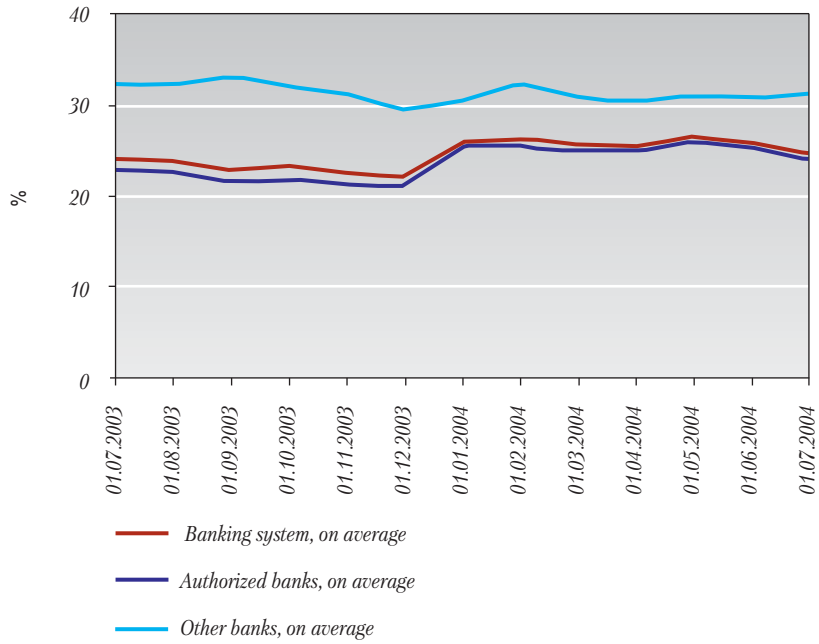


Diagram 2. Dynamics of Own Capital and Funds Attracted from Natural Persons in the Banking System.
July 2003 – June 2004

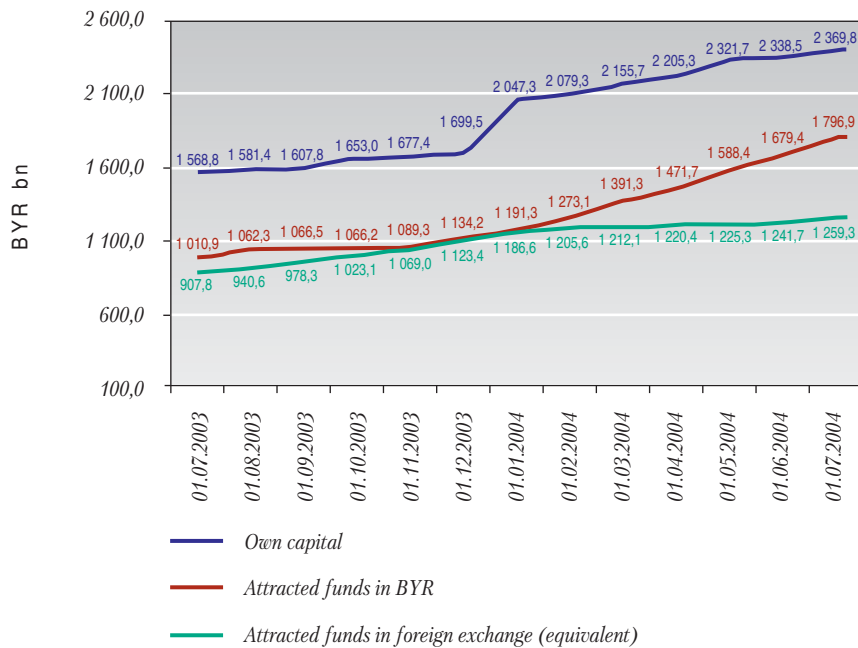


Diagram 3. Dynamics of Natural Persons' Deposits.
July 2003 – June 2004

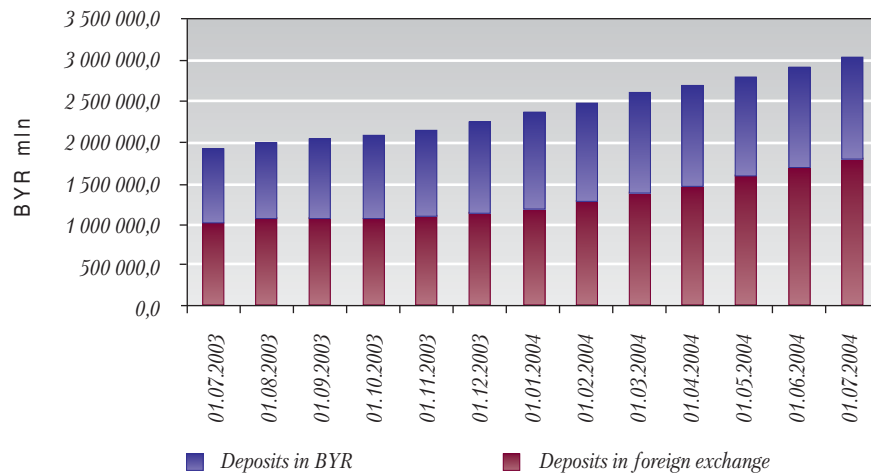


Diagram 4. Fixed and Additional Capital of the Banking System.
July 2003 – June 2004

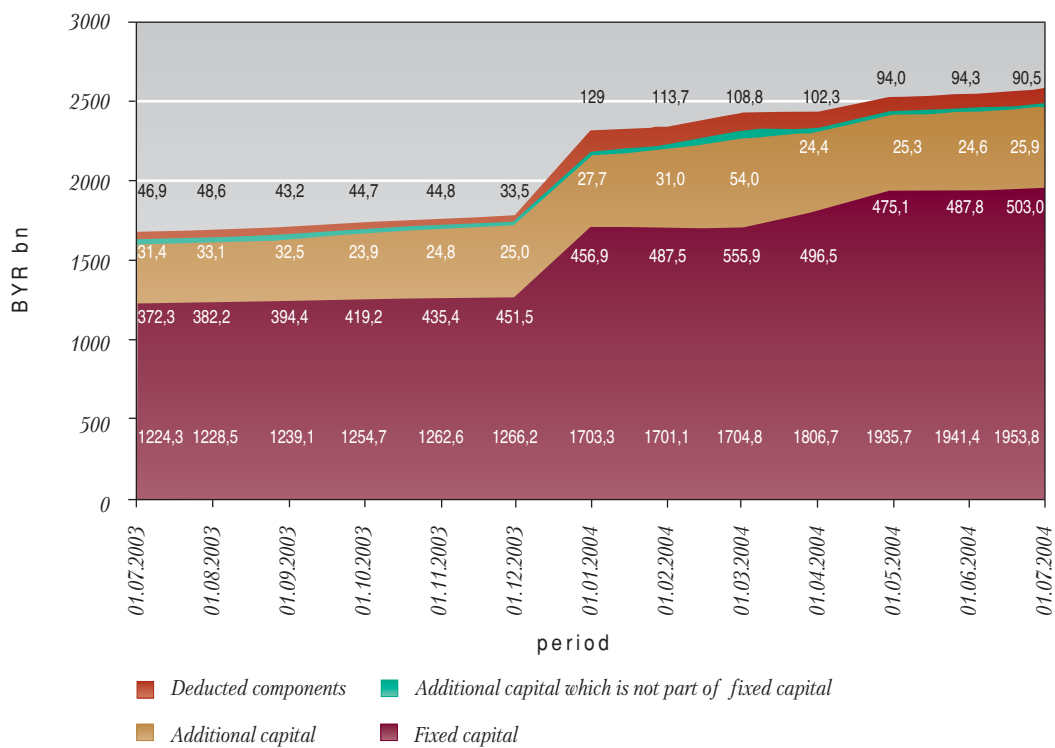


Diagram 5. Structure of Banks' Liabilities. July 2003 – June 2004, %

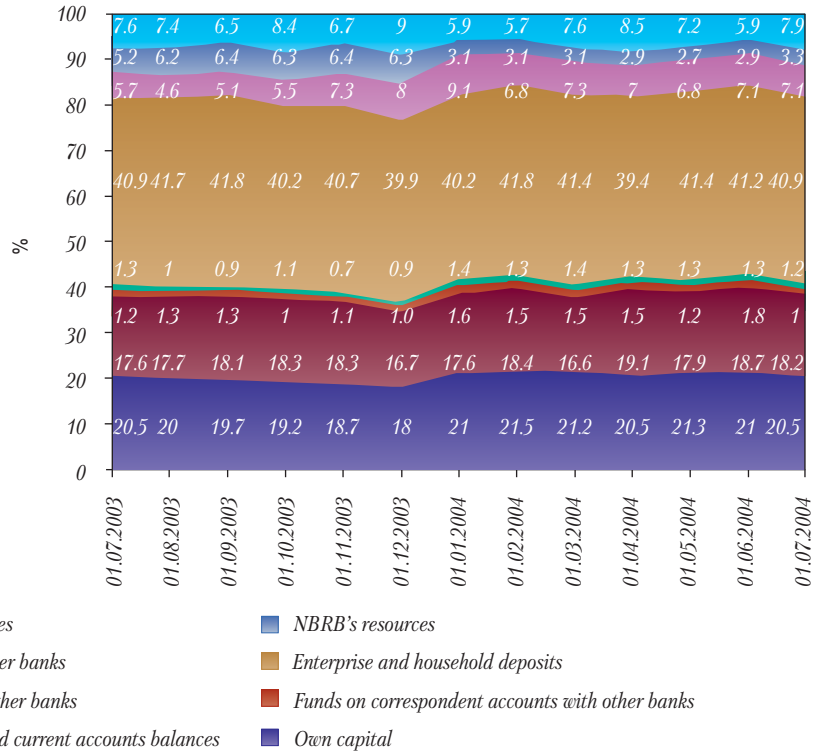


Diagram 6. Banks' Assets Structure. July 2003 – June 2004, %

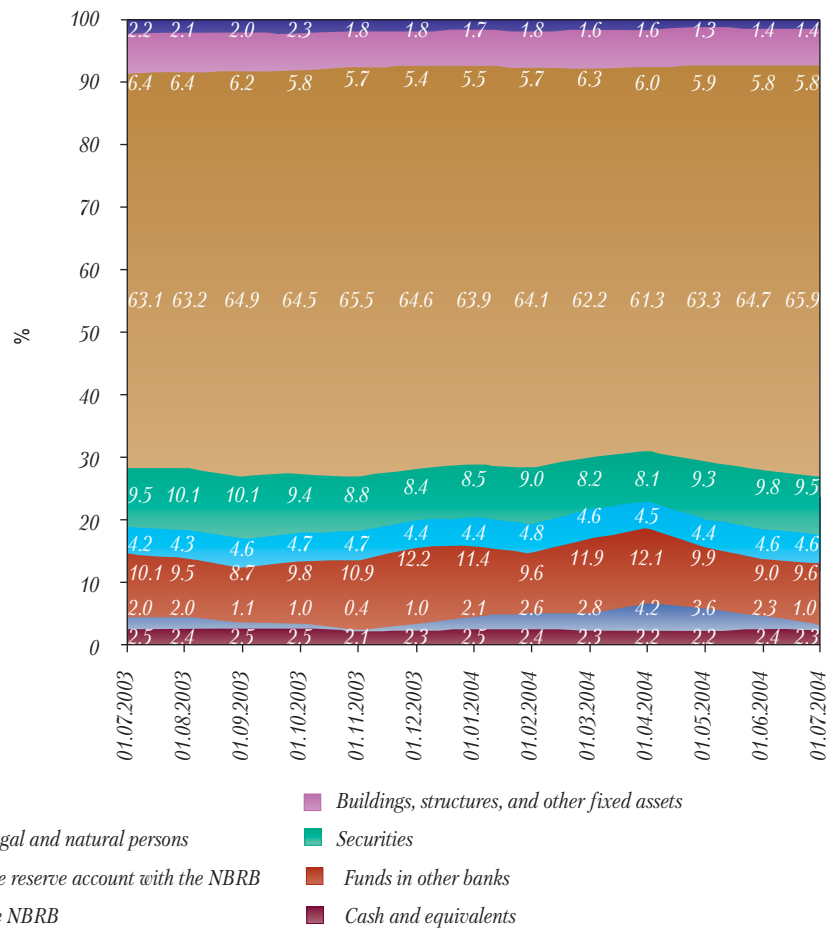


Diagram 7. Arrears of Banks' Short-term Credits to Sectors of the Economy.
January 2002 – June 2004

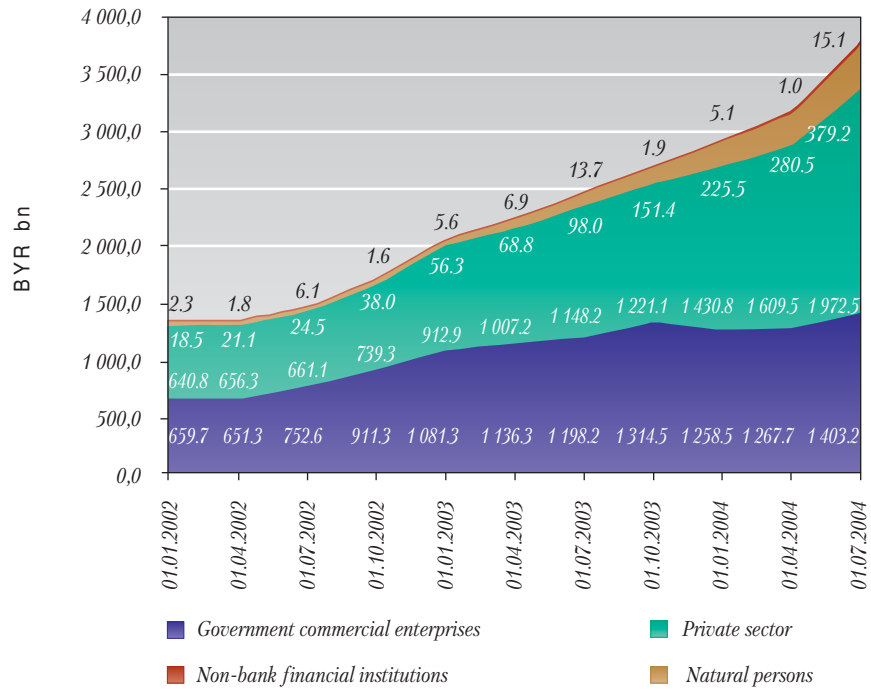


Diagram 8. Arrears of Long-term Credits Granted by Banks to Sectors of the Economy.
January 2002 – June 2004

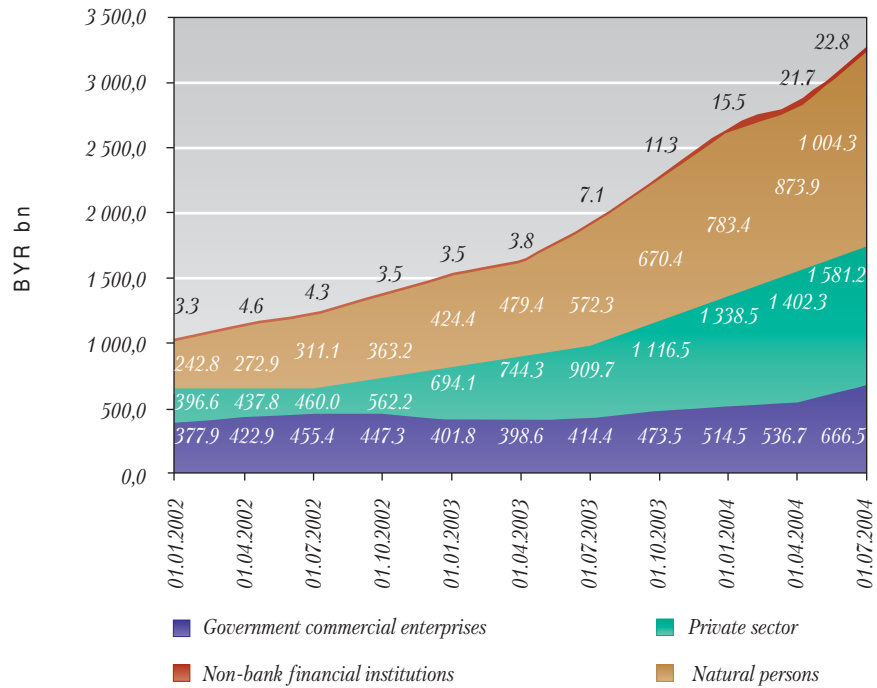


Diagram 9. Distribution of Banks' Credits by Types of Borrowers' Activities (%).
January 2002 – June 2004

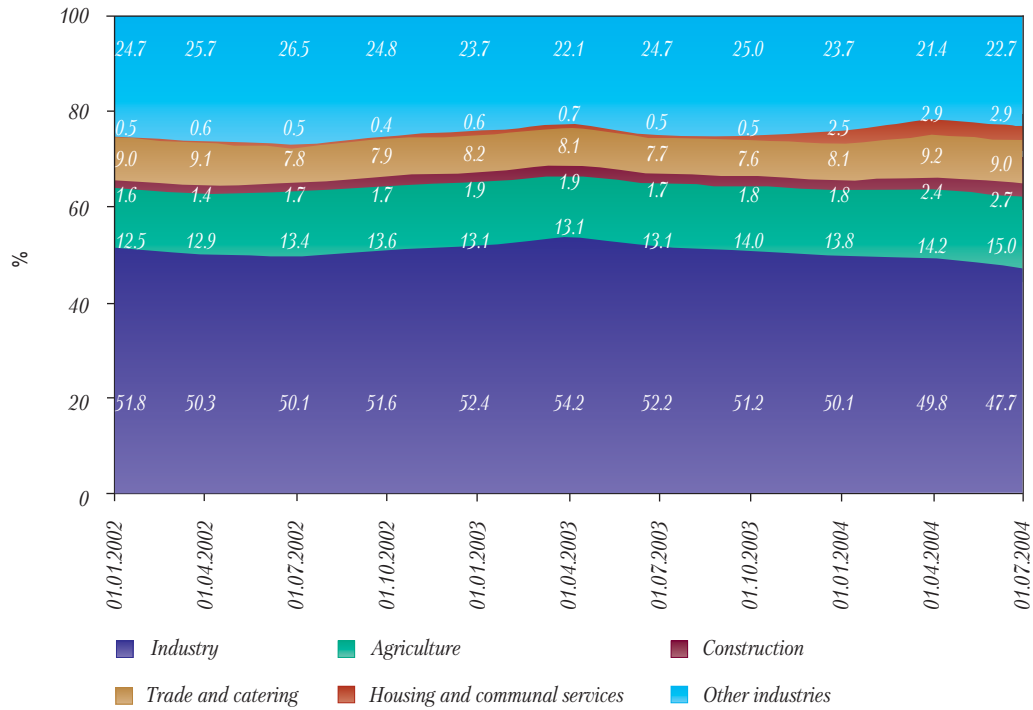


Diagram 10. Dynamics of Banks' Problem Debt by Sectors of the Economy.
January 2002 – June 2004

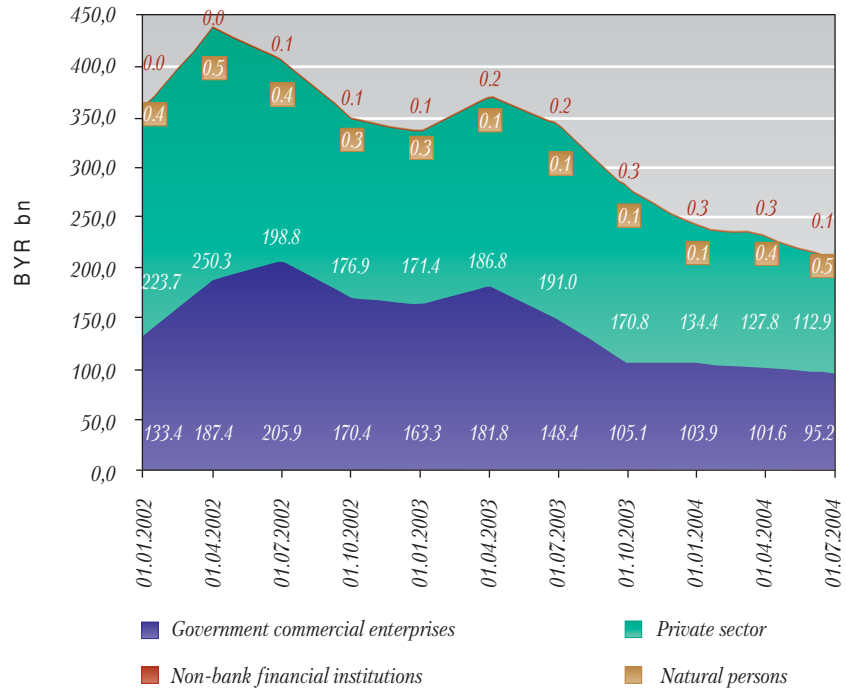


Diagram 11. Dynamics of Clients' and Banks' Problem Credits, Problem Credits on Off-balance Accounts and Clients' Arrears of Interest
July 2002 – June 2004

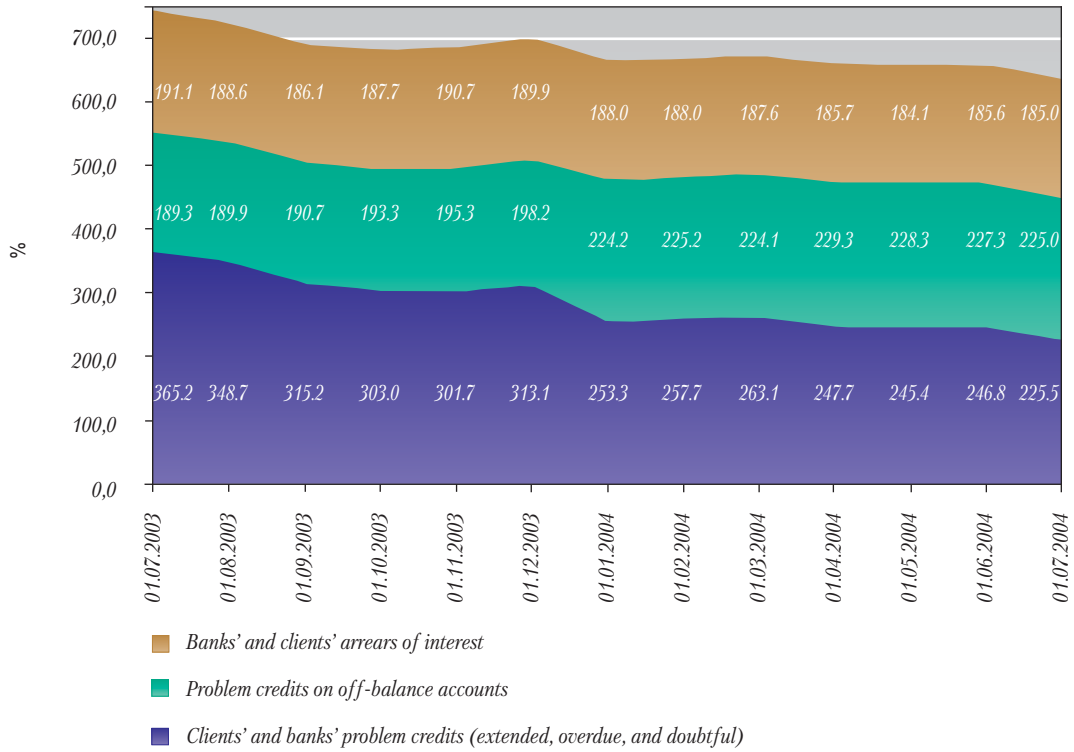
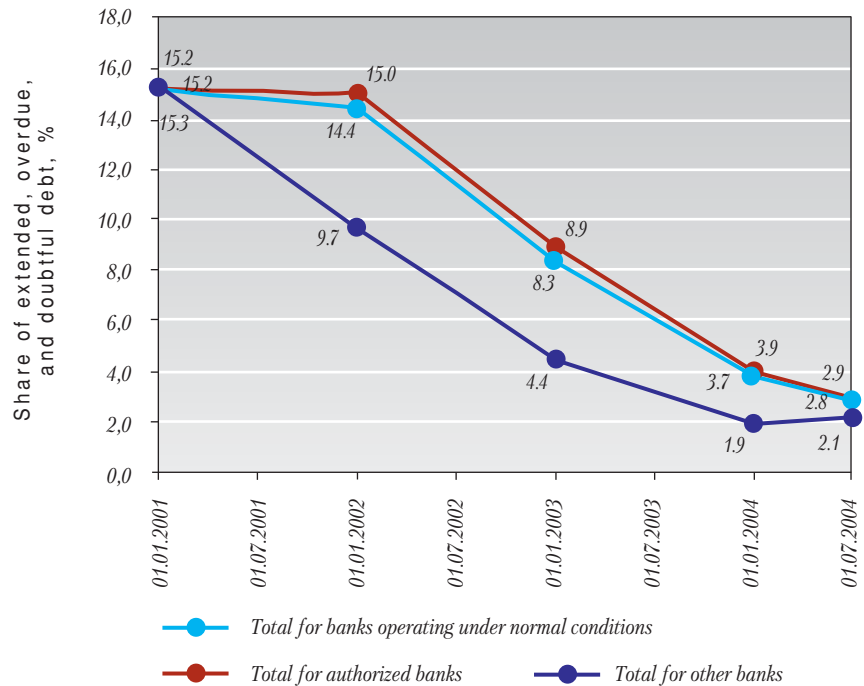


Diagram 12. Dynamics of Extended, Overdue, and Doubtful Debt in Clients' and Banks' Credit Debt in 2000 – 2004



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