

Национальный банк Республики Беларусь

Отчет о развитии
банковской системы
и банковского надзора
в Республике Беларусь

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

(January – December 2004)



National Bank of the Republic of Belarus

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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 ("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 ("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 professionalism and reputation of 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' activity 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' activity.

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

- capital adequacy required to cover the risks of banking activities (until 2005, mainly a bank's credit risk was taken into account);
- liquidity management, including coordination of a bank's requirements and obligations regarding funds placement and attraction maturities as well as requirements placed on 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.

In 2005, the development of the banking system will be subordinated to the general objectives and tasks set forth in the Concept of Banking System Development.

Along with building up the resource base and expanding credits to the economy much emphasis will be placed on streamlining banks' assets and liabilities, above all, at the expense of:

- increasing the share of long-term attracted funds;
- upgrading banks' liquidity management;
- upgrading economic standards in the sphere of acceptability of individual liability and asset operations; and
- expanding the list of modern banking operations and services, especially paid services provided to households, and establishing a sound system of guaranteeing the return of households' deposits.

As in previous years, establishing a regulatory framework that governs banks' activities and strengthening supervision and control over their functioning will constitute the centerpiece of the National Bank's relations with banks aimed at enhancing banking system stability.

In improving banking supervision principles and instruments, the main focus will still be on bringing them closer to the international standards developed by the Basel Committee and other international financial institutions and on consistent implementation and observance of the internationally tested principles of and approaches to banking regulation and supervision.

As the establishment of the requisite regulatory and legal framework advances, requirements to banks' state registration and licensing of their activity, such as determination of mandatory requirements to the business plan of a bank to be set up and raising requirements to business reputation of nominees to executive positions at banks, will be made more stringent. The system of economic standards for banks that limit risks of banking activity will continue to be streamlined.

Requirements regarding monitoring, assessment, and restriction of market risks as well as capital adequacy for covering operational risks and recommendations on their management in accordance with the Basel Committee's recommendations will be implemented.

Work on ensuring information transparency of the Belarusian banks and non-bank

credit and financial institutions at the level that complies with the recommendations of the Basel Committee will be continued.

To make the assessment of banks' financial situation more objective and strengthen the enterprises' and households' confidence in the banking system at large, a step-by-step adoption by the Belarusian banks of the International Financial Reporting Standards will be continued. The transition will be carried out by:

- developing and introducing National Financial Reporting Standards for the banking system of the Republic of Belarus;
- improving the methodological support of banking operations accounting in Belarusian banks; and
- harmonizing the major principles and methods of accounting and reporting in the banking sectors of the Republic of Belarus and the Russian Federation.

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.

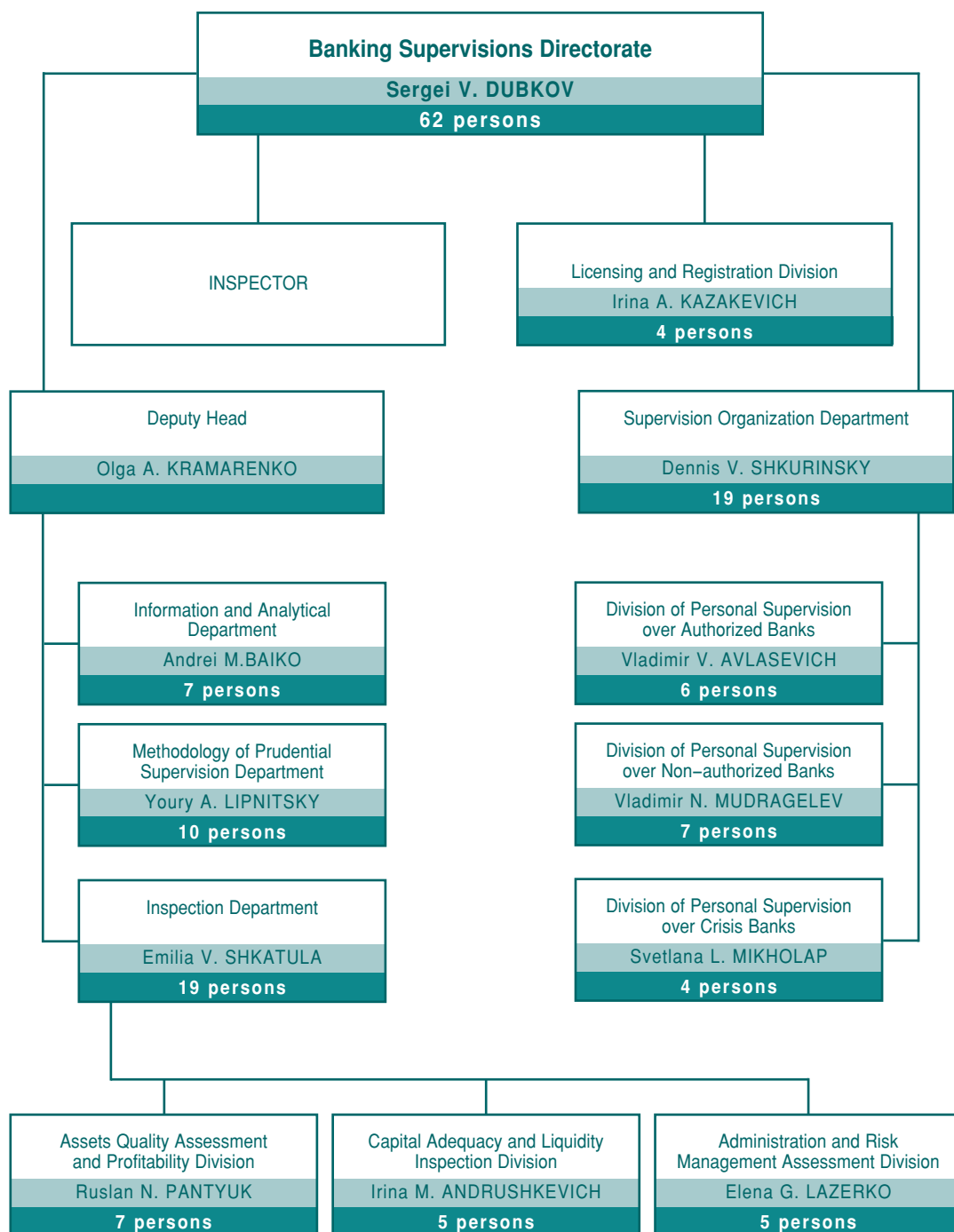
The Committee is headed by the Chairman of the Board of the National Bank, its members comprise the Deputy Chairman in charge of banking supervision, heads of the Banking Supervision Directorate, Foreign Exchange Regulation and Foreign Exchange Control Directorate, Legal Directorate, and Department of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

Banking supervision staff

Banking supervision at the National Bank is carried out by 134 specialists, of whom 47% are employees of regional agencies and 53% are employed at the Banking Supervision Directorate of the main office.

Of the total number of the Banking Supervision Directorate staff, 100.0% are graduates of higher educational establishments, 22.2% are under 30 years of age, and 22.2% have been working in the banking system for 15 years or more.

In 2004, 108 employees, or 80.6% 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 (64.2%).



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

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 Basel Committee 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 Basel 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.

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 compiled. 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.

Economic standards system

In 2004, Instructions on economic standards for banks and non-bank credit and financial institutions were drafted and approved by Resolution of the Board of the National Bank to ensure better compliance with the Basel Committee's recommendations as well as to attain more realistic reflection of banks' risks related to their activity. In developing these Instructions, account was taken of gained experience and present-day international approaches to capital adequacy assessment and other prudential requirements placed on banks.

Modified principles of and approaches to assessing risks in banks' activity stipulated in the Instructions meet the target of securing safe and liquid functioning of the banking system and protecting depositors' and creditors' interests.

In accordance with the new Instructions, the approaches to capital adequacy assessment were modified. The minimal capital requirements intended for covering

operational and market risks were established. With a view to maintaining the adequate level of own funds (capital) for covering market risks, Tier 3 additional capital which is designed exclusively for covering a bank's market risks is included into the computation of own funds (capital).

The method of assessing credit risks has been modified and is now based on the evaluation of potential losses from active operations with different counterparties (countries, banks, and other legal entities) depending upon the external assessment of said counterparties' ratings.

Taking into account tighter methods used for capital adequacy assessment, the capital adequacy standard has been lowered from 10% to 8%.

With a view to assuring the most effective risk management and execution of ongoing control over compliance with the prescribed prudential requirements, the Instructions provide for a daily mandatory compliance by banks with the major economic standards, such as capital adequacy, liquidity, maximum size of risk, and restriction of natural persons' attracted funds. At the same time, a step-by-step implementation of this requirement is envisaged for different banks depending upon their organizational structure and complexity of computation of indicators that characterize compliance with individual standards.

Requirements to create special reserves for covering potential losses on assets

In 2004, the redrafted Instructions on procedures for creation and utilization of special reserve for covering potential losses on a bank's and a non-bank credit and financial institution's assets subject to credit risk and Instructions on procedures for creation and utilization of reserves against securities depreciation by banks and non-bank credit and financial institutions were prepared and approved by resolutions of the Board of the National Bank for the purpose of assuring more adequate classification of assets as to their reliability, timely creation in full amount of reserves for covering potential losses resulting from operations with securities and operations subject to credit risk.

The above-mentioned modifications are mainly designed for strengthening individual assessment of risks in respect of each asset. As regards banks' foreign assets, the approach to risk assessment is based on the assessment of potential losses resulting from asset operations with different counterparties (countries, banks, or other legal persons) depending upon the external assessment of said counterparties' ratings. This approach is more risk-oriented and would make it possible, to a greater extent, to take account of the differences in the borrowers' relative solvency.

Supervision on a 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 activity, having regard to the activities of subsidiary legal entities.

Such reports contain information on a bank's own funds-to-assets ratio, having regard to subsidiary legal entities, 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 entities, as well as legal entities which are able to substantially affect in other ways activity 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 entities which are members of banking groups and banking holdings have been devised.

Regulating access to the banking services market

Regulating access to the banking services market is one of the banking supervision components.

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 nominees 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 individual banking transactions; and
- raising authorized capital from investors' own funds.

As at January 1, 2005, there were 35 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 are registered in the Republic of Belarus.

In 2004, Open Joint-Stock Company "COMBelBank" and Open Joint-Stock Company "InvestPromBank" were registered.

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 full, compliance with requirements to establish required reserves deposited with the National Bank, and lack of debt to the budget and government off-budgetary funds during the most recent 12 months.

In 2004, general and master licenses were granted to the newly established banks. Open Joint-Stock Company "Mezhdunarodny Rezervny Bank" was licensed to attract

natural persons' funds on deposit. Such license is granted to a bank at least two years after its registration, provided it is financially sound.

As at January 1, 2005, 32 banks had general and master licenses, 19 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 more 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 the shares in the authorized capital, the National Bank must be notified; if more than 10% of the 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.

At present, we may say that an equilibrium state has been achieved in the banking market of the Republic of Belarus. On the one hand, the market is saturated with banking services and the competitive banking institutions have been established. On the other hand, rather stringent criteria for admitting new participants to this market in order to prevent its "overheating" (i.e. negative consequences related to unduly stiff competition) have been established.

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, 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 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.

In 2004, specialists of the Supervision Organization Department continued to streamline the methods of off-site supervision along with taking necessary supervisory response measures in respect of Belarusian banks.

On completion of its work in December 2003, the IMF's advisory mission of the Monetary and Financial Systems Department gave recommendations on how to strengthen the Belarusian banking system and banking supervision, which, *inter alia*, defined a number of priority areas for streamlining procedures for the National Bank's off-site supervision.

In accordance with the above-mentioned recommendations as well as with a view to implementing provisions stipulated in the Concept of Belarusian Banking System Development for 2001-2010, the National Bank focused in 2004 on abandoning, beginning in 2005, the practice of granting to banks privileges and preferences regarding compliance with the economic standards and other requirements of the Belarusian banking legislation.

Besides, according to the IMF mission's recommendations, one of the areas of improving supervision practice was a thorough and careful examination (based on the international prudential standards) of the outcomes of operation in 2003 of the six biggest (authorized) banks, i.e. OJSC "Belagroprombank", OJSC "Belpromstroibank", JSSB "Belarusbank", OJSC "Belvnesheconombank", OJSC "Belinvestbank", and "Priorbank" OJSC.

As before, financial situation of the authorized banks and the impact of risks related to the banking activity that arise in the process of their functioning on the stability of the Belarusian banking system was repeatedly discussed by collective managerial bodies of the National Bank. For example, in 2004 the Board of the National Bank on 17 occasions considered issues relating to the operation of the authorized banks (of which reports of managers of said banks were heard on eight occasions).

In addition, improving the forms and ways of analyzing indicators of banks' operation and assessment of all emerging risks of banking activities was one of the priorities of off-site supervision in 2004.

As part of implementing said direction of activity, establishment and automation of a comprehensive system for analyzing banks' financial situation was underway.

Since 2005, banks have been filing with the Banking Supervision Directorate practically all prudential and other reports in electronic form. At present, it is planned to automate the processing and analysis of banks' prudential reports. To this end, the development of an algorithm designed to compile testing and analytical tables for the prudential reporting forms which should constitute the basis for the development of corresponding software within the framework of the National Bank's information and analytical system has virtually been completed.

In streamlining the supervisory procedures in the Republic of Belarus, of particular importance was promotion in 2004 of cooperation between the National Bank in its capacity as a supervisory authority, on the one hand, and banks' owners and management, on the other. Specialists of the Supervision Organization Department responsible for supervising a bank (banks' overseers) participated in 17 comprehensive inspections of banks as deputy inspection heads, as well as attended regular meetings with the management of the supervised bank in question (including discussion of the inspection results) and meetings with the shareholders' representatives.

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 were conducted in 17 banks, of which nine banks have 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 the 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 the quality of a bank's management, as well as 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 at 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.

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 Basel Committee, has devised the Recommendations on internal control system organization at 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, an IMF's technical assistance mission on anti-money laundering and combating the financing of terrorism visited the Republic of Belarus. The mission analyzed 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".

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 must 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 published on the National Bank's website at 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 publish 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".

Nowadays, the National Bank is considering directions of using recently adopted by the Basel Committee new capital accord Basel 2, which determines requirements for disclosure by banks of information on their operation.

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 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 USD1,000.

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

In accordance with 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.

Cooperation with international financial institutions and supervisory agencies of other countries

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.

In November 2004, representatives of the International Monetary Fund and the World Bank assessed the financial sector of the Republic of Belarus under the FSAP program. In particular, they assessed compliance of Belarusian banking supervision with the Core Principles for Effective Banking Supervision. Following examination of the draft of detailed assessment of compliance with the Basel Principles by the Republic of Belarus submitted by the IMF and World Bank experts, the National Bank specialists prepared their comments and opinions which will be communicated to the experts. Final conclusions and assessments of the mission will be made in 2005.

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 Basel Committee on Banking Supervision.

Within the Group, its members share experience regarding regulation of 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 organized. A compilation containing information about the 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).

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 end-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.

The outlook for banking supervision system development

In order to continue enhancing the effectiveness and efficiency 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 will 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' activity, identifying problems as early as possible, and timely and effective application of supervisory sanctions will continue to be developed.

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.

Based on the assessment of Belarus's compliance with the Basel Principles made by the mission of the International Monetary Fund and the World Bank in November 2004 under the FSAP program and recommendations of the mission, plans for introducing the international principles of banking supervision in the Republic of Belarus will be analyzed and, if required, adjusted.

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

2.1. General economic conditions of banking system functioning

In 2004, positive trends in the development of the real sector of the economy and social sphere persisted.

GDP accounted for 111% of the 2003 level, the forecast being 109-110%. For comparison purposes, GDP in 2003 grew by 7%, in 2002 by 5%, and in 2001 by 4.7%.

Belarus exports more than 50% of its products. Development of foreign economic activities therefore is one of the major factors of economic growth in the country.

As a result of efforts undertaken in the Republic of Belarus in order to promote exports and develop foreign trade infrastructure in foreign economic activities, projected parameters were substantially exceeded. For example, exports and imports of goods and services in 2004 grew by 135.4% and 139.0% respectively, compared with 2003. It is worth noting that the volume of foreign trade in goods and services grew by 137.1%.

Recent years saw an appreciable increase in investment in the national economy. Investment for production purposes is growing at a noticeable rate. In 2002, it increased by 9%, in 2003 by 26.5%, and in 2004 by 20.4%.

In 2004, households' real monetary income and real wages and salaries grew by 113.6% and 116.8% respectively, in relation to 2003. Their growth spurred the dynamics of consumer goods production, retail trade turnover, and provision of paid services to the general public.

In 2004, the CPI growth was at its lowest since 1991, averaging 1.1% per month versus 3.2; 2.5 and 1.9% in 2001, 2002, and 2003 respectively.

Slower rates of BYR exchange rate devaluation against foreign currencies, above all, the US dollar, were conducive to the restriction of inflation processes in 2004.

The fact that the National Bank's credits were no longer used to finance the state budget deficit, including at the expense of purchasing Government securities in the primary market, played a key role in restricting devaluation and inflation processes in the country.

Also, to reduce inflation rates, price policy measures were undertaken which were oriented towards curbing and preventing undue hikes in prices, including prices for major socially significant goods and services.

Profitability of sold products, works, and services in the economy as a whole grew from 10% in 2003 to 13.4% in 2004, while the share of loss-making organizations declined from 36.2% to 21%.

However, the level of finished-goods inventory is still high. Its cost increased in 2004 by BYR427.9 billion in current prices, amounting to BYR1,665.3 billion as at January 1, 2005. At the same time, the ratio of finished-goods inventory to the average monthly output volume decreased from 59.4% to 53.8%.

Foreign trade turnover in 2004 was \$29.9 billion, a 39.7% increase. CIS countries

accounted for \$19 billion (64% of foreign trade turnover), including Russia's \$17.5 billion (58%) and the rest of the world \$10.9 billion (36%), including EU's \$7.4 billion (25%).

Trade balance was negative in the amount of \$2.1 billion (9% of GDP), of which CIS countries accounted for \$4.4 billion and Russia \$4.6 billion. Trade balance with the rest of the world was positive in the amount of \$2.4 billion, of which the EU countries accounted for \$2.0 billion.

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 in a situation 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.

Monetary indicators in 2004 were maintained at the levels and in proportions ensuring the attainment of optimal dynamics of Belarusian ruble exchange rate, given the existing conditions.

Parameters of money supply in Belarusian rubles in 2004 were formed having regard to the economy's growing demand for Belarusian rubles and reorientation of households' preferences towards increasing their savings in the national currency.

Despite growing foreign trade deficit, capital and financial account operations made it possible to increase international reserve assets of the Republic of Belarus in 2004 by \$271.3 million.

In 2004, the balance of foreign exchange purchase and sale in the foreign exchange market segments was as follows:

net sale by economic entities-residents of the Republic of Belarus — \$943.1 million (in 2003 — \$933.9 million);

net purchase by non-residents of the Republic of Belarus — \$869.2 million, or 29.9% above the 2003 level (\$669.2 million). At the same time, a slower growth rate of non-residents' demand for foreign exchange compared with the rate of import growth indicate increasing outside confidence in the stability of the Belarusian ruble; and

net purchase by households with cash and through non-cash transfers — \$85.9 million (in 2003 — 144.1 million). This trend was due to increasing confidence in the Belarusian ruble which stimulated the processes of households' savings de-dollarization and their movement to the banking system of the country.

Given the existing balance of demand and supply in foreign exchange market of the Republic of Belarus, the exchange rate of the Belarusian ruble against the Russian ruble (which is a controlled indicator in pursuing monetary policy) decreased in 2004 by 6.4% (in 2003 by 21.2%), standing at BYR77.91 to the Russian ruble as of January 1, 2005.

It is worthwhile noting that the exchange rate of the Belarusian ruble against the USD dollar (which is an indicative indicator of monetary policy) decreased in 2004 only by 0.6% (compared with 12.3% in 2003), USD1 buying BYR2,170 as of January 1, 2005.

The aim of interest rate policy in 2004 was to gradually reduce interest rates nominal values in the deposit and credit markets retaining at the same time their positive, in real terms, values which are conducive to the growth of savings in the national currency and greater access of the real sector of the economy to bank credits.

Based on the said objectives as well as on the existing and projected monetary trends, above all, slower inflation and devaluation rates, the National Bank reduced the refinance rate from 28% per annum as at the start of 2004 to 17% per annum as at September 2004. The refinance rate was not reduced in October and December 2004. Thus, the average level of the refinance rate in 2004 was 21.3% per annum. In real terms, the refinance rate in the same period was 7.7% per annum, a 2.2 percentage points drop compared with 2003.

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.

Interest rate on new time deposits in the national currency in December 2004 was 17.3% per annum, a 6.5 percentage points reduction compared with December 2003. In real terms, it was 4.7% per annum in 2004, a 0.3 percentage point reduction compared with 2003.

Interest rate on new time deposits in foreign exchange in December 2004 was 7.4% per annum, a 1.4 percentage point increase compared with December 2003. In 2004, it was 6.2% per annum against 6.7% per annum in 2003.

Interest rate on new bank credits in the national currency averaged 20% in December 2004, a 10.9% percentage points drop compared with 2003. In real terms, it was 10.3% in 2004 per annum against 15.4% in 2003, a 5.1 percentage points drop.

The average interest rate on new bank credits in foreign exchange fell from 11% per annum in December 2003 to 10.1% per annum in December 2004. Said rate averaged 10.1% per annum in December 2004, decreasing by 2.1 percentage points since 2003.

Thus, declining interest rates on credits and creation of conditions for keeping savings in the national currency enhanced credit availability for the economy, helped transform savings into investment and restrain inflation and devaluation processes, and acted as economic growth incentives.

Macroprudential indicators of Belarusian banking system performance in 2004 are characterized as follows.

Capital adequacy. The indicator "own capital / risk-weighted assets ratio" in the system as a whole was within the range of 22-27%, i.e. twice as big as the standard set in respect of an individual bank (no less than 10%).

The indicator "fixed capital / risk-weighted assets ratio" fluctuated within the 18-22% 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 was carried on in 2004. It had a positive effect 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. In 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 4.8%.

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 2004 from 113.1% to 76.1%. The number of banks with major credit risks exceeding 25% (for insiders -15%) of the bank's own capital dropped from 16 to 14.

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 in 2004 from 9.6% to 6.6%.

The completeness of the establishment of a special reserve to cover potential losses on assets subject to credit risk (in fact, established reserve / estimated reserve ratio) increased during the period under review from 51.6% to 57.2%.

Indicators characterizing the banking system's profitability were somewhat lower in 2004 compared to 2003. As at January 1, 2005, return on assets (ROA) amounted to 1.45% (1.56% as at January 1, 2004) and profitability of the capital (ROE) to 7.75% (8.4%).

Dynamics of liquidity indicators was heading, to a certain extent, in different directions. As at January 1, 2005, compared with a year earlier, the proportion of liquid and total assets slightly decreased — 27.7% in 2004 (29.1% in 2003), the banks' standard being "no less than 20%".

Instantaneous liquidity (demand assets to demand liabilities ratio) was maintained at a high level — 64.9% as of January 1, 2005 (55.4% as of January 1, 2004), 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 1.2 as at January 1, 2004, to 1.0 as at January 1, 2005, the standard being "no less than 1". It was caused by the accelerated growth of long-term credits 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 were obtained as at January 1, 2005.

The banking system's own capital amounted to BYR2,895.6 billion as at January 1, 2005, a 7.5 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 5.9% (according to the Concept, 5.7% by January 1, 2006).

The volume of the banks' resource base amounted to BYR14,570.7 billion, a 5.7 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.

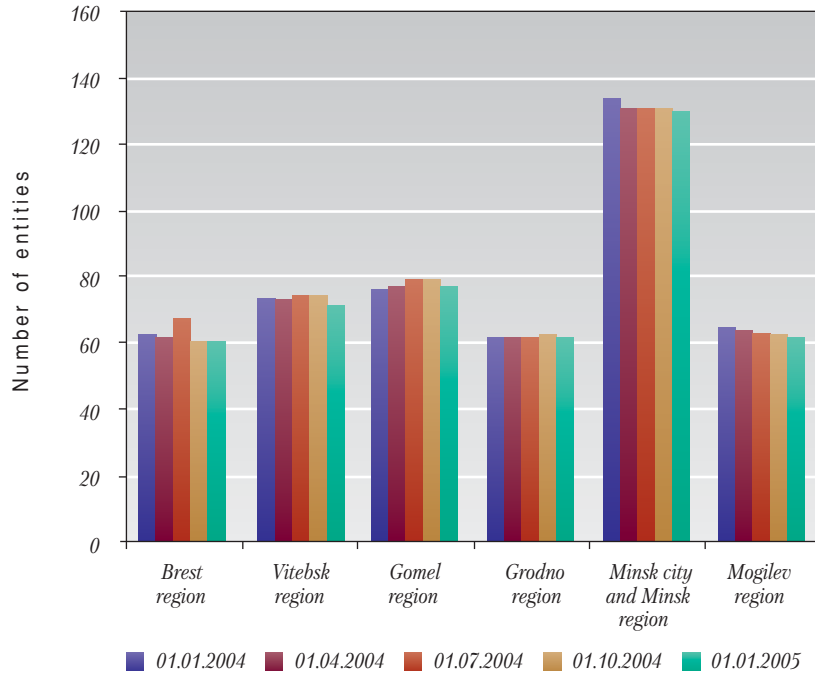
Institutional aspects of development

Quantitative and structural characteristics of the banking system

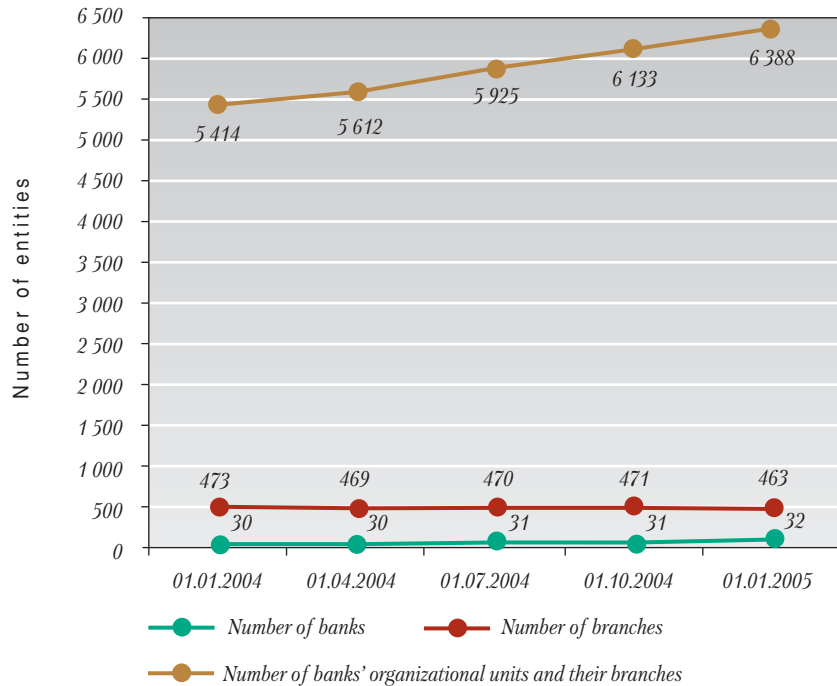
As at January 1, 2005, there were 32 Belarusian banks operating under normal conditions. Of these, 7 were residents of free economic zones ("FEZs").

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.

Regional Distribution of Banks' Branches Operating in the Republic of Belarus in 2004



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



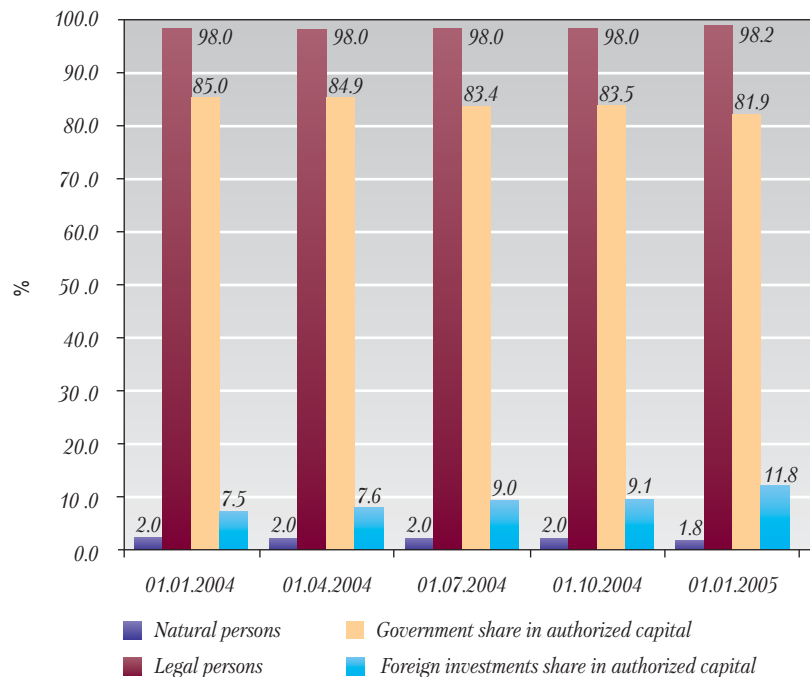
As at January 1, 2005, the Belarusian banks opened 463 branches, 6,388 other organizational units, and 11 bank's representative offices. Out of 11 representative offices 2 operate in the Republic of Belarus and 9 abroad (4 in the Russian Federation, 4 in the Republic of Poland and 1 in the FRG).

The bulk of bank's branches are also located in Minsk and Minsk region.

In 2004, the trend towards reduction in the number of bank's operating branches persisted. For example, during the period under review the banks opened 7 branches and closed 17, i.e., the total number of branches dropped by 10 separate organizational units within the year. The main reason for it was the streamlining of the branch network of Joint-Stock Savings Bank "Belarusbank": during the period under review the number of its branches decreased by 10.

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.). For example, in 2004 their number increased by 974.

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



Structure of banks' authorized capital

As at January 1, 2005, the aggregate amount of banks' authorized capital was BYR2,161.2 billion. The bulk of that sum is comprised of legal persons' funds (98.2%).

Government funds account for the main share of legal persons' deposits in the Belarusian banks' authorized capital — 81.9% as at January 1, 2005, the share of foreign investors being 11.8%.

Government participation in the banking system

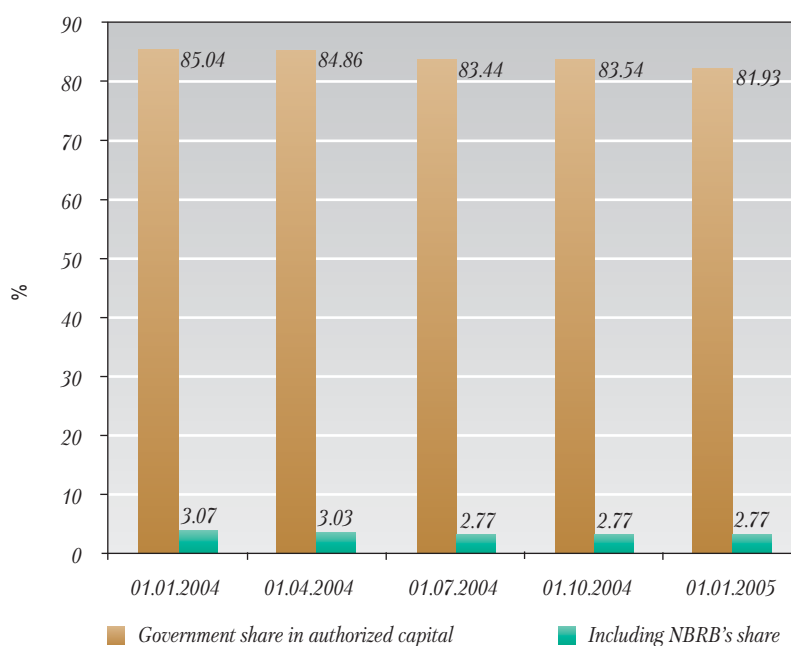
Participation of Government agencies and legal persons based on state ownership in the Belarusian banks' authorized capital is governed by a number of the country's social and economic tasks which would be best tackled with active support on the part of banks.

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 in these banks.

As at January 1, 2005, the government share in the banking system's aggregate authorized capital amounted to around 81.9%.

Keeping the government share 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 Belarusian Banking System Development for 2001-2010.

Dynamics of Growth (Decline) in the Government Share in Belarusian Banks' Authorized Capital, %.



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.

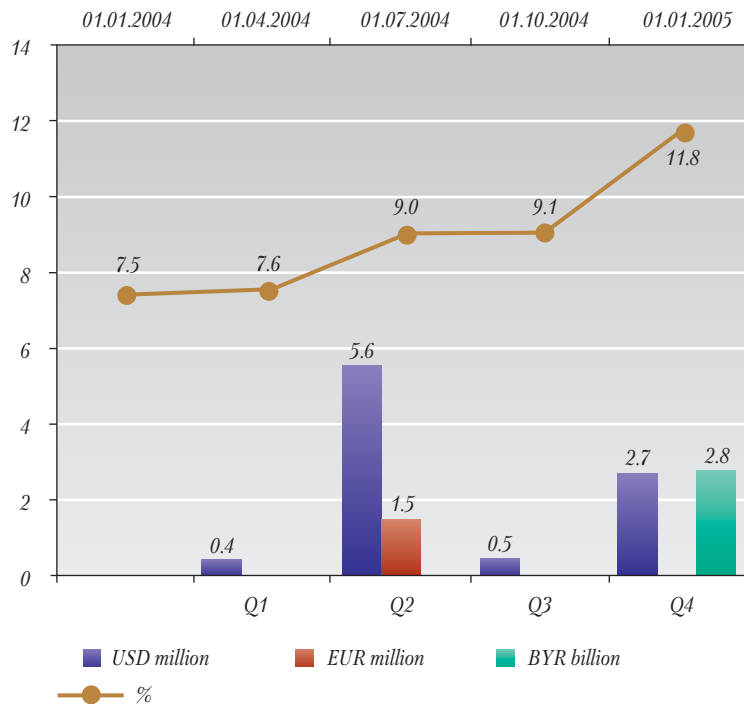
As the importance of the four above-mentioned banks in lending to state programs and activities is increasing, the state will be gradually withdrawing from the body of shareholders of other banks in order to principally complete withdrawal in 2005-2007.

Foreign capital participation in the banking system

Investments of non-residents of the Republic of Belarus constitute 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 granting 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 32 operating banks 27 are banks with foreign capital. Foreign capital exceeds 50% of authorized capital in 11 banks, 8 banks are wholly foreign-owned.

As at January 1, 2005, the share of foreign capital in the aggregate authorized cap-

ital of the Belarusian banks amounted to 11.8%, a 4.3 percentage points increase compared with January 1, 2004.

The absolute volumes of annual foreign investments in the banking system of the Republic of Belarus in 2004 amounted to more than USD9 million, EUR1.5 million and more than BYR2.8 billion.

Foreign investments into the banking system of the Republic of Belarus were made by Russia, Latvia, Cyprus, and the UK.

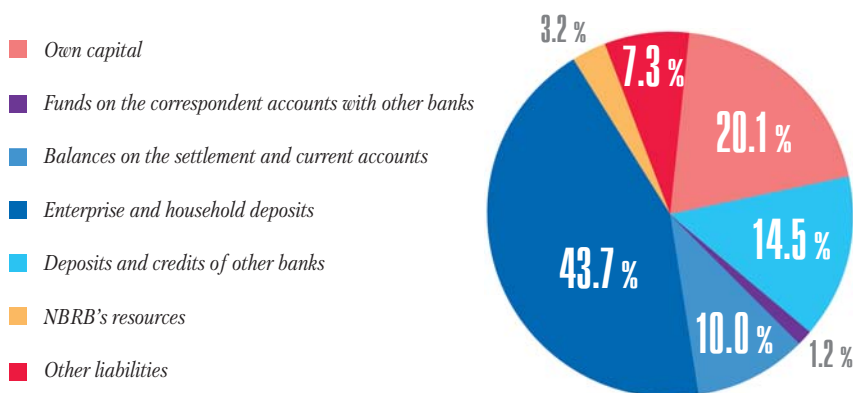
12 representative offices of foreign banks are operating in the Republic of Belarus (Russian, Lithuanian, Latvian, Kazakh, German, and Polish banks).

Assets and liabilities structure

The year of 2004 saw further strengthening of creditors' and depositors' confidence in the banking sector which resulted in the growth of the banks' resource base. Its volume for operating banks over the period increased from BYR9,744.3 billion to BYR14,416.3 billion, or by 47.9%.

The main source of expanding the resource base were enterprise and household

Liabilities Structure as at January 1, 2005



deposits which accounted for 51.2% of the total increment in the banking sector liabilities (funds of natural persons accounted for 32.5% of the total increment in the banking sector's liabilities).

As at January 1, 2005, natural persons' funds amounted to BYR3,895.8 billion, or 27.0% 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 63.8%, whereas the increment in the national currency amounted to 95.8% and in foreign exchange only to 30.9%.

Deposits in Belarusian rubles prevail in the structure of household deposits — 59.9% as at January 1, 2005.

Joint-Stock Savings Bank "Belarusbank" which has amassed 61.5% 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 95.7% of the total volume of natural persons' deposits in the Belarusian banks.

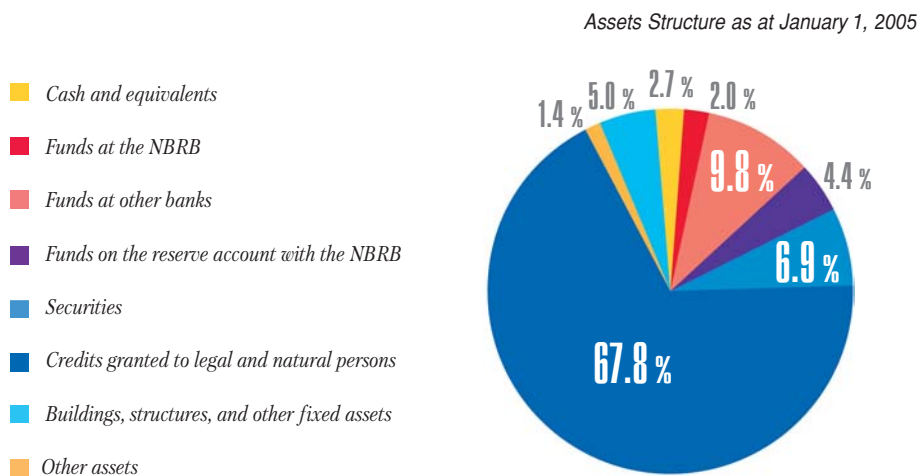
The structure of deposits by currencies varies. The proportion of deposits in Belarusian rubles and foreign exchange at six authorized banks is 61.6% to 38.4%, whereas at other banks it is 21.4% to 78.6%, respectively, i.e., the share of foreign exchange deposits in non-authorized banks prevails significantly.

A second important source of expanding the resource base are the balances of enterprises' and institutions' funds deposited in the settlement and current accounts. They increased by 21.4%, to BYR2,084.6 billion as at January 1, 2005. The share of balances in the settlement and current accounts in the banking sector's aggregate liabilities amounted to 14.5%.

In the structure of funds attracted during the period under review the volume and, correspondingly, the share of attracted interbank credits and deposits increased from BYR1,333.4 billion to BYR1,907.0 billion, or by 43.0%.

In 2004, funds deposited in assets of the banking sector increased by BYR4.7 trillion, or by 31.8%, amounting to BYR14,614.9 billion. The increase in banks' credit operations was the main factor of the banking sector's assets growth.

The volume of credits granted by banks to legal and natural persons increased by BYR3,541.5 billion, or by 55.6%, amounting to BYR9,907.3 billion as of January 1, 2005.



The share of credit investments in the aggregate assets of operating banks increased from 63.9% to 67.8%.

Provision of credits to the real sector of the economy by the banking system as a whole increased by 55.7% and amounted to BYR9,901.9 billion, the figures for the six major banks being 58.6% and BYR9,001.9 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 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 expanding resource base of the banks.

Lending in the national currency increased by 72.0%, amounting to BYR5,491.4 billion, in foreign exchange by 38.3%, amounting to the equivalent of USD2,032.5 million.

In 2004, banks' investments in securities increased by BYR151.9 billion, or by 17.9%.

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 11.8%).

Financial results

The banks' profits in 2004 amounted to BYR183,0 billion (BYR131,5 billion in 2003). All banks operated at a profit, except for two banks which incurred losses in the amount of BYR5.3 billion.

In 2004, the banking system profitability indicators were as follows:

- profit / assets — 1.45% (six major banks, 1.40%);
- profit / authorized capital — 11.24% (10.63%); and
- profit / own capital — 7.75% (7.62%).

Profitability of the banking system in 2004 compared to 2003 by the indicators is as follows:

- "profit / assets" decreased by 0.11 percentage points;
- "profit / authorized capital" decreased by 2.04 percentage points; and
- "profit / own capital" decreased by 0.65 percentage points.

The decrease in the profitability indicators "profit / authorized capital" and "profit / own capital" was caused, above all, by the increase at the end of 2004 in the authorized capital of the authorized banks — Joint-Stock Savings Bank "Belarusbank" and Open Joint-Stock Company "Belagroprombank".

Profitability comparison of the banking sector operation and the economy of the Republic of Belarus in 2004 produced the following results. Profitability of the economy (profit to prime cost of the sold goods, products, works, and services) amounted to 13.4% as at January 1, 2005, profitability of the banking sector (profit to banks' total expenses) to 8.68% (8.20% as at January 1, 2004).

The authorized banks had a critical impact on the level of the banking system profitability — 8.15% (7.66% as at the same date a year ago). They bear the main burden of credit support to public social and economic programs that affects this indicator.

Profitability of other banks amounted to 12.37%, on average (11.93% in the previous year), i.e., it was close to the effectiveness of the economy as a whole.

Profitability of one authorized bank and nine non-authorized banks exceeded the average value for the economy. In this group of banks, the best individual result was 77.27% and the lowest one — (-25.06)%.

In 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.

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.

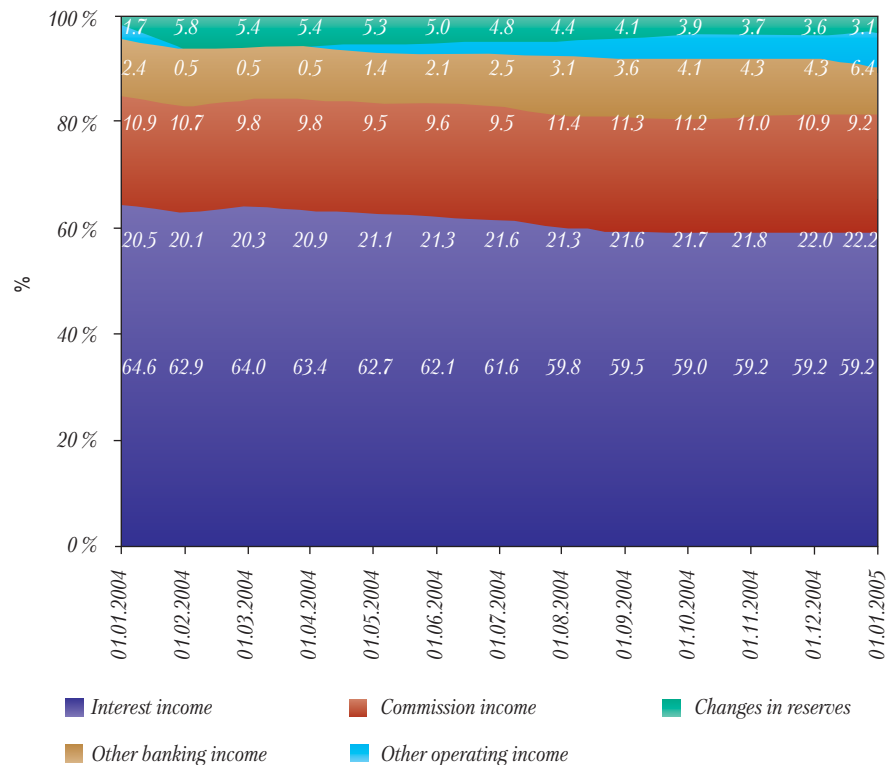
This resulted in a slight decrease in the share of interest incomes (from 64.6% as at January 1, 2004 to 59.2% as at January 1, 2005) and interest expenses (from 35.8% as at January 1, 2004 to 35.7% as at January 1, 2005) in banks' incomes and expenditures (diagrams illustrate this process during the year starting from January 1, 2004).

The share of incomes earned by banks on the securities and foreign exchange markets (other incomes of banks) fell from 10.9 to 9.2% and the share of commission incomes increased from 20.5 to 22.5% and other operating incomes from 2.4 to 6.4%.

In the structure of expenditures, the decrease in interest expenses from 38.5 to 35.7% compensated the increase in the share of other operating expenses (depreciation charges, income tax, administration costs) from 50.2 to 54.2%.

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.

Banking System's Income Structure.
January 2004 — December 2004



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.

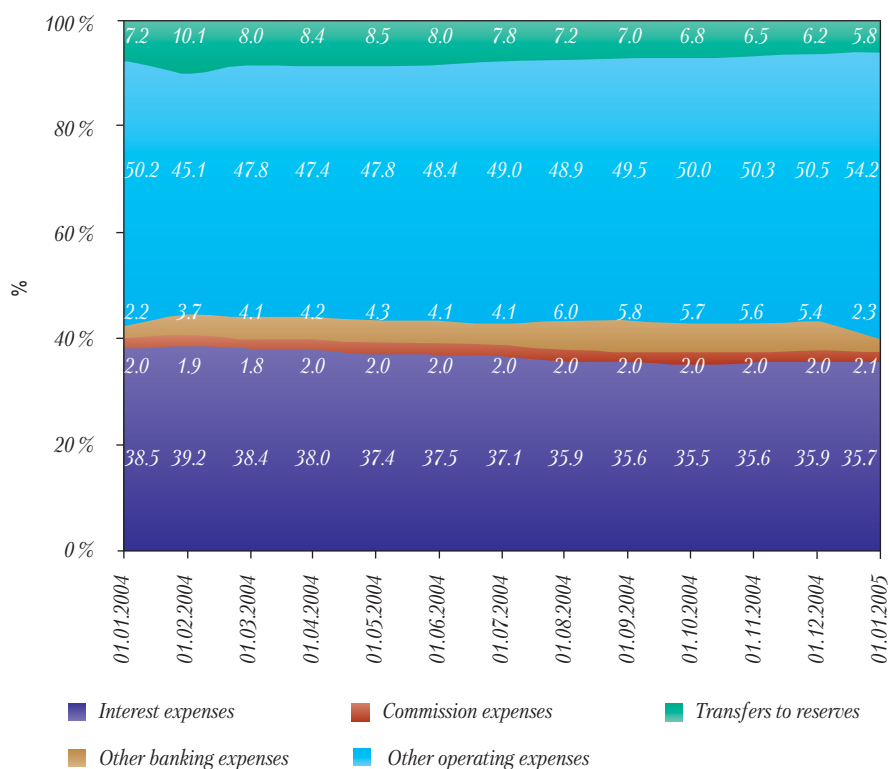
Credit risk

2004 was characterized by a considerable increase in lending (since the beginning of the year, credits to customers grew by BYR3,540.4 billion, or by 55.7%). During the period under review ruble credits grew by BYR2,299.3 billion, or by 72.0%, and credits in foreign exchange by BYR1,241.0 billion, or by 38.3%.

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 90.9% of total clients' credit debts.

*Banking System's Expenses Structure.
January 2004 — December 2004*



According to banks' reports, as at January 1, 2005, the share of the standard assets in the assets subject to credit risk amounted to 95.7% (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 4.3%. As at January 1, 2005, the substandard assets accounted for 2.1% of the assets subject to credit risk, doubtful assets 0.8%, and bad assets 1.4%.

In 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 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 January 1, 2005, 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 24.0% (the standard of the National Bank being 30%), on doubtful assets to 11.8% (50%), and on bad assets to 56.1% (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, in early 2004, the special reserve covered 13.3% of the substandard assets, 30.7% of doubtful assets, and 53.3% of bad ones.

As at January 1, 2005, the total actually established special reserve amounted to BYR157.8 billion, a BYR37.6 billion increase within the year.

In 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 24 (in 14 banks).

All banks complied with 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 decreased from BYR2,315.1 billion to BYR2,202.4 billion. The ratio of the total amount of major credit risks to the aggregate own capital of the banking system decreased from 107.8% to 76.1%.

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 in 2004 from four (in three banks) to eight (in six banks).

Market risk

The requirements to the banks' capital to cover market risks have 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 did not significantly affect the quality of supervision over the banks' capital adequacy in 2004.

In January 2005, according to banks' reports, the aggregate amount of operating banks' market risks for capital adequacy computation accounted for BYR57 billion, including interest-bearing risk — BYR9.4 billion, commodity risk — BYR1.7 billion and foreign exchange risk — BYR46.0 billion. Beginning in 2005, the banks assessed the amount of market risks in accordance with 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.

In 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 January 1, 2005, claims in foreign exchange amounted to 39.8% of the gross assets (liabilities to 40.4%).

Five banks violated the standard of foreign exchange risk in January 2004, three in February, April, August, and October, two in July, September, and December, and one in March, May, June, and November.

As at January 1, 2005, banks' liabilities in foreign exchange exceeded claims in the equivalent of BYR154.2 billion, or 5.3% 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 early 2005, book value of securities that required calculation and establishment of reserves against securities depreciation accounted for BYR2.7 billion.

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.

Liquidity risk

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%").

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 January 1, 2005).

A slight decline in the banking system liquidity occurred in 2004. This is due to the following trend: while the share of long-term (over one year) assets in the banks' assets increased since the beginning of the year from 28.1 to 28.8%, the share of long-term liabilities in the total volume of the banks' liabilities tumbled from 11.3 to 9.9%.

As a result, as at January 1, 2005, the deficit of long-term liabilities for covering long-term assets amounted to 23%, whereas in early 2004 banks' long-term liabilities (including own funds) were less than long-term assets (including capital assets, share holdings, intangible assets, other overdue credits and credits with no maturity, and other assets) by 18.4%.

In 2004, instantaneous liquidity and current liquidity in the system as a whole improved (as at January 1, 2005, instantaneous liquidity was 64.9% compared to 55.5% as at the beginning of the year and current liquidity was 63.0% (60.9%) respectively). Other liquidity indicators had negative dynamics: short-term liquidity was 1.0 (1.2) and the ratio of the liquid assets to the total assets 27.7% (29.1%).

Own capital adequacy

Own capital of the banking system increased in 2004 by BYR848.3 billion, or by 41.4%, amounting to BYR2,895.6 billion as at January 1, 2005.

Tier 1 (fixed) capital amounted to 83.1% of the banking system's own capital. The main source of its establishment was authorized capital of the banks — 89.7% of fixed capital. Additional (Tier 2) capital which includes profit, funds established at the expense of profit, subordinated credits, and fixed assets revaluation amounted to 20.9% 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 January 1, 2005, the sum of adjustment amounted to BYR117.9 billion, or 4.1% of own capital.

The main source of own capital growth in 2004 was the increase in the banks' authorized capital by BYR714.6 billion. The increment of the banks' aggregate authorized capital during the period under review was due to the investments by Government authorities (BYR516.7 billion), from the banks' profit (BYR25.8 billion), and from other sources (BYR172.1 billion).

As at January 1, 2005, the capital adequacy indicator in the banking system was 25.2% compared to 26.0% as at the beginning of the year. A certain decline in capital adequacy was occasioned by the leading growth of the banks' total assets subject to credit risk (by 45.9%) compared to the rate of own capital growth.

As at January 1, 2005, one bank failed to meet the capital adequacy standard. Its share in the total gross assets of the banking sector amounted to 0.2%.

As at January 1, 2005, the level of adequacy of own capital of six major banks amounted to 24.4 % (25.3%, as at January 1, 2004). Their share in the total gross assets amounted to 87.9%.

3. Statistical Attachment

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

Table 1

Type of financial institutions	1998	1999	2000	2001	2002	2003	2004
Banks *	26	27	28	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	2004
Government investment (Government and state-owned legal persons)	85.04%	81.90%
Other Belarusian investment	7.44%	6.31%
Total domestic investment	92.48%	88.21%
Foreign investment	7.52%	11.79%
Total investment	100.00%	100.00%

Banks' Assets Distribution
%

Table 3

First three big banks		First five big banks	
2003	2004	2003	2004
69.12	69.20	83.87	84.29

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		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%	15	48.39%
over BYR40 billion	0	0.00%	2	54.11%	2	54.18%	4	64.20%	5	17.86%	6	20.00%	8	25.80%

Structure of Assets and Liabilities of the Banking System

Table 5

	2000	2001	2002	2003	2004
Assets					
1 Monetary funds, gold, precious metals	1.0%	2.2%	2.3%	2.5%	2.7%
2 Assets of the National Bank of the Republic of Belarus	2.6%	1.3%	1.4%	2.1%	2.0%
3 Correspondent accounts with other banks	9.4%	13.3%	11.5%	11.4%	9.8%
4 Required reserves	0.0%	5.7%	4.6%	4.4%	4.4%
5 Securities	4.6%	8.2%	9.1%	8.5%	6.9%
6 Credits granted to households and enterprises	29.2%	60.5%	63.0%	63.9%	67.8%
7 Fixed and intangible assets	2.3%	7.1%	6.3%	5.5%	5.0%
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%	18.1%
2 Correspondent accounts of other banks	2.0%	2.7%	2.1%	2.0%	1.5%
3 Deposits of other banks	1.9%	2.2%	1.0%	1.8%	1.7%
4 Deposits of enterprises and households	20.9%	37.3%	51.2%	50.9%	54.7%
5 Interbank credits	10.1%	21.4%	18.0%	15.5%	14.8%
6 Other liabilities	21.6%	0.0%	7.7%	7.5%	9.2%
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	2004
Total off-balance accounts / balance accounts	143.80%	157.16%	131.63%	193.10%	197.71%	175.74%	152.60%

Table 7

Quality of the Banking System Assets
BYR mln

Assets classification	1998	1999	2000	2001	2002	2003	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	10,439,430.8
Extended credit	12,396.3	19,285.7	72,207.0	75,675.4	64,518.7	30,394.2	23,303.5
Overdue credit	3,455.3	6,304.9	36,037.7	78,163.9	76,672.9	58,182.6	37,336.2
Doubtful credit	24,108.3	43,132.6	150,129.1	238,841.9	214,643.3	165,927.5	228,263.5
Overdue interest up to 30 days	1,951.2	3,756.1	13,415.9	15,642.1	8,552.5	7,286.0	15,178.6
over 30 days	9,945.0	17,554.3	75,936.3	116,725.8	167,565.5	180,738.9	169,312.2
Actually established reserve	12,106.2	30,617.5	122,294.3	137,937.5	66,208.5	109,201.9	150,272.0

Share of Banks' Assets and Liabilities in Foreign Exchange

Table 8

Assets in foreign exchange / total assets					
1999	2000	2001	2002	2003	2004
40.28%	55.75%	49.02%	45.57%	42.87%	40.66%
Liabilities in foreign exchange / total liabilities					
1999	2000	2001	2002	2003	2004
38.80%	54.16%	47.62%	44.59%	42.08%	40.45%

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

Table 9

	Deposits		Credits	
	2003	2004	2003	2004
Government commercial enterprises	17.5%	14.2%	31.8%	29.3%
Natural persons	46.9%	52.6%	18.1%	21.2%
Private sector	34.0%	31.6%	49.7%	49.0%
Non-bank financial institutions	1.6%	1.6%	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	2004	Types of credits	2003	2004
Demand deposits	49.30%	44.64%	Long-term credits	47.60%	47.94%
Time deposits	50.70%	55.36%	Short-term credits	52.40%	52.06%
Total	100.00%	100.00%	Total	100.00%	100.00%

Table 11

Structure of Banks' Income and Expenses
BYR bn

	1998	1999	2000	2001	2002	2003	2004
Income							
1 Interest income	29.9	165.9	551.1	604.2	901.4	1,120.1	1,338.0
2 Commission income	5.9	25.3	65.5	147.7	250.0	354.9	501.7
3 Other banking income	12.6	41.5	96.3	73.4	102.3	189.0	208.6
4 Other operational income	1.0	2.1	3.2	20.1	23.6	41.3	143.6
5 Changes in reserves	0.7	2.1	6.2	14.5	19.5	29.3	69.7
6 Incidental income	0.0	0.0	0.2	0.0	0.2	0.5	0.1
Total	50.1	236.9	722.5	859.9	1,297.1	1,735.1	2,261.8
Expenses							
1 Interest expenses	19.6	103.0	387.1	371.1	524.6	617.0	742.1
2 Commission expenses	1.0	3.4	6.4	17.9	25.4	31.9	42.8
3 Other banking expenses	8.0	31.1	54.6	21.3	29.0	34.5	48.6
4 Other operating expenses	15.0	74.0	215.5	383.4	608.7	805.0	1,127.7
5 Transfers to reserves	4.4	16.1	40.4	39.3	59.4	115.2	119.9
6 Incidental expenditures	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Total	48.0	227.6	704.0	833.2	1,247.2	1,603.6	2,081.2
Economic profit	2.1	9.3	18.5	26.8	49.9	131.5	180.7

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)	2004	16,882.2	17,093.2	17,938.4	19,163.1	19,470.2	20,100.5	20,888.7	21,283.4	22,434.6	23,910.5	24,799.6	25,678.5
	2005	25,030.1											
% of GDP	2004	46.2	45.7	46.9	49.0	48.6	49.0	49.6	49.2	50.3	52.0	52.5	53.1
	2005	50.6											
% of money supply	2004	275.3	281.5	289.1	295.8	288.9	290.8	287.9	287.6	292.5	304.6	308.5	317.2
	2005	283.2											
including net assets (BYR bn)	2004	10,585.5	10,440.6	11,021.8	11,539.7	11,652.7	11,926.7	12,348.9	12,627.8	13,151.0	13,959.8	14,263.3	14,558.4
	2005	15,421.5											
% of GDP	2004	28.9	27.9	28.8	29.5	29.1	29.1	29.3	29.2	29.5	30.4	30.2	30.1
	2005	31.2											
% of money supply	2004	172.6	172.0	177.6	178.1	172.9	172.6	170.2	170.6	171.5	177.8	177.4	179.8
	2005	174.5											
Capital of the banking system													
Amount (BYR bn)	2004	2,047.3	2,079.3	2,155.7	2,205.3	2,321.7	2,338.5	2,369.8	2,389.0	2,400.4	2,447.4	2,448.1	2,574.4
	2005	2,895.6											
% of GDP	2004	5.6	5.6	5.6	5.6	5.8	5.7	5.6	5.5	5.4	5.3	5.2	5.3
	2005	5.9											
% of assets	2004	14.1	13.9	14.0	13.8	14.1	13.7	13.5	13.2	12.9	12.7	12.3	12.6
	2005	13.7											

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															
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	48.10	48.10	47.49	46.24	45.73	45.84	45.13	
		2005	44.54													
16	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	3.57	3.52	3.49	4.38	4.63	4.46	
		2005	4.48													
17	Number of banks with credit risks exceeding 25% (for insiders – 15%) of own capital	2004	16	9	10	9	11	10	9	9	10	7	12	10	14	
		2005	14													
18	Risk-weighted assets / net assets ratio, %	2004	66.93	66.64	66.32	65.92	66.75	67.36	68.13	68.13	68.86	68.41	68.42	69.47	69.01	
		2005	67.09													
Incomes and Profits																
19	Return on assets (ROA), %	2004	1.56	0.12	0.24	0.31	0.44	0.54	0.66	0.66	0.82	0.94	1.09	1.22	1.37	
		2005	1.45													
20	Return on equity (ROE), %	2004	8.40	0.62	1.22	1.61	2.24	2.73	3.41	3.41	4.24	4.88	5.73	6.49	7.30	
		2005	7.75													
21	Interest margin / gross incomes, %	2004	29.00	26.81	28.69	27.93	27.91	27.23	27.29	27.29	26.63	26.55	26.38	26.43	26.31	
		2005	26.35													
22	Non-interest expenditures / gross incomes, %	2004	56.86	56.01	56.79	57.68	58.05	58.10	58.31	58.31	59.16	59.41	59.37	59.13	58.81	
		2005	59.20													
Liquidity																
23	Liquid assets / total assets rate, %	2004	29.12	28.48	30.61	31.78	29.68	29.10	27.61	27.61	27.55	27.64	27.84	26.58	28.64	
		2005	27.66													

Table 13 (continued)

Macroprudential Indicators of Belarusian Banking Sector Activities

№	Description	Years																
		1	2	3	4	5	6	7	8	9	10	11	12	13				
A	B																	
24	Actual liquidity / required liquidity ratio (short-term liquidity)	2004 2005	1.19 0.97	1.16 1.23	1.18 1.18	1.23 1.23	1.18 1.19	1.02 1.02	1.07 1.07	0.98 0.98	0.93 0.93	0.89 0.89	0.85 0.85					
25	Demand assets / demand liabilities (instantaneous liquidity) ratio, %	2004 2005	55.54 64.88	61.49 73.24	73.24 73.24	69.02 73.57	57.87 55.90	53.43 53.43	55.56 55.56	54.51 54.51	51.13 51.13	55.69 55.69						
26	Current assets / current liabilities (current liquidity) ratio, %	2004 2005	60.85 63.03	64.99 68.18	69.41 68.18	63.99 62.21	57.75 57.75	63.68 63.68	60.72 60.72	60.76 60.76	61.06 61.06	59.91 59.91						
27	Clients' deposits / clients' credit debt ratio, %	2004 2005	61.51 63.65	63.72 63.72	64.85 64.85	64.23 64.23	62.51 62.51	60.96 60.96	61.14 61.14	59.59 59.59	59.56 59.56	59.88 59.88						
Indicators of Management Quality																		
28	Gross incomes / gross losses, %	2004 2005	108.20 108.68	108.57 108.57	108.54 108.54	107.41 107.41	107.75 107.62	107.94 107.94	108.29 108.29	108.33 108.33	108.69 108.69	108.84 108.84	109.07 109.07					
29	Staff costs / non-interest expenditures, %	2004 2005		36.29 36.29	33.32 33.32	30.38 30.38	29.16 29.07	28.70 28.70	27.49 27.49	27.15 27.15	26.64 26.64	26.58 26.58	26.53 26.53					
30	Gross incomes per worker on payroll, on average, BYR million	2004 2005	39.08 49.89	3.63 3.63	7.29 7.29	11.12 11.12	15.06 18.91	22.87 22.87	27.39 27.39	31.57 31.57	36.19 36.19	40.71 40.71	45.11 45.11					

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

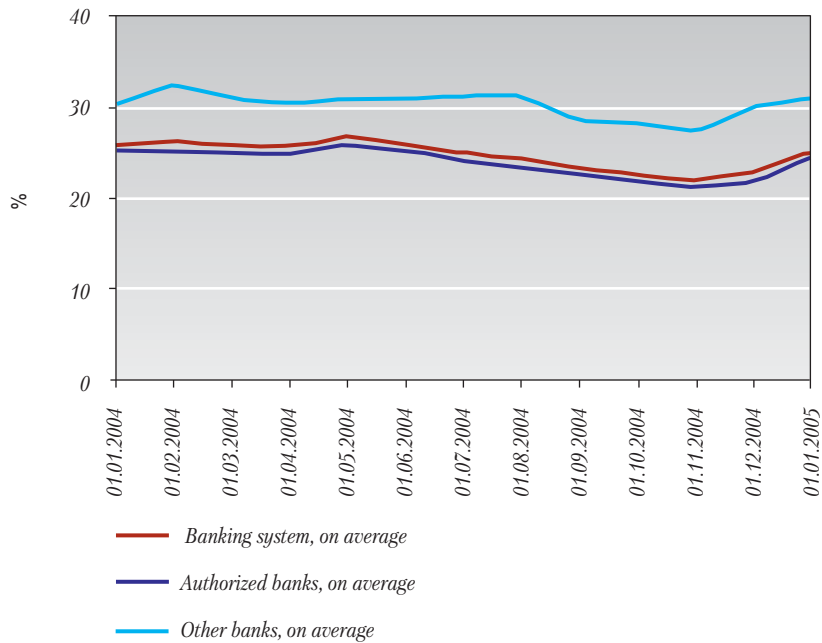


Diagram 2. Dynamics of Own Capital and Funds Attracted from Natural Persons in the Banking System. January 2004 – December 2004

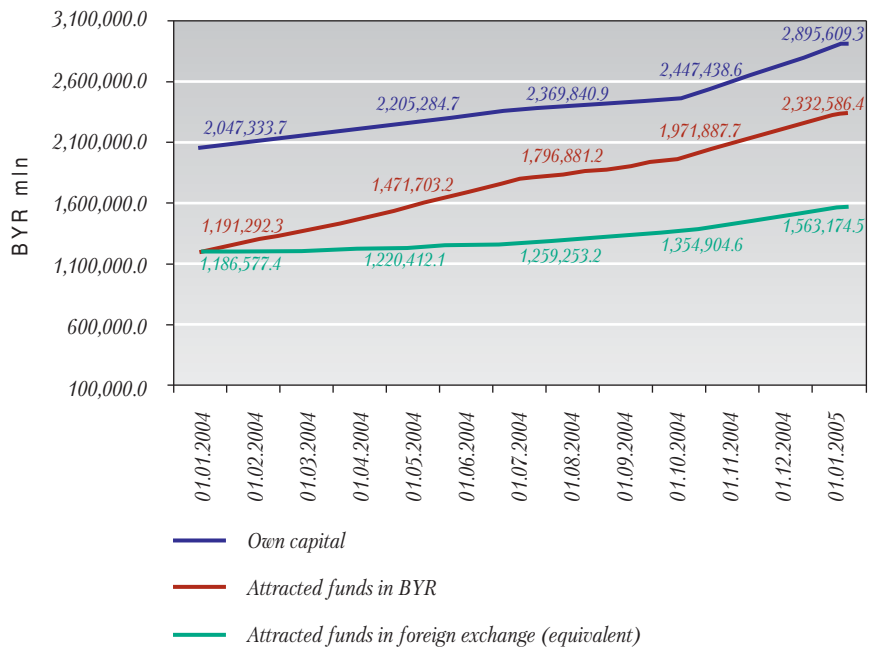


Diagram 3. Dynamics of Natural Persons' Deposits.
January 2004 – December 2004

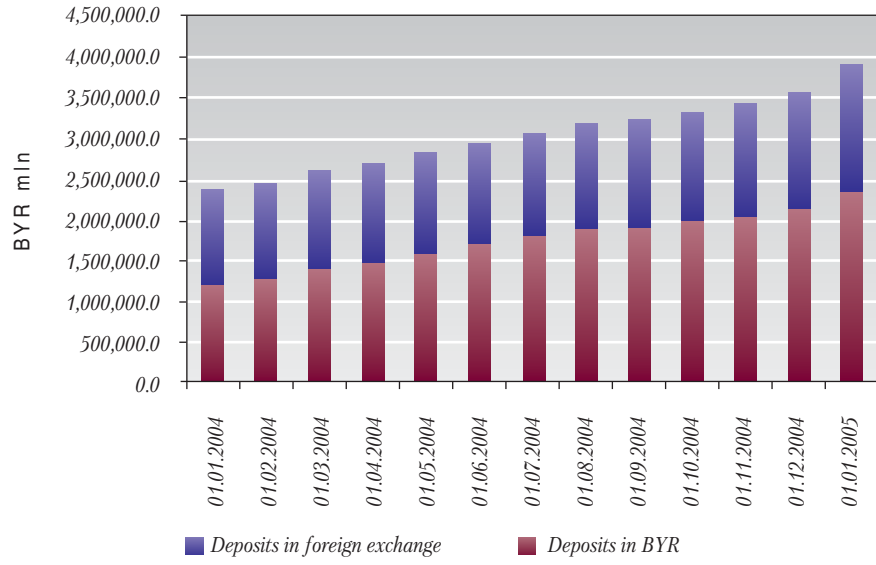


Diagram 4. Fixed and Additional Capital of the Banking System.
January 2004 – December 2004

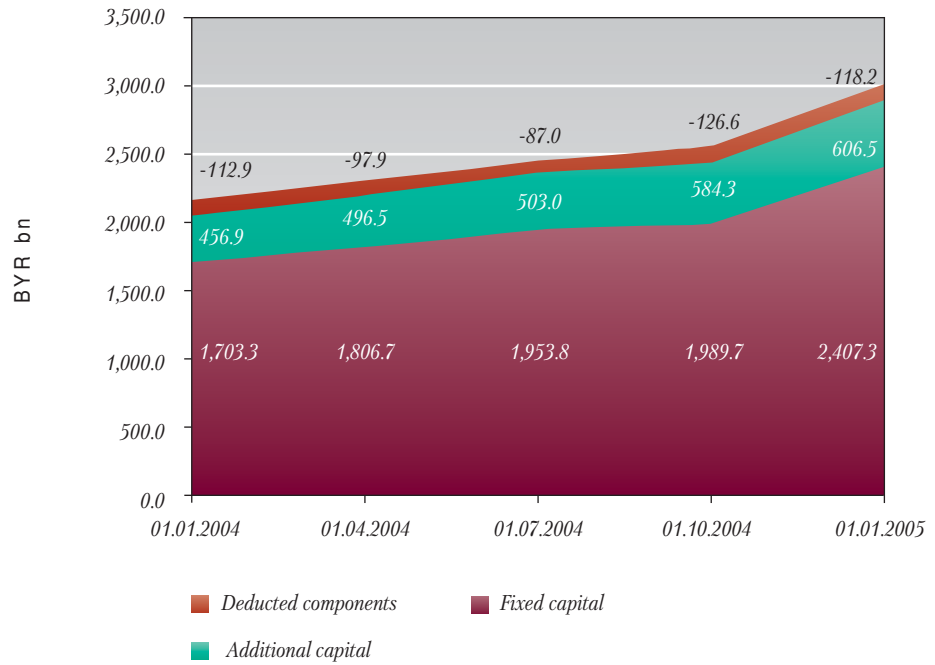


Diagram 5. Structure of Banks' Liabilities. January 2004 – December 2004, %

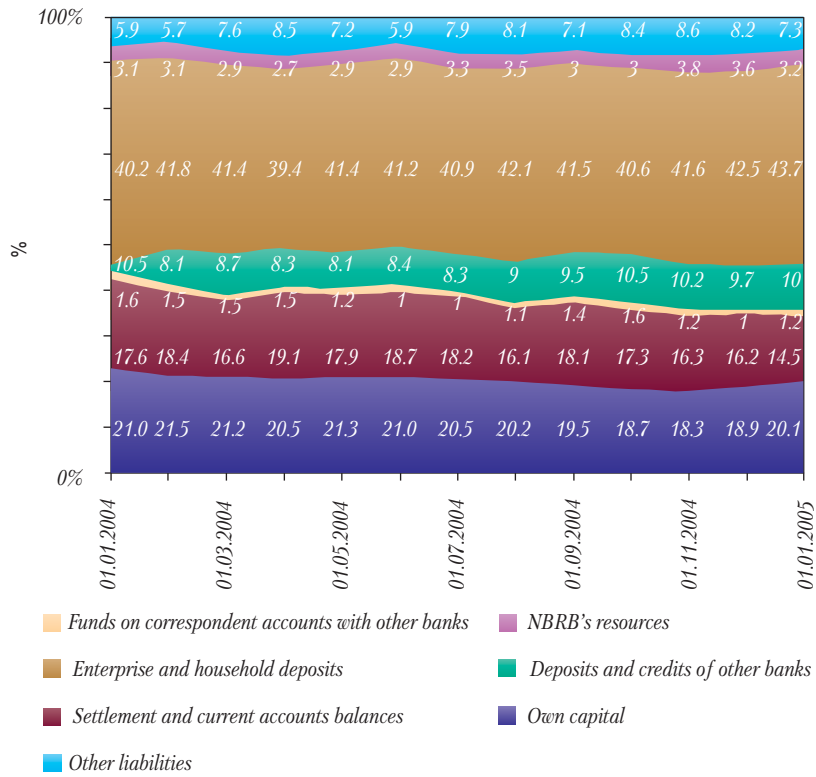


Diagram 6. Banks' Assets Structure. January 2004 – December 2004, %

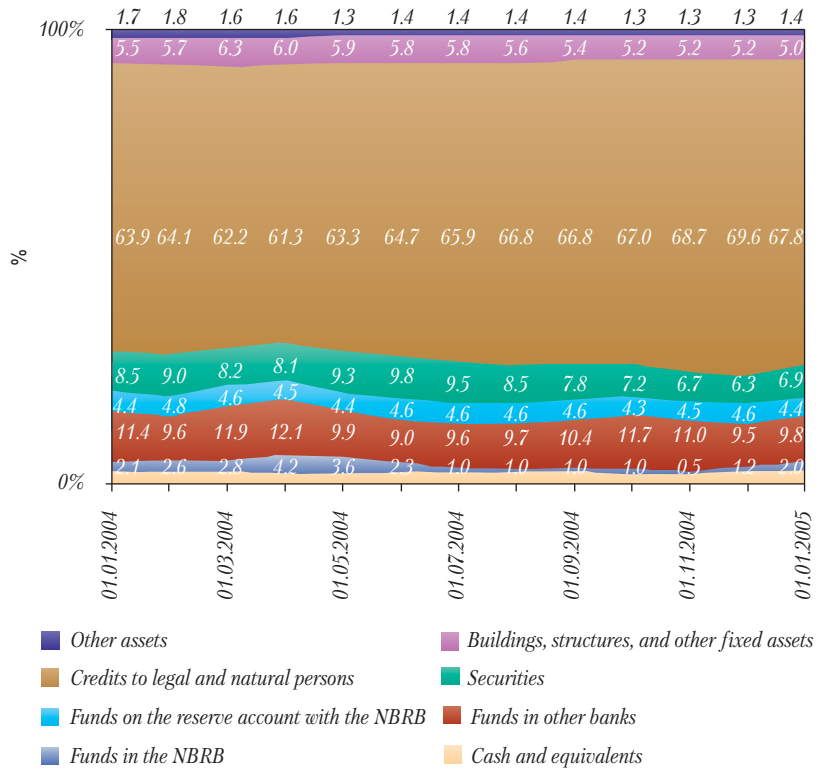


Diagram 7. Arrears of Banks' Short-term Credits to Sectors of the Economy.
January 2002 – December 2004

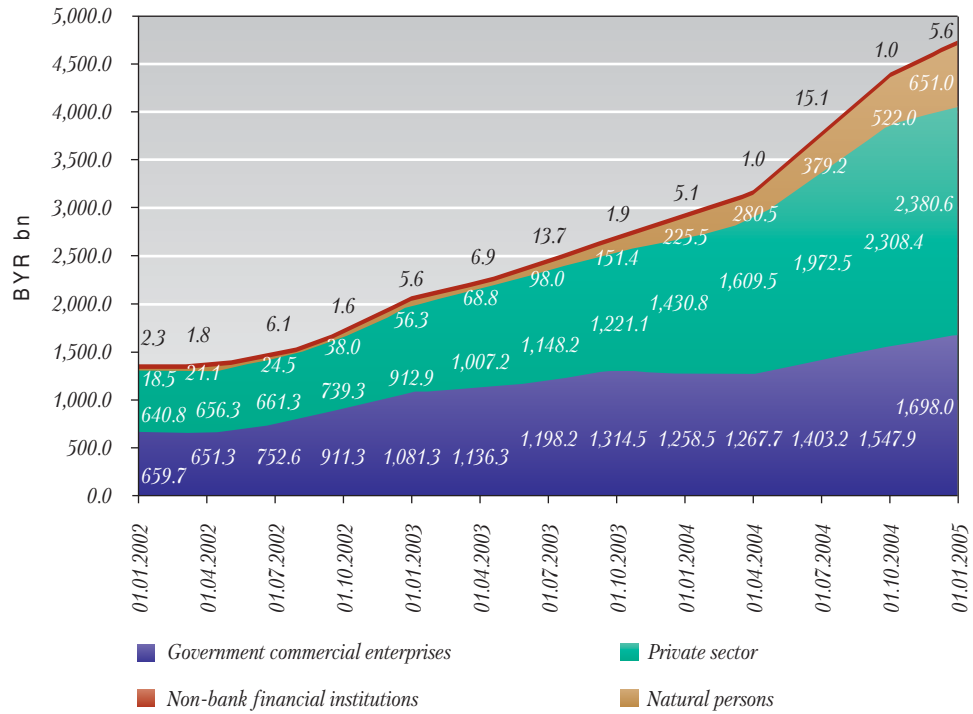


Diagram 8. Arrears of Long-term Credits Granted by Banks to Sectors of the Economy.
January 2002 – December 2004

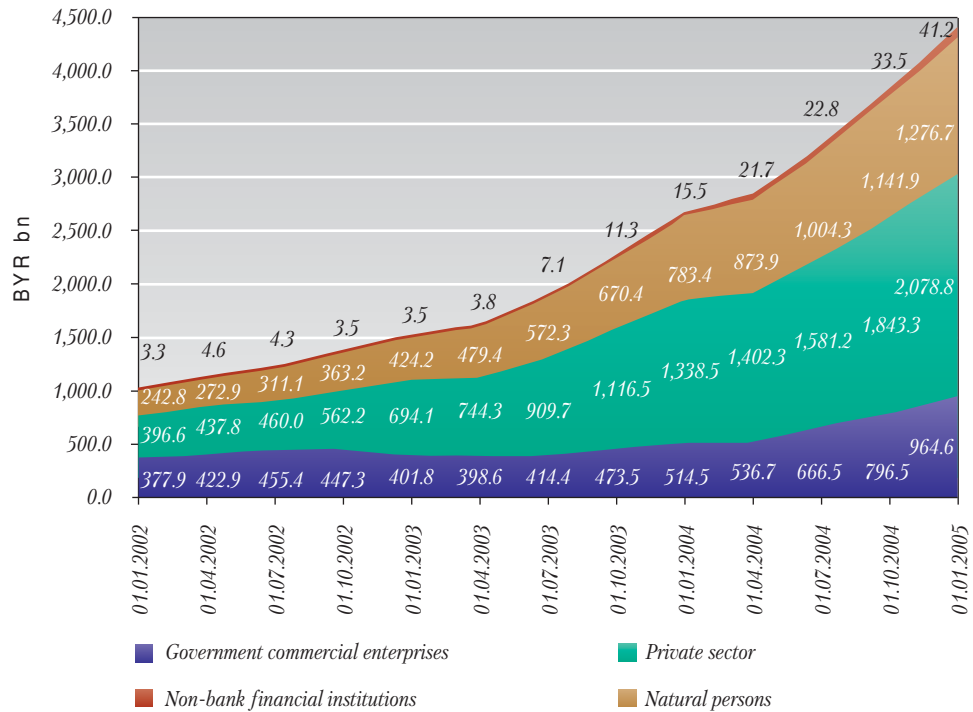


Diagram 9. Distribution of Banks' Credits by Types of Borrowers' Activities (%).
January 2002 – December 2004

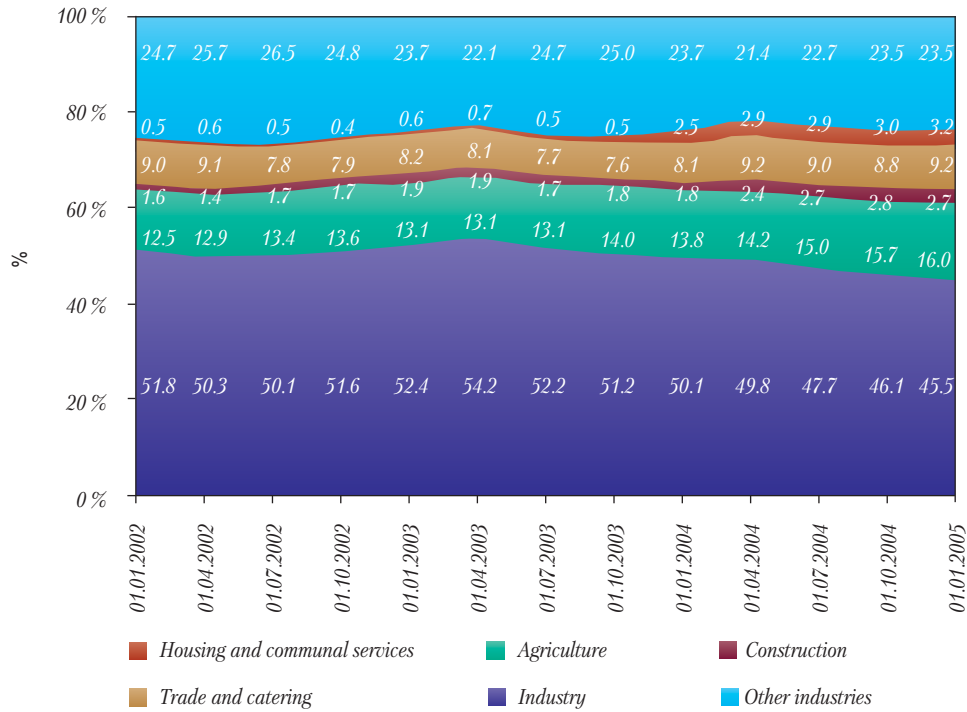


Diagram 10. Dynamics of Banks' Problem Debt by Sectors of the Economy.
January 2002 – December 2004

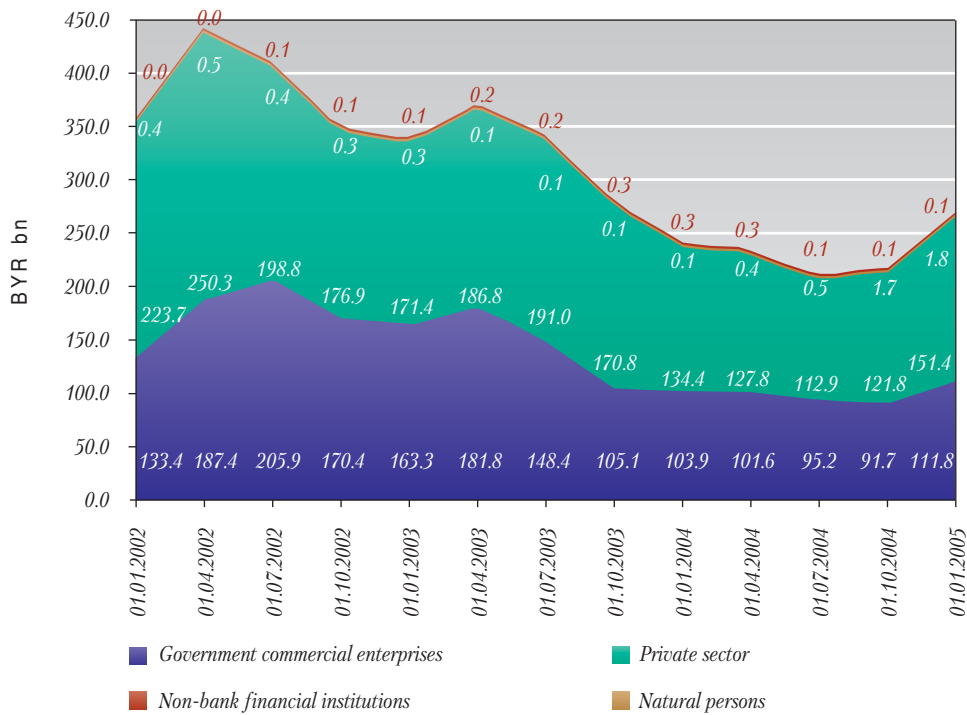


Diagram 11. Dynamics of Clients' and Banks' Problem Credits, Problem Credits on Off-balance Accounts and Clients' Arrears of Interest
January 2004 – December 2004

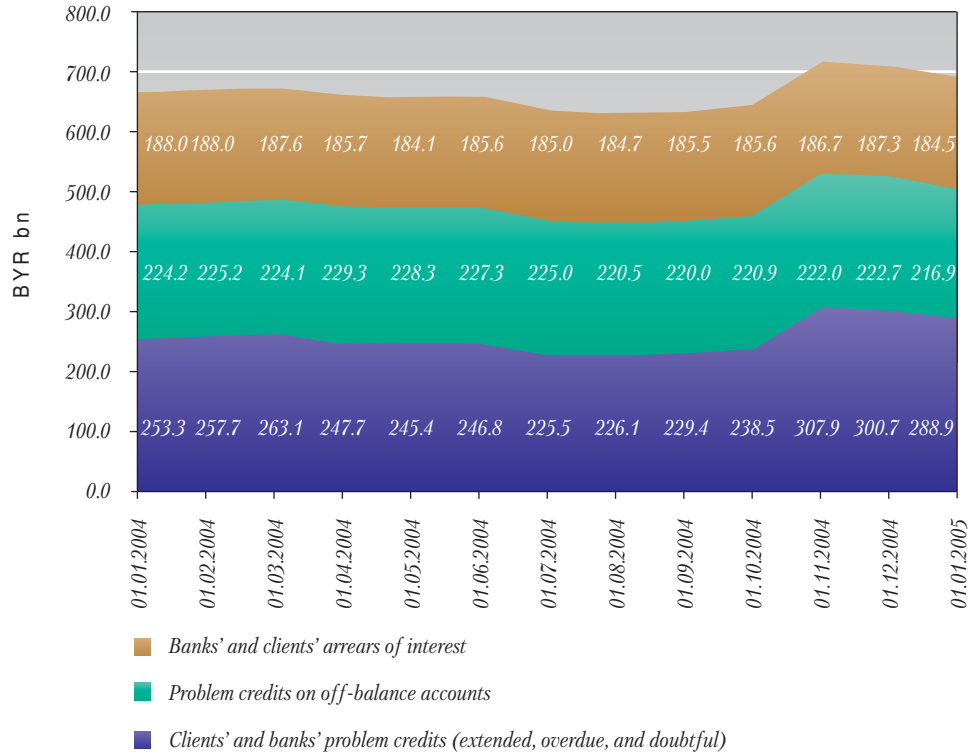
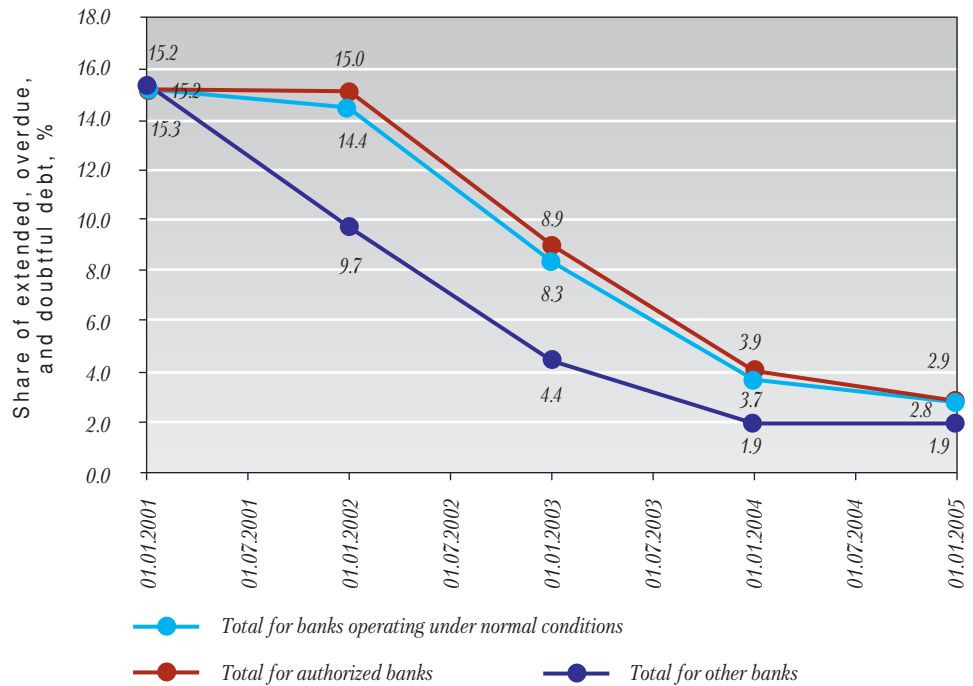


Diagram 12. Dynamics of Extended, Overdue, and Doubtful Debt in Clients' and Banks' Credit Debt in 2001 – 2004



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