National Bank of the Republic of Belarus

Report on the Development of the Republic of Belarus Banking Sector and Banking Supervision in 2007

Contents

Introduction

The Report on the Development of the Republic of Belarus Banking Sector and Banking Supervision in 2007 (hereinafter–the "Report")[1] has been prepared with a view to enhancing information transparency and efficiency of the banking sector as well as supervision over it.

This Report will allow Belarusian and international community (including prospective investors and customers) to get a better idea of the state of and main trends in the banking sector and banking supervision development in 2007, conditions and major factors affecting the performance of the domestic banking sector, as well as the main operation risks accumulated by the banking sector and methods and ways of mitigating such risks by a supervisory authority.

The main goals of Belarusian banking sector development in 2007 were as follows: to enhance the sector's stability and efficiency, to expand its financial potential, to develop competitive advantages, to enhance investment attractiveness, and to increase the quantity and improve the quality of banking operations and services.

The attainment of these goals was facilitated by increasing the banks' capitalization, improving risk management and internal control systems and enhancing the efficiency thereof, expanding volumes of the banks' operations, adopting international standards of doing banking business as well as implementing new types of banking products and technologies, and improving the quality of interaction with customers.

The Report describes macroeconomic conditions and institutional characteristics of banking sector development as well as the efficiency of the banks' functioning and also discloses the main strategic directions of banking sector development. It gives an assessment of the progress in bringing prudential requirements and supervisory procedures closer to the internationally recognized standards as well as current state of banking supervision and shows prospects and directions of improvement thereof as well as interaction with international financial institutions and supervisory authorities of other countries.

The Report is posted on the website of the National Bank of the Republic of Belarus at http://www.nbrb.by/

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1. Development of the Republic of Belarus banking sector

1.1. Macroeconomic environment of banking sector development

Macroeconomic trends that emerged in 2006 continued, in large part, into 2007.

The macroeconomic situation was characterized by the continuation of economic growth, the increase in the households' real money income and volumes of foreign trade, and the maintenance of a fairly high level of business and investment activity in the majority of economic sectors, stability of public finance, and higher growth rates of revenues and expenditure of the consolidated budget compared with those of GDP.

At the same time, deteriorating conditions of trade with the Russian Federation, such as a substantial rise in energy import prices, changes in the conditions of oil imports and exports of oil products, and restrictions on imports of certain Belarusian commodities, were in large measure responsible for a growing adverse balance of trade and changes in the main characteristics of the balance of payments of the Republic of Belarus. This had a negative effect on the foreign exchange market and financial health of organizations, accelerated inflationary processes, and slowed the rates of economic growth.

Economic development. In 2007, GDP in current prices amounted to 96.1 trillion Belarusian rubles, an 8.2% increase in comparable prices on a year earlier. For the most part, the increase in GDP was due to the growing domestic consumer and investment demand.

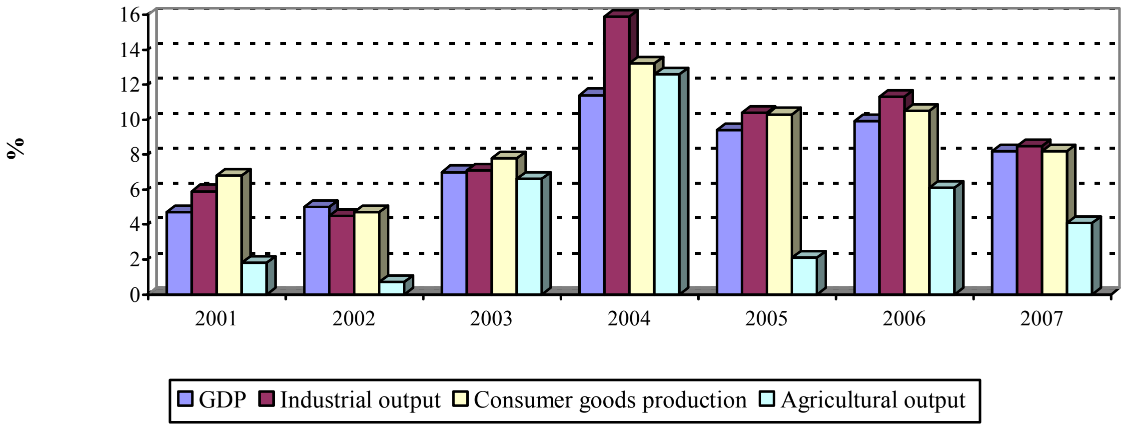
The share of industry's added value in GDP was 26.7%, agriculture 7.4%, construction 8.5%, transportation and communication 8.6%, and trade and catering 10.2%.

In 2007, industrial output grew in comparable prices by 8.5% and production of consumer goods by 8.2%, of which food products by 4.2% and non-food products by 11.7% (figure 1).

Agricultural output rose by 4.1% compared with 2006, including in agricultural organizations and peasant holdings (farms) by 9%.

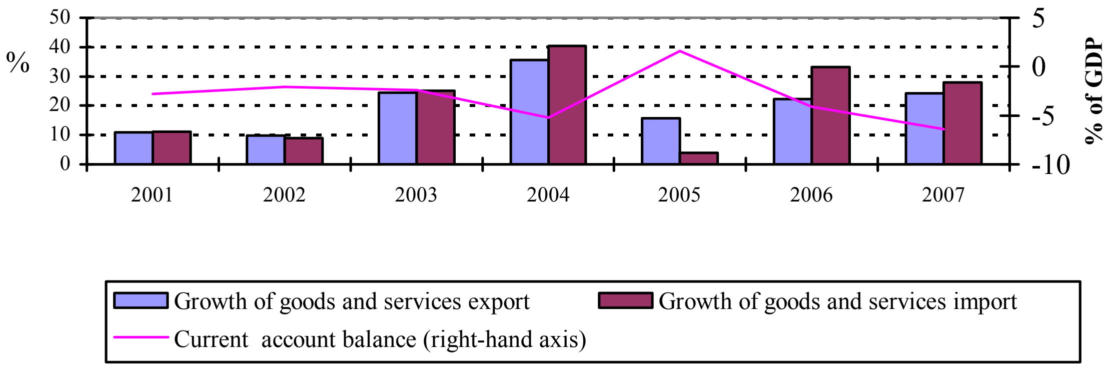
Foreign trade. According to the balance of payments of the Republic of Belarus, export of goods and services in the whole of 2007 amounted to USD27.6 billion and import of goods and services to USD30.4 billion, a 24.3% and 27.9% increase respectively compared with 2006. As a consequence, the current account deficit in 2007 stood at USD2.9 billion compared with that of USD1.4 billion in 2006 (figure 2).

Figure 1. Economic Growth in the Republic of Belarus



The current account deficit was financed chiefly at the expense of capital and financial resources inflow, totaling USD5.5 billion. Operations involving direct investments, whose volume reached USD1.8 billion, contributed to the considerable growth of the financial resources inflow. The net inflow of other investments amounted to USD3.7 billion, of which commercial (trade) credits to USD0.8 billion and loans to USD3.6 billion.

Figure 2. Individual Indicators of the Balance of Payments



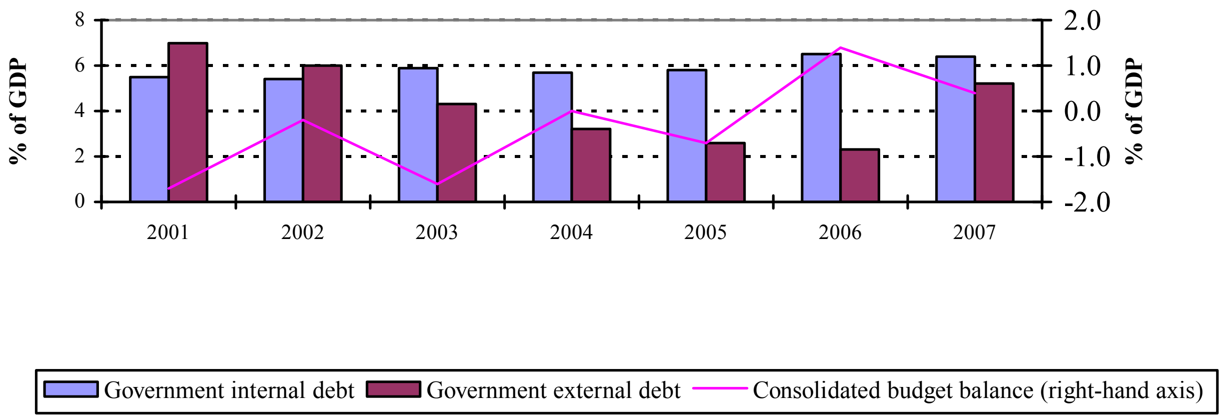
On the whole, the total balance of payments in 2007 was positive, amounting to USD2.8 billion, whereas in 2006 it experienced a deficit of USD1.4 billion.

In 2007, gold and foreign exchange reserves of the Republic of Belarus increased threefold, amounting as at January 1, 2008 to USD4.2 billion, or 1.65 months of imported goods and services compared with 0.7 months of imports as at January 1, 2007.

Public finances. Consolidated budget surplus was 422.1 billion Belarusian rubles, or 0.4% of GDP compared with 1.1 trillion Belarusian rubles, or 1.4% of GDP in 2006 (figure 3).

Government internal debt in 2007 grew by 1 trillion Belarusian rubles, or by 18.7%, amounting, at the beginning of 2008, to 6.1 trillion Belarusian rubles, or 6.4% of GDP. Government external debt (save interest payment) amounted, as at January 1, 2008, to USD2.3 billion, up by USD1.5 compared with early 2007, as a result of the attraction of the long-term credit from the Government of the Russian Federation.

Figure 3. Public Finances Performance



On the whole, despite an increase in external debt its relative level (the ratio of Government external debt to GDP amounted, at the beginning of 2008, to 5.2%) is indicative of a moderate increase in external liabilities.

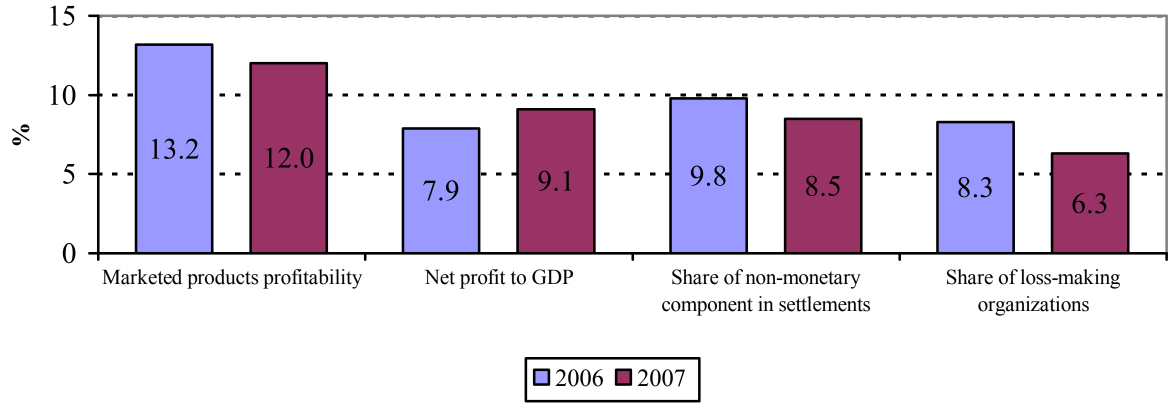
Financial performance of organizations. In 2007, the financial condition of organizations was characterized by both positive trends (the growth of real volumes of sales and the share of proceeds paid for with money, the reduction in the share of loss-making enterprises, and the increase in the number of enterprises with higher profitability) and negative processes (the reduction in the profitability level, the growth of industrial output in stock, and the acceleration of the growth rates of overdue accounts payable and overdue accounts receivable).

Proceeds from the sale of goods, products, works, and services of organizations in the whole of 2007 amounted to 203.7 trillion Belarusian rubles in current prices, a 28% increase compared with 2006, with consumer prices growing by 8.4% over the same period. Paid proceeds from the sale of goods, products, works, and services stood at 196.7 trillion Belarusian rubles in current prices for 2007, or 96.6% of total proceeds (96.7% in 2006).

In 2007, finished goods inventories of industrial enterprises grew in current prices by 650 billion Belarusian rubles, amounting to 53.0% of the monthly average output compared with 53.4% in 2006. The main reasons for the increase in the stock of finished goods were the rise in the output which was not supported by the corresponding growth in demand, the competitive weakness of individual domestic products, as well as failure to supply some goods to Russia in the first half of 2007.

Profit from the sale of goods, products, works, and services in 2007 amounted to 14.3 trillion Belarusian rubles, a 15.1% increase compared with 2006. As a share of GDP it fell, compared with 2006, from 15.6% to 14.9%. Net profit rose by 1.2 trillion Belarusian rubles, amounting to 9.1 trillion Belarusian rubles (figure 4). In 2007, profitability of marketed products, works, and services stood at 12 % against 13.2% in 2006 and sales profitability was 7% against 7.8% respectively.

Figure 4. Financial Performance of Organizations



The share of loss-making organizations (as a percentage of the total number of organizations) in the whole of 2007 was 6.3%, whilst in 2006 it totaled 8.3%.

As at January 1, 2008, total arrears amounted to 4.7 trillion Belarusian rubles, a 4.4% increase compared with January 1, 2007. Overdue accounts payable were responsible for 90.8% of total arrears (91.3% as at January 1, 2007).

At the beginning of 2008, overdue accounts payable grew by 154.6 billion Belarusian rubles compared with the beginning of 2007, or by 3.8%, and overdue accounts receivable by 279.5 billion Belarusian rubles, or by 7.8% respectively. As at January 1, 2008, overdue accounts payable exceeded overdue accounts receivable by 9.3%.

The ratio of overdue accounts payable to the monthly average proceeds from the sale of products in 2007 reduced from 30.8% to 25.0% and overdue accounts receivable from 27.2% to 22.9%. The structure of total arrears improved. The share of overdue accounts payable in the overall volume dropped by 2.5 percentage points, amounting, at the beginning of 2008, to 13.3%, and the share of overdue accounts receivable by 3.6 percentage points and to 15.8% respectively.

The households' income and expenditure. In 2007, money income of the households amounted to 59 trillion Belarusian rubles, a 24.4% increase compared with 2006. As a result, real money income (adjusted for the CPI) grew by 14.7% and real disposable money income (less taxes and fees) by 14.9%.

In 2007, the share of the households' money income in GDP amounted to 61.4% compared with 59.8% in the previous year.

The households' per capita money income was 506.7 thousand Belarusian rubles a month, 1.8 times the minimum consumer budget and 2.8 times the subsistence wage.

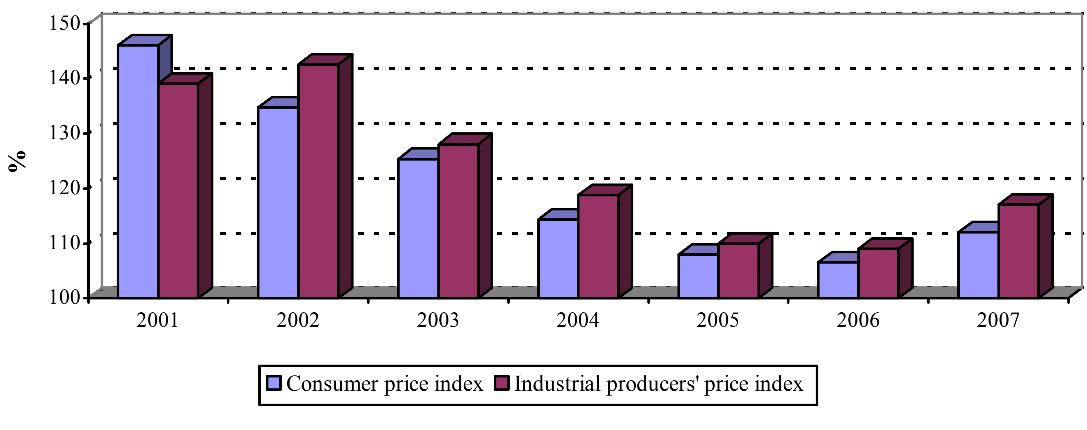
In 2007, calculated nominal monthly average wages were 701.1 thousand Belarusian rubles, increasing by 18.7% compared with 2006 and by 9.5% in real terms.

The households' cash expenditure and savings amounted to 58.7 trillion Belarusian rubles. Of these, 47.7 trillion Belarusian rubles (80.9% of the total amount of cash expenditure and savings) was used to buy goods and pay for services, 9.1 trillion Belarusian rubles (15.5%) to make mandatory payments and voluntary contributions; deposits and securities saving, including the balance of foreign exchange purchase and sale, amounted to 4.4 trillion Belarusian rubles (7.4%) with the households' arrears of credits growing by 2.5 trillion Belarusian rubles.

In the whole of 2007 the households' propensity to save was 7.9% against 10.1% in 2006. At the same time, the share of bank deposits in foreign exchange grew by 0.9 percentage points (to 2.2%) and the share of funds used to buy foreign exchange fell by 1.7 percentage points (to 2.7%), the share of deposits in the national currency by 1 percentage point (to 2.5%), and currency in the hands of the households by 0.5 percentage points (to 0.4%).

Inflation. In 2007, inflation in the consumer market stood at 12.1%, or 1% in average monthly terms, against similar indicators for 2006 – 6.6% and 0.5 % a month respectively. Food prices edged up by 15.9% compared with 6.5% in 2006, non-food prices by 5.9% (by 4.4% on a year ago), and tariffs for paid services by 10.5% (by 9.4% on a year ago) (figure 5).

Figure 5. Consolidated Price Indices in the Republic of Belarus



The increase in the total index of consumer prices by 68.6% in 2007 was due to growing food prices (by 51.5% in 2006), by 12.4% due to growing non-food prices (by 18.2% in 2006), and by 19% due to growing tariffs for paid services (by 30.3% in 2006).

Industrial producers' prices rose in 2007 by 17.1% (by 9% on a year ago), including an increase in prices for capital equipment by 5.8%, for intermediate goods by 21.4%, and for consumer goods by 12.7%.

1.2. Key trends in monetary sphere

The following major processes were characteristic of the overall performance of the monetary sphere in 2007:
- the conditions of the domestic foreign exchange market were determined by the state of foreign trade balance and the balance of payments with the nominal and real effective exchange rate of the Belarusian ruble declining versus the currencies of the main trade partners of the Republic of Belarus at a rapid pace;
- the economy's de-dollarization process which took place in previous years resulting from changes in the households' and economic entities' preferences in terms of both saving and borrowing was reversed;
- the real cost of borrowing fell as inflationary processes accelerated in 2007 with the real profitability of savings being negative; and
- the high level of the households' and economic entities' demand for credits remained unchanged, first and foremost for borrowed funds in foreign currency.

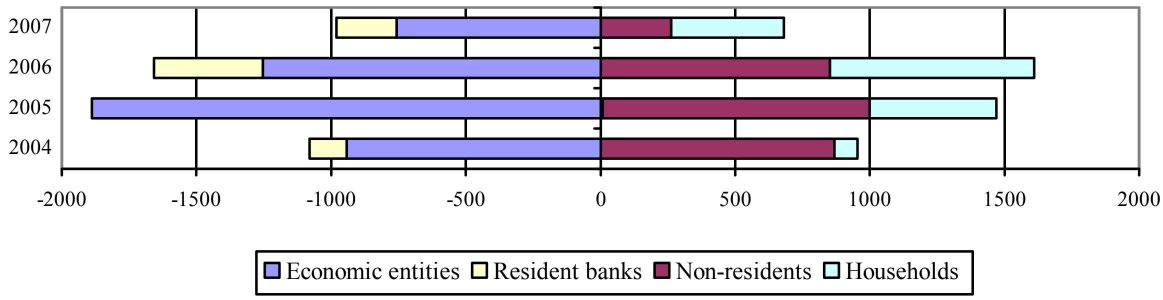
Foreign exchange market. In 2007, transactions in all foreign exchange market segments resulted in net supply of foreign exchange totaling USD301 million against USD47 million in 2006 (figure 6).

At the same time, net supply of foreign exchange on the part of resident economic entities continued to fall–from USD1,254 million in 2006 to USD757 million in 2007.

Net demand for foreign exchange on the part of the general public dropped to USD418 million, whilst in 2006 it amounted to USD751 million, and on the part of non-residents from USD852 million to USD263 million.

Exchange rate. In 2007, the National Bank's exchange rate policy was aimed, above all, at ensuring stability of the Belarusian ruble exchange rate vis-à-vis the US dollar. The Belarusian ruble official exchange rate against the US dollar declined by 0.5% and stood, as at January 1, 2008, at 2,150 Belarusian rubles per US dollar.

Figure 6. Balance of Operations of Foreign Exchange Market Participants



The US dollar devaluation vis-à-vis the major world currencies resulted in the Belarusian ruble depreciation against the euro and the Russian ruble. The Belarusian ruble official exchange rate declined against the euro by 11.8%, 1 euro buying, as at January 1, 2008, 3,149 Belarusian rubles and against the Russian ruble by 8%, 1 Russian ruble buying 87.61 Belarusian rubles.

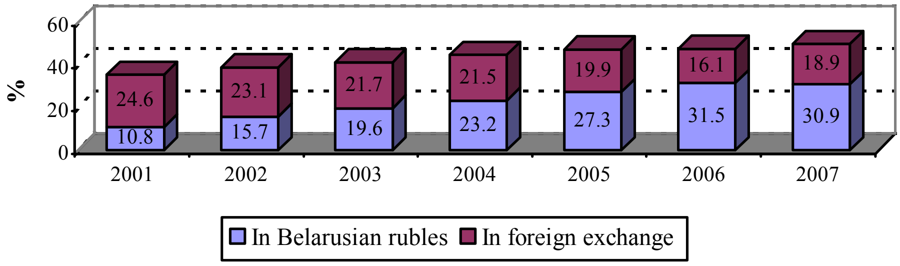
Such change in the Belarusian ruble exchange rates was conducive to preserving positive price conditions with a view to strengthening the competitiveness of Belarusian goods in the external market. For example, the index of the Belarusian ruble real exchange rate against the Russian ruble computed on the basis of the CPI in 2007 was below the 2006 level by 6.67% and the real effective exchange rate by 5.41%.

Money supply. Broad money in 2007 grew by 35.9%, including in Belarusian rubles by 29.2%, these aggregates for 2006 increasing by 39.3% and 44.4% respectively. As a consequence, the share of the ruble money supply in total broad money declined in 2007 by 3.4 percentage points, amounting, as at January 1, 2008, to 67.5%, a rise of 2.5 percentage points and 70.9% on a year ago respectively.

The trend towards decline in the velocity of money circulation continued into 2007, although less vigorously compared with 2006. In 2007, the velocity of broad money circulation slowed by 6.4% (by 15.9% in 2006) and that of the ruble money supply by 3.8% (by 22.4% in 2006).

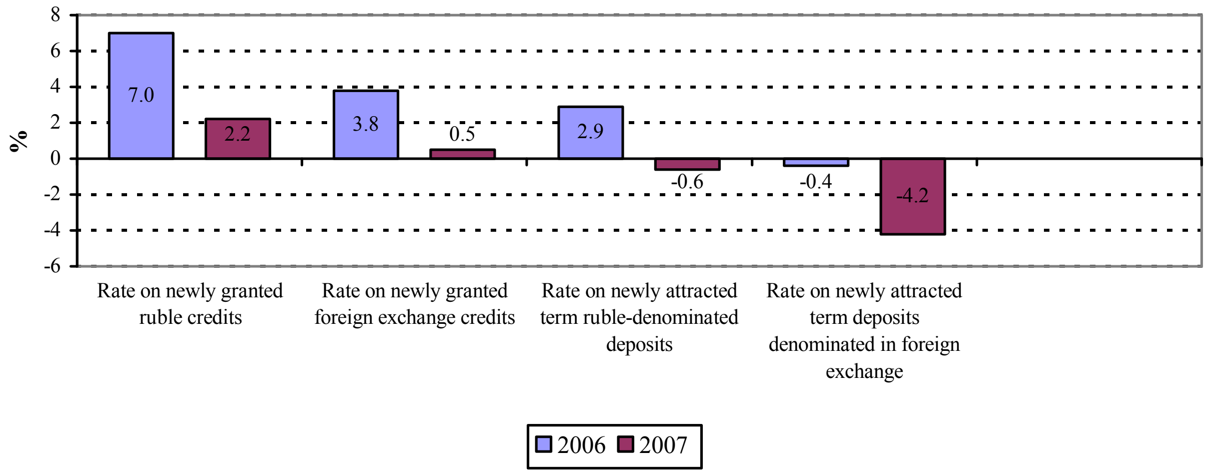
In the broad money structure, term deposits denominated in Belarusian rubles were growing most rapidly–from 16.1% to 18.9%. On the whole, despite the declining share of term deposits in Belarusian rubles by 0.6 percentage points, the share of term monetary aggregates rose to 49.8% (figure 7).

Figure 7. Term Deposits in the Broad Money Structure



Interest rates. In 2007, on average, the interest rate on newly attracted term deposits in Belarusian rubles was 10.9% per annum compared with 9.3% in 2006, increasing by 1.6 percentage points. In real terms, in the whole of 2007, it was minus 0.6% per annum compared with 2.9% per annum in 2006, decreasing by 3.5 percentage points (figure 8).

Figure 8. Average Interest Rates in Real Terms

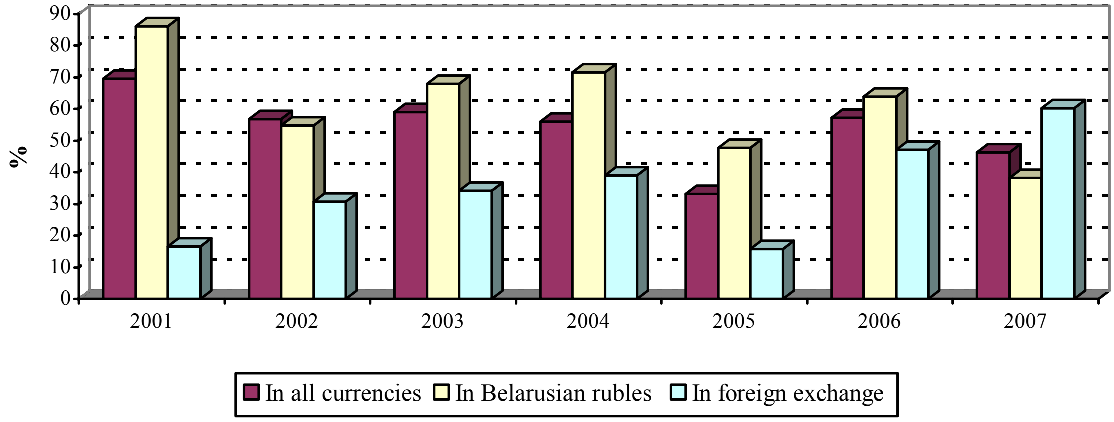


In 2007, the interest rate on newly attracted term deposits in foreign exchange remained, on average, at the 2006 level–6.6% per annum and in real terms minus 4.2% per annum (minus 0.4% per annum in 2006).

In 2007, the average interest rate on the banks' new credits denominated in Belarusian rubles was 13.7% per annum, a 0.3 percentage points increase on a year ago, declining in real terms from 7.0% to 2.2% per annum. The average rate on newly granted credits denominated in foreign exchange was 11.3% per annum (10.9% on a year ago), or 0.5% per annum in real terms (3.8% per annum on a year ago).

Credit arrears. In 2007, demand for credits on the part of the enterprises and households continued to be high, although it declined slightly compared with 2006. The banks' claims on the economy in 2007 edged up by 46.3% against 57.2% on a year ago. Financing in foreign exchange was growing most vigorously–by 60.3%, with claims in Belarusian rubles amounting to 38.3% (figure 9).

Figure 9. Growth of Banks' Claims on the Economy



In 2007, the ratio between the growth rates of the economic entities' credit arrears and those of the households' credit arrears changed. While in 2006 the growth of household lending was outstripping the growth of lending to the economic entities (66.6% and 54.4% respectively), in 2007 household lending grew by 45.8% and lending to the economic entities by 48.0%. As a consequence, the share of credits to natural persons in the banks' credit portfolio amounted, at the beginning of 2008, to 27.5% against 27.8 % at the beginning of 2007.

1.3. Banking regulation

The Banking Code of the Republic of Belarus (as worded in the Law of the Republic of Belarus of July 17, 2006) is the key document establishing the legislative foundation of banking in the Republic of Belarus.

In 2007, work aimed at improving the regulatory and methodological framework of carrying out and regulating banking continued by developing new and amending and modifying current regulatory acts. As part of this work, the regulatory acts of the National Bank were brought into line with the redrafted Banking Code.

1.4. Institutional characteristics of the banking sector

1.4.1. Quantitative and structural characteristics of the banking sector

The banking sector of the Republic of Belarus plays a dominant role in the market of financial services. It is represented exclusively by the universal banks engaging in a wide range of banking operations intended to provide services to enterprises and households.

As at January 1, 2008, the banking sector of the Republic of Belarus comprised 27 operating banks and 365 branches. In 2007, 56 branches were closed, the main causes being the streamlining of the branch network and closure of loss-making branches as well as the adoption of sophisticated technologies for managing the organizational units of the banks.

The closure of branches was accompanied by the increase in the number of other organizational units of the banks, such as cash settlement centers, banking services centers, exchange offices, foreign exchange desks, etc.

Institutional development of the banking sector in 2007 was characterized by:
- the increasing share of non-residents in the aggregate authorized capital of the banks from 7.8% to 9.8%. The number of banks controlled by foreign capital dropped from 18 to 16, whilst the share of these banks in the banking sector's assets increased from 14.7% to 19.7% and in the aggregate regulatory capital from 13.7% to 16.9%;
- the reducing share of residents of the private form of ownership in the aggregate authorized capital of the banking sector from 4.2% to 3.9%. The number of banks with the prevailing participation in the authorized capital of residents of the private form of ownership fell from 7 to 6, whereas the share of these banks in the banking sector's assets declined from 6.3% to 3.8% and in the aggregate capital from 5.7% to 4.2%; and
- the declining share of Government agencies and state entities in the aggregate authorized capital of the banking sector by 1.7 percentage points (to 86.3%). The number of banks with prevailing participation in their authorized capital of Government agencies and state entities remained unchanged (5), their share in the banking sector's assets decreasing from 79,0% to 76.5% and in the aggregate capital from 80.6% to 78.9%.

1.4.2. Structure of banks' authorized capital

In 2007, the banks' aggregate authorized capital increased by 783.5 billion Belarusian rubles, amounting as at January 1, 2008 to 4,521.5 billion Belarusian rubles, or the equivalent of USD2.1 billion. As at January 1, 2008, the concentration of the authorized capital in four banks in which the share of the State Committee on Property of the Republic of Belarus exceeded 50% of the authorized capital amounted to 84.3%.

1.4.3. State participation in the banking sector

Participation of Government agencies and state entities in the authorized capital of the Belarusian banks is determined by strategic directions of the country's development and by the tasks of lending to the state development programs faced by the banking sector.

As at January 1, 2008, the State Committee on Property of the Republic of Belarus participated in the authorized capital of 10 banks in the total amount of 3,270.5 billion Belarusian rubles (72.3% of the banking sector's authorized capital). The share of the State Committee on Property of the Republic of Belarus in four banks exceeded 50% of their authorized capital: JSSB "Belarusbank", OJSC "Belagroprombank", OJSC "BPS-Bank", and OJSC "Belinvestbank" (hereinafter– "state banks").

In accordance with the edicts of the President of the Republic of Belarus and resolutions of the Council of Ministers of the Republic of Belarus, in the whole of 2007, the state invested 551.8 billion Belarusian rubles in the aforementioned banks' authorized capital.

1.4.4. Foreign capital participation in the banking sector

The investment climate and policy of attraction of foreign investments into the country's economy are set forth in the Investment Code of the Republic of Belarus, the National Program for Attracting Investments into the Economy of the Republic of Belarus for a Period Until 2010, and the policy documents related to the development of the banking sector of the country's economy that provide for the implementation of a complex of measures designed to improve ownership relations legislation, tax and customs legislation, investment and entrepreneurial activities, development of the free economic zones, establishment of an investment infrastructure, and provision of a number of preferences to foreign investors.

2007 saw a greater interest of foreign strategic investors in the banking sector of the Republic of Belarus, spurred up, on the one hand, by the current state policy aimed at promoting this process, and, on the other hand, by the stability and efficiency of the banking system and the national economy.

As at January 1, 2008, foreign capital participated in the authorized capital of 23 out of 27 operating banks, seven of which were wholly-foreign owned while in another two banks residents of the Republic of Belarus owned only one share each. As at January 1, 2008, the share of non-residents in the aggregate authorized capital of the Belarusian banks amounted to 9.8%, the share of Russian capital in the banks' authorized capital being 3.3%. Capital from Austria, Great Britain, Cyprus, Latvia, Switzerland, the Netherlands, Kazakhstan, Libya, the USA, Ukraine, and other countries also participates in the authorized capital of the Belarusian banks.

The most important transactions in 2007 were the sales of:
- the majority holding (nearly 65%) of OJSC "Belvnesheconombank" to the State Corporation "Bank of Development and Foreign Economic Activity "Vnesheconombank" (Russian Federation);

- the majority holding of CJSC “Slavneftebank” to “Bank VTB (OJSC)” (Russian Federation). CJSC “Slavneftebank” was renamed CJSC VTB Bank (Belarus);
- the majority holding of CJSC “Severny Investitsionny Bank” to the company “XIMEX EXECUTIVE LIMITED“ (Great Britain). CJSC “Severny Investitsionny Bank” was renamed CJSC “Credexbank”;
- nearly 100% (99.999%) of shares of CJSC “Atom-Bank” to a strategic investor from Ukraine. CJSC “Atom-Bank” was renamed CJSC “Delta Bank”;
- 83% of shares of OJSC “Mezhdunarodny Reservny Bank” to the “Dogmat” Group; and
- 100% of shares of OJSC “Lorobank” to the Home Credit Group. OJSC “Lorobank” was renamed OJSC “HCBank”.

Besides, the share of OJSC “Gazprom” and JSB “Gazprombank” (OJSC) (the Russian Federation) in the authorized capital of OJSC “Belgazprombank” increased to 85%. A deal between the American “Horizont Capital” Fund and CJSC “Minsky Tranzitny Bank” was concluded.

In 2007, gross foreign investments in the banking sector by means of operations in the primary market of shares amounted to USD65.8 million and EUR15.3 million, in 2006 to USD7.1 million.

As at the end of 2007, there were 8 representative offices of foreign banks in the Republic of Belarus: 3 Latvian, 1 German, 1 Lithuanian, 1 Ukrainian, 1 Russian, and 1 representative office of the Interstate Bank.

1.4.5. Performance of institutional entities promoting banking sector stability

Banking legislation, including the Banking Code of the Republic of Belarus, provides for non-bank financial institutions, which constitute an alternative to the banks, to act, along with the latter, as parties to legal banking relationships. The Banking Code enshrines the status of such institutions and lays a legal groundwork for their operation and regulation on the part of the National Bank. The National Bank has put in place an adequate regulatory framework for the functioning of financial and other institutions providing alternative services.

In line with the Banking Code, for the purpose of guaranteeing the repayment of the funds of natural persons attracted by the banks, different forms of guarantees can be devised and applied in the country.

In 2007, a system of guarantees was in place which was governed by the regulatory acts of the National Bank and included monthly non-repayable contributions of all the banks licensed to attract deposits from natural persons that were accumulated at the National Bank free of charge.

Decree of the President of the Republic of Belarus No. 4 "On Guaranteeing the Safekeeping of Funds of Natural Persons in Foreign Exchange in the Accounts and Deposits with the Banks of the Republic of Belarus" dated April 20, 1998 (hereinafter–"Decree No. 4") stipulates that the state guarantees absolute safety of natural persons' funds in foreign exchange in the accounts and deposits with the banks authorized to serve Government programs, i.e. JSSB "Belarusbank", OJSC "Belagroprombank", OJSC "BPS-Bank", OJSC "Belinvestbank", OJSC "Belvnesheconombank", and "Priorbank" OJSC and the repayment of such funds, including accrued interest thereon, in the currency of the account or deposit, on depositors' first demand. The National Bank ensures, in a prescribed manner, the unconditional fulfillment of obligations to repay the above-mentioned funds to the natural persons in full.

Procedures for the National Bank to ensure the fulfillment of obligations to repay, in full, to natural persons funds in foreign exchange in the accounts and deposits with the authorized banks on their first demand as well as the sources for meeting such obligations were stipulated in the Rules guaranteeing the fulfillment of obligations to repay to natural persons funds in foreign exchange in the accounts and deposits with the authorized banks of the Republic of Belarus, approved by Resolution of the Board of the National Bank of the Republic of Belarus No. 33.14 of December 27, 2000.

The repayment of funds attracted by the banks from natural persons in Belarusian rubles and foreign exchange (except for funds in foreign exchange placed with the banks designated by Decree No. 4) was guaranteed by the Rules guaranteeing the repayment of funds attracted by the banks from natural persons approved by Resolution of the Board of the National Bank of the Republic of Belarus No. 75 dated March 29, 2001. According to these Rules, money from the guarantee fund is used to repay to natural persons funds deposited with the banks in cases where the banks are unable to meet their obligations to natural persons on their own if a bank goes bust. The maximum amount of funds of a natural person in accounts (deposits) with one bank, irrespective of the number of types of accounts and deposits of a given person, subject to repayment from the guarantee fund in case of bankruptcy, is set in the amount equivalent to USD1,000.

The Belarusian Banks Association which is a non-government non-profit organization comprising banks and other institutions whose operation is associated with the functioning of the monetary system actively coordinated the development of the banking sector.

The Association participated in the development and implementation of monetary policy, was directly involved in drafting regulatory acts, worked out proposals on banking regulation and filed them with competent public authorities, arranged and held scientific, practical, and training events relating to monetary policy and banking, assisted in establishing and developing cooperation between the Belarusian banks and foreign financial and credit institutions, and provided members of the Association with legal, organizational, advisory, and other assistance.

In 2007, the National Bank continued to improve its Credit Bureau system designed to receive, store, and furnish to the banks information on credits amounting to no less than the equivalent of USD10,000 and information on meeting obligations under relevant agreements. Resolution of the Board of the National Bank of the Republic of Belarus No. 210 "On Amendments and Modifications to Resolution of the Board of the National Bank of the Republic of Belarus No. 196 dated November 28, 2006 and On Organization of Work Involving Provision of Credit Reports to the Subjects of Credit Histories" dated November 20, 2007 was approved. This Resolution:
- cancels norms that imply reception of credit reports by banks only for the purpose of entering into certain specified agreements;
- extends the period of validity of the credit history subject's approval for obtaining its credit report at the National Bank from one to three months;
- specifies the procedures for amending information in the credit history;
- prohibits the banks from requiring subjects of a credit history to submit their credit reports obtained at the National Bank; and
- introduces a provision that the contract on the provision of information services signed between the National Bank and the user of a credit history is a contract of adhesion.

This Resolution also stipulates procedures for the organization of work on the provision of credit reports to the subjects of credit histories and training of the specialists of the Regional Main Departments of the National Bank of the Republic of Belarus and their branches responsible for the provision of credit reports to the subjects of credit histories.

In 2007, Law of the Republic of Belarus "On Credit Bureau" was drafted, agreed with the relevant Government agencies, and submitted for the approval of the President of the Republic of Belarus.

1.5. Assets and liabilities structure

2007 saw the boosting of confidence in the banking sector on the part of creditors and depositors which showed up in the growth of the banks' financial potential. The amount of liabilities of the banking sector[2] in the period under review increased from 29 trillion Belarusian rubles to 41.7 trillion Belarusian rubles, or by 43.8%.

The main source of resource base expansion were funds attracted from economic entities and natural persons which accounted for 44% of the total growth of the banking sector's liabilities.

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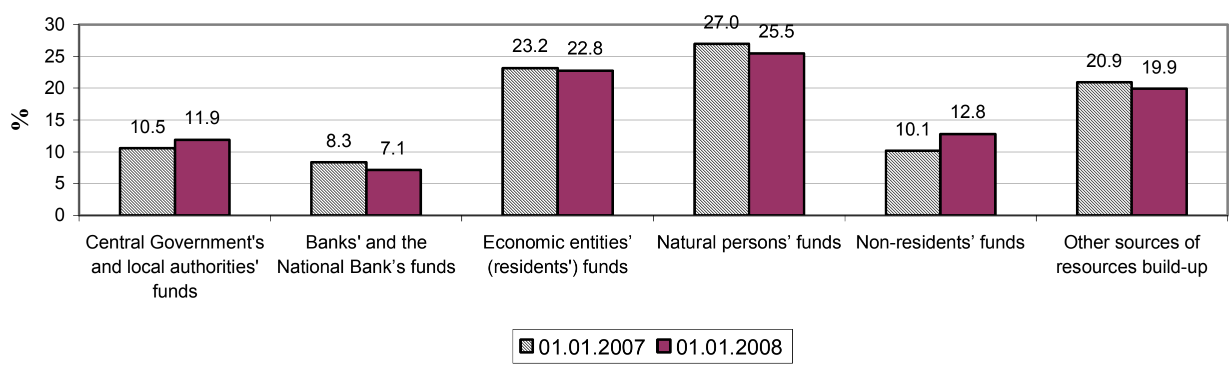
[2] Including banks in the process of liquidation

In 2007, funds of natural persons increased by 2,805.2 billion Belarusian rubles, or by 35.9%, and, as at January 1, 2008, amounted to 10,622 billion Belarusian rubles, or 25.5% of the banking sector's liabilities (figure 10).

Figure 10. Structure of Banks' Liabilities in 2007



In 2007, funds of economic entities (non-bank financial, profit, and non-profit institutions and independent entrepreneurs) increased by 41.2% and, as at January 1, 2008, amounted to 9,516.7 billion Belarusian rubles. The share of economic entities' funds in the total liabilities of the banking sector amounted to 22.8%.

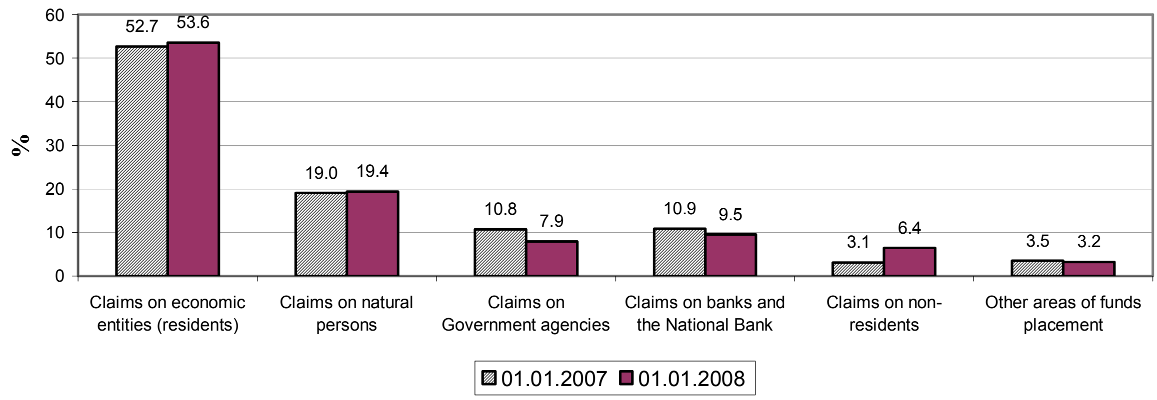
In the structure of attracted resources in the period under review funds attracted from non-residents increased from 2,947.3 billion Belarusian rubles to 5,335.4 billion Belarusian rubles, or by 81%. Their increase accounted for 18.8% of the total increase in the resource base. The share of non-residents' funds amounted to 12.8% of the total amount of the banking sector's liabilities.

The central Government's and local authorities' funds increased by 1,918.9 billion Belarusian rubles and amounted, as at January 1, 2008, to 4,978.5 billion Belarusian rubles. Their share in the structure of the banking sector's liabilities increased from 10.5% to 11.9%.

2007 saw a slight growth in the banks' and the National Bank's funds by 536 billion Belarusian rubles. Their share in the banking sector's resource base decreased from 8.3% to 7.1%.

Growing volumes of credit operations of the banks was the main factor responsible for the growth of the banking sector's assets (the clients' debts on credits and other operations with the assets increased by 9,736.6 billion Belarusian rubles, or by 46.1%).

Figure 11. Structure of Banks' Assets in 2007



Funds placed with residents prevailed in the structure of the banking sector's assets (figure 11). In 2007, these funds increased by 10,621 billion Belarusian rubles, or by 39.2%, and amounted, as at January 1, 2008, to 37,690.7 billion Belarusian rubles. Their share in the banks' total assets amounted to 90.4%.

Claims on the Government agencies increased by 188.2 billion Belarusian rubles, or by 6%, and amounted to 3,312.5 billion Belarusian rubles as at January 1, 2008. The share of claims on the Government agencies in the banks' total assets accounted for 7.9%.

Banks' claims on the economic entities increased by 7,052.5 billion Belarusian rubles, or by 46.1%, and amounted, as at January 1, 2008, to 22,335.9 billion Belarusian rubles. The share of claims on the economic entities in the total assets of the banking sector increased from 52.7% to 53.6%.

Banks' claims on the natural persons increased from 5,499.6 billion Belarusian rubles to 8,075.2 billion Belarusian rubles, or by 46.8%. The share of claims on the natural persons increased from 19% to 19.4%.

In 2007, claims on the National Bank increased by 495 billion Belarusian rubles, or by 21.1%, and amounted to 2,841.1 billion Belarusian rubles as at January 1, 2008. Claims on the banks experienced growth as well – by 309.7 billion Belarusian rubles, or by 37.9%, amounting, as at January 1, 2008, to 1,126 billion Belarusian rubles. As at January 1, 2008, the share of claims on the National Bank and banks in the banks' total assets amounted to 6.8% and 2.7% respectively.

In 2007, funds placed with non-residents of the Republic of Belarus grew by 1,749 billion Belarusian rubles and amounted, as at January 1, 2008, to 2,667.3 billion Belarusian rubles. Their share in the banks' total assets accounted for 6.4%.

1.6. Efficiency of banking sector performance

1.6.1. Financial result

Banking sector performance in 2007 was improving – its total annual profit amounted to 602.1 billion Belarusian rubles, a 1.5 times increase on a year earlier. Only one bank operated at a loss.

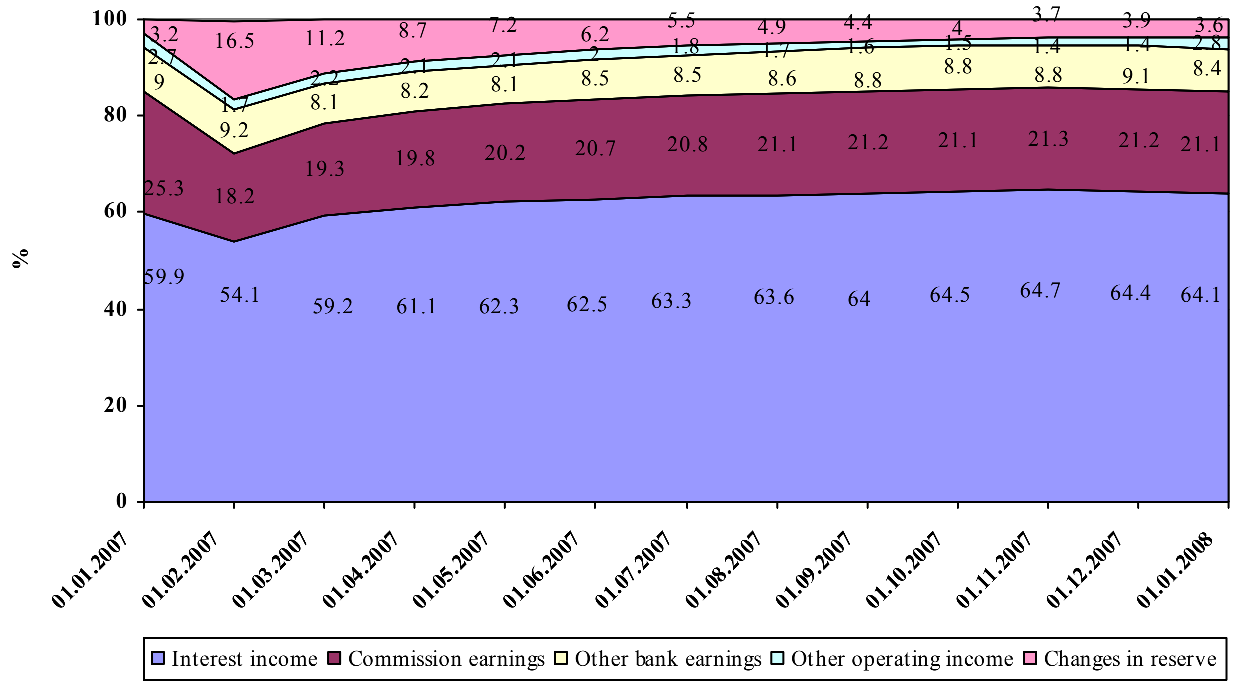
The main factor responsible for the profit growth was a significant increase in the assets operations, above all, those related to the issuance of credits to legal and natural persons (in 2007, the banks' claims on the economy grew by 46.3%).

1.6.2. Income and expenditure structure

Maintenance of macroeconomic stability and rates of the country's economic development, as well as growth of the households' incomes were responsible for the efficient performance by the banking sector of its functions of financial intermediation.

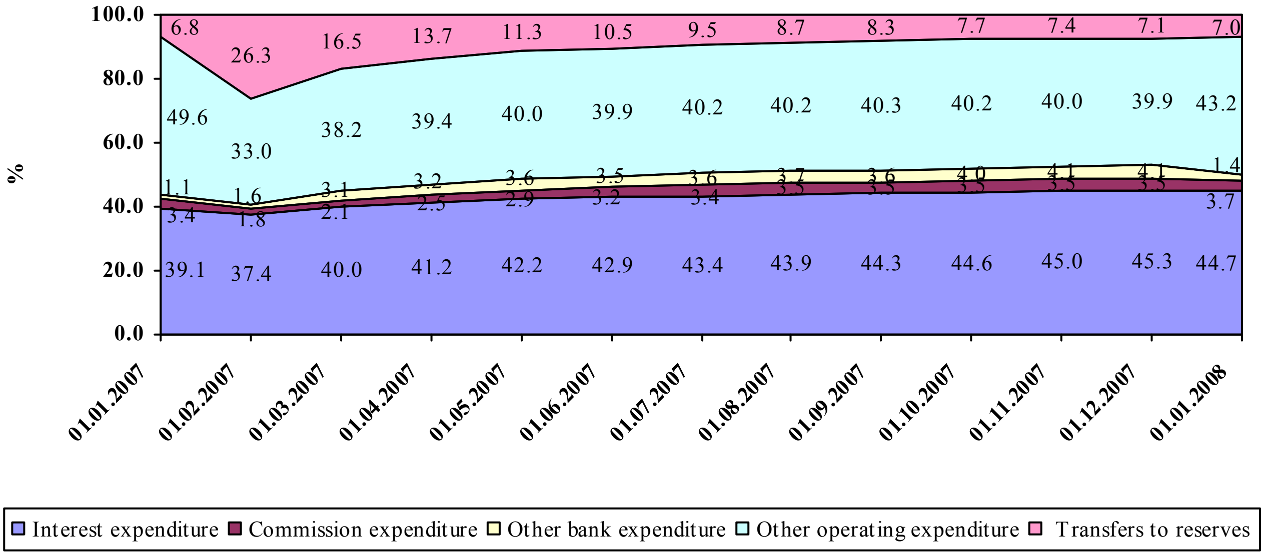
On the whole, the Belarusian banking sector in 2007 did not experience sharp movements in the income and expenditure structure (figures 12, 13).

Figure 12. Income Structure of the Banking Sector in 2007



In the income structure, the share of interest income grew from 59.9% as at January 1, 2007 to 64.1% as at January 1, 2008 (the main share of interest income was obtained due to carrying out credit operations with customers) and operating income increased slightly from 2.7% to 2.8% with a simultaneous decline in the share of commission income from 25.3% to 21.1% and in the share of other bank income (income from the securities and foreign exchange markets) from 9.0% to 8.4%.

Figure 13. Expenditure Structure of the Banking Sector



The share of interest expenditure in the banks' expenditures increased in 2007 from 39.1% to 44.7%. A slight increase in commission expenditure (from 3.4% to 3.7%) with a simultaneous decline in the share of operating expenditure from 49.6% to 43.2% was also observed.

2007 saw positive trends in the banks' provisioning for potential losses on assets subject to credit risk:
- the volume of the underestablished special reserve for potential losses on assets subject to credit risk decreased from 43.3 billion Belarusian rubles to 1.7 billion Belarusian rubles; and
- as at January 1, 2008, the provisioning for potential losses on assets subject to credit risk stood at 99.6%.

Along with the maintenance at an acceptable level of the share of problem assets in the assets subject to credit risk, the increase in the banks' net transfers to reserves from 96.7 billion Belarusian rubles to 132.9 billion Belarusian rubles (the share of transfers to reserves in the banks' expenses increased from 6.8% to 7%) was the main factor contributing to these achievements.

1.6.3. Profitability

By the end of 2007 profitability indicators of the banking sector were as follows:

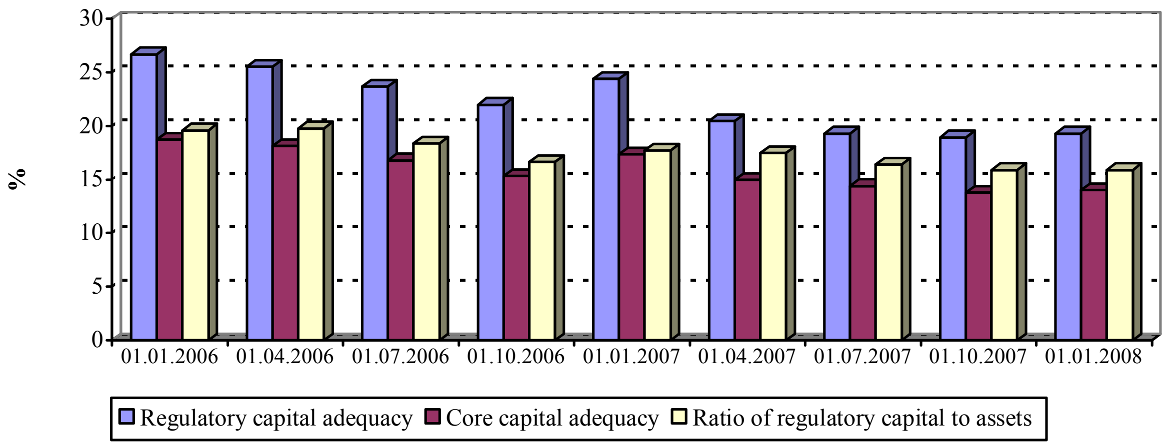
- the return on the banking sector's assets amounted to 1.7% (no change compared with January 1, 2007); and
- the return on the banking sector's regulatory capital amounted to 10.7% (a 1.15% increase compared with 2006).

One of the key factors responsible for low-level profitability of the banking sector is an extensive involvement of the biggest banks in the implementation of major social and economic programs, such as soft lending to housing construction, agro-industrial sector of the economy, etc. For example, the return on capital of state banks in 2007 amounted to 9.01%, the return on assets to 1.46%, whereas in the rest of the banks it accounted for 16.57% and 2.47% respectively.

1.6.4. Macroprudential indicators of banking sector performance

Capital adequacy. In 2007, the degree of risk coverage in the banking sector was still high. Despite the fact that regulatory capital adequacy of the banking sector showed a downward trend virtually throughout 2007, it amounted to 19.31% as at January 1, 2008, considerably exceeding the requirement of 8% prescribed for individual banks (figure 14). Core capital adequacy (Tier I capital) was also decreasing during the year, remaining, however, at the level that exceeded the prescribed requirement of 4% and amounted to 14.03% as at January 1, 2008.

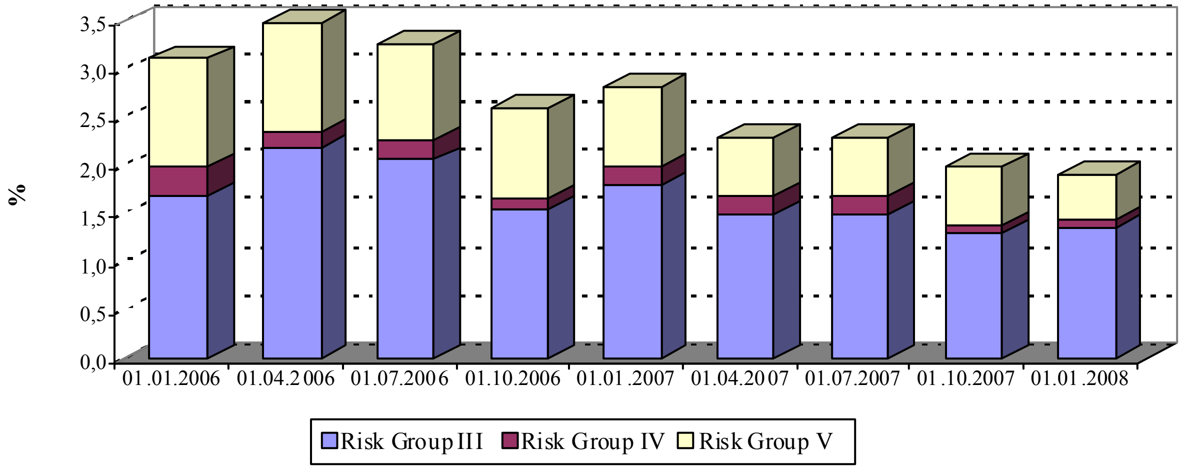
Figure 14. Capital Adequacy Indicators



Faster growth of the banks' lending to the economy compared with the pace of regulatory capital build-up brought about a decrease in the banking sector's capital adequacy virtually throughout 2007. This is also proved by the declining regulatory capital/assets ratio in the banking sector–from 17.7% as at January 1, 2007 to 15.9% as at January 1, 2008.

Assets quality. In 2007, the trend towards assets growth in the banking sector continued, with their quality improving (figure 15). The share of the banks' problem assets (assets classified under risk groups III, IV, and V) in the assets subject to credit risks declined by 0.9 percentage points and amounted to 1.9% as at January 1, 2008 (2.8% as at January 1, 2007).

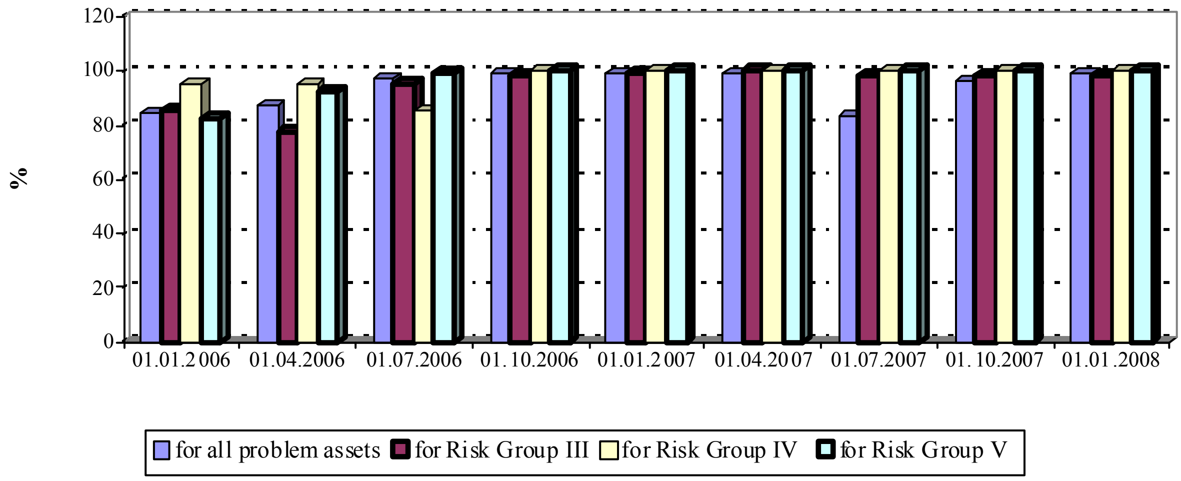
Figure 15. Share of Problem Assets in the Assets Subject to Credit Risk



Provisioning for potential losses on assets subject to credit risk (the actual reserve to the estimated reserve) remained at the 2006 level and almost equal to 100% for all categories of problem assets (figure 16).

The ratio of problem assets (less the actual reserve for such assets) to regulatory capital was ranging from 3.8% to 6.1% during the year and reached its minimum of 3.8% at the end of 2007 (6.1% as at the end of 2006).

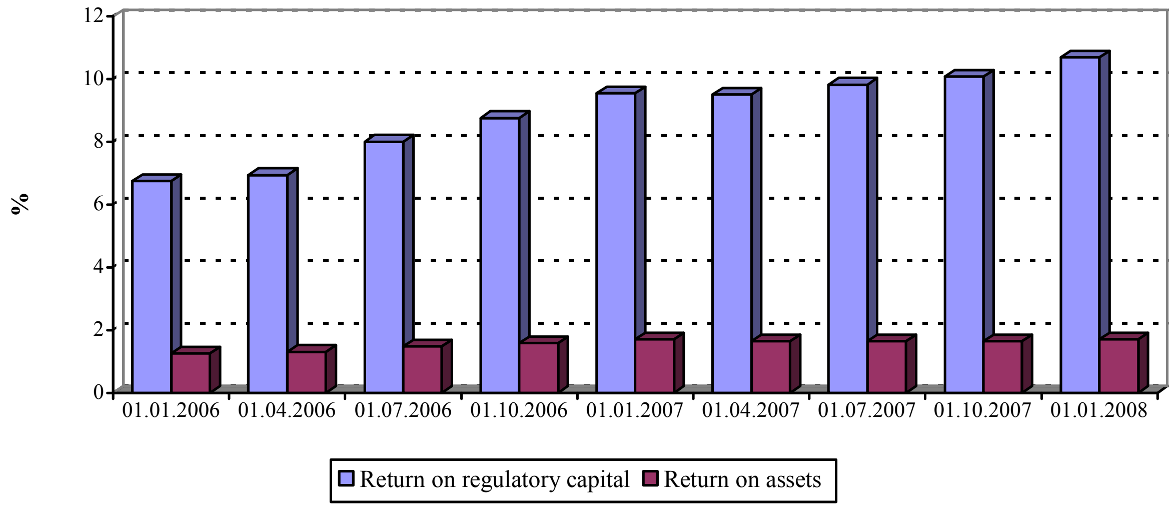
Figure 16. Provisioning for Potential Losses on Assets Subject to Credit Risk



The share of problem (extended and overdue) debts in credit debts owed by clients and banks continued to decline in 2007 and accounted for 0.65% as at January 1, 2008. The decline of the problem debt share in the total volume of credit debts was due to the growth of the total sum of credit debts, with problem credit debts decreasing.

Profitability. In 2007, return on assets (after tax) was ranging between 1.6% and 1.73% and amounted to 1.7% as at January 1, 2008 (figure 17). Return on regulatory capital (after tax) continued to increase and amounted, as at January 1, 2008, to 10.7%, compared with 9.55% as at January 1, 2007.

Figure 17. Banking Sector Profitability



The ratio of gross income to gross expenditure remained virtually unchanged amounting to 113.19%. The ratio of non-interest expenditure to gross income dropped from 53.5% as at the end of 2006 to 48.9% as at January 1, 2008.

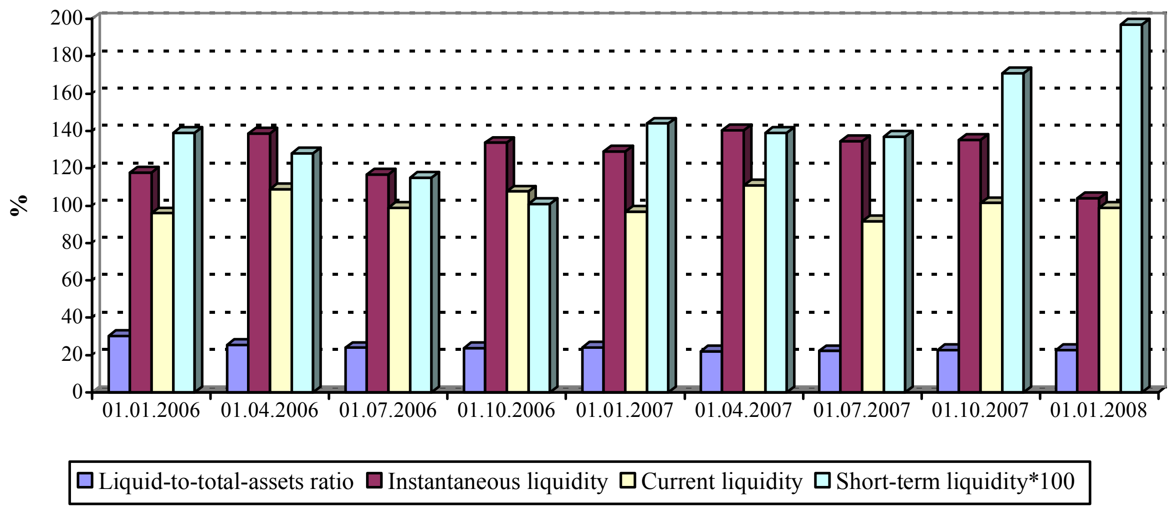
Liquidity. During 2007, the level of the banking sector's liquidity remained high, while the share of liquid assets in the total sum of assets decreased. The ratio of liquid assets to total assets during the year was still exceeding the minimum requirement for an individual bank (20%), the annual average value of this ratio being lower than in 2006. As at January 1, 2008, this ratio amounted to 22.6%, which is lower than the ratio as at January 1, 2007 by 1.5 percentage points (figure 18).

Short-term liquidity (the ratio of assets with maturities of up to 12 months to liabilities with maturities of up to 12 months) amounted to 1.97 as at January 1, 2008 (1.81 as at January 1, 2007), the requirement for an individual bank being at least 1.

Instantaneous liquidity (the ratio of total assets on demand to liabilities on demand and with overdue maturities) was significantly exceeding during the year the requirement for an individual bank (20%) and amounted, as at January 1, 2008, to 104.1 %.

Current liquidity (the ratio of total assets with remaining maturities of up to 1 month, including assets on demand, to liabilities with remaining maturities of up to 1 month, including liabilities on demand and with overdue liabilities) was also high during the year reaching 98.8%, the requirement for an individual bank being at least 70%.

Figure 18. Banking Sector Liquidity Indicators



1.7. Banks' compliance with the requirements of secure and liquid functioning

The National Bank regulates banking activity to ensure its secure and liquid functioning as well as supervision over such activity requiring the banks to have in place adequate procedures for managing risks in order to identify, assess, monitor, and control them in a timely fashion. In line with the Banking Code of the Republic of Belarus as well as pursuant to the recommendations of the Basel Committee on Banking Supervision in order to maintain stability and sustainability of the banking sector of the Republic of Belarus, the National Bank has set prudential regulations for the banks. The methodology for calculating these regulations is provided in the Instructions on Prudential Regulations for Banks and Non-bank Financial Institutions approved by Resolution of the Board of the National Bank of the Republic of Belarus No. 137 dated September 28, 2006.

In 2007, the prudential regulations set by the National Bank for the Belarusian banks were basically complied with.

As at January 1, 2008, capital adequacy in the banking sector amounted to 19.31%, exceeding more than twofold the level prescribed for an individual bank (8%). In the year under review, the actual value of this indicator amounted to around 20%.

The year under review saw compliance with all (four) indicators characterizing the banking sector's liquidity:
- instantaneous liquidity (ratio of assets on demand to liabilities on demand and with overdue maturities);
- current liquidity (ratio of current assets to current liabilities);
- short-term liquidity (ratio of assets with maturities of up to 12 months and obligations with maturities of up to 12 months); and
- minimal ratio of liquid assets to total assets.

The number of violations of the “Maximum amount of credit risk per debtor (a group of related debtors)” requirement (prescribed in the amount “not to exceed 25% of a bank’s regulatory capital”) in 2007 dropped from six (in six banks) as at the beginning of 2007 to one (in one bank) as at the end of 2007.

All banks complied with the “Aggregate amount of major credit risks” requirement (prescribed in the amount “not to exceed 600% of a bank’s regulatory capital”).

In 2007, two banks violated the “Maximum amount of risk per insider and related persons” requirement (prescribed in the amount “not to exceed 15% of a bank’s regulatory capital for insiders-legal persons and 2% for insiders-natural persons”).

10 banks violated the open currency position requirements in March and June 2007; nine in February, July, and August; eight in April, May, September, and October; seven in November; and six in December.

1.8. Banking sector development in 2008

In 2008, given anticipated expansion of non-financial organizations’ and households’ demand for banking services, further enhancement of the banking sector sustainability will be key priority of banking sector development.

Maintaining macroeconomic stability and high rates of economic development, increasing production efficiency, improving the financial condition of organizations of all sectors of the economy, and growing households’ real income would enable the banking sector to efficiently perform its functions of financial intermediation.

The degree of sustainability of the banking sector depends to a great extent on the balanced nature of the state policy affecting the banking sector. Gradual reduction by the Government of the Republic of Belarus of the scope of transformation and transfer of the non-financial sector’s risks onto the banks would improve the safety and efficiency of their performance. Inviting banks to participate in lending to the state programs and undertakings on a competitive basis and improving the system of provision and compliance by the state with the commitments to the banks, including the guarantees issued as a security of banks’ credits, would lay the groundwork for improving banking sector performance.

In 2008, the growth of the banking sector’s assets will continue to outstrip the pace of economic growth. At the same time, with a view to preventing significant accumulation of credit risks in the banking sector, the National Bank will take all necessary measures to promote coordination of the dynamics of said indicators. As before, the National Bank focused on the banks’ activities intended to improve risk management, impose and maintain risk limitations.

Establishing and improving risk management systems by the banks and bringing them closer to the corresponding international standards reduces the banking sector's exposure to risks assumed by them.

Given favorable macroeconomic situation in the country in 2008, the quality of the banks' assets is expected to remain at a high level and the share of problem assets in the assets subject to credit risk will not exceed 4%. The banks will seek to maintain their capital at a level which is sufficient to ensure their sustainable performance. Their capital may grow by 17-21% and its profitability will still exceed 8%.

Relations between the National Bank and the banks will be based on the establishment of a regulatory framework governing their activity and further improvement of the supervision over their performance.

The National Bank's methodological work aimed at developing risk management at the banks is focused on the implementation of recommendations on the management of individual banking risks on the basis of the development work of the Basel Committee on Banking Supervision and best world practices.

Automated risk management systems that make it possible, using sophisticated technologies and advanced methods, to ensure comprehensive risk management and expedite the managerial decision-making process will be one of the key elements of the establishment of highly efficient and prompt risk management at the banks.

Further improvement of principles and instruments of banking supervision will continue to be geared towards bringing them closer to the international standards developed by the Basel Committee on Banking Supervision and other international financial institutes, including those stipulated in the New Basel Capital Accord (Basel II), and gradually implementing and following the principles of and approaches to the banking regulation and supervision tested by the world practice.

2. Banking supervision development

2.1. Banking supervision organization

In 2007, the entire complex of prudential requirements to mitigating risks of the banks' activity was improving, including approaches to calculating capital adequacy in order to ensure a fuller coverage of risks assumed by the banks in the course of operation and to make provision for potential losses, and consolidated supervision was in the process of establishment.

In 2007, further improvement of banking supervision continued to be geared towards implementation of the international standards, including those established under the Basel Capital Accord. The implementation of Basel II standards was based on the adoption, as much as possible, of the Core Principles for Effective Banking Supervision in accordance with the recommendations of the international financial institutions.

Steps undertaken in the field of banking supervision improvement enhanced the development and sustainability of the banking sector whose indicators (assets' volume and quality, size of regulatory capital and its adequacy, profitability, and compliance with the prudential standards) showed positive dynamics in 2007.

In accordance with the Program of Development of the Banking Sector of the Economy of the Republic of Belarus for 2006-2010 which defines the national strategy of banking sector and banking supervision development in the medium term, objectives and tasks of banking supervision development are determined by the need to ensure secure and stable functioning of the banks. Their attainment is associated with the improvement of prudential requirements and supervisory procedures and is implemented by upgrading all the component parts of the supervisory process, i.e. licensing, off-site supervision, inspections, sanctions, and analysis of systemic banking risks.

The main areas of banking supervision development in 2006-2010 are defined as follows:

1) implementing supervision aimed at the assessment and mitigation of risks by means of:

- optimizing prudential reports, bringing them as close as possible to intrabank management reports, which would make it possible to perform both quantitative and qualitative analysis of risks parameters and management thereof;
- improving the system of early warning of problem situations at the banks, and
- enhancing the role of professional judgment of the National Bank's specialists when assessing the banks' financial condition and prospects of their functioning (based on off-site supervision and bank inspections), as well as when making decisions as to what follow-up supervisory actions with respect to each specific bank should be taken (frequency and scope of follow-up inspections, sanctions, etc.); and
- consolidating and systematizing recommendations regarding the creation and improvement of corporate governance systems, procedures and instruments, internal control, and risk management and sending the same to the banks.

2) improving consolidated supervision over activities of banking groups and banking holding companies based on consolidated reports; heightening attention to the activity of persons who are connected with the banks and who are able to exert significant influence on the banks' activities, risks, and financial condition;

3) toughening requirements regarding the provision of access to the banking services market, including requirements to:

- transparency of banks' ownership structure and business reputation of their major promoters (shareholders);
- business plans of banks under establishment, including procedures for their preparation and assessment, and
- the quality of corporate governance, in particular, business reputation of managers and members of supervisory boards (boards of directors), the quality of strategic planning, and the development of banks' risk management and internal control systems.

2.1.1. Legal backing of banking supervision

The legislative fundamentals of banking supervision have been set forth in the Banking Code and are made specific in the regulatory acts of the National Bank. The enactment of the Law of the Republic of Belarus "On Modifying and Amending the Banking Code of the Republic of Belarus" dated July 17, 2006, that went into effect on October 27, 2006, significantly extended the National Bank's powers in the field of supervision organization and implementation.

In 2007, the National Bank continued to streamline the regulatory and methodological framework of banking supervision by way of drafting and introducing new modifications and amendments into the regulatory acts, amended, modified, and brought the current ones into line with the revised Banking Code in the sphere of banking supervision.

The key regulatory documents of the National Bank of the Republic of Belarus related to banking supervision are available on the National Bank's website at http:/www.nbrb.by/legislation/licensing.asp.

2.1.2. Organizational backing of banking supervision

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

Besides, collective working bodies directly responsible for banking supervision were functioning at the National Bank on an ongoing basis in 2007.

For example, the Banking System Stability Committee[3] generates optimal managerial decisions on the currently central issues of banking sector development pertaining to:
- the improvement of the regulatory framework in the field of banking supervision and foreign exchange regulation; and

[3] This article includes the information about regulations governing collective bodies' activities as at end-2007.

- the maintenance of banking sector stability and development of measures designed to protect the interests of the banks' depositors and creditors.

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

A special Commission has been set up with a view to exercising control over the compliance by the banks with the indicative parameters of banking sector development. The Commission is accountable to the Chairman of the Board of the National Bank. It comprises 9 persons, including its Chairman who is First Deputy Chairman of the Board of the National Bank in charge of banking supervision.

During its meetings in 2007, the Commission received reports of the banks' top managers regarding the financial condition of the banks and efforts they made to comply with the indicative parameters of development, organized the analysis of proposals aimed at improving the regulatory acts governing banking activity, and came up with appropriate recommendations.

The Commission evaluating financial soundness of the banking system of the Republic of Belarus holds its meetings on a monthly basis. It comprises 13 persons, including its Chairman (First Deputy Chairman of the Board of the National Bank in charge of banking supervision).

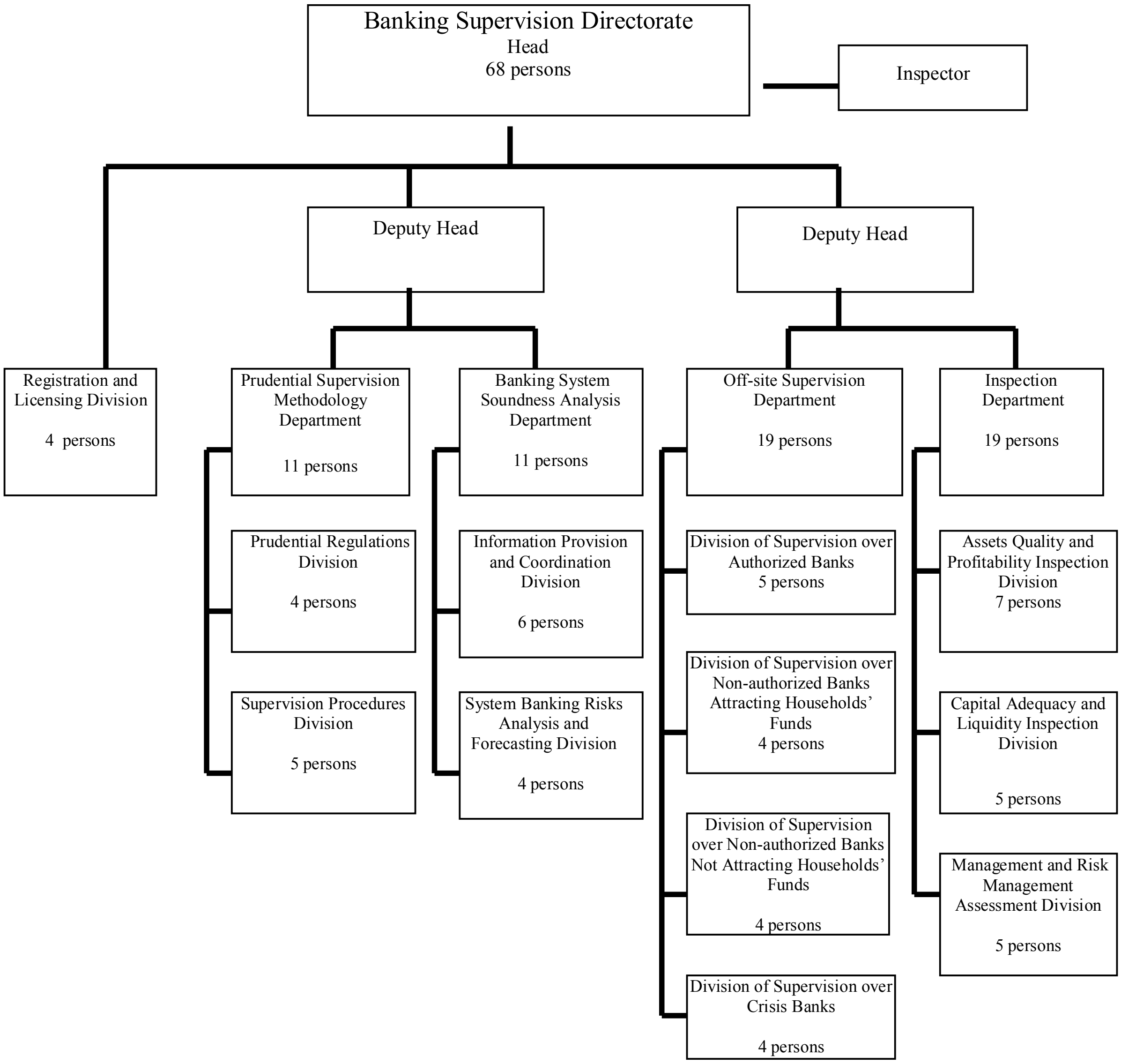
The Commission reviewed the key trends in the economy and monetary sphere and their relevance for assuring banks' financial soundness and developed measures aimed at preventing the destabilization of the banking sector and maintaining its sustainable performance.

Besides, the Commission coordinated the actions of the organizational units of the National Bank's main office directed towards the accumulation and processing of information that characterizes the current state of the banking sector and prospects for its development, as well as the formation and development of the banking sector sustainability assessment system.

2.1.3. Banking supervision staffing

Banking supervision at the National Bank is carried out by 139 specialists (as at the end of 2007), of whom 51.1% are employees of regional agencies and 48.9% are employed at the Banking Supervision Directorate of the main office.

All employees of the Banking Supervision Directorate of the main office are graduates of higher educational establishments, 3 employees have a Ph.D. in Economics, 14.7% are under 30 years of age, and 22.1% have been working in the banking system for 15 years or more.



Skills of the employees of the National Bank involved in banking supervision were constantly upgraded by means of distance training under the FSI Connect program of the Financial Stability Institute of the Bank for International Settlements (Switzerland), attendance of national and international seminars and conferences, and participation in the provisional (crisis) managers' training program.

Banking Supervision Directorate employees hold, on a regular basis, topical seminars for the banks at the Training Center of the National Bank and provide the banks with methodological assistance, such as consultations, written explanation of legislation application, etc.

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

2.2.1. Banks' registration and licensing of banking

In 2007, the National Bank improved the requirements with respect to the contents of business plans of the banks to be established and the criteria for business plan assessment, such as completeness, consistence, actuality, and validity of information (Resolution of the Board of the National Bank of the Republic of Belarus No. 22 dated January 25, 2007). The information included in a business plan must make it possible to reveal potentiality and likely risks of a bank. The failure of a business plan to comply with the prescribed criteria of its assessment constitutes grounds for refusing state registration of a bank. Besides, the National Bank requires that a business plan includes the data making banks' ownership structure more transparent, such as information about the promoters and persons who can exert significant influence on decisions taken by a bank's governing bodies and/or its promoters.

The procedures for appointing and functioning of provisional administration governing a bank or non-bank financial institution were improved. Instructions No. 195 dated October 24, 2007 on temporary administration governing a bank or non-bank financial institution approved by the Resolution of the Board of the National Bank filled some gaps in legislation related to the procedural issues of functioning of the provisional administration - they defined the functions of the provisional administration when restricting and suspending the powers of a bank's executive bodies, procedures for decision-taking by the administration, and procedures for agreeing transactions with the provisional administration and a bank's governing bodies. Besides, the National Bank approved Resolution of the Board of the National Bank No. 36 "On amending and modifying Resolution of the Board of the National Bank No. 71 dated March 29, 2001" of January 31, 2007 which amended and modified the Rules on a bank and non-bank financial institution going into the National Bank's administration. The said resolution prescribed common grounds for a bank and non-bank financial institution going into the National Bank's administration and specified the wording of certain provisions.

2.2.2. System of secure functioning requirements

The provisions of the Instructions on secure functioning requirements for the banks and non-bank financial institutions approved by Resolution of the Board of the National Bank of the Republic of Belarus No. 137 dated September 28, 2006 came into effect on January 1, 2007.

In particular, Instructions No. 137 specified the calculation of regulatory capital, assets and liabilities; modified approaches to the assessment of a bank's capital adequacy for covering market and operational risks, changed the approach to the assessment of the potential credit risks on a bank's off-balance obligations which is based on the risk assessment depending on the time of fulfillment of said obligations and the possibility for a bank to unilaterally terminate obligations; changed approaches to the inclusion of off-balance liabilities denominated in foreign exchange when calculating the foreign exchange position; and specified the calculation of instantaneous liquidity requirement.

There were no significant changes of the system of secure functioning requirements in 2007.

2.2.3. Requirements for provisioning for potential losses on assets

With a view to harmonizing the requirements for provisioning for potential losses on assets subject to credit risk and off-balance operations as well as reimbursing to a fuller extent potential losses resulting from banking activities, the National Bank amended the Instructions on procedures for making provision for potential losses on assets and off-balance operations approved by Resolution of the Board of the National Bank No. 138 dated September 28, 2006 with a number of specifying norms and regulations.

To increase the effectiveness of the banks' credit risk management system, implement the international accounting standards, and minimize negative consequences of credit operations, the National Bank introduced a range of transfers for provisioning for potential losses on assets and off-balance operations. This norm is due to the need to increase the flexibility of the applied credit risk management instrument by means of switching from rigid fixing of provisioning norms and criteria to a differentiated approach based on a bank's motivated judgment and the profile of assumed risks.

2.2.4. Supervision on a consolidated basis

In 2007, according to the right provided for in the revised Banking Code, the National Bank was developing a system of consolidated supervision over banks' activity. For example, Instructions on procedures for exercising supervision over banking activity on a consolidated basis No. 15 dated January 24, 2007 approved by Resolution of the Board of the National Bank of the Republic of Belarus prescribe:
- methods of assessing the ability of a bank or other legal person, other than a bank, to exert, directly or indirectly (through third parties), significant influence on decisions taken by the governing bodies of another legal person (hereinafter– "significant influence");
- procedures for informing the National Bank by a head organization of a banking group and a head organization of a banking holding company that it can exert significant influence;
- procedures for informing the National Bank by a bank that another bank and/or other legal person, other than a bank, can exert significant influence;

- procedures for submitting by the members of banking groups and the members of banking holding companies information about their activity required for compiling consolidated reports on the activities of a banking group and/or banking holding company;
- requirements to the organization of a system of internal control over risks of a banking group and a banking holding company on a consolidated basis;
- requirements to the form and content of the consolidated reports on activities of a banking group and/or a banking holding company and procedures for compiling thereof; and
- procedures for issuing directions to the head organizations and the members of banking groups and banking holding companies and procedures for applying sanctions for violation of banking legislation requirements and/or directions of the National Bank.

At present, the National Bank continues to develop supervisory instruments on a consolidated basis.

2.2.5. Improvements to the procedures for risk management in the banks

With a view to enhancing the effectiveness of credit risk management and stimulating the creation of the debtors' database, the banks were issued recommendation letter No. 23-14/114 "On the improvement of banks' credit risk management" dated October 17, 2007 describing methodological fundamentals of organization of credit risk management developed by the Basel Committee on Banking Supervision. The implementation of these principles will enable the banks to enhance the effectiveness of the credit risk management system taking into consideration the scope, character, and specific features of their activity; create a database required to adequately assess debtors' financial condition when issuing and monitoring credits; and start building an internal system for assessing debtors based on their internal ratings.

2.2.6. Self-assessment of the compliance with the Core Principles for Effective Banking Supervision

In 2007, the National Bank of the Republic of Belarus conducted self-assessment of the extent to which legislation of the Republic of Belarus and its implementation conforms to the revised Core Principles for Effective Banking Supervision published by the Basel Committee on Effective Banking Supervision in 2006.

Given a number of significant changes in the structure of banking supervision principles such as consolidation of a number of principles and their new structuring, the establishment of seven practically new principles and new, more complicated criteria for assessing compliance therewith, the National Bank, based on its self-assessment, noted a significant progress of banking supervision in the Republic of Belarus since the 2004 FSAP assessment.

To further improve banking supervision and bring it closer to the international standards, the National Bank of the Republic of Belarus developed a complex of activities designed to remedy the shortcomings in legislation and/or its implementation revealed in the course of self-assessment in the sphere of preliminary conditions of effective banking supervision; to strengthen interrelations with the governmental agencies; to improve supervisory procedures and prudential requirements to managing banking risks, procedures for licensing banking activity and streamlining the requirements to the internal audit and control in banks, procedures for streamlining supervisory reports, including on a consolidated basis; and to develop procedures within consolidated supervision.

To fairly assess the extent to which legislation and its implementation conform to the revised Core Principles for Effective Banking Supervision, the assessment by external experts under FSAP program is planned to be conducted at the end of 2008.

2.3. Forms and methods of supervision

2.3.1. Off-site supervision

Off-site supervision is a component part of ongoing supervision and is based on the analysis of the balance sheet and prudential reports provided by the banks, inspections documents of the National Bank, and other information pertaining to banking activities.

The primary objective of off-site supervision is to implement the entire range of supervisory response measures aimed at ensuring secure and liquid functioning of the banks, protecting their depositors and creditors, minimizing the number of bank bankruptcies, and reducing costs relating thereto.

With a view to improving the quality of the banks' management and protection of the households' deposits, the National Bank was endeavoring to establish the end owners, including beneficiaries, who are natural persons, of a number of operating banks licensed to attract natural persons' funds into deposits, and assess how significant the impact of the shareholders (promoters) lacking highly reliable ratings on the banks' activities was.

The banks' compliance with the secure functioning requirements and indicative parameters of development prescribed by the National Bank in accordance with the Republic of Belarus Monetary Policy Guidelines were constantly monitored throughout the year.

Work directed towards discontinuation of the provision of preferences regarding banks' compliance with the prescribed prudential regulations and limitations was ongoing in 2007. At the same time, in the year under review a number of preferences were in force which stemmed from the need to service the Government programs by the banks as well as the need to adapt the banks to the changes in banking legislation which tightened the requirements to regulatory capital and reserve creation and approaches to the national system of financial statements.

The National Bank continued to strengthen supervision in the area of an in-depth analysis of performance indicators, early identification of negative trends and crisis situations, and implementation of the entire range of supervisory response measures. Other information on the banks' activities received by the National Bank from the controlling bodies as well as in the form of applications made by the citizens and other customers of the banks was also taken into consideration and analyzed.

In 2007, following the analysis of submitted reports and other information, the National Bank, in order to suppress negative trends, was issuing directions to the banks requiring them to remedy the revealed violations. Such forms of work with the banks as holding meetings, at the National Bank or on-site, with the executive bodies of the banks that committed violations as well as providing recommendations to the banks' senior management, supervisory boards (boards of directors), and promoters (shareholders) were actively used.

The results of such analysis constituted grounds for the National Bank to take decisions requiring the supervisory boards and other governing bodies of individual banks to ensure the elimination of hazards threatening the interests of depositors and other creditors. In the course of regulation of and supervision over the banks' activity the National Bank applied sanctions thereto.

The National Bank pays particular attention to the financial condition of JSC "Belagroprombank" and JSC "JSSB Belarusbank" which are responsible for the bulk of services provided to households. The issues regarding the financial condition of said banks and additional measures taken to ensure their secure and liquid functioning were considered at the meetings of the Board of the National Bank on a regular basis.

The National Bank was directly involved in drafting legislative acts stipulating an increase in the authorized capital of the state banks in accordance with their approved development programs as well as in implementing these programs. The increasing share of the Government in the authorized capital of these banks provides an additional guarantee of the safety of funds attracted from households.

In 2007, the National Bank began supervising banks on a consolidated basis. Based on the available information, the National Bank identified banking groups and banking holding companies functioning in the Republic of Belarus. Consolidated prudential reports are analyzed with a view to revealing and assessing the impact of the financial condition of the members of the banking groups/banking holding companies and risks they incur on the financial condition of banking institutions. Taking into consideration lack of experience in this area of banking supervision, the National Bank plans to continue learning world experience in this sphere and to improve the methodological framework based on its own experience.

2.3.2. Banks' inspections

As part of the banks' and the National Bank's rights and obligations regulation, when carrying out inspections prescribed by Resolution of the Board of the National Bank of the Republic of Belarus No.35 dated January 31, 2007, the National Bank requires inspection supervision staff to carry out a bank's inspection based on motivated judgment taking into consideration the totality of quantitative and qualitative factors (positive and negative).

The National Bank developed and informed the banks about Recommendations concerning methods of carrying out inspections by the National Bank of the Republic of Belarus of the banks and non-bank financial institutions and assessment of risks approved by Resolution of the Board of Directors of the National Bank of the Republic of Belarus No. 87 dated March 21, 2007. These Recommendations include methods of carrying out inspections of a bank and its organizational units directed towards the assessment and mitigation of banking risks.

In 2007, the National Bank conducted 4 comprehensive and 8 topical inspections of the banks.

During the course of comprehensive inspections, the National Bank made assessment of the level of risks assumed by the banks and the quality of risk management; checked the completeness and correctness of provisioning for potential losses; analyzed the internal control system; and assessed the quality of the banks' management. Programs of comprehensive inspections included not only the banking supervision issues but also the issues of organizing money circulation, cash desk operation and money collection, ensuring fail-safe operation of information computation systems, foreign exchange regulation and foreign exchange control, combating money laundering and terrorism financing. Specialists from other controlling agencies, along with the National Bank's employees, took part in some inspections.

During the course of topical inspections the National Bank considered the issues relating to assets quality, risk management, and sufficiency of measures taken to eliminate shortcomings revealed during previous inspections.

The Banking System Stability Committee reviewed the findings of the inspections and approved sanctions against the banks and recommendations for improving their operation.

In 2007, 23 reports on administrative infractions were drawn up as a result of banking legislation violations revealed during inspections.

2.3.3. Macroprudential supervision

In 2007, the National Bank continued to develop macroprudential supervision aimed at ensuring the sustainability of the banking sector as a whole using a comprehensive assessment of systemic banking risks. The Commission assessing financial sustainability of the Belarusian banking system, established in 2005, was coordinating activities intended to improve the banking sector's sustainability assessment system (hereinafter–"BSSAS") which is being developed at the National Bank.

Based on its preparatory work done in previous years, in 2007 the National Bank was able to start using, on a systematic basis, such BSSAS components as:
-monitoring macroeconomic conditions in which the banking sector functions using relevant macroeconomic indicators;
-monitoring the current state of the banking sector based on the analysis of the financial stability indicators; and
-stress-testing the banking sector.

2007 saw further development of such BSSAS component as "scenario analysis" aimed at receiving an overall picture of interrelations between banking and other sectors of the economy. The National Bank focused mainly on the development of a corresponding model device which would make it possible to obtain quantitative assessments of the degree of influence of the non-financial sector of the economy on the banking sector sustainability.

In 2007, the National Bank developed individual elements of the banking crisis early warning system as part of the creation thereof. In particular, it formulated working definitions of crisis situations and built econometric models using panel data based on the international statistics. In the second half of 2007 these models started to be used to monitor the situation in the banking sector of the Republic of Belarus.

The National Bank paid heightened attention to other issues as well. In particular, the Commission assessing financial sustainability of the Belarusian banking system considered at its meetings issues related to the development of the banking sector financial sustainability indicators, assessment and management of system risk in the payment system, current state and problems of the Belarusian financial market development, the preparation of the financial stability report, etc.

2.4. Preventing money laundering and terrorism financing

Pursuant to the Law of the Republic of Belarus "On Preventing Money Laundering and Terrorism Financing" dated July 19, 2000 (National Register of

Legal Acts of the Republic of Belarus, 2000, No. 75, 2/201; 2005, No. 196, 2/1165), the National Bank controlled, when conducting comprehensive and topical inspections of the banks, their compliance with legislation pertaining to the prevention of money laundering and terrorism financing.

As part of international cooperation and experience sharing, the National Bank:
- took part in the field mission of the Eurasian Group tasked with preventing money laundering and terrorism financing (hereinafter–the "EAG") in the Kyrgyz Republic with a view to assessing the conformance of the system of preventing money laundering and terrorism financing to the international standards;
- entered into bilateral agreements (memoranda) with the National Bank of the Kyrgyz Republic and the National Bank of Ukraine on understanding in the sphere of banking supervision, including cooperation in the sphere of preventing money laundering and terrorism financing;
- took part in the meetings of the expert team formed to consider draft Agreement of the CIS Member States on Preventing Money Laundering and Terrorism Financing (signed on October 5, 2007, in Dushanbe, at the meeting of the Council of Heads of the CIS Member States); and
- shared its experience in preventing money laundering and terrorism financing held by the EAG organized in the form of consultations with the representatives of the banking and insurance sectors and at the national seminar on preventing money laundering and terrorism financing held in Minsk in consort with the Organization for Security and Cooperation in Europe.

2.5. Ensuring banks' information transparency

In compliance with the requirements of the supervisory authority, the banks provide legal and natural persons with information on their financial condition, powers under license, the list of their banking operations and other types of activities, and professional level of their managers.

Banks are required to publish in the official republican mass media their audited annual reports as well as quarterly reports.

In 2007, in order to enhance the transparency of the banks' performance, interest rate and tariff policies, stimulate market discipline, protect the interests of the borrowers (above all, natural persons) and increase their awareness of the real value of credits issued by the banks, Resolution of the Board of the National Bank No.75 dated March 28, 2007 amended the Instructions on the procedures for disclosing information by banks and non-bank financial institutions whereby a bank must inform its borrower about the amounts of monthly payments according to the credit agreement, including payments related to credit repayment, interest payment, and fees (commission and other payments) for using the credit prior to the entry into the credit agreement.

For the purpose of ensuring information transparency of the banking sector the National Bank publishes in its publication "Bankauski Vesnik" ("Bank Bulletin") and on the National Bank's website at www.nbrb.by:

- list of banks issued with banking licenses by the National Bank;
- information on revocation, suspension, or revalidation of banking licenses (including licenses for single banking operations);
- aggregated financial indicators of banks' performance;
- annual and quarterly reports provided by the banks for publication;
- other information on the activities of individual banks (with their consent); and
- information (analytical materials, articles, and comments) regarding the National Bank's activities in the sphere of banking supervision and development and implementation of the regulatory acts governing banks' performance.

The National Bank publishes, with the banks' consent, certain financial data about the banks in its monthly compilation "Bulletin of Banking Statistics" (www.nbrb.by/statistics/bulletin).

Most Belarusian banks have own websites on which they publish information subject to mandatory disclosure as well as additional information (Attachment 1).

2.6. Cooperation with international financial institutions and supervisory authorities of other countries

The National Bank aims to expand and strengthen international professional contacts in the sphere of banking supervision, to raise awareness of the foreign banking community of the banking system of Belarus, which is conducive to promoting investment and business attractiveness of the Belarusian banking system.

2.6.1. Cooperation with the IMF

The Republic of Belarus has been fruitfully cooperating with the IMF since 1992 when the country joined this international financial institution.

In January and April-May 2007, the IMF missions were working at the National Bank with a view to holding consultations on the effective usage of the instruments of supervision over banks' activity, such as:

- international experience of organizing and conducting banking supervision;
- supervision over the banks' activity on a consolidated basis;
- criteria/indicators of assessment of reliability and effectiveness of the banks' performance; and

- disclosure of information by the banks for users/market participants. Frequency of disclosure and contents of information subject to disclosure by the banks.

Based on the findings of the missions, the National Bank devised the Recommendations on the methods used to conduct inspections of the banks and non-bank financial institutions and assess the level of risk approved by Resolution of the Board of Directors No 87 dated March 21, 2007.

With a view to rendering technical assistance in ensuring financial stability, two IMF missions visited the National Bank in March and July 2007. The following issues were considered in the course of their work: the problem of choosing threshold values for financial stability indicators; technical aspect of macroeconomic stress-testing development at the National Bank; the National Bank's current achievements in the development of the macroeconomic model of credit risk for the banking sector; and approaches to liquidity risks stress-testing. The IMF experts held a number of training sessions.

2.6.2 Cooperation with the Group of Banking Supervisors from Central and Eastern Europe (BSCEE Group)

Beginning in 1996, the National Bank has been a member of the BSCEE Group (http://www.bscee.org), a regional entity of the Basel Committee on Banking Supervision.

Within the Group, its members share experience regarding regulation of and supervision over the development of the national banking systems and hold, on an annual basis, conferences for the heads of the national supervisory authorities. 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 events.

The representatives of the Banking Supervision Directorate participated in the 19th Annual Conference of the BSCEE Group which was held in May – June 2007 in Hungary. The participants from the BSCEE Group member-countries attended the Conference.

Compliance with and practical experience of implementation of the Core Principles for Effective Banking Supervision as well as corporate governance and social responsibility issues were discussed in the course of the Conference.

2.6.3. Cooperation with supervisory authorities of other countries

The National Bank is endeavoring to establish and develop contacts and information exchange with foreign banking supervisory authorities.

By the end of 2007, 11 bilateral agreements with foreign banking supervisory agencies were in force, chiefly from the CIS member-states and Baltic countries.

During the visit of the National Bank's delegation to China in April 2007 the Memorandum of Understanding was signed between the National Bank of the Republic of Belarus and the China Banking Regulation Commission.

In the course of the 17th meeting of the Council of Heads of central (national) banks of the Eurasian Economic Community, which was held on June 7-8, 2007 in Dushanbe, the Memorandum of Understanding between the National Bank of the Republic of Belarus and the National Bank of Tajikistan in the sphere of banking supervision was signed.

The Memorandum of Understanding between the National Bank of the Republic of Belarus and the National Bank of Ukraine in the field of banking supervision brought into line with applicable legislation of the parties was signed in December 2007 at the 6th meeting of the Advisory Board of the central banks of the Republic of Belarus and Ukraine.

With a view to expanding information sharing, the National Bank was working towards signing Memorandums of Understanding in the field of banking supervision with the Central Bank of Montenegro, the Financial Market Regulation and Supervision Agency of the Republic of Kazakhstan, the Central Bank of the Islamic Republic of Iran, the Bank of Italy, and the Central Bank of the Republic of Uzbekistan.

2.7. Outlook for banking supervision development

Further improvements in banking supervision will be ensured in the areas defined by the policy documents concerning the pursuance of monetary policy and banking sector of the Republic of Belarus and by corresponding plans of actions of the Government and the National Bank based on the need for bringing it as close as possible to the international standards. Among the main areas of banking supervision development in 2008 are the following:

1. Improvements in risk management procedures, such as:

- the development of recommendations on interest and liquidity risk management and on outsourcing in the sphere of financial services; and
- the development of minimal standards of stress-testing the major kinds of risks: credit, interest, operational, and liquidity risks;

2. Improvements in the complex of instruments and methods of macroprudential analysis, such as:

-developing the methods of financial sustainability indicators calculation approximated to the IMF's recommendations;

-system monitoring of financial sustainability indicators of the banking sector;
- improving the algorithms and scenarios of banking sector stress tests conducted periodically;
- macroeconomic stress-testing the banking sector; and
- developing the banking crisis early warning system;
3. Improvements in the supervision over banking activities on a consolidated basis, such as:
- creating a secure functioning requirements system for banking groups and banking holding companies, in particular, the regulatory capital adequacy and credit risk mitigation requirements; and
- improving the system of collection and analysis of information about banking groups and banking holding companies through the adoption of the reporting form of intragroup operations conducted by the members of a banking group and a banking holding company and submission by all resident banks of the Republic of Belarus of the list of data about persons who are able to significantly affect the decisions taken by the governing bodies of a bank;
4. Improvements in other supervisory procedures and prudential requirements, such as:
- improving the requirements to the provisioning for potential losses, including the creation of reserves in the portfolios of homogeneous credits
- granting the banks the right to use internal risk assessments as input data when using the standardized approach to the operational risk assessment to calculate a bank's regulatory capital;
- streamlining the banks' reporting system for the purpose of ensuring sufficiency of quantitative and qualitative information in order to fully understand the profile of the banks' risks;
- improving the system of complex analysis of the financial condition of a bank with a view to understanding risk profile and prospects of a bank's performance based on information received by the National Bank, as well as procedures for consideration of its results and application of response measures; and
- improving the exchange of information, required to carry out supervision over banking activity, with other countries' supervisory authorities regarding the procedures for compiling information and streamlining the deadlines and amount for its submission.

The realization of the above measures will be conducive to maintaining banking sector efficiency at an adequate level in a changing banking environment where the functioning of the banks is required to meet the needs of social and economic development of the country.

Annex 1

References to Sites of Banks of the Republic of Belarus

1. Joint Stock Company "Belagroprombank": http://www.belapb.by

2. Joint Stock Company "Savings Bank "Belarusbank": http://www.belarusbank.by

3. "Priorbank" Joint stock company: http://www.priorbank.by

4. Open Joint–Stock Company "Belpromstroibank": http://www.bpsb.by

5. "Belarussian bank of development and reconstruction "Belinvestbank" Joint–Stock Company: http://www.belinvestbank.by

6. Open Joint–Stock Company "BELVNESHECONOMBANK": http://www.bveb.by

7. "Bank Moscow–Minsk" Joint-stock Company: http://www.mmbank.by

8. Belorussian–Russian Belgazprombank Joint Stock: http://www.belgazprombank.by

9. VTB Bank (Belarus) Closed joint–stock company: http://www.vtb-bank.by

10. Private joint–stock company "Trustbank": http://www.trustbank.by

11. Joint–Stock Company "Minsk Transit Bank": http://www.mtb.by

12. Open Joint–Stock Company "TECHNOBANK": http://www.tb.by

13. Closed Joint–Stock Company "BELROSBANK": http://www.belrosbank.by

14. Joint–Stock Company "Belarussian Industrial Bank": http://www.bib.by

15. Closed Joint–Stock Company "Absolutbank": http://www.absolutbank.by

16. Golden Taler Bank: http://www.gtbank.by

17. Joint–Stock Company "SOMBelBank": http://www.sbb.by

18. Joint Stock Bank of Reconversion and Development: http://www.rrb.by

19. United Stock Company "Byelorussian–Swiss Bank": http://www.bsb.by

20. Open joint–stock company "Belarusky narodny bank": http://www.bnb.by

21. Open Joint–Stock Company "Paritetbank": http://www.paritetbank.by

22. Joint–Stock Commercial International Trade and Investment Bank: http://www.itibank.by

23. Closed Joint–Stock Company "BTA Bank": http://www.aeb.by

24. Joint–stock company "Credexbank": http://www.credexbank.by

25. Joint–Stock Company "Delta BANK": http://www.atombank.by

26. Opened joint–stock company Home Credit Bank": http://www.homecredit.by

27. Joint–Stock Company "International reserve bank": http://www.irb.by

28. Belarusian Banks Association: http://www.abbanks.by

29. BELARUSIAN CURRENCY AND STOCK EXCHANGE: http://www.bcse.by

Statistical Attachments

Table 1

Number of Banks

Type of financial institutions	2000	2001	2002	2003	2004	2005	2006	2007
Operating banks	28	25	28	30	32	30	30	27

Table 2

Structure of Banks’ Total Registered Authorized Capital Broken Down by Investors’ Form of Ownership (%)

Investors' form of ownership	2005	2006	2007
Investments of residents of the Republic of Belarus,	90.70	92.16	90.16
including organs of the Government and state-owned legal persons	85.30	87.92	86.27
Foreign investment	9.30	7.84	9.84
Total investment	*100.00*	*100.00*	*100.00*

Table 3

Banks’ Assets Distribution (%)

Three largest banks			Five largest banks			Four state-owned banks		
2005	2006	2007	2005	2006	2007	2005	2006	2007
68.25	71.20	69.79	83.63	86.71	85.95	74.43	78.59	76.01

Table 4

Distribution of Market Shares (in Net Assets) by Groups of Banks

(banks are grouped by the size of regulatory capital)

	2005		2006		2007	
	Share	Banks	Share	Banks	Share	Banks
Banks' regulatory capital,	100.00	30	100.00	29	100.00	27
of which:						
negative capital	0.00	0	0.28	1	0.00	0
up to 10 billion Belarusian rubles	0.62	6	0.10	4	0.00	0
10 billion to 30 billion Belarusian rubles	3.77	11	1.34	7	1.01	8
30 billion to 70 billion Belarusian rubles	8.10	7	7.60	10	3.80	8
70 billion to 500 billion Belarusian rubles	28.47	4	27.69	5	35.34	9
500 billion to 1 trillion Belarusian rubles	0.00	0	0.00	0	0.00	0
over 1 trillion Belarusian rubles	59.04	2	62.99	2	59.85	2

Table 5

Dynamics of the Off-balance Assets and Banks' Balance Currency Ratio (%)

	2005	2006	2007
Total off-balance accounts / balance accounts	147.45	150.89	154.07

Table 6

Quality of the Banking Sector Assets (Belarusian rubles, million)

Assets classification	2005	2006	2007
Total credit	14,516,671.2	22,271,450.3	32,304,080.9
Extended credit	22,429.7	32,292.6	38,958.2
Overdue credit	52,789.1	225,111.5	171,361.5
Doubtful credit	197,624.5	–	–
Total overdue interest income, of which:	173,122.3	156,519.2	139,714.2
up to 30 days	18,304.3	9,436.9	8,513.6
over 30 days	154,818.0	147,082.3	131,200.6
Actually established reserve	236,902.7	330,657.6	398,849.9

Table 7

Structure of the Banking Sectors Deposits

and Credits by Form of Clients' Ownership (%)

	Deposits			Credits		
	2005	2006	2007	2005	2006	2007
State commercial enterprises	15.0	14.0	15.5	23.2	24.6	23.3
Natural persons	53.1	53.7	52.6	26.3	27.8	27.5
Private sector	30.7	30.7	30.2	50.0	47.2	48.7
Non-bank financial institutions	1.2	1.6	1.7	0.5	0.4	0.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 8

Structure of Credits by Form of Client's Activities (%)

	2005	2006	2007
Credits distribution by industries	100.0	100.0	100.0
Industry	29.7	27.3	26.9
Agriculture	13.4	14.6	14.4
Trade	7.3	7.7	8.1
Construction	2.0	2.2	2.7
Households	26.3	27.8	27.5
Other	21.4	20.4	20.4

Table 9

Structure of Credits and Deposits by Maturities (%)

Types of deposits	2005	2006	2007	Types of credits	2005	2006	2007
Demand deposits	46.04	44.59	41.29	Long-term credits	51.43	54.01	75.75
Time deposits	53.96	55.41	58.71	Short-term credits	48.57	45.99	24.25
Total	**100.00**	**100.00**	**100.00**	**Total**	**100.00**	**100.00**	**100.00**

Table 10

Structure of Banks' Income and Expenses (Belarusian rubles, billion)

No.		2005	2006	2007
	Income			
1	Interest income	1,564.0	2,082.4	3,215.1
2	Commission income	684.0	878.3	1,060.7
3	Other banking income	219.4	313.0	422.3
4	Other operating income	137.1	92.6	140.5
5	Changes in reserves	96.2	109.7	178.2
6	Incidental income	0.1	–	–
	Total	**2,700.8**	**3,476.0**	**5,016.7**
	Expenses			
1	Interest expenses	869.6	1,195.6	1,980.9
2	Commission expenses	55.3	102.7	162.2
3	Other banking expenses	16.8	33.5	63.8
4	Other operating expenses	1,337.3	1,515.8	1,914.3
5	Transfers to reserves	211.2	208.4	311.0
6	Incidental expenses	0.0	–	–
	Total	**2,490.2**	**3,056.0**	**4,432.1**
	Economic profit	**210.6**	**420.0**	**584.6**

Table 11

Regulatory Capital Structure (Belarusian rubles, billion)

No.		2005	2006	2007
	Total regulatory capital (pp 1+4-5+6)	**4,021.3**	**5,150.2**	**6,526.8**
1.	***Fixed capital, total***	*3,274.7*	*4,162.3*	*5,218.4*
	of which			
	Items that increase fixed capital			
1.1.	Registered authorized capital	2,941.5	3,731.6	4,521.5
1.2.	Issue profit	0.0	0.0	34.3
1.3.	Bank’s funds and profit for the previous years	378.4	534.6	836.5
1.4.	Unrealized exchange rate differences and revaluation of foreign exchange in the funds	-4.8	2.4	
	Items that decrease fixed capital			
1.5.	Repurchased own shares	1.6	1.5	2.1
1.6.	Loss for the year under account and previous years	14.0	30.8	0.3
1.7.	Intangible assets	6.9	20.7	25.0
1.8.	Investments in affiliates	16.7	51.2	141.8
1.9.	Shareholdings (20% and more of the legal person’s authorized capital)	1.0	2.1	4.8
2.	***Additional Tier II capital, total***	*795.8*	*990.0*	*1,346.4*
	of which:			
2.1.	Profit for the year under account and previous years with account of its distribution	205.3	413.7	585.3
2.2.	Funds created at the expense of profit not confirmed by external auditors	19.6	9.1	9.5
2.3.	Unrealized exchange rate differences from revaluation of foreign exchange in the funds	0.2	0.0	
2.4.	Revaluation of fixed assets and other items of the balance	526.4	526.9	685.1
2.5.	Attracted long-term subordinated credit which is taken into account	44.3	40.3	66.5
3.	*Additional Tier III capital, total*	*0.0*	*0.0*	*0.0*
4.	*Additional Tier II and Tier III capital included in regulatory capital*	*795.8*	*987.6*	*1 321.1*
5.	*Items that decrease regulatory capital, total*	*49.2*	*10.3*	*12.7*
	of which			

5.1.	Underestablished reserve to cover possible losses	43.3	1.3	1.8
5.2.	Issued loans	5.9	9.0	10.4
5.3.	Excess of the aggregate amount of risks by insiders over its maximum value	0.0	0.0	0.0
5.4.	Property transferred by banks to trust management	0.0	0.0	0.5
6.	*Negative regulatory capital*	*0.0*	*10.6*	*0.0*

Table 12

Macroprudential Indicators of the Activities of the Banking Sector of the Republic of Belarus

No.	Description	01.01.2007	01.04.2007	01.07.2007	01.10.2007	01.01.2008
	Capital adequacy					
1	Regulatory capital / risk-weighted assets ratio	24.39 %	20.48 %	19.30 %	18.95 %	19.31 %
2	Fixed capital / risk-weighted assets ratio	17.37 %	15.00 %	14.42 %	13.81 %	14.03 %
	Assets quality					
3	Share of problem debt in total credit debt	1.16 %	0.99 %	0.84 %	0.81 %	0.65 %
4	Assets risk ratio (assets subject to credit risk minus estimated reserve / assets subject to credit risk)	98.54 %	98.65 %	98.46 %	98.70 %	98.81 %
5	Problem assets debt minus actually established reserve / regulatory capital ratio	6.12 %	4.70 %	4.79 %	4.17 %	3.82 %
6	Clients' and banks' problem credit debt; problem off-balance debt; and clients' and banks' overdue and not received income in the aggregate / clients' and banks' credit debt	2.87 %	2.61 %	2.31 %	2.10 %	1.77 %
7	Completeness of establishment of special reserve to cover possible losses on assets subject to credit risk (actual reserve / estimated reserve)	99.70 %	98.96 %	83.90 %	95.88 %	99.58 %
8	Aggregated big credit risks / regulatory capital ratio	61.63 %	66.21 %	73.59 %	70.01 %	96.84 %
9	Clients' credit debt in foreign exchange /clients' aggregated credit debt	35.40 %	38.24 %	39.30 %	38.55 %	39.01 %
	Income and Profit					
10	Return on assets (ROA)	1.70 %	0.32 %	0.76 %	1.23 %	1.70 %
11	Return on equity (ROE)	9.55 %	1.91 %	4.61 %	7.63 %	10.70 %
12	Interest margin / gross income	25.51 %	23.55 %	24.61 %	25.12 %	24.60 %
13	Interest margin / income-earning assets	3.45 %	0.95 %	1.82 %	2.66 %	3.25 %
14	Non-interest expenses / gross income	53.52 %	53.51 %	50.53 %	48.99 %	48.86 %
	Liquidity					
15	Liquid assets / total assets ratio	24.11 %	21.89 %	22.20 %	22.62 %	22.60 %

16	Actual liquidity / required liquidity ratio (short-term liquidity)	1.81	1.39	1.37	1.71	1.97
17	Demand assets / demand liabilities ratio (instantaneous liquidity)	128.85 %	140.31 %	134.57 %	135.27 %	104.05 %
18	Current assets / current liabilities ratio (current liquidity)	96.69 %	110.82 %	91.62 %	101.50 %	98.78 %
19	Clients' deposits / clients' credit debt ratio	65.18 %	65.61 %	64.48 %	64.17 %	64.60 %
	Indicators of Management Quality					
20	Gross incomes / gross expenses	113.75 %	109.82 %	112.04 %	113.19 %	113.19 %
21	Staff costs / non-interest expenses	30.47 %	29.13 %	29.60 %	29.79 %	28.84 %
22	Gross incomes per worker on payroll, on average (Belarusian rubles, mln)	72.75	23.67	47.33	72.54	101.14

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