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OUTLOOK
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Contacts

Alexander Proklov 7-495-228-6072
VP-Senior Analyst
alexander.proklov@moodys.com

Semyon Isakov 7-495-228-6061
Vice President
semyon.isakov@moodys.com

Yaroslav Sovgyra 7-495-228-6076
Associate Managing Director
yaroslav.sovgyra@moodys.com

Nick Hill 33-1-5330-1029
Managing Director - Banking
nick.hill@moodys.com

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Banking System Outlook – Belarus

Economic Contraction, External Pressures Keep Outlook Negative

Summary

Our outlook for the Belarus banking system remains negative, unchanged since June 2009, with the already fragile operating environment – captured in our "Very Weak -" Macro Profile – likely to deteriorate further in 2016 owing to continuing economic contraction and heavy external pressures. The worsening operating environment will further erode banks' standalone financial strength at a time when the government's ability to extend support is very limited.

Belarus's ongoing economic contraction and currency depreciation largely stem from the recession in its largest export market, Russia, which may also have less capacity to provide financial support and energy subsidies to Belarus over the 12 to 18-month outlook horizon. We forecast Belarus's GDP will contract by 2.2% in 2016, following a 3.9% contraction in 2015. Further, the country's low foreign-currency reserves and persistently weak current-account balance expose the system to external shocks with high external debt repayments looming in 2016 and beyond.

Falling exports, economic recession and the depreciation of the Belarusian ruble will reduce the ability of Belarus's corporate borrowers to service their loans. We expect system-wide reported non-performing loans (NPLs, all loans 90+ days overdue) to reach nearly 8% of total loans over the next two years from over 5% as of year-end 2015 (Moody's estimation on an IFRS basis). Correspondingly, the banking system's capital adequacy ratio (CAR) will likely decline to 13.5% from around 17% over the outlook horizon.

Although increasing credit costs will be mainly absorbed by gradual growth in pre-provision income, we expect Belarusian banks to be only marginally profitable over the outlook horizon, reaching a net income-to-total assets ratio of only 0.7% by 2017, which is low by historical standards.

The funding and liquidity metrics of Belarusian banks remain vulnerable to volatile exchange rates, particularly given that around 60% of total deposits were denominated in foreign currency as of year-end 2015. Modest nominal growth in household incomes will constrain banks' capacity to expand local-currency funding, and deteriorating corporate profits and tighter government monetary policy will constrain the growth of corporate deposits.

The government's ability to recapitalise the banking system will be limited by recessionary budget constraints and the lack of available foreign-currency resources. At the same time, the National Bank of the Republic of Belarus (NBB) will be constrained from providing

substantial foreign-currency liquidity support by its very low international reserves. Given these fiscal and monetary constraints, administrative measures or restrictions on the flow of funds will likely be the government's and NBB's primary tools in containing turbulence in the banking system over the next 12-18 months.

The negative outlook on the banking system is consistent with the negative outlooks on the ratings of all Belarus banks and our negative outlook on Belarus' Caa1 government bond rating.

Exhibit 1

Overview of Key Drivers for the Negative Outlook on the Belarus Banking System

Operating Environment	Deteriorating	Continuing economic recession in 2016 due to adverse impact of Russian recession
		Low foreign-currency reserves and persistently weak current account balance in conjunction with high external debt repayments in 2016
		High inflation driven by rapid national currency devaluation
		Weak government institutions with a lack of policy transparency and predictability
Asset Risk	Deteriorating	Weakening asset quality driven by growing delinquencies in corporate and private sectors amidst economic recession
Capital	Deteriorating	Capital ratios will deteriorate across the sector owing to only limited internal capital-generation capacity and modest government resources available to recapitalise the banking system
Profitability and Efficiency	Deteriorating	Profitability will decrease to minimal levels, largely because of growing credit costs
		Cost to income ratios will remain volatile owing to currency fluctuations, which impact interest income from foreign-currency denominated assets
Funding and Liquidity	Deteriorating	Elevated risk of deposit run owing to volatile foreign exchange rates and persistent risk of capital controls
		Funding base is predominantly short term and liquidity is weak (especially in foreign currency) and deteriorating, as banks adjust business models toward shorter-maturity assets
Government Support	Deteriorating	Economic pressures and budget limitations will erode the government's capacity to provide capital and/or funding support to banks

Source: Moody's

Exhibit 2

Key Indicators for the Belarus Banking System (Moody's-rated banks only)

Asset Weighted Average Ratios Per Year	2010	2011	2012	2013	2014
Pre-Provision Income / Average RWAs	7.50%	5.09%	5.58%	3.97%	3.18%
Net Income / Average RWAs	1.30%	-7.72%	1.10%	0.82%	0.62%
(Market Funds - Liquid Assets) / Total Assets	20.37%	14.89%	9.66%	8.41%	7.75%
Liquid Banking Assets / Tangible Banking Assets	12.57%	15.14%	14.60%	15.96%	15.23%
Cost to Income Ratio	49.19%	273.11%	46.61%	57.37%	59.26%
Tier 1 Ratio	25.71%	17.05%	17.13%	15.90%	15.88%
TCE / RWAs	25.56%	16.92%	17.16%	15.63%	15.58%
Problem Loans [1]/ Gross Loans	0.66%	1.65%	0.79%	3.40%	2.27%
Problem Loans [1]/ (Shareholders Equity + Loan Loss Reserves)	3.68%	5.26%	3.15%	13.55%	9.12%

(1) Non-performing loans, as per Moody's Banking Financial Metrics (fully adjusted revision).
Source: Moody's

Rating Universe

We rate four of the 26 commercial banks in Belarus (Exhibit 3), accounting for 72% of gross loans and 91% of customer deposits at year-end 2015. Of the Moody's-rated banks, three are state-owned, while BPS-Sberbank is majority foreign-owned by Russian Sberbank (Ba1 under review for downgrade). The outlook on the Belarusian banks' long-term ratings is negative, reflecting our negative outlook on Belarus's sovereign credit rating.

The average local currency deposit rating of Belarusian banks was Caa1 as of 1 March 2016, which is among the lowest globally. The average baseline credit assessment (BCA), which reflects a bank's standalone strength, was caa1 for rated Belarusian banks. The low deposit ratings and BCAs reflect the very weak operating environment and the poor fundamentals of most Belarusian banks.

Exhibit 3

Moody's Rated Banks in Belarus

Name	Total assets (in $ million, YE2014)	Domestic market share (loans, YE2014)	Domestic market share (deposits, YE2014)	BCA	Notches of uplift	LC depost rating	FC depost rating	Outlook
Belarusbank	16,595	47%	47	caa1	0	Caa1	Caa2	Negative
Belagroprombank	6,515	18%	18	caa1	0	Caa1	Caa2	Negative
BPS-Sberbank	4,276	11%	9	caa1	1	B3	Caa2	Negative
Belinvestbank	2,365	6%	7	caa1	0	Caa1	Caa2	Negative

Source: Moody's

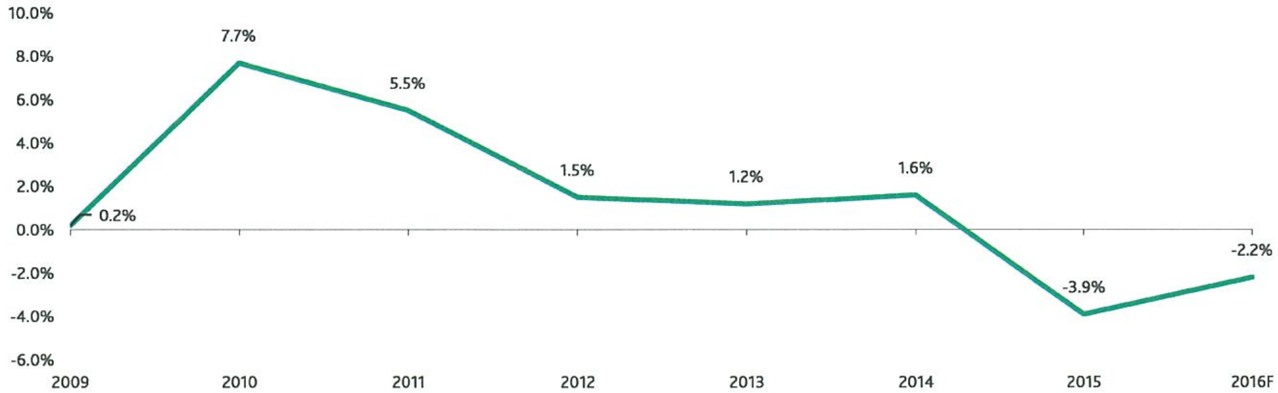
Operating Environment

Belarus's fragile operating environment – captured in the 'Very Weak –' Macro Profile of the system – will likely deteriorate further in 2016 owing to the continuing economic recession and challenging fiscal and monetary conditions (Exhibit 4). These challenges are driven by sluggish exports to Russia and CIS countries, as well as uncertainty regarding the external funding required from Russia and the International Monetary Fund (IMF) to maintain Belarus's balance of payments. Our current economic forecast for Belarus envisages a continuing GDP decline of 2.2% this year compared with a 3.9% GDP decline in 2015.

Exhibit 4

GDP Will Continue to Decline in 2016

GDP % change year on year



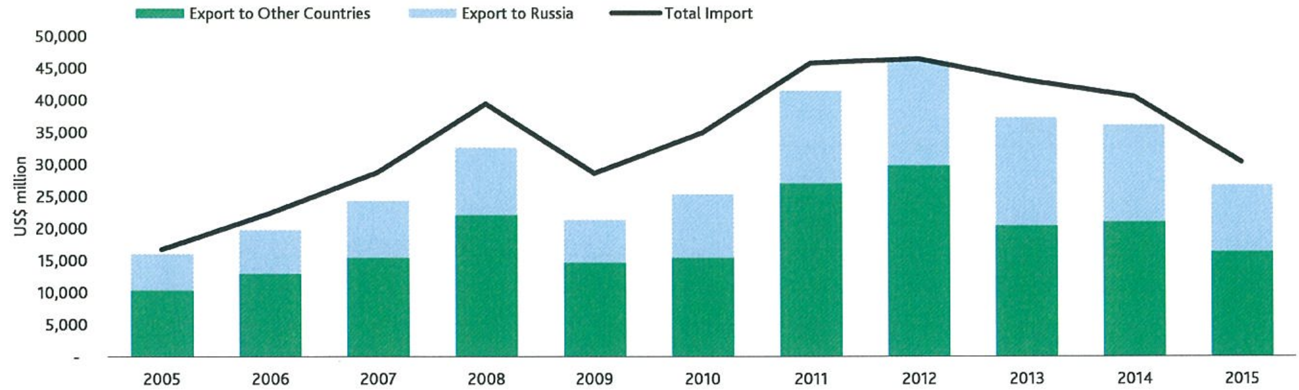
Source: Belarus National Statistical Committee, Moody's forecasts

Belarus's recession has closely tracked with that of its largest trading partner, Russia, whose GDP we forecast to decline 2.0% in 2016 after a 3.7% decline in 2015. Belarus's exports to Russia declined 31.6% in 2015 and total exports fell 26.0%, largely reflecting reduced demand for the country's manufactured goods (Exhibit 5).

Exhibit 5

Belarusian Exports to Russia and Other Countries Will Continue to Decline

Export/import dynamics, $US million



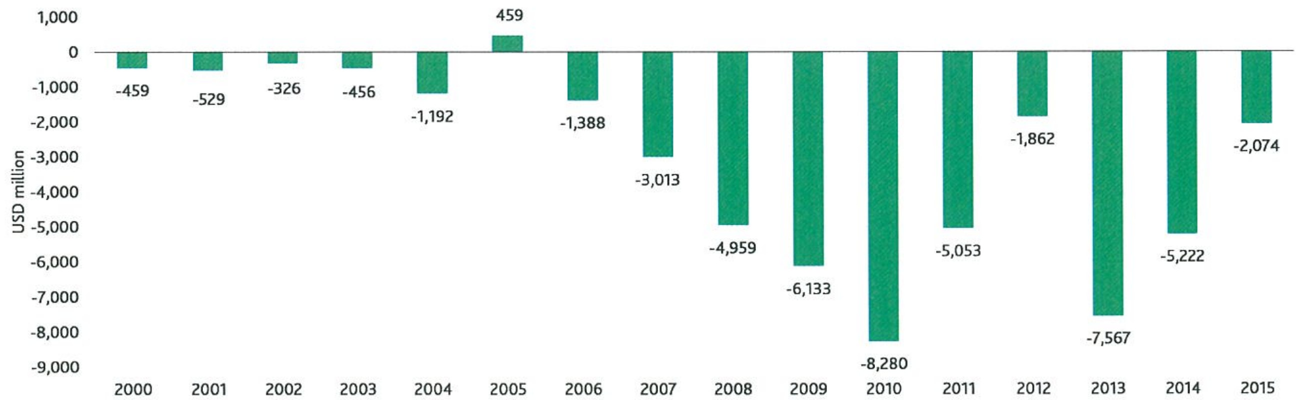
Source: NBB

Declining exports have raised the pressure on Belarus's already weak balance of payments – the 2014 deficit of $US 5.2 billion exceeded the country's foreign currency reserves (Exhibit 6). These pressures have been addressed by the introduction of a floating foreign-currency exchange regime in January 2015, which helped reduce the deficit to $US 2.1 billion as of year-end 2015.

Exhibit 6

Balance of Payments Improved as Imports Declined

Balance of payments dynamics, $US million



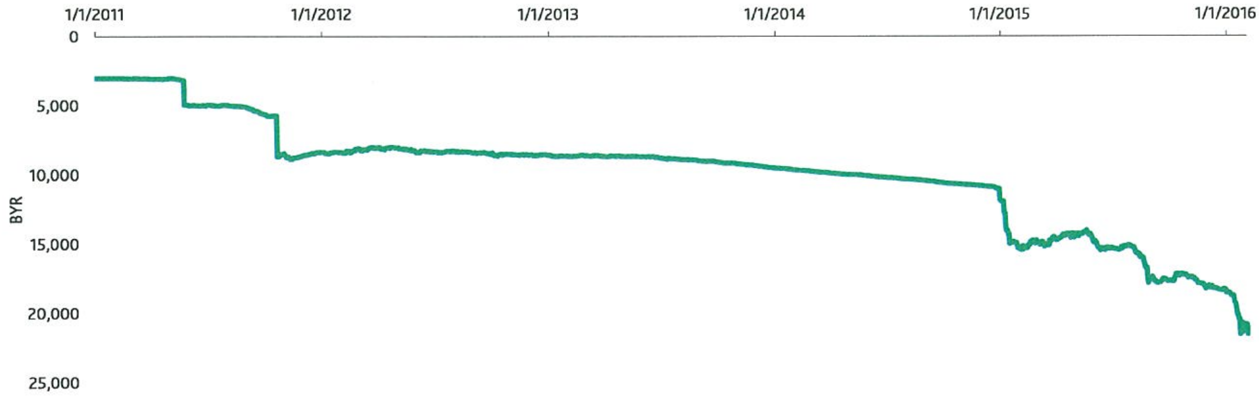
Source: NBB

Beginning in 2015 the National Bank of Belarus stepped back from frequent intervention and the currency peg, shifting to a floating exchange rate with a currency basket comprising the Russian ruble, US dollar and euro. The resulting depreciation of the Belarusian ruble has substantially improved the current account balance, but has also suppressed economic activity, imports and increased the volatility of the banking sector, which already suffers from high dollarization of both assets and liabilities (Exhibit 7).

Exhibit 7

Shift to Floating FX Regime Has Led to Substantial Ruble Depreciation

Official exchange rate (BYR per USD)



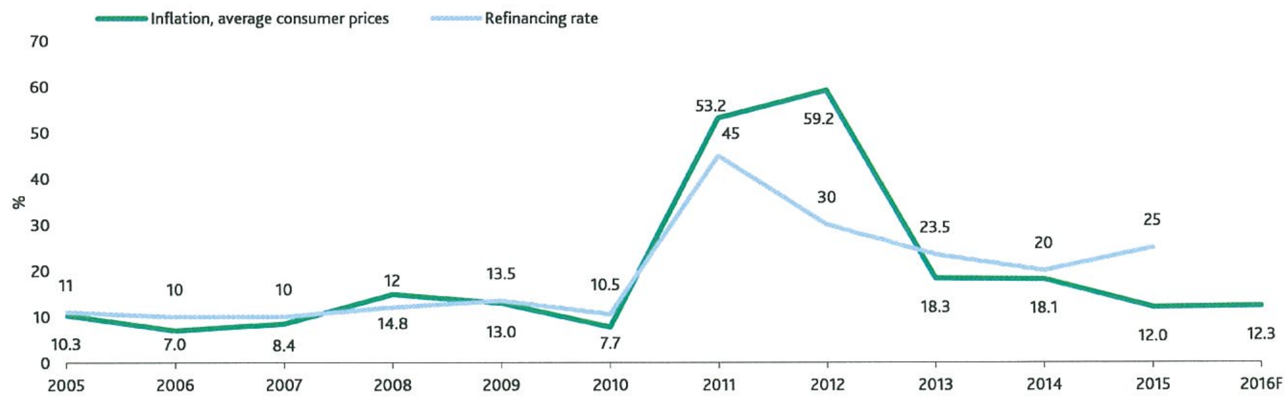
Source: NBB

The NBB's current monetary policies aim to stem inflation (Exhibit 8), which will likely drive interest rates higher, making banks' funding more expensive. Tighter monetary policy and the weak economy will also reduce the growth in nominal salaries, suppressing consumer confidence as well as loan growth to the household and services sectors.

Exhibit 8

Elevated Funding Costs Will Be Driven by High Refinancing Rate

Inflation and refinancing rate dynamics

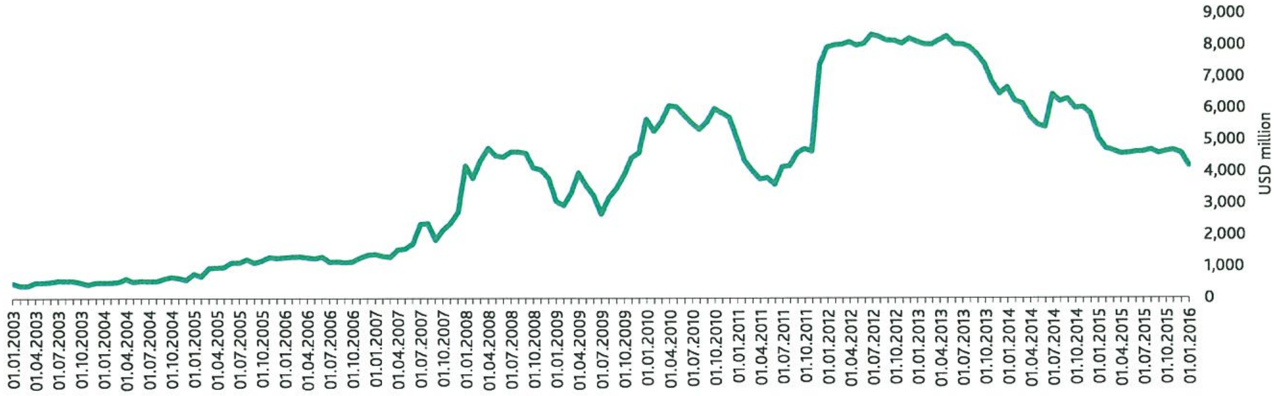


Source: NBB, Moody's forecast

Substantial changes in fiscal policy will likely be needed to augment Belarus's foreign currency reserves. Russia's recession and fast-tightening budget constraints will reduce its capacity to support Belarus with new loans and low-cost energy subsidies, and a $US 3 billion loan programme being negotiated with the IMF would be only a temporary solution. Moreover, the timing of any support from Russia or the IMF is uncertain.

If a reduction in Russian subsidies and/or absence of new external funding to Belarus leads to further pressure on the country's low foreign-exchange reserves (Exhibit 9), there is a risk that capital controls will be reintroduced, provoking additional significant liquidity stress and restricting banks' access to affordable funding.

Exhibit 9
Belarus's International Reserves Decline, as Do Prospects of Meaningful External Support



Source: NBB

Asset Risk and Capital

We expect the asset quality of Belarusian banks to weaken over the 12 to 18-month outlook horizon. Poor external demand and rapidly declining imports will hinder the financial performance of corporate borrowers. Declining real incomes, which fell 5.9% in 2015[1], will also reduce consumer demand and household debt repayment capacity.

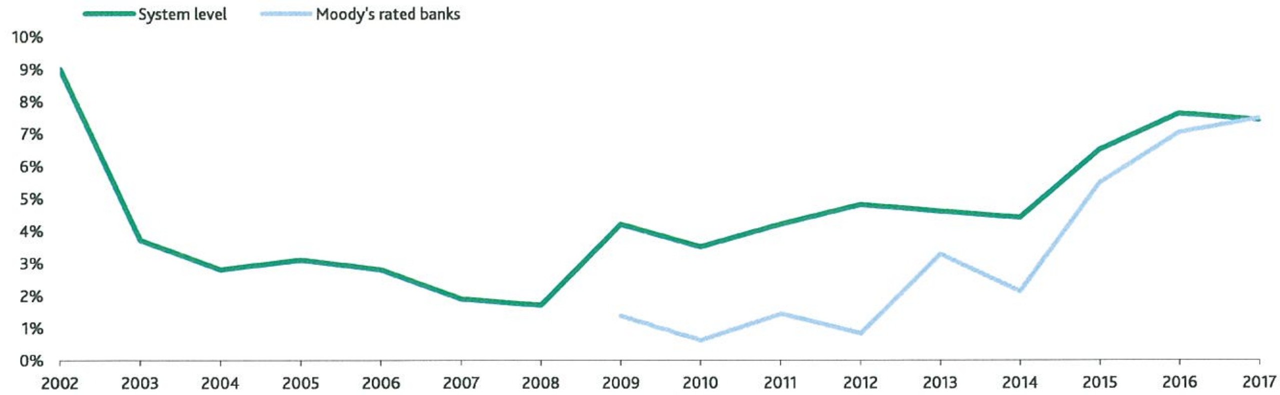
The banks' asset quality is already rather weak, as reflected in problem loans of around 20% of gross loans as of year-end 2014 (calculated for Moody's rated banks according to audited IFRS statements). Problem loans comprise all corporate and individual impaired loans, including restructured and renegotiated, but not overdue loans. At the same time, Belarusian banks' NPLs (defined as 90+ days overdue loans) are historically substantially lower, accounting for only around 2.3% of gross loans as of year-end 2014, according to audited IFRS statements.

The substantial amount of problem loans in the Belarusian banking system reflects a high proportion of renegotiated and restructured loans to local enterprises, including those in engineering, agriculture and other industries that are considered strategically important for the government. These enterprises enjoy favourable conditions for loan restructuring and renegotiations from government-owned banks. Nevertheless, we believe that the levels of loan impairment in the banking system will grow owing to recessionary pressures in 2016-17, while part of the problem loans will become overdue, which is reflected in our NPL forecast.

We expect that system-wide NPL levels will increase toward nearly 8% of gross loans as of year-end 2017 (Exhibit 10, please also see our forward-looking solvency analysis below). Among the Moody's-rated banks, we expect gradual NPL growth for the three state-owned banks (Belarusbank, Belagroprombank and Belinvestbank), while BPS-Sberbank will likely record stable or even declining NPLs following a spike to near 9% in Q3 2015 from 2.4% in 2014.

Exhibit 10

Non-Performing Loans Will Rapidly Increase Across the System and for Moody's-Rated Banks



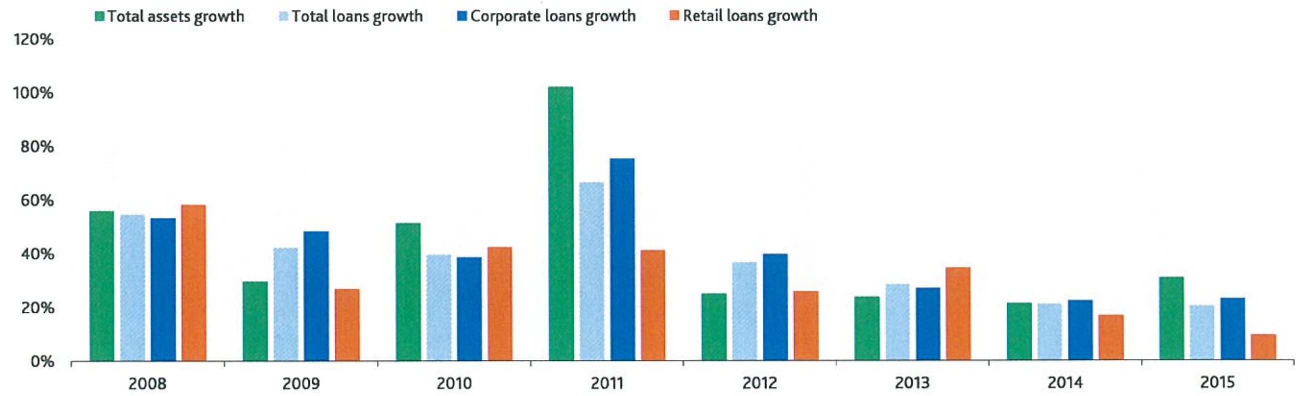
Source: Moody's

We expect the recessionary environment, coupled with the NBB's efforts to contain monetary expansion, to keep nominal loan growth (and RWA growth) roughly in line with inflation at around 15% in 2016-17. Slower credit expansion (Exhibit 11) would mean less dilution of new problem loans, driving up the ratio of problem loans to gross loans.

Exhibit 11

Declining Loan Growth Will Likely Drive Up the Problem Loans Ratio

Dynamics of total assets, total loans, corporate loans and retail loans growth



Source: NBB

Over the past several years, the average maturity of bank loans has lengthened as banks have extended credit to lower-risk, government-directed investment projects, which have also been supported by long-term state funding. However, we expect this trend to halt over the outlook horizon since the government will have less capacity to boost investment. As a result, the state-owned banks will likely need to adjust their business models toward shorter-maturity and riskier lending.

The system-wide statutory Tier 1 capital ratio has grown substantially to 14.7% as of year-end 2015 from 12.9% as of year-end 2014 (Exhibit 12). However, this growth reflected one-off capital increases at Belarusbank (BYR10 trillion) and Belagroprombank (BYR1.3 trillion), made by converting government deposits into shareholders' equity. Other Belarusian banks received no material capital support from either the government or their shareholders.

Exhibit 12

Increase in System Tier 1 Capital Reflects One-Off Increases at Just Two Banks

Regulatory Tier 1 capital to risk-weighted assets

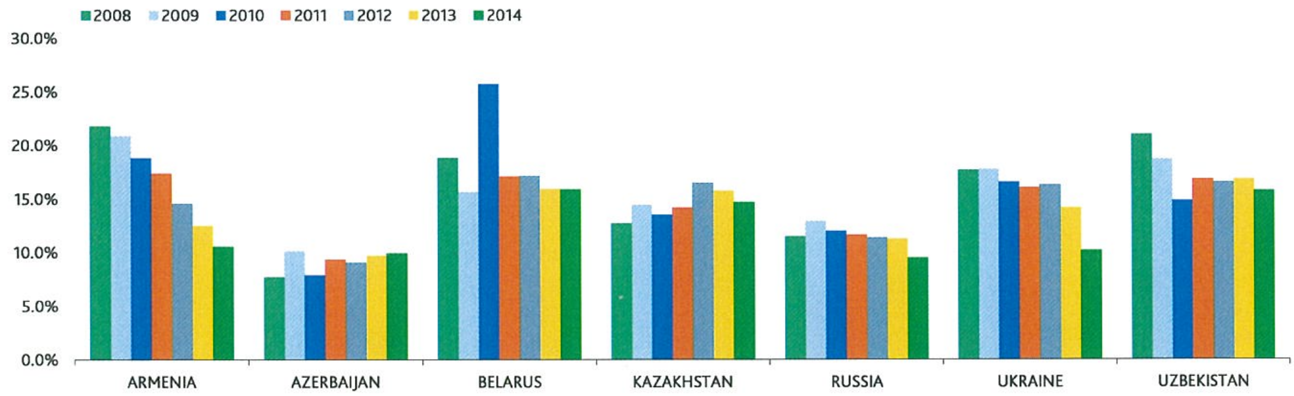
Source: NBB, Moody's.

Belarusian banks' Tier 1 capital levels are largely in line with or better than those of banks in other CIS countries (Exhibit 13).

Exhibit 13

Belarusian Banks' Capital Compares Favorably to CIS Peers

Tier 1 capital ratio for Moody's-rated banks across CIS Systems



Source: Moody's

Forward-Looking Solvency Analysis

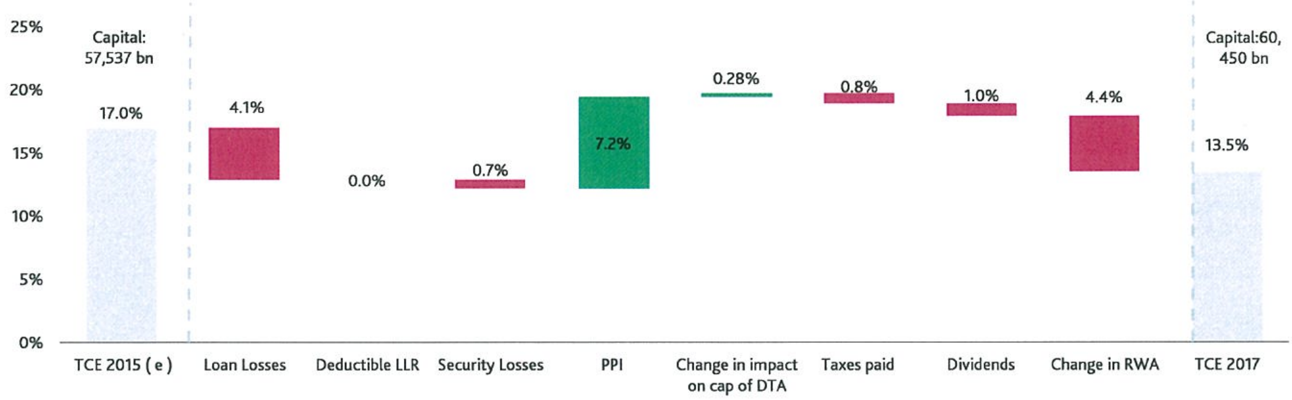
Base expectations: weakening capital

Under our baseline (or most likely) scenario, we expect the system-wide capital ratio to decline over a two-year horizon; i.e., up until end-2016. This is driven by non-performing loans increasing to near 8% over the period, up from around 2.3% at the end of 2014 (most recently available audited IFRS data), which would result in credit costs of around 2% of total loans, reducing Belarusian banks' profitability and internal capital-generation capacity. Our baseline assumption is that the banking system's capital adequacy ratio will decrease to 13%-14% over the outlook period from 17% at end 2015 (Moody's estimation under IFRS, Exhibit 14).

In addition, we budget for some losses on securities, most of which are related to the sovereign and, therefore, are driven by the expected loss rate equivalent to its Caa1 rating. The banking system would nevertheless remain profitable in this scenario, although retained earnings would be essentially absorbed by anticipated growth in risk-weighted assets in line with nominal GDP as well as an anticipated 15% currency depreciation of the BYR against the US dollar by 2017[2]. We also anticipate dividends paid by the largest state-owned banks to remain in line with historical levels, which reflects the banks' considerable dividend payments owing to higher net income posted under local statutory statements over past few years.

Exhibit 14

Belarus: Evolution of Capital Ratio Under Baseline Scenario



Source: Moody's

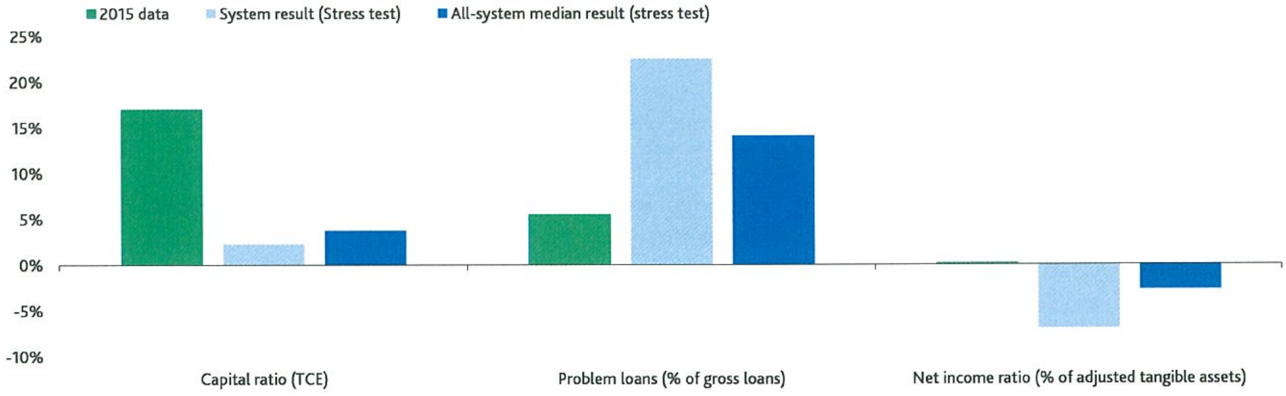
Stress scenario: severe impact under stressed conditions

We also consider an alternative "stress scenario" [3]. This is not our baseline expectation but a measure of the capacity of banks to withstand such stressed conditions. They thus inform our opinion on the creditworthiness of the system as a whole. The results of our stress scenario on the Belarusian financial system show that the impact would be severe, leaving the system with capital equivalent to about 2.3% of its risk-weighted assets at the end of 2017, compared with 17% at the end of 2015. Under this scenario, the Belarusian financial sector would require additional capital of around BYR27 trillion to restore the regulatory Tier 1 capital ratio to the 10% minimum.

This result is driven by NPLs rising to 22.5% of gross loans, and credit costs totaling almost 7% of gross loans. We estimate losses on securities of around 2.5% of starting point capital. Pre-provision income would be negative (-2.7%) owing to low net interest and non-interest income.

This stress test is by design extremely severe and as such is not comparable with regulatory measures of stress capital, for example. Compared with other systems, the resilience to stress of the Belarusian financial system is weaker: the median capital ratio after stress of other systems tested is 3.8% (Exhibit 15).

Exhibit 15
Solvency Metrics Under Moody's Stress Test – Belarus Versus Median Banking System

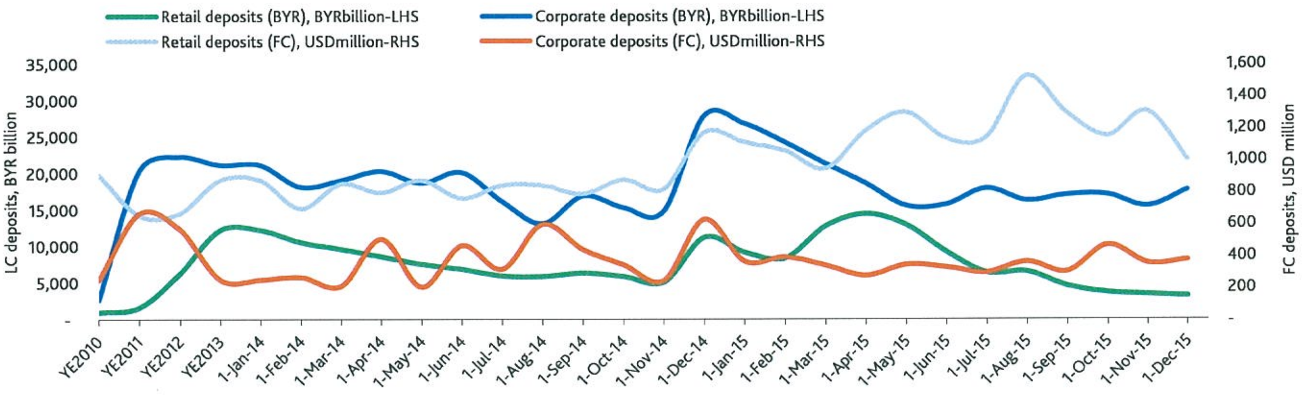


Source: Moody's

Funding and Liquidity

The funding of Belarusian banks will remain vulnerable to volatility in exchange rates, as more than half of deposits (around 60% of total deposits and 70% of deposits due to individuals) were denominated in foreign currency as of year-end 2015 and most are short-term. Since early 2015, monthly retail deposit inflow in the national currency has substantially weakened, while the inflow of foreign-currency deposits has materially grown (Exhibit 16).

Exhibit 16
Dependence on Foreign-Currency Deposits Increases Risk of Capital Controls
Monthly dynamics of net inflows of deposits in Belarus banking system (local GAAP)



Source: NBB

Moreover, non-resident liabilities are largely foreign-currency denominated and accounted for around 22% of total liabilities at the end of 2015. This suggests that a large outflow of non-resident funding could lead to substantial foreign-currency liquidity pressures and may lead to temporary capital controls (e.g., a foreign-currency deposit freeze or transaction taxes).

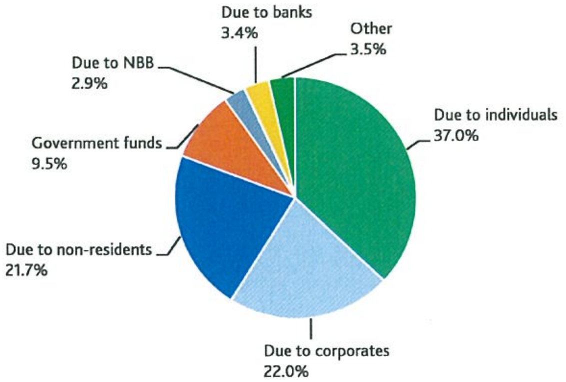
We expect that Belarusian banks will be able to expand their local-currency funding at or slightly above the 12% inflation rate forecasted for 2016. Modest nominal growth in household incomes will constrain growth of domestic individual deposits (37% of banks' total liabilities at the end of 2015), while deteriorating corporate profits and tighter government policy will constrain growth of domestic corporate deposits (22% of liabilities).

The government will continue to provide longer-term funding that helps Belarusian banks bridge the gap between the size of loans and the size of deposits, and we expect the NBB to provide local-currency liquidity support to banks, as needed, notwithstanding its current anti-inflationary stance. At the same time, the proportion of such funding is decreasing: at the end of 2015, funding from the government and NBB together comprised 12.4% of liabilities (Exhibit 17) compared with 17.0% as of year-end 2014.

Exhibit 17

Corporate and Individual Deposits Dominate the Funding Structure

Funding composition, year-end 2015 (local GAAP)



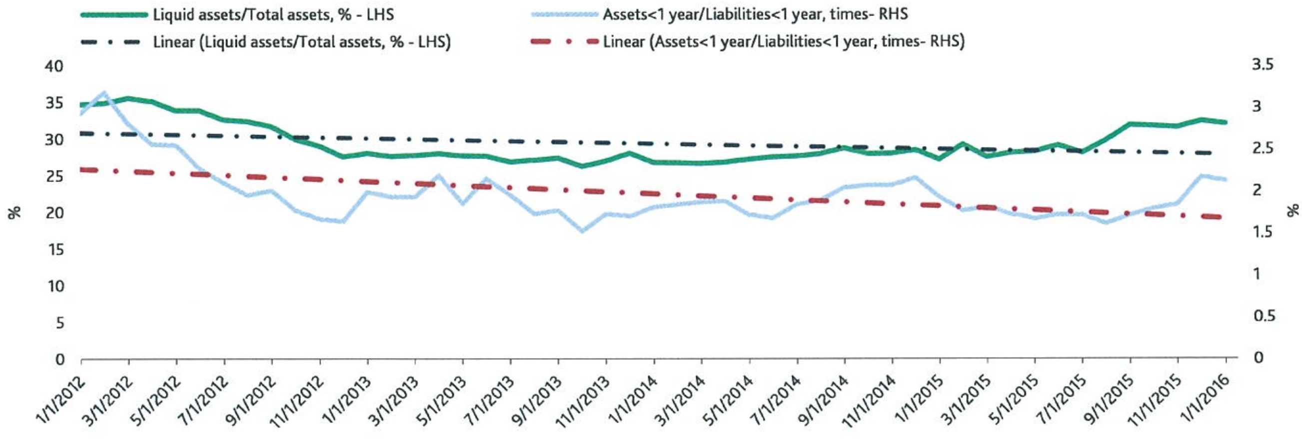
Source: NBB

We note a gradual deterioration in the key system-wide liquidity metrics of Belarusian banks (Exhibit 18), particularly in the short-term assets to short-term liabilities ratio. This adverse trend is exacerbated by insufficient liquid foreign-currency assets, which accounted for only 59% of foreign-currency deposits across the system.

Exhibit 18

Lack of Liquid Foreign-Currency Assets Drives Down System-wide Liquidity Metrics

Liquidity ratios (Local GAAP)



Source: NBB

Profitability and Efficiency

Higher credit costs are likely to keep the profitability of the Belarusian banking system very low over the next 12 to 18 months (with net income of around 0.7% to total assets under IFRS). We estimate that reserves for losses on problem loans will increase to at least 6% of gross loans as of year-end 2016 from Moody's estimated 4% at the end of 2015, implying that provisions will need to account for at least 2% of gross loans. The system is already only marginally profitable (Exhibit 19), with a return on assets (RoA) of only around 1% (under local statutory statements) as of year-end 2015 and 1.7% as of year-end 2014.

Exhibit 19

High Credit Costs Will Further Reduce Belarusian Banks' Low Profits

Monthly return on assets of the Belarusian banking system (Local GAAP)

Source: NBB

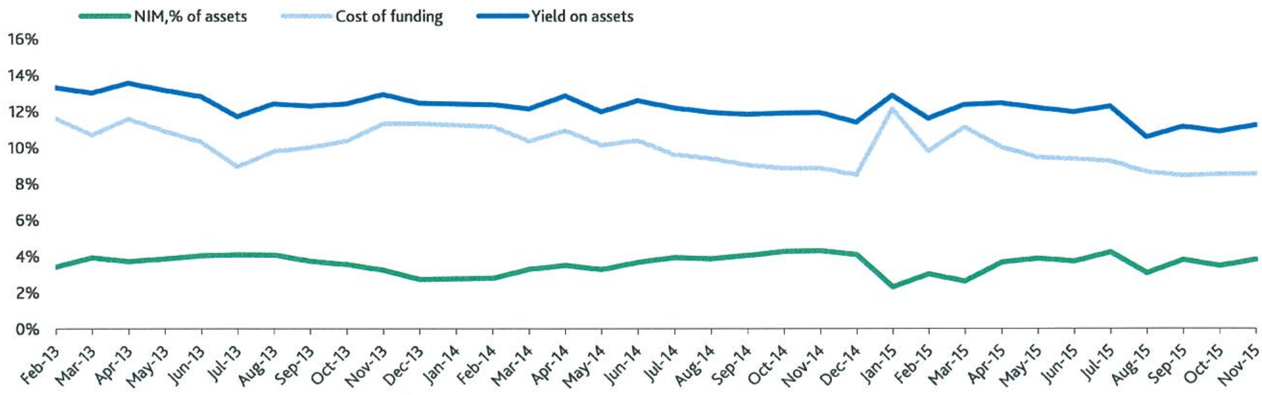
The profitability metrics of the Moody's-rated state-owned banks tend to be even weaker than for the system overall, since their priority is often to implement government policy, even at the cost of constraining profitability.

The net interest margin (NIM) of the banks will also remain vulnerable, as high interest rates aimed at containing inflation increase funding costs, while growth in asset yields is contained by the government policy of providing low-cost loans to support the economy. These long-term trends are reflected in rather low system-wide NIM measured according to local statutory statements (Exhibit 20).

Exhibit 20

High Interest Rates, Low Asset Yields Keep Net Interest Margin Compressed

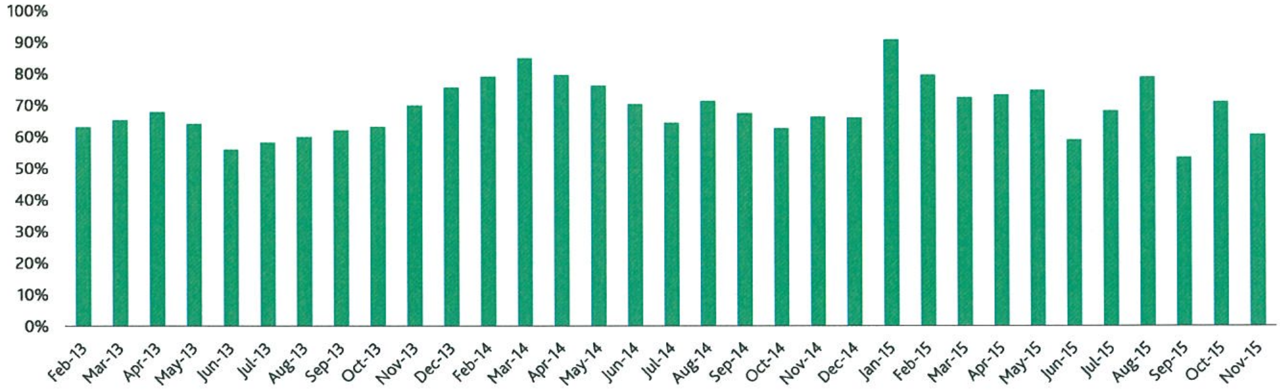
Monthly NIM Dynamics (Local GAAP)



Source: NBB

The Belarusian banks' efficiency ratios will also remain weak and very volatile (Exhibit 21), reflecting high refinancing rates as the National Bank focuses on containing inflation, volatile interest income from foreign-currency denominated assets due to currency fluctuations, as well as the limited flexibility of state-owned banks to reduce costs as top-line growth slows.

Exhibit 21
Bank Efficiency Is Weak and Highly Volatile
Belarusian banks' cost-to-income ratio dynamics



Source: NBB

Government Support

The Belarusian banking sector is dominated by three state-owned banks (Belarusbank, Belagroprombank and Belinvestbank) that account for around 65% of total banking system assets, with Belarusbank alone accounting for 41%. State-owned banks in Belarus often serve as conduits for national economic policies, tying their business strategies to government decisions rather than straightforward considerations of commercial efficiency. This industry structure predetermines the typically weak financial performance and low capital-generation capacity of Belarusian banks, which has made the banks dependent on periodic capital injections from the government.

We believe that the government's ability to recapitalise the banking system will remain only modest over the outlook horizon owing to tightening budget constraints as the economic recession continues and foreign-currency resources remain scarce. In this regard, we note that the recent one-off recapitalization of Belarusbank and Belagroprombank was done by transferring government deposits in these banks to their shareholders' capital, and thus required no additional budget resources.

The NBB's capacity to provide foreign-currency liquidity support is likewise weak and deteriorating given the decline in foreign currency reserves. Meanwhile, the NBB's intention to contain inflation may limit its willingness to provide local-currency liquidity unless absolutely necessary. Hence, we expect that administrative measures, including restrictions on interest rates and foreign exchange, will form a key part of the NBB's toolkit in case of any further substantial turbulence in the banking system.

We note that these limitations are reflected in the Belarus government debt rating (Caa1 negative) and our Very Weak- Macro Profile for the Belarus banking system. They are also incorporated in our ratings of the banks, which do not currently benefit from assumptions of government support.

Moody's Related Research

Rating Methodology:

» Banks, March 2015 (179038)

Sector Comment:

» Belarus' Worse-than-Expected Economic Deterioration Is Credit Negative for Its Banks, July 2015 (183342)

Sector In-Depth:

» Banking - Commonwealth of Independent States: Banks in CIS Feel Pinch from Russia Downturn and Low Oil Prices, July 2015 (1004585)

Macro Profiles:

» Banking: Belarus Macro Profile: Very Weak -, March 2015 (1003439)

» Moody's Macro Profiles: A Compendium, March 2015 (1002450)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Banking System Outlook Definition

Banking system outlooks represent our forward-looking assessment of fundamental credit conditions that will affect the creditworthiness of banks in a given system over the next 12-18 months. As such, banking system outlooks provide our view of how the operating environment for banks, including macroeconomic, competitive and regulatory trends, will affect asset quality, capital, funding, liquidity and profitability. Banking system outlooks also consider our forward-looking view of the systemic support environment for bank creditors.

Since banking system outlooks represent our forward-looking view on credit conditions that factor into our bank ratings, a negative (positive) outlook suggests that negative (positive) rating actions are more likely on average.

Overview of Banking System Outlook

Banking System Outlook Table
As of March 16, 2016

Banking System	Positive	Stable	Negative
Argentina		Stable	
Australia		Stable	
Austria			Negative
Azerbaijan			Negative
Bahrain			Negative
Baltic Countries		Stable	
Belarus			Negative
Belgium		Stable	
Bolivia			Negative
Brazil			Negative
Canada			Negative
Chile		Stable	
China			Negative
Colombia		Stable	
Cyprus		Stable	
Czech Republic		Stable	
Denmark		Stable	
Egypt		Stable	
Finland			Negative
France		Stable	
Germany		Stable	
Greece			Negative
Hong Kong			Negative
Hungary		Stable	
India		Stable	
Indonesia		Stable	
Ireland	Positive		
Israel		Stable	
Italy		Stable	
Japan		Stable	
Kazakhstan			Negative
Korea		Stable	
Kuwait		Stable	
Lebanon			Negative
Malaysia		Stable	

Banking System	Positive	Stable	Negative
Mexico		Stable	
Mongolia			Negative
Netherlands		Stable	
New Zealand		Stable	
Norway		Stable	
Oman			Negative
Pakistan		Stable	
Paraguay		Stable	
Peru		Stable	
Philippines		Stable	
Poland		Stable	
Portugal		Stable	
Qatar		Stable	
Russia			Negative
Saudi Arabia		Stable	
Singapore		Stable	
Slovakia		Stable	
Slovenia		Stable	
South Africa		Stable	
Spain	Positive		
Sri Lanka		Stable	
Sweden		Stable	
Switzerland		Stable	
Taiwan		Stable	
Thailand		Stable	
Turkey			Negative
Ukraine			Negative
United Arab Emirates		Stable	
United Kingdom		Stable	
United States		Stable	
Uruguay		Stable	
Uzbekistan		Stable	
Vietnam		Stable	

Appendices

Belarus Macro Profile: Very Weak -

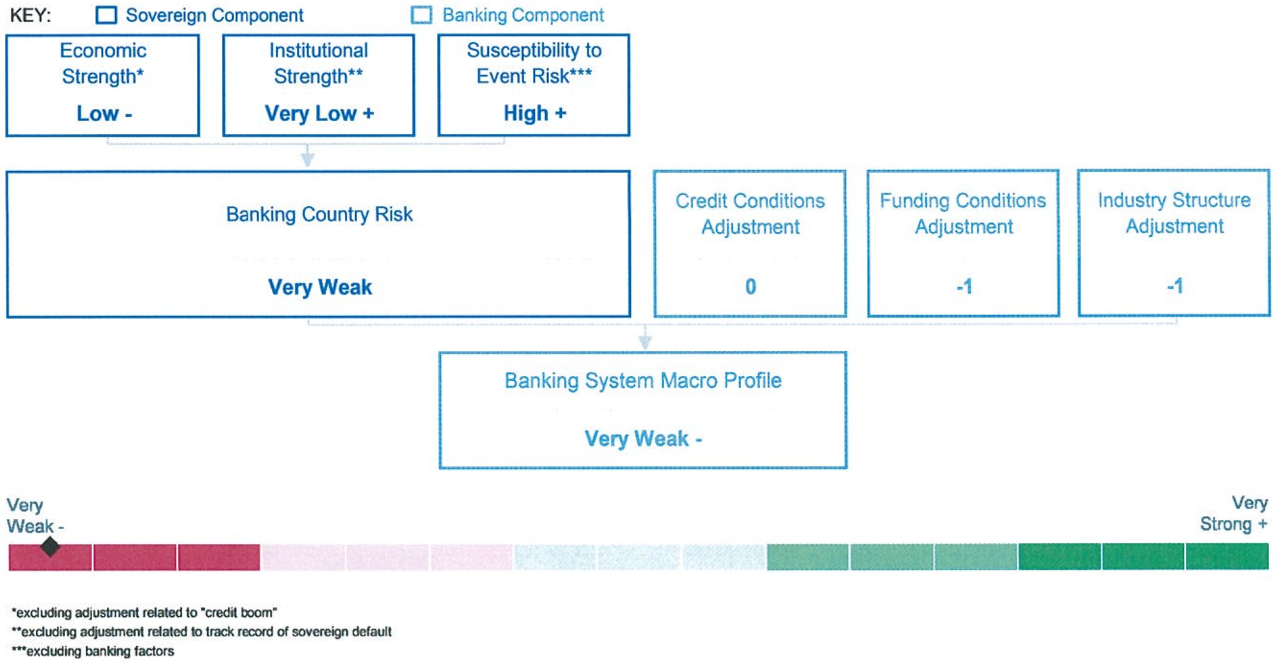
The Macro Profile is a rating input used to determine each bank's Baseline Credit Assessment. It is designed to capture the system-wide factors that are predictive of the propensity of banks to fail.

The Belarusian (B3 review for downgrade) economy is small but relatively diversified, with moderate per-capita income levels.The government plays a dominant role in the economy, with more than half of the population employed by fully state-owned enterprises or by companies with partial state ownership, and there is strong state influence in private-sector enterprises as well. Belarusian companies depend on external funding and energy subsidies, mainly from Russia -- for example, the chemical industry uses inputs that are often procured at prices below those prevailing on international markets. The resulting exposure to external shocks, as well as Belarus's weak institutional framework and high susceptibility to event risks, are negative factors for the national banking sector. Vulnerabilities to external shocks are a key driver of the negative outlook on the B3 sovereign rating.

Read the full report, Belarus Macro Profile: Very Weak - . For more information about Moody's Macro Profiles, please see Moody's Macro Profiles: A Compendium and consult Moody's Bank Rating Methodology.

Exhibit 22

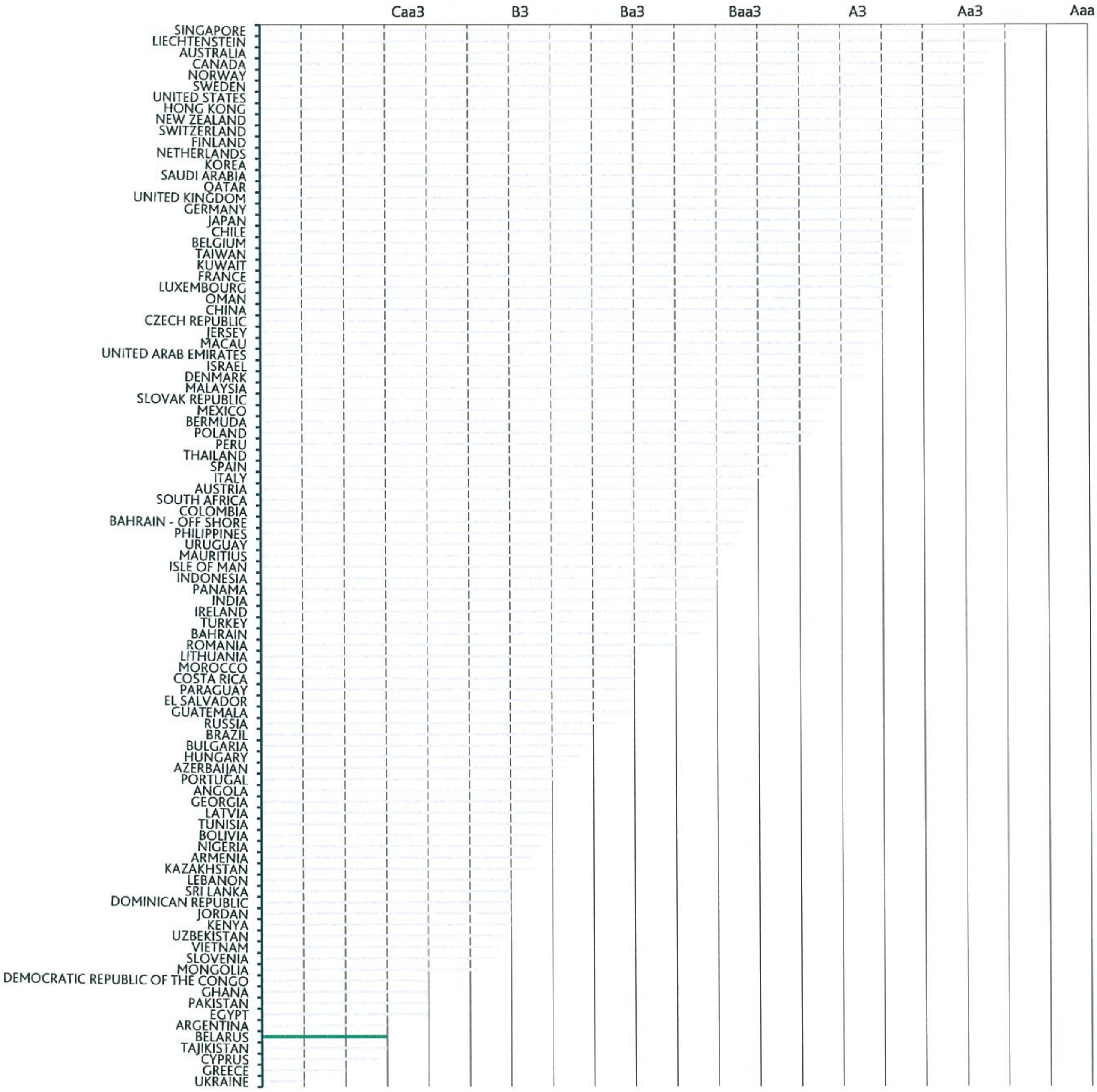
Arriving at Belarus's Macro Profile: Very Weak -



Note: The Macro Profile is a rating input used to determine each bank's Baseline Credit Assessment. It is designed to capture the system-wide factors that are predictive of the propensity of banks to fail. For more information, please consult Moody's Bank Rating Methodology.
Source: Moody's Investors Service

Average Long-Term* Ratings (Asset-Weighted) – Moody's Rated Banks**

Ratings data as of February 28, 2016



*Because not all rated banks necessarily have the same rating class outstanding, rating included in 'Long-Term Rating' column is determined by an internal algorithm, which is described here.
**Includes all banks assigned a BCA, plus one or more Long-Term Ratings.

Endnotes

1 According to the National Statistical Committee.

2 Our baseline forecasts are based on econometric models and a set of assumptions. Probabilities of default per asset class are derived from our forecasts for problem loans, and general assumptions on loan book growth and write-off rates that have been adapted to the particular circumstances of the system. Our forecasts for problem loans are obtained from a econometric model, where data for 60 financial systems have been used. The model includes macroeconomic variables such as real GDP growth, unemployment, inflation and exchange rate. For investment and securities (government, corporate and other securities such as structured products), we use idealized tables based on current ratings. In general, we assume that pre-provision income, risk-weighted assets and adjusted tangible assets grow as a function of the size of the economy, although we test and adjust these assumptions against recent evolution of these variables. Dividend pay-out ratios are kept constant throughout the forecasting period, or adjusted to include reasonable changes in banks' dividend policies.

3 Moody's stress tests focus on credit and market risk (see Appendix 7 of the Banking Rating Methodology). We stress test the loan portfolio using a multiplier approach, broadly based on the Basel II internal ratings-based approach to risk management. The multipliers convert the baseline probabilities of default (obtained considering the macroeconomic outlook) into stressed probabilities of default. Those multipliers depend on the particular asset class and are based on the 96th percentile of the implied loss distribution, roughly corresponding to a 1-in-25 year event (for a reference see Expected and unexpected bank losses: revisiting the Basel approach). We also stress test the securities and investment portfolio using idealized loss tables (after a three-notch downgrade from current bond ratings) and past declines in prices for equities. Regarding banks' income streams (interest and non-interest income), we impose haircuts broadly consistent with 1-in-25 year events and with evidence obtained in countries severely affected by financial crises. On interest income we apply a haircut of one-third, whereas for non-interest income the haircut ranges depending on the volatility of the system from very low (-55%) to very high (-75%). Expenses are kept constant throughout the two-year testing period. Other assumptions include constant risk weighted assets and adjusted tangible assets.

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