

THE CENTRAL BANK OF THE RUSSIAN FEDERATION



A N N U A L **2 0 0 6** R E P O R T



Approved by the Bank of Russia Board of Directors on May 14, 2007

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## INTRODUCTION

This Bank of Russia Annual Report has been compiled pursuant to Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). It reflects the results of the efforts made by the Bank of Russia in 2006 to ensure the stability of the ruble, upgrade and strengthen the banking system and ensure the effective functioning of the payment system. Bank of Russia annual financial statements, the auditor's report and the report by the Audit Chamber of the Russian Federation are integral parts of this Report.

The year 2006 saw rapid economic growth in Russia and the external conditions were favourable for the Russian economy. The main peculiarity of 2006 from the viewpoint of external economic relations was net foreign capital inflow. With the massive flow of foreign currency into the country, the Bank of Russia had to maintain the managed floating exchange rate regime in order to help Russian producers retain their competitive positions. As a result, while the nominal effective exchange rate of the ruble grew slightly, Russia's international reserves increased significantly and by the end of 2006 Russia had risen to third place in the world in terms of international reserves.

To contain the growth in the money supply, caused by the Bank of Russia foreign currency interventions, the Russian Government and the Bank of Russia used budget policy mechanisms and instruments of monetary regulation to absorb excess liquidity in the economy. However, M2 growth in 2006 was faster than in 2005.

At the same time, faster-than-expected growth in the money demand in 2006 mitigated the negative inflationary consequences of the accelerated expansion of the money supply. As a result of the decisions taken by the Government to set limits on growth in administered prices and tariffs and the efforts made by the Bank of Russia to ensure the stability of the national currency, the inflation rate slowed down to 9% in 2006.

The early debt repayment to the Paris Club of creditor nations and the liberalisation of foreign currency legislation allowed this country to strengthen its international financial positions.

Russia's GDP grew faster than the world economy, due mainly to the expansion of domestic consumer and investor demand. Production growth continued in 2006, especially in the manufacturing sector, real income rose, unemployment declined and fixed capital investment increased significantly.



Banks retained their positions of command on the financial mediation market in 2006 and their functional influence on the economy has grown. The capitalisation of the banking system has increased and the introduction of advanced corporate governance and risk management technologies has accelerated.

The banking system remained stable, ensuring the stability of the economy as a whole. To upgrade and strengthen the banking system, the Bank of Russia maintained the current liquidity in the banking sector by using monetary policy instruments; the activities of credit institutions were constantly monitored and corrective action was taken in line with the established procedure.

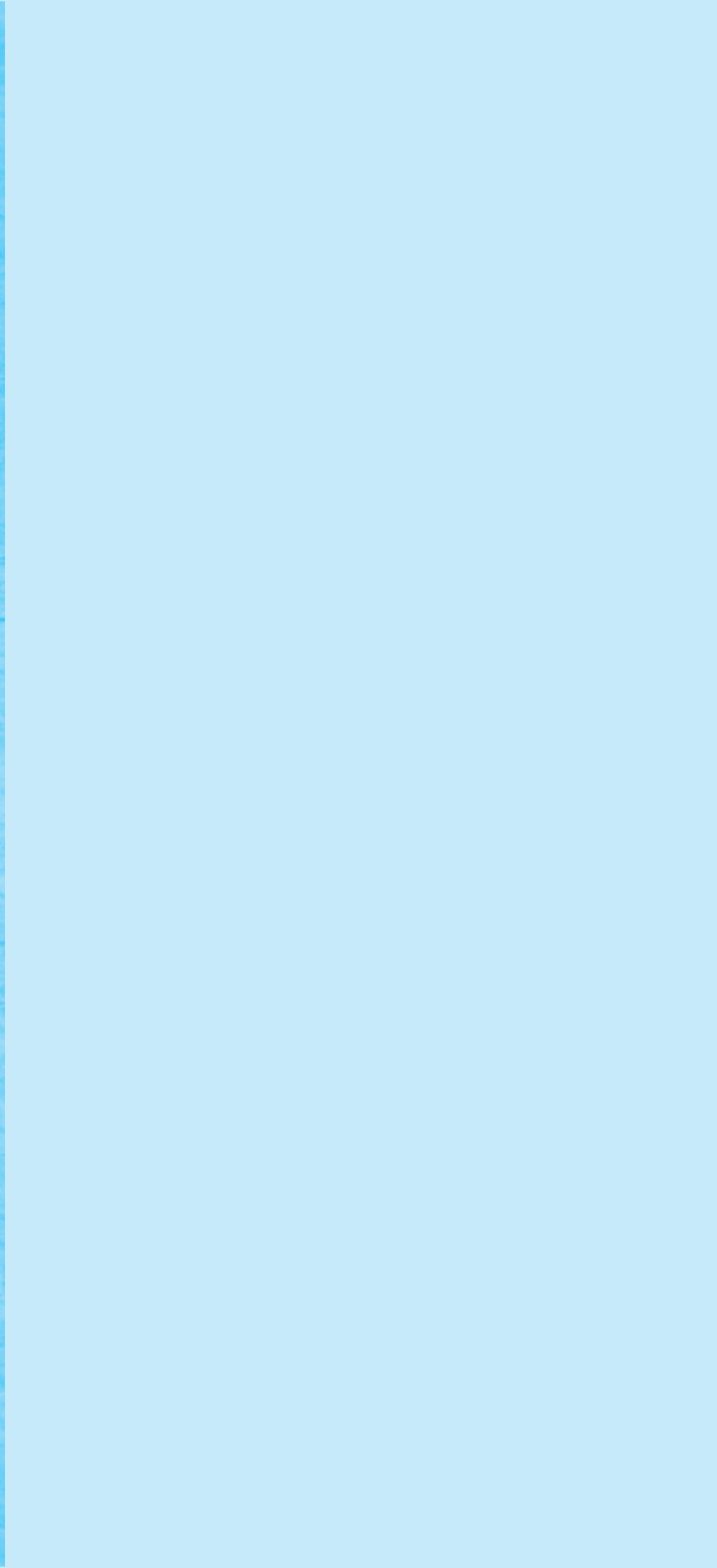
In accordance with the Russian Banking Sector Development Strategy until 2008, the Bank of Russia upgraded the institutional infrastructure of the banking business, thus making Russian credit institutions more competitive. Prospects for the banking business have improved.

Increased competition and banking capital concentration and the expansion to international markets compelled Russian banks to maintain a corresponding level of openness, while the Bank of Russia urged credit institutions to make their activities more transparent and disclose full and reliable information about the services provided.

The Bank of Russia expanded the practice of openly discussing its draft rules and regulations within the banking community. The upgrading of the regulatory framework of the activities of credit institutions was aimed at consolidating the legal foundations of their business, protecting the rights of creditors and depositors and perfecting Russian legislation with due account of best international banking practices. The Bank of Russia continued to improve the deposit insurance system and the procedures for making and implementing supervisory decisions.

In 2006 the Bank of Russia ensured the reliable and uninterrupted functioning of the payment system. The use of advanced technology, the measures taken to reduce settlement time and the modernisation of the payment system infrastructure helped improve the provision of settlement services. Payment card settlements kept growing rapidly and the infrastructure of this service continued to improve.

The specific measures taken by the Bank of Russia in various areas and the analysis of the implementation of the main parameters of the single state monetary policy in 2006 were regularly covered by the *Bank of Russia Bulletin*, the *Bulletin of Banking Statistics*, in various analytical materials, as well as on the website of the Bank of Russia.



**THE ECONOMIC AND  
FINANCIAL SITUATION  
IN RUSSIA**



## I.1. THE ECONOMIC SITUATION IN RUSSIA

The economic situation in 2006 was characterised by a reduction of inflation and sustained economic growth. Fixed capital investment and real money income continued to increase at rapid rates.

The favourable world market situation and macroeconomic stability inside the country led to further improvement of the Russian balance of payments. In 2006 the current account surplus, foreign capital influx into the private sector and growth in international reserves reached the highest levels since 1992.

As the world market prices of Russian export commodities and the Russian economy grew faster than was expected when the budget for 2006 was drafted, actual federal budget revenue exceeded projections and the federal budget surplus accounted for 7.4% of GDP in 2006.

The Russian government's foreign debt in 2006 contracted not only due to scheduled payments, but also to the early debt repayment to the Paris Club of creditor nations. The debt burden on the economy<sup>1</sup> decreased despite the growing foreign debt in the private sector.

**Consumer price inflation** in 2006 slowed down by 1.9 percentage points as compared to 2005, reaching 9.0% (December on December).

As energy prices on world markets and private foreign capital inflow increased more than

projected in the Guidelines for the Single State Monetary Policy for 2006, money supply growth accelerated and, as a consequence, inflation in 2006 exceeded the target set in the Guidelines by half a percentage point.

The slowing down of growth in the prices of paid services provided to the public to 13.9% in 2006 from 21.0% in 2005 made a major contribution to the slowing down of consumer price growth. According to estimates, the growth of administered prices went down 1.7 times in 2006. The greatest reduction occurred in the growth of rent and communal services' rates — to 17.9% from 32.7% in 2005. The federal government's decision to set limits on the growth in the administered prices in each region had a major effect on the reduction of inflation in 2006.

Inflation also went down due to the reduction of growth in the prices of goods and services taken into account when calculating the core consumer price index. In 2006 core inflation went down to 7.8% from 8.3% in 2005.

Growth in food prices in 2006 was 0.9 percentage points lower than in 2005, and stood at 8.7%. The situation on the markets of individual food products improved in 2006. There was a reduction in the growth of prices of meat and poultry, and fish and seafood. At the same time, growth in the prices of bread and bakery prod-

<sup>1</sup> Foreign debt to GDP.

**CONSUMER PRICES, CORE INFLATION AND ADMINISTERED SERVICE PRICES\***  
(growth as % of corresponding month of previous year)

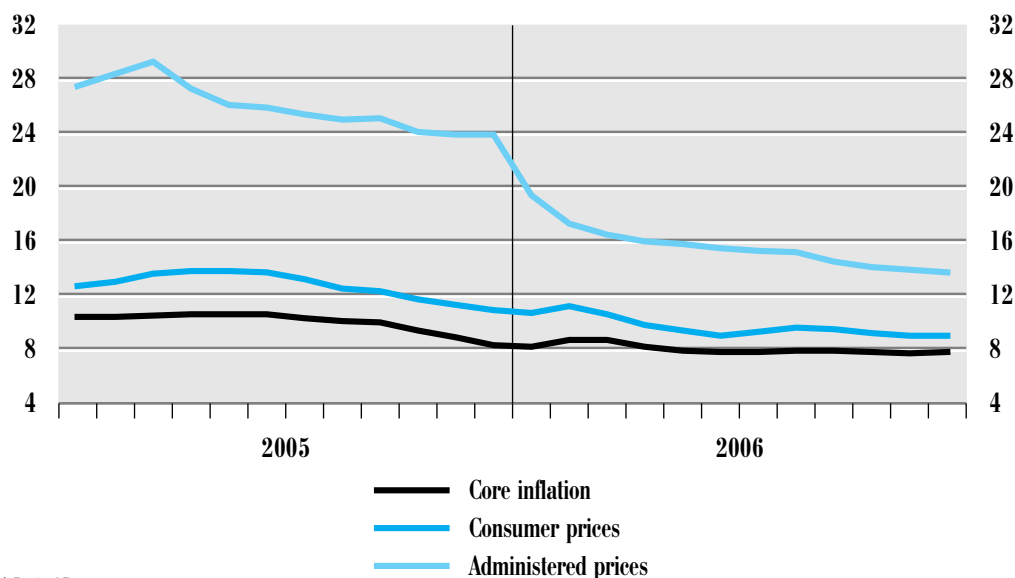


Chart 1

\* Bank of Russia estimate.

ucts accelerated from 3% in 2005 to 11.1% in 2006 and cereals and legumes from 0.2% to 12.1%. Vegetable and fruit prices gained 10.3% as against 14.3% in 2005.

Non-food prices increased by 6.0% in 2006 as against 6.4% in 2005. Petrol prices rose by 10.9% as against 15.8% in 2005.

**Industrial producer prices** increased by 10.4% in 2006 as against 13.4% in 2005. The slowdown was due to a significant reduction of producer price growth in the mining sector, where prices edged up by 1.6% in 2006, whereas in 2005 they rose by 31.0%. Prices in the production, transmission and distribution of electric power were up by 9.8% as against 11.5% in 2005.

In the manufacturing sector producer prices increased by 13.3% as against 8.1% in 2005. The biggest growth in producer prices was registered in metallurgy (26.9% as against 5.1% in 2005).

The trend towards growth in **jobs** and the reduction in the number of unemployed continued in 2006. The total number of jobless, calculated according to the International Labour Organisation (ILO) methodology, dropped to 7.2% of the economically active population from 7.6% in 2005.

Industrial output grew by 3.9% in 2006 as against 4.0% in 2005. Compared to 2005, production growth slowed down in the manufacturing sector from 5.7% to 4.4%. At the same time, production growth accelerated in the mining sector (from 1.3% to 2.3%), including hydrocarbon production, and in the production and distribution of electric power, gas and water — from 1.2% to 4.2%. Agricultural output was up by 2.8% in 2006 (as against 2.4% in 2005).

There was rapid growth in individual services in 2006, especially in communications (a growth of 23.7%) and retail and wholesale trade (13.9% and 8.8%, respectively).

The economy's positive net financial result<sup>1</sup> in 2006 increased by 31.6% year on year and reached 3,845.9 billion rubles. Loss-making enterprises accounted for 29.7% of total enterprises, which represents a decrease of 3.8 percentage points from 2005.

The year 2006 was characterised by a reduction in the mining sector's contribution to the financial result. Profit growth in the mining sector in 2006 slowed to 3.2% from 75.6% in 2005 and as a result, the sector's contribution to profit growth in the economy as a whole contracted from 43% in 2005 to 2.4% in 2006. In the meantime,

<sup>1</sup> Excluding small businesses, banks, insurance companies and budget-financed organisations.

**GDP CONSUMPTION**  
(as % of previous year)

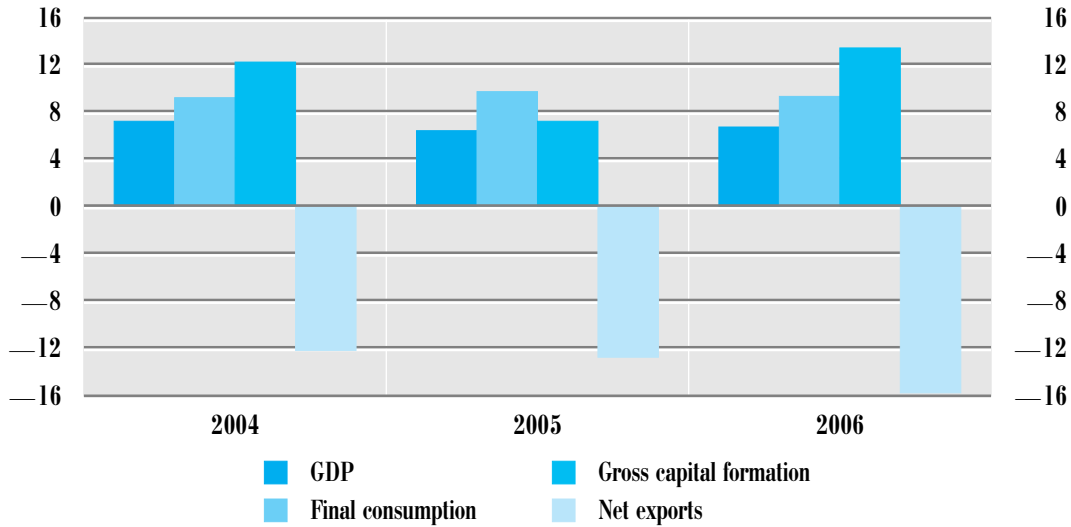


Chart 2

the manufacturing sector's contribution increased from 16.4% to 55.9%, mainly due to the output of petroleum products and metallurgical production.

In 2006, the returns from the sale of goods, produce and services<sup>1</sup> decreased slightly (to 12.3% from 12.7% in 2005).

The improvement of the financial situation of Russian enterprises in 2006 resulted in the continued growth in the volume of paid-up produce amid the accelerated increase in cash settlements. These settlements accounted for 95.6% of all payments for produce as against 94% in 2005.

**GDP** increased by 6.7% in 2006 as against 6.4% in 2005. The Russian economy grew faster than the world economy.

Growth in final household consumer expenditures, an element of GDP consumption structure, went down from 12.8% in 2005 to 11.2% in 2006 due to the reduction of growth in real disposable money income.

Thus real disposable money income increased by 10.2% in 2006 as against 11.1% in 2005. The highest-income 20% of the population accounted for 46.8% of total money income (as against 46.5% in 2005), whereas the lowest-income 20% accounted for 5.4% (unchanged from 2005).

Spending on goods and services accounted for 70.1% of the total household income (as against

70.4% in 2005). Rapid growth in consumer demand in 2006 had a favourable effect on retail trade and public services turnover.

Retail trade turnover expanded by 13.9% in 2006, as compared to the previous year. Food products accounted for 45.4% and non-food products — for 54.6% of retail trade turnover (45.9% and 54.1% in 2005, respectively). Non-food trade turnover grew by 16.3% and food trade turnover — by 10.9%. The volume of paid services provided to the public increased by 7.9% in 2006 in comparable prices. The share of spending on services in the overall consumer expenses remained unchanged at 23.7%.

Gross capital formation increased by 13.4% in 2006 as against 7.2% in 2005. **Fixed capital investment** grew by 13.7%. The biggest investments in 2006 were made into transportation and the hydrocarbon sector. These investments accounted for 21.3% and 15.8%, respectively, of the total investment of large and medium-sized enterprises.

In 2006, as in the previous year, fixed capital investments were mostly financed from raised funds. Bank loans accounted for 8.9% of the funds used to finance investments in 2006 as against 8.3% in 2005.

Positive trends in **foreign trade** continued in 2006. The favourable price situation enjoyed by

<sup>1</sup> Profit (loss) from sales to proceeds from sale of goods, produce, work and services.

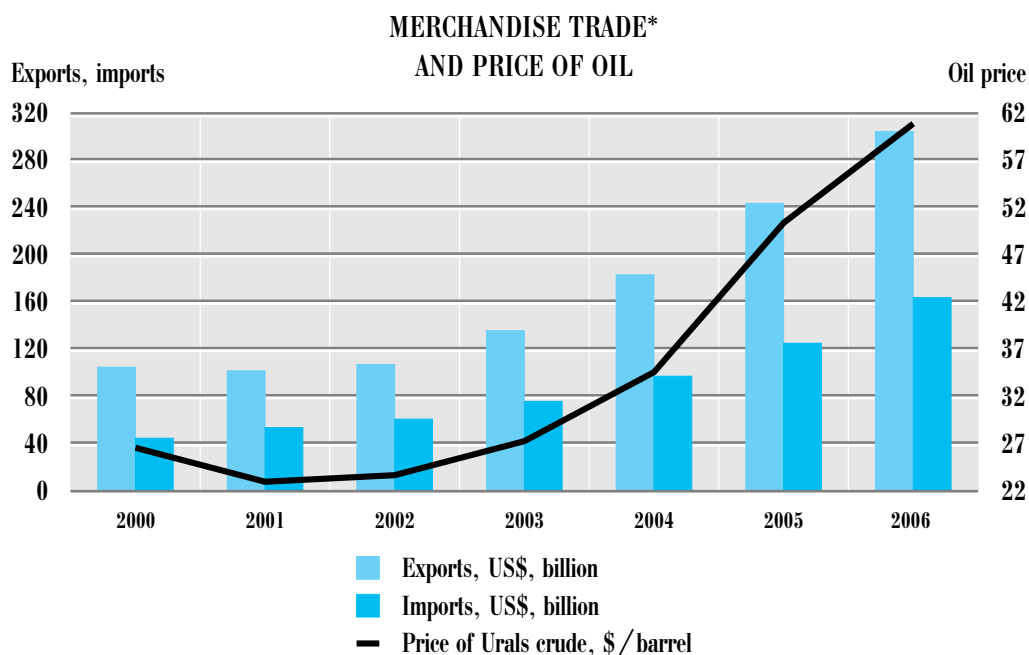


Chart 3

\* Based on balance of payments data.

Russian exporters on world commodity markets led to an improvement in the terms of Russia's trade with other countries, although the rise of the terms of trade index slowed down in 2006 to an estimated 14—15% as against 19% in 2005.

Growth in exports slowed down as export prices of most commodities, including oil and petroleum products, in 2006 grew more slowly than in 2005. The expansion of Russian actual export volumes also slowed down, and hydrocarbon exports decreased compared to 2005. Overall, the value of exports of major energy products, such as oil, petroleum products and natural gas, increased in 2006 by more than a quarter, whereas in 2005 it grew by 50%. At the same time, oil exports grew more slowly, and exports of petroleum products and natural gas faster than total exports. The growth in exports of other goods accelerated slightly, but slower than the growth

in energy exports. As for other goods, the most significant growth was registered in the exports of non-ferrous metals and engineering products. The share of major energy products expanded slightly in the commodity structure of exports due to the increase in the share of petroleum products and natural gas, whereas the share of oil went down.

Growth in imports accelerated in 2006 mainly due to the expansion of import volumes. The value of imports of investment goods continued to increase somewhat faster than the value of consumer goods imports, but non-food consumer goods imports grew almost as fast as investment goods imports. The share of machinery, equipment and transport vehicles and non-food consumer goods expanded in the commodity structure of imports, whereas the share of other commodity groups contracted.

## 1.2. GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

The budget policy in 2006 was aimed at ensuring macroeconomic stability, consistently reducing inflation, improving the investment climate and alleviating the tax burden and government debt relative to GDP.

The favourable world market situation, created by high prices of oil, petroleum products and natural gas and the resulting additional federal budget revenue contributed to the stability of government finance.

According to the Federal Treasury's preliminary report, the 2006 federal budget revenue totalled 6,278.9 billion rubles, or 101.8% of the revenue approved by the 2006 Federal Budget Law. Federal budget revenue to GDP stood at 23.4% as against 23.7% in 2005.

Federal budget expenditure totalled 4,284.8 billion rubles, or 96.7% of the expenditure approved by the 2006 Federal Budget Law and 16.0% of GDP (as against 16.3% in 2005), of which non-interest expenditures amounted to 4,112.0 billion rubles, or 96.5% of the non-interest expenditures approved by the Law and 15.4% of GDP (as against 15.3% in 2005). In 2006 the federal budget was spent more evenly by quarters.

The federal budget surplus stood at 1,994.1 billion rubles, or 114.6% of the surplus approved by the 2006 Federal Budget Law and 7.4% of GDP.

The excess of the average price of Urals crude over the base price and the price put into the calculation of federal budget revenue in 2006 allowed the Russian Government to increase its Stabilisation Fund, and the Stabilisation Fund balances in the accounts opened with the Bank of Russia grew by 1,109.9 billion rubles in 2006 and as of January 1, 2007, reached 2,346.9 billion rubles.

Pursuant to Russian Federation Government Resolution No. 229, dated April 21, 2006, "On the Procedure for Managing the Stabilisation Fund," the Ministry of Finance in 2006 conducted a series of operations using funds from the Stabilisation Fund, to acquire US dollars, euros and British pounds and put them in the Stabilisation Fund foreign currency accounts opened for the Federal Treasury with the Bank of Russia. As of January 1, 2007, the balance of funds in the Stabilisation Fund account opened with the Bank of Russia in rubles was zero.

In 2006 the balances of the federal budget funds in the accounts opened with the Bank of Russia, including Stabilisation Fund resources, increased by 70% and as of January 1, 2007, totalled 3,317.1 billion rubles.

According to the Federal Treasury's preliminary data, Russia's consolidated budget revenue in 2006 aggregated 10,625.8 billion rubles, or



39.7% of GDP, expenditure stood at 8,375.2 billion rubles, or 31.3% of GDP, and the surplus amounted to 2,250.6 billion rubles, or 8.4% of GDP; including regional consolidated budget revenue of 3,797.3 billion rubles, expenditure — 3,657.8 billion rubles and a surplus of 139.5 billion rubles.

According to preliminary data, the Pension Fund revenue in 2006 stood at 1,537.0 billion rubles, expenditures — at 1,529.6 billion rubles and surplus — at 7.4 billion rubles, the Social Insurance Fund revenue stood at 218.9 billion rubles, expenditures — at 208.2 billion rubles and surplus — at 10.8 billion rubles, and the Compulsory Medical Insurance Fund revenue was 125.5 billion rubles, expenditures — 119.4 billion rubles and surplus — 6.1 billion rubles.

According to the Finance Ministry's preliminary data, Russia's domestic government debt in 2006 increased by 189.4 billion rubles, or 21.6%, and as of January 1, 2007, it stood at 1,064.9 billion rubles, while the upper limit set by the 2006 Federal Budget Law was 1,148.7 billion rubles. As of January 1, 2007, Russia's domestic government debt to GDP was 4.0% as against 4.1% a year earlier.

As of January 1, 2007, government securities accounted for 1,028.0 billion rubles, or 96.5%, of the total domestic government debt. This represents an increase of 176.9 billion rubles on the previous year. Government guarantees accounted for 31.2 billion rubles, or 2.9%, an increase of 12.4 billion rubles from January 1, 2006. Growth in government guarantee commitments was due to the granting of guarantees for borrowings made by the Housing Mortgage Credit Agency and borrowings made to build the technical infrastructure and modernise the municipal services infrastructure on housing construction sites.

Debt-depreciation federal loan bonds with a nominal value of 675.2 billion rubles accounted for the largest part of federal government securities (65.7%); permanent coupon-income federal loan bonds with a nominal value of 205.6 billion rubles accounted for 20.0%; fixed coupon-income federal loan bonds with a nominal value of 94.8 billion rubles accounted for 9.2%.

In line with the Government Internal Borrowings Programme for 2006 and the Russian

FEDERAL BUDGET EXPENDITURE  
IN 2006 (%)

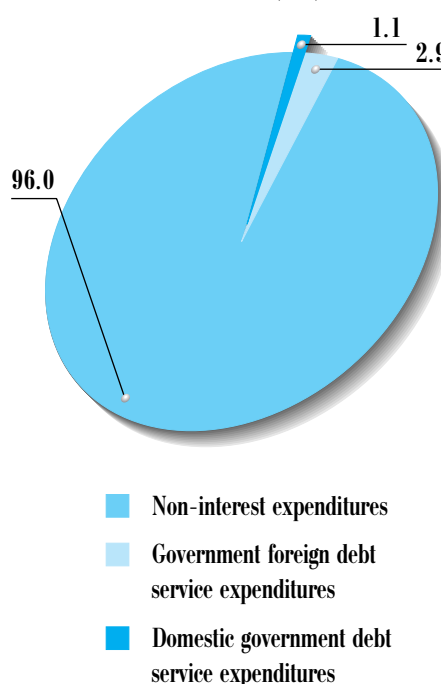


Chart 4

Government's decision, in 2006 the Ministry of Finance for the first time issued savings bonds with a total nominal value of 52.4 billion rubles.

As of January 1, 2007, the share in the total domestic government debt of government securities traded on organised securities market was virtually unchanged from 2005 at 82.2%.

The Finance Ministry's debt to the Bank of Russia in the total domestic government debt went down by 5.9% to 23.1% in 2006. The Finance Ministry's ruble-denominated debt, calculated by the nominal value of debt obligations, decreased by 3.3% in 2006 as a result of the Bank of Russia sale of part of federal loan bonds on the open market, and as of January 1, 2007, it stood at 245.5 billion rubles.

Federal loan bonds with a coupon income of 0% to 6% p.a. and a nominal value of 206.3 billion rubles account for the largest part (84%) of the Finance Ministry's debt to the Bank of Russia, which includes federal government securities acquired through repo transactions. Federal loan bonds with a coupon income of 6% to 10% p.a. and a nominal value of 39.2 billion rubles account for 16%. The maturities of federal loan bonds with a nominal value of 232.9 billion rubles range from five to 29 years and 12.6 billion rubles of federal

**FEDERAL BUDGET EXPENDITURE**  
(billion rubles)

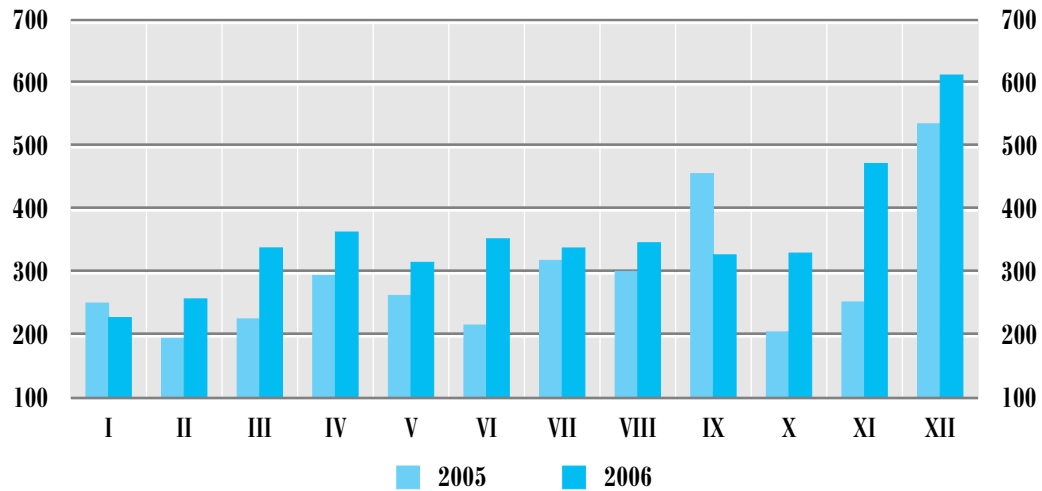


Chart 5

**BALANCES OF FEDERAL BUDGET ACCOUNTS OPENED WITH THE BANK OF RUSSIA**  
(billion rubles)

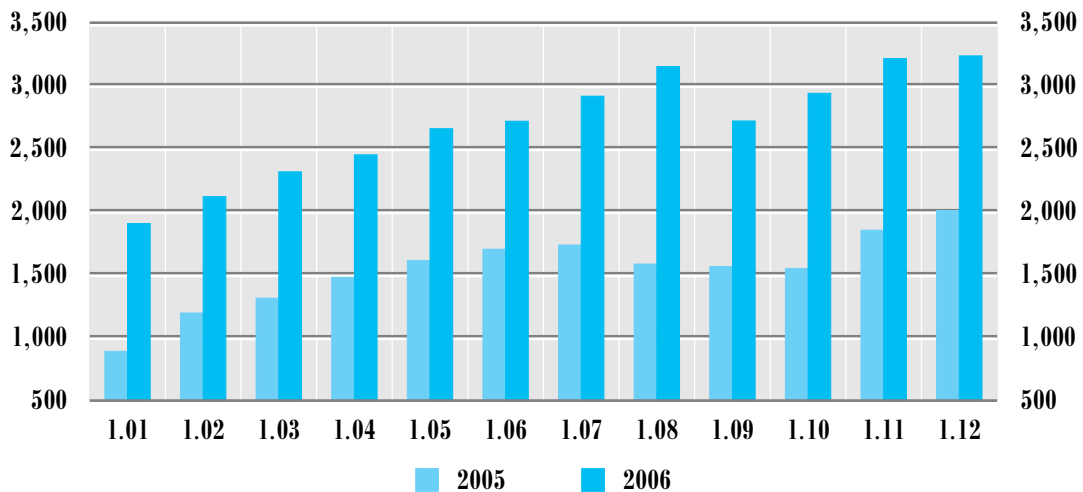


Chart 6

loan bonds have maturity periods from one year to five years.

The Finance Ministry's foreign currency-denominated debt to the Bank of Russia, which under the federal law is included in foreign government debt, had a nominal value of 106.9 billion rubles as of January 1, 2007. This represents

a decrease of 14.2 billion rubles, or 11.7%, from 2005, which resulted from the repayment by the Finance Ministry of foreign currency-denominated government loan bonds and part of Russian eurobonds and their revaluation due to the change of the US dollar exchange rate against the ruble.

## I.3. THE FINANCIAL SECTOR

*At* the end of 2006, there were 1,189 operating credit institutions, 918 operating insurance companies, 289 non-government pension funds<sup>1</sup> and 641 unit investment funds on the Russian financial market. Credit institutions remained the most capitalised financial institutions. Their equity capital accounted for 6.4% of GDP in 2006 (as against 5.7% in 2005); the net assets of unit investment funds accounted for 1.6% (1.1%), non-government pension funds' own property accounted for 1.4% (1.2%)<sup>2</sup> and the authorised capital of insurance companies remained unchanged at 0.6% of GDP.

Dynamic growth in quoted prices and the issue of equities of leading companies sharply increased the capitalisation of the stock market (95% of GDP). Its expansion largely determined overall dynamics of the financial market. Bank loans to non-financial enterprises increased by almost 40% and as of January 1, 2007, they accounted for 22.4% of GDP. As before, the value of bank loans to non-financial enterprises exceeded the value of outstanding bonds. At the same time, the rapid expansion of the ruble-denominated corporate bond market, which grew by 80%, for the first time created an excess of outstanding ruble-denominated corporate bonds over the market portfolio of ruble-denominated federal government bonds.

Financial market price dynamics remained a major factor affecting all institutions of financial mediation. The government and corporate bond markets registered a rise in yields in the first half of 2006, which gave way to a fall in the second. The average annual gross yield to maturity of federal government bonds<sup>3</sup> in 2006 declined to 6.6% p.a. from 7.3% p.a. in 2005. The average yield of corporate bonds on the secondary market fell to 7.6% p.a. in 2006 from 8.2% p.a. in 2005, according to the online news agency Cbonds.ru. Over the year, growth in Russian stock prices exceeded growth in such prices in the industrialised nations. The average overnight rate on ruble-denominated interbank loans rose to 3.4% p.a. from 2.7% p.a. in 2005 due to the rate growth in the second half of 2006.

The fall in interest rates on bank loans to households was accompanied by a decline in the price of resources raised from households. The average annual interest rate on ruble-denominated time deposits with terms shorter than one year fell from 8.7% in 2005 to 7.9% in 2006. Interest rates in operations with non-financial enterprises remained relatively stable. The average monthly rate on ruble-denominated short-term loans to non-financial enterprises ranged from 10.1% to 11.0% p.a. in 2006, and on long-term loans from 11.7% to 13.4% p.a. Compared to 2005, the interest margin on bank operations

<sup>1</sup> As of October 1, 2006.

<sup>2</sup> As of October 1, 2006, and as of October 1, 2005, respectively.

<sup>3</sup> Russian government bond yield to maturity (RGBY) is a measure of profitability of federal loan bonds, calculated by the Moscow Interbank Currency Exchange.

## INTEREST RATES ON RUBLE LOANS (% p.a.)

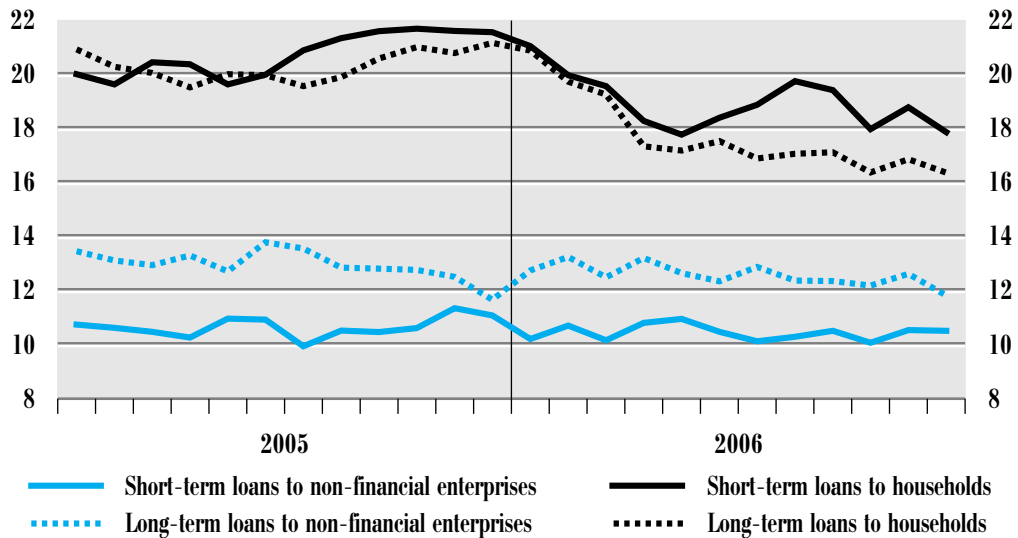


Chart 7

## INTEREST MARGIN ON BANK LENDING AND DEPOSIT OPERATIONS WITH NON-FINANCIAL CUSTOMERS WITH DIFFERENT TERMS IN 2005—2006 (% p.a.)

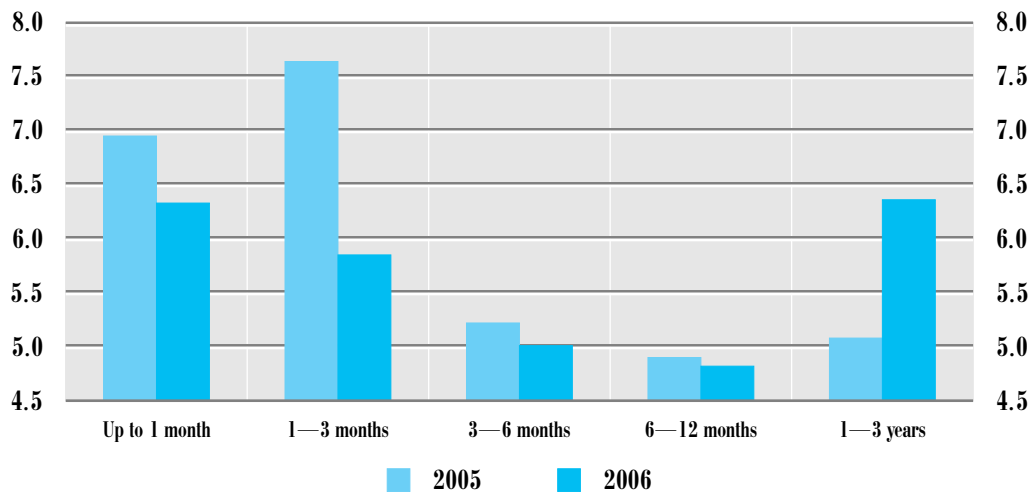


Chart 8

with non-financial customers changed slightly, whereas the margin on operations with households declined. The interest margin on most operations conducted by banks with non-financial customers ranged from 5 to 6 percentage points depending on the term. As before, operations with households were characterised by a higher interest margin than operations with non-financial enterprises.

Geographically, interest rates on operations conducted by banks based in the Central Federal District had a predominant effect on

Russia's average rates. Interest rates were higher on loans extended to non-financial enterprises in the Siberian and Far Eastern Federal Districts in 2006. As for loans to the household sector, the highest interest rates were registered in credit institutions and branches of credit institutions operating in the Central Federal District. The highest revenues on ruble-denominated household deposits with terms shorter than one year were obtained by credit institutions and branches of credit institutions operating in the Urals Federal District.

### 1.3.1. CREDIT INSTITUTIONS

The Russian banking sector continued to expand and increase its efficiency in 2006. The analysis of its key performance indicators shows that 2006 was a successful year for the Russian banking sector as the banking services market continued to improve due to sustained economic growth and the expansion of demand for banking services. The favourable macroeconomic situation allowed the banking sector to accelerate growth and consolidate its position as a financial intermediary.

In 2006 aggregate banking sector assets increased 44.1% as against 36.6% in 2005. Growth in assets was largely due to the expansion of credit and other funds placed with non-financial enterprises (39.4% of overall growth) and loans to households<sup>1</sup> (20.6%). Assets to GDP reached an all-time high of 52.8% as of January 1, 2007, as against 45.1% a year earlier. Equity capital grew by 36.3% as against 31.2% in 2005. As of the beginning of 2007, almost 57% of Russian credit institutions had a capital of more than 5 million euros in ruble terms (about 48% a year earlier). Capital to GDP increased from 5.7% to 6.4%.

Competition continued to intensify on the banking services market in 2006, especially on the retail services market. An ever growing number of banks was lending to individuals in 2006. The number of banks with household loans accounting for more than 20% of assets (as of January 1, 2007, the banking sector average was 14.7%) rose from 278 to 295 in 2006, of which the number of banks from among the top 30 increased from three to seven.

Sberbank's share of the household deposit market continued to go down and in 2006 it decreased from 54.4% to 53.3%.

Foreign capital continued to build up its presence on the Russian banking services market in 2006. The number of credit institutions controlled by non-residents<sup>2</sup> reached 65 as of January 1, 2007, as against 52 a year earlier. Of these, 12 are among Russia's 50 largest banks in terms of

assets. In 2006 the assets of the banks controlled by non-residents increased by 110% and their equity capital grew by 86.8%. As a result, the share of the banks controlled by non-residents expanded from 8.3% to 12.1% of banking sector assets and from 9.3% to 12.7% of banking sector equity capital.

Foreign-controlled banks have increased their presence on the retail services market: the rates of growth in household deposits and loans they extend to households exceed the banking sector's average growth rates. The value of loans these banks extended to households increased by 190% in 2006 and their share in total bank loans to households expanded from 8.5% as of January 1, 2006, to 14.0% as of January 1, 2007. Household deposits in these banks also increased faster than in the banking sector as a whole: in 2006 they rose by 150% as against 60.0% in 2005 and accounted for 6.2% of total household deposits as against 3.4% as of January 1, 2006.

Banks controlled by non-residents increased lending to non-financial enterprises: in 2006 the loans they extended to the non-financial enterprise sector grew by 87.1% and accounted for 10.0% of total bank loans as against 7.4% in 2005.

The escalation of competition in the banking sector compelled more and more banks to reach out to the regions. As a result, the banking services market has expanded geographically and banking services have become more accessible to the consumer, including the public at large.

The number of credit institutions and branches and additional offices of credit institutions per 100,000 of the population increased by 27% in 2006, a process noted in all federal districts. The largest number of credit institutions and branches and additional offices of credit institutions per 100,000 of the population was registered at the end of 2006 in the Far Eastern, North-Western, Central and Urals Federal Districts, and the smallest in the Volga Federal District.

<sup>1</sup> Including self-employed entrepreneurs unless indicated otherwise.

<sup>2</sup> Credit institutions with a foreign stake in authorised capital in excess of 50%.

## KEY BANKING SECTOR INDICATORS

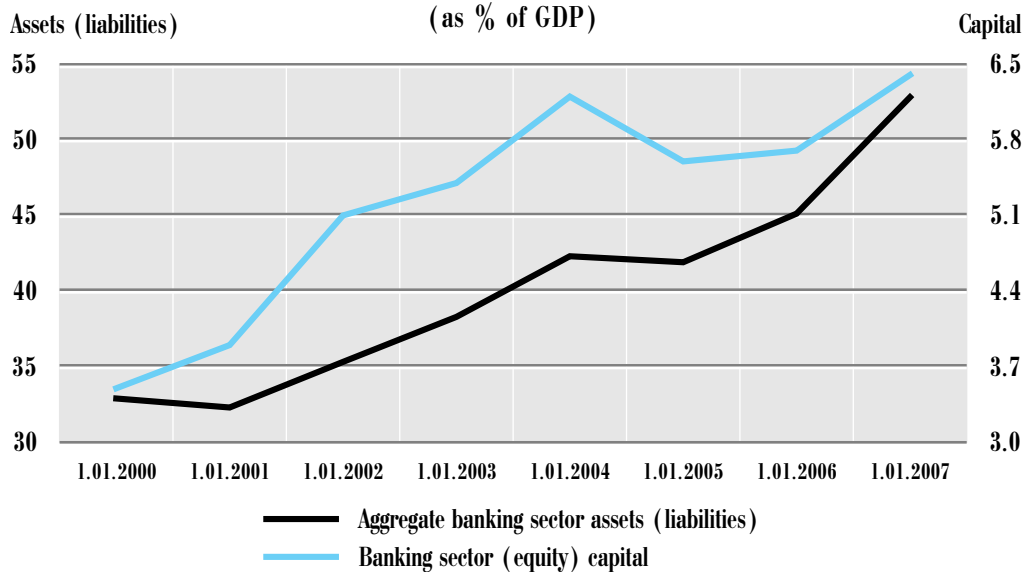


Chart 9

At the same time, the banking services saturation levels, especially those of credit services, have risen in the regions. Rapid growth in credit to enterprises and households was registered in the Southern Federal District (64.9%), Siberian Federal District (56.7%) and Urals Federal District (56.2%), while the banking sector average stood at 46.6%. Per capita household credit<sup>1</sup> increased by 90% in the North-Western and Siberian Federal Districts, while the banking sector average rate of growth was 80%.

At the same time, the banking services saturation levels continued to differ from region to region. The highest levels were registered, as before, in the Central and North-Western Federal Districts. There was a rise in the combined banking services in the Southern and Siberian Federal Districts, whereas the lowest level in 2006 remained in the Urals Federal District.

**BANKING SECTOR LIABILITIES.** As credit institutions continued to strengthen their resource base in 2006, the structure of banking sector liabilities changed.

The balances of customer accounts<sup>2</sup> increased by 45.5% in 2006 to 8,467.3 billion rubles and

their share in banking sector liabilities expanded from 59.7% to 60.3%.

In the favourable economic situation the principal source of growth in credit institutions' resources in 2006, as in 2005, were the funds raised from enterprises<sup>3</sup>, which grew by 54.8% as against 48.7% in 2005. Their share in aggregate banking sector liabilities expanded from 30.3% to 32.5%. Funds raised from enterprises accounted for 37.7% of the overall growth in banking sector liabilities.

Corporate deposits increased rapidly in 2006: they grew by 64.8% (as against 66.0% in 2005) and as a result, their share in aggregate banking sector liabilities expanded from 9.6% to 11.0%. Deposits with maturity periods from 31 days to one year accounted for 56.3% of total deposits as against 53.8% a year earlier.

Household deposits in 2006 grew more slowly than in 2005: over the year they increased by 37.7% to 3,793.5 billion rubles (in 2005 they rose by 39.3%). Their share in aggregate banking sector liabilities contracted slightly (from 28.3% to 27.0%). At the same time, these funds accounted for 24.2% of growth in banking sector liabilities. Growth in deposits slowed down from

<sup>1</sup> Loans extended to residents, excluding self-employed entrepreneurs.

<sup>2</sup> Balances of corporate accounts, including all-level budget funds and extrabudgetary funds, household funds and float relating to factoring and forfeiting operations and funds written down from customer accounts but not passed through a credit institution's correspondent account.

<sup>3</sup> Except resident credit institutions and non-resident banks.

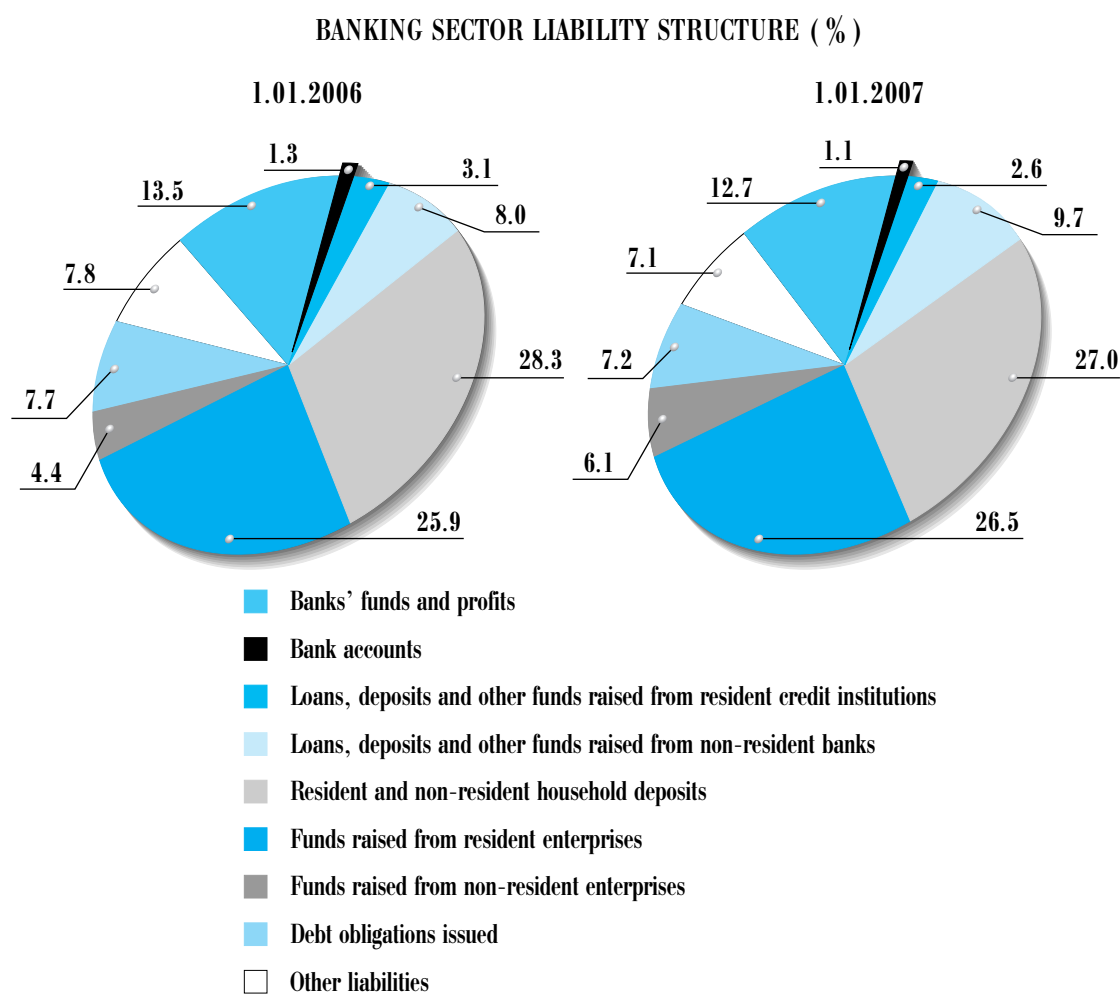


Chart 10

2005 as people began to explore other investment opportunities, such as unit investment funds and shares issued by large companies.

Beginning from 2004 growth in ruble-denominated household deposits far surpassed growth in foreign currency-denominated deposits. Household deposits in rubles increased by 51.9% in 2006 and household deposits in foreign currency<sup>1</sup> by 2.4% (42.7% and 25.1% in 2005, respectively). As a result, ruble deposits accounted for 83.4% of total household deposits as against 75.6% in 2005. Household deposits taken for more than one year increased by 41.0% in 2006 and their share in total household deposits expanded from 59.5% to 61.0%.

The funds raised by credit institutions by issuing debt obligations increased by 35.9% in 2006, or twice as fast as in 2005, and as of Janu-

ary 1, 2007, they totalled 1,018.1 billion rubles. They accounted for 7.2% of banking sector liabilities. Promissory notes continued to dominate in the total volume of bank debt instruments, although their share went down to 77.6% as of January 1, 2007, from 82.0% a year earlier. Despite significant growth in bank bonds and savings certificates (by 150% and 140%, respectively), their aggregate share in banking sector liabilities remained small: 1.3% as of January 1, 2007, and 0.8% as of January 1, 2006.

Banks have always actively used promissory notes to raise funds because these instruments are easier to place than issuing bonds on the domestic market. Bonds are still too expensive to issue and place, and growing competition on international financial markets, which offer resources at

<sup>1</sup> In dollar terms.

lower interest rates than the domestic market, also hinders their growth.

The trend towards growth in obligations on interbank loans<sup>1</sup>, including loans taken in the world interbank market, continued in 2006 and over the year these obligations increased by 59.3% as against 47.4% in 2005, to 1,730.5 billion rubles, and their share in banking sector liabilities expanded from 11.1% as of January 1, 2006, to 12.3% as of January 1, 2007. The balances of the funds raised on the domestic interbank market grew by 20.9% in 2006, whereas their share in banking sector liabilities contracted from 3.1% to 2.6%.

Credit obligations to non-resident banks increased by 74.1% in 2006 as against 52.4% in 2005. As a result, loans taken from non-resident banks accounted for 78.9% of all interbank loans in 2006 as against 72.2% a year earlier. As of January 1, 2007, this source of funds accounted for 9.7% of banking sector liabilities as against 8.0% as of January 1, 2006. The expansion of banking operations on the world interbank market testifies to the increased integration of the Russian banking sector into the world financial system.

**BANKING SECTOR ASSETS.** Credit institutions' active operations in 2006 were characterised by further growth in loans extended to non-financial enterprises and households. They accounted for 60% of growth in banking sector assets in 2006. In volume, they increased by 47.3% to 8,031 billion rubles as of January 1, 2007, their share in banking sector assets expanded from 55.9% to 57.2% and their ratio to GDP grew from 25.2% to 30.2%.

Bank loans to non-financial enterprises increased by 39.6% as against 30.8% in 2005 and aggregated 5,966.2 billion rubles as of January 1, 2007, but its share in banking sector assets contracted from 43.8% to 42.5% in 2006. Most of these loans (72.0%) were extended in rubles. The growth in loans to non-financial enterprises in 2006 was brought about by the improvement of their financial standing. The biggest growth in debt was registered in agriculture, hunting and

forestry (79.1%), mining (66.3%) and construction (58.2%).

The share of loans to non-financial enterprises with terms longer than one year expanded to 45.9% from 43.7% in 2005 and almost 60% of these loans were extended in rubles. These loans continued to grow faster (by 46.5%) than total loans to the non-financial enterprises as the banking sector's role in economic modernisation increased.

Loans to households continued to grow at rapid rates. In 2006 they increased by 75.1% (as against 90.6% in 2005) and their share in total loans extended by banks expanded from 18.5% to 21.9% and in aggregate banking sector assets — from 12.1% to 14.7%. Most of the loans (85.0%) were extended to the household sector in rubles. Housing mortgage lending also grew rapidly: the value of new housing mortgage loans extended in 2006 increased 4.7 times. Housing mortgage loans accounted for 12.5% in total household credit as against 5.0% in 2005, but their share in banking sector assets remained small (1.7% as of January 1, 2007)<sup>2</sup>.

Bank investment in securities increased by 27.4% in 2006 as against 41.6% in 2005 and as of January 1, 2007, it stood at 1,961.4 billion rubles, while their share in banking sector assets contracted slightly (from 15.8% to 14.0%). The slowing down of growth in investments in securities in 2006 as compared with 2005 was due to the increased price volatility on the securities market. Price fluctuations particularly affected growth in investments in stocks and shares and federal government debt obligations.

Debt obligations in the securities portfolios of credit institutions in 2006 expanded from 67.3% to 68.4%, whereas discounted promissory notes contracted from 13.6% to 11.7%. The share of investment in stocks in these portfolios expanded from 19.0% to 19.9%.

Investment in residents' corporate debt obligations (bonds) grew most rapidly in the structure of investment in debt obligations (by 81.6%) and reached 402.3 billion rubles, and their share in total investment in debt obligations expanded

<sup>1</sup> Loans, deposits and other funds raised on interbank market, including precious metals.

<sup>2</sup> Outstanding debt.



BANKING SECTOR ASSET STRUCTURE (%)

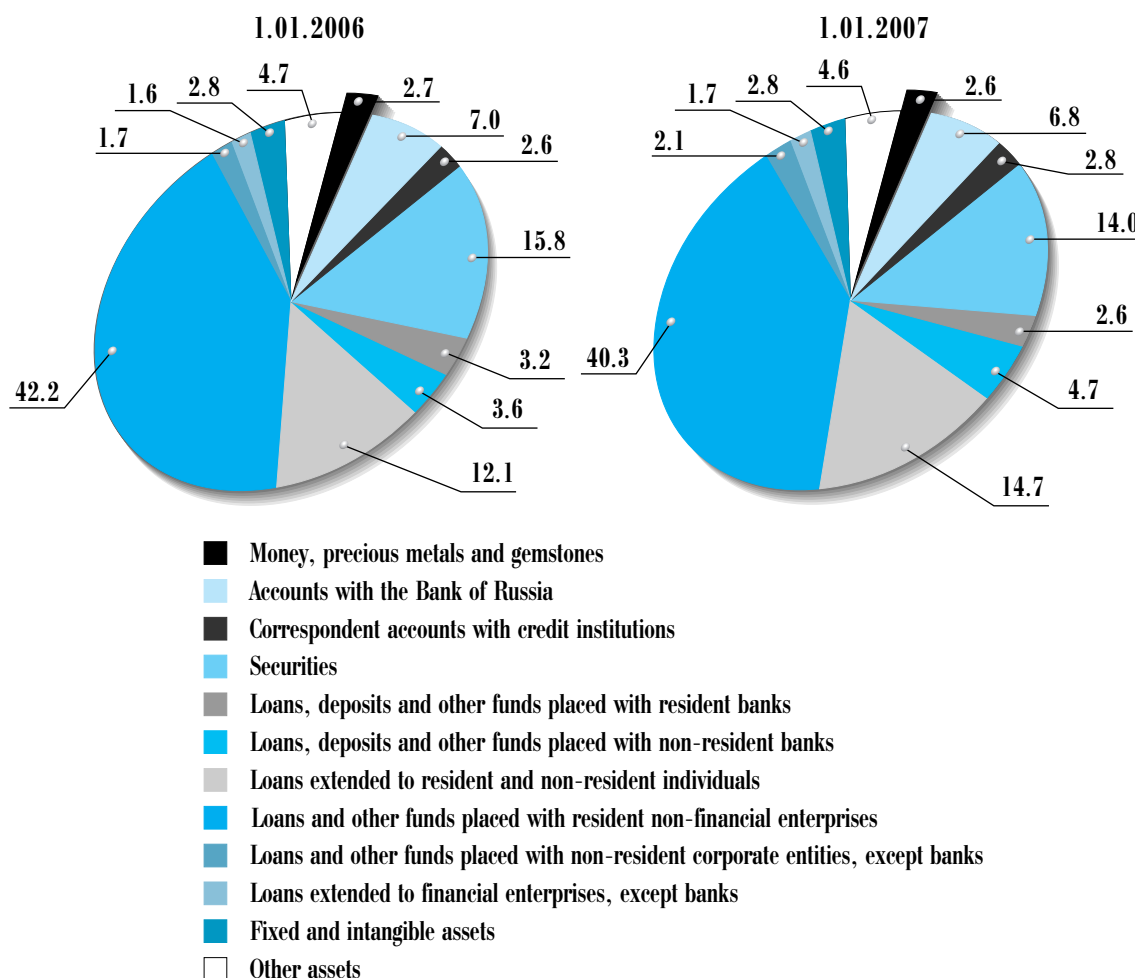


Chart 11

from 21.4% to 30.0%, and in banking sector assets — from 2.3% to 2.9%. Although investment in resident banks' debt obligations rose rapidly (by 60.3%), they accounted for only 3.7% of total investment in debt obligations. Investment in federal government debt obligations increased by 9.2% to 537.2 billion rubles, but their share in total debt obligations contracted from 47.5% to 40.1%, and in banking sector assets — from 5.0% to 3.8%.

The interbank market was stable in 2006. Claims on interbank loans in the banking sector as a whole increased by 55.0% in 2006 as against 56.9% in 2005 and totalled 1,035.6 billion rubles, while their share in banking sector assets expanded from 6.9% to 7.4%. In 2006, as in 2005, growth was largely due to the funds placed with non-resident banks, which increased by

88.9% and their share expanded from 3.6% to 4.7% of banking sector assets.

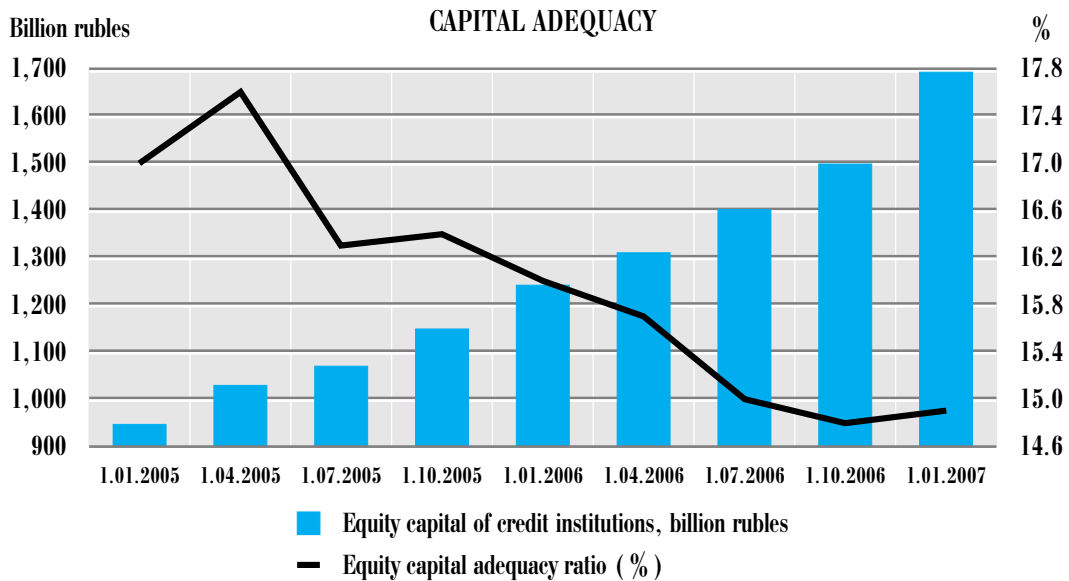
Growth in loans placed on the domestic inter-bank market slowed down significantly, to 17.4%, and its share in banking sector assets contracted from 3.2% to 2.6%.

**FINANCIAL STANDING OF CREDIT INSTITUTIONS.**

Banking sector profits continued to increase rapidly in 2006: by 41.8% as against 47.3% in 2005. In 2006 operating credit institutions made a profit of 371.5 billion rubles and taking into account the financial results of the past years, their profit amounted to 444.7 billion rubles (262.1 billion rubles and 304.5 billion rubles in 2005, respectively).

Profit-making credit institutions accounted for 98.4% of total credit institutions in 2006 as

Chart 12



against 98.9% in 2005. The number of loss-making credit institutions increased from 14 to 18 over the year and their share expanded from 1.1% to 1.5% of total credit institutions. Credit institutions' losses decreased to 800 million rubles in 2006 from 7.9 billion rubles in 2005.

The return on credit institutions' assets remained unchanged from 2005 at 3.2%, whereas the return on capital rose from 24.2% to 26.3%<sup>1</sup>, as the Russian banking sector became increasingly attractive to investors. Over the year, the return on assets increased in 44.7% of credit institutions and the return on capital — in 56.0% of credit institutions.

The structure of bank incomes was largely determined by the further diversification of loan investments, growth in commission on bank operations and securities trading. The main element of the net income<sup>2</sup> of credit institutions is net interest income, but in 2006 its share in banking sector net income went down to 59.9% from 63.0% in 2005. The contraction was largely the result of the reduction of the bank interest margin on lending and deposit operations in 2006, especially with individuals, caused by a fall in interest rates on most of the ruble deposits.

The trend towards growth in net commission income and the expansion of its share in banking sector net income continued in 2006, especially due to growth in the retail services provided by banks. The share of net commission income, which is second only to interest income, expanded from 23.2% in 2005 to 27.6% of banking sector net income in 2006.

Net income from the purchase and sale of securities and their revaluation declined in 2006 and its share in total net income went down to 11.3% from 12.4% in 2005. This was largely due to the slowing of growth in investments in securities in 2006, as compared with 2005, as a result of the increased price volatility on the securities market.

The share of credit institutions' net income from operations with foreign currency and foreign currency valuables, including the exchange rate differences, went down to 4.5% of aggregate banking sector net income, from 5.1% in 2005.

The maintenance and administrative expenses of credit institutions rose by 37.5% in 2006 as against 31.9% in 2005, whereas relative to net income they remained almost unchanged in 2006 at 45.4% from the previous year's 45.5%.

<sup>1</sup> Return on assets is calculated as the ratio of the full-year financial result before tax to bank assets, while the return on capital is calculated as the ratio of the full-year financial result before tax to bank capital. Assets and capital have been calculated as annual (chronological) averages for the reporting period.

<sup>2</sup> Net income is the financial result received before making (recovering) provisions and net of the maintenance and administrative expenses. It is calculated in accordance with the Profit and Loss Statement of Credit Institutions (form code 0409102).

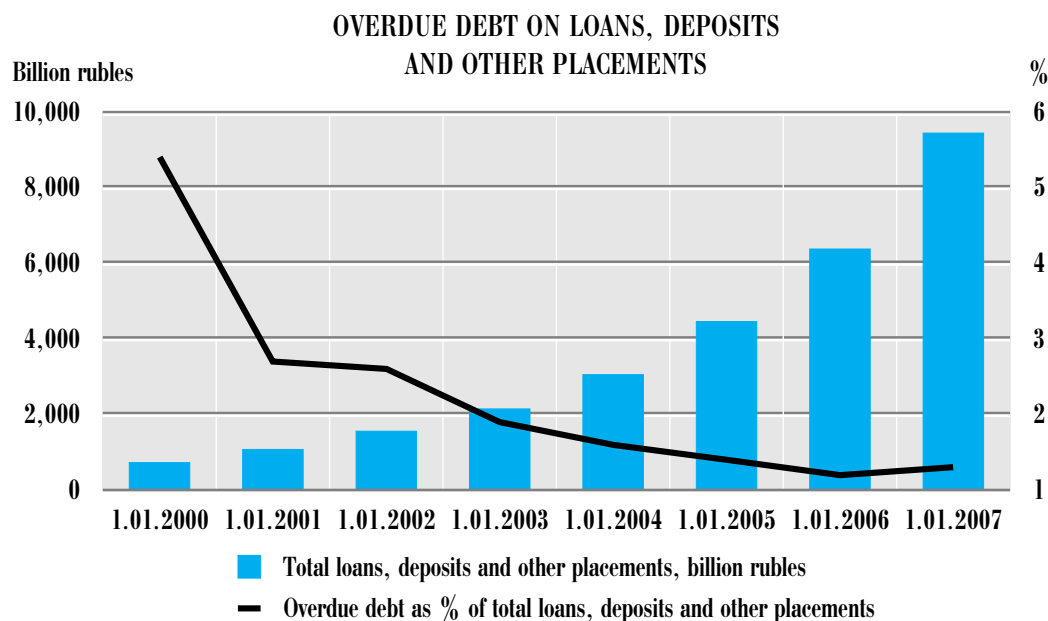


Chart 13

The analysis of the credit institutions' key financial indicators in 2006 testifies to stability of the banking sector. However, the number of flawless credit institutions decreased from 218 to 194 in 2006 and the number of credit institutions with occasional flaws — from 986 to 932. Overall, financially sound credit institutions accounted for 94.7% of the total number of operating banks in 2006 as against 96.1% as of January 1, 2006. The share of problem banks expanded in 2006 to 5.2% from 3.9% in 2005. At the same time, financially sound credit institutions accounted for an impressive 99.6% of aggregate banking sector assets.

The equity capital of operating credit institutions aggregated 1,692.7 billion rubles as of January 1, 2007. The profit made by credit institutions remained the main source of banking sector capitalisation. Overall, the banking sector increased its equity capital in 2006 as a result of growth in profit and the funds created thereby (217.2 billion rubles, or 48.2% of total growth in equity capital). The second major source of capitalisation was owners' contributions to authorised capital (34.5% of growth). Subordinated loans accounted for 14.1% of the increment as against 34.2% in 2005.

The trend towards the reduction of the average banking sector capital adequacy ratio persisted and in 2006 this ratio went down from 16.0% to 14.9%, as aggregate banking sector assets and risks grew faster than aggregate banking

sector capital. In 2006 the number of banks with a capital adequacy ratio of less than 12% rose by 70%, from 67 as of January 1, 2006, to 113 as of January 1, 2007. At the same time, the second half of 2006 saw an obvious trend towards the slowing of this decline and subsequently the capital adequacy ratio began gradually to pick up as banks took steps to increase their capitalisation.

The expansion of the banking business, connected, among other things, with growth in consumer credit and securities trading, caused banking sector risks to increase in 2006. However, this increase was accompanied by the improvement of the risk management systems in credit institutions and the measures taken by the Bank of Russia to upgrade banking supervision.

According to data reported by credit institutions for 2006, overdue debt in total credit grew slightly, from 1.20% to 1.28%, mostly due to more rapid growth in overdue debt on household loans, which increased by 140%, than the value of these loans, which grew by 80%. As a result, the share of overdue debt on household loans expanded from 1.87% to 2.61%.

The expansion of bank trade investments in securities in 2006 caused stock market and interest rate risks to increase. Stock market risk accounted for the largest part (45.2%) of market risk as of January 1, 2007, and interest rate risk accounted for 42.9%. Currency risk remained the least dangerous market risk (11.9%).

### 1.3.2. OTHER FINANCIAL INSTITUTIONS

**INSURANCE COMPANIES.** As of January 1, 2007, the Single State Register of Insurers contained entries on 918 insurance companies (1,075 companies as of January 1, 2006). The decline in the number of insurance companies was primarily the result of the revocation by the Federal Insurance Supervision Service (FISS) of licences from insurers that failed to comply with the minimum authorised capital requirements. According to the FISS, 903 insurance companies that had presented reports for 2006 had received 610.6 billion rubles in insurance premiums, an increase of 23.2% on 2005. They paid 352.8 billion rubles in indemnities, an increase of 26.7% on 2005.

Unlike the situation in 2005, in 2006 the value of voluntary insurance premiums increased by 15.5%, although their share in total insurance premiums continued to decline (from 59.3% to 55.2%). The fall in life insurance premiums in 2006 was not as dramatic as in 2005 (37.7% as against 75.2%) as the FISS gradually completed the crackdown on tax evasion schemes in this segment of the insurance market. The share of life insurance premiums in total insurance premiums decreased by half in 2006. Property insurance, excluding liability insurance, accounted for the largest part of voluntary insurance premiums (67.5%).

Compulsory insurance premiums increased by 34.3% in 2006. As a result of rapid growth (by 41.1%) in compulsory medical insurance premiums, their share in total compulsory insurance premiums expanded from 70.5% to 74.5%. Compulsory third-party liability car insurance premiums rose by 18.2%, but their share in total compulsory insurance premiums went down to 23.4%.

Unlike the situation in 2005, in 2006 the ratio of total insurance indemnities to premiums remained virtually unchanged at 57.8%.

Insurance companies mostly invested in non-financial enterprise securities and bank deposits to comply with the Insurance Reserve Placement

Rules. Reinsurance also accounted for a large part of insurance company assets.

**UNIT INVESTMENT FUNDS (PIFs).** As favourable trends continued on the financial market in 2006, the key PIF performance indicators improved rapidly. In 2006 the number of PIFs rose by 246 to reach 641 as of January 1, 2007<sup>1</sup>. The number of open-end PIFs increased to 305, interval PIFs — to 89 and closed-end PIFs — to 247. The ratio of closed-end PIFs, which are usually targeted at big investors, expanded from 32.2% to 38.5% in 2006.

The total net asset value (NAV) of unit investment funds reached 420.5 billion rubles as of January 1, 2007. In 2006 the total NAV grew more slowly than in 2005 (79.7% as against 114.8%) due to the slowing of growth in the closed-end PIFs' NAV (from 127.3% in 2005 to 64.1% in 2006), which accounted for the bulk of the total NAV (64.1% as of January 1, 2007), although their share was smaller than in 2005. The open-end funds demonstrated an accelerated increase in their NAV (195.5%) and attracted the greatest amount of money from shareholders in 2006.

The reduction in the share of stock funds in the NAV structure from 52.3% to 47.8% resulted from the fact that their NAV grew more slowly than that of the mixed investment funds and real estate funds. The growth in the NAV of the mixed investment funds more than doubled compared to the previous year because these funds combined the investment opportunities of stock funds and bond funds and, as a result, could better respond to stock market fluctuations in some periods of 2006. The real estate funds' NAV grew rapidly (by 179.6%) because the increasingly expensive real estate was highly attractive as an investment.

As of January 1, 2007, PIFs were run by 178 management companies (111 management companies administered closed-end PIFs, 108 — open-end PIFs and 60 — interval PIFs)<sup>2</sup>.

<sup>1</sup> Evaluation of PIF dynamics is based on statistical data compiled by news agency Cbonds.ru.

<sup>2</sup> Source: National Managers League.

**NON-GOVERNMENTAL PENSION FUNDS (NPF).**

According to the Federal Financial Markets Service (FFMS), the total value of property owned by the 259 NPFs that presented their statements as of October 1, 2006, increased by 12.0% as compared to January 1, 2006, and reached 385.7 billion rubles. Pension reserves aggregated 307.7 billion rubles, while the value of statutory property stood at 64.5 billion rubles.

In the first nine months of 2006, the number of NPF members increased by 2.2% to 6.2 million, while the number of people who received their pensions in NPF rose by 12.0% to 790,700. The trend towards growth in the size of the average non-government pension continued and it accounted for 39.4% of the average government pension.

The accumulated pension funds transferred to NPFs from the compulsory pension insurance sys-

tem increased 4.6 times and as of October 1, 2006, reached 9.1 billion rubles, or 3.6% of the total pension funds accumulated.

The share of investment in stocks and bonds expanded from 61.4% to 65.6% of the NPF investment portfolio, and the share of investment in promissory notes increased from 8.7% to 9.4%. At the same time, investment in the stocks and shares of non-financial enterprises accounted for the largest part of NPF assets. However, in 2006 investment in securities other than shares grew faster than investment in stocks: 34.5% of pension reserves were invested in NPF founders' and depositors' securities. NPF investments in government securities accounted for 10.0% of the NPF aggregate investment portfolio. The share of pension reserves put in bank accounts went down to 9.1%, whereas the share of investment in more profitable PIF shares expanded from 1.1% to 1.9%.

### 1.3.3. FINANCIAL MARKETS

#### INTERBANK CREDIT MARKET

The Russian interbank credit market turn-overs continued to expand in 2006. By the end of last year total interbank loans<sup>1</sup> extended by Russian banks amounted to 1,035.6 billion rubles, an increase of 55% on the beginning of the year. Thanks to the expansion of Russian bank operations on the world money market, investment in foreign currency-denominated interbank loans grew faster than investment in ruble loans.

The improvement in the financial standing of the leading Russian interbank market participants in 2006 allowed banks to maintain the high quality of their interbank credit portfolio. For a greater part of the year, overdue debt accounted for no more than 0.1% of total interbank loans extended to resident banks.

In 2006, as before, the shortest-term transactions prevailed in interbank loans extended in rubles and foreign currency. For most of the year, interbank loans extended for up to seven days accounted for more than 50% of claims on interbank loans.

Average monthly interest rates on ruble-denominated overnight loans in 2006 ranged from 2.1% to 6.3% p.a. (in 2005 they varied between

1.1% and 5.7% p.a.). In the first half of 2006, interbank rates were relatively low: the average monthly rate on ruble-denominated overnight loans changed in the range of 2.4% to 3.3% p.a. In the second half of the year rates grew: the average ruble overnight interbank rate was up to 3.9% p.a. from 3.0% in the first six months.

The rate volatility was moderate in 2006. For a large part of the year interbank credit rate dynamics had an intramonth cycle.

Interest rates on interbank foreign currency-denominated loans and deposits in 2006 remained largely dependent on the world money market situation. For most of last year interest rates on interbank loans extended by Russian banks in US dollars and euros were close to the world money market rates on instruments denominated in the corresponding currency.

In 2006 Russian banks remained net borrowers on the world financial market. As of the end of last year, the balance of funds raised by Russian banks from non-resident banks and funds placed with non-resident banks increased by more than 60% as compared to 2005.

INTEREST RATES ON INTERBANK RUBLE LOANS (% p.a.)

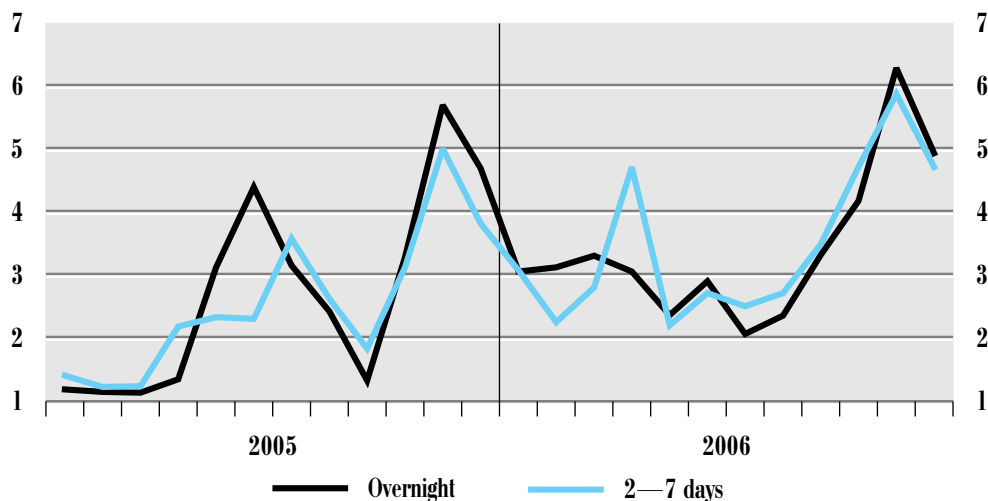


Chart 14

<sup>1</sup> Loans extended by Russian credit institutions to resident and non-resident banks and deposits placed by Russian credit institutions with resident and non-resident banks in rubles, foreign currency and precious metals.

## FOREIGN EXCHANGE MARKET

Downward dynamics in the official dollar/ruble exchange rate prevailed on the forex market. The main reason was the weakening of the dollar against the euro. In 2006 the official exchange rate of the dollar against the ruble decreased by 8.5% and as of January 1, 2007, the dollar stood at 26.3311 rubles.

Throughout 2006 there was no pronounced trend towards either the strengthening or weakening of the ruble against the euro. The official euro/ruble rate appreciated 1.5% and as of January 1, 2007, the euro stood at 34.6965 rubles.

The expansion of export/import operations and massive capital flow stimulated activity on the domestic forex market. As a result, average daily interbank spot foreign currency market turnover in 2006 expanded by 30% year on year, from \$29.6 billion to \$38.4 billion.

Ruble/dollar operations predominated in the currency structure of the interbank spot market, accounting for 65% of aggregate turnover. As market participants' interest in operations with the single European currency increased, euro turnovers expanded, mainly due to euro/dollar operations, which accounted for 90.1% of the total euro turnover in 2006. Euro/ruble operations accounted for only 6.0% of euro turnover.

Overall, the average daily turnover of euro spot interbank operations in 2006 grew by

70.7% to \$10.4 billion. The expansion of euro turnovers was accompanied by growth in the volumes of operations with other major currencies, such as the Swiss franc, the Japanese yen and the British pound.

Exchange traders' activity increased in 2006. Aggregate ruble/dollar trade turnover at the Unified Trading Session (UTS) of several interbank currency exchanges in 2006 increased by 60.0% to \$939.9 billion. Ruble/dollar trades for 'tomorrow' settlements accounted for most of the turnover (41.9%). Ruble/dollar trades for 'today' settlements accounted for 20.7% of total UTS ruble/dollar trade turnover and US dollar swaps accounted for 37.4%.

The measures taken in 2005 to stimulate the development of the euro/ruble exchange market (market participants received more instruments and broader opportunities; commission and deposit requirements were reduced and the Bank of Russia started conducting euro interventions) led to the expansion of turnovers in this segment of the forex market. Total UTS euro/ruble trade turnover in 2006 increased 3.5 times over to 12.7 billion euros as against 3.6 billion euros a year earlier. As currency exchange traders widely used euro swaps throughout 2006, the share of these operations in euro exchange trade turnover expanded significantly (from 6.2% in 2005 to 35.3% in 2006).

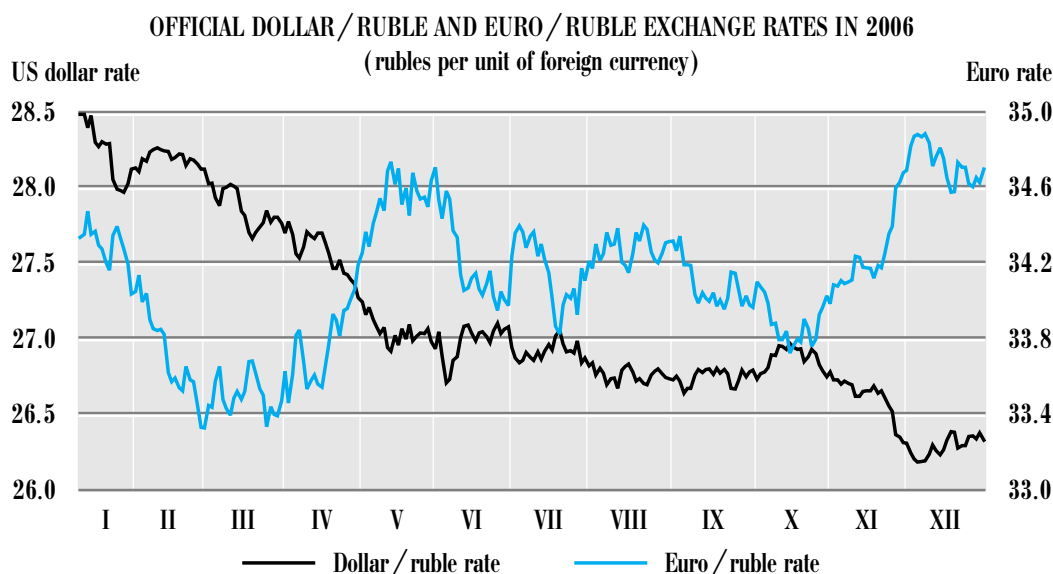


Chart 15

**CURRENCY STRUCTURE OF SPOT INTERBANK CONVERSION OPERATIONS  
IN 2006 (%)\***

US dollar	97
Russian ruble	67
Euro	27
Pound sterling	5
Yen	3
Swiss franc	1

\* Since each transaction involves two currencies, the sum of the shares of all currencies is 200%.

Overall, the exchange segment accounted for 13.5% of interbank currency market turnover (not counting non-system transactions).

Most of the transactions (about 97%) in the exchange and over-the-counter segments of the

interbank currency market were spot transactions. The average daily volume of interbank operations with forex market derivatives almost doubled in 2006 and reached \$1.3 billion as against \$700 million in 2005.

### GOVERNMENT SECURITIES

**FEDERAL LOAN BOND (OFZ) MARKET.** The OFZ market in 2006 saw a major rise in traders' activity. The total volume of secondary market transactions expanded by 23% compared to the previous year to 536.4 billion rubles at market value, of which exchange trade turnover increased by 14% and non-system trades grew by 43%. Except for September, October and November, aggregate monthly OFZ secondary market trade volumes in 2006 were significantly higher than in 2005.

In 2006, as in the previous years, the Finance Ministry's policy on the OFZ market was aimed at extending the duration of the market portfolio and expanding the volume of the base issues in circulation, which fulfil the function of a benchmark value of the funds raised for various terms. At the 33 auctions held in 2006 the issuer only placed base issues: two issues of permanent coupon-income federal loan bonds and three issues of debt depreciation federal loan bonds. In 2006 the Finance Ministry raised a total of 190.7 billion rubles as against 166.4 billion rubles in 2005, and it paid 113.7 billion rubles to government bond holders in coupon income and as principal payments. The nominal value of outstanding OFZ bond issues in 2006 grew by 154.0 billion rubles, or by 21%, to 875.6 billion rubles, and the OFZ portfolio duration increased by 101 days to 1,994 days, or five and a half years.

In the first half of 2006, gross yield to maturity of federal government bonds mostly increased and stayed within the range of 6.4% to 6.9% p.a. For most of the second six months, yields tended to decline. As a result, in 2006 OFZ gross yield at 6.4% p.a. was down by 0.2 percentage points on 2005.

By the end of 2006, the medium- and long-term segments of the non-coupon OFZ yield curve (over 3 years) moved down from its position as of the end of 2005.

Although secondary trade turnovers continued to grow, OFZ market liquidity in 2006 remained low. As in 2005, OFZ yields were too low to attract investors and some issues were amassed in the portfolios of passive investors, who pursued the buy-and-hold policy.

There was a sharp rise in non-resident activity on the OFZ market in 2006, which was partly due to the liberalisation of Russian foreign currency legislation (most restrictions on cross-border capital movement were lifted on July 1, 2006). Although the nominal OFZ portfolio of foreign market participants increased 13 times over, it remained small, accounting for 1.6% of the nominal value of outstanding OFZ bond issues.

**REGIONAL GOVERNMENT BOND MARKET.** The nominal value of the initial regional bond offering on the MICEX Stock Exchange, the principal



OFZ SECONDARY MARKET TURNOVER AND YIELD

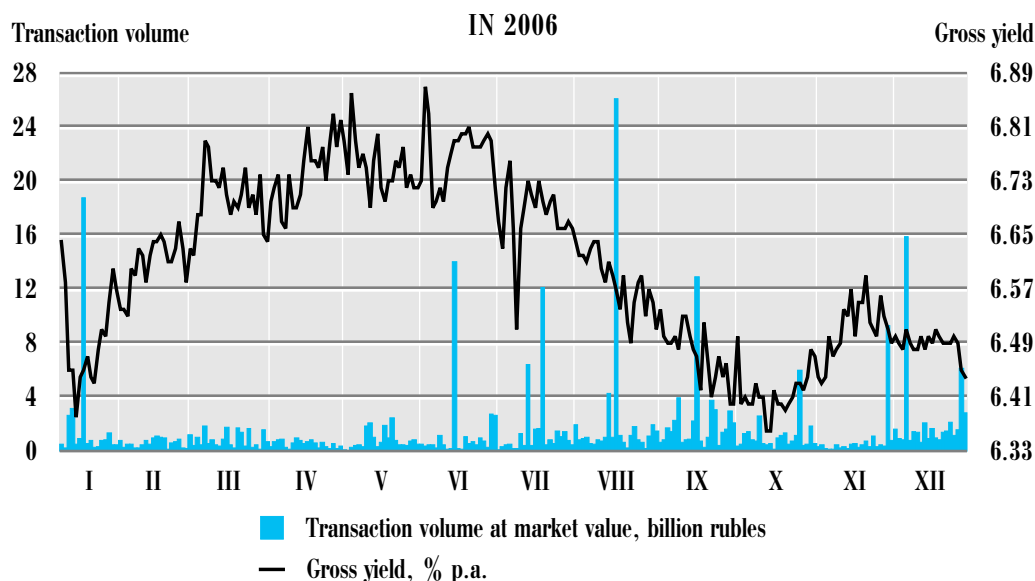


Chart 16

NON-COUPON OFZ YIELD CURVE (% p.a.)

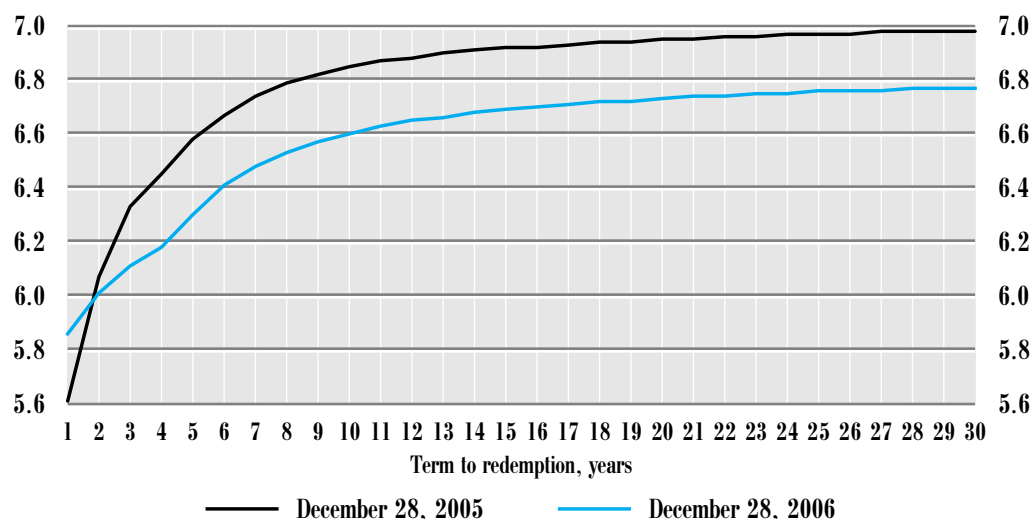


Chart 17

trading floor for trade in sub-federal and municipal bonds, decreased by 7.7% to 47.8 billion rubles. Of the 18 regional bond issuers, the largest placements were made by Moscow (15.0 billion rubles), the Moscow Region (12.0 billion rubles) and the Samara Region (4.5 billion rubles). Other regional issuers placed no more than 2.5 billion rubles of bonds on the MICEX Stock Exchange. The auction yield of the regional bond issues in 2006 ranged from 6.0% to 8.3% p.a. (as against 6.1% to 12.3% p.a. in 2005).

According to issuers' data, the nominal value of regional and municipal government bonds on

the over-the-counter market in 2006 increased 1.5 times over year on year to 14.0 billion rubles. Most of the issues had a nominal value of no more than 1.5 billion rubles and only the bonds issued by the Irkutsk regional government had a nominal value of 3.0 billion rubles.

The aggregate exchange turnover of secondary trade in regional bonds in 2006 at about 550 billion rubles was somewhat lower than in 2005. Secondary trade turnover on the MICEX Stock Exchange decreased by 8.0% due to a reduction in the value of operations with Moscow bonds. The bonds issued by the Moscow

regional government became the leader of secondary trade on the MICEX Stock Exchange, exceeding slightly the value of Moscow bond trade. Significant volumes were registered in trade in bonds issued by the governments of the Republic of Sakha (Yakutia) and the Samara, Nizhni Novgorod, Novosibirsk and Irkutsk Regions.

The total volume of secondary trade in regional bonds on the St Petersburg Currency Exchange (SPCEX) went down to 4.8 billion rubles in 2006 from 11.9 billion rubles in 2005. The secondary trade turnover of the St Petersburg government bonds on the SPCEX fell to 4.3 billion rubles, i.e. 2.5 times year on year.

In June 2006 the Russian Trading System (RTS) began to conduct address transactions with regional bonds and as a result, the total volume of secondary trade in regional bonds on this trading floor in 2006 increased significantly and reached 3.9 billion rubles.

According to data provided by the online news agency Cbonds.ru, the average yield of regional bonds offered by the leading issuers on the secondary market fell from 7.6% in 2005 to 6.9% in 2006.

**RUSSIAN GOVERNMENT FOREIGN CURRENCY-DENOMINATED DEBT MARKET.** In 2006, the Russian government's bonded debt denominated in foreign currency was represented by eurobond issues, series V-VII internal government foreign currency loan bonds (OVGVZ) and 1999 government foreign currency loan bonds (OGVZ).

According to the Finance Ministry's data, the total nominal value of the bonds indicated above decreased from \$38.6 billion as of January 1, 2006, to \$36.8 billion as of January 1, 2007.

In 2006 the Russian Government redeemed series VI OGVZ bonds with a total value of \$1.75 billion. It paid coupon income on all foreign currency-denominated bonds in full and on schedule. Interest payments totalled \$2.4 billion.

Russian investors in 2006 continued to conduct operations with Russian eurobonds on the organised domestic market, which caters to all categories of investors. Eurobond trades on the MICEX Stock Exchange with settlements in US dollars doubled in volume in 2006 compared to 2005 and reached \$23.6 million at actual price. Eurobond trade on MICEX with settlements in rubles went down to 35.0 million rubles at actual price from 39.3 million rubles in 2005.

## CREDIT INSTITUTION SECURITIES

The total value of the registered share issues by credit institutions in 2006 increased by 170% year on year and reached 231.9 billion rubles. In all, 286 share issues with a total value of 176.4 billion rubles were registered in 2006 as credit institutions increased their authorised capital. This represents an increase of 96.6 billion rubles, or 120%, on 2005. Nine bond issues with a total value of 1.7 billion rubles were launched as credit institutions were set up as a result of mergers and conversion from limited liability companies into joint-stock companies. Nine share issues with a total value of 53.7 billion rubles were registered in 2006 for the purpose of share splitting, consolidation and conversion. This represents an increase of 52.8 billion rubles on 2005 (due to the splitting of 52.1 billion rubles of Vneshtorgbank shares).

The value of the registered bond issues in 2006 increased by 27.1 billion rubles compared to 2005

and totalled 112.8 billion rubles. Forty-three credit institutions registered 52 bond issues in 2006, of which four credit institutions registered two and more bond issues each. Bonds were mostly placed on the MICEX Stock Exchange and the main reason why banks issued bonds was to diversify their resource base by making broader use of the securities market instruments and creating a public credit history.

Credit institutions in 2006 also placed their shares on the over-the-counter market. Prices of most of their shares continued to rise rapidly. The price of Sberbank's ordinary shares, the most liquid bank shares, increased 2.4 times over in 2006. Credit institution shares reached 6% of total secondary trade turnover on the MICEX Stock Exchange and the St Petersburg Stock Exchange and on the RTS. The share of bank bonds in total turnover of exchange secondary trade in corporate bonds expanded to 12%.

Banks actively used promissory notes as a means of raising short- and medium-term financial resources. In 2006, the value of promissory notes placed by banks increased by 28.6% and as of January 1, 2007, it stood at 790.5 billion rubles. The bank promissory note market expanded mostly due to the largest banks. As the value of promissory notes and bank acceptances issued by Russia's top 30 banks increased by 34.6% in 2006 reaching 462.6 billion rubles as of January 1, 2007, their share in total promissory notes and bank acceptances expanded to 58.5% from 55.9% a year earlier.

The slight fall (by 0.2 percentage points to 7.4% p.a.) in the average annual interest rate on their own ruble-denominated promissory

notes placed by banks with legal entities reflected the banks' desire to maintain throughout the year a stable rate of return from operations with their own promissory notes as their average maturity period continued to increase. The average annual maturity period of the ruble-denominated bank promissory notes placed with legal entities reached more than six months.

The Bank of Russia in 2006 registered 28 terms of issue and circulation of certificates of deposit and four terms of issue of savings certificates. As was the case in 2005, credit institutions based in Moscow and the Moscow Region accounted for most of the issue (111.9 billion rubles).

### CORPORATE SECURITIES MARKET

The corporate securities market<sup>1</sup> remained one of the most dynamic segments of the financial market in 2006. Most of the exchange securities trades were conducted on the MICEX Stock Exchange and the St Petersburg Stock Exchange and on the RTS. Regional market participants conducted trade on the MICEX Stock Exchange via stock market divisions of the regional currency exchanges. Most of these trades were conducted through stock market divisions of the Siberian Interbank Currency Exchange, the Urals Interbank Currency Exchange and the St Petersburg Currency Exchange.

In 2006, Russian companies made initial placements of their **shares** by closed or open subscription and by means of the IPO mechanism.

The Russian stock market key price indicators continued to rise rapidly in 2006. The MICEX Index gained 68% and the RTS Index — 71%, and by the end of the year they had reached all-time record highs.

The RTS stock market capitalisation increased 2.9 times in 2006 and reached \$966.0 billion (25.4 trillion rubles).

The exchange segment of the Russian stock market demonstrated significant growth in secondary trade turnover in 2006. The MICEX Stock Exchange share trade turnover increased 3.4 times

to 11.1 trillion rubles. Fuel and energy stocks continued to dominate exchange stock trade.

The value of **corporate bond** initial placements at exchange auctions held with the participation of credit institutions, which played the role of underwriters and paying agents, continued to increase in 2006. Corporate bonds with a total value of 464 billion rubles were placed on the MICEX Stock Exchange, an increase of 80% on the year before. Most of the bond issuers were non-financial sector companies.

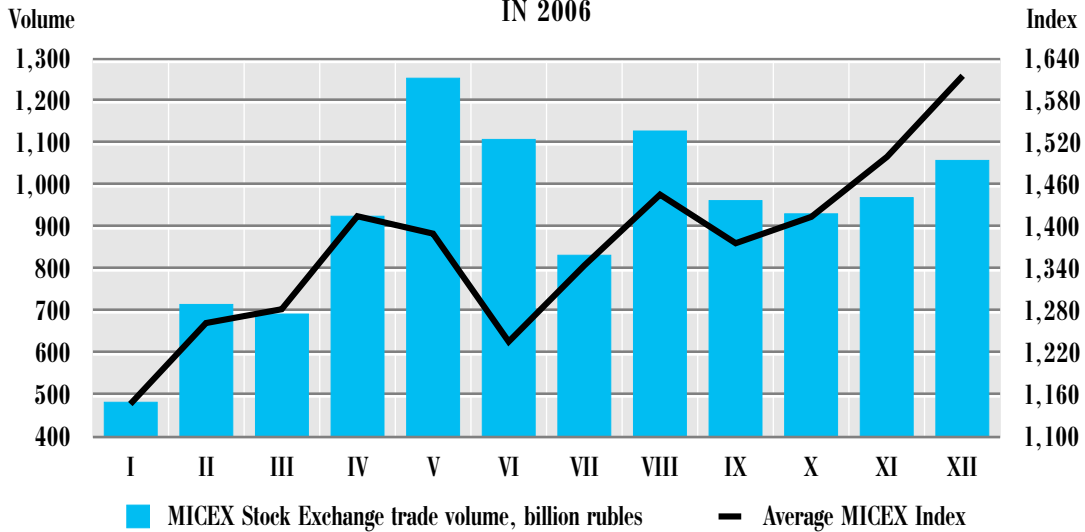
Growth in the volume of corporate bonds in circulation led to a growth in secondary trade turnover in the exchange segment of the market. Secondary corporate bond trade turnover on the MICEX Stock Exchange doubled in 2006 as compared to 2005 and reached 1,803 billion rubles. Railway, electric power, fuel and communications companies accounted for most of the bonds traded on the MICEX Stock Exchange secondary market.

The average monthly yield on corporate bonds traded on the secondary market in January—July 2006 rose from 7.3% to 7.9% p.a., but later it declined and in December stood at 7.7% p.a.

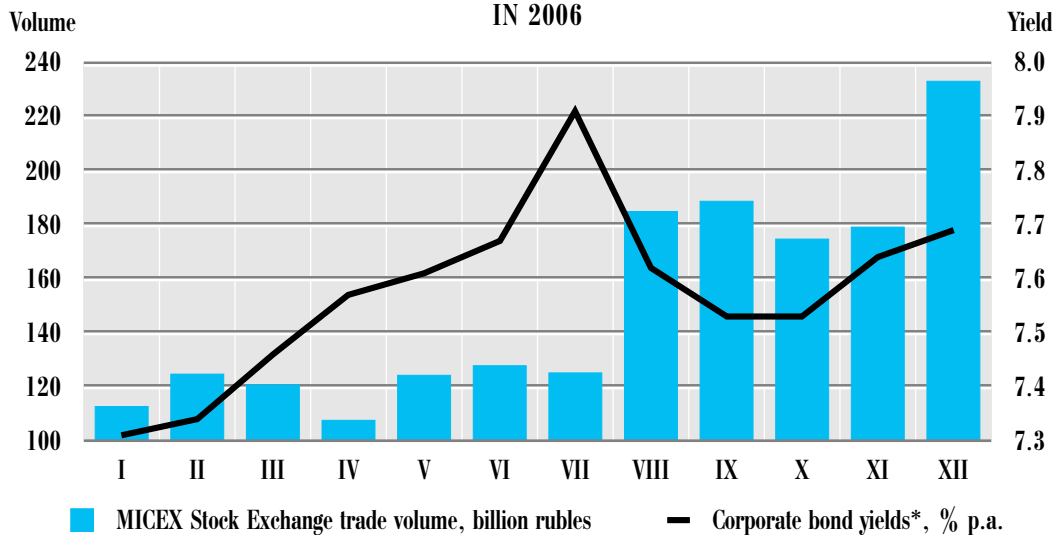
The **promissory note market** in 2006 remained a major source of short-term borrowings for non-financial enterprises.

<sup>1</sup> Comprises securities of non-financial enterprises and institutional financial intermediaries.

### MICEX STOCK EXCHANGE EQUITIES TRADE IN 2006



### CORPORATE BOND SECONDARY TRADE IN 2006



\* Source: Cbonds.ru.

According to the Region<sup>1</sup> group of companies, promissory note yields tended to rise in 2006. The average annual yields on short-term (1-, 3- and 6-month) promissory notes increased by 0.2—0.6 percentage points compared to the previous year and stood at 7.0%, 7.5% and 7.8% p.a., respectively. At the same time, the average yield on 12-month promissory notes was down by 0.2 percentage points to 8.2% p.a.

According to data reported by credit institutions, the average interest rate on the ruble-denominated promissory notes discounted by banks in 2006 fell slightly (by 0.2 percentage points) and stood at 10.1% p.a. The yield dynamics of discounted promissory notes was partly due to the predominance of 6-month-plus papers in their structure: the average annual term of bank operations to discount ruble promissory notes was about seven months in 2006.

<sup>1</sup> Region group of companies is a leading Russian promissory note market operator and public promissory note programme organiser, which regularly calculates and publishes promissory note market price indicators.

## FINANCIAL DERIVATIVES MARKET

Futures and options exchange trade turnover quadrupled in 2006 compared to 2005 and aggregated 3,626 billion rubles. Growth in futures exchange market turnover in 2006 was accompanied by an increase in the value of open futures positions on the major trading floors. In the FORTS<sup>1</sup> system, for example, the total value of open futures positions at the end of 2006 was 3.6 times greater than at the end of 2005.

Stock futures trade was the most dynamic segment of the exchange derivatives market in 2006: it accounted for 64% of the total value of exchange futures contracts. The currency futures segment continued to expand and reached 26% of the total value of derivatives trade, whereas the commodity futures segment accounted for no more than 1%; the interest rate futures segment accounted for 0.5% and the options segment — for 9%.

The RTS index futures contract was the most liquid instrument in the stock futures segment. Futures for the stock prices of eight leading Russian issuers were actively traded in this segment and futures were executed for the price of Rus-

sian eurobonds and Moscow government bonds. The principal currency futures contract was the contract for the US dollar exchange rate against the ruble (it accounted for 99% of currency futures trade turnover) and futures contracts for the euro exchange rate against the US dollar were also traded. The commodity futures segment was represented by two new contracts, the futures contract for Urals crude and the futures contract for refined bar gold. The introduction in May 2006 of futures contracts for the average MosIBOR rate on overnight ruble loans (MICEX, FORTS) and the 3-month MosPrime Rate (MICEX) created a new segment on the Russian derivatives market — the interest rate futures segment. The option segment traded in futures options for the shares of five Russian issuers, the RTS index and the US dollar exchange rate against the ruble. Gazprom stock futures were the most liquid instrument in the options segment.

The average term of the exchange derivatives decreased slightly in 2006 as the share of short-term arbitrage operations with derivatives expanded.

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<sup>1</sup> RTS futures and options market.

## I.4. BALANCE OF PAYMENTS AND FOREIGN DEBT

### 1.4.1. BALANCE OF PAYMENTS

Due to the favourable external and internal conditions, Russia improved its balance of payments in 2006. Its current account surplus increased and foreign capital flowed into the private sector of the Russian economy in quantity. This allowed the Russian government not only to make scheduled and large-sum ahead-of-schedule foreign debt payments, but also to significantly increase the country's international reserves.

#### CURRENT ACCOUNT

The increase of the current account surplus by 12.7% to \$94.5 billion was due to significant increment of the trade surplus, which rose to \$139.2 billion from \$118.4 billion in 2005.

**Exports of goods** increased by 24.7% year on year to \$303.9 billion, mainly due to the increased prices of exported energy products. The price of Russian oil and petroleum products rose by a quarter on average and the price of natural gas increased by 40%. As a result, Russian exports of oil grew in value to \$102.3 billion, of petroleum products — to \$44.7 billion and of natural gas — to \$43.8 billion. The share of these fuel and energy products in total exports expanded from 61.1% in 2005 to 62.8% in 2006.

As for other goods, high rates of growth (60%) were registered in non-ferrous metallurgy exports, which led to an increase in the total value

of exported metals and metal products from \$33.8 billion to \$41.8 billion.

The share of the European Union members in the country structure of Russian exports expanded from 55.3% to 56.6%. Russia's leading trading partners were, as before, the Netherlands (11.9%), Italy (8.3%) and Germany (8.1%).

**Imports of goods** rose by 31.3% to \$164.7 billion. Their accelerated growth was due to the rapid expansion of import volumes, which increased by 24.7%, while the price factor was less important (import prices grew by 5.3%). The expansion in imports of machinery, equipment and transportation vehicles to \$65.6 billion accounted for over half of the growth in the value of total imports. The share of these products in the import structure reached 47.6%.

The share of chemical and related products went down from 16.5% to 15.8%. The value of food imports and agricultural raw materials imported for food production increased from \$17.4 billion to \$21.6 billion, but the share of this group of products contracted to 15.7%, as growth in their import volumes slowed down.

The import structure reflected the expansion of Russia's ties with APEC member countries, whose share in total Russian imports increased from 25.6% to 28.6%. The share of the European Union countries remained virtually unchanged from 2005 at 44.0%. Russia's major

RUSSIA'S MAJOR BALANCE OF PAYMENTS COMPONENTS AND INTERNATIONAL RESERVES  
(US\$, billion)

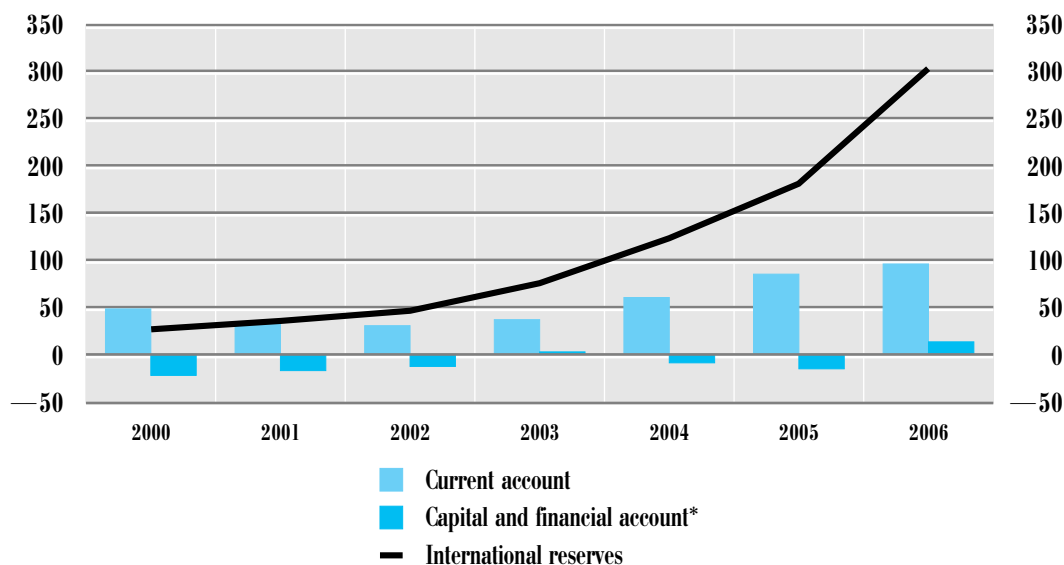


Chart 20

\* Net of the change in reserves.

importers were Germany (13.4%), China (9.4%) and Ukraine (6.7%).

The negative balance of international trade in services in 2006 was close to the 2005 figure (\$14.9 billion as against \$14.8 billion), although their turnover grew by 18.1%.

Exports of services increased by 23.3% to \$30.3 billion, mostly due to growth in the value of business, professional and technical services provided to non-residents (29.4% of the increment in exports), travel (26.6%) and transportation services (16.9%). Total exports of these categories of services increased from \$19.5 billion in 2005 to \$23.7 billion in 2006.

Among other categories the fastest growth was registered in exports of financial services (50.9%) and computer and information services (49.9%).

Imports of services increased by 14.8% year on year to \$45.3 billion. The expansion of business, professional and technical services accounted for nearly a third of this growth, transportation services — for 27.2% and travel-related imports — for 13.8%. As before, the travel-related service imports accounted for the largest part of total imports (41.5%) and their value rose to \$18.8 billion.

The deficit of the employees compensation balance in 2006 increased 3.6 times compared to 2005 and reached \$4.4 billion. Resident wage

remittances from abroad are estimated at \$1.6 billion, almost unchanged from 2005. Wages and salaries paid to non-residents increased by 110% to \$6.0 billion. The decisive factor of wage dynamics was a significant increase in the number of migrants who came to Russia for temporary employment. As in 2005, resident incomes were almost entirely received in non-CIS countries, while CIS citizens accounted for about three-quarters of incomes paid to non-residents in Russia.

The deficit in the balance of investment incomes increased from \$17.6 billion in 2005 to \$24.1 billion in 2006. Total accrued income receivable amounted to \$24.8 billion and payable — to \$48.9 billion.

The surplus of investment incomes of the general government and monetary authorities increased significantly in 2006 year on year, from \$500 million to \$7.8 billion, as foreign debt decreased and reserves grew dramatically. Private sector expenditures on the service of rapidly growing foreign liabilities exceeded incomes from foreign assets by \$32.0 billion as against \$18.1 billion in 2005.

The deficit in the balance of current transfers stood at \$1.3 billion, an increase of 60% on 2005. Receipts are estimated at \$6.6 billion and payments at \$7.9 billion. Transfers received by

the general government exceeded payments by \$2.0 billion. The adverse balance of operations conducted by other sectors<sup>1</sup> stood at \$3.3 billion.

## CAPITAL AND FINANCIAL ACCOUNT

**CAPITAL ACCOUNT.** The favourable balance of capital transfers stood at \$200 million (there was a deficit of \$12.8 billion in 2005 due to foreign debt remission operations).

There was a surplus of \$300 million in general government operations and a deficit of \$100 million in the balance of capital transfers of other sectors.

**FINANCIAL ACCOUNT.** The favourable balance of the financial account (net of reserves) stood at \$11.7 billion in 2006 (in 2005 there was a deficit of \$800 million). The international investment position of the general government and monetary authorities improved. In the private sector foreign liabilities grew faster than assets.

Resident **foreign liabilities** increased by \$70.3 billion in 2006 (as against \$53.2 billion in 2005).

Foreign liabilities of the government sector and monetary authorities decreased by \$35.2 billion. The reduction in general government liabilities was largely due to the early repayment of the \$22.6-billion debt to the Paris Club of creditor nations. In all, Russia's foreign debt payments, including interest, topped \$32.8 billion. The government debt service ratio (the ratio of total payments to exports of goods and services) decreased from 11.6% in 2005 to 9.8% in 2006, while relative to consolidated budget revenue went down to 8.4% (as against 10.3% in 2005).

Foreign capital inflow to the private sector in 2006 increased by 50%, from \$71.5 billion to \$105.5 billion.

Banking sector foreign liabilities increased by \$51.3 billion. The funds raised by Russian

banks were mostly long-term debt instruments.

Foreign capital flow to other sectors in 2006 is estimated at \$54.2 billion (as against \$52.3 billion in 2005). Foreign direct investments amounted to \$26.2 billion. The role of non-resident portfolio investments increased significantly in the structure of foreign capital inflow and they amounted to \$11.5 billion. At the same time, attracted loans went down from \$40.9 billion to \$16.8 billion.

Resident **foreign assets** (net of the official foreign exchange reserves) increased by \$58.7 billion. Government and private sector cash flows had different directions.

General government and monetary authorities foreign claims decreased by \$6.2 billion, while the private sector increased its foreign assets by \$64.9 billion.

As a result of operations conducted by Russian banks with foreign assets and liabilities, the negative value of their net international investment position almost tripled in 2006: as of the end of the year foreign liabilities of banks exceeded claims on non-residents by \$57.7 billion (as against \$20.8 billion a year earlier).

Growth in foreign investment in the private sector caused the favourable balance of cross-border private capital flows in 2006 to reach \$41.7 billion (as against \$700 million in 2005) — the highest level registered since observations began in 1992.

## INTERNATIONAL RESERVES

Russia's international reserves grew by \$119.7 billion. Net of the exchange rate revaluation, they increased by \$107.5 billion. Taking into account monetary gold, the country's international reserves reached \$303.7 billion by January 1, 2007. By international standards this amount is enough to ensure mid-term stability in the balance of payments.

<sup>1</sup> Other sectors comprise non-financial corporations, financial corporations other than credit institutions, non-profit organisations providing services to households, and households.



## 1.4.2. FOREIGN DEBT

Russia's foreign debt (debt to non-residents) increased from \$257.2 billion to \$309.7 billion in 2006<sup>1</sup>. Taking into consideration that Russia's foreign debt had gone down significantly as a result of the early repayment of Soviet-era debt, growth in debt to non-residents was due to massive private sector borrowings.

Foreign debt obligations of Russia's banking and other sectors increased by 50% in 2006 to \$260.7 billion. As of January 1, 2007, they exceeded 5.3 times the aggregate debt obligations of the general government and monetary authorities, which decreased in 2006 from \$82.1 billion to \$49.0 billion. As a result, at the end of 2006 private sector debt obligations prevailed in the economy's foreign debt and their share expanded from 68.1% to 84.2%, whereas the share of foreign debt of the general government and monetary authorities declined from 31.9% to 15.8%.

The structure of federal government foreign debt, which went down by 37.6%, underwent significant changes. By the end of 2006, after Russia had repaid ahead of schedule its debt to the Paris Club of creditor nations, the value of the debt obligations that Russia had assumed from the former Soviet Union decreased 3.5 times to \$9.8 billion and their share was reduced to 22.5% from 49.1% as of the beginning of 2006. As of January 1, 2007, Russia's debt to the Paris Club stood at \$600 million and it accounted for 5.9% of its Soviet-era debt; debt obligations to the former Soviet-bloc countries equalled \$1.9 billion (19.5%); Russia's debt to non-residents expressed in OVGZ bonds stood at \$2.1 billion (21.1%), and other categories of debt aggregated \$5.2 billion (53.5%).

Russia's new sovereign debt went down in 2006 from \$35.7 billion to \$33.8 billion. There was also a significant reduction in Russia's foreign debt in the form of foreign currency-denominated securities, which decreased from \$26.7 billion to \$25.0 billion. Large payments of the principal amount of the debt were effected on the sixth

tranche of OVGZ bonds, 1999 OGVZ bonds and eurobonds issued in the course of restructuring Russia's debt to the London Club of commercial creditors. Growth in debt obligations of the latter category was due to the issuing of additional eurobonds for the purpose of restructuring the former Soviet Union's commercial debt. As a result, as of January 1, 2007, foreign currency-denominated securities accounted for 73.8% of the new Russian debt, loans from international financial organisations — for 16.1%, debt on other loans — for 7.7%, and other debt obligations made up 2.4%.

Russia's regional government foreign debt increased by \$300 million and as of January 1, 2007, it stood at \$1.5 billion.

The Russian banking sector's foreign debt doubled in 2006 and as of January 1, 2007, it reached \$101.2 billion. The banking sector foreign debt grew faster than the debt of any other sector. It was mostly represented by loans, on which the banking sector debt increased by \$33.3 billion to \$67.8 billion. In addition, there was significant growth (by \$15.4 billion) in debt obligations in the form of balances of current and deposit accounts. As of January 1, 2007, their value is estimated at \$27.8 billion. Other categories of foreign debt owed by banks increased by a total of \$2.4 billion.

Debt owed to non-residents by other sectors of the economy grew by \$34.5 billion to \$159.5 billion. As of January 1, 2007, it accounted for more than half of the entire economy's foreign debt. Loan debt accounted for 73.2% of these sectors' foreign debt and it rose to \$116.7 billion. Debt to foreign direct investors totalled \$21.0 billion (13.2%), debt in the form of securities held by non-residents — \$18.5 billion (11.6%), and other categories of debt — \$3.2 billion (2.0%).

The structure of Russia's foreign debt by term to redemption remained favourable in 2006. As of January 1, 2007, long-term debt to non-residents stood at \$254.1 billion (82.0% of aggre-

<sup>1</sup> Taking into account exchange rate and market revaluation.

**RUSSIA'S FOREIGN DEBT**  
(US\$, billion)

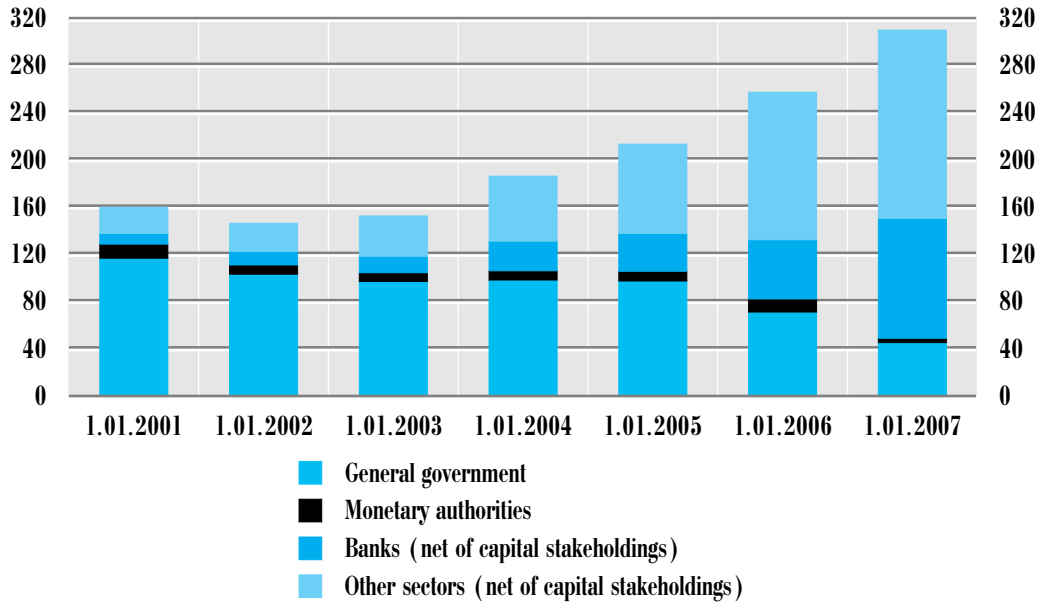


Chart 21

**RUSSIA'S FOREIGN DEBT**  
(as % of GDP)

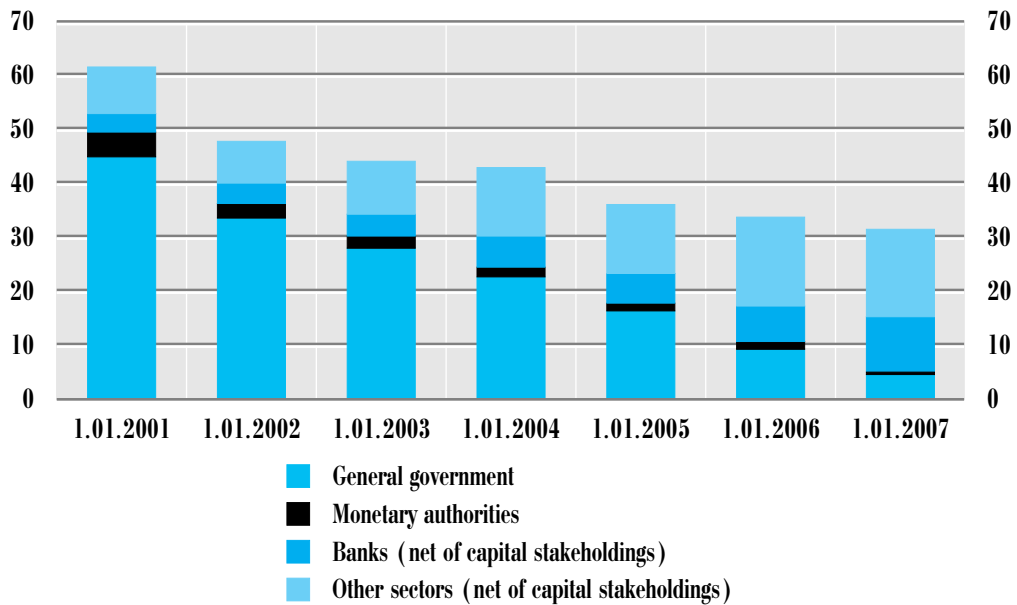


Chart 22

gate foreign debt) and short-term debt obligations amounted to \$55.7 billion (18.0%). Foreign debt denominated in foreign currency equalled \$251.7 billion (81.3% of the economy's total debt).

Russia's foreign debt relative to GDP went down from 33.7% as of the beginning of 2006 to 31.4% as of January 1, 2007, and the general government foreign debt — from 9.3% to 4.6%, accordingly.

## 1.5. THE WORLD ECONOMY AND INTERNATIONAL FINANCIAL MARKETS

The external conditions of Russia's economic development in 2006 were characterised by accelerated growth of the world economy and international trade, a rise in the world market price of oil, a depreciation of the dollar against the euro on the international currency market and an increase in interest rates on foreign financial markets. The world market saw growth in the demand for major Russian export commodities, which was accompanied by an increase in their prices.

According to an IMF estimate, the world output of goods and services increased by 5.4% in 2006 as against 4.9% in 2005. Most of the countries registered an acceleration in economic growth. Growth in exports and the expansion of domestic demand were major factors of the acceleration of GDP growth in the eurozone, the United States and China, and in Japan exports growth was the decisive factor. As for Russia's leading trading partners in Eastern Europe and Central Asia, the output of goods and services accelerated in Poland, Ukraine, Belarus and Kazakhstan, mainly due to the expansion of domestic demand.

The world commodity market situation in 2006 was characterised by growth in the prices of goods that constitute major Russian exports. The world consumption of oil grew faster than its

production. Non-OPEC countries, especially Russia, played a principal role in boosting oil production. According to the International Energy Agency, Russia was the world leader in the production of crude oil and gas condensate, accounting for 11% of world output.

Prices of non-ferrous and precious metals continued to rise on the world market in 2006, while ferrous metal prices declined. There was a rise in the world market prices of timber and organic and non-organic chemical products. Wheat and sugar prices rose, causing food price hikes in many countries, including Russia.

The terms of trade in goods in 2006 were particularly good for oil-exporting countries, most of them being emerging markets. An improvement in the terms of trade for this group of countries has been registered since 2003. The terms of trade for industrialised nations have deteriorated since 2004. According to the OECD's estimates, the average weighted level of prices of imported goods in the member countries of this organisation as a whole (calculated in the importing countries' currencies) in 2006 reached a six-year high. The average weighted export prices increased far less.

According to an IMF estimate, international trade in goods and services increased by 9.2% in 2006 as against 7.4% in 2005. As for foreign trade in the oil-exporting emerging markets, imports

### GROWTH IN OUTPUT OF GOODS AND SERVICES IN THE WORLD AND IN INDIVIDUAL COUNTRIES (%)\*

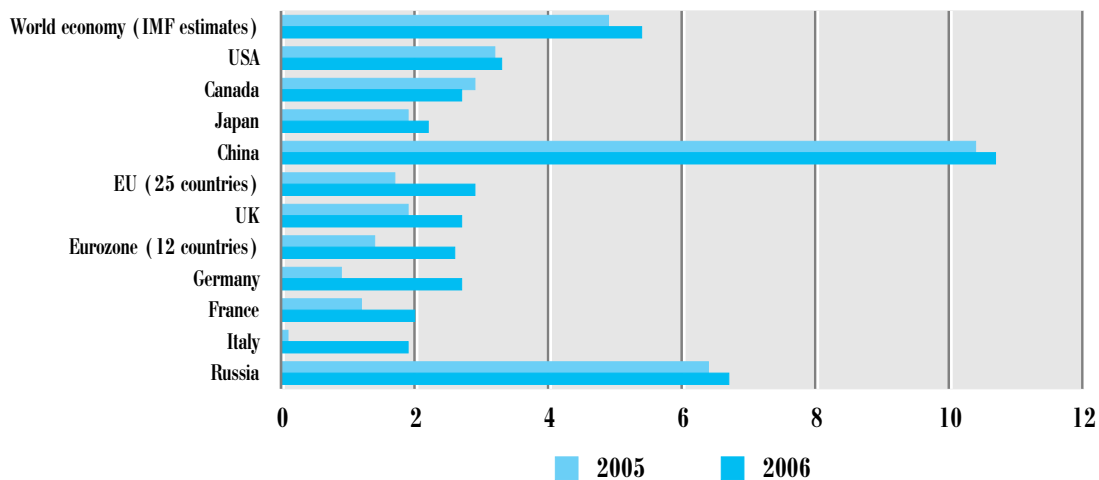


Chart 23

\* Based on data provided by official statistics agencies of corresponding countries, the Eurostat and the IMF.

grew faster than exports there, although export prices rose to a greater extent than import prices.

OECD estimates indicate that export markets of non-OECD countries in 2006 grew faster than those of the OECD member countries<sup>1</sup>. The most rapid rates of export market growth were registered in the developing countries of Asia and European transition economies. The aggregate share of the non-OECD countries in world exports of goods and services in 2006 grew by 1.3 percentage points year on year to 34.8%. Export/import operations of the non-OECD countries of Asia made the biggest contribution to the expansion of world trade in 2006. At the same time, the aggregate contribution of other emerging markets, excluding Latin American countries, increased.

More than 40% of the growth in US imports of goods<sup>2</sup> was due to an increase in imports of energy products, metals and metal products, and almost a quarter of the growth was due to increased crude oil imports. Deliveries from Russia accounted for over 13% of growth in US imports of ferrous metals and ferrous metal products and 4% of growth in imports of oil and petroleum products. Mineral fuel accounted for half of US imports from Russia, and ferrous and non-ferrous metals and metal products — for one-third.

The increase in energy import prices was the main factor of growth in the aggregate import of goods by member countries of the European Union (EU). Russia accounted for more than a quarter of the growth in energy imports. Mineral fuel accounted for about two-thirds of EU imports from Russia.

China is a major importer of Russian chemical and petrochemical products, timber and pulp-and-paper products, engineering and ship-building products, mineral fuel and ferrous and non-ferrous metals. Russia is China's 10<sup>th</sup> major trading partner in terms of trade turnover (it accounts for about 2% of China's trade). Russian exports to China somewhat exceeded Chinese exports to Russia and had a diversified commodity structure.

The need to retool their industries and modernise their fixed assets stimulated Ukraine, Kazakhstan and Belarus to increase engineering imports. In Ukraine the demand for metal products led to a growth in their imports despite the resumption of domestic output growth. As before, Russian exports accounted for about 60% of Belarus's imports and 38% of Kazakhstan's imports. Meanwhile, the share of Russian exports to Ukraine continued to decline.

<sup>1</sup> Export market growth in a country is an aggregated indicator of the increase in imports of goods in a country's trading partners, weighted by their unit weights in the geographical structure of exports from that country.

<sup>2</sup> Here and below in sub-section The world economy and international markets the changes and structural characteristics of trade are shown in value terms.

**GROWTH IN EXCHANGE RATES OF INDIVIDUAL CURRENCIES AGAINST THE US DOLLAR IN 2006**  
(December 2006 as % of December 2005) \*

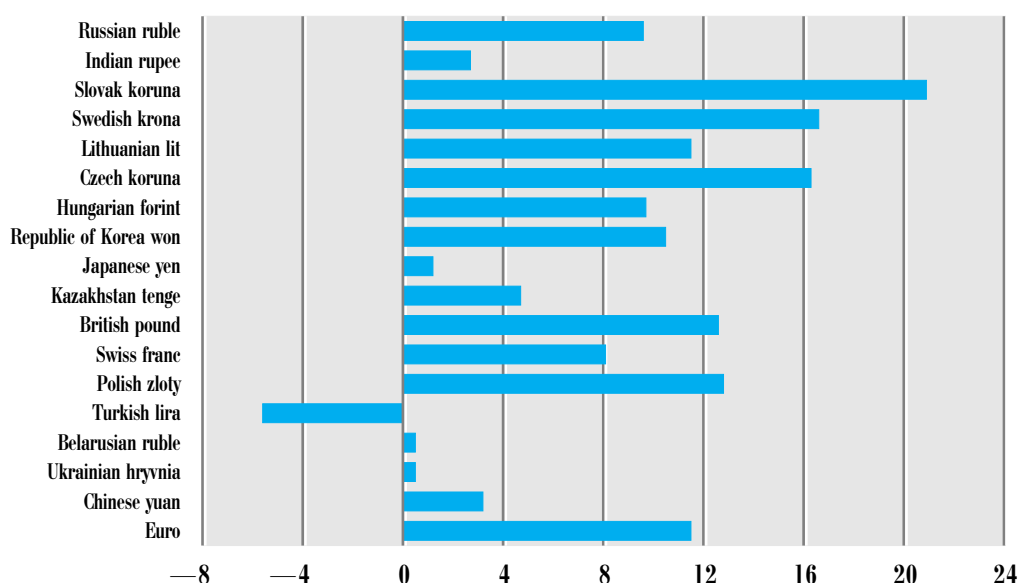


Chart 24

\* (—) signifies appreciation of the dollar, (+) — its depreciation.

In 2006 (December 2006 on December 2005) the US dollar lost 11.5% of its value against the euro and 3.2% of its value against the yuan. China continued to pursue the managed floating exchange rate policy in respect to the yuan against a basket of currencies comprising the US dollar and some other currencies of importance for the Chinese economy.

The National Bank of Ukraine kept the US dollar/hryvnia exchange rate unchanged, while the hryvnia depreciated against the ruble. The National Bank of the Republic of Belarus allowed the Belarusian ruble to fall against the Russian ruble amid relative stability of the former against the US dollar. As capital inflow to Kazakhstan's economy increased, the tenge appreciated against the US dollar, but fell against the Russian ruble.

According to IMF data, gold and foreign exchange reserves of the emerging markets (calculated in SDR terms) increased by 19.2% and accounted for more than 71% of the world's total gold and foreign exchange reserves in 2006. China's gold and foreign exchange reserves in 2006 exceeded \$1 trillion and China outran Japan, becoming the world leader in this respect. Russia came in third. Capital inflow in the form of direct foreign investment and foreign loans

taken by the government and the private sector in some emerging market countries increased in 2006. According to an IMF estimate, net capital inflow to this group of countries as a whole remained virtually unchanged in 2006.

The effect of growth in energy prices on inflation dynamics in the world decreased in 2006 and a contributing factor was the reduction of oil prices on the world market in August and September 2006. The United States and the eurozone registered a reduction in the rate of consumer price growth in 2006 (December on December 2005). At the same time, the growth in the demand for goods and services amid narrowed opportunities to increase output by using free production capacity and growth in unit wage costs created conditions for acceleration of core inflation. Core inflation (the general level of consumer prices measured without taking into account energy and food prices) accelerated in the United States and eurozone in 2006 and bearing in mind the increased danger of inflation, the central banks implemented a monetary policy that was primarily aimed at containing price growth by raising interest rates.

The US Federal Reserve in the first half of 2006 raised the benchmark interest rate on the shortest-term loans on the interbank money mar-

ket (federal funds rate) from 4.25% to 5.25% p.a. The European Central Bank (ECB) in 2006 raised the refinance rate from 2.25% to 3.5% p.a. In the second half of 2006, the Fed left the benchmark federal funds rate unchanged in response to a downturn in housing construction, a sector sensitive to any change in interest rates, while the ECB continued raising interest rates throughout the year, despite the fact that in the period from September to December eurozone inflation (price growth in the reporting month against the same month of the previous year) was less than 2%. The monetary authorities of some other industrialised nations and emerging markets also raised interest rates in 2006. The interest rate policy pursued by the Fed and the ECB in 2006 caused the LIBOR on the dollar-denominated deposits to rise by an average of 1.3—1.8 percentage points year on year to 5—5.3% p.a. and on the euro-denominated deposits by 0.7—1.1 percentage points to 2.8—3.4% p.a.

The tightening of the monetary policy in leading industrialised nations and several major emerging markets caused a sharp fall in share prices on the world stock markets in the 2<sup>nd</sup> quarter of 2006. However, the Fed's decision to keep US interest rates intact from the middle of 2006, and the fall in the price of oil on the world market in the 3<sup>rd</sup> quarter led to a resumption of share price growth in the second half of 2006.

The world economy in 2006 continued to grapple with the problem of global imbalances caused by the surplus or shortage of domestic savings in some major countries, which created large trade surpluses or deficits and provoked exchange rate instability. However, this problem is being gradually overcome as the United States is pursuing a more balanced fiscal policy, China is taking a more flexible approach to the yuan exchange rate and the countries of Europe and Japan are continuing the structural reforms aimed at accelerating economic growth.

**BANK OF RUSSIA  
ACTIVITIES**

**III**

## II.1. MONETARY POLICY

### II.1.1. MONETARY POLICY OBJECTIVES AND RESULTS

To create favourable conditions for sustainable economic growth, in 2006, as in the previous years, the Bank of Russia pursued a monetary policy aimed at consistently reducing inflation and maintaining the stability of the national currency. The Guidelines for the Single State Monetary Policy in 2006 envisaged a rise in consumer prices of no more than 8.5%. To ensure that the target for consumer price inflation was achieved, the target for core inflation was set at 7—8%. As for the social and economic development forecast for Russia in 2006, written for different economic scenarios, GDP growth was expected to be in the range of 4.0% to 6.1%. Actually, in 2006 GDP went up by 6.7%, consumer prices rose by 9% and core inflation stood at 7.8%.

The Bank of Russia in 2006 continued to maintain the managed floating exchange rate regime, which hinged, to a great extent, on the Russian economy's dependence on the situation on world commodity markets. In addition, as all restrictions had been removed from capital operations and the direction of capital movement, and the exchange rates of major world currencies remained uncertain, the managed floating exchange rate regime made it possible to mitigate any adverse impact on the Russian economy of developments on international financial markets.

As oil and petroleum product prices remained high, foreign exchange proceeds from exports flowed into the country in quantity in 2006, as in the previous year. Net import of capital by the private sector, which had increased several times over the previous years, became an additional channel for foreign exchange flowing into the country. As its policy was aimed at containing inflation, the Bank of Russia in 2006 did not interfere with the evolving trend towards the ruble's appreciation. At the same time, to help domestic producers remain competitive, the Bank of Russia in 2006 took steps to prevent the ruble from rising too fast by conducting currency interventions on the domestic forex market. In that situation, as the Bank of Russia continued to maintain the managed floating exchange rate regime, the monetary authorities' money supply was formed largely as a result of the purchase by the Bank of Russia of foreign currency on the domestic forex market.

To mitigate the negative effect of the money supply growth on inflation in the economy, the Bank of Russia and the Russian Government took steps to absorb liquidity and, as was the case in 2004 and 2005, a large part of it was absorbed by the Stabilisation Fund.

In 2006, as in the previous years, demand for the national currency expanded rapidly mainly due to the rapid growth in domestic demand. In



PROJECTED AND ACTUAL M2 GROWTH RATES  
(month on month of previous year, %)

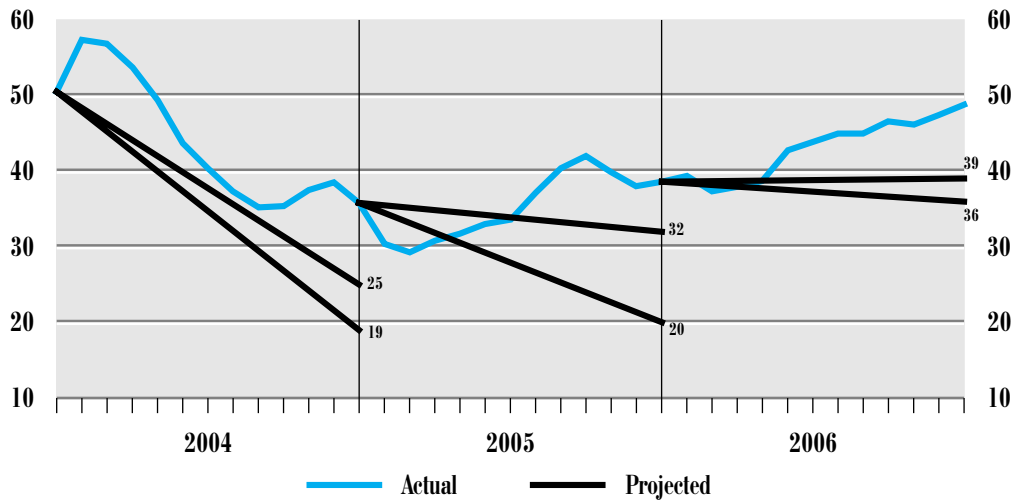


Chart 25

M2 VELOCITY (as % of corresponding month of previous year)

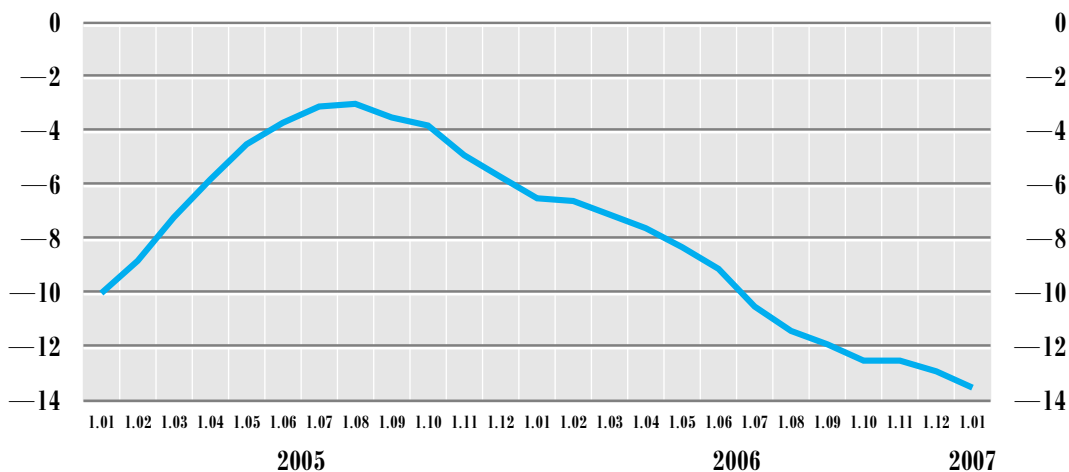


Chart 26

addition, the sustained trend of the ruble to appreciate on the domestic forex market in 2006 facilitated the phasing out of the dollar from the Russian economy and the conversion of savings from foreign to the national currency, which made demand for the ruble higher than in 2005. Being aware of these trends, the Bank of Russia in the second half of 2006 raised its earlier forecast for growth in the demand for the national currency.

The growth in demand for money in 2006 was accompanied by a significant reduction in the velocity of money, which exceeded that of 2005. Due to structural changes in the money supply, the velocity of money calculated by the M2 aggregate decreased in 2006 by an average annualised 13.5% (as against 6.5% in 2005).

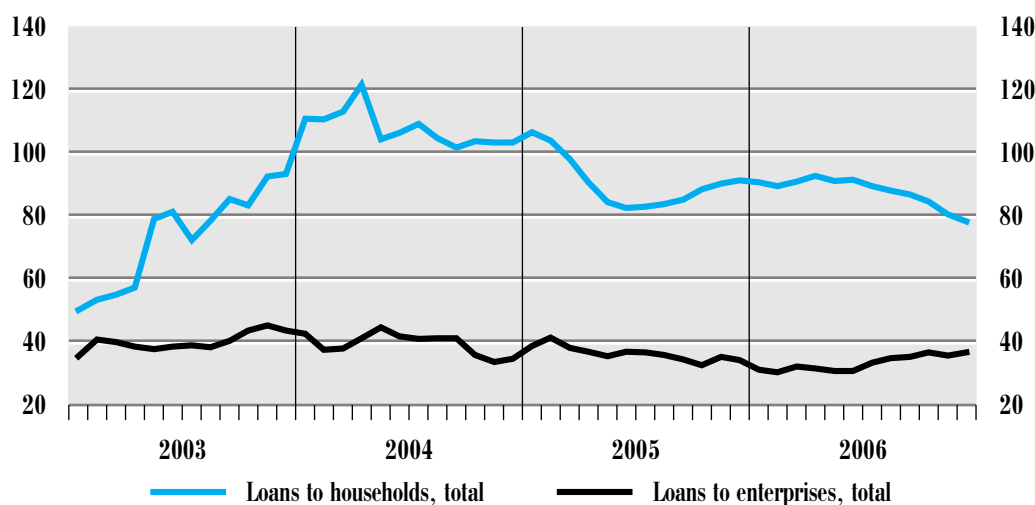
The M2 monetary aggregate increased by 48.8% in 2006 as against 38.6% a year earlier, as demand for the ruble grew faster than in 2005.

The structure of the money supply improved as the ruble-denominated time deposits increased significantly due to the ruble's appreciation against the dollar and the euro, and this provided an additional impetus for savings in the national currency. As a result, the value of ruble-denominated time deposits increased by 55.4% in 2006 as against 44.2% in 2005 and their share in M2 expanded from 36.1% to 37.7%.

Cash dynamics in 2006, as in the previous years, were largely affected by the continued growth in household income. As a result, M0 growth in 2006 reached 38.6% as against 30.9%

**LOANS EXTENDED TO HOUSEHOLDS AND ENTERPRISES  
IN RUBLES AND FOREIGN CURRENCY  
(month on month of previous year, %)**

Chart 27



in 2005. However, it did not grow as much as the other ruble aggregates. The share of cash in M2 went down from 33.2% to 31% in 2006.

As a result of significant decrease in household demand for foreign exchange, total net sales of foreign currency to the public through exchange offices fell by more than a half in 2006 compared to 2005, the most significant decline since the beginning of 2000. According to balance of payments data, in 2006 foreign exchange outside the banking sector decreased by \$11.6 billion (in 2005 the reduction was \$1.2 billion). The dynamics of foreign currency-denominated household deposits also changed significantly in 2006. In 2005 household sector time deposits, which accounted for the largest part of total foreign currency deposits, increased by almost 25% in dollar terms, whereas in 2006 their growth was less than 1%. As a result, according to the monetary survey methodology<sup>1</sup> the share of all foreign currency deposits (non-financial enterprise and household deposits) in the money supply declined by almost 5 percentage points year on year and as of January 1, 2007, it stood at 11.4%, the lowest ratio in the entire post-crisis period.

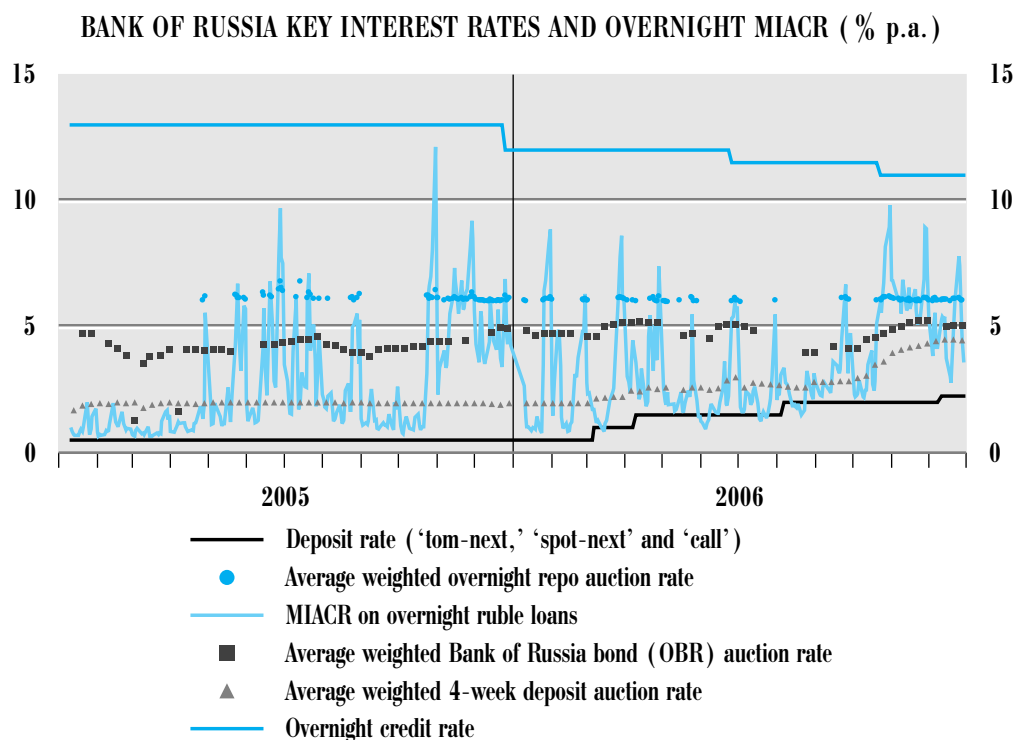
Growth in monetary authority net foreign assets and bank claims on the non-financial sector of the economy were the principal sources of the increase in the money supply in 2006. At the same

time, growth in monetary authority net foreign assets slowed down slightly in 2006 as compared to 2005 (52.3% as against 54.8%), while growth in claims on the non-financial sector of the economy accelerated from 34.5% to 47.2%. Loans to households demonstrated the most dynamic growth. Total loans extended to individuals increased by 75.1%, whereas total loans extended to non-financial enterprises rose by 39.6%. Household loans accounted for 21.9% of total loans in 2006 as against 18.5% a year earlier.

Marked growth in Fed and ECB key interest rates in 2006, which led to an increase in short-term interest rates on international financial markets, allowed the Bank of Russia to pursue a more vigorous anti-inflation interest rate policy on the money market, raising higher interest rates on its sterilisation instruments without the risk of provoking growth in the inflow of short-term foreign capital. At the same time, as inflation slowed down, the Bank of Russia cut the refinance rate twice in 2006, causing the cost of borrowings in the economy to fall slightly and making loans more affordable to economic agents.

This policy resulted in the narrowing of the Bank of Russia interest rate band. The lowest rate (the rate on standard 'tom-next,' 'spot-next' and 'call' deposit operations) in 2006 was raised from

<sup>1</sup> This monetary aggregate comprises foreign currency deposits.



0.5% to 2.25% p.a., whereas the highest rate (the overnight credit rate) was reduced from 12% to 11% p.a. For most of 2006 money market rates remained within the Bank of Russia interest rate band and became somewhat less volatile.

The fall in average rates on bank loans to non-bank borrowers in 2006 was, to some extent, the consequence of the Bank of Russia interest rate policy. The average rate on short-term (up to one year) ruble loans to non-financial enterprises in 2006 stood at 10.5% p.a. as against 10.7% p.a. in 2005. The average rate on short-term loans to households decreased from 20.7% to 19.0% p.a. in that period and long-term household credit rates were down from 19.1% to 16.8% p.a. The fall in interest rates led to the expansion of bank lending operations, especially household loans.

Household deposit interest rates also declined in 2006. The average interest rate on short-term (up to one year) household ruble deposits in 2006 stood at 7.9% p.a. as against 8.7% p.a. in 2005. The average rate on household deposits with terms from one year to three years fell from 9.0% to 8.1% p.a. Since interest rates on household deposits decreased more slowly than inflation, their reduction did not slow down the growth in household ruble bank deposits, which was even greater than in 2005.

The narrowing of the Bank of Russia interest rate band, the lessening of interbank credit market volatility and the overall reduction of interest rates in the economy amid the slowing of inflation make interest rates increasingly important for decisions taken by economic agents.

## II.1.2. MONETARY AUTHORITY INDICATORS AND MONETARY POLICY INSTRUMENTS

The dynamics of the money supply formed by the monetary authorities in 2006 were characterised by a massive consolidation of the balance of payments, as compared to the previous year, and the ruble's significant appreciation against foreign currencies. The Bank of Russia sought to ensure that the money supply matched the expanding demand for money by using its monetary policy instruments and taking into account the absorption of the banking sector's excess liquidity through the budget mechanisms.

The expansion of the broad monetary base<sup>1</sup> in 2006 accelerated to 41.4% from 22.4% in 2005. A key role in this process was played by the massive capital inflow caused by growth in external borrowings and foreign investment raised by Russian enterprises and the high world market prices of Russian export commodities, which ensured growth in the country's trade surplus. Due to these factors, growth in net international reserves (NIR) of the monetary authorities in 2006 stood at \$103.8 billion, or about 3 trillion rubles at the fixed exchange rate as of the beginning of the year, which represents an increase of more than 50% on 2005. The expansion of Bank of Russia ruble interventions was the principal source of growth in the monetary base in 2006. Net domestic assets (NDA) of the monetary authorities went down by 2.1 trillion rubles in 2006, accounting for about 65% of the volume of Bank of Russia interventions, which is comparable to the 2005 level. The reduction in NDA was due to both a growth in the balances of general government accounts with the Bank of Russia, which resulted from a significant consolidated budget surplus,

and also the reduction in net credit to banks, caused by the increased role played by sterilisation instruments in the monetary policy of the Bank of Russia. The high world price of oil was key to the rapid expansion of the Stabilisation Fund, which was used as an effective instrument to absorb excess liquidity. In 2006 it increased by 1.7 trillion rubles, of which 0.6 trillion rubles were used to repay ahead of schedule Russia's debt to the Paris Club of creditor nations. The expansion of the Bank of Russia liquidity absorption operations in 2006 as compared to 2005 also helped contain growth in the money supply and gradually reduce inflation.

In general, the banking sector retained a high level of ruble liquidity in 2006. Aggregate banking sector reserves<sup>2</sup> increased by 47.7% in 2006, whereas in 2005 they grew by 7%. The funds absorbed by the Bank of Russia by conducting deposit and Bank of Russia bond (OBR) operations in 2006 were the most dynamic elements of aggregate banking sector reserves (their share in these reserves expanded from 4.4% to 15.0% in 2006) and the monetary base (their share in the monetary base expanded from 1.4% to 4.9%).

To achieve the objectives of its monetary policy, the Bank of Russia used the entire range of instruments to absorb and provide liquidity to credit institutions, including operations on the open market and standing facilities.

Given a strong balance of payments, the Bank of Russia stepped up its operations to absorb excess liquidity, including the raising of interest rates on these operations.

<sup>1</sup> The broad monetary base comprises cash issued by the Bank of Russia, including cash balances in banks' tills, funds in credit institutions' compulsory reserve accounts with the Bank of Russia, credit institutions' correspondent and deposit accounts with the Bank of Russia, credit institutions' investments in Bank of Russia bonds, reserves for foreign exchange operations deposited with the Bank of Russia, and other Bank of Russia obligations on ruble operations with credit institutions.

<sup>2</sup> Aggregate banking sector reserves comprise cash balances in credit institutions' tills, credit institutions' required reserve accounts with the Bank of Russia, funds in credit institutions' correspondent and deposit accounts with the Bank of Russia, Bank of Russia obligations to repurchase bonds, including Bank of Russia bonds, and reserves for foreign exchange operations deposited with the Bank of Russia.

EXCHANGE RATE AND SOURCES OF MONEY SUPPLY IN 2005—2006  
(quarter-on-quarter change, billion rubles)

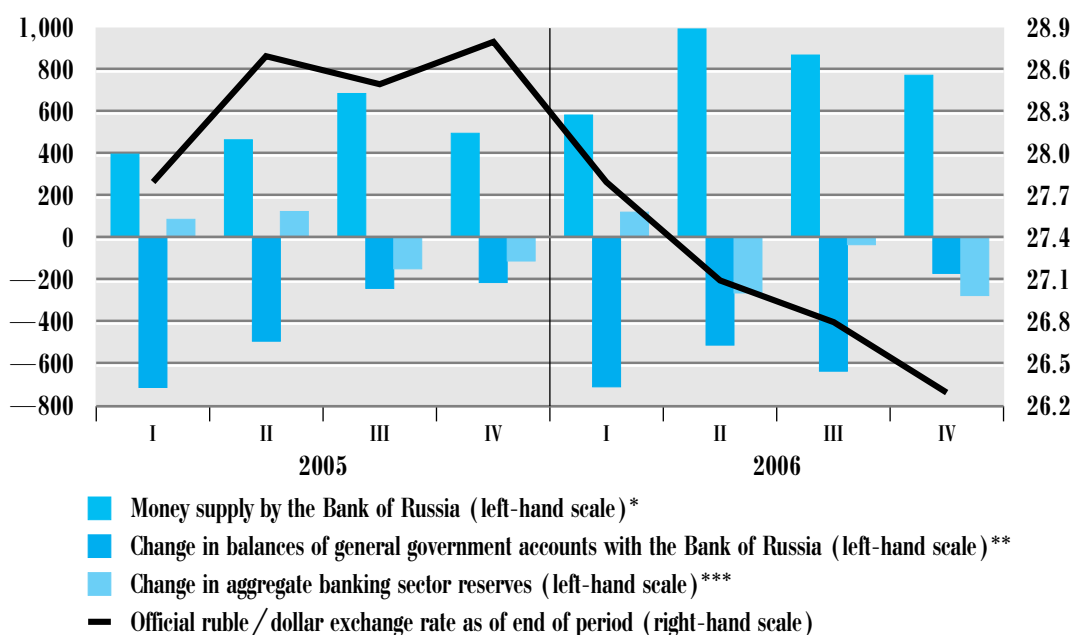


Chart 29

\* Due to interventions on forex market, repo operations, currency swap transactions and extension of overnight and Lombard loans.  
 \*\* Allowing for early foreign debt payments. (—) signifies increase, (+) signifies decrease.  
 \*\*\* (—) signifies increase, (+) signifies decrease.

As the budget mechanisms continued to play a major role in sterilising banking sector liquidity when the Bank of Russia scaled down its operations on the domestic forex market, banking sector demand for liquidity instruments grew and the money market interest rates rose. At the same time, there were periods when credit institutions needed both liquidity and liquidity absorption instruments because the interbank credit market was underdeveloped and excessively segmented. These situations occurred during the main tax payment periods (the last 10 days of each month) when a short-term reduction in the liquidity level provoked an increased demand among credit institutions for Bank of Russia money supply instruments.

In the course of implementing its monetary policy, the Bank of Russia also took into consideration short-term fluctuations in the money supply, which, along with the factors described above, were caused by economic agents' expectations of exchange rate dynamics, especially the rate of the euro and ruble against the US dollar.

The euro's fall against the dollar in February, March, June, September and October 2006

stimulated growth in banking sector net foreign assets, which was accompanied by the scaling down of Bank of Russia interventions on the domestic forex market and the reduction of aggregate banking sector reserves. In addition, the dwindling flow of foreign currency earnings from exports in the fourth quarter of 2006 caused by the fall in world oil prices was a major factor of the shortage of liquidity experienced by banks, especially in October and November. In these periods the Bank of Russia maintained banking sector liquidity by intensifying operations to provide funds to credit institutions.

Aggregate banking sector reserves grew in April, May, July, August and December due to significant volumes of Bank of Russia operations on the domestic forex market, which exceeded the year's monthly average, and the reduction in banking sector net foreign assets due to the dollar's depreciation on international financial markets. The annual rates of growth in aggregate banking sector reserves increased to 58.3% as of September 1, 2006, from 3.1% as of April 1, 2006, and the expansion of the broad monetary base accelerated from 20.9% to 44.0%. In this

EXCHANGE RATE, AGGREGATE RESERVES AND NET FOREIGN ASSETS  
OF CREDIT INSTITUTIONS IN 2005—2006

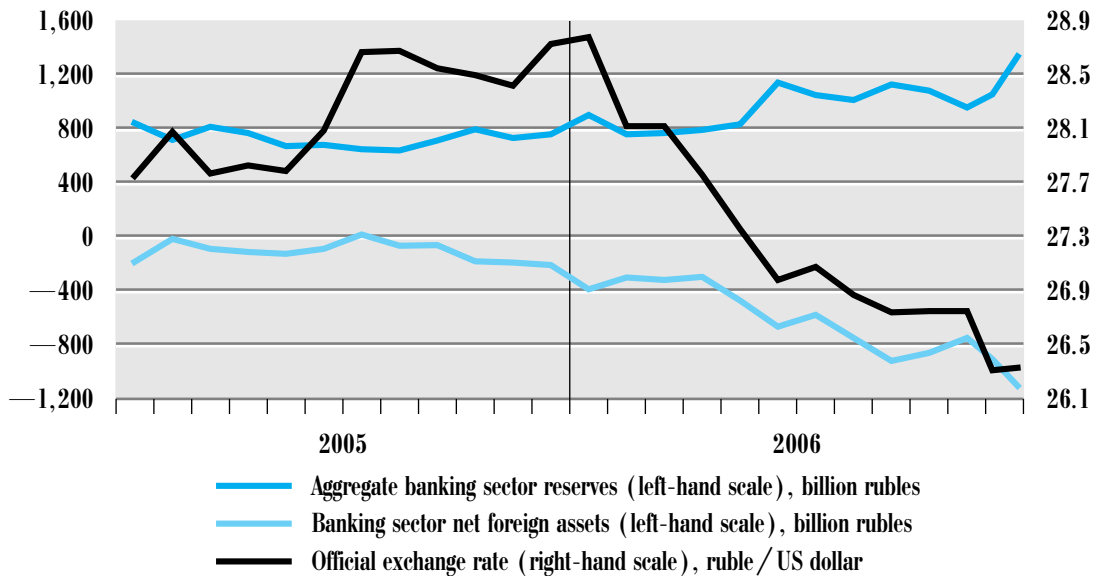


Chart 30

situation, the Bank of Russia increased liquidity absorption volumes: the total value of credit institutions' deposits with the Bank of Russia and Bank of Russia bonds (OBR) held by credit institutions increased from 159.4 billion rubles as of April 1, 2006, to 397.3 billion rubles as of September 1, 2006.

To intensify the use of liquidity absorption instruments, the Bank of Russia in 2006 raised interest rates on standard deposit operations four times. During the year, it raised interest rates on overnight and call deposits from 0.5% to 2.25% p.a. and one-week deposits — from 1% to 2.75% p.a. These changes were accompanied by a rise in interest rates on Bank of Russia sterilisation operations conducted by auction for the purpose of absorbing banking sector liquidity for a longer term and in larger quantities. At the same time, when regulating interest rates on its liquidity absorption operations, the Bank of Russia sought to absorb banking sector liquidity more efficiently and prevent a large-scale inflow of short-term foreign capital.

Deposit and OBR operations in 2006 were the principal monetary policy instruments that allowed the Bank of Russia to absorb banking sector excess liquidity. The average daily debt on these operations in 2006 increased by 52.7% year on year, from 188.9 billion rubles to 288.4 bil-

lion rubles. At the same time, the average daily volume of banking sector excess liquidity, which included, in addition to funds sterilised by the Bank of Russia with the aid of the operations described above, the balances of credit institutions' correspondent accounts with the Bank of Russia, increased 37.1% in 2006 year on year and reached 653.5 billion rubles.

The Bank of Russia in 2006 conducted **deposit operations** in rubles as a means of sterilising credit institutions' idle funds in the short-term segment of the market. It conducted deposit operations both on standard 'tom-next,' 'spot-next,' 'call,' '1 week,' and 'spot-week' terms (daily at a fixed rate), and by means of weekly 4-week and 3-month deposit auctions. The total amount of funds taken on deposit in 2006 stood at 9.7 trillion rubles. Bank of Russia maximum debt on deposit operations in 2006 rose to 375.2 billion rubles, whereas in 2005 it stood at 284.3 billion rubles. Deposit operations conducted on standard terms accounted for 97.9% of total funds taken by the Bank of Russia on deposit in 2006.

Credit institutions took part in Bank of Russia deposit operations through Bank of Russia regional branches and by using the computer-based Reuters Dealing system and the MICEX Electronic Trade System. Deposit operations con-

ducted through the Reuters Dealing system accounted for 95% of total deposit operations in 2006.

To offer credit institutions a wider range of instruments to manage their own liquidity, on October 2, 2006, the Bank of Russia began conducting call deposit operations through the MICEX Electronic Trade System and concluding deposit transactions at fixed interest rates at the two trading sessions held within one business day on the Moscow Interbank Currency Exchange, extending the bidding time until 5.00 p.m.

The number of credit institutions that executed deposit agreements under Bank of Russia Regulation No. 203-P, dated November 5, 2002, increased by 10.4% and as of January 1, 2007, reached 275. These credit institutions are located in 33 regions of Russia.

The Bank of Russia in 2006 actively conducted **operations with its own bonds**, using them as a market instrument to absorb excess liquidity for longer terms than taking bank funds on deposit. In the last month of each quarter it placed an OBR issue with a six-month binding offer to repurchase. Thus, two OBR issues were in circulation at the same time, one with a 3—6-month term to offer, the other with a 0—3-month term to offer. Each week the Bank of Russia held auctions to additionally place OBRs with a longer term to repurchase. In addition, to maintain the issue's liquidity, it quoted buy and sell prices on the secondary market and conducted operations on their basis. For most of the year, the Bank of Russia kept the spread between the quoted prices at 50 base points.

Each quarterly OBR placement was accompanied by a Bank of Russia offer to repurchase outstanding bonds on condition the sellers use the funds thus received to buy new bonds. This system helped enlarge the newly placed issue and increase its liquidity.

Credit institutions' demand for OBRs increased in 2006 year on year: the average daily nominal value of Bank of Russia bonds in circulation stood at 141.7 billion rubles as against 75.4 billion rubles a year earlier, a growth that reflected the increased role played by this instrument in sterilising the banking sector's idle liquidity.

To reduce the risk of a massive inflow of short-term foreign capital, at the OBR auctions the

Bank of Russia set interest rates that were close to or lower than the rates on the domestic and foreign interbank markets.

The Bank of Russia mostly in February and March 2006 conducted **operations to sell federal loan bonds from its own portfolio without an obligation to repurchase**. They served as an additional instrument to sterilise liquidity when the inflationary pressure on the economy was building up. The Bank of Russia conducted these operations on the secondary market and at auctions. In 2006 it sold 20.4 billion rubles worth of federal loan bonds on the open market at market price. However, its possibilities to use this instrument in 2006 were limited by the amount of OFZ issues with market parameters in its portfolio.

When liquidity shortages broke out, especially in October—December 2006, credit institutions' demand for Bank of Russia liquidity-boosting instruments increased. Specifically, credit institutions could use repo operations, intraday, overnight and Lombard loans and currency swaps conducted by the Bank of Russia.

**Repo operations** in 2006 were the principal market instrument used by the Bank of Russia to provide liquidity to the banking sector. Since interest rates on this instrument were higher than money market rates for a greater part of the year, the main task for the Bank of Russia when conducting repo operations was to provide liquidity to the banking sector in case of its acute shortage. As in the same period of 2005, in the fourth quarter of 2006 credit institutions began to more actively use repo operations to increase liquidity, as the Bank of Russia scaled down its ruble interventions on the domestic forex market. In November these operations were conducted every business day and interbank market rates stood at 6%, the lowest repo auction cut-off rate.

Overall, in 2006 repo transactions amounted to about 2 trillion rubles, an increase of 31% on 2005 with transactions totalling about 1.5 trillion rubles conducted in the fourth quarter. Demand was mostly for overnight repo and the average weighted overnight repo rate varied between 6% and 6.47% p.a.

There was a rise in the demand for **intraday loans** in 2006, which helped maintain the uninterrupted effectuation of settlements between credit institutions and allowed them to more ef-

fectively manage their own liquidity within one business day. The total value of intraday loans almost doubled compared to 2005 and stood at 11.3 trillion rubles, mostly due to the 31% increase in the number of credit institutions and their branches that used this lending mechanism. Intraday loans reached a high of 3.7 trillion rubles in the fourth quarter of 2006 when credit institutions experienced a shortage of ruble liquidity.

**Overnight loans** extended by the Bank of Russia grew by 52.7% in 2006 and totalled 47 billion rubles as against 30.8 billion rubles in 2005. These loans were extended at an interest rate equal to the Bank of Russia refinance rate. The number of credit institutions and their branches that took overnight loans in 2006 increased by 19% to 137 as against 115 in 2005.

**Lombard loans** in 2006 were extended at weekly auctions for a term of 14 calendar days and daily at a fixed interest rate for a term of seven calendar days. In 2006 their total value increased 4.5 times over and stood at 6.1 billion rubles. Loans extended at a fixed interest rate accounted for more than 80% of total Lombard loans in 2006 (4.9 billion rubles). More than 75% of Lombard loans with a total value of 4.6 billion rubles were extended in the fourth quarter of 2006. The average weighted interest rate on Lombard loans in 2006 fell by 0.3 percentage points compared to 2005 and stood at 7.18% p.a. To ensure credit institutions equal access to liquidity-regulating instruments and operations, the Bank of Russia in 2006 constructed a legal and methodological framework for the implementation of Lombard loan operations through the MICEX Electronic Trade System.

In 2006 the Bank of Russia continued to expand the list of assets (securities) that could be used by credit institutions as security for the funds they receive from the Bank of Russia. **The Bank of Russia Lombard List** comprised 27 new securities issues, including new bond issues by the city of Moscow, the Moscow Region, the Yamal-Nenets Autonomous Area, the Housing Mortgage Lending Agency, the European Bank for Reconstruction and Development and some corporate issuers. The main factor the Bank of Russia took

into consideration when putting securities on the Lombard List of Sub-federal and Corporate Securities was the issuer's long-term credit rating on foreign currency debt obligations, which should be no lower than the BB assigned by Standard & Poor's rating agency, or Fitch Ratings, or Ba2 by Moody's.

The Bank of Russia conducted **currency swaps** and **OBR purchases on the open market** as additional instruments to provide liquidity to credit institutions in the periods of abrupt growth in demand for rubles.

In 2006, as in 2005, credit institutions' demand for Bank of Russia currency swaps was extremely low because interest rates on this instrument were mostly higher than market rates.

The Bank of Russia in 2006 purchased 1.4 billion rubles worth of OBRs on the secondary market (apart from repurchase by offer and repurchase of the outstanding issue on the day of new OBR placement in exchange for the newly placed bonds).

The Bank of Russia in 2006 did not **purchase federal loan bonds on the open market**.

In 2006 the Bank of Russia Board of Directors decided to change **the reserve requirements** for credit institutions. To contain the inflow of short-term foreign capital and reduce the related inflationary pressure, on October 1, 2006, the Bank of Russia raised the required reserve ratio for obligations to non-resident banks in rubles and foreign currency from 2% to 3.5%. At the same time, it raised the required reserve averaging factor from 0.2 to 0.3 to help credit institutions adapt themselves to the new reserve requirements and enable them to manage their own liquidity by keeping the required reserves in correspondent accounts (sub-accounts) with the Bank of Russia.

Credit institutions actively used the required reserve averaging mechanism in 2006. The share of credit institutions that practised averaging expanded from 49.6% as of December 2005 to 60.5% as of December 2006 and the amount of the required reserves kept in correspondent accounts (sub-accounts) with the Bank of Russia increased from 17.9 billion rubles to 43.2 billion rubles.



## II.1.3. EXCHANGE RATE POLICY

In pursuance of the Guidelines for the Single State Monetary Policy in 2006, the Bank of Russia continued to implement its exchange rate policy in conditions of a managed floating exchange rate regime.

As the prices of major Russian exports remained high in 2006, foreign exchange earnings flowed into the country in quantity and as a result, Russia's current account surplus increased. The inflow of funds in capital operations became an additional factor of foreign exchange supply, reflecting the expansion of corporate sector borrowings on international financial markets and growth in direct and portfolio investments amid the liberalisation of Russia's foreign exchange regulation. A combination of these factors led to a persistent excess of the supply of foreign currency over demand on the domestic forex market. In this situation, the exchange rate policy pursued by the Bank of Russia was aimed at cushioning the sharp exchange rate fluctuations of the national currency and balancing out the tasks of slowing inflation and preventing the ruble from getting too strong. The main task for the Bank of Russia in containing the ruble's growth caused by fundamental economic factors was to let domestic producers adapt to the changing conditions of competition.

The Bank of Russia in 2006 continued to use the ruble value of the bi-currency basket, comprised of the dollar and the euro, as an operational benchmark when conducting currency interventions. This allowed it to flexibly and sensibly respond to the euro/dollar fluctuations in implementing its exchange rate policy, and to cushion the fluctuations in the nominal effective rate of the ruble. The structure of the bi-currency basket remained unchanged throughout 2006: 0.4 euros and 0.6 dollars. At the same time, the Bank of Russia reduced the level of support for the bi-currency basket at regular intervals depending on the state and outlook of the external and internal economic situation.

Ruble/dollar conversion operations on the domestic forex market remained the principal exchange rate policy instrument in 2006. The volume of Bank of Russia interventions on the ruble/euro market was small due to the low level of market participants' activity in this segment. The Bank of Russia conducted foreign currency conversion operations on the exchange-traded and over-the-counter interbank currency market. The Unified Trading Session of several interbank currency exchanges (UTS) was the main segment used for Bank of Russia operations.

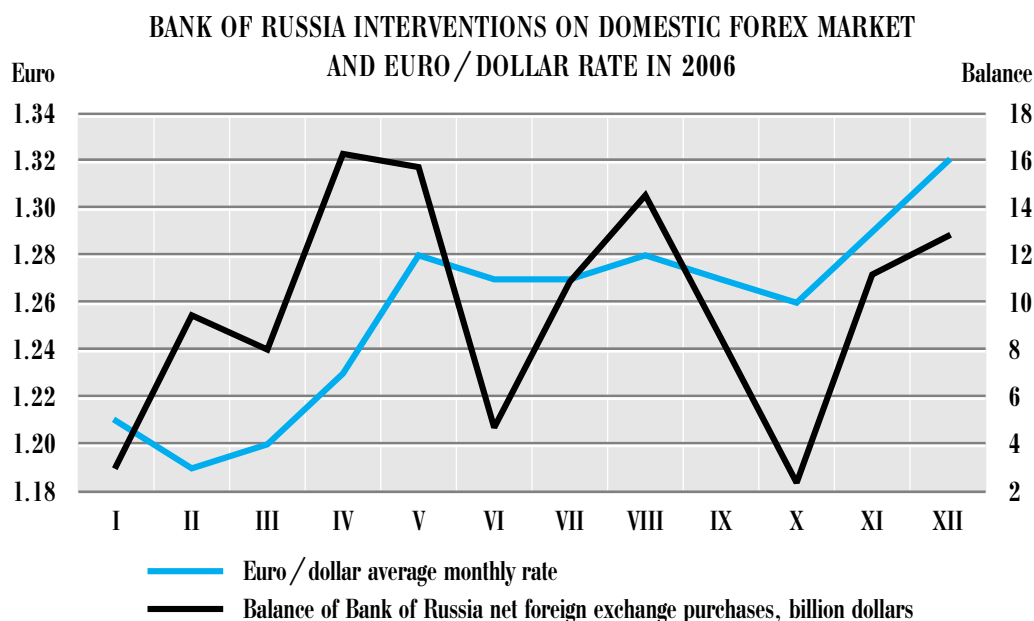


Chart 3.1

**BANK OF RUSSIA INTERVENTIONS ON DOMESTIC FOREX MARKET  
AND BI-CURRENCY BASKET VALUE**

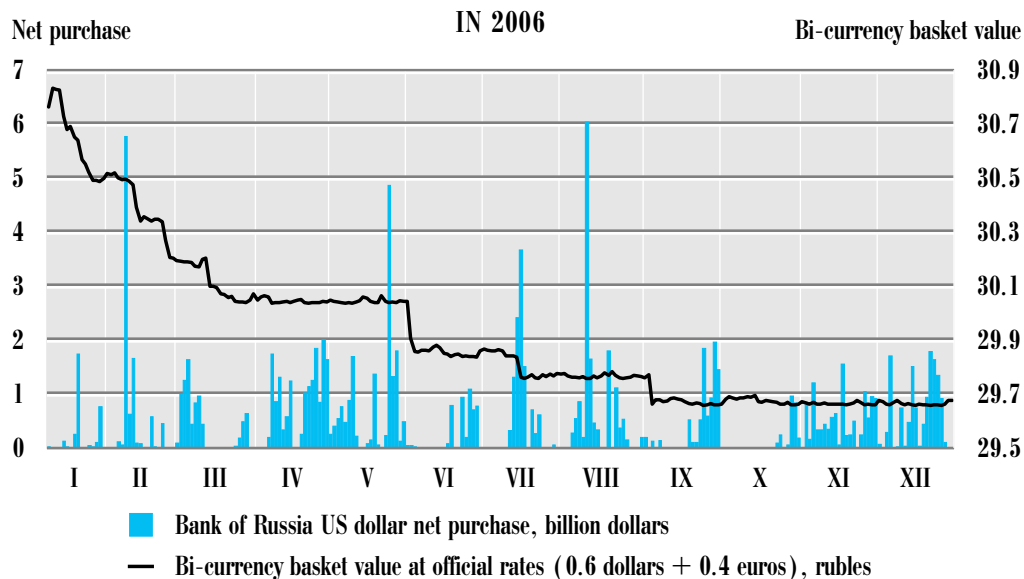


Chart 32

**REAL RUBLE EXCHANGE RATE IN 2005—2006**

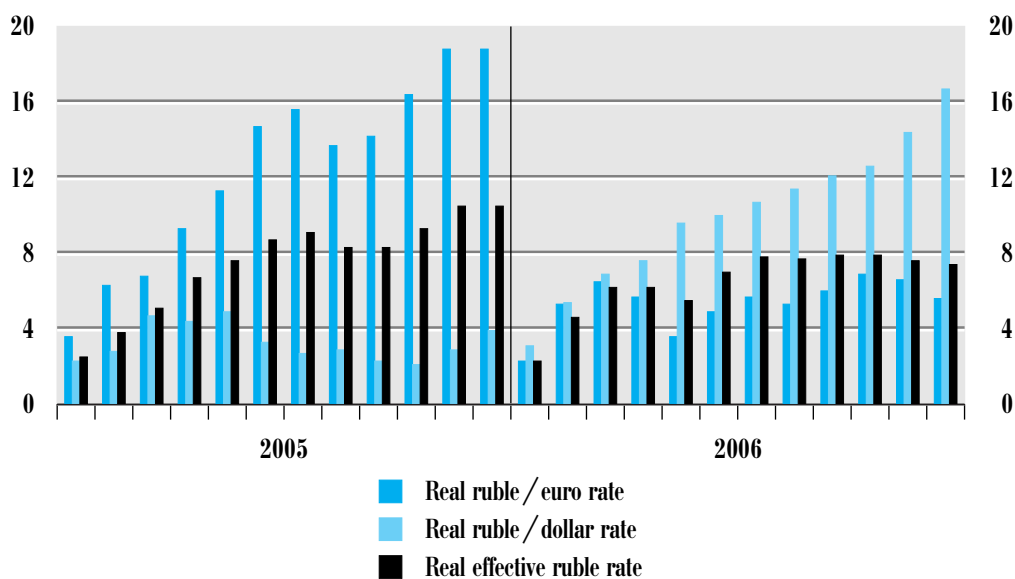


Chart 33

In 2006 the Bank of Russia was a net buyer of foreign exchange. Operations to sell foreign exchange on the domestic market were not conducted.

In 2006 the net purchase of foreign exchange by the Bank of Russia on the domestic forex market increased by 63% compared to 2005 and amounted to \$117.6 billion.

Foreign exchange sales by commercial banks to the Bank of Russia in 2006 correlated with US dollar dynamics on the international market.

Bank of Russia interventions usually increased when the dollar weakened and decreased when the dollar appreciated against the euro. Traders' activity on the domestic forex market was affected by world energy price dynamics: a decrease in Bank of Russia foreign exchange purchases in the period from August to October 2006 coincided with a fall in the price of oil.

The average daily price of Urals crude in 2006 rose to \$60.9 per barrel from \$50.2 a year ear-

lier. This change fits into the macroeconomic development scenario with the highest price of oil, considered in the Guidelines for the Single State Monetary Policy in 2006.

The real effective rate of the ruble gained 7.4% in 2006, falling short of the limit set by the social and economic development scenarios for 2006.

The real rate of the ruble rose by 16.7% against the dollar and by 5.6% against the euro in 2006.

As a result of a massive inflow of foreign exchange to balance of payments accounts, international reserves increased by \$121.5 billion, or 66.7%, and aggregated \$303.7 billion as of January 1, 2007.

## II.2. RESERVE MANAGEMENT

The Bank of Russia manages its gold and foreign exchange reserves pursuant to point 7 of Article 4 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). Bank of Russia gold and foreign exchange reserves are part of the international reserves of the Russian Federation. The Bank of Russia in 2006 managed its gold and foreign exchange reserves in line with the Core Principles of Bank of Russia Foreign Exchange Reserve Management, approved by the Bank of Russia Board of Directors, with the standards and procedures set up by other Bank of Russia internal documents, with agreements concluded with Bank of Russia counterparties and with applicable legislation.

The purpose of managing reserves was to ensure their safety, liquidity and profitability in the most effective way.

The safety of reserves was ensured by the application of a comprehensive risk management system based on the use of only high-security financial market instruments, the establishment of stringent requirements for foreign counterparties of the Bank of Russia and exposure limitations for each of them based on their individual solvency, and conducting operations in compliance with the agreements concluded by the Bank of Russia with its foreign counterparties to protect the interests of the Bank of Russia.

To ensure in the most effective way the safety, liquidity and profitability of Bank of Russia re-

serves, they are divided into transaction and investment portfolios. The transaction portfolio comprises short-term money market instruments such as balances of correspondent accounts, deposits, repos and short-term discount securities, and the management of this portfolio ensures the maintenance of low-risk short-term foreign currency assets at an adequate level. The investment portfolio funds are put into long-term and, consequently, riskier and, as a rule, more profitable instruments of the international capital market. Thus, the management of the investment portfolio is aimed at obtaining additional profitability in compliance with the established restrictions in respect to the safety and liquidity of reserves. Additional profitability along with safety and liquidity is achieved by taking investment decisions that take into account the current situation on the world currency and financial markets and forecasts for their future dynamics.

In 2006 the Bank of Russia transaction reserve portfolio grew from \$136.8 billion to \$213.3 billion. To increase income from foreign exchange reserve placements when the transaction reserve portfolio was too large, the Bank of Russia transferred part of its funds to the investment portfolio to buy bonds denominated in the US dollar, euro and British pound (about 13.8 billion US dollars, 13.5 billion euros and 5.2 billion British pounds). Despite the expansion of the transaction portfolio, the Bank of Rus-



sia did not transfer more funds from it to the investment portfolio mainly because of the market situation created by the raise in interest rates by the US Federal Reserve, the ECB and the Bank of England<sup>1</sup>.

The Bank of Russia foreign exchange reserve investment portfolio in 2006 grew from \$33.1 billion to \$78.4 billion and its share in the total value of the transaction and investment portfolios expanded from 19% to 27%.

Bank of Russia foreign currency purchases on the domestic forex market were the main factor of growth in foreign exchange reserves. Income from operations with Bank of Russia foreign currency and precious metal assets and the changes in the rates of other reserve currencies against the US dollar were also among the contributing factors.

As of January 1, 2007, assets from the Bank of Russia foreign exchange reserve portfolios were invested in the following classes of instruments<sup>2</sup>: deposits and balances of correspondent accounts (36.5%), repo transactions (26.7%) and foreign securities (36.8%). Foreign securities are mainly coupon government bonds of the United States, Germany, Britain, France, the Netherlands, Austria, Belgium, Spain, Finland and Ireland, and discount and coupon securities issued by the federal agencies of these countries.

The distribution by country of assets in the Bank of Russia foreign exchange reserve portfolio as of January 1, 2007, was the following: the United States accounted for 28.1%, Germany — 19.7%, Britain — 16.2%, France — 11.0%, Switzerland — 8.7% and other countries — 16.3%. The breakdown is based on the location of the head offices of the banking groups that are counterparties of the Bank of Russia in money market transactions (balances of correspondent accounts, deposits and repos) and the location of the issuers of securities in the Bank of Russia foreign exchange reserve portfolios.

The management of foreign exchange reserves is linked to the financial risks assumed by the Bank of Russia, the most important of them being mar-

**BANK OF RUSSIA  
FOREIGN EXCHANGE RESERVES  
BY INSTRUMENT (%)**

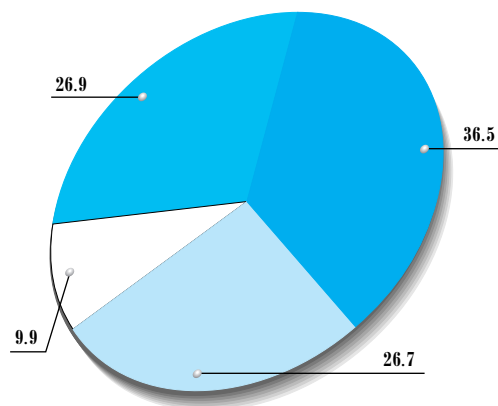


Chart 34

- Foreign currency deposits of up to six month maturity and account balances
- Repos of up to six month maturity
- Securities of up to one year maturity
- Securities of over one year maturity

ket (currency and interest rate) risk and credit risk. Risk management in operations with foreign exchange reserves includes the detection of risk, its assessment, setting limits on risk and monitoring compliance with these limits.

Bank of Russia foreign exchange reserves in 2006 were denominated in US dollars, euros, British pounds and Japanese yen. In the period under review the Bank of Russia also had liabilities denominated in foreign currencies, such as the balances of customer accounts, including Federal Treasury accounts, and funds raised in repo transactions with foreign counterparties.

The difference between Bank of Russia assets in reserve currencies and Bank of Russia liabilities in these currencies represents net currency reserves, the currency structure of which is a source of currency risk. The level of currency risk assumed by the Bank of Russia is limited by the established currency structure of Bank of Russia

<sup>1</sup> The US discount rate was raised four times in 2006, from 4.25% to 5.25%; the European Central Bank raised the discount rate five times in 2006, from 2.25% to 3.5%; the Bank of England raised the discount rate twice: from 4.5% to 5%.

<sup>2</sup> Based on management reports on market value of Bank of Russia foreign exchange reserve portfolios (net of gold).

**BANK OF RUSSIA FOREIGN EXCHANGE RESERVES BY COUNTRY**  
(as % of market value of foreign exchange reserves)

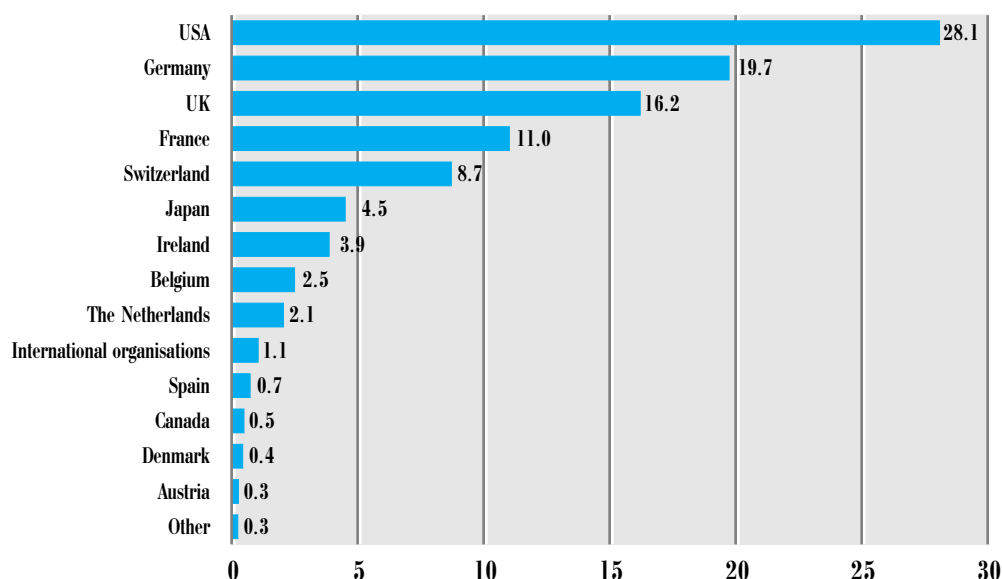


Chart 35

net foreign exchange reserves, which determines the required ratios of the reserve currencies in net foreign exchange reserves and sets the limits for possible deviations from them.

The required currency structure of Bank of Russia net foreign exchange reserves was changed in 2006: the share of the US dollar in it was reduced, while those of the euro and the British pound were increased.

Due to massive US dollar purchases on the domestic forex market, the change in the amount and structure of Bank of Russia foreign currency obligations to customers (the Federal Treasury)<sup>1</sup> and the repayment of the Russian Government's debt to the Paris Club of creditor nations, denominated mostly in the euro, the Bank of Russia purchased euros and British pounds for US dollars on the international currency market to bring the structure of its net foreign exchange reserves into conformity with the established requirements.

Effective duration was used as an indicator of the level of interest rate risk, that is, the risk of financial losses due to the change in interest rates on each of the reserve currencies. To limit interest rate risk, the Bank of Russia set limits on the possible deviations of the actual Bank of Russia

foreign exchange reserve portfolios from the required ratios.

Credit risk was restricted by limits set on Bank of Russia counterparties and by the requirements set for the creditworthiness of the issuers of the securities included in the Bank of Russia foreign exchange reserves. The lowest permissible long-term credit rating for Bank of Russia counterparties and debtors in operations with Bank of Russia foreign exchange reserves was set at A by the classification of Fitch Ratings and Standard & Poor's or A2 by Moody's Investors Service classification. The lowest permissible rating for debt securities issues, or debt securities issuers, was set at AA- by Fitch Ratings and Standard & Poor's classification or Aa3 by Moody's Investors Service classification. Transactions that involved the management of foreign exchange reserves were conducted with foreign counterparties included in the relevant list within the credit risk limits set for them.

The structure of assets in the Bank of Russia reserve portfolios by credit rating as of January 1, 2007, was as follows: AAA-rated assets accounted for 36.1%, AA-rated assets — 42.5% and A-rated assets — 21.4%. These percentages are based on data on the long-term credit ratings assigned to

<sup>1</sup> Foreign exchange purchases by the Federal Treasury with money from the Stabilisation Fund.

the Bank of Russia counterparties and issuers of securities and bonds included in the Bank of Russia foreign exchange reserve portfolios by Fitch Ratings, Standard & Poor's and Moody's Investors Service rating agencies. If the ratings of a counterparty or issuer by these agencies differed, the lowest rating was considered. The distribution by rating is represented by major rating categories AAA, AA and A without breaking down the rating scale within each category<sup>1</sup>.

To evaluate risk and return on the actual asset portfolios, the Bank of Russia used standard (benchmark) portfolios formed in accordance with the procedure set by Bank of Russia internal documents. The standard investment portfolio was rebalanced on a monthly basis and the standard transaction portfolio was rebalanced every week. The standard portfolio represented a set of instruments (index) put together by assigning a certain weight (share) in the portfolio to each instrument that met the requirements established by Bank of Russia internal documents. The weight of an instrument in the standard portfolio was determined on the basis of this instrument market depth.

The return and effective duration of the actual portfolios and the corresponding standard portfolios were assessed on a daily basis. Return was accounted for as both realised income and the change in the value of the portfolio assets<sup>2</sup>. Return was evaluated for each single-currency part of the transaction and investment portfolio.

**BANK OF RUSSIA  
FOREIGN EXCHANGE RESERVES  
BY CREDIT RATING (%)**

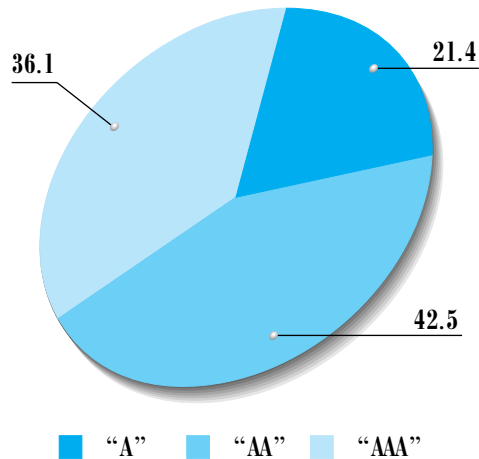


Chart 36

The rates of return on the Bank of Russia foreign exchange reserve portfolios in 2006, calculated on an accrual basis<sup>3</sup>, are shown in Addenda, Section IV, IV.3. Statistical tables.

The return on the US dollar transaction portfolio in 2006 was slightly lagging behind the standard portfolio rate of return. In the actual US dollar transaction portfolio the share of the securities buy and sell transactions with an obligation to repurchase (repos), which had a smaller rate of return and were less risky than unsecured assets (deposits), was larger than in the standard portfolio. This lag was partially

<sup>1</sup> To compare long-term credit ratings within one rating category, Standard & Poor's and Fitch Ratings affix '+' or '-' to their ratings and Moody's Investors Service digits 1, 2 and 3.

<sup>2</sup> Relative indicator on percentage change in the value of the asset portfolio during one business day. The daily portfolio rate of return was calculated using the following formula:

$$R = \frac{MV_1 - MV_0 \pm CF}{MV_0}, \text{ where}$$

$R$  is the portfolio rate of return in one day;

$MV_1$  is the portfolio's market value as of the end of the current day;

$MV_0$  is the portfolio's market value as of the end of the previous day;

$CF$  is the cash flows (money transfers) to or from the portfolio during the current day.

<sup>3</sup> The portfolios' aggregate rate of return is calculated using the linked index method. The rate of return for the period was calculated using the following formula:

$$R = (1+R_1) * (1+R_2) * \dots * (1+R_n) - 1, \text{ where}$$

$R_i$  is the day's return.

The transaction portfolio in the Japanese yen was formed in July 2006, so the aggregate rate of return on this portfolio, received during six months, was annualised using the following formula:

$$R_{sa} = (1+R_{sa})^2 - 1, \text{ where}$$

$R_{sa}$  is aggregate six-month return.

reduced by placing some funds from the US dollar transaction portfolio into non-government discount securities in a larger proportion than the share of these securities in the standard portfolio. Non-government discount securities have a higher rate of return than government discount securities.

The rates of return on the euro and pound sterling transaction portfolios were higher than the rates of return on the corresponding standard portfolios, mainly because they contained a large share of instruments with a higher credit risk than the corresponding standard portfolios.

Interest rates in US dollars and euros rose in 2006, with short-term rates increasing more than the long-term ones. The actual US dollar and euro investment portfolios contained larger shares of short- and long-term bonds than the corresponding standard portfolios. As a result, the actual portfolio rates of return exceeded the standard portfolio rates of return.

As against the background of interest rate growth the short-term interest rates on securities denominated in the British pound were higher than the long-term ones; the assets of the corresponding investment portfolio were invested in shorter-term bonds than the standard portfolio assets. As a result, the rate of return on the actual pound sterling investment portfolio was higher than the benchmark in 2006.

As it continued to diversify its reserves, in 2006 the Bank of Russia increased the value of monetary gold in vaults by 15.9 tonnes, or 4.5% year on year, due to operations with Russian credit institutions.

The Bank of Russia in 2006 continued to put gold it kept in accounts in foreign credit institutions on deposit with high-security banks for terms of up to six months.

As the price of gold continued to rise in 2006, interest rates on short-term gold deposits declined on average compared to the previous year.



## II.3. BANKING REGULATION AND SUPERVISION

### II.3.1. UPGRADING THE LEGISLATIVE FRAMEWORK OF BANKING AND BANKING REGULATION AND SUPERVISION

The Bank of Russia in 2006 continued to upgrade the legal framework of banking in line with the Russian Banking Sector Development Strategy until 2008.

To implement the provisions of this Strategy aimed at augmenting bank capital, improving its quality and ensuring sufficient capital coverage of the risks assumed by the banks, Russia passed the following laws:

- Federal Law No. 60-FZ, dated May 3, 2006, ‘On Amending the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’, designed to increase the capitalisation of the banking sector and improve the protection of depositors and other creditors of the banks. The Law introduced as of January 1, 2007, a minimum equity capital requirement for operating banks at the ruble equivalent of 5 million euros. It stipulated that the operating banks that as of January 1, 2007, had an equity capital of less than the ruble equivalent of 5 million euros may remain in operation if their capital does not fall below the level it had reached by the time the new requirement was set. The Law also introduced the term ‘general licence’ and established addi-

tional grounds for the mandatory revocation of banking licences;

- Federal Law No. 246-FZ, dated December 29, 2006, ‘On Amending Articles 11 and 18 of the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’, designed to simplify the capital formation procedures for credit institutions using non-resident funds and improve the procedure for accessing foreign capital to the Russian banking services market. The Law invalidated the provisions of Article 18 of the Federal Law on Banks and Banking Activities, which required a credit institution to obtain preliminary Bank of Russia permission to increase its authorised capital with non-resident funds and sell or otherwise alienate its shares (stakes) in favour of non-residents and resident members of a credit institution to obtain preliminary Bank of Russia permission to alienate their shares (stakes) in favour of non-residents. The Law also rescinded the provisions of Article 18 of the Federal Law on Banks and Banking Activities, which gave the Bank of Russia the right to make additional requirements to credit institutions with foreign investments and branches of foreign banks in respect to the re-

quired ratios and the minimum capital of the newly registered branches of foreign banks. It set a new, 1% limit on the acquisition of shares (stakes) at a credit institution, stipulating that exceeding this limit required the notification of the Bank of Russia;

- Federal Law No. 247-FZ, dated December 29, 2006, ‘On Amending Articles 50.36 and 50.39 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions and Article 72 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’, designed to increase the capitalisation of the banking sector by introducing the internationally accepted method of creating equity capital of credit institutions by taking subordinated loans (hybrid additional capital instruments and innovation core capital instruments). These amendments will enable Russian banks to employ internationally recognised financial capital instruments that comply with the capital standards recommended by the Basel Committee on Banking Supervision and accepted by the supervisory authorities of the industrialised nations and emerging markets.

The Banking Sector Development Strategy envisages a series of measures aimed at encouraging competition on the banking services market and the passage of Federal Law No. 135-FZ, dated July 26, 2006, ‘On the Protection of Competition’, will greatly facilitate their implementation. This Law was elaborated bearing in mind the special importance of the protection of competition at the current stage of economic development in Russia and it is designed to improve the legal regulation of relations in respect to the protection of competition. It has brought together in one document the standards regulating relations on the commodity and financial markets, changed the approach to key competition law terms such as commodity, commodity market and group of persons, and broadened the conceptual basis of the competition law by including in it such typical forms of influence on competition as coordination of actions of economic agents by a third person to the detriment of competition.

The Bank of Russia in 2006 took part in drafting a number of federal laws and federal law concepts and specifications:

- ‘On Amending the Federal Law on Insurance of Household Deposits in Russian Banks and Other Federal Laws’, a document designed to improve the criteria and procedures for control over compliance by the deposit insurance system member banks with the requirements for participation in this system, specify the composition of the deposits that are not subject to compulsory insurance and define more precisely the functions and powers of the Deposit Insurance Agency;
- ‘On Consumer Credit’, a document that aims primarily to guarantee the rights of consumers when using consumer loans, establish procedures to safeguard consumer rights and create legal conditions conducive to the expansion and improvement of consumer lending;
- ‘On Amending the Federal Law on Mortgage Securities’, a document designed to spell out the procedure for determining the size of the mortgage coverage, the procedure for the early redemption of mortgage-backed bonds, the procedure for excluding property from the mortgage coverage and the effectuation of payments on mortgage-backed bonds and mortgage participation certificates;
- ‘On Amending Some Laws of the Russian Federation’, a document regulating the time bank deposit agreements that do not entitle depositors to early withdrawals;
- ‘On Amending the Federal Law on Banks and Banking Activities, the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and the Federal Law on Foreign Exchange Control and Regulation’, a document prohibiting foreign banks from opening their branches in Russia;
- amendments to the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), drafted jointly with the Ministry of Finance, for the purpose of specifying the core principles for consolidated supervision and the requirements for the content of and the procedure and time periods for the disclosure of information by credit institutions, banking groups and bank holding companies about their activities to interested users;

- ‘On the Development Bank’, a document designed to legalise the establishment of a state-run financial development institution on the basis of the Foreign Trade Bank of the USSR (Bank Vneshneekonomicheskoi Deyatelnosti SSSR);
- ‘On Amending the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’, a document designed to create an effective mechanism to regulate the risks assumed by credit institutions when conducting credit operations and transactions with related persons;
- ‘On Amending the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’, a document designed to specify the requirements for executives and members of the board of directors (supervisory board) of credit institutions;
- ‘On Amending Article 5 of the Federal Law on Banks and Banking Activities’, a document designed to allow credit institutions to legally set up general bank management funds and specify the powers of the Bank of Russia to regulate their activities;
- draft amendments to the Federal Law on Banks and Banking Activities and Article 8 of the Federal Law on Audit, elaborated by the Bank of Russia and submitted to the Ministry of Finance for the purpose of enhancing the effectiveness of banking supervision, arranging closer cooperation with audit companies and implementing recommendations of the Basel Committee on Banking Supervision.

## II.3.2. REGISTRATION AND LICENSING OF BANKING ACTIVITIES

To fulfil the tasks set in the Banking Sector Development Strategy, increase banking sector stability and protect the interests of creditors, especially depositors, of credit institutions, the Bank of Russia in 2006 continued to upgrade the practice and methodology of registering and licensing banking activities.

The number of operating credit institutions with banking licences fell by 5.1% in 2006, taking into account the reorganisation procedures, and as of January 1, 2007, it stood at 1,189 (in 2005, the number of credit institutions declined by 46, or 3.5%, and as of January 1, 2006, it stood at 1,253). The number of registered credit institutions in 2006 decreased by 64, or 4.5% and as of January 1, 2007, stood at 1,345 (in 2005, it was down by 107, or 7.1%, to 1,409 as of January 1, 2006).

Seven new credit institutions, including two non-bank credit institutions, were registered in 2006 (nine and three credit institutions, respectively, in 2005 and three and one — in 2004).

Forty-eight credit institutions, or 4% of the total, expanded the range of their operations in 2006 by obtaining additional licences (59 credit institutions, or 4.7%, in 2005). The Bank of Russia in 2006 issued 16 licences to conduct banking operations with foreign currency, 12 licences to take on deposit and place precious metals, 10 licences to take household funds on deposit, and seven general licences. In addition, three banks had their licences replaced as restrictions on banking operations were lifted from them.

Thirteen credit institutions in 2006 (17 in 2005) were denied additional licences because of violations of law and Bank of Russia rules and regulations. Nine credit institutions were denied licences because they failed to comply with the requirements of the Federal Law on Insurance of Household Deposits in Russian Banks.

As of January 1, 2007, 921 credit institutions had licences to take household deposits, 803 credit institutions had licences to conduct operations in rubles and foreign currency, 287 credit institu-

NUMBER OF REGISTERED OPERATING CREDIT INSTITUTIONS  
AND BANKING LICENCES GRANTED TO THEM

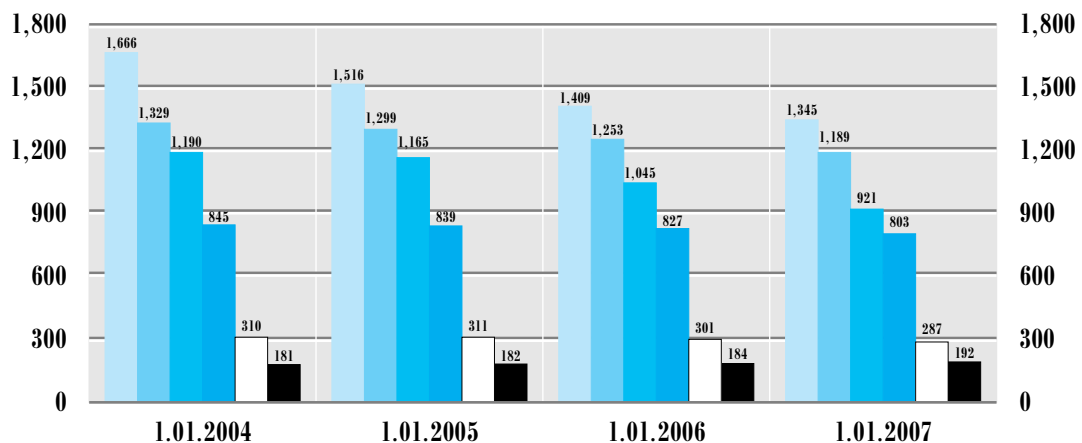


Chart 37

- Total registered credit institutions
- Number of operating credit institutions
- Credit institutions licensed to take household deposits
- Credit institutions with forex licences
- Credit institutions with general licences
- Credit institutions licensed to conduct operations with precious metals

**NUMBER OF OPERATING CREDIT INSTITUTIONS  
AND THEIR REGISTERED AUTHORISED CAPITAL**

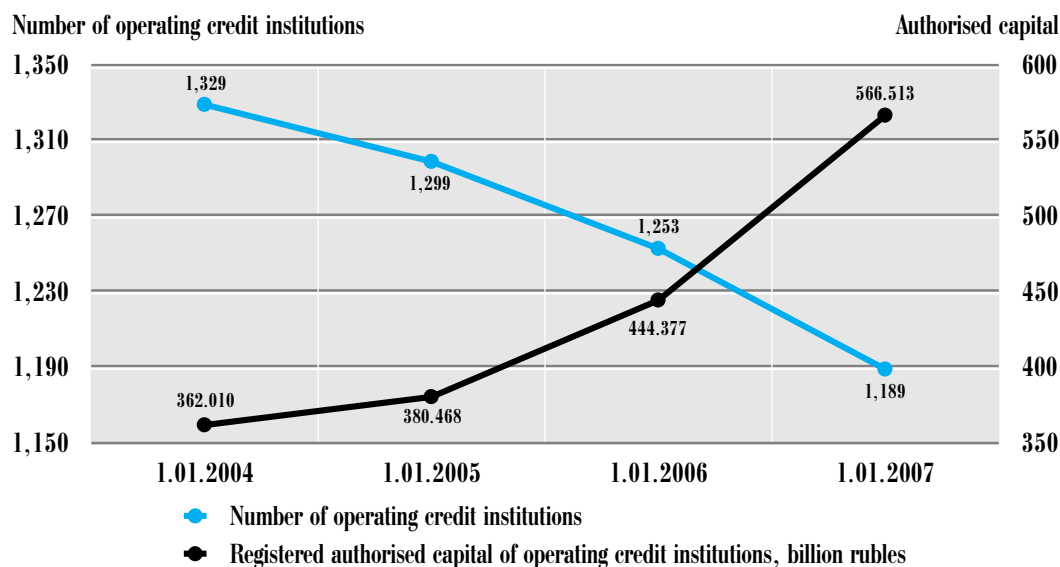


Chart 38

**NUMBER OF OPERATING CREDIT INSTITUTIONS BY AUTHORISED CAPITAL  
(% share of total credit institutions)**

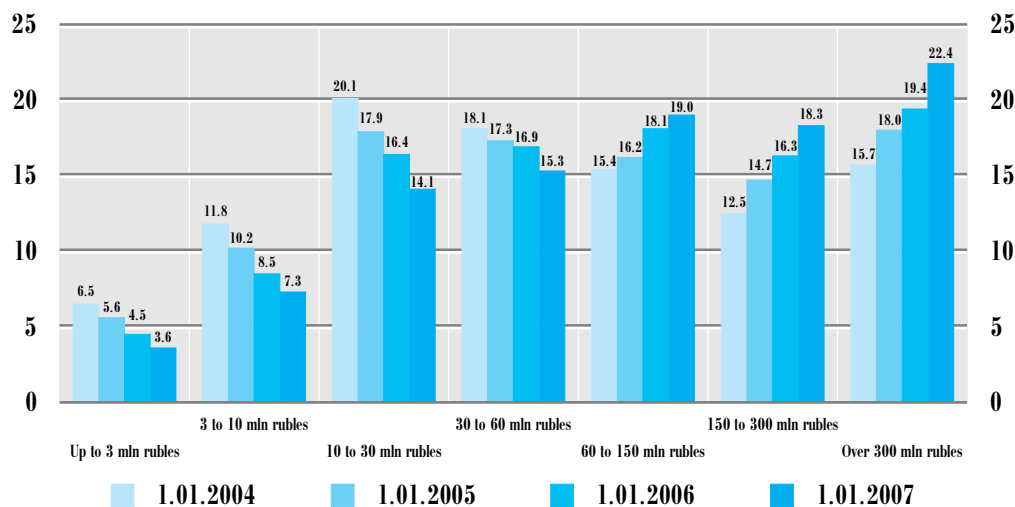


Chart 39

tions had general licences and 192 had licences to take on deposit and place precious metals and permission to conduct operations with precious metals.

The capitalisation of the banking sector continued to grow in 2006. As a result of reorganisation, eight credit institutions joined up with five other and a legal entity other than a credit institution joined up with one credit institution. Two credit institutions ceased their activity as a result of a merger.

The aggregate registered authorised capital of all operating credit institutions increased by 122.1 billion rubles in 2006 and as of January 1, 2007, reached 566.5 billion rubles. In 2006 the authorised capital of credit institutions rose considerably faster than in 2005 (by 27.5% as against 16.8%).

The number of credit institutions with an authorised capital of more than 175 million rubles (5 million euros) had the tendency to increase. As of January 1, 2007, it reached 404, or 34.0%

## NUMBER OF OPERATING CREDIT INSTITUTIONS BY REGION

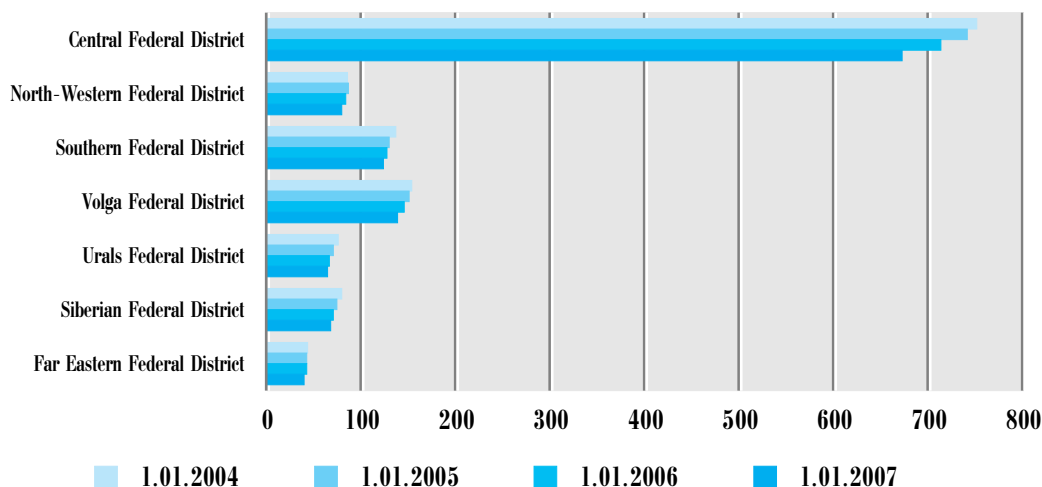


Chart 40

## NUMBER OF BRANCHES OF OPERATING CREDIT INSTITUTIONS BY REGION

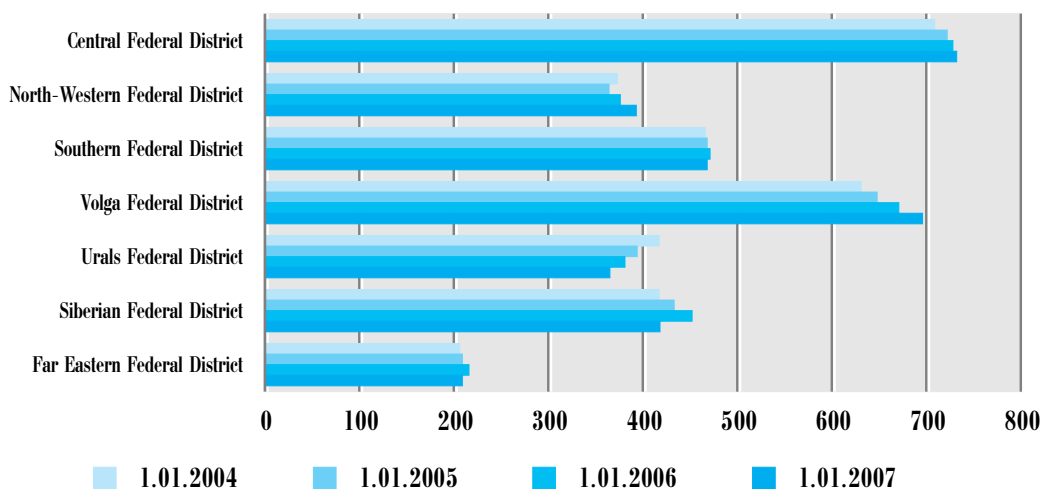


Chart 41

of the total number of operating credit institutions (367 credit institutions, or 29.3% of the total, as of January 1, 2006). At the same time, the share of credit institutions with an authorised capital of 60 million rubles and less continues to go down. As of January 1, 2006, it stood at 46.3%, whereas as of January 1, 2007, it was 40.3%.

Foreign investment in Russian credit institutions continued to grow in 2006. Total foreign investment in the aggregate authorised capital of operating credit institutions in 2006 increased by 81.8%, or 40.5 billion rubles, and as of January 1, 2007, it reached 90.1 billion rubles. The non-resident share in the aggregate authorised capi-

tal of Russian credit institutions expanded from 11.2% as of January 1, 2006, to 15.9% as of January 1, 2007. Not counting non-residents controlled by residents, the non-resident share in the authorised capital of Russian banks stood at 14.9% as of January 1, 2007.

The number of operating credit institutions with foreign interest in 2006 increased by 17 and as of January 1, 2007, stood at 153 as against 136 as of January 1, 2006. Of these, the number of fully foreign-owned credit institutions rose by 26.8% to 52.

Credit institutions with foreign interest expanded the range of their activities not only by building up capital, but also by opening branches.

In 2006 the number of branches of fully foreign-owned credit institutions increased 3.1 times, from 29 as of January 1, 2006, or 0.9% of total branches, to 90 as of January 1, 2007, or 2.7%, respectively. Now that foreign capital has received the same access to the Russian banking sector as national capital, the inflow of foreign investment will grow in 2007.

The banking sector infrastructure changed in 2006 as credit institutions increased the number of their internal divisions, which are the least expensive structures that quickly recoup their cost. While the number of branches slightly declined (from 3,295 as of January 1, 2006, to 3,281 as of January 1, 2007), the number of internal divisions increased significantly and

reached 31,888, not counting the exchange offices (as against 29,634 as of January 1, 2006). Cash and credit offices, a relatively new kind of internal divisions, increased particularly fast: in 2006 their number rose to 996, i.e. by 64.9% year on year.

In terms of points of access to banking services, there are three branches and 27 internal divisions per credit institution in Russia. In the Central Federal District there is one branch per credit institution, whereas in the Urals Federal District and Siberian Federal District there are six branches per credit institution. In Russia as a whole, there is an average of two branches and 22 internal divisions of credit institutions per 100,000 population.

### II.3.3. OFF-SITE SUPERVISION

When implementing measures to improve off-site supervision, the Bank of Russia was guided by the Banking Sector Development Strategy, Guidelines for the Single State Monetary Policy in 2006 and Basel Committee recommendations for substantive (risk-oriented) supervision, which includes:

- the evaluation of credit institutions, especially from the viewpoint of the nature and level of the risks they assume and their possible effect on stability;
- early detection of problems in credit institutions;
- the enforcement of adequate supervisory actions, whenever necessary.

One of the principal objectives of off-site supervision was the monitoring by the Bank of Russia of the activities of the banks covered by the deposit insurance system for the purpose of verifying their compliance with the requirements of Federal Law No. 177-FZ, dated December 23, 2003, 'On Insurance of Household Deposits in Russian Banks'. In the course of monitoring, the Bank of Russia analysed the reasons why credit institutions occasionally failed to meet the deposit insurance system requirements and supervised the measures taken by the banks to improve their performance. The Bank of Russia also closely watched the credit institutions that had the highest permissible financial soundness assessment indicators, calculated to determine a bank's compliance with the deposit insurance system requirements.

In compliance with its methods of evaluating the financial soundness of banks for the purpose of ascertaining its adequacy for participation in the deposit insurance system the Bank of Russia made recommendations on the analysis of the financial standing of credit institutions and the computer-based system 'The Analysis of the Financial State of a Bank'.

The Bank of Russia attached great importance to the evaluation by the banks of the risks involved in lending to individuals, as credit institutions stepped up their activity in this segment of the market. It regularly monitored the retail risks

within the framework of the banking risk monitoring system and drew the attention of its regional branches to credit institutions in which the monitoring revealed unfavourable trends and which called for an additional assessment and supervisory decisions. Urgent inspections were conducted at some credit institutions that had a sustained trend towards growth in overdue debt on household loans to evaluate the quality of managing risks involved in consumer lending. Credit institutions that held positions of command on the consumer loan market were persuaded to adopt more intelligible and transparent consumer loan conditions. Specifically, when analysing credit institutions' activities on the consumer loan market, the Bank of Russia made sure that banks complied with the information disclosure requirements set in the Federal Anti-monopoly Service-Bank of Russia Joint Letter No. 77-T, dated May 26, 2005, 'Recommended Standards for the Disclosure of Information in Extending Consumer Loans'.

The Bank of Russia in 2006 constantly examined and responded to complaints from individuals and legal entities, sorting out problems with the credit institutions mentioned in these complaints. At the same time, it used this information in the course of supervising credit institutions, taking it into account when evaluating their legal and reputation risks.

In 2006 the Bank of Russia continued to detect instances (signs) of use of improper assets for equity capital formation and this work involved 315 credit institutions. The Bank of Russia demanded that five of them readjust their equity capital to the total amount of 657.7 million rubles and two credit institutions readjusted their equity capital on their own to the amount of the improper assets they had used totalling 123.1 million rubles.

The Bank of Russia in 2006 conducted consolidated supervision of the banking (consolidated) groups, regularly analysing the consolidated statements presented by their parent credit institutions and other information available, including inspection results. It paid special atten-



tion to evaluating the completeness of the determination of the consolidation perimeter, the correctness of compiling consolidated statements and the timeliness of their presentation to the supervisory authority, the financial standing of the group and compliance by the groups with established prudential standards. When the parent credit institutions of banking (consolidated) groups were found guilty of violating banking legislation or Bank of Russia rules and regulations, the Bank of Russia imposed sanctions on them pursuant to Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

To enhance the effectiveness of consolidated supervision of credit institutions that have foreign subsidiaries, the Bank of Russia shared information about these credit institutions under the agreements (memoranda of understanding) on cross-border supervision with the host country supervisory authorities.

In 2006 the Bank of Russia continued to improve its analysis of the activities of credit institutions. Specifically, it formulated the principles of analysing the consolidated and unconsolidated statements of credit institutions compiled according to the International Financial Reporting Standards (IFRS). In the course of off-site supervision, the Bank of Russia took into account the results of the analysis of credit institutions' IFRS statements for 2005. Whenever it found significant discrepancies between data contained in statements compiled according to the IFRS and statements compiled according to the Russian accounting standards in respect to the major performance and risk assessment indicators, it considered reasons for these discrepancies and, if necessary, recommended credit institutions to revise their methods of evaluating assets and liabilities in the future. The Bank of Russia also monitored compliance by credit institutions and banking/consolidated groups with the compulsory annual audit requirements.

To improve off-site supervisors' skills and expertise, the Bank of Russia compiled and issued to its regional branches for testing draft Methodological Guidebook for the Curator of a Credit Institution, which came to be known as the 'Curator's Manual'.

The Bank of Russia continued to upgrade the methodologies of evaluating banking sector finan-

cial stability, including the stress testing methodology, monitoring the stability of the banking sector as a whole and of individual credit institutions and calculating and analysing the IMF-recommended financial soundness indicators (FSI) as part of the IMF Coordinated Compilation Exercise for Financial Soundness Indicators.

The Bank of Russia attaches great importance to the transparency of individual credit institutions and the banking sector as a whole. In 2006 it issued the annual Banking Supervision Report and continued the publication of the monthly online version of the Russian Banking Sector Review.

As of January 1, 2007, more than 70% of all credit institutions disclosed information about their activities on the Bank of Russia website (62% as of January 1, 2006). In addition, as of the beginning of this year 143 credit institutions, or about 12% of the total, agreed to disclose additional information in line with Bank of Russia Letter No. 165-T, dated December 21, 2006, 'On Disclosure of Information by Credit Institutions'. Apart from data on credit institutions' accounts, including the balances and turnovers, information disclosed in compliance with this document contains data on the financial performance of credit institutions.

In taking corrective measures against credit institutions, the Bank of Russia was guided by the principle of consistency and adequacy: more severe supervisory measures were usually taken after less severe measures failed to produce the desired effect. In the past few years the most frequently used supervisory measure was sending a credit institution a memo about the shortcomings discovered in its work. More than 1,000 memos indicating faults and recommending measures to rectify them have been sent to credit institutions. The Bank of Russia has begun to use more frequently such a supervisory measure as meetings with bank managers and owners to discuss various problems. In 2006 Bank of Russia regional branches held 503 meetings whereas in 2005 they held 392 meetings, an increase testifying to the improvement of cooperation between the supervisory authorities and credit institutions.

As for repressive measures, the most common one is a demand that the credit institution eliminate the shortcomings discovered in its operations.

In 2006 the Bank of Russia ordered 861 credit institutions to take remedial actions in various areas of their business (836 credit institutions in 2005); 27 credit institutions were ordered to comply with the required ratios and five — to replace their managers; 514 credit institutions,

or almost 43% of the total operating number, were fined (unchanged from 2005).

Restrictions and bans on individual banking operations were imposed on 156 credit institutions in 2006 and 59 banks had their banking licences revoked (35 banks in 2005).

### II.3.4. INSPECTION OF CREDIT INSTITUTIONS

Most of the inspections conducted by the Bank of Russia in 2006 were regular and aimed at fulfilling the Bank of Russia Plan to Implement the Banking Sector Development Strategy.

Bank of Russia authorised representatives in 2006 conducted 1,837 inspections of credit institutions and their branches. Of these, 444 inspections, or 24.2% of the total, were comprehensive and 1,393, or 75.8%, were thematic. At branches of credit institutions the Bank of Russia conducted 101 comprehensive and 550 thematic inspections, of which 119 were conducted at Savings Bank (Sberbank) branches, where only thematic inspections were held.

Inspections were conducted at 937 credit institutions and 633 branches of credit institutions, including 111 Sberbank branches.

In line with the General Plan of Comprehensive and Thematic Inspections of Credit Institutions and their Branches in 2006, the Bank of Russia held 1,421 inspections, or 77% of the total, of which 813 were conducted at credit institutions, 498 — at the branches of credit institutions and 110 — at Sberbank branches.

Interregional inspections were held in 164 credit institutions and branches of credit institutions, of which 56 were held at credit institutions, 92 — at branches of credit institutions and 16 — at Sberbank branches.

To ensure the functioning of the deposit insurance system and safeguard the interests of depositors of commercial banks, and pursuant to the Federal Law on Insurance of Household Deposits in Russian Banks, the Bank of Russia conducted 148 regular inspections with the participation of Deposit Insurance Agency employees.

The principal objective of the inspections was to determine the real financial state of credit institutions, verify their compliance with applicable banking and currency legislation and Bank of Russia rules and regulations, detect situations jeopardising the interests of creditors and depositors and assess the risks that arise in the course of conducting banking operations. Close attention was also paid to transparency in banking, the

evaluation of equity capital and its adequacy, including the detection of the use of improper assets in creating equity capital, the assessment of the quality of assets of credit institutions, risk levels, internal controls and management and the observance of applicable legislation by credit institutions.

While inspecting credit institutions, the Bank of Russia in 2006 paid more attention to the assessment of credit institutions' exposure to legal and reputation risks, especially when conducting dubious operations.

The Bank of Russia in 2006 held 416 urgent inspections, or 23% of total inspections, of which three inspections were conducted with the participation of Deposit Insurance Agency employees.

Of the total number of urgent inspections, 172 inspections, or 41%, were held by decision of the Bank of Russia management. Most of these inspections were conducted to verify compliance by credit institutions with the requirements of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism, Bank of Russia rules and regulations on cash operations and the movement of cash through customer accounts, cash management and the observance of settlement rules and regulations.

Most of the urgent inspections (244, or 59% of the total) were held by decision of the management of Bank of Russia regional branches. In all cases but two, inspections were appointed when credit institutions increased their authorised capital by more than 20% of the previously registered amount or requested permission to expand the range of their operations. Two inspections were conducted in connection with the implementation of insolvency (bankruptcy) prevention measures by credit institutions.

In the course of inspections held in 2006, the Bank of Russia detected 17,583 infractions committed by credit institutions and their branches.

Most of them were violations of the anti-money laundering/terrorist financing laws (3,956, or 22.5%). There were 3,589 violations of the rules on conducting lending operations

(20.4% of the total), 1,563 violations of accounting rules (8.9%) and 1,363 cases of false accounting and misreporting (7.8%).

The Bank of Russia in 2006 constantly made efforts to enhance the effectiveness of on-site inspections.

To achieve greater accuracy in detecting high-risk zones in the activities of inspected credit institutions, the Bank of Russia significantly improved the organisation and conduct of pre-inspection analysis. All inspections conducted in 2006 by the Bank of Russia Chief Inspectorate were preceded by pre-inspection analysis and vigorous efforts were made to introduce this practice in the inspection divisions of Bank of Russia regional branches. Building upon the experience gained in this field, the Bank of Russia has issued methodological recommendations for analysis in its inspection divisions.

As the Interregional Inspectorates of the Bank of Russia Main Inspectorate continued their work, Bank of Russia regional branches improved the organisation of inspections at all stages. Specialists with the interregional inspectorates in 2006 analysed the results of 725 inspections of credit institutions and the results of this analysis were used as the basis for measures to improve inspection.

The upgrading of inspection rules, regulations and methodologies based on the principles of risk-

oriented supervision was a major task for the Bank of Russia in its efforts to improve inspection. For this purpose, it worked out methodological recommendations on the verification of the quality of loans, loan debt and similar debts, promissory note transactions, market risk, the appropriateness of equity capital formation and other areas of inspection.

At the same time, the Bank of Russia issued a number of documents aimed at upgrading the management of inspections, such as:

- Ordinance No. 1737-U, dated October 27, 2006, 'On Amending Bank of Russia Instruction No. 105-I, Dated August 25, 2003, on the Procedure for Conducting Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation';
- Ordinance No. 1762-U, dated December 15, 2006, 'On Amending Bank of Russia Instruction No. 108-I, Dated December 1, 2003, on Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)'.

In 2006 the Bank of Russia completed testing the Inspection Division Automated System (ASIP), which makes it possible to receive information on inspections online from a single database, improve coordination of inspections and ongoing control and use inspection data for the purposes of analysis.

## II.3.5. BANK BANKRUPTCY (INSOLVENCY) PREVENTION AND WITHDRAWAL OF INSOLVENT CREDIT INSTITUTIONS FROM THE BANKING SERVICES MARKET

Uncovering grounds for the implementation of insolvency (bankruptcy) prevention measures in credit institutions and taking timely decisions under the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions are some of the ways in which the Bank of Russia protects the rights and legitimate interests of creditors and depositors.

In 2006 it ordered six credit institutions to carry out financial rehabilitation measures, with five of those credit institutions being ordered to comply with the authorised and equity capital requirements (four credit institutions fulfilled the order in due time, whereas two credit institutions failed to do so and later had their banking licences revoked).

The number of credit institutions liable to insolvency (bankruptcy) prevention measures under Article 4 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions decreased from nine as of January 1, 2006, to seven as of January 1, 2007.

The share of credit institutions that on their own eliminated the grounds for taking insolvency (bankruptcy) measures against them in 2006 expanded to 56% from 45% in 2005 and 41% in 2004. Thus, the trend for credit institutions to eliminate the grounds for insolvency (bankruptcy) prevention measures on their own, without being ordered to do so by the Bank of Russia, continued.

The Bank of Russia in 2006 oversaw 68 provisional administrations of credit institutions. It discharged 57 provisional administrations, of which 45 were disbanded by decision of the arbitration court to liquidate the credit institutions and appoint the liquidators, 11 provisional administrations were dismissed by decision of the arbitration court to declare the credit institutions insolvent (bankrupt) and appoint receivers and one provisional administration was discharged by decision of the arbitration court. Representatives

of the Deposit Insurance Agency were included in 20 provisional administrations in 2006.

Pursuant to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and the Federal Law on Banks and Banking Activities, the Bank of Russia in 2006 revoked and cancelled the banking licences of 62 credit institutions, of which three had their licences cancelled (40 credit institutions had their banking licences revoked and cancelled in 2005, of which five had their licences cancelled). Most of the licences were revoked (cancelled) from credit institutions registered in Moscow and the Moscow Region (54). Of these, 51 credit institutions had their licences revoked for repeated violations within one year of Article 6 and Article 7 (except point 3 of Article 7) of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism (as against 14 credit institutions in 2005) and two credit institutions had their licences revoked for failure to satisfy their creditors' claims under pecuniary obligations and (or) effect compulsory payments (as against 10 credit institutions in 2005).

As of January 1, 2007, liquidation proceedings took place in 144 credit institutions out of 155 credit institutions which had had their licences revoked and had not been registered due to liquidation (as for the remaining credit institutions, no court decisions were taken on them after their licences had been revoked). Most of the liquidated credit institutions (83) were declared bankrupt and had liquidation proceedings initiated against them (17 of them were declared bankrupt and liquidation proceedings were initiated against them in 2006); 53 credit institutions were ordered to be liquidated by arbitration courts (43 of them in 2006); eight credit institutions are winding up voluntarily (founders (members) of three of them had decided to liquidate them voluntarily in 2006).

Pursuant to point 2 of Article 50.11 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions and Article 23.2 of the Federal Law on Banks and Banking Activities, Deposit Insurance Agency representatives in 2006 conducted liquidation proceedings at 109 credit institutions; 10 credit institutions were liquidated and struck off the state register in 2006 (seven of them were liquidated as a result of bankruptcy proceedings and three were subjected to enforced liquidation). As of January 1, 2007, Deposit Insurance Agency representatives conducted liquidation proceedings at 99 credit institutions, of which 63 had bankruptcy proceedings initiated against them and 36 were subjected to enforced liquidation.

The Bank of Russia in 2006 took the state registration decision in connection with the liquidation of 56 credit institutions, of which 38 were liquidated by decision of the arbitration court upon completion of bankruptcy proceedings, one credit institution was liquidated out of court by decision of its founders (members) and creditors according to the bankruptcy procedure, 15 credit institutions were subjected to enforced liquidation and two were liquidated by their founders (members) on a voluntary basis.

In 2006 the Bank of Russia accredited 33 receivers of bankrupt credit institutions, of whom six had their accreditations extended. It extended

the term of 45 receivers' (liquidators') certificates issued before the coming into force of Federal Law No. 121-FZ, dated August 20, 2004, 'On Amending the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions and Invalidating Some Laws (Provisions of Some Laws) of the Russian Federation', and rejected requests to extend the term of 10 certificates. As of January 1, 2007, 15 receivers had receivers' (liquidators') certificates.

The Bank of Russia in 2006 conducted 21 inspections of the receivers (liquidators) of credit institutions. As a result of these inspections, receivers (liquidators) were ordered to rectify the faults discovered in their work and information on inspection results was sent to arbitration courts and bank creditors committees.

Pursuant to the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System, the Bank of Russia Board of Directors took decisions to effect Bank of Russia payments to 13,658 depositors of 10 bankrupt banks to the total amount of 656.6 million rubles. In addition, it was decided to allocate 1.1 million rubles on top of that sum to implement decisions on Bank of Russia payments taken in respect to six banks in 2005. In line with these decisions, the Bank of Russia in 2006 paid a total of 649.35 million rubles to 13,332 depositors.

### II.3.6. HOUSEHOLD DEPOSIT INSURANCE

The Bank of Russia in 2006 continued to upgrade the regulatory framework of the deposit insurance system, considered banks' requests to expand the range of their operations by obtaining licences to take household deposits and monitored compliance by the deposit insurance system member banks with the deposit insurance system requirements.

Pursuant to Federal Law No. 150-FZ, dated July 27, 2006, 'On Amending Article 11 of the Federal Law on Insurance of Household Deposits in Russian Banks and Article 6 of the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System', insurance compensation was raised from 100,000 rubles to 190,000 rubles and simultaneously Bank of Russia payments to depositors of bankrupt banks uncovered by the deposit insurance system were increased accordingly.

As of January 1, 2007, 934 banks, including 921 operating banks, were members of the deposit insurance system.

The Bank of Russia Banking Supervision Committee in 2006 issued licences to 10 banks that made first-time requests to take household deposits and these banks were registered with the deposit insurance system.

Insured events occurred in 2006 in nine banks registered with the deposit insurance system (they had their banking licences revoked)<sup>1</sup>.

Within the 7-day period established by the Federal Law on Insurance of Household Deposits in Russian Banks the provisional administrations appointed by the Bank of Russia to these banks sent the registers of their obligations to depositors to the Deposit Insurance Agency and this allowed the Agency to start making insurance payments to depositors in time and often ahead of schedule.

Pursuant to Article 48 of the Federal Law on Insurance of Household Deposits in Russian Banks, the Bank of Russia Banking Supervision Committee in 2006 prohibited six deposit insurance system member banks from taking household deposits and opening personal accounts due to the banks' non-compliance with the deposit insurance system requirements for three consecutive months.

Pursuant to the Federal Law on Insurance of Household Deposits in Russian Banks and the agreements it concluded, the Bank of Russia in 2006 cooperated, coordinated activities and shared information with the Deposit Insurance Agency on issues relating to the deposit insurance system, participation of banks in it and payment of insurance premiums and compensation on deposits, inspection by the Bank of Russia of banks participating in the deposit insurance system, the application of corrective measures against them and other issues related to the functioning of the deposit insurance system.

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<sup>1</sup> One insured event occurred in 2005.

### II.3.7. CENTRAL CATALOGUE OF CREDIT HISTORIES

Set up pursuant to the Federal Law on Credit Histories, the Central Catalogue of Credit Histories (CCCH) collects, stores and provides to credit history makers and users information on the credit history bureau(s), which contains (contain) the credit histories of the credit history makers.

The CCCH is operated by the CCCH automated system, which processes credit bureau data and credit history makers' and users' online requests on a round-the-clock basis seven days a week.

In March 2006 the credit bureaus entered into the state register of credit bureaus began to pass on information contained in the credit history titles to the CCCH. By April 2006 the CCCH had amassed over 1 million credit history titles, in July — 7 million titles, in October — 10 million titles and as of January 1, 2007, the CCCH stored and made available to credit history makers and users more than 14 million credit history titles containing information on the credit bureaus where credit histories were kept. As of January 1, 2007, the titles of individual credit histories

accounted for 99.5% of total credit history titles stored by the CCCH automated system.

As soon as the CCCH automated system was put in operation, it began to receive enquiries from credit history makers and users. In 2006 it received and processed more than 180,000 enquiries, of which 64,000 were enquiries about the credit bureaus where credit history makers' credit histories were kept and 116,000 enquiries connected with the creation, change and cancellation of the credit history maker codes and the creation of additional credit history maker codes.

The CCCH in 2006 maintained cooperation with the government agency that supervises the credit bureaus and keeps the register of credit bureaus (the Federal Financial Markets Service). As credit bureaus were put on the state register of credit bureaus, 21 credit bureaus were linked up with the CCCH automated system in 2006.

The CCCH section of the Bank of Russia website is expanded as answers to credit history makers' and users' queries relating to the CCCH are placed and updated.



## II.4. THE RUSSIAN PAYMENT SYSTEM

### II.4.1. THE STATE OF THE RUSSIAN PAYMENT SYSTEM. DEVELOPMENT AND UPGRADING OF THE BANK OF RUSSIA PAYMENT SYSTEM

A major task for the Bank of Russia is to maintain the level of efficiency achieved and to ensure the uninterrupted functioning and sustained development of the national payment system. Success in carrying out this task is the key to the development of the economy as a whole and to financial stability and efficiency of the monetary policy implemented by the Bank of Russia.

The institutional structure of the Russian payment system continued to expand and improve in 2006. As of January 1, 2007, settlement services were provided by 20,400 banks (an increase of 21.1% on a year earlier as against a rise of 15.8% in 2005), including 923 Bank of Russia institutions (main cash settlement centres, cash settlement centres, divisions and operations departments), 1,189 credit institutions, including 43 non-bank settlement credit institutions, 3,281 branches of credit institutions and 15,007 additional offices of credit institutions and their branches.

While the number of Bank of Russia institutions decreased by 0.9%, credit institutions — by 5.1% and branches of credit institutions — by 0.4%, the number of additional offices rose by

32.0%. This growth was due to the efforts made by credit institutions to expand the range of the settlement services provided while minimising their cost. As a result, the total number of Bank of Russia institutions, credit institutions, their branches and additional offices per 1,000,000 of the population increased by 21.5% in 2006 to 143.5.

The number of internal divisions of credit institutions and their branches that provide money transfer services to individual customers without opening bank accounts (cash and credit offices and cash operations departments outside cash settlement centres) stood at 16,881 as of January 1, 2007, as against 18,253 a year earlier. Thus, the total number of Bank of Russia institutions, credit institutions and their branches and internal divisions per 1,000,000 of the population increased by 6.5% in 2006 and reached 261 as against 245 in 2005.

The number of customer accounts opened at Bank of Russia institutions and credit institutions and their branches, which could be used for making payments, continued to increase and in 2006 it grew by 4.4% reaching 369.1 million, while the share of accounts opened for corporate enti-

ties other than credit institutions and personal accounts remained unchanged at 1.4% and 98.6%, respectively.

As credit institutions expanded the range of services provided, the number of accounts per capita rose from 2.5 to 2.6, mainly due to the opening of individual payment card and consumer credit accounts. The number of accounts that could be reached online increased by 76.9% in 2006 and as of January 1, 2007, stood at 2.3 million, as credit institutions increasingly used advanced electronic banking technologies.

The number of payments effected through the Russian banking system in 2006 reached 1,672.6 million and their value stood at 446.0 trillion rubles.

As credit institutions optimised the network of their divisions and increased the number of additional offices, the number and value of payments effected between the divisions of one credit institution through interbranch settlement accounts also grew. These payments accounted for 15.9% of total payments and 12.7% of the total value of payments effected through the Russian payment system.

The share of payments made through credit institutions' correspondent accounts opened at other credit institutions remained small (3.4% in number and 4.2% in value).

Non-cash settlements effected using payment orders prevailed over other means of payment. They accounted for 66.8% of total payments and 97.0% of the total value of payments. The share of payments made using collection orders and payment requests remained very small, accounting for 2.9% of total payments and 0.7% of the total value of payments. The share of letters of credit and cheques issued by credit institutions also remained small due to low customer demand.

The use of payment cards continued to grow. The number of cards issued by credit institutions increased by 36.8% to 74.8 million. The number of payment card operations reached 1,198.5 million, an increase of 39.0% in 2006, and their value stood at 4,396.7 billion rubles, an increase of 47.3%.

The dynamic expansion of the payment card infrastructure (in 2006 the number of trading and service establishments accepting payment cards and ATMs increased by 27.0% to 181,000) led

to an 18.6% increase in the share of payment cards in non-cash payments in 2006 (as against 16.7% in 2005). As a result, the share of cash withdrawal operations accounted for 81.4% of total operations and 91.4% of the total value of operations.

The credit card market continued to expand in 2006. The number of credit cards increased by 128.3%, the number of credit card operations rose by 77.2% and their value expanded by 88.4%. However, despite this growth, credit card operations accounted for a lowly 2.0% of total payment card operations.

To stimulate the development of the consumer credit market, the Bank of Russia set up a procedure for extending ruble loans to resident individuals without opening a bank account in settlements effected using credit cards (Bank of Russia Ordinance No. 1725-U, dated September 21, 2006, 'On Amending Bank of Russia Regulation No. 266-P, Dated December 24, 2004, on the Issuance of Bank Cards and on Operations Conducted Using Payment Cards' registered by the Ministry of Justice).

The cash flow that passed through cash departments of the Bank of Russia and credit institutions in 2006 amounted to 30,953.5 billion rubles, an increase of 26.6% on 2005. This growth was largely due to an increase in nominal household incomes and prices of goods and services.

The average daily amount of cash that passed through cash departments of the Bank of Russia and credit institutions in 2006 increased by 22 billion rubles to 103.2 billion rubles. Cash receipts allowed Bank of Russia institutions and credit institutions to meet 94.3% of customer needs in cash in 2006 as against 95.7% in 2005.

As in the previous years, the **Bank of Russia payment system** was the major element of the Russian payment system in terms of the number and value of payments effected through it, which were mostly payments by credit institutions and their branches.

The number of payments made through the Bank of Russia payment system in 2006 was 696.3 million (the average daily number stood at 2.8 million payments) and their value amounted to 267.3 trillion rubles (the average payment had a value of 383,900 rubles). The value of payments

effected by the Bank of Russia payment system relative to GDP in 2006 stood at 10.0.

Sustained growth in the number and value of payments made through the Bank of Russia payment system was due to its reliability, the use of advanced technology and information security techniques and the lowest financial risk guaranteed to its participants.

Participating in the Bank of Russia payment system as of January 1, 2007, were 1,189 credit institutions and 2,062 branches of credit institutions, which had correspondent accounts (sub-accounts) opened for them with the Bank of Russia (their number increased 2.5% in 2006).

The number of Bank of Russia-serviced customers other than credit institutions in 2006 decreased from 44,776 to 36,401, or by 18.7% (as against 16.3% in 2005). The trend towards a reduction in Bank of Russia customers in 2006, as in 2005, was a result of the transfer of cash services provided to budgets of all levels to the Federal Treasury and the closing at Bank of Russia institutions of accounts previously opened for regional and local budget execution authorities and recipients of budget funds.

The share of payments effected by credit institutions and their branches in the total number and value of payments effected through the Bank of Russia payment system was 82.0% and 84.6%, respectively. Judging by the share of payments conducted through the Bank of Russia payment system in the total number and value of payments effected through the Russian payment system, the Bank of Russia payment system is the largest and most important interbank money transfer system in this country.

The share of settlement documents which accompanied payments effected by credit institutions and their branches in total documents accepted by the Bank of Russia for processing during one business day in 2006, as in 2005, was as high as 99.99%. The remaining small part of documents was recalled by credit institutions and their branches, put on file as settlement documents not paid on time or returned by Bank of Russia institutions to credit institutions and their branches because of a shortage or lack of funds in their correspondent accounts (sub-accounts).

In 2006, as in the previous years, an overwhelming majority of payments in the Bank of

Russia payment system were effected electronically: they accounted for 99.5% of total payments and 99.6% of the total value of payments.

The share of Bank of Russia customer credit institutions and branches of credit institutions that exchanged electronic documents with the Bank of Russia as of January 1, 2007, expanded to 96.6% of the total (as against 95.4% a year earlier) and this allowed credit institutions and their branches to efficiently manage their intraday liquidity and plan the effectuation of their payments.

The share of payments sent to the Bank of Russia payment system by communication channels in total payments increased proportionately to the increase in the number of Bank of Russia customer credit institutions and their branches exchanging electronic documents with the Bank of Russia, and reached 97.7% in 2006 as against 95.0% in 2005.

The Bank of Russia payment system average monthly accessibility ratio, that is, the readiness of this system to accept electronic and paper settlement documents from Bank of Russia customers, in 2006 ranged between 99.57% and 99.96% as regards electronic settlement documents, and between 99.99% and 100% as regards settlement documents on paper.

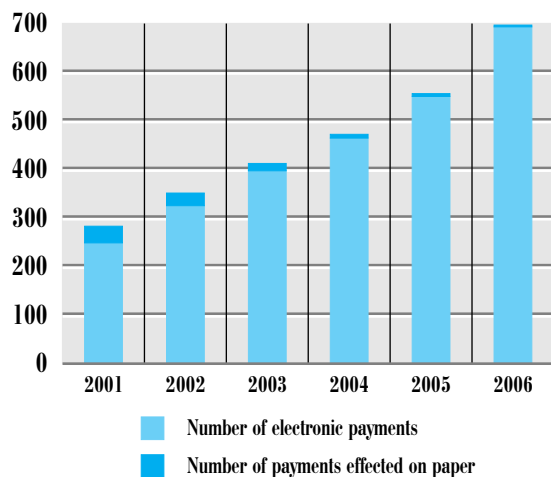
The measures taken by the Bank of Russia in 2006 to reduce settlement time allowed it to cut the average settlement time for all settlement techniques on the intraregional level by 0.05 days (0.65 days in 2006 as against 0.70 days in 2005) and on the interregional level — by 0.03 days (1.05 days in 2006 as against 1.08 days in 2005).

In compliance with Russian law, the Bank of Russia conducted operations with all categories of budget funds free of charge. The share of free operations and that of operations conducted by the Bank of Russia for a fee in 2006 remained almost unchanged at 53.7% and 46.3% accordingly.

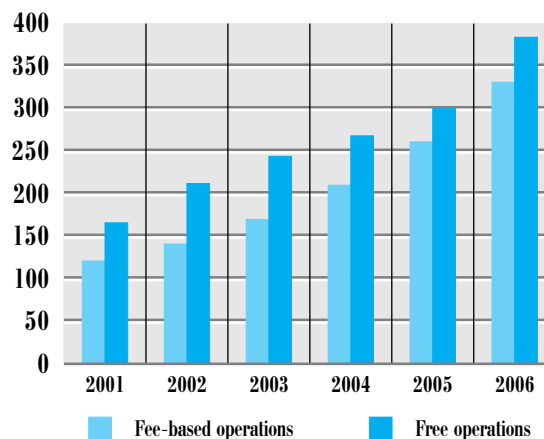
To implement the Russian Banking Sector Development Strategy until 2008, which envisages the creation by the Bank of Russia of a real-time gross settlement system, the Bank of Russia continued to carry out measures to fulfil this task on schedule.

After the Bank of Russia had determined the major aspects of the creation and operation of the

**RATIO OF ELECTRONIC PAYMENTS  
TO PAYMENTS EFFECTED ON PAPER  
THROUGH THE BANK OF RUSSIA  
PAYMENT SYSTEM (million payments)**



**RATIO OF FEE-BASED  
TO FREE OPERATIONS  
CONDUCTED BY THE BANK OF RUSSIA  
PAYMENT SYSTEM (million payments)**



*Charts 42, 43*

real-time gross settlement system, described its main elements and structure and formulated requirements for participants and the functions fulfilled by the system, it drafted corresponding rules and regulations.

These documents describe the purposes and major standards and principles for building and operating the real-time gross settlement sys-

tem, and regulate in detail the settlement rules and procedures that participants should follow when using this system, and the relations between the Bank of Russia and RTGS system participants.

Other draft documents regulate the organisational, technological, software and information security procedures relating to the real-time gross settlement system.

## II.4.2. BANK OF RUSSIA PAYMENT SYSTEM INFRASTRUCTURE DEVELOPMENT

The Bank of Russia in 2006 continued establishing a collective data processing system, encouraging the use of electronic settlements, introducing standard message formats in the exchange of electronic messages between credit institutions and other Bank of Russia customers, on the one hand, and the Bank of Russia, on the other, and developing the technical infrastructure of the collective data processing system, which is also designed for the effectuation of gross settlements in real time.

In 2006 the Bank of Russia linked up 27 of its regional branches to the collective data processing system and at the end of the year 56 Bank of Russia regional branches, or 72% of the total, were covered by this system and work had begun to connect 19 Bank of Russia regional branches to it.

The Bank of Russia took steps to develop the technical infrastructure of the collective data processing system and improve its own information and telecommunications system for the purpose of upgrading the Bank of Russia payment system.

The infrastructure of the collective data processing system built by the Bank of Russia is designed not only to improve the performance of the

payment system, but also to upgrade the Bank of Russia information analysis system.

As a result of persistent efforts by the Bank of Russia to expand the electronic settlement system, 76 of 78 Bank of Russia regional branches effected intraregional and interregional electronic settlements. At present, 97.2% of Bank of Russia institutions (100% of the institutions authorised by Bank of Russia regulations to conduct electronic settlements) and 53% of Bank of Russia field institutions participate in electronic settlements.

In 2006 the Bank of Russia transferred 74 of its regional branches to standard electronic banking message formats.

In line with the Russian Banking Sector Development Strategy until 2008, the Bank of Russia drafted 'The Functional and Technical Requirements for the Real-time Gross Settlement System in Respect to Large-sum and Urgent Payments'.

While drafting regulatory documents for the real-time gross settlement system, the Bank of Russia developed its industrial prototype, put it on trial and test ran it at 10 of its regional branches.

## II.5. BANK OF RUSSIA ACTIVITIES AIMED AT COUNTERING THE LEGALISATION (LAUNDERING) OF CRIMINALLY OBTAINED INCOMES AND THE FINANCING OF TERRORISM

The Bank of Russia in 2006 continued to fulfil the functions assigned to it by the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism (hereinafter referred to as Federal Law No. 115-FZ).

The Bank of Russia was actively involved in drafting amendments to Federal Law No. 115-FZ designed to optimise customer identification requirements. When the amendments that lifted the requirement to identify customers making social payments to the amount of no more than 30,000 rubles and buying or selling no more than 15,000 rubles worth of foreign currency came into effect, the Bank of Russia made corresponding changes in its own rules and regulations.

To provide methodological support to credit institutions in implementing the requirements of Federal Law No. 115-FZ, the Bank of Russia in 2006 issued a number of letters that contained recommendations for conducting identification procedures when concluding bank account (deposit) agreements and provided guidance to credit institutions in respect to the changes in foreign and international regulations on anti-money laundering and terrorist financing (AML/FT).

Specifically, the Bank of Russia made known to credit institutions the requirements set by the

US Financial Crime Enforcement Network (FinCEN) for procedures to be followed by US financial institutions when opening and maintaining correspondent accounts of foreign financial institutions and foreign residents and the accounts of politically exposed persons. The Bank of Russia also informed its regional branches and credit institutions of the publication by the Wolfsberg Group, an association of global banks, of the *Guidance on a Risk Based Approach for Managing Money Laundering Risks*.

To ensure the uniformity of law enforcement procedures, the Bank of Russia in 2006 continued summarising and systematising questions raised by its regional branches and credit institutions in respect to the anti-money laundering law and having analysed them, it issued letters of information clarifying the most difficult aspects of the application of the Bank of Russia rules and regulations on AML/FT.

In the course of implementing its supervisory functions and inspecting 779 credit institutions and/or their branches, the Bank of Russia in 2006 verified their compliance with AML/FT laws.

The most typical drawbacks discovered by inspectors were non-compliance with the requirements of Federal Law No. 115-FZ and Bank of Russia rules and regulations regarding customer

and beneficiary identification and keeping records of operations with funds or other property subject to mandatory control and operations, which a credit institution has reason to suspect of being conducted for money laundering and terrorist financing purposes, and the failure to present such information to the relevant authority in time.

Different corrective measures were taken against credit institutions for established breaches of Federal Law No. 115-FZ and other violations. Preventive measures, such as making the shortcomings discovered in the work of a credit institution known to its management, were used in 343 cases; as for repressive measures, orders to take remedial action were issued in 389 cases, fines were imposed in 232 cases, 133 credit institutions were restricted in or prohibited from conducting individual banking operations and 51 credit institutions had their banking licences revoked.

The Bank of Russia had repeatedly used preventive and repressive measures against credit institutions that violated Federal Law No. 115-FZ and eventually had their banking licences revoked in 2006.

The analysis of cooperation between credit institutions and the Federal Financial Monitoring Service shows that the banking community has significantly stepped up its activities in preventing money laundering and terrorist financing. In 2006 the Federal Financial Monitoring Service received twice as many reports from credit institutions about operations subject to mandatory control and suspicious operations as compared to 2005 (6.1 million as against 3.0 million reports). There was also a decline in the number of cases of late reporting of operations subject to mandatory control. According to the Federal Financial Monitoring Service, the share of reports of operations subject to mandatory control submitted in violation of the deadlines set by Federal Law No. 115-FZ in the second half of 2006 decreased to 3% from 8.8% in the same period of 2005 (in 2006 as a whole, this share stood at 3.6%).

The Bank of Russia in 2006 continued to provide retraining and advanced training to specialists of its regional branches in AML/FT. In line with the Bank of Russia Vocational Training Plan for the Staff of Bank of Russia Regional Branches, 13 training projects involving about 600 people were carried out in 2006 with the participation

of specialists of the Bank of Russia, the Ministry of the Interior and the Federal Financial Monitoring Service.

In addition, in November 2006 the Bank of Russia conducted jointly with representatives of the Bank of France a seminar for inspectors of the head office and regional branches of the Bank of Russia on the latest developments in and international standards for AML/FT.

The Bank of Russia in 2006 participated in the work of the Interdepartmental Commission on the Prevention of Money Laundering and Terrorist Financing, a standing body set up to coordinate the efforts of executive structures concerned and the Bank of Russia in AML/FT.

The Bank of Russia also took part in the creation and functioning of the Interdepartmental Working Group for the Prevention of Economic Crime, formed in line with the instruction of the Russian President issued on September 15, 2006, for the purpose of improving interdepartmental cooperation in combating crime and other offences in the economy.

As for international cooperation, the Bank of Russia in 2006 actively interacted with international and foreign organisations. Its representatives participated as members of delegations of the Russian Federation in plenary meetings and working group meetings of the Financial Action Task Force (FATF) and FATF-like regional bodies such as the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and the Eurasian Group on Combating Legalisation of Proceeds from Crime and Terrorist Financing.

In 2006 the Bank of Russia continued to cooperate with foreign supervisory authorities in AML/FT to prevent the use of credit institutions for money laundering and terrorist financing (provisions on AML/FT are an inalienable part of agreements and memoranda of understanding signed by the Bank of Russia with foreign supervisory authorities on cooperation in the field of banking supervision).

In May 2006 the Bank of Russia participated for the first time in the Wolfsberg Group forum, which discussed, among other things, cooperation between banks and banking regulators and supervisors, and presented a major report at the meeting.

## II.6. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

The liberalisation of Russia's currency laws was a major objective of the activities of the Bank of Russia in the field of foreign exchange regulation in 2006.

The assigning to the Bank of Russia by Federal Law No. 173-FZ, dated December 10, 2003, 'On Foreign Exchange Regulation and Foreign Exchange Control' of the powers to regulate capital foreign exchange operations conducted by residents and non-residents by means of requirements to make reserves and use special accounts was dictated by the need to implement foreign exchange regulation for the purpose of preventing crisis situations.

At the same time, in the period since the adoption of this Law the state of the Russian economy, characterised by favourable macroeconomic dynamics, a federal budget surplus, vast international reserves and the constant excess of the supply of foreign exchange on the domestic market over demand allowed the Russian authorities to come to the conclusion that the country's economy in general and the Russian financial market in particular were strong enough to resist a moderate outflow of capital.

This being said and bearing in mind that the restrictions on the movement of capital could have an adverse effect on the investment climate in the country, in March 2006 the Bank of Russia Board of Directors decided to cut by half the required reserves for operations on special bank accounts

from May 1, 2006. To enforce this decision, the Bank of Russia issued the following documents:

- Ordinance No. 1674-U, dated March 29, 2006, 'On Amending Bank of Russia Ordinance No. 1465-U, Dated June 29, 2004, on Reserve Requirements for Entering Funds to Special Bank Accounts and Writing off Funds from Special Bank Accounts';
- Ordinance No. 1675-U, dated March 29, 2006, 'On Amending Bank of Russia Ordinance No. 1577-U, Dated May 6, 2005, on Reserve Requirements for Residents Transferring Funds to their Accounts (Deposits) Opened with Banks Outside the Russian Federation'.

Bank of Russia Ordinance No. 1688-U, dated May 29, 2006, 'On Cancelling the Requirement to Use Special Accounts when Conducting Foreign Exchange Operations and Invalidating Some Bank of Russia Regulatory Documents'; and Bank of Russia Ordinance No. 1689-U, dated May 29, 2006, 'On Invalidating Some Bank of Russia Regulations' came into force on July 1, 2006, lifting all requirements to use special accounts and to make reserves in case of certain types of foreign exchange operations conducted by residents and non-residents, which had been established earlier by the Bank of Russia pursuant to Federal Law No. 173-FZ.

Bank of Russia powers to set reserve requirements were terminated as of July 1, 2006, while



the requirement to use special accounts as of January 1, 2007, pursuant to Federal Law No. 131-FZ, dated July 26, 2006, 'On Amending the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control'.

The lifting of foreign exchange restrictions and the amendments made to Federal Law No. 173-FZ were designed to stimulate the expansion of the domestic financial market, strengthen the position of the ruble on international financial markets and gradually make the ruble a much sought-after currency in international economic relations.

On the whole, the movement of funds connected with the implementation of the reserve requirements by residents and non-residents in 2006 was as follows: as of January 1, 2006, the balance of funds deposited with the Bank of Russia as reserves for foreign exchange operations stood at 8.8 billion rubles. In the first six months of 2006, the reserves deposited in accounts with the Bank of Russia increased from 22.5 billion rubles in the first half of 2005 to 36.5 billion rubles, of which 85% were deposited by residents (as against 94% in 2005). In 2006 as a whole, residents and non-residents got back 45.3 billion rubles of reserves deposited earlier and by the end of the year the balance stood at 5 million rubles.

Of total reserves made by residents, resident operations to purchase from non-residents equity shares, contributions and stakes in the property (the authorised contributed capital or unit fund of a cooperative) of legal entities and resident contributions under partnership agreements with non-residents accounted for 39.4%, securities trading — for 24.4%, resident lending to non-residents — 24.1%, non-resident lending to residents — 3.2%, and the extension of commercial credit to non-residents for terms exceeding 180 days as prepayment for the work performed, services provided and information furnished and

the products of their intellectual activity, including the sole right to these — 1.2%.

Compulsory sale of foreign currency earnings was another instrument used to regulate the domestic forex market. Under Federal Law No. 173-FZ it had been in effect until January 1, 2007.

As the massive inflow of foreign currency to the domestic forex market far surpassed demand (one reason was that the world market prices of the major Russian export commodities remained high), as of May 7, 2006, the Bank of Russia cancelled the 10% foreign currency sale requirement for exporters.

The Russian cash forex market changed significantly in 2006. The ruble's appreciation against the world's major currencies made foreign currency less attractive to the public and as the dollar weakened on international markets, people turned to the euro.

In 2006 authorised banks brought into the country 18.4% less foreign currency than in 2005 (\$12.7 billion as against \$15.5 billion). The share of the US dollar in total foreign exchange brought into the country went down from 74.2% in 2005 to 46.7% in 2006. At the same time, the foreign exchange outflow increased almost 4.5 times over, from \$2.9 billion to \$12.7 billion and the dollar accounted for 98% of this amount.

As a result, the balance of foreign exchange taken in and out of the country by authorised banks changed from \$12.7 billion in 2005 to —\$100 million in 2006.

The acceleration of the de-dollarisation process is also confirmed by household sector net demand for foreign exchange (the difference between foreign exchange sold to individuals and paid from individual accounts and foreign exchange bought from individuals and entered to individual accounts). Compared to 2005, it decreased 6.5 times, or almost by \$13 billion, to \$2.4 billion.

## II.7. BANK OF RUSSIA ACTIVITIES RELATING TO GOVERNMENT FINANCE

*In* the field of government finance, in 2006 the Bank of Russia continued coordinating its monetary and budget policies, working on the settlement of the Finance Ministry's debt to it, servicing all categories of budget accounts and monitoring their balances, upgrading the regulatory framework and managing the receipt of certain kinds of revenue to the federal budget system. It cooperated with the Federal Treasury and its regional branches to facilitate the completion of the Federal Treasury Single Federal Budget Account Concept and the implementation of Article 215.1 of the Budget Code of the Russian Federation, which provides for cash servicing of the federal and other budgets by the Federal Treasury from January 1, 2006.

The Ministry of Finance in 2006 effected timely payments on its debt obligations to the Bank of Russia on promissory notes, foreign currency-denominated loan bonds and Russian eurobonds. In addition, the Bank of Russia in 2006 sold federal loan bonds on the open government securities market.

As a result, the Finance Ministry's total debt to the Bank of Russia, denominated in rubles and foreign currencies and calculated at the nominal value of government securities, including the federal government's debt obligations acquired in the course of repo operations, decreased in 2006 by 22.4 billion rubles, or 6% year on year, and stood at 352.5 billion rubles.

The Bank of Russia in 2006 assisted the Federal Treasury in the cash servicing of budgets of all levels in connection with the coming into force on January 1, 2006, of Article 215.1 of the Budget Code of the Russian Federation. Bank of Russia institutions and credit institutions opened regional and local government budget accounts for Federal Treasury bodies, controlled the closing of corresponding accounts opened for regional and municipal financial authorities, and informed the Federal Treasury and its regional branches of accounts that had to be closed pursuant to the federal law.

According to data compiled by Bank of Russia regional branches and credit institutions, by January 1, 2007, 90.0% of Russian regions, as well as municipalities in 83.8% of Russian regions had completely switched over to cash servicing of regional and local government budgets by Federal Treasury bodies. To complete the transition, it is necessary to close 428 accounts opened for financial authorities with the Bank of Russia and credit institutions, of which 49 accounts had been opened for regional financial authorities, 379 accounts — for municipal financial bodies and over 2,400 accounts — for recipients of budget funds. Of the total number of accounts that have to be closed, Bank of Russia institutions as of January 1, 2007, had 107 accounts opened for financial bodies and 197 for recipients of budget funds.

Despite the general trend towards a reduction in the number of Bank of Russia customers other

than credit institutions and the number of accounts opened for them, in the course of the transition to cash servicing of regional and municipal budgets by the Federal Treasury the number of accounts opened for the latter has increased significantly and there has also been a sharp rise in the number and volume of operations conducted through the Bank of Russia payment system. While the total number of customers other than credit institutions and the number of accounts opened for them decreased by 19% and 5%, respectively, to 36,400 and 83,200, the number of accounts opened for Federal Treasury bodies increased by 23% to 33,000 due to local budget accounts and accounts opened for the effectuation of cash payments.

The number of operations conducted through the accounts of Bank of Russia customers other than credit institutions via the Bank of Russia payment system, of which 85% are Federal Treasury accounts, increased by 65% in 2006 and the value of payments — by 34%. The number of operations conducted through Federal Treasury accounts last year increased more than 2.5 times over, to 121 million, mostly due to the cash servicing of regional and municipal budgets, the financing of budget-funded organisations through personal accounts and the implementation from May 1, 2006, pursuant to the Federal Treasury's decision, of daily transfers of unused balances of federal budget funds to the Federal Treasury account. The total value of operations conducted through Federal Treasury accounts via the Bank of Russia payment system reached 35 trillion rubles.

To accelerate the transfer of funds for financing budget expenditures at all levels of the Russian budget system and taking into consideration that all non-cash payments are centralised at Federal Treasury divisions, all divisions that had accounts with the Bank of Russia institutions participating in electronic settlements as of January 1, 2006, exchanged electronic documents with Bank of Russia institutions in compliance with Bank of Russia rules and regulations.

To complete the implementation of the Federal Treasury Single Federal Budget Account Concept and improve the procedure for transferring funds to the federal budget by Federal Treasury

regional branches, on May 1, 2006, the Bank of Russia established a procedure for providing regional divisions of the Federal Treasury with federal budget funds in the course of cash servicing of the federal budget, whereby the balance of federal budget funds unused during the day should be transferred daily from the federal budget accounts opened for Federal Treasury regional divisions to a similar account opened for the Federal Treasury with the Bank of Russia.

To inform the Federal Treasury and its regional branches of the balances of budget funds and budget accounts at all levels of the Russian budget system and to improve information exchange between the Bank of Russia and the Federal Treasury for the purposes of budget and monetary policy coordination, in 2006 the Bank of Russia and the Federal Treasury entered into an information exchange agreement, which specified the content of information and set up the procedure for transferring it from the Bank of Russia to the Federal Treasury and vice versa.

To complete the transition by federal government institutions to servicing through personal accounts opened with Federal Treasury bodies, the Bank of Russia, pursuant to the 2006 Federal Budget Law, established a reporting procedure for accounts opened for federal government institutions with Bank of Russia institutions and credit institutions and their branches to record operations conducted with the funds received by federal government institutions for temporary use. The Bank of Russia submitted these reports to the Ministry of Finance and the regional divisions of the Federal Treasury on a quarterly basis.

In 2006 the Bank of Russia completed the creation of a regulatory framework for the management of the Stabilisation Fund and established legal relations with the Federal Treasury, which made it possible to place money from the Stabilisation Fund with the Bank of Russia on foreign currency accounts.

Pursuant to the Budget Code of the Russian Federation, the 2006 Federal Budget Law and the Federal Law on Budget Classification, in 2006 the Bank of Russia issued instructions and regulations assigning to its divisions the function of managing certain kinds of budget revenue.

## II.8. CASH ISSUE MANAGEMENT

Cash issue management in 2006 was aimed at further improving cash services provided to credit institutions and other Bank of Russia customers, optimising cash turnover and effectively regulating cash flows in the regions.

According to cash issue balance sheet data, there were 3,066.4 billion rubles worth of Bank of Russia notes and coins in circulation as of January 1, 2007, of which 3,049.8 billion rubles were in banknotes (6.1 billion sheets) and 16.6 billion rubles in coins (30.3 billion pieces), including coins made of precious metals. In the total amount of cash, banknotes accounted for 99.5% and coins — for 0.5%, and in the total number of banknotes and coins, banknotes accounted for 16.7% and coins — for 83.3%.

According to cash issue balance sheet data, the value of Bank of Russia notes and coins, including coins made of precious metals, in 2006 increased by 867.2 billion rubles, or 39.4%, of which the number of notes rose by 864.2 billion rubles (900 million sheets) and coins by 3.0 billion rubles (4.2 billion pieces).

Significant growth in the amount of cash (by 436.3 billion rubles, according to the cash issue balance sheet) was registered, as before, in December due to the early payment of wages and salaries, pensions and allowances, including cash payments instead of benefits paid in kind, that were due on January 1—8, 2007.

Cash that passed through the banks' cash departments in 2006 aggregated 30,953.5 billion

rubles, an increase of 6,502.7 billion rubles, or 26.6%, over 2005.

As for the note structure of cash in circulation, 1,000-ruble notes accounted for 69.5% of it as of January 1, 2007, an increase of 3.4 percentage points. At the same time, the share of 500-ruble notes went down by 6.4 percentage points and 50-ruble and 100-ruble notes — by 1.5 percentage points. The 5,000-ruble note was launched on July 1, 2006.

The Bank of Russia analysed the note structure of cash in circulation and in reserves and on the basis of this analysis it made sure that it met the needs of payment turnover, organised the production of currency and ensured the timely delivery of banknotes and coins to the regions in amounts that allowed them to meet the needs of the economy and the population fully and in time. There were no delays in cash payments by Bank of Russia institutions through the fault of the Bank of Russia in 2006.

The Bank of Russia in 2006 took steps to upgrade its regulatory documents relating to cash management in its establishments, the procedure for conducting cash operations and storing, transporting and collecting cash for credit institutions for the purpose of bringing them in conformity with Russian legislation and harmonising them with the changes taking place in various sectors of the Russian economy.

Cash services were provided at Bank of Russia institutions in compliance with Russian laws

**CHANGE IN THE AMOUNT OF CASH IN CIRCULATION IN 2006  
ACCORDING TO CASH ISSUE BALANCE SHEET  
(billion rubles)**

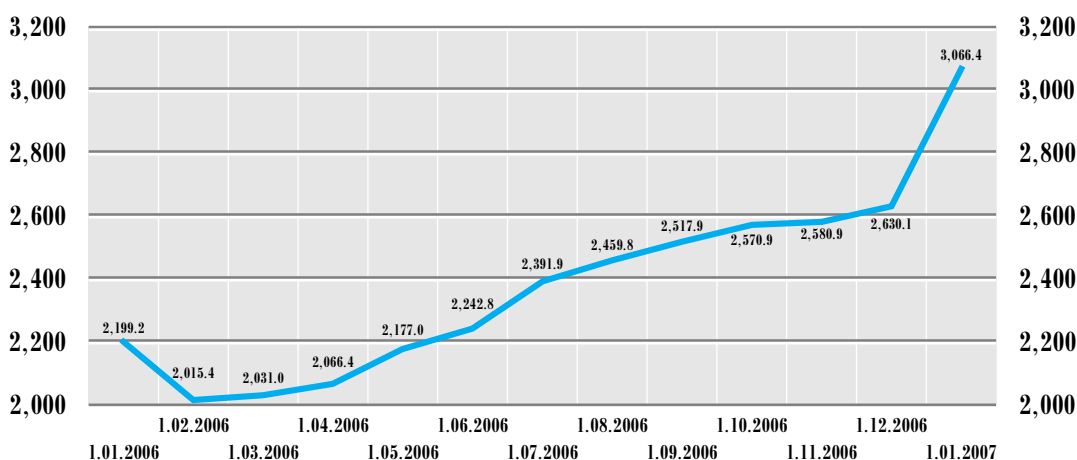


Chart 44

and Bank of Russia regulations under the agreements concluded with customers.

As of January 1, 2007, Bank of Russia institutions provided cash services to 6,170 credit institutions and their divisions and 136,509 organisations other than credit institutions. The number of customers serviced by Bank of Russia institutions continued to increase in 2006 as credit institutions opened new branches and additional and cash and credit offices, and budget-financed organisations were transferred to settlement services at Federal Treasury and municipal financial bodies.

Before the 5,000-ruble note was put in circulation in 2006, in April 2006 the Bank of Russia launched a promotion campaign, which included the production of posters and booklets showing the new note and describing its main security features, posting illustrative material on the Bank of Russia official website, making a promotion video-film for the regional and national mass media and financing the showing of the video-film by national and regional television channels. The principal goal of the campaign, namely to prepare cash operators and the general public for the issue of the new note and acquaint them with its main features, was successfully fulfilled.

Bank of Russia institutions in 2006 conducted 1.39 million expert examinations of Bank of Russia notes and coins, including 630,000 examinations of suspicious notes and coins and 750,000

examinations of the correctness of exchange of notes and coins. According to Bank of Russia regional branches, in 2006 they detected, withdrew from circulation and handed to Interior Ministry bodies 105,885 counterfeit Bank of Russia notes and coins. This represents a significant increase in the number of counterfeit notes and coins as compared to previous years (1.94 times compared to 2005 and 7 times compared to 2004).

There was a rise in the number of counterfeit 1,000-ruble notes detected in 2006. Compared to the previous year, it increased from 35,084 to 93,260. While in 2005 non-modified 1,000-ruble notes of the 1997 issue accounted for 95% of all counterfeit 1,000-ruble notes, in 2006 their share went down to 65%.

Most of the counterfeit Bank of Russia notes (83.4% as against 64.9% in 2005) were detected at credit institutions and 16.6% (as against 35.1% in 2005) were detected at Bank of Russia institutions.

As was the case in the previous two years, most of the counterfeit notes were detected in the Central Federal District (59.1%), the Volga Federal District (11.9%) and the North-Western Federal District (10.3%).

The share of counterfeit notes with a low and high level of danger went down, while the share of counterfeit Bank of Russia notes with a medium level of danger expanded significantly.

The analysis of statistical data has shown that as counterfeiters gradually focused on forging

**DETECTION OF COUNTERFEIT  
BANK OF RUSSIA NOTES AND COINS  
(pieces)**

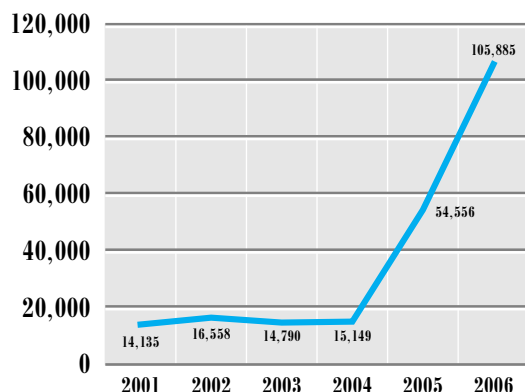


Chart 45

banknotes of the 2004 modification, the quality of counterfeit 1,000-ruble notes improved significantly. Despite a slight rise in the number of mass-produced shoddy fakes, the number of high-quality forgeries does not decrease.

Bank of Russia institutions can detect any forgery today thanks to the high efficiency of detection control instruments used in processing cash by counting and sorting machines.

To improve currency characteristics and introduce new security techniques, the Bank of Russia and the State Administration for the Issue of Banknotes (Goznak) conducted a joint study of the changes in the physical characteristics of the banknotes in circulation and investigated banknote and banknote pa-

per resistance to dirt and mechanical strength. The Bank of Russia recommended Goznak to improve the security features and consumer qualities of Bank of Russia notes and coins.

Bank of Russia institutions in 2006 examined 24,998 banknotes of foreign states (a group of foreign states) of 10 currencies received from credit institutions for expert analysis. Bank of Russia institutions and credit institutions detected and passed to the Interior Ministry bodies 11,800 counterfeit banknotes of foreign states (a group of foreign states). It should be noted that the period of relative stabilisation in the number of detected counterfeit foreign banknotes continued in 2006.

The Bank of Russia in 2006 took steps to modernise cash processing techniques and automate cash accounting operations in a standard format with the objective of enhancing the efficiency of Bank of Russia institutions.

It continued to supply its regional branches with advanced cash processing, storage and transportation technologies, replacing outdated and worn-out equipment.

As part of preparations for the issue of the 5,000-ruble note, the Bank of Russia supplied its institutions with the necessary packaging materials and readjusted all counting and sorting equipment at the Bank of Russia Central Depository's interregional depositories and Bank of Russia regional branches.

**NOTE STRUCTURE OF COUNTERFEIT BANK OF RUSSIA BANKNOTES DETECTED IN 2006  
(pieces)**

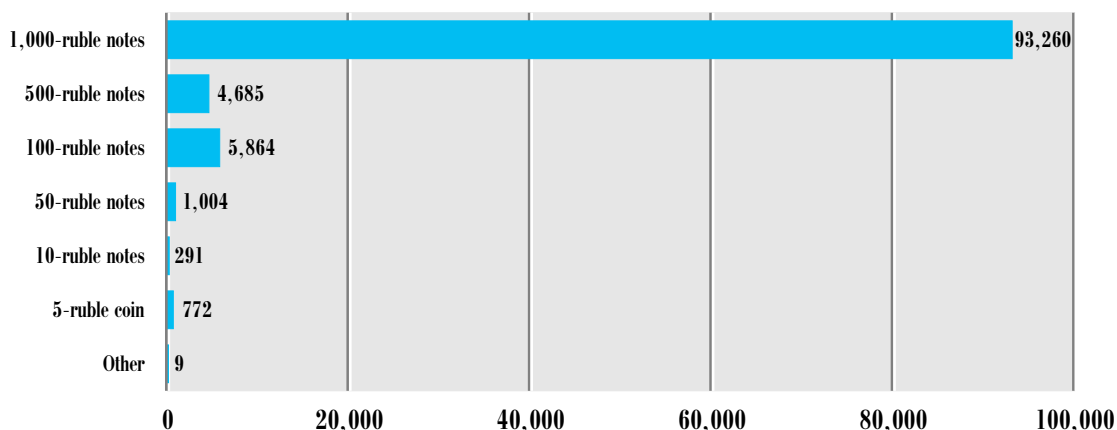
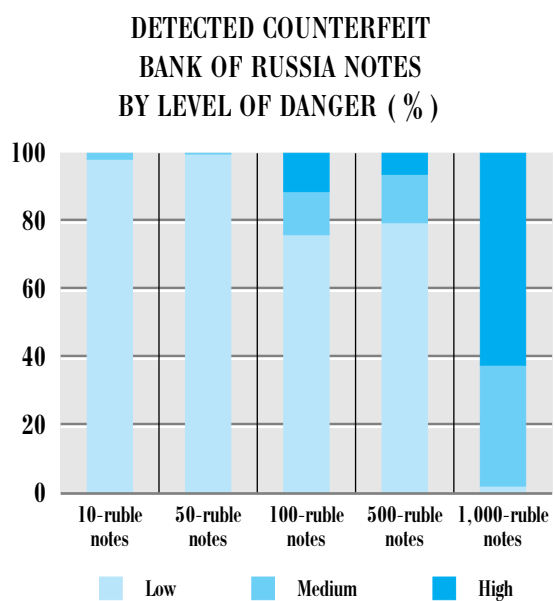
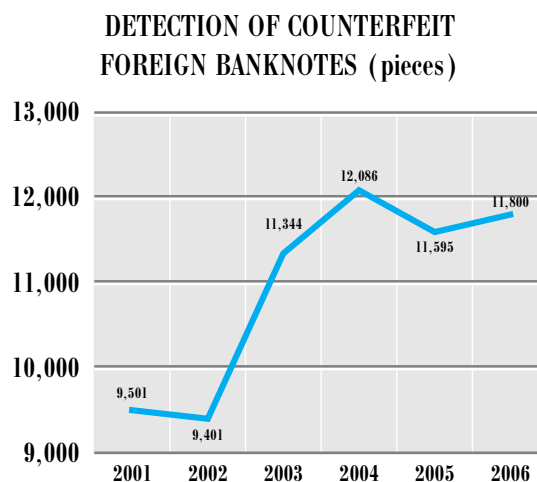


Chart 46



In 2006 the Bank of Russia issued 49 commemorative coins, of which eight were made of



*Charts 47, 48*

gold, 27 of silver, six of gold and silver and eight of non-precious metals. In all, it issued 403,000 coins made of precious metals, which required nearly 7.3 tonnes of silver and over 1.6 tonnes of gold.

## II.9. BANK OF RUSSIA ACTIVITIES AIMED AT UPGRADING ACCOUNTING AND REPORTING

### II.9.1. PRINCIPAL MEASURES TAKEN TO UPGRADE ACCOUNTING AND REPORTING

The Bank of Russia in 2006 carried out measures to upgrade accounting procedures and rules, introduce international accounting standards and improve the quality of information compiled in bank accounts and reports.

When upgrading the national accounting rules and procedures, the Bank of Russia introduces the core principles for the recognition and measurement of assets and liabilities laid down in the International Financial Reporting Standards (IFRS) by using international accounting standards and compiling financial statements on their basis.

To improve accounting at credit institutions and prepare the ground for their conversion to the accrual method of income and expense accounting, the IFRS-encouraged classification of financial assets and their assessment at fair value, the Bank of Russia drafted amendments to the accounting rules for credit institutions and received comments and resolutions on them from TACIS experts. The Bank of Russia also discussed the amendments with representatives of bank associations, large banks and audit firms. It posted them on its website along with answers and clari-

fications on all queries concerning the procedure for applying specific instructions.

The Bank of Russia drafted changes to its own accounting rules to introduce the accrual method, core principles for the recognition and measurement of assets and liabilities and international accounting standards.

In addition, in 2006 the Bank of Russia continued to revise and amend effective accounting rules in the national banking system. Specifically, it changed the accounting procedure for bank transactions to acquire the right of claim from third persons in respect to pecuniary obligations and fixed assets and some other operations.

As the Federal Treasury changed the accounting procedure for federal budget funds, the Bank of Russia amended the Chart of Budget and Extrabudgetary Funds Accounts of credit institutions and its own Chart of Accounts, including into the latter new accounts for the accrued revaluation of foreign currency options at fair value and the accrued revaluation of precious metals.

In the course of upgrading its accounting procedures, the Bank of Russia specified — the accounting procedure for Bank of Russia precious metals kept in depositories, opera-



tions to take precious metals out of a depository in Russia to enter them on metal accounts or for custody, transactions to buy and sell precious metals, operations to place precious metals on deposit and precious metals barter transactions;

- the procedure for creating and accounting for exchange rate differences in operations with foreign currency valuables;
- the accounting procedure for travelling and official entertainment expenses at Bank of Russia regional branches and other institutions and travelling and official entertainment expenses of Bank of Russia employees using bank cards.

The Bank of Russia set up an accounting procedure for the revaluation of precious metals at the Bank of Russia (realised differences from precious metals transactions and unrealised differences from the revaluation of the balances of precious metal accounts).

In the course of creating a real-time gross settlement system, the Bank of Russia drafted instructions for its divisions, setting the accounting procedure for payments effected through this system.

The Bank of Russia made preparations for conversion of the Russian banking system to electronic accounting and custody of documents.

## II.9.2. BANK OF RUSSIA ACTIVITIES AIMED AT INTRODUCING INTERNATIONAL ACCOUNTING STANDARDS AND CONVERTING FINANCIAL REPORTING PRACTICES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Bank of Russia in 2006 continued to upgrade the methodologies that served as guidance for credit institutions in compiling financial statements according to the IFRS. For this purpose, it issued Methodological Recommendations on the Procedure for Compiling and Presenting Financial Statements by Credit Institutions, which take into account IFRS requirements that came into effect on January 1, 2005.

The Bank of Russia was closely involved in the drafting of the Federal Law on Official Accounting, which puts international standards at the basis of the development of national and industrial standards.

On November 1, 2006, TACIS launched the project “Conversion to International Financial Reporting Standards (IFRS) in the Banking Sector-Introducing International Accounting Standards for Compiling Financial Statements According to IFRS in the Banking Sector”. It is to last 27 months and will end on January 31, 2009.

The project is being implemented by a consortium of companies, comprising closed joint-stock company PricewaterhouseCoopers Audit, a limited liability company FBK, and the European Savings Bank Group (ESBG). The Bank of Russia has been appointed by the Russian Government as a partner to the project, i.e. Russia’s official participant in the implementation of the project in accordance with the Russia-EU cooperation rules.

The project is a follow-up to TACIS projects implemented in 2000—2005: “Assisting the Accounting and Reporting Reform in the Banking System of the Russian Federation”, “Bank Supervision and Accounting”, “Assistance in IFRS Application by the Russian Bank Sector” and “Bank of Russia Staff Training. Stage III”.

The principal objectives of this project are:

- analysis and upgrading of effective Bank of Russia rules and regulations for the purpose of introducing international accounting principles, which should eventually result in the drafting of documents that will provide a basis for their introduction, and drawing up a list of laws that need to be revised and amended;
- raising the qualification of banking specialists in the use of international accounting standards and the compiling of IFRS statements;
- the study and use by Russian banking specialists of European expertise in IFRS implementation;
- the dissemination of information on IFRS application for the purpose of introducing international accounting standards and the compiling and use of IFRS statements.

To fulfil the tasks set in the project, the Bank of Russia analysed the international standards and the extent to which they are used in its accounting rules and regulations as applied to the Bank of Russia per se and to credit institutions. It received a report by TACIS project experts on the results of this analysis and drew up plans for making further improvements in banking sector accounting.

The Bank of Russia and central (national) banks of the member countries of the Eurasian Economic Community (EurAsEC) in 2006 exchanged experience in converting central (national) bank accounting and financial statements to IFRS.

Bank of Russia specialists continued to receive training in the theory and practice of applying International Financial Reporting Standards.

The Bank of Russia cooperated with the London-based IFRS Board in working out propos-

als on the drafts of new or revised standards. In 2006 the Board proposed changes to the IFRS: IAS 1-Presentation of Financial Statements, IAS 23-Borrowing Costs, IAS 32-Financial In-

struments: Disclosure and Presentation, and IFRS 2-Accounting for Share-Based Payments; and the Bank of Russia put forward proposals on these changes.

## II.10. INTERNATIONAL COOPERATION

### II.10.1. COOPERATION BETWEEN THE BANK OF RUSSIA AND INTERNATIONAL FINANCIAL AND ECONOMIC ORGANISATIONS

The Bank of Russia in 2006 continued to expand cooperation with international financial and economic organisations in line with the provisions of the concept of Russian presidency in the financial Group of Eight in 2006.

The Bank of Russia took part in IMF and World Bank meetings which discussed ways of unwinding global imbalances, reforming Bretton-Woods institutions, improving international assistance to low-income countries and preventing crises in emerging markets. The Bank of Russia also participated in the annual consultations held pursuant to Article IV of the IMF Articles of Agreement, and meetings with the IMF mission in Russia, which discussed the theory and international practice of inflation targeting, the construction of a forecasting system, monetary policy analysis and the building of a dynamic general economic equilibrium model.

In compliance with the IMF Special Data Dissemination Standard, the Bank of Russia sent to the IMF foreign and financial sector data. It also compiled and sent monetary and financial statistical data to the IMF publication International Financial Statistics. To switch from compiling a monetary survey to compiling a financial sector survey, the Bank of Russia began to regularly collect

data on borrowings and placements from insurance companies and non-governmental pension funds and compiled for the first time a Survey of Other Financial Organisations, which facilitated the analysis of capital flows in the Russian economy. The Bank of Russia also took part in updating data within the framework of the IMF Financial Sector Assessment Programme and the IMF Annual Report on Exchange Arrangements and Exchange Restrictions. In the course of participating in the IMF coordinated Compilation Exercise for Financial Soundness Indicators, the Bank of Russia in 2006 compiled financial soundness indicators and updated the FSI metadata report. The final version of the FSI report was sent to the IMF.

In 2006 the Bank of Russia received a World Bank mission and discussed with it the current state of and outlook for Russia's payment systems. After the meeting, the World Bank prepared a report that assessed the Russian payment system using international standards and contained recommendations on ways to improve it. Specifically, it recommended the introduction of a real-time gross settlement system and further development of payment systems and securities clearing systems in Russia.

The Bank of Russia continued participating in meetings of central bank governors at the Bank

for International Settlements, which considered inflation targeting and measurement, trends in the development of payment and settlement systems and cross-border integration of financial markets, risk management, bond market developments and the effect of economic growth in emerging markets on the international monetary system.

Bank of Russia representatives participated in the working groups of the BIS Committee on Payment and Settlement Systems and the Basel Committee on Banking Supervision. Specifically, they contributed to the new version of the Basel Committee's Core Principles for Effective Banking Supervision and Core Principles Methodology and to the General Guidance for National Payment System Development, a document containing recommendations for the planning and implementation of national payment system reforms.

In 2006 the Bank of Russia became an institutional member of the Irving Fisher Committee on Central-Bank Statistics (IFC), formed under the aegis of the BIS. In this capacity the Bank of Russia can participate in the work of the Committee, whose task is to promote cooperation between central banks in the field of statistics. Specifically, it has taken part in a conference devoted to the measurement of the consumer price index and the financial position of the household sector.

The Bank of Russia in 2006 with the support of the Russian Federal State Statistics Committee (Rosstat) expanded significantly the range of macroeconomic indicators presented to the BIS Databank (the core inflation index, value added by sector and household sector consumption). It took part in the annual meeting of the BIS Databank member countries, which discussed ways of improving information exchange between central banks, upgrading the data exchange and storage formats and harmonising the methodologies of compiling statistical indicators.

The Bank of Russia also participated in the discussion of the draft strategy of the European Bank for Reconstruction and Development for Russia for 2006—2010 and the draft strategy of the Black Sea Trade and Development Bank for Russia for 2007—2010. It took part in meetings of the Board of the International Investment Bank and the Board of the International Bank for Economic Development, which discussed plans to

reform these banks; in international consultations on Russia's entry into the Asian Development Bank and Inter-American Development Bank, and in drafting proposals for the expansion of economic cooperation with member countries of the Islamic Conference Organisation.

In 2006 for the first time Russia took up the presidency of the Group of Eight. The Bank of Russia took part in preparing and holding the Group of Eight finance ministers' meetings in Moscow and St Petersburg, which discussed world economic developments, financial aspects of energy markets, international assistance for development, the financial mechanism to prevent the bird flu pandemic and the prevention of money laundering and terrorist financing. In Washington, the Bank of Russia took part in a Group of Eight finance ministers' meeting, which also discussed issues dealing with development and ways of combating the financing of terrorism.

Within the framework of the Group of 20 the Bank of Russia participated in a meeting of the member countries' finance ministers and central bank governors and two meetings of their deputies, which, in part, adopted a new reform programme for member countries and supported the Joint Initiative on the provision of information about the oil market, a comprehensive governance reform of the IMF and the World Bank and a revision of their strategic policy and an IMF quota reform. In the course of preparations for these meetings, the Bank of Russia took part in the Group of 20 seminars on Bretton-Woods reforms and on energy and resources and participated in the work of the labour mobility and demographics study group, which prepared a report for the Group of 20 finance ministers' and central bank governors' meeting.

The Bank of Russia continued to cooperate with the Asia-Pacific Economic Cooperation Forum (APEC). Its representatives took part in a meeting of APEC deputy finance ministers and central bank governors, a meeting of APEC finance ministers, a meeting of the technical working group and the first meeting of the senior financial executives of the APEC Finance Ministers' Process, a symposium on the savings policy and capital market development and seminars on Asian bond market development, financial sector reforms and corporate bond market development.

In the course of discussions of the financial sector reform for the purpose of encouraging capital inflow, the Bank of Russia took part in drafting a report on the Russian financial sector reform, which was praised at the APEC finance ministers' meeting.

The Bank of Russia continued to cooperate with the Organisation for Economic Cooperation and Development (OECD) and its working bodies. In the course of preparation of the OECD Economic Survey of the Russian Federation, Bank of Russia top executives had two meetings with an OECD delegation. Bank of Russia representatives took part in two meetings of the OECD Investment Committee, which discussed and approved the section on foreign exchange regulation of the OECD Investment Policy Review of the Russian Federation, which had been revised to take into account the comments and criticisms made by the Bank of Russia. Bank of Russia representatives also participated in the meeting of the OECD Committee on Financial Markets, which discussed the implementation of the new Basel Capital Accord (Basel II) in the context of convergence, hedge fund activities, financial risk management, mortgage lending and growing mortgage debt in some countries.

By the end of 2006 Russia had completed bilateral entry negotiations with most of the WTO member countries, which included a discussion

of access to the Russian banking services market. The Bank of Russia managed to defend a set of restrictive measures necessary to ensure the competitiveness of Russian credit institutions and banking sector stability.

To promote mutually beneficial cooperation with the European Union, the Bank of Russia in 2006 took part in implementing the Road Map for the creation of a Russia-EU common economic space. Senior executives of the Russian Ministry of Finance and the Economic Development and Trade Ministry, the Bank of Russia and the Federal Financial Markets Service had two meetings with the heads of the EU Commission directorates to discuss the opening of a Russia-EU dialogue on financial and macroeconomic policy.

The Bank of Russia took part in a meeting of the working group on banking and finance of the Black Sea Economic Cooperation Organisation.

The Bank of Russia in 2006 participated in the 20<sup>th</sup> meeting of the Consultative Committee on Foreign Investment in Russia, organising within its framework a meeting of the committee's working group on the Russian banking sector and financial markets, which discussed banking sector reform, the banking sector development strategy, the introduction of financial derivatives in banking, ways to simplify bank merger procedures and the management of pension funds and their taxation.

## II.10.2. COOPERATION BETWEEN THE BANK OF RUSSIA AND FOREIGN COUNTRIES, AND THEIR CENTRAL ( NATIONAL ) BANKS

The Bank of Russia in 2006 continued to expand and strengthen cooperation with foreign countries and their central (national) banks.

To stimulate integration between Russia and Belarus, the Bank of Russia continued to create conditions conducive to the introduction of a single currency of the Russia-Belarus Union State. In respect to the central banks, these activities are coordinated by the Interbank Currency Council (ICC) of the Central Bank of the Russian Federation and the National Bank of the Republic of Belarus. The ICC held three meetings in 2006, which discussed economic development and the implementation of the principal objectives of the monetary policy of the two countries, harmonisation of the regulatory frameworks of the two central banks and the state and development of monetary regulation instruments.

The Russian and Belarusian central banks in 2006 thrashed out and sent to their governments for consideration a draft Agreement between the Government of the Russian Federation and the Central Bank of the Russian Federation and the Government of the Republic of Belarus and the National Bank of the Republic of Belarus on the Common Principles of Foreign Exchange Regulation and Foreign Exchange Control in the Member Countries of the Union State.

At its meeting in December 2006, the ICC passed an updated version of the Action Plan of the Central Bank of the Russian Federation and the National Bank of the Republic of Belarus to make the Russian ruble the sole legal tender in Belarus.

The Bank of Russia was closely involved in the activities of the CIS Interstate Monetary Committee and the implementation of the CIS concept of cooperation and coordination of action in the monetary sphere. It took part in developing the legal framework for the CIS integrated currency market and in December 2006 the CIS Interstate Monetary Committee approved the Bank of Rus-

sia-drafted Methodology for Analysing the State and Level of Development of Currency Markets.

The Bank of Russia worked ever more closely with the integration bodies of the Eurasian Economic Community (EurAsEC), which drafted with the immediate participation of the Bank of Russia and signed an Agreement on Cooperation in Organising an Integrated Currency Market of the EurAsEC Member States.

The Bank of Russia also took part in drafting the Agreement on the Encouragement and Mutual Protection of Investment in the EurAsEC Member States and the Agreement on the Core Principles for Regulation and Control of Capital Operations by EurAsEC Member States.

The Council of the EurAsEC Central (National) Bank Governors held three meetings in 2006.

The Bank of Russia continued to participate in the Plan to Implement the Concept of Monetary Cooperation between EurAsEC Member States and in establishing the Coordinating Council for the Manufacture of Currency, the Development of the Numismatics Market, the Issue of Commemorative and Collection Coins and the Suppression of Counterfeiting. A List of Common Performance Indicators for the Segments of the Financial Markets of the EurAsEC Member States was approved.

The Bank of Russia was actively involved in the activities within the framework of the Agreement on Cooperation in Training EurAsEC Central (National) Bank Staff, and the Programme for the Advanced Training of EurAsEC Central (National) Bank Staff for 2007 was approved.

To implement the Agreement on Information Analysis and Consultation Cooperation between the Central (National) Banks of the States Signatories to the Treaty of the Eurasian Economic Community of November 15, 2001, the Bank of Russia continued to cooperate with the EurAsEC central (national) banks in sharing information, training specialists and organising banking supervision.

The Bank of Russia held working meetings with its EurAsEC colleagues to discuss issues related to the elaboration and implementation of a monetary policy, the functioning of payment systems, banking supervision, accounting and reporting and internal control systems.

It continued to assist in the work of the Interstate Bank, founded by 10 CIS member countries, which discussed at its meetings the necessity of reforming the bank for the purpose of making it an effective mechanism of economic integration of the CIS countries.

In line with the decision of its Council to step up investment activity, the Interstate Bank continued to implement investment projects in the interests of the participating states.

Within the framework of bilateral intergovernmental commissions, the Bank of Russia in 2006 closely cooperated with the European Union, Austria, Argentina, Brazil, Venezuela, Vietnam, Germany, Egypt, India, Kazakhstan, China, Tajikistan, Uzbekistan and Chile.

Within the framework of these commissions, it participated in meetings of interbank cooperation structures (subcommittees, working groups and subgroups) with Austria, Vietnam, Germany, India, China, Kazakhstan and Uzbekistan.

Interbank consultations and presentations of Russian banks were held in Argentina and Chile. Representatives of central and other banks of Brazil, Zimbabwe, Egypt, China and Finland paid visits to the Bank of Russia.

The Bank of Russia signed memoranda of understanding on cooperation in the field of banking supervision with Germany's Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), the Financial Supervisory Authority of Norway, the Superintendency of Banks of Panama and the Central Bank of Brazil and signed agreements on cooperation in the field of banking supervision with the State Bank of Vietnam and the National Bank of the Republic of Azerbaijan.



## II.11. UPGRADING BANK OF RUSSIA SYSTEM AND ENHANCING ITS EFFICIENCY

### II.11.1. BANK OF RUSSIA ORGANISATIONAL STRUCTURE AND MEASURES TAKEN TO IMPROVE IT

The Bank of Russia in 2006 continued to optimise its structure, especially some divisions of the head office, the Central Depository and settlement network divisions.

As the functions of some divisions were expanded, the staff of the head office increased slightly (by 55 employees, or 1.8%).

Steps taken to improve the coordination of activities between various divisions of the Bank of Russia Chief Auditor's Service, extend audit procedures to Bank of Russia field institutions and information divisions, monitor foreign exchange operations, arrange cooperation between the external auditor and government controllers and transfer the functions of the Bank of Russia Central Depository's audit department to the Bank of Russia Internal Audit Department led to significant structural changes.

In 2006 the Bank of Russia Central Depository was reorganised: the Central Depository's Directorate and the Moscow interregional depository were disbanded and replaced by the Main Depository, which was assigned the functions of the disbanded structures. This made it possible to cut staff by 267 employees, or 4.6% of total employees of the Central Depository.

Bank of Russia regional branches performed their functions within the staff limits established for them. Most of the vacancies created by structural changes were filled by relocating staff. The insignificant rise (by 0.2%) in the number of employees in the regional branches was due to the creation of two joint data processing centres, the expansion of the supervision and security divisions and the construction of new facilities.

NUMBER OF BANK OF RUSSIA EMPLOYEES  
BY DIVISION AS OF JANUARY 1, 2007 (%)

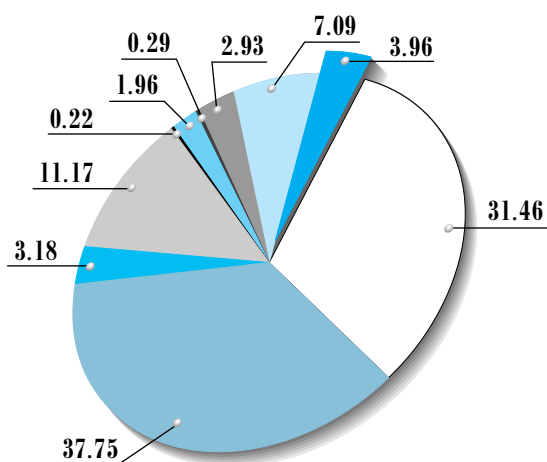


Chart 49

- Head office
- Central Depository
- Field institutions
- First Operations Department
- Computerised data storage and retrieval divisions
- Training centres
- Social amenities divisions
- Divisions providing logistic support for the head office and Bank of Russia divisions based in Moscow and the Moscow Region
- Structural divisions within regional branches (main cash settlement centre, cash settlement centres, cash centres and divisions and Operations Department of the Moscow Branch)
- Regional branches

In 2006 the Bank of Russia carried out a new series of measures to optimise its payment system. It closed eight cash settlement centres, which processed a small number of payment documents, and transferred their customers to credit institutions.

In 2006 the Bank of Russia took steps to optimise the staff of its auxiliary services. Specifically, in line with the decisions taken earlier by the Bank of Russia Board of Directors, the staff of the catering service was cut by 81, or 3.5%.

The Bank of Russia in 2006 continued the experiment with employing external organisations to clean the premises occupied by its head office and as a result, the staff of the corresponding division was cut by 80, or 6.8%.

In 2006, the Bank of Russia reduced the total number of its employees by 169, or 0.2%.

As of the beginning of 2007, structurally the Bank of Russia consisted of the head office, 59 regional branches, 19 national banks, the office of the Bank of Russia representative in the Chechen Republic, 916 cash settlement centres, five divisions and the Operations Department of the Bank of Russia Moscow Branch, the First Operations Department, the Interregional Security Centre, field institutions, the Main Depository and five interregional depositories, four computerised data storage and retrieval divisions and auxiliary services.

In 2006 the Bank of Russia had an average staffing level of 75,416 employees. This represents a decrease of 286 employees from 2005 and reflects the consistent effort by the Bank of Russia to contain staff growth.

## II.11.2. COORDINATING ACTIVITIES OF BANK OF RUSSIA REGIONAL BRANCHES

The Bank of Russia in 2006 coordinated the activities of its regional branches in the following areas: implementing the single state monetary policy; ensuring banking sector stability; improving the supervision of credit institutions; ensuring the effective and uninterrupted functioning of the payment system; verifying compliance by credit institutions with the AML/FT laws; and ensuring the observance of foreign exchange control legislation.

The Bank of Russia coordinated the activities of its regional branches by issuing pertinent rules, regulations, recommendations and methodologies, sending head office specialists to inspect regional branches and to assist in carrying out the tasks assigned to them and holding seminars and meetings on current problems related to Bank of Russia activities.

The Bank of Russia in 2006 continued to upgrade the system designed for the analysis of the

performance of Bank of Russia regional branches, known by its Russian abbreviation as the ADTU system. Specifically, it worked on functional and organisational analysis methodologies, the creation of a regional branch operation model and the practical application of the results of information analysis in decisions taken to enhance the efficiency of Bank of Russia regional branches. To improve the methods of analysing the work of its regional branches, the Bank of Russia continued building a database for the ADTU system. In 2006 the ADTU project reached the regional branch stage.

To improve information exchange with the Bank of Russia divisions involved in the ADTU project and to keep the Bank of Russia personnel informed on the progress in the implementation of the project and the procedure for using the ADTU system, the Bank of Russia in 2006 created a special site on its corporate Intranet portal.

### II.11.3. STAFFING AND PERSONNEL TRAINING

The top priorities for the Bank of Russia in human resource management in 2006 were improving the employee incentive system and enhancing the efficiency of personnel by optimising the structure of the Bank of Russia system and making the most of the managerial competence and personal and professional potential of executives and specialists.

As of January 1, 2007, the total number of Bank of Russia employees decreased by 0.4% and the staffing level in respect to executives and specialists stood at 98.0%. A majority of Bank of Russia employees (62.4%) were in the 30—50 age bracket and 62.9% had worked within the Bank of Russia system for 3 to 15 years. The trend of the past few years towards a reduction in the share of employees under 30 continues amid growth in the number of executives and specialists with higher professional degrees (1,133 Bank of Russia employees graduated from institutions of higher learning in 2006).

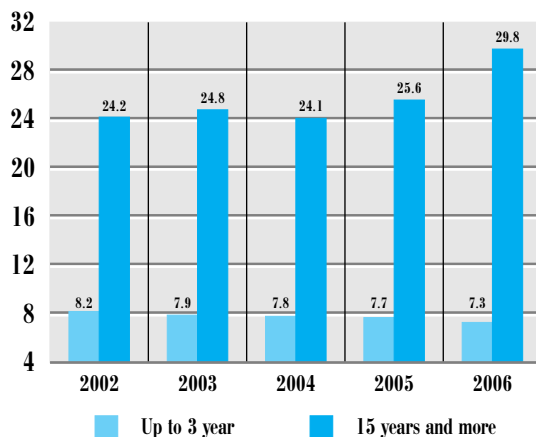
In 2006, as in the previous years, Bank of Russia regional branches continued to select and train a reserve of candidates for managerial positions in various divisions and more than 70% of executive appointments were made from this reserve.

The Bank of Russia in 2006 continued to provide training to its head office staff and employees of other divisions in monetary policy implementation, international financial reporting standards, banking supervision, foreign exchange control, the prevention of money laundering and terrorist financing, data processing and information technology, information security and managerial competence.

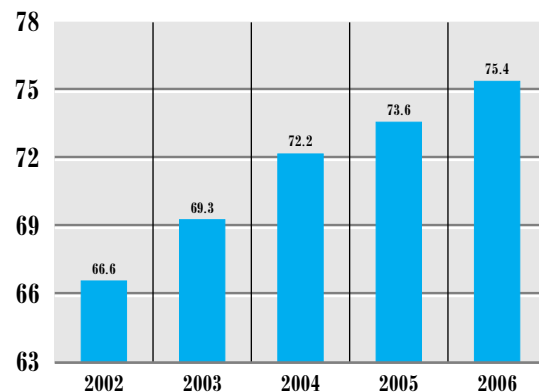
In all, about 2,000 seminars and training courses involving about 29,000 Bank of Russia employees were conducted within the Bank of Russia system in 2006. Of these, 14,000 employees received training under agreements between the Bank of Russia and the Bank of Russia banking schools and colleges and other institutions in line with the Bank of Russia Personnel Training Programmes.

The Bank of Russia in 2006 continued to provide retraining to its supervisors in collaboration with the Academy of National Economy, the Higher School of Economics and the Russian Government's Financial Academy. A total of 174 specialists received training under these programmes and top graduates were given the opportunity to continue their education and receive an MBA degree.

**BANK OF RUSSIA PERSONNEL STRUCTURE BY DURATION OF EMPLOYMENT**  
(as % of total executives and specialists)



**RATIO OF EXECUTIVES AND SPECIALISTS WITH HIGHER PROFESSIONAL DEGREES**  
(as % of total executives and specialists)



Charts 50, 51

The Bank of Russia continued to provide management training to heads of its regional branches and candidates to these positions. In collaboration with the Academy of National Economy, the Bank of Russia gave 57 heads of its regional branches and deputy heads awaiting promotion the opportunity to receive advanced training under the Top Bank Manager Programme (using some elements of online training) and Project Management Programme. The Russian Government’s Civil Service Academy has completed a course of training it launched several years ago for heads of HR departments of Bank of Russia regional branches.

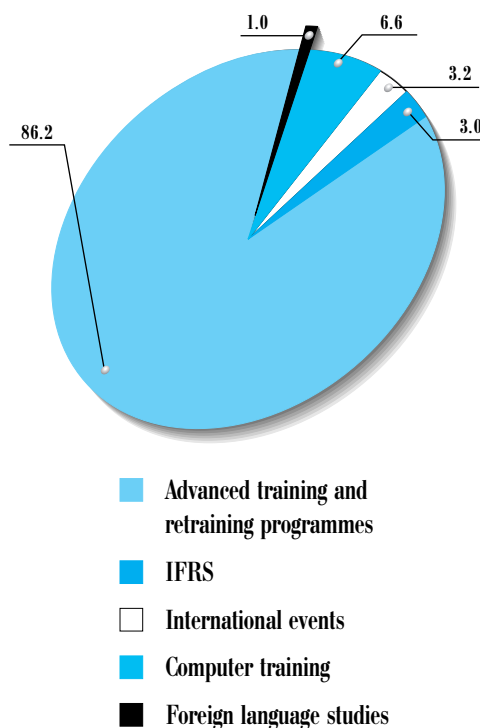
The Bank of Russia continued to train its staff in the International Financial Reporting Standards in collaboration with the audit company PricewaterhouseCoopers Audit. In 2006 the Bank of Russia organised 42 courses under IFRS training programmes, which 851 employees attended on a full-time basis (74% of them were employees of Bank of Russia regional branches). Since 2005 the Bank of Russia has made special emphasis on programmes designed to provide in-depth training in the IFRS and its practical application.

Bank of Russia regional branches continue to take considerable interest in conducted by training centres, banking schools and regional branches management and socio-psychological training using interactive instruction techniques, which include special training sessions for heads of regional branches, curators, inspectors and auditors. In 2006 the Bank of Russia conducted on a centralised basis 71 courses of training in personnel management, which involved 1,067 trainees. The principal purposes of the courses were to develop management and communication skills and positive business relations to facilitate the development of a single management culture and personal qualities conducive to professional efficiency. The number of Bank of Russia employees that underwent training in 2006 increased 2.8 times compared to 2005.

The Bank of Russia made wide use of its international ties for the advanced training of its specialists.

This particularly applies to relations between the Bank of Russia and the Bundesbank, the Bank of France, the Bank of England, the Lux-

**BANK OF RUSSIA PERSONNEL TRAINING BY SUBJECT IN 2006**  
(as % of total number of trainees)



*Chart 52*

embourg-based Financial Technology Transfer Agency, the Financial Services Volunteer Corps and the International Monetary Fund, whose experts were involved in more than 80% of all training programmes implemented by the Bank of Russia under international cooperation agreements.

The Bank of Russia in 2006 organised 167 international seminars and training courses, which involved over 900 Bank of Russia employees, of whom 29% studied abroad.

In 2006 the Bank of Russia began to implement the EU/TACIS project for 2006—2009 to convert the Russian banking sector to IFRS. Within its framework up to 500 accountants and supervisors of the Bank of Russia head office and regional branches will receive training in international financial reporting standards.

In line with the Programme of Advanced Training of EurAsEC Central (National) Bank Personnel, more than 300 representatives of EurAsEC and CIS banks attended 16 seminars and 19 courses of training at the Bank of Russia.

## II.11.4. BANK OF RUSSIA INFORMATION AND TELECOMMUNICATIONS SYSTEM DEVELOPMENT

The Bank of Russia in 2006 continued to upgrade its information and telecommunications system (ITS), which provides technical support for the implementation of the functions assigned to the Bank of Russia by law.

To ensure consistency in its single technological policy, the Bank of Russia elaborated its ITS Development Concept for the period until 2013.

In compliance with its Order No. OD-175, dated March 31, 2005, 'On the Creation of the Central Catalogue of Credit Histories' the Bank of Russia developed software for the automated data processing system of the Central Catalogue of Credit Histories.

Bank of Russia divisions transfer tax reports electronically by telecommunications channels.

To accelerate and improve the quality of managerial decisions, the Bank of Russia began building a single information system for banking sector regulation and development and blueprinted the security subsystem for it.

It put in operation a number of functional task systems as part of the project to develop an automated cash issue management system.

The Bank of Russia continued to standardise the system and application software it used.

To ensure the operation and development of accounting and information analysis systems, the

Bank of Russia took steps to develop, modernise and expand local computer networks and structured cable systems.

To enhance the efficiency of the monitoring and management of ITS resources and services, the Bank of Russia upgraded its integrated telecommunications and information resource management system.

It began converting its information technology divisions to international principles of information and telecommunications system management (ITSM).

To make its ITS more reliable and stable, the Bank of Russia continued to upgrade the Single Banking Telecommunications Network, switching primary communications networks from analogue to digital channels, modernising the Bank of Russia satellite communications control system and upgrading the Single Mobile Radio Communications System.

To create conditions conducive to the consolidation of Bank of Russia information and computer resources and the integration of information systems and databases, the Bank of Russia continued to upgrade its corporate Intranet portal.

In 2006 it continued to improve its ITS operation.

## II.11.5. BANK OF RUSSIA ACTIVITIES AIMED AT UPGRADING BANKING LEGISLATION. MANAGING SUITS AND CLAIMS AT BANK OF RUSSIA INSTITUTIONS

The prime objective of the Bank of Russia efforts to upgrade banking legislation in 2006 was to implement the Russian Banking Sector Development Strategy until 2008.

Federal Law No. 60-FZ, dated May 3, 2006, 'On Amending the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)' set from January 1, 2007, the minimum equity capital of operating banks at the ruble equivalent of 5 million euros. It stipulated that the banks that as of January 1, 2007, had an equity capital of less than the ruble equivalent of 5 million euros could remain in operation if their capital did not fall below the level achieved by the time this requirement was established. The Law also defined 'general licence' and established additional grounds for compulsory licence revocation.

Federal Law No. 246-FZ, dated December 29, 2006, 'On Amending Article 11 and Article 18 of the Federal Law on Banks and Banking Activities and Article 61 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)' allowed non-residents to acquire shares (stakes) in credit institutions under the same procedure as residents.

The amendments made by this law lifted the requirement for a credit institution to obtain preliminary Bank of Russia permission to increase its authorised capital by raising non-resident funds and sell or otherwise alienate its shares (stakes) in favour of non-residents; and for resident members of a credit institution to alienate their shares (stakes) in favour of non-residents. The law also stipulated that the Bank of Russia should be notified about the acquiring of more than 1% of shares (stakes) in a credit institution, not 5% as was the case before.

Federal Law No. 247-FZ, dated December 29, 2006, 'On Amending Article 50.36 and Article 50.39 of the Federal Law on the Insolvency

(Bankruptcy) of Credit Institutions and Article 72 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)' was passed to introduce the internationally accepted practice of creating equity capital by taking subordinated loans, hybrid additional capital and core capital innovation instruments.

The new anti-monopoly law passed in 2006 brought together standards regulating relations on the commodity and financial markets. Federal Law No. 135-FZ, dated July 26, 2006, 'On the Protection of Competition' changed the approach to key notions of competition legislation such as 'commodity', 'commodity market' and 'group of persons' and expanded the range of terms used in the law on the protection of competition.

In addition to the federal laws elaborated and adopted in line with the Russian Banking Sector Development Strategy until 2008, Russian legislators in 2006 passed some other federal laws of importance for the banking system.

To safeguard the interests of depositors and enhance the effectiveness of the deposit insurance system, Russian legislators passed Federal Law No. 150-FZ, dated July 27, 2006, 'On Amending Article 11 of the Federal Law on Insurance of Household Deposits in Russian Banks and Article 6 of the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System', which increased the maximum insurance compensation payment on household bank deposits from 100,000 rubles to 190,000 rubles. Depositors whose deposits are less than 100,000 rubles are entitled to 100% compensation, while depositors whose deposits exceed 100,000 rubles are entitled to 100,000 rubles plus 90% of the sum total of the deposits exceeding 100,000 rubles but no more than 190,000 rubles in all.

Amendments were also made to the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control. The first amendment,

made by Federal Law No. 131-FZ, dated July 26, 2006, 'On Amending the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control' withdrew as of July 1, 2006, the power of foreign exchange regulators to establish reserve requirements and cancelled the federal government's right to require opening a special account.

Another amendment was made by Federal Law No. 267-FZ, dated December 30, 2006, 'On Amending the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control' for the purpose of resolving problems with the effectuation of settlements in international passenger flights by Russian airlines and other resident transportation companies and in connection with the expiry on January 1, 2007, of the term of permits for foreign exchange operations, in which the expiry term was not indicated.

Federal Law No. 140-FZ, dated July 27, 2006, 'On Amending the Federal Law on Banks and Banking Activities and Article 37 of the Federal Law on the Protection of Consumers' Rights' stipulated that commercial organisations other than credit institutions may conduct without a Bank of Russia licence banking operations such as a money transfer implemented at the instruction of an individual without opening a bank account, i.e., take cash from an individual for its subsequent transfer by credit institutions without opening an account for the organisation that provides this service. Commercial organisations can conduct this banking operation if they comply with the conditions set out in Article 13.1 of the Federal Law on Banks and Banking Activities.

The provisions of this federal law correspond to one of the provisions of Federal Law No. 147-FZ, dated July 27, 2006, 'On Amending Article 5 and Article 7 of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism', which lists organisations that conduct operations with cash and other property, including organisations other than credit institutions that take cash from individuals in cases stipulated by the Federal Law on Banks and Banking Activities.

At the same time, the key element of this law is the closed list of payments and operations that do not require the identification of an individual

customer or beneficiary. Important for the banking system, these changes resolved the problems involved in the legal requirement for the identification of customers conducting all kinds of operations.

The following laws changed the functions performed by the Bank of Russia.

Federal Law No. 85-FZ, dated June 12, 2006, 'On Amending Article 4 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)' assigned to the Bank of Russia the new function of approving the graphic symbol of the ruble.

Federal Law No. 137-FZ, dated July 27, 2006, 'On Amending Part 1 and Part 2 of the Tax Code of the Russian Federation and Certain Federal Laws in Connection with the Implementation of Measures to Improve Tax Management' empowered the Bank of Russia to approve certain rules and regulations issued by the Ministry of Finance and the Federal Tax Service and issue rules and regulations by agreement with the Federal Tax Service.

To provide a legal basis for the use of special temporary economic measures in the event of an international emergency, Russian legislators passed Federal Law No. 281-FZ, dated December 30, 2006, 'On Special Economic Measures'.

The Bank of Russia in 2006 was actively involved in drafting federal laws and concepts of federal laws, especially those envisaged by the Russian Banking Sector Development Strategy until 2008.

The regulatory activities of the Bank of Russia resulted in the issue in the period from January 1 to December 31, 2006, of 157 regulatory documents: three instructions, 20 regulations and 134 ordinances. Of these regulatory documents, 52 (three instructions, five regulations and 44 ordinances) were registered by the Ministry of Justice of the Russian Federation.

In addition, the Bank of Russia in 2006 sent 176 letters to its regional branches.

## MANAGING SUITS AND CLAIMS AT BANK OF RUSSIA INSTITUTIONS

A total of 747 property claims to the amount of 222.02 million rubles were filed against Bank of Russia regional branches in 2006. Of these,



only 82 claims to the amount of 1.28 million rubles have been satisfied.

These figures show that most of the claims and suits against the Bank of Russia were unjustified and could not be satisfied.

Common law courts considered 60 claims made against the Bank of Russia in respect to labour relations in 2006.

As regards disputes connected with appeals issued by credit institutions against Bank of Rus-

sia sanctions taken against them, seven out of the 41 claims of this kind have been satisfied.

At the same time, the Bank of Russia filed suits and claims against credit institutions in the course of supervising them. It made 688 claims to the amount of 28.30 million rubles and filed 74 suits to the amount of 75,030 rubles against commercial banks, of which 688 claims and suits to the amount of 29.94 million rubles had been satisfied by the end of 2006.

## II.11.6. BANK OF RUSSIA INTERNAL AUDIT

The Bank of Russia Chief Auditor's Service conducted its activities in line with the plans approved in accordance with the established procedure. In 2006 it conducted 2,116 examinations and audits in the various Bank of Russia divisions and the head office, including 476 comprehensive audits and 1,640 thematic examinations.

Special attention was paid to compliance by Bank of Russia divisions with the requirements of federal legislation and Bank of Russia rules and regulations, risk detection and the drafting of proposals on ways to improve the internal control system.

To improve the performance of the Bank of Russia Chief Auditor's Service, the Bank of Russia set up procedures to control Bank of Russia international reserve management operations. It developed and enforced as of November 2006 the daily control of Bank of Russia operations with foreign currency assets and operations on the domestic forex market. The Bank of Russia also monitored compliance with the requirements set by the Core Principles for the Management of the Bank of Russia Foreign Exchange Reserves, the Investment Directives for the Bank of Russia Transaction and Investment Foreign Exchange Reserve Portfolios and other Bank of Russia regulations. In 2006 the Bank of Russia Chief Auditor's Service verified the correctness of Bank of Russia repo operations.

The Bank of Russia continued to improve the regulatory and methodological basis for internal audit and in 2006 it approved the recommended methodologies for verifying administrative expenditures of regional branches, auditing Bank of Russia foreign exchange reserve operations and regulating relations between individual divisions for the purposes of internal audit.

Having analysed audit and examination results, the Bank of Russia compiled and sent to its regional branches surveys of typical violations (faults) to help them improve the performance of their internal control systems.

The results of the audits and examinations conducted by the Bank of Russia Chief Auditor's Service indicate that, by and large, the head office and other divisions of the Bank of Russia complied with the Bank of Russia rules and regulations in 2006, but some Bank of Russia institutions were found guilty of violations in spending funds on their maintenance, in taxation, in cash issue and in Bank of Russia property management, although these shortcomings were of no material significance for the Bank of Russia.

Corrective measures were taken against the executives responsible for the violations and shortcomings discovered by auditors depending on the nature of the transgressions.

The Bank of Russia took great store by the raising of professional skills and expertise of the staff of the Bank of Russia Chief Auditor's Service. In 2006 the Bank of Russia organised various training courses, which involved 427 employees of the Service, and several employees took a course of study at foreign central banks.

The Bank of Russia continued to exchange experience and expertise with foreign colleagues in the field of central bank internal audit. CIS central (national) bank internal audit service chiefs held their annual meeting within the framework of the 15<sup>th</sup> International Banking Congress, held in St Petersburg in June 2006.

Pursuant to Article 13 and Article 95 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia Chief Auditor delivered a report to the National Banking Board in December 2006.

## II.11.7. BANK OF RUSSIA STAKEHOLDINGS IN THE CAPITAL OF RUSSIAN AND FOREIGN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

Pursuant to Article 8 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia in 2006 participated in the capital of the Savings Bank (Sberbank), an open joint-stock company, and the capital of resident organisations that provide support for the activities of the Bank of Russia, such as the Moscow Interbank Currency Exchange (MICEX), a closed joint-stock company; the St Petersburg Currency Exchange (SPCEX), a closed joint-stock company; and the National Depository Centre (NDC), a non-profit partnership. The Bank of Russia managed and controlled these resident organisations through its representatives in their management and supervisory bodies.

Participation in these bodies allows the Bank of Russia to make decisions that facilitate the implementation of the government economic strategy and the continuous improvement of the financial market infrastructure.

The Bank of Russia stake in Sberbank remained unchanged in 2006 at 60.57%. In line with the decision by the Sberbank annual shareholders' meeting, Sberbank increased its authorised capital due to the revaluation of property from 1 billion rubles to 60 billion rubles by raising the nominal value of its ordinary shares from 50 rubles to 3,000 rubles and of preference shares — from 1 ruble to 60 rubles.

In 2006 the Sberbank Supervisory Board considered issues related to Sberbank's lending policy, the activities of the internal control service and the list of the 2006 business plan indicative figures. To tighten control over transactions that involve credit risk, the Sberbank Board on the initiative of the Bank of Russia began in May 2006 to inform Supervisory Board members on a monthly basis of credit risk transactions that account for 5% of Sberbank's equity capital and more and about the acquisition of third person shares (stakes), if as a result of such acquisition

these third persons become subsidiaries of Sberbank.

To improve the servicing of Sberbank's corporate clients that have business with the Republic of Kazakhstan, the Sberbank Supervisory Board in 2006 approved the decision to acquire Kazakhstan-based Texakabank.

To ensure a capital adequacy level matching the pace of expansion of active operations, the Sberbank Supervisory Board in December 2006 took the decision to increase Sberbank's authorised capital by 10.5 billion rubles by placing an additional issue of 3.5 million ordinary shares. The Bank of Russia registered the share issue and the securities prospectus on December 27, 2006, and the shares were placed at the beginning of 2007.

The dividends paid to the Bank of Russia in 2006 from the profit made by Sberbank in 2005 totalled 2.9 billion rubles, an increase of 53.5% on the dividends received for 2004. According to preliminary data, Sberbank's profit for 2006 increased by 40% year on year.

Participation in the capital of MICEX, SPCEX and the NDC in 2006 enabled the Bank of Russia to control operations on the domestic forex market and federal government debt market and use the exchange infrastructure to conduct operations in the interest of the monetary policy.

In line with the decision of its general shareholders' meeting, MICEX in 2006 increased its authorised capital by changing the nominal value of its ordinary shares from 7,000 rubles to 10,000 rubles due to the capitalisation of the own assets of the exchange. The Bank of Russia stake in the capital of MICEX remained unchanged at 28.76%.

The MICEX Board of Directors in 2006 with participation of Bank of Russia representatives approved a new version of its Charter and trade rules for different financial instruments and considered ways of improving the management

of risk involved in currency exchange settlements.

The approval by the MICEX Board of the rules to regulate Bank of Russia contracts with credit institutions via the MICEX Electronic Trading System in deposit and lending operations made it possible to increase the number of Bank of Russia deposit trade sessions via the MICEX Electronic Trading System for the purpose of more flexible liquidity management.

In 2006 the Bank of Russia received 19.8 million rubles worth of dividends from MICEX profit for 2005. MICEX net profit in 2006 increased by 150% year on year and totalled 1.8 billion rubles.

The Bank of Russia stake in the capital of SPCEX in 2006 remained unchanged from 2005 at 8.9%. The Bank of Russia participates in the capital of SPCEX because St Petersburg is Russia's second largest financial centre and its currency exchange may be used as an alternative trading floor.

The SPCEX Board and its commissions in 2006 focused on practical issues such as the expansion of exchange operations and the improvement of their organisation, methods and technical infrastructure. In collaboration with Bank of Russia representatives it made a number of changes to SPCEX internal documents aimed at improving the performance of professional securities market participants when conducting broker and dealer transactions and at reducing risks.

The entire net profit of 57.9 million rubles received by SPCEX for 2005 by decision of the shareholders' meeting went to the SPCEX funds in 2006. SPCEX net profit for 2006 increased by 40% year on year and totalled 79.9 million rubles.

The Bank of Russia stake in the authorised capital of the NDC was 49% in 2006. The activities of Bank of Russia representatives in the management of the NDC in 2006 were aimed at improving risk control and allowed the NDC to pursue a flexible price policy that minimised the costs of the government securities market participants,

including the Bank of Russia, and this facilitated the expansion of this segment of the financial market.

A sensible price policy, high-quality services and a favourable market situation allowed the NDC to demonstrate good performance indicators in 2006. The total value of securities in custody accounts opened in the NDC increased by 85.8% in 2006. The number of resident corporate custody accounts opened in the NDC rose by 8.7% and the number of securities in NDC custody accounts increased 5.4 times over. This growth is also due to the 18.6% increase in the number of issuers registered with the NDC.

The NDC's net profit in 2006 increased by 70% year on year, to 331.4 million rubles. Under the NDC Charter, the entire after taxation profit goes to finance NDC development projects, including the settlement and depository system development funds and social development and bonus funds.

Pursuant to Article 9 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia in 2006 also participated in the capital and activities of international organisations such as the Basel-based Bank for International Settlements (0.59% of authorised capital), the Moscow-based Interstate Bank (50.0% of authorised capital) and the Belgium-based Society for Worldwide Interbank Financial Telecommunications, or SWIFT (0.006% of authorised capital).

In 2006 the Bank of Russia stake in the authorised capital of SWIFT increased from one share to seven shares, or from 0.001% to 0.006%, as the society's rules require clients to participate in its capital. These rules determine the client's share on the basis of the number and structure of network services provided by SWIFT and, consequently, the client's share in the society's income. The client's share is reviewed at least once in three years and additional shares are to be acquired at the price set by SWIFT.

**BANK OF RUSSIA ANNUAL  
FINANCIAL STATEMENTS  
AS OF JANUARY 1, 2007**



## INTRODUCTION

The annual financial statements reflect the operations conducted by the Bank of Russia to fulfil its principal objectives and functions stipulated by Federal Law No. 86-FZ, dated July 10, 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia)’.

The annual financial statements presented below (hereinafter referred to as the financial statements) as of January 1, 2007, comprise:

- The Annual Balance Sheet;
- The Profit and Loss Account;
- The Statement on Profit and its Allocation;
- The Statement on Bank of Russia Reserves and Funds;
- The Statement on Bank of Russia Management of Securities and Stakeholdings Constituting Bank of Russia Property;
- The Statement on Bank of Russia Personnel Costs;
- The Statement on Capital Investment Budget Performance.

The principal objectives of the Bank of Russia are:

- to protect the ruble and ensure its stability;
- to upgrade and strengthen the Russian banking system;

- to ensure the effective and uninterrupted functioning of the payment system.

The Bank of Russia in 2006 maintained the managed floating exchange rate regime and its exchange rate policy was aimed at preventing the ruble from appreciating too much and fluctuating sharply without fundamental economic reasons and containing inflation.

In line with the Russian Banking Sector Development Strategy until 2008, passed on April 5, 2005, the Bank of Russia continued to upgrade the legal framework of banking regulation with the objective of creating a developed banking services market, making it more transparent and building up trust in credit institutions. It continued to pay special attention to the capitalisation of credit institutions, the upgrading of banking risk assessment methodologies and the reduction of the risk of loss from active bank operations.

The Bank of Russia continued consistently to upgrade the national payment system. To implement the Russian Banking Sector Development Strategy until 2008, which envisages the establishment by the Bank of Russia of a real-time gross settlement system for large-sum and urgent payments, it carried out measures necessary for the accomplishment of this task.

## ANNUAL BALANCE SHEET AS OF JANUARY 1, 2007

*(million rubles)*

	Note	2006	2005
<b>ASSETS</b>			
<b>1. Precious metals</b>	3	<b>64,303</b>	<b>59,338</b>
<b>2. Funds placed with non-residents and securities issued by non-residents</b>	4	<b>7,744,466</b>	<b>5,300,576</b>
<b>3. Loans and deposits</b>	5	<b>7,514</b>	<b>12,986</b>
<b>4. Securities, of which:</b>	6	<b>279,789</b>	<b>287,044</b>
4.1. Russian government securities		272,614	280,819
<b>5. Other assets, of which:</b>	7	<b>107,795</b>	<b>91,015</b>
5.1. Fixed assets		60,659	59,421
5.2. Profit tax advance payments		63	52
<b>Total assets</b>		<b>8,203,867</b>	<b>5,750,959</b>
<b>LIABILITIES</b>			
<b>1. Cash in circulation</b>	8	<b>3,066,355</b>	<b>2,199,180</b>
<b>2. Funds in accounts with the Bank of Russia, of which:</b>	9	<b>4,787,552</b>	<b>3,184,259</b>
2.1. Russian government funds		3,317,090	1,905,206
2.2. Funds of resident credit institutions		959,115	684,148
<b>3. Float</b>	10	<b>31,014</b>	<b>19,293</b>
<b>4. Other liabilities</b>	11	<b>195,593</b>	<b>96,857</b>
<b>5. Capital, of which:</b>		<b>84,156</b>	<b>169,430</b>
5.1. Authorised capital		3,000	3,000
5.2. Reserves and funds		81,156	169,776
5.3. Losses incurred in 1998		—	(3,346)
<b>6. Reporting year profit</b>	12	<b>39,197</b>	<b>81,940</b>
<b>Total liabilities</b>		<b>8,203,867</b>	<b>5,750,959</b>

Bank of Russia Chairman

S.M. Ignatiev

Bank of Russia Chief Accountant

L.I. Gudenko

May 14, 2007

## PROFIT AND LOSS ACCOUNT

		<i>(million rubles)</i>	
	Note	2006	2005
<b>INCOME</b>			
Interest income	13	200,643	105,600
Income from securities trading	14	57,722	51,032
Income from operations with precious metals	15	6,314	3,420
Income from stakeholdings in credit and other institutions		3,005	2,328
Net income from recovery of provisions	16	1,357	21,358
Other income	17	4,137	3,069
<b>Total income</b>		<b>273,178</b>	<b>186,807</b>
<b>EXPENSES</b>			
Interest expenses	18	39,090	8,683
Expenses on securities trading	19	16,724	18,471
Cash turnover management expenses	20	9,273	8,506
Expenses on operations with precious metals		104	164
Expenses on negative revaluation of foreign currency	21	88,624	—
Other operating expenses	22	42,732	35,418
Personnel costs	23	37,434	33,625
<b>Total expenses</b>		<b>233,981</b>	<b>104,867</b>
<b>Financial result: profit</b>		<b>39,197</b>	<b>81,940</b>



## CAPITAL, FUNDS AND PROFIT ALLOCATION

*(million rubles)*

	Authorised capital	Reserves	Accrued exchange rate differences	Social fund	Growth in property value through revaluation	Other funds	Total capital	Profit for 2006
<b>Balance as of January 1, 2006, after taxation and allocation of profit for 2006</b>	<b>3,000</b>	<b>69,376</b>	<b>125,790</b>	<b>4,141</b>	<b>7,965</b>	<b>101</b>	<b>210,373</b>	—
Full-year profit								39,197
Transferred to funds				3		2	5	
Used from funds			(125,790)	(424)		(8)	(126,222)	—
<b>Balance as of January 1, 2007, before taxation and allocation of profit</b>	<b>3,000</b>	<b>69,376</b>	—	<b>3,720</b>	<b>7,965</b>	<b>95</b>	<b>84,156</b>	<b>39,197</b>
Taxes and duties paid in advance in 2006 from Bank of Russia profit								(63)
Taxes and duties paid in 2007 as a result of full settlement from Bank of Russia profit for 2006								(7)
Profit for 2006 after tax and duty payments effected under the Tax Code of the Russian Federation								39,127
— to be transferred to the federal budget								(19,564)
— to be allocated to funds		18,780		783			19,563	(19,563)
<b>Total after taxation and allocation of profit for 2006 in 2007</b>	<b>3,000</b>	<b>88,156</b>	—	<b>4,503</b>	<b>7,965</b>	<b>95</b>	<b>103,719</b>	—

Taxes and duties paid after the final settlement for the reporting tax period from 2006 profit, the transfer to the federal budget and allocation of actual 2006 profit, left after the payment of taxes and duties under the Tax Code of the Russian Federation and transfers to the federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) are shown in Bank of Russia accounting records for 2007 (Note 25, Statement on Profit and its Allocation).



## NOTES TO ANNUAL FINANCIAL STATEMENTS AS OF JANUARY 1, 2007

### 1. ACCOUNTING AND FINANCIAL REPORTING PRINCIPLES

The Bank of Russia accounting and financial reporting practices conform to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Federal Law on Accounting, Bank of Russia Regulation No. 66-P, dated January 1, 2006, 'On Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter referred to as Regulation No. 66-P) and other Bank of Russia regulations issued in pursuance of these federal laws.

#### *(a) Accounting principles*

Accounting is based on the principle of accounting for balance sheet items at their initial cost at the time of the acquisition of assets or the occurrence of liabilities. The principles of revaluation of individual items of assets and liabilities are described below.

#### *(b) Financial reporting framework*

These financial statements have been compiled on the basis of balance sheet data provided by the Bank of Russia, its regional branches and other divisions incorporated in the Bank of Russia as a legal entity.

These financial statements have been compiled without including the financial statements of credit and other institutions within and outside Russia, in which the Bank of Russia has a stake and which it controls. Russian legislation does not require the Bank of Russia to compile a consolidated financial statement of its group or include in it the financial statements of credit and other institutions in which the Bank of Russia has a stake or which it controls.

These financial statements have been compiled in the Russian currency, the ruble, in millions of rubles, abbreviated as Rbs m.

In connection with the coming into force on January 1, 2006, of the new version of Regulation No. 66-P and the decision taken by the Bank of Russia Board of Directors on December 22, 2006, to change the balance sheet presentation form and the aggregation of its accounts and the form of the Profit and Loss Account and its symbols, the comparative data of the Annual Financial Statements as of January 1, 2006, have been adjusted to comply with the new presentation form of the financial statements for the reporting year (Note (t)).

Data in the Table *Capital, funds and profit allocation* and the Statement on the Bank of Russia Reserves and Funds have been adjusted for the purpose of compiling the Bank of Russia annual financial statements taking into account the events that have taken place after the reporting date, including the payment in 2007 of taxes and duties as a result of the final settlement from Bank of Russia 2006 profit, the transfer to the federal budget of 50% of actual profit received for the year and left after the payment of taxes and duties pursuant to the Tax Code of the Russian Federation and the allocation to the Bank of Russia reserves and funds of profit retained by the Bank of Russia (Note 25 — Statement on Profit and its Allocation).

Figures in brackets denote negative values.

#### *(c) Precious metals*

Precious metals are accounted for at their acquisition price. Precious metals in deposits and unallocated metal accounts in non-resident credit institutions are accounted for at their acquisition price and included in the balance sheet item *Funds placed with non-residents and securities issued by non-residents*.

Bank of Russia claims and obligations in respect to the delivery of precious metals under futures contracts are shown in off-balance sheet accounts from transaction date to settlement date.

*(d) Foreign currency assets and liabilities*

Foreign currency assets and liabilities are accounted for in rubles at the official rates of exchange set for foreign currencies by the Bank of Russia (hereinafter referred to as the official exchange rates) as of the balance sheet compilation date. Foreign currency assets and liabilities are revalued daily at the official exchange rates. Income and expenses relating to Bank of Russia foreign exchange operations are accounted for in the balance sheet in rubles at the official exchange rates as of the date on which income is received or expenses are incurred.

Unrealised exchange rate differences, which occur in the course of revaluing the balances in foreign currency debit and credit balance sheet accounts as a result of the change in the official rates, are accounted for as Accrued Exchange Rate Differences as part of capital and are not included in the Profit and Loss Account. Realised exchange rate differences, which occur when operations with foreign currency values are conducted at an exchange rate other than the official exchange rate, are accounted for separately for each operation and included in Bank of Russia income or expenses. Net positive realised exchange rate differences are accounted for as part of other income, while net negative realised exchange rate differences are accounted for as part of other operating expenses.

Should the accrued negative unrealised exchange rate differences exceed the accrued positive unrealised exchange rate differences in the reporting year, the excess is compensated for by the previously accrued net positive exchange rate differences accounted for as *Accrued exchange rate differences* as part of capital. If there is no balance or there is an insufficient balance in the *Accrued exchange rate differences* balance sheet account, by decision of the Bank of Russia Board of Directors the negative unrealised exchange rate differences are accounted for as Bank of Russia operating expenses for the corresponding reporting year in full or equal to the excess of the credit balance in the *Accrued exchange rate differences* balance sheet account.

Bank of Russia claims and obligations under foreign exchange purchase and sale contracts are recorded in off-balance sheet accounts from transaction date to settlement date and revalued at the official exchange rates.

The official exchange rates used in recalculating foreign currency assets and liabilities on December 31, 2006, were 26.3311 rubles to the US dollar (2005: 28.7825 rubles to the US dollar) and 34.6965 rubles to the euro (2005: 34.1850 rubles to the euro).

*(e) Securities*

The accounting principles used by the Bank of Russia in respect to investments in Russian government securities are as follows:

- ruble-denominated government securities in the investment portfolio are accounted for at their acquisition (restructuring) price (the investment portfolio is defined in Note 6 to these financial statements);
- ruble-denominated government securities in the trading book are revalued at close of trades if their market prices are quoted, and are accounted for at their acquisition price if their market prices are not quoted (the trading book is defined in Note 6 to these financial statements);
- Finance Ministry promissory notes are accounted for at their acquisition price;
- Russian government internal and external foreign currency-denominated loan bonds in the investment portfolio are accounted for at acquisition price, while bonds in the trading book are revalued as a result of trading sessions.

Repo transactions with government securities, conducted with residents, are accounted for in the Bank of Russia balance sheet as securities purchase and sale operations. Government securities acquired in repos with residents are accounted for in the Bank of Russia balance sheet at acquisition price during the repo period and written off from the Bank of Russia balance sheet when resold. Bank of Russia claims for the delivery of funds in the reverse part of repos and obligations to sell government securities in the reverse part of repos with residents are recorded in off-balance sheet accounts from transaction date to reverse repo settlement date.

Debt obligations of other Russian issuers, acquired in repo transactions with residents, are accounted for according to the same procedure as government securities acquired in repo transactions.

In addition, the following accounting principles are used in respect to other securities:

- foreign issuers' securities are accounted for at acquisition price;
- foreign issuers' securities received by the Bank of Russia through repos with non-residents are recorded in off-balance sheet accounts as securities received as collateral for repos. The provision of funds in repos with non-residents is accounted for in the Bank of Russia balance sheet as placements backed by securities. Income from placements in repos is accounted for as part of interest income;
- foreign issuers' securities transferred by the Bank of Russia as collateral in repos with non-residents are still accounted for as foreign issuers' securities in the Bank of Russia balance sheet. The raising of funds in repos with non-residents is accounted for in the Bank of Russia balance sheet as operations to raise funds with securities as collateral. In addition, securities transferred by the Bank of Russia as collateral in repos with non-residents are recorded in off-balance sheet accounts as securities transferred by the Bank of Russia as collateral. Expenses involved in attracting funds in repos are accounted for as part of interest expenses;
- income and expenses from the sale and redemption of foreign issuers' securities are accounted for as part of income and expenses relating to securities trading;
- credit institutions' promissory notes are accounted for at acquisition price net of the provisions made for them.

#### *(f) Bank of Russia bonds*

Bank of Russia bonds are accounted for at their nominal value. The difference between the nominal value and actual selling (redemption) price of Bank of Russia bonds is accounted for as deferred income or expenses relating to securities in Other liabilities or Other assets. When bonds are bought out and redeemed, the deferred income and expenses are netted and the result is accounted for in the Bank of Russia income or expense accounts.

#### *(g) Investment*

Bank of Russia investments in the authorised capital of credit and other institutions within and outside Russia are accounted for at acquisition price.

#### *(h) Loans to credit institutions*

Loans to credit institutions are accounted for in the principal debt net of depreciation provisions.

#### *(i) Bank of Russia loss provisions*

To protect its assets against depreciation risk, the Bank of Russia, using generally accepted banking practices and following its rules and regulations, makes provisions for possible losses on loans extended to credit institutions, for the depreciation of investment in securities and for other active operations it conducts. Risks on Bank of Russia assets for which provisions are made are assessed by determining the likelihood of failure by the Bank of Russia to recover the funds invested in assets and the amount of Bank of Russia probable losses. Bank of Russia provisions are made by a decision of the Bank of Russia Board of Directors from deductions accounted for as Bank of Russia expenses. When loans are repaid, deposits refunded, promissory notes retired and the quality of assets improves, the provisions made for them earlier are recovered to Bank of Russia income.

Bank of Russia assets for which provisions are made are accounted for in the balance sheet net of the amount of the provisions made.

#### *(j) Fixed assets*

Fixed assets are accounted for at their residual value, i.e. at acquisition price, allowing for revaluation net of accrued depreciation.

Bank of Russia fixed assets are revalued in compliance with Russian Government resolutions. The latest revaluation was made on January 1, 1997.

Fixed assets acquired and put into operation before January 1, 2002, are depreciated at the official rates of depreciation set by USSR Council of Ministers Resolution No. 1072, dated October 22, 1990, 'On Standard Rates of Depreciation Charges for the Complete Restoration of Fixed Assets of the National Economy of the USSR':

	%
Buildings	1.0—12.5
Equipment (including computers, furniture, transport vehicles, etc.)	5—20

Fixed assets put into operation from January 1, 2002, are depreciated at the rates set by Bank of Russia Order No. OD-239, dated May 8, 2003, 'On the Enforcement of the Regulation on the Procedure for Using the List of Bank of Russia Depreciated Fixed Assets Disaggregated into Depreciation Groups and Indicating Serviceability Periods and the List of Bank of Russia Depreciated Fixed Assets Disaggregated into Depreciation Groups and Indicating Serviceability Periods', taking into consideration the amendments made by Russian Federation Government Resolution No. 1, dated January 1, 2002, 'On the Classification of Fixed Assets Included in Depreciation Groups'.

	%
Buildings	1,1—14
Equipment (including computers, furniture, transport vehicles, etc.)	4—92

#### *(k) Cash in circulation*

The Bank of Russia is the sole issuer of cash and organiser of cash circulation. The banknotes and coins put into circulation are accounted for in the balance sheet at their face value.

#### *(l) Funds in accounts with the Bank of Russia*

Funds in accounts with the Bank of Russia comprise federal government funds, credit institutions' funds in correspondent accounts, credit institutions' required reserves deposited with the Bank of Russia, credit institutions' deposit accounts with the Bank of Russia and regional and local government budget funds and government extrabudgetary funds. Funds in accounts with the Bank of Russia are accounted for in the balance sheet at their nominal value.

#### *(m) Float*

As of the end of the year float includes the balances of funds related to the completion of settlement operations conducted using electronic and letter of advice settlement accounts, the balances of funds resulting from operations between Bank of Russia institutions and funds the Bank of Russia must enter to customer accounts. Float is accounted for in the balance sheet at its nominal value.

#### *(n) Capital*

The capital of the Bank of Russia comprises:

- authorised capital. Under Article 10 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia has an authorised capital of 3 billion rubles;
- various reserves and funds formed to enable the Bank of Russia to fulfil the functions assigned to it by the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). Information on the sources and use of the reserves and funds is contained in the Statement on Bank of Russia Reserves and Funds as part of the Bank of Russia Annual Financial Statements as of January 1, 2007.

*(o) Reporting year profit*

Reporting year profit, accounted for in the Bank of Russia balance sheet, is the financial result of the Bank of Russia performance during the reporting year.

After the Bank of Russia Annual Financial Statements are approved by the Board of Directors, the Bank of Russia transfers to the federal budget 50% of its actual full-year profit remaining after the payment of taxes and duties under the Tax Code of the Russian Federation. The remainder of Bank of Russia profit is transferred by the Bank of Russia Board of Directors to various reserves and funds (Note 25, Statement on Profit and its Allocation, Table Capital, funds and profit allocation).

*(p) Recognition of Bank of Russia income and expenses*

Incomes and expenses are accounted for in the Profit and Loss Account on a cash basis, i.e. after income has been actually received and expenses have been actually incurred.

*(q) Financial result*

The financial result, i.e. profit or loss, is the difference between total income received and total expenses incurred in core and non-core operations conducted by the Bank of Russia during the reporting year.

*(r) Taxation of the Bank of Russia*

The Bank of Russia pays taxes and duties under the Tax Code of the Russian Federation. The Bank of Russia has worked out and approved an accounting policy for the purposes of taxation, which establishes tax accounting principles and methods and the rules and procedures for constructing the tax base for the calculation of taxes and duties paid by the Bank of Russia.

*(s) Transfer of profit to the Federal Budget*

Under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), after the approval by the Bank of Russia Board of Directors of the Bank of Russia Annual Financial Statements, the Bank of Russia transfers to the federal budget 50% of its actual full-year profit, accounted for pursuant to Russian law, which remains after the payment of taxes and duties under the Tax Code of the Russian Federation.

*(t) Change of comparative data*

In connection with the coming into effect on January 1, 2006, of the new version of Regulation No. 66-P and the Bank of Russia Board of Director's decision of December 22, 2006, to change the presentation form of the balance sheet and the aggregation of its accounts and the form of the Profit and Loss Account and its symbols, the comparative data for 2005 have been adjusted to comply with the changed presentation form of the reporting year financial statements.

The changes in comparative data for 2005 are shown below.

Balance sheet items		<i>(million rubles)</i>		
		2005 (amounts previously accounted for)	Changes	2005 (recalculated amounts)
Loans and deposits	A	25,985	(12,999)	12,986
Securities	B	287,006	38	287,044
Other assets	C	81,351	9,664	91,015
Other liabilities	D	141,151	(44,294)	96,857
Capital	E	210,373	(40,943)	169,430
Reporting year profit	F	—	81,940	81,940

(A) *Loans and deposits* have been reduced by the amount of the depreciation provisions made mostly for the debt on foreign currency loans and deposits. Previously depreciation provisions were accounted for in *Other assets*.

(B) *Securities* have been increased by the amount of the accrued coupon income paid and reduced by the amount of the provisions made for the depreciation of credit institutions' promissory notes acquired by the Bank of Russia.

(C) *Other assets* have been increased mainly due to the disaggregated accounting of individual operations that were previously accounted for by their net balance as part of *Other assets* and reduced mostly by the provisions made for the debt under the 1992—1993 settlement agreements with the CIS and the Baltic states and for the funds transferred to agent banks to effect payments to depositors of bankrupt banks.

(D) *Other liabilities* have been reduced due to disaggregation in the Bank of Russia Annual Balance Sheet as of January 1, 2007, of *Reporting year profit* (Note 12) and the coming into force on January 1, 2006, of the new version of Regulation No. 66-P, which established a new accounting procedure for the allocation of actual profit received in the reporting year, and in connection with the reclassification of the asset depreciation provisions — previously these provisions were accounted for as part of *Other Liabilities*, but in 2006 they began to be consolidated with the corresponding Bank of Russia asset items.

(E) *Capital* has been reduced in connection with the coming into force on January 1, 2006, of the new version of Regulation No. 66-P, which set up a new accounting procedure for the allocation of actual profit received by the Bank of Russia in the reporting year after the approval of the Bank of Russia Annual Financial Statements by the Bank of Russia Board of Directors in the year following the reporting year.

(F) *Reporting year profit* is a new balance sheet item that reflects the financial result of the Bank of Russia for 2006 (before taxation and the transfer to the federal budget of 50% of actual full-year profit remaining after the payment of taxes and duties under the Tax Code of the Russian Federation).

	<i>(million rubles)</i>		
<b>Profit and loss account items</b>	<b>2005 (amounts previously accounted for)</b>	<b>Changes</b>	<b>2005 (recalculated amounts)</b>
Interest expenses	8,150	533	8,683
Other operating expenses	39,951	(533)	35,418

The changes are due to the reclassification of interest expenses included in the balances of foreign-currency correspondent accounts and moved from *Other operating expenses* to *Interest expenses*.

## 2. IMPACT OF ECONOMIC CONDITIONS ON BANK OF RUSSIA FINANCIAL STATEMENTS

The situation on the world commodity and financial markets continued to exert a great influence on the Russian economy in 2006.

Thanks to a favourable foreign trade situation, the Russian Government registered a federal budget surplus and expanded the Stabilisation Fund.

A continued improvement of terms of trade led to growth in Russia's trade and current account surpluses. In addition, low interest rates on international financial markets and the expectations of the ruble's further appreciation caused a massive flow of funds to the capital and financial account. Another contributing factor was the lifting on July 1, 2006, of restrictions on some capital foreign exchange transactions between residents and non-residents (the requirement to use special accounts and deposit a reserve was removed). As a result, Russia's balance of payments surplus increased in 2006.

As supply exceeded demand on the domestic forex market, the ruble had the tendency to grow against the US dollar. In this situation, the Bank of Russia continued to maintain the managed floating exchange rate regime to cushion fluctuations in the nominal effective rate of the ruble and prevent the ruble from becoming too strong. For this purpose, the Bank of Russia in 2006 bought foreign exchange on the domestic forex market, which led to a significant growth in Russia's international reserves and money supply.

As a result of a federal budget surplus and the growth of the Russian Government's Stabilisation Fund in 2006 the balances in federal government accounts with the Bank of Russia continued to increase and this had a major effect on liquidity in the economy.

The efforts made by the Bank of Russia to reduce inflation in this situation led to corresponding changes in the Bank of Russia balance sheet and were reflected in the 2006 financial result.

Growth in international reserves, which led to an increase in funds placed with non-residents and invested in foreign issuers' securities, almost entirely accounted for the expansion of Bank of Russia assets in 2006. Foreign-currency asset management operations conducted by the Bank of Russia became a principal factor of its financial result in 2006.

As household income rose and the dollar continued to lose its positions in Russia, demand for cash increased, causing growth in the *Cash in circulation* item of the Bank of Russia balance sheet in 2006.

The budget surplus and the growth of the Russian Government Stabilisation Fund led to significant growth in the balances of federal government accounts in Bank of Russia liabilities. There was also a major rise in the balances of *Funds in credit institutions' accounts with the Bank of Russia* in 2006. The dynamics of this balance sheet item was largely affected by the increase of funds in credit institutions' correspondent accounts with the Bank of Russia amid continued economic growth and the significant expansion of Bank of Russia operations to absorb excess liquidity through deposit operations with resident credit institutions.

The Bank of Russia's financial result for 2006 was largely due to the continued rapid growth in international reserves, the appreciation of the ruble and the monetary policy operations conducted by the Bank of Russia to regulate banking sector liquidity and meet the inflation target. In this situation, growth in revenues from international reserve placements was accompanied by a significant increase in Bank of Russia operating costs due to the negative exchange rate differences resulting from the revaluation of Bank of Russia foreign currency assets and liabilities. This caused a reduction in Bank of Russia profit for 2006 compared to the previous reporting year.

### 3. PRECIOUS METALS

The increase under this item is largely due to the purchase of precious metals on the domestic market.

### 4. FUNDS PLACED WITH NON-RESIDENTS AND SECURITIES ISSUED BY NON-RESIDENTS

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Foreign issuers' securities	2,823,900	2,263,517
Balances in correspondent accounts and deposits placed with non-resident banks	2,813,502	1,923,264
Funds placed with non-residents under repo transactions	2,107,064	1,113,795
<b>Total</b>	<b>7,744,466</b>	<b>5,300,576</b>



Foreign issuers' securities are mostly European and US government debt obligations and securities issued by federal government agencies and extrabudgetary funds. Growth under this item is due to an increase in investments in foreign issuers' securities stimulated by the expansion of foreign exchange reserves.

The increase in *Balances in correspondent accounts and deposits placed with non-resident banks* is largely due to growth in international reserves.

Growth in *Funds placed with non-residents under repo transactions* is due to an increase in foreign exchange reserves and total funds provided by the Bank of Russia through transactions to purchase securities with an obligation to resell.

As of January 1, 2007, *Funds placed with non-residents under repo transactions* comprised 78,481 million rubles (2005: 292,366 million rubles) in balances of Bank of Russia placements with non-residents, as a result of which the Bank of Russia received from the latter foreign issuers' securities as collateral for these repos and at the same time raised funds from the same non-residents for the same term, transferring to them other foreign issuers' securities from its portfolio as collateral for the funds raised. The nominal value of the foreign issuers' securities transferred by the Bank of Russia to non-residents under repo transactions stood at 78,345 million rubles as of January 1, 2007 (2005: 293,508 million rubles) and it is accounted for in off-balance sheet accounts for securities passed as collateral for loans taken (Note 24), while the corresponding balances of the funds raised from non-residents under these repos are accounted for in *Non-resident bank funds raised through repo transactions* (Note 9). Average non-resident debt to the Bank of Russia and Bank of Russia debt to non-residents under these repo transactions in 2006 stood at 256,839 million rubles (2005: 225,363 million rubles). This debt was calculated as the sum of the products of the funds received under each transaction multiplied by the duration of the transaction in calendar days during the reporting year and divided by the number of calendar days in the year. The part of carry-over transactions that occurred in the reporting year was taken into account in the calculation. In 2006 the Bank of Russia placed (raised) funds through these repos totalling 3,836,766 million rubles (2005: 3,322,770 million rubles). Income received by the Bank of Russia from placements with non-residents under these repos totalled 12,611 million rubles in 2006 (2005: 6,770 million rubles) and it was accounted for as *Interest income from foreign currency loans and deposits* (Note 13). Bank of Russia expenses on raising funds from non-residents through these repos amounted to 12,391 million rubles in 2006 (2005: 6,560 million rubles) and they were accounted for as *Interest expenses on funds raised on international markets against the collateral of foreign currency-denominated securities* (Note 18).

## 5. LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Loans and deposits with resident banks (in foreign currency)	14,271	22,047
Loans extended to resident banks (in rubles)	624	62
Other	3,687	3,876
Provisions	(11,068)	(12,999)
<b>Total</b>	<b>7,514</b>	<b>12,986</b>

*Loans and deposits with resident banks (in foreign currency)* reflect the loans and deposits placed by the Bank of Russia with Vneshtorgbank and Vneshekonombank. The reduction of debt on these loans and deposits is due to the settlement of part of resident banks' obligations to the Bank of Russia

and the change in the official rate of the ruble against foreign currencies. Provisions made for this debt totalled 10,322 million rubles (2005: 11,974 million rubles).

Growth in *Loans extended to resident banks (in rubles)* is due to an increase in the value of loans extended to credit institutions in the reporting year in connection with the rise in credit institutions' demand for Bank of Russia loans, including Lombard loans.

Provisions for loans extended to resident banks (in rubles) and other loans totalled 746 million rubles (2005: 1,025 million rubles).

## 6. SECURITIES

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
<b>Russian Government debt obligations</b>		
Federal loan bonds (OFZ), of which:	191,905	189,288
— investment portfolio	121,541	154,743
— trading book	44,363	29,768
— bonds acquired under repo transactions	26,001	4,777
Russian Government internal and external foreign currency-denominated loan bonds, of which:	80,709	91,484
— investment portfolio	79,706	89,963
— trading book	1,003	1,521
Other	—	47
<b>Subtotal</b>	<b>272,614</b>	<b>280,819</b>
<b>Shares issued by credit and other institutions (Bank of Russia stakeholdings)</b>	<b>5,997</b>	<b>6,093</b>
<b>Other resident issuers' debt obligations</b>	<b>1,178</b>	<b>132</b>
<b>Credit institutions' promissory notes acquired by the Bank of Russia</b>	<b>27</b>	<b>27</b>
Provisions	(27)	(27)
<b>Total</b>	<b>279,789</b>	<b>287,044</b>

### *Federal loan bonds (OFZ)*

The Bank of Russia OFZ portfolio resulted from the 2003—2005 restructuring of government securities under the federal budget laws for the corresponding financial year and OFZ purchase and sale on the domestic securities market. The characteristics of the securities received as a result of the restructuring comply with the requirements of the federal laws and the agreements concluded between the Finance Ministry and the Bank of Russia.

The OFZ portfolio consists of the investment portfolio, trading book and the securities acquired with an obligation to resell (repo transactions).

The investment portfolio comprises securities the Bank of Russia intends to hold for an indefinite period of time.

The trading book comprises securities intended for purchase and sale operations on the securities market.

The table below illustrates the structure of the OFZ investment portfolio by coupon income and maturity.

	<i>(million rubles)</i>	
<b>OFZ type</b>	<b>2006</b>	<b>2005</b>
<b>0% coupon-income debt depreciation OFZ</b> due in 2019—2028	114,067	147,269
<b>0.71% coupon-income debt depreciation OFZ</b> due in 2029	7,474	—
<b>1.21% coupon-income debt depreciation OFZ</b> due in 2029	—	7,474
<b>Total</b>	<b>121,541</b>	<b>154,743</b>

As of January 1, 2007, the investment portfolio contained OFZ bonds maturing from 2019 to 2029 and carrying a coupon income of 0% to 0.71% p.a. Most OFZ bonds in the investment portfolio (79%) had zero coupon income.

As of January 1, 2006, the investment portfolio contained OFZ bonds that mature from 2019 to 2029 and carry a coupon income of 0% to 1.21% p.a. Zero coupon-income bonds accounted for 95% of the total value of the investment portfolio.

The decrease in the balance sheet value of OFZ in the investment portfolio is due to the transfer of part of federal government securities to the trading book for the purpose of conducting operations on the securities market.

The following table illustrates the structure of the Bank of Russia OFZ trading book by coupon income and maturity.

	<i>(million rubles)</i>	
<b>OFZ type</b>	<b>2006</b>	<b>2005</b>
<b>0% coupon-income debt depreciation OFZ</b> due in 2019	—	66
<b>0% coupon-income debt depreciation OFZ</b> due in 2019—2025	24,335	—
<b>7.75% coupon-income debt depreciation OFZ</b> due in 2018	19,851	—
<b>8% coupon-income debt depreciation OFZ</b> due in 2018	—	20,099
<b>6% permanent coupon-income OFZ</b> due in 2012	177	9,603
<b>Total</b>	<b>44,363</b>	<b>29,768</b>

The change in the balance sheet value of OFZ in the trading portfolio is due to the transfer of part of government securities from the investment portfolio to the trading book, OFZ sales on the securities market and revaluation of the trading book at market price.

As of January 1, 2007, the trading book comprised OFZ bonds maturing from 2012 to 2025. Most of them (62%) mature in 2019—2025 and have a zero coupon income.

As of January 1, 2006, the trading book comprised OFZ bonds maturing from 2012 to 2019, and 8%-coupon income bonds due in 2018 made up most of the trading book (67%).

As of January 1, 2007, the balance sheet value of OFZ bonds acquired by the Bank of Russia through repos with an obligation to resell totalled 26,001 million rubles. These bonds mature in the period from 2008 to 2036 and carry a coupon income of 0% to 10% p.a. Bank of Russia claims for the delivery of funds in the reverse part of repos and the obligation to sell government securities in the reverse part of repos with residents are recorded in off-balance sheet accounts and shown in Note 24.

As of January 1, 2006, the balance sheet value of OFZ acquired by the Bank of Russia through repo transactions with an obligation to resell totalled 4,777 million rubles. These were securities maturing in 2006—2018 and carrying a coupon income of 6% to 10% p.a. Bank of Russia claims for the delivery of funds in the reverse part of repos and obligations to sell securities in the reverse part of repos with residents are recorded in off-balance sheet accounts and shown in Note 24.

#### *Russian Government internal and external foreign currency-denominated loan bonds*

Russian Government external foreign currency-denominated loan bonds (Russian eurobonds) are US dollar-denominated government securities issued by the Finance Ministry and traded on the international market. They mature from 2007 to 2030 and have a coupon income of 5% to 12.75% p.a.

Russian Government internal foreign currency-denominated loan bonds (OVGVZ) are US dollar-denominated government securities issued by the Finance Ministry. They mature from 2007 to 2011 and have a coupon income of 3% p.a.

The decrease in *Russian Government internal and external foreign currency-denominated loan bonds* is due to the dollar's depreciation against the ruble, the redemption of the government internal foreign currency loan bonds and partial redemption of the principal debt on Russian eurobonds and government foreign currency loan bonds (OGVZ) issued in 1999.

#### *Shares issued by credit and other institutions (Bank of Russia stakeholdings)*

The structure of Bank of Russia investments in shares of credit and other institutions is shown below.

	2006		2005	
	Investment amount (at acquisition price)	% share in authorised capital (at par)	Investment amount (at acquisition price)	% share in authorised capital (at par)
<b>Credit institution</b>				
Sberbank	4,563	60.57	4,563	60.57
Bank for International Settlements, Basel	1,130	0.59	1,227	0.59
Moscow Interbank Currency Exchange	300	28.76	300	28.76
St Petersburg Currency Exchange	3	8.90	3	8.90
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium	0.559	0.006	0.05	0.001
<b>Total</b>	<b>5,997</b>	<b>—</b>	<b>6,093</b>	<b>—</b>

The decrease in *Shares issued by credit and other institutions (Bank of Russia stakeholdings)* is due to the change in the official rate of the ruble against foreign currencies. The increase in the Bank of Russia stake in the authorised capital of SWIFT is due to the decision by the Bank of Russia Board of Directors to acquire six shares.

#### *Other resident issuers' debt obligations*

As of January 1, 2007, the Bank of Russia acquired through repo transactions with an obligation to resell bonds issued by the governments of Moscow and the Moscow Region, Gazprom and the Housing Mortgage Lending Agency with a balance sheet value of 1,178 million rubles. The bonds mature from 2008 to 2015 and have a coupon income of 8.22% to 11% p.a.

As of January 1, 2006, the Bank of Russia acquired through repo transactions with an obligation to resell Moscow government bonds with a balance sheet value of 132 million rubles. The bonds mature from 2007 to 2008 and have a coupon income of 10% p.a.

#### *Provisions for credit institutions' promissory notes acquired by the Bank of Russia*

This item shows the provisions of 27 million rubles made for credit institutions' promissory notes acquired by the Bank of Russia (the amount is unchanged from 2005).

## 7. OTHER ASSETS

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
<b>Fixed assets (at residual value)</b>		
Buildings	31,640	30,617
Equipment (including computers, information and data processing systems, furniture, transport vehicles, etc.)	29,019	28,804
<b>Subtotal fixed assets</b>	<b>60,659</b>	<b>59,421</b>
Bank of Russia interest claims	29,521	8,233
Incomplete construction projects	5,135	4,284
Till cash	4,409	3,988
Deferred expenses on securities	3,604	9,880
Settlements with CIS and Baltic banks	1,446	1,446
Settlements with suppliers, contractors and buyers	886	871
Bank of Russia money transfers to agent banks for payments to depositors of bankrupt banks	855	492
Bank of Russia correspondent accounts	208	104
Profit tax advance payments	63	52
Other	3,793	4,474
Provisions	(2,784)	(2,230)
<b>Subtotal other assets</b>	<b>47,136</b>	<b>31,594</b>
<b>Total</b>	<b>107,795</b>	<b>91,015</b>

The table below shows the movement of fixed assets:

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
<b>Fixed asset value net of accrued depreciation</b>		
Balance as of January 1	88,525	81,728
Receipt	9,456	7,913
Retirement	(1,044)	(1,116)
<b>End of year balance</b>	<b>96,937</b>	<b>88,525</b>
<b>Accrued depreciation</b>		
Balance as of January 1	29,104	23,018
Depreciation deductions due to expenses (Note 22)	8,071	6,820
Depreciation deductions due to other sources	3	3
Depreciation deductions for retired fixed assets	(900)	(737)
<b>End of year balance</b>	<b>36,278</b>	<b>29,104</b>
<b>End of year fixed asset residual value</b>	<b>60,659</b>	<b>59,421</b>

Fixed asset structure and value net of accrued depreciation:

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Buildings	35,895	34,321
Computers, office equipment and furniture	29,053	25,212
Equipment	13,887	12,877
Information and data processing systems	13,363	11,953
Transport vehicles	2,229	2,072
Intangible assets	1,056	777
Other	1,454	1,313
<b>Total</b>	<b>96,937</b>	<b>88,525</b>

The increase in *Buildings* is largely due to the completion of the construction and reconstruction of a number of Bank of Russia office buildings.

The increase in *Computers, office equipment and furniture* is due to the purchase of computers and other systems and devices designed to automate the storage and processing of data in the Bank of Russia payment, accounting and information analysis systems, to protect banking information and premises and modernise the Bank of Russia operations support systems.

The increase in *Equipment* is due to the purchase of equipment for the development and upgrading of fail-proof electric power supply systems and mechanising cash processing, cash machines and other equipment and its modernisation.

The increase in *Information and data processing systems* is largely due to the purchase of tele-communications and network equipment and modernisation and replacement of morally and physically obsolete equipment.

The increase in *Transport vehicles* is mostly due to the purchase of special-purpose vehicles to carry cash.

The increase in *Intangible assets* is due to the purchase of software products and Bank of Russia exclusive rights to them.

The increase in *Other* is primarily due to the purchase of production equipment and household goods.

The increase in *Bank of Russia interest claims* is largely due to the accrual of interest on Bank of Russia placements with non-residents not yet due as of January 1, 2007.

The increase in the balance of incomplete construction is mainly due to the expansion of the construction and reconstruction of Bank of Russia office buildings and the development and upgrading of information analysis systems and banking information protection and security systems.

The decrease in *Deferred expenses on securities* is mostly due to the change in the accounting policy, in accordance with which deferred income and expenses on Bank of Russia repurchased bonds were netted and written off and the resulting amount was recorded in the Bank of Russia income and expense account (Note II).

Provisions include:

- 1,446 million rubles of debt under 1992—1993 agreements with CIS and Baltic states (unchanged from 2005);
- 855 million rubles transferred to agent banks to effect payments to depositors of bankrupt banks (2005: 492 million rubles);
- 483 million rubles in other assets (2005: 292 million rubles).

## 8. CASH IN CIRCULATION

Growth in cash in circulation is due to the expansion of cash turnover.

## 9. FUNDS IN ACCOUNTS WITH THE BANK OF RUSSIA

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Federal government funds,	3,317,090	1,905,206
of which:		
— Russian Government Stabilisation Fund	2,346,922	1,237,035
Credit institutions' funds in correspondent accounts	639,953	515,560
Required reserves deposited with the Bank of Russia	221,071	161,370
Deposits taken by the Bank of Russia from credit institutions	98,091	7,218
Non-resident bank funds raised through repo transactions	78,481	292,366
Other	432,866	302,539
<b>Total</b>	<b>4,787,552</b>	<b>3,184,259</b>

Significant growth in the balance of *Federal government funds* is due to the growth of federal budget revenue in 2006, as compared to 2005, and an increase of the Russian Government Stabilisation Fund. Russian Government Resolution No. 229, dated April 21, 2006, 'On the Procedure for Managing the Stabilisation Fund of the Russian Federation' stipulated that the Stabilisation Fund is managed by the Ministry of Finance by using Fund money to acquire US dollars, euros and British pounds

and placing them in accounts opened with the Bank of Russia and acquiring foreign government debt obligations (Note 18).

*Deposits taken by the Bank of Russia from credit institutions* include the balances of funds raised from resident credit institutions in rubles. The increase in these funds is due to growth in banking sector liquidity and the raising of the Bank of Russia deposit interest rates.

Non-resident bank funds raised in repo transactions are the balances of Bank of Russia operations conducted to raise funds from non-residents against the collateral of foreign issuers' securities in the Bank of Russia portfolio while simultaneously placing funds with the same non-residents for the same term against the collateral of other foreign issuers' securities received from them. The corresponding funds placed by the Bank of Russia with non-residents in these transactions are included in *Funds placed with non-residents under repo transactions* (Note 4). The balance sheet value of foreign issuers' securities passed by the Bank of Russia to non-residents in these repos stood at 78,481 million rubles as of January 1, 2007 (2005: 292,366 million rubles). The nominal value of these papers stood at 78,345 million rubles (2005: 293,508 million rubles) and it is accounted for in off-balance sheet accounts to record securities transferred as collateral for loans received (Note 24). Non-resident average debt to the Bank of Russia and Bank of Russia average debt to non-residents under these repo transactions in 2006 stood at 256,839 million rubles (2005: 225,363 million rubles). This average debt is calculated as the sum of the products of the funds received in each transaction multiplied by the duration of the transaction in calendar days during the reporting year divided by the number of calendar days in the reporting year. Taken into account in the calculation were parts of carryover transactions that occurred in the reporting year. The amount of the funds raised (placed) through these repos in 2006 totalled 3,836,766 million rubles (2005: 3,322,770 million rubles). Bank of Russia expenses on raising funds from non-residents through these repos amounted to 12,391 million rubles (2005: 6,560 million rubles) and they were included in *Interest expenses on funds raised against the collateral of foreign currency-denominated securities* (Note 18). The corresponding incomes received by the Bank of Russia by placing funds with non-residents through these repos amounted to 12,611 million rubles in 2006 (2005: 6,770 million rubles) and they were included in *Interest income from foreign currency loans and deposits* (Note 13).

The decrease in *Non-resident bank funds raised through repo transactions* is due to a reduction in the volume of these operations in the second half of 2006 and a change in the ruble's official exchange rate against foreign currencies.

*Other* include balances of regional and local government budget accounts, accounts of extrabudgetary funds and other Bank of Russia customers. Their growth is mainly due to the increased balances of the regional budget accounts, the Social Insurance Fund budget accounts and the Compulsory Medical Insurance Fund and local government budget accounts.

Pursuant to Article 23 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia conducts operations with federal budget funds, government extrabudgetary funds and regional and local government budget funds without charging commission.

## 10. FLOAT

Growth in the *Float* balance is due to the expansion of interregional electronic payments, which had been completed in line with the established procedure in the first working days of January 2007.



## 11. OTHER LIABILITIES

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Bank of Russia bonds	103,734	33,462
Supplementary pension provisions for Bank of Russia staff	51,660	35,315
Deferred income from lending operations	29,551	8,486
Deferred income from securities	8,670	16,901
Other	1,978	2,693
<b>Total</b>	<b>195,593</b>	<b>96,857</b>

The balance of the *Bank of Russia bonds* (OBR) is the difference between the value of the OBRs placed and the value of the OBRs purchased by the Bank of Russia in the first part of the repo transactions, which are accounted for at their nominal value. The increase in *Bank of Russia bonds* is due to an increase in the volume of operations to sell OBRs with an obligation to repurchase on the basis of a Bank of Russia irrevocable public offer on the domestic securities market.

The Federal Law on the Central Bank of the Russian Federation (Bank of Russia) empowers the Bank of Russia to set up a supplementary pension fund for its employees. The Bank of Russia pension plan is implemented in compliance with Bank of Russia regulations, taking into account that Bank of Russia employees are not covered by guarantees provided to civil servants. Internationally accepted central bank practices are also taken into consideration. The amount of funds allocated for supplementary pension payments to Bank of Russia employees is determined on the basis of actuarial evaluation conducted by an independent international actuary. As of January 1, 2007, the Bank of Russia increased funds allocated for supplementary pension payments.

Deferred income from lending operations is mostly represented by interest the Bank of Russia is to receive for placements with non-residents, which is not yet due as of the reporting date. Bank of Russia interest claims are accounted for in *Other assets* (Note 7).

Deferred income from securities mainly comprise deferred income from government securities and the Finance Ministry's other debts, restructured under the 1999—2001 federal budget laws and further restructured under the 2003—2005 federal budget laws. The decrease in *Deferred income from securities* is largely due to the change in the accounting policy, in accordance with which deferred income and expenses on Bank of Russia repurchased bonds were netted and written off and the resulting amount was recorded in the Bank of Russia income and expense account (Note 7).

## 12. REPORTING YEAR PROFIT

*Reporting year profit* is a balance sheet item showing the Bank of Russia's financial result for 2006.

The allocation of actual profit for the reporting year, remaining after taxes and duties have been paid under the Tax Code of the Russian Federation and transfers to the federal budget have been made under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), is shown in the Bank of Russia accounting records in 2007 (Note 25 and the Statement on Profit and its Allocation).

The main factors that affected the Bank of Russia financial result in 2006 are:

- increase in interest income, mostly due to growth in Bank of Russia international reserves (Note 13);
- reimbursement from Bank of Russia expenses of the negative unrealised exchange rate differences resulting from the revaluation of Bank of Russia foreign currency assets and liabilities by decision

- of the Bank of Russia Board of Directors, which was necessitated by the fall of the official exchange rates of some reserve currencies against the ruble in 2006 and the inadequacy of the balance of the *Accrued exchange rate differences* account for a full reimbursement of the 2006 negative unrealised exchange rate differences (Note 21);
- the effectuation of interest expenses to pay Bank of Russia interest on the balances of the foreign currency-denominated Stabilisation Fund accounts (Note 18);
  - the reduction of net income from the recovery of provisions made by the Bank of Russia earlier for foreign exchange operations (Note 16);
  - the increase in expenses on Bank of Russia bond operations due to the expansion of OBR sales with an obligation to repurchase (Note 19).

### 13. INTEREST INCOME

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Interest income from foreign currency loans and deposits	147,734	71,231
Interest income from securities	52,728	34,176
Interest income from ruble loans extended to credit institutions	31	18
Other	150	175
<b>Total</b>	<b>200,643</b>	<b>105,600</b>

*Interest income from foreign currency loans and deposits* mostly reflects interest received from Bank of Russia placements with non-resident banks, including interest received from placing funds through repo transactions with foreign issuers' securities, which amounted to 69,614 million rubles (2005: 25,888 million rubles). This item also includes interest income received by the Bank of Russia from the placement of funds with non-residents through repo transactions, in which the Bank of Russia received from non-residents foreign issuers' securities as collateral for its placements and simultaneously raised funds from the same non-residents for the same term and transferred to them other foreign issuers' securities from its portfolio as collateral for the funds raised (Notes 4, 9 and 18). In 2006 this income totalled 12,611 million rubles (2005: 6,770 million rubles).

*Interest income from securities* includes interest received from foreign issuers' debt obligations acquired in the course of managing foreign exchange reserves and interest received from investments in Russian government debt obligations.

The increase in interest income is due to the change in the financial market situation and growth in Bank of Russia international reserves (Note 4).

### 14. INCOME FROM SECURITIES TRADING

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Income from operations with foreign issuers' securities	48,455	36,255
Income from operations with Russian issuers' debt obligations	9,267	14,777
<b>Total</b>	<b>57,722</b>	<b>51,032</b>

*Income from operations with foreign issuers' securities* comprises income received from the sale and redemption of foreign issuers' securities.

*Income from operations with Russian issuers' debt obligations* includes income from the sale of federal loan bonds by the Bank of Russia on the domestic securities market and the positive revaluation of government securities in the trading book due to the increase in their market value and also income from repo transactions with Russian issuers' securities and the inclusion in income of sums previously accounted for as deferred income. The decrease in the total of this item is mainly due to the redemption of Finance Ministry promissory notes in 2005.

### 15. INCOME FROM OPERATIONS WITH PRECIOUS METALS

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Income from operations with precious metals	6,314	3,420
<b>Total</b>	<b>6,314</b>	<b>3,420</b>

*Income from operations with precious metals* includes income from sale of precious metals on the international market.

### 16. NET INCOME FROM RECOVERY OF PROVISIONS

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Decrease in provisions for foreign exchange operations	1,926	21,589
Decrease in provisions for Finance Ministry debt	—	352
Decrease in provisions for promissory notes acquired from credit institutions and for credit institutions' debt on other operations	79	68
Increase in provisions for Bank of Russia payments to depositors of bankrupt banks	(363)	(492)
Increase in provisions for other active operations	(285)	(159)
<b>Total</b>	<b>1,357</b>	<b>21,358</b>

The decrease in provisions the Bank of Russia made earlier for foreign exchange operations is largely due to the settlement of part of the debt and the change in the official US dollar/ruble exchange rate.

The decrease in provisions in 2005 is due to the transfer by the Bank of Russia to Vneshtorgbank of its stakeholdings in the authorised capital of Russia's overseas banks and the buyout from the Bank of Russia of assets in Russia's overseas banks at the end of 2005 on the terms and conditions established by a decision of the National Banking Board on December 13, 2005, and the subsequent recovery to income of 27,213 million rubles of provisions made earlier for the participation in the capital of these banks and the assets placed with them.

The decrease in provisions for promissory notes acquired from credit institutions and for credit institutions' debt on other operations is due to the repayment of debt to the Bank of Russia by credit institutions under the promissory note assignment agreements.

Provisions for Bank of Russia payments to depositors of bankrupt banks were made pursuant to the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System and in accordance with decisions of the Bank of Russia Board of Directors.

The increase in provisions for other active operations is due to the creation of provisions for possible losses from receivables.

## 17. OTHER INCOME

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Income from sale of coins made of precious metals	1,891	1,184
Payment for settlement services provided by the Bank of Russia	1,403	1,097
Previous years' income discovered in reporting year	181	201
Fines and penalties received	27	8
Reimbursement by customers of telegraph and other expenses	11	7
Other	624	572
<b>Total</b>	<b>4,137</b>	<b>3,069</b>

## 18. INTEREST EXPENSES

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Interest expenses on Stabilisation Fund balances	22,988	—
Interest expenses on funds raised on international markets against the collateral of foreign currency-denominated securities	12,391	6,560
Interest expenses on deposits taken from credit institutions on domestic market	3,464	1,584
Other	247	539
<b>Total</b>	<b>39,090</b>	<b>8,683</b>

Interest expenses on Stabilisation Fund balances are related to the payment by the Bank of Russia of interest accrued on the balances of Stabilisation Fund foreign currency accounts. Russian Government Resolution No. 229, dated April 21, 2006, "On the Procedure for Managing the Stabilisation Fund of the Russian Federation" stipulated that the Stabilisation Fund should be managed by the Ministry of Finance by acquiring with money from the Fund of foreign currency, namely US dollars, euros and British pounds and placing it in accounts opened with the Bank of Russia and by acquiring foreign government debt obligations (Note 9).

*Interest expenses on funds raised on international markets against the collateral of foreign currency-denominated securities* are interest paid by the Bank of Russia for raising funds from non-residents through transactions in which the Bank of Russia transferred to non-residents foreign issu-

ers' securities from its portfolio as collateral for the funds raised and simultaneously placed funds with the same non-residents for the same term and received from them other foreign issuers' securities as collateral for the funds placed (Note 9). The increase under this item is due to significant growth in interest rates and the expansion in the first half of 2006 of the volume of non-resident funds the Bank of Russia raised from non-residents against the collateral of foreign issuers' securities from its portfolio.

The increase in interest expenses on deposits taken from credit institutions is due to the expansion of deposit operations and the rise in the Bank of Russia deposit interest rates on the domestic market.

## 19. EXPENSES ON SECURITIES TRADING

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Expenses on operations with Russian issuers' debt obligations	11,970	16,305
Expenses on operations with foreign issuers' securities	4,754	2,166
<b>Total</b>	<b>16,724</b>	<b>18,471</b>

*Expenses on operations with Russian issuers' debt obligations* are connected with the use of monetary policy instruments on the domestic market.

They include expenses involved in Bank of Russia sale of federal loan bonds on the domestic market and the negative revaluation of government securities in the trading book connected with the fall in their market value and also expenses involved in OBR sale with an obligation to repurchase. The change in Bank of Russia expenses under this item is due to the reduction of the negative revaluation of the trading book as a result of its replenishment with investment portfolio securities and a change in the accounting policy, which led to the writing off and netting of deferred expenses and income in respect to repurchased OBR bonds.

*Expenses on operations with foreign issuers' securities* comprise Bank of Russia expenses involved in the resale (redemption) of foreign issuers' securities.

## 20. CASH TURNOVER MANAGEMENT EXPENSES

This balance sheet item accounts for expenses involved in the manufacture and destruction of banknotes and coins, their protection against counterfeiting and the purchase and delivery of packaging materials and accessories necessary for the processing of cash.

Growth in expenses under this item is due to the growing production of banknotes and coins, significant increase in the world prices of non-ferrous metals, which led to a rise in coin producer prices, and the production of the 5,000-ruble note.

## 21. EXPENSES ON NEGATIVE REVALUATION OF FOREIGN CURRENCY

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Expenses on negative revaluation of foreign currency	88,624	—
<b>Total</b>	<b>88,624</b>	<b>—</b>

The accrued negative unrealised exchange rate differences aggregated 214,414 million rubles in 2006 and according to the established procedure and a decision of the Bank of Russia Board of Directors of January 26, 2007, 125,790 million rubles of this amount were reimbursed at the expense of the previously accrued exchange rate differences, included in *Capital*, and the remaining 88,624 million rubles were included in Bank of Russia expenses.

## 22. OTHER OPERATING EXPENSES

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
Additional supplementary pension expenses	16,588	12,107
Depreciation deductions (Note 7)	8,071	6,820
Security expenses	2,679	2,338
Repair expenses	2,528	2,042
Expenses on computer hardware and software maintenance and information technology services	2,490	2,080
Expenses on delivery of bank documents and valuables	1,888	1,415
Expenses on maintenance of buildings	1,502	1,351
Taxes and duties paid	1,354	1,167
Postage, telegraph and telephone expenses and expenses on renting communication lines and channels	1,111	1,017
Expenses on foreign exchange operations	91	390
Net realised exchange rate differences	52	385
Other	4,378	4,306
<b>Total</b>	<b>42,732</b>	<b>35,418</b>

Additional funds were allocated for supplementary pensions for Bank of Russia employees on the basis of a report on the actuarial evaluation of Bank of Russia pension obligations and expenses for 2006 made by an independent international actuary.

*Net realised exchange rate differences* mainly reflect the expenses involved in the purchase and sale of foreign exchange by the Bank of Russia on the international financial market for the purpose of managing foreign currency reserves. Negative net realised exchange rate differences resulted from exchange rate fluctuations on world financial markets.

## 23. PERSONNEL COSTS

For explanation, see the Statement on Bank of Russia Personnel Costs.

## 24. OFF-BALANCE SHEET CLAIMS AND OBLIGATIONS ACCOUNTS

Claims and obligations on forward operations accounted for in off-balance sheet accounts comprise:

	2006		2005	
	Claims	Obligations	Claims	Obligations
Claims for delivery of foreign exchange in spot transactions	—	—	3,574	—
Obligations to deliver foreign exchange in spot transactions	—	—	—	(3,558)
Claims for delivery of foreign exchange	18,372	—	3,551	—
Obligations to deliver foreign exchange	—	(15,325)	—	(1,236)
Obligations to deliver precious metals	—	(3,025)	—	(2,297)
Claims for delivery of securities	103,074	—	32,896	—
Obligations to deliver ruble funds	—	(104,234)	—	(33,462)
Claims for delivery of funds in the reverse part of repo transactions	27,716	—	4,796	—
Obligations to sell securities in the reverse part of repo transactions	—	(28,414)	—	(4,910)
Unrealised exchange rate differences	1,836	—	646	—
<b>Total</b>	<b>150,998</b>	<b>(150,998)</b>	<b>45,463</b>	<b>(45,463)</b>

The increase in *Claims for delivery of securities* and *Obligations to deliver ruble funds* is due to growth in OBR sales with an obligation to repurchase.

The increase in *Claims for delivery of funds in the reverse part of repo transactions* and *Obligations to sell securities in the reverse part of repo transactions* is due to growth in repo volumes (the purchase of Russian issuers' debt instruments with an obligation to resell) on the domestic securities market.

Other claims and obligations accounted for in off-balance sheet accounts comprise:

	2006		2005	
	Claims	Obligations	Claims	Obligations
Securities accepted as collateral for loans extended	2,091,168	1,119,480		
Securities passed as collateral for loans received	78,345	293,508		
Guarantees and sureties received by bank	7,686	6,719		
Open credit lines	319	2,426		
Unused credit lines	1	4		

Securities accepted as collateral for the loans extended are foreign issuers' securities received by the Bank of Russia through repos with non-residents and accounted for in off-balance sheet accounts at their nominal value. The corresponding funds placed with non-residents in repos are shown in Note 4. The increase is due to growth in the total value of foreign issuers' securities received by the Bank of Russia in securities purchase transactions with an obligation to resell conducted on international markets.

Securities transferred as collateral for the loans received are foreign issuers' securities transferred by the Bank of Russia in repos with non-residents and are accounted for in off-balance sheet accounts at their nominal value.

At the request of the supervisory authorities of the United Kingdom, Singapore and France, the Bank of Russia in 2005 confirmed the letters of comfort (guarantees) in respect to the London-based Moscow Narodny Bank (VTB Bank Europe) and Paris-based Eurobank (VTB Bank (France) SA) for 3 years and 2 years, respectively.

## 25. POST-ACCOUNTING DATE EVENTS

The taxes and duties paid under the final settlement for the accounting tax period from profit for 2006, the transfer to the federal budget and allocation of actual profit for 2006 left after the payment of taxes and duties under the Tax Code of the Russian Federation and the transfers to the federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) are accounted for in the Bank of Russia accounting records in 2007.

Taxes and duties paid on March 27, 2007, under the final settlement from Bank of Russia profit for 2006 totalled 7 million rubles (Table *Capital, funds and profit allocation*).

Pursuant to Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia transferred 19,564 million rubles to the federal budget (Table *Capital, funds and profit allocation*).

From the profit retained by the Bank of Russia, the Bank of Russia Board of Directors transferred 18,780 million rubles to the Reserve Fund and 783 million rubles to the Social Fund (Statement on Profit and its Allocation, Statement on Bank of Russia Reserves and Funds, Table *Capital, funds and profit allocation*).

In March 2007, the Bank of Russia acquired 892,601 additional-issue ordinary Sberbank shares at the price of 89,000 rubles per share. As a result of the placement of the additional Sberbank share issue, the Bank of Russia stake in Sberbank's authorised capital went down from 60.57% to 57.6% and the balance sheet value of Bank of Russia investments in Sberbank's authorised capital stood at 84,004 million rubles.

According to a decision of the Bank of Russia Board of Directors, as of January 1, 2007, precious metals are accounted for at their book price and revalued daily. The Bank of Russia calculates book prices for each business day on the basis of precious metal prices fixed at the London Metal Exchange reduced by the discount equalling the average cost of delivery of each precious metal to the international market.

As of May 1, 2007, the value of precious metals allowing for their revaluation stood at 281,652 million rubles.



## STATEMENT ON PROFIT AND ITS ALLOCATION

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
1. Actual full-year profit received	39,197	81,940
2. Taxes and duties paid from Bank of Russia profit under the Tax Code of the Russian Federation, total:	70	54
of which:		
— in the reporting year as advance payments	63	52
— under the final settlement for the reporting year*	7	2
3. Profit after payment of taxes and duties under the Tax Code of the Russian Federation	39,127	81,886
4. To be transferred to federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)*	19,564	40,943
5. Retained profit, total*	19,563	40,943
of which:		
— transferred to Reserve Fund	18,780	35,959
— transferred to Social Fund	783	1,638
— used to cover Bank of Russia losses incurred in 1998	—	3,346

Under Article 11 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Bank of Russia profit for the year is determined as the difference between total income from banking operations and transactions conducted pursuant to Article 46 of this Federal Law and income from stakeholdings in the capital of credit institutions and expenses involved in the fulfilment by the Bank of Russia of the functions assigned to it by Article 4 of this Law.

The Bank of Russia's financial result for 2006 was mostly due to the continued rapid expansion of gold and foreign exchange reserves and the monetary policy operations conducted by the Bank of Russia to regulate banking sector liquidity, strengthen the ruble and meet the inflation target. In this situation, growth in income from international reserve placements was accompanied by a significant increase in Bank of Russia operating expenses, caused by the negative exchange rate differences created by the revaluation of Bank of Russia foreign currency assets and liabilities necessitated by the decline in the official exchange rates of some reserve currencies against the ruble. As a result, Bank of Russia profit in 2006 decreased compared to 2005.

Profit received by the Bank of Russia for the year is allocated in line with the procedure established by Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), which stipulates that after the approval of the Bank of Russia annual financial statements by the Bank of Russia Board of Directors, the Bank of Russia transfers to the federal budget 50% of its actual full-year profit remaining after the payment of taxes and duties under the Tax Code of the Russian Federation. Profit that remains at the disposal of the Bank of Russia is transferred by its Board of Directors to various reserves and funds.

\* Taxes and duties paid under the Tax Code of the Russian Federation after the final settlement for the accounting tax period from reporting year profit and the allocation of reporting year actual profit that remains after the payment of taxes and duties under the Tax Code of the Russian Federation are accounted for in the Bank of Russia balance sheet in the current year (Note 25).

## STATEMENT ON BANK OF RUSSIA RESERVES AND FUNDS

(million rubles)

	Reserve fund	Social fund	Accrued exchange rate differences	Growth in property value after revaluation	Other funds	Total
<b>Beginning of year balance including funds received due to allocation of profit for year preceding reporting year</b>	<b>69,376</b>	<b>4,141</b>	<b>125,790</b>	<b>7,965</b>	<b>101</b>	<b>207,373</b>
Transferred to funds from other sources		3			2	5
Reserves and funds used		(424)	(125,790)		(8)	(126,222)
<b>Beginning of year balance following reporting year</b>	<b>69,376</b>	<b>3,720</b>		<b>7,965</b>	<b>95</b>	<b>81,156</b>
Transferred from reporting year profit*	18,780	783				19,563
<b>Total including funds received due to allocation of reporting year profit</b>	<b>88,156</b>	<b>4,503</b>	<b>—</b>	<b>7,965</b>	<b>95</b>	<b>100,719</b>

Pursuant to Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia after the approval of its annual financial statements by the Board of Directors transfers to reserves and various funds profit that remains at its disposal after the payment of taxes and duties under the Tax Code of the Russian Federation. The procedure for allocating profit retained by the Bank of Russia is established by the Bank of Russia Regulation on the Procedure for Allocating Profit Retained by the Bank of Russia, approved by the National Banking Board on April 9, 2003.

Pursuant to the Bank of Russia Regulation on the Procedure for Creating and Using the Bank of Russia Reserve Fund, the Bank of Russia forms the reserve fund with the objective of ensuring stability for the fulfilment of the functions assigned to it by law. The reserve fund is formed from Bank of Russia profit. By decision of the Bank of Russia Board of Directors, the Bank of Russia may also transfer to the reserve fund money from other funds and reserves that are part of Bank of Russia equity capital.

According to the procedure for allocating profit retained by the Bank of Russia and by decision of the Bank of Russia Board of Directors, 18,780 million rubles were allocated to the reserve fund from Bank of Russia retained profit for 2006 (2005: 35,959 million rubles).

Designed to meet the social needs of Bank of Russia employees, the Social Fund is formed from Bank of Russia retained profit.

The procedure for creating and spending the Social Fund is established by the Bank of Russia Regulation on the Creation and Use of the Social Fund of the Central Bank of the Russian Federation.

\* The allocation of actual profit received for the reporting year and retained after the payment of taxes and duties under the Tax Code of the Russian Federation and the transfers to the federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) are accounted for in the Bank of Russia accounting records in 2007 (Note 25).

According to the procedure for allocating profit retained by the Bank of Russia and by decision of the Bank of Russia Board of Directors, 783 million rubles, or 4% of Bank of Russia retained profit for 2006, were transferred to the Social Fund in 2006 (2005: 1,638 million rubles, or 4%).

The accrued exchange rate differences are a result of the revaluation of the balances of Bank of Russia debit and credit foreign exchange balance sheet accounts due to the change in the official exchange rate of the ruble against foreign currencies. In 2006, the Bank of Russia Board of Directors used total accrued exchange rate differences equalling 125,790 million rubles to reimburse the negative unrealised exchange rate differences resulting from the fall in the exchange rate of some reserve currencies against the ruble.

Growth in the value of property resulted from revaluations of fixed assets conducted in compliance with Russian Government resolutions in 1992, 1994, 1995, 1996 and 1998.

## STATEMENT ON BANK OF RUSSIA MANAGEMENT OF SECURITIES AND STAKEHOLDINGS CONSTITUTING BANK OF RUSSIA PROPERTY

### BANK OF RUSSIA INVESTMENTS IN DEBT OBLIGATIONS AND PROMISSORY NOTES

	<i>(million rubles)</i>	
	<b>2006</b>	<b>2005</b>
<b>Foreign issuers' debt obligations, of which:</b>		
US issuers' debt obligations	1,550,267	1,806,820
— denominated in US dollars	1,546,769	1,802,316
— denominated in euros	3,498	4,504
EU issuers' debt obligations	1,242,092	413,008
— denominated in US dollars	30,237	9,653
— denominated in euros	826,088	314,532
— denominated in British pounds	385,767	88,823
Debt obligations issued by international organisations	31,541	43,689
— denominated in US dollars	9,603	17,150
— denominated in euros	21,938	26,539
<b>Subtotal</b>	<b>2,823,900</b>	<b>2,263,517</b>
<b>Russian issuers' debt obligations, of which:</b>		
Federal government debt obligations	272,614	280,819
— denominated in rubles	191,905	189,335
— denominated in US dollars	80,709	91,484
Other Russian issuers' debt obligations	1,178	132
— denominated in rubles	1,178	132
— denominated in US dollars	—	—
Credit institutions' promissory notes	27	27
<b>Subtotal</b>	<b>273,819</b>	<b>280,978</b>
<b>Total</b>	<b>3,097,719</b>	<b>2,544,495</b>

Foreign issuers' securities are mostly European and US government debt obligations and securities issued by federal government agencies and extrabudgetary funds. Growth under this item is due to the increase in investments in foreign issuers' securities as a result of the expansion of foreign exchange reserves.

Russian government debt obligations are ruble-denominated federal loan bonds (OFZ).

The Bank of Russia in 2006 continued to actively use market instruments of monetary regulation on the domestic market. Depending on the situation, it either sterilised excess liquidity or provided funds to credit institutions, using for this purpose government securities, Bank of Russia bonds and debt obligations of other Russian issuers on the securities market. Specifically, the Bank of Russia — sold government securities from its portfolio without an obligation to repurchase;

— bought government securities with an obligation to resell for a term of 1 day and 7 days (repo operations);

— bought and sold Bank of Russia bonds with an obligation to repurchase by public irrevocable offer.

The Russian government debt obligations denominated in US dollars are internal and external foreign currency loan bonds.

The principal factors of the reduction of the balance under this item is the decrease in investments caused by the US dollar's depreciation against the ruble and the redemption of the OGVZ bonds, and the settlement of part of the principal Russian eurobond debt and OGVZ bonds of the 1999 issue.

The debt obligations of other Russian issuers are bonds issued by the governments of Moscow and the Moscow Region, Gazprom and the Housing Mortgage Lending Agency, purchased by the Bank of Russia through repos with an obligation to resell.

### BANK OF RUSSIA INVESTMENTS IN THE AUTHORISED CAPITAL OF BANKS AND OTHER ORGANISATIONS

Title	2006		2005	
	Balance sheet value	% share in authorised capital (at par)	Balance sheet value	% share in authorised capital (at par)
<b>Investments in resident shares, of which:</b>	<b>4,866</b>		<b>4,866</b>	
Sberbank	4,563	60.57	4,563	60.57
Moscow Interbank Currency Exchange (MICEX)	300	28.76	300	28.76
St Petersburg Currency Exchange (SPCEX)	3	8.90	3	8.90
<b>Investments in non-resident shares, of which:</b>	<b>1,131</b>		<b>1,227</b>	
Bank for International Settlements, Basel	1,130	0.59	1,227	0.59
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium	0.559	0.006	0.050	0.001
<b>Other investments in resident capital, of which:</b>	<b>25</b>		<b>25</b>	
National Depository Centre (non-profit partnership)	25	49.00	25	49.00
<b>Other investments, of which:</b>	<b>10</b>		<b>10</b>	
Interstate Bank	10	50.00	10	50.00

In line with a decision of its Board of Directors, the Bank of Russia increased its stake in the authorised capital of SWIFT corporation by buying six shares. This purchase is acknowledged by SWIFT General Terms and Conditions and is binding upon corporation members.

## STATEMENT ON BANK OF RUSSIA PERSONNEL COSTS

Items of expenditure	<i>(million rubles)</i>	
	2006	2005
Remuneration	29,732	25,813
Salary and other benefit accruals	5,344	4,929
Other benefits	2,358	2,883
<b>Total Bank of Russia personnel costs</b>	<b>37,434</b>	<b>33,625</b>

Bank of Russia personnel costs in 2006 increased by 3,809 million rubles, or 11.3% year on year; of this, remuneration increased by 3,919 million rubles, or 15.2%, and salary accruals by 415 million rubles, or 8.4%, while other employee benefits decreased by 525 million rubles, or 18.2%. Salary accruals grew more slowly than remuneration due to the use of the regressive social tax.

Remuneration expenses comprise: wages and salaries, seniority bonuses, hardship bonus payments to employees working in the Extreme North and similar regions under the applicable legislation, other bonus payments established by Bank of Russia regulations, annual paid leaves and study leaves, monthly bonus payments, year-end bonus payments and other benefits.

Other benefits provided to Bank of Russia employees under the applicable legislation are: holiday and lumpsum emergency allowances; compensation of holiday travel expenses for employees working in the Extreme North and similar regions and for non-working members of their families; compensation of travel expenses for employees working in the Extreme North and similar regions and members of their families moving to take up permanent residence elsewhere upon the expiry of their labour contract or due to retirement; benefits for employees living or working in the regions affected by the Chernobyl nuclear power plant disaster; benefits for employees taking leave to care after a child under the age of three, and allowances for temporary disability due to disease or injury paid during the first two days of disability.

The average number of employees on the Bank of Russia payroll stood at 75,416 in 2006 (2005: 75,702). The decrease by 286 employees, or 0.4%, is chiefly due to the implementation of measures to optimise the Bank of Russia structure.

Average monthly income per Bank of Russia employee in 2006 was 35,459 rubles (2005: 31,589 rubles).

The average unified social tax rate decreased to 17.8% in 2006 from 18.9% in 2005. Deductions to the Social Insurance Fund for compulsory social insurance against employment injury and occupational disease were effected at the established rate of 0.2%.

## STATEMENT ON CAPITAL INVESTMENT BUDGET PERFORMANCE

*(million rubles)*

	Approved for 2006	Actual amount in 2006	Actual amount in 2005
<b>Capital investment</b>			
<b>Capital investment</b>	<b>12,014</b>	<b>10,416</b>	<b>8,828</b>
Capital investment in fixed assets, of which:	11,229	10,048	8,571
— capital investment in information technology	5,127	4,708	3,878
— capital investment in construction (reconstruction) and logistics (except cash turnover management)	3,577	3,314	2,863
— capital investment in cash turnover management	1,498	1,015	952
— capital investment relating to security and protection of Bank of Russia facilities	1,027	1,011	878
Capital investment in intangible assets	519	368	257
Centralised capital investment reserve	266	—	—
<b>Other capital expenditure</b>	<b>786</b>	<b>594</b>	<b>836</b>
<b>Total capital expenditure</b>	<b>12,800</b>	<b>11,010</b>	<b>9,664</b>

Capital investment in information technology and construction (reconstruction) and logistics accounted for the largest part of Bank of Russia capital investment (45.2% and 31.8%, respectively). Capital investment in cash turnover management accounted for 9.8%, capital investment in security and the protection of Bank of Russia facilities — 9.7% and capital investment in intangible assets — 3.5%.

Capital investment in information technology in 2006 increased by 830 million rubles, or 21.4%, year on year and these funds were used to finance the purchase and maintenance of the accounting operations systems, the development of collective data processing centres, the transfer of data processing in the Bank of Russia regional branches to collective centres, the upgrading of the existing and development of new information analysis systems, the replacement of obsolete computer and office equipment, and the modernisation of the Bank of Russia technical infrastructure.

Capital investment in construction (reconstruction) and logistics, excluding cash turnover management, increased by 451 million rubles, or 15.8%, year on year in 2006 and comprised expenditures on the construction (reconstruction) of office buildings and other facilities and the purchase of large-size appliances, equipment, furniture and transport vehicles.

In 2006 the Bank of Russia financed 112 construction (reconstruction) projects, of which 22 projects were continued from the previous years, 42 launched anew and 48 were in the blueprint stage.

Large-size appliances, equipment and furniture were purchased to fit out capital repair projects, replace expired-date equipment, appliances and furniture and develop and modernise the Bank of Russia information and telecommunications system.

Capital investment relating to cash turnover management in 2006 comprises expenses on the construction and reconstruction of 13 money vaults and cash centres (five continued from the previous years, four launched anew and four in the blueprint stage), the replacement of banknote counting and sorting machines, the purchase of facilities and equipment to automate cash operations, the

modernisation of storerooms for valuables, the purchase of special-purpose transport vehicles and the construction of special-purpose railway cars to carry reserve funds. Expenditures on these purposes in 2006 increased by 63 million rubles, or 6.6% year on year.

Capital investment relating to security and the protection of Bank of Russia facilities increased by 133 million rubles, or 15.1%, year on year in 2006 and included expenditures on the replacement of outdated security equipment and the development of new security and surveillance systems.

Capital investment in intangible assets was used to develop new computer software products to ensure the security and safety of banking information that constitutes the intellectual property of the Bank of Russia. Compared to 2005, in 2006 these expenditures increased by 111 million rubles, or 43.2%, as the Bank of Russia upgraded existing and developed new information analysis systems for its various divisions.

*Other capital expenditure* includes expenses on the purchase of software products (and the rights to use them), which are not related to intangible assets, to support Bank of Russia activities and licences, certificates and permits with terms exceeding one year.





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## **AUDITOR'S REPORT**

### **on the Bank of Russia Annual Financial Statements as of January 1, 2007**

#### **To the Management of the Central Bank of the Russian Federation:**

- 1 We have audited the attached Annual Financial Statements of the Central Bank of the Russian Federation (hereinafter referred to as the Bank of Russia) for the period from January 1, 2006, through December 31, 2006. Pursuant to Article 25 of Federal Law No. 86-FZ, dated July 10, 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia Annual Financial Statements denote: the annual balance sheet, the profit and loss account, including the statement on profit and its allocation, the statement on Bank of Russia reserves and funds, the statement on Bank of Russia management of securities and stakeholdings constituting Bank of Russia property, the statement on Bank of Russia personnel costs and the statement on capital investment budget performance (hereinafter all these statements are referred to as the Annual Financial Statements). The Annual Financial Statements have been prepared by Bank of Russia management on the basis of the accounting reports compiled in compliance with the requirements of Russian legislation and Bank of Russia regulations. The Annual Financial Statements prepared on this basis differ significantly from the financial statements compiled according to International Financial Reporting Standards, especially in respect to the evaluation of assets and capital and recognition of liabilities.
- 2 The responsibility for compiling and presenting the Annual Financial Statements is borne by Bank of Russia management. Our duty is to express our opinion based on the audit we have conducted regarding the credibility of these Annual Financial Statements in all material respects and on compliance of the accounting procedure with the requirements of Russian legislation and Bank of Russia regulations in all material respects for the purposes of compiling the Annual Financial Statements.

The company is an authorised user of PricewaterhouseCoopers name and trademark.



3 We have conducted this audit in compliance with:

- the Federal Law on Auditing;
- the Federal Law on the Central Bank of the Russian Federation (Bank of Russia);
- the Federal Audit Rules (Standards);
- Bank of Russia regulations;
- international audit standards.

We planned and conducted our audit in compliance with the requirements of Russian legislation in a way that would allow us to state with a fair degree of certainty that the Annual Financial Statements do not contain any material distortions. Pursuant to Russian legislation, our audit has been conducted on a selective basis and included a study based on testing proofs confirming the numerical indicators and disclosure of information in the Annual Financial Statements about business activities of the Bank of Russia, the assessment of compliance with the accounting principles and rules used in preparing the Annual Financial Statements, an examination of the major estimated indicators received by Bank of Russia management in the course of compiling the Annual Financial Statements and also an assessment of the overall presentation of the Annual Financial Statements. We believe that allowing for the limitation placed on the scope of our work, described in paragraph 4 below, the audit we have conducted in compliance with the requirements of Russian legislation gives us sufficient reason to express our opinion on the credibility of the Annual Financial Statements in all material respects and on the compliance of the accounting procedure with the requirements of Russian legislation and Bank of Russia regulations in all material respects for the purposes of compiling the Annual Financial Statements.

4 The scope of our work and the auditor's report were limited in respect to some balance sheet and profit and loss accounts and operations, access to which was restricted by provisions of Russian Federation Law No. 5485-1, dated July 21, 1993, 'On State Secrecy' (with subsequent amendments). Under Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the credibility of data cited below, which are included in the balance sheet and profit and loss account as part of the Bank of Russia Annual Financial Statements as of January 1, 2007, was confirmed by the Audit Chamber of the Russian Federation in its Statement of April 28, 2007, on the Results of the Examination of the Accounts and Operations of the Central Bank of the Russian Federation for 2006 Covered by Russian Federation Law No. 5485-1, Dated July 21, 1993, 'On State Secrecy'.

These accounts and operations within the Bank of Russia Annual Financial Statements as of January 1, 2007, comprise:

- assets totalling 20,128 million rubles;
- liabilities totalling 1,314 million rubles;
- income totalling 2,347 million rubles;
- expenses totalling 10,657 million rubles.



- 5 We believe that leaving aside any adjustments that might have been necessary in the absence of the limitation on the scope of our work, indicated in paragraph 4 of this auditor's report, these Bank of Russia Annual Financial Statements as of January 1, 2007, truly and fairly reflect in all material respects the financial situation of the Bank of Russia as of January 1, 2007, and the financial results of its activity for the period from January 1, 2006, through December 31, 2006, pursuant to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Federal Law on Accounting and Regulation on Accounting Rules of the Central Bank of the Russian Federation (Bank of Russia) No. 66-P, dated January 1, 2006.

May 14, 2007

Director of the Closed Joint-Stock Company  
PricewaterhouseCoopers Audit

Y.V. Filippova

Auditor  
(Certificate of Competence No. K 008368  
issued on November 12, 2003, for an indefinite term)

T.A. Klyuchkina



THE AUDIT CHAMBER  
OF THE RUSSIAN FEDERATION

**AUDITOR**

119992, Moscow, GSP-2, Zubovskaya St. 2

April 28, 2007

No. 06-78/06-03

S.M. Ignatiev,  
Chairman  
Central Bank  
of the Russian Federation

### STATEMENT

**on the Results of the Examination of the Accounts and Operations**

**of the Central Bank of the Russian Federation for 2006**

**Covered by the Russian Federation State Secrecy Law**

**(approved by a decision of the Russian Federation Audit Chamber Collegium,  
dated April 27, 2006, Protocol No. 19 K(537))**

The Audit Chamber of the Russian Federation has examined the accounts and operations of the Central Bank of the Russian Federation for 2006 covered by the Russian Federation State Secrecy Law in line with the work schedule of the Audit Chamber of the Russian Federation for 2007 and pursuant to Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

The responsibility for including information in the category of data covered by the Russian Federation State Secrecy Law and, consequently, for dividing the authority of the Audit Chamber of the Russian Federation and the Bank of Russia Auditor of the Bank of Russia Annual Financial Statements for 2006 is borne by the management of the Central Bank of the Russian Federation.

The duty of the Audit Chamber of the Russian Federation under the applicable legislation is to draw up a statement on the results of the examination of Bank of Russia accounts and operations covered by the Federal State Secrecy Law and express its opinion regarding the credibility of the Bank of Russia Annual Financial Statements in all material respects and regarding the compliance of the accounting procedure with Russian legislation.

The Audit Chamber of the Russian Federation conducted the examination in such a way as to become sufficiently convinced that the Bank of Russia consolidated balance sheet (in respect to sub-

accounts and off-balance sheet accounts) as of January 1, 2007, consolidated profit and loss account for 2006, and statements that are part of the Bank of Russia Annual Financial Statements for 2006 do not contain any significant errors and reflect in a proper manner and in all material respects Bank of Russia assets and liabilities as of January 1, 2007, Bank of Russia income and expenses for 2006 in line with the Bank of Russia accounting policy.

Having examined the accounts and operations of the Central Bank of the Russian Federation for 2006, covered by the Russian Federation State Secrecy Law, the Audit Chamber of the Russian Federation confirms (within its authority) the following data:

- the Bank of Russia annual balance sheet as of January 1, 2007 (balance sheet assets totalling 20,128 million rubles and balance sheet liabilities totalling 1,314 million rubles), profit and loss accounts for 2006 (income totalling 2,347 million rubles and expenses totalling 10,657 million rubles) and other statements included in the Bank of Russia Annual Financial Statements for 2006;
- the consolidated annual balance sheet as of January 1, 2007 (in respect to sub-accounts and off-balance sheet accounts) and consolidated profit and loss account for 2006;
- information on total Bank of Russia notes and coins of the 1997 issue (with the exception of commemorative coins containing precious metals) which should be in circulation as of January 1, 2007.

According to the accounting data of the Central Bank of the Russian Federation as of January 1, 2007, a total of 3,066,310.8 million rubles of Bank of Russia notes and coins of the 1997 issue should be in circulation (with the exception of commemorative coins containing precious metals).

In the period from January 1 through December 31, 2006, the Bank of Russia put into circulation banknotes and coins of the 1997 issue (with the exception of commemorative coins containing precious metals) totalling 4,607,152.7 million rubles and withdrew from circulation Bank of Russia notes and coins of the 1997 issue (with the exception of commemorative coins containing precious metals) totalling 3,739,988.2 million rubles.

Thus, in the period under review the amount of Bank of Russia notes and coins of the 1997 issue (with the exception of commemorative coins containing precious metals) in circulation increased by 867,164.5 million rubles.

N.I. Tabachkov



**ADDENDA**

**IV**

## IV.1. PRINCIPAL MEASURES TAKEN BY THE BANK OF RUSSIA TO IMPLEMENT THE SINGLE STATE MONETARY POLICY IN 2006

### MONETARY POLICY INSTRUMENTS AND MEASURES

**REQUIRED RESERVES.** To upgrade the regulatory framework of the required reserves, the Bank of Russia issued the following documents:

- Ordinance No. 1716-U, dated August 23, 2006, ‘On Changing the Required Reserve Ratios and Establishing the Averaging Ratio for Credit Institutions Other Than Non-bank Settlement Credit Institutions or Settlement Centres on the Organised Securities Market’;
- Ordinance No. 1728-U, dated September 27, 2006, ‘On Amending Bank of Russia Regulation No. 255-P, Dated March 29, 2004, on the Required Reserves of Credit Institutions’.

**INTEREST RATES.** For almost the entire first half of 2006, the refinance rate and overnight interest rate remained unchanged at 12% p.a. By decision of the Bank of Russia Board of Directors, on June 26, 2006, these rates were cut to 11.5% p.a. (Bank of Russia Ordinances Nos. 1695-U and 1696-U, dated June 23, 2006) and on October 23, 2006, they were reduced to 11% p.a. (Bank of Russia Ordinances Nos. 1734-U and 1735-U, dated October 20, 2006).

The Bank of Russia Board of Directors set the maximum deposit auction cut-off rates at:

- 9% p.a. for four-week deposits;
- 10% p.a. for three-month deposits.

The lowest possible cut-off rate on two-week *Lombard loan auctions* was set at 7% p.a.

The lowest possible *repo auction* cut-off rates were set at:

- 6% p.a. for one day;
- 6.5% p.a. for one week;
- 9% p.a. for three months.

The currency swap interest rate was based on the Bank of Russia refinance rate and the US Federal Reserve benchmark rate (on the ruble/US dollar instrument) or the European Central Bank benchmark rate (on the ruble/euro instrument).

To contain growth in money supply by sterilisation, the Bank of Russia Board of Directors raised *fixed interest rates* on deposit operations conducted by credit institutions on standard terms on March 6, April 10, August 7 and December 11, 2006. During the year these interest rates on ‘tom-next’ and ‘spot-next’ T+1 and ‘call’ deposit operations rose from 0.5% to 2.25% p.a. and ‘1-week’ and ‘spot-week’ — from 1.0% to 2.75% p.a. The increase in fixed interest rates was accompanied by a readjustment of deposit auction interest rates.

**REFINANCING CREDIT INSTITUTIONS.** To upgrade the refinancing mechanism, the Bank of Russia in 2006 drafted and enforced the following regulatory documents:

- Ordinance No. 1662-U, dated March 2, 2006, ‘On Amending Bank of Russia Regulation No. 273-P, Dated July 14, 2005, on the Procedure for Extending to Credit Institutions Bank of Russia Loans against Promissory Notes, Rights of Claim under Corporate Loan Agreements or Guarantees of Credit Institutions’ (registered at the Ministry of Justice on March 23, 2006, at No. 7612);



- Ordinance No. 1684-U, dated May 18, 2006, ‘On Amending Bank of Russia Ordinance No. 1482-U, Dated July 28, 2004, on the Bank of Russia Lombard List of Securities’;
  - Ordinance No. 1704-U, dated July 26, 2006, ‘On the Procedure for Cooperation between the Bank of Russia General Economic Department and Bank of Russia Regional Branches in Respect to Bank of Russia Loan Extension and Settlement’;
  - Ordinance No. 1705-U, dated July 26, 2006, ‘On Amending Bank of Russia Ordinance No. 1392-U, Dated March 18, 2004, on the Procedure for Compiling and Presenting Reports on Credit Institutions’ Compliance with Individual Criteria’;
  - Ordinance No. 1706-U, dated July 26, 2006, ‘On the Procedure for Sharing Information about Employees of the Bank of Russian Regional Branches and Bank of Russia General Economic Department’;
  - Order No. OD-16, dated January 17, 2006, and Order No. OD-482, dated September 25, 2006, ‘On the Disclosure of the Procedure for Extending to Credit Institutions Bank of Russia Loans against Promissory Notes, Rights of Claim under Corporate Loan Agreements or Guarantees of Credit Institutions’;
  - Order No. OD-107, dated March 7, 2006, ‘On Amending Bank of Russia Order No. OD-682, Dated September 22, 2004, on the Calculation of the Value of Collateral for Bank of Russia Loans’;
  - Order No. OD-164, dated April 5, 2006, Order No. OD-284, dated June 9, 2006, and Order No. OD-524, dated October 16, 2006, ‘On the Bank of Russia Correction Factors’;
  - Letters No. 10-T, dated January 31, 2006, No. 31-T, dated February 27, 2006, No. 41-T, dated March 21, 2006, No. 71-T, dated May 19, 2006, No. 87-T, dated June 20, 2006, No. 97-T, dated July 6, 2006, No. 138-T, dated October 31, 2006, No. 144-T, dated November 13, 2006, and No. 149-T, dated December 4, 2006, ‘On the Inclusion of Securities in the Bank of Russia Lombard List’;
  - Letter No. 113-T, dated August 25, 2006, ‘On the Conclusion of Agreements on the Extension of Bank of Russia Loans’.
- DEPOSIT OPERATIONS.** To improve the regulation of Bank of Russia deposit operations with resident credit institutions in the Russian currency, the Bank of Russia issued:
- Ordinance No. 1663-U, dated March 3, 2006, ‘On Raising Fixed Interest Rates on Deposit Operations Conducted with Credit Institutions in the Currency of the Russian Federation’;
  - Ordinance No. 1678-U, dated April 7, 2006, ‘On Raising Fixed Interest Rates on Deposit Operations Conducted with Credit Institutions in the Currency of the Russian Federation’;
  - Ordinance No. 1708-U, dated August 4, 2006, ‘On Raising Fixed Interest Rates on Deposit Operations Conducted with Credit Institutions in the Currency of the Russian Federation’;
  - Ordinance No. 1753-U, dated December 8, 2006, ‘On Raising Fixed Interest Rates on Deposit Operations Conducted with Credit Institutions in the Currency of the Russian Federation’;
  - Letter No. 114-T, dated August 25, 2006, ‘On the New Form of the General Deposit Agreement on Deposit Transactions in the Currency of the Russian Federation, Using the MICEX Electronic Trade System’.
- OPERATIONS WITH BANK OF RUSSIA BONDS AND GOVERNMENT SECURITIES.** To enhance the efficiency of the mechanism for providing and mopping up liquidity through its open-market operations, the Bank of Russia did the following:
- issued Regulation No. 284-P, dated March 29, 2006, ‘On the Procedure for Issuing Bank of Russia Bonds’, which stipulates the procedure for prompt placement of Bank of Russia bonds (OBR) without state registration of the issue. The first placement of short-term OBRs according to the new rules was made on March 15, 2007;
  - established the new rules for trades on the government securities market in October 2006. In particular, the Bank of Russia extended the duration of the main trading session by half an hour, i.e. till 5:30 p.m. This measure is aimed at expanding market participants’ potentials to manage their own funds and increasing liquidity of the government securities market.

## RELATIONS WITH THE FEDERAL BUDGET

To implement the 2006 Federal Budget Law, the Bank of Russia issued:

- Ordinance No. 1658-U, dated February 10, 2006, 'On the Opening for Local Self-government Bodies or Bodies Providing Cash Services for Local Budgets, including Federal Treasury Bodies, of Accounts to Record Funds Received from Entrepreneurial or Other Profit-Making Activities by Institutions Accountable to Local Self-Government Bodies at Bank of Russia Institutions or Credit Institutions and their Branches';
- Ordinance No. 1670-U, dated March 16, 2006, 'On Amending Bank of Russia Ordinance No. 1459-U, Dated June 28, 2004, on the Opening for Regional Government Bodies or Bodies Providing Cash Services for Regional Budgets, Including Russian Finance Ministry Federal Treasury Bodies, of Accounts to Record Funds Received from Entrepreneurial or Other Profit-Making Activities by Institutions Accountable to Regional Government Bodies at Bank of Russia Institutions or Credit Institutions and their Branches';
- Russian Federation Ministry of Finance and Bank of Russia Regulation No. 149n, No. 296-P, dated November 24, 2006, 'On the Procedure to Complete Operations on the 2006 Federal Budget Accounts Opened at Bank of Russia Settlement Network Divisions and Credit Institutions and their Branches'.

To fulfil the functions of manager of certain federal budget revenues, the Bank of Russia issued:

- Order No. OD-122, dated March 21, 2006, 'On the Management of Certain Federal Budget Revenues by the Central Bank of the Russian Federation', which was subsequently amended by Bank of Russia Order No. OD-632, dated November 16, 2006, Order No. OD-742, dated December 29, 2006, and Order No. OD-70, dated February 1, 2007;
- Regulation No. 300-P, dated December 25, 2006, 'On the Procedure for Managing Certain Federal Budget Revenues by the Bank of Russia';
- Letter No. 32-T, dated March 1, 2006, and Letter No. 68-T, dated May 16, 2006, on filling out margins in the payment orders for the transfer

- of certain revenues and fines managed by the Bank of Russia to the Russian budget system;
- Letter No. 176-T, dated December 29, 2006, containing Bank of Russia methodological recommendations for its regional branches on compiling forecasts of federal budget revenues managed by the Bank of Russia;
- Federal Treasury and Bank of Russia Letter No. 42-7.1-15/5.2-73, No. 21-T on a model agreement on cooperation between the regional branches of the Federal Treasury and the Bank of Russia in managing certain federal budget revenues;
- Letter No. 17-T, dated February 16, 2007, which made known to Bank of Russia regional branches the decision of the Bank of Russia and the Federal Treasury on the use of the Federal Treasury's electronic document turnover system in exchanging electronic documents between the regional branches of the Bank of Russia and Federal Treasury in the course of managing certain federal budget revenues by the Bank of Russia.

To create a regulatory and contractual basis for operations with the Stabilisation Fund assets, the Bank of Russia and Federal Treasury in July 2006 entered into a corresponding bank account agreement and adopted an attachment to the bank account agreement of February 10, 2005. In addition, for these purposes the Bank of Russia issued the following:

- Ordinance No. 1702-U, dated July 17, 2006, 'On the Procedure for Calculating and Entering to an Account Interest Accrued on the Balances of Stabilisation Fund Accounts';
- Order No. OD-364, dated July 19, 2006, 'On the Approval of the Procedure for Cooperation between Bank of Russia Divisions in the Course of Fulfilment by the Bank of Russia of its Duties under Bank Account Agreement No. 42-7.1-19/3.1-12 of July 11, 2006' (amended by Bank of Russia Order No. OD-687, dated December 19, 2006).

To implement Article 14 of the 2006 Federal Budget Law and meet the Federal Treasury's request, the Bank of Russia provided information on the number of accounts opened for the Russian Federal Property Management Fund and its

branches and representative offices as of March 1, March 15 and May 1, 2006 (Bank of Russia Letter No. 08-22-2/2043 of June 8, 2006).

To implement the provisions of the Federal Law 'On the Federal Compulsory Medical Insurance Fund Budget for 2006' and Russian Government resolutions, the Bank of Russia issued:

- Letter No. 2-T, dated January 17, 2006, 'On the Accounting Procedure for Funds Transferred in 2006 to Municipal (or Regional) First Aid Health Institutions Implementing the Government Supplementary Medical Aid Programme';
- Letter No. 39-T, dated March 16, 2006, 'On the Accounting Procedure for Funds Trans-

ferred in 2006 from the Federal Compulsory Medical Insurance Fund Budget for the Supplementary Medical Examination of Employees of Government and Municipal Educational, Healthcare, Social Security, Cultural and Physical Culture and Sports Institutions and Research Centres';

- Letter No. 27-T, dated February 21, 2006, 'On the Accounting Procedure for Funds Transferred in 2006 from the Federal Compulsory Medical Insurance Fund Budget for the Additional Financing of Out-Patient Services Provided to Non-working Retirees under the Regional Compulsory Medical Insurance Programme'.

### FOREIGN EXCHANGE REGULATION AND CONTROL

The foreign exchange regulation policy pursued by the Bank of Russia in 2006 was aimed at liberalising Russia's foreign exchange laws.

On May 1, 2006, the Bank of Russia cut by half the reserve requirements by issuing:

- Ordinance No. 1674-U, dated March 29, 2006, 'On Amending Bank of Russia Ordinance No. 1465-U, Dated June 29, 2004, on the Requirement to Create Reserves when Entering Funds to Special Bank Accounts and Writing off Funds from Special Bank Accounts';
- Ordinance No. 1675-U, dated March 29, 2006, 'On Amending Bank of Russia Ordinance No. 1577-U, Dated May 6, 2005, on the Requirement for Residents to Create Reserves when Transferring Funds to their Accounts (Deposits) Opened with Banks outside the Russian Federation'.

Bank of Russia Ordinances Nos. 1688-U and 1689-U, dated May 29, 2006, which came into force on July 1, 2006, lifted the requirement for residents and non-residents to use special accounts and make provisions when conducting certain foreign exchange operations.

Exercising the powers granted to it by Article 21 of Federal Law No. 173-FZ, the Bank of Russia issued Ordinance No. 1676-U, dated March 29, 2006, 'On Amending Bank of Russia Instruction No. 111-I, Dated March 30, 2004,

on the Compulsory Sale of Part of Foreign Currency Earnings on the Domestic Foreign Exchange Market', which reduced the amount of foreign currency earnings subject to mandatory sale.

In addition, the Bank of Russia issued:

- Ordinance No. 1713-U, dated August 8, 2006, 'On Amending Bank of Russia Instruction No. 117-I, Dated June 15, 2004, on the Procedure for Presenting Documents and Information by Residents and Non-residents to Authorised Banks when Conducting Foreign Exchange Operations, the Procedure for Accounting for Foreign Exchange Operations by Authorised Banks and the Procedure for Filling out Transaction Certificates', which changed the procedure for keeping the electronic database on foreign exchange operations and the procedure for filling out the transaction certificate;
- Ordinance No. 1751-U, dated November 29, 2006, 'On Amending Bank of Russia Instruction No. 113-I, Dated April 28, 2004, on the Procedure for Opening, Closing and Managing Exchange Offices and the Procedure for Conducting by Authorised Banks of Certain Kinds of Banking Operations and Other Transactions with Foreign Currency, the Russian Currency and Foreign Currency-Denominated Cheques, Including Traveller's Cheques, with Private Individuals', which

- changed the procedure for filling in the Register of Foreign Exchange and Cheque Operations;
- Ordinance No. 1783-U, dated December 27, 2006, 'On Invalidating Sub-point 2.21 of Point 2 of Annex 1 to Bank of Russia Ordinance No. 1317-U, Dated August 7, 2003, on the Procedure for Establishing Correspondent Relations by Authorised Banks with Non-resident Banks Registered in the States or Territories that Offer Preferential Tax Treatment and (or) Do not Require the Disclosure or Provision of Information when Conducting Financial Operations (Offshore Zones)', which removed the Republic of Panama from the List of States and Territories with Offshore Zones.
- In 2006 the Bank of Russia also issued:
- Letter No. 1-T, dated January 16, 2006, 'On Methodological Recommendations for Conducting Inspections of Authorised Banks in Respect to the Opening and Use of Special Resident and Non-resident Bank Accounts and Compliance with the Procedure for Making and Reimbursing Provisions in the Course of Foreign Exchange Operations';
  - Letter No. 82-T, dated June 9, 2006, 'On Informing Individuals by Authorised Banks of the Exchange Rates of the Currencies Used in Conducting Operations with Foreign Exchange and Cheques', which set the procedure for providing information to individuals on the terms and conditions of foreign exchange and cheque operations conducted by the exchange offices of authorised banks or their branches that use different exchange rates for different amounts of foreign exchange bought or sold;
  - Letter No. 122-T, dated September 22, 2006, 'On Posting Information on the Websites of Authorised Banks and their Branches about the Suspension of Operations or Closure of their Exchange Offices';
  - Letter No. 174-T, dated December 28, 2006, 'On the Reimbursement of Provisions and on Special Accounts', which specified the procedure for reimbursing provisions in Bank of Russia accounts after January 1, 2007, and explained the situation with operations with special accounts opened before January 1, 2007, according to the procedure established by the Bank of Russia.

## IV.2. PRINCIPAL MEASURES TO UPGRADE BANKING REGULATION AND SUPERVISION IN 2006

The Bank of Russia implemented a set of principal measures to upgrade banking regulation and supervision in 2006 in pursuance of Guidelines for the Single State Monetary Policy in 2006, the Action Plan for the Russian Federation Medium-term Social and Economic Development Programme (2006—2008) in the field of banking and the Priority Plan for the Implementation of the Russian Banking Sector Development Strategy until 2008.

At the same time, the Bank of Russia was guided by the best international practices, especially recommendations of the Basel Committee on Banking Supervision. As it attached special importance to substantive supervision, the Bank of Russia upgraded the regulation of government registration of credit institutions, licensing of banking operations, banking regulation and supervision, financial rehabilitation and liquidation of credit institutions and prevention of money laundering.

### MEASURES IN RESPECT TO HOUSEHOLD DEPOSIT INSURANCE

The Bank of Russia in 2006 continued to upgrade and expand the deposit insurance system in compliance with the requirements of Federal Law No. 177-FZ, dated December 23, 2003, ‘On Insurance of Household Deposits in Russian Banks’, and issued a number of regulatory documents in pursuance of this Law.

Bank of Russia Ordinance No. 1655-U, dated February 5, 2006, ‘On the Procedure for Considering the Request to Ban the Acceptance of Household Deposits and the Opening of Personal Bank Accounts by a Bank Judged Unfit to Participate in the Deposit Insurance System’, established the procedure for prohibiting the acceptance of household deposits and the opening of personal accounts and the decision-making procedure for the Bank of Russia Banking Supervision Committee for imposing the ban and making this decision known to the bank and Bank of Russia regional branch concerned.

Bank of Russia Ordinance No. 1724-U, dated September 20, 2006, ‘On Amending Bank of Russia Ordinance No. 1379-U, Dated January 16, 2004, on the Evaluation of Financial Soundness of a Bank for the Purpose of Recognising it Suf-

ficient for Participation in the Deposit Insurance System’ specified the procedure for detecting non-resident corporate entities in offshore zones which exert significant influence on the decisions taken by the management of a bank.

Bank of Russia Letter No. 21-T, dated February 14, 2006, ‘On the Clarification of Certain Questions Arising in Connection with the Imposition by the Bank of Russia of the Ban on Accepting Household Deposits and Opening Personal Bank Accounts Pursuant to Article 47 of the Federal Deposit Insurance Law’ answered the most typical questions asked in connection with the imposition of the Bank of Russia ban on a bank considered unfit to participate in the deposit insurance system.

Bank of Russia Letter No. 158-T, dated December 15, 2006, ‘On the Conduct of Credit Card Operations after the Imposition by the Bank of Russia of the Ban on Accepting Household Deposits and Opening Personal Bank Accounts Pursuant to Article 47 and Article 48 of the Federal Deposit Insurance Law’, explained the specific procedure for issuing credit cards and conducting operations with them after the imposition of the Bank of Russia ban.

## MEASURES TO IMPROVE THE METHODOLOGY OF ONGOING SUPERVISION OF CREDIT INSTITUTIONS

The Bank of Russia in 2006 issued a number of regulatory documents designed to encourage substantive, risk-oriented banking supervision.

Bank of Russia Ordinance No. 1656-U, dated February 6, 2006, 'On Action in Response to Detection of Evidence (Signs) of the Formation of Equity Capital or a Part Thereof by Using Improper Assets', which came into effect on March 26, 2006, specifies and describes in greater detail the procedure Bank of Russia divisions and regional branches should follow after they discover that investors have used improper assets to create equity capital or a part thereof and explains more clearly the possible methods of eliminating (covering) risks that arise when a credit institution provides property to investors for the purpose of creating equity capital (or a part thereof) from improper assets.

Bank of Russia Regulation No. 283-P, dated March 20, 2006, 'On the Loss Provisioning Procedure for Credit Institutions' (the new version of Bank of Russia Regulation No. 232-P, dated July 9, 2003, 'The Loss Provisioning Procedure for Credit Institutions'), Bank of Russia Ordinance No. 1671-U, dated March 20, 2006, 'On Amending Bank of Russia Regulation No. 254-P, Dated March 26, 2004, on the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loan and Similar Debts' and Bank of Russia Ordinance No. 1672-U, dated March 20, 2006, 'On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, 'On the Required Ratios for Banks' came into effect on June 1, 2006.

These regulatory documents change the methodology for assessing the risk of making losses on assets transferred by a credit institution for trust management, the methodology for portfolio provisioning and the procedure for making provisions for possible losses on contingent credit obligations, allowing for the collateral provided in the transaction; they also amend the procedure in respect to the claims made in transactions to acquire securities or other financial assets with an obligation for their reverse foreclosure and re-define the term 'guarantee deposit'.

Bank of Russia Instruction No. 129-I, dated April 26, 2006, 'On Banking Operations and Other Transactions Conducted by Non-bank Settlement Credit Institutions, the Required Ratios for Non-bank Settlement Credit Institutions and the Specific Procedure for Supervising them by the Bank of Russia', which came into force on October 1, 2006, established for non-bank settlement credit institutions, for the purpose of regulating (limiting) the risks they assume, a permissible combination of banking operations, the numerical values and methods of calculation of the required ratios and the specific procedure used by the Bank of Russia for overseeing compliance. To minimise liquidity and credit risks assumed by non-bank settlement credit institutions, the Instruction offers the financial instruments in which they could invest their temporarily free funds.

The Bank of Russia issued Letter No. 28-T, dated February 22, 2006, 'On the Implementation of Point 1.9.2 of Bank of Russia Instruction No. 124-I, Dated July 15, 2005, on Setting Limits on Open Currency Positions, the Methodology for Calculating them and the Specifics of Supervising their Observance by Credit Institutions'.

The Bank of Russia issued and registered at the Ministry of Justice Ordinance No. 1759-U, dated December 12, 2006, 'On Amending Bank of Russia Regulation No. 254-P, Dated March 26, 2004, on the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loan and Similar Debts', which introduced changes in respect to the exclusion of loans extended by banks to pawn shops, consumer cooperatives, small business funds and other financial organisations from the list of loans that require making bigger provisions pursuant to point 3.14 of Regulation No. 254-P (point 3.14 has been revised pursuant to point 52 of the Russian Banking Sector Development Strategy until 2008), the possibility of creating portfolios of depreciated overdue loans extended to individuals, depending on the existence and duration of overdue payments, the requirement for a credit institution to disclose the actual value of loans

extended to individuals and the list of instruments used as security for loans.

Bank of Russia Letter No. 175-T, dated December 29, 2006, 'On Calculation of the Effective Interest Rate on Loans Extended to Individuals' contains examples of how the effective interest rate on loans to individuals should be calculated.

To provide methodological support to its regional branches in analysing the activities of credit institutions, the Bank of Russia did the following:

- compiled the Methodological Guidebook for the Curator of a Credit Institution, which came to be known as the 'Curator's Manual', and placed it on the website of its supervision division as a recommended document;
- issued Letter No. 119-T, dated September 7, 2006, 'On Methodological Recommendations for the Analysis of Financial Statements Compiled by Credit Institutions According to the IFRS', which set out the principles of analysing consolidated and unconsolidated statements compiled by credit institutions according to the IFRS;
- continued to refine the 2000 recommendations on the analysis of the financial state of credit institutions and upgrade the computer-based system 'Analysis of the Financial Standing of a Bank' for the purpose of harmonising them with the methodologies used by the Bank of Russia to assess the financial soundness of a bank with the objective of recognising it sufficient for participation in the deposit insurance system. In the course of upgrading the aforementioned system, the Bank of Russia:
- developed the methodology for peering banks not only on the basis of their operation volumes, but also the nature and specialisation of their activities;
- monitored changes in individual bank performance indicators, making it possible to detect credit institutions whose balance sheet structure had changed significantly over the period under review, and monitored the balances and turnovers of balance sheet accounts for the purpose of detecting balance sheet accounts or groups of balance sheet accounts through which banks conducted the largest volume of operations.

To upgrade supervisory practices, switch from perfunctory procedures to a substantive assessment of the situation in a credit institution and implement risk-oriented supervision, the Bank of Russia issued Ordinance No. 1667-U, dated March 10, 2006, 'On Amending Bank of Russia Ordinance No. 1379-U, Dated January 16, 2004, on the Assessment of Financial Soundness of a Bank for the Purpose of Recognising it Sufficient for Participating in the Deposit Insurance System', which stipulated that by decision of the Bank of Russia Banking Supervision Committee, the financial result of a bank can be determined without taking into account the expenses (costs) that were necessitated by expansion of the business or that created conditions (or one of the conditions) for the implementation of financial rehabilitation measures. This also applies to the previous year's financial result (loss) of a bank, allowing for the amount of the funds used to cover it by decision of the annual general meeting of the founders (members) of the bank under Russian legislation.

The Bank of Russia continued to upgrade the system of monitoring banking sector financial stability by means of developing market risk and capital adequacy risk monitoring subsystems in addition to the existing ones, and began to conduct stress tests on a semi-annual basis.

It continued to implement the IMF Coordinated Compilation Exercise for Financial Soundness Indicators for Russia: the Bank of Russia now calculates and analyses 21 banking sector indicators and several financial and real estate market liquidity indicators.

In 2006 the Bank of Russia was involved in tackling the following taxation problems related to credit institutions:

- it proposed relieving credit institution executives of liability for non-fulfilment of the duty to control the compliance by organisations with cash operations rules and granting to tax authorities the right to verify compliance by corporate taxpayers other than credit institutions and by individual unincorporated entrepreneurs with the procedure for handling cash and conducting cash operations (these proposals have been submitted to the Finance Ministry);
- it proposed not applying VAT when banks transfer funds without opening bank accounts through the money transfer systems (the Fi-

- nance Ministry's official explanations on the issue were made known to Bank of Russia regional branches by Bank of Russia Operating Ordinance No. 147-T, dated December 4, 2006);
- it proposed exempting from tax incomes received by individuals from ruble deposits (this proposal has been submitted to the State Duma of the Russian Federation);
  - it proposed measures designed to improve tax management (these proposals have been submitted to the Chairman of the State Duma Budget and Tax Committee, Y.V. Vasilyev).

### MEASURES TO IMPROVE INSPECTION

To improve inspection, the Bank of Russia in 2006 issued the following regulations:

- Ordinance No. 1737-U, dated October 27, 2006, 'On Amending Bank of Russia Instruction No. 105-I, Dated August 25, 2003, on the Procedure for Conducting Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation';
  - Ordinance No. 1762-U, dated December 15, 2006, 'On Amending Bank of Russia Instruction No. 108-I, Dated December 1, 2003, on Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)'.  
To improve methodological support, the Bank of Russia sent the following documents to its regional branches:
    - Letter No. 60-T, dated April 28, 2006, 'On Methodological Recommendations for Conducting Inspections of Credit Institutions to Verify their Compliance with the Equity Capital Requirements';
    - Letter No. 84-T, dated June 15, 2006, 'On Methodological Recommendations for Verifying Banking Services Provided by Credit Institutions and their Branches to Customers through ATMs';
    - Letter No. 85-T, dated June 15, 2006, 'On Methodological Recommendations for Verifying the Correctness of Market Risk Calculation by Credit Institutions';
    - Letter No. 102-T, dated July 25, 2006, 'On Methodological Recommendations for Verifying Loans, Loan and Similar Debts';
    - Letter No. 157-T, dated December 14, 2006, 'On Methodological Recommendations for Verifying Credit Institution Transactions with Precious Metals';
    - Letter No. 167-T, dated December 25, 2006, 'On Methodological Recommendations for Verifying Promissory Note Transactions of Credit Institutions and their Branches';
    - Letter No. 169-T, dated December 26, 2006, 'On Methodological Recommendations for Making Preparations for the Inspection of a Credit Institution or its Branch'.
- To elucidate the practical implementation of its rules and regulations on inspection, the Bank of Russia sent to its regional branches Letter No. 62-T, dated May 3, 2006, 'On the Clarification of Questions Faced by Bank of Russia Regional Branches in the Course of Organising and Conducting Inspections of Credit Institutions and their Branches in Respect to the Latter's Compliance with the Reserve Requirements'.

### LICENSING CREDIT INSTITUTIONS' ACTIVITIES

Bank of Russia Instruction No. 128-I, dated March 10, 2006, 'On the Rules for Issuing and Registering Securities by Credit Institutions in the Russian Federation', issued pursuant to point 10 of Article 4 and Article 7 of the Federal Law on the Central Bank of the Russian Federation (Bank of Rus-

sia) to replace Bank of Russia Instruction No. 102-I, dated July 22, 2002, 'On the Rules for Issuing and Registering Securities by Credit Institutions in the Russian Federation', set up the procedure for issuing and registering securities by the issuing credit institutions, including mortgage securities, in compliance with the re-



quirements of the Federal Law on Mortgage Securities.

The Instruction contains new provisions reflecting the changes in the securities issue and registration procedure introduced by federal legislation for the purpose of creating conditions for the public offering of securities and lifting the requirement for the compulsory signing of a securities prospectus by a financial consultant. The Instruction imposed a stamp duty for the state registration of securities issues and prohibited the use of foreign currency as payment for securities, except cases in which shares of the issuing credit institution, which is an authorised bank, are paid for by another authorised bank on its own behalf and at its own expense.

The following changes were made to Bank of Russia Instruction No. 109-I, dated January 14, 2004, 'On the Procedure for Decision Making by the Bank of Russia on the State Registration of Credit Institutions and the Issue of Licences to Conduct Banking Operations':

- a credit institution or a branch of a credit institution may house its internal divisions in buildings (offices) that have been completed and put into operation but have not yet been put on the State Register of Real Estate Rights and Transactions (Bank of Russia Ordinance No. 1681-U, dated May 10, 2006);
- the procedure for drawing up and presenting by a credit institution a list of its members or information on the change in the composition of its members and (or) their stakes has been simplified by the requirement to report on a regular basis only the owners of more than 1% of the authorised capital of a credit institution; the requirement to pay a licence fee for the consideration of the request to grant a banking licence to a new credit institution, including a credit institution created as a result of reorganisation or a non-bank credit institution granted the status of a bank, and grant a banking licence to an operating credit institution wishing to expand the range of its operations has been lifted. At the same time, a newly-created credit institution should pay stamp duty for a banking licence at the rate of 0.1% of its declared authorised capital but no more than 40,000 rubles (Bank of Russia Ordinance No. 1754-U, dated December 11, 2006).

Bank of Russia Regulation No. 290-P, dated July 4, 2006, 'On the Procedure for Granting Bank of Russia Permits to Credit Institutions to Have Subsidiaries in Foreign States' set the procedure and conditions for the issue of Bank of Russia permits to credit institutions to open subsidiaries in foreign states and obtain the status of a parent company in respect to operating non-resident legal entities and the procedure and grounds for the refusal to grant such permits.

The following changes were made to Bank of Russia Regulation No. 230-P, dated June 4, 2003, 'On the Reorganisation of Credit Institutions by Merger and Acquisition':

- the Bank of Russia lifted the requirement to pay stamp duty for granting a banking licence to the acquiring credit institution if it requests a new banking licence (Bank of Russia Ordinance No. 1693-U, dated June 6, 2006);
- the Bank of Russia cancelled the provisions that gave it the right to set the authorised capital requirements for a newly-created credit institution and equity capital requirements for an operating credit institution because these requirements were set from January 1, 2007, by the Federal Law on Banks and Banking Activities (Bank of Russia Ordinance No. 1756-U, dated December 11, 2006).

Bank of Russia Ordinance No. 1691-U, dated June 5, 2006, 'On Amending Bank of Russia Regulation No. 227-P, Dated May 14, 2003, on the Procedure for Keeping and Providing Information on Persons Affiliated with Credit Institutions', cancelled the requirement for credit institutions to notify the Bank of Russia on paper about the changes and amendments made to the lists of affiliated persons and removed from this regulatory document the affiliated person reporting forms and the description of the procedure for presenting them to the Bank of Russia.

Bank of Russia Ordinance No. 1692-U, dated June 6, 2006, 'On Amending Bank of Russia Ordinance No. 1292-U, Dated June 19, 2003, on the Procedure for Submitting Documents by a Non-bank Credit Institution to the Bank of Russia for the Latter to Take the Decision on Granting the Non-bank Credit Institution the Status of a Bank' specified that if cash is insured in the amount no smaller than the minimum permissible balance of cash in the cash department, the statement by the

corresponding Bank of Russia regional branch on the possibility of granting a non-bank credit institution the status of a bank should contain information to the effect that the documents required by the Bank of Russia regulations have been submitted and that these documents comply with the established requirements. In addition, the document lifted the requirement to pay a licence fee for the consideration of the request of a non-bank credit institution to grant it a banking licence on account of its obtaining the status of a bank.

Bank of Russia Ordinance No. 1720-U, dated September 13, 2006, 'On Amending Bank of Russia Ordinance No. 1548-U, Dated February 7, 2005, on the Procedure for Opening (Closing) and Managing a Mobile Cash Office of a Bank (Branch)' enabled the mobile cash offices to receive and surrender cash and valuables not only in the bank or the branch of the bank that opened them, but also in other branches or internal divisions of the bank.

Pursuant to Article 11 and Article 11.1 of the Federal Law on Banks and Banking Activities, the Bank of Russia issued Ordinance No. 1755-U, dated December 11, 2006, 'On the Procedure for Determining the Ruble Equivalent of the Minimum Authorised Capital of a Newly Registered Credit Institution, the Minimum Equity Capital of a Bank, Including Banks Applying for a General Licence, and the Minimum Equity Capital of a Non-bank Credit Institution Applying for the Status of a Bank'.

Bank of Russia Ordinance No. 1763-U, dated December 15, 2006, 'On Amending Bank of Rus-

sia Regulation No. 268-P, Dated April 19, 2005, on the Procedure and Criteria for Evaluating the Financial State of Individual Founders (Members) of a Credit Institution' and Ordinance No. 1764-U, dated December 15, 2006, 'On Amending Bank of Russia Regulation No. 218-P, Dated March 19, 2003, on the Procedure and Criteria for Evaluating the Financial State of Corporate Founders (Members) of a Credit Institution' made it easier for credit institutions to place and trade their shares (stakes). Specifically, the document achieved the following:

- narrowed the range of acquirers whose financial position is evaluated when the authorised capital of a credit institution is paid up (this provision does not apply to newly-created credit institutions) to those who acquire more than 10 million rubles worth of shares (stakes) in a credit institution or more than 1% of the authorised capital of a credit institution (previously it was 600,000 rubles and 0.5%, respectively);
- extended the right to evaluate the financial state of persons who may directly or indirectly (through third persons) exert significant influence on decisions taken by management of a credit institution;
- repealed the procedure to verify the correctness of paying in the authorised capital of a credit institution, except newly-created credit institutions, if less than three months have passed since Bank of Russia prior permission and the actual payment for the shares (stakes) in a credit institution.

## FINANCIAL REHABILITATION AND LIQUIDATION OF CREDIT INSTITUTIONS

In connection with the coming into effect of Federal Law No. 150-FZ, dated July 27, 2006, 'On Amending Article 11 of the Federal Law on Insurance of Household Deposits in Russian Banks and Article 6 of the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System', the Bank of Russia issued Ordinance No. 1709-U, dated August 8, 2006, 'On Amending Bank of Russia Ordinance No. 1517-U, Dated November 17, 2004, on the Effectuation of Bank of Russia

Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System and the Procedure for Cooperation between Agent Banks and the Bank of Russia', which increased to 190,000 rubles the maximum amount of a Bank of Russia payment and changed the procedure for calculating payments on household deposits with bankrupt banks uncovered by the compulsory deposit insurance system.

Bank of Russia Ordinance No. 1717-U, dated August 24, 2006, 'On Amending Point I of Bank

of Russia Ordinance No. 1533-U, Dated December 22, 2004, on Determining the Value of Property (Assets) and Liabilities of a Credit Institution' was issued in connection with the change in the reporting procedure according to form 0409155 'Loss Provisioning Data', established by Bank of Russia Ordinance No. 1376-U, dated January 16, 2004, 'On the List, Forms and Procedure for Compiling and Presenting Credit Institution Reporting Forms to the Central Bank of the Russian Federation', which required correcting references to form 0409155 indicators used in determining the value of property (assets)

of a credit institution for the purpose of presenting to the arbitration court a Bank of Russia statement of evidence of insolvency (bankruptcy) of a credit institution.

In response to queries, the Bank of Russia issued Letter No. 72-T and Letter No. 73-T, dated May 24, 2006, which explained the procedure for filling in form 0409350 'On the Failure of a Credit Institution to Satisfy Individual Creditors' Claims under Pecuniary Obligations and to Effect Mandatory Payments Due to the Shortage or Absence of Funds in its Correspondent Accounts'.

### MAINTAINING THE CENTRAL CATALOGUE OF CREDIT HISTORIES

Bank of Russia Letter No. 69-T, dated May 17, 2006, 'On the Use of Corrective Measures against Credit Institutions for the Purpose of Implementing the Federal Law on Credit Histories' recommended Bank of Russia regional branches to again urge credit institutions to bring their activities into compliance with the Federal Law on Credit Histories and Bank of Russia regulations establishing the procedure for filing requests by credit institutions to the Central Catalogue of Credit Histories and the procedure for creating a code of a credit history maker.

If Bank of Russia regional branches found credit institutions guilty of violating these procedures before August 1, 2006, they were recommended to take preventive action envisaged by Bank of Russia Instruction No. 59, dated March 31, 1997, 'On Using Corrective Measures against Credit Institutions', and if credit institutions committed violations after August 1, 2006, they should be subjected to measures envisaged by Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

### MEASURES TO COUNTER MONEY LAUNDERING AND TERRORIST FINANCING

The Bank of Russia in 2006 continued to implement the provisions of Federal Law No. 115-FZ, dated August 7, 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (hereinafter referred to as Federal Law No. 115-FZ), and to take steps to enhance the effectiveness of the efforts made by the banking sector in this area. It focused on bringing its own rules and regulations in conformity with Federal Law No. 115-FZ and writing letters explaining to credit institutions how they can increase the efficiency of their efforts to combat money laundering and terrorist financing.

Specifically, the Bank of Russia issued:

— Ordinance No. 1721-U, dated September 14, 2006, 'On Amending Bank of Russia Regula-

tion No. 262-P, Dated August 19, 2004, 'On the Identification of Customers and Beneficiaries by Credit Institutions for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism', which was issued in connection with the passage of Federal Law No. 147-FZ, dated July 27, 2006, 'On Amending Article 5 and Article 7 of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (Federal Law No. 147-FZ established, among other things, cases which do not require individual customer or beneficiary identification);

— Ordinance No. 1751-U, dated November 29, 2006, 'On Amending Bank of Russia Instruc-

- tion No. 113-I, Dated April 28, 2004, on the Procedure for Opening, Closing and Managing Exchange Offices and the Procedure for Conducting by Authorised Banks of Certain Types of Banking Operations and Other Transactions with Foreign Currency, the Russian Currency and Foreign Currency- Denominated Cheques, Including Traveller's Cheques, with Private Individuals', which was issued in connection with the passing of Federal Law No. 147-FZ, dated July 27, 2006, 'On Amending Article 5 and Article 7 of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism';
- Letter No. 12-T, dated February 1, 2006, 'On the Procedure for Transferring Information to Credit Institutions Contained in State Registers Pursuant to the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism', which informed credit institutions that the Federal Tax Service issued Order No. SAE-3-09/325, dated July 15, 2005, 'On the Procedure for Transferring Information to Credit Institutions Contained in the State Registers Pursuant to the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism';
  - Letter No. 20-T, dated February 10, 2006, 'On the Conduct of Suspicious Operations through the Accounts of Joint-stock Commercial Bank AziyaUniversalBank', which contained recommendations for Bank of Russia regional branches on detecting signs of suspicious operations;
  - Letter No. 33-T, dated March 2, 2006, 'On the Use of Software Products', which contained recommendations for credit institutions on the use of exit control of messages sent to authorised bodies;
  - Letter No. 48-T, dated April 5, 2006, 'On the Form of Written Requests and the List of Executives Authorised to File Requests to Credit Institutions', which contains information on the approval by the Federal Financial Monitoring Service of Order No. 149, dated October 26, 2005, 'On the Approval of the Regulation on the Form of Written Requests and the List of Executives Authorised to File Requests to Credit Institutions';
  - Letter 51-T, dated April 18, 2006, 'On the Compliance by Credit Institutions with the Requirements of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism', which informs Bank of Russia regional branches of the change in the procedure of transferring to them of information received from the Federal Financial Monitoring Service;
  - Letter No. 81-T, dated June 7, 2006, 'On the Regulation of the US Financial Crime Enforcement Network (FinCEN) Setting Requirements for the US Financial Institutions when Opening and Maintaining Correspondent Accounts, Foreign Nationals' Accounts and Accounts of Politically Exposed Persons';
  - Letter No. 105-T, dated August 1, 2006, 'On the Wolfsberg Group Documents', which contains information on the publication by the Wolfsberg Group of the Guidance on a Risk Based Approach for Managing Money Laundering Risks;
  - Letter No. 111-T, dated August 23, 2006, 'On the Memorandum of the ARB Committee on the Prevention of Money Laundering and Terrorist Financing', which contains information on the adoption by the Committee of the Association of Russian Banks on May 18, 2006, of the Memorandum on Measures to Prevent the Use of Credit Institutions for Withdrawing Large Sums of Money from Legal Turnover and Moving them to the 'Shadow' Economy';
  - Letter No. 115-T, dated August 30, 2006, 'On the Implementation of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism in Respect to Identification of Customers who Receive Internet and Other Remote Banking Services', which contains recommendations on the identification of persons who have been granted or will be granted authority to manage a bank account (deposit), including the authority to manage a bank account (deposit) using the Internet and other remote banking techniques.

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Table 1

**KEY MACROECONOMIC INDICATORS**  
(in comparable prices, as % of previous year)

	2004	2005	2006
Gross domestic product	107.2	106.4	106.7
of which:			
— agriculture, hunting and forestry	103.0	101.0	101.7
— hydrocarbon production and mining	107.9	100.9	102.1
— manufacturing	106.7	105.7	104.8
— production and distribution of electric power, gas and water	102.0	101.3	102.6
— construction	110.3	110.6	114.1
— wholesale and retail trade, and other	109.2	109.9	108.7
— transportation and communications	110.9	106.8	109.4
GDP deflator index	120.1	119.2	116.1
Consumer price index (December on previous December)	111.7	110.9	109.0
Fixed capital investment	113.7	110.9	113.7
Retail trade turnover	113.3	112.8	113.9
Unemployment rate according to ILO methodology, as % of economically active population, annual average	8.2	7.6	7.2

Table 2

**CONSUMER PRICES BY GROUP OF GOODS AND SERVICES**  
(growth, December as % of previous December)

	2004	2005	2006
Consumer prices, total	11.7	10.9	9.0
of which:			
— food prices	12.3	9.6	8.7
of which:			
— food prices excluding vegetable and fruit prices	13.1	9.1	8.5
— vegetable and fruit prices	3.3	14.3	10.3
— non-food prices	7.4	6.4	6.0
— paid services provided to the public	17.7	21.0	13.9
Prices of goods and services included in calculation of core consumer price index (CCPI)	10.5	8.3	7.8

Note. Tables I—II are based on Rosstat data as of May 4, 2007, and Bank of Russia calculations.

Table 3

## CONSUMER PRICE INFLATION STRUCTURE

	2005		2006	
	Growth in percentage points	% contribution to growth	Growth in percentage points	% contribution to growth
<b>Headline inflation (December on December)</b>	<b>10.9</b>	<b>100.0</b>	<b>9.0</b>	<b>100.0</b>
Inflation growth due to:				
— change in prices of goods and services included in CCPI calculation	6.6	60.5	6.1	67.1
— change in prices of goods and services not included in CCPI calculation	4.3	39.5	3.0	32.9
of which:				
— change in vegetable and fruit prices	0.6	5.4	0.4	4.6
— change in administered service and fuel prices	3.7	34.1	2.6	28.3

Table 4

## GROSS VALUE ADDED STRUCTURE BY ECONOMIC ACTIVITY IN BASIC PRICES (%)

	2004	2005	2006
<b>Gross value added</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
of which:			
— agriculture, hunting and forestry	5.6	5.1	4.4
— hydrocarbon production and mining	9.4	10.9	10.4
— manufacturing	17.7	18.8	18.9
— production and distribution of electric power, gas and water	3.7	3.3	3.3
— construction	5.7	5.4	5.8
— wholesale and retail trade, and other	20.0	19.1	19.3
— transportation and communications	10.9	10.0	9.6
— other activities	27.0	27.4	28.3



Table 5

**STRUCTURE OF GDP CALCULATED BY INCOME CONSUMPTION METHOD IN CURRENT MARKET PRICES (%)**

	2004	2005	2006
<b>GDP calculated by income consumption method</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Expenditure on final consumption	66.9	66.3	66.8
of which:			
— household sector	49.3	49.1	48.6
— government sector	16.7	16.7	17.7
— non-profit organisations providing services to households	0.9	0.5	0.5
Gross capital formation	20.9	20.2	20.4
of which:			
— gross fixed capital formation (including net acquisition of valuables)	18.4	17.8	18.0
— change in inventories	2.5	2.4	2.4
Net exports of goods and services	12.2	13.5	12.8

Table 6

**GDP CONSUMPTION ELEMENTS IN COMPARABLE PRICES (as % of previous year)**

	2004	2005	2006
<b>Gross Domestic Product</b>	<b>107.2</b>	<b>106.4</b>	<b>106.7</b>
of which:			
— expenditure on final consumption	109.2	109.7	109.3
— by household sector	112.1	112.8	111.2
— by government sector	102.2	102.2	104.2
— by non-profit organisations providing services to households	88.8	81.4	89.7
— gross capital formation (including net acquisition of valuables)	112.2	107.2	113.4
— net exports of goods and services	87.8	87.2	84.2

Table 7

**GDP FORMATION STRUCTURE BY SOURCE OF INCOME (%)**

	2004	2005	2006
<b>Gross Domestic Product</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
of which:			
— remuneration of hired workers (including unreported earnings)	46.0	43.8	44.1
— net taxes on production and imports	16.8	19.7	20.0
— gross profit and gross mixed incomes	37.2	36.5	35.9

Table 8

**BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENSES IN RUSSIA (million rubles)**

	2005	2006	2006 as % of 2005
<b>Money income</b>	<b>13,667,835.2</b>	<b>16,868,316.1</b>	<b>123.4</b>
Wages and salaries	8,662,478.1	11,204,720.8	129.3
% share	63.4	66.4	
Social allowances	1,755,575.6	2,230,913.7	127.1
% share	12.8	13.2	
Income from entrepreneurial activities	1,580,335.7	1,884,903.4	119.3
% share	11.6	11.2	
Income from property	1,402,923.1	1,210,997.7	86.3
% share	10.3	7.2	
Other income	266,522.7	336,780.5	126.4
% share	1.9	2.0	
<b>Money expenses</b>	<b>10,873,979.0</b>	<b>13,722,076.7</b>	<b>126.2</b>
— consumer expenses	9,621,173.5	11,823,398.9	122.9
— compulsory payments and contributions	1,252,805.5	1,898,677.8	151.6
<b>Growth in savings and cash on hand, purchase of foreign currency</b>	<b>2,793,856.2</b>	<b>3,146,239.4</b>	<b>112.6</b>
— savings*	1,416,141.1	1,598,898.1	112.9
of which:			
— deposits and securities	687,198.2	1,175,936.1	171.1
— foreign currency purchase	1,172,971.5	1,236,480.0	105.4
— cash on hand	204,743.6	310,861.3	151.8
For the record:			
<b>% share of money income</b>			
— consumer expenses	70.4	70.1	
— compulsory payments and contributions	9.2	11.3	
— savings	10.3	9.5	
of which:			
— deposits and securities	5.0	7.0	
— foreign currency purchase	8.6	7.3	
— cash on hand	1.5	1.8	
<b>Disposable money income</b>	<b>12,516,717.5</b>	<b>15,124,562.6</b>	<b>120.8</b>
% share of			
— consumer expenses	76.9	78.2	
— savings	11.3	10.6	
of which:			
— deposits and securities	5.5	7.8	
— foreign currency purchase	9.4	8.2	
— cash on hand	1.6	2.0	
— remittances	0.8	1.0	

\* Savings include increase (decrease) in deposits, purchase of securities, change in accounts of self-employed entrepreneurs, change in debt on loans and purchase of real estate.

Table 9

**DIFFERENTIATION OF POPULATION BY INCOME**

	2004	2005	2006
Funds ratio, times*	15.2	14.9	15.3
Gini coefficient, units**	0.409	0.406	0.410

\* The funds ratio is the ratio between average income of the highest-income 10% of population and the lowest-income 10% of population.

\*\* The Gini coefficient (income concentration index) shows the extent to which the actual distribution of household incomes deviates from the even distribution line. In the case of an even distribution of income, the Gini coefficient tends towards zero; the greater the income differentiation of the population, the closer the Gini coefficient is to 1.

Table 10

## MAJOR FINANCIAL PERFORMANCE INDICATORS OF LARGE AND MEDIUM-SIZED ENTERPRISES IN 2006 (as % of 2005)

	Net financial result	Working assets			Payables		Receivables	
		total	of which:		total	of which overdue	total	of which overdue
			short-term financial investment	cash				
<b>Total</b>	<b>131.6</b>	<b>130.6</b>	<b>132.5</b>	<b>125.2</b>	<b>120.5</b>	<b>85.9</b>	<b>124.3</b>	<b>121.5</b>
Agriculture, hunting and forestry	111.8	139.4	162.9	148.6	100.8	73.1	144.7	99.8
Hydrocarbon production and mining	103.2	123.8	156.9	131.2	94.0	67.8	101.1	66.6
of which:								
— fuel and energy production	101.0	125.0	183.4	141.2	92.8	66.5	99.1	65.3
Manufacturing	153.4	131.4	115.9	118.9	125.3	86.6	143.0	251.2
Production and distribution of electric power, gas and water	88.5	136.9	138.3	126.8	108.9	97.0	91.3	84.5
Construction	157.6	140.6	114.2	161.0	134.8	93.8	132.1	92.2
Wholesale and retail trade, and other	149.7	135.4	140.8	116.5	133.9	104.5	118.3	116.5
Transportation and communications	129.6	118.1	114.6	116.1	110.6	76.8	113.2	76.7

Table 11

**PAYMENTS FOR PRODUCE SHIPPED (WORK PERFORMED AND SERVICES PROVIDED)  
BY MAJOR TAXPAYERS AND INDUSTRIAL MONOPOLIES**

	2006		As % of 2005
	billion rubles	structure of payments, %	
<b>Value of produce shipped</b>	<b>16,069.0</b>		<b>125.4</b>
of which:			
— paid-for produce	15,009.0	100.0	127.4
of which produce paid for with:			
— money	14,347.4	95.6	129.4
— promissory notes	210.2	1.4	81.2
— transfer of rights of claim on pecuniary obligations	9.0	0.1	120.0
— netting of claims	376.2	2.5	102.2
— barter arrangements	10.2	0.1	54.4
— other kinds of settlement	55.9	0.3	158.9

Table 12

**RUSSIA'S MERCHANDISE TRADE**  
(according to balance of payments methodology)

	Billion US dollars							As % of previous year						
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
<b>all countries</b>														
Turnover	149.9	155.6	168.3	212.0	280.6	369.2	468.6	130.2	103.8	108.1	126.0	132.4	131.6	126.9
Exports	105.0	101.9	107.3	135.9	183.2	243.8	303.9	139.0	97.0	105.3	126.7	134.8	133.1	124.7
Imports	44.9	53.8	61.0	76.1	97.4	125.4	164.7	113.5	119.8	113.4	124.8	128.0	128.8	131.3
Balance	60.2	48.1	46.3	59.9	85.8	118.4	139.2	167.1	80.0	96.3	129.2	143.4	137.9	117.6
<b>non-CIS countries</b>														
Turnover	122.2	127.3	139.7	175.6	230.5	313.8	400.7	131.8	104.2	109.7	125.6	131.3	136.1	127.7
Exports	90.8	86.6	90.9	114.6	153.0	210.2	260.6	142.8	95.4	105.0	126.0	133.5	137.4	123.9
Imports	31.4	40.7	48.8	61.0	77.5	103.5	140.1	107.8	129.6	119.9	124.9	127.0	133.6	135.3
Balance	59.3	45.9	42.1	53.6	75.5	106.7	120.4	172.5	77.3	91.8	127.2	140.9	141.3	112.9
<b>CIS countries</b>														
Turnover	27.7	28.3	28.5	36.4	50.1	55.4	67.9	123.7	102.3	100.8	127.7	137.5	110.7	122.5
Exports	14.2	15.3	16.4	21.4	30.2	33.5	43.4	118.8	107.2	107.2	130.4	141.4	111.1	129.3
Imports	13.4	13.0	12.2	15.1	19.9	21.9	24.6	129.4	97.1	93.2	124.1	131.9	110.1	112.2
Balance	0.8	2.2	4.2	6.3	10.3	11.7	18.8	50.9	271.1	189.5	148.7	164.2	113	161.3

Note. Total exports for 2003 in Tables 12, 13 and 15 include the value of crude oil exported in 2003 and cleared by customs in January 2004.

Table 13

**COMMODITY STRUCTURE OF RUSSIAN EXPORTS**  
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>141</b>	<b>97</b>	<b>107</b>	<b>126</b>	<b>135</b>	<b>133</b>	<b>125</b>
Mineral products,	53.8	54.7	55.2	57.6	57.8	64.8	65.9	170	98	108	132	136	149	127
of which:														
— fuel and energy products	53.1	54.1	54.6	57.0	57.2	64.0	65.3	171	99	108	132	135	149	127
of which:														
— oil	24.5	25.0	27.3	29.5	32.5	34.6	33.9	179	99	116	136	149	141	123
— natural gas	16.1	17.8	14.9	14.9	12.0	13.0	14.5	147	107	89	126	109	144	140
Metals, metal products	16.9	14.7	14.1	13.8	16.7	14.0	13.9	119	84	103	123	164	111	124
Machinery, equipment, transport vehicles	8.8	10.4	9.4	8.9	7.7	5.6	5.8	115	115	96	119	117	96	130
Chemicals, rubber	7.2	7.5	6.9	6.8	6.6	5.9	5.5	120	101	99	124	131	120	116
Timber and pulp-and-paper products	4.3	4.4	4.6	4.2	3.9	3.4	3.2	120	99	111	114	126	118	115
Gemstones, precious metals and articles made of them	4.8	4.1	4.5	3.9	3.5	2.8	2.5	113	83	116	109	122	107	112
Foodstuffs, agricultural raw materials (except textiles)	1.6	1.9	2.6	2.5	1.8	1.9	1.8	164	117	148	122	96	137	122
Textiles, textile products, footwear	0.8	0.8	0.8	0.7	0.6	0.4	0.3	101	98	111	107	118	86	98
Leather, furs and articles made of them	0.3	0.2	0.3	0.2	0.2	0.1	0.1	130	85	117	124	107	93	111
Other goods	1.5	1.3	1.6	1.4	1.2	1.1	1.0	116	87	129	117	113	117	114
For the record:														
Total exports, billion US dollars (Source: Federal Customs Service)	103.1	100.0	106.7	134.5	181.7	241.5	301.5							

Table 14

**COMMODITY STRUCTURE OF RUSSIAN IMPORTS**  
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>112</b>	<b>124</b>	<b>110</b>	<b>124</b>	<b>132</b>	<b>131</b>	<b>140</b>
Machinery, equipment, transport vehicles	31.4	34.0	36.3	37.4	41.1	44.0	47.6	106	134	118	128	145	140	151
Chemicals, rubber	17.9	18.2	16.7	16.8	15.8	16.5	15.8	125	126	101	124	124	136	134
Foodstuffs, agricultural raw materials (except textiles)	21.8	22.0	22.5	21.0	18.3	17.7	15.7	91	125	113	116	115	126	124
Metals, metal products	8.1	7.2	6.3	7.2	7.7	7.5	7.4	126	110	97	141	141	127	139
Textiles, textile products, footwear	5.9	5.5	5.3	4.8	4.3	3.7	4.0	126	115	106	114	118	111	151
Timber and pulp-and-paper products	3.8	4.0	4.2	4.2	3.8	3.3	2.9	120	130	114	125	119	114	120
Mineral products,	6.3	4.1	3.7	3.8	4.0	3.1	2.4	177	80	101	125	142	99	109
of which:														
— fuel and energy products	4.3	2.5	2.2	2.3	2.2	1.6	1.3	188	71	100	129	126	97	115
Leather, furs and articles made of them	0.4	0.5	0.4	0.4	0.3	0.3	0.3	146	175	94	110	109	112	156
Gemstones, precious metals and articles made of them	0.2	0.1	0.1	0.1	0.2	0.3	0.2	161	35	143	173	252	150	119
Other goods	4.2	4.4	4.5	4.3	4.5	3.6	3.7	118	134	111	122	130	114	138
For the record:														
Total imports, billion US dollars (Source: Federal Customs Service)	33.9	41.9	46.2	57.3	75.6	98.7	137.8							



Table 15

**RUSSIA'S EXPORTS TO MAJOR TRADING PARTNERS**  
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>141</b>	<b>97</b>	<b>107</b>	<b>126</b>	<b>135</b>	<b>133</b>	<b>125</b>
of which:														
CIS countries	13.4	14.6	14.7	15.3	16.2	13.5	14.0	129	106	107	131	143	111	130
of which:														
EurAsEC countries	—	8.3	8.0	8.3	9.0	7.1	8.0	—	—	102	132	146	106	139
Other countries	—	6.3	6.7	7.0	7.2	6.4	6.0	—	—	114	130	140	117	119
Non-CIS countries	86.6	85.4	85.3	84.7	83.8	86.5	86.0	144	96	106	125	133	138	124
of which:														
EU countries	35.8	36.7	35.4	35.3	46.0	55.3	56.6	148	100	103	126	176	160	128
APEC countries	15.1	15.1	15.3	14.4	14.8	12.4	11.9	122	97	108	119	139	111	120
Other countries	35.7	33.6	34.6	35.0	23.0	18.8	17.5	150	91	110	128	88	110	116
For the record:														
15 EU member countries	35.8	36.7	35.4	35.3	36.3	41.5	42.6	148	100	103	126	139	152	128
OECD member countries	59.3	58.7	57.6	56.6	58.3	64.6	66.6	141	96	105	124	139	147	129

Note. In Tables 15—17 since May 2004 EU is represented by 25 member states, EurAsEC includes the Republic of Uzbekistan since 2006.

End

Major trading partners														
The Netherlands	4.2	4.7	7.0	6.6	8.4	10.2	11.9	118	108	158	119	173	161	146
Italy	7.0	7.4	7.0	6.5	6.7	7.9	8.3	193	102	101	117	139	158	132
Germany	9.0	9.2	7.6	7.8	7.3	8.2	8.1	149	100	88	130	127	148	124
China	5.1	5.6	6.4	6.2	5.6	5.4	5.2	149	107	122	122	122	129	121
Ukraine	4.9	5.3	5.5	5.7	5.9	5.1	5.0	105	105	111	130	141	115	121
Turkey	3.0	3.2	3.2	3.6	4.1	4.5	4.8	190	105	103	145	153	146	133
Belarus	5.4	5.3	5.5	5.6	6.2	4.2	4.3	148	96	110	129	148	90	129
Switzerland	3.7	2.3	5.0	4.3	4.2	4.5	4.0	115	60	232	109	132	140	112
Poland	4.3	4.2	3.5	3.4	3.1	3.6	3.8	171	94	89	124	123	151	133
UK	4.5	4.3	3.6	3.7	3.1	3.5	3.4	162	92	89	130	114	149	123
Finland	3.0	3.1	2.8	3.2	3.2	3.2	3.0	129	100	94	148	134	131	120
Kazakhstan	2.2	2.8	2.3	2.4	2.6	2.7	3.0	183	124	86	137	142	140	137
USA	4.5	4.2	3.7	3.1	3.6	2.6	3.0	99	90	95	106	157	96	141
France	1.8	2.3	2.5	2.6	2.4	2.5	2.5	157	118	118	132	126	138	124
Japan	2.7	2.4	1.7	1.8	1.9	1.5	1.5	130	88	74	135	140	110	125
South Korea	0.9	1.1	1.2	1.0	1.1	1.0	0.8	118	114	115	104	148	120	107
For the record:														
Total exports, billion US dollars (Source: Federal Customs Service)	103.1	100.0	106.7	134.5	181.7	241.5	301.5							

Table 16

**RUSSIA'S IMPORTS FROM MAJOR TRADING PARTNERS**  
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>112</b>	<b>124</b>	<b>110</b>	<b>124</b>	<b>132</b>	<b>131</b>	<b>140</b>
of which:														
CIS countries	34.3	26.7	22.0	22.9	23.5	19.2	16.2	139	97	91	129	135	107	118
of which:														
EurAsEC countries	—	14.7	13.2	13.1	13.4	9.3	8.9	—	—	98	124	135	90	134
Other countries	—	12.0	8.8	9.8	10.1	9.9	7.3	—	—	81	137	135	130	102
Non-CIS countries	65.7	73.3	78.0	77.1	76.5	80.8	83.8	101	138	117	123	131	138	145
of which:														
EU countries	32.9	36.9	39.7	38.7	43.0	44.2	44.0	100	138	119	121	146	134	139
APEC countries	16.1	18.5	19.1	19.8	21.5	25.6	28.6	113	142	113	129	144	155	155
Other countries	16.7	17.9	19.2	18.6	12.0	11.0	11.2	95	132	119	120	85	118	143
For the record:														
15 EU member countries	32.9	36.9	39.7	38.7	37.6	37.0	37.0	100	138	119	121	128	128	140
OECD member countries	51.6	56.7	59.5	58.7	59.0	61.3	62.6	105	136	116	123	132	136	142

End

Major trading partners														
Germany	11.5	13.9	14.3	14.1	14.0	13.4	13.4	93	149	114	123	130	126	139
China	2.8	3.9	5.2	5.8	6.3	7.4	9.4	106	174	146	138	143	153	177
Ukraine	10.8	9.2	7.0	7.7	8.1	7.9	6.7	144	105	84	137	137	128	118
Japan	1.7	2.1	2.1	3.3	5.2	5.9	5.7	125	152	113	192	209	148	133
Belarus	11.0	9.5	8.6	8.5	8.6	5.8	5.0	115	107	101	122	133	88	120
South Korea	1.1	1.7	2.0	2.3	2.7	4.1	4.9	113	202	128	143	152	198	169
USA	8.0	7.8	6.5	5.2	4.2	4.6	4.7	113	121	92	99	108	143	140
France	3.5	3.7	4.1	4.1	4.1	3.7	4.3	96	130	123	124	131	120	159
Italy	3.6	4.1	4.8	4.2	4.2	4.5	4.2	105	141	130	108	133	138	129
Finland	2.8	3.1	3.3	3.2	3.1	3.1	2.9	101	134	118	122	126	133	129
Kazakhstan	6.5	4.8	4.2	4.3	4.6	3.3	2.8	157	92	96	127	139	94	119
UK	2.5	2.4	2.4	2.5	2.7	2.8	2.7	127	117	112	129	143	135	132
Poland	2.1	2.3	2.8	3.0	3.1	2.8	2.5	119	134	135	132	135	119	124
The Netherlands	2.2	2.0	2.3	2.2	1.8	2.0	1.9	107	114	125	119	109	141	138
Turkey	1.0	1.2	1.6	1.6	1.6	1.8	1.9	112	149	140	127	133	141	154
Switzerland	0.8	0.9	0.9	0.9	0.9	0.9	0.9	88	144	107	127	122	135	147
For the record:														
Total imports, billion US dollars (Source: Federal Customs Service)	33.9	41.9	46.2	57.3	75.6	98.7	137.8							

Table 17

## RUSSIA'S FOREIGN TRADE IN SERVICES BY GROUP OF COUNTRIES IN 2005—2006 (million US dollars)

	Turnover			Exports			Imports			Balance	
	2005	2006	Rate of growth, %	2005	2006	Rate of growth, %	2005	2006	Rate of growth, %	2005	2006
<b>Total</b>	<b>64,037</b>	<b>75,608</b>	<b>118</b>	<b>24,601</b>	<b>30,340</b>	<b>123</b>	<b>39,436</b>	<b>45,268</b>	<b>115</b>	<b>-14,836</b>	<b>-14,928</b>
of which:											
CIS countries	9,361	11,146	119	4,381	5,959	136	4,979	5,187	104	-598	773
of which:											
EurAsEC countries	2,463	3,699	150	1,254	2,199	175	1,209	1,500	124	45	698
Other countries	4,741	4,893	103	1,883	2,195	117	2,858	2,698	94	-975	-503
Services not allocated by country	2,157	2,554	118	1,245	1,566	126	912	989	108	332	577
Non-CIS countries	54,676	64,462	118	20,219	24,381	121	34,457	40,081	116	-14,238	-15,701
of which:											
EU countries	26,659	30,675	115	9,909	11,710	118	16,750	18,965	113	-6,841	-7,255
APEC countries	8,049	10,200	127	4,034	5,084	126	4,015	5,116	127	19	-32
Other countries	13,045	15,910	122	4,390	5,541	126	8,655	10,369	120	-4,264	-4,828
Services not allocated by country	6,923	7,678	111	1,886	2,046	108	5,037	5,632	112	-3,151	-3,586
For the record:											
OECD countries	35,467	41,571	117	13,427	16,302	121	22,041	25,269	115	-8,614	-8,967

Table 18

## STRUCTURE OF BANK OF RUSSIA CUSTOMERS OTHER THAN CREDIT INSTITUTIONS AND NUMBER OF ACCOUNTS OPENED FOR THEM (thousand)

	Number of customers			Number of accounts		
	As of 1.01.2006	As of 1.01.2007	Change over 2006	As of 1.01.2006	As of 1.01.2007	Change over 2006
<b>Total</b>	<b>44.8</b>	<b>36.4</b>	<b>—8.4</b>	<b>87.4</b>	<b>83.2</b>	<b>—4.2</b>
Federal Treasury	1.8	1.2	—0.6	26.9	33.0	6.1
Regional and municipal budget executing bodies	3.3	2.9	—0.4	7.0	5.8	—1.2
Organisations financed from budgets of all levels	32.6	27.1	—5.5	42.4	35.7	—6.7
Government extrabudgetary funds	2.3	2.1	—0.2	4.5	4.4	—0.1
Other organisations	4.8	3.1	—1.7	6.6	4.3	—2.3

Table 19

## RUSSIA'S DOMESTIC GOVERNMENT DEBT STRUCTURE AS OF JANUARY 1, 2007 (at par, billion rubles)

Debt instruments	Total within domestic government debt	Of these, traded on organised securities market
Debt depreciation federal loan bonds (OFZ-AD)	675.2	575.2
Permanent coupon-income federal loan bonds (OFZ-PD)	205.6	205.6
Fixed coupon-income federal loan bonds (OFZ-FD)	94.8	94.8
Other debt accounted for as part of domestic government debt	89.3	—
<b>Total</b>	<b>1,064.9</b>	<b>875.6</b>

Table 20

**FINANCE MINISTRY DEBT TO THE BANK OF RUSSIA AS OF JANUARY 1, 2007 (million rubles)**

	At balance-sheet value
<b>Total debt*</b>	<b>272,246</b>
of which:	
Russian government debt obligations	272,246
of which:	
— OFZ-AD received as a result of the restructuring of Bank of Russia-owned OFZ-PK, OFZ-PD and OFZ-AD	165,904
— acquired through repos	25,633
— other debt obligations	80,709

\* Net of accrued coupon income.

Table 21

**TURNOVER OF RESIDENT OPERATIONS WITH NON-RESIDENTS TO BUY AND SELL RUSSIA'S OUTSTANDING FOREIGN CURRENCY-DENOMINATED DEBT OBLIGATIONS ON THE SECONDARY MARKET IN 2006**  
(at market prices, billion US dollars)

	Q1	Q2	Q3	Q4	2006
Eurobonds placed by open subscription	2.53	1.93	1.65	1.56	7.66
Eurobonds issued in the course of restructuring GKO	0.39	0.54	0.54	0.41	1.87
Eurobonds issued in the course of restructuring debt to London Club of commercial bank creditors	15.30	13.77	12.18	11.05	52.31
OGVZ and OGVZ bonds of 1999 issue	1.04	0.90	0.91	1.55	4.39

Table 22

## INSTITUTIONALISED FINANCIAL INTERMEDIARIES

	1.01.2007	For the record: 1.01.2006
<b>Credit institutions</b>		
Operating credit institutions, total	1,189	1,253
of which:		
— banks	1,143	1,205
— non-bank credit institutions	46	48
Operating credit institutions with foreign stakes in authorised capital	153	136
Branches of credit institutions operating in Russia	3,281	3,295
Representative offices of operating Russian credit institutions	699	467
<b>Insurance companies*</b>		
Operating insurance companies	918	1,075
<b>Unit investment funds**</b>		
Operating unit investment funds, total	641	395
of which:		
— open-end	305	205
— interval	89	63
— closed-end	247	127
<b>Non-government pension funds***</b>		
Operating non-government pension funds	289****	295

\* Source: Federal Insurance Supervision Service.

\*\* Source: News agency Cbonds.ru.

\*\*\* Source: Federal Financial Markets Service.

\*\*\*\* As of October 1, 2006.

Table 23

## RUSSIAN GOVERNMENT OUTSTANDING FOREIGN CURRENCY-DENOMINATED LOAN BONDS AS OF JANUARY 1, 2007

Date of issue	Maturity	Currency	Volume in circulation at par, million US dollars	Coupon interest rate, % p.a.
<b>Eurobonds placed by open subscription (2 issues)</b>				
26.06.1997	26.06.2007	US dollar (USD)	2,400	10
24.06.1998	26.06.2028	US dollar (USD)	2,500	12.75
<b>Eurobonds issued in the course of restructuring GKO bonds</b>				
24.07.1998	24.07.2018	US dollar (USD)	3,466	11
<b>Eurobonds issued in the course of restructuring debt to London Club of commercial bank creditors (2 issues)</b>				
31.03.2000	31.03.2010	US dollar (USD)	2,297	8.25
31.03.2000	29.03.2030	US dollar (USD)	21,218	5
<b>Domestic government foreign currency-denominated loan bonds (Series V and VII OGVZ bonds) and government foreign currency-denominated loan bonds issued in 1999 (OGVZ)</b>				
14.05.1993	14.05.2008	US dollar (USD)	2,837	3
14.05.1996	14.05.2011	US dollar (USD)	1,750	3
1.02.2000	14.11.2007	US dollar (USD)	445	3



Table 24

## RUSSIA'S BALANCE OF PAYMENTS FOR 2006 (analytical presentation, million US dollars)

	Q1	Q2	Q3	Q4	2006	For the record: 2005
<b>Current account</b>	<b>30,515</b>	<b>24,473</b>	<b>23,558</b>	<b>15,920</b>	<b>94,467</b>	<b>83,842</b>
Balance of trade	36,357	37,719	37,112	28,045	139,234	118,364
<i>Exports</i>	<i>67,355</i>	<i>76,546</i>	<i>79,894</i>	<i>80,131</i>	<i>303,926</i>	<i>243,798</i>
crude oil	23,310	27,517	27,922	23,533	102,283	83,438
petroleum products	9,538	12,085	12,529	10,520	44,672	33,807
natural gas	12,240	10,062	10,172	11,331	43,806	31,671
other	22,266	26,882	29,271	34,747	113,165	94,883
<i>Imports</i>	<i>-30,998</i>	<i>-38,827</i>	<i>-42,782</i>	<i>-52,085</i>	<i>-164,692</i>	<i>-125,434</i>
Balance of services	-2,616	-3,367	-4,797	-4,148	-14,928	-14,836
<i>Exports</i>	<i>5,790</i>	<i>7,447</i>	<i>8,574</i>	<i>8,529</i>	<i>30,340</i>	<i>24,601</i>
transportation services	2,103	2,619	2,579	2,781	10,081	9,113
travel	1,146	1,794	2,511	1,574	7,025	5,500
other services	2,542	3,034	3,484	4,174	13,234	9,988
<i>Imports</i>	<i>-8,407</i>	<i>-10,814</i>	<i>-13,370</i>	<i>-12,677</i>	<i>-45,268</i>	<i>-39,436</i>
transportation services	-1,202	-1,618	-1,839	-2,063	-6,722	-5,137
travel	-3,478	-4,540	-6,334	-4,456	-18,808	-18,006
other services	-3,726	-4,656	-5,198	-6,159	-19,739	-16,294
Wage balance	-623	-1,067	-1,605	-1,096	-4,391	-1,207
Balance of investment incomes	-2,582	-9,142	-6,390	-6,017	-24,130	-17,641
Income receivable	6,467	4,310	8,064	5,939	24,780	15,663
Income payable	-9,049	-13,452	-14,453	-11,956	-48,910	-33,304
<i>Federal government</i>	<i>-297</i>	<i>-355</i>	<i>-1,130</i>	<i>-525</i>	<i>-2,308</i>	<i>-3,099</i>
Income receivable	949	263	104	91	1,407	1,650
Income payable	-1,247	-618	-1,234	-616	-3,715	-4,749
<i>Regional and local governments (income payable)</i>	<i>-9</i>	<i>-62</i>	<i>-9</i>	<i>-42</i>	<i>-122</i>	<i>-135</i>
<i>Monetary authorities</i>	<i>1,484</i>	<i>2,851</i>	<i>2,918</i>	<i>3,001</i>	<i>10,254</i>	<i>3,695</i>
Income receivable	1,618	3,004	3,011	3,060	10,694	3,953
Income payable	-135	-153	-93	-59	-440	-258

Cont.

	Q1	Q2	Q3	Q4	2006	For the record: 2005
<i>Banks</i>	—317	—385	—426	—587	—1,714	—828
Income receivable	518	719	716	965	2,918	1,640
Income payable	—835	—1,103	—1,141	—1,552	—4,631	—2,468
<i>Other sectors</i>	—3,443	—11,190	—7,743	—7,864	—30,240	—17,274
Income receivable	3,381	324	4,233	1,824	9,762	8,421
Income payable	—6,824	—11,515	—11,976	—9,688	—40,002	—25,695
Balance of current transfers	—21	330	—763	—864	—1,317	—839
<b>Capital and financial account</b>	<b>—7,278</b>	<b>17,328</b>	<b>—12,958</b>	<b>14,776</b>	<b>11,868</b>	<b>—13,604</b>
<b>Capital account (capital transfers)</b>	<b>21</b>	<b>68</b>	<b>—32</b>	<b>129</b>	<b>186</b>	<b>—12,764</b>
<b>Financial account (except reserves)</b>	<b>—7,299</b>	<b>17,260</b>	<b>—12,925</b>	<b>14,647</b>	<b>11,682</b>	<b>—840</b>
<b>Liabilities (+ signifies increase, — signifies decrease)</b>	<b>22,282</b>	<b>16,492</b>	<b>—1,226</b>	<b>32,794</b>	<b>70,343</b>	<b>53,204</b>
<i>Federal government</i>	—2,049	—3,005	—22,507	—438	—27,999	—20,855
Portfolio investments (debt securities)	—1,125	—2,160	938	1,351	—995	—1,639
issuance	0	0	0	1,048	1,048	0
redemption (schedule)	—809	—1,624	—811	—455	—3,699	—5,194
principal	—235	—1,291	—253	—242	—2,021	—3,261
coupons	—575	—333	—558	—212	—1,677	—1,933
reinvestment of income	487	456	458	466	1,866	2,056
secondary market	—802	—991	1,291	291	—211	1,499
Loans	—989	1,014	—23,477	—436	—23,888	—18,907
utilisation	95	99	177	307	678	530
redemption (schedule)	—1,099	—805	—23,654	—929	—26,487	—19,794
restructuring	15	1,720	0	186	1,921	357
Overdue debt	40	—1,866	30	—1,355	—3,151	193
accumulation	52	27	34	53	167	213
repayment/restructuring	—12	—1,893	—4	—1,408	—3,317	—20
Other liabilities	25	6	2	2	35	—502
<i>Regional and local governments</i>	—10	—455	105	523	163	—302
<i>Monetary authorities</i>	5,593	—4,316	—3,462	—5,147	—7,331	2,821
IMF loans	0	0	0	0	0	—3,489
Other liabilities	5,593	—4,316	—3,462	—5,147	—7,331	6,309

	Q1	Q2	Q3	Q4	2006	For the record: 2005
<i>Banks</i>	6,728	9,292	11,752	23,572	51,345	19,233
Direct investments	285	731	344	1,150	2,510	1,997
Loans and deposits	6,080	8,282	11,271	21,971	47,603	17,765
Other liabilities	364	279	137	451	1,231	—529
<i>Other sectors</i>	12,020	14,976	12,887	14,283	54,165	52,308
Direct investments	7,153	9,003	8,288	1,778	26,221	10,769
Portfolio investments	2,863	1,480	8,816	—1,667	11,491	845
Loans	2,046	4,571	—4,151	14,375	16,840	40,900
Other liabilities	—42	—77	—65	—204	—388	—207
<b>Assets, except reserves (+ signifies decrease, — signifies increase)</b>	<b>—29,581</b>	<b>767</b>	<b>—11,700</b>	<b>—18,148</b>	<b>—58,661</b>	<b>—54,044</b>
<i>Federal government</i>	—828	—688	241	—185	—1,460	11,478
Loans	151	327	—4,320	—164	—4,006	931
Overdue debt	—1,003	—430	4,395	50	3,012	11,004
Other assets	24	—585	165	—71	—466	—457
<i>Monetary authorities</i>	—5,511	4,308	3,719	5,123	7,640	—5,306
<i>Banks</i>	—9,749	633	—3,000	—11,758	—23,874	—13,353
Direct investments	—124	—54	—132	53	—257	—738
Loans and deposits	—8,362	1,029	—4,244	—11,376	—22,953	—9,576
Other assets	—1,264	—341	1,375	—434	—664	—3,038
<i>Other sectors</i>	—13,492	—3,486	—12,660	—11,328	—40,967	—46,863
Direct and portfolio investments	—5,009	—2,346	—5,962	—6,194	—19,511	—13,611
Foreign currency cash	—47	5,163	3,646	2,795	11,558	1,233
Commercial loans and advance payments	—504	—215	—867	960	—626	—7,711
Debt on commodity deliveries under intergovernmental agreements	—543	120	—552	1,050	75	1,893
Delayed proceeds from exports and undelivered goods and services paid for with money transferred under import contracts, transfers on fictitious operations with securities	—7,228	—5,094	—3,554	—3,278	—19,155	—27,953
Other assets	—161	—1,114	—5,371	—6,661	—13,306	—715
<b>Net errors and omissions</b>	<b>—1,806</b>	<b>—869</b>	<b>3,225</b>	<b>581</b>	<b>1,131</b>	<b>—8,778</b>
<b>Change in foreign exchange reserves (+ signifies decrease, — signifies increase)</b>	<b>—21,431</b>	<b>—40,932</b>	<b>—13,825</b>	<b>—31,278</b>	<b>—107,466</b>	<b>—61,461</b>

Note. Other sectors are non-financial corporations, financial corporations, except credit institutions, non-profit organisations providing services to households, and households.

Table 25

**PRIVATE SECTOR NET CAPITAL INFLOW (OUTFLOW)**  
**(according to balance of payments data, billion US dollars)**

	Private sector net capital inflow (outflow)	Banking sector net capital inflow (outflow)	of which:		Other sector net capital inflow (outflow)	of which:		
			foreign assets	foreign liabilities		foreign assets*	foreign liabilities	Balance of payments net errors and omissions**
2000	-24.8	-2.1	-3.5	1.4	-22.8	-14.9	1.8	-9.7
2001	-15.0	1.3	-1.4	2.7	-16.2	-10.0	3.7	-10.0
2002	-8.1	2.5	-1.1	3.6	-10.6	-18.5	14.3	-6.5
2003	-1.9	10.3	-1.0	11.3	-12.2	-24.6	22.1	-9.7
2004	-8.4	3.5	-3.6	7.1	-11.9	-37.2	31.7	-6.4
2005	0.7	5.9	-13.4	19.2	-5.2	-48.8	52.3	-8.8
Q1	1.8	-2.7	-4.8	2.2	4.5	-7.8	14.4	-2.1
Q2	-5.1	-2.5	-6.8	4.3	-2.6	-12.9	12.3	-2.0
Q3	8.2	6.4	0.9	5.5	1.8	-10.9	13.6	-0.9
Q4	-4.3	4.6	-2.7	7.3	-8.9	-17.2	12.0	-3.7
2006	41.7	27.5	-23.9	51.3	14.3	-41.0	54.2	1.1
Q1	-5.8	-3.0	-9.7	6.7	-2.7	-12.9	12.0	-1.8
Q2	20.4	9.9	0.6	9.3	10.5	-3.6	15.0	-0.9
Q3	12.8	8.8	-3.0	11.8	4.0	-12.1	12.9	3.2
Q4	14.3	11.8	-11.8	23.6	2.5	-12.4	14.3	0.6

\* Excluding debt on commodity deliveries under intergovernmental agreements.

\*\* Net errors and omissions fully applies to other sector operations. This means that accounting for financial operations conducted by these sectors is the most difficult problem in compiling the balance of payments.

Note. — signifies capital outflow, + signifies capital inflow.

Table 26

**CROSS-BORDER OPERATIONS BY RESIDENTS AND NON-RESIDENTS\***  
(free remittances, payments for goods and services, wages and salaries, own funds remittances and other operations)

	Q1	Q2	Q3	Q4	2005	Q1	Q2	Q3	Q4	2006
<b>Total, billion US dollars</b>										
<b>Individual remittances from Russia</b>	<b>1,936</b>	<b>2,684</b>	<b>3,366</b>	<b>4,521</b>	<b>12,507</b>	<b>3,290</b>	<b>4,278</b>	<b>5,204</b>	<b>5,946</b>	<b>18,719</b>
to non-CIS countries	1,349	1,804	2,160	3,279	8,592	2,441	2,911	3,223	3,875	12,451
to CIS countries	587	880	1,205	1,242	3,915	849	1,367	1,981	2,071	6,268
<b>Individual remittances to Russia</b>	<b>1,359</b>	<b>1,985</b>	<b>1,425</b>	<b>1,712</b>	<b>6,481</b>	<b>1,458</b>	<b>1,863</b>	<b>1,941</b>	<b>2,280</b>	<b>7,542</b>
from non-CIS countries	1,037	1,643	1,144	1,473	5,298	1,251	1,575	1,619	1,884	6,330
from CIS countries	322	341	281	239	1,183	206	288	322	396	1,212
<b>Balance**</b>	<b>—577</b>	<b>—699</b>	<b>—1,941</b>	<b>—2,809</b>	<b>—6,026</b>	<b>—1,833</b>	<b>—2,415</b>	<b>—3,263</b>	<b>—3,666</b>	<b>—11,177</b>
non-CIS countries	—312	—160	—1,016	—1,806	—3,294	—1,190	—1,336	—1,603	—1,992	—6,121
CIS countries	—265	—539	—924	—1,004	—2,732	—643	—1,079	—1,659	—1,675	—5,056
<b>Average remittance value, US dollars</b>										
<b>Individual remittances from Russia</b>	<b>1,103</b>	<b>1,195</b>	<b>1,280</b>	<b>1,649</b>	<b>1,334</b>	<b>1,414</b>	<b>1,402</b>	<b>1,422</b>	<b>1,579</b>	<b>1,462</b>
to non-CIS countries	6,091	6,382	6,968	9,444	7,399	8,169	8,097	7,922	8,302	8,127
to CIS countries	383	448	519	519	477	419	508	609	628	556
<b>Individual remittances to Russia</b>	<b>1,822</b>	<b>2,449</b>	<b>1,786</b>	<b>1,878</b>	<b>1,985</b>	<b>1,690</b>	<b>2,062</b>	<b>2,269</b>	<b>2,334</b>	<b>2,096</b>
from non-CIS countries	2,263	3,269	2,330	2,728	2,659	2,448	2,833	3,056	3,250	2,908
from CIS countries	1,121	1,110	916	643	929	588	829	988	997	853

\* Cross-border non-cash operations conducted by individuals with and without opening accounts in credit institutions, including operations conducted via the money transfer systems and the Russian Postal Service.

\*\* Negative balance means the excess of total remittances from Russia over total remittances to Russia.

Table 27

## CROSS-BORDER REMITTANCES VIA MONEY TRANSFER SYSTEMS AND RUSSIA'S POSTAL SERVICE\*

	Q1	Q2	Q3	Q4	2005	Q1	Q2	Q3	Q4	2006
<b>Total, billion US dollars</b>										
<b>Remittances from Russia</b>	<b>515</b>	<b>792</b>	<b>1,099</b>	<b>1,143</b>	<b>3,549</b>	<b>815</b>	<b>1,290</b>	<b>1,911</b>	<b>1,988</b>	<b>6,005</b>
to non-CIS countries	52	67	88	115	323	106	128	188	201	622
to CIS countries	462	725	1,011	1,027	3,226	709	1,162	1,723	1,788	5,382
<b>Remittances to Russia</b>	<b>207</b>	<b>254</b>	<b>286</b>	<b>294</b>	<b>1,041</b>	<b>271</b>	<b>331</b>	<b>340</b>	<b>362</b>	<b>1,304</b>
from non-CIS countries	140	163	169	174	645	165	192	193	196	746
from CIS countries	68	91	117	120	396	106	139	147	167	559
<b>Balance**</b>	<b>—307</b>	<b>—538</b>	<b>—813</b>	<b>—849</b>	<b>—2,507</b>	<b>—544</b>	<b>—959</b>	<b>—1,572</b>	<b>—1,626</b>	<b>—4,700</b>
non-CIS countries	87	96	81	59	322	59	64	5	—5	123
CIS countries	—395	—634	—893	—908	—2,829	—603	—1,023	—1,577	—1,621	—4,824
<b>Average remittance value, US dollars</b>										
<b>Remittances from Russia</b>	<b>359</b>	<b>427</b>	<b>504</b>	<b>498</b>	<b>457</b>	<b>417</b>	<b>494</b>	<b>600</b>	<b>613</b>	<b>536</b>
to non-CIS countries	902	998	1,106	1,244	1,084	1,191	1,198	1,466	1,460	1,334
to CIS countries	336	405	481	466	432	380	464	563	575	510
<b>Remittances to Russia</b>	<b>370</b>	<b>421</b>	<b>483</b>	<b>429</b>	<b>427</b>	<b>411</b>	<b>484</b>	<b>533</b>	<b>492</b>	<b>481</b>
from non-CIS countries	473	505	539	504	506	497	533	578	537	537
from CIS countries	256	325	421	353	340	323	430	485	449	425

\* Money transfers made by individuals via Anelik, Contact, InterExpress, Migom, MoneyGram, PrivatMoney, Ria Envia, STB-Express, Travelex Worldwide Money Ltd., UNISream, VIP Money Transfer, Western Union, Bystraya Pochta, Guta Sprint, StranaExpress money transfer systems and the Russian Postal Service.

\*\* Negative balance means the excess of total remittances from Russia over total remittances to Russia.

Table 28

**FUNCTIONAL STRUCTURE OF FOREIGN INVESTMENT IN RUSSIA IN 2006**  
(billion US dollars)\*

Type of investment	Q1	Q2	Q3	Q4	2006	For the record**	
						2006	2005
Direct	7.4	9.7	8.6	2.9	28.7	28.7	12.8
Portfolio	2.0	-0.2	10.4	0.2	12.4	11.4	-0.8
Financial derivatives	-0.2	-0.4	-0.4	-0.1	-1.2	-1.2	-1.1
Other	13.1	7.4	-19.9	29.8	30.4	32.0	42.7
<b>Total</b>	<b>22.3</b>	<b>16.5</b>	<b>-1.2</b>	<b>32.8</b>	<b>70.3</b>	<b>70.9</b>	<b>53.6</b>

\* Net growth in debt obligations to non-residents according to balance of payments data.

\*\* These data do not take into account operations relating to debt restructuring and remission.

Note. “—” signifies decrease in residents' foreign liabilities. Minor discrepancies between the total and the sum of items are due to the rounding of data.

Table 29

**FUNCTIONAL STRUCTURE OF RUSSIAN RESIDENT INVESTMENTS IN FOREIGN ASSETS (EXCEPT RESERVES)**  
IN 2006 (billion US dollars)\*

Type of investment	Q1	Q2	Q3	Q4	2006	For the record**	
						2006	2005
Direct	4.9	0.9	6.5	5.6	18.0	18.0	12.8
Portfolio	6.9	-2.5	-5.2	-4.3	-5.1	-5.1	10.7
Financial derivatives	-0.2	-0.4	-0.3	-0.1	-1.0	-1.0	-0.9
Other	18.0	1.2	10.7	16.9	46.8	46.8	45.7
<b>Total</b>	<b>29.6</b>	<b>-0.8</b>	<b>11.7</b>	<b>18.1</b>	<b>58.7</b>	<b>58.7</b>	<b>68.3</b>

\* Net growth in residents' assets according to balance of payments data.

\*\* These data do not take into account operations relating to debt restructuring and remission.

Note. “—” signifies decrease in residents' foreign assets. Minor discrepancies between the total and the sum of items are due to the rounding of data.

Table 30

**RUSSIAN BANKING SECTOR'S INTERNATIONAL INVESTMENT POSITION**  
 (as of January 1, 2006, and January 1, 2007, million US dollars)

	Balance as of 1.01.2006	Changes due to operations	Changes due to revaluation	Other changes	Total changes	Balance as of 1.01.2007
<b>Assets</b>	<b>39,182</b>	<b>23,874</b>	<b>2,199</b>	<b>—19</b>	<b>26,053</b>	<b>65,236</b>
<b>Direct investments abroad</b>	<b>1,498</b>	<b>257</b>	<b>154</b>	<b>—338</b>	<b>72</b>	<b>1,570</b>
Stakeholding in capital and reinvested income	1,079	—28	151	12	134	1,213
Other capital	419	285	3	—350	—62	357
<b>Portfolio investments</b>	<b>6,964</b>	<b>580</b>	<b>80</b>	<b>21</b>	<b>681</b>	<b>7,645</b>
Stakeholding in capital	272	—214	213	0	—1	271
Debt securities	6,692	794	—133	22	682	7,374
long-term	5,310	1,569	—175	—330	1,064	6,374
short-term	1,382	—775	41	352	—382	1,000
<b>Financial derivatives</b>	<b>51</b>	<b>—1,007</b>	<b>1,063</b>	<b>0</b>	<b>56</b>	<b>106</b>
<b>Other investments</b>	<b>30,669</b>	<b>24,044</b>	<b>903</b>	<b>298</b>	<b>25,245</b>	<b>55,914</b>
Foreign currency cash and deposits	18,271	13,503	552	—31	14,023	32,294
Till foreign currency	2,406	603	48	—19	632	3,037
Current accounts and deposits	15,865	12,900	504	—12	13,392	29,257
long-term	840	2,401	29	0	2,430	3,271
short-term	15,025	10,498	475	—12	10,961	25,986
Loans	11,706	10,053	328	335	10,716	22,422
long-term	4,399	3,266	109	346	3,720	8,120
short-term	7,306	6,787	219	—11	6,996	14,302
Overdue debt	32	10	2	0	12	43
Other assets	661	478	21	—6	494	1,155
long-term	28	73	5	0	79	107
short-term	633	405	16	—6	415	1,048



	Balance as of 1.01.2006	Changes due to operations	Changes due to revaluation	Other changes	Total changes	Balance as of 1.01.2007
<b>Liabilities</b>	<b>60,009</b>	<b>51,345</b>	<b>11,629</b>	<b>—77</b>	<b>62,897</b>	<b>122,906</b>
<b>Direct investments in Russia</b>	<b>4,975</b>	<b>2,510</b>	<b>993</b>	<b>—127</b>	<b>3,376</b>	<b>8,351</b>
Stakeholding in capital and reinvested income	4,781	2,401	989	—228	3,161	7,942
Other capital	194	110	4	102	215	409
<b>Portfolio investments</b>	<b>6,858</b>	<b>1,714</b>	<b>8,246</b>	<b>196</b>	<b>10,156</b>	<b>17,014</b>
Stakeholding in capital	5,032	266	8,185	230	8,681	13,714
Debt securities	1,826	1,448	61	—34	1,475	3,301
long-term	638	1,140	9	—14	1,135	1,773
short-term	1,188	308	52	—20	340	1,528
<b>Financial derivatives</b>	<b>52</b>	<b>—1,151</b>	<b>1,189</b>	<b>0</b>	<b>37</b>	<b>89</b>
<b>Other investments</b>	<b>48,124</b>	<b>48,272</b>	<b>1,202</b>	<b>—146</b>	<b>49,327</b>	<b>97,451</b>
Current accounts and deposits	12,443	14,847	537	—34	15,350	27,793
long-term	2,519	6,429	94	—2	6,522	9,041
short-term	9,924	8,418	442	—33	8,828	18,752
Loans	34,511	32,756	599	—110	33,245	67,757
long-term	26,350	23,597	363	—111	23,848	50,199
short-term	8,161	9,159	236	1	9,397	17,558
Overdue debt	5	2	0	0	2	7
Other liabilities	1,164	666	66	—2	730	1,894
long-term	178	84	6	0	90	267
short-term	986	582	60	—2	640	1,627
<b>Net international investment position</b>	<b>—20,827</b>	<b>—27,471</b>	<b>—9,431</b>	<b>58</b>	<b>—36,843</b>	<b>—57,670</b>

## Notes.

1. “+“ in columns 2, 3, 4 and 5 denotes net growth in assets and liabilities, “—” in columns 2, 3, 4 and 5 denotes their net decrease. This contingent use of the sign differs from its use in balance of payments statistics.
2. Net international investment position is the difference between Russian banking sector foreign assets and liabilities.
3. This Table presents data compiled by credit institutions, including Vneshekonombank. It does not include data on operations with government foreign debt and government foreign assets conducted by Vneshekonombank as the Russian Government's agent.
4. Other changes include assets and liabilities of credit institutions which had their banking licences revoked in the period under review.

Table 31

**RUSSIAN BANKING SECTOR FOREIGN ASSETS AND LIABILITIES ON INTERBANK OPERATIONS BY GROUP OF COUNTRIES AS OF JANUARY 1, 2007**  
(million US dollars)

	Foreign assets			Foreign liabilities			Balance of foreign assets and liabilities
	short-term	long-term	total	short-term	long-term	total	
<b>Total</b>	<b>35,136.3</b>	<b>5,643.7</b>	<b>40,780.0</b>	<b>21,863.6</b>	<b>36,960.3</b>	<b>58,823.9</b>	<b>—18,043.9</b>
of which:							
<b>CIS countries</b>	<b>1,132.7</b>	<b>161.5</b>	<b>1,294.2</b>	<b>1,588.4</b>	<b>294.2</b>	<b>1,882.6</b>	<b>—588.4</b>
of which:							
EurAsEC countries	821.9	119.8	941.7	1,189.9	228.5	1,418.4	—476.7
Other countries	310.8	41.7	352.5	398.5	65.7	464.2	—111.7
<b>Non-CIS countries</b>	<b>33,047.5</b>	<b>5,482.3</b>	<b>38,529.8</b>	<b>19,241.4</b>	<b>36,659.9</b>	<b>55,901.3</b>	<b>—17,371.6</b>
of which:							
EU countries	21,314.6	5,316.8	26,631.4	16,854.9	34,153.2	51,008.0	—24,376.7
APEC countries	9,059.6	4.0	9,063.6	635.4	1,806.0	2,441.4	6,622.2
Other countries	2,673.3	161.5	2,834.8	1,751.2	700.7	2,451.9	382.9
<b>International financial organisations</b>	<b>956.0</b>	<b>0.0</b>	<b>956.0</b>	<b>1,033.8</b>	<b>6.2</b>	<b>1,040.0</b>	<b>—84.0</b>
<b>For the record:</b>							
OECD countries	27,372.6	5,351.9	32,724.6	17,123.9	35,259.1	52,383.0	—19,658.5

*Note. Data in this table only include balances on interbank operations in the form of loans and deposits, correspondent accounts, and foreign currency in credit institutions' cash departments.*

Table 32

## RUSSIA'S DEBT TO INTERNATIONAL FINANCIAL ORGANISATIONS IN 2006 (billion US dollars)

	Debt as of 1.01.2006	Used	Repaid	Growth due to exchange rate revaluation	Debt as of 1.01.2007
IBRD loans	5.1	0.3	0.7	0.0	4.8
EBRD loans	0.5	0.2	0.1	0.0	0.6

Table 33

## RUSSIA'S INTERNATIONAL RESERVES IN 2006 (billion US dollars)

	Balance as of												
	2006												2007
	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.01
Reserves (including Finance Ministry assets)	182.2	188.5	195.9	205.9	226.4	247.3	250.6	265.7	259.9	266.2	272.5	289.0	303.7
Foreign currency assets	175.9	181.4	189.0	198.7	218.5	239.3	243.2	257.9	252.2	258.7	265.0	281.0	295.6
Monetary gold	6.3	7.0	6.9	7.2	7.9	8.1	7.4	7.8	7.7	7.5	7.6	8.1	8.2

Table 34

## BANK OF RUSSIA FOREIGN EXCHANGE RESERVE PORTFOLIO YIELDS IN 2006 (% p.a.)

		US dollar-denominated assets	Euro-denominated assets	Pound sterling-denominated assets	Japanese yen-denominated assets
Transaction portfolio	Actual portfolio	4.99	2.95	4.77	0.33
	Standard portfolio	5.01	2.85	4.55	0.29
Investment portfolio	Actual portfolio	4.12	1.15	2.42	
	Standard portfolio	4.02	1.13	2.35	
Total	Actual portfolio	4.87	2.58	4.13	0.33

## KEY RUBLE EXCHANGE RATE INDICATORS IN 2006

	January	February	March	April	May	June	July	August	September	October	November	December
US dollar/ruble nominal rate as of end of period, rubles per dollar	28.12	28.12	27.76	27.27	26.98	27.08	26.87	26.74	26.78	26.75	26.31	26.33
US dollar/ruble average nominal rate over period, rubles per dollar	28.41	28.20	27.88	27.57	27.06	26.98	26.92	26.77	26.74	26.86	26.62	26.29
US dollar/ruble average nominal rate since start of year, rubles per dollar	28.41	28.30	28.16	28.01	27.82	27.68	27.57	27.47	27.39	27.33	27.27	27.18
Euro/ruble nominal rate as of end of period, rubles per euro	34.04	33.33	33.47	34.19	34.64	33.98	34.11	34.31	33.98	34.03	34.68	34.70
Euro/ruble average nominal rate over period, rubles per euro	34.25	33.73	33.49	33.75	34.52	34.20	34.16	34.27	34.10	33.90	34.23	34.73
Euro/ruble average nominal rate since start of year, rubles per euro	34.25	33.99	33.82	33.80	33.95	33.99	34.01	34.04	34.05	34.04	34.05	34.11
<b>Growth as % of December 2005*</b>												
Ruble/US dollar nominal rate index	1.4	2.2	3.3	4.5	6.5	6.8	7.0	7.6	7.7	7.3	8.2	9.6
Ruble/euro nominal rate index	-0.3	1.3	2.0	1.2	-1.0	-0.1	0.0	-0.3	0.2	0.7	-0.2	-1.7
Index of nominal effective rate of the ruble against foreign currencies	0.2	1.2	2.2	2.2	1.5	2.7	2.9	2.7	3.2	3.2	2.7	2.2
Ruble/US dollar real rate index	3.1	5.4	6.9	7.6	9.6	10.0	10.7	11.4	12.1	12.6	14.4	16.7
Ruble/euro real rate index	2.3	5.3	6.5	5.7	3.6	4.9	5.7	5.3	6.0	6.9	6.6	5.6
Index of real effective rate of the ruble against foreign currencies	2.3	4.6	6.2	6.2	5.5	7.0	7.8	7.7	7.9	7.9	7.6	7.4
<b>Growth as % of previous period*</b>												
Ruble/US dollar nominal rate index	1.4	0.8	1.1	1.1	1.9	0.3	0.3	0.6	0.1	-0.4	0.9	1.3
Ruble/euro nominal rate index	-0.3	1.5	0.7	-0.8	-2.2	0.9	0.1	-0.3	0.5	0.6	-0.9	-1.5
Index of nominal effective rate of the ruble against foreign currencies	0.2	1.0	0.9	0.0	-0.7	1.2	0.2	-0.1	0.4	0.1	-0.5	-0.6
Ruble/US dollar real rate index	3.1	2.3	1.4	0.7	1.9	0.4	0.7	0.6	0.7	0.4	1.6	1.9
Ruble/euro real rate index	2.3	2.9	1.2	-0.8	-1.9	1.2	0.7	-0.3	0.6	0.9	-0.4	-0.9
Index of real effective rate of the ruble against foreign currencies	2.3	2.3	1.6	0.0	-0.6	1.4	0.8	-0.1	0.2	0.0	-0.3	-0.2

\* "+" signifies appreciation of the Russian ruble against foreign currencies, "-" signifies its depreciation.

Table 36

## RUSSIA'S FOREIGN DEBT IN 2006 (owed to non-residents, billion US dollars)

	1.01.2006	1.04.2006	1.07.2006	1.10.2006	1.01.2007
<b>Total</b>	<b>257.2</b>	<b>273.2</b>	<b>288.8</b>	<b>269.3</b>	<b>309.7</b>
<b>Government</b>	<b>71.1</b>	<b>69.5</b>	<b>66.4</b>	<b>45.3</b>	<b>45.1</b>
<b>Federal government</b>	<b>69.9</b>	<b>68.3</b>	<b>65.6</b>	<b>44.4</b>	<b>43.6</b>
<i>New Russian debt</i>	<i>35.7</i>	<i>34.5</i>	<i>32.2</i>	<i>32.9</i>	<i>33.8</i>
loans from international financial organisations	5.6	5.5	5.4	5.3	5.4
<i>IBRD</i>	<i>5.1</i>	<i>4.9</i>	<i>4.9</i>	<i>4.7</i>	<i>4.8</i>
<i>other</i>	<i>0.5</i>	<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.7</i>
other loans (including loans from members of Paris Club of creditor nations)	3.0	2.9	2.8	2.7	2.6
foreign currency-denominated securities	26.7	25.8	23.6	24.1	25.0
<i>eurobonds placed by open subscription and issued in the course of GKO restructuring</i>	<i>4.9</i>	<i>4.9</i>	<i>4.7</i>	<i>4.8</i>	<i>4.7</i>
<i>eurobonds issued in the course of restructuring debt to London Club of commercial bank creditors</i>	<i>19.0</i>	<i>18.3</i>	<i>17.6</i>	<i>18.1</i>	<i>19.3</i>
<i>6<sup>th</sup> and 7<sup>th</sup> tranches of OGVZ bonds and OGVZ bonds issued in 1999</i>	<i>2.8</i>	<i>2.6</i>	<i>1.3</i>	<i>1.2</i>	<i>1.0</i>
ruble-denominated securities (OFZ)	0.0	0.0	0.1	0.5	0.5
other debt	0.3	0.3	0.3	0.3	0.3
<i>Soviet-era debt</i>	<i>34.3</i>	<i>33.8</i>	<i>33.4</i>	<i>11.5</i>	<i>9.8</i>
loans from members of Paris Club of creditor nations	22.2	21.8	22.4	0.6	0.6
debt to former Soviet-bloc countries	2.2	2.1	2.1	2.0	1.9
debt owed to other official creditors*	3.5	3.5	3.5	3.5	3.3
3 <sup>rd</sup> , 4 <sup>th</sup> and 5 <sup>th</sup> tranches of OGVZ bonds	2.0	1.9	2.0	1.9	2.1
other debt	4.4	4.5	3.4	3.4	2.0
<b>Regional and local governments</b>	<b>1.2</b>	<b>1.2</b>	<b>0.8</b>	<b>0.9</b>	<b>1.5</b>
loans	0.9	0.9	0.5	0.5	1.0
ruble-denominated securities	0.3	0.3	0.3	0.4	0.5

End

	1.01.2006	1.04.2006	1.07.2006	1.10.2006	1.01.2007
<b>Monetary authorities</b>	<b>11.0</b>	<b>16.6</b>	<b>12.5</b>	<b>9.0</b>	<b>3.9</b>
loans	10.2	15.6	11.4	7.9	3.0
cash rubles and deposits	0.8	1.0	1.1	1.1	0.9
<b>Banks (without stakeholding in capital)**</b>	<b>50.1</b>	<b>57.2</b>	<b>66.7</b>	<b>78.5</b>	<b>101.2</b>
debt obligations to direct investors	0.2	0.2	0.3	0.4	0.4
loans	34.5	39.9	44.9	53.4	67.8
current accounts and deposits	12.4	13.5	17.1	19.9	27.8
debt securities	1.8	2.1	2.6	3.0	3.3
other debt	1.2	1.6	1.8	1.8	1.9
<b>Other sectors (without stakeholding in capital)</b>	<b>125.0</b>	<b>130.0</b>	<b>143.2</b>	<b>136.5</b>	<b>159.5</b>
debt obligations to direct investors	12.3	12.9	19.3	15.8	21.0
loans	98.7	101.2	106.2	102.5	116.7
debt securities***	12.3	14.4	13.9	14.9	18.5
debt on finance leasing	1.3	1.4	1.6	2.1	2.8
other debt	0.3	0.1	2.1	1.2	0.4

\* Previously, debt to other official creditors was accounted for as part of Other debt in Soviet-era debt. Obligations to other official creditors do not include overdue interest, which is accounted for as part of Other debt.

\*\* These include debt obligations of credit institutions, including Vneshekonombank. Foreign debt accounted for by Vneshekonombank as the Russian Government's agent is shown as part of general government debt obligations.

\*\*\* These include the market price of preference shares owned by non-residents. Preference shares are classified as a foreign debt component due to the issuer's obligation to pay dividends on them, although the issuer does not assume the obligation to repurchase them at market price.

Note. These include foreign debt denominated in national and foreign currency. Government securities are accounted for as part of debt owed to non-residents, and are evaluated at their nominal value.

Table 37

## KEY ECONOMIC DEVELOPMENT INDICATORS OF RUSSIA'S LEADING TRADING PARTNERS IN 2004—2006\*

	Real GDP, growth as % of previous year			Consumer prices, growth in December of reporting year as % of previous December**			Current account balance, as % of GDP***			International reserves, billion US dollars****		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
USA	3.9	3.2	3.3	3.3	3.4	2.5	-5.7	-6.4	-6.5	75.9	54.1	54.9
European Union*****	2.4	1.7	2.9	2.4	2.1	2.2	-0.1	-0.6	-0.7	392.7	367.5	392.9
Eurozone (12 countries)*****	2.0	1.4	2.6	2.3	2.3	1.9	0.7	-0.1	-0.2	211.7	184.5	196.5
Belgium	2.7	1.5	3.0	1.9	2.8	2.1	3.5	2.5	2.5	10.4	8.2	8.8
Germany	1.2	0.9	2.7	2.3	2.1	1.4	4.3	4.6	5.1	48.8	45.1	41.7
Italy	1.2	0.1	1.9	2.4	2.1	2.1	-0.9	-1.6	-2.2	27.9	25.5	25.7
Spain	3.2	3.5	3.9	3.3	3.7	2.7	-5.3	-7.4	-8.8	12.4	9.7	10.8
The Netherlands	2.0	1.5	2.9	1.2	2.0	1.7	8.9	6.3	7.1	10.7	9.0	10.8
Finland	3.7	2.9	5.5	0.1	1.1	1.2	7.8	4.9	5.3	12.2	10.5	6.5
France	2.0	1.2	2.0	2.3	1.8	1.7	-0.3	-1.6	-2.1	35.3	27.8	42.7
United Kingdom	3.3	1.9	2.7	1.7	1.9	3.0	-1.6	-2.4	-3.4	39.9	38.5	40.7
Hungary	4.9	4.2	3.9	5.5	3.3	6.5	-8.4	-6.7	-6.9	15.9	18.5	21.5
Lithuania	7.3	7.6	7.5	2.8	3.0	4.5	-7.7	-7.1	-12.2	3.5	3.7	5.7
Poland	5.3	3.5	5.8	4.4	0.7	1.4	-4.2	-1.7	-2.1	35.3	40.9	46.4
Slovakia	5.4	6.0	8.3	5.9	3.7	4.2	-3.6	-8.6	-8.0	14.4	14.9	12.6
Czech Republic	4.2	6.1	6.1	2.8	2.2	1.7	-6.0	-2.6	-4.2	28.3	29.3	31.2
Sweden	4.1	2.9	4.4	0.3	0.9	1.6	6.9	7.0	7.4	22.2	22.1	24.8
Estonia	8.1	10.5	11.4	5.0	3.6	5.1	-12.5	-10.5	-13.8	1.8	1.9	2.8



	Real GDP, growth as % of previous year			Consumer prices, growth in December of reporting year as % of previous December**			Current account balance, as % of GDP***			International reserves, billion US dollars****		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
Switzerland	2.3	1.9	2.7	1.3	1.0	0.6	14.0	16.8	18.5	55.5	36.3	38.1
Romania	8.4	4.1	7.7	9.3	8.6	4.9	-8.4	-8.7	-10.3	14.6	19.9	28.1
Turkey	8.9	7.4	6.1	9.4	7.7	9.7	-5.2	-6.3	-8.0	35.7	50.6	61.1
Belarus	11.4	9.4	9.9	14.4	8.0	6.6	-5.2	1.6	-4.1	0.7	1.1	1.1
Ukraine	12.1	2.7	7.0	12.3	10.3	11.6	10.6	2.9	-1.7	9.3	19.1	21.9
Kazakhstan	9.6	9.5	10.6	6.7	7.5	8.4	0.8	-1.3	-1.4	8.5	6.1	17.7
Japan	2.7	1.9	2.2	0.2	-0.4	0.3	3.7	3.6	3.9	833.9	834.3	879.7
China	10.1	10.4	10.7	2.4	1.6	2.8	3.6	7.2	9.1	614.5	821.5	1,068.5
South Korea	4.7	4.2	5.0	3.0	2.6	2.1	4.1	1.9	0.7	199.0	210.3	238.9
India	7.2	8.7	9.2	3.8	5.6	6.9	0.1	-0.9	-2.2	126.6	131.9	170.7
Iran	5.1	4.4	5.3	15.0	11.3	15.9	1.2	7.4	6.7	n/a	n/a	n/a
Israel	4.8	5.2	5.1	1.2	2.4	-0.1	2.6	2.9	5.2	27.1	28.1	29.2
Brazil	5.7	2.9	3.7	7.6	5.7	3.1	1.8	1.6	1.3	52.7	53.6	85.6

\* According to official sources of statistical information of corresponding countries, EUROSTAT agency and IMF as of April II, 2007.

\*\* For EU, UK, eurozone, Germany, France and Italy: harmonised consumer price indices calculated in accordance with EU Commission general recommendations in respect to consumer goods basket, methods of determining unit weights of goods and services and calculating averages.

\*\*\* "+" denotes a surplus, "-" denotes a deficit.

\*\*\*\* As of end of year; including monetary authorities' foreign currency assets and SDRs and reserve position in IMF (each country's reserve share and credit position in IMF). For EU: estimates based on IMF data (sum total of international reserves of EU member states). For eurozone, as determined by the European system of central banks.

\*\*\*\*\* Austria, Belgium, UK, Germany, Greece, Denmark, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Finland, France, Sweden, Hungary, Cyprus, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, the Czech Republic and Estonia.

\*\*\*\*\* Austria, Belgium, Germany, Greece, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Finland and France.

Table 38

## CIS COUNTRIES' KEY MONETARY INDICATORS IN 2006\*

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kyrgyzstan	Moldova	Russia	Tajikistan	Ukraine
Official central (national) bank rate (refinance rate), as of end of year, %:										
2005	9	3.5	11.00	11.5**	8	4.13	—	12	9	9.5
2006	9.5	4.75	10.00	13.0**	9	3.15	—	11	12	8.5
Official central (national) bank exchange rate (units of national currency) as of end of year against US dollar:										
2005	4,593	450.19	2,152	1.7925	133.98	41.3011	12.8320	28.7825	3.1993	5.05
2006	0.8714	363.50	2,140	1.7135	127.00	38.1238	12.9050	26.3311	3.4265	5.05
against Russian ruble:										
2005	159.53	15.64	74.86	0.0623	4.66	1.4346	0.4459	—	0.11113	0.175
2006	0.0331	13.80	81.13	0.0650	4.82	1.4452	0.4894	—	0.13013	0.192
Money supply in national currency (rate of growth by beginning of year, %)	168.3	52.3	44.5	30.0	85.7	51.1	12.2	48.8	29.6	34.3
Number of registered commercial banks:										
2005	44	21	33	19	35	20	16	1,356	16	186
2006	44	21	32	17	34	21	15	1,293	15	193

\* According to data compiled by CIS national (central) banks.

\*\* Auction rate on loans with terms of up to 29 days.

Note. On January 1, 2006, Azerbaijan re-denominated the manat 5,000 times.

Table 39

**MONEY SUPPLY (national definition, billion rubles)**

	1.01.2006	1.04.2006	1.07.2006	1.10.2006	1.01.2007
<b>Money supply (M2), total</b>	<b>6,045.6</b>	<b>6,169.4</b>	<b>7,092.3</b>	<b>7,757.5</b>	<b>8,995.8</b>
— cash in circulation (M0)*	2,009.2	1,928.8	2,233.4	2,400.8	2,785.2
— non-cash funds	4,036.3	4,240.6	4,858.9	5,356.7	6,210.6

\* Cash in circulation outside the banking system.

Table 40

**AVERAGE MONTHLY RATES OF GROWTH IN MONEY SUPPLY IN 2006 (%)**

	Q1	Q2	Q3	Q4	Full-year
<b>Money supply (M2), total</b>	<b>0.7</b>	<b>4.8</b>	<b>3.0</b>	<b>5.1</b>	<b>3.4</b>
— cash in circulation (M0)*	—1.4	5.0	2.4	5.1	2.8
— non-cash funds	1.7	4.6	3.3	5.1	3.7

\* Cash in circulation outside the banking system.

Table 41

**M2 STRUCTURE**

	As of 1.01.2006		As of 1.01.2007		Growth index
	billion rubles	%	billion rubles	%	
<b>Money supply (M2), total</b>	<b>6,045.6</b>	<b>100.0</b>	<b>8,995.8</b>	<b>100.0</b>	<b>1.49</b>
of which:					
— cash in circulation (M0)*	2,009.2	33.2	2,785.2	31.0	1.39
— non-cash funds	4,036.3	66.8	6,210.6	69.0	1.54
of which:					
— non-financial enterprise sector funds	1,906.0	31.5	2,980.3	33.1	1.56
— household deposits	2,130.4	35.2	3,230.3	35.9	1.52

\* Cash in circulation outside the banking system.

Table 42

## MONETARY BASE AND ITS STRUCTURE

	As of 1.01.2006		As of 1.01.2007		Growth index
	billion rubles	%	billion rubles	%	
<b>Monetary base (broad definition)</b>	<b>2,914.1</b>	<b>100.0</b>	<b>4,121.6</b>	<b>100.0</b>	<b>1.41</b>
of which:					
— cash in circulation, including balances in credit institutions' cash departments*	2,195.4	75.3	3,062.1	74.3	1.39
— credit institutions' correspondent accounts with the Bank of Russia**	508.6	17.5	638.1	15.5	1.25
— required reserves***	161.4	5.5	221.1	5.4	1.37
— credit institutions' deposits with the Bank of Russia	7.2	0.2	98.1	2.4	13.59
— Bank of Russia bonds held by credit institutions	32.8	1.1	102.2	2.5	3.12
— foreign exchange operation reserves deposited with the Bank of Russia	8.8	0.3	0.0	0.0	0.00

\* Excluding cash in Bank of Russia institutions' cash departments.

\*\* Ruble-denominated accounts, including cash balances on organised securities market.

\*\*\* For ruble and foreign currency funds raised by credit institutions to accounts.

Table 43

## MONETARY SURVEY (million rubles)

	1.01.2006	1.01.2007	Change over 2006
Net foreign assets of monetary authorities and credit institutions	4,867,945.3	6,927,510.6	2,059,565.3
Domestic credit	4,460,764.0	5,727,663.8	1,266,899.8
Net credit to general government	—1,392,619.6	—2,965,958.8	—1,573,339.2
Claims on non-financial public-sector enterprises	193,812.7	221,452.2	27,639.5
Claims on non-financial private-sector enterprises and households	5,560,009.3	8,247,654.0	2,687,644.7
Claims on other financial institutions	99,561.6	224,516.4	124,954.8
Money supply (according to monetary survey methodology)	7,221,116.8	10,146,732.1	2,925,615.3
Money	3,858,514.3	5,598,406.7	1,739,892.4
Quasi-money	3,362,602.5	4,548,325.4	1,185,722.9
Temporarily inaccessible deposits	32,067.5	22,016.6	—10,050.9
Money market instruments	537,194.5	745,793.7	208,599.2
Capital account	1,455,368.3	1,774,354.7	318,986.4
Other (balance)	82,962.1	—33,722.7	—116,684.8

Table 44

**CREDIT INSTITUTIONS' ANALYTICAL ACCOUNTS (million rubles)**

	1.01.2006	1.01.2007	Change over 2006
Reserves	906,547.7	1,340,707.4	434,159.7
Foreign assets	1,092,784.0	1,643,177.9	550,393.9
Claims on general government	666,498.1	771,773.9	105,275.8
of which:			
— claims on regional and local governments	153,466.5	195,332.4	41,865.9
Claims on non-financial public-sector enterprises	193,784.9	221,431.5	27,646.6
Claims on non-financial private-sector enterprises and households	5,557,570.5	8,245,019.1	2,687,448.6
Claims on other financial institutions	99,561.6	224,516.4	124,954.8
Demand deposits	1,805,707.9	2,754,351.2	948,643.3
Time, savings and foreign currency deposits	3,362,567.4	4,548,317.8	1,185,750.4
of which:			
— foreign currency deposits	1,178,156.5	1,155,414.4	—22,742.1
Temporarily inaccessible deposits	32,067.5	22,016.6	—10,050.9
Money market instruments	537,194.5	745,793.7	208,599.2
Foreign liabilities	1,480,840.4	2,723,327.6	1,242,487.2
General government deposits	189,127.7	296,848.6	107,720.9
of which:			
— regional and local government deposits	163,832.7	264,101.5	100,268.8
Debt obligations to monetary authorities	28,945.1	44,408.0	15,462.9
Capital accounts	1,244,995.1	1,690,198.5	445,203.4
Other (balance)	—164,698.9	—378,635.6	—213,936.7

Table 45

## CORRECTIVE MEASURES TAKEN AGAINST CREDIT INSTITUTIONS IN 2006

No.	Description of measures	Number of banks
<b>Preventive measures</b>		
1	Written notification of the management and/or board of directors (supervisory board) of a credit institution on shortcomings in its work and recommended remedial action	1,137
2	Calling a meeting	503
3	Other (recommendations to draw up a plan of remedial actions, tighten control over reporting, make a realistic assessment of credit risk, avoid misstatements in reports, etc.)	118
<b>Repressive measures</b>		
4	Fines*	514
	of which:	
4.1	For non-compliance with reserve requirements	103
4.2	For violation of federal laws, legal acts and Bank of Russia regulations issued in pursuance of these laws and for non-presenting information or presenting false or incomplete information	457
5	Imposing restrictions on individual banking operations conducted by credit institutions	94
	such as:	
5.1	Taking household savings on deposit	7
5.2	Effecting settlements on behalf of corporate entities to transfer funds to budgets of all levels and government extrabudgetary funds	56
6	Prohibiting credit institutions from conducting individual banking operations*	135
	such as:	
6.1	Taking household savings on deposit	61
6.2	Opening household bank accounts, including unallocated demand and time metal accounts	50
6.3	Other	95
	For the record:	
	Prohibition to take household funds on deposit and open personal accounts imposed in respect to a credit institution pursuant to Article 48 of Federal Law No. 177-FZ, dated December 23, 2003	6
7	Prescriptions*	861
	of which:	
7.1	Prescription to comply with Bank of Russia required ratios	27
7.2	Prescription to replace management	5
8	Prohibiting credit institutions from opening branches	80
9	Appointing provisional administrations to manage a credit institution without revoking its licence	—
10	Revoking banking licence	59

\* The number of credit institutions in points 4 and 6 differs from the total number of credit institutions in the respective sub-points because several corrective measures have been used against banks.

As of January 1, 2007, the restriction on settlements on behalf of legal entities, such as the transfer of funds to budgets of all levels and government extrabudgetary funds was in effect with regard to four credit institutions.

As of January 1, 2007, of all operating credit institutions, only one bank had a backlog of non-executed settlement documents on payments to budgets of all levels.

Table 46

## RUSSIAN PAYMENT SYSTEM KEY INDICATORS

	2005	2006
Number of payment system participants*	5,479	5,393
of which:		
— Bank of Russia institutions*	931	923
— credit institutions*	1,253	1,189
of which:		
— non-bank settlement credit institutions*	46	43
— branches of credit institutions*	3,295	3,281
Number of additional offices of credit institutions and their branches*	11,368	15,007
Number of accounts opened by payment system participants for customers, million*	353.5	369.1
of which:		
— household accounts*	348.4	363.8
— corporate accounts*	5.1	5.3
Number of payments, thousand	1,116,807.3	1,672,621.8
of which:		
— payments effected through Bank of Russia payment system	555,576.0	696,259.5
— payments effected by non-bank settlement credit institutions	3,629.8	3,446.4
— payments effected through credit institutions' correspondent accounts opened in other credit institutions	33,530.5	57,139.5
— payments effected by divisions of one credit institution using interbranch settlement accounts	166,399.8	266,613.4
— payments effected within one division (head office or branch) of a credit institution	357,671.2	649,163.0
Value of payments, billion rubles	293,502.6	446,010.0
of which:		
— payments effected through Bank of Russia payment system	193,971.1	267,308.0
— payments effected through non-bank settlement credit institutions	4,102.5	5,436.6
— payments effected through credit institutions' correspondent accounts opened in other credit institutions	7,885.4	18,707.2
— payments effected by divisions of one credit institution using interbranch settlement accounts	27,019.0	56,448.7
— payments effected within one division (head office or branch) of a credit institution	60,524.6	98,109.5
Number of payments effected using various instruments of payment (in 2005 including transit payments), thousand	1,241,681.5	1,507,627.9
of which:		
— payment orders	994,603.3	1,006,182.9
— payment requests and collection orders	19,835.6	43,371.6
— letters of credit	417.2	372.8
— cheques	590.4	624.8
— other instruments of payment	226,235.0	457,075.8

Cont.

	2005	2006
Value of payments effected using various instruments of payment (in 2005 including transit payments), billion rubles	320,532.8	362,563.0
of which:		
— payment orders	304,989.6	351,279.9
— payment requests and collection orders	1,766.1	2,644.0
— letters of credit	49.2	101.7
— cheques	26.9	87.6
— other instruments of payment	13,701.0	8,449.8
Number of electronic payments, thousand	938,030.3	1,294,772.7
Value of electronic payments, billion rubles	269,721.7	404,634.6
Number of paper-based payments, thousand	178,777.0	377,848.8
Value of paper-based payments, billion rubles	23,780.9	41,376.3
Number of bank cards issued in Russia, million*	54.7	74.8
Total number of bank card operations conducted in Russia, million	862.0	1,198.5
Total value of bank card operations conducted in Russia, billion rubles	2,984.6	4,396.7
<b>Bank of Russia payment system</b>		
Number of customers served,*	47,949	39,652
of which:		
— credit institutions*	1,253	1,189
— branches of credit institutions*	1,920	2,062
— customers other than credit institutions*	44.776**	36,401
of which:		
— Federal Treasury bodies*	1.795**	1,206
Number of payments effected, thousand	555,576.0	696,259.5
of which:		
— by credit institutions and their branches	474,100.2	570,949.4
— by customers other than credit institutions	80,763.8	124,479.2
of which:		
— Federal Treasury bodies	43,030.9	117,022.0
— Bank of Russia divisions	712.0	830.9
Value of payments effected, billion rubles	193,971.1	267,308.0
of which:		
— by credit institutions and their branches	165,837.3	225,944.8
— by customers other than credit institutions	28,104.1	34,338.7
of which:		
— Federal Treasury bodies	22,263.7	33,786.9
— Bank of Russia divisions	29.7	7,024.4
Number of electronic payments, thousand	550,005.0	692,679.5
Value of electronic payments, billion rubles	189,945.4	266,234.1
Number of Bank of Russia institutions participating in intraregional electronic settlements*	906	892
Number of Bank of Russia institutions participating in interregional electronic settlements*	905	892



*End*

	2005	2006
Total number of customers exchanging electronic documents*	4,403	3,651
of which:		
— credit institutions and their branches*	3,027	3,140
— customers other than credit institutions*	1,376**	394
of which:		
— Federal Treasury bodies*	951**	679
Number of payments received through communication channels, thousand***	527,133.3	690,986.9
Number of paper-based payments, thousand	5,571.0	3,579.9
Value of paper-based payments, billion rubles	4,025.7	1,073.9

\* As of end of year.

\*\* These data are cited without taking into account the fact that some customers of the Bank of Russia (Federal Treasury bodies) may be serviced in two Bank of Russia institutions simultaneously.

\*\*\* Based on a reporting form compiled according to a methodology different from the methodology for calculating other Bank of Russia payment system indicators.

Table 47

## NOTE STRUCTURE OF BANK OF RUSSIA BANKNOTES IN CIRCULATION

Denomination, rubles	Total in circulation, million rubles		As % of 1.01.2006	% share	
	as of 1.01.2006	as of 1.01.2007		as of 1.01.2006	as of 1.01.2007
5 000	0.0	143,203.1	100.0	0.0	4.7
1 000	1,445,532.0	2,117,774.5	146.5	66.1	69.5
500	598,125.3	641,023.7	107.2	27.4	21.0
100	103,618.5	108,105.7	104.3	4.7	3.5
50	29,479.1	30,004.4	101.8	1.3	1.0
10	8,822.6	9,661.9	109.5	0.4	0.3
5	40.2	37.6	93.5	0.0	0.0
Total balance sheet number of banknotes of 1997 issue	2,185,617.7	3,049,810.9	139.5	100.0	100.0

Table 48

## STRUCTURE OF BANK OF RUSSIA COINS IN CIRCULATION\*

Denomination	Total in circulation, million rubles		As % of 1.01.2006	% share	
	as of 1.01.2006	as of 1.01.2007		as of 1.01.2006	as of 1.01.2007
1 kopeck	54.1	59.3	109.6	0.4	0.4
5 kopecks	189.8	215.5	113.5	1.4	1.3
10 kopecks	979.2	1,157.8	118.2	7.2	7.0
50 kopecks	1,111.5	1,318.7	118.6	8.2	8.0
1 ruble	2,753.1	3,248.0	118.0	20.4	19.7
2 rubles	2,050.4	2,403.0	117.2	15.2	14.5
5 rubles	4,654.3	5,476.2	117.7	34.4	33.2
10 rubles	1,736.3	2,621.3	151.0	12.8	15.9
Total balance sheet number of coins of 1997 issue	13,528.7	16,499.9	122.0	100.0	100.0

\* Excluding coins made of precious metals.

Table 49

## BANK OF RUSSIA STAKEHOLDINGS IN RUSSIAN AND FOREIGN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

Name of organisation, place of registration	Currency	Nominal value of Bank of Russia-owned shares		Bank of Russia % share as of 1.01.2007	
		as of 1.01.2007	as of 1.01.2006	in authorised capital	in voting capital
Sberbank, Moscow*	thousand rubles	36,341,604.00	605,693.00	60.57	63.76
Moscow Interbank Currency Exchange (MICEX), Moscow**	thousand rubles	331,940.00	232,358.00	28.76	28.76
St Petersburg Currency Exchange, St Petersburg	thousand rubles	302.00	302.00	8.90	8.90
National Depository Centre, Moscow	thousand rubles	24,500.00	24,500.00	49.00	42.40
Bank for International Settlements, Basel	SDR	16,055,000.00	16,055,000.00	0.59	0.55
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium***	euro	875.00	125.00	0.006	—
Interstate Bank, Moscow	thousand rubles	10,000.00	10,000.00	50.00	50.00

\* Sberbank general shareholders' meeting has decided to increase authorised capital by raising the nominal value of previously placed shares through capitalisation of the bank's equity.

\*\* MICEX general shareholders' meeting has decided to increase authorised capital by raising the nominal value of previously placed ordinary personal shares through capitalisation of the exchange's equity.

\*\*\* The Bank of Russia Board of Directors has decided to purchase six SWIFT shares distributed according to the SWIFT General Terms and Conditions.

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