

THE CENTRAL BANK OF THE RUSSIAN FEDERATION



A N N U A L 2 0 0 5 R E P O R T



Approved by the Bank of Russia Board of Directors on May 12, 2006

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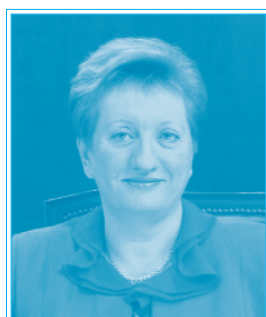
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## INTRODUCTION

The Bank of Russia Report for 2005 reflects the main results of the Bank's activities aimed at ensuring the stability of the ruble and currency circulation, developing the banking sector and payment system and fulfilling other functions assigned to it by law.

The year 2005 was not an easy one for the Russian economy and the Bank of Russia in terms of accomplishing stated tasks.

On the one hand, economic growth was stronger than expected, output expanded mainly due to higher consumer and investor demand, companies' financial standing improved and incomes rose. Consumer price growth slowed from 2004.

On the other hand, the major factors of inflation remained unchanged.

The high prices of Russia's main exports in 2005, and lower interest rates on world financial markets than in Russia, caused a substantial inflow of foreign currency onto the domestic foreign exchange market, through export earnings and corporate loans from foreign banks. As the supply of foreign currency continued to exceed demand, the Bank of Russia sought to prevent a sharp rise in the real effective rate of the ruble,

which could adversely impact the economy. As a result of the currency buying by the Bank of Russia, the country's international reserves in 2005 increased more than in 2004, while money supply growth exceeded expectations.

In view of the objective contradiction between the exchange rate policy being pursued and the need to restrain money supply growth in order to meet the inflation target, the Bank of Russia had to find a compromise in tackling these tasks. Implementing anti-inflationary monetary policy was also made difficult by the pricing policy pursued by the country's natural monopolies and growth in administered prices, both of which kept inflation high. As a result, the Russian Government and the Bank of Russia failed to achieve the inflation target they had set for 2005.

Growth in the money supply was, to some extent, caused by growth in demand for the national currency, which reflected an increase in business activity, and the ruble's continuing attractiveness for economic agents' transactions and savings.

At the same time, excess liquidity in the economy had to be sterilised to reduce the inflationary pressure created by accelerated



growth in the money supply. To meet these goals, the Bank of Russia used both fiscal policy mechanisms and monetary policy instruments. Owing to the increased balances in federal government accounts, including the Russian Government's Stabilisation Fund, regional administrations' resources, and government extra-budgetary funds, the monetary authorities managed to absorb more than half of the increase in money supply.

To stabilise the banking sector and enhance the efficiency of the financial system as a whole, the Bank of Russia implemented a series of measures in 2005 aimed at improving the banking system and financial markets.

The principal objectives of the reforms in the banking sector were set out in the Russian Banking Sector Development Strategy for the Period until 2008, approved by the Russian Government and Bank of Russia in 2005. This document envisages a number of measures aimed at improving the legislative and institutional environment of the banking business, and creating conditions for greater competitiveness among Russian banks.

The main goals of the modernisation programme for the banking sector in 2005 were to ensure its systemic stability, and to safeguard the interests of creditors and depositors. The establishment of the deposit insurance system was largely completed during 2005. In addition, the Bank of Russia implemented measures aimed at enabling better evaluation of banking risks; increasing the accuracy of the assessments of credit institutions' financial soundness; and implementing supervisory regulation measures whenever necessary. It carried out large-scale work to convert credit institutions to international financial reporting standards (IFRS). All Russian credit institutions compiled their reports for 2004 in line with IFRS.

Steps were taken to ensure that the payment system operated smoothly and efficiently, and to continue upgrading it, this being a major factor for financial stability in the country.

The Bank of Russia made efforts to keep the public well informed about its work, since transparency is a major condition for public confidence in a country's central bank. The Bank of Russia's report for 2005 aims to serve this purpose.



**THE ECONOMIC AND  
FINANCIAL SITUATION  
IN RUSSIA**

I

## I.1. THE ECONOMIC SITUATION IN RUSSIA

The macroeconomic situation in 2005 was characterised by rapid economic growth, which exceeded the official forecast for the year. Consumer price inflation continued to decline. Production growth was caused by a significant increase in consumer and investor demand. Household sector real money income rose rapidly.

The favourable price situation for the Russian exporters on world commodity markets led to an improvement in Russia's key balance of payments indicators. According to Bank of Russia estimates, the world prices of major Russian exports<sup>1</sup> gained 35% on average. In 2005 Russia registered its biggest current account surplus since 1992. Foreign exchange reserves grew at fast rate.

As a result of the improved financial standing of companies and favourable price situation on the world market, federal budget revenue increased by more than expected. At the same time, the expenditure policy pursued by the government enabled it to register a budget surplus and ease inflationary pressure on the economy. Last year's federal budget surplus totalled 7.5% of GDP, against 4.3% in 2004.

As revenues channelled to the Stabilisation Fund far surpassed projected levels, the Russian

Government was able to make early repayments on its debt to the International Monetary Fund (IMF), and on a part of its debt to the Paris Club of creditor nations.

Industrial production growth in 2005, as in previous years, was largely due to the manufacturing sector, testifying to improvements in the structure of production and the greater role of internal growth factors. The mining and hydrocarbons sector's contribution to industrial production growth decreased in 2005.

**Consumer price inflation** slowed to 10.9% in 2005 (December on December) from 11.7% in 2004. The slowdown was due to a significant reduction in core inflation.

The higher-than-expected rate of inflation in 2005 was the result of a significant increase in the prices of paid services provided to the public, especially those administered at the regional and municipal levels, and considerable growth in the prices of certain goods.

Service prices gained 21.0% in 2005 against 17.7% in 2004. Growth in the paid services provided to the public was 2.6 times faster than overall price growth (1.7 times in 2004). Administered service prices climbed at particularly rapid

<sup>1</sup> Average prices are based on data provided daily by the following news agencies and exchanges: Reuters for oil, Petroleum Argus for petroleum products (petrol, diesel fuel and fuel oil), and the London Metal Exchange for non-ferrous metals (aluminium, copper and nickel). Average monthly prices of natural gas and ferrous metal price indices are monitored by data provided by the World Bank and other commodities by the IMF.

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

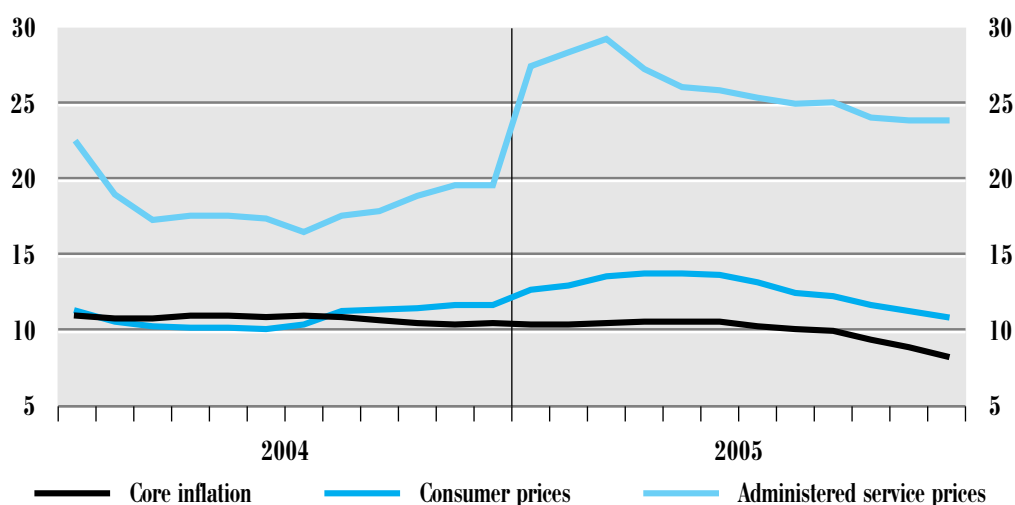


Chart 1

\* Estimate.

rates. Housing and utility charges, for example, increased 32.7% in 2005 against 23.5% in 2004.

Significant growth in vegetable and fruit prices added to inflation in 2005 (vegetable and fruit prices rose 14.3% during the year, against 3.3% in 2004).

Core inflation stood at 8.3% in 2005 against 10.5% in 2004.

The most significant downturn was registered in food prices, excluding vegetable and fruit prices, up 9.1% in 2005 against 13.1% in 2004. Price trends of some foodstuffs were extremely volatile. Among food prices in 2005, the largest rise was registered in meat and poultry prices (18.6% against 19.6% in 2004). Price dynamics of these foodstuffs on the consumer market formed amid high growth in livestock and poultry producer prices. Growth in fish and seafood prices accelerated in 2005 (to 12.7% against 11.5% in 2004). However, the situation on some food markets improved in 2005: growth in the prices of bread and bakery products and pasta declined due to a fall in grain producer prices. There was also a drop in the price of refined sugar.

Non-food price dynamics were characterised by slower growth, rising 6.4% in 2005 against 7.4% in 2004.

**Industrial producer prices** climbed 13.4% in 2005 against 28.8% in 2004. Significant growth in energy and other raw material prices on world

markets affected producer price dynamics in the mining sector, where price growth in 2005 (31.0% against 64.7% in 2004) was 2.3 times higher than in the industry as a whole. At the same time, fuel and energy producer prices were up 35.3%, against 69.7% in 2004. Prices in the production, transmission and distribution of electricity rose 11.5% against 12.5% in 2004.

Producer prices in the manufacturing sector increased 8.1% in 2005 against 21.5% in 2004. The largest growth in this sector was registered in petroleum product producer prices, which gained 26.7% against 50.6% in 2004. In manufacturing industries aimed at the consumer goods market, price growth retreated in 2005 from 2004, partly as a result of producers' efforts to maintain market shares despite fierce competition from domestic rivals and importers. Growth in producer prices in the food industry, including beverage and tobacco production, shrank to 4.0%, textile and clothing production to 4.2% and the production of leather and leather goods and footwear to 5.6%. In 2004, the respective figures were 11.1%, 8.6% and 8.4%.

**Job numbers** continued to expand in 2005. Growth in goods and services output was faster than growth in the number of jobs, indicating an increase in labour productivity. Intensive factors of growth therefore remained significant, containing price increases in the economy. The number

GDP AND INDUSTRIAL AND CONSTRUCTION SECTOR OUTPUT  
(as % of corresponding quarter of previous year)

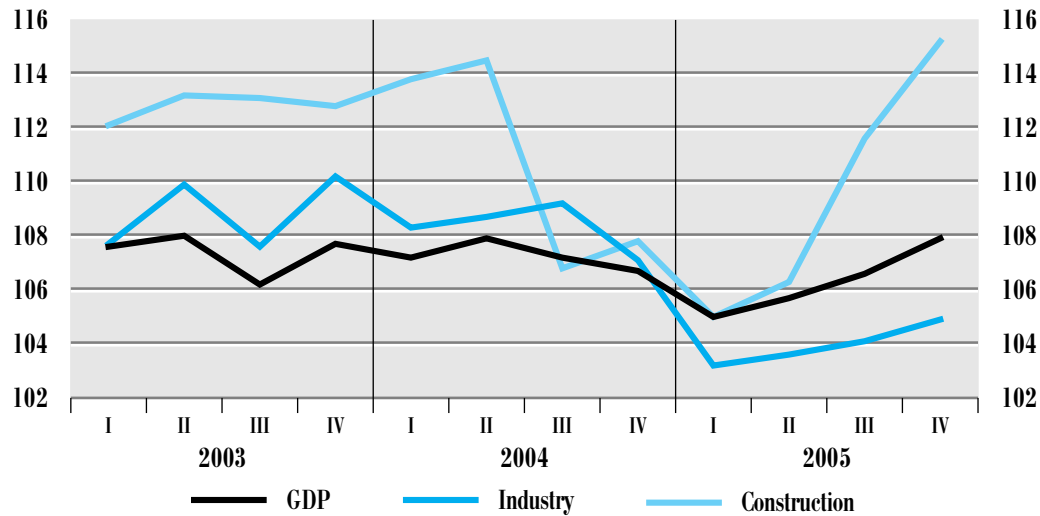


Chart 2

of unemployed, calculated according to International Labour Organisation (ILO) methodology, continued to slide in 2005, and by the end of the year had fallen to 7.6% of the economically active population (against 8.3% a year earlier).

**GDP** expanded 6.4% in 2005 against 7.2% in 2004. Economic growth in Russia exceeded growth in global output of goods and services.

Industrial output edged up 4.0% in 2005 against 8.3% in 2004. The slowdown was largely due to the year-on-year weaker growth in the production of fuel and energy, and a downturn in the production of other raw materials. Raw material production gained 1.3% in 2005 against 6.8% in 2004.

Manufacturing sector output expanded 5.7% in 2005 against 10.5% in 2004. The most significant growth in the sector was in the production of electrical, electronic, and optical equipment, transport vehicles, finished metal products, rubber and plastic goods, coke, and petroleum products.

Strong growth in the retail and construction sectors boosted GDP expansion, which exceeded industrial production growth.

Agricultural output increased by 2.0%. With production of the main grain crops surpassing the previous year's level, price trends among some foodstuffs improved.

According to the Russian Federal State Statistics Service (Rosstat), the enterprise sector's net financial result (excluding small businesses, banks, insurance companies and budget-financed organisations) increased 36.6% year on year, to 3,004.4 billion rubles. The share of loss-making enterprises shrank by 2.3 percentage points year on year, to 33.5% of the total.

Returns on the sale of goods, products, works and services<sup>1</sup> increased slightly in 2005 as compared with 2004 (by 12.7% against 12.2%). The highest rate of return (over 20%) was registered in export-oriented categories, which profited from the favourable world market price situation, and faster growth in domestic prices than in the industry as a whole.

Higher mining and hydrocarbon prices in 2005 were a major factor behind higher manufacturing production and sale unit costs, and slower growth in the sector's financial result. Although the tax policy pursued by the government, which reduced the flat social tax rate from 35.6% to 26.0%, restrained growth in companies' costs, profit rates in different economic activity categories continued to differ significantly.

The trend towards a contraction of overdue receivables in working assets persisted (5.2% against 7.4% in 2004). The enterprise sector's current liquidity ratio increased, reflecting

<sup>1</sup> The ratio of profit/loss from sales to earnings from the sale of goods, products, works and services.

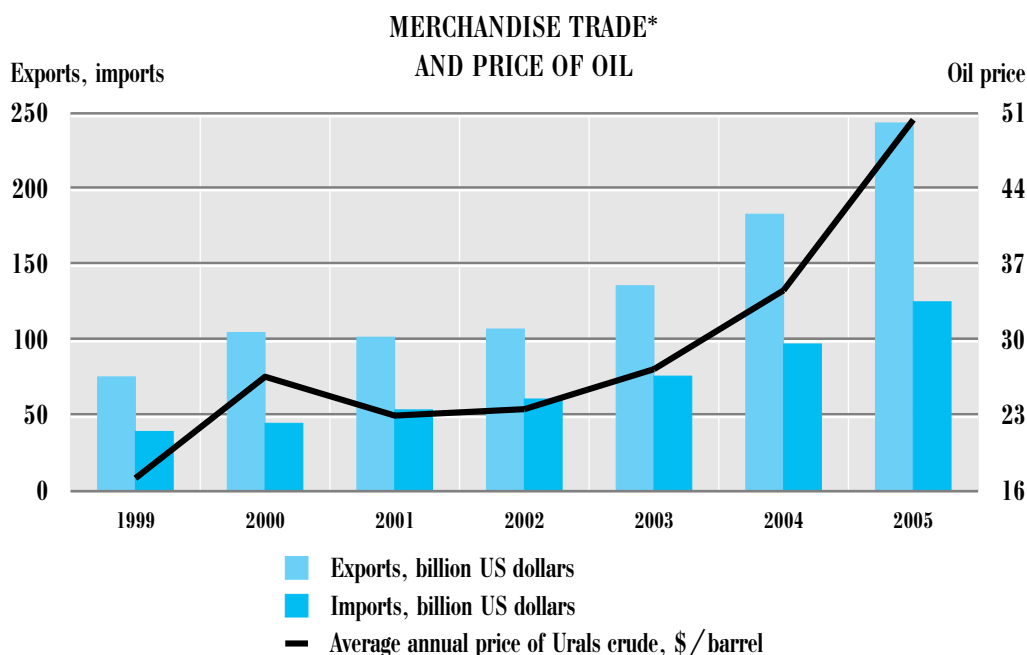


Chart 3

\* According to balance of payments data.

growth in the cover ratio of working assets to short-term liabilities.

Companies' liabilities, including liabilities to non-residents, increased. In 2005, raised funds were the fastest-growing source of enterprise sector financing. Companies actively took loans, and as a result, their share in liabilities expanded from 43.0% as of the end of 2004 to 47.5% as of the end of 2005, while the overdue portion of this debt contracted from 1.8% to 1.3%. Accordingly, the share of payables in financial resources narrowed, while overdue payables fell from 18.9% to 15.0% of total payables.

Payments and settlements continued to develop in 2005, and the amount of paid-for products continued to rise, with the share of products paid for with money posting the fastest growth. In 2005 the share of products paid for with money accounted for 94.0% of total paid-for products against 88.9% in 2004.

**Fixed capital investment** increased 10.7% in 2005 against 11.7% in 2004. The largest investments in 2005 were made in transport and communications, manufacturing industries and the mining and hydrocarbons sector. Investments in these activities accounted for 61.6% of total fixed capital investments by large and medium-sized enterprises.

Household sector demand, supported by the rapid expansion of consumer lending, was the principal driver for goods and services output growth in 2005.

**Real disposable money income** grew 9.3% in 2005 year on year. Last year the highest-income 20% of the population accounted for 46.4% of total money income (against 46.7% in 2004), whereas the lowest-income 20% of the population accounted for 5.5% (against 5.4% in 2004).

Spending on goods and services accounted for 71.1% of household money income in 2005 as compared with 69.9% in 2004. Growth in real money income stimulated consumer demand, which had a positive effect on retail trade and services.

Retail trade turnover expanded 12.8% in 2005 year on year. Food products accounted for 45.9% of retail trade turnover, and non-food products 54.1% (against 45.7% and 54.3% in 2004, respectively). The volume of paid services provided to the public increased 7.5% in 2005 year on year.

**The foreign trade situation** remained positive in 2005. The favourable price situation enjoyed by Russian exporters on world commodity markets, and the improved investment climate

and terms of trade in Russia contributed to financial stability and a strengthening of the country's balance of payments. The current account surplus rose more than 40% in 2005 and reached an estimated 11.0% of GDP (against 9.9% of GDP in 2004).

Exports of goods and services remained the principal source of foreign exchange inflow into Russia. Growth in exports in 2005 was primarily due to the significant increase in prices, particularly energy prices. Overall, the value of exports of the major energy products (oil, petroleum products and natural gas) climbed almost 50% year on year. Oil and natural gas exports expanded 40%, while exports of petroleum products rose 75%. Growth in Russian export volumes slowed year on year (except certain commodities, such as petroleum products), while oil export volumes contracted.

Demand for foreign currency on the domestic foreign exchange market from importers of goods

and services slowed in 2005 year on year as a result of slower growth in imports of services. Goods imports increased mainly due to the expansion of import volumes, while import prices rose to a lesser extent. Imports of investment goods continued to increase faster than consumer goods imports.

The favourable world market price situation and macroeconomic stability allowed Russia to accumulate considerable foreign exchange reserves. In 2005 Russia's international reserves grew almost 50% year on year.

The Russian Government's foreign debt contracted dramatically in 2005. Despite growth in private sector foreign debt, the overall debt burden on the country's economy eased.

Foreign trade remained a major source of federal budget revenue. High energy prices in 2005 ensured considerable growth in budget revenue, despite the reduction or lifting of customs duties on some imported and exported goods.



## 1.2. GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

Fiscal policy objectives in 2005 were to maintain macroeconomic stability, increase the role of long-term financial planning in the budget process, bring about a gradual transition from managing expenditure to managing budget performance, and to optimise the network of budget-financed organisations, taking into account the functions and tasks they fulfil.

One factor behind the continued macroeconomic stability in 2005 was the stability of government finance, brought about by the favourable world market price situation, high prices of Russian oil on global markets and the corresponding flow of additional revenue to the federal budget.

According to a Federal Treasury preliminary report, federal budget revenue aggregated 5,127.2 billion rubles in 2005, which represents 103.0% of the amount approved by the 2005 Federal Budget Law. Federal budget revenue as a portion of GDP increased by 3.5 percentage points year on year to 23.7%.

Federal budget expenditure aggregated 3,514.3 billion rubles, or 99.2% of the figure approved by the 2005 Federal Budget Law, reaching 16.3% of GDP against 15.9% in 2004. Of this sum, non-interest expenditures totalled 3,306.0 billion rubles, or 99.8% of the amount approved by the law, and 15.3% of GDP against 14.7% in 2004. Federal budget expenditure was

distributed more evenly by quarter in 2005 than in 2004. The 2005 federal budget surplus stood at 1,612.9 billion rubles, or 112.0% of the amount approved by the 2005 Federal Budget Law, and 7.5% of GDP against 4.3% in 2004.

The excess of the average price of Urals crude over the base price of oil, and the price used in calculating federal budget revenue projections for 2005, allowed the Russian Government to add to the Stabilisation Fund. The Fund balances with the Bank of Russia increased by 714.7 billion rubles in 2005 to 1,237.0 billion rubles.

Federal budget balances with the Bank of Russia, including the Stabilisation Fund accounts, increased 110% in 2005, reaching 1,905.2 billion rubles.

According to Federal Treasury preliminary data, Russia's consolidated budget revenue in 2005 aggregated 7,611.6 billion rubles, or 35.2% of GDP, while expenditure totalled 5,941.4 billion rubles, or 27.5% of GDP; the federal budget surplus stood at 1,670.2 billion rubles, or 7.7% of GDP. The consolidated budget revenues and expenditures of the constituent territories of the Russian Federation aggregated 2,997.6 billion rubles and 2,940.4 billion rubles, respectively, and the surplus stood at 57.2 billion rubles.

According to preliminary data, the Russian Government's Pension Fund's revenues and expenditures stood at 1,266.3 billion rubles and

FEDERAL BUDGET  
EXPENDITURE STRUCTURE  
IN 2005 (%)

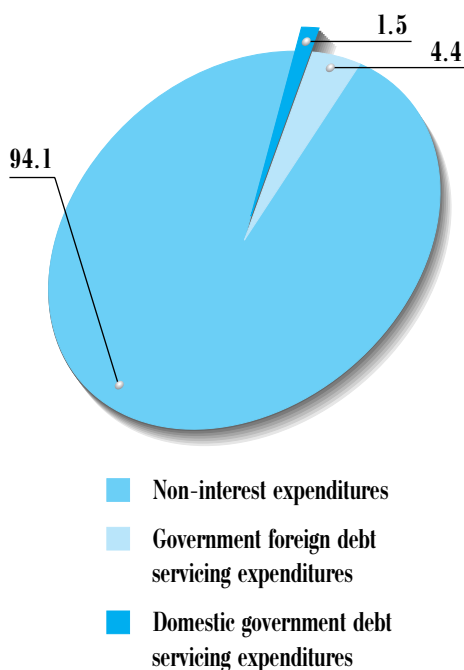


Chart 4

1,297.8 billion rubles, respectively, implying a deficit of 31.5 billion rubles. Revenues and expenditures of the Russian Government's Social Insurance Fund stood at 185.7 billion rubles and 165.3 billion rubles, respectively, with a surplus of 20.4 billion rubles. Revenues and expenditures of the Federal Compulsory Health Insur-

ance Fund stood at 83.0 billion rubles and 71.5 billion rubles, respectively, with a surplus of 11.5 billion rubles.

According to the Finance Ministry's preliminary data, Russia's domestic government debt increased by 96.9 billion rubles, or 12.5%, in 2005, and as of January 1, 2006, stood at 875.4 billion rubles, down 123.1 billion rubles, or 12.3%, from the upper limit set by the 2005 Federal Budget Law. The ratio of domestic government debt to GDP stood at 4.1% as of January 1, 2006, against 4.6% as of January 1, 2005.

The structure of Russia's domestic government debt improved in 2005. As of January 1, 2006, it comprised 851.1 billion rubles in government securities (97.2% of the total), an increase of 94.3 billion rubles or 12.5% year on year, and 18.9 billion rubles in government guarantees (2.2% of the total), up 5.9 billion rubles or 45.9% on January 1, 2005. Growth in government guarantees was due to guarantees provided under the 2005 Federal Budget Law, for the Russian Government Domestic Borrowings Programme for 2005. Debt-depreciation federal loan bonds, valued at 596.3 billion rubles, accounted for the majority of government securities (70.0%), fixed coupon-income federal loan bonds, valued at 131.1 billion rubles, accounted for 15.4%, and permanent coupon-income federal loan bonds, valued at 123.6 billion rubles, accounted for 14.5%. The share of outstanding bonds on the organised securities market increased by 10.8 percentage points (164.0 billion

FEDERAL BUDGET EXPENDITURE IN 2005  
(billion rubles)

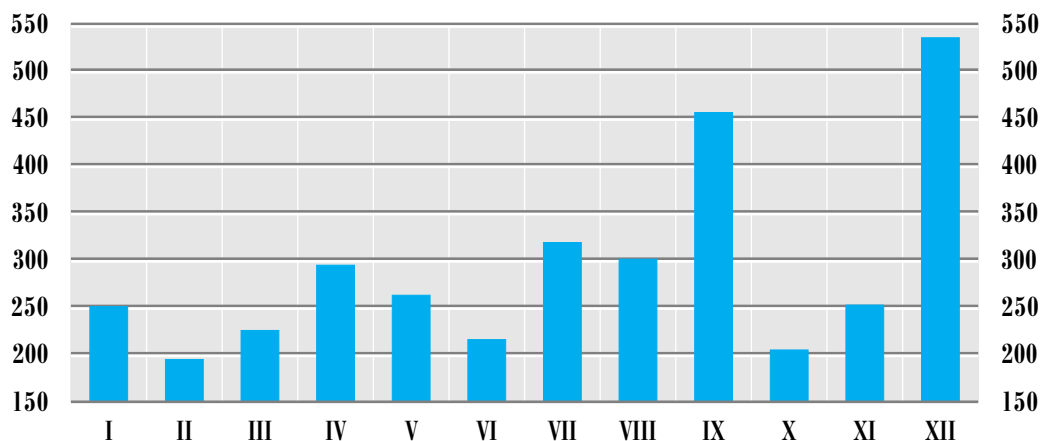
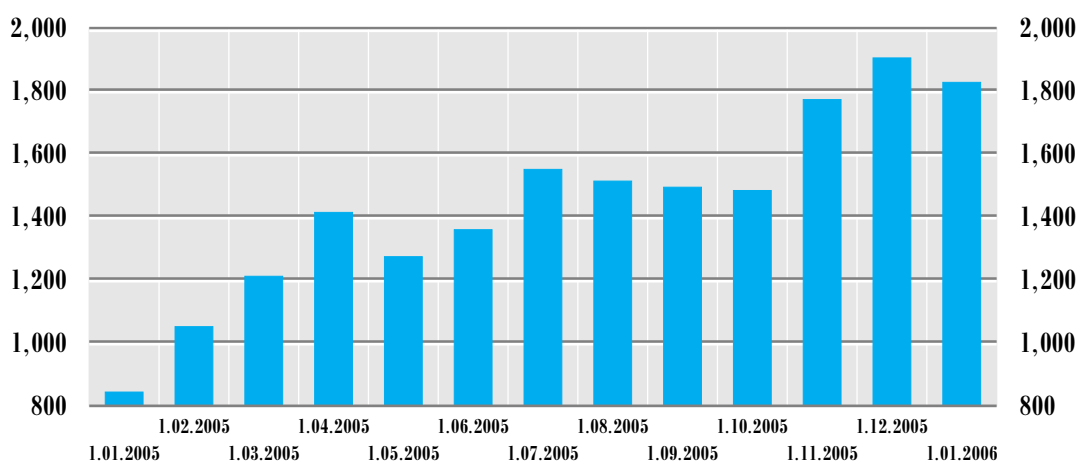


Chart 5

**FEDERAL BUDGET BALANCES WITH THE BANK OF RUSSIA IN RUBLES IN 2005**  
(billion rubles)



*Chart 6*

rubles) over the year, to 82.4% of total government securities (721.5 billion rubles).

The share of the Finance Ministry's debt to the Bank of Russia among total domestic government debt fell by 9.5 percentage points to 29.0%. The nominal value of the Finance Ministry's ruble-denominated debt to the Bank of Russia equalled 253.8 billion rubles as of January 1, 2006, representing a year-on-year decrease of 45.6 billion rubles, or 15.2%. The reduction in the Finance Ministry's debt to the Bank of Russia was due to the redemption by the Finance Ministry, pursuant to the 2005 Federal Budget Law of federal loan bonds, Finance Ministry promissory notes and the Finance Ministry's debt to the Bank of Russia accrued through the transfer by Ukraine, Moldova

and Armenia in 1996—1998 of funds to the Finance Ministry's federal budget revenue accounts as repayment of debt owed by these countries to the Bank of Russia on technical loans, and also the direct sale by the Bank of Russia of government securities from its portfolio.

Pursuant to Article 89 of the 2005 Federal Budget Law, the Finance Ministry bought from the Bank of Russia domestic government bond loans issued in 1991.

Of the debt-depreciation federal loan bonds, 96% mature in 2018—2029. The coupon interest rate on federal loan bonds held for investment ranges from 0% to 1.21%, and the coupon interest rate on federal loan bonds held for sale varies between 0% and 8.0%.

## 1.3. THE FINANCIAL SECTOR

As of the end of 2005, financial intermediaries included 1,253 operating credit institutions, 1,075 registered insurance companies, 360 unit investment funds and, as of October 1, 2005, 294 non-governmental pension funds. The ratio of credit institutions' capital to GDP was 5.7% in 2005 against 5.6% in 2004; the ratio of insurance companies' capital to GDP was 0.7% against 0.8%; the ratio of non-governmental pension funds' equity capital to GDP was 1.6% against 1.3%; and the ratio of unit investment funds' net assets to GDP was 1.1% against 0.6% a year earlier.

The differing growth rates of the various segments of the market in 2005 influenced the structure of the financial sector's resources. Accelerated capitalisation of the stock market determined, to a great extent, the overall expansion of the Russian financial sector. Bank credit to the non-financial enterprises and households as well as corporate debt instruments assumed a more central role. In the government securities segment of the market, the larger volume of outstanding instruments was entirely due to the ruble-denominated bonds, which further reduced the role of the foreign currency-denominated instruments.

The dynamics of the financial sector's key price indicators was a major factor for all financial intermediaries. The dominant trend among inter-

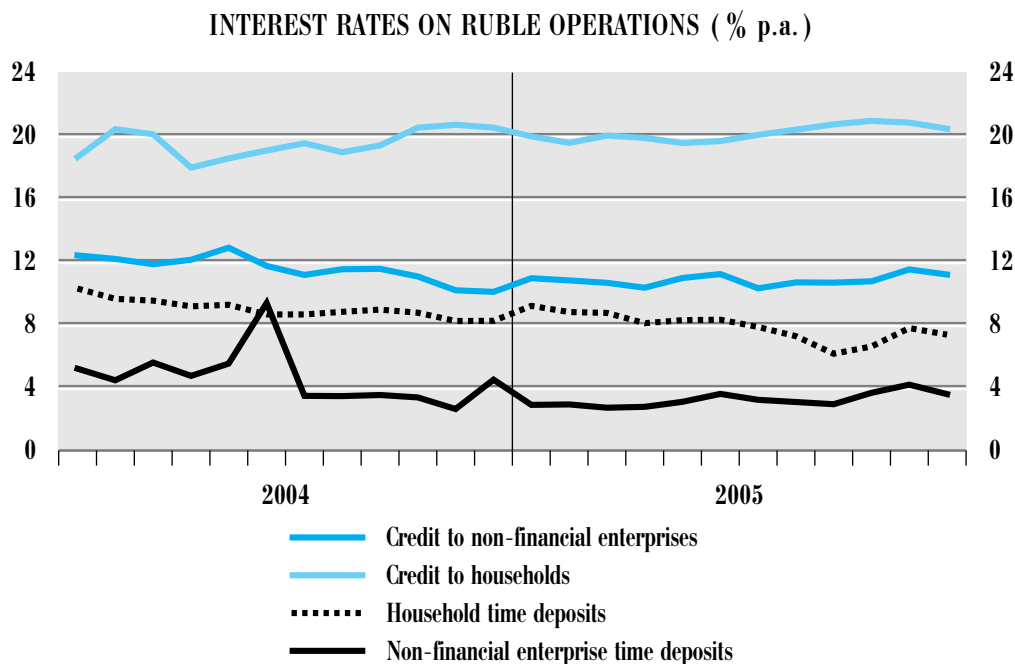
est rates and yields on financial instruments was downward.

Interbank market interest rates remained lower than interest rates in other segments of the financial market. The average interest rate on ruble-denominated interbank loans for all terms was 2.9% p.a. in 2005 against 3.8% p.a. in 2004.

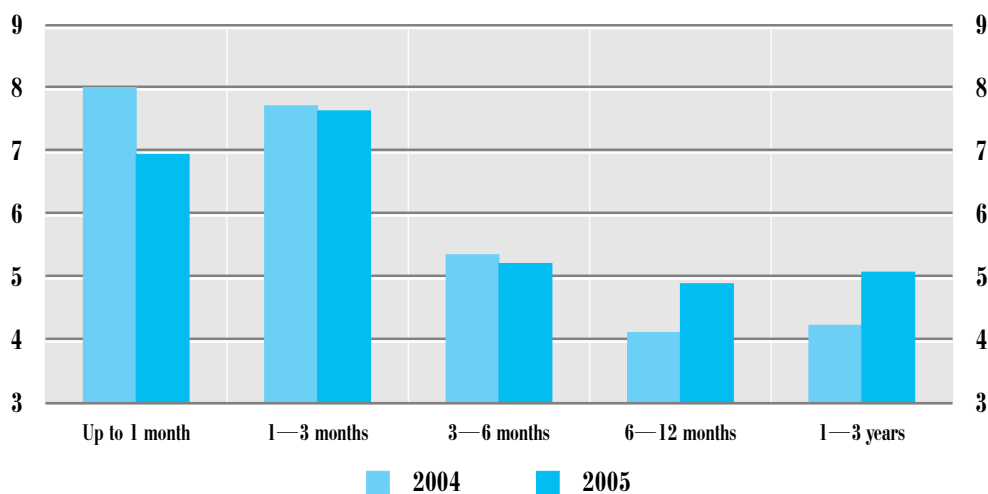
Nominal interest rates on loans to the non-financial sector of the economy were lower. The average annual interest rate on ruble loans to non-financial enterprises for all terms was 10.8% p.a. in 2005 against 11.5% p.a. in 2004.

The fall in interest rates on loans to the non-financial enterprises was accompanied by a reduction in the cost of funds borrowed by banks. The average annual interest rate on household ruble-denominated time deposits declined from 9.0% in 2004 to 7.9% in 2005. Since market conditions did not contribute to the reduction in the interest margin, it changed only slightly compared with 2004. The interest margin of banks on operations with non-financial customers ranged between 4.5 percentage points and 8.0 percentage points in 2005. The interest margin on operations with private individuals continued to be higher than that on operations with non-financial organisations.

Interest rates on operations conducted by banks based in the Central Federal District de-



**INTEREST MARGIN ON BANK LENDING AND DEPOSIT OPERATIONS  
WITH NON-FINANCIAL CUSTOMERS WITH DIFFERENT TERMS IN 2004 AND 2005  
(average for year, percentage points)**



terminated the country's average interest rates. Credit operations by banks in other regions were characterised, as a rule, by higher interest rates. The cost of servicing credit to non-financial organisations was highest in the Siberian and

Southern Federal Districts. The highest interest rates on bank loans to households were registered in the Far Eastern Federal District. The highest return on household deposits was registered in the Volga Federal District.

### I.3.1. CREDIT INSTITUTIONS

Under favourable macroeconomic conditions, the banking sector managed to speed up its growth and consolidate its position in the system of financial intermediation. In 2005, banking sector assets expanded 36.6% against 27.4% in 2004. Banking sector equity capital increased 31.2%, or almost twice the rate in 2004 (16.2%). As of the beginning of 2006, almost a half of Russian credit institutions had capital in excess of 5 million euros (about 39% as of the beginning of 2005). Banking sector assets to GDP increased over the year from 42.1% to 45.1%, and banking sector equity capital to GDP from 5.6% to 5.7%.

Stronger competition in all areas of banking was the main trend in the development of the banking sector in 2005. Increased competition from international creditors on the Russian credit market resulted, among other things, in a greater range of financing sources available to the non-financial sector of the economy. This includes the larger volume of funds raised from foreign banks, and the eurobond placements by companies. The ruble bond market also saw rapid growth.

Competition built up on the household deposit market. The value of household deposits increased 39.3% in 2005. It should be noted that household deposits with the Savings Bank (Sberbank) increased 26.5% over the year, while household deposits with other banks grew 58.4%. As a result, Sberbank's share of the household deposit market contracted from almost 60% as of the beginning of 2005 to 54.4% a year later.

More and more foreign capital came to Russia. The number of foreign-controlled credit institutions in the Russian banking sector reached 52 as of January 1, 2006 (there were 42 foreign-controlled banks in Russia as of January 1, 2005), of which nine were among the top 50 banks by assets operating in the country. The share of foreign-controlled banks in total banking sector assets grew from 7.6% as of January 1, 2005, to

8.3% as of January 1, 2006, while their share in equity capital climbed from 7.8% to 9.3%.

Foreign-controlled banks also strengthened their position on the retail market. Household deposits and loans to private individuals grew faster in foreign-controlled banks than in the banking sector as a whole. Household deposits with foreign-controlled banks increased 60.0% in 2005, accounting for 3.4% of banking sector household deposits. Loans extended by these banks to private individuals increased 110% in 2005, comprising 8.5% of total banking sector loans to private individuals as of January 1, 2006, against 7.7% as of January 1, 2005.

Lending to non-financial enterprises grew rapidly: loans extended by foreign-controlled banks to the non-financial enterprise sector increased 57.3% in 2005, and their share in total bank loans to the sector edged up from 6.2% to 7.4%.

Greater competition in banking stimulated a consolidation of the banking sector.

The institutional saturation with banking services in the Russian regions improved slightly in 2005 due to the expansion of the branch network and the opening of additional offices of credit institutions. At the beginning of 2005 there were 9.5 credit institutions, bank branches, and additional offices per 100,000 people, whereas as of January 1, 2006, the figure had risen to 11.2.

At the same time, the availability of banking services differed significantly by region. As before, the Central and Northwestern Federal Districts were the best supplied with banking services in 2005. The Volga Federal District had a higher-than-average level of supply<sup>1</sup>. The lowest level in 2005 was registered in the Urals Federal District, replacing the Siberian Federal District, which had held last place on the list for a long time. The Southern and Far Eastern Federal Districts also had lower-than-average availability of banking services.

<sup>1</sup> The average level of supply with banking services has been calculated without taking into account credit institutions based in Moscow and the Moscow Region.

**STRUCTURE OF BANKING SECTOR LIABILITIES.**

The resource base of Russian credit institutions continued to expand in 2005, accompanied by structural changes in banking sector liabilities.

Customer account balances<sup>1</sup> increased 40.2% in 2005 to 5,818.9 billion rubles as of January 1, 2006, while their share of total banking sector liabilities rose from 58.2% to 59.7%.

As the Russian economy continued to grow rapidly, the main source of funds for credit institutions during 2005 was funds raised from the enterprise sector<sup>2</sup>, which increased 48.7% against 43.4% in 2004 and their share in aggregate banking sector liabilities expanded from 27.8% to 30.3%. These resources accounted for 37.0% of overall growth in banking sector liabilities.

Enterprise sector deposits<sup>2</sup> increased 66.0% in 2005 (against 80.5% in 2004), and their share in aggregate banking sector liabilities expanded from 7.9% to 9.6%. Deposits with terms from 31 days to one year took the largest share (53.8%) of total deposits.

Of total funds raised from the enterprise sector<sup>2</sup>, funds raised from residents were the main source: in 2005 they increased 41.7%, reaching 2,527.7 billion rubles as of January 1, 2006. Their share expanded from 25.0% to 25.9% of aggregate banking sector liabilities. Of resources raised from the enterprise sector<sup>2</sup>, almost 57% were balances in settlement and current accounts, i.e., short-term borrowing.

Another major source of growth in credit institutions' resources came from household deposits. In 2005 they grew faster than in 2004, gaining 39.3% over the year against 30.3% in 2004, to stand at 2,754.6 billion rubles as of January 1, 2006. The share of this source of funds in aggregate banking sector liabilities also grew, from 27.7% to 28.3%. These funds accounted for 29.7% of growth in banking sector liabilities. Growth in household deposits with banks was due not only to higher real income, but also to changes in the management of the banking business. These

changes include the establishment of the deposit insurance system, designed to boost public confidence in banks; the expansion of the bank network, making banking products more accessible to the consumer; the improved quality of services provided to the public; and the wider range of banking products.

In 2005, as in 2004, ruble-denominated household deposits grew considerably faster (gaining 42.7%) than foreign currency deposits<sup>3</sup> (25.1%), a trend testifying to higher public confidence in the national currency. As a result, the share of ruble deposits climbed from 73.8% to 75.6% of total household deposits. It is significant that household deposits held for more than one year increased by 45.0% in 2005, and their share in total banking sector household deposits rose from 57.2% to 59.5%.

Funds raised by credit institutions by issuing debt obligations increased 16.3% in 2005 (against 1.5% in 2004) and reached 749.2 billion rubles as of January 1, 2006. As previously, promissory notes accounted for most of the debt obligations issued by banks (82.0% as of January 1, 2006, against 78.6% as of January 1, 2005). Despite a significant rise in bonds (up 120%) and savings certificates (up 80%) issued by banks, their share in banking sector liabilities remained small at 0.8% as of January 1, 2006 (against 0.5% as of January 1, 2005).

The issue of bonds on the domestic market was restrained, among other things, by the high cost of managing and placing the issues. In addition, competition from international financial markets increased, on which credit institutions were able to borrow funds at lower interest rates than on the domestic market.

Interbank credit obligations<sup>4</sup> increased 47.4% in 2005 against 40.3% in 2004, totaling 1,086.4 billion rubles, while their share in aggregate banking sector liabilities edged up from 10.3% to 11.1%. Russian credit institutions continued to actively obtain funds on the interna-

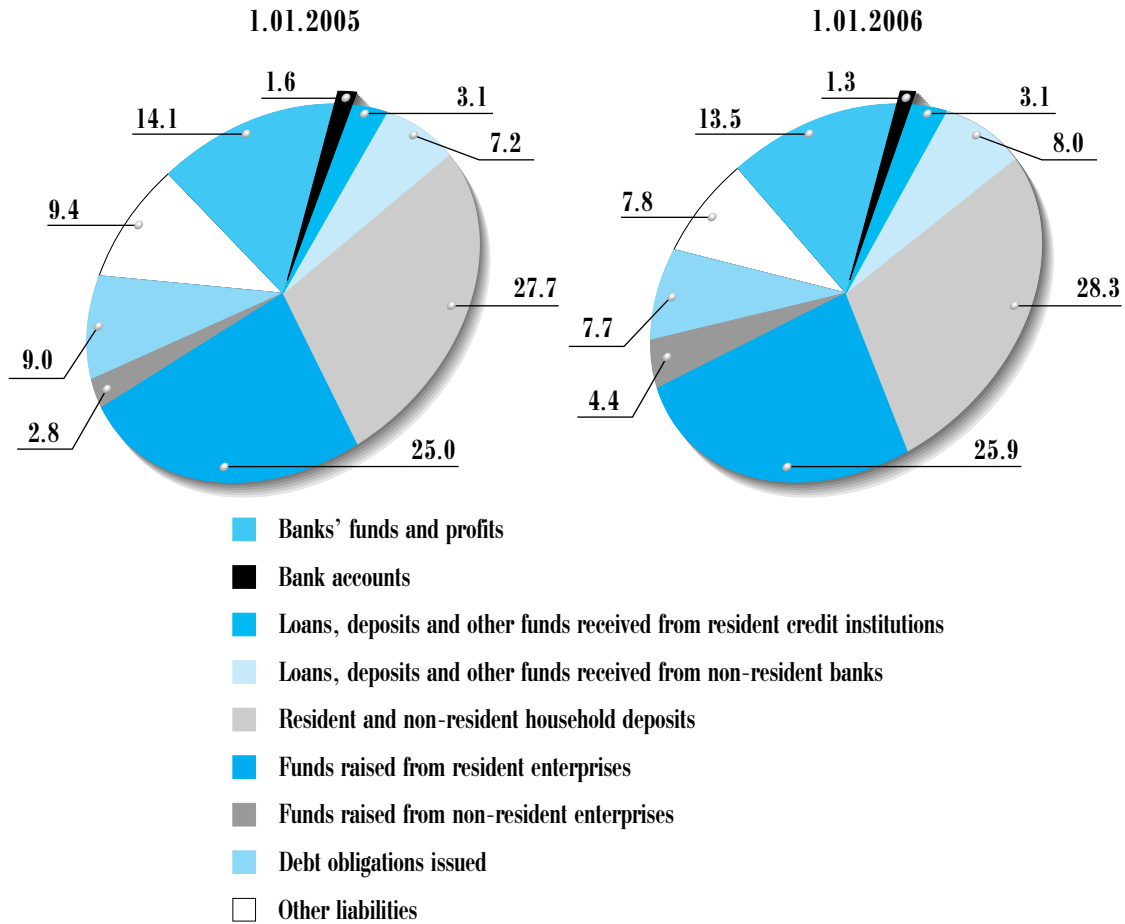
<sup>1</sup> Balances in corporate accounts (including all-level budget funds and government extra-budgetary funds), household funds, float, factoring and forfeiting balances, and funds written off from customers' accounts but not passed through a credit institution's correspondent account.

<sup>2</sup> Excluding resident credit institutions and non-resident banks.

<sup>3</sup> In dollar terms.

<sup>4</sup> Loans, deposits and other funds raised on the interbank market.

## BANKING SECTOR LIABILITY STRUCTURE (%)



tional interbank market. The value of credit obligations to non-resident banks grew 52.4% against 36.6% in 2004, and as a result, the share of loans from non-resident banks expanded from 69.8% to 72.2% of total interbank loans. This source of funds accounted for 8.0% of banking sector liabilities as of January 1, 2006, against 7.2% as of January 1, 2005. Loans with terms of one year or more accounted for 68.9% of total loans obtained on the international interbank market as of January 1, 2006, against 57.5% as of January 1, 2005.

Interbank loans obtained from non-resident banks in 2005 continued to exceed credit placed with these banks. At the same time, the balance of funds<sup>1</sup> in interbank operations with non-residents increased (by 35.8%) from 318.3 billion

rubles as of January 1, 2005, to 432.3 billion rubles as of January 1, 2006.

Balances of funds raised on the domestic interbank market grew 35.7% in 2005, while their share in banking sector liabilities remained virtually unchanged at 3.1%.

**BANKING SECTOR ASSET STRUCTURE.** Certain changes were made in credit institutions' investment policies in 2005. Although credit to non-financial organisations remained a major banking operation (accounting for 43.8% of aggregate banking sector assets as of the beginning of 2006), credit to households and investments in non-government securities grew faster.

Bank loans to non-financial organisations increased 30.5% in 2005 (against 39.0% in 2004),

<sup>1</sup> Excess of funds raised (loans, deposits, etc.) over funds placed.



BANKING SECTOR ASSETS STRUCTURE (%)

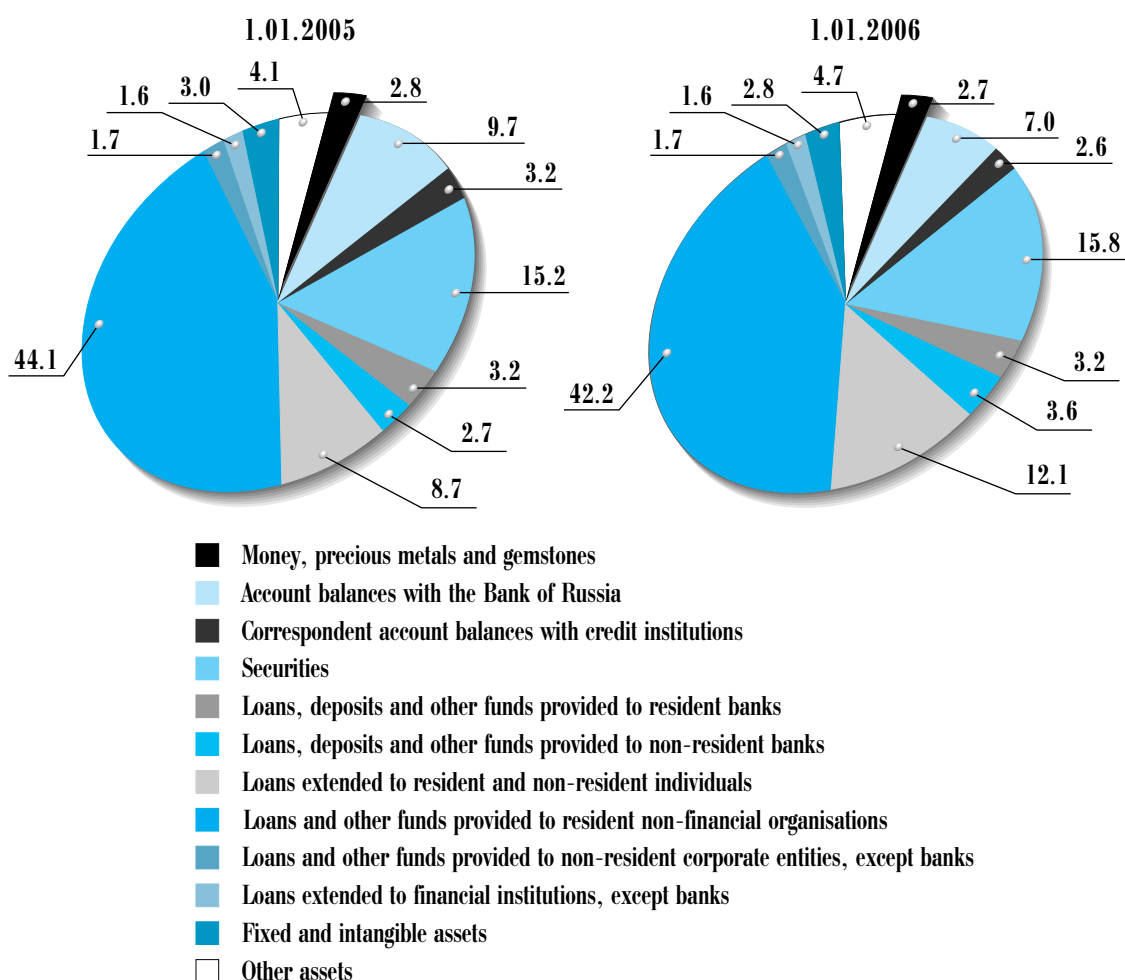


Chart 10

totalling 4,110.6 billion rubles as of January 1, 2006, while their share in aggregate banking sector assets shrank from 44.1% to 42.2% over the year. Of operating credit institutions, 68.9% raised lending to Russian non-financial organisations, and 70.7% of total loans in this category were ruble-denominated.

Loans and other funds placed with non-resident corporate entities other than banks in 2005 increased 38.1% to 164.1 billion rubles, of which 88.8% were denominated in foreign currency. The share of credit to non-resident corporate entities in banking sector assets was small (1.7% as of January 1, 2006).

Loans with terms longer than one year accounted for 43.5% of total credit to non-financial organisations (against 39.5% as of the be-

ginning of 2005), and their rates of growth (43.7%) by far exceeded overall growth in credit to non-financial enterprises (30.5%). This trend testifies to the economy's growing demand for investment. At the same time, almost 60% of total loans to Russian non-financial enterprises for terms longer than one year were ruble-denominated.

The slowing of growth in credit to the non-financial enterprise sector in 2005 was a result of the expansion of banking business in areas, such as consumer lending and investment in corporate securities, amid increased competition from international creditors of Russian non-financial enterprises. The assigning of investment grade to Russia by leading rating agencies in 2005 gave a fresh impetus to eurobond placements, which

became a major source of long-term financing for large Russian businesses. This applies particularly to export-oriented companies, which have a strong reputation on world financial markets.

Household lending continued to rise rapidly in 2005. Loans to resident individuals increased 90% to 1,174.9 billion rubles as of January 1, 2006, of which 1,051.5 billion rubles, or 89.5%, was lent for consumer purposes. Banks provided consumer credit to resident individuals largely in rubles (85.2% of the total). Household credits as a share of banking sector assets expanded from 8.6% as of January 1, 2005, to 12.1% as of January 1, 2006, while its share in total banking sector credit climbed from 13.8% to 18.4%.

Total credit extended to non-financial organisations and households in 2005 increased 40.3% to 5,454.0 billion rubles, while its share in aggregate banking sector assets expanded from 54.5% to 55.9%, and as a portion of GDP from 22.9% to 25.3%.

Credit institutions maintained an active presence on the securities market in 2005. Their investments in securities increased 41.6% over the year (against 8.4% in 2004), reaching 1,539.4 billion rubles as of January 1, 2006, while their share in banking sector assets expanded slightly (from 15.2% to 15.8%).

The share of debt obligations in credit institutions' securities portfolios contracted in 2005 from 69.2% to 67.3%, while the share of discounted promissory notes shrank from 17.8% to 13.6%; the share of investments in equities expanded from 13.0% to 19.0%.

The structure of investments in debt obligations altered substantially in 2005. While bank investments in federal government debt instruments increased 13.0% to 492.0 billion rubles, their share of aggregate banking sector assets contracted from 6.1% to 5.0%, and their share of total bank investments in debt obligations from 57.9% to 47.5%. Investments in corporate bonds accounted for almost 40% of the increase in bank investments in debt obligations. Investments in corporate bonds increased almost 110% against 80% in 2004, to 221.5 billion rubles as of January 1, 2006, while their share in aggregate banking sector assets expanded from 1.5% to 2.3%.

As stock exchange prices rose, equity investments increased 110% against 21.7% in 2004, to

292.8 billion rubles; however, their share in banking sector assets remained small (3.0% as of January 1, 2006, against 2.0% as of January 1, 2005).

Growth in banks' investments in discounted promissory notes in 2005 (8.6%) was considerably lower than in other active operations. The share of discounted promissory notes in banking sector assets contracted from 2.7% to 2.2% over the year. Discounted promissory notes of Russian banks accounted for 67.9% of the discounted promissory note portfolio (compared to 49.2% in 2004), and their value increased 50% to 142.6 billion rubles. Investments in discounted promissory notes of other Russian enterprises fell almost 29%, and their share in total discounted promissory notes contracted from 46.8% to 30.6% over the year.

Claims on interbank loans rose 56.9% in the banking sector as a whole in 2005 (against 61.5% in 2004), totalling 668.0 billion rubles, and their share in banking sector assets expanded from 6.0% to 6.9%. This growth was largely due to a 79.5% increase in funds placed with non-resident banks, whose share in banking sector assets expanded from 2.7% to 3.6%.

Loans placed on the domestic interbank market increased 37.6%, while their share in aggregate banking sector assets remained virtually unchanged at 3.2%.

#### FINANCIAL STATE OF CREDIT INSTITUTIONS.

Last year's banking sector profit growth was the strongest in three years (47.3% against 38.6% in 2004). Profits of operating credit institutions stood at 262.1 billion rubles in 2005, and taking into account financial results of previous years, amounted to 304.5 billion rubles (against 177.9 billion rubles and 199.4 billion rubles in 2004, respectively).

The share of profit-making credit institutions expanded from 98.2% to 98.9%, while the number of loss-making credit institutions fell from 22 to 14, and their share contracted from 1.7% to 1.1% of total credit institutions. However, total losses of operating credit institutions increased to 7.9 billion rubles in 2005 from 600 million rubles in 2004. Most of this loss (about 95%) was incurred by a large bank in the process of reorganisation and expansion.

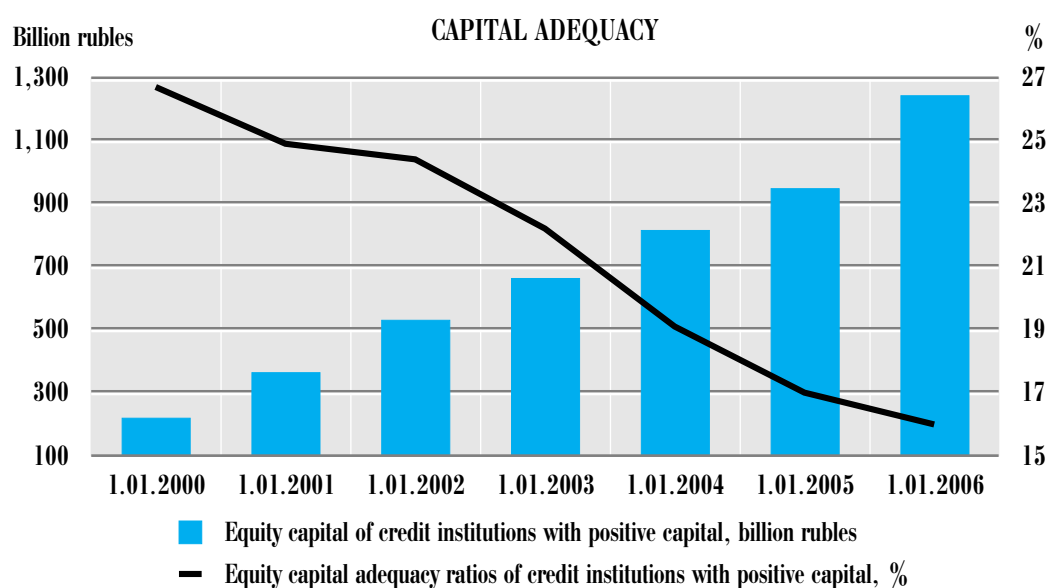


Chart 11

Banking sector efficiency indicators continue to improve. The return on credit institutions' assets increased from 2.9% in 2004 to 3.2% in 2005 and the return on capital grew from 20.3% to 24.2%<sup>1</sup>, a process showing that the banking sector is becoming increasingly attractive to investors. In the year under review, 44.9% of the total number of banks increased their returns on assets and 53.6% increased their returns on capital.

The income structure of credit institutions was largely determined by the expansion of credit investments and banks' investments in securities, and also growth in bank commissions. Net interest income is the main element of the net income<sup>2</sup> of credit institutions; its share in net income expanded slightly in 2005 (to 63.0% from 62.3% in 2004). The slowing of growth in interest expenses on household deposits, caused by a drop in interest rates<sup>3</sup>, had an important impact on growth in net interest income.

Net commission income and its share in the net income of credit institutions continued to rise

(one reason for this is the expansion of the retail services provided by banks). Net commission income ranked second after interest income, exceeding net income from investments in securities and foreign exchange dealing. The share of net commission income in net income expanded from 22.6% in 2004 to 23.2% in 2005.

The fall in net income from securities trading and revaluation ended in 2005, and its share stood at 12.4% of total net income (against 12.5% in 2004). This was largely due to a restructuring of investments in securities: the share of investments in government securities contracted, while the share of investments in higher-yield equities and corporate bonds expanded.

The share of credit institutions' net income from operations with foreign exchange and foreign currency valuables, including exchange rate differences, remained virtually unchanged in 2005 at 5.1% (against 4.9% in 2004).

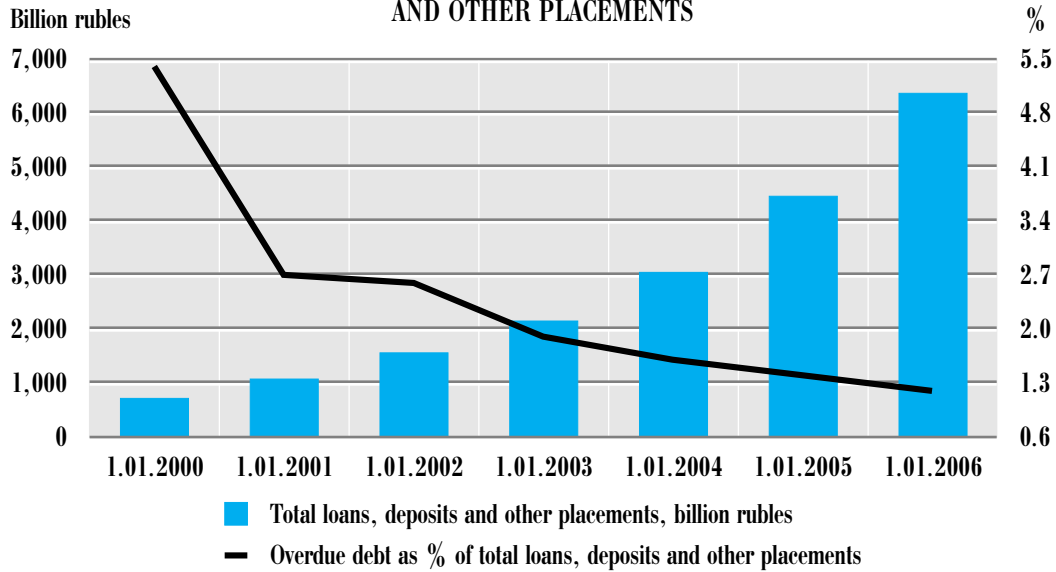
The maintenance and administrative expenses of credit institutions increased 31.9% over the year against 24.1% in 2004, while they declined

<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 capital. Assets and capital have been calculated as annual (chronological) averages for the accounting period.

<sup>2</sup> Net income is the financial result before making (recovering) provisions and without account for maintenance and administrative expenses. Calculated in accordance with the Profit and Loss Statement of Credit Institutions (form code 0409102).

<sup>3</sup> Average weighted interest rate on ruble household deposits with all terms, except demand deposits, decreased from 9.2% p.a. in January 2005 to 7.4% p.a. in December 2005.

### OVERDUE DEBT ON LOANS, DEPOSITS AND OTHER PLACEMENTS



relative to the net income to 45.5% from 49.2% in 2004.

Analysis of credit institutions' key financial soundness indicators in 2005 has shown that the Russian banking sector remains sufficiently stable. However, the number of faultless credit institutions declined from 352 to 218 last year, while the number of credit institutions with some shortcomings in their operations increased from 904 to 986. Overall, these financially sound credit institutions accounted for 96.1% of the total number of credit institutions as of January 1, 2006. The share of problem banks edged up from 3.2% to 3.9% over the year. These changes in the distribution of credit institutions in terms of financial soundness were due to assessments of credit institutions for their selection in the deposit insurance system. On the whole, the proportion of financially sound credit institutions in aggregate banking sector assets remained extremely high at 99.6% in 2005.

The equity capital of operating credit institutions amounted to 1,241.8 billion rubles as of January 1, 2006. Profit made by credit institutions remained the principal source of capitalisation in the banking sector. Banking sector equity capital grew in 2005 due to a 147.2-billion-ruble increase in profit, and the funds accumulated from profit (accounting for almost 50% of overall growth in equity capital). The sec-

ond most important source of capitalisation, accounting for 34.2% of overall growth in equity capital, was subordinated loans, in particular subordinated bond loans taken by banks. Owners' contributions accounted for just 22.8% of growth in equity capital.

The gradual decline in the banking sector's average capital adequacy ratio continued, contracting in 2005 from 17.0% to 16.0%. This was a result of stronger asset growth than capital growth in the banking sector, and the increased risk of banking operations. The share of credit institutions with a capital adequacy ratio lower than 12% contracted, while the share of credit institutions with a capital adequacy ratio between 12% and 14% expanded. Banks in this range accounted for nearly half of aggregate banking sector assets.

Assessments of the financial soundness of the Russian banking sector, and its sensitivity to changes in major risk factors conducted by stress testing and other methods, have shown that credit risk remained the most important negative factor of banking sector development. Moreover, credit risk continually increased, in a large measure due to growth in consumer lending.

At the same time, data published by credit institutions have shown that the share of overdue debt in the total loan portfolio contracted from 1.4% to 1.2% in 2005.

Liquidity risk was also significant, but there were no conditions causing systemic liquidity problems in the banking sector during 2005. Despite a significant rise in market risk in 2005, this played only a small role in aggregate banking sector risk,

while the share of foreign currency risk in market risk continued to contract. As of January 1, 2006, stock market risk was the largest market risk, accounting for 42.9%, while the second biggest market risk was interest rate risk, at 39.8%.

### I.3.2. OTHER FINANCIAL INSTITUTIONS

**INSURANCE COMPANIES.** According to the Finance Ministry's data, the Single State Register of Insurance Organisations comprised 1,075 insurance companies as of January 1, 2006, down from 1,280 as of January 1, 2005. The aggregate authorised capital of insurance companies increased 5.7% in 2005 to 147.3 billion rubles (in 2004 it rose more than 70%). The reduction in the number of insurance companies and slower growth in their aggregate authorised capital was a result of tighter controls from the Federal Insurance Supervision Service (FISS) and the revocation of licences of insurers violating insurance laws. According to FISS data, the 1,021 insurance companies that presented statements for 2005 collected insurance premiums totalling 490.6 billion rubles, up 4.0% on 2004. Insurance indemnities decreased 10.8% over the year to 274.5 billion rubles as of January 1, 2006.

Voluntary insurance premiums decreased 9.2% in 2005 year on year, but they comprised the largest share of aggregate insurance premiums (59.3% as of January 1, 2006). The drop (of 75.2%) in life insurance premiums was due to the eradication of tax evasion schemes employed in the segment. As the insurance market became healthier, the share of life insurance premiums among total voluntary insurance premiums contracted from 31.9% as of January 1, 2005, to 8.7% as of January 1, 2006. Personal insurance premiums, excluding life insurance premiums, increased 21.1% in 2005 and their share in total voluntary insurance premiums reached 22.0% as of January 1, 2006. Property insurance not including liability insurance grew 21.2%, and accounted for the majority of voluntary insurance premiums (63.7%).

Growth in total compulsory insurance premiums slowed from 46.9% in 2004 to 32.0% in 2005. Among these premiums, health insurance expanded its share from 64.3% to 70.5% over the year, while motor third party liability contracted from 32.5% to 26.9%.

The amount of total insurance indemnities against premiums stood at 56.0% in 2005. This represents a decrease of 9.2 percentage points from 2004, which testifies to an improvement in the initial conditions for producing revenue in the insurance business, and for insurance companies to develop investment resources.

**UNIT INVESTMENT FUNDS (PIFs).** The favourable stock market situation in 2005 facilitated the development of the collective investment industry. Most PIFs demonstrated high profitability, exceeding by far the profitability of many other savings instruments, including bank deposits.

According to the National Managers' League, the number of PIFs rose by 119 in 2005, reaching 360 as of January 1, 2006<sup>1</sup>. The number of open-end PIFs increased from 149 to 196; interval PIFs from 49 to 60; and closed-end PIFs from 43 to 104. Two new kinds of PIFs have been established: three mortgage PIFs and three direct investment PIFs. While open-end PIFs, which are convenient for a broad range of individual shareholders, continued to prevail (54.4% of total PIFs as of January 1, 2006), the share of closed-end PIFs, designed mostly for major investors, expanded from 17.8% as of January 1, 2005, to 28.9% as of January 1, 2006.

PIFs' total net asset value (NAV) reached 228.2 billion rubles as of January 1, 2006. In 2005 it grew considerably faster than in 2004 (110.8% against 40.3%). This particularly applies to closed-end PIFs, whose NAV increased 127.5% in 2005, while that of open-end PIFs, which had the highest NAV rate of growth in 2004, climbed 110.1%. NAV of closed-end PIFs as a share of total NAV expanded from 66.2% to 71.5% over the year.

The contraction of the equity funds' share in PIFs' NAV (from 76.5% as of January 1, 2005, to 51.0% as of January 1, 2006) was a result of their slower NAV growth (40.0% in 2005) compared to NAV growth in bond and real estate funds. Dynamic growth of real estate funds,

<sup>1</sup> Data here and below apply to the PIFs that had been completely organised by January 1, 2006.

whose NAV gained 224.4% in 2005, was due, as previously, to the high return on investment on the housing market. The rapid expansion in the NAV of bond funds (by 140.3% in 2005) was a result of their lower-risk investment strategy relative to other types of PIFs, which shareholders find particularly reassuring during volatile periods on the equities market.

Management companies and banks boosted the development of the collective investment market. The practice of exchanging PIF shares within one management company gained acceptance, the agent network expanded, shares were traded on exchanges and on the Internet, and loans secured with PIF shares were extended. In 2005 the number of PIF management companies increased by 33 to 127 as of January 1, 2006, which represents 55.0% of the total registered management companies (53.1% as of January 1, 2005).

#### **NON-GOVERNMENTAL PENSION FUNDS (NPFs).**

According to the Federal Financial Markets Service (FFMS), the total value of property owned by the 261 NPFs which presented their statements stood at 344.3 billion rubles as of January 1, 2006, up 59.6% year on year. Pension reserves in this category were valued at 277.4 billion rubles, an increase of 63.4% on the previous year,

while the value of property necessary for authorised activities stood at 59.6 billion rubles, up 40.5%. In 2004, NPFs' own property and pension reserves had increased more rapidly.

As in 2004, most of the growth in property owned by NPFs was due to pension reserves, whose share in total property owned expanded to 80.5% as of January 1, 2006.

The number of NPFs' members increased 9.6% to 6.1 million as of January 1, 2006. Last year differed from the previous years in that the number of people receiving pensions from NPFs increased significantly (by 40.8%), reaching 704,800 as of January 1, 2006. The trend towards growth in the average size of non-government pensions continued; its ratio to the size of state pensions increased to 52.7%.

The share of investments in equities and bonds expanded from 59.5% of the NPF investment portfolio as of October 1, 2004, to 64.3% as of October 1, 2005, while the share of investments in promissory notes contracted from 13.4% to 10.0%. NPF investments in government securities accounted for 9.6% of the NPF total investment portfolio as of October 1, 2005, as compared with 9.4% as of October 1, 2004. The share of invested pension reserves in bank accounts contracted to 10.1% from 12.5% as of October 1, 2004.

### I.3.3. FINANCIAL MARKETS

#### INTERBANK CREDIT MARKET

The following key factors influencing the interbank credit market in previous years continued to affect it in 2005: the high level of credit institutions' current liquidity; financial stability of major market players; and falling interest rates in other segments of the financial market. As a result, interest rates on ruble loans declined, interbank credit volumes expanded, and interest rate and credit risks decreased.

By the end of 2005 total interbank loans placed by Russian banks aggregated 668 billion rubles. Investments in foreign currency interbank loans increased slightly faster than investments in ruble loans, as interest rates on dollar interbank loans rose steadily on the world market.

The quality of the interbank loan portfolio continued to improve in 2005 thanks to the stronger financial position of Russian banks. As of the end of last year, the share of overdue debt in total interbank loans to resident banks contracted to less than 0.1% from 1.4% a year earlier.

Average monthly interest rates on overnight ruble loans ranged from 1.1% p.a. to 5.7% p.a. in 2005 (in 2004 they varied between 1.1% p.a. and 10.3% p.a.). As average interest rates on ruble interbank loans declined, their short-term volatility somewhat decreased, and predictability increased. For most of the year interbank interest rate trends were characterised by intramonth cyclicality.

The price situation on the global money market in 2005 continued to exert a significant influence on Russian banks' operations with interbank loans and foreign currency deposits. For most of the year, interest rates on dollar- and euro-denominated interbank loans placed by Russian banks were close to those on the world money market.

Russian banks remained net borrowers on the global market in 2005. 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 had increased by more than a third from the end of 2004.

OFFERED AND ACTUAL INTERBANK INTEREST RATES ON OVERNIGHT RUBLE LOANS  
IN 2005 (% p.a.)

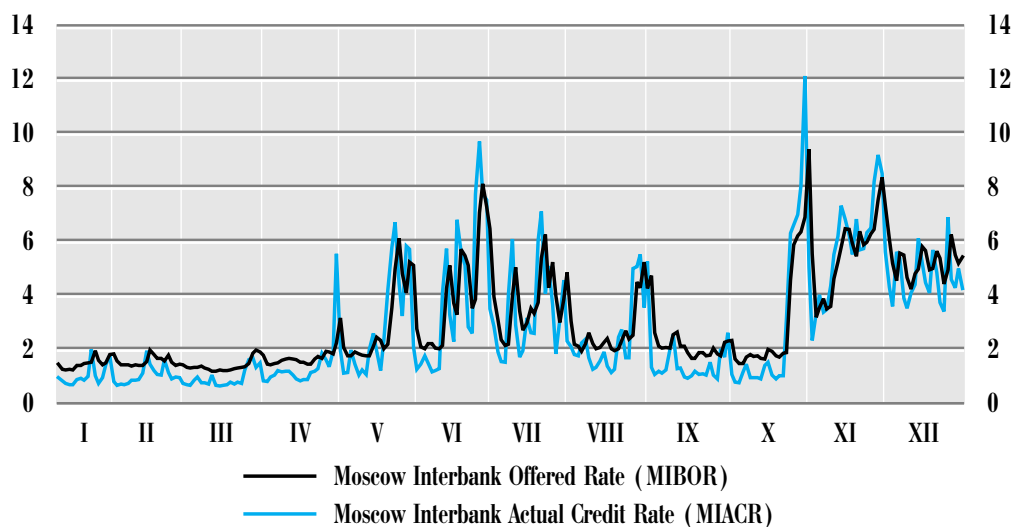


Chart 13



## FOREIGN EXCHANGE MARKET

The situation on the domestic forex market in 2005 was affected by a massive inflow of foreign exchange into the economy, caused by unprecedented earnings from exports amid high prices of major export commodities, and continued borrowing by Russian companies abroad. As the current account surplus expanded and was not offset by corresponding capital outflow, the supply of foreign exchange constantly outstripped demand. Operations conducted by the Bank of Russia as part of its monetary policy, US dollar dynamics on the world market, and the management by credit institutions of their open currency positions were the key factors influencing the domestic forex market. The forex market remained the most important and liquid segment of the financial market: conversion operation volumes far surpassed turnover on the interbank credit and stock markets.

For most of 2005, the dollar appreciated against the euro on the world forex market and this was a major factor behind the dollar's gains against the ruble on the domestic market. At the beginning of 2005 the dollar stood at 27.75 rubles, but by the middle of the year it had reached 28.63 rubles. The dollar reached a high point against the ruble on December 6, when it traded for almost 29 rubles, but subsequently the recurrent year-end demand for rubles weighed on the dollar significantly. In 2005, the dollar appreciated 3.7% against the ruble.

Expanding export and import volumes and capital flow dynamics caused high activity among market players in foreign exchange dealing. As a result, the average daily interbank spot market turnover gained 28.2% in 2005 year on year, from \$23.1 billion to \$29.6 billion.

Ruble/dollar deals accounted for more than two-thirds of total interbank market turnover. However, market players showed increased interest in the euro, and euro trade expanded, especially euro/dollar transactions, which accounted on average for more than 90% of total euro trade turnover. Overall, the volume of euro spot interbank operations increased 29.2%, while the volumes of operations with other currencies remained negligible.

The unified trading session of interbank currency exchanges (UTS) retained its role as the segment of the domestic forex market, in which rate-setting is most transparent, reflecting the foreign trade and capital flow balance.

There was a rise in the activity of forex traders in 2005: total UTS ruble/dollar trade volume expanded 69.1% year on year, reaching \$588 billion, with ruble/dollar deals with "tomorrow" settlements accounting for 44.3% of trade. Ruble/dollar deals with "today" settlements accounted for 28.1% of total UTS ruble/dollar trade turnover and currency swap transactions 27.5%.

In June 2005 ruble/euro currency swap deals and ruble/euro deals with "tomorrow" settlements began on the UTS, and in August the Bank of Russia started to conduct ruble/euro operations on the UTS, which boosted liquidity in this segment. As a result, total UTS ruble/euro trade volume gained 83.4% in 2005 year on year, reaching 3.6 billion euros. However, ruble/euro transactions on the exchange-traded and over-the-counter market accounted for a mere 1% of total ruble transactions.

Overall, the share of the exchange-traded segment in total interbank market turnover ex-

## CURRENCY STRUCTURE OF INTERBANK CONVERSION SPOT OPERATIONS IN 2005 (%)\*

US dollar	97
Russian ruble	73
Euro	21
Pound sterling	5
Yen	2
Other	2

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

**UTS RUBLE/DOLLAR TRADE VOLUME  
AND OFFICIAL RUBLE/DOLLAR RATE IN 2005**

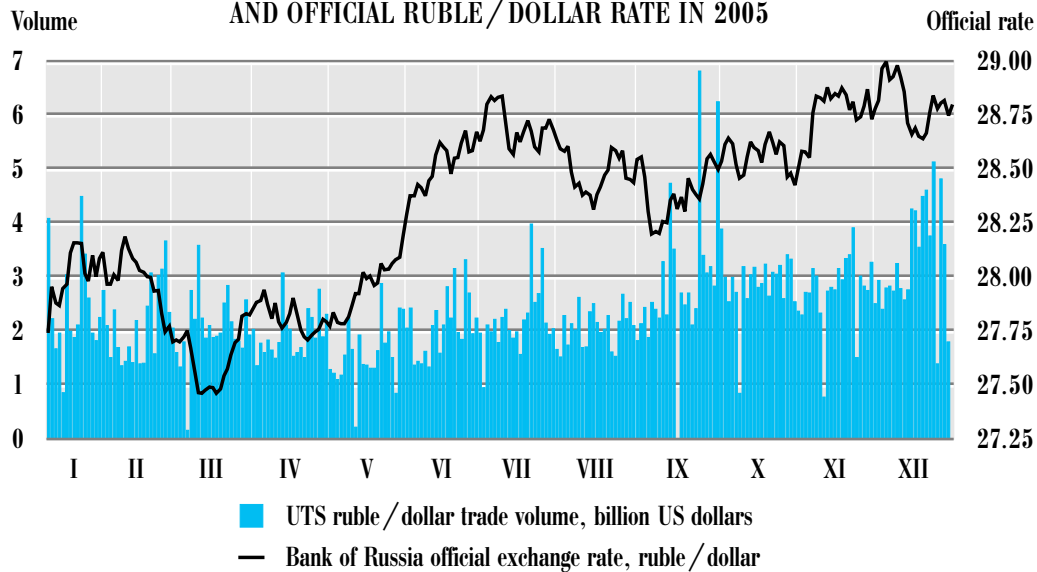


Chart 14

panded to about 12.8% in 2005 (not counting non-system transactions<sup>1</sup>) from 9.1% in 2004.

Spot operations predominated on the exchange and over-the-counter segments of the currency market, accounting for more than 95% of total transactions. Although the average daily volume

of interbank forward conversion operations almost doubled in 2005 year on year, it amounted to only \$718 million. Low activity on the futures segment of the currency market was largely due to a lack of effective legal safeguards for traders in financial derivatives.

### GOVERNMENT SECURITIES MARKET

**FEDERAL LOAN BOND (OFZ) MARKET.** For most of 2005 the OFZ market was characterised by low activity: in the period under review trade contracted 5.3% year on year, to 296.0 billion rubles. The decline was largely due to a significant reduction in additional government bond placements on the secondary market. In January—June 2005 trade volumes were considerably smaller than in the same period of 2004, but in the second half of the year market turnover increased almost 50% on the same period in 2004. Trading activity peaked in August and September when expected price growth in Russian financial instruments (caused, among other things, by the upgrades of Russia's sovereign rating and the ratings of some Russian issuers by rating agencies) con-

siderably boosted demand for government securities. Market turnover expanded significantly as a result. The high level of banking sector liquidity was an additional factor driving demand for government bonds.

The Finance Ministry's policy on the OFZ market was to increase the duration of the market and expand the volume of the outstanding base issues, which serve as a price benchmark in raising funds for different terms. In 2005 the Finance Ministry held 36 OFZ auctions (16 bond placement auctions and 20 additional bond sale auctions). Base issues were offered at 31 of these. As a result, the Finance Ministry raised a total of 166.4 billion rubles, and paid 124.2 billion rubles to government bond holders as coupon income and principal redemption.

<sup>1</sup> Non-system transactions are exchange transactions concluded on the basis of two counter bids, in which trading participants name each other as counterparties to the deal.

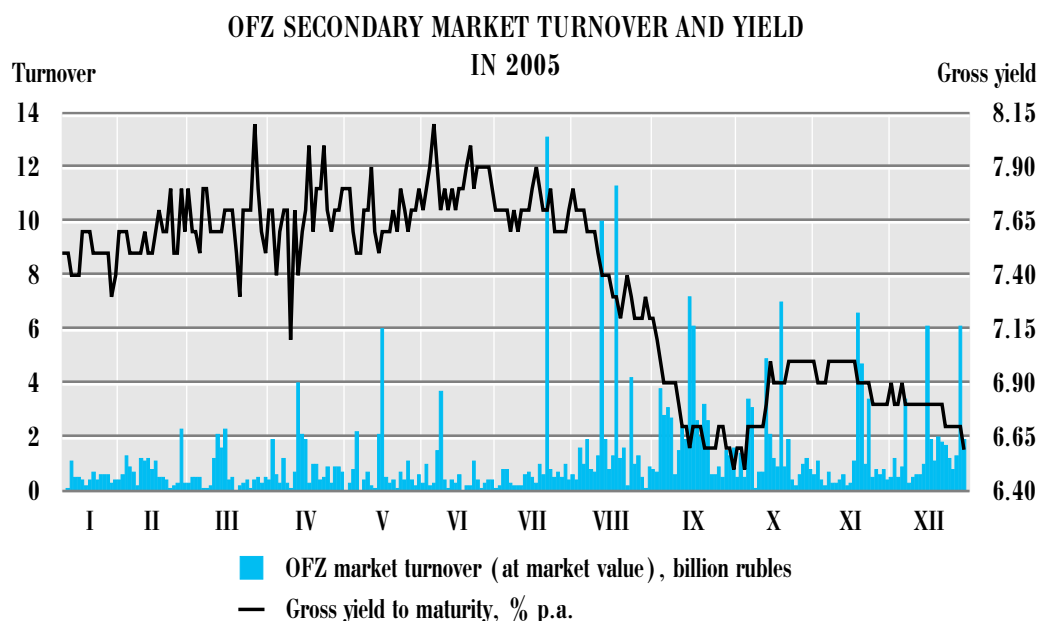


Chart 15

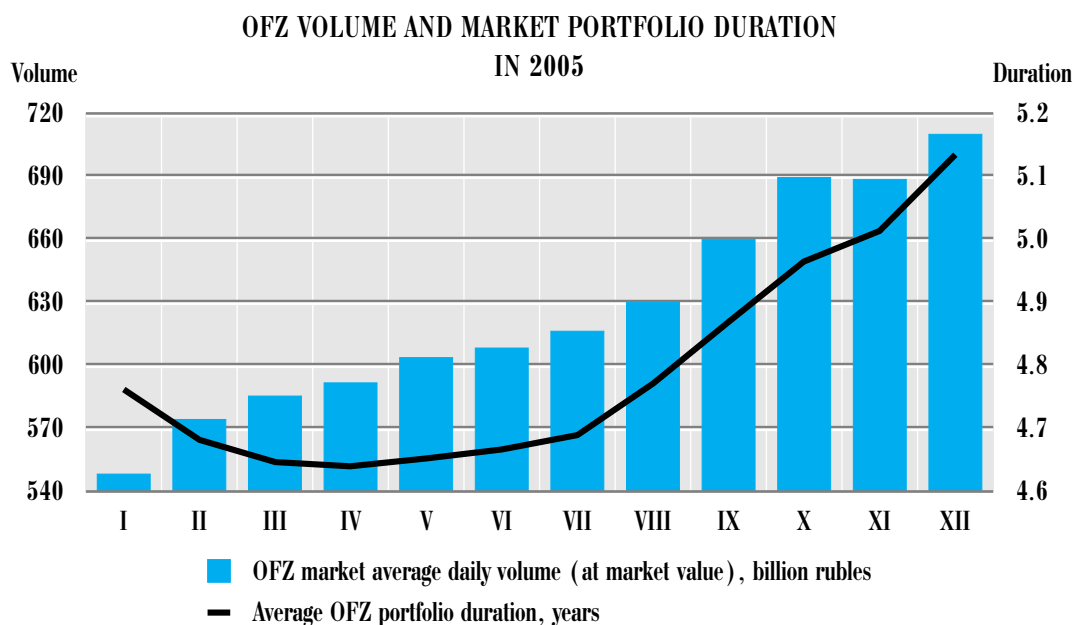


Chart 16

There were two distinct periods in the OFZ market's yield dynamics in 2005: in the first half of the year interest rates were high, ranging from 7.4% to 8.0%, and in the second interest rates mostly declined as demand for domestic government debt instruments rose. As a result, by the end of the year gross yield to maturity had fallen to 6.6%.

Despite continued growth in the nominal value of outstanding OFZ issues, which stood at

721.6 billion rubles as of January 1, 2006, OFZ market liquidity remained low. The main reason for this was that the OFZ bonds could not attract more investors because of their low nominal and real yields, and the OFZ market was dominated by passive investors following the buy-and-hold principle.

**REGIONAL GOVERNMENT BOND MARKET.** While primary bond placements by Moscow and St Pe-

tersburg contracted in volume, other regional bond issuers stepped up their activity on the regional and municipal bond markets in 2005. As regional bonds became more liquid and regional bond issuers more reliable, international rating agencies upgraded their ratings.

Primary placements of regional bonds were conducted on the exchange-traded and over-the-counter segments of the market. During the year under review, 24 bond issues were placed on the Stock Exchange of the Moscow Interbank Currency Exchange (MICEX), which accounts for most of the securities market operations; two bond issues were placed on the St Petersburg Currency Exchange (SPCEX); and 13 regional bond issues were placed on the over-the-counter market.

Moscow government bonds continued to dominate the regional bond market. In 2005 the Moscow government placed at five auctions, held on the MICEX Stock Exchange, OGOVZ municipal loan bonds with total value at par of 17.3 billion rubles (in 2004 the Moscow government placed 29.5 billion rubles in bonds). It also made additional placements on the secondary market, enlarging outstanding issues in order to increase their liquidity. The average annual yield at auction of Moscow government OGOVZ bonds dropped by a percentage point year on year to 7.1% p.a. The total volume of secondary trade in Moscow government bonds on the MICEX Stock Exchange increased 20% year on year, exceeding 280 billion rubles.

The St Petersburg government registered bond (GIO) market continued to contract in 2005. An additional GIO issue with a total value at par of 500 million rubles was placed at an auction held on SPCEX (1.6 billion rubles of GIO bonds were placed in 2004). GIO secondary market turnover on SPCEX declined 13.2% year on year, to 10.6 billion rubles.

The largest regional issuers after Moscow and St Petersburg were the Moscow Region (12 billion rubles of bonds placed), Krasnoyarsk Territory (3 billion rubles) and the Novosibirsk and Nizhni Novgorod Regions (2.5 billion rubles each). The placement of new regional bond issues created conditions that boosted secondary

market activity for these instruments. Aggregate regional bond secondary market turnover on the exchange-traded market increased 70% in 2005 year on year, and reached more than 590 billion rubles.

**RUSSIA'S FOREIGN CURRENCY-DENOMINATED DEBT MARKET.** The Russian government's foreign currency bonded debt in 2005 was represented by eurobonds, Series V—VII domestic government foreign currency loan bonds (OVGVZ) and government foreign currency loan bonds (OGVZ) of the 1999 issue. The Russian government's policy was not to increase its foreign currency bonded debt.

According to the Finance Ministry's data, the total value at par of these bonds stood at \$42.5 billion as of January 1, 2005, and \$38.6 billion as of January 1, 2006.

In 2005, the Russian Government redeemed two 1998 eurobond issues, one with a value of 1.25 billion German marks, and the other totaling 2.97 billion US dollars.

Coupon income payments on all foreign currency bond issues were made in full and on schedule. Interest payments totalled \$2.7 billion.

The value of Russian eurobond deals with settlements in US dollars on the MICEX Stock Exchange decreased by six times in 2005 from 2004, reaching \$12.1 million at actual value, and in the Russian Trading System (RTS) contracted from \$400,000 to \$30,000. The value of Russian eurobond deals with settlements in rubles on MICEX fell to 40 million rubles in 2005, at actual value, from 3.7 billion rubles in 2004. This decline was due to the sufficient level of the money supply on the domestic market and the high coupon income received by holders of dollar bonds.

There was a fall in the supply of Russian foreign currency debt obligations amid growth in demand and prices. The occasional brief periods of decline in market prices and corresponding growth in yields on Russian foreign currency debt obligations in 2005 were caused by instability on the world capital market. On the whole, in the period under review prices of long-term foreign currency bonds rose faster, and their yields fell more rapidly, than in 2004.

### CREDIT INSTITUTION SECURITIES MARKET

There was a significant expansion in the volume of securities issued by credit institutions in 2005.

The value of registered share issues increased 69.4% in 2005 year on year, to 85.2 billion rubles. Of these, 246 share issues totalling 79.8 billion rubles, were registered, as credit institutions increased their authorised capital. This represents an increase of 36.6 billion rubles, or 84.7%, on the previous year. Eleven additional share issues totalling 15.1 billion rubles were floated due to mergers of credit institutions. This compares with three share issues totalling 200 million rubles registered for this reason in 2004.

The value of registered bond issues increased by 3.7 times in 2005, reaching 85.7 billion rubles against 23.3 billion rubles in 2004. Twenty-eight credit institutions registered 33 bond issues in 2005, of which 26 credit institutions placed 84.4 billion rubles in bonds on the MICEX Stock Exchange.

Credit institutions based in Moscow and the Moscow Region retained their leading positions on the bond market. They registered 25 issues with a total value of 78.5 billion rubles, or 91.6% of the total value of bonds issued in 2005. Credit institutions mostly issued medium-term coupon bonds with terms of at least three years.

In the period under review, credit institutions as a rule conducted primary bond placements through auctions on the MICEX Stock Exchange. On the over-the-counter market, banks placed their shares by open or closed subscription.

Prices of the most liquid shares of credit institutions continued to grow rapidly in 2005, and overall secondary trade volumes continued to expand. The portion of credit institutions' shares expanded to about 6% of the total volume of secondary equities trading on the MICEX Stock Exchange and in the RTS. Despite growth in secondary trade in bank bonds, their share in the total volume of secondary trade in corporate bonds on the MICEX Stock Exchange and in the RTS edged down in the period under review, and stood at about 10%.

Banks actively used promissory notes as a means of raising short- and medium-term funds. The value of promissory notes placed by banks in 2005 increased 21.4% to reach 614.5 billion rubles as of January 1, 2006.

The Bank of Russia in 2005 registered 37 terms of issue and circulation of certificates of deposit, and 11 terms of issue of savings certificates. As in 2004, most certificates of deposit and savings certificates (totalling 79 billion rubles) were issued by credit institutions based in Moscow and the Moscow Region.

### CORPORATE SECURITIES MARKET

Operations with non-financial sector corporate securities were conducted in 2005 on the exchange-traded and over-the-counter markets. Most of exchange-traded securities operations were conducted on the MICEX Stock Exchange, the St Petersburg Stock Exchange, and in the RTS.

The period under review saw a sharp rise in growth rates of key Russian **stock** market price indicators, which reached record highs. The MICEX and RTS indices gained 83.1% and 83.3%, respectively. Growth leaders among the most liquid equities were Sberbank, Gazprom, LUKoil, and Norilsk Nickel.

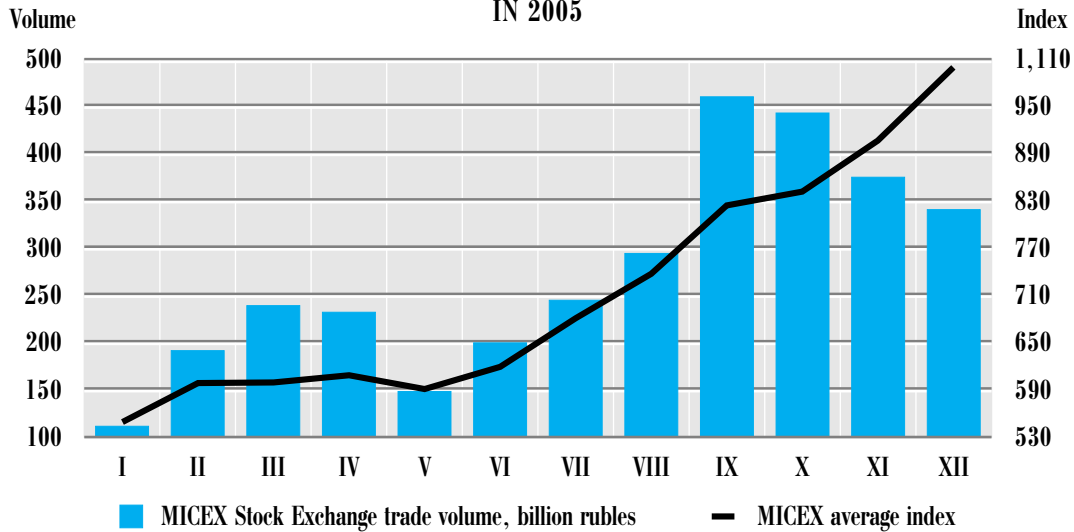
Secondary trade turnover expanded significantly on the Russian organised market in the

period under review. The MICEX Stock Exchange trade volume increased 18.0% in 2005, to 3.3 trillion rubles. Most operations on the exchange-traded market were conducted with fuel and electricity company stocks.

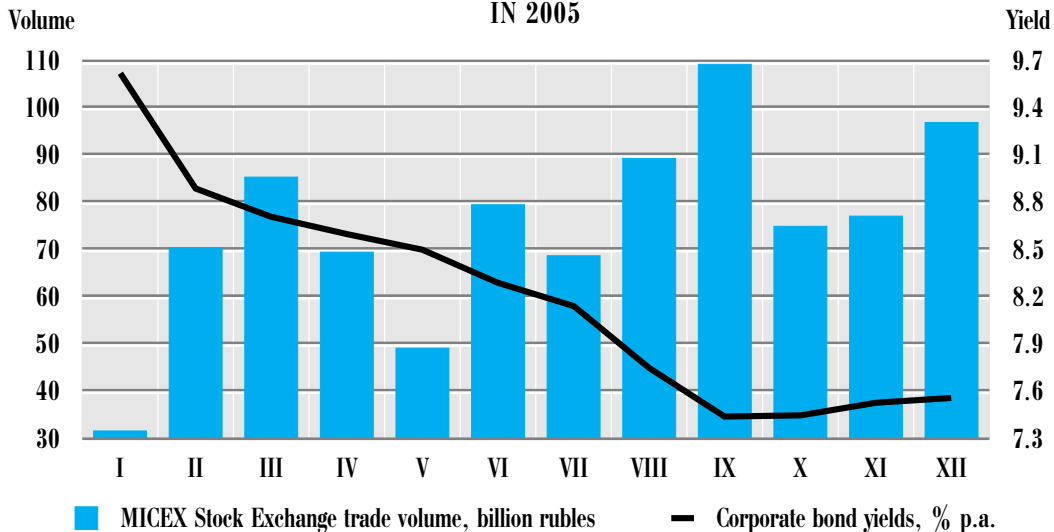
The **corporate bond** market in 2005 was characterised by further growth in primary placements through exchange auctions and an expansion in the range of issuers. Money supply growth sustained demand for securities. In the period under review, corporate bonds totalling 259 billion rubles were placed on the MICEX Stock Exchange. This represents an increase of 80% on the previous year.

Growth in the volume of outstanding papers facilitated not only an expansion of secondary

### MICEX STOCK EXCHANGE EQUITIES TRADE IN 2005



### MICEX STOCK EXCHANGE CORPORATE BOND SECONDARY TRADE IN 2005



trade turnover on the exchange-traded segment of the market, but accelerated turnover growth. Secondary trade in corporate bonds on the MICEX Stock Exchange increased 110% in 2005 year on year to 902 billion rubles, while yields on the corporate bond secondary market declined.

Securities issued by fuel, energy, telecommunications and communications, electricity, and railway transport companies predominated in secondary trade on the MICEX Stock Exchange.

As the role of the securities market as a source of financing for the real economy in-

creased, the importance of **non-financial enterprise sector promissory notes** as investment instruments declined. The role of non-bank promissory notes as settlement instruments also decreased as the economy became more monetised. The price situation on the non-bank promissory note market developed according to borrowers' demand for financial resources, and was also affected by factors determining the situation on the Russian financial market as a whole. Promissory note market yields fell in 2005 as yields declined on the related sectors of the debt market.

## FINANCIAL DERIVATIVES MARKET

The escalation of operations on the underlying assets market in 2005 stimulated a further expansion of the financial derivatives market, which demonstrated dynamic growth in trade volumes, open positions, and in the number of market instruments, transactions and trading participants. The overall volume of trade in futures and options increased 50% in 2005 year on year, totalling 907 billion rubles. In the RTS, the aggregate value of open positions on futures contracts increased by 2.6 times in 2005, and by 14 times on MICEX, compared with 2004.

The range of forward market instruments expanded during 2005. New futures contracts on shares and bonds, and options contracts, were introduced. The main event on the derivatives market was the introduction in August 2005 of settlement futures contracts for the RTS index, which became one of the most sought-after futures market instruments last year. Another newcomer to the market was the futures contract for a basket of Moscow government 3-year ruble bonds (OGOVZ). Given that Moscow government bonds are among the indicative instruments on the Russian securities market, these futures will enable traders to hedge their risks on a wide range of regional and corporate bonds.

In 2005, as a result of a sharp drop in options trade volumes on SPCEX, formerly the principal options exchange, the share of options in total de-

derivatives market turnover contracted by almost 5 times compared to 2004. Stock futures were the principal segment of the futures market, while the commodity futures segment (oil futures) remained small. The most dynamic turnover in 2005 came from currency futures, especially dollar/ruble futures contracts in the forward segment of MICEX.

As operations with derivatives expanded, trading floors upgraded their methods of ensuring the fulfilment of futures contract obligations, in particular by increasing guarantee funds and reserves created by market participants and the exchanges. They continued to develop electronic systems for derivatives trade, making these instruments more accessible to market participants.

The average term of exchange-traded derivatives continued to increase in 2005, as the role of short-term arbitrage operations with derivatives declined. Contracts with terms of up to three months continued to predominate futures trade, while the share of contracts with terms from three to six months, and more than six months, expanded (mostly due to one-year currency contracts on MICEX).

Despite the dynamic growth of the derivatives market, no interest rate and credit derivatives emerged, although these instruments are widely used on world markets. The lack of an adequate legislative framework for the derivatives market was also a serious problem.

VOLUMES OF FUTURES TRADE IN UNDERLYING ASSETS IN 2005  
(billion rubles)

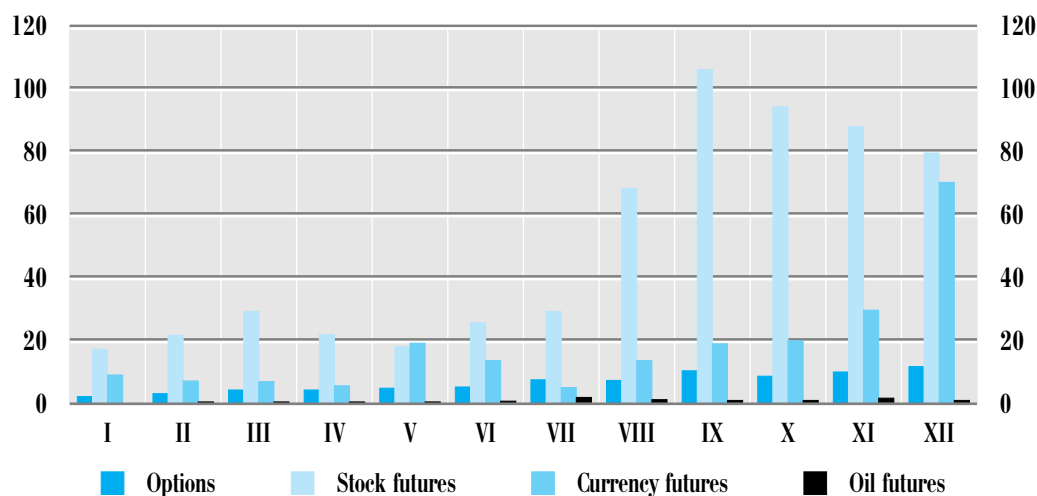


Chart 19

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

### I.4.1. BALANCE OF PAYMENTS

In 2005 Russia registered its largest ever balance of payments surplus, which was due to favourable foreign trade dynamics and a relative improvement in the country's investment climate. The Russian Government managed not only to effect scheduled and ahead-of-schedule foreign debt payments, but also increase international reserves by more than \$61 billion.

#### CURRENT ACCOUNT

The current account surplus stood at \$84.2 billion in 2005 against \$58.6 billion in 2004. Exports of goods and services increased 31.8%, and imports 25.5%. The trade surplus rose to over \$118 billion, while foreign trade turnover expanded to \$368.9 billion.

**Exports of goods** reached \$243.6 billion. Their year-on-year increase of 32.9% was largely due to continued growth in world energy prices. Calculated on an average annual basis, contract export prices of Russian oil and petroleum products rose 50%, and natural gas 40%. As a result, the total share of these fuel and energy products expanded from 54.7% of exports in 2004 to 61.1% in 2005.

The principal importers of Russian goods were European Union countries, which accounted for 55.3% of total Russian exports. The top importers among these were, as in 2004, the Netherlands (10.2%), Germany (8.2%) and Italy (7.9%).

**Imports of goods** increased 28.7% to \$125.3 billion. More than half of their growth was due to a 40% rise in engineering imports, whose share in total imports has increased for five years and stood at 44.0%.

Growth in chemical exports, and exports of chemical industry-related products led to 18.7% of growth in the value of imports. The share of these products stood at 16.5%, a slight increase from 2004.

Greater imports of food products and agricultural raw materials supplied 15.5% of total growth in imports. These products accounted for 17.7% of total imports, a negligible change from the previous year.

The regional structure of imports remained unchanged: 44.2% of goods were imported from the European Union, 25.6% from APEC countries, and 19.2% from the CIS. As before, Germany, Ukraine and China topped the list, accounting for 13.4%, 7.9% and 7.4% of total imports, respectively.

**The balance of international trade in services** was negative at \$14.7 billion, against \$13.4 billion in 2004.

**Exports of services** stood at \$24.6 billion, an increase of 21.1% on 2004. There was a contraction in the share of transportation services (to 37.1%) and travel-related services (to 22.3%), while the share of business, professional and technical services expanded. The latter stood at 20.0%, and gained \$1.3 billion in value, mainly



RUSSIA'S MAJOR BALANCE OF PAYMENTS COMPONENTS AND INTERNATIONAL RESERVES  
(billion US dollars)

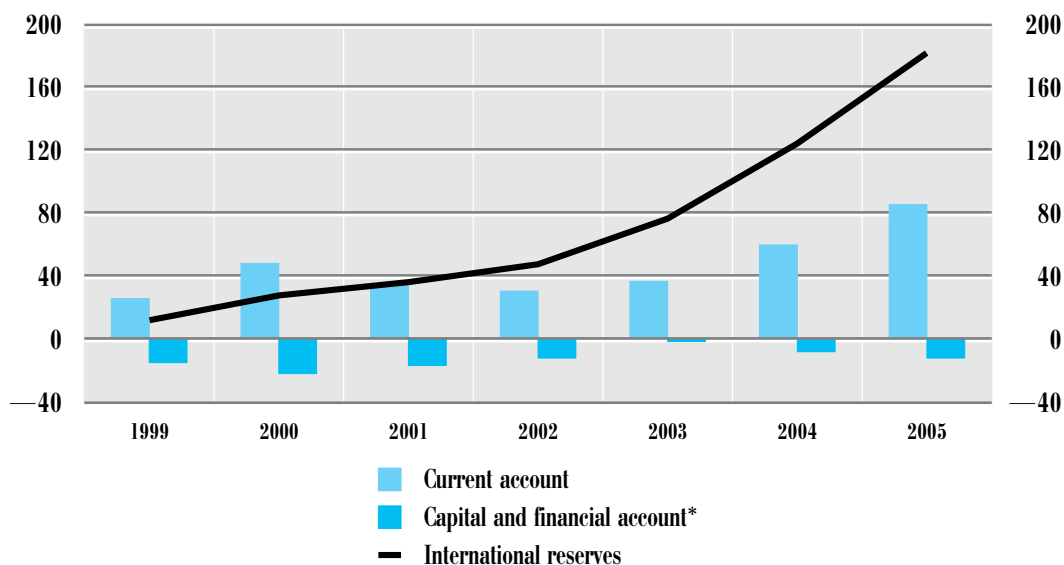


Chart 20

\* Net of the change in reserves.

due to advertising, engineering and consulting services.

Exports of public services grew 80%, computer and information services 60%, and financial services 40%.

**Imports of services** totalled \$39.3 billion, up 16.4% on 2004. The biggest contributor to this growth was an increase in the value of services provided by non-residents to Russian nationals during their stays abroad (37.5% of growth), and transportation services (22.6% of growth). Imports of computer and IT services increased 50%, cultural and recreational services 40%, and royalties and licence payments 40%.

**The compensation of employees balance** saw a deficit of \$1.9 billion. Incomes entering the economy from residents working abroad increased 42.1% to \$1.7 billion, while non-residents working in Russia were paid \$3.6 billion, or twice as much as in 2004. The major factor in compensation of employees dynamics was a significant increase in cross-border migration. Most of the income made by residents abroad was received in non-CIS countries, while 67.1% of income made by non-residents in Russia was paid to CIS countries' nationals.

The deficit in the **balance of investment incomes** climbed to \$16.3 billion due to a massive inflow of foreign capital into the non-financial

enterprise sector (in the government sector the deficit contracted as a result of large-sum scheduled and early foreign debt payments).

Income paid to the non-financial enterprise sector rose to \$25.1 billion, up 170% on the previous year's \$9.2 billion. As a result, the deficit increased to \$15.9 billion from \$9.9 billion in 2004.

The **balance of current transfers** deficit stood at \$1.16 billion, an increase of 70% on 2004. Receipts are estimated at \$4.7 billion and payments \$5.8 billion. Operations by the non-financial organisations and households predominated.

#### CAPITAL AND FINANCIAL ACCOUNT

**CAPITAL ACCOUNT.** The deficit of the **balance of capital transfers** stood at \$12.1 billion, against \$1.6 billion in 2004. In 2005 its level was determined by *government sector* operations, which saw a deficit of \$11.7 billion. Transfers paid (\$11.8 billion) included debts owed to the former Soviet Union by developing countries and written off through settlements achieved in 2005.

The *household sector* capital account deficit, which included the value of migrants' property and financial assets, stood at \$400 million. Transfers paid are estimated at \$1.0 billion, of which \$800 million were assets taken out of Russia to

non-CIS countries. Transfers received, of which 85.1% were receipts from the CIS, amounted to \$600 million.

**FINANCIAL ACCOUNT.** Residents' **foreign liabilities** increased by \$55.0 billion, or by \$18.3 billion more than in 2004. Private sector liabilities rose rapidly, while aggregate liabilities of the government sector and monetary authorities followed a downward trend.

*Federal government* liabilities fell by \$20.9 billion (in 2004 they were reduced by \$2.6 billion). The stable government finance situation, along with positive external conditions, allowed Russia to pay ahead of schedule a large part (about \$15 billion) of its debt to the Paris Club of creditor nations.

New loans were small: Russia received \$500 million under long-term agreements with international financial organisations and foreign governments.

*Regional governments'* foreign liabilities were serviced on schedule and reduced by \$300 million.

Growth in the *monetary authorities'* foreign liabilities stood at \$2.8 billion. To manage the increased foreign exchange reserves efficiently, the Bank of Russia regularly conducted repo operations on international markets in 2005. As a result, its short-term liabilities to non-residents increased by more than \$6.2 billion, while claims on non-residents grew the same amount. The reduction in foreign liabilities resulted from the repayment of Russia's entire debt to the IMF.

The Russian government's foreign debt payments, including interest, totalled more than \$31.1 billion in 2005. The more than twofold increase in debt payments due to the substantial volume of early debt redemption affected the time distribution of the debt burden: the jump in 2005 will be offset by a significant reduction in the future.

The flow of foreign capital to the *private sector* grew 90% year on year, from \$38.8 billion to \$73.3 billion; the Russian economy became more attractive to investors as a result, and leading international rating agencies upgraded Russia's sovereign credit rating.

*Banking sector* foreign liabilities increased by \$19.2 billion. Most of the financial resources raised by commercial banks abroad were long-term debt instruments.

The inflow of foreign capital to the non-financial enterprise sector is estimated at \$54.1 billion (\$31.7 billion in 2004). Debt financial instruments were its main constituent. Of the total inflow, \$40.9 billion was raised in loans (\$16.2 billion in 2004). In addition, the value of debt securities issued by non-financial corporations and owned by non-residents increased by \$1.1 billion (in 2004 they grew by \$400 million). Foreign direct investment stood at \$12.6 billion.

Resident **foreign assets** (net of international reserves) increased by \$53.8 billion.

*Federal government* claims on non-residents decreased by \$11.1 billion, largely as a result of a reduction (of \$10.9 billion) in overdue debt following the writing-off of debt owed by some developing countries.

Monetary authorities' foreign assets gained \$5.3 billion, largely due to growth in non-reserve claims on repo transactions on international markets, and the withdrawal of funds from Russia's overseas state banks.

*Banking sector* foreign assets grew by \$13.4 billion, partly due to a \$9.6-billion rise in loans to non-residents, deposits placed abroad, and current account balances.

Operations conducted by Russian banks with foreign assets and liabilities (with account of revaluation and other changes) almost doubled the negative net value of the banking sector's international investment positions: by the end of 2005, the sector's foreign liabilities exceeded claims to non-residents by \$20.8 billion (at the beginning of 2005 the excess was \$11.3 billion).

Capital outflow from the *non-financial enterprise and household sector* is estimated at \$46.2 billion, an increase of \$9.1 billion from the previous year. Direct and portfolio investments are estimated at \$14.0 billion. There was a significant increase (of \$8.1 billion) in trade credit extended to foreign partners. Non-ruble cash outside banks contracted by \$1.9 billion.

The large-scale inflow of non-resident financial resources to the private sector balanced out

growth in the sector's foreign assets. Private capital inflow exceeded outflow by \$20 million, compared to a net private capital outflow of \$8.0 billion in 2004.

**INTERNATIONAL RESERVES.** Russia's international reserves increased by \$55.1 billion. Net of

negative exchange rate revaluation, their growth in 2005 totalled \$61.5 billion. Including monetary gold, the country's international reserves reached \$182.2 billion as of January 1, 2006.

Reserves accumulated by Russia were sufficient to finance the import of goods and services for 13.3 months (against 11.4 months in 2004).

## 1.4.2. FOREIGN DEBT

In 2005, Russia's foreign debt (debt to non-residents) increased by \$44.0 billion, from \$214.5 billion to \$258.5 billion<sup>1</sup>.

The early repayment of part of the Russian government's foreign debt, noted above, was the key factor in the 26.7% reduction of government sector liabilities, from \$97.4 billion to \$71.4 billion. At the same time, foreign debt of Russian banks and non-financial enterprises increased by \$67.3 billion: as of January 1, 2006, private sector debt obligations to non-residents amounted to \$176.2 billion, against \$108.9 billion as of the beginning of 2005.

The greater inflow of foreign capital to the private sector along with the government's policy aimed at reducing foreign debt brought about significant changes in the structure of the country's foreign debt. The share of general government foreign debt obligations contracted from 45.4% to 27.6% over the year, while the share of private sector foreign debt expanded from 50.8% to 68.2%. Foreign debt of monetary authorities accounted for 4.2%, against 3.8% as of the beginning of 2005.

The structure of the Russian government's foreign debt changed significantly in 2005. The rapid reduction in Soviet-era debt led to a contraction of its share in Russia's total foreign debt from 57.6% to 48.4%, while the share of post-Soviet Russian debt, which also decreased in absolute terms, expanded from 40.7% to 49.9%. The share of regional governments' foreign debt remained unchanged at 1.7%.

Russia's Soviet-era debt decreased by \$21.6 billion to stand at \$34.5 billion as of January 1, 2006. Russian debt to the Paris Club of creditor nations contracted by \$21.2 billion to \$22.2 billion (64.2% of Russia's Soviet-era debt), debt to former Soviet-bloc countries stood at \$2.2 billion (6.3%), Russia's debt obligations to non-residents in the form of OVGZ bonds amounted to \$2.0 billion (5.7%), while other debts aggregated \$8.2 billion (23.8%).

Post-Soviet Russian debt contracted from \$39.6 billion to \$35.6 billion. The redemption of two 1998 eurobond issues led to a reduction in foreign debt in the form of outstanding foreign

RUSSIA'S FOREIGN DEBT  
(billion US dollars)

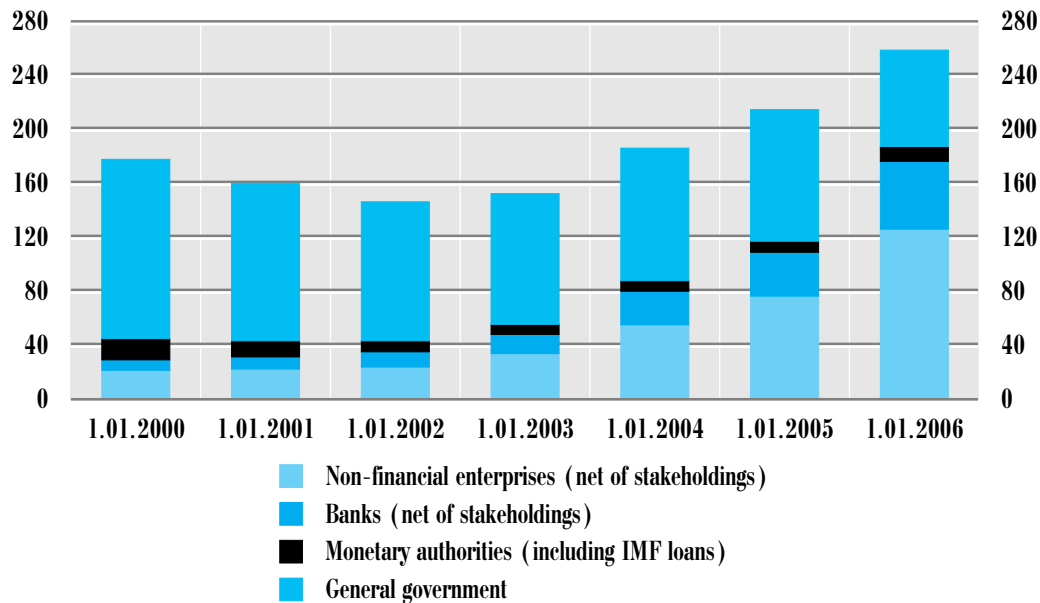


Chart 2.1

<sup>1</sup> Data are cited allowing for exchange rate and market revaluation.

### RUSSIA'S FOREIGN DEBT RELATIVE TO GDP (%)

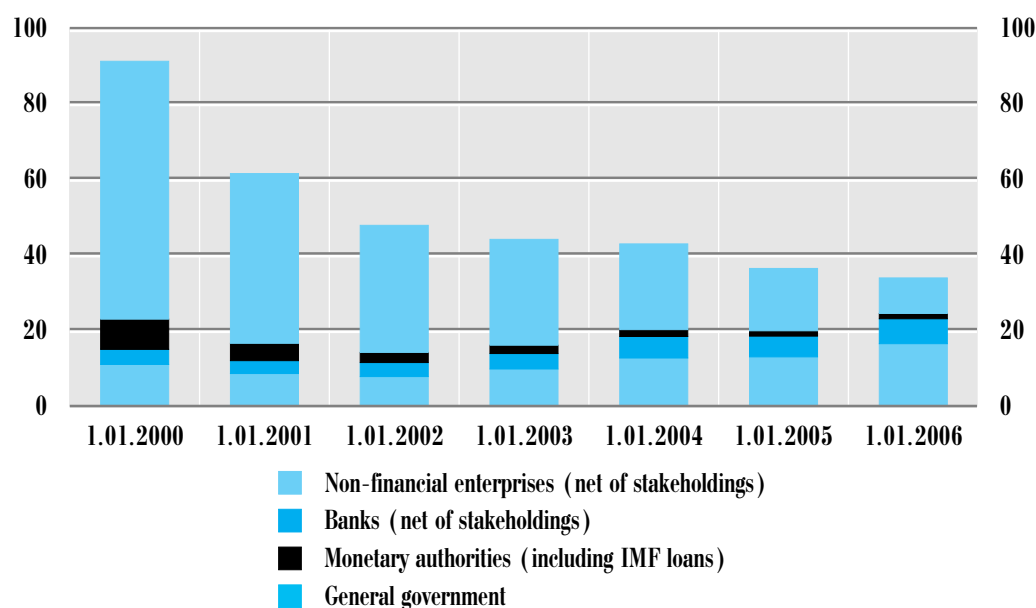


Chart 22

currency securities by \$2.2 billion, to \$26.7 billion (as of the beginning of 2006 these securities accounted for 75.1% of post-Soviet Russian debt). Russia's debt to international financial organisations is estimated at \$5.6 billion (15.7%), loans received under intergovernmental agreements at \$3.0 billion (8.4%), and other debts at \$300 million (less than 1.0%).

*Regional governments'* foreign debt stood at \$1.2 billion as of January 1, 2006, while debt obligations of *monetary authorities* totalled \$11.0 billion. Since Russia's debt to the IMF had been fully repaid, the Bank of Russia's foreign debt as of the beginning of 2006 consisted of obligations on repo operations, correspondent and current account balances of CIS residents, and cash rubles held by non-residents.

*Russian banks* increased their debt obligations to non-residents by \$17.7 billion to \$50.2 billion. The share of banking sector long-term liabilities expanded from 43.9% to 59.5%.

Massive foreign capital inflow to the *non-financial enterprise sector*, mostly in the form of debt instruments purchased by non-residents, led to dynamic growth in the sector's foreign debt, which gained \$49.6 billion, reaching an estimated \$126.0 billion as of January 1, 2006. Of this sum, \$98.7 billion was in credits from abroad, \$13.4 billion in foreign debt obligations to direct investors, \$12.3 billion in securities in non-resident portfolios, while other debt categories totalled \$1.6 billion.

Long-term obligations predominated in the structure of the country's foreign debt: as of January 1, 2006, they were estimated at 83.0% of total foreign debt. Foreign currency debt to non-residents stood at 229.1 billion (88.6%).

General government debt relative to GDP contracted to 9.4% as of January 1, 2006, from 17.1% a year earlier. Total foreign debt of all sectors of the economy stood at 33.9% of GDP (against 36.4% in 2004).

## 1.5. THE WORLD ECONOMY AND INTERNATIONAL FINANCIAL MARKETS

Global production of goods and services increased 4.8% in 2005, according to the IMF's estimate (against 5.3% in 2004).

The fastest growth was registered in the developing countries of Asia (8.6%), the Commonwealth of Independent States (CIS) (6.5%), and Middle East countries (5.9%)<sup>1</sup>. International trade in goods and services grew 7.3% in 2005 (against 10.4% in 2004). Exports of goods and services in emerging economies expanded 11.5% in 2005 (against 14.6% in 2004), and imports gained 12.4% (against 15.8%). Terms of trade were good for countries exporting raw materials in 2005.

United States GDP increased 3.5% in 2005 (against 4.2% in 2004). The US registered slower growth in fixed capital private investment in production and housing construction, and a threefold contraction in finished product inventories.

GDP growth in the Economic and Monetary Union (EMU) stood at 1.3% in 2005 (against 2.0% in 2004). The slowing of domestic demand growth in the eurozone in 2005 was due to weaker growth in individual consumption and gross fixed capital formation.

China's GDP grew 9.9% in 2005 (against 10.1% in 2004). Measures undertaken in China

in 2004 to curb excessive fixed capital formation restrained investment in construction and reconstruction of buildings and other facilities.

The GDP of Belarus grew 9.2% (against 11.4% in 2004), and Ukraine's GDP rose 2.6% (against 12.1%). Kazakhstan registered a 9.4% increase in its GDP in 2005 (against 9.6% in 2004).

US consumer prices rose 3.4% in 2005 (December on December), against 3.3% in 2004. US core inflation<sup>2</sup> in 2005 was unchanged from 2004 at 2.2%. Growth in energy prices had a decisive effect on the change in US inflation from July to October, particularly in September. The raising of interest rates in the USA in 2005 had a restraining effect on core inflation.

Eurozone consumer prices rose 2.2% in 2005 against 2.4% in 2004. In certain months of last year, particularly September and October, energy price growth pushed eurozone inflation far beyond the medium-term target set by the European Central Bank (ECB), which was forced to raise the refinancing rate.

China's inflation stood at 1.6% in 2005 against 2.4% in 2004. Slower price growth was due to higher agricultural output (the bad harvest in 2004 led to a considerable rise in food prices).

<sup>1</sup> Including Egypt.

<sup>2</sup> Growth in consumer prices of a set of goods and services included in the consumer goods basket, except food and energy products.

**REAL GDP GROWTH IN LEADING INDUSTRIALISED NATIONS IN 2005**  
(as % of 2004) \*

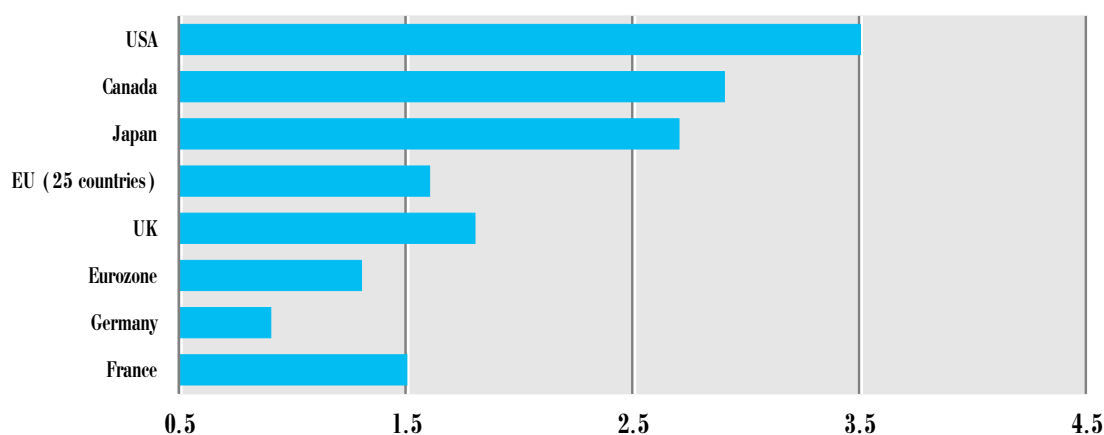


Chart 23

\* According to data from official statistical sources of corresponding countries and Eurostat.

Inflation in Belarus stood at 8% against 14.4% in 2004, at 10.3% against 12.3% in Ukraine, and at 7.5% against 6.7% in Kazakhstan.

The US federal budget deficit decreased to \$319.7 billion, or 2.6% of GDP, against \$400.7 billion, or 3.4% of GDP in 2004. The contraction was due to higher tax revenues resulting from increased corporate profits and household incomes. The US consolidated budget deficit stood at 4.1% of GDP in 2005, against 4.7% in 2004. US federal government debt reached \$8.2 trillion, or 65.4% of GDP in 2005, against \$7.6 trillion, or 64.7% of GDP in 2004.

According to the European Commission, the consolidated budget deficits of 11 out of 25 European Union (EU) member states in 2005 exceeded the 3% of GDP level established by the European Stability and Growth Pact. In nine of the countries, including Germany, France and Italy, state debt was more than 60% of GDP. In March 2005 the EU heads of state decided to ease sanctions against countries whose budget deficits exceeded 3% of GDP.

China's budget deficit stood at 1.3% of GDP, according to the IMF's estimate (against 1.5% of GDP in 2004).

Belarus's consolidated budget deficit was 0.6% of GDP in 2005 (in 2004 the country had a budget surplus of less than 0.1% of GDP). Ukraine's consolidated budget had a surplus of 1.8% of GDP in 2005 (against 3.4% of GDP in 2004). Kazakhstan's consolidated budget surplus

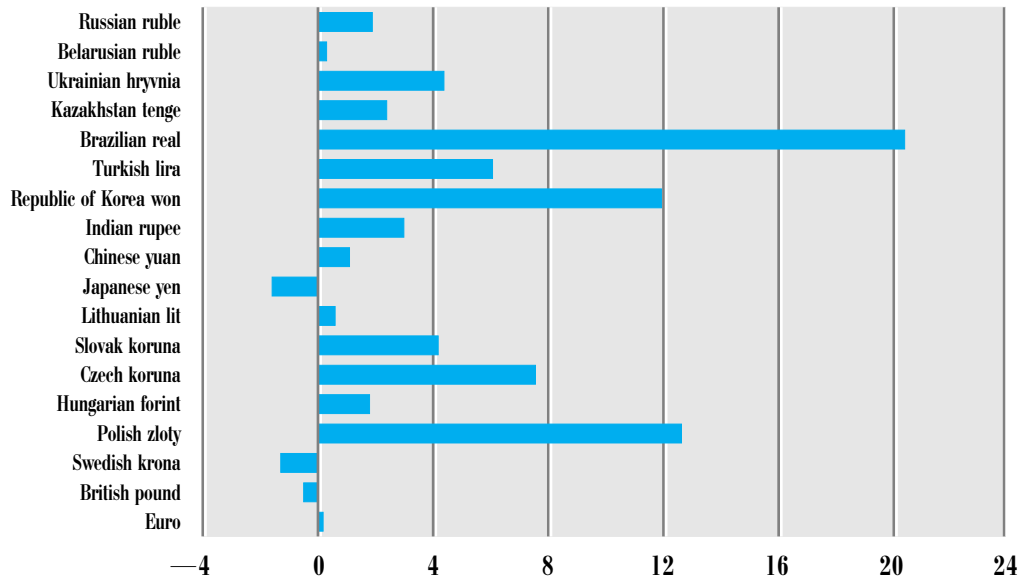
stood at 0.6% of GDP, compared to a budget deficit of 0.2% of GDP in 2004.

US trade turnover increased 11.9% to \$3.3 trillion in 2005. Exports rose 10.5% and imports 12.8%. The US trade deficit grew to \$723.6 billion in 2005 against \$617.6 billion in 2004. Growth in US consumption led to an expansion in consumer goods imports, while the high level of investment activity stimulated imports of investment goods. China, the EU, and NAFTA and OPEC countries increased exports to the US market. The deficit in US trade with China accounted for a quarter of the US trade deficit.

China's trade turnover expanded 23.2% in 2005 to \$1.4 trillion. Chinese exports increased 28.4%, and imports 17.6%. China's trade surplus reached an all-time high of \$101.9 billion (compared to \$32 billion in 2004). The manufacturing sector accounted for 55% of Chinese exports. China's leading trade partners in 2005 were the EU (15.3% of China's trade turnover), the United States (14.9%) and Japan (13%). The United States accounted for the largest share of Chinese exports (21.4%), and Japan for the largest share of Chinese imports (15.2%). China's trade surplus with the EU and the US increased, while China's trade deficit with Japan declined.

Eurozone trade turnover expanded 9.7% in 2005, and Japan's trade turnover increased 11.3%. Imports grew faster than exports in the eurozone in 2005, and its trade surplus contracted

**AVERAGE ANNUAL GROWTH IN EXCHANGE RATES OF INDIVIDUAL CURRENCIES  
AGAINST THE US DOLLAR IN 2005 (as % of 2004)\***



\* (—) signifies appreciation of the dollar, (+) depreciation of the dollar.  
Source: Reuters.

Chart 24

as a result. Japan's trade surplus shrank as a result of slower export growth, particularly in machinery and equipment.

The US current account deficit increased to 6.4% of GDP in 2005 against 5.7% in 2004. The eurozone current account deficit stood at 0.3% of GDP in 2005, compared to a surplus of 0.6% in 2004. Japan's current account surplus contracted to 3.6% of GDP against 3.8% in 2004, while in China the figure rose to 7.1% of GDP, against 3.6%. Foreign direct investment in the Chinese economy edged down 0.5% in 2005 year on year, and stood at \$60.3 billion (70% of this sum was invested in the manufacturing sector).

Belarus's trade turnover expanded 8% to \$32.7 billion in 2005, Ukraine's 14.2% to \$70.4 billion, and Kazakhstan's 37.5% to \$45.2 billion. Belarus's trade deficit contracted to \$700 million against \$2.7 billion in 2004, while Ukraine registered a trade deficit of \$1.9 billion, compared to a \$3.7-billion surplus in 2004. Kazakhstan's trade surplus increased to \$10.5 billion from \$7.3 billion in 2004. Russia accounted for 48.4% of import and export operations conducted by Belarus, 28.9% by Ukraine, and 21.1% by Kazakhstan.

The average annual dollar/euro rate in 2005 remained virtually unchanged from 2004. The dollar appreciated 1.6% against the Japanese yen. China revalued the yuan against the dollar by 2% in 2005. The average rate of the Belarusian ruble against the US dollar in 2005 was virtually unchanged from 2004, while the Ukrainian hryvnia gained 4.4% against the US dollar, and the Kazakhstan tenge 2.4%.

The US Federal Reserve raised the federal funds rate eight times in 2005, increasing it as a result by a total of 2 percentage points to 4.25%. The European Central Bank in December 2005 raised the refinance rate by a quarter of a percentage point to 2.25%. On average, the LIBOR on US dollar-denominated deposits with terms from one month to one year increased by 1.9—2.0 percentage points in 2005 year on year, to 3.4—4%, and the LIBOR on similar deposits denominated in euros edged up by 0.1 percentage points to 2.1—2.3%.

Yields on US treasury notes with terms of two and three years increased by 1.2—1.5 percentage points on average in 2005 year on year, the yield on five-year treasuries gained 0.6 percentage points, and the yield on treasuries with terms



of up to ten years remained virtually unchanged. The average annual yields on US treasuries with maturities from two to ten years in 2005 were by 0.9—1.5 percentage points higher than the corresponding eurozone government securities.

The Dow Jones Industrial Average index, which reflects the dynamics of stocks prices in

the leading US industrial companies listed on the New York Stock Exchange, gained 2.2% as a year-on-year average in 2005. The NASDAQ, the US over-the-counter stock market index, rose 6.2%. Germany's Xetra DAX-30 gained 17.5%, and Japan's Nikkei 225 added 11.1%.



**BANK OF RUSSIA  
ACTIVITIES**

**III**

## II.1. MONETARY POLICY

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

The monetary policy pursued by the Bank of Russia in 2005 was aimed at reducing inflation and maintaining the stability of the national currency; this is the basis for effective activities of all economic agents in the areas of production, investment, savings and expenditures, and ensures the conditions for sustainable economic growth. Guidelines for the Single State Monetary Policy in 2005 set the target for consumer price inflation at 7.5—8.5%. At the same time, the Russian Government's social and economic development forecast envisaged GDP growth at 6.3% in 2005. Core inflation based on the consumer price projection was expected in the range of 7—8%.

In view of the Russian economy's considerable dependence on the state of world commodity and financial markets, characterised by rising prices of oil and petroleum products and uncertainty over exchange rate movements and capital flow, the Bank of Russia continued to maintain its managed floating exchange rate regime in 2005. At the same time, the principal objectives of exchange rate policy were to prevent sharp exchange rate fluctuations and ensure the exchange rate's medium-term stability.

The Bank of Russia anticipated that demand for money would continue to rise in 2005, since in previous years its dynamics had been determined, to a large extent, by sustained growth in

the Russian economy, increased money incomes in all sectors of the economy, growth in savings, and a gradual increase in confidence in the national currency. Growth in demand for money, calculated by the M2 monetary aggregate, was expected at 20—32% in 2005. At the same time, the Bank of Russia did not regard the projected range for growth in the demand for money as a rigid limit for money supply growth, and did not rule out a digression from its limits. This was largely a result of instability of time delays to the effect of money supply growth on inflation, and the objective uncertainty on the domestic foreign exchange market. Nevertheless, projections for growth in the demand for money and money supply remained important characteristics of the current monetary conditions, inflationary expectations, and determining the medium-term inflation trend.

The macroeconomic situation in the year under review largely corresponded to the main social and economic development projections, but the terms of trade for Russia proved to be better than in the best-case balance of payments scenario. As demand for domestic products expanded and the finances of enterprises improved, growth in fixed capital investment, including growth due to foreign loans, exceeded the projected rates. In addition, consumer spending continued to increase rapidly in 2005. It outstripped

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

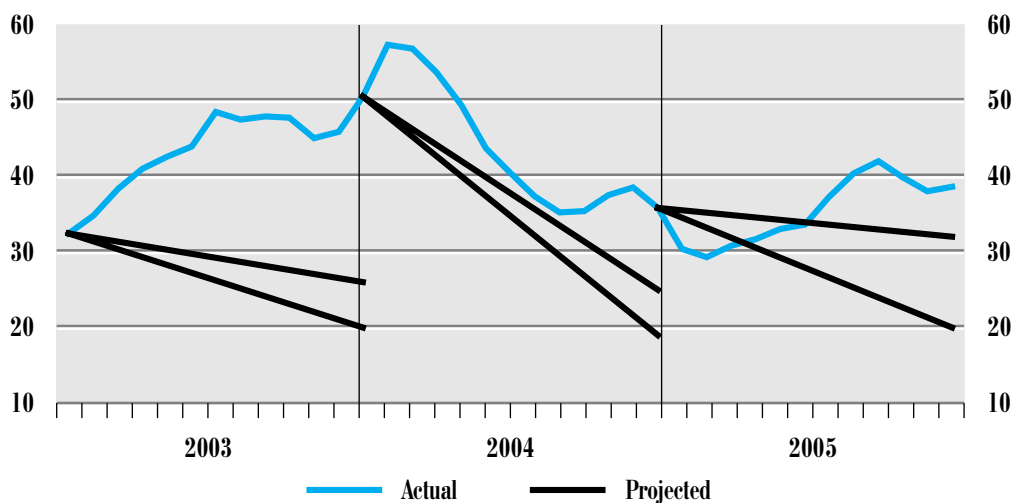


Chart 25

growth in household incomes, and was accompanied by an acceleration of retail trade turnover growth and the continued rapid rise in household sector consumer lending, which caused the demand for money to surpass the projections made in *Guidelines for the Single State Monetary Policy in 2005*.

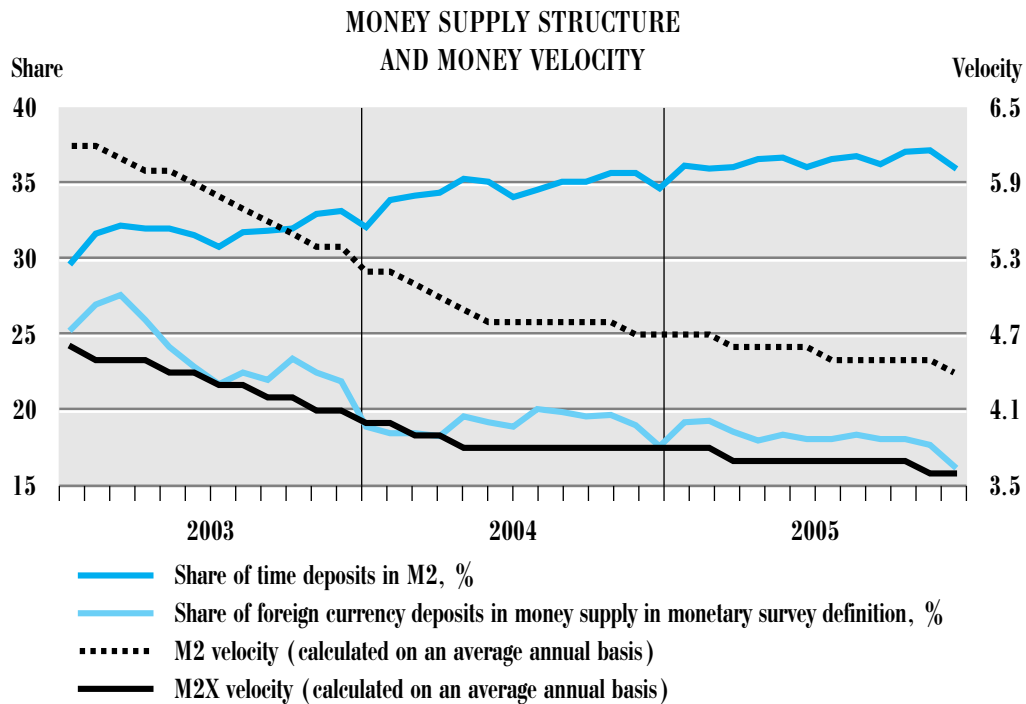
At the same time, money supply (primarily money supplied by monetary authorities as a result of the chosen exchange rate regime, and the purchase of foreign currency by the Bank of Russia on the domestic market amid its massive inflow to the country) grew 38.6% in 2005, and the annualised ruble supply assumed an upward trend. However, in view of the existing time lags, inflation in the year under review was affected by the monetary conditions of the previous period, when the annualised rate of money supply growth slowed.

In addition, the share of cash, the most liquid element of money supply, contracted significantly in the M2 growth structure as compared with 2004, mitigating the inflationary consequences of monetary growth. Increased ruble supply was accompanied by the favorable trend towards expansion in the share of time deposits. As a result, the share of cash in the M2 structure as of January 1, 2006, stood at 33.2%; time deposits at 36.1%; and demand deposits 30.6%. These changes testify to an improvement in the M2 structure.

Economic agents' demand for foreign exchange continued to affect ruble supply dynamics in 2005. As the nominal effective ruble rate rose against foreign currencies, growth in foreign currency deposits slowed. In dollar terms these deposits increased 21.8% in the year under review, against approximately 33% in 2004. Foreign currency deposits grew at just over half the pace of ruble-denominated deposits, while in 2004 their rates of growth did not differ significantly. The share of household and non-financial enterprise sector foreign currency deposits in money supply in the monetary survey definition, which includes foreign currency deposits, contracted by 1.3 percentage points in 2005 (as in 2004), and stood at 16.3% as of January 1, 2006, against 17.6% as of January 1, 2005. The rates of growth in money supply in the monetary survey definition (36.3%) were slower than the rates of growth in monetary aggregate M2.

The reduced share of cash, larger share of ruble-denominated deposits, and lower share of foreign currency deposits contributed to a further slowing in money velocity. In 2005, the velocity of money, calculated by the M2 monetary aggregate, declined from 4.7 to 4.4 on an average annual basis. However, its decline was slower than in 2004 (6.1% against 10.4%). The rate of monetisation of the economy, calculated by the M2 monetary aggregate, edged up in 2005 (from 21.3% to 22.7%).

Chart 26



The dynamics of demand for foreign exchange were determined largely by intra-year fluctuations in the nominal rate of the ruble against the dollar and the euro. Household sector demand for foreign exchange peaked in the fourth quarter of 2005. In the period under review, according to Russia's balance of payments data, the value of foreign exchange outside the banking sector contracted by \$1.9 billion (in 2004 it decreased by \$2 billion).

The main sources of the expansion in money supply in 2005, as in 2004, were growth in the net foreign assets of the monetary authorities, and credit institutions' increased claims on the non-financial sector. Growth in credit to the real economy was apparent in the marked increase of the money multiplier<sup>1</sup>, which in 2005 rose almost 1.4 times faster than in 2004, the highest rate over the past five years. In 2005 as a whole, growth in non-cash rubles accounted for nearly 72% of the year's absolute growth in the M2 monetary aggregate (66% in 2004).

The inflow of resources to the Stabilisation Fund, and larger balances of regional government accounts and accounts of government extra-budgetary funds with the Bank of Russia, made it

possible to absorb more than half of the total money supply created by the inflow of foreign exchange to the domestic market. As international reserves continued to increase, the monetary authorities sterilised excessive money supply: the principal sterilisation instruments used by the Bank of Russia were operations with its own bonds and deposit operations.

At the same time, the Bank of Russia was limited in its ability to sterilise excess liquidity. The risks involved in the inflow of short-term capital to the country prevented it from increasing yields on sterilisation instruments, which were largely limited by interest rates on world markets.

The Bank of Russia's interest rate policy in the year under review was aimed at maintaining the interest rate band previously established. The lower limit of the interest rate band on Bank of Russia operations (0.5%) was set by the "tom-next" deposit rate, and the upper limit by the overnight credit interest rate, which stood at 12% at the end of December 2005. Money market interest rates in 2005 stayed within the Bank of Russia's interest rate band.

As the average annual level of banking sector liquidity rose, the average price of short-term

<sup>1</sup> M2 to broad money.

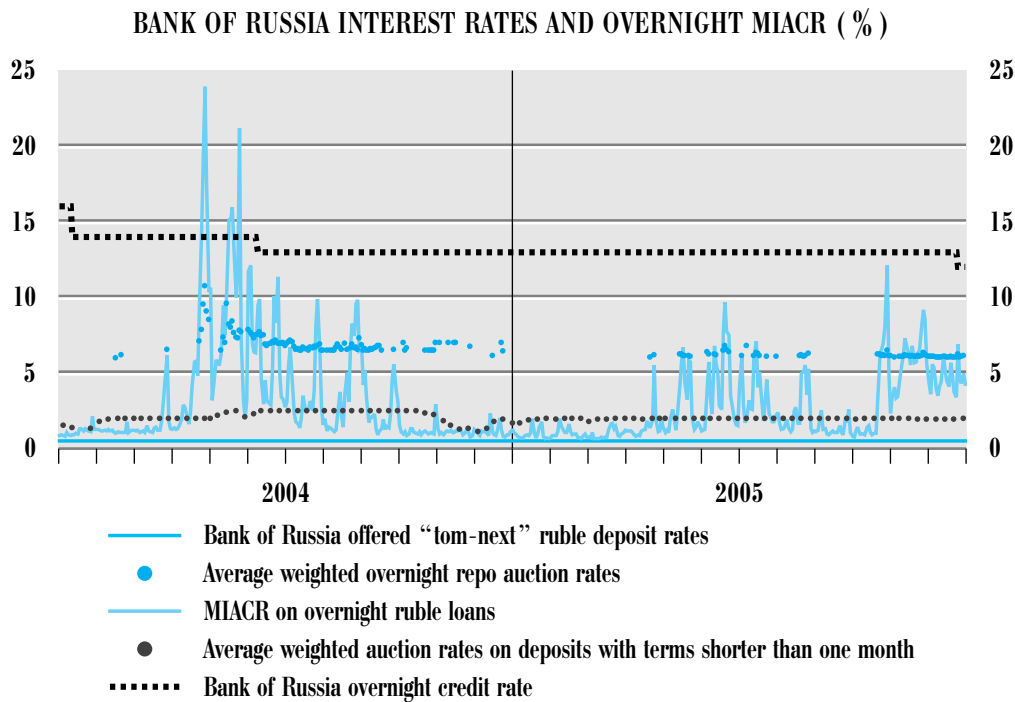


Chart 27

funds continued to decline in 2005 year on year. However, the general downward trend in interest rates in 2005 was less pronounced than in 2004, and had uneven dynamics. The average weighted interest rate on ruble-denominated overnight interbank loans on the Moscow money market was 2.7% in 2005 against 3.3% in 2004. The average weighted interest rate on short-term ruble loans extended to the non-financial sector by banks, Sberbank included, fell to 10.7% in 2005 from 11.4% in 2004. The average annual interest rate

on household sector ruble-denominated time deposits also declined in 2005, to 7.9% p.a. against 9.0% p.a. in 2004. This, however, did not slow growth in household sector deposits with banks, which grew faster in 2005 than in 2004.

The drop in the headline inflation in the year under review from 2004 was due to a significant slowing in core inflation, which illustrates that the factors which the Bank of Russia can control by its policies have a favorable effect on price dynamics.

## II.1.2. THE DYNAMICS OF MONETARY AUTHORITY INDICATORS AND USE OF MONETARY POLICY INSTRUMENTS

The Bank of Russia regulated money supply by controlling monetary base dynamics. The expansion of the broad monetary base<sup>1</sup> slowed to 22.4% in 2005 from 24.3% in 2004.

The principal source of growth in money supply in 2005 was the increase in monetary authorities' net international reserves, which totalled 1.9 trillion rubles at the fixed exchange rates as of the beginning of the year. At the same time, the contraction of net domestic assets by 1.36 trillion rubles caused the monetary base to expand by 0.53 trillion rubles. Growth in net international reserves was caused by fundamental factors, which led to a further strengthening of the balance of payments, in both terms of the current account, and capital and financial account. As supply of foreign exchange exceeded demand on the domestic market, the Bank of Russia continued to conduct ruble interventions in order to restrain the ruble's appreciation. The contraction of monetary authorities' net domestic assets during the year as a whole was entirely due to growth in the balances of general government accounts with the Bank of Russia, which resulted from a large consolidated budget surplus. At the same time, operations conducted by the Bank of Russia to absorb excess banking sector liquidity during the year, especially in the first and third quarters, also had a restraining effect on money supply growth and the inflation rate.

The budget channel's increased role in sterilising money supply created at the level of monetary authorities facilitated a slowing of growth in credit institutions' funds in accounts

with the Bank of Russia, and more active use of instruments designed to supply the banking sector with liquidity during periods of heightened demand. Credit institutions' aggregate reserves<sup>2</sup>, which characterise the level of the banking sector's ruble liquidity, gained 7% in 2005, while their ratio to non-financial enterprise and household sector deposits, included in the M2 monetary aggregate, contracted from 29.9% to 22.4%. Funds absorbed by the Bank of Russia through deposit operations, selling its own bonds, and conducting reverse modified repo operations, as a share of total banking sector reserves, contracted from 12.2% as of January 1, 2005, to 4.4% as of January 1, 2006. The share of credit institutions' correspondent account balances decreased from 56.8% to 56.2%.

Changes in the monetary base structure in 2005 were characterised primarily by significant growth in the share of cash in circulation, which expanded from 70.2% as of January 1, 2005, to 75.3% as of January 1, 2006. Cash in circulation, having the largest share in the monetary base, usually plays a leading role in monetary base dynamics. The expansion of the monetary base in 2005 was almost entirely due to the increase in cash in circulation. Increased levels of cash in credit institutions was key to growth in aggregate banking sector reserves.

Intra-year dynamics of the monetary base and aggregate banking sector reserves in 2005 were characterised by considerable volatility. This was largely a result of economic agents' short-term expectations in respect to ruble exchange rate dynamics, as dependent on the rates of world currencies on international markets.

<sup>1</sup> The broad monetary base comprises cash issued by the Bank of Russia, including cash balances in banks, funds in credit institutions' compulsory reserve accounts and 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> Credit institutions' aggregate reserves include cash balances in credit institutions, credit institutions' required reserves with the Bank of Russia, funds in credit institutions' correspondent and deposit accounts with the Bank of Russia, Bank of Russia obligations of reverse repurchase of 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 2004 AND 2005  
(quarterly change, billion rubles)

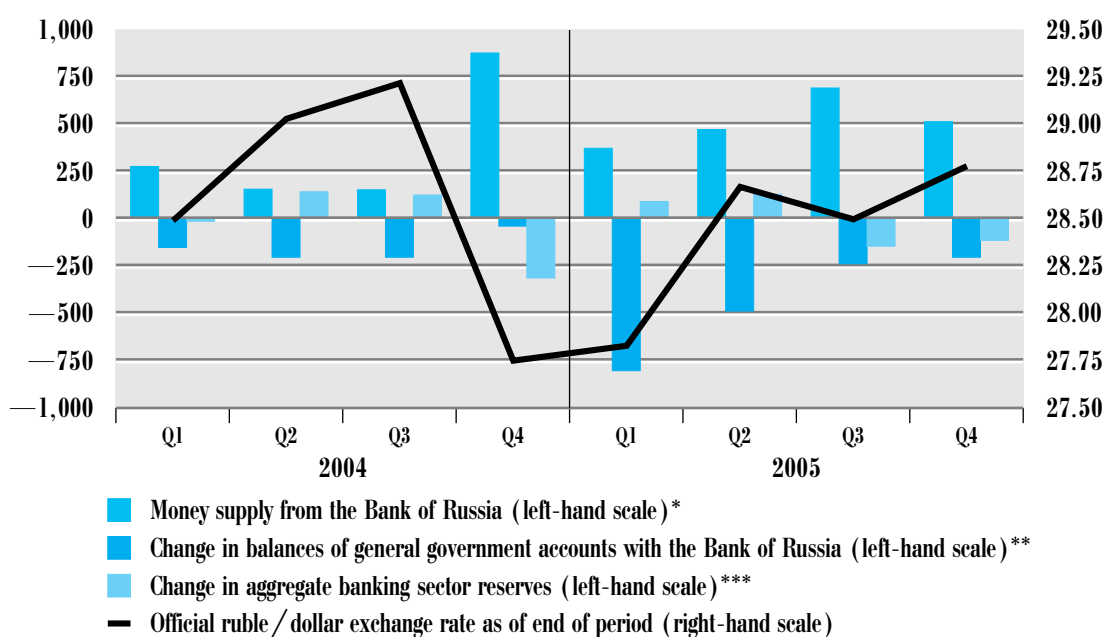


Chart 28

\* Due to currency market interventions, 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.

In the first half of 2005 the dollar’s appreciation against the euro and the ruble (mainly in January, May and June) was accompanied by growth in banking sector net foreign assets, which gained 182.6 billion rubles in January—June, and a contraction in aggregate banking sector reserves, by 193.5 billion rubles. In January—June 2005, the broad monetary base narrowed 3.3%, while in the same period of 2004 it edged up 0.3%. Increased demand for foreign exchange led to a reduction in banking sector ruble liquidity and increased interest rate volatility on the interbank credit market, which prompted growth in the Bank of Russia’s lending to credit institutions.

In the second half of the year the 342.3-billion-ruble reduction in banking sector net foreign assets, mainly due to growth in foreign liabilities, was accompanied by 252.8-billion-ruble growth in total banking sector reserves. As a result, the monetary base expanded in July—December 2005 more than in the same period of 2004 (26.5% against 24%).

The Bank of Russia in 2005 used instruments to absorb excess liquidity and provide liquidity to

credit institutions. These instruments enabled it to swiftly react to changes in banking sector liquidity levels, and eliminate imbalances on the financial market when implementing its managed floating exchange rate policy.

The average daily aggregate debt on Bank of Russia bonds (OBR), deposit operations and reverse modified repo operations, increased 3.5% in 2005 year on year, from 182.4 billion rubles to 188.9 billion rubles. At the same time, the average daily volume of credit institutions’ excess liquidity (which included, in addition to funds obtained by the Bank of Russia through the above operations, the balances of credit institutions’ correspondent accounts with the Bank of Russia), grew 18.0% in 2005 year on year, reaching 476.6 billion rubles.

The Bank of Russia in 2005 actively used **operations with its own bonds** as a market instrument to absorb excess liquidity. During the year it placed OBRs for a standard term of six months, followed by regular additional placements. The Bank of Russia accompanied auctions to place new OBR issues with buyback offers on outstanding

bonds. This practice helped maintain constant maturity periods of bond issues and accumulate liquidity in a limited number of OBR issues. The establishment in the medium term of a liquid Bank of Russia bond market should enhance the effect of the interest rate policy on the money market.

During the life of an OBR issue with a term to offer of three to six months, the Bank of Russia marked two-way buy and sell OBR prices. These prices were set so as not to directly influence the prices at the beginning of the day. Nevertheless, the availability of large lots for purchase or sale enabled market participants to buy bonds from the unplaced remainder, or if necessary, to sell them back to the issuer. This practice may gradually increase the liquidity of the OBR market, and as a consequence, give the Bank of Russia wider opportunities for sterilising excess liquidity.

Total Bank of Russia bond sales amounted to 369.6 billion rubles, of which 352.7 billion rubles were placed at auctions. At the same time, a portion of Bank of Russia bonds, worth 56.1 billion rubles, were bought by market participants using funds received by holders of outstanding OBR issues as a result of their purchase by the Bank of Russia, on the day of auctions to place new bond issues, on the condition that funds received by market participants be used for the participation in the auction.

The average weighted OBR yield, established as a result of Bank of Russia operations with market participants, stood at 4.2% p.a. To prevent a massive inflow of short-term capital, the Bank of Russia set interest rates on OBR operations at comparable or lower levels than offered rates on international markets.

The expansion of the OBR market in 2005 allowed the Bank of Russia to cease **reverse modified repo operations** with government bonds.

In 2005 the Bank of Russia conducted **deposit operations** on standard “tom-next”, “spot-next”, “call”, “one-week” and “spot-week” terms daily at a fixed interest rate, and weekly at deposit auctions with four-week and three-month maturity periods. The total value of funds obtained on deposit in 2005 increased 40% year on year, to 9.6 trillion rubles. Most deposit operations were conducted at fixed interest rates, and the funds raised by the Bank of Russia through such operations

accounted for about 98% of total funds obtained from deposit operations. Bank of Russia debt on deposits varied between 7.2 billion rubles and 284.3 billion rubles during the year.

Fixed deposit rates remained unchanged in 2005 at 0.5% p.a. on “tom-next”, “spot-next” and “call” deposit operations, and 1% p.a. on “one-week” and “spot-week” deposit operations. The average weighted interest rate at four-week deposit auctions was 2% p.a., and 3.5% p.a. at three-month deposit auctions.

The Bank of Russia actively **sold federal loan bonds from its own portfolio without an obligation of reverse repurchase** mostly in September and October, when the Finance Ministry did not place any new government bond issues; these operations were used as an additional means of sterilising liquidity. The Bank of Russia carried out these operations on the secondary market, including auctions. Bank of Russia OFZ sales on the open market totalled 21.3 billion rubles in the period under review at the average weighted yield to maturity of 7.0%. The restructuring of a part of the Finance Ministry’s debt to the Bank of Russia in December 2005, with a nominal value of 33.5 billion rubles, gave the Bank of Russia wider opportunities for managing money supply: funds raised as a result of exchanging Series 46019 debt-depreciation federal loan bonds (with nominal value of 26 billion rubles) and an additional Series 46005 debt-depreciation OFZ issue (with nominal value of 7.5 billion rubles) could be used for open-market operations.

As greater international reserves continued to ensure considerable money supply growth, the Bank of Russia sought gradually to scale down its operations on the domestic forex market. Owing to the Stabilisation Fund mechanism and periodic surges in demand from banks for foreign exchange, this led to more active use of instruments providing liquidity to the banking sector. Specifically, this situation was observed in May, June, October and November 2005.

To satisfy their ruble demand, credit institutions were able to use repo operations, as well as intraday, overnight, and Lombard loans, and to conduct currency swap transactions with the Bank of Russia.

In 2005 credit institutions actively sought **intraday loans**, which almost doubled in value

from 2004, reaching 6.0 trillion rubles. This growth was partly due to the greater number of credit institutions with access to the intraday and overnight credit facilities. In 2005 the number of Bank of Russia regional branches authorised to provide intraday and overnight loans reached 76. Such loans were extended to more than 240 credit institutions and branches of credit institutions, up from 150 in 2004. The average monthly value of intraday loans provided by the Bank of Russia increased to 495.7 billion rubles in 2005, from 254.3 billion rubles in 2004. Their monthly value peaked in November when banking sector liquidity declined amid a sustained trend of credit institutions to hold long currency positions.

While intraday credit increased significantly, **overnight loans** grew just 1.7% to 30.8 billion rubles in 2005, against 30.3 billion rubles in 2004. These figures testify to the improved quality of liquidity management by credit institutions. Overnight loans were provided to 115 credit institutions in 2005 (up from 85 in 2004). Their interest rate was equal to the Bank of Russia re-finance rate, which remained unchanged throughout 2005 at 13% p.a. On December 26, 2005, the Bank of Russia's Board of Directors decided to reduce the rate to 12% p.a.

**Lombard loans** were offered weekly in 2005 at auctions (with a term of 14 calendar days), and daily at a fixed interest rate (with a term of 7 calendar days). The practice of extending Lombard loans at a fixed interest rate was resumed on April 11, 2005, in a move by credit institutions to implement more effective management of their liquidity, including by means of the required reserve averaging mechanism.

In 2005 the Bank of Russia extended Lombard loans worth a total of 1.4 billion rubles, down from the previous year's 4.5 billion rubles. More than 80% of this amount was extended at auctions. Over 85% of Lombard loans were extended to credit institutions in the fourth quarter of 2005. The average weighted interest rate on Lombard loans in 2005 remained virtually unchanged from 2004, at 7.48% p.a.

The Bank of Russia continued in 2005 to use **repo operations** as the principal market instrument for providing liquidity to the banking sector. Since interest rates on this instrument are

higher than those on the money market, the main objective pursued by the Bank of Russia in conducting repo operations was to stabilise money market interest rates when the liquidity level was falling, and to provide liquidity.

Most of the funds involved in repo operations (about 80% of the full-year amount) were provided by the Bank of Russia in the fourth quarter of 2005 when liquidity declined significantly on the interbank market: anticipating the dollar's further appreciation, market participants cut back on foreign exchange sales to the Bank of Russia. Repo transactions aggregated 1.5 trillion rubles in 2005, up 150% on 2004. Demand was particularly high in the overnight repo segment, where interest rates ranged from 6.03% p.a. to 7.17% p.a.

The Bank of Russia used **operations to purchase government bonds and OBRs on the open market and currency swaps** as an additional instrument to provide liquidity to credit institutions during surges in demand for ruble resources.

Credit institutions' demand for currency swap operations was extremely low in 2005. Over the year, the Bank of Russia concluded only two currency swaps with credit institutions, totalling 15.4 billion rubles (\$543.8 million).

Purchases of government securities on the open market were also rare. The total amount of funds provided to market participants by the Bank of Russia's government bond purchases equalled 11.3 million rubles. OBR purchases by the Bank of Russia totalled 6.7 billion rubles not including the repurchase of bonds at buyback offer or the repurchase of outstanding OBR issues, usually carried out on the day of auctions to place new OBR bond issues.

The availability of large amounts of idle liquidity in the banking sector for most of the year affected interbank interest rates: the average MIACR on ruble-denominated overnight loans stood at 1–3% p.a. When ruble shortages occurred (largely as a result of the Bank of Russia's reduced presence on the domestic forex market and the effect of the Stabilisation Fund), interbank rates rose to 6–9% p.a., matching or exceeding overnight repo rates (6–6.5% p.a.). This scenario was typical during the second quarter, particularly in October and November, not only on tax payment days, but also at the begin-

ning of each month, on days unconnected with payments to the budget.

To keep interbank market rates within the interest rate band on its operations, the Bank of Russia in 2005 made efforts to provide credit institutions with wider access to its resources and improve the required reserve mechanism.

In particular, it opted to extend the list of assets accepted as collateral in conducting operations to provide funds to credit institutions. The Bank of Russia Lombard List was extended to include government securities of the Republic of Bashkortostan, the Samara Region, and the Khanty-Mansi Autonomous Area; additional Moscow government bond issues; bonds issued by the Housing Mortgage Lending Agency; and bonds issued by the European Bank for Reconstruction and Development, Russian Railways, Gazprom, LUKoil, Foreign Trade Bank, Bank Russky Standart, Rosselkhozbank, and Moskovsky Mezhdunarodny Bank.

In considering the inclusion of bonds in the Bank of Russia Lombard List, the Bank of Russia Board of Directors paid attention to issuers' international ratings (at present the long-term credit rating on foreign currency bonds must be not lower than "BB" according to Standard & Poor's and Fitch Ratings classifications, or "Ba2" according to Moody's classification).

In 2005 the Bank of Russia made no changes in its **required reserve ratios** or averaging coefficients, and did not make unscheduled alterations in the required reserve levels. The required reserve ratios were as follows: 2% on credit institutions' obligations to non-resident banks in rubles and foreign currency, and 3.5% on obligations to private individuals in rubles, as well as other obligations in rubles and foreign currency.

To help credit institutions in managing their liquidity, the Bank of Russia upgraded the required reserve averaging mechanism. From June 1, 2005, when fulfilling reserve requirements by maintaining the corresponding average monthly balance in correspondent accounts with the Bank of Russia credit institutions have been able to take into account not only the correspondent account balances of their head office, but also those of their branches' correspondent subaccounts with the Bank of Russia.

In 2005 credit institutions actively used the averaging of the required reserves. The share of credit institutions using the procedure expanded from 40% in December 2004 to 50% in December 2005, while the part of the required reserves held by credit institutions in correspondent accounts (subaccounts) with the Bank of Russia increased during the period from 11.5 billion rubles to 17.9 billion rubles.

### II.1.3. EXCHANGE RATE POLICY

To meet Guidelines for the Single State Monetary Policy in 2005, the Bank of Russia maintained a managed floating exchange rate regime in 2005, which was necessary due to the specifics of the Russian economy, being heavily dependent on external economic conditions.

As the price of major Russian exports remained high in 2005, large amounts of foreign currency earnings flowed into the country, and Russia's current account surplus increased as a result. Due to limited capital outflow and active borrowing by Russian companies abroad, the inflow of foreign exchange led to an excess of supply of foreign currency over demand on the domestic market throughout the year. Given this situation, the Bank of Russia's exchange rate policy aimed to contain growth in the nominal effective rate of the ruble, reduce the inflation rate, and enable domestic producers to remain competitive.

The transition on February 1, 2005, from the use of the US dollar as the operating benchmark to the ruble value of the bi-currency basket (composed of the US dollar and the euro in proportions set by the Bank of Russia) was a significant development in the Bank of Russia's exchange rate policy last year. In February the bi-currency basket was composed of 0.1 euro and 0.9 dollar. As domestic forex market participants adapted to the new conditions, the Bank of Russia increased the share of the euro in the bi-currency basket: on March 15 it increased its weighting to 0.2 euro, on March 16 to 0.3, on August 1 to 0.35, and on December 2 to 0.4 euro. The introduction of the new operating benchmark allowed the Bank of Russia to pursue a more flexible and balanced exchange rate policy in reacting to fluctuations in exchange rates between major world currencies, and consequently, to smooth out fluctuations in the effective rate of the ruble.

The exchange rate policy pursued in 2005 slightly reduced the volatility of the exchange rate of the ruble against major world currencies, and reduced the corresponding currency risks.

Ruble/dollar conversion operations on the domestic forex market remained the principal

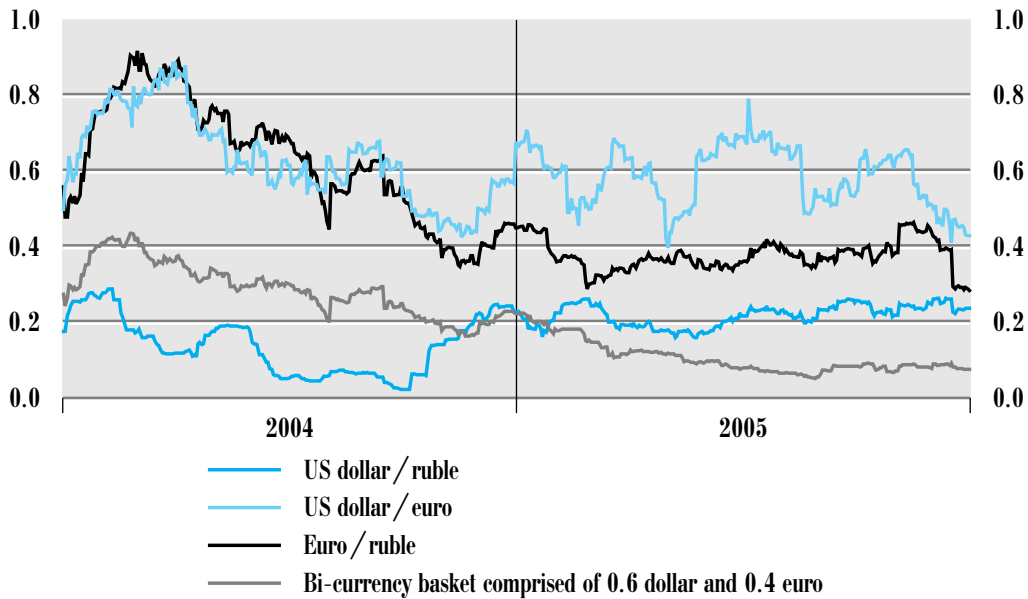
exchange rate policy instrument in 2005. In August 2005, the Bank of Russia began to conduct interventions on the ruble/euro market, but their volume was small due to the low level of activity in this segment of the market. The Bank of Russia conducted foreign currency conversion operations on the exchange-traded and over-the-counter interbank currency market. The Unified Trading Session of several interbank currency exchanges was the main segment used for Bank of Russia operations.

In deciding on the scale and direction of its interventions, the Bank of Russia was guided by the consistency principle (if the main factors of the internal and external economic situation remain unchanged in the short term, the direction of the Bank of Russia's interventions should also remain unchanged). This approach helped optimise the extent of Bank of Russia interference in the exchange rate setting process on the forex market, and made the Bank of Russia's exchange rate policy transparent. The Bank of Russia's support for the ruble value of the bi-currency basket was not constant, depending on external and internal economic conditions, especially dollar/euro exchange rate dynamics on the world market and the situation on the domestic financial market.

In 2005 the Bank of Russia was a net buyer of foreign exchange. However, in January it sold foreign exchange to prevent the ruble's sharp fall: as the dollar appreciated on international currency markets, demand for foreign exchange on the Russian currency market in January exceeded supply, despite a large inflow of foreign currency export earnings to the country.

The ruble value of the bi-currency basket had a trend to decline in the period from February to May 2005, influenced by the situation on world financial markets and the continued inflow of foreign currency export earnings to the domestic forex market. The Bank of Russia bought dollars during the period to maintain a balance between demand for foreign exchange and supply, and to prevent excessive ruble appreciation.

## RUBLE VOLATILITY AGAINST FOREIGN CURRENCIES\* (%)



\* The moving average of the sum of the squares of the changes in the indicator; base period = 30 days.

Chart 29

In June the value of the bi-currency basket increased as the dollar rose sharply on the world and domestic markets. This trend continued in July and August, although the dollar weakened slightly on the world currency market during this period. On the domestic forex market, this caused the ruble to strengthen against the dollar, while falling more significantly against the euro. Bank of Russia interventions during this period were largely aimed at reducing ruble volatility.

In September, Bank of Russia interventions reached the highest monthly level of the year, at \$13.0 billion. Although market participants' demand for Russian financial instruments increased, supply of foreign exchange far surpassed demand that month, putting pressure on the value of the bi-currency basket. As a result, on some days of September, Bank of Russia interventions reached \$2.4—3.4 billion, against the year's daily average of 325.4 million.

In October and November, the forming of long dollar positions by market participants, in anticipation of the dollar's appreciation against the ruble, led to a fall in supply of foreign exchange, and a significant scaling down of Bank of Russia currency interventions. Bank of Russia net purchases of US dollars stood at \$1.0 billion in October, and \$4.0 billion in November.

In December, Bank of Russia interventions expanded to \$9.01 billion, as ruble demand from market participants rose, as is typical at the end of the year.

In 2005 as a whole, aggregate Bank of Russia interventions on the domestic forex market increased 27.9% year on year to \$80.6 billion, while Bank of Russia net foreign exchange purchases grew 43.7% to \$72.2 billion.

By and large, the external and internal economic factors that determined the demand and supply balance on the domestic forex market in 2005 differed significantly from those anticipated in setting out the macroeconomic development scenarios for the year and forecasting conditions in which the exchange rate policy would be implemented. In particular, the average price of Urals crude was over \$50 per barrel, whereas the highest price forecast for 2005 in macroeconomic development scenarios was \$35 per barrel. This discrepancy had a significant influence on the outcome of foreign exchange policy in 2005, and caused some indicators to surpass macroeconomic scenario projections set out in Guidelines for the Single State Monetary Policy in 2005.

The rise in the nominal effective rate of the ruble in the economic conditions of 2005 and the higher-than-predicted rate of inflation caused an

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

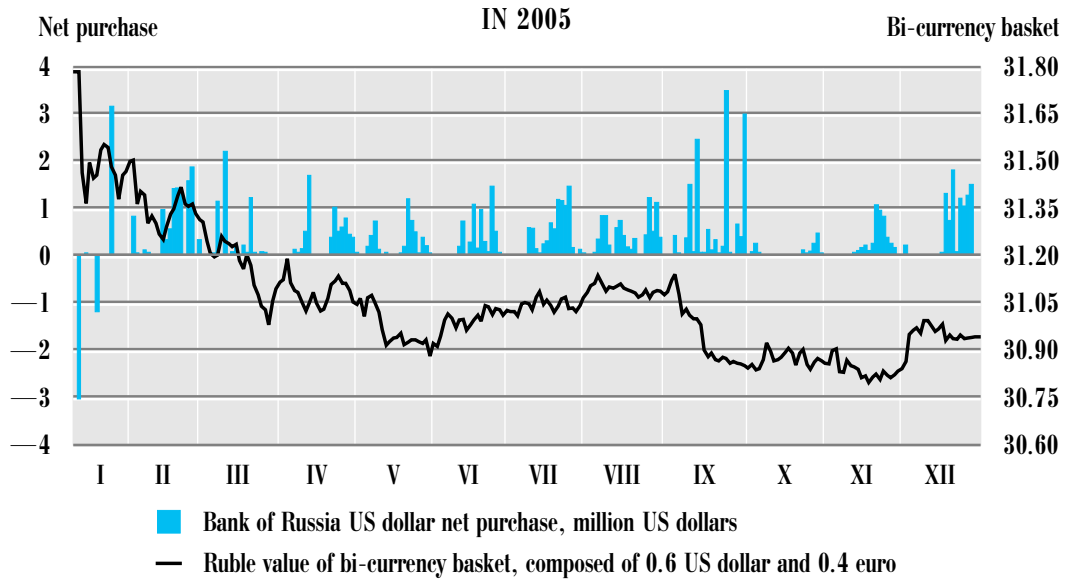


Chart 30

**REAL RUBLE RATE IN 2004 AND 2005  
(growth as % of December of previous year)**

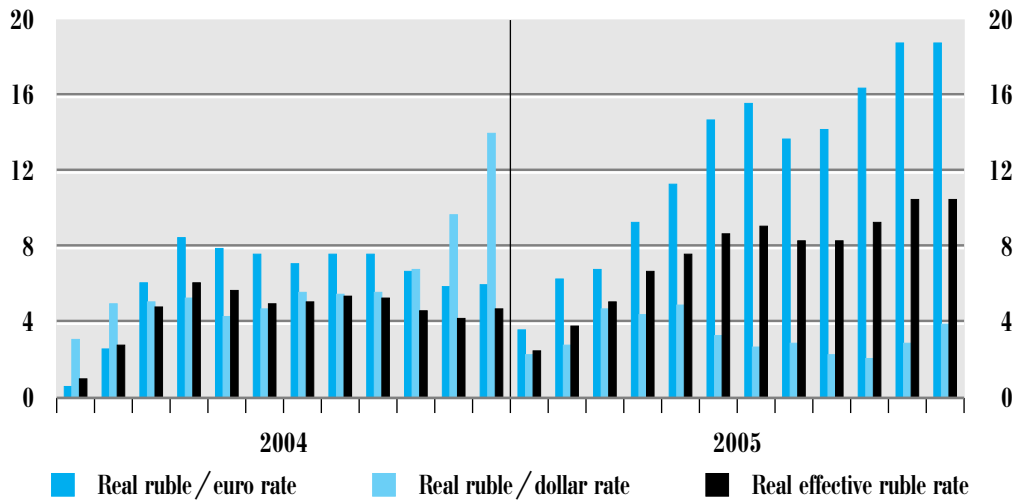


Chart 31

increase in the real effective ruble rate of 10.5% in 2005 as compared with December 2004. The

real rate of the ruble appreciated 3.9% against the dollar and 18.8% against the euro.

## II.2. RESERVE MANAGEMENT

Russia's international reserves, calculated according to IMF methodology<sup>1</sup>, increased from \$124.5 billion to \$179.6 billion<sup>2</sup> in 2005 (\$182.2 billion<sup>3</sup>). Bank of Russia foreign exchange reserves, including Bank of Russia gold in unallocated metal accounts and deposits, grew from \$119.1 billion to \$173 billion in 2005.

The Bank of Russia manages its gold and currency reserves in compliance with paragraph 7 of Article 4 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). Bank of Russia gold and currency reserves are an integral part of Russia's international reserves. In 2005, the Bank of Russia managed its gold and currency reserves in accordance with: the Core Principles for the Management of Bank of Russia Currency Reserves (hereinafter referred to as the Core Principles), approved by the Bank of Russia Board of Directors; the rules and regulations established by other Bank of Russia internal documents; agreements concluded with Bank of Russia counterparties; applicable legislation; and the general practice of managing gold and currency reserves used by central banks.

The goal in managing reserves is to ensure the best possible means of keeping them secure, liquid and profitable.

The reserves are kept secure by applying a comprehensive risk management system, which consists of using high-security financial market instruments; imposing stringent requirements on the Bank of Russia's foreign counterparties, and setting risk limits for each of them depending on their creditworthiness; and by conducting operations under agreements concluded with foreign counterparties that protect the interests of the Bank of Russia.

To attain an optimal level of liquidity and profitability for Bank of Russia gold and currency reserves, they are divided into transaction and investment portfolios. The transaction portfolio comprises short-term money market instruments, such as correspondent account balances, deposits, repo operations, and short-term discount securities. The management of this portfolio ensures that the necessary level of liquidity of foreign exchange reserves is maintained. Funds from the investment portfolio are put into longer-term, and consequently riskier and higher-yield, international capital market instruments. Therefore, management of the investment portfolio is aimed at obtaining additional profitability while observing the established reserve safety and liquidity requirements.

<sup>1</sup> *Balance of Payments Manual. IMF, 5<sup>th</sup> Edition, 1993.*

<sup>2</sup> *Monetary gold was accounted for in Russia's international reserves based on a price of \$300 per troy oz.*

<sup>3</sup> *Beginning from January 1, 2006, monetary gold has been evaluated at Bank of Russia current prices. Previously a fixed price of \$300 per troy oz was used.*





The Bank of Russia’s foreign exchange reserve transaction portfolio expanded from \$102.1 billion to \$136.8 billion in 2005. To increase returns from the placement of foreign exchange reserves during periods of surplus volume in the transaction portfolio, the Bank of Russia transferred a part of its funds to the investment portfolio, to acquire bonds denominated in US dollars, euros and pounds sterling (about 7.4 billion US dollars, 3.8 billion euros and 2.1 billion pounds sterling). Despite the growth of the transaction portfolio, the Bank of Russia refrained from transferring larger sums to the investment portfolio in 2005, due primarily to the market situation created by the US Federal Reserve’s policy of raising interest rates, and expectations of rate hikes by the ECB<sup>1</sup>. In May 2005 the Bank of Russia formed an investment portfolio denominated in pounds sterling to raise yields on operations with this currency.

The total value of the Bank of Russia’s investment portfolio of foreign exchange reserves increased from \$18.5 billion to \$33.1 billion, and its share in the total value of the transaction and investment portfolios expanded from 15% to 19%.

The main source of growth in foreign exchange reserves in 2005 was the purchase of foreign exchange by the Bank of Russia on the domestic market. Income from operations with Bank of Russia assets in foreign currency and precious metals was also a contributing factor. Changes in the exchange rates against the dollar of other reserve currencies had a negative effect on the Bank of Russia dollar-denominated reserves.

The assets representing Bank of Russia foreign exchange reserve portfolio were invested in the following instruments<sup>2</sup> as of January 1, 2006: deposits and correspondent account balances (35.8%), repos (21.2%) and foreign securities (43.0%). Foreign securities are largely short-term (up to one year), discount, and coupon (over one year) US federal agency securities; and also government coupon debt instruments of the United States, Germany, UK, France, the Neth-

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

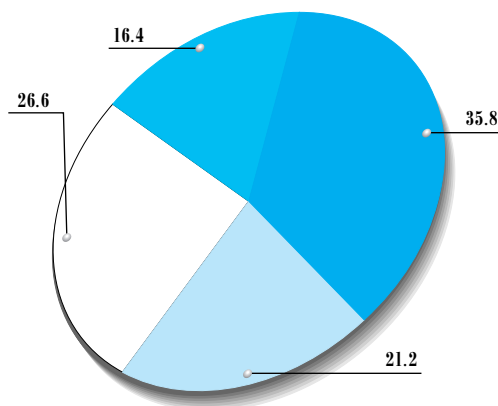


Chart 32

- 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

erlands, Austria, Belgium, Spain, Finland and Ireland.

The structure of the Bank of Russia’s foreign exchange reserve portfolios by country<sup>3</sup> was as follows as of January 1, 2006: the United States accounted for 37.9% of assets, Germany 21.7%, UK 9.6%, Switzerland 8.8%, France 7.8% and other countries 14.2%. This structure is based on the locations of the head offices of banking-group counterparties to Bank of Russia money market operations (correspondent account balances, deposits, and repos) and the country locations of issuers of Bank of Russia foreign exchange reserve portfolio securities.

In managing foreign exchange reserves, the Bank of Russia assumes financial risks, primarily market (currency and interest rate) and credit risks. Risk management in conducting operations

<sup>1</sup> The US discount rate was raised eight times in 2005, and rose from 2.25% to 4.25%. The European Central Bank raised its interest rate once during the year under review, from 2% to 2.25%.

<sup>2</sup> The breakdown is based on management reports on the market value of Bank of Russia foreign exchange reserve portfolios (net of gold), with the US dollar used as the base currency; assets denominated in other reserve currencies are evaluated in US dollars at the spot rates as of December 30, 2005.

<sup>3</sup> The breakdown includes countries that account for at least 0.05% of Bank of Russia foreign exchange reserves.

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

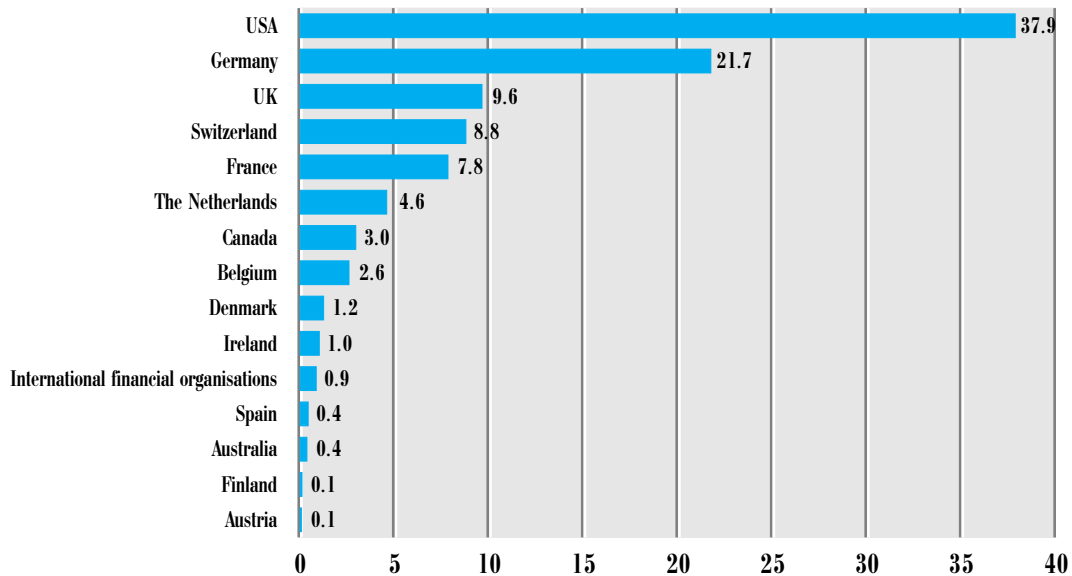


Chart 33

with foreign exchange reserves includes the detection and assessment of risks, setting limits on them, and ensuring that the limits are observed.

The level of currency risk assumed by the Bank of Russia is determined by the established currency structure of Bank of Russia foreign exchange reserves, and limits set to deviations from it.

Bank of Russia foreign exchange reserves in 2005 were invested in assets denominated in US dollars, euros and pounds sterling.

Due to the considerable volumes of US dollars purchased on the domestic forex market, the Bank of Russia bought euros and pounds sterling for US dollars in 2005 on the international market, in order to bring the share of US dollars in its foreign exchange reserves in line with the required level.

As indicators of the level of interest rate risk, which denotes the likelihood of financial losses resulting from changes in interest rates in each of the reserve currencies, the Bank of Russia used the effective duration indicators. To limit interest rate risk, the Bank of Russia set ceilings for the deviation of these indicators, on the Bank of Russia actual foreign exchange reserve portfolios, from the established indicator.

Credit risk was restricted by limits set on Bank of Russia counterparties, and demands on the

credit quality of issuers of securities included in Bank of Russia foreign exchange reserves (no credit limits were set on securities issuers). The minimum long-term credit rating of Bank of Russia counterparties and debtors in operations with Bank of Russia foreign exchange reserves was set at "A" according to the classification of rating agencies Fitch and Standard & Poor's ("A2" according to Moody's). The minimum debt securities issue or issuer rating was set at "AA-" according to Fitch and Standard & Poor's ("Aa3" according to Moody's). Transactions linked to the management of foreign exchange reserves were conducted with foreign counterparties included in the corresponding list, within the credit risk limits set for them.

The structure of Bank of Russia foreign exchange reserves by credit rating as of January 1, 2006, was as follows: AAA-rated assets accounted for 43.6% of total reserves, AA-rated assets 42.1%, and A-rated assets 14.3%. This breakdown is based on information on the long-term credit ratings assigned to Bank of Russia counterparties and issuers of securities included in the Bank of Russia foreign exchange reserve portfolios by rating agencies Fitch Ratings, Standard & Poor's and Moody's. If the ratings of a counterparty or issuer assigned by the agencies

differed, the lowest rating was used. The distribution by rating is represented by rating categories “AAA”, “AA” and “A”, without dividing the rating scale within each category.

The required risk/return ratios in the course of foreign exchange reserve management were set as benchmark rates of return for each foreign exchange reserve portfolio (the rates of return of the corresponding standard portfolios, with established effective duration, liquidity and credit risk indicators, were used as benchmarks).

The Bank of Russia formed standard portfolios in accordance with the procedure set out by its internal documents. These portfolios were rebalanced monthly for the investment portfolio, and weekly for the transaction portfolio. The standard portfolio represented a set of instruments (an index) formed by assigning to each instrument (meeting requirements established by Bank of Russia internal documents) a certain weight (share) in the portfolio. The weight of each instrument in the standard portfolio was determined on the basis of its market capacity.

The rates of return and effective duration of the actual portfolios and the corresponding standard portfolios were assessed on a daily basis. The rates of return took into account both realised income and the changes in the value of the portfolio assets. Rates of return were evaluated separately for each currency part of the transaction and investment portfolio.

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

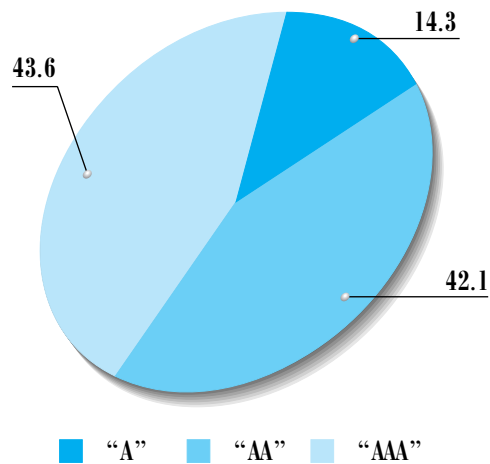


Chart 34

The rates of return of the Bank of Russia’s foreign exchange reserve portfolios for 2005, calculated on an accrual basis, are shown in **IV. Addenda, IV.3. Statistical tables.**

In 2005 the Bank of Russia continued to place gold held in foreign bank accounts on short-term deposits. It deposited gold for terms of up to six months in high-security banks. As the price of gold kept rising in 2005, gold deposit interest rates continued to decline, which led to a slight fall in returns on these operations compared to 2004.

## II.3. BANKING REGULATION AND SUPERVISION

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

To implement the provisions of the *Russian Federation Banking Sector Development Strategy for the Period until 2008*, passed by a joint statement of the Russian Government and Bank of Russia dated April 5, 2005, and *Guidelines for the Single State Monetary Policy in 2005*, the Bank of Russia continued in 2005 to upgrade banking legislation, by contributing to the drafting of several federal laws. In so doing, it laid particular emphasis on improving the applicable legislation to create a legal environment for credit institutions to operate in accordance with international standards.

Federal Law No. 132-FZ, dated October 20, 2005, “On Amending Article 47 of the Federal Law on Insurance of Household Deposits in Russian Banks,” enabled banks whose repeated applications to participate in the deposit insurance system were rejected in the last days of the time period set for all appeal procedures (21 months) but who wish to continue to handle household deposits, to re-appeal on the same conditions as banks that had completed all procedures within the timeframe established by the law. It is significant that the banks may continue to handle household deposits during this period.

To facilitate the expansion of the banking network in the Russian regions, Russian legislators passed Federal Law No. 106-FZ, dated July 21,

2005, “On Amending Part Two of the Tax Code of the Russian Federation and Invalidating Certain Provisions of Russian Federation Laws,” which lifted the stamp duty levied on a credit institution for opening a branch.

Federal Law No. 145-FZ, dated November 16, 2005, “On Amending Article 2 of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism,” included in the list of persons subject to Federal Law No. 115-FZ, dated August 7, 2001, “On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism,” persons without citizenship, temporarily residing or staying in the Russian Federation.

To liberalise the foreign exchange regime, Russia passed Federal Law No. 90-FZ, dated July 18, 2005, “On Amending Certain Laws of the Russian Federation,” which amended, among others, the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control. Specifically, Law No. 90-FZ:

- extended the list of foreign exchange operations between residents;
- enabled resident corporate entities to effect certain settlements on foreign exchange dealing without using bank accounts;

- specified the foreign exchange operations on which resident individuals can effect settlements in cash;
- specified the procedure for bringing foreign currency, rubles, traveller's cheques, and foreign and domestic documentary securities into the Russian Federation;
- extended the existing procedure for taking foreign exchange out of Russia, to include the ruble;
- eliminated a discrepancy in the laws regulating the status of the tax authorities when implementing foreign exchange control. A federal law has been passed assigning to the tax authorities the status of foreign exchange control agents.

In 2005 the Bank of Russia took part in the drafting of the following federal laws:

- “On Making 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)”, requiring banks as of January 1, 2007, to have an equity capital of no less than 5 million euros in their ruble equivalent;
- “On Making Amendments to the Federal Law on Banks and Banking Activities, and the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions” in respect to the equity capital adequacy requirements for credit institutions;
- “On Making Amendments to the Code of Administrative Offences of the Russian Federation,” passed in addition to the draft federal law “On Amending the Federal Law on Limited Liability Companies and the Federal Law on Joint-Stock Companies” (establishing a requirement for all affiliated persons to present information about themselves to the companies; the responsibility of the affiliated persons for the failure to present such information; and the requirement for the limited liability companies to register the affiliated persons).

The Bank of Russia initiated the drafting of a federal law to amend the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions, the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), and the Civil Code of the Russian Federation, with the aim of legitimising the use of internationally accepted subordinated and hybrid instruments (such as subordinated call option borrowings and hybrid innovation instruments).

To more effectively supervise credit institutions, including on a consolidated basis, the Bank of Russia participated in discussing a draft federal law amending the Federal Law on Banks and Banking Activities, and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). These amendments specify:

- consolidated supervision procedures, granting the Bank of Russia powers to supervise bank holding companies, and bringing laws on banking groups and bank holding companies, and their procedures for disclosing information to users, into conformity with international standards;
- requirements for credit institutions, banking groups and bank holding companies as to content, procedure, and deadlines for statement publication.

In addition, the Bank of Russia considered the draft concept, terms of reference, and federal law prepared by the Finance Ministry specifying information disclosure requirements for credit institutions, banking groups and bank holding companies, and the possibility of extending the list of laws to be amended for this purpose, including the Federal Law on Joint-Stock Companies and the Federal Law on Accounting.

In 2005 the Bank of Russia participated in discussing the draft concept and federal law prepared by the Finance Ministry on consumer credit, designed to create favourable legal environment for the expansion of consumer lending, and to safeguard the rights of the consumer in using consumer credit.

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

The trend of previous years towards a reduction in the number of both operating and registered credit institutions continued in 2005. The number of credit institutions

declined owing to the revocation of banking licences (35 credit institutions), licence cancellation by the decision of the members of credit institutions themselves (five credit institutions),

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

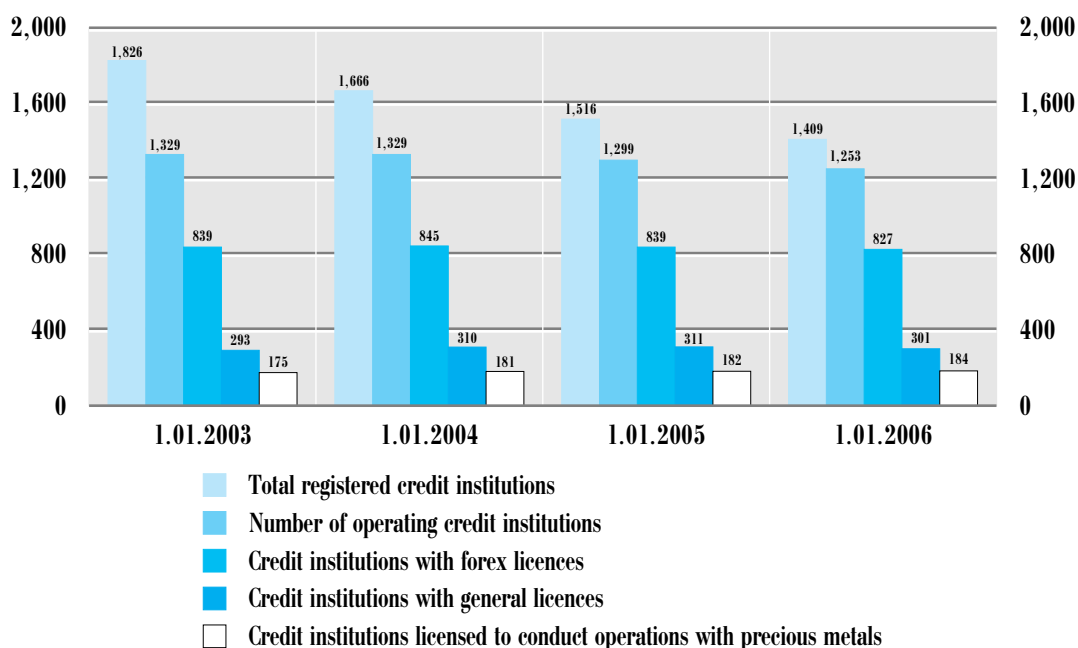


Chart 35

NUMBER OF BRANCHES OF OPERATING CREDIT INSTITUTIONS IN RUSSIA

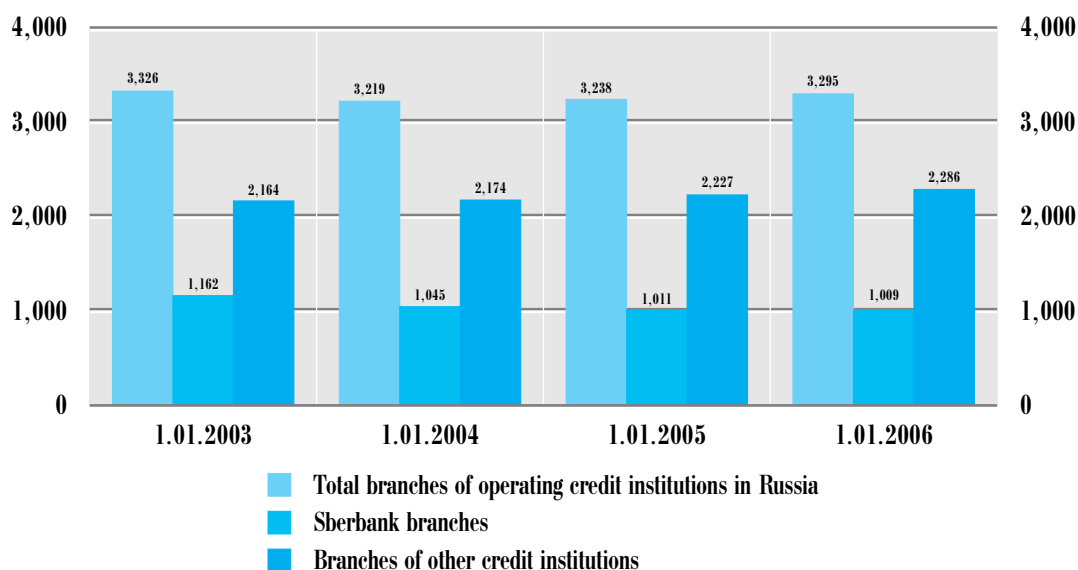


Chart 36

NUMBER OF OPERATING CREDIT INSTITUTIONS BY REGION

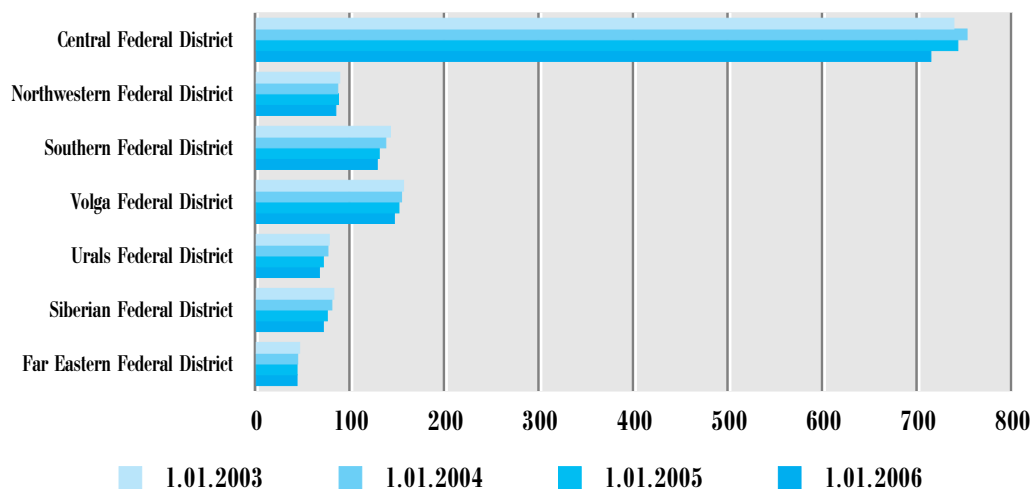


Chart 37

NUMBER OF BRANCHES OF OPERATING CREDIT INSTITUTIONS BY REGION

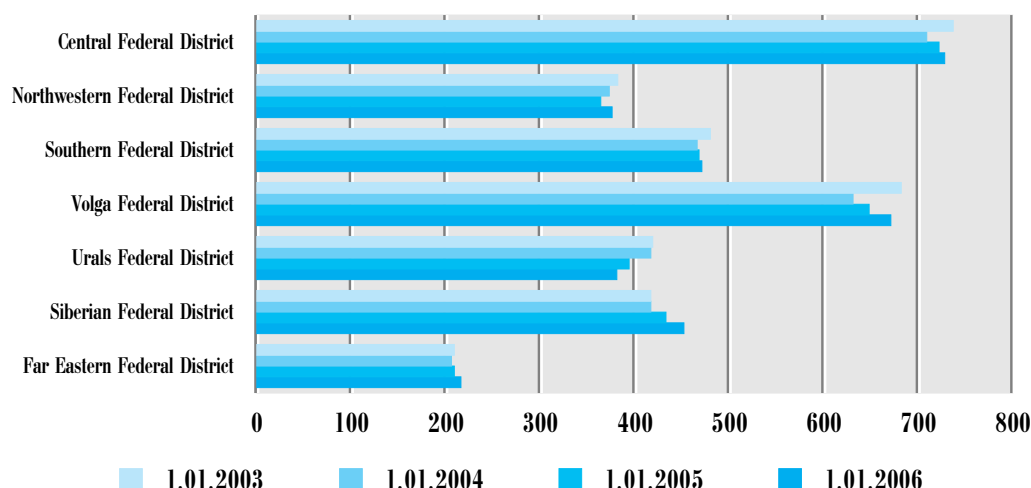


Chart 38

and reorganisation of credit institutions (14 credit institutions merged with 11 credit institutions in 2005, whereas in 2004 three credit institutions merged with three credit institutions).

Nine new credit institutions, including three non-bank credit institutions, were registered in the year under review (three credit institutions and one non-bank credit institution in 2004). As of January 1, 2006, the total number of registered credit institutions stood at 1,409 (against 1,516 as of January 1, 2005). The decrease was largely due to Bank of Russia decisions to strike liquidated credit institutions off the state register (in the year under review the Bank of Russia took 92 such decisions).

The decline in the number of credit institutions did not reduce the saturation of the Russian market with banking services, since the number of bank branches and internal divisions continued to rise. In 2005 the number of bank branches increased by 57, or 1.8% (compared to an increase of 19, or 0.6% in 2004), and as of January 1, 2006, stood at 3,295 (against 3,238 as of January 1, 2005). However, the number of Sberbank branches decreased by two, and as of January 1, 2006, stood at 1,009, or 30.6% of total bank branches (as of January 1, 2005, Sberbank had 1,011 branches, or 31.2% of the total). The number of internal divisions of credit institutions increased by 1,964, or 7.1% (against

Chart 39

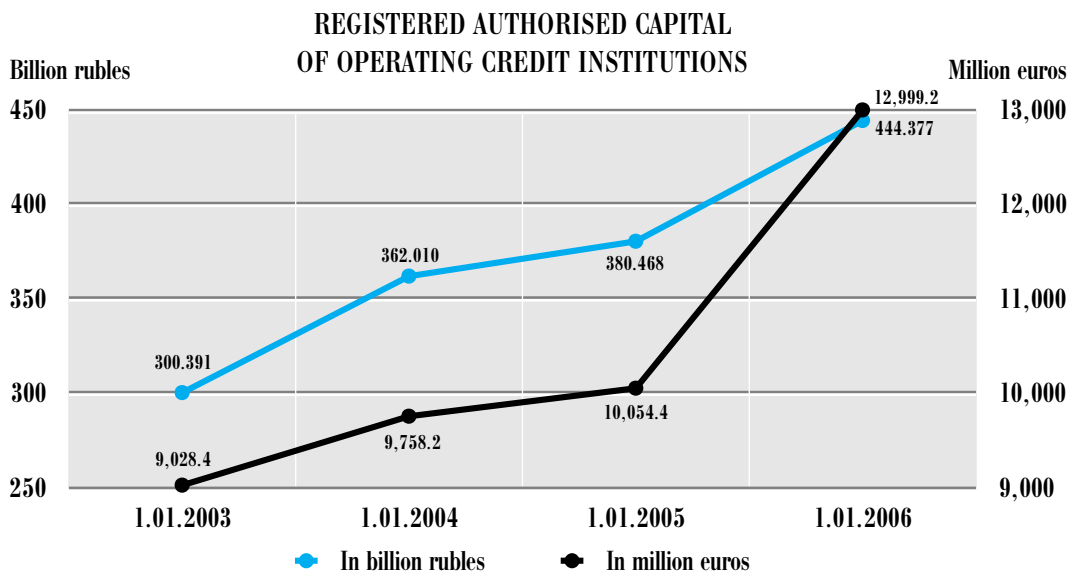
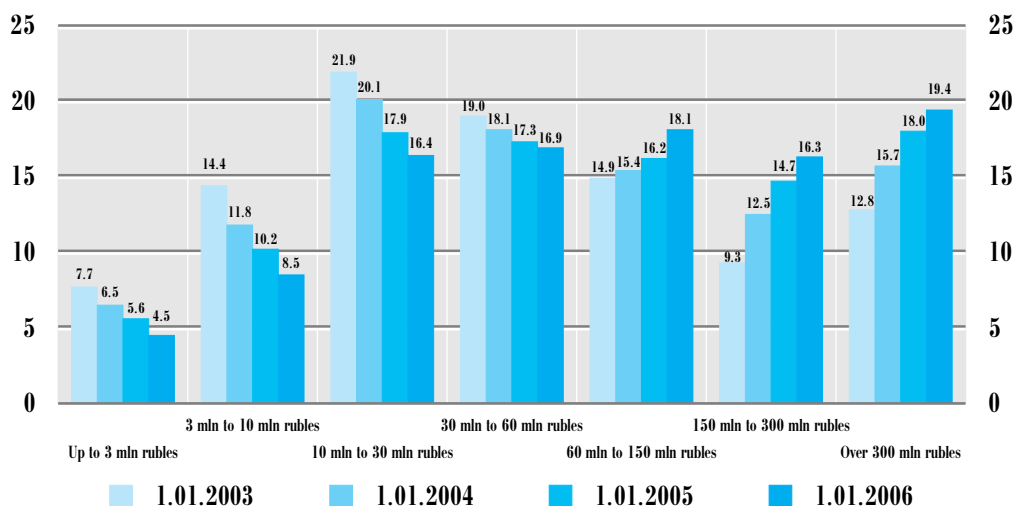


Chart 40

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



1,202, or 4.5%, in 2004) and as of January 1, 2006, stood at 29,634 (against 27,670 as of January 1, 2005). At the same time, the number of additional offices and cash and credit offices rose by 2,300 (or 25.4%), and 493 (or by 5.4 times), while the number of cash departments outside the cash centres fell by 829 (or 4.5%).

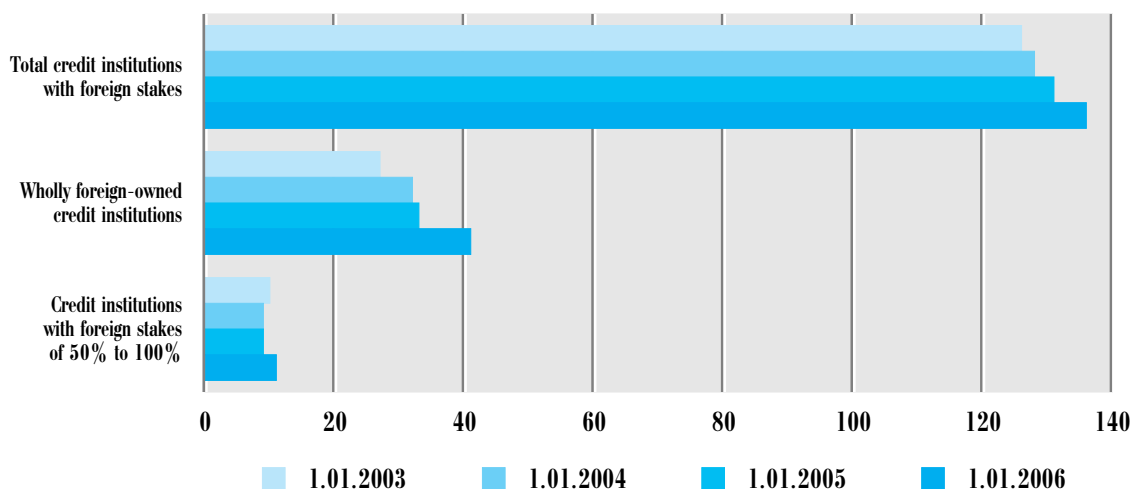
As of January 1, 2006, the number of operating credit institutions stood at 1,253, of which 48 were non-bank credit institutions (1,299 and 50 as of January 1, 2005, respectively).

The structure of credit institutions by type of licence was as follows as of January 1, 2006:

- 1,045 banks, or 83.4% of the total number of operating credit institutions, have licences to take household funds on deposit (against 1,165 banks, or 89.7% of the total, as of January 1, 2005);
- 827 credit institutions, or 66% of the total, have licences to conduct banking operations in rubles and foreign currency (against 839 credit institutions, or 64.6% of the total, as of January 1, 2005);
- 301 banks, or 24% of the total, have general licences to conduct banking operations (against 311 banks, or 23.9% of the total, as of January 1, 2005);



**NUMBER OF OPERATING CREDIT INSTITUTIONS  
WITH FOREIGN STAKES IN THEIR AUTHORISED CAPITAL**



*Chart 41*

— 184 banks, or 14.7% of the total, have licences to conduct operations with precious metals (against 182 banks, or 14% of the total, as of January 1, 2005).

As banks applying for access to the deposit insurance system were declared as failing to meet the requirements of the Federal Law on Insurance of Household Deposits in Russian Banks, 85 licences to take household funds on deposit were cancelled, and 12 general licences were replaced by licences to conduct operations in rubles and foreign currency (without the right to take household deposits).

Fifty-nine credit institutions expanded the range of their operations by obtaining additional licences in 2005 (54 in 2004). Of these, 14 credit institutions were granted licences to take household funds on deposit, 14 to conduct banking operations with foreign currency, 11 were granted general licences, and 10 were granted licences to conduct operations with precious metals. In addition, 10 banks had their licences replaced, as restrictions on certain banking operations previously imposed on them were lifted.

At the same time, the Bank of Russia refused additional licences to 17 credit institutions. Four credit institutions applying for the first time for licences to take household funds on deposit had their requests turned down, as they failed to comply with the requirements of the Federal Law on Insurance of Household Deposits in Russian

Banks, and 13 banks were denied other licences, as they failed to meet requirements set for expanding the range of banking operations (on grounds of financial instability, organisational structures being inadequate to the scale of operations and risks, and so forth).

As previously, most operating credit institutions (714, or 57% of the total) were registered in the Central Federal District (of these, 646 were registered in Moscow and the Moscow Region). As for other Federal Districts, the largest number of credit institutions was registered in the Volga District (146) and Southern District (128). Bank branches were distributed more evenly by region: 728 in the Central Federal District, 671 in the Volga Federal District, and 471 in the Southern Federal District; as for other Federal Districts, the number of branches ranged from 452 in the Siberian District to 216 in the Far Eastern District.

Over the year, the registered authorised capital of operating credit institutions increased by 63.9 billion rubles, or 16.8% (against growth of 18.5 billion rubles, or 5.1% in 2004) and as of January 1, 2006, aggregated 444.4 billion rubles (against 380.5 billion rubles as of January 1, 2005). At the same time, the trend towards contraction in the share of credit institutions with authorised capital of less than 60 million rubles continued. As of January 1, 2006, the number of such credit institutions stood at 579, or 46.2% of

the total number of credit institutions (against 663, or 51%, as of January 1, 2005). The number of credit institutions with authorised capital of more than 60 million rubles rose to 674, or 53.8% of the total number of operating credit institutions (against 636, or 49%, as of January 1, 2005).

The non-resident share in aggregate banking sector authorised capital in 2005 expanded 1.8 times faster than aggregate banking sector authorised capital itself. The non-resident share increased by 26.0 billion rubles, or by 110.4% in 2005 (against 4.7 billion rubles, or 24.6% in 2004), and as of January 1, 2006, totalled 49.6 billion rubles, or 11.2% of aggregate banking sector registered authorised capital (against

6.2% as of January 1, 2005). At the same time, the number of credit institutions with foreign stakeholdings remained virtually unchanged and as of January 1, 2006, stood at 136, or 10.9% of total credit institutions (against 131, or 10.1% as of January 1, 2005). The non-resident share exceeded 50% in 52 credit institutions (against 42 credit institutions as of January 1, 2005), of which 41 were 100% foreign-controlled (against 33 as of January 1, 2005). Foreign stakeholders of Russian credit institutions resided in more than 30 countries. Residents of five European countries (Austria, the Netherlands, Germany, France and UK) accounted for more than half of total foreign stakeholdings (58.7%).

### II.3.3. OFF-SITE SUPERVISION

The Bank of Russia continued in 2005 to upgrade banking regulation and supervision, taking into account international best practice, and recommendations of the Basel Committee on Banking Supervision. It directed its efforts to developing substantive approaches, focusing on the nature and level of risks assumed by credit institutions, and the quality of their management and internal control systems.

To improve the procedure for limiting currency risk, the Bank of Russia issued Instruction No. 124-I, dated July 15, 2005, “On Setting Limits on Open Currency Positions, the Methodology of Calculating them, and the Specifics of Supervising their Observance by Credit Institutions” (the Instruction came into force on February 20, 2006). In contrast to the previous procedure, this Instruction:

- included currency positions on capital in the calculation of open currency positions (OCP);
- provided for currency risk regulation of the credit institution as a whole;
- extended the list of instruments that must be included in OCP calculations;
- changed the OCP accounting procedure as part of the Bank of Russia’s policy of reducing the number of bank statements.

The Bank of Russia continued to improve the required ratios methodology. Specifically, it upgraded:

- the methodology of calculating assets included in the equity capital adequacy ratio (N1);
- the methodology of calculating the ratios limiting a bank’s credit risk.

To tighten control over risks involved in transactions with affiliated persons, the Bank of Russia issued Letter No. 2-T, dated January 17, 2005, “On Conducting Transactions with Persons Affiliated with a Bank, and Evaluating Risks Involved in Such Transactions.” This document recommends that banks provide in their internal documents for the setting of limits, in relative and (or) absolute terms, on risk-bearing transactions with affiliated persons, and establish procedures

for monitoring the evaluation of credit risk involved in such transactions.

To improve the methodology of assessing country risk, the Bank of Russia issued Ordinance No. 1584-U, dated June 22, 2005, “On the Loss Provisioning Procedure for Credit Institutions’ Operations with Residents of Offshore Zones” (that came into force on October 1, 2005), which:

- established that the size of a reserve depends on the level of country risk, regardless of the level of credit risk on operations with residents of offshore zones;
- set requirements for forming reserves as soon as operations with residents of offshore zones are accounted for, and maintaining an adequate reserve level on a permanent basis.

In 2005, the Bank of Russia carried out a series of measures aimed at increasing the stability of the Russian banking sector, protecting the interests of creditors and depositors, and upgrading the methodology and management of banking supervision.

The Bank of Russia continued to upgrade methodologies for evaluating banking sector financial stability, including stress testing of the banking sector, and monitoring the financial soundness of individual credit institutions and the banking sector as a whole, to ensure early detection of negative trends. The results of monitoring are used by the Bank of Russia’s regional branches to take corrective action against banks in which problems have been detected.

To provide organisational and methodological support to its regional branches, the Bank of Russia drafted recommendations on the practical application of company monitoring results for supervisory purposes.

It attached primary importance to the selection of banks for the deposit insurance system<sup>1</sup>, to ensure that only financially sound were admitted.

In the process of forming the deposit insurance system, many banks significantly improved the

<sup>1</sup> For details see II.3.6. Household deposit insurance.

quality of their capital and assets, and strengthened their internal management and control systems. As a result, they have become more efficient and competitive amid improved banking sector transparency. The deposit insurance strengthens the public confidence in the banking system, while increasing the stability of the financial market and the economy as a whole.

Information received by the Bank of Russia in the course of considering banks' requests for access to the deposit insurance system has an important role to play in risk-oriented supervision of credit institutions, and helps ensure that law infringements and shortcomings discovered in their work are eliminated. It should be noted that assessments of the financial soundness of banks to ascertain their ability to handle household deposits are conducted on an ongoing basis.

In considering credit institutions' compliance with requirements for admission to the deposit insurance system, the Bank of Russia also paid attention to the quality of capital. It continued to detect cases in which improper assets were used as sources of equity capital. The Bank of Russia also attached great importance to analysing the quality of assets, the accuracy of their classification by risk, and the adequacy of loss-provisioning levels.

In the period under review, nine credit institutions readjusted their equity capital (to a total amount of 5,778.6 million rubles) in compliance with decisions of the Bank of Russia Banking Supervision Committee, and 10 credit institutions readjusted their equity capital (to a total amount of 252.4 million rubles) at the demand of Bank of Russia regional branches.

In 2005, as previously, the Bank of Russia put special emphasis on preventive measures. As a result of analysing banks' statements, the Bank of Russia informed the management and/or board of directors (supervisory board) of 1,133 banks on shortcomings discovered in their work, and held meetings with managers of 392 banks. Data on the specific corrective measures used against credit institutions in 2005 are shown in **IV.3. Statistical tables** (*Sanctions used against credit institutions in 2005*).

The Bank of Russia paid close attention to issues relating to control over credit institutions' observance of the anti-monopoly law.

It monitored and analysed interest rates on household deposits (in terms of maturity and currency) offered by credit institutions, and closely scrutinised interest rate policies pursued by banks whose rates on household deposits were one-fifth or more higher than the regional average. Bank of Russia regional branches held meetings with managers of certain banks, at which it urged some of them to reconsider their interest rate policy.

As the volume of consumer lending operations increased, and advertising integrity problems arose in this segment of the financial market, on May 26, 2005, the Federal Anti-monopoly Service and the Bank of Russia issued recommendations on information disclosure practices in consumer lending. Starting from September 2005, the Bank of Russia monitored compliance with these recommendations by credit institutions, in the course of off-site and on-site supervision. As a result, they discovered that certain credit institutions had failed to follow recommendations; Bank of Russia supervisors are currently working with these banks to rectify the situation.

To raise management standards in banks, the Bank of Russia issued recommendations in 2005 on corporate governance, and the management of operational, legal and reputation risks based on international best practice and taking into account the requirements of Russian law.

In 2005 the Bank of Russia completed the first stage of a survey of online banking services provided by credit institutions. The survey revealed the specific sources (factors) of typical banking risks involved in internet banking, and showed how these risks can affect the financial soundness of credit institutions. The Bank of Russia will use the survey's findings in formulating recommendations on internet banking.

In 2005 the Bank of Russia carried out its first analysis of financial statements compiled by banks according to International Financial Reporting Standards (IFRS) for the first nine months of 2004, and for the whole of 2004. It examined both stand-alone statements and statements compiled by consolidated groups. In comparing credit institutions' performance indicators, and data compiled according to IFRS and Russian accounting rules, the Bank of Russia analysed the main causes of substantial discrepancies in the repre-

sentation of assets, liabilities, equity capital, and financial results, and where necessary, sent recommendations to bank managers on measures to improve the quality of assets.

In 2005 the Bank of Russia continued to optimise and upgrade prudential reporting within the framework of the EU/TACIS project *Banking Supervision and Reporting* (the project was completed late in 2005). Project specialists have developed a new architecture of prudential reporting for Russia, based on effective reporting forms, which is in line with current trends in risk-oriented supervision and international best practice.

At the same time, project experts proposed cancelling some reporting forms, and including their information in other forms, and making certain forms more informative and useful for supervision (such as data on large exposures, or on assets and liabilities by call and maturity period). They also recommended introducing new reporting forms to enhance the effectiveness of consolidated supervision.

Special mention should be made of work carried out in implementing a project to introduce consolidated supervision in Russia. Specifically, project experts proposed employing the current international practice of supervising both the parent credit institution and its subsidiaries. They also proposed new reporting forms designed to ensure the fullest possible disclosure of information on the organisational structure of a banking group or bank holding company, on all persons affiliated with a credit institution, and information on risks a credit institution assumes with regard to subsidiary, dependent, and other affiliated organisations.

In fulfilling its statutory functions, the Bank of Russia monitored the observance by credit institutions and banking/consolidated groups of legal requirements in respect to compulsory annual external audits. To enhance the effectiveness of banking supervision, it made efforts to arrange closer cooperation with the Finance Ministry and audit organisations. Specifically, it cooperated with the Finance Ministry Audit Council and its task forces in upgrading audit laws and developing audit standards in line with international audit standards.

The Bank of Russia participated in implementing the IMF Coordinated Compilation Exercise for Financial Soundness Indicators (FSIs), and compiled and submitted to the IMF a preliminary version of FSI metadata.

The Bank of Russia pays special attention to the issue of transparency in individual credit institutions and of the banking sector as a whole. In 2005 it published the annual *Banking Supervision Report*, and continued to publish the monthly online version of the *Russian Banking Sector Review*.

The Bank of Russia website carries information on the main results of the survey of credit institutions on stress testing issues.

During the year under review the Bank of Russia expanded the information resources of its Corporate Intranet Portal (CIP), and intensified information exchange between its regional branches via the CIP, including new thematic websites within it. The results of analysis of data on credit institutions contained in 110 regional mass media and internet periodicals, structured by bank and by region, are published in the CIP's *Banks and Regions* section.

As of January 1, 2006, more than 60% of total credit institutions disclosed information on their activities on the Bank of Russia website, in line with Bank of Russia Ordinance No. 192-U, dated March 27, 1998, "On Additional Measures to Protect the Interests of Bank Depositors."

To provide effective information support to its head office and regional branches, while optimising technological cooperation within the Bank of Russia and with credit institutions, the Bank of Russia continued in 2005 to develop a single information facility for banking sector regulation and development.

Through this project, the Bank of Russia completed a study of business information flows between Bank of Russia supervision structures, and set priorities for building the single information system, such as creating a single information environment, minimising information overlap, cutting the number of reporting forms, minimising paper document turnover, and standardising and automating the exchange of information. These priorities now form the basis of the development concept for this system.

### II.3.4. INSPECTION OF CREDIT INSTITUTIONS

Bank of Russia activities in organising and conducting on-site inspections of credit institutions in 2005 were aimed at completing the process of considering banks' requests for admission to the deposit insurance system, and ensuring continual monitoring over the activities of credit institutions.

Under Article 45 of Federal Law No. 177-FZ, dated December 23, 2003, "On Insurance of Household Deposits in Russian Banks," the Bank of Russia conducted 264 thematic inspections in response to credit institutions' repeated requests for admission to the deposit insurance system. During inspections, Bank of Russia authorised representatives were guided by Bank of Russia Letter No. 49-T, dated March 30, 2005, "On Methodological Recommendations for Organising and Conducting Thematic Inspections of Banks in the Course of Considering their Repeated Requests for Admission to the Deposit Insurance System."

In 2005, authorised representatives of the Bank of Russia conducted 2,181 inspections of credit institutions and their branches. In line with the Summary Plan, 1,573 inspections were conducted, of which 703 were conducted in credit institutions, 194 in Sberbank branches, and 676 in branches of other credit institutions.

Interregional inspections were conducted in 234 credit institutions and their branches, of which 45 were in credit institutions, 79 in Sberbank branches, and 110 in branches of other credit institutions.

In conducting scheduled inspections, inspectors paid special attention to factors indicating the financial state of credit institutions:

- the amount and adequacy of equity capital;
- the appropriateness of authorised capital creation;
- the implementation of measures by credit institutions to eliminate faults (inadequacies) discovered at the previous inspection;
- risk management and internal controls;
- liquidity;
- compliance with the Federal Law on Countering the Legalisation (Laundering) of Crimi-

nally Obtained Incomes and the Financing of Terrorism.

In addition, the Bank of Russia inspected credit institutions with the objective of detecting various forms of fictitious deals and operations conducted by credit institutions, which were not technically in breach of the law.

The launch of the deposit insurance system introduced a new element to inspection activities. In 2005, the Bank of Russia actively cooperated with the state-run Deposit Insurance Agency in organising and conducting inspections of banks participating in the deposit insurance system. The Bank of Russia's authorised representatives, and Deposit Insurance Agency employees, jointly conducted 48 inspections of credit institutions to ensure that they complied with the Federal Law on Insurance of Household Deposits in Russian Banks. The procedure for the participation of Deposit Insurance Agency employees in inspections, and their rights and duties, are established by Bank of Russia Ordinance No. 1542-U, dated January 13, 2005, "On the Specifics of Conducting Inspections of Banks with the Participation of Deposit Insurance Agency Employees."

In 2005 the Bank of Russia conducted 608 unscheduled inspections of credit institutions and their branches. The reasons for ordering the inspections were as follows:

- to verify banks' compliance with the requirements for participation in the deposit insurance system;
- increases in authorised capital of credit institutions by more than 20% of the previously registered amount;
- requests from banks for permission to extend the range of their activities;
- the implementation of insolvency (bankruptcy) prevention measures by banks, on the grounds established by Article 4 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions;
- to verify compliance of credit institutions with the requirements of the Federal Law on Countering the Legalisation (Laundering) of Crimi-

nally Obtained Incomes and the Financing of Terrorism;”

- to verify compliance with Bank of Russia regulations on: conducting cash operations, the movement of funds through customer accounts, the management of cash operations, and the level of settlement and payment discipline in credit institutions.

Inspections of credit institutions and their branches conducted by the Bank of Russia’s regional branches revealed 15,609 violations of federal laws and Bank of Russia regulations. Violations of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism accounted for 20%.

Violations of the procedure for lending operations accounted for 17.54% of total infringements; violations of accounting rules accounted for 9.95%; and cases of false accounting (misreporting) accounted for 9.64%.

There was a strong downward trend in the number of violations, which decreased from 25,427 in 2003 to 17,883 in 2004. Analysis of the situation has shown that one of the main reasons for the lower number of violations was steps taken by credit institutions to bring their internal documents and practices in line with rules and regulations, in order to gain access to the deposit insurance system.

There was also a shift in the nature of the most common and serious violations detected in the course of inspections.

As regards bank management, the focus of problems is rapidly shifting from ownership structure transparency, the presence of rules and regulations governing banks’ operations, and the presence of departments carrying out risk management and internal control, to the observance by banks of their own rules of procedure, and compliance with the anti-money laundering law.

At the same time, new risks are appearing, connected with household lending, conducting operations with discounted bank promissory

notes, certain long-term lending operations, and income and expense management. These problems require the development of more sophisticated inspection techniques, and new principles for conducting inspections, to detect more violations committed by banks in these areas.

The Bank of Russia continued in 2005 to monitor operations conducted by Russian banks providing services to resident customers who actively deal with non-residents inside and outside Russia, paying particular attention to the purchase and sale of securities.

After inspecting credit institutions and their branches, the Bank of Russia took corrective measures against, and in some cases revoked banking licences from credit institutions found to be in breach of federal laws.

To make on-site supervision more effective, the Bank of Russia continually monitored the quality of inspections of credit institutions and their branches, conducted by the inspection divisions of its regional branches. Having analysed inspectors’ reports, the Bank of Russia forwarded its assessments of the quality of the reports to its regional branches, and issued recommendations on how to improve inspections.

The Bank of Russia continued in 2005 to implement measures promoting substantive supervision based on professional judgement. It sent to its regional branches Letter No. 47-T, dated March 24, 2005, “On Methodological Recommendations for the Inspection and Evaluation of Internal Controls in Credit Institutions,” which set out the procedure for inspecting internal controls in credit institutions, and described the methodology for its quantitative assessment.

In 2005 the Bank of Russia continued to supervise and inspect credit institutions in the Chechen Republic, collecting and examining reports by branches of credit institutions based in the region. In the year under review, it also examined documents relating to the opening of seven additional offices and cash departments in the Chechen Republic, and conducted on-site inspections.

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

Under the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Federal Law on Banks and Banking Activities, and the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions, the Bank of Russia has the authority to monitor the implementation of insolvency (bankruptcy) prevention measures by credit institutions, to take corrective measures against credit institutions violating federal laws and Bank of Russia regulations issued in pursuance of these laws, and to oversee the liquidation of credit institutions whose banking licences have been revoked (cancelled).

To enforce the powers granted to it by law, the Bank of Russia in 2005 ordered 23 credit institutions to implement financial rehabilitation measures; of these credit institutions, 17 were ordered to match their authorised capital with equity capital.

The number of credit institutions required to carry out insolvency (bankruptcy) prevention measures under Article 4 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions totalled nine as of January 1, 2006, down from 16 as of January 1, 2005.

The share of credit institutions independently carrying out insolvency (bankruptcy) prevention measures without being ordered to do so by the Bank of Russia continued to grow in 2005. Their share among the total number of credit institutions liable to insolvency (bankruptcy) prevention measures increased to 45%, from 41% in 2004.

In 2005 the Bank of Russia oversaw the implementation of financial rehabilitation plans by 13 credit institutions, of which 10 had recovered financially by the end of the year.

The Bank of Russia in 2005 monitored the activities of 49 provisional administrations of credit institutions. Forty-one provisional administrations have been dissolved, of which 14 were

disbanded following the decision of the arbitration court to liquidate credit institutions and appoint liquidators, and 27 were dissolved after the arbitration court declared credit institutions insolvent (bankrupt), and appointed receivers. Sixteen provisional administrations included employees of the Deposit Insurance Agency among their membership.

In 2005 the Bank of Russia, pursuant to Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Articles 20 and 23 of the Federal Law on Banks and Banking Activities, issued orders to revoke the banking licences of 40 credit institutions, of which five credit institutions had their licences cancelled. Fourteen credit institutions had their licences revoked for repeated violations, within one year, of the requirements set out in Articles 6 and 7 (except paragraph 3 of Article 7) of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism (two credit institutions had their licences revoked for this reason in 2004). Ten credit institutions had their licences revoked for failure to fulfil creditors' claims on monetary obligations and (or) effect compulsory payments (compared to 19 credit institutions in 2004).

Thirty-five credit institutions were declared bankrupt, and had bankruptcy proceedings initiated against them in 2005; 12 were liquidated on the decision of the arbitration court, and four were liquidated on the decision of their founders (members).

As of January 1, 2006, liquidation proceedings were carried out in 146 credit institutions. Most of them (111) were declared bankrupt and had bankruptcy proceedings launched against them; 26 credit institutions were ordered to be liquidated by the arbitration court, six are undergoing liquidation on the decision of their founders (members), and three are being liquidated through voluntary bankruptcy procedures.



Bankruptcy proceedings have been completed in 13 of the credit institutions liquidated by Bank of Russia employees in 2005 (a Bank of Russia employee was appointed as receiver to one credit institution). Liquidation procedures were conducted by Bank of Russia employees in 51 credit institutions declared absent debtors by the arbitration court; in 46 of these, bankruptcy proceedings have been completed.

Pursuant to paragraph 2 of Article 50.11 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions, the Deposit Insurance Agency was appointed the receiver (liquidator) of 45 credit institutions, of which 37 were declared bankrupt and had bankruptcy proceedings launched against them, and eight are undergoing compulsory liquidation.

The Bank of Russia in 2005 passed state registration decisions in connection with the liquidation of 92 credit institutions, of which 75 were liquidated on the decision of the arbitration court following bankruptcy proceedings, two were liquidated on the decision of their founders (members) and creditors through out-of-court bankruptcy proceedings, 12 underwent compulsory liquidation without being declared bankrupt, and three were liquidated on a voluntary basis on the decision of their founders (members).

A total of 104 credit institutions liquidated following the revocation (cancellation) of their

licences were struck off the state register by the authorised agency on the basis of corresponding decisions from the Bank of Russia.

Twenty-seven receivers were accredited with the Bank of Russia in 2005, and the Bank of Russia extended the terms of 117 certificates of receivers (liquidators) granted before 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 and Provisions of Some Laws of the Russian Federation" came into force.

The Bank of Russia in 2005 conducted 14 inspections of the receivers (liquidators) of credit institutions. After the inspections, receivers were ordered to eliminate infringements discovered in their work. Information on inspection results was sent to arbitration courts, bank creditors' committees, the Federal Registration Service, and self-regulatory organisations of which receivers were members.

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 in 2005 to pay a total of 511.1 million rubles in compensation to 25,800 depositors of 18 bankrupt banks. In accordance with these decisions, 21,900 depositors of these banks were paid a total of 484.3 million rubles.

### II.3.6. HOUSEHOLD DEPOSIT INSURANCE

In 2005, pursuant to Federal Law No. 177-FZ, dated December 23, 2003, "On Insurance of Household Deposits in Russian Banks," the Bank of Russia completed the evaluation of banks with licences to take household funds on deposit before the law came into force, to ensure their compliance with requirements for admission to the deposit insurance system.

Requests for admission to the deposit insurance system were submitted to the Bank of Russia by the deadline set by Federal Law No. 177-FZ by 1,150 banks<sup>1</sup> with Bank of Russia licences to take household funds on deposit (1,183 banks had this licence as of June 27, 2004).

As of January 1, 2005, the Bank of Russia accepted the requests of 415 banks<sup>2</sup>. In addition, six banks that had requested authorisation to expand the range of their operations were granted licences to take household funds on deposit. Seven banks subsequently underwent reorganisation. By January 1, 2005, the requests of 67 banks had been rejected.

Following the procedure established by Federal Law No. 177-FZ, the Bank of Russia in 2005 considered first-time and repeated requests by banks, and appeals to the Bank of Russia Banking Supervision Committee and Bank of Russia Chairman, against the decision to turn down repeated requests.

As of March 27, 2005, 817 banks had their first-time requests accepted and were admitted to the deposit insurance system (two ceased their operations due to reorganisation), and two banks were granted admission after their repeated requests had been considered; seven banks were granted licences to take household funds on deposit.

Having considered the repeated requests of 265 banks, the Bank of Russia accepted the requests of 92 banks, and turned down the repeated requests of 165 banks; four banks recalled their repeated requests, and four banks had their banking licences revoked pending the decision of the Bank of Russia Banking Supervision Committee. In addition, 11 banks were granted licences to take household funds on deposit. As a result, another 103 banks<sup>3</sup> were admitted to the deposit insurance system as of September 27, 2005.

The Bank of Russia Banking Supervision Committee considered the appeals filed by 142 banks against the rejection of their repeated requests, of which the appeals of five banks were accepted and 137 were turned down. The Bank of Russia Chairman considered the appeals of 131 banks against the rejection of their repeated requests, accepted the appeals of seven banks, and turned down the appeals of 123 banks. One bank had its banking licence revoked while its appeal was being considered.

In considering banks' requests and appeals, the Bank of Russia paid special attention to: the verification of statements and accounts, compliance with the required ratios, transparency of ownership structure, quality of management, internal controls, assets and equity capital, observance of provisioning requirements, and the absence of grounds for taking corrective action. At the same time, the Bank of Russia ensured that decisions on banks' fulfilment of requirements for admission to the deposit insurance system were taken on a collective basis.

As of January 1, 2006, 931 banks<sup>4</sup> holding a total of 2,738 billion rubles in household deposits (99.4% of total household deposits with banks) and 9,255 billion rubles in assets (94.9% of ag-

<sup>1</sup> Including banks that recalled their requests while they were being considered, banks that had their banking licences revoked while their requests were being considered, and banks that wound up their operations due to reorganisation before a decision was made on their requests.

<sup>2</sup> As of January 1, 2005, the Deposit Insurance Agency had 381 banks on the register of banks participating in the deposit insurance system.

<sup>3</sup> Five of them wound up their operations due to reorganisation.

<sup>4</sup> Including 20 banks which were granted licences to expand the range of their operations and take household funds on deposit and excluding banks that were admitted to the deposit insurance system but subsequently wound up their activities due to reorganisation.

gregate banking sector assets) were registered with the deposit insurance system, due to the acceptance of first-time and repeated requests and appeals against the rejection of repeated requests filed with the Bank of Russia Banking Supervision Committee and the Bank of Russia Chairman. The Bank of Russia turned down 191 requests of banks with licences to take household funds on deposit at the time Federal Law No. 177-FZ came into force, of which 24 had their banking licences revoked as of January 1, 2006.

The Bank of Russia continually monitors the compliance of banks registered with the deposit insurance system with the system's requirements. Should any of these banks fail to comply with these requirements for three consecutive months, the Bank of Russia must, pursuant to Article 48 of Federal Law No. 177-FZ, prohibit this bank from taking household funds on deposit and opening personal bank accounts.

Pursuant to Federal Law No. 177-FZ, and implementing agreements concluded in 2005, the Bank of Russia cooperated, coordinated its activities, and exchanged information with the Deposit Insurance Agency in such areas as the functioning of the deposit insurance system, banks' participation in this system and payment of insurance premiums, deposit compensation payment, and the Bank of Russia's inspections of banks participating in the deposit insurance system and disciplinary measures against them.

In collaboration with the Deposit Insurance Agency, the Bank of Russia drafted proposals for amending federal laws to raise the Agency's maximum compensation payout to 190,000 rubles, and to commensurately raise the level of Bank of Russia compensation payouts to depositors in bankrupt banks outside the deposit insurance system.

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

Federal Law No. 218-FZ, dated December 30, 2004, “On Credit Histories” (hereinafter referred to as Federal Law No. 218-FZ), assigned to the Bank of Russia the function of maintaining the Central Catalogue of Credit Histories (CCCH). Pursuant to this Federal Law, the Bank of Russia in 2005 established the CCCH for the purpose of compiling, storing and presenting to credit history makers and users information on the credit bureau, in which credit histories are kept, and also to store the databases of liquidated (reorganised or struck off the state register) credit bureaus.

To specify the powers of the Bank of Russia in respect to maintaining the CCCH, and to ensure additional protection of information, the Russian parliament passed Federal Law No. 110-FZ, dated July 21, 2005, “On Amending the Federal Law on Credit Histories” (drafted on Bank of Russia proposals and providing a legislative framework for electronic interaction between the CCCH and credit history makers and users), which assigned to the Bank of Russia powers to establish the formats of requests to the CCCH and of its replies, introduced the credit history maker’s code (additional code), and legitimised various

means of transmitting requests to the CCCH by credit history makers and users.

Pursuant to Federal Law No. 218-FZ, the Bank of Russia issued regulations establishing the procedure for credit history makers and users to pass information to and receive information from the CCCH on credit bureau(s) where credit histories are kept, through credit bureaus or credit institutions, or by visiting the Bank of Russia website. For this purpose, the Bank of Russia opened a CCCH section on its website, where a credit history maker or user can find request forms, which can be used with a code or an additional code, to request information from the CCCH on the credit bureaus in which the required credit history is kept, or change or cancel a credit history maker’s code, or set a credit history maker’s additional code. The CCCH section also sets out rules and regulations, technical descriptions of the formats of requests to the CCCH and provides other information.

In 2005, the Bank of Russia established the automated Central Catalogue of Credit Histories system to enable credit bureaus, credit institutions, and credit history makers and users to communicate online with the CCCH.

## 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

The activities of the Bank of Russia in respect to payment systems and settlements in 2005 were, as in previous years, aimed at ensuring the effective and smooth functioning of the payment system and its further development, which is a necessary condition for financial stability in the country, and serves the interests of the monetary policy pursued by the Bank of Russia.

The institutional structure of the Russian payment system continued to improve in 2005. As of January 1, 2006, settlement services were provided by 16,847 banking institutions, up 15.8% on the previous year, of which 931 were Bank of Russia structures (main cash settlement centres, cash settlement centres, divisions, and operations departments); 1,253 were credit institutions, including 46 non-bank settlement credit institutions; 3,295 were branches of credit institutions; and 11,368 were additional offices of credit institutions and their branches.

While there was a slight fall in the number of Bank of Russia establishments (by 1.1%) and credit institutions (by 3.5%), the number of branches of credit institutions increased by 1.8%, while the number of additional offices of credit

institutions and their branches rose by 25.4%. This growth was due to steps taken by the Bank of Russia and credit institutions to optimise their settlement services networks, and to make settlement services more accessible to the public.

As a result, the total number of Bank of Russia establishments, credit institutions, and branches and additional offices of credit institutions per one million population increased 17.8% in 2005, to 118.1. The provision of settlement services to corporate entities and private individuals improved as a result, providing a potential to boost their business activity.

The number of customer accounts opened in Bank of Russia establishments, and credit institutions and their branches, which could be used for effecting payments, continued to increase in 2005, gaining 12.2% to 353.5 million as of January 1, 2006. Of these, 1.4% were accounts of corporate entities other than credit institutions, and 98.6% were household accounts.

The development of advanced banking technology in the year under review led to growth in the number of accounts per resident, which rose from 2.2 to 2.5, mainly due to the opening of household accounts to conduct operations with

## STRUCTURE OF PAYMENTS EFFECTED BY THE RUSSIAN PAYMENT SYSTEM (%)

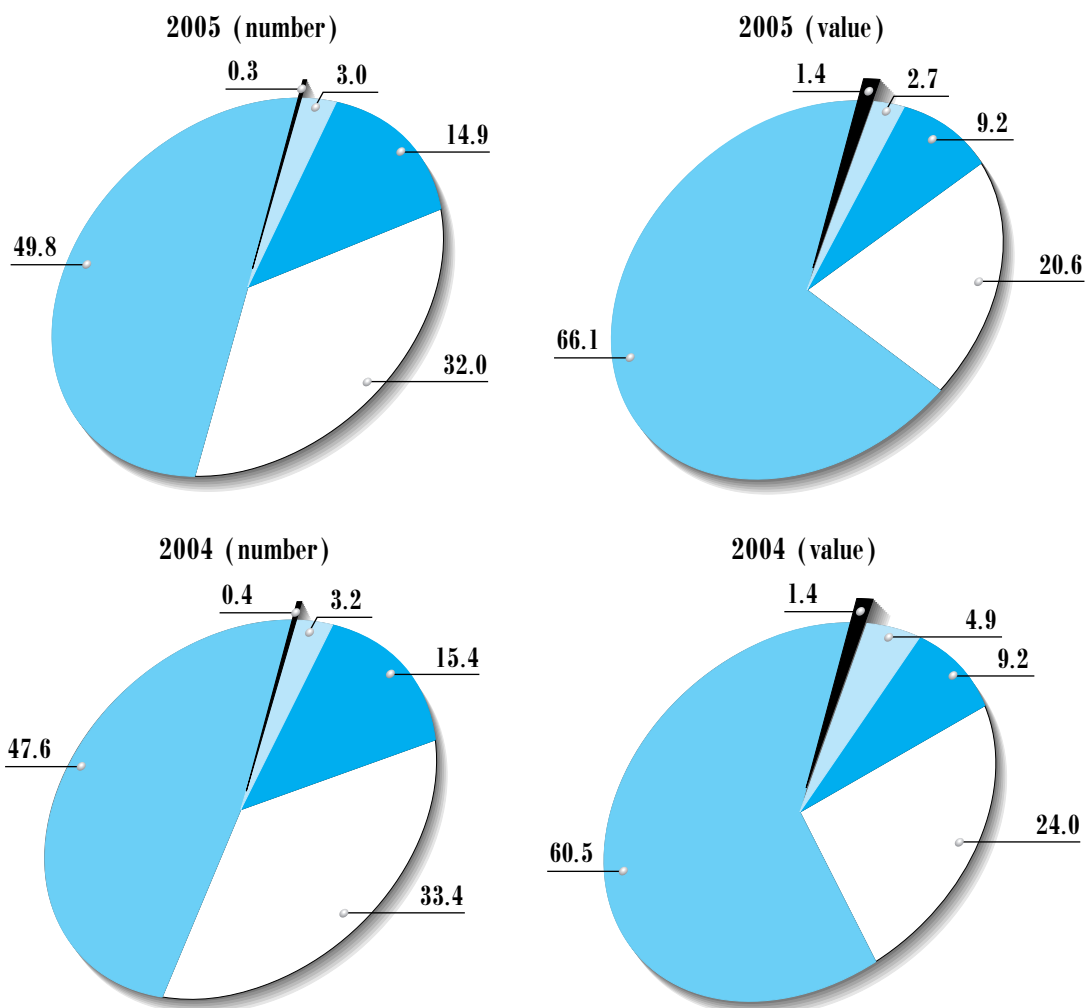


Chart 42

- Payments effected by the Bank of Russia payment system
- Payments effected by settlement non-bank credit institutions
- Payments effected through credit institutions' correspondent accounts in other credit institutions
- Payments effected by divisions of one credit institution through inter-branch settlement accounts
- Payments effected within one division of a credit institution

payment cards, and the introduction of internet banking: the number of accounts accessible via the Internet climbed 82.7% in 2005, and as of January 1, 2006, equalled 1.3 million.

The number and value of payments effected through the Russian payment system continued to increase in 2005: 1,116.8 million payments totalling 293.5 trillion rubles were effected during the year. The value of payments grew faster

than in 2004 (31.1% against 22.9%), while growth in number was slightly slower (12.6% against 16.0%), as the average sum of payment in the Russian payment system increased due to economic growth and inflation.

The structure of non-cash payments effected in the Russian payment system by the Bank of Russia payment system, settlement non-bank credit institutions, and credit institutions via cor-

respondent accounts opened in other credit institutions, and by divisions of one credit institution through inter-branch settlement accounts and within one division, changed negligibly. The share of payments effected by the Bank of Russia payment system expanded slightly, while the share of all other institutions and structures contracted.

In 2005, as in 2004, non-cash settlements effected by payment orders predominated, accounting for 80.2% of the total number of payments and 95.1% of the total value of payments (against 77.5% and 93.4% in 2004, respectively). This was a result of the wide adoption of internet banking. The share of collection orders and payment requests in collection transactions, letters of credit, and cheques issued by credit institutions, remained unchanged due to low demand.

The use of payment cards continued to gain acceptance in 2005, and their number increased 55.5%, against 46.4% in 2004. Payments using payment cards continued to grow rapidly: in 2005 they increased 41.4% in number, and 43.5% in value, although in 2004 they grew even faster (by 48.5% and 68.3%, respectively). The range of payment card services offered by credit institutions and their branches, and the payment card infrastructure, continued to expand: the number of retail traders and service centres accepting payment cards and automatic teller machines used for service payment increased 34.9% to 142,500.

The credit card market expanded rapidly in 2005. The number of credit cards increased 87.9% year on year, the number of credit card operations by 88.7%, and the value of these operations by 110.9%. However, despite rapid growth, the share of credit card operations in total payment card operations remained low at 1.6%.

Payment cards accounted for 16.7% of non-cash payments in 2005, against 15.6% in 2004. As in previous years, cash withdrawal operations prevailed over non-cash payments, accounting for 83.3% of the total number of payment card operations and 89.4% of value.

To introduce advanced non-cash settlement instruments and reduce cash turnover in line with the *Russian Banking Sector Development Strategy for the Period until 2008* and *Guidelines for the Single State Monetary Policy in 2005*, the Bank of Russia continued to upgrade non-cash

settlement rules and regulations. Specifically, it continued to work on a new version of the Bank of Russia Regulation on Non-Cash Settlements in the Russian Federation, which systematised the rules for non-cash settlement instruments, procedures, and formats, and clarified details on non-cash settlements in the various payment systems. The draft regulation established a standard procedure for effecting non-cash settlements, regardless of the format and means of conveying requests for non-cash settlements.

The cash turnover of the cash departments of the Bank of Russia and credit institutions in 2005 aggregated 24,450.8 billion rubles. This represents an increase of 28.6%, which was mainly due to growth in nominal money incomes, and prices of goods and services.

The average daily volume of cash passing through the cash departments of the Bank of Russia and credit institutions increased by 18.4 billion rubles in 2005 year on year, and reached 81.2 billion rubles. Cash receipts of Bank of Russia establishments and credit institutions supplied 95.7% of customers' cash needs in 2005 (against 95.3% in 2004).

**The Bank of Russia payment system** dominated the Russian payment system both in terms of the number and the value of payments.

In 2005 it accounted for 49.8% of the total number of payments effected by the Russian payment system, and 66.1% of their total value (against 47.6% and 60.5% in 2004, respectively).

Payments effected by the Bank of Russia payment system in 2005 increased 17.7% in number and 43.3% in value year on year (against 14.6% and 25.1% in 2004, respectively). The average daily number of payments stood at 2.2 million, an increase of 15.8% during the year.

The growth in the number and value of payments was due to the efficiency and security of the Bank of Russia payment system, which guarantees participants the lowest financial risk and is constantly upgraded and modernised.

As of January 1, 2006, 1,253 credit institutions and 1,920 branches of credit institutions with correspondent accounts or subaccounts with the Bank of Russia participated in the Bank of Russia payment system. Over the year, their number increased by just 0.9%.

The number of customers other than credit institutions serviced by the Bank of Russia declined from 53,512 in 2004 to 44,776 in 2005, a decrease of 16.3% (against 14.7% in 2004). The continued reduction in their number was a result of the transfer of the cash execution of the federal and regional budgets to the Federal Treasury, and the transfer of the organisations financed by the federal, regional and municipal budgets, to servicing by the corresponding budget-executing authorities, including Federal Treasury bodies, in line with Russian law.

Payments by credit institutions and their branches accounted for 85.4% of total payments effected by the Bank of Russia payment system, and 85.5% of their value in 2005 (against 84.2% and 86.2% in 2004, respectively). In view of the share of payments effected by the Bank of Russia payment system in the total number and value of payments in the Russian payment system, this made the Bank of Russia payment system the largest interbank money transfer system in the country, and raised its importance in the national banking system as a whole.

In 2005, as in 2004, intraregional payments made up the largest share of payments effected through the Bank of Russia payment system, accounting for 84.4% of the total number, and 81.3% of their total value (against 85.8% and 81.5% in 2004). Interregional payments accounted for 15.6% and 18.7%, respectively (against 14.2% and 18.5% in 2004).

In 2005, as in previous years, an overwhelming majority of payments in the Bank of Russia payment system were effected electronically: 99.1% of the total number and 97.9% of the total value of payments (against 98.6% and 97.8% in 2004).

Bank of Russia customer credit institutions and their branches which participated in the exchange of electronic documents with the Bank of Russia, as a share of their total number, stood at 95.2% as of January 1, 2006, (against 93.7% as of January 1, 2005). This allowed credit institutions and their branches to efficiently manage their intraday liquidity and to make payment plans. Settlement documents by which payments of credit institutions and their branches were effected continued to account for an impressive 99.99% of the total number of documents ac-

cepted by the Bank of Russia for processing during a single working day (in 2004 it stood at 99.98%). The negligible number of remaining documents was recalled by credit institutions and their branches, put on file as unsettled documents, or returned to credit institutions and their branches due to the shortage or absence of funds in their correspondent accounts (subaccounts).

The number of payments entering the Bank of Russia payment system by the communications channels as a share of total payments expanded in line with growth in the number of Bank of Russia customer credit institutions and their branches exchanging electronic documents with the Bank of Russia, and stood at 95.0% in 2005 against 93.1% in 2004.

To further reduce the share of payments effected on paper, the Bank of Russia continued to broaden the range of participants in electronic settlements by including its interregional depositories, amending the procedure for effecting settlements by its establishments for this purpose.

To monitor the payment system, the Bank of Russia in 2005 evaluated its efficiency and security by compiling a set of indicators to assess the accessibility of the Bank of Russia payment system, i.e. its capacity to receive electronic and paper settlement documents from Bank of Russia customers. These indicators have shown that the Bank of Russia payment system functioned well in terms of accessibility. The average monthly accessibility ratios ranged between 99.79% and 99.95% for the receipt of electronic documents by the Bank of Russia from its customers, and between 99.99% and 100% for the receipt of settlement documents on paper.

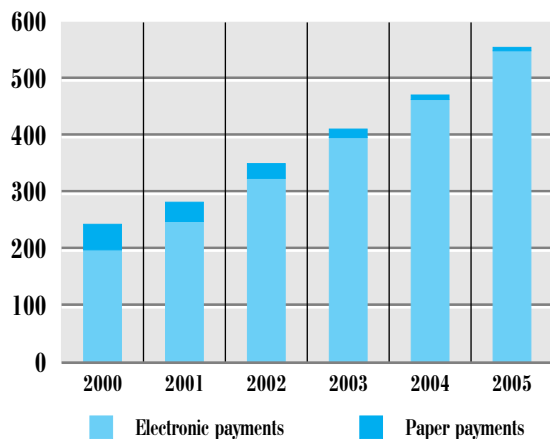
The Bank of Russia in 2005 reduced the average payment times for both electronic and paper settlement documents: intraregional payment times averaged 0.70 days compared to 0.83 days in 2004, and interregional payment times averaged 1.08 days against 1.17 days.

In line with federal law, the Bank of Russia conducted operations with budget funds at all levels free of charge. Free operations accounted for 53.5% of total Bank of Russia operations, whereas the share of fee-paying operations stood at 46.5%.

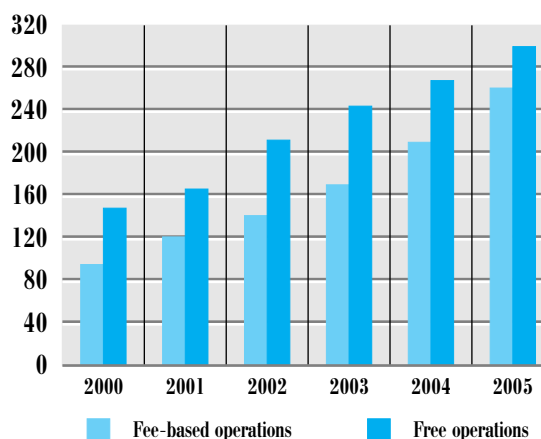
To implement the *Russian Banking Sector Development Strategy for the Period until 2008*,



**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 43, 44

which provides for the establishment by the Bank of Russia of a real-time gross settlement system (RTGS) for large, urgent payments, the Bank of Russia carried out a set of measures to accomplish this task.

Specifically, it formed the RTGS Implementation Committee. The committee drafted a document entitled *Functional Requirements for the Bank of Russia RTGS System*, which set out the principles for creating and operating the RTGS system with a detailed description of its main elements and structure; established requirements for its participants and the functions

performed by the system; and set out the procedure for effecting payments. Working groups of the committee analysed applicable laws and regulations with a view to amending them to meet the needs of the RTGS, and also drew up new rules and regulations, and drafted corresponding proposals.

The establishment of the RTGS system will help reduce settlement risks involved in effecting large payments in the payment system, increase financial stability, enhance the effectiveness of monetary policy, and create conditions for integration with international payment systems.

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

In the period under review the Bank of Russia continued work toward: transferring the processing of payment data from regional data processing centres to the integrated data processing centres; building a centralised computer-based infrastructure for the processing of payment data of its regional branches; and standardising the book-entry systems used in the Bank of Russia.

In 2005 it transferred 21 regional branches to integrated data processing; at present the Bank of Russia integrated data processing system encompasses 29 regional branches.

Works are afoot to include additional 28 regional branches in the integrated data processing system in 2006.

To implement the *Russian Banking Sector Development Strategy for the Period until 2008*, which provides for the establishment by the Bank of Russia of a real-time gross settlement system (RTGS) for large, urgent payments, the Bank of Russia began to draft technical requirements for this system.

Taking into account recommendations issued by leading international financial institutions to ensure that the technical infrastructure of the systemically important payment systems is resistant to disasters, the Bank of Russia in the period under review continued to build such an infra-

structure on the basis of the integrated data processing centres.

As a result of continual measures to expand the electronic settlement system, 76 out of a total of 78 regional branches of the Bank of Russia now effect electronic intraregional and interregional settlements. More than 97% of Bank of Russia establishments, and about 65% of Bank of Russia field establishments, participate in electronic settlements.

In the period under review, the Bank of Russia began to create a standardised transport medium for electronic interaction between its regional branches and their customers.

To link its regional branches to the integrated data processing system, the Bank of Russia upgraded the regional segments of the unified telecommunications banking network.

Measures carried out by the Bank of Russia to ensure the smooth functioning of its payment system infrastructure allowed it to accomplish its tasks not only under normal conditions and during localised failures, but also during accidents on a regional scale, such as the electricity blackout in Moscow on May 25, 2005. Analysis of this accident showed that the Bank of Russia payment system infrastructure continued to function smoothly at all sites.

## 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 2005 continued to fulfil the tasks and functions assigned to it by the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism (Federal Law No. 115-FZ).

It focused in particular on creating conditions conducive to the effective implementation of provisions of the anti-money laundering and terrorist financing laws (AML/FT) by credit institutions.

With this aim, the Bank of Russia actively advised credit institutions and its regional branches on AML/FT methodologies.

The continual monitoring and analysis of credit institutions' statements and supervisory practices, including the selection of banks for access to the deposit insurance system, allowed the Bank of Russia to establish the main classes and indicators of suspicious operations conducted by bank customers. Using the results of this work and seeking to prevent credit institutions from involvement in illegal activities, and from creating situations endangering the legitimate interests of depositors and creditors, the Bank of Russia in 2005 issued three letters advising credit

institutions to tighten controls over certain areas of their operations that may be connected with money laundering.

To upgrade the internal controls in credit institutions, taking into account experience gained and international standards, the Bank of Russia issued new methodological recommendations to credit institutions on internal control rules aimed at preventing money laundering and terrorist financing. These documents are designed to help credit institutions to keep their internal control systems up to date and to detect suspicious operations on time and report them to the authorised agency.

In addition, the Bank of Russia issued recommendations on the procedure for suspending and calculating suspension periods for individual types of cash operations, and two letters of information clarifying various aspects of the practical application of AML/FT laws.

To prevent the exploitation of the banking system for terrorist financing, the Bank of Russia informed credit institutions of changes made by the Federal Financial Monitoring Service to the list of organisations and persons suspected of involvement in extremist activities. Four changes

in the list were reported to credit institutions in 2005. In view of the importance of conveying this information as soon as possible, the Bank of Russia drew up and issued a regulation setting out the procedure for passing databases containing this information to credit institutions electronically.

When monitoring credit institutions' compliance with AML/FT laws, the Bank of Russia attached great importance to assessing the effectiveness of the internal controls in credit institutions. Specifically, this relates to the correct identification of all customers and beneficiaries, including assessing the risk of a customer being involved in money laundering and terrorist financing, and also assessing the consistency and comprehensiveness of measures taken by credit institutions to detect suspicious operations, and the adequacy of internal control rules to the specifics of customer operations.

To achieve these tasks and upgrade the supervisory mechanism, the Bank of Russia issued a new edition of methodological recommendations for inspections by its regional branches in respect to AML/FT, and recommendations on the use of corrective measures against credit institutions violating AML/FT laws and regulations.

In performing its supervisory functions, the Bank of Russia in 2005 verified the observance of anti-money laundering laws through inspections of 797 credit institutions and/or their branches.

It also paid close attention to the observance of AML/FT laws when considering credit institutions' requests for admission to the deposit insurance system. As a result, nearly 40% of the requests turned down by the Bank of Russia were rejected because of the unsatisfactory performance of internal control services, including their failure to ensure compliance with AML/FT laws.

The most typical faults revealed by inspections were non-compliance with the requirements of Federal Law No. 115-FZ and Bank of Russia regulations regarding customer and beneficiary identification; collecting and documenting data on operations with money or other property subject to mandatory control, and on operations which the credit institution has reason to suspect are being conducted for the purpose of money laundering or terrorist financing; and the failure to

present this information to the authorised agency on time.

The main reasons for infractions in 2005, as in 2004, were generally connected with managements failing to exercise the appropriate level of control over the activities of the corresponding divisions. Consequently, internal controls conducted poor inspections and executives responsible for AML/FT either did nothing or were poorly qualified to take action.

In taking decisions on sanctions against credit institutions, the Bank of Russia made sure that the severity of measures was commensurate with the real level of the risk created by the shortcomings or violations of AML/FT laws committed by banks.

As a result of the inspections of credit institutions, preventive measures were used in 385 cases, in which information on the shortcomings was made known to the management of the respective credit institutions. As for disciplinary measures, in 373 cases credit institutions were ordered to rectify faults discovered in their work; fines were imposed in 284 cases; in 238 cases the Bank of Russia imposed restrictions or bans on certain banking operations; and 14 credit institutions had their licences revoked.

In addition, as a result of the consideration by the Bank of Russia Banking Supervision Committee of credit institutions' requests for access to the deposit insurance system, letters were sent to Bank of Russia regional branches in respect to 85 credit institutions, specifying their shortcomings and recommending measures to improve their AML/FT practices.

The effectiveness of AML/FT measures depends to a great extent on the professional training of specialists in Bank of Russia regional branches, and in credit institutions.

Under the Bank of Russia Advanced Training Programme, implemented in collaboration with specialists of the Interior Ministry and the Federal Financial Monitoring Service, 12 seminars were held in 2005, attended by more than 540 executives and specialists with Bank of Russia regional branches.

In addition, the Bank of Russia organised and held, in collaboration with Russian banking associations and Deutsche Bank, a conference on key issues and international standards relating to

the prevention of money laundering and terrorist financing.

In the course of implementing the Agreement on Information Cooperation between the Central Bank of the Russian Federation and the Federal Financial Monitoring Service Carried out Pursuant to the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism, signed on May 17, 2004, the Bank of Russia in 2005 began to receive information on the observance of Federal Law No. 115-FZ by credit institutions.

In 2005, the Bank of Russia participated in the work of the Inter-agency Commission on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism, which is a permanent body set up to coordinate the activities of relevant executive power structures and the Bank of Russia in preventing money laundering and terrorist financing.

The effectiveness of the national AML/FT system is important for a country's image, and its work is closely watched by the international community.

In 2005, the Bank of Russia closely cooperated with international and foreign organisations. Bank of Russia representatives participated as members of Russian delegations in plenary sessions and meetings of working groups of the Financial Action Task Force (FATF) and meetings of its regional analogues, such as the Asia/Pacific Group on Money Laundering and the Eurasian

Group on Combatting Legalisation of Proceeds from Crime and Terrorist Financing. The Bank of Russia took part in preparing materials for Russia's AML/FT Progress Report to the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL).

In 2005 the Bank of Russia continued to cooperate with foreign supervisory authorities in detecting and preventing the use of credit institutions for money laundering and terrorist financing (provisions on the prevention of money laundering and terrorist financing are an essential part of cooperation agreements (memorandums of understanding) concluded by the Bank of Russia with foreign supervisory authorities).

On the whole, credit institutions have become more perceptive in respect to AML/FT measures. Realising the importance of these measures, they have improved practices of dealing with customers, and the quality of information. In 2005 the Federal Financial Monitoring Service received more than three million reports on operations subject to mandatory control, and on suspicious operations (1.7 million reports in 2004), of which nearly half were connected with suspicious customer operations. The share of reports that failed to pass the Federal Financial Monitoring Service's logical input controls, due to errors committed by credit institutions in formatting messages, contracted by more than half (from 10% in 2004 to 4.9% in 2005).

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

The drafting of amendments to Federal Law No. 173-FZ, dated December 10, 2003, “On Foreign Exchange Regulation and Foreign Exchange Control,” was one of the key tasks for the Bank of Russia in the field of foreign exchange regulation and control in 2005.

As a result of work carried out with the participation of the Bank of Russia, the Russian parliament passed Federal Law No. 90-FZ, dated July 18, 2005, “On Amending Certain Laws of the Russian Federation.”

The amendments extended the list of foreign exchange operations between residents permitted by Article 9 of Federal Law No. 173-FZ, by including operations connected with payments on external securities (including mortgage-backed securities), but excluding promissory notes. The initial version of Article 9 of Federal Law No. 173-FZ did not allow for payments between residents in foreign exchange consisting of transfers of funds on securities (interest/coupon income or the principal payments). Paragraph 1 of Article 9 of Federal Law No. 173-FZ was amended by a provision allowing trust managers to conduct foreign exchange operations between residents, provided for by paragraph 1 and paragraph 3 of this Article.

The amendments made by Federal Law No. 90-FZ to point 5 of paragraph 1 of Article 9 of Federal Law No. 173-FZ granted residents the

right to effect settlements in foreign currency not only on operations with securities issued by the Russian Government, but also on external corporate securities traded on the Russian organised market.

The amendments specifying point 6 of paragraph 1 of Article 9 of Federal Law No. 173-FZ allowed not only corporate entities, but also private individuals to conduct operations with external securities on Russia’s unorganised market with settlements in rubles. These amendments are designed to attract private investors to the domestic stock market, and to create favourable conditions for the secondary over-the-counter market of external securities issued on behalf of the Russian Federation and held by private individuals.

At the same time, the law retained the requirement to register the right to external securities involved in the aforementioned foreign exchange operations in the Russian depository, which expanded their customer and financial base and guaranteed the necessary level of protection to the rights of investors holding these securities.

Collectively, these amendments were an important means of increasing the competitiveness of the Russian securities market and its infrastructure.

In addition, the following amendments were made to Article 16 of Federal Law No. 173-FZ

after an analysis of the short period of its application: the list of grounds for the early return of the reserve deposit sum, and the period within which the Bank of Russia must return it to authorised banks, and within which the latter must return it to a resident or non-resident, were extended; the wording of some provisions of this Article was modified to minimize ambiguity.

Exercising the powers granted to it by paragraph 4 of Article 12 of Federal Law No. 173-FZ, the Bank of Russia in August 2005 established a requirement for residents (except private individuals and credit institutions) to deposit a reserve of 25% of the amount of a foreign exchange operation for 15 calendar days when transferring funds to accounts (deposits) opened with banks outside Russia from accounts (deposits) in authorised Russian banks.

This reserve requirement does not apply to transfers made for the purpose of providing services to foreign-based representative offices of Russian corporate entities.

In 2005, residents and non-residents deposited a total 66.7 billion rubles in fulfilling the requirement for depositing reserve funds in accounts with the Bank of Russia, of which 62.7 billion rubles were returned to depositors. Taking into account the balance as of December 31, 2005, a reserve of 8.8 billion rubles remained on deposit as of the beginning of 2006.

Reserves deposited by residents in 2005 accounted for 94% of total reserves deposited, against 90% in 2004.

Of total reserves deposited by residents in 2005, 44.5% were deposited for operations to extend loans to non-residents; 6.2% for operations to obtain loans from non-residents; 13.0% for securities trading; 23.1% for resident operations to acquire stakes, shares and units from non-residents and when residents pay contributions through partnership agreements with non-residents; and 0.6% for operations involving commercial credit to non-residents for terms longer than 180 days as prepayment for work completed, services provided, or information passed, by non-residents and for the results of intellectual activities, including exclusive rights to them. The structure of reserves deposited by residents in 2004 was as follows: 31.4% of reserves were deposited for operations to extend loans to non-

residents, 7.0% for operations to obtain loans from non-residents, and 60.8% for securities trading. Consequently in 2005, as in 2004, most of the deposited reserves were connected with capital outflow.

The dynamics of balances and the structure of deposited reserves in 2005 were influenced by amendments to reserve requirements. On December 29, 2004, the Bank of Russia reduced the minimum amount of reserves and the period for which they are deposited in operations with special bank accounts. In April 2005 the Russian Government established a reserve requirement for residents acquiring stakes, shares and units from non-residents (in authorised partnership capital or in a cooperative's unit fund) of corporate entities, and requirements for residents paying contributions through partnership agreements with non-residents. In May a reserve requirement was established for residents extending commercial credit to non-residents for terms longer than 180 calendar days, as a prepayment for the transfer of exclusive intellectual property rights by non-residents, and the granting by non-residents of the rights to the use of intellectual property, and payment for work done and services provided by non-residents.

In 2005, while the requirement to sell 10% of currency earnings from exports was in effect, exporters sold \$23.8 billion on the domestic forex market. This represents a decrease of almost \$19 billion from the amount sold in 2004, when the compulsory sale requirement was 25%.

The fall in the supply of foreign exchange due to compulsory sales was accompanied by growth in sales of foreign currency remaining in exporters' transit accounts after compulsory sales. As a result, the amount of foreign exchange sold from transit accounts after compulsory sales increased 80% year on year to \$49.9 billion, and the total amount of foreign exchange sold in 2005 on the primary market on a compulsory and voluntary basis increased by \$3.1 billion, or 4%, year on year, to \$73.7 billion.

Demand for foreign exchange on the part of private individuals continued to grow on the domestic market in 2005. Net demand for foreign exchange from private individuals (the difference between the amount of foreign exchange sold or paid to private individuals from their foreign cur-

rency accounts, and the amount bought by private individuals and paid into their accounts) increased 8% in 2005 year on year, and reached \$15.3 billion in dollar terms.

In exercising the powers granted to it by Federal Law No. 173-FZ, and with the coming into force on June 19, 2005, of Article 12 of this law, the Bank of Russia established a free procedure (requiring no permission) for the opening of ruble and foreign currency accounts by resident self-employed individual entrepreneurs and corporate entities, in banks located in countries that are not members of the Organisation for Economic Cooperation and Development (OECD), or of the Financial Action Task Force (FATF), and also ruble accounts in banks situated in member countries of the OECD or FATF.

In addition, pursuant to Federal Law No. 90-FZ, the Bank of Russia extended the procedure it had established previously for the opening of accounts by residents abroad to include the opening of deposit accounts outside Russia.

From the start of 2005 until the coming into force of Article 12 of Federal Law No. 173-FZ, the Bank of Russia and its regional branches issued 89 permits to resident corporate entities to open accounts abroad (60 such permits were issued during the whole of 2004).

The Bank of Russia continued to provide methodological support, and in 2005 issued three information letters explaining the practical application of Bank of Russia rules and instructions on foreign exchange regulation and foreign exchange control.



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

The activities of the Bank of Russia in the field of government finance in 2005 were aimed at further coordinating monetary and budget policy, settling the Finance Ministry's debt to the Bank of Russia, managing budget accounts at all levels of the budget system, upgrading legislation, cooperating with the Federal Treasury and its regional structures in completing the Concept for the Single Federal Budget Account of the Finance Ministry's Federal Treasury, and preparing for the introduction on January 1, 2006, of the cash-based execution of the federal budget by the Federal Treasury.

In 2005 the Bank of Russia and the Finance Ministry settled a part of the latter's debt to the Bank of Russia.

Under Article 91 of the 2005 Federal Budget Law, Bank of Russia-owned debt depreciation federal loan bonds with a nominal value of 36.7 billion rubles were restructured into new debt depreciation federal loan bonds with a nominal value of 33.5 billion rubles.

In line with the 2005 Federal Budget Law and a Russian Government resolution, the Finance Ministry repaid its debt on foreign currency funds transferred by the Bank of Russia to Vneshekonombank in 1998 and 1999 under Federal Law No. 192-FZ, dated December 29, 1998, "On Fiscal Policy Priorities," and Federal Law No. 36-FZ, dated February 22, 1999, "On the

Federal Budget for 1999," for payment and servicing of the Russian government's foreign debt.

Under Article 86.1 of the 2005 Federal Budget Law, the Finance Ministry repaid its debt to the Bank of Russia accrued through the transfer of funds in 1996—1998 by Ukraine, Moldova and Armenia to the Finance Ministry's federal budget revenue accounts for the repayment of their debt to the Bank of Russia on technical loans.

Pursuant to Article 89 of the 2005 Federal Budget Law, the Finance Ministry bought out from the Bank of Russia domestic government bond loans issued in 1991.

As a result, the Finance Ministry's total debt to the Bank of Russia denominated in rubles and foreign currency, at the nominal value of government securities as of January 1, 2006, decreased by 204.6 billion rubles, or 35.3%, against January 1, 2005, and stood at 374.9 billion rubles.

To implement the Concept for the Single Federal Budget Account of the Finance Ministry's Federal Treasury, in 2005 Federal Treasury bodies centralised federal budget revenue and expenditure operations at all levels of the Russian budget system, on a non-cash basis, at the level of the Federal Treasury directorates.

To prepare for the enforcement on January 1, 2006, of the provisions of Article 215.1 of the Budget Code of the Russian Federation (and in line with the Federal Law on the General Prin-

principles of Local Self-Government in the Russian Federation), Bank of Russia establishments in 2005 opened regional and municipal budget accounts for Federal Treasury bodies, to facilitate their transition to cash-based execution of budgets at all levels.

The total number of customers other than credit institutions, and the number of accounts opened for them in Bank of Russia establishments as of January 1, 2006, stood at 44,800 and 87,400, respectively. This represents decreases of 8,700 and 5,900, respectively, compared to January 1, 2005. However, the number of Federal Treasury bodies and accounts opened for them, stood at 1,800 and 26,900, respectively, representing increases of 600 and 20,900. Of the total number of accounts opened for Federal Treasury bodies, the number of accounts opened to record local budget funds increased by 19,000 over the year, and stood at 20,200 as of January 1, 2006. Meanwhile, the number of budget accounts opened for regional and local financial authorities decreased over the year by 2,500 to 7,000.

As the transition to personal accounts opened in bodies providing cash services for budget execution (including operations with funds raised from entrepreneurial and other profitable activities) accelerated, the number of organisations financed from budgets of all levels, and the number of accounts opened for them in Bank of Russia establishments, decreased by 7,200 and

22,500, respectively, and as of January 1, 2006, stood at 32,400 and 42,000.

However, the number of payments (writing-off) effected by the Bank of Russia payment system through accounts of Bank of Russia customers other than credit institutions gained 9.4% in 2005 to 86.7 million.

To accelerate the transfer of funds to Federal Treasury accounts, the Bank of Russia continued to facilitate the exchange of electronic documents between Bank of Russia establishments and Federal Treasury bodies. In 2005 the Bank of Russia started to exchange electronic documents with the Federal Treasury and 431 Federal Treasury departments. As of January 1, 2006, 951 of 1,795 Federal Treasury bodies that had accounts opened for them with the Bank of Russia, exchanged electronic documents with Bank of Russia establishments.

To complete the transfer of federal budget funds recipients to personal accounts opened with Federal Treasury bodies, the Bank of Russia, pursuant to the 2005 Federal Budget Law, developed a reporting procedure for accounts opened for federal agencies in Bank of Russia establishments and credit institutions and their branches, to record operations with funds raised from entrepreneurial and other profitable activities, and presented reports to the Finance Ministry and regional Federal Treasury bodies on a quarterly basis.

## II.8. CASH ISSUE MANAGEMENT

Cash issue management in 2005 was aimed at optimising cash turnover, effectively regulating cash flows in the country's regions, and further improving the provision of cash services to credit institutions and other Bank of Russia customers.

According to cash issue balance sheet data, there were 2,199.2 billion rubles of Bank of Russia notes and coins in circulation as of January 1, 2006, of which 2,185.6 billion rubles were in banknotes (5.2 billion sheets) and 13.6 billion rubles in coins (26.0 billion pieces), including coins made from precious metals. Of the total amount of cash, banknotes accounted for 99.4% and coins 0.6%, and in the total number of banknotes and coins, banknotes accounted for 17% and coins 83%.

The number of Bank of Russia notes and coins, including coins made from precious metals, increased by 525.9 billion rubles, or 31.4%, in 2005; of these, the number of banknotes rose by 523.4 billion rubles (600 million sheets) and coins by 2.5 billion rubles (3.9 billion pieces).

Growth in cash in circulation was largely due to higher household incomes and consumer prices.

Cash in circulation increased significantly (by 305.4 billion rubles) in December 2005 due to early payments of wages, salaries, pensions, and allowances, including cash payments in place of concessions, which would have been

paid in the period from January 1 to 9, 2006 (a holiday period).

Growth in cash in circulation in 2005 was also due to increased cash withdrawals from household accounts.

The volume of cash passing through Bank of Russia cash departments in 2005 amounted to 7,674.7 billion rubles, up 1,660.4 billion rubles, or 27.6%, on the previous year.

Growth in household incomes and consumer prices caused certain changes in the note structure of cash in circulation. The share of 1,000-ruble banknotes expanded by 9.4 percentage points in 2005 to 66.1%, while the share of 500-ruble banknotes contracted by 7.1 percentage points, and the share of 50-ruble and 100-ruble banknotes edged down by 2.2 percentage points.

Preparations were completed in 2005 for the issue in the second half of 2006 of a 5,000-ruble banknote with up-to-date security features.

In analysing the note structure of cash in circulation and in reserves, the Bank of Russia ensured that it met the requirements of payment turnover, and regularly supplied banknotes and coins to the regions in amounts enabling the needs of the economy and population to be met in full and on time. There were no cases of failure by any Bank of Russia establishment to pay cash in 2005.

CHANGE IN THE AMOUNT OF CASH IN CIRCULATION IN 2005  
(billion rubles)

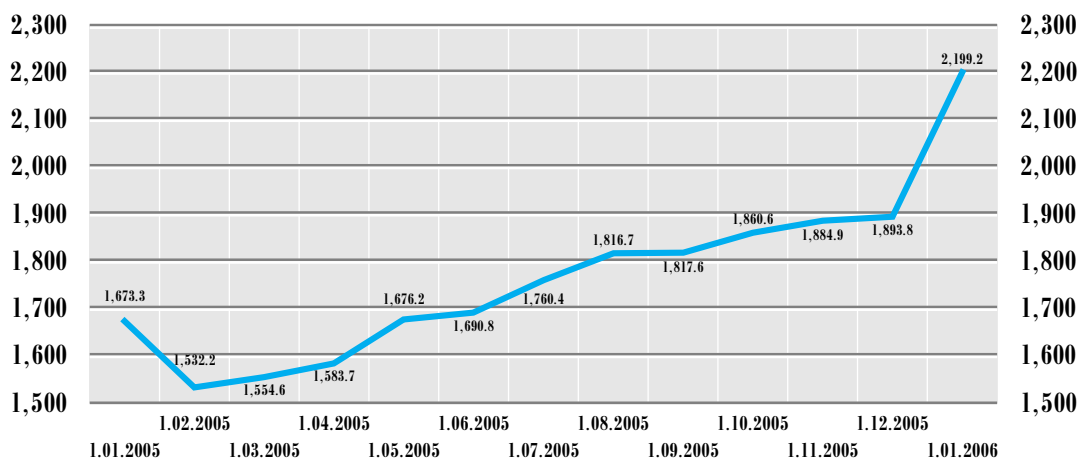


Chart 45

Bank of Russia establishments provided cash services, in compliance with Russian law and Bank of Russia regulations, under agreements concluded with their customers.

As of January 1, 2006, Bank of Russia establishments provided cash services to 5,761 credit institutions and their divisions, and to 130,133 non-credit organisations. In 2005 the number of credit institutions increased by 91 as new branches and additional offices opened. The number of non-credit organisations increased by 10,432, as budget-financed organisations switched to settlement services provided by Federal Treasury and municipal financial bodies.

Bank of Russia establishments in 2005 conducted 1.3 million expert examinations: 580,000 examinations of suspicious banknotes, and 720,000 inspections of the correctness of banknote and coin exchanges. In 2005 the Bank of Russia detected, withdrew from circulation, and passed to Interior Ministry departments 54,556 counterfeit Bank of Russia notes and coins. The total number of detected counterfeit Bank of Russia notes and coins of various denominations increased by 3.6 times compared to 2004, of which the number of counterfeit 1,000-ruble notes increased by 12.4 times (from 2,819 to 35,084) and the number of 100-ruble notes by 1.9 times (from 5,941 to 11,057). Growth in the number of detected counterfeit Bank of Russia notes was caused by the large-scale circulation of counterfeit unmodified 1,000-ruble notes.

Most counterfeit Bank of Russia notes (64.9%) were detected in credit institutions, 34.4% in cash settlement centres where cash accepted from Bank of Russia customers was counted, and 0.7% in interregional depositories of the Bank of Russia Central Depository.

The largest numbers of counterfeit notes were detected in the Central and Volga Federal Districts.

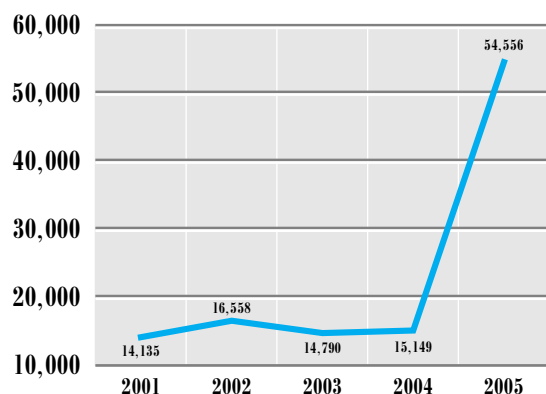
Of the total number of detected counterfeit notes, 95% were banknotes of the 1997 issue, including their 2004 modified versions. The quality of counterfeit Bank of Russia notes, in particular 1,000-ruble notes, improved significantly, in some cases being so high that bank employees were unable to detect forgeries by sight, without the use of technical devices.

Bank of Russia establishments in 2005 examined 25,164 foreign banknotes sent for expert analysis by credit institutions. Bank of Russia establishments and credit institutions detected and passed to Interior Ministry departments 11,595 counterfeit foreign banknotes.

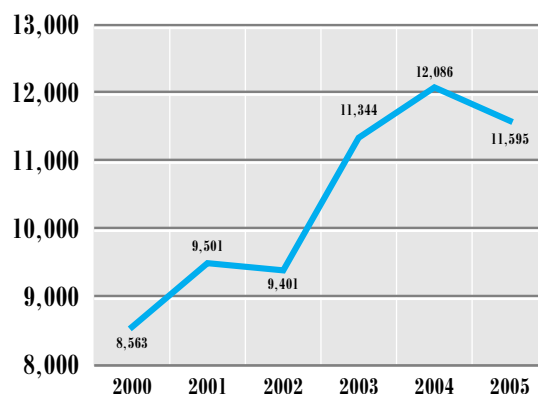
Most of the detected counterfeit banknotes (95.2% of the total) were US dollars, and 100-dollar notes accounted for 95.8% of detected counterfeit US dollar notes.

The number of detected counterfeit euro notes fell to 535 in 2005 from 711 in 2004, and their share in total detected counterfeit foreign notes contracted from 5.9% in 2004 to 4.6% in 2005.

**DETECTION OF COUNTERFEIT  
BANK OF RUSSIA NOTES  
(sheets)**



**DETECTION OF COUNTERFEIT  
FOREIGN BANKNOTES  
(number of notes and coins)**



*Charts 46, 47*

Most of the euro forgeries were 100-euro and 200-euro notes (48.4% and 32.9%, respectively). Most counterfeit euro notes (82.7%) were forged using the offset printing technique.

The Bank of Russia has begun to replace its counting and sorting equipment by installing new

compact machines equipped with a fundamentally new sensor system.

In 2005 the Bank of Russia issued 63 commemorative coins, of which 17 were made from gold, 35 from silver, and 11 from non-precious metals.

## 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 2005 made continual efforts to improve the quality of information compiled in bank accounts and reports, and to guarantee users taking corresponding economic decisions access to this information.

To bolster discipline on the banking services market, improve corporate governance, and increase public confidence in the banking system, the Bank of Russia continued to upgrade its accounting and reporting standards, and to regulate and amend rules for accounting and reporting, tightening requirements as to their credibility and quality.

Having issued the Regulation on the Issuance of Bank Cards and on Operations Conducted Using Payment Cards, the Bank of Russia included new balance sheet accounts for uncompleted settlements in the accounts chart, and also specified the characteristics of ATM transaction accounts, and of cheque and prepaid card settlement accounts.

New characteristics were added to accounts opened for individual entrepreneurs and other private individuals including non-residents, and the list of banking operations subject to mandatory control was reviewed.

The Bank of Russia set up and informed credit institutions of the accounting procedure for Bank of Russia compensation payments on household deposits with bankrupt banks not covered by the deposit insurance system.

Conversion to International Financial Reporting Standards (IFRS) was a key task for the Bank of Russia. Measures were therefore implemented to introduce to the Russian banking sector the accrual method, a core procedure of IFRS. Specifically, it drafted and obtained preliminary approval for a set of regulations and instructions on the transition of credit institutions and the Bank of Russia to the accrual method.

The Bank of Russia drafted and sent to credit institutions the Instructions on the Annual Accounting Report of Credit Institutions for 2005, and drafted and distributed to its regional branches, and other divisions and structures, Instructions on Compiling and Presenting the Annual Accounting Report for 2005.

To organise the movement of electronic documents in the banking system, and to prepare the documents of the day and ledgers electronically without printing, the Bank of Russia coordinated

the activities of the corresponding structures involved in this task.

The Bank of Russia implemented measures to upgrade its accounting policy. Since 1998 it has made 37 amendments to Bank of Russia Accounting Rules No. 66, dated September 18, 1997, published in line with changes to federal laws and Finance Ministry regulations and instructions on various issues requiring clarification of accounting rules applicable to operations conducted by the Bank of Russia. In 2005 the Bank of Russia drafted a single, integrated version of the rules, setting out common legal and methodological principles for accounting and reporting, which was approved by the Bank of Russia Board of Directors, and the National Banking Board, as the Regulation on the Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia).

The Bank of Russia also issued a Regulation on the Compilation by the Bank of Russia of Financial Statements According to International Financial Reporting Standards.

To regulate the accounting of operations in the Bank of Russia with financial instruments (currency options with foreign counterparties,

currency swap transactions on the domestic market and repo operations) on the basis of the procedures drafted for these operations, the Bank of Russia set out draft regulations establishing the accounting procedure for these transactions.

The procedure for Bank of Russia establishments to account for large, urgent payments effected through the real-time gross settlement system was also set out.

In addition, the Bank of Russia issued the following regulations designed to improve accounting practices in the Bank of Russia:

- on the accounting procedure for compensation payments on household deposits in bankrupt banks not covered by the deposit insurance system;
- on the accounting procedure for electronic settlements between Bank of Russia establishments and interregional depositories;
- on the procedure for accounting for property received by the Bank of Russia gratis;
- on the procedure for conveying the details of accounting documents on paper for processing by Bank of Russia information technology departments.

## II.9.2. BANK OF RUSSIA ACTIVITIES AIMED AT CONVERTING THE BANKING SECTOR TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

**A**s a result of organisational and methodological work carried out by the Bank of Russia in previous years for the purpose of introducing the IFRS system and teaching specialists IFRS theory and practice, the Russian banking sector accomplished a transition to IFRS financial reporting. The completion of credit institutions' transition to IFRS, envisaged by the *Russian Banking Sector Development Strategy for the Period until 2008*, is confirmed by the fact that all operating credit institutions compiled and submitted to the Bank of Russia their IFRS statements for the first nine months of 2004 by the deadline. These statements allowed the Bank of Russia to make a preliminary assessment of the Russian banking sector's readiness to adopt IFRS, and the major IFRS bank performance and composite banking sector indicators. IFRS statements for 2004 were presented by 1,241 credit institutions, or 95.5% of the 1,299 credit institutions in operation as of January 1, 2005. No statements were presented by credit institutions undergoing reorganisation or liquidation. All statements presented by credit institutions have been confirmed by auditors and analysed by the Bank of Russia.

The Bank of Russia in 2005 continued to upgrade methodologies for compiling financial statements according to IFRS. For this purpose, it amended its Ordinance on the Compiling and Presenting of Financial Statements by Credit Institutions, in respect to the regularity and deadlines for presenting IFRS statements. Auditor-confirmed financial statements (consolidated and unconsolidated) for periods beginning after January 1, 2005, are to be presented by credit institutions to the Bank of Russia annually before July 1 of the year following the accounting year.

The Bank of Russia issued new Methodological Recommendations on the Procedure for Compiling and Presenting Financial Statements by Credit Institutions, which took into account changes made to IFRS after January 1, 2005, and

the results of analysis of IFRS statements for the first nine months of 2004 in respect to the methodology of compiling statements.

In the section of its website dedicated to the transition of the Russian banking sector to IFRS, the Bank of Russia answered questions received from credit institutions on implementing IFRS methodology in 2005.

Introducing the principles of international standards to accounting practices requires changes in legislation, to make it compatible with IFRS. The Bank of Russia took part in discussing and drafting amendments to the Federal Law on Audit Activities, the draft Federal Law on Consolidated Financial Statements, and the draft Federal Law on the Official Accounting Procedure.

To reduce the number of adjustments made in compiling IFRS statements on the basis of Russian accounting practices, the Bank of Russia is adopting its accounting rules and regulations to bring them in line with IFRS.

In 2005 it continued to work on the draft Plan for the Transition of the Russian Banking Sector to IFRS. This project is to be carried out within the TACIS programme in 2006, with the goal of assisting the Russian banking sector in adopting IFRS and improving the professional skills of bank employees.

The Bank of Russia in 2005 continued to train its specialists in international financial reporting standards, holding 30 seminars for this purpose.

It cooperated with the London-based International Accounting Standards Board (IASB), which made changes to IAS 19 Employee Benefits, IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and IFRS 3 Business Combinations; it also submitted proposals while these documents were being drafted. The Bank of Russia held correspondence with the IASB on obtaining a Russian translation of IFRS, and the application of the new version of IAS 39.



## II.10. INTERNATIONAL COOPERATION

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

The Bank of Russia in 2005 actively cooperated with international financial and economic organisations.

The early repayment by Russia of its debt to the IMF has changed its status in the organisation. Russia has been included in the group of IMF member countries whose funds (quotas) are used in IMF financial operations. To set up the procedure for Russia's participation in IMF financial operations, the Bank of Russia collaborated with the Finance Ministry in drafting the corresponding laws and regulations.

In 2005 the Bank of Russia participated in IMF and World Bank meetings, discussing the outlook for the world economy, plans to reform the Bretton Woods institutions, ways to enhance the effectiveness of the IMF's supervisory practices to safeguard against crises, and measures to increase international aid to low-income countries. The Bank of Russia took part in annual consultations under Article IV of the IMF Articles of Agreement, and in meetings with IMF missions, which discussed Russia's monetary policy, developing its strategy and instruments, budget policy coordination, capital adequacy requirements, stress testing, and foreign exchange legislation.

The Bank of Russia participated in: drafting the IMF Annual Report on Exchange Arrange-

ments and Exchange Restrictions; preparing information on the implementation of IMF recommendations under the Russian Financial Sector Assessment Programme; and compiling the IMF electronic database on banking sector regulation laws, and the standard set of indicators for publication in the IMF monthly *International Financial Statistics*, as well as the OECD monthly *Main Economic Indicators*.

On January 31, 2005, Russia officially joined the IMF Special Data Dissemination Standard as a result of extensive work carried out jointly by the Bank of Russia, the Ministry of Finance, and the Federal State Statistics Service, to harmonise the Russian practice of disseminating key economic indicators with international standards of quality and publication time.

During the period under review, the Bank of Russia continued to upgrade its methodology for compiling monetary statistics according to international standards, and its representatives took part in discussions on the IMF-drafted Monetary and Financial Statistics Manual. To accomplish the task of switching from compiling the monetary survey to reviewing the financial sector, the Bank of Russia took part in discussions on issues relating to the statistical monitoring of insurance companies and non-governmental pension funds.

It cooperated with the World Bank in implementing the Financial Institution Development Project.

The Bank of Russia also evaluated investment projects for Russian banks prepared by the International Finance Corporation and the European Bank for Reconstruction and Development.

It participated in central bankers' meetings in the Bank for International Settlements (BIS), which addressed ways of maintaining stability on the financial markets and eliminating imbalances in the world economy, the effect of globalisation on wages and prices, and the role of central banks' capital, the activities of agencies responsible for monetary policy decision-making, and the implementation of the new Capital Accord (Basel II).

In January 2005, Malcolm D. Knight, General Manager of the BIS, visited Russia to discuss prospects for cooperation with the Bank of Russia.

The Bank of Russia participated in a BIS meeting of deputy governors of emerging economies' central banks, which discussed the functioning of national banking systems, and central bank economists' consultations on the problem of ensuring sustainable growth for the world economy. Bank of Russia representatives took part in working groups of the BIS Committee on Payment and Settlement Systems, and the Basel Committee on Banking Supervision.

The Bank of Russia continued to cooperate with the BIS in integrating international information resources. Information on Russia, available to BIS Data Bank users, was expanded in 2005 to include indicators characterising the performance of credit institutions, the state of the domestic forex market, and the execution of budgets of all levels. The Bank of Russia also maintained cooperation with the BIS in broadening opportunities for using the BIS Data Bank, and optimising access to the Data Bank's information resources. Bank of Russia representatives participated in the annual meeting of the BIS Data Bank member central banks, which addressed problems involved in unifying the methodologies for compiling indicators presented by various countries, and upgrading the procedure for access to these information resources.

The Bank of Russia participated in board meetings of the International Investment Bank

and the International Bank for Economic Cooperation, at which plans to reform these two banks were discussed. In addition, the Bank of Russia took part in drafting priority plans for cooperation with other regional banks, such as the Asian Development Bank and the Inter-American Development Bank, and participated in consultations on Russia's membership of these banks.

The Bank of Russia took part in meetings of the Group of Eight finance ministers and central bank governors, which addressed, among other things, the regulation of the financial services market, measures to counter the financing of terrorism and money laundering, and international aid for development. The extraordinary meeting held in December 2005 focused on the problem of strengthening the stability of the oil market, writing off the debt of the poorest nations, and preparing for the transfer of the G8 presidency from Great Britain to Russia. Through this process, the Bank of Russia participated in 2005 in drafting concepts for Russia's 2006 presidency of the G8 as a whole, and in particular the meetings of G8 finance ministers.

Bank of Russia representatives participated in a meeting of Group of 20 finance ministers and central bank governors and two meetings with central bank deputy governors. At these meetings, a programme of reforms in G20 countries was passed, and recommendations for conducting appropriate monetary policy, and accelerating structural reforms to eliminate global imbalances were drafted. Two key joint statements were passed, one on reforms of the Bretton Woods institutions, and the other on global development problems. The first document emphasised the need to improve the governance, management, and operation strategies of the IMF and the World Bank, and to reform these two organisations, taking into account changes in the world economy. The second formulated approaches to financing the development of world economies, particularly the poorest ones, and to improving the effectiveness of international aid.

The Bank of Russia continued to promote closer ties with the Organisation for Economic Cooperation and Development and its working bodies. It took part in a Russian Federation-OECD Liaison Committee meeting, held in Moscow for the first time in June 2005. It addressed

the results of the OECD survey of regulation reform in Russia, and the programme for cooperation between the OECD and Russia for 2006—2008, which were prepared with the participation of the Bank of Russia. At a regular meeting of the OECD Financial Markets Committee with Bank of Russia representatives, financial policy, financial system regulation, economic growth, and the draft of the Basel Committee's Guidance on Enhancing Corporate Governance for Banking Organisations were discussed.

In line with decisions of the Russian Government relating to preparations for negotiations on Russia's entry into the OECD, the Bank of Russia in 2005 completed the drafting of materials on harmonising Russian banking legislation with OECD core principles and standards. It also prepared comments on the OECD report on foreign exchange regulation and control in Russia.

In the period under review, the Bank of Russia continued to participate in multilateral negotiations on the country's accession to the World Trade Organisation.

The Bank of Russia continued to cooperate with the Asia-Pacific Economic Cooperation organisation (APEC). Its representatives attended a meeting of APEC deputy finance ministers and central bank governors, and a meeting of APEC finance ministers, who discussed the liberalisation of capital flows to support economic growth in APEC member countries; the

minimisation of global imbalances; the ageing of populations; and the development of remittance systems for migrant workers. At the request of APEC, the Bank of Russia prepared a report on "Cross-border Money Transfers: Russia's Experience," which was highlighted in a special attachment to the Joint Statement of the APEC Ministers of Finance.

In 2005, the Bank of Russia held the chairmanship of the Club of Governors of Central Asian, Black Sea and Balkan Countries' Central Banks.

During the year under review, the Bank of Russia began to cooperate with Asian countries through the Asia Cooperation Dialogue (ACD), which Russia joined in April 2005.

In October 2005, the Bank of Russia took part in the 19<sup>th</sup> session of the Council on Foreign Investments in Russia, at which the working group on developing Russia's banking sector and financial markets held its meeting. Participants in the working group's meeting made special mention of the adoption by the Russian Government and the Bank of Russia of the *Russian Banking Sector Development Strategy for the Period until 2008*, the principal objectives of which are banking sector stability and efficiency. They noted, as positive developments in Russia, the introduction of IFRS, tighter supervision, stricter controls over bank capital, and the passing of the law on credit bureaus.

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

One of the principal objectives of the Bank of Russia's external activities is to cooperate with regional integrations within the territory of the former Soviet Union, and with central (national) banks of CIS countries.

Great importance was attached in 2005 to measures taken to create the conditions to introduce a single currency for the Russia-Belarus Union State. The part of this work within the competence of the countries' central banks is coordinated by the Interbank Currency Board of the Central Bank of the Russian Federation, and the National Bank of the Republic of Belarus. The board met three times in 2005, and discussed: economic development and monetary policy for the two countries; establishing common principles for foreign exchange regulation and control; the harmonisation of laws on banking supervision; and the standardisation of monetary policy instruments. The Bank of Russia and the National Bank of Belarus signed an agreement on cooperation in banking supervision, and an agreement on information sharing and personnel training to counter money laundering and terrorist financing.

The Bank of Russia participated in preparing an updated version of the joint action plan for the Russian Government, the Bank of Russia, the Belarusian Government, and the National Bank of Belarus, for the introduction of a single currency for the Russia-Belarus Union State. At negotiations, the sides approved an action plan of the Bank of Russia and the National Bank of Belarus to introduce the Russian ruble as the only legal tender in Belarus.

The Bank of Russia took part in the work of the CIS Interstate Currency Committee. In particular, it participated in implementing the concept of a common banking services market for the CIS. The November 2005 meeting of the committee approved a programme to implement a concept for CIS cooperation and coordination of actions in the monetary field.

The Bank of Russia continued to broaden cooperation with integrational structures of the

Eurasian Economic Community (EurAsEC). It was directly involved in the drafting of an agreement on cooperation on the EurAsEC integrated currency market, which was signed on January 25, 2006, a concept on monetary cooperation, and a procedure for harmonising macroeconomic indicators.

The Bank of Russia also took part in drafting an agreement on the encouragement and mutual protection of investments in EurAsEC member countries; an agreement on the core principles for foreign exchange regulation and control for operations connected with the movement of capital; an agreement on making customs payments by entering funds to a customs authority account or by using bank guarantees in the transportation of goods under supervision by customs authorities; and an agreement on temporary employment for EurAsEC residents in EurAsEC member countries.

Measures were carried out in 2005 through the agreement on information, analysis, and consultation cooperation between the central (national) banks of signatory countries to the Eurasian Economic Community Treaty of November 15, 2001.

Two meetings of the Council of Governors of EurAsEC Central (National) Banks took place in the period under review. The council was formed to coordinate the activities of EurAsEC central (national) banks in respect to the national monetary and banking systems, and to promote multilateral and bilateral payment and settlement relations. In 2005, the council approved an action plan for the implementation of a concept for monetary cooperation between member states, approved and recommended for practical application a procedure for supervising banking groups on a consolidated basis, and took a decision to exchange information every six months on changes in national AML/FT laws and regulations. The Council of Governors continued to implement the agreement on cooperation in training EurAsEC central (national) bank personnel.

The Bank of Russia in 2005 actively contributed to the work of the Interstate Bank, whose board discussed at its meetings means of stimulating investment activity, and creating a CIS payment and settlement system on the basis of national currencies.

In line with a decision of the CIS Council of Heads of Government, the Bank of Russia pooled its efforts with the Russian Finance Ministry and the Ministry of Economic Development and Trade to refine the draft of the new Interstate Bank charter, and the draft protocol on amendments to the Interstate Bank Agreement, assigning to the Interstate Bank two major functions: financing investment projects in the interests of member states, and effecting mutual settlements and payments in the national currencies.

As part of measures to create a single economic space in Belarus, Kazakhstan, Russia, and Ukraine, the Bank of Russia in 2005 participated in the activities of special working groups, which discussed at their meetings the drafts of: an agreement on common principles for monetary and foreign exchange policy; an agreement to harmonise banking legislation in compliance with the Basel Committee's recommendations; an agreement on the principles of foreign exchange regulation and control; and an agreement to harmonise the household deposit insurance systems.

In the period under review, the Bank of Russia contributed to work of Shanghai Cooperation Organisation expert groups, whose discussions included the drafts of documents on the founding

principles and procedures for the Shanghai Cooperation Organisation's Development Fund.

The Bank of Russia in 2005 stepped up its activities in bilateral intergovernmental commissions and their structures (committees on trade, economic, and scientific and technological cooperation; and subcommittees and working groups on financial and banking cooperation — in all, 23 structures). Particular attention was paid to relations with the European Union, Austria, Argentina, Brazil, Vietnam, Egypt, India, Indonesia, Kazakhstan, China, Syria, Uzbekistan and South Africa.

The Bank of Russia placed special emphasis on informing banking communities in other countries about: the Russian banking system; Russian banking and foreign exchange legislation; measures being taken to boost public confidence in Russian credit institutions; the establishment and strengthening of direct interbank ties; and the upgrading of forms and methods of international settlements.

In 2005 the Bank of Russia held meetings and consultations with the central and commercial banks of India, Indonesia and South Africa, at which the sides discussed issues relating to Russian banking and foreign exchange laws, and ways to expand interbank cooperation.

The Bank of Russia drafted proposals on matters within its competence on developing dialogue with the European Union's Commission for problems raised in the Russian Government's general action plan for the implementation of the Russia-EU Common Economic Space road map.

## II.11. BANK OF RUSSIA SYSTEM DEVELOPMENT AND UPGRADING

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

The Bank of Russia in 2005 continued to improve its organisational structure and overhaul its divisions.

To implement the *Russian Banking Sector Development Strategy for the Period until 2008*, adopted by the Bank of Russia and the Russian Government, it carried out a series of measures to change the structure of the head office for the purpose of improving the legislative regulation of the banking business, converting credit institutions to international financial reporting standards, and creating conditions to prevent the use of credit institutions for dishonest or illegal activities. This required a slight increase (of 0.2%) in the number of personnel.

The conversion of credit institutions to international financial reporting standards required the introduction of the corresponding accounting principles and methodologies, and the drafting of the corresponding regulatory documents. For this

purpose, the Bank of Russia formed a new structure within its Accounting and Reporting Department, and increased the number of employees of this department.

Pursuant to Federal Law No. 218-FZ, dated December 30, 2004, "On Credit Histories," the Bank of Russia Board of Directors ordered the establishment of the Central Catalogue of Credit Histories, as an independent division of the Credit Institutions Licensing and Financial Rehabilitation Department. The purpose of the new division is to collect and store the titular parts of all credit histories in Russia, and to provide corresponding information.

To optimise its activities in respect to foreign exchange regulation, foreign exchange control, and the prevention of money laundering, the Bank of Russia transformed the Foreign Exchange Regulation and Control Department into the Financial Monitoring and Foreign Exchange Control Department.

To coordinate the implementation of measures to improve information security in the ASBR-Moskva system, the Information Resources Security Section was formed within the Main Division for Security and Protection of Information.

Continuing measures launched several years ago to optimise its payment system, the Bank of Russia closed the 11 cash settlement centres with the smallest number of employees (148 in all) processing a small number of payment documents, and transferred their customers to credit institutions and the nearest cash settlement centres.

Following decisions previously taken by the Bank of Russia Board of Directors to optimise the network of social amenities and health centres, their number decreased by 25, or 11%, and their staff was scaled down by 8%.

As of the end of the period under review, the Bank of Russia system comprised the head office, 59 regional branches, 19 national (regional) banks, the Bank of Russia's representative office in the Chechen Republic, 924 cash settlement centres, five divisions, and the Operations Department of the Moscow Branch, the First Operations Department, the Interregional Security Centre, field establishments, the Directorate of the Central Depository and six interregional depositories, four computer departments, and auxiliary departments.

The average number of employees on the Bank of Russia's active payroll stood at 75,702 in 2005. This represents a decrease of 2,491 from 2004, resulting from gradual staffing cutbacks made in 2004—2005.

NUMBER OF BANK OF RUSSIA EMPLOYEES BY DIVISION AS OF JANUARY 1, 2006 (%)

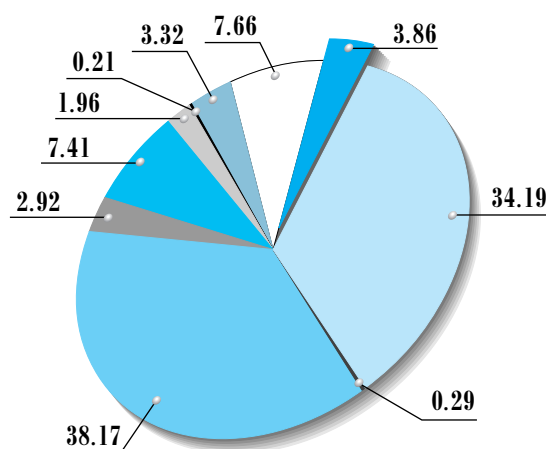


Chart 48

- Head office
- Regional branches
- First Operations Department
- Structural divisions within regional branches (Main Cash Settlement Centre, cash settlement centres, cash centres, divisions and Operations Department of the Moscow Branch)
- Field establishments
- Central depository
- Computer divisions
- Training centres
- Divisions providing logistic support for the head office and Bank of Russia divisions based in Moscow and the Moscow Region
- Social amenities divisions

## II.11.2. COORDINATING ACTIVITIES OF BANK OF RUSSIA REGIONAL BRANCHES

The Bank of Russia in 2005 coordinated the activities of its regional branches to enhance their effectiveness in implementing the single state monetary policy; to upgrade banking regulation and supervision; to increase the stability and efficiency of the banking system; to select credit institutions for the deposit insurance system; to ensure the effective and smooth functioning of the payment system; to prevent money laundering and terrorist financing; and to ensure that credit institutions met legal requirements for foreign exchange regulation and control.

The Bank of Russia coordinated the work of its regional branches by issuing rules and regulations, letters, and recommendations on various aspects of banking; held seminars and conferences

on current affairs; and sent experts from the head office to inspect regional branches for support in fulfilling their tasks.

The procedure for considering the annual reports of regional branches and tackling the problems they set out is of great importance for enhancing the effectiveness of cooperation between the Bank of Russia head office and regional branches.

Through this procedure, the various divisions of the Bank of Russia head office considered the annual reports of regional branches for 2004, reached general conclusions on the problems they described, outlined measures to resolve them, and sent the results of this analysis back to regional branches for practical implementation.



### II.11.3. STAFFING AND PERSONNEL TRAINING

The principal objective of the personnel policy in 2005 was to enhance efficiency in the various divisions of the Bank of Russia by improving staffing structure, modernising information technology, raising the managerial skills of executives in charge of these divisions, developing the personal and professional potential of employees, improving intra-corporate relations, and promoting corporate values.

As of January 1, 2006, the total number of Bank of Russia employees was down 0.4% year on year; the staffing level in executive and specialist positions stood at 98.4%. Most employees were aged between 30 and 50 years (63.9%), and had worked in the Bank of Russia system from three to 15 years (66.7%). The number of executives and specialists with a higher professional degree has risen over the past few years (1,192 had completed a course of higher education in 2005), whereas the share of employees under 30 has contracted.

As in previous years, the regional branches continued to select and train a reserve of candidates for the positions of heads of various divisions; 70% of top positions were filled by specialists from this reserve.

In the year under review, personnel divisions continued active efforts to implement the policy of providing fundamental retraining for Bank of Russia specialists in the main areas of banking.

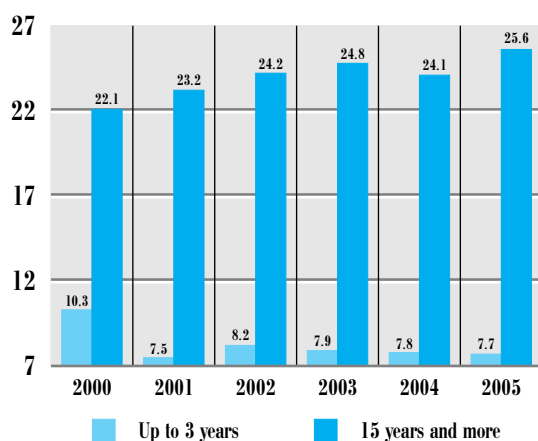
Emphasis was placed on special training programmes in the fields of monetary policy, international financial reporting standards, banking supervision, foreign exchange control, the prevention of money laundering and terrorist financing, and improving managerial competence.

In 2005 the Bank of Russia carried out several major training projects in close cooperation with Russia's leading institutions of higher education, such as the Russian Government's Economic Academy, the Higher School of Economics, and the Russian Government's Financial Academy. More than 250 Bank of Russia supervisors underwent retraining courses in the year under review. The best graduates continued their education and received MBA degrees.

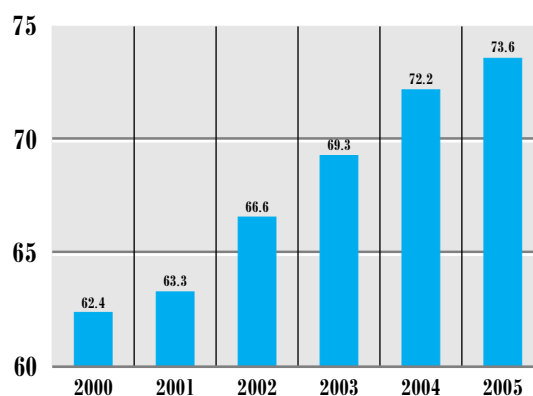
By the end of 2005, 648 Bank of Russia supervisors had received diplomas, including MBAs; more than 90% of these were employees of Bank of Russia regional branches.

In 2005 the Bank of Russia continued to provide management training for the heads of its regional branches and candidates for these posi-

**PERSONNEL STRUCTURE  
BY DURATION OF EMPLOYMENT  
IN BANK OF RUSSIA SYSTEM**  
(as % of total executives and specialists)



**RATIO OF EXECUTIVES  
AND SPECIALISTS WITH HIGHER  
PROFESSIONAL DEGREES**  
(as % of total executives and specialists)



*Charts 49, 50*

**BANK OF RUSSIA PERSONNEL TRAINING  
BY AREA IN 2005**  
(as % of total number of trainees)

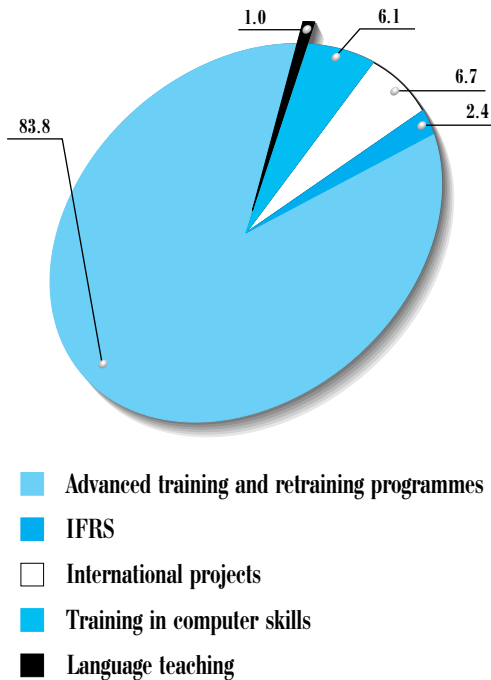


Chart 5.1

tions, in collaboration with the Russian Government's Economic Academy and Civil Service Academy. Nearly 80 heads of Bank of Russia regional branches and personnel managers of regional branches received a course of advanced training under the Bank Top Manager Programme, Project Management Programme (including distance learning), and other specialist training programmes.

The Bank of Russia continued to train its personnel in IFRS methodology, with an emphasis on in-depth study of the theory and practice of using individual standards of the IFRS system, at the specialist training courses, and through the Association of Chartered Certified Accountants programme. Thirty seminars, attended by 603 Bank of Russia specialists, were held in cooperation with PricewaterhouseCoopers Audit and its training division, PricewaterhouseCoopers Expert, on the basis of Bank of Russia training centres.

In all, the Bank of Russia held about 2,000 seminars in 2005, which were attended by more than 25,000 Bank of Russia employees.

The Bank of Russia actively used international technical assistance projects to provide advanced training to its specialists, and to acquaint them with the advanced experience of foreign central (national) banks. During last year, 179 international seminars were held in Russia and abroad, attended by 1,706 Bank of Russia specialists.

In October 2005 the European Union completed its large-scale two-year project *Bank of Russia Personnel Training: Stage III*, implemented through the TACIS technical assistance project to improve the supervisory functions of the Bank of Russia and strengthen the stability of the Russian banking system. The intellectual, financial and technical resources of the project were pooled for the task of improving the regulatory and supervisory functions of the Bank of Russia, set out in the *Russian Banking Sector Development Strategy for the Period until 2008*.

The Bank of Russia held, in collaboration with the European Central Bank and nine European central (national) banks, 64 one-week seminars at its training centres in Moscow, St Petersburg and Tula, which were attended by 800 Bank of Russia specialists.

One major practical result of this project was the compilation of the manual *Banking Supervision: European Experience and Russian Practice*, which is a unique guidebook on the contemporary theory and practice of banking supervision.

The Bank of Russia continued to carry out a joint programme of training of central bank specialists and executives under the Agreement on EurAsEC Central (National) Bank Personnel Training, signed in Minsk on March 12, 2004. Sixteen seminars were held under the agreement during the year under review, of which 11 took place in the Bank of Russia; 27 intern training projects were implemented, of which 18 were in the Bank of Russia. The seminars and internships involved 358 people.

## II.11.4. BANK OF RUSSIA INFORMATION AND TELECOMMUNICATIONS SYSTEM DEVELOPMENT

The Bank of Russia has developed and is now operating an information and telecommunications system, which is a top-bottom geographically distributed structure comprising communications and data transmission systems (networks), computer hardware and software systems, and computer utility services.

These systems and services collectively constitute an integrated technological complex, which manages and controls the Bank of Russia's information processes with advanced information technologies.

In the period under review, the Bank of Russia carried out the following measures to increase the security and reliability of the Single Telecommunications Banking Network (STBN):

- expanding the regional segments and the mainline component of the STBN for the purpose of payment systems security;
- connecting Bank of Russia regional branches to the integrated data processing centres;
- providing STBN services to the various Bank of Russia divisions.

To expand and upgrade the regional segments and the mainline STBN component, the Bank of Russia carried out the following measures:

- creating local STBN segments in the national banks of the Republic of Adygeya and the Republic of North Ossetia — Alaniya;
- installing the telecommunications network of the Bank of Russia Central Depository, and connecting all interregional depositories to the STBN;
- establishing telecommunications units in 26 Bank of Russia field institutions.

As a result of these measures, 76 out of 78 Bank of Russia regional branches have been linked up to the STBN.

Information security subsystems of the STBN Central Unit were installed in 28 Bank of Russia regional branches.

To boost the bandwidth of the primary networks in the Bank of Russia's regional branches, and in Moscow and the Moscow Region, the Bank

of Russia continued to replace analogue channels with digital ones, while increasing the reliability of communications channels and their resistance to external shocks.

It carried out a series of measures to expand the Bank of Russia telephone network by connecting it to regional branches, interregional depositories, and field institutions. The Bank of Russia continued efforts to protect the network from unsanctioned access and use of its resources.

In developing its satellite communications system, the Bank of Russia paid special attention to: establishing satellite communications links in its regional branches and field institutions in the North Caucasus with the weakest communications links; the operations of dedicated satellite communications networks; and the upgrading of software support for satellite communications networks.

The Bank of Russia carried out work to build a single mobile radio communications network for its Central Depository and regional branches.

To ensure the necessary conditions for the reliable and smooth functioning of its information and telecommunications system, the Bank of Russia continued to upgrade the integrated system of managing its information and telecommunications resources, modernising local computer networks and structured cable systems, and utility services.

The Bank of Russia also continued to upgrade the technology used in information analysis and management.

It modernised the system for delivering information from credit institutions to the Federal Financial Monitoring Service in compliance with amendments made to the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism.

It developed and began testing the software system for the Central Catalogue of Credit Histories.

The Bank of Russia continued to develop a single information system for the purposes of banking supervision.

In 2005 it carried out work to develop the Bank of Russia Intranet System to enable the consolidation of Bank of Russia information and IT resources, and the integration of diverse and local information systems and data banks, databases, and analytical applications. It launched the Bank of Russia corporate Intranet portal, which gives almost 12,000 Bank of Russia employees

remote access to corporate information and analytical applications. Virtually all Bank of Russia regional branches and head office divisions are connected to the portal.

In the period under review, the Bank of Russia continued to upgrade its information and telecommunications operations system and control centre.

## II.11.5. BANK OF RUSSIA ACTIVITIES AIMED AT UPGRADING BANKING LEGISLATION. MANAGING SUITS AND CLAIMS IN BANK OF RUSSIA ESTABLISHMENTS

To upgrade banking legislation, the Bank of Russia in 2005 focused on drafting amendments to current federal laws.

Two amendments relating to banking were made to the Civil Code of the Russian Federation in 2005.

Federal Law No. 89-FZ, dated July 18, 2005, "On Amending Article 859 of Part Two of the Civil Code of the Russian Federation" established new grounds for the termination of bank account agreements by credit institutions. The amendment stipulates that unless otherwise stated in an agreement, a credit institution may refuse to fulfil a bank account agreement, having notified the customer of its decision in writing, if there are no funds in the account for a period of two years, no transactions have been conducted with it.

Federal Law No. 22-FZ, dated March 21, 2005, "On Amending Article 839 of Part Two of the Civil Code of the Russian Federation," specifies the procedure for paying interest on bank deposits, bringing it into compliance with the other provisions of the code on interest payments.

Changes relating to banking activities were also made in other laws.

Federal Law No. 106-FZ, dated July 21, 2005, "On Amending Part Two of the Tax Code of the Russian Federation and Invalidating Certain Provisions of Federal Laws," cancelled the stamp duty credit institutions were obliged to pay on opening branches.

As a result of the passing of Federal Law No. 161-FZ, dated December 19, 2005, "On Amending the Penal Code and the Code of Administrative Offences of the Russian Federation," the provisions on deliberate and fictitious bankruptcies and illegal actions during the process of bankruptcy were clarified.

Federal Law No. 61-FZ, dated June 18, 2005, "On Amending the Federal Securities Market

Law, the Federal Law on the Protection of the Rights and Legitimate Interests of Investors on the Securities Market, and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)", granted the Bank of Russia the right to issue bonds without registering them or reporting on their issue. Information on decisions to place Bank of Russia bonds and make additional bond placements, and on the completion of Bank of Russia bond placements and the fulfilment of obligations on them, may be found in an official Bank of Russia publication and on the Bank of Russia website.

Changes were also made to other laws.

Federal Law No. 132-FZ, dated October 20, 2005, "On Amending Article 47 of the Federal Law on Insurance of Household Deposits in Russian Banks," allowed banks that had their repeated requests for access to the deposit insurance system rejected in the final days of the period established for all appeal procedures (21 months), but that wish to continue to handle household deposits, to re-appeal on the same terms and conditions as banks that met the deadline set by the law.

Federal Law No. 145-FZ, dated November 16, 2005, "On Amending Article 2 of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism," added to the category of individuals subject to this law persons without citizenship temporarily residing or staying in Russia.

Federal Law No. 90-FZ, dated July 18, 2005, "On Amending Certain Laws of the Russian Federation," was passed in order to resolve problems arising in the course of implementing the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control. It extended the list of permitted foreign exchange operations between residents, and allowed resident corporate entities to

effect certain settlements on foreign exchange operations without opening bank accounts.

In addition, Federal Law No. 110-FZ, dated July 21, 2005, "On Amending the Federal Law on Credit Histories," was passed swiftly in order to settle problems relating to the Central Catalogue of Credit Histories that the Federal Law on Credit Histories had not addressed.

The Bank of Russia in 2005 was actively involved in drafting federal laws and concepts for federal laws, particularly those envisaged by the Russian Banking Sector Development Strategy for the Period until 2008.

It also continued to upgrade banking legislation by setting out and issuing corresponding rules, regulations and instructions.

In the period from January 1 to December 31, 2005, the Bank of Russia issued 125 regulatory documents, including six instructions, 15 regulations and 104 ordinances. Sixty-five of these documents (two instructions, 11 regulations and 52 ordinances) were registered by the Ministry of Justice.

In addition, during the period the Bank of Russia wrote and sent to its regional branches 168 letters.

## MANAGING SUITS AND CLAIMS IN BANK OF RUSSIA ESTABLISHMENTS

A total of 700 property claims to the amount of 844.2 million rubles and \$8,300 were filed against Bank of Russia regional branches in 2005. Of these, only 108 claims, to the amount of 3.0 million rubles, were upheld.

These figures illustrate that most of the claims and suits against the Bank of Russia were unjustified and could not be upheld.

Eighty-eight claims made against the Bank of Russia in respect to labour relations in 2005 were considered by common law courts.

As regards disputes connected with appeals made by credit institutions against sanctions applied against them by the Bank of Russia, three out of 16 such claims were upheld.

At the same time, the Bank of Russia filed suits and claims against credit institutions in the course of supervising them. It made 689 claims to the amount of 28.9 million rubles, and filed 92 suits to the amount of 704,600 rubles against commercial banks, of which 647 claims and suits to the amount of 28.1 million rubles had been upheld by the end of the period under review.

### II.11.6. BANK OF RUSSIA INTERNAL AUDIT

The Bank of Russia Chief Auditor's Service conducted its activities in 2005 on the basis of plans approved in accordance with the established procedure. In 2005 it conducted 2,185 inspections and audits in Bank of Russia divisions and the head office, including 538 comprehensive audits and 1,647 thematic inspections.

Some of the inspections were conducted to verify compliance with the Core Principles for the Management of the Bank of Russia Foreign Exchange Reserves, and with the Investment Directives for the Bank of Russia Transaction and Investment Foreign Exchange Reserve Portfolios.

The Bank of Russia attached great importance to inspections conducted to verify tax compliance, the execution of the expenditures budget, the development and use of information systems, and the handling of property by Bank of Russia establishments.

In conducting audits (inspections), the Bank of Russia Chief Auditor's Service paid special attention to the effectiveness of internal control and its adequacy to the nature and scale of operations conducted.

The Bank of Russia continued to audit the execution of capital investment and overhaul contract agreements, and tightened control over the quality of draft reports on the audits of regional branches. In implementing audit results, the Bank of Russia paid special attention to the effectiveness of corrective measures taken and control over their implementation, including the implementation of internal auditors' recommendations.

To ensure uniformity in organising audits and the drafting of audit reports by specialists of the Bank of Russia Chief Auditor's Service, the Bank of Russia Internal Audit Department drafted and sent to Bank of Russia regional branches the following methodological recommendations: on inspecting the work of a Bank of Russia regional branch in considering a bank's request for access to the deposit insurance system; on audits of expenditures on the construction and repairs of buildings and other structures; on assessments of the management of non-cash settlements in Bank

of Russia establishments, effected electronically or using letters of advice.

Auditors with the Bank of Russia Chief Auditor's Service conducted thematic inspections to verify compliance with Bank of Russia requirements and ordinances in respect to overhaul and current repair. Thematic inspections were conducted in certain Bank of Russia regional branches and divisions to assess the correctness of work on setting the tax base, calculating taxes, compliance with tax procedures and deadlines, and the promptness in submitting tax declarations.

Overall, inspection results have shown that Bank of Russia divisions complied with standards and regulations, and that the number of violations has declined. This suggests that internal controls in the Bank of Russia have become more effective.

The results of audits and inspections of divisions of the Bank of Russia's head office, of regional branches, and of other establishments, were taken into account when administrative measures were taken against executives responsible for violations and faults.

On the proposal of the Bank of Russia Chief Auditor's Service, a series of measures were carried out in Bank of Russia divisions to improve control over the observance of laws and regulations on cash issue management, information security, and the construction of Bank of Russia facilities.

The Bank of Russia continued in 2005 to take steps toward raising the qualification level of staff at the Bank of Russia Chief Auditor's Service, paying special attention to training in International Financial Reporting Standards. Employees of the service took part in international seminars and meetings, at which representatives from European and CIS central banks exchanged experience.

In pursuance of Article 13 and Article 95 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the National Banking Board in November 2005 heard and took into consideration the Bank of Russia Chief Auditor's report.

## 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 2005 participated in the capital of the Savings Bank (Sberbank), an open joint-stock company, and the capital of resident organisations providing support to the Bank of Russia: 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 participated in the management and control of these resident organisations through its representatives in the management and control bodies of the organisations.

Bank of Russia representatives in the management and control bodies of resident organisations ensured that their decisions facilitated the implementation of strategic national economic tasks and the consistent development of the financial market infrastructure, in line with the *Russian Banking Sector Development Strategy for the Period until 2008*.

The Bank of Russia's stake in Sberbank's authorised capital remained unchanged in 2005 at 60.57%.

Sberbank's Supervisory Board approved, and Sberbank shareholders meeting adopted, a new version of Sberbank's Charter, giving the Supervisory Board wider powers in endorsing internal documents, including the internal control service rules and regulations, the procedure for approving transactions in which the bank is an interested party, and the procedure for conducting transactions with connected parties. In 2005, the Supervisory Board approved a new version of the Internal Controls Regulation, which gave the Supervisory Board the authority to approve the Internal Control Service's quarterly and annual inspection plans and implementation reports. In line with the Code of Corporate Conduct, approved

by the Federal Securities Market Commission's Resolution No. 421/r, dated April 4, 2002, Sberbank formed Supervisory Board committees for strategic planning, audits, and personnel and benefits, which included Bank of Russia representatives.

Information on improving effectiveness of the Supervisory Board's control over Sberbank was presented at a National Banking Board meeting held in September 2005.

Dividends paid to the Bank of Russia in 2005 from profits made in 2004 exceeded 1.9 billion rubles, an increase of 25% on 2003. Preliminary results indicate that Sberbank's 2005 profits totalled 81.3 billion rubles, up 50% on 2004.

The Bank of Russia's stakeholdings in MICEX, SPCEX, and the NDC allowed it to control operations on the domestic forex and government debt markets, and to use the exchange infrastructure for conducting operations necessary for the implementation of monetary policy.

In 2005, the MICEX annual shareholders' meeting decided to increase the company's authorised capital by changing the nominal value of its ordinary registered shares. The Bank of Russia's stake in the capital of MICEX remained unchanged at 28.76%. The new version of the MICEX Charter, passed by the annual shareholders' meeting, reflected the increase in the exchange's authorised capital and reserves, brought the titles of the exchange's managerial bodies into compliance with the law, established the procedure for paying dividends and maintaining the register of shareholders, and made various other changes.

The MICEX Board of Directors in 2005 put into effect changes to currency trading rules, which updated the risk management system and adapted it to the new exchange rate forming mechanism. In the year under review, MICEX approved the Securities Access and Placement Rules, and the Principles of Corporate Conduct.



To tighten controls and create a top-down management system, MICEX bought a controlling stake in the Asia-Pacific Interbank Currency Exchange, and increased its stake in the authorised capital of the MICEX Clearing House. With the participation of the Bank of Russia, MICEX decided to establish the National Clearing Centre, a closed joint-stock company, to improve the quality of the settlement and clearing services provided to stock market participants.

The Bank of Russia in 2005 actively used exchange mechanisms to regulate market participants' liquidity. Transactions on Bank of Russia deposit operations in the MICEX Electronic Trading System (ETS) were concluded through auctions and at fixed interest rates, enabling the Bank of Russia to quickly respond to changes on the liquidity market, and to provide equal access to monetary regulation instruments for all credit institutions, including regional ones.

Total trade volume on MICEX stood at \$925.1 billion in 2005, an increase of 70% on 2004, when MICEX traded \$550.0 billion. Dividends paid to the Bank of Russia for 2004 amounted to 13.4 million rubles. MICEX net profit for 2005 gained 42.8% year on year, to 731.7 million rubles.

The Bank of Russia's stake in SPCEX remained unchanged at 8.9%. In 2005 the SPCEX Board brought the exchange's internal documents into compliance with Federal Financial Markets Service requirements: it made changes to the SPCEX Charter, tightening requirements on candidates for positions in management and control bodies (a candidate must have experience of fulfilling managerial duties and working on financial markets), and to the statute of the shareholders' meeting and the Exchange Board. In the year under review the Exchange Board Audit Committee, a body whose functions include cooperation with auditors and the exchange audit commission, analysing the quality of external audits and setting recommendations for external auditor candidates, analysing major risks and providing recommendations for detecting them, and assessing the effectiveness and preparation of recommendations on upgrading internal controls, began operating.

SPCEX trade turnover in 2005 grew 93.8% to 2.3 trillion rubles. The exchange's net profit

for 2004 totalling 33.2 million rubles was transferred in the year under review to reserves, and to the accumulation and consumption fund. Net profit gained more than 70% in 2005 year on year, reaching 57.9 million rubles.

The Bank of Russia in 2005 retained its 49% stake in the NDC. In accordance with a decision reached at the NDC shareholders' meeting, a new collegiate managerial body, the Board of Directors, was established in 2005, vested with the right to consider issues before they are presented to the shareholders' meeting for approval. The area of competence of the Board of Directors also includes the appointment of an auditor, the creation of funds and the procedure for spending their resources, the endorsement of service tariffs, internal documents regulating the activities of consultative and advisory bodies and the creation of these bodies, and other functions.

Decisions taken by the NDC management in the period under review were aimed at making the NDC more competitive on the depository services market, implementing the concept for a central depository, and modernising the NDC technological platform. To accomplish this task, the NDC established the Technological Committee, and the Committee for the Management of the Technological Platform Modernisation Project, which included Bank of Russia representatives.

The value of securities held in depo accounts opened in the NDC increased 34% to 1.8 trillion rubles, and the number of NDC depositors reached 688 by the end of 2005. The number of issuers who had depo issuer accounts opened for them climbed 34% to 361. Net profit for 2005 grew 35.2% year on year and stood at 199.4 million rubles. Under the NDC Charter, all after-tax profit must go to development, including to the partnership's special funds (for the development of the settlement and depository system, social development, and benefits).

Under Article 8 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), in line with the National Banking Board's decisions of December 29, 2004, and December 13, 2005, and with the approval of the Russian Government (Russian Federation Government Resolution No. 1960-R, dated November 18, 2005), the Bank of Russia withdrew in

December 2005 from the capital of its overseas subsidiary banks: Vienna-based Donau-Bank, Luxembourg-based East-West United Bank, Paris-based Banque Commercial pour l'Europe du Nord — Eurobank, London-based Moscow Narodny Bank, and Frankfurt-based Ost-West Handelsbank. It withdrew from the capital of these banks by forfeiting its stakes and some assets placed with these banks to Vneshtorgbank (Foreign Trade Bank), an open joint-stock company.

At the same time, provisions made previously for the Bank of Russia's stakeholdings in Russia's

overseas banks, and for assets placed with them, were recovered from Bank of Russia income.

However, since letters of comfort stating an obligation to provide financial assistance to Eurobank and Moscow Narodny Bank for the next two and three years, respectively, were issued at the demand of the UK, Singapore, and French regulators, the Bank of Russia will continue to sit on these banks' supervisory boards for the corresponding terms.

The Bank of Russia's withdrawal from the capital of Russia's overseas banks was completed in full and on schedule.

**BANK OF RUSSIA ANNUAL  
FINANCIAL STATEMENTS  
AS OF JANUARY 1, 2006**



## 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 (hereinafter referred to as the financial statements) as of January 1, 2006, presented below, 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 as follows:

- to protect the ruble and ensure its stability;
- to develop and strengthen the Russian banking system;
- to ensure the effective and smooth functioning of the payment system.

In accordance with Guidelines for the Single State Monetary Policy in 2005, the Bank of Russia last year maintained the managed floating exchange rate regime, made necessary by the Russian economy’s heavy dependence on the price situation on foreign markets. The exchange rate policy pursued by the Bank of Russia was aimed at controlling growth in the nominal effective rate of the ruble amid the excess supply of the foreign exchange on the domestic forex market. To reduce inflationary pressure, the Bank of Russia conducted operations to sterilise excess liquidity.

It continued to convert national banking regulations to international standards, transferring credit institutions to international financial reporting standards, and completed the formation of the deposit insurance system. The Bank of Russia took steps to upgrade risk assessment practices in banking to reduce risks of active banking operations and to maintain liquidity.

The Bank of Russia continued to consistently upgrade the payment system. To implement the *Russian Banking Sector Development Strategy for the Period until 2008*, adopted on April 5, 2005, which envisages the establishment by the Bank of Russia of a real-time gross settlement system for large, urgent payments, it began to carry out a series of measures to accomplish this task.

## ANNUAL BALANCE SHEET

### AS OF JANUARY 1, 2006

(million rubles)

	Note	2005	2004
<b>ASSETS</b>			
<b>1. Precious metals</b>	3	<b>59,338</b>	<b>60,188</b>
<b>2. Funds placed with non-residents, and securities issued by non-residents</b>	4	<b>5,300,576</b>	<b>3,439,517</b>
<b>3. Loans and deposits</b>	5	<b>25,985</b>	<b>178,378</b>
<b>4. Securities, of which:</b>	6	<b>287,006</b>	<b>345,575</b>
4.1. Russian government securities		280,756	324,902
<b>5. Other assets, of which:</b>	7	<b>81,351</b>	<b>76,502</b>
5.1. Fixed assets		59,421	58,710
<b>Total assets</b>		<b>5,754,256</b>	<b>4,100,160</b>
<b>LIABILITIES</b>			
<b>1. Cash in circulation</b>	8	<b>2,199,180</b>	<b>1,673,294</b>
<b>2. Funds in Bank of Russia accounts, of which:</b>	9	<b>3,184,259</b>	<b>1,914,817</b>
2.1. Russian government funds		1,905,206	891,113
2.2. Funds of resident credit institutions		684,148	700,694
<b>3. Float</b>	10	<b>19,293</b>	<b>220,105</b>
<b>4. Other liabilities</b>	11	<b>141,151</b>	<b>103,901</b>
<b>5. Capital, of which:</b>		<b>210,373</b>	<b>188,043</b>
5.1. Authorised capital		3,000	3,000
5.2. Reserves and funds		207,373	188,389
5.3. Losses incurred in 1998		—	(3,346)
<b>Total liabilities</b>		<b>5,754,256</b>	<b>4,100,160</b>

Bank of Russia Chairman

S.M. Ignatiev

Bank of Russia Chief Accountant

L.I. Gudenko

May 12, 2006

## PROFIT AND LOSS ACCOUNT

		<i>(million rubles)</i>	
	Note	2005	2004
<b>INCOME</b>			
Interest income	13	105,600	53,986
Income from operations with securities	14	51,032	26,750
Income from operations with precious metals		3,420	2,928
Income from stakeholdings in credit and other institutions		2,328	1,750
Net income from recovery of provisions	15	21,358	844
Other income	16	3,069	3,922
<b>Total income</b>		<b>186,807</b>	<b>90,180</b>
<b>EXPENSES</b>			
Interest expenses	17	8,150	3,064
Expenses on operations with securities	18	18,471	9,292
Cash turnover management expenses	19	8,506	6,065
Expenses on operations with precious metals		164	85
Other operating expenses	20	35,951	22,138
Personnel costs	21	33,625	30,390
<b>Total expenses</b>		<b>104,867</b>	<b>71,034</b>
<b>Financial result: profit</b>		<b>81,940</b>	<b>19,146</b>

## CAPITAL, FUNDS AND PROFIT ALLOCATION

*(million rubles)*

	Authorised capital	Reserves	Accrued exchange rate differences	Social fund	Fixed assets revaluation fund	Other funds	1998 losses	Allocation of profit for 2005	Total
<b>Balance as of January 1, 2005</b>	<b>3,000</b>	<b>33,417</b>	<b>144,025</b>	<b>2,879</b>	<b>7,965</b>	<b>103</b>	<b>(3,346)</b>	—	<b>188,043</b>
Full-year profit								81,940	81,940
Allocation of profit for 2005:									
— taxes and duties paid								(54)	(54)
— to be transferred to the federal budget								(40,943)	(40,943)
— allocated to funds, and to cover losses for 1998		35,959		1,638			3,346	(40,943)	—
Accrued exchange rate differences			(18,235)						(18,235)
Allocated to funds from other sources						1			1
Used from funds				(376)		(3)			(379)
<b>Balance as of January 1, 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>



## NOTES TO ANNUAL FINANCIAL STATEMENTS

### AS OF JANUARY 1, 2006

#### 1. ACCOUNTING AND FINANCIAL REPORTING PRINCIPLES

The Bank of Russia's accounting and financial reporting practices conform to: the Federal Law on the Central Bank of the Russian Federation (Bank of Russia); the Federal Law on Accounting; Bank of Russia Accounting Rules No. 66, dated September 18, 1997 (with subsequent changes and amendments); and other Bank of Russia regulations issued in pursuance of the above federal laws.

##### *(a) Accounting principles*

Accounting is conducted based on the acquisition cost principle. The principles of revaluing individual asset and liability items are set out below.

##### *(b) Financial reporting framework*

These financial statements have been compiled on the basis of balance sheet data recorded by the Bank of Russia, including its regional branches, and other divisions making up the structure of the Bank of Russia as a corporate 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 stakeholdings, and whose activities are controlled by the Bank of Russia.

These financial statements have been compiled in the Russian currency, the ruble, in millions of rubles, abbreviated as Rbs m.

Wherever necessary, comparative data have been readjusted in accordance with changes in the form of presentation of the financial statements for the year under review.

Figures in brackets denote negative values.

##### *(c) Precious metals*

Precious metals are accounted for at their acquisition cost. Precious metals in deposits and unallocated metal accounts in non-resident credit institutions are accounted for at their acquisition cost and included in the balance sheet item *Funds placed with non-residents, and securities issued by non-residents*.

Bank of Russia claims and obligations for the delivery of precious metals in forward transactions are recorded in off-balance sheet accounts from the date on which the transaction was concluded to the settlement date.

##### *(d) Foreign currency assets and liabilities*

Foreign currency assets and liabilities are accounted for in rubles at the official rates of exchange of foreign currencies against the ruble set 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 according to the official exchange rates. Income and expenses resulting from the Bank of Russia's foreign currency operations are recorded on 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 different to the official exchange rate, are



calculated 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 recognised as part of other operating expenses.

In cases where the accrued negative unrealised exchange rate differences exceed the accrued positive unrealised exchange rate differences over the reporting year, the excess is compensated for by the previously accrued net positive exchange rate differences accounted for as *Accrued exchange rate differences*. If there is no balance, or if the balance is short in the balance sheet account *Accrued exchange rate differences*, negative unrealised exchange rate differences are accounted for fully or in part as Bank of Russia other operating expenses for the corresponding reporting year, on the decision of the Bank of Russia Board of Directors.

Bank of Russia claims and obligations for foreign exchange purchase and sale transactions are recorded in off-balance sheet accounts from the date on which the transaction is concluded to the settlement date, and revalued at the official exchange rates.

The official exchange rates used in recalculating foreign currency assets and liabilities on the last business day, December 31, 2005, were as follows: 28.7825 rubles to the US dollar (2004: 27.7487 rubles to the US dollar) and 34.1850 rubles to the euro (2004: 37.8104 rubles to the euro).

#### *(e) Securities*

The accounting principles used by the Bank of Russia in recording investments in government securities are as follows:

- 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);
- government securities in the trading book, and government securities purchased through repo operations on the domestic securities market, are revalued following trading sessions if their market prices are quoted, and are accounted for at their acquisition price if they are not quoted (for a definition of the trading book see 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 the acquisition price, while bonds in the trading book are revalued following 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 sold under repos with residents are recorded from the Bank of Russia balance sheet and reaccounted for in the Bank of Russia balance sheet after their reverse repurchase. Government securities acquired under repos with residents are accounted for in the Bank of Russia balance sheet during the repo period, and recorded from the balance sheet on their resale. Bank of Russia claims and obligations on the reverse repurchase and resale of government securities in repos with residents are recorded in off-balance sheet accounts from the transaction date to the settlement date.

Regional government securities are accounted for at the acquisition price.

In addition, the following accounting principles are used in respect to other securities:

- foreign issuers' securities received by the Bank of Russia through repos with non-residents are recorded on off-balance accounts as securities received as collateral on repos. Funds provided for repos with non-residents are recorded on the Bank of Russia balance sheet as operations to place funds using securities as collateral. Income received from funds provided for repos are included in interest income;
- foreign issuers' securities transferred by the Bank of Russia as collateral for repos with non-residents continue to be recorded as foreign issuers' securities on the Bank of Russia balance sheet. Funds received from repos with non-residents are recorded on the Bank of Russia balance sheet as operations to obtain funds using securities as collateral. Securities transferred by the Bank of Russia to non-residents as collateral for repos are recorded on off-balance accounts as securities

transferred by the Bank of Russia as collateral. Expenses in obtaining funds through repos are recorded as interest expenses.

- credit institutions' promissory notes are accounted for at their acquisition price.

Bonds issued by the Bank of Russia are accounted for at their nominal value. The difference between the nominal value and actual selling (redemption) price of the bonds is accounted for as net deferred income (expenses) on securities as part of *Other liabilities (Other assets)*. When a bond issue is redeemed, the accrued deferred income and expenses on this issue are netted, and the result is accounted for in the Bank of Russia income or expense accounts.

#### *(f) Investment*

Bank of Russia investments in the authorised capital of credit and other institutions within and outside Russia are accounted for at their acquisition price.

#### *(g) Loans extended to credit institutions*

Loans extended to credit institutions are accounted for in the amount of the principal debt.

#### *(h) Provisions for possible losses on Bank of Russia operations*

To protect its assets against the risk of depreciation, the Bank of Russia, using internationally accepted banking practice and guided by its rules and regulations, makes provisions for possible losses on loans extended to credit institutions, for devaluation of investments 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 probability of the failure by the Bank of Russia to recover the funds invested in assets and the probable level of Bank of Russia losses. Bank of Russia provisions are made from the deductions accounted for as Bank of Russia expenses. When loans are repaid, deposits refunded, and promissory notes retired, and the quality of assets improves, the provisions previously made for them are recovered to Bank of Russia income. Provisions made are accounted for as part of other liabilities.

#### *(i) Fixed assets*

Fixed assets are accounted for at their residual value, i.e. at the acquisition price, allowing for revaluation net of accrued depreciation.

Bank of Russia fixed assets are revalued in compliance with Russian Government resolutions. The most recent revaluation was made on January 1, 1997.

The 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 Enforcing the Regulation on the Procedure for Using the List of Depreciated Fixed Assets of the Bank of Russia, Broken down into Depreciation Groups and Indicating Serviceability Periods and the List of Depreciated Fixed Assets of the Bank of Russia, Broken down 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 the Depreciation Groups."

	%
Buildings	1.1—14
Equipment (including computers, furniture, transport vehicles, etc.)	4—92

*(j) Cash in circulation*

The Bank of Russia is the sole issuer of cash and organiser of cash circulation. Banknotes and coins put into circulation are accounted for in the balance sheet at their face value.

*(k) Account balances with the Bank of Russia*

Funds in accounts with the Bank of Russia comprise federal government funds, credit institutions' correspondent account balances, credit institutions' required reserves deposited with the Bank of Russia, credit institutions' deposit accounts with the Bank of Russia, regional and local government budget funds, and government extra-budgetary funds. Funds in accounts with the Bank of Russia are accounted for in the balance sheet at their nominal value.

*(l) Float*

Float as of the end of the year includes balances connected with the completion of settlement operations on electronic and letter-of-advice settlement accounts, balances resulting from operations between Bank of Russia establishments, and funds the Bank of Russia must enter to customer accounts. Float is accounted for in the balance sheet at its nominal value.

*(m) 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 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 uses of reserves and funds is contained in the Statement on Bank of Russia Reserves and Funds in these Bank of Russia Annual Financial Statements as of January 1, 2006.

The balance sheet item *Capital* shows also the amount of uncovered losses as of the reporting date, incurred in 1998 as a result of the depreciation of government securities portfolio owned by the Bank of Russia as of January 1, 1999. Losses incurred by the Bank of Russia in 1998 were covered by profit retained by the Bank of Russia. As of January 1, 2006, all losses had been covered.

*(n) Recognition of Bank of Russia income and expenses*

Income 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.

*(o) Financial result*

The financial result, or profit/loss, is determined as the difference between total income received and expenses incurred in respect to the core and ancillary activities of the Bank of Russia during the reporting year.

*(p) Taxation of the Bank of Russia*

The Bank of Russia pays taxes and duties in compliance with the Tax Code of the Russian Federation. The Bank of Russia has formulated and approved an accounting policy for the purposes of taxation, which sets out tax accounting principles and methods, and the rules and procedure of tax base formation for the calculation of taxes and duties to be paid by the Bank of Russia.

## 2. IMPACT OF ECONOMIC CONDITIONS ON BANK OF RUSSIA FINANCIAL STATEMENTS

The situation on the world's commodity markets continued to exert a significant influence on the Russian economy in 2005.

The favourable foreign trade situation allowed the Russian Government to register a federal budget surplus, and to expand the Stabilisation Fund.

The continued improvement in foreign trade conditions led to growth in Russia's trade and balance of payments surpluses. Substantial volumes of foreign exchange flowed into the Russian economy, sustaining the conditions for the ruble's appreciation.

While maintaining the managed floating exchange rate regime to contain growth in the nominal effective rate of the ruble, the Bank of Russia bought foreign exchange on the domestic market, and Russia's foreign exchange reserves increased significantly during the year under review.

In 2005 the Bank of Russia conducted operations to regulate banking sector liquidity levels. The larger volume of funds in federal government accounts resulting from the federal budget surplus absorbed a large part of the banking sector's excess liquidity. The Bank of Russia also conducted operations to sterilise a part of the banking sector's excess liquidity. This made it possible to alleviate the inflationary effect of ruble interventions on the domestic forex market.

Bank of Russia operations on the domestic and foreign currency markets, and the increased level of federal budget funds in the government accounts, brought about corresponding changes in Bank of Russia balance sheet.

Growth in international reserves led to an expansion in funds placed with non-residents and used to purchase foreign securities. This increase accounted for most of the growth in Bank of Russia balance sheet assets. Bank of Russia operations to manage foreign currency-denominated assets, including international reserves, largely determined the Bank of Russia's financial result for 2005.

With the strong inflow of ruble liquidity, credit institutions' need to borrow from the Bank of Russia in 2005 was limited.

Growth in household income in 2005 was the principal factor behind the economy's increased demand for cash, and the consequent substantial rise in *Cash in circulation* in the Bank of Russia balance sheet.

The strongest growth in balance sheet liabilities was registered in *Account balances with the Bank of Russia*, caused by the more than doubling in federal government account balances as a result of the federal budget surplus, and the expansion of the Stabilisation Fund.

Bank of Russia profit for 2005 increased year on year, largely due to growth in revenues from the placement of international reserves amid their rapid expansion, and the recovery of provisions made by the Bank of Russia earlier for its stakeholdings in Russia's overseas banks, and of assets invested in them, as a result of the Bank of Russia's withdrawal from these banks' equity at the end of 2005. At the same time, last year's higher level of expenditure was a result of the Bank of Russia's operations with monetary regulation instruments aimed at sterilising excess banking sector liquidity.

## 3. PRECIOUS METALS

The decrease in this item is due to the sale of precious metals on the international market, and the sale of precious metal coins on the domestic and international markets.

## 4. FUNDS PLACED WITH NON-RESIDENTS, AND SECURITIES ISSUED BY NON-RESIDENTS

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Foreign issuers' securities	2,263,517	1,807,588
Correspondent account balances and deposits placed in non-resident banks	1,923,264	1,136,250
Funds placed with non-residents under repo transactions	1,113,795	473,478
Loans extended and deposits placed in Bank of Russia subsidiaries abroad	—	22,201
<b>Total</b>	<b>5,300,576</b>	<b>3,439,517</b>

Growth in *Foreign issuers' securities* was due to the increase in investments in foreign securities caused by the expansion of foreign exchange reserves. Foreign issuers' securities are mainly US treasuries, government debt obligations of Germany, France, UK, Belgium, the Netherlands, Austria, Spain, Finland and Ireland, and debt instruments of extra-budgetary funds and federal agencies of the above countries and international financial organisations.

The increase in *Correspondent account balances and deposits placed in non-resident banks* was largely due to growth in international reserves.

As of January 1, 2006, *Funds placed with non-residents under repo transactions* totalled 292,366 million rubles (2004: 109,358 million rubles) in balances of Bank of Russia operations to place funds with non-residents. As a result of these operations the Bank of Russia received from non-residents foreign issuers' securities as collateral against these repos, while simultaneously receiving funds from the same non-residents for the same periods, and passing to them other foreign issuers' securities from its portfolio, as collateral against the funds received. The nominal value of the foreign issuers' securities passed by the Bank of Russia to non-residents through these repos was 293,508 million rubles as of January 1, 2006 (2004: 108,418 million rubles), and is recorded in off-balance sheet accounts in *Securities passed as collateral against repo transactions* (Note 22). The corresponding balances of funds raised from non-residents through these repos are accounted for in *Non-resident banks' funds obtained through repo transactions* (Note 9). Non-residents' average debt to the Bank of Russia, and the Bank of Russia's debt to non-residents on these repos, stood at 225,363 million rubles (2004: 104,904 million rubles). This debt has been calculated as the sum 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 year. Carried-over transactions that occurred in the reporting year were taken into account in the calculation. In 2005, the Bank of Russia placed and raised funds through these repos to a total amount of 3,322,770 million rubles (2004: 2,775,003 million rubles). Income from Bank of Russia placements with non-residents through these repos reached 6,770 million rubles in 2005 (2004: 1,320 million rubles), and were accounted for as *Interest income from foreign currency loans and deposits* (Note 13). Bank of Russia expenses on raising funds from non-residents in these repos amounted to 6,560 million rubles in 2005 (2004: 1,178 million rubles), and were accounted for as *Interest expenses on funds raised using foreign currency-denominated securities as collateral* (Note 17).

The decrease in *Loans extended and deposits placed in Bank of Russia subsidiaries abroad* is due to the buyout by Vneshtorgbank from the Bank of Russia of claiming rights on deposits and loans placed with subsidiary banks, after the Bank of Russia forfeited its stakeholdings and assets in Russia's overseas banks at the end of 2005, on the terms and conditions of, and in accordance with, the decision taken by the National Banking Board on December 13, 2005.

## 5. LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Loans and deposits in resident banks (in foreign currency)	22,047	21,921
Loans extended to resident banks (in rubles)	62	169
Funds provided for government foreign debt service	—	152,618
Other	3,876	3,670
<b>Total</b>	<b>25,985</b>	<b>178,378</b>

*Loans and deposits in resident banks (in foreign currency)* represent deposits placed by the Bank of Russia with Vneshtorgbank and Vneshekonombank. Growth in these loans and deposits was due to a change in the ruble's official rate against foreign currencies as of December 31, 2005, compared with December 31, 2004.

The decrease in *Loans extended to resident banks (in rubles)* is due to the settlement of credit institutions' debt to the Bank of Russia, and the writing-off of a part of the debt as a result of provisions previously made by the Bank of Russia, in line with the Bank of Russia Board of Directors' decisions on the exclusion of credit institutions from the Single State Register of Corporate Entities of the Russian Federation.

Pursuant to the 2005 Federal Budget Law and Russian Federation Government Resolution No. 2333-r, dated December 30, 2005, the Ministry of Finance has repaid its entire debt to the Bank of Russia on foreign currency funds transferred in 1998—1999 (under Federal Law No. 192-FZ, dated December 29, 1998, "On Budget and Tax Policy Priorities" and Federal Law No. 36-FZ, dated February 22, 1999, "On the Federal Budget for 1999") to Vneshekonombank, to extend loans to the Finance Ministry for urgent payments on the redemption and servicing of the Russian government's foreign debt.

## 6. SECURITIES

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
<b>Russian government securities</b>		
Federal loan bonds (OFZ), of which:	189,225	223,610
— investment portfolio	154,743	24,743
— trading book	29,768	198,867
— loans obtained through repo transactions	4,714	—
Russian government internal and external foreign currency-denominated loan bonds, of which:	91,484	97,962
— investment portfolio	89,963	71,942
— trading book	1,521	26,020
Other	47	3,330
<b>Subtotal</b>	<b>280,756</b>	<b>324,902</b>
<b>Equities of credit and other institutions (Bank of Russia stakeholdings)</b>	<b>6,093</b>	<b>20,646</b>
<b>Regional government debt obligations</b>	<b>130</b>	<b>—</b>
<b>Credit institutions' promissory notes acquired by the Bank of Russia</b>	<b>27</b>	<b>27</b>
<b>Total</b>	<b>287,006</b>	<b>345,575</b>

The Bank of Russia OFZ portfolio was formed as a result of the restructuring of government securities in 2003—2005, pursuant to the corresponding federal budget laws, and OFZ purchase and sale on the Russian organised securities market during 2005. The characteristics of the securities received by the Bank of Russia as a result of the restructuring process were agreed on by the Finance Ministry and the Bank of Russia. In 2005 government securities were restructured without changing their original balance sheet value, or the present value of the future securities-related cash flows.

OFZ bonds are included in the investment portfolio, trading book, and in securities acquired through repos.

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 use in purchase and sale operations on the securities market.

To regulate banking sector liquidity in 2002—2004, the Bank of Russia conducted purchase and sale operations with federal government securities in its trading book with an obligation of reverse repurchase.

In 2004 the Bank of Russia began to purchase and sell on the domestic securities market its own bonds with an obligation of reverse repurchase. As a result, in 2005 a large portion of federal government security issues were transferred from the trading book to the investment portfolio, as the Bank of Russia had no plans to conduct operations with federal government securities on the domestic government securities market.

The structure of the OFZ investment portfolio, broken down by coupon income and maturity, is as follows:

OFZ type	<i>(million rubles)</i>	
	2005	2004
<b>0% coupon-income debt depreciation OFZ</b>		
due in 2019—2028	147,269	—
<b>0% coupon-income debt depreciation OFZ</b>		
due in 2025—2029	—	10,578
<b>0.34% 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>5.95% coupon-income debt depreciation OFZ</b>		
due in 2023	—	6,691
<b>Total</b>	<b>154,743</b>	<b>24,743</b>

As of January 1, 2006, the investment portfolio contained OFZ bonds maturing from 2019 to 2029 with coupon income of 0% to 1.21% p.a. Most of the OFZ bonds in the investment portfolio (95%) had zero coupon income as of January 1, 2006.

As of January 1, 2005, the investment portfolio had OFZ bonds maturing from 2023 to 2029 with coupon income of 0% to 5.95% p.a.; zero coupon-income bonds accounted for 43% of the total value of the investment portfolio.



The structure of the Bank of Russia trading book, broken down by coupon income and maturity, is as follows:

	<i>(million rubles)</i>	
OFZ type	2005	2004
<b>0% coupon-income debt depreciation OFZ</b>		
due in 2019	66	—
<b>0% coupon-income debt depreciation OFZ</b>		
due in 2019—2027	—	146,337
<b>8% coupon-income debt depreciation OFZ</b>		
due in 2018	20,099	—
<b>10% coupon-income debt depreciation OFZ</b>		
due in 2018	—	20,220
<b>11% coupon-income debt depreciation OFZ</b>		
due in 2012	—	256
<b>6% permanent coupon-income OFZ</b>		
due in 2012	9,603	18,843
<b>7.5% fixed coupon-income OFZ</b>		
due in 2005	—	13,211
<b>Total</b>	<b>29,768</b>	<b>198,867</b>

As of January 1, 2006, the trading book comprised OFZ bonds maturing from 2012 to 2019. Most of these (67%) had a coupon income of 8% p.a. and were due in 2018.

As of January 1, 2005, the trading book comprised OFZ bonds maturing from 2005 to 2027. Most of these (73%) were zero-coupon income bonds due in 2019—2027.

In addition, as of January 1, 2006, the Bank of Russia held OFZ bonds with a balance sheet value of 4,714 million rubles, bought through repos with an obligation to resell. These bonds mature from 2006 to 2018, and carry a coupon income of 6% to 10% p.a. Off-balance sheet disbursement claims and obligations to resell securities in these transactions are accounted for in Note 22.

The decrease in *Russian government internal and external foreign currency-denominated loan bonds* was due to the redemption of a portion of these bonds by the Finance Ministry.

The structure of Bank of Russia investments in the equity of credit and other institutions is as follows:

*(million rubles)*

Name of credit institution	2005		2004	
	Investment amount (at acquisition price)	% share in authorised capital (at par)	Investment amount (at acquisition price)	% share in authorised capital (at par)
Sberbank	4,563	60.57	4,563	60.57
Bank for International Settlements, Basel	1,227	0.59	1,076	0.55
Moscow Interbank Currency Exchange (MICEX)	300	28.76	300	28.76
St Petersburg Currency Exchange	3	8.90	3	8.90
Moscow Narodny Bank, London	—	—	7,668	88.89
Eurobank, Paris	—	—	4,818	87.04
Ost-West Handelsbank, Frankfurt am Main	—	—	1,347	51.62
Donau-Bank, Vienna	—	—	412	15.00
East-West United Bank, Luxembourg	—	—	174	15.00
Intelsat Ltd, Bermudas	—	—	285	0.53
<b>Total</b>	<b>6,093</b>	<b>—</b>	<b>20,646</b>	<b>—</b>

The reduction of the balance of *Equities of credit and other institutions (Bank of Russia stakeholdings)* by 14,553 million rubles in 2005 was due to the transfer by the Bank of Russia to Vneshtorgbank of its stakes in the authorised capital of Russia's overseas banks, on the terms and conditions established by, and on the decision of the National Banking Board, on December 13, 2005. Matters relating to the participation by the Bank of Russia in the capital of credit institutions fall within the competence of the National Banking Board, pursuant to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

## 7. OTHER ASSETS

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
<b>Fixed assets (at residual value)</b>		
Buildings	30,617	30,195
Equipment (including computers, information and data processing systems, furniture, transport vehicles, etc.)	28,804	28,515
<b>Subtotal fixed assets</b>	<b>59,421</b>	<b>58,710</b>
Bank of Russia interest claims	8,233	3,708
Incomplete construction projects	4,284	3,655
Till cash	3,988	3,801
Settlements with CIS and Baltic banks	1,297	1,297
Settlements with suppliers, contractors and buyers	871	864
Bank of Russia money transfers to agent banks for payments to depositors of bankrupt banks	492	—
Bank of Russia correspondent account balances	104	177
Other settlements with Finance Ministry	—	352
Other	2,661	3,938
<b>Subtotal other assets</b>	<b>21,930</b>	<b>17,792</b>
<b>Total</b>	<b>81,351</b>	<b>76,502</b>

Fixed assets movement follows below:

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
<b>Fixed asset value net of accrued depreciation</b>		
Balance as of January 1	81,728	74,280
Receipt	7,913	8,234
Retirement	(1,116)	(786)
<b>Balance as of year's end</b>	<b>88,525</b>	<b>81,728</b>
<b>Accrued depreciation</b>		
Balance as of January 1	23,018	17,875
Depreciation deductions due to expenses (Note 20)	6,820	5,656
Depreciation deductions due to other sources	3	5
Depreciation deductions for retired fixed assets	(737)	(518)
<b>Balance as of year's end</b>	<b>29,104</b>	<b>23,018</b>
<b>Fixed asset residual value as of year's end</b>	<b>59,421</b>	<b>58,710</b>

Composition and value of fixed assets net of accrued depreciation:

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Buildings	34,321	33,486
Computers, office equipment and furniture	25,212	21,953
Equipment	12,877	12,061
Information and data processing systems	11,953	10,583
Transport vehicles	2,072	1,865
Intangible assets	777	588
Other	1,313	1,192
<b>Total</b>	<b>88,525</b>	<b>81,728</b>

The increase in the value of *Buildings* is largely due to the completion of the construction and reconstruction of Bank of Russia office buildings.

The increase in the value of *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, operations accounting, and information analysis systems, data protection hardware and software and security facilities.

The increase in the value of *Equipment* is due to the purchase of equipment for the development and upgrading of guaranteed uninterrupted electricity supply systems, mechanised cash processing equipment, till equipment, and other such items.

The increase in the value of *Information and data processing systems* is largely due to the purchase of telecommunications and network hardware to modernise and replace out-of-date equipment.

The increase in the value of *Transport vehicles* is largely due to the purchase of special-purpose transport vehicles to carry cash and bank documents.

The increase in *Intangible assets* is due to the purchase of software products with Bank of Russia exclusive rights.

The increase in *Bank of Russia interest claims* is largely due to interest accrued on Bank of Russia funds placed with non-residents with interest payment dates after January 1, 2006.

The increase in incomplete construction is largely due to growth in construction and reconstruction of Bank of Russia office buildings.

*Settlements with CIS and Baltic banks* show the balance of mutual claims on CIS and Baltic inter-governmental settlements in 1992 and 1993.

*Bank of Russia money transfers to agent banks for payments to depositors of bankrupt banks* include funds transferred in 2005 pursuant to the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System, in accordance with decisions of the Bank of Russia Board of Directors.

Pursuant to Article 86<sup>1</sup> of the 2005 Federal Budget Law, the Finance Ministry in 2005 repaid to the Bank of Russia its debt on technical loans resulting from the transfer of funds to the Finance Ministry's federal budget revenue accounts by Ukraine, Moldova and Armenia in 1996—1998 as payment of these countries' debt to the Bank of Russia.

The decrease in *Other* was primarily due to the writing-off of debt resulting from the Bank of Russia's claim on a credit institution struck off the Single State Register of Corporate Entities in 2005, at the expense of provisions made previously.

## 8. CASH IN CIRCULATION

The increase in cash in circulation is due to the expansion of cash turnover.

## 9. ACCOUNT BALANCES WITH THE BANK OF RUSSIA

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Federal government funds	1,905,206	891,113
Credit institutions' correspondent account balances	515,560	487,585
Non-resident banks' funds obtained through repo transactions	292,366	109,358
Required reserves deposited with the Bank of Russia	161,370	121,740
Deposits taken by the Bank of Russia from credit institutions	7,218	91,369
Other	302,539	213,652
<b>Total</b>	<b>3,184,259</b>	<b>1,914,817</b>

The increase in *Federal government funds* was due to growth in federal budget balances, including the Russian Government's Stabilisation Fund.

The increase in the balance of *Non-resident banks' funds obtained through repo transactions* is due to the significant expansion of Bank of Russia operations 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 against the collateral of other foreign issuers' securities. The

corresponding funds placed by the Bank of Russia with non-residents under such transactions are included in *Funds placed with non-residents under repo transactions* (Note 4). The nominal value of foreign issuers' securities transferred by the Bank of Russia to non-residents through these repos stood at 293,508 million rubles as of January 1, 2006 (2004: 108,418 million rubles), and is accounted for in *Securities passed as collateral against repo transactions* (Note 22). Average non-resident debt to the Bank of Russia, and the Bank of Russia's debt to non-residents under these repos totalled 225,363 million rubles in 2005 (2004: 104,904 million rubles). This average debt is calculated as the sum of the products of the funds received under each transaction by the duration of the transaction (in calendar days, during the reporting year) divided by the number of calendar days in the reporting year. The parts of the carried-over transactions that occurred during the reporting year were factored into the calculation. The value of funds raised (placed) through these repos in 2005 totalled 3,322,770 million rubles (2004: 2,775,003 million rubles). Bank of Russia expenses on obtaining funds from non-residents through these repos amounted to 6,560 million rubles in 2005 (2004: 1,178 million rubles), and were included in *Interest expenses on funds raised using foreign currency-denominated securities as collateral* (Note 17). The corresponding income received by the Bank of Russia from placing funds with non-residents under these repos amounted to 6,770 million rubles in 2005 (2004: 1,320 million rubles), and were included in *Interest income from foreign currency loans and deposits* (Note 13).

*Deposits taken by the Bank of Russia from credit institutions* include the balances of funds obtained from resident credit institutions in rubles. The decrease in the funds taken by the Bank of Russia on deposit as of January 1, 2006, is due to a reduction in the overall level of banking sector excess liquidity, and to Bank of Russia operations with other monetary regulation instruments.

*Other funds* include the balances of regional and local budget accounts, and the accounts of extra-budgetary funds and other Bank of Russia customers. Their growth is largely due to the increased balances in the regional budget accounts, the budget accounts of the Social Insurance and Compulsory Medical Insurance Funds, and local 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 extra-budgetary funds, and regional and local budget funds without charging commission.

## 10. FLOAT

The decrease in *Float* as of the reporting date is due to the lower number of unfinished settlements on interregional electronic payments, in which funds are written off from payer accounts by the Bank of Russia without being entered to the payee accounts. In line with the established procedure, the Bank of Russia completed these settlements in January 2006.

## 11. OTHER LIABILITIES

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Bank of Russia bonds	33,462	9,986
Supplementary pension provisions for Bank of Russia staff	35,315	23,405
Bank of Russia provisions	15,256	39,607
Deferred income from lending operations	8,233	5,390
Deferred income from securities	7,020	12,064
Other	41,865	13,449
<b>Total</b>	<b>141,151</b>	<b>103,901</b>

The increase in *Bank of Russia bonds* is due to the continued issue of these bonds and their subsequent sale with an obligation of reverse repurchase on the domestic securities market. Bank of Russia off-balance sheet claims and obligations connected with these operations as of the reporting date are shown in Note 22.

The Federal Law on the Central Bank of the Russian Federation (Bank of Russia) assigns to the Bank of Russia the right to establish a supplementary pension fund for its staff. The Bank of Russia pension plan is implemented in line with Bank of Russia regulations, with account for the fact that Bank of Russia employees are not covered by the guarantees provided to civil servants. Internationally accepted practices of central banks 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 an actuarial assessment conducted by an independent actuary. As of January 1, 2006, the Bank of Russia increased the funds intended for supplementary pension payments.

Bank of Russia provisions are as follows:

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Provisions for foreign exchange operations	13,046	34,635
Provisions for debts owed by CIS and Baltic countries	1,446	1,446
Provisions for Bank of Russia payments to depositors of bankrupt banks	492	—
Provisions for promissory notes acquired from credit institutions and for credit institutions' debt on other operations	223	291
Provisions for other active operations	42	2,852
Provisions for loans extended to credit institutions	7	31
Provisions for Finance Ministry debt	—	352
<b>Total</b>	<b>15,256</b>	<b>39,607</b>

The decrease in *Bank of Russia provisions* is largely due to the recovery of provisions made previously for assets placed by the Bank of Russia with Russia's overseas banks, as a result of the transfer by the Bank of Russia of its stakes in the capital of Russia's overseas banks to Vneshtorgbank, and the buyout from the Bank of Russia of assets placed with Russia's overseas banks, at the end of 2005, on

the terms and conditions established by the decision of the National Banking Board on December 13, 2005, and also due to debt redemption by the Finance Ministry and other credit institutions.

*Deferred income from lending* consists largely of interest on placements with non-residents accrued by the Bank of Russia but not due as of the reporting date.

*Deferred income from securities* is composed largely of deferred income from government securities and the Finance Ministry's other debts, restructured under the 1999—2001 federal budget laws and again restructured under the 2003—2005 federal budget laws, and also the discount on Bank of Russia bonds (the difference between the nominal value and actual sale and repurchase price of the bonds).

*Other* includes resources (comprising 50% of profit received for the reporting year after the payment of taxes and duties under the Tax Code of the Russian Federation) that must be transferred to the federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

## 12. RELATIONS BETWEEN THE BANK OF RUSSIA AND THE MINISTRY OF FINANCE AND FEDERAL TREASURY

The dynamics of the Finance Ministry's debt to the Bank of Russia for 2005 are as follows:

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
<b>Finance Ministry debt to the Bank of Russia in rubles</b>		
Russian government debt obligations (Note 6)	189,272	226,940
Debt on technical loans (Note 7)	—	352
<b>Subtotal</b>	<b>189,272</b>	<b>227,292</b>
<b>Finance Ministry foreign currency debt to the Bank of Russia</b>		
Russian government debt obligations (Note 6)	91,484	97,962
Bank of Russia funds transferred to Vneshekonombank to extend loans to the Finance Ministry for Russian government foreign debt payment and servicing (Note 5)	—	152,618
<b>Subtotal</b>	<b>91,484</b>	<b>250,580</b>
<b>Total</b>	<b>280,756</b>	<b>477,872</b>

The decrease in the Finance Ministry's debt to the Bank of Russia in rubles and foreign currency in the year under review is due to the settlement by the Finance Ministry of its obligations to the Bank of Russia, and the sale by the Bank of Russia of debt depreciation federal loan bonds (OFZ-AD) and permanent coupon-income federal loan bonds (OFZ-PD).



## 13. INTEREST INCOME

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Interest income from foreign currency loans and deposits	71,317	24,638
Interest income from securities	34,176	28,850
Interest income from ruble loans extended to credit institutions	18	411
Other	89	87
<b>Total</b>	<b>105,600</b>	<b>53,986</b>

*Interest income from foreign currency loans and deposits* largely reflects interest received from Bank of Russia placements with non-resident banks.

This item also includes interest received by the Bank of Russia from placements with non-residents through repos while the Bank of Russia simultaneously obtained funds from the same non-residents, for the same periods, while transferring to them other foreign issuers' securities from the Bank of Russia portfolio as collateral (Note 4). In 2005, this income totalled 6,770 million rubles (2004: 1,320 million rubles).

*Interest income from securities* includes interest received from foreign issuers' debt obligations, acquired through the process of managing foreign exchange reserves, and interest received from investments in Russian government debt obligations.

## 14. INCOME FROM OPERATIONS WITH SECURITIES

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Income from operations with foreign currency-denominated securities	39,424	15,230
Income from operations with ruble-denominated Russian government debt obligations	5,006	5,729
Other	6,602	5,791
<b>Total</b>	<b>51,032</b>	<b>26,750</b>

*Income from operations with foreign currency-denominated securities* comprises income received from the sale or redemption of foreign currency-denominated securities, and positive revaluations of foreign currency-denominated government securities in the trading book due to the increase in their market value.

*Income from operations with ruble-denominated Russian government debt obligations* includes income from the purchase and 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 government securities conducted with residents.

*Other* comprises income received from the retirement of Finance Ministry promissory notes and income previously accounted for as deferred income, and also income received from the sale of shares in satellite communications company Intelsat held by the Bank of Russia, due to its withdrawal from the company's capital in the year under review.

## 15. NET INCOME FROM THE RECOVERY OF PROVISIONS

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Decrease/(increase) in provisions for foreign exchange operations	21,589	(2,472)
Decrease in provisions for Finance Ministry debt	352	—
Decrease in provisions for promissory notes acquired from credit institutions and credit institutions' debt on other operations	68	381
Provisions for Bank of Russia payments to depositors of bankrupt banks	(492)	—
Increase in provisions for other active operations with banks	(159)	(12)
Decrease in provisions for loans extended to credit institutions	—	697
Decrease in provisions for debt owed by the National Bank of Belarus	—	2,250
<b>Total</b>	<b>21,358</b>	<b>844</b>

The decrease in provisions the Bank of Russia made previously for foreign exchange operations was largely due to the transfer by the Bank of Russia of its stakeholdings in the capital of Russia's overseas banks to Vneshtorgbank, and the buyout of assets placed with Russia's overseas banks from the Bank of Russia at the end of 2005 on the terms and conditions established by the decision of the National Banking Board on December 13, 2005, and also to the subsequent recovery to income of provisions made previously for the participation in the capital of these banks, and of assets placed with them, to the amount of 27,213 million rubles.

The decrease in provisions for the Finance Ministry's debt is due to the redemption by the Finance Ministry, pursuant to Article 86<sup>1</sup> of the 2005 Federal Budget Law, of the debt on technical loans that arose as a result of the transfer of funds to Finance Ministry federal budget revenue accounts by Ukraine, Moldova and Armenia in 1996—1998 as payment of debt owed by these countries to the Bank of Russia.

The decrease in provisions for promissory notes acquired from credit institutions, and for credit institutions' debt on other operations, is largely due to the redemption by credit institutions of their debt to the Bank of Russia under agreements to forfeit rights on promissory notes.

As of January 1, 2006, the Bank of Russia made provisions for payments to depositors of bankrupt banks in pursuance of 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 the decisions of the Bank of Russia Board of Directors.

## 16. OTHER INCOME

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Income from sale of precious metal coins	1,184	955
Payment for settlement services provided by the Bank of Russia	1,097	891
Previous years' income disclosed during the reporting year	201	71
Fines and penalties received	8	5
Reimbursement by customers of telegraph and other expenses	7	7
Net realised exchange rate differences	—	497
Other	572	1,496
<b>Total</b>	<b>3,069</b>	<b>3,922</b>

## 17. INTEREST EXPENSES

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Interest expenses on funds raised using foreign currency-denominated securities as collateral	6,560	1,178
Interest expenses on deposits taken from credit institutions	1,584	1,882
Other	6	4
<b>Total</b>	<b>8,150</b>	<b>3,064</b>

The increase in *Interest expenses on funds raised using foreign currency-denominated securities as collateral* is due to the significant growth in Bank of Russia operations to raise funds from non-residents, in which the Bank of Russia provided to non-residents foreign issuers' securities from its portfolio as collateral for these repo transactions (Note 9).

The decrease in interest expenses on deposit-taking operations with credit institutions during the year under review is due to the change in the structure of the deposits received by the Bank of Russia, and the lower average weighted deposit interest rate.

## 18. EXPENSES ON OPERATIONS WITH SECURITIES

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Expenses on operations with federal government securities	13,181	6,839
Expenses on operations with foreign issuers' securities	2,166	1,689
Expenses on repo operations with federal government securities	2,328	703
Other	796	61
<b>Total</b>	<b>18,471</b>	<b>9,292</b>

The increase in expenses under this balance sheet item is due to operations conducted by the Bank of Russia with trading-book federal loan bonds, with the aim of sterilising banking sector excess ruble liquidity by selling securities on the organised market, and selling securities with an obligation of reverse repurchase, and also to the negative revaluation of outstanding government securities in the Bank of Russia trading book due to their reduced market value. In October 2005 the Bank of Russia sold on the organised securities market 19,850 million rubles in federal loan bonds without an obligation of reverse repurchase, spending 11,280 million rubles on these operations.

## 19. CASH TURNOVER MANAGEMENT EXPENSES

This balance sheet item reflects the expenses involved in the manufacture and destruction of banknotes and coins, their protection against counterfeiting, and the purchase and delivery of packing materials and accessories necessary for the processing of cash.

Growth in expenses under this item is due to greater production of banknotes and coins, including the commemorative 10-ruble coins made from a non-ferrous metal, the considerable rise in world prices of non-ferrous metals, which led to an increase in coin producer prices, and launching the production of the 5,000-ruble banknote.

**20. OTHER OPERATING EXPENSES**

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
Additional supplementary pension expenses	12,107	3,031
Depreciation deductions (Note 7)	6,820	5,656
Security expenses	2,338	2,008
Expenses on maintenance of computer hardware and software systems and computer services	2,080	1,772
Repair expenses	2,042	2,047
Expenses on delivery of bank documents and valuables	1,415	1,137
Expenses on maintenance of buildings	1,351	1,218
Taxes and duties paid	1,167	1,079
Postage, telegraph and telephone expenses, and expenses on renting communication lines and channels	1,017	994
Expenses on foreign exchange operations	923	287
Net realised exchange rate differences	385	—
Other	4,306	2,909
<b>Total</b>	<b>35,951</b>	<b>22,138</b>

Additional funds were allocated to supplementary pensions to Bank of Russia employees on the basis of a report on the evaluation of Bank of Russia pension obligations and expenses for 2005, carried out by an independent actuary.

*Net realised exchange rate differences* largely reflect expenses involved in the purchase and sale of foreign exchange by the Bank of Russia on the global financial market as part of international reserve management operations. The net negative realised exchange rate differences resulted from exchange rate fluctuations on the international forex market.

**21. PERSONNEL COSTS**

For explanation, see the Statement on Bank of Russia personnel costs.

## 22 CLAIMS AND OBLIGATIONS ACCOUNTED FOR IN OFF-BALANCE SHEET ACCOUNTS

Claims and obligations on forward operations accounted for in off-balance sheet accounts comprise:

	2005		2004	
	Claims	Obligations	Claims	Obligations
Claims for delivery of foreign exchange under spot transactions	3,574	—	—	—
Obligations for delivery of foreign exchange under spot transactions	—	(3,558)	—	—
Claims for delivery of foreign exchange	3,551	—	3,052	—
Obligations for delivery of foreign exchange	—	(1,236)	—	(2,933)
Obligations for delivery of precious metals	—	(2,297)	—	(119)
Claims for delivery of securities	32,896	—	12,523	—
Obligations for delivery of rubles	—	(33,462)	—	(12,824)
Claims for delivery of funds in the reverse part of repos	4,796	—	—	—
Obligations for securities sale in the reverse part of repos	—	(4,910)	—	—
Unrealised exchange rate differences	646	—	301	—
<b>Total</b>	<b>45,463</b>	<b>(45,463)</b>	<b>15,876</b>	<b>(15,876)</b>

Other claims and obligations accounted for in off-balance sheet accounts comprise:

	2005	2004
Open credit lines	2,426	2,302
Unused credit lines	4	2,082
Securities accepted as collateral against repos	1,119,480	475,400
Guarantees received by bank	6,719	5,915
Securities passed as collateral against repos	293,508	108,418
Rights of claim on foreign banks	—	19,495

*Securities accepted as collateral against repos* 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 under repos are shown in Note 4.

*Securities passed as collateral against repos* are foreign issuers' securities passed by the Bank of Russia through repos with non-residents and accounted for in off-balance sheet accounts at their face value. The corresponding funds obtained from non-residents through repos are shown in Note 9.

*Rights of claim on foreign banks* comprised as of January 1, 2005, the Bank of Russia's rights of claim on Eurobank, Paris, on participation credit, totalling 19,495 million rubles in Bank of Russia off-balance sheet accounts. Off-balance sheet rights of claim and Eurobank's debt to the Bank of

Russia on participation credit, totalling 10,015 million rubles in Bank of Russia balance sheet accounts as of the retirement date, were passed by the Bank of Russia to Vneshtorgbank, when the Bank of Russia transferred its stakes and assets in Russia's overseas banks to Vneshtorgbank on the terms and conditions established by the decision of the National Banking Board on December 13, 2005, at the price of 10,015 million rubles, as of the retirement date.

In addition, 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) it had issued previously in respect to London-based Moscow Narodny Bank and Paris-based Eurobank for terms of three years and two years, respectively.

### 23. POST-ACCOUNTING DATE EVENTS

As of May 10, 2006, the negative unrealised exchange rate differences that arose in the course of revaluing the balances of Bank of Russia debit and credit foreign currency accounts, due to a change in the official exchange rates, totalled 154,750 million rubles, which exceeds the accrued exchange rate differences shown in the balance sheet item *Accrued exchange rate differences* and included in Bank of Russia capital, by 28,960 million rubles as of January 1, 2006.

Russian Federation 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 using the Fund's money to acquire foreign exchange in US dollars, euros and British pounds, and placing it in accounts opened in the Bank of Russia, and to acquire foreign government debt obligations.

## STATEMENT ON PROFIT AND ITS ALLOCATION

	<i>(million rubles)</i>	
	<b>2005</b>	<b>2004</b>
1. Actual full-year profit received	81,940	19,146
2. Taxes and duties paid from Bank of Russia profit under the Tax Code of the Russian Federation	54	45
3. To be transferred to federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)	40,943	15,281
4. Retained profit, total	40,943	3,820
Of which:		
— transferred to the Reserve Fund	35,959	1,757
— used to cover Bank of Russia losses incurred in 1998	3,346	1,910
— transferred to the Social Fund	1,638	153

Under Article 11 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia's 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 as well as income from stakeholdings in the capital of credit institutions, and expenses involved in the fulfilment by the Bank of Russia of the functions established by Article 4 of the Federal Law.

Growth in Bank of Russia profit in 2005 was largely due to greater income from investing international reserves, which gained significantly over the year, and also to the recovery of provisions previously made by the Bank of Russia for its participation in the capital of Russia's overseas banks and for assets placed with these banks as a result of the transfer by the Bank of Russia of its stakes in the authorised capital of Russia's overseas banks to Vneshtorgbank, and the buyout from the Bank of Russia of assets placed in these banks, on the terms and conditions established by the National Banking Board on December 13, 2005. At the same time, there was an increase in Bank of Russia expenses on the use of the monetary regulation instruments to sterilise banking sector excess ruble liquidity, which included the sale of government securities on the organised securities market.

Profit received by the Bank of Russia for the year under review is allocated according to 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's 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, in compliance with the Tax Code of the Russian Federation. Profit remaining at the disposal of the Bank of Russia is transferred by its Board of Directors to various reserves and funds. After the allocation of Bank of Russia profit for 2005, the losses incurred by the Bank of Russia in 1998 were completely covered.



## STATEMENT ON BANK OF RUSSIA RESERVES AND FUNDS

(million rubles)

	Reserve fund	Social fund	Accrued exchange rate differences	Fixed assets revaluation fund	Other funds	Total
<b>Balance as of January 1, 2005</b>	<b>33,417</b>	<b>2,879</b>	<b>144,025</b>	<b>7,965</b>	<b>103</b>	<b>188,389</b>
Transferred to reserves and funds as a result of profit allocation	35,959	1,638	—	—		<b>37,597</b>
Transferred from other sources	—				1	<b>1</b>
Reserves and funds used		(376)	(18,235)		(3)	<b>(18,614)</b>
<b>Balance as of January 1, 2006</b>	<b>69,376</b>	<b>4,141</b>	<b>125,790</b>	<b>7,965</b>	<b>101</b>	<b>207,373</b>

Pursuant to Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia transfers to reserves and various funds, after the approval of its annual financial statements by the Board of Directors, the profit remaining at its disposal after the payment of taxes and duties, in compliance with 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.

According 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 its stable operation, and the fulfilment of the functions assigned to it by the law. The Reserve Fund is formed using Bank of Russia profit on the decision of the Bank of Russia Board of Directors. The Bank of Russia may also transfer to the Reserve Fund resources from other funds and reserves that constitute the Bank of Russia's equity capital.

In accordance with the procedure for allocating profit retained by the Bank of Russia, and the decision of the Bank of Russia Board of Directors, 35,959 million rubles were allocated to the Reserve Fund from the Bank of Russia's retained profit for 2005 (2004: 1,757 million rubles).

The Social Fund is principally used to effect one-off payments to Bank of Russia employees to meet their personal needs. It is formed from the Bank of Russia's retained profit.

The procedure for forming and spending the Social Fund is established by the Bank of Russia Regulation on the Formation and Use of the Social Fund of the Central Bank of the Russian Federation.

In accordance with the procedure for allocating profit retained by the Bank of Russia and the decision of the Bank of Russia Board of Directors, 1,638 million rubles, or 4% of the Bank of Russia's retained profit for 2005, was transferred to the Social Fund (2004: 153 million rubles, or 4%).

Accrued exchange rate differences arise when the balances of Bank of Russia debit and credit foreign currency balance sheet accounts are revalued due to changes in the official exchange rate of the ruble against foreign currencies. As of January 1, 2006, accrued exchange rate differences decreased by 18,235 million rubles due to declines in the exchange rates of some foreign currencies against the ruble. In addition, as Note 23 to these annual financial statements indicates, after January 1, 2006, the Bank of Russia registered negative unrealised exchange rate differences that exceeded the positive balance of balance sheet item *Accrued exchange rate differences* as of January 1, 2006, which constitutes a part of Bank of Russia capital.

The fixed assets revaluation fund represents increases in the value of property as a result of revaluations of fixed assets made in line 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>2005</b>	<b>2004</b>
<b>Foreign issuers' debt obligations, of which:</b>		
US issuers' debt obligations	1,806,820	1,561,566
— denominated in US dollars	1,802,316	1,554,956
— denominated in euros	4,504	6,610
EU issuers' debt obligations	413,008	216,353
— denominated in US dollars	9,653	—
— denominated in euros	314,532	216,353
— denominated in British pounds	88,823	—
Debt obligations issued by international organisations	43,689	29,669
— denominated in US dollars	17,150	10,938
— denominated in euros	26,539	18,731
<b>Subtotal</b>	<b>2,263,517</b>	<b>1,807,588</b>
<b>Russian government debt obligations, of which:</b>		
Debt obligations denominated in rubles	189,272	226,940
— federal loan bonds	189,225	223,610
— other	47	3,330
Debt obligations denominated in US dollars	91,484	97,962
— Russia's eurobonds	82,930	89,748
— OGVZ and OGVZ bonds of the 1999 issue	8,554	8,214
<b>Subtotal</b>	<b>280,756</b>	<b>324,902</b>
<b>Debt obligations of other Russian issuers</b>	<b>130</b>	<b>—</b>
<b>Credit institutions' promissory notes</b>	<b>27</b>	<b>27</b>
<b>Total</b>	<b>2,544,430</b>	<b>2,132,517</b>

Foreign issuers' securities are for the most part US treasuries, government debt obligations of Germany, France, the UK, Belgium, the Netherlands, Austria, Spain, Finland and Ireland, and debt securities issued by extra-budgetary funds and federal agencies of these countries, and by international financial organisations.

Growth under this item was due to the larger volume of investment in foreign issuers' securities as a result of the expansion of international reserves.

### RUSSIAN GOVERNMENT DEBT OBLIGATIONS

To implement the single state monetary policy, the Ministry of Finance and the Bank of Russia, guided by Article 91 of the 2005 Federal Budget Law, restructured federal loan bonds in the Bank of Russia's portfolio into debt depreciation federal loan bonds. Government securities received from the Ministry of Finance as a result of the restructuring were accounted for at the balance sheet value of the restructured securities.

The Bank of Russia in 2005 continued actively to use market instruments of monetary regulation. Depending on the monetary situation, it used operations with government securities to absorb excess liquidity, or conversely, to supply credit institutions with liquidity. Specifically, the Bank of Russia:

- sold government securities from its portfolio without an obligation of reverse repurchase;
- bought government securities without an obligation to resell;
- bought securities with an obligation to resell one day or seven days later (repos);
- sold government securities with an obligation of reverse repurchase;
- repurchased government securities sold previously with an obligation of reverse repurchase (reverse modified repos);
- sold Bank of Russia bonds with an obligation to repurchase by irrevocable public offer, and bought/sold Bank of Russia bonds with an obligation to resell/repurchase.

The main cause of the decline in Bank of Russia investments in *Russian government debt obligations denominated in US dollars* was the redemption by the Finance Ministry of Russia's eurobonds in 2005.

Debt obligations of other Russian issuers consist of bonds issued by the Moscow government and acquired by the Bank of Russia through repos. The bonds mature in 2007 and 2008, and carry a coupon income of 10% p.a.

**BANK OF RUSSIA INVESTMENTS IN THE AUTHORISED CAPITAL OF BANKS  
AND OTHER ORGANISATIONS**

*(million rubles)*

<b>Investment</b>	<b>2005</b>		<b>2004</b>	
	<b>Balance sheet value</b>	<b>% share in authorised capital (at par)</b>	<b>Balance sheet value</b>	<b>% share in authorised capital (at par)</b>
<b>Investments in resident stocks, of which:</b>	<b>4,866</b>	<b>—</b>	<b>4,866</b>	<b>—</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 stocks, of which:</b>	<b>1,227</b>	<b>—</b>	<b>15,780</b>	<b>—</b>
Moscow Narodny Bank, London	—	—	7,668	88.89
Eurobank, Paris	—	—	4,818	87.04
Ost-West Handelsbank, Frankfurt am Main	—	—	1,347	51.62
Donau-Bank, Vienna	—	—	412	15.00
East-West United Bank, Luxembourg	—	—	174	15.00
Bank for International Settlements, Basel	1,227	0.59	1,076	0.55
Intelsat Ltd, Bermudas	—	—	285	0.53
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium	0.050	0.001	0.055	0.001
<b>Other investments in resident capital, of which:</b>	<b>25</b>	<b>—</b>	<b>25</b>	<b>—</b>
National Depository Centre (non-profit partnership)	25	49.00	25	49.00
<b>Other investments, of which:</b>	<b>10</b>	<b>—</b>	<b>10</b>	<b>—</b>
Interstate Bank	10	50.00	10	50.00

In line with the National Banking Board's decision of December 13, 2005, the Bank of Russia sold on December 28, 2005, its stakes in the authorised capital of Moscow Narodny Bank (London), Eurobank (Paris), Ost-West Handelsbank (Frankfurt am Main), Donau-Bank (Vienna) and East-West United Bank (Luxembourg), and its assets in these banks, to Vneshtorgbank on the terms and conditions established by the NBB.

The increase of 0.04% in the Bank of Russia's stakeholding in the authorised capital of the Basel-based Bank for International Settlements resulted from the purchase of 211 non-voting shares.

In line with the decision of the Bank of Russia Board of Directors, the Bank of Russia withdrew from the authorised capital of the Bermudas-based Intelsat Ltd.

## STATEMENT ON BANK OF RUSSIA PERSONNEL COSTS

Items of expenditure	<i>(million rubles)</i>	
	2005	2004
Remuneration	25,813	23,205
Charges on remuneration and on other payments to employees	4,929	5,039
Other payments to employees	2,883	2,146
<b>Total Bank of Russia personnel costs</b>	<b>33,625</b>	<b>30,390</b>

Bank of Russia personnel costs increased by 3,235 million rubles, or 10.6%, of which remuneration increased by 2,608 million rubles and other payments to employees by 737 million rubles, while the charges on remuneration and on other payments decreased by 110 million rubles.

Remuneration expenses comprise: wages and salaries; seniority benefits; additional payments to employees working in the Extreme North and similar regions under the applicable legislation; other additional payments provided for by labour legislation; annual paid leaves and study leaves; bonus payments (including monthly and year-end bonus payments); and other payments.

Other payments provided to Bank of Russia employees under the applicable legislation are as follows: holiday and emergency allowances; reimbursement of holiday travel expenses for employees working in the Extreme North and similar regions and for non-working members of their families; reimbursement of moving expenses for employees working in the Extreme North and similar regions, and for members of their families, for their permanent residence elsewhere upon the expiry of their labour contract, or on retirement; payments to employees living or working in regions affected by the Chernobyl nuclear power plant disaster; payments to employees taking leave to care after a child up to the age of three.

The average number of active Bank of Russia employees decreased by 2,491, or 3.2% in 2005, to 75,702 (2004: 78,193). The decline was chiefly due to measures to optimise the Bank of Russia settlement network. In 2004 and 2005, the Bank of Russia closed 197 cash settlement centres.

The average monthly income of a Bank of Russia employee in 2005 was 31,589 rubles (2004: 27,017 rubles).

The average unified social tax rate fell to 18.9% in 2005 (2004: 19.7%) as a result of the change made on January 1, 2005, to the unified social tax maximum rate and scale. Deductions to the Social Insurance Fund for compulsory social insurance against employment injury and illness were effected at the rate of 0.2%.

## STATEMENT ON CAPITAL INVESTMENT BUDGET PERFORMANCE

*(million rubles)*

	<b>Approved for 2005</b>	<b>Actual amount in 2005</b>	<b>Actual amount in 2004</b>
<b>Capital investment</b>			
<b>Capital investment</b>	<b>10,663</b>	<b>8,828</b>	<b>8,372</b>
Capital investment in fixed assets,			
of which:	9,809	8,571	8,201
— capital investment in information technology	4,057	3,878	3,567
— capital investment in construction (reconstruction) and logistics (except cash turnover management)	3,737	2,863	3,025
— capital investment in cash turnover management	1,112	952	830
— capital investment relating to security and protection of Bank of Russia facilities	903	878	779
Capital investment in intangible assets	291	257	171
Centralised capital investment reserve	563	—	—
<b>Other capital expenditure</b>	<b>1,048</b>	<b>836</b>	<b>870</b>
<b>Total capital expenditure</b>	<b>11,711</b>	<b>9,664</b>	<b>9,242</b>

Capital investment in information technology and construction (reconstruction) and logistics accounted for the majority of Bank of Russia capital investment (43.9% and 32.4%, respectively). Capital investment in security and the protection of Bank of Russia facilities accounted for 10.0%, cash turnover management 10.8% and intangible assets 2.9%.

Capital investment in information technology in 2005 increased by 311 million rubles, or 8.7%, year on year, and was directed toward financing the operations and upgrading of the payment and booking systems and information analysis systems; the development of the Bank of Russia computer system; and the maintenance and modernisation of the technical infrastructure of the Bank of Russia's telecommunications system.

When implementing this work, the Bank of Russia purchased computers, software, office equipment and auxiliary equipment for data-processing systems, hardware and software communications and telecommunications systems, information protection systems and technical maintenance facilities.

Capital investment in construction (reconstruction) and logistics, excluding cash turnover management, was made in accordance with approved project-by-project capital construction plans and plans for the purchase of large appliances, equipment, furniture and transport vehicles. Expenditure on these items decreased by 162 million rubles, or 5.4%, in 2005 year on year.

In 2005, capital investments were made in 166 construction (reconstruction) projects, of which 20 were continued from previous years, 79 launched anew and 67 were in the blueprint stage.

Large appliances, equipment and furniture were purchased for facilities after complete renovations to replace outdated equipment, appliances and furniture, and to maintain the necessary air conditioning and ventilation regime in offices containing information and telecommunications systems.

Capital investment relating to cash turnover management in 2005 increased by 122 million rubles, or 14.7% year on year, and was directed toward building (reconstructing) money vaults and cash centres (17 projects, of which five were continued from previous years, five launched anew and seven were in the blueprint stage), purchasing and modernising banknote counting and sorting machines, fitting out depositories with standard rack equipment, purchasing basic equipment for mechanising and automating cash operations, and buying (modernising) special-purpose transport vehicles to carry reserve funds.

Capital investment relating to security and the protection of Bank of Russia facilities includes expenses on replacing outdated security equipment, and on the installation and modernisation of access control systems and security and video surveillance systems. Capital investment in these projects increased by 99 million rubles, or 12.7%, in 2005.

Capital investment in intangible assets was directed toward developing software and databases to provide information and data security, which are the intellectual property of the Bank of Russia.

Capital investment in the above areas increased by 86 million rubles, or 50.3%, year on year, due to the need to develop new software products for the operations of integrated data processing centres and for their security.

*Other capital expenditure* includes expenses on the purchase of software products (for the rights to their use not constituting intangible assets) for the needs of the Bank of Russia, and licences, certificates and permits with durations longer than one year.



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## AUDITOR'S REPORT

### on the Bank of Russia Annual Financial Statement as of January 1, 2006

#### 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, 2005, to December 31, 2005. Under 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). In addition, the Bank of Russia has included in the Annual Financial Statements *Capital, funds and profit allocation*, and Notes to the Annual Financial Statements. The Annual Financial Statements have been prepared by the Bank of Russia management on the basis of the accounting reports compiled in line 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, particularly in respect to the evaluation of assets and capital, and the recognition of liabilities.
- 2 The management of the Bank of Russia bears responsibility for compiling and presenting the Annual Financial Statements. Our responsibility is to express our opinion, based on the audit we have conducted, on the credibility of these 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.

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 have planned and conducted our audit in compliance with the requirements of Russian legislation so as to be able to state with reasonable 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 studies based on testing proofs confirming the numerical indicators and disclosure of information in the Annual Financial Statements on the business activities of the Bank of Russia; the assessment of compliance with the accounting principles and rules applicable in preparing the Annual Financial Statements; the examination of the main estimated indicators received by the Bank of Russia management in compiling the Annual Financial Statements; and also the assessment of the general presentation of the Annual Financial Statements. We believe that, allowing for the limitation placed on the scope of our work described below in paragraph 4, the audit we have conducted in line with the requirements of Russian law provides sufficient grounds 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 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 certain balance sheet and profit and loss accounts and operations, access to which was restricted by the 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 the data cited below, included in the balance sheet and profit and loss account in the Bank of Russia Annual Financial Statements as of January 1, 2006, has been confirmed by the Audit Chamber of the Russian Federation. As of January 1, 2006, these accounts and operations in the Bank of Russia Annual Financial Statements include:

- assets totalling 47,292 million rubles;
- liabilities totalling 880 million rubles;
- income totalling 5,588 million rubles;
- expenses totalling 10,705 million rubles.

The credibility of the balance sheet and profit and loss accounts and operations in the Bank of Russia Annual Financial Statements as of January 1, 2006, was confirmed by the Audit Chamber of the Russian Federation in its Statement of May 2, 2006, on the Results from the Examination of Accounts and Operations of the Central Bank of the Russian Federation for 2005 Subject to Russian Federation Law No. 5485-1, Dated July 21, 1993, "On State Secrecy."



- 5 We believe that leaving aside any adjustments that may have been necessary in the absence of the limitation on our work indicated in paragraph 4 of this auditor's report, these Bank of Russia Annual Financial Statements as of January 1, 2006, reflect truly and fairly in all material respects the financial situation of the Bank of Russia as of January 1, 2006, and the financial results of its activities for the period from January 1, 2005, to December 31, 2005, taking into consideration the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Federal Law on Accounting and Accounting Rules of the Central Bank of the Russian Federation (Bank of Russia) No. 66, dated September 18, 1997.
- 6 Without changing our opinion on the credibility of the Bank of Russia Annual Financial Statements as of January 1, 2006, we draw your attention to the fact that, as Note 6 to the Bank of Russia Annual Financial Statements as of January 1, 2006, indicates, the Bank of Russia securities portfolio includes Russian Federation federal loan bonds (hereinafter referred to as OFZ) with a balance sheet value of 189,225 million rubles, of which 78% have a coupon income of 0%, and 92% of the OFZ portfolio mature in 2018—2029.

The fair value of these securities differs significantly from their balance sheet value. According to our estimates, as of January 1, 2006, the balance sheet value of these OFZ bonds exceeded their fair value by 42 billion rubles.

May 12, 2006

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**

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119992, Moscow, GSP-2, Zubovskaya Ul. 2

May 2, 2006

No. 06-160/06-3

To Sergey M. Ignatiev

Chairman  
Central Bank  
of the Russian Federation

### STATEMENT

**on the Results of Examination of the Accounts and Operations  
of the Central Bank of the Russian Federation for 2005  
Subject to the Russian State Secrecy Law**

The Audit Chamber of the Russian Federation has examined the accounts and operations of the Central Bank of the Russian Federation subject to the Russian State Secrecy Law in accordance with the work plan of the Audit Chamber of the Russian Federation for 2006, and pursuant to Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

The management of the Central Bank of the Russian Federation bears responsibility for relating information to the category of data subject to the Russian State Secrecy Law, and, consequently, for separating the competences of the Audit Chamber of the Russian Federation and the Auditor of the Bank of Russia in respect to the Bank of Russia Annual Financial Statements for 2005.

Responsibility for compiling and presenting data of the consolidated annual balance sheet, consolidated profit and loss account, and annual financial statements, is also borne by the management of the Bank of Russia.

The responsibility of the Audit Chamber of the Russian Federation, in line with applicable legislation, is to draw up a statement on the results of the examination of Bank of Russia accounts and operations subject to the Federal State Secrecy Law, and to express its opinion on the reliability of the Bank of Russia Annual Financial Statements in all material aspects, and the compliance of the accounting procedure with Russian law.

The accounts and operations of the Central Bank of the Russian Federation for 2005 subject to the Russian State Secrecy Law were examined so as to receive sufficient confidence that the Bank of Russia's consolidated balance sheet (in respect to subaccounts and off-balance sheet accounts) as of

January 1, 2006, the consolidated profit and loss account for 2005, and the Bank of Russia Annual Financial Statements for 2005, do not contain significant distortions.

The examination was conducted on a selective basis, and provides sufficient evidence for the Audit Chamber of the Russian Federation to conclude that the Bank of Russia's consolidated annual balance sheet (in respect to subaccounts and off-balance sheet accounts) as of January 1, 2006, the consolidated profit and loss account for 2005, and the Bank of Russia Annual Financial Statements for 2005 are reliable, and that Bank of Russia accounting rules meet the requirements of Russian legislation.

It is the opinion of the Audit Chamber of the Russian Federation that the Bank of Russia annual balance sheet as of January 1, 2006, and the profit and loss account for 2005 reflect truly and fairly in all material aspects the Bank of Russia's assets and liabilities as of January 1, 2006, and its income and expenses for 2005 (in respect to the part falling within the competence of the Audit Chamber of the Russian Federation).

Having examined the accounts and operations of the Central Bank of the Russian Federation for 2005 subject to the Russian State Secrecy Law, the Audit Chamber of the Russian Federation confirms the following data:

- the Bank of Russia annual balance sheet as of January 1, 2006 (total balance sheet assets of 47,292 million rubles and total balance sheet liabilities of 880 million rubles), the profit and loss account for 2005 (income totalling 5,588 million rubles and expenses totalling 10,705 million rubles), and other reports included in the Bank of Russia Annual Financial Statements for 2005;
- the consolidated annual balance sheet as of January 1, 2006 (in respect to subaccounts and off-balance sheet accounts), and consolidated profit and loss accounts for 2005 (in respect to the part falling within the competence of the Audit Chamber of the Russian Federation).

According to the accounting data of the Central Bank of the Russian Federation as of January 1, 2006, 2,199,146.33 million rubles in Bank of Russia notes and coins of the 1997 issue should be in circulation (not including precious metal-containing coins issued to mark anniversaries or other occasions).

In the period from January 1 to December 31, 2005, the Bank of Russia put into circulation banknotes and coins of the 1997 issue (not including precious metal-containing coins issued to mark anniversaries or other occasions) to the value of 3,799,551.89 million rubles, and withdrew from circulation Bank of Russia notes and coins of the 1997 issue (not including precious metal-containing coins issued to mark anniversaries or other occasions) to the value of 3,273,675.22 million rubles.

In the period under review, the value of Bank of Russia notes and coins (not including precious metal-containing coins issued to mark anniversaries or other occasions) in circulation increased by 525,876.67 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 2005

### MONETARY POLICY INSTRUMENTS AND MEASURES

**REQUIRED RESERVES.** To upgrade the system for regulating the required reserves, the Bank of Russia issued the following documents:

- Ordinance No. 1572-U, dated April 12, 2005, “On Amending Bank of Russia Regulation No. 255-P, Dated March 29, 2004, on Credit Institutions’ Required Reserves”;
- Ordinance No. 1621-U, dated October 3, 2005, “On Amending Bank of Russia Regulation No. 255-P, Dated March 29, 2004, on Credit Institutions’ Required Reserves”;
- Letter No. 135-T, dated October 31, 2005, “On the Application of the Standards Set by Bank of Russia Regulation No. 255-P, Dated March 29, 2004, on Credit Institutions’ Required Reserves.”

**INTEREST RATES.** For most of 2005, the *refinance and overnight interest rates* remained unchanged at 13% p.a. By the decision of the Bank of Russia Board of Directors on December 26, 2005, they were cut to 12% p.a. (Bank of Russia Ordinance No. 1643-U, dated December 23, 2005).

The Bank of Russia Board of Directors set the following upper limits on the cut-off rates for *deposit auctions*:

- 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 fixed interest rates on deposit operations* were not reviewed by the Bank of Russia in 2005, and remained at 0.5% p.a. on deposit operations on the standard conditions: “tom-next,” “spot-next” and “call”; and at 1% p.a. on “one-week” and “spot-week” deposit operations.

The lowest bid rates at *repo auctions* remained unchanged in 2005 at:

- 6% p.a. for one day;
- 6.5% p.a. for one week;
- 9% p.a. for three months.

**REFINANCING OF BANKS.** To encourage and improve refinancing procedures, the Bank of Russia drafted and issued the following documents:

- Ordinance No. 1567-U, dated March 25, 2005, and Ordinance No. 1618-U, dated September 28, 2005, “On Amending Bank of Russia Ordinance No. 1482-U, Dated July 28, 2004, on the Securities Comprising the Bank of Russia Lombard List”;
- Orders Nos. OD-263, dated April 20, 2005, OD-467, dated August 5, 2005, OD-591, dated October 18, 2005, OD-635, dated November 8, 2005, and OD-729, dated December 27, 2005, “On Bank of Russia Scaling Factors”;
- Letters Nos. 63-T, dated April 20, 2005, 74-T, dated May 14, 2005, 96-T, dated July 13, 2005, 121-T, dated September 28, 2005, 129-T, dated October 19, 2005, 132-T, dated October 27, 2005, 137-T, dated November 8, 2005, and 141-T, dated November 24, 2005, “On the Inclusion of Securities in the Bank of Russia Lombard List”;
- Letter No. 05-13-4/1577, dated April 1, 2005, “On Operations to Extend Bank of Russia Lombard Loans at Fixed Interest Rates”;
- Orders Nos. OD-316, dated May 16, 2005, and OD-509, dated August 29, 2005, “On Making a Change to Bank of Russia Order No. OD-682, Dated September 22, 2004, on Calculating the Value of a Collateral for Bank of Russia Loans”;
- Regulation No. 273-P, dated July 14, 2005, “On the Procedure for Extending Bank of

- Russia Loans to Credit Institutions against the Collateral of Promissory Notes, Rights of Claim under Corporate Credit Agreements, or Guarantees from Credit Institutions”;
- Ordinance No. 1601, dated August 5, 2005, “On Conditions for Extending Bank of Russia Loans to Credit Institutions against the Collateral of Promissory Notes, Rights of Claim under Corporate Credit Agreements, or Guarantees from Credit Institutions”;
  - Letter No. 107-T, dated August 5, 2005, “On the List of Organisations”;
  - Order No. OD-469, dated August 5, 2005, and Order No. OD-568, dated September 30, 2005, “On Disseminating the Procedure for Extending Bank of Russia Loans to Credit Institutions against the Collateral of Promissory Notes, Rights of Claim under Corporate Credit Agreements, or Guarantees from Credit Institutions”;
  - Ordinance No. 1617-U, dated September 28, 2005, “On Amending Bank of Russia Regulation No. 236-P, Dated August 4, 2003, on the Procedure for Extending Bank of Russia Loans to Credit Institutions against the Collateral (Blocking) of Securities”;
  - Order No. OD-559, dated September 28, 2005, “On Organising Bank of Russia Work in View of the Issue of Bank of Russia Regulation No. 273-P, Dated July 14, 2005, on the Procedure for Extending Bank of Russia Loans to Credit Institutions against the Collateral of Promissory Notes, Rights of Claim under Corporate Credit Agreements, or Guarantees from Credit Institutions”;
  - Order No. OD-634, dated November 8, 2005, “On Amending Bank of Russia Order No. OD-682, Dated September 22, 2004, on Calculating the Value of a Collateral for Bank of Russia Loans”;
  - Letter No. 149-T, dated December 21, 2005, “On the Exclusion of Securities from the Bank of Russia Lombard List”;
  - Order No. OD-700, dated December 14, 2005, “On Disseminating the Procedure for Extending Bank of Russia Loans to Credit Institutions against the Collateral of Promissory Notes, Rights of Claim under Corporate Credit Agreements, or Guarantees from Credit Institutions”.

**CURRENCY SWAPS.** In addition to ruble/dollar swaps with the Bank of Russia, Bank of Russia Order No. OD-569, dated October 3, 2005, enabled credit institutions to conduct ruble/euro swaps with the Bank of Russia, selling euros for rubles with “today” settlements at the official exchange rate with their subsequent purchase with “tomorrow” settlements. These operations provided the Bank of Russia with an additional instrument to maintain the ruble liquidity of the banking sector.

**DEPOSIT OPERATIONS.** In 2005, the Bank of Russia made no changes to its regulations on deposit operations with resident credit institutions in rubles.

**OPERATIONS WITH BANK OF RUSSIA BONDS.** In line with the decision of the Bank of Russia Monetary Policy Committee, in April 2005 the Bank of Russia began to quote bid and offer prices on its outstanding bonds with terms to maturity from three to six months.

**EXCHANGE RATE POLICY.** To upgrade exchange rate policy and employ a wider range of monetary policy instruments, the Bank of Russia carried out the following measures:

- on February 1, 2005, it switched from the use of one currency, the US dollar, as its exchange rate policy benchmark to the ruble value of a currency basket comprising two currencies, the dollar and the euro, in the proportion of 0.9 to 0.1. As domestic foreign exchange market participants adapted themselves to the new conditions, the Bank of Russia reviewed the structure of the bi-currency basket, expanding the euro’s weighting. On March 15, 2005, it was raised to 0.2, on May 16 to 0.3, on August 1 to 0.35, and on December 2 to 0.4. The dollar’s weighting contracted accordingly.
- in August 2005 the Bank of Russia began to conduct ruble/euro operations on the domestic forex market to encourage the expansion of this segment, to allow market participants to cut conversion costs involved in the sale of exporters’ euro earnings, and to broaden the range of instruments available to market participants.

## FINANCIAL MARKET DEVELOPMENT

To enhance the effectiveness of open market operations, the Bank of Russia carried out the following measures:

- a part of the Bank of Russia federal loan bond portfolio, with a total nominal value of 36.7 billion rubles, was restructured into two enlarged OFZ issues intended for open market operations;
- the Bank of Russia Lombard List was extended in 2005 to include bonds issued by

international financial organisations and other bonds issued by resident corporate entities, taking into account limitations on issuer credit rating, collateral, and access to the organised securities market. The Lombard List was extended to facilitate access for market participants to Bank of Russia refinancing instruments, in particular repos.

## RELATIONS WITH THE FEDERAL BUDGET

As the functions of the Finance Ministry and Federal Treasury were separated in 2005 by the Russian Federation President's Decree No. 314, dated March 9, 2004, "On the Federal Executive Power System and Structure," preparations continued for the coming into force on January 1, 2006, of Article 215.1 of the Budget Code of the Russian Federation (which established the cash execution of budgets of the Russian budget system by the Federal Treasury), and as the 2005 Federal Budget Law was implemented, the Bank of Russia continued to improve the methodology for servicing the accounts of budgets of all levels of the budget system. In 2005, the Bank of Russia signed agreements with the Federal Treasury on the opening and servicing of Federal Treasury federal budget accounts in rubles and foreign currency. Similar bank account agreements were signed between the Bank of Russia regional branches and the regional bodies of the Federal Treasury.

To regulate problems involved in the provision of cash settlement services to regional and local government financial bodies executing regional and local budgets, the Bank of Russia and the Finance Ministry jointly issued Regulation No. 272-P/91n, dated July 13, 2005, "On the Procedure for the Provision of Cash Settlement Services by Bank of Russia Settlement Divisions and Credit Institutions and their Branches, in Respect to the Accounts of Regional and Local Government Bodies Responsible for the Cash Execution of Regional and Local Budgets."

To implement the provisions of the 2005 Federal Budget Law on recording ruble funds pro-

vided to federal agencies for temporary use in personal accounts opened in the regional Federal Treasury bodies, in compliance with Russian laws or other regulations, the Bank of Russia issued Ordinance No. 133-T, dated October 28, 2005, "On Opening Accounts in Bank of Russia Establishments or Credit Institutions and their Branches for Regional Federal Treasury Bodies to Record Ruble Funds Provided to Federal Agencies for Temporary Use." The Bank of Russia made corresponding changes to its Accounting Rules in respect to the funds the budget institutions receive for temporary use.

Pursuant to the 2005 Federal Budget Law, the Bank of Russia and the Finance Ministry issued Regulation No. 276-P and No. 127n, dated September 30, 2005, "On the Procedure for Completing Operations with 2005 Federal Budget Accounts Opened in Bank of Russia Settlement Divisions and Credit Institutions and their Branches," with amendments (Ministry of Finance and Bank of Russia Regulation No. 159n and No. 280-P, dated December 26, 2005).

To implement Article 117 of the 2005 Federal Budget Law, the Bank of Russia made known to its regional branches Russian Ministry of Finance Order No. 94n, dated October 26, 2004, "On Approving the Procedure for the Suspension by Federal Treasury Bodies of Operations on Accounts Opened by Federal Agencies in Bank of Russia Establishments and in Credit Institutions (and their Branches) for Recording Operations with Funds Received from Entrepreneurial and Other Profitable Activities."



The Bank of Russia continued to upgrade the procedure used by its regional branches and credit institutions in presenting reports to the Bank of Russia. Specifically,

- the Bank of Russia issued Ordinance No. 1570-U, dated April 5, 2005, “On Presenting Information on Accounts Opened for Federal Agencies in Bank of Russia Establishments and Credit Institutions and for Regional Federal Treasury Bodies”;
- Bank of Russia Ordinance No. 1579-U, dated May 25, 2005, amended Bank of Russia Ordinance No. 1376-U, dated January 16, 2004, “On the List, Forms and Procedure for the Compiling and Presenting of Reporting Forms by Credit Institutions to the Central Bank of the Russian Federation,” in respect to the compiling and presenting of information for the year on the balances of all budget accounts, and the balances of funds received from entrepreneurial and other profitable activities;
- Bank of Russia Ordinance No. 1641-U, dated December 16, 2005, amended Bank of Rus-

sia Ordinance No. 1398-U, dated March 22, 2004, “On the List, Forms, Rules and Procedure for the Compiling and Presenting of Reports by Bank of Russia Divisions to the Central Bank of the Russian Federation,” in respect to the compiling and presenting of information for the year on the balances of all budget accounts, and the balances of funds received from entrepreneurial and other profitable activities.

In connection with the coming into force of Federal Constitution Law No. 5-FKZ, dated June 28, 2004, “On Referendum in the Russian Federation,” the Bank of Russia amended its Instruction on the Procedure for Opening and Maintaining Accounts, and Recording, Reporting and Transferring Funds Allocated from the Federal Budget of the Russian Central Election Commission and Other Election Commissions and from Referendum Commissions,” approved by Russian Federation Central Election Commission Resolution No. 21/151-4, dated August 25, 2003.

## FOREIGN EXCHANGE REGULATION AND CONTROL

To upgrade foreign exchange regulation and control, the Bank of Russia implemented the following measures:

- Bank of Russia Ordinance No. 1577-U, dated May 6, 2005, “On Establishing the Requirement for Residents to Deposit a Reserve when Transferring Funds to their Accounts (Deposits) Opened in Banks outside the Russian Federation,” established the requirement for resident unincorporated individual entrepreneurs and corporate entities, including the currency exchanges, to deposit a reserve when transferring funds to their accounts (deposits) in banks outside Russia from their accounts (deposits) in authorised banks, equalling 25% of the foreign exchange operation amount, for a period of 15 calendar days before the foreign exchange operation day. The Ordinance stipulates that this requirement does not apply to credit institutions;
- in 2005, the Bank of Russia was directly involved in drafting amendments to Federal Law No. 173-FZ, dated December 10, 2003, “On

Foreign Exchange Regulation and Foreign Exchange Control,” which resulted in the passing of Federal Law No. 90-FZ, dated July 18, 2005, “On Amending Certain Laws of the Russian Federation.” The amendments were designed to eliminate shortcomings in foreign currency regulation standards discovered in the course of their practical application.

In connection with the coming into force on June 19, 2005, of Article 12 of Federal Law No. 173-FZ relating to the procedure for opening and using bank accounts by resident corporate entities outside Russia, the Bank of Russia issued Ordinance No. 1574-U, dated May 4, 2005, “On the Opening of Bank Accounts Outside the Russian Federation by Resident Unincorporated Individual Entrepreneurs and Corporate Entities,” which established the procedure for the opening of ruble and foreign currency accounts (deposits) by resident individual entrepreneurs and corporate entities other than credit institutions and currency exchanges, in banks located in foreign countries that are not members of the Organisa-

tion for Economic Cooperation and Development, or of the Financial Action Task Force, and the opening of ruble accounts (deposits) in banks located in foreign countries that are members of the OECD or FATF.

To bring its regulations into compliance with Federal Law No. 90-FZ, dated July 18, 2005, "On Amending Certain Laws of the Russian Federation," the Bank of Russia issued Ordinance No. 1608-U, dated August 25, 2005, "On Amending Bank of Russia Ordinance No. 1411-U, Dated March 30, 2004, on the Opening of Accounts by Resident Individuals in Banks Outside the Russian Federation," and Ordinance No. 1609-U, dated August 25, 2005, "On Amending Bank of Russia Ordinance No. 1574-U, Dated May 4, 2005, on the Opening of Accounts by Resident Unincorporated Individual Entrepreneurs and Corporate Entities in Banks Outside the Russian

Federation," which extended the procedure for opening bank accounts outside Russia to include bank deposits.

To settle problems that arose in applying certain Bank of Russia regulations, the Bank of Russia issued Ordinance No. 1626-U, dated October 7, 2005, "On Amending Bank of Russia Instruction No. 113-I, Dated April 28, 2004, on the Procedure for Opening, Closing and Managing the Exchange Offices, and the Procedure for the Conducting by Authorised Banks of Certain Kinds of Banking Operations and Other Transactions Involving Foreign Currency and Cash Rubles and Foreign-Currency-Denominated Cheques, Including Traveller's Cheques, with Private Individuals." The amended regulation changed, among other things, the grounds for refusal to permit an authorised bank or its branch to open an exchange office.

## IV.2. PRINCIPAL MEASURES TO UPGRADE BANKING REGULATION AND SUPERVISION IN 2005

The principal measures to improve banking regulation and supervision were implemented by the Bank of Russia in 2005 in compliance with *Guidelines for the Single State Monetary Policy in 2005*, the implementation plan for the *Russian Federation Medium-Term Social and Economic Development Programme (2003—2005)* in respect to banking, and the priority measures plan to pursue the *Russian*

*Banking Sector Development Strategy for the Period until 2008*.

In the course of upgrading banking regulation and supervision, the Bank of Russia placed particular emphasis on the risk-oriented approach to supervision, and on the quality of management and internal control systems. These approaches were put into practice in the ongoing supervision and performance evaluation methodologies.

### DEPOSIT INSURANCE

The Bank of Russia carried out measures to upgrade banking regulation and supervision in compliance with federal laws, including Federal Law No. 177-FZ, dated December 23, 2003, “On Insurance of Household Deposits in Russian Banks.”

Federal Law No. 132-FZ, dated October 20, 2005, “On Making an Amendment to Article 47 of the Federal Law on Insurance of Household Deposits in Russian Banks,” which came into force in 2005, set up the procedure for appealing against the Bank of Russia’s refusal to grant a bank access to the deposit insurance system without simultaneously prohibiting the bank from taking household deposits. To settle these problems, the Bank of Russia in 2005 issued Ordinance No. 1633-U, dated November 22, 2005, “On Amending Bank of Russia Ordinance No. 1476-U, Dated July 16, 2004, on the Procedure for Sending a Requirement by the Bank of Russia for a Bank to Issue a Request on the Termination of its Right to Handle Household Deposits,” and Ordinance No. 1640-U, dated December 16, 2005, “On Amending Bank of Russia Ordinance No. 1483-U, Dated July 30, 2004, on the Procedure for Prohibiting a Bank that Has Refused or Has Been Found Unfit to Participate in the Deposit Insurance System from Taking Household Deposits or Opening Household Accounts.”

Bank of Russia Instruction No. 123-I, dated March 24, 2005, “On the Specifics of Coopera-

tion between Bank of Russia Divisions in Considering a Repeated Request by a Bank for Access to the Deposit Insurance System,” established the procedure for informing a Bank of Russia regional branch about the reasons for the Bank of Russia’s refusal to admit a bank to the deposit insurance system, and set out the procedure for the Bank of Russia head office’s participation in preparing an order for a thematic inspection of a bank that has made a repeated request for access to the deposit insurance system, and also specified the requirements for the final analysis made by a Bank of Russia regional branch.

Bank of Russia Letter No. 123-T, dated September 30, 2005, “On Inspections of Banks when Considering the Possibility of Granting them Additional Licences to Broaden the Range of their Operations,” stipulated that the Bank of Russia may consider a request by a bank admitted to the deposit insurance system for authorisation to take household deposits in foreign currency, without conducting a thematic inspection, if the most recent thematic inspection of the bank was held less than a year ago.

Bank of Russia Letter No. 8-T, dated January 19, 2005, “On Information Credit Institutions Are Recommended to Place on their Websites,” recommended that credit institutions, for the purpose of transparency, place on their websites information on their admittance to and exclusion from the deposit insurance system, and

details of the supervising Bank of Russia regional branches.

Bank of Russia Ordinance No. 1542-U, dated January 13, 2005, "On the Specifics of Bank Inspections Conducted with the Participation of Deposit Insurance Agency Employees," specified the procedure for cooperation between the Bank of Russia and the agency in conducting bank inspections.

To improve the effectiveness of work to consider banks' repeated requests for admission to the deposit insurance system, the Bank of Russia distributed to its regional branches Letter No. 49-T, dated March 30, 2005, "On Recom-

mended Methodologies for Organising and Conducting Thematic Inspections of Banks when Considering their Repeated Requests for Access to the Deposit Insurance System."

In connection with the lifting of the general liquidity requirement (N5), the Bank of Russia issued Ordinance No. 1552-U, dated February 18, 2005, "On Amending Bank of Russia Ordinance No. 1379-U, Dated January 16, 2004, on Evaluating the Financial Soundness of a Bank to Ascertain its Adequacy for Participation in the Deposit Insurance System," which amended Ordinance No. 1379-U in respect to calculating the general liquidity ratio.

## UPGRADING THE METHODOLOGY FOR ONGOING SUPERVISION OF CREDIT INSTITUTIONS

To develop the methodology for substantive risk-oriented supervision of credit institutions, the Bank of Russia in 2005 issued the following regulations:

- 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,"<sup>1</sup> which provided for the inclusion of: the currency position on capital in the calculation of open currency positions; the transition to currency risk regulation for the credit institution as a whole; the expansion of the range of instruments included in the calculation of the open currency position; and a change in the open currency position reporting procedure, in line with the Bank of Russia policy of reducing the volume of bank reports. The Bank of Russia also issued Ordinance No. 1598-U, dated July 15, 2005, "On Harmonising Certain Bank of Russia Regulations with 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"<sup>2</sup>;
- Ordinance No. 1646-U, dated December 26, 2005, "On Amending Bank of Russia Ordinance No. 1376-U, Dated January 16, 2004, on the List, Forms and Procedure for the Compiling and Presenting of Reporting Forms by Credit Institutions to the Central Bank of the Russian Federation,"<sup>3</sup> which established the procedure for the compiling and presenting of Form 0409634 Open Currency Position Report by credit institutions;
- Ordinance No. 1592-U, dated July 6, 2005, "On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on the Required Ratios for Banks," which specified the procedure for calculating risk-weighted assets to be included in the equity capital ratio (N1) calculation. The ordinance stipulated that the assets should be included in the calculation of credit risk regulating ratios (N6, N7, N9.1, N.10.1 and N12), less actual provisions;
- Ordinance No. 1599-U, dated July 29, 2005, "On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on the Required Ratios for Banks," which postponed establishing the requirement for banks within banking groups to comply with the N6 ratio in respect to the correspondent account balances;

<sup>1</sup> Bank of Russia Instruction No. 124-I, dated July 15, 2005, came into force on February 20, 2006 (six months after its publication).

<sup>2</sup> Bank of Russia Ordinance No. 1598-U, dated July 15, 2005, came into force on February 20, 2006.

<sup>3</sup> Bank of Russia Ordinance No. 1646-U, dated December 26, 2005, came into force on February 20, 2006.

- Ordinance No. 1584-U, dated June 22, 2005, “On the Creation and Size of the Reserve for Possible Losses from Operations Conducted by Credit Institutions with Residents of Offshore Zones,” which established the procedure whereby reserves for possible losses from credit institutions’ operations with residents of offshore zones are created and regulated on a permanent basis, based on the level of country risk involved in the operations, regardless of the credit risk involved in the particular operations. At the same time, the Bank of Russia enforced Ordinance No. 1585-U, dated June 22, 2005, “On Invalidating Certain Bank of Russia Regulations,” which repealed Bank of Russia Ordinance No. 1318-U, dated August 7, 2003, “On the Creation and Size of the Reserve for Operations Conducted by Credit Institutions with Residents of Offshore Zones” and Bank of Russia Ordinance No. 1449-U, dated June 15, 2004, “On Amending Bank of Russia Ordinance No. 1318-U, Dated August 7, 2003, on the Creation and Size of the Reserve for Operations Conducted by Credit Institutions with Residents of Offshore Zones”;
- Letter No. 140-T, dated November 18, 2005, “On the Analysis of IFRS Statements for 2004,” which specified the methods for examining consolidated and unconsolidated statements compiled by credit institutions in line with IFRS, for the purpose of providing methodological support to Bank of Russia regional branches in analysing the activities of credit institutions;
- Joint Letter of the Federal Anti-monopoly Service and the Bank of Russia No. IA/7235/77-T, dated May 26, 2005, “On Information Disclosure Standards Recommended for Application in Extending Consumer Credit,” designed to protect the interests of credit institutions’ customers and reduce the risk of consumers misunderstanding the cost and other conditions of consumer credit.

To help credit institutions improve risk management, the Bank of Russia issued the following documents:

- Letter No. 2-T, dated January 17, 2005, “On the Procedure for Conducting Transactions with Persons Affiliated with a Bank and Assessing the Risks Involved in Such Transactions,” which recommended that banks include in their internal documents relative and (or) absolute limits on credit risk-bearing transactions with persons affiliated with the banks, and established the procedure for overseeing the assessment of credit risk in transactions with affiliated persons;
  - Letter No. 31-T, dated February 17, 2005, “On the Application of Paragraph 2.3 of 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 recommended that credit institutions establish in their internal documents the procedure for regulating the loan-loss provision in connection with the change in the amount of the principal debt.
- To improve corporate governance and internal controls within credit institutions, the Bank of Russia issued the following documents in 2005:
- Letter No. 119-T, dated September 13, 2005, “On Contemporary Principles for Organising Corporate Governance in Credit Institutions,” which set out the principles of corporate governance in the context of the institutional and legal specifics of the Russian banking system, and the principles for delegating powers between the various managerial bodies within a credit institution, and defined the role of the board of directors (supervisory board) in managing banking risk, preventing conflicts of interest, ensuring the observance of professional ethics, and elaborating and implementing information policy;
  - Letter No. 76-T, dated May 24, 2005, “On Operational Risk Management in Credit Institutions,” which described the factors of operational risk, explained the role of the board of directors (supervisory board) and executive bodies in operational risk management, and set out the principles for building an operational risk control system;
  - Letter No. 92-T, dated June 30, 2005, “On Legal and Reputation Risk Management in Credit Institutions and Banking Groups,” which described the external and internal factors of legal and reputation risks, and established the procedure for detecting, assessing

and monitoring the level of these risks, and minimising them. In addition, the letter contains customer identification recommendations on the know-your-customer principle, and recommendations on aspects of personnel policy, including the know-your-employee principle.

In connection with the lifting of the general liquidity requirement (N5), the Bank of Russia issued the following documents to amend effective regulations:

- Ordinance No. 1549-U, dated February 18, 2005, “On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on the Required Reserves for Banks”;
- Ordinance No. 1550-U, dated February 18, 2005, “On Amending Bank of Russia Instruction No. 112-I, Dated March 31, 2004, on the Required Reserves for Credit Institutions Issuing Mortgage-Backed Bonds”;
- Ordinance No. 1553-U, dated February 18, 2005, “On Amending Bank of Russia Regulation No. 191-P, Dated July 30, 2002, on Consolidated Statements”;
- Ordinance No. 1554-U, dated February 18, 2005, “On Amending Bank of Russia Regulation No. 246-P, Dated January 5, 2004, on the Procedure for the Compiling of Consolidated Statements by the Parent Credit Institution of a Banking/Consolidated Group.”

In cooperating with the International Monetary Fund on implementing the banking sector financial soundness indicators (FSIs) project, the Bank of Russia issued Order No. R-662, dated December 7, 2005, “On Approving the Procedure for Collecting and Processing Data to Implement the IMF Coordinated Compilation Exercise for Financial Soundness Indicators,” and compiled and sent to the IMF a preliminary version of FSI-related metadata.

The Bank of Russia in 2005 was actively involved in drafting, delivering and agreeing the

texts of agreements on cooperation (memoranda of understanding) in the field of banking supervision with 21 foreign supervisory authorities.

It took part in a meeting of supervisors of the 12-nation European Economic Area, held in Helsinki on October 20 and 21, 2005, which discussed bilateral agreements and memoranda of understanding reflecting the legal conditions of cooperation in banking supervision, including the exchange of information, and carrying out on-site inspections in the context of Russian legislation.

As a result of work carried through in 2005, the Bank of Russia signed new cooperation agreements and memoranda of understanding in the field of banking supervision with the following banks and supervisory authorities:

- National Bank of the Republic of Belarus (October 7, 2005);
- Bank of Lithuania (October 24, 2005);
- Banking Regulation Commission of China (November 3, 2005).

The Bank of Russia drafted regulations on assessing the financial soundness of credit institutions (based on principles that had already been used in selecting banks for admission to the deposit insurance system) and on establishing different supervision regimes for credit institutions, depending on their financial state, level of corporate governance, and ownership transparency.

The Bank of Russia continued to improve recommendations on analysing the financial state of credit institutions, and on upgrading the Bank Financial Soundness Analysis software system, to bring it into compliance with the principles used by the Bank of Russia in evaluating the financial soundness of banks to admit them to the deposit insurance system.

The Bank of Russia also continued to upgrade the methodologies for evaluating banking sector financial stability, including stress-testing and monitoring stability of the banking sector and of individual credit institutions.

## MEASURES TO IMPROVE ON-SITE INSPECTIONS

To improve the procedure for organising and conducting inspections of credit institutions and their branches, and to implement the provisions of Federal Law No. 177-FZ, dated December 23, 2003, “On Insurance of Household Deposits in Russian Banks,” and Federal Law No. 173-FZ, dated December 10, 2003, “On Foreign Exchange Regulation and Foreign Exchange Control,” while taking into account the amendments made to Bank of Russia documents regulating the licensing of credit institutions, the depositing of required reserves in the Bank of Russia, and other issues relating to banking regulation and supervision, the Bank of Russia issued the following documents in 2005:

- Ordinance No. 1543-U, dated January 13, 2005, “On Amending Bank of Russia Instruction No. 105-I, Dated August 25, 2003, on the Procedure for Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation”;
- Ordinance No. 1544-U, dated January 13, 2005, “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).”

The Bank of Russia in 2005 continued its efforts to encourage substantive supervision based on professional judgements in the course of inspecting credit institutions. To test methods used in conducting quantitative evaluations of internal controls in credit institutions, the Bank of Russia sent its territorial branches Letter No. 47-T, dated

March 24, 2005, “On Recommended Methodologies for Inspecting and Evaluating Internal Controls in Credit Institutions,” which clarified the procedure for inspecting internal controls in credit institutions, and the methodology for making quantitative assessments of internal controls in credit institutions.

To ensure uniformity in the application of Bank of Russia rules and regulations to inspections, the Bank of Russia sent the following documents to its regional branches:

- Letter No. 29-T, dated February 16, 2005, “On the Registration of Documents Relating to the Organisation and Conducting of Inspections of Credit Institutions and their Branches”;
- Letter No. 110-T, dated August 11, 2005, “On Clarifying Matters Arising in the Course of Inspections of Credit Institutions and their Branches by Bank of Russia Regional Branches.”

In 2005 the Bank of Russia continued to test-run the Inspection Division Automated System (ASIP), which enables all information relating to inspections to be gathered in real time, thus improving the efficiency of inspection management. When the system is put into operation, it will help optimise and reduce the number of reports presented by Bank of Russia regional branches to the corresponding divisions of the Bank of Russia.

Seventy-five Bank of Russia regional branches completed testing the ASIP and are now exchanging information on inspections in real time.

## LICENSING CREDIT INSTITUTIONS’ ACTIVITIES

Bank of Russia Regulation No. 268-P, dated April 19, 2005, “On the Procedure and Criteria for Evaluating the Financial Situation of Individual Founders (Members) of a Credit Institution,” set up the procedure and criteria for assessing the financial standing of an individual who has acquired shares (equity) in a credit institution. The financial situation of a private individual is evaluated to ensure that his/her own funds (property) are suf-

ficient to acquire shares (equity) in a credit institution, and that there are no grounds for prohibiting him/her from doing so. The regulation specifies a list of documents confirming the sources of funds (property) contributed by individuals as payment for shares (equity) in a credit institution. The practical application of this regulation will provide additional security for credit institutions’ creditors by reducing the risk of damage to credit institutions by persons using dishonestly ob-

tained incomes (property), and will also increase the capitalisation of the banking system by attracting investment.

Bank of Russia Regulation No. 271-P, dated June 9, 2005, established the procedure for considering documents presented by credit institutions to Bank of Russia regional branches to obtain state registration and banking licences, and the procedure for maintaining databases on credit institutions and their branches.

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)," defined a mobile cash office of a credit institution or its branch as an internal division mounted on a transport vehicle and designed to conduct cash operations with individuals, excluding unincorporated individual entrepreneurs. Mobile cash offices are to be installed in regions with underdeveloped banking infrastructures, and in remote and sparsely populated regions where setting up permanent banking structures is not economically viable, and the provision of banking services to the population is inadequate and difficult.

Bank of Russia Ordinance No. 1606-U, dated August 11, 2005, "On the Procedure for Handling Documents with which Credit Institutions Operated Prior to State Registration of Changes Made to their Founding Documents, Before State Registration of Credit Institutions Established as a Result of Reorganisation, and Prior to the Replacement of their Banking Licences," set up the procedure for issuing new registration certificates and banking licences to credit institutions in the process of expanding the range of their operations, changing their status, undergoing reorganisation, or having restrictions lifted in their licences, and also the procedure for invalidating the title documents of credit institutions in the above cases.

Bank of Russia Ordinance No. 1624-U, dated October 4, 2005, "On Amending Bank of Russia Instruction No. 109-I, Dated January 14, 2004, on the Procedure for Bank of Russia Decisions on the State Registration of Credit Institutions and the Issuance of Banking Licences," made certain alterations in the list of documents to be presented by a credit institution (or its branch) to a Bank of Russia regional branch on insuring cash to an amount not less than the minimum permissible balance in the cash department, and where the technical requirements for offices in which operations with valuables are conducted are agreed upon with the insurer. The document also contains an exhaustive list of operations a cash department outside the cash centre can conduct.

Bank of Russia Ordinance No. 1632-U, dated November 15, 2005, "On Amending Bank of Russia Regulation No. 230-P, Dated June 4, 2003, on the Reorganisation of Credit Institutions by Merger and Acquisition," provides for the possibility of simultaneously keeping (for 90 calendar days, in line with the procedure set by the Bank of Russia) correspondent accounts of reorganised (acquired) credit institutions and correspondent accounts of credit institutions established as a result of mergers (overtaking credit institutions). It sets up the procedure for the presenting of documents by a reorganised credit institution to a Bank of Russia regional branch, confirming its rights to a building (office) where it intends to open its divisions after reorganisation, and establishes a requirement to pay a stamp duty for the granting of banking licences to credit institutions established as a result of mergers. Such credit institutions are not required to pay a licence fee, or a fee for opening a branch on the basis of the reorganised credit institution.



## FINANCIAL REHABILITATION AND LIQUIDATION OF CREDIT INSTITUTIONS

To strengthen the effectiveness of credit institution financial rehabilitation and liquidation procedures and increase their transparency, the Bank of Russia issued a number of corresponding regulations and instructions in 2005.

Bank of Russia Instruction No. 126-I, dated November 11, 2005, “On the Procedure for Regulating Relations Linked to the Implementation of Measures to Prevent Insolvency (Bankruptcy) of Credit Institutions,” regulates the interaction between Bank of Russia regional branches and credit institutions carrying out bankruptcy-prevention measures. The instruction is designed to prevent unjustified delays in the carrying out of bankruptcy-prevention measures by credit institutions, and to ensure compliance by credit institutions with the requirements made by the Bank of Russia in respect to bankruptcy prevention.

Bank of Russia Ordinance No. 1650-U, dated December 30, 2005, “On the Procedure for the Monitoring by Bank of Russia Regional Branches of Insolvency (Bankruptcy) Prevention Measures Implemented by Credit Institutions,” regulates the internal decision-making procedures in Bank of Russia regional branches for overseeing the implementation of bankruptcy-prevention measures by credit institutions.

Bank of Russia Regulation No. 279-P, dated November 9, 2005, “On the Provisional Administration of a Credit Institution,” issued to replace Bank of Russia Regulation No. 241-P, dated No-

vember 26, 2003, “On the Provisional Administration of a Credit Institution,” considerably broadened the powers of provisional administrations in guaranteeing the safety of property and assets of credit institutions.

Bank of Russia Regulation No. 275-P, dated August 11, 2005, “On the Procedure for Issuing a Bank of Russia Banking Licence to a Credit Institution which Has Had Bankruptcy Proceedings Against it Terminated Due to the Settlement of its Obligations by its Founders (Members) or a Third Person (Third Persons),” established the necessary conditions which a credit institution that has had bankruptcy proceedings against it terminated, due to the settlement of its obligations by its founders (members) or a third person (or third persons), must meet in order to obtain a banking licence. The regulation also established the procedure and timeframes for examining documents submitted by a credit institution to the Bank of Russia.

Bank of Russia Ordinance No. 1594-U, dated July 14, 2005, established the forms and procedures for the compiling and presenting of statements by credit institutions undergoing liquidation to the Bank of Russia. It was drafted in compliance with the requirements of Russian legislation, with the aim of ensuring Bank of Russia control over liquidation procedures in credit institutions that have had their licences revoked. The statements are necessary in order to meet, to the fullest possible extent, the demands of creditors (depositors).

## MAINTAINING THE CENTRAL CATALOGUE OF CREDIT HISTORIES

Federal Law No. 218-FZ, dated December 30, 2004, “On Credit Histories,” created the legal basis for establishing an effective system for forming and using credit histories, and assigned to the Bank of Russia the function of maintaining the Central Catalogue of Credit Histories, which collects, stores, and provides to credit history makers and users information on credit bureaus in which credit histories relating to their inquiries are kept.

Bank of Russia Ordinance No. 1610-U, dated August 31, 2005, “On the Procedure for the Submission of Inquiries and Receipt of Information from the Central Catalogue of Credit Histories by Credit History Makers and Users via the Bank of Russia Internet Portal,” established the procedure by which credit history makers and users can request information directly from the CCCH about credit bureaus, the procedure for providing this information from the CCCH, and the procedure

for creating, replacing and cancelling a credit history maker's code.

Bank of Russia Ordinance No. 1611-U, dated August 31, 2005, "On the Procedure and Forms for Presenting Information by Credit Bureaus Contained in the Titular Parts of Credit Histories and Credit History Maker Codes to the Central Catalogue of Credit Histories," established the procedure and forms for the passing by credit bureaus of information contained in the titular parts of credit histories and credit history makers' codes to the CCCH.

Bank of Russia Ordinance No. 1612-U, dated August 31, 2005, "On the Procedure for the Submission of Inquiries and Receipt of Information from the Central Catalogue of Credit Histories by

Credit History Makers and Users by Submitting Request to a Credit Institution," set up the procedure for the submission of requests to and the receipt of information from the CCCH by credit history makers and users by filing requests to credit institutions.

Bank of Russia Ordinance No. 1635-U, dated November 29, 2005, "On the Procedure for the Submission of Inquiries and Receipt of Information from the Central Catalogue of Credit Histories by Credit History Makers and Users by Submitting a Request to Credit Bureaus," established the procedure for the requesting of information from the CCCH by credit history makers and users on credit bureaus in which the credit history makers' history is kept, and the procedure for receiving this information.

## MEASURES TO COUNTER MONEY LAUNDERING AND TERRORIST FINANCING

The Bank of Russia in 2005 continued to carry out tasks set by Federal Law No. 115-FZ, dated August 7, 2001, "On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism," and to improve the effectiveness of efforts made by the banking sector to this end.

To combat money laundering and terrorist financing, the Bank of Russia issued the following documents in 2005:

- Letter No. 12-T, dated January 21, 2005, "Methodological Recommendations for Tightening Control over the Purchase of Securities by Private Individuals for Cash, and the Purchase and Sale of Foreign Exchange";
- Letter No. 17-T, dated January 26, 2005, "On Tightening Control over Cash Operations," which made recommendations for credit institutions on how to effectively control cash operations conducted by private individuals and corporate entities with possible connections with money laundering and terrorist financing;
- Letter No. 46-T, dated March 24, 2005, "On Invalid Passports," which contained recommendations and information for credit institutions on the procedure for supplying credit institutions with information on lost and invalid passports, passports of deceased persons, and lost passport forms;
- Letter No. 56-T, dated April 6, 2005, "On Methodological Recommendations on Verifying Credit Institutions' Compliance with Russian Laws and Bank of Russia Regulations on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism," which sets up the procedure for conducting inspections to verify compliance of credit institutions' internal controls and practical activities with Russian legislation and Bank of Russia regulations, and with their own internal control rules and programmes;
- Letter No. 97-T, dated July 13, 2005, "On Methodological Recommendations for Suspending Certain Cash Operations in Credit Institutions," which contains recommendations on how periods for suspending operations should be determined, and establishes the procedure for suspending particular types of cash operations;
- Letter No. 98-T, dated July 13, 2005, "On Methodological Recommendations for Applying Bank of Russia Instruction No. 59, Dated March 31, 1997, on the Use of Sanctions against Credit Institutions which Violate Laws and Regulations on Countering Money Laundering and Terrorist Financing";

dering and Terrorist Financing,” which made recommendations to Bank of Russia regional branches on choosing corrective measures against credit institutions which violate Federal Law No. 115-FZ and government resolutions issued in pursuance of this Law applying to credit institutions, as well as Bank of Russia regulations, and also credit institutions failing to fulfil Bank of Russia instructions;

- Letter No. 99-T, dated July 13, 2005, “On Methodological Recommendations for the Establishment by Credit Institutions of Internal Control Rules to Prevent Money Laundering and Terrorist Financing,” which includes internal control programmes designed to prevent money laundering and terrorist financing; a procedure for cooperation between credit institution employees in detecting customer cash or property operations that are subject to mandatory control, as well as other operations, which may be connected with money laundering or terrorist financing; the rules for documenting and storing data; the powers of the special official responsible for enforcement of internal control rules to prevent money laundering and terrorist financing and the imple-

mentation of the corresponding internal control programmes;

- Letter No. 157-T, dated December 23, 2005, “On the Procedure for Applying Bank of Russia Letter No. 98-T, Dated July 13, 2005,” in which the Bank of Russia provides explanations for its regional branches of the need to employ sanctions against credit institutions violating federal laws and Bank of Russia regulations, while taking into consideration all information available to them on the nature, level of danger, and causes of violations committed, in the context of an overall assessment of the credit institution’s compliance with anti-money laundering/terrorist financing legislation;
- Letter No. 161-T, dated December 26, 2005, “On Improving Work to Prevent Suspicious Operations by Credit Institutions,” which urges the Bank of Russia’s regional branches to pay special attention to detecting the signs of suspicious operations by credit institutions and their customers, and contains recommendations on implementing supervision of credit institutions conducting such operations.

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Table 1

**KEY MACROECONOMIC INDICATORS (as % of previous year)**

	2003	2004	2005
Gross domestic product	107.3	107.2	106.4
of which:			
agriculture, hunting and forestry	105.5	103.0	101.1
hydrocarbon production and mining	110.8	107.9	101.7
manufacturing	109.5	107.8	104.4
production and distribution of electricity, gas and water	101.6	102.1	101.0
construction	113.0	110.2	109.7
wholesale and retail trade, and other	113.2	109.8	112.4
transport and communications	107.2	110.5	106.2
GDP deflator index	114.0	119.5	119.6
Consumer price index (December on previous December)	112.0	111.7	110.9
Fixed capital investment	112.5	111.7	110.7
Retail trade turnover	108.8	113.3	112.8
Unemployment rate by ILO methodology, as % of economically active population, annual average	8.6	8.2	7.6

Table 2

**CONSUMER PRICES BY GROUP OF GOODS AND SERVICES (growth, December as % of previous December)**

	2003	2004	2005
<b>Consumer prices, total</b>	<b>12.0</b>	<b>11.7</b>	<b>10.9</b>
of which:			
prices of goods and services included in calculation of core consumer price index (CCPI)	11.2	10.5	8.3
food prices	10.2	12.3	9.6
of which:			
food prices excluding vegetable and fruit prices	11.8	13.1	9.1
vegetable and fruit prices	-4.2	3.3	14.3
non-food prices	9.2	7.4	6.4
paid services provided to the public	22.3	17.7	21.0

Note. Tables 1—3 contain Rosstat data as of May 5, 2006, and Bank of Russia calculations.

Table 3

## CONSUMER PRICE INFLATION STRUCTURE

	2004		2005	
	Growth in percentage points	% contribution to growth	Growth in percentage points	% contribution to growth
<b>General rate of inflation (December on December)</b>	<b>11.7</b>	<b>100.0</b>	<b>10.9</b>	<b>100.0</b>
Inflation growth due to:				
change in prices of goods and services included in CCPI calculation	8.5	72.0	6.6	60.5
change in prices of goods and services not included in CCPI calculation	3.3	28.0	4.3	39.5
of which:				
change in vegetable and fruit prices	0.1	1.2	0.6	5.4
change in administered service and fuel prices	3.1	26.7	3.7	34.1

Table 4

## STRUCTURE OF GROSS ADDED VALUE BY ECONOMIC ACTIVITY IN BASIC PRICES (%)

	2003	2004	2005
<b>Gross added value</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
of which:			
agriculture, hunting and forestry	6.3	5.6	5.0
hydrocarbon production and mining	6.7	9.5	10.5
manufacturing	17.0	17.4	17.5
production and distribution of electricity, gas and water	3.7	3.5	3.4
construction	6.1	5.5	5.7
wholesale and retail trade, and other	22.2	20.7	20.6
transport and communications	10.8	11.1	10.3
other activities	27.2	26.7	27.0

Note. Tables 4—11 are based on Rosstat data as of May 5, 2006.

Table 5

**STRUCTURE OF GDP CALCULATED BY INCOME CONSUMPTION METHOD IN CURRENT MARKET PRICES (%)**

	2003	2004	2005
GDP calculated by income consumption method	100.0	100.0	100.0
Expenditure on final consumption	67.9	66.3	65.2
of which:			
household sector	49.2	48.6	47.6
government sector	17.5	16.7	16.6
non-profit organisations providing services to households	1.2	1.0	1.0
Gross capital formation	20.7	21.2	21.1
of which:			
gross fixed capital formation (including net acquisition of valuables)	18.3	18.7	18.4
change in inventories	2.4	2.5	2.7
Net exports of goods and services	11.3	12.5	13.7

Table 6

**GDP CONSUMPTION ELEMENTS IN COMPARABLE PRICES (as % of previous year)**

	2003	2004	2005
<b>Gross domestic product</b>	<b>107.3</b>	<b>107.2</b>	<b>106.4</b>
of which:			
Expenditure on final consumption	106.2	108.9	108.6
by household sector	107.5	111.6	111.1
by government sector	102.2	102.1	101.8
by non-profit organisations providing services to households	101.1	97.0	100.1
Gross capital formation (including net acquisition of valuables)	113.2	111.5	111.4
Net exports of goods and services	103.0	90.4	86.3

Table 7

**GDP FORMATION STRUCTURE BY SOURCE OF INCOME (%)**

	2003	2004	2005
<b>Gross domestic product</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
of which:			
remuneration of labour of hired workers (including unreported earnings)	47.1	45.7	43.3
net taxes on production and imports	16.0	17.0	19.4
gross profit and gross mixed incomes	36.9	37.3	37.3



Table 8

**BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENSES IN RUSSIA (million rubles)**

	2004	2005	2005 as % of 2004
<b>Money income</b>	<b>10,976,293.0</b>	<b>13,522,512.4</b>	<b>123.2</b>
Wages and salaries	7,124,026.0	8,767,072.0	123.1
% share	64.9	64.8	
Social payments	1,414,911.0	1,741,892.5	123.1
% share	12.9	12.9	
Income from entrepreneurial activities	1,286,398.0	1,542,294.0	119.9
% share	11.7	11.4	
Income from property	906,497.5	1,203,053.5	132.7
% share	8.3	8.9	
Other income	244,460.5	268,200.4	109.7
% share	2.2	2.0	
<b>Money expenses</b>	<b>8,671,629.7</b>	<b>10,914,527.2</b>	<b>125.9</b>
consumer expenses	7,670,724.9	9,615,292.3	125.4
compulsory payments and contributions	1,000,904.8	1,299,234.9	129.8
<b>Growth in savings and cash on hand, purchase of foreign currency</b>	<b>2,304,663.3</b>	<b>2,607,985.2</b>	<b>113.2</b>
savings*	1,202,966.8	1,282,812.6	106.6
of which:			
deposits and securities	469,437.2	685,853.5	146.1
foreign currency purchase	905,582.7	1,172,333.4	129.5
cash on hand	196,113.8	152,839.2	77.9
For the record:			
<b>% share of money income</b>			
consumer expenses	69.9	71.1	
compulsory payments and contributions	9.1	9.6	
savings	11.0	9.5	
of which:			
deposits and securities	4.3	5.1	
foreign currency purchase	8.2	8.7	
cash on hand	1.8	1.1	
<b>Disposable money income</b>	<b>10,000,847.2</b>	<b>12,318,026.8</b>	<b>123.2</b>
% share of			
consumer expenses	76.7	78.1	
savings	12.0	10.4	
of which:			
deposits and securities	4.7	5.6	
foreign currency purchase	9.1	9.5	
cash on hand	2.0	1.2	

\* Savings include increases (decreases) in deposits, purchase of securities, changes in accounts of self-employed entrepreneurs, changes in debt on loans, and purchase of real estate.

Table 9

## INCOME DIFFERENTIATION OF POPULATION

	2003	2004	2005
Funds ratio, times*	14.5	15.1	14.7
Gini coefficient, units**	0.402	0.408	0.404

\* The funds ratio is the ratio between average income of highest-income 10% of population and 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 2005 (as % of 2004)

	Net financial result	Working assets			Payables		Receivables	
		total	of which:		total	of which overdue	total	of which overdue
			short-term financial investments	cash				
<b>Total</b>	<b>136.6</b>	<b>129.7</b>	<b>96.5</b>	<b>131.6</b>	<b>107.5</b>	<b>85.2</b>	<b>122.4</b>	<b>102.0</b>
Agriculture, hunting and forestry	75.3	100.7	170.2	165.3	93.9	74.7	119.4	81.6
Hydrocarbon production and mining	175.6	129.3	89.1	122.1	102.6	104.6	122.3	167.9
of which:								
fuel and energy production	185.7	128.6	75.1	117.9	102.0	106.3	124.3	175.5
Manufacturing	116.2	120.3	80.8	116.6	120.9	85.5	150.6	101.7
Production and distribution of electricity, gas and water	134.4	121.1	122.3	140.4	118.5	90.2	119.3	94.6
Construction	121.1	128.7	87.0	142.8	123.4	80.4	119.8	79.6
Wholesale and retail trade, and other	142.5	166.0	129.2	145.5	116.7	74.1	126.9	84.3
Transport and communications	130.3	118.1	118.2	143.9	103.7	76.8	120.4	105.5

Table 11

**PAYMENTS FOR PRODUCTS SHIPPED (WORK PERFORMED AND SERVICES PROVIDED)  
BY MAJOR TAXPAYERS AND INDUSTRIAL MONOPOLIES**

	2005		As % of 2004
	billion rubles	structure of payments, %	
<b>Value of products shipped</b>	<b>12,901.0</b>		<b>129.4</b>
of which:			
paid-for products	11,869.0	100.0	129.9
of which products paid for with:			
money	11,161.2	94.0	136.3
promissory notes	259.7	2.2	92.6
transfer of rights of claim on pecuniary obligations	7.3	0.1	67.5
netting of claims	372.6	3.1	86.5
barter arrangements	18.7	0.2	58.6
other kinds of settlements	49.5	0.4	25.5

Table 12

**RUSSIA'S MERCHANDISE TRADE**  
(according to balance of payments methodology)

	Billion US dollars							As % of previous year						
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005
<b>all countries</b>														
Turnover	115.1	149.9	155.6	168.3	212.0	280.6	368.9	86.9	130.2	103.8	108.1	126.0	132.4	131.5
Exports	75.6	105.0	101.9	107.3	135.9	183.2	243.6	101.5	139.0	97.0	105.3	126.7	134.8	132.9
Imports	39.5	44.9	53.8	61.0	76.1	97.4	125.3	68.1	113.5	119.8	113.4	124.8	128.0	128.7
Balance	36.0	60.2	48.1	46.3	59.9	85.8	118.3	219.2	167.1	80.0	96.3	129.2	143.4	137.8
<b>non-CIS countries</b>														
Turnover	92.7	122.2	127.3	139.7	175.6	230.5	313.5	90.6	131.8	104.2	109.7	125.6	131.3	136.0
Exports	63.6	90.8	86.6	90.9	114.6	153.0	210.1	108.4	142.8	95.4	105.0	126.0	133.5	137.3
Imports	29.2	31.4	40.7	48.8	61.0	77.5	103.5	66.7	107.8	129.6	119.9	124.9	127.0	133.5
Balance	34.4	59.3	45.9	42.1	53.6	75.5	106.6	230.3	172.5	77.3	91.8	127.2	140.9	141.2
<b>CIS countries</b>														
Turnover	22.4	27.7	28.3	28.5	36.4	50.1	55.4	74.3	123.7	102.3	100.8	127.7	137.5	110.5
Exports	12.0	14.2	15.3	16.4	21.4	30.2	33.5	76.0	118.8	107.2	107.2	130.4	141.4	111.0
Imports	10.4	13.4	13.0	12.2	15.1	19.9	21.8	72.6	129.4	97.1	93.2	124.1	131.9	109.8
Balance	1.6	0.8	2.2	4.2	6.3	10.3	11.7	108.3	50.9	271.1	189.5	148.7	164.2	113.2

Note. Total exports for 2003 in Tables 12, 13, 15 and 24 include the value of crude oil exported in 2003 and customs cleared in January 2004.

Table 13

## COMMODITY STRUCTURE OF RUSSIAN EXPORTS

	Structure, %							Growth rates as % of previous year						
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>102.0</b>	<b>141.0</b>	<b>97.0</b>	<b>107.0</b>	<b>126.0</b>	<b>135.0</b>	<b>133.0</b>
Minerals,	44.8	53.8	54.7	55.2	57.6	57.8	64.6	107.0	170.0	98.0	108.0	132.0	136.0	148.0
of which:														
fuel and energy	44.0	53.1	54.1	54.6	57.0	57.2	63.9	108.0	171.0	99.0	108.0	132.0	135.0	148.0
of which:														
oil	19.4	24.5	25.0	27.3	29.5	32.5	34.6	138.0	179.0	99.0	116.0	136.0	149.0	141.0
natural gas	15.6	16.1	17.8	14.9	14.9	12.0	13.1	85.0	147.0	107.0	89.0	126.0	109.0	145.0
Metals, metal products	20.1	16.9	14.7	14.1	13.8	16.7	14.2	95.0	119.0	84.0	103.0	123.0	164.0	113.0
Chemicals, rubber	8.5	7.2	7.5	6.9	6.8	6.6	5.9	101.0	120.0	101.0	99.0	124.0	131.0	120.0
Machinery, equipment, transport vehicles	10.8	8.8	10.4	9.4	8.9	7.7	5.6	96.0	115.0	115.0	96.0	119.0	117.0	96.0
Timber, pulp-and-paper products	5.1	4.3	4.4	4.6	4.2	3.9	3.4	103.0	120.0	99.0	111.0	114.0	126.0	118.0
Gemstones, precious metals and articles made of them	6.0	4.8	4.1	4.5	3.9	3.5	2.8	104.0	113.0	83.0	116.0	109.0	122.0	107.0
Foodstuffs, agricultural raw materials (except textiles)	1.3	1.6	1.9	2.6	2.5	1.8	1.9	70.0	164.0	117.0	148.0	122.0	96.0	138.0
Textiles, textile products, footwear	1.1	0.8	0.8	0.8	0.7	0.6	0.4	101.0	101.0	98.0	111.0	107.0	118.0	83.0
Leather, furs, and articles made of them	0.3	0.3	0.2	0.3	0.2	0.2	0.1	52.0	130.0	85.0	117.0	124.0	107.0	93.0
Other goods	2.0	1.5	1.3	1.6	1.4	1.2	1.1	184.0	116.0	87.0	129.0	117.0	113.0	113.0
For the record:														
Total exports, billion US dollars (Source: Federal Customs Service)	72.9	103.1	100.0	106.7	134.5	181.7	241.2							

Table 14

## COMMODITY STRUCTURE OF RUSSIAN IMPORTS

	Structure, %							Growth rates as % of previous year						
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>70.0</b>	<b>112.0</b>	<b>124.0</b>	<b>110.0</b>	<b>124.0</b>	<b>132.0</b>	<b>130.0</b>
Machinery, equipment, transport vehicles	33.1	31.4	34.0	36.3	37.4	41.1	44.0	64.0	106.0	134.0	118.0	128.0	145.0	140.0
Foodstuffs, agricultural raw materials (except textiles)	26.6	21.8	22.0	22.5	21.0	18.3	17.7	75.0	91.0	125.0	113.0	116.0	115.0	126.0
Chemicals, rubber	16.1	17.9	18.2	16.7	16.8	15.8	16.5	74.0	125.0	126.0	101.0	124.0	124.0	136.0
Metals, metal products	7.2	8.1	7.2	6.3	7.2	7.7	7.4	73.0	126.0	110.0	97.0	141.0	141.0	127.0
Textiles, textile products, footwear	5.2	5.9	5.5	5.3	4.8	4.3	3.7	88.0	126.0	115.0	106.0	114.0	118.0	111.0
Timber, pulp-and-paper products	3.6	3.8	4.0	4.2	4.2	3.8	3.3	63.0	120.0	130.0	114.0	125.0	119.0	114.0
Minerals,	4.0	6.3	4.1	3.7	3.8	4.0	3.1	50.0	177.0	80.0	101.0	125.0	142.0	99.0
of which:														
fuel and energy	2.6	4.3	2.5	2.2	2.3	2.2	1.6	43.0	188.0	71.0	100.0	129.0	126.0	97.0
Leather, furs, and articles made of them	0.3	0.4	0.5	0.4	0.4	0.3	0.3	87.0	146.0	175.0	94.0	110.0	109.0	112.0
Gemstones, precious metals, and articles made of them	0.2	0.2	0.1	0.1	0.1	0.2	0.2	129.0	161.0	35.0	143.0	173.0	252.0	141.0
Other goods	3.7	4.2	4.4	4.5	4.3	4.5	3.8	70.0	118.0	134.0	111.0	122.0	130.0	114.0
For the record:														
Total imports, billion US dollars (Source: Federal Customs Service)	30.3	33.9	41.9	46.2	57.3	75.6	98.6							

Table 15

## RUSSIA'S EXPORTS TO MAJOR TRADING PARTNERS

	Structure, %							Growth rates as % of previous year						
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>102.0</b>	<b>141.0</b>	<b>97.0</b>	<b>107.0</b>	<b>126.0</b>	<b>135.0</b>	<b>133.0</b>
of which:														
CIS countries	14.7	13.4	14.6	14.7	15.3	16.2	13.5	78.0	129.0	106.0	107.0	131.0	143.0	111.0
Non-CIS countries	85.3	86.6	85.4	85.3	84.7	83.8	86.5	108.0	144.0	96.0	106.0	125.0	133.0	137.0
of which:														
EU countries	34.1	35.8	36.7	35.4	35.3	46.0	55.3	107.0	148.0	100.0	103.0	126.0	176.0	160.0
APEC countries	17.5	15.1	15.1	15.3	14.4	14.8	12.4	105.0	122.0	97.0	108.0	119.0	139.0	111.0
Other countries	33.7	35.7	33.6	34.6	35.0	23.0	18.8	110.0	150.0	91.0	110.0	128.0	88.0	109.0
For the record:														
15 EU member countries	34.1	35.8	36.7	35.4	35.3	36.4	41.6	107.0	148.0	100.0	103.0	126.0	139.0	152.0
OECD member countries	59.4	59.3	58.7	57.6	56.6	58.1	63.3	104.0	141.0	96.0	105.0	124.0	138.0	145.0
<b>Major trading partners</b>														
The Netherlands	5.0	4.2	4.7	7.0	6.6	8.4	10.2	93.0	118.0	108.0	158.0	119.0	173.0	161.0
Germany	8.5	9.0	9.2	7.6	7.8	7.3	8.2	108.0	149.0	100.0	88.0	130.0	127.0	148.0
Italy	5.2	7.0	7.4	7.0	6.5	6.7	7.9	117.0	193.0	102.0	101.0	117.0	139.0	158.0
China	4.8	5.1	5.6	6.4	6.2	5.6	5.4	111.0	149.0	107.0	122.0	122.0	122.0	129.0
Ukraine	6.6	4.9	5.3	5.5	5.7	5.9	5.1	86.0	105.0	105.0	111.0	130.0	141.0	115.0
Turkey	2.2	3.0	3.2	3.2	3.6	4.1	4.5	84.0	190.0	105.0	103.0	145.0	153.0	146.0
Switzerland	4.6	3.7	2.3	5.0	4.3	4.2	4.3	107.0	115.0	60.0	232.0	109.0	132.0	136.0
Belarus	5.2	5.4	5.3	5.5	5.6	6.2	4.2	81.0	148.0	96.0	110.0	129.0	148.0	90.0
Poland	3.6	4.3	4.2	3.5	3.4	3.1	3.6	120.0	171.0	94.0	89.0	124.0	123.0	151.0
UK	4.0	4.5	4.3	3.6	3.7	3.1	3.4	98.0	162.0	92.0	89.0	130.0	114.0	147.0
Finland	3.3	3.0	3.1	2.8	3.2	3.2	3.2	117.0	129.0	100.0	94.0	148.0	134.0	131.0
Kazakhstan	1.7	2.2	2.8	2.3	2.4	2.6	2.7	65.0	183.0	124.0	86.0	137.0	142.0	140.0
USA	6.5	4.5	4.2	3.7	3.1	3.6	2.6	92.0	99.0	90.0	95.0	106.0	157.0	96.0
France	1.7	1.8	2.3	2.5	2.6	2.4	2.5	83.0	157.0	118.0	118.0	132.0	126.0	138.0
Japan	2.9	2.7	2.4	1.7	1.8	1.9	1.6	98.0	130.0	88.0	74.0	135.0	140.0	110.0
For the record:														
Total exports, billion US dollars (Source: Federal Customs Service)	72.9	103.1	100.0	106.7	134.5	181.7	241.2							

Note. In Tables 15—17 and 29, the EU is represented from May 2004 by 25 states.



Table 16

## RUSSIA'S IMPORTS FROM MAJOR TRADING PARTNERS

	Structure, %							Growth rates as % of previous year						
	1999	2000	2001	2002	2003	2004	2005	1999	2000	2001	2002	2003	2004	2005
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>70.0</b>	<b>112.0</b>	<b>124.0</b>	<b>110.0</b>	<b>124.0</b>	<b>132.0</b>	<b>130.0</b>
of which:														
CIS countries	27.5	34.3	26.7	22.0	22.9	23.5	19.2	74.0	139.0	97.0	91.0	129.0	135.0	107.0
Non-CIS countries	72.5	65.7	73.3	78.0	77.1	76.5	80.8	68.0	101.0	138.0	117.0	123.0	131.0	138.0
of which:														
EU countries	36.9	32.9	36.9	39.7	38.7	43.0	44.2	71.0	100.0	138.0	119.0	121.0	146.0	134.0
APEC countries	15.9	16.1	18.5	19.1	19.8	21.5	25.6	58.0	113.0	142.0	113.0	129.0	144.0	155.0
Other countries	19.7	16.7	17.9	19.2	18.6	12.0	11.0	72.0	95.0	132.0	119.0	120.0	85.0	118.0
For the record:														
15 EU member countries	36.9	32.9	36.9	39.7	38.7	37.6	37.0	71.0	100.0	138.0	119.0	121.0	128.0	128.0
OECD member countries	55.2	51.6	56.7	59.5	58.7	58.8	60.8	65.0	105.0	136.0	116.0	123.0	132.0	135.0
<b>Major trading partners</b>														
Germany	13.9	11.5	13.9	14.3	14.1	14.0	13.4	77.0	93.0	149.0	114.0	123.0	130.0	125.0
Ukraine	8.3	10.8	9.2	7.0	7.7	8.1	7.9	77.0	144.0	105.0	84.0	137.0	137.0	127.0
China	3.0	2.8	3.9	5.2	5.8	6.3	7.4	77.0	106.0	174.0	146.0	138.0	143.0	153.0
Japan	1.5	1.7	2.1	2.1	3.3	5.2	5.9	56.0	125.0	152.0	113.0	192.0	209.0	148.0
Belarus	10.6	11.0	9.5	8.6	8.5	8.6	5.8	70.0	115.0	107.0	101.0	122.0	133.0	88.0
USA	7.9	8.0	7.8	6.5	5.2	4.2	4.6	58.0	113.0	121.0	92.0	99.0	108.0	143.0
Italy	3.8	3.6	4.1	4.8	4.2	4.2	4.5	64.0	105.0	141.0	130.0	108.0	133.0	138.0
France	4.1	3.5	3.7	4.1	4.1	4.1	3.7	77.0	96.0	130.0	123.0	124.0	131.0	119.0
Kazakhstan	4.6	6.5	4.8	4.2	4.3	4.6	3.3	74.0	157.0	92.0	96.0	127.0	139.0	93.0
Finland	3.1	2.8	3.1	3.3	3.2	3.1	3.1	66.0	101.0	134.0	118.0	122.0	126.0	132.0
UK	2.2	2.5	2.4	2.4	2.5	2.7	2.8	55.0	127.0	117.0	112.0	129.0	143.0	134.0
Poland	2.0	2.1	2.3	2.8	3.0	3.1	2.8	58.0	119.0	134.0	135.0	132.0	135.0	119.0
The Netherlands	2.3	2.2	2.0	2.3	2.2	1.8	2.0	75.0	107.0	114.0	125.0	119.0	109.0	141.0
Turkey	1.0	1.0	1.2	1.6	1.6	1.6	1.8	61.0	112.0	149.0	140.0	127.0	133.0	141.0
Switzerland	1.0	0.8	0.9	0.9	0.9	0.9	0.9	73.0	88.0	144.0	107.0	127.0	122.0	135.0
For the record:														
Total imports, billion US dollars (Source: Federal Customs Service)	30.3	33.9	41.9	46.2	57.3	75.6	98.6							

Table 17

## RUSSIA'S FOREIGN TRADE IN SERVICES BY GROUP OF COUNTRIES IN 2004 AND 2005 (million US dollars)

	Turnover			Exports			Imports			Balance		
	2004	2005	Rate of growth, %	2004	2005	Rate of growth, %	2004	2005	Rate of growth, %	2004	2005	Rate of growth, %
<b>Total</b>	<b>54,022</b>	<b>63,827</b>	<b>118</b>	<b>20,290</b>	<b>24,566</b>	<b>121</b>	<b>33,732</b>	<b>39,261</b>	<b>116</b>	<b>-13,443</b>	<b>-14,696</b>	<b>109</b>
of which:												
CIS countries	8,129	9,312	115	3,566	4,306	121	4,563	5,006	110	-997	-700	70
Non-CIS countries	45,893	54,515	119	16,724	20,260	121	29,169	34,255	117	-12,445	-13,995	112
of which:												
EU countries	20,753	26,571	128	7,904	9,940	126	12,849	16,631	129	-4,945	-6,690	135
APEC countries	7,487	8,036	107	3,431	4,033	118	4,056	4,002	99	-625	31	-
Other countries	12,663	13,402	106	4,072	4,396	108	8,591	9,007	105	-4,519	-4,611	102
Services not broken down by country	4,990	6,506	130	1,317	1,890	144	3,673	4,616	126	-2,356	-2,725	116
For the record:												
15 EU member countries	17,409	21,154	122	6,535	7,681	118	10,875	13,474	124	-4,340	-5,793	133
OECD member countries	32,204	39,273	122	12,234	15,257	125	19,970	24,016	120	-7,736	-8,758	113

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 1.01.2005	As of 1.01.2006	Change over 2005	As of 1.01.2005	As of 1.01.2006	Change over 2005
<b>Total</b>	<b>53.5</b>	<b>44.8</b>	<b>—8.7</b>	<b>93.3</b>	<b>87.4</b>	<b>—5.9</b>
Federal Treasury	1.2	1.8	0.6	6.0	26.9	20.9
Regional and local budget managing bodies	4.0	3.3	—0.7	9.5	7.0	—2.5
Organisations financed from budgets of all levels	39.6	32.4	—7.2	64.5	42.0	—22.5
Government extra-budgetary funds	2.4	2.3	—0.1	4.6	4.5	—0.1
Other organisations	6.3	5.0	—1.3	8.7	7.0	—1.7

Table 19

## RUSSIA'S DOMESTIC GOVERNMENT DEBT STRUCTURE AS OF JANUARY 1, 2006 (at par, billion rubles)

Debt instruments	Total in domestic government debt	Of these, traded on organised securities market
Debt depreciation federal loan bonds (OFZ-AD)	596.3	466.8
Fixed coupon-income federal loan bonds (OFZ-FD)	131.1	131.1
Permanent coupon-income federal loan bonds (OFZ-PD)	123.6	123.6
Other debt accounted for as part of domestic government debt	24.4	—
<b>Total</b>	<b>875.4</b>	<b>721.5</b>

Table 20

**FINANCE MINISTRY DEBT TO BANK OF RUSSIA AS OF JANUARY 1, 2006 (million rubles)**

	At balance-sheet value of debt obligations
<b>Total debt</b>	<b>280,756</b>
of which:	
Russian government debt obligations	280,756
of which:	
OFZ-AD received as a result of the restructuring of Bank of Russia-owned OFZ-PK, OFZ-PD and OFZ-AD	184,511
acquired through repo operations	4,714
other debt obligations	91,531

Table 21

**VOLUMES OF RESIDENT OPERATIONS WITH NON-RESIDENTS TO BUY AND SELL RUSSIA'S OUTSTANDING  
FOREIGN CURRENCY-DENOMINATED DEBT OBLIGATIONS ON THE SECONDARY MARKET IN 2005  
(at market prices, billion US dollars)**

	Q1	Q2	Q3	Q4	2005
Eurobonds placed by open subscription	1.55	3.05	1.95	2.54	9.09
Eurobonds issued in the course of restructuring GKO	0.30	0.39	0.26	1.11	2.05
Eurobonds issued in the course of restructuring of debt to London Club of commercial bank creditors	12.24	19.19	14.88	19.92	66.23
OVGZ and OGVZ bonds of 1999 issue	1.62	1.17	0.55	2.15	5.49

Table 22

## INSTITUTIONS OF FINANCIAL INTERMEDIATION

	1.01.2006	For the record: 1.01.2005
<b>Credit institutions</b>		
Operating credit institutions, total	1,253	1,299
of which:		
— banks	1,205	1,249
— non-bank credit institutions	48	50
Operating credit institutions with foreign stakes in authorised capital	136	131
Branches of credit institutions operating in Russia	3,295	3,238
Representative offices of operating Russian credit institutions	467	350
<b>Insurance companies*</b>		
Operating insurance companies	1,075	1,280
<b>Unit investment funds**</b>		
Operating unit investment funds, total	360	241
of which:		
— open-end	196	149
— interval	60	49
— closed-end	104	43
<b>Non-governmental pension funds***</b>		
Operating non-governmental pension funds, total	294****	295

\* Source: Federal Insurance Supervision Service.

\*\* Source: National Managers' League, which has the Federal Securities Commission's permission to conduct operations as a self-regulating managers' organisation.

\*\*\* Source: Federal Financial Markets Service.

\*\*\*\* As of October 1, 2005.

Table 23

**CHARACTERISTICS OF RUSSIA'S OUTSTANDING GOVERNMENT FOREIGN CURRENCY-DENOMINATED LOAN BONDS  
AS OF JANUARY 1, 2006**

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	2,400	10
24.06.1998	26.06.2028	US dollar	2,500	12.75
<b>Eurobonds issued in the course of restructuring GKO bonds</b>				
24.07.1998	24.07.2018	US dollar	3,466	11
<b>Eurobonds issued in the course of second restructuring of debt to London Club of commercial bank creditors (2 issues)</b>				
31.03.2000	31.03.2010	US dollar	2,826	8.25
31.03.2000	29.03.2030	US dollar	20,310	5
<b>Domestic government foreign currency-denominated loan bonds (Series 5, 6 and 7 OGVZ bonds) and government foreign currency-denominated loan bonds issued in 1999 (OGVZ)</b>				
14.05.1993	14.05.2008	US dollar	2,837	3
14.05.1996	14.05.2006	US dollar	1,750	3
14.05.1996	14.05.2011	US dollar	1,750	3
1.02.2000	14.11.2007	US dollar	890	3

Table 24

## RUSSIA'S BALANCE OF PAYMENTS FOR 2005 (analytical presentation, million US dollars)

	Q1	Q2	Q3	Q4	2005	For the record: 2004
<b>Current account</b>	<b>20,257</b>	<b>22,516</b>	<b>19,724</b>	<b>21,751</b>	<b>84,249</b>	<b>58,592</b>
Balance of trade	24,520	30,174	32,372	31,200	118,266	85,825
<i>Exports</i>	<i>50,182</i>	<i>59,594</i>	<i>64,813</i>	<i>68,981</i>	<i>243,569</i>	<i>183,207</i>
crude oil	15,857	20,051	24,329	23,202	83,438	59,045
petroleum products	6,193	7,958	9,683	9,972	33,807	19,269
natural gas	7,632	7,201	7,758	9,080	31,671	21,853
other	20,500	24,383	23,043	26,728	94,654	83,040
<i>Imports</i>	<i>-25,662</i>	<i>-29,420</i>	<i>-32,440</i>	<i>-37,781</i>	<i>-125,303</i>	<i>-97,382</i>
Balance of services	-2,596	-3,210	-5,062	-3,827	-14,695	-13,443
<i>Exports</i>	<i>4,752</i>	<i>6,069</i>	<i>6,940</i>	<i>6,804</i>	<i>24,566</i>	<i>20,290</i>
transport services	1,836	2,409	2,409	2,459	9,113	7,792
travel	905	1,371	1,941	1,249	5,466	5,225
other services	2,012	2,290	2,590	3,096	9,988	7,272
<i>Imports</i>	<i>-7,348</i>	<i>-9,280</i>	<i>-12,002</i>	<i>-10,631</i>	<i>-39,261</i>	<i>-33,732</i>
transport services	-971	-1,248	-1,430	-1,487	-5,135	-3,886
travel	-3,179	-4,156	-6,379	-4,090	-17,804	-15,730
other services	-3,198	-3,876	-4,194	-5,054	-16,322	-14,117
Wage balance	-146	-203	-563	-958	-1,869	-603
Balance of investment incomes	-1,333	-4,231	-6,642	-4,084	-16,290	-12,511
Income receivable	4,855	3,997	2,875	4,724	16,451	10,792
Income payable	-6,188	-8,228	-9,517	-8,807	-32,741	-23,303
<i>Federal government</i>	<i>-569</i>	<i>-414</i>	<i>-1,503</i>	<i>-613</i>	<i>-3,099</i>	<i>-3,406</i>
Income receivable	1,177	289	99	85	1,650	1,660
Income payable	-1,746	-703	-1,602	-697	-4,749	-5,066
<i>Regional and local governments (income payable)</i>	<i>-15</i>	<i>-70</i>	<i>-12</i>	<i>-38</i>	<i>-135</i>	<i>-146</i>
<i>Monetary authorities</i>	<i>666</i>	<i>918</i>	<i>954</i>	<i>1,156</i>	<i>3,695</i>	<i>1,388</i>
Income receivable	724	972	1,019	1,238	3,953	1,542
Income payable	-58	-53	-65	-82	-258	-154

Cont.

	Q1	Q2	Q3	Q4	2005	For the record: 2004
<i>Banks</i>	—149	—194	—243	—241	—828	—483
Income receivable	318	397	429	496	1,640	871
Income payable	—467	—591	—671	—738	—2,468	—1,354
<i>Non-financial enterprises</i>	—1,266	—4,472	—5,837	—4,349	—15,923	—9,864
Income receivable	2,636	2,339	1,329	2,904	9,209	6,719
Income payable	—3,902	—6,810	—7,166	—7,253	—25,132	—16,583
Balance of current transfers	—188	—13	—382	—580	—1,163	—677
<b>Capital and financial accounts</b>	<b>—1,732</b>	<b>—2,361</b>	<b>—10,713</b>	<b>3,895</b>	<b>—10,910</b>	<b>—7,085</b>
<b>Capital account (capital transfers)</b>	<b>—109</b>	<b>—1,232</b>	<b>—10,786</b>	<b>—9</b>	<b>—12,137</b>	<b>—1,624</b>
<b>Financial account (except reserves)</b>	<b>—1,623</b>	<b>—1,129</b>	<b>74</b>	<b>3,904</b>	<b>1,226</b>	<b>—5,461</b>
<b>Liabilities (+ signifies increase, — signifies decrease)</b>	<b>14,840</b>	<b>18,256</b>	<b>—26</b>	<b>21,930</b>	<b>54,999</b>	<b>36,673</b>
<i>Federal government</i>	—2,675	1,019	—19,279	68	—20,867	—2,625
Portfolio investments (debt securities)	—1,165	1,577	—2,675	624	—1,639	2,849
issuance	0	0	0	0	0	900
redemption (schedule)	—1,522	—353	—3,106	—213	—5,194	—3,346
principal	—803	—7	—2,449	—2	—3,261	—1,311
coupons	—719	—345	—658	—211	—1,933	—2,035
reinvestment of income	540	517	511	488	2,056	2,237
secondary market	—183	1,413	—80	349	1,499	3,058
Loans	—1,590	—603	—16,372	—350	—18,915	—1,207
utilisation	90	109	117	206	522	704
redemption (schedule)	—1,681	—712	—16,489	—913	—19,794	—4,912
restructuring	0	0	0	357	357	3,000
Overdue debt	57	40	67	24	188	—2,871
accumulation	59	42	67	41	209	219
repayment/restructuring	—2	—2	0	—17	—20	—3,090
Other liabilities	23	5	—299	—231	—502	—1,395
<i>Regional and local governments</i>	—12	5	—148	—148	—302	235
<i>Monetary authorities</i>	—287	1,176	206	1,726	2,821	259
IMF loans	—3,489	0	0	0	—3,489	—1,651
Other liabilities	3,202	1,176	206	1,726	6,309	1,909



End

	Q1	Q2	Q3	Q4	2005	For the record: 2004
<i>Banks</i>	2,168	4,320	5,468	7,278	19,233	7,078
Direct investments	134	604	322	936	1,997	685
Loans and deposits	2,061	3,237	5,537	6,930	17,765	6,833
Other liabilities	-27	479	-392	-589	-529	-439
<i>Non-financial enterprises</i>	15,646	11,737	13,727	13,005	54,115	31,726
Direct investments	5,858	6,463	4,913	-4,632	12,603	14,760
Portfolio investments	1,697	1,690	439	-3,007	819	770
Loans	8,138	3,622	8,436	20,704	40,900	16,180
Other liabilities	-48	-38	-61	-60	-207	16
<b>Assets, excluding reserves (+ signifies decrease, — signifies increase)</b>	<b>-16,463</b>	<b>-19,385</b>	<b>100</b>	<b>-18,026</b>	<b>-53,773</b>	<b>-42,134</b>
<i>Federal government</i>	-1,100	730	11,179	264	11,073	-237
Loans	141	1,545	-1,273	246	660	1,241
Overdue debt	-1,231	-600	12,803	-101	10,871	-947
Other assets	-10	-215	-351	118	-458	-532
<i>Monetary authorities</i>	-3,341	-894	-284	-787	-5,306	-1,268
<i>Banks</i>	-4,837	-6,771	917	-2,662	-13,353	-3,562
Direct investments	-27	-31	134	-814	-738	-237
Loans and deposits	-4,614	-6,249	1,300	-13	-9,576	-2,432
Other assets	-196	-491	-517	-1,835	-3,038	-894
<i>Non-financial enterprises and households</i>	-7,185	-12,450	-11,712	-14,841	-46,188	-37,066
Direct and portfolio investments	-3,233	-3,922	-2,360	-4,459	-13,975	-13,672
Foreign currency cash	725	849	1,279	-962	1,890	1,998
Commercial loans and advance payments	-538	-2,013	-1,032	-4,522	-8,104	-656
Debt on commodity deliveries under intergovernmental agreements	139	127	-903	2,548	1,911	-110
Unreturned proceeds from exports, undelivered goods and services in return for money transferred under import contracts, transfers on fictitious operations with securities	-4,451	-7,476	-7,959	-7,309	-27,195	-25,903
Other assets	173	-15	-737	-137	-715	1,277
<b>Net errors and omissions</b>	<b>-4,103</b>	<b>-2,147</b>	<b>-933</b>	<b>-4,694</b>	<b>-11,878</b>	<b>-6,272</b>
<b>Change in foreign exchange reserves (+ signifies decrease, — signifies increase)</b>	<b>-14,422</b>	<b>-18,008</b>	<b>-8,078</b>	<b>-20,952</b>	<b>-61,461</b>	<b>-45,235</b>

Table 25

## PERSON-TO-PERSON REMITTANCES MADE TO AND FROM RUSSIA VIA MONEY TRANSFER SYSTEMS AND RUSSIA'S POSTAL SERVICE IN 2005 (million US dollars)

	Q1	Q2	Q3	Q4	2005	Remittance characteristics		For the record: 2004
						Average remittance, US dollars	US dollar remittances as % of total remittances	
<b>Remittances from Russia</b>	<b>515</b>	<b>792</b>	<b>1,099</b>	<b>1,143</b>	<b>3,549</b>	<b>457</b>	<b>97</b>	<b>2,070</b>
to non-CIS countries	52	67	88	115	323	1,084	99	...
to CIS countries	462	725	1,011	1,027	3,226	432	96	...
<b>Remittances to Russia</b>	<b>207</b>	<b>254</b>	<b>286</b>	<b>294</b>	<b>1,041</b>	<b>427</b>	<b>97</b>	<b>777</b>
from non-CIS countries	140	163	169	174	645	506	99	...
from CIS countries	68	91	117	120	396	340	92	...
<b>Balance*</b>	<b>—307</b>	<b>—538</b>	<b>—813</b>	<b>—849</b>	<b>—2,507</b>			<b>—1,292</b>
non-CIS countries	87	96	81	59	322			...
CIS countries	—395	—634	—893	—908	—2,829			...

\* Negative balance signifies excess of remittances from Russia over remittances to Russia.

Table 26

**FUNCTIONAL STRUCTURE OF FOREIGN INVESTMENT IN RUSSIA IN 2005 (billion US dollars)\***

Type of investment	Q1	Q2	Q3	Q4	2005	For the record**	
						2005	2004
Direct	6.0	7.1	5.2	—3.7	14.6	14.6	15.4
Portfolio	0.5	3.9	—2.4	—2.8	—0.9	—0.9	3.5
Financial derivatives	—0.2	—0.3	—0.3	—0.2	—1.1	—1.1	—0.9
Other	8.6	7.6	—2.6	28.7	42.3	42.7	19.2
<b>Total</b>	<b>14.8</b>	<b>18.3</b>	<b>0.0</b>	<b>21.9</b>	<b>55.0</b>	<b>55.3</b>	<b>37.3</b>

\* Net growth in debt obligations to non-residents according to balance of payments data.

\*\* The data do not include operations relating to debt restructuring and remission.

Note.

“—” signifies decrease in residents' foreign liabilities. Minor discrepancies between total and sum of items are due to rounding of data.

Table 27

**FUNCTIONAL STRUCTURE OF RUSSIAN RESIDENT INVESTMENTS IN FOREIGN ASSETS (EXCEPT RESERVES)  
IN 2005 (billion US dollars)\***

Type of investment	Q1	Q2	Q3	Q4	2005	For the record**	
						2005	2004
Direct	3.1	3.9	1.8	4.4	13.1	13.1	13.8
Portfolio	3.7	2.0	1.2	3.8	10.7	10.7	3.8
Financial derivatives	—0.1	—0.2	—0.3	—0.3	—0.9	—0.9	—0.8
Other	9.8	13.7	—2.8	10.1	30.8	44.5	26.9
<b>Total</b>	<b>16.5</b>	<b>19.4</b>	<b>—0.1</b>	<b>18.0</b>	<b>53.8</b>	<b>67.4</b>	<b>43.7</b>

\* Net growth in residents' assets according to balance of payments data.

\*\* The data do not take into account operations relating to debt restructuring and remission.

Note.

“—” signifies decrease in residents' foreign assets. Minor discrepancies between total and sum of items are due to rounding of data.

Table 28

**RUSSIAN BANKING SECTOR'S INTERNATIONAL INVESTMENT POSITION**  
(as of January 1, 2005, and January 1, 2006, million US dollars)

	Balance as of 1.01.2005	Changes due to operations	Changes due to revaluation	Other changes	Total changes	Balance as of 1.01.2006
<b>Assets</b>	<b>25,989</b>	<b>13,353</b>	<b>233</b>	<b>—393</b>	<b>13,193</b>	<b>39,182</b>
<b>Direct investments abroad</b>	<b>818</b>	<b>738</b>	<b>291</b>	<b>—349</b>	<b>680</b>	<b>1,498</b>
Stakeholdings in capital and reinvested income	492	546	292	—251	587	1,079
Other capital	326	192	—1	—99	93	419
<b>Portfolio investments</b>	<b>3,714</b>	<b>3,568</b>	<b>—313</b>	<b>—4</b>	<b>3,251</b>	<b>6,964</b>
Stakeholdings in capital	33	272	—24	—9	239	272
Debt securities	3,680	3,296	—290	5	3,012	6,692
long-term	3,015	2,634	—353	14	2,295	5,310
short-term	665	662	64	—9	717	1,382
<b>Financial derivatives</b>	<b>153</b>	<b>—858</b>	<b>756</b>	<b>0</b>	<b>—102</b>	<b>51</b>
<b>Other investments</b>	<b>21,304</b>	<b>9,905</b>	<b>—500</b>	<b>—40</b>	<b>9,365</b>	<b>30,669</b>
Foreign currency cash and deposits	13,816	4,901	—430	—17	4,455	18,271
Till foreign currency	2,013	469	—65	—11	393	2,406
Current accounts and deposits	11,803	4,433	—365	—6	4,062	15,865
long-term	677	165	—1	0	163	840
short-term	11,126	4,268	—364	—6	3,899	15,025
Loans	6,660	5,143	—61	—37	5,045	11,706
long-term	1,587	2,791	—26	47	2,812	4,399
short-term	5,073	2,352	—35	—85	2,233	7,306
Overdue debt	39	—11	3	2	—7	32
Other assets	789	—128	—12	13	—128	661
long-term	76	—50	—2	4	—47	28
short-term	713	—79	—11	9	—81	633

	Balance as of 1.01.2005	Changes due to operations	Changes due to revaluation	Other changes	Total changes	Balance as of 1.01.2006
<b>Liabilities</b>	<b>37,337</b>	<b>19,233</b>	<b>3,481</b>	<b>—42</b>	<b>22,672</b>	<b>60,009</b>
<b>Direct investments in Russia</b>	<b>3,020</b>	<b>1,996</b>	<b>—55</b>	<b>13</b>	<b>1,954</b>	<b>4,975</b>
Stakeholdings in capital and reinvested income	2,881	1,936	—55	18	1,900	4,781
Other capital	139	59	0	—5	55	194
<b>Portfolio investments</b>	<b>3,756</b>	<b>240</b>	<b>2,864</b>	<b>—2</b>	<b>3,102</b>	<b>6,858</b>
Stakeholdings in capital	1,927	103	3,006	—3	3,105	5,032
Debt securities	1,829	137	—142	1	—3	1,826
long-term	798	—311	156	—5	—160	638
short-term	1,032	448	—298	6	156	1,188
<b>Financial derivatives</b>	<b>189</b>	<b>—1,091</b>	<b>955</b>	<b>0</b>	<b>—136</b>	<b>52</b>
<b>Other investments</b>	<b>30,372</b>	<b>18,088</b>	<b>—283</b>	<b>—54</b>	<b>17,752</b>	<b>48,124</b>
Current accounts and deposits	9,676	2,864	—40	—57	2,767	12,443
long-term	1,578	986	—13	—32	941	2,519
short-term	8,098	1,879	—27	—26	1,826	9,924
Loans	19,810	14,902	—206	5	14,701	34,511
long-term	11,653	14,829	—137	5	14,697	26,350
short-term	8,157	73	—69	0	4	8,161
Overdue debt	4	1	0	0	1	5
Other liabilities	881	322	—37	—1	283	1,164
long-term	125	58	—4	—1	53	178
short-term	756	264	—33	0	231	986
<b>Net international investment position</b>	<b>—11,348</b>	<b>—5,880</b>	<b>—3,248</b>	<b>—351</b>	<b>—9,479</b>	<b>—20,827</b>

## Notes.

1. “+” denotes net growth in assets and liabilities, “—” denotes their net decrease. This contingent use of the sign differs from its use in balance of payments statistics.
2. 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.
3. Other changes include assets and liabilities of credit institutions which had their banking licences revoked in the period under review.

Table 29

**RUSSIAN BANKING SECTOR FOREIGN ASSETS AND LIABILITIES ON INTERBANK OPERATIONS BY GROUP OF COUNTRIES AS OF JANUARY 1, 2006 (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>20,549.0</b>	<b>2,248.6</b>	<b>22,797.6</b>	<b>9,682.3</b>	<b>19,780.9</b>	<b>29,463.3</b>	<b>—6,665.7</b>
of which:							
<b>CIS countries</b>	<b>613.7</b>	<b>119.0</b>	<b>732.7</b>	<b>757.1</b>	<b>100.2</b>	<b>857.3</b>	<b>—124.6</b>
<b>Non-CIS countries</b>	<b>19,928.9</b>	<b>2,129.6</b>	<b>22,058.5</b>	<b>8,897.4</b>	<b>19,679.2</b>	<b>28,576.5</b>	<b>—6,518.0</b>
of which:							
EU countries	11,414.7	2,102.8	13,517.5	7,326.0	18,261.7	25,587.6	—12,070.1
APEC countries	6,846.9	1.9	6,848.8	410.0	1,064.3	1,474.3	5,374.5
Other countries	1,667.4	24.8	1,692.2	1,161.4	353.2	1,541.6	177.6
<b>International financial organisations</b>	<b>6.4</b>	<b>0.0</b>	<b>6.4</b>	<b>27.8</b>	<b>1.6</b>	<b>29.4</b>	<b>—23.0</b>
<b>For the record:</b>							
15 EU member countries	10,563.1	1,358.3	11,921.4	6,501.5	17,682.1	24,183.5	—12,262.2
OECD countries	18,650.4	2,122.5	20,772.9	8,167.4	19,533.2	27,700.6	—6,927.7

*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 30

## RUSSIA'S DEBT TO INTERNATIONAL FINANCIAL ORGANISATIONS IN 2005 (billion US dollars)

Indicator	Debt as of 1.01.2005	Used	Repaid	Decrease due to exchange rate revaluation	Debt as of 1.01.2006
IMF loans	3.6	0.0	3.5	0.1	0.0
IBRD loans	5.7	0.3	0.8	0.1	5.1
EBRD loans	0.4	0.1	0.0	0.0	0.5

Table 31

## RUSSIA'S INTERNATIONAL RESERVES IN 2005 (million US dollars)

Indicator	Balance as of												
	2005												2006
	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)	124,541	124,927	134,153	137,381	144,255	147,360	151,578	144,624	149,754	159,560	164,971	168,396	182,240
Foreign exchange	120,809	121,199	130,427	133,651	140,524	143,629	147,776	140,896	146,026	155,830	161,241	164,666	175,891
Monetary gold*	3,732	3,728	3,727	3,730	3,731	3,731	3,802	3,729	3,729	3,730	3,730	3,730	6,349

\* Since January 1, 2006, monetary gold has been accounted for at Bank of Russia current prices. Previously, monetary gold was accounted for at a fixed price of US\$300 per troy oz.

Table 32

**BANK OF RUSSIA FOREIGN EXCHANGE RESERVE PORTFOLIO YIELDS IN 2005 (% p.a.)**

		US dollar-denominated assets	Euro-denominated assets	Pound sterling-denominated assets
Transaction portfolio	actual portfolio	3.40	2.18	4.79
	standard portfolio	3.13	2.11	4.73
Investment portfolio	actual portfolio	1.96	2.42	3.67
	standard portfolio	1.64	2.44	3.59
Total	actual portfolio	3.22	2.30	4.77



Table 33

## KEY RUBLE EXCHANGE RATE INDICATORS IN 2005

	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	28.08	27.77	27.83	27.77	28.09	28.67	28.63	28.55	28.50	28.42	28.73	28.78
US dollar/ruble average nominal rate over period, rubles per dollar	27.94	27.97	27.62	27.82	27.92	28.50	28.69	28.48	28.36	28.55	28.76	28.81
US dollar/ruble average nominal rate since start of year, rubles per dollar	27.94	27.95	27.84	27.84	27.85	27.96	28.06	28.11	28.14	28.18	28.23	28.28
Euro/ruble nominal rate as of end of period, rubles per euro	36.63	36.63	36.06	36.01	35.20	34.52	34.72	34.88	34.38	34.53	33.99	34.19
Euro/ruble average nominal rate over period, rubles per euro	37.05	36.39	36.49	35.98	35.56	34.72	34.58	35.02	34.84	34.37	33.97	34.16
Euro/ruble average nominal rate since start of year, rubles per euro	37.05	36.72	36.64	36.48	36.29	36.02	35.81	35.71	35.62	35.49	35.35	35.25
<b>Growth as % of December 2004*</b>												
Ruble/US dollar nominal rate index	-0.1	-0.2	1.1	0.4	0.0	-2.0	-2.7	-2.0	-1.6	-2.2	-2.9	-3.1
Ruble/euro nominal rate index	0.8	2.6	2.3	3.8	5.0	7.6	8.0	6.6	7.2	8.6	9.9	9.3
Nominal effective ruble rate index	0.2	0.8	1.1	2.0	2.3	2.7	2.8	2.3	2.5	3.3	3.7	3.2
Ruble/US dollar real rate index	2.3	2.8	4.7	4.4	4.9	3.3	2.7	2.9	2.3	2.1	2.9	3.9
Ruble/euro real rate index	3.6	6.3	6.8	9.3	11.3	14.7	15.6	13.7	14.2	16.4	18.8	18.8
Real effective ruble rate index	2.5	3.8	5.1	6.7	7.6	8.7	9.1	8.3	8.3	9.3	10.5	10.5
<b>Growth as % of previous period*</b>												
Ruble/US dollar nominal rate index	-0.1	-0.1	1.3	-0.7	-0.4	-2.0	-0.6	0.7	0.4	-0.6	-0.7	-0.2
Ruble/euro nominal rate index	0.8	1.8	-0.3	1.4	1.2	2.4	0.4	-1.3	0.5	1.4	1.2	-0.5
Nominal effective ruble rate index	0.2	0.6	0.3	0.8	0.3	0.4	0.1	-0.5	0.2	0.8	0.4	-0.5
Ruble/US dollar real rate index	2.3	0.5	1.8	-0.3	0.5	-1.5	-0.6	0.1	-0.5	-0.2	0.8	1.0
Ruble/euro real rate index	3.6	2.6	0.5	2.3	1.8	3.0	0.8	-1.6	0.4	1.9	2.1	0.0
Real effective ruble rate index	2.5	1.3	1.2	1.6	0.9	1.0	0.4	-0.8	0.1	0.9	1.1	0.0

\* “+” signifies appreciation of the Russian ruble against foreign currencies, “-” signifies depreciation of the Russian ruble against foreign currencies.

Table 3.4

## RUSSIA'S FOREIGN DEBT IN 2005 (owed to non-residents, billion US dollars)

	1.01.2005	1.04.2005	1.07.2005	1.10.2005	1.01.2006
<b>Total</b>	<b>214.5</b>	<b>220.5</b>	<b>228.9</b>	<b>227.9</b>	<b>258.5</b>
<b>Government</b>	<b>97.4</b>	<b>92.9</b>	<b>91.2</b>	<b>72.2</b>	<b>71.4</b>
<b>Federal government</b>	<b>95.7</b>	<b>91.4</b>	<b>89.7</b>	<b>70.8</b>	<b>70.2</b>
<i>Post-Soviet Russian debt</i>	<i>39.6</i>	<i>38.1</i>	<i>38.7</i>	<i>35.9</i>	<i>35.6</i>
loans from international financial organisations*	6.2	5.9	5.8	5.7	5.6
<i>IBRD</i>	<i>5.7</i>	<i>5.5</i>	<i>5.3</i>	<i>5.2</i>	<i>5.1</i>
<i>other</i>	<i>0.4</i>	<i>0.4</i>	<i>0.4</i>	<i>0.4</i>	<i>0.5</i>
other loans (including loans from members of Paris Club of creditor nations)	4.2	3.9	3.5	3.4	3.0
foreign currency-denominated securities	28.9	27.9	29.1	26.6	26.7
<i>eurobonds placed by open subscription and issued in the course of restructuring GKO bonds</i>	<i>7.3</i>	<i>6.4</i>	<i>6.9</i>	<i>4.5</i>	<i>4.9</i>
<i>eurobonds issued in the course of 2nd restructuring of debt to London Club of commercial bank creditors</i>	<i>18.6</i>	<i>18.5</i>	<i>19.0</i>	<i>19.0</i>	<i>19.0</i>
<i>6th and 7th tranches of OVGZ bonds and OGVZ bonds issued in 1999</i>	<i>3.0</i>	<i>3.1</i>	<i>3.2</i>	<i>3.1</i>	<i>2.8</i>
ruble-denominated securities (GKO and OFZ bonds)	0.0	0.0	0.0	0.0	0.0
other debt	0.2	0.2	0.2	0.2	0.3
<i>Soviet-era debt</i>	<i>56.1</i>	<i>53.3</i>	<i>51.0</i>	<i>34.9</i>	<i>34.5</i>
loans from members of Paris Club of creditor nations**	43.3	40.6	38.4	22.4	22.2
debt to former Soviet-bloc countries	2.7	2.6	2.5	2.4	2.2
3rd, 4th and 5th tranches of OVGZ bonds	1.9	1.9	1.9	1.9	2.0
other debt	8.2	8.2	8.2	8.2	8.2
<b>Regional and local governments</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>	<b>1.2</b>
loans	1.1	1.0	1.0	0.9	0.9
foreign currency-denominated securities	0.0	0.0	0.0	0.0	0.0
<i>eurobonds</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
ruble-denominated securities	0.5	0.5	0.5	0.4	0.3

	1.01.2005	1.04.2005	1.07.2005	1.10.2005	1.01.2006
<b>Monetary authorities***</b>	<b>8.2</b>	<b>7.9</b>	<b>9.0</b>	<b>9.2</b>	<b>11.0</b>
loans	7.5	7.1	8.2	8.4	10.2
IMF	3.6	0.0	0.0	0.0	0.0
other	3.9	7.1	8.2	8.4	10.2
cash rubles and deposits	0.7	0.7	0.9	0.8	0.8
<b>Banks (without stakeholding in capital)****</b>	<b>32.5</b>	<b>34.6</b>	<b>37.8</b>	<b>43.5</b>	<b>50.2</b>
debt obligations to direct investors	0.1	0.2	0.2	0.2	0.2
loans	19.8	21.7	24.6	28.6	34.5
current accounts and deposits	9.7	9.7	9.8	11.4	12.4
debt securities	1.8	1.7	1.7	2.0	1.8
other debt	1.1	1.3	1.5	1.4	1.2
<b>Non-financial enterprises (without stakeholding in capital)</b>	<b>76.4</b>	<b>85.1</b>	<b>90.9</b>	<b>103.0</b>	<b>126.0</b>
debt obligations to direct investors*****	10.9	11.3	12.1	12.9	13.4
loans	58.4	66.0	69.9	78.2	98.7
debt securities	5.8	6.6	6.6	10.1	12.3
debt on finance leasing	1.2	1.2	1.2	1.3	1.3
other debt*****	0.1	0.1	1.1	0.4	0.3

\* Before being fully repaid in 2005 Q1, IMF loans were accounted for as part of the monetary authorities' liabilities.

\*\* Data as of October 1, 2005, take into account early repayment of a part of Russia's debt to Paris Club members.

\*\*\* Monetary authorities' debt comprises debt owed by the Bank of Russia and general government debt on IMF loans.

\*\*\*\* 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 foreign debt on declared but unpaid dividends on ordinary and preference shares.

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 35

## KEY ECONOMIC DEVELOPMENT INDICATORS OF FOREIGN COUNTRIES IN 2003—2005\*

	Real GDP, % growth on previous year			Consumer prices, growth in December as % of previous December**			Current account balance, as % of GDP***			International reserves, billion US dollars****		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
US	2.7	4.2	3.5	1.9	3.3	3.4	-4.7	-5.7	-6.4	74.9	75.9	54.1
Canada	2.0	2.9	2.9	2.0	2.1	2.2	1.5	2.2	2.2	36.2	34.4	33.0
25-nation European Union (EU-25)*****	1.2	2.4	1.6	1.9	2.4	2.1	-0.1	-0.2	-0.5	389.7	397.6	372.7
United Kingdom	2.5	3.1	1.8	1.3	1.7	1.9	-1.4	-2.0	-2.6	41.9	45.3	43.5
Economic and Monetary Union*****	0.7	2.0	1.3	2.0	2.4	2.2	0.5	0.6	-0.3	222.7	211.3	184.7
Germany	-0.2	1.6	0.9	1.0	2.3	2.1	1.9	3.7	4.1	50.7	48.8	45.1
France	0.8	2.3	1.5	2.4	2.3	1.8	0.4	-0.4	-1.3	30.2	35.3	27.8
Italy	0.0	1.1	0.0	2.5	2.4	2.1	-1.3	-0.9	-1.5	30.4	27.9	25.5
Hungary	3.4	4.6	4.1	5.7	5.5	3.3	-8.7	-8.8	-7.9	12.7	15.9	18.5
Poland	3.8	5.3	3.2	1.7	4.4	0.7	-2.1	-4.1	-1.6	32.6	35.3	40.9
Czech Republic	3.2	4.7	6.0	1.0	2.8	2.2	-6.3	-6.0	-2.1	26.8	28.3	29.3
Japan	1.8	2.3	2.7	-0.4	0.2	-0.1	3.2	3.8	3.6	663.3	833.9	834.3
Hong Kong	3.2	8.6	7.3	-1.9	0.2	1.8	10.4	9.6	10.7	118.4	123.5	124.3
Singapore	2.9	8.7	6.4	0.7	1.3	1.3	24.1	24.5	28.5	95.7	112.2	115.8
Taiwan	3.4	6.1	4.1	-0.1	1.6	2.2	9.8	5.7	4.7	206.6	241.7	253.3
South Korea	3.1	4.6	4.0	3.4	3.0	2.6	2.0	4.1	2.1	155.3	199.0	210.3
China	10.0	10.1	9.9	3.2	2.4	1.6	2.8	3.6	7.1	408.2	614.5	821.5
India	7.3	7.4	8.0	3.7	3.8	5.6	1.5	0.2	-2.5	98.9	126.6	131.9
Indonesia	4.7	5.1	5.6	5.1	6.4	17.1	3.4	1.2	1.1	35.0	35.0	33.0
Malaysia	5.4	7.1	5.3	1.2	2.1	3.5	12.7	12.6	15.6	44.5	66.4	72.7
Thailand	7.0	6.2	4.5	1.8	2.9	5.8	5.6	4.2	-2.3	41.1	48.7	50.7
Philippines	4.5	6.0	5.1	3.9	8.6	6.7	1.8	2.7	3.0	13.7	13.1	15.9
Australia	3.1	3.6	2.5	2.4	2.6	2.8	-5.6	-6.3	-6.0	32.2	35.8	41.9

	Real GDP, % growth on previous year			Consumer prices, growth in December as % of previous December**			Current account balance, as % of GDP***			International reserves, billion US dollars****		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
South Africa	3.0	4.5	4.9	0.3	3.4	3.6	—1.3	—3.4	—4.2	6.5	13.1	18.6
Israel	1.7	4.4	5.2	—1.9	1.2	2.4	0.7	1.6	1.9	26.3	27.1	28.0
Argentina	8.8	9.0	9.2	3.7	6.1	12.3	6.3	2.2	1.8	14.2	18.9	27.2
Brazil	0.5	4.9	2.3	9.3	7.6	5.7	0.8	1.9	1.8	49.1	52.7	53.6
Mexico	1.4	4.2	3.0	4.0	5.2	3.3	—1.3	—1.1	—0.7	59.0	64.1	74.1
Chile	3.9	6.2	6.3	1.1	2.4	3.7	—1.5	1.5	—0.4	15.8	16.0	16.9
Turkey	5.8	8.9	7.4	18.4	9.3	7.7	—3.3	—5.2	—6.3	34.0	35.7	50.6
Belarus	7.0	11.4	9.2	25.4	14.4	8.0	—2.4	—5.3	1.2	0.6	0.7	1.1
Ukraine	9.6	12.1	2.6	8.2	12.3	10.3	5.8	10.5	2.7	6.7	9.3	19.1
Kazakhstan	9.2	9.6	9.4	6.8	6.7	7.5	—0.9	1.2	1.8	4.2	8.5	6.1

\* According to official sources of statistical information of corresponding countries, EUROSTAT agency and IMF as of April 20, 2006.

\*\* 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).

\*\*\*\*\* 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 36

## CIS COUNTRIES' KEY MONETARY INDICATORS IN 2005\*

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kyrgyzstan	Moldova	Russia	Tajikistan	Ukraine
Official central (national) bank rate (refinance rate), as of end of year, %:										
2004	7	3.75	17	8.8**	7	4.00	—	13	10	9.0
2005	9	3.50	11	11.5**	8	4.13	—	12	9	9.5
Official central (national) bank exchange rate (units of national currency) as of year's end against US dollar:										
2004	4,903	485.84	2,170	1.8250	130.00	41.6246	12.4600	27.7487	3.0370	5.3054
2005	4,593	450.19	2,152	1.7925	133.98	41.3011	12.8320	28.7825	3.1993	5.0500
against Russian ruble:										
2004	176.69	17.51	77.91	0.0658	4.67	1.4955	0.4487	—	0.10911	0.191
2005	159.53	15.64	74.86	0.0623	4.66	1.4346	0.4459	—	0.11113	0.175
Money supply in national currency (rate of growth by beginning of year, %)	15.8	54.3	59.5	26.5	29	17.6	36.7	38.6	9.9	53.9
Number of registered commercial banks as of year's end:										
2004	44	20	35	21	36	19	16	1,464	12	182
2005	44	21	33	19	35	20	16	1,356	12	186

\* According to data compiled by CIS national (central) banks.

\*\* Auction rate on loans with terms of up to 29 days.

Table 37

**MONEY SUPPLY (national definition, billion rubles)**

	1.01.2005	1.04.2005	1.07.2005	1.10.2005	1.01.2006
<b>Money supply (M2), total</b>	<b>4,363.3</b>	<b>4,474.6</b>	<b>4,927.4</b>	<b>5,292.8</b>	<b>6,045.6</b>
cash in circulation (M0)*	1,534.8	1,481.7	1,650.7	1,740.7	2,009.2
non-cash funds	2,828.5	2,992.9	3,276.7	3,552.1	4,036.3

\* Cash in circulation outside the banking system.

Table 38

**AVERAGE MONTHLY RATES OF GROWTH IN MONEY SUPPLY IN 2005 (%)**

	Q1	Q2	Q3	Q4	Full-year
<b>Money supply (M2), total</b>	<b>0.8</b>	<b>3.3</b>	<b>2.4</b>	<b>4.5</b>	<b>2.8</b>
cash in circulation (M0)*	-1.2	3.7	1.8	4.9	2.3
non-cash funds	1.9	3.1	2.7	4.4	3.0

\* Cash in circulation outside the banking system.

Table 39

**M2 STRUCTURE**

	1.01.2005		1.01.2006		Growth index
	billion rubles	%	billion rubles	%	
<b>Money supply (M2), total</b>	<b>4,363.3</b>	<b>100.0</b>	<b>6,045.6</b>	<b>100.0</b>	<b>1.39</b>
of which:					
cash in circulation (M0)*	1,534.8	35.2	2,009.2	33.2	1.31
non-cash funds	2,828.5	64.8	4,036.3	66.8	1.43
of which:					
non-financial enterprise sector funds	1,329.5	30.5	1,906.0	31.5	1.43
household deposits	1,499.0	34.4	2,130.4	35.2	1.42

\* Cash in circulation outside the banking system.

Table 40

## MONETARY BASE AND ITS STRUCTURE

	1.01.2005		1.01.2006		Growth index
	billion rubles	%	billion rubles	%	
<b>Monetary base (broad definition)</b>	<b>2,380.3</b>	<b>100.0</b>	<b>2,914.1</b>	<b>100.0</b>	<b>1.22</b>
of which:					
cash in circulation, including balances in credit institutions' cash departments*	1,669.9	70.2	2,195.4	75.3	1.31
credit institutions' correspondent accounts with the Bank of Russia**	480.4	20.2	508.6	17.5	1.06
required reserves***	121.7	5.1	161.4	5.5	1.33
credit institutions' deposits with the Bank of Russia	91.4	3.8	7.2	0.2	0.08
Bank of Russia obligations of reverse repurchase of securities	2.5	0.1	—	—	—
Bank of Russia bonds held by credit institutions	9.7	0.4	32.8	1.1	3.38
foreign exchange operation reserves deposited with the Bank of Russia	4.7	0.2	8.8	0.3	1.85

\* Excluding cash in Bank of Russia establishments' cash departments.

\*\* Ruble-denominated accounts, including cash balances on organised securities market and in ARCO correspondent account (during its functioning as a non-bank credit institution). The methodology of calculation has been specified.

\*\*\* For ruble and foreign currency funds entered to accounts.

Table 41

## MONETARY SURVEY (million rubles)

	1.01.2005	1.01.2006	Change over 2005
Net foreign assets of monetary authorities and credit institutions	3,209,960.0	4,910,704.6	1,700,744.6
Domestic credit	4,345,645.0	4,460,764.0	115,119.0
Net credit to general government	—5,928.0	—1,392,619.6	—1,386,691.6
Claims on non-financial public-sector enterprises	166,589.5	193,812.7	27,223.2
Claims on non-financial private-sector enterprises and households	4,111,236.7	5,560,009.3	1,448,772.6
Claims on other financial institutions	73,746.8	99,561.6	25,814.8
Money supply (according to monetary survey methodology)	5,298,699.9	7,221,116.8	1,922,416.9
Money	2,848,345.2	3,858,514.3	1,010,169.1
Quasi-money	2,450,354.6	3,362,602.5	912,247.9
Temporarily inaccessible deposits	36,111.9	32,067.5	—4,044.4
Money market instruments	533,652.2	579,953.8	46,301.6
Capital accounts	1,086,356.4	1,455,368.3	369,011.9
Other (balance)	600,784.7	82,962.1	—517,822.6



Table 42

**CREDIT INSTITUTIONS' ANALYTICAL ACCOUNTS (million rubles)**

	1.01.2005	1.01.2006	Change over 2005
Reserves	847,418.3	906,547.7	59,129.4
Foreign assets	707,051.7	1,092,784.0	385,732.3
Claims on general government	757,189.7	666,498.1	—90,691.4
of which:			
claims on regional and local governments	133,748.1	153,466.5	19,718.4
Claims on non-financial public-sector enterprises	166,550.4	193,784.9	27,234.5
Claims on non-financial private-sector enterprises and households	4,108,955.0	5,557,570.5	1,448,615.5
Claims on other financial institutions	73,746.8	99,561.6	25,814.8
Demand deposits	1,277,488.2	1,805,707.9	528,219.7
Time, savings and foreign currency deposits	2,450,337.6	3,362,567.4	912,229.8
of which:			
foreign currency deposits	935,077.1	1,178,156.5	243,079.4
Temporarily inaccessible deposits	36,111.9	32,067.5	—4,044.4
Money market instruments	533,652.2	579,953.8	46,301.6
Foreign liabilities	892,645.1	1,438,081.1	545,436.0
General government deposits	141,760.5	189,127.7	47,367.2
of which:			
regional and local government deposits	112,464.4	163,832.7	51,368.3
Debt obligations to monetary authorities	179,826.0	28,945.1	—150,880.9
Capital accounts	898,313.1	1,244,995.1	346,682.0
Other (balance)	250,777.2	—164,698.9	—415,476.1

Table 43

## SANCTIONS USED AGAINST CREDIT INSTITUTIONS IN 2005

No.	Description of sanctions	Number of banks
<b>Preventive measures</b>		
1	Notifying in writing the management and/or board of directors (supervisory board) of a credit institution on faults, and recommending taking remedial action	1,133
2	Calling meetings	392
3	Other (recommendations to draw up a plan of remedial action, increase control over reporting, make a realistic assessment of credit risk, avoid incorrect statements in reports, etc.)	123
4	Ordering a bank to stop taking deposits pursuant to Article 46 of Federal Law No. 177-FZ, dated December 23, 2003	37
<b>Disciplinary measures</b>		
5	Fines*	510
	of which:	
5.1	Fines for non-compliance with reserve requirements	117
5.2	Fines for violation of federal laws, legal acts, and Bank of Russia regulations, for non-presenting of information or presenting false or incomplete information	449
6	Imposing restrictions on individual banking operations conducted by credit institutions, such as:	72
6.1	Bans on taking household deposits	44
6.2	Bans on effecting settlements on behalf of corporate entities involved in transfers of funds to budgets of all levels, and government extra-budgetary funds	30
7	Prohibiting credit institutions from conducting individual banking operations*, such as:	219
7.1	Taking household deposits	202
7.2	Opening household bank accounts, including unallocated call and time metal accounts**	174
7.3	Other	57
8	Prescriptions*	836
	of which:	
8.1	Prescriptions to comply with Bank of Russia required ratios	26
8.2	Prescriptions to replace management	2
8.3	Other	834
9	Prohibiting credit institutions from opening branches	51
10	Appointing provisional administrations to credit institutions	—
11	Revoking (cancelling) banking licence	40

\* The number of credit institutions in points 5, 7 and 8 differs from the number of credit institutions in the respective subpoints because several sanctions may be used against one bank.

\*\* This sanction has been singled out in the Directory of Sanctions since May 16, 2005.

As of January 1, 2006, the restriction on settlements on behalf of corporate entities, such as the transfer of funds to budgets of all levels, and government extra-budgetary funds, was imposed on one credit institution.

As of January 1, 2006, none of the operating credit institutions had a backlog of non-executed settlement documents on payments to budgets of all levels.

Table 44

## RUSSIAN PAYMENT SYSTEM KEY INDICATORS

	2004	2005
Number of payment system participants	5,478	5,479
of which:		
— Bank of Russia establishments	941	931
— credit institutions	1,299	1,253
of which:		
— settlement non-bank credit institutions	47	46
— branches of credit institutions	3,238	3,295
Number of additional offices of credit institutions and their branches	9,068	11,368
Number of accounts opened by payment system participants for customers, million	315.2	353.5
of which:		
— household accounts	310.3	348.4
— corporate accounts	4.9	5.1
Number of payments, thousand	992,028.6	1,116,807.3
of which:		
— payments effected through Bank of Russia payment system	472,041.2	555,576.0
— payments effected by settlement non-bank credit institutions	4,208.5	3,629.8
— payments effected through credit institutions' correspondent accounts opened in other credit institutions	31,417.8	33,530.5
— payments effected by divisions of one credit institution through interbranch settlement accounts	153,187.6	166,399.8
— payments effected within one division of a credit institution	331,173.5	357,671.2
Value of payments, billion rubles	223,923.9	293,502.6
of which		
— payments effected through Bank of Russia payment system	135,356.5	193,971.1
— payments effected by settlement non-bank credit institutions	3,085.2	4,102.5
— payments effected through credit institutions' correspondent accounts opened in other credit institutions	11,007.5	7,885.4
— payments effected by divisions of one credit institution through interbranch settlement accounts	20,638.2	27,019.0
— payments effected within one division of a credit institution	53,836.5	60,524.6
Number of payments effected using various instruments of payment, including transit payments, thousand	1,125,234.5	1,241,681.5
of which:		
— payment orders	871,355.5	994,603.3
— payment requests and collection orders	19,664.3	19,835.6
— letters of credit	367.1	417.2
— cheques	697.9	590.4
— other instruments of payment	233,149.7	226,235.0
Value of payments effected using various instruments of payment, including transit payments, billion rubles	248,557.7	320,532.8
of which:		
— payment orders	232,139.0	304,989.6
— payment requests and collection orders	2,114.8	1,766.1
— letters of credit	33.7	49.2
— cheques	26.7	26.9
— other instruments of payment	14,243.5	13,701.0

End.

	2004	2005
Number of electronic payments, thousand	798,081.0	938,030.3
Value of electronic payments, billion rubles	200,550.2	269,721.7
Number of paper-based payments, thousand	193,947.6	178,777.0
Value of paper-based payments, billion rubles	23,373.7	23,780.9
Number of bank cards issued in Russia as of year's end, million	35.2	54.7
Total number of bank card operations conducted in Russia, million	609.6	862.0
Total value of bank card operations conducted in Russia, billion rubles	2,079.9	2,984.6
<b>Bank of Russia payment system</b>		
Number of customers served, thousand	56,659	47,949
of which:		
— credit institutions	1,299	1,253
— branches of credit institutions	1,848	1,920
— customers other than credit institutions	53,512	44,776*
of which:		
— Federal Treasury bodies	1,162	1,795*
Number of payments effected, thousand	472,041.2	555,576.0
of which:		
— payments conducted through accounts of credit institutions and their branches	397,643.1	474,100.2
— payments conducted through accounts of customers other than credit institutions	73,070.6	80,763.8
of which:		
— payments conducted through Federal Treasury accounts	39,484.9	43,030.9
— payments conducted through Bank of Russia divisions	1,327.5	712.0
Value of payments, billion rubles	135,356.5	193,971.1
of which:		
— payments conducted through accounts of credit institutions and their branches	116,572.2	165,837.3
— payments conducted through accounts of customers other than credit institutions	18,725.0	28,104.1
of which:		
— payments conducted through Federal Treasury accounts	13,092.3	22,263.7
— payments conducted through Bank of Russia divisions	59.3	29.7
Number of electronic payments, thousand	464,421.8	550,005.0
Value of electronic payments, billion rubles	132,304.5	189,945.4
Number of Bank of Russia establishments participating in intraregional electronic settlements	916	906
Number of Bank of Russia establishments participating in interregional electronic settlements	912	905
Total number of customers exchanging electronic documents	3,830	4,403
of which:		
— credit institutions and their branches	2,950	3,027
— customers other than credit institutions	880	1,376*
of which:		
— Federal Treasury bodies	521	951*
Number of payments received through communication channels, thousand	439,304.7	527,133.3
Number of paper-based payments, thousand	7,619.4	5,571.0
Value of paper-based payments, billion rubles	3,052.0	4,025.7
Number of intraregional payments, thousand	405,159.7	468,965.3
Value of intraregional payments, billion rubles	110,356.1	157,629.0
Number of interregional payments, thousand	66,881.5	86,610.7
Value of interregional payments, billion rubles	25,000.4	36,342.1

\* The data do not account for the fact that a portion of Bank of Russia customers (Federal Treasury bodies) may be serviced in two establishments simultaneously.

Table 45

**NOTE STRUCTURE OF BANK OF RUSSIA 1997 BANKNOTES IN CIRCULATION**

Denomination, rubles	Total in circulation, million rubles		As % of 1.01.2005	% share	
	1.01.2005	1.01.2006		as of 1.01.2005	as of 1.01.2006
1,000	943,288.3	1,445,532.0	153.2	56.7	66.1
500	573,196.0	598,125.3	104.3	34.5	27.4
100	110,665.5	103,618.5	93.6	6.7	4.7
50	27,090.9	29,479.1	108.8	1.6	1.4
10	7,949.9	8,822.6	111.0	0.5	0.4
5	56.1	40.2	71.6	0.0	0.0
Total number of banknotes of 1997 issue according to currency issue balance sheet	1,662,246.7	2,185,617.7	131.5	100.0	100.0

Table 46

**STRUCTURE OF BANK OF RUSSIA 1997 COINS IN CIRCULATION\***

Denomination	Total in circulation, million rubles		As % of 1.01.2005	% share	
	1.01.2005	1.01.2006		as of 1.01.2005	as of 1.01.2006
1 kopeck	47.1	54.1	114.9	0.4	0.4
5 kopecks	163.9	189.8	115.8	1.5	1.4
10 kopecks	811.7	979.2	120.6	7.3	7.2
50 kopecks	935.7	1,111.5	118.8	8.5	8.2
1 ruble	2,357.9	2,753.1	116.8	21.4	20.4
2 rubles	1,706.7	2,050.4	120.1	15.5	15.2
5 rubles	3,931.5	4,654.3	118.4	35.7	34.4
10 rubles	1,068.5	1,736.3	162.5	9.7	12.8
Total number of coins of 1997 issue according to currency issue balance sheet	11,023.0	13,528.7	122.7	100.0	100.0

\* Excluding precious metal coins.

Table 47

## 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 1.01.2006	
		1.01.2006	1.01.2005	in authorised capital	in voting capital
Moscow Narodny Bank, London*	British pound	—	128,242,622	—	—
Eurobank, Paris*	euro	—	161,325,775	—	—
Ost-West Handelsbank, Frankfurt am Main**	—	—	671 single shares	—	—
Donau-Bank, Vienna*	euro	—	10,900,500	—	—
East-West United Bank, Luxembourg*	euro	—	4,589,749	—	—
Bank for International Settlements, Basel***	SDR	16,055,000	15,000,000	0.59	0.55
Intelsat Ltd., Bermudas****	US dollar	—	2,544,345	—	—
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium	euro	125	125	0.001	—
Interstate Bank, Moscow	thousand rubles	10,000	10,000	50.00	50.00
Sberbank, Moscow	thousand rubles	605,693	605,693	60.57	63.76
Moscow Interbank Currency Exchange*****	thousand rubles	232,358	99,582	28.76	28.76
St Petersburg Currency Exchange	thousand rubles	302	302	8.90	8.90
National Depository Centre, Moscow	thousand rubles	24,500	24,500	49.00	42.40

\* On the decision of the National Banking Board, dated December 13, 2005 (Minutes No. 6), Bank of Russia stakeholdings in authorised capital were sold to Vneshtorgbank on December 28, 2005.

\*\* Since 2000, the Bank of Russia's stakeholding in Ost-West Handelsbank has been represented by registered single shares without a nominal value.

\*\*\* The increase of the stake in authorised capital by 0.04% is due to the purchase of 211 non-voting shares.

\*\*\*\* According to the Bank of Russia Board of Directors' decision dated May 24, 2005 (Minutes No. 9), the Bank of Russia withdrew from the capital of Intelsat, Ltd.

\*\*\*\*\* MICEX shareholders' meeting decided to increase authorised capital by changing the nominal value of previously-placed ordinary shares.

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