

THE CENTRAL BANK OF THE RUSSIAN FEDERATION



A N N U A L **2 0 0 8** R E P O R T



Approved by the Bank of Russia Board of Directors on May 13, 2009

© THE CENTRAL BANK OF THE RUSSIAN FEDERATION, 2009

Contents

Introduction	10
I. The economic and financial situation in Russia	13
I.1. Global economy and international markets	14
I.2. The economic situation in Russia	18
I.3. Government finance and domestic government debt	22
I.4. The financial sector	26
I.4.1. Credit institutions	29
I.4.2. Other financial institutions	37
I.4.3. Financial markets	39
I.5. Balance of payments and foreign debt	48
I.5.1. Balance of payments	48
I.5.2. Foreign debt	52
II. Bank of Russia activities	55
II.1. Monetary policy	56
II.1.1. Monetary policy objectives and results	56
II.1.2. Monetary authority indicators and monetary policy instruments	62
II.1.3. Exchange rate policy	68
II.2. Reserve management	71
II.3. Banking regulation and supervision	76
II.3.1. Registration and licensing of banking activities	76
II.3.2. Off-site supervision	81
II.3.3. Inspection of credit institutions	84
II.3.4. Bank bankruptcy (insolvency) prevention and the withdrawal of insolvent credit institutions from the banking services market	88
II.3.5. Household deposit insurance	91
II.3.6. Central Catalogue of Credit Histories	92
II.3.7. Bank of Russia activities aimed at preventing money laundering and terrorist financing	93
II.4. The Russian payment system	94
II.4.1. The state of the Russian payment system	94
II.4.2. Development and upgrading of the Bank of Russia payment system	96
II.4.3. Bank of Russia payment system infrastructure development	99
II.5. Foreign exchange regulation and foreign exchange control	100
II.6. Bank of Russia activities relating to government finance	101
II.7. Cash circulation management	103
II.8. Bank of Russia activities aimed at upgrading accounting and reporting	106
II.9. International cooperation	108
II.9.1. Cooperation between the Bank of Russia and international financial and economic organisations	108
II.9.2. Cooperation between the Bank of Russia and foreign countries, and their central (national) banks	110

II.10. Upgrading the Bank of Russia system and enhancing its efficiency	111
II.10.1. Bank of Russia organisational structure and measures taken to improve it	111
II.10.2. Staffing and personnel training	113
II.10.3. Bank of Russia information and telecommunications system development	116
II.10.4. Bank of Russia activities aimed at upgrading banking legislation. Managing suits and claims at Bank of Russia establishments	117
II.10.5. Bank of Russia internal audit	120
II.10.6. Bank of Russia stakeholdings in the capital of Russian and foreign credit institutions, and other organisations	121
III. Bank of Russia annual financial statements as of January 1, 2009	123
Introduction	124
Annual balance sheet as of January 1, 2009	125
Profit and loss account	126
Capital, funds, and profit allocation	127
Notes to annual financial statements as of January 1, 2009	129
1. Accounting and financial reporting principles	129
2. Impact of economic conditions on Bank of Russia financial statements	139
3. Precious metals	140
4. Funds placed with non-residents and foreign issuers' securities	140
5. Loans and deposits	141
6. Securities	143
7. Other assets	146
8. Cash in circulation	148
9. Funds in accounts with the Bank of Russia	149
10. Float	150
11. Securities issued	150
12. Other liabilities	151
13. Reporting year profit	152
14. Interest income	152
15. Income from securities trading	153
16. Other income	154
17. Interest expenses	155
18. Expenses on securities trading	156
19. Cash turnover management expenses	156
20. Net expenses on provisions/income from the recovery of provisions	157
21. Expenses on negative revaluation of securities available for sale	158
22. Other operating expenses	158
23. Personnel costs	159
24. Off-balance sheet claims and obligations accounts	159
25. Impact of global financial market turmoil on Bank of Russia management of foreign exchange reserves	161
26. Post-accounting date events	162
Statement of profit and its allocation	163
Statement of Bank of Russia reserves and funds	164
Statement of Bank of Russia management of securities and stakeholdings in the capital of organisations constituting Bank of Russia property	166

Statement of volume of Bank of Russia transactions on stock exchanges and (or) other trade organisers on the securities market	169
Statement of Bank of Russia personnel costs	170
Statement of capital investment budget performance	171
Auditor's Report	173
IV. Addenda	179
IV.1. Principal measures taken by the Bank of Russia to implement the single state monetary policy in 2008	180
IV.2. Principal measures to upgrade banking regulation and supervision in 2008	188
IV.3. Statistical tables	200

List of Charts

1. Growth in output of goods and services globally and in individual countries	15
2. Growth in exchange rates of individual currencies against the US dollar in 2008	17
3. Consumer prices, core inflation, and administered service prices	19
4. GDP consumption	20
5. Merchandise trade and oil price	21
6. Federal budget expenditure in 2008	23
7. Federal budget expenditure	24
8. Balances of federal budget accounts opened with the Bank of Russia	24
9. Interest rates on rouble loans	27
10. Interest margin on bank lending and deposit operations with non-financial customers	27
11. Key banking sector indicators	30
12. Banking sector liability structure	31
13. Banking sector asset structure	32
14. Capital adequacy	34
15. Overdue debt on loans, deposits and other placements	36
16. Interest rates on interbank rouble loans	39
17. Official US dollar/rouble and euro/rouble exchange rates in 2008	40
18. OFZ secondary market turnover and yield in 2008	42
19. Non-coupon OFZ yield curve	42
20. Regional bond secondary trade in 2008	43
21. MICEX Stock Exchange secondary equity trade in 2008	45
22. Corporate bond secondary trade in 2008	45
23. Futures trade on Russian exchanges in 2008	47
24. Russia's major balance of payments components and international reserves	49
25. Russia's foreign debt (billion US dollars)	52
26. Russia's foreign debt (as % of GDP)	53
27. Monetary aggregates	57

28. Net foreign currency sales to households through currency exchange outlets	58
29. Rouble and foreign currency-denominated deposits	58
30. Dollarisation of deposits	59
31. Bank of Russia key interest rates and overnight MIACR	59
32. Bank of Russia operations to provide and absorb liquidity	60
33. Loans to non-financial enterprises and households	61
34. Exchange rate and sources of money supply	63
35. Aggregate banking sector reserves and Bank of Russia operations to refinance credit institutions	63
36. Bank of Russia gross credit to credit institutions	65
37. Structure of Bank of Russia gross credit to credit institutions	65
38. Bank of Russia interventions on domestic forex market and bi-currency basket rouble value in 2008	69
39. Real rouble exchange rate	69
40. Bank of Russia foreign exchange reserves by currency as of January 1, 2009	72
41. Factors behind changes in Bank of Russia foreign exchange reserves in 2008	73
42. Bank of Russia foreign exchange reserves by instrument as of January 1, 2009	73
43. Bank of Russia foreign exchange reserves by credit rating as of January 1, 2009	74
44. Bank of Russia foreign exchange reserves by country as of January 1, 2009	74
45. Number of registered operating credit institutions, and banking licences granted to them	77
46. Registered authorised capital of operating credit institutions	77
47. Operating credit institutions by authorised capital	78
48. Number of branches of operating credit institutions in Russia	79
49. Number of internal divisions of operating credit institutions	80
50. Scheduled and unscheduled inspections	85
51. Thematic and comprehensive inspections	85
52. Inspections per credit institution	86
53. Bank of Russia payment system participants	96
54. Structure of BESE participants as of January 1, 2009	97
55. Ratio between chargeable and free transactions conducted in Bank of Russia payment system	97
56. Cash in circulation according to balance sheet data	104
57. Detection of counterfeit Bank of Russia notes and coins	104
58. Detection of counterfeit Bank of Russia notes and coins by federal district in 2008	105
59. Detection of counterfeit foreign banknotes	105
60. Number of Bank of Russia employees by division as of January 1, 2009	111
61. Age structure of Bank of Russia executives and specialists	113
62. Ratio of executives and specialists with higher professional education	114
63. Centralised training of Bank of Russia personnel in 2008	115
64. Number of Bank of Russia employees who received training under contracts in 2008, by subject	115

List of Tables

1. Key macroeconomic indicators	200
2. Consumer prices by group of goods and services	200
3. Consumer price inflation structure	201
4. Gross value added structure by economic activity in basic prices	201
5. Structure of GDP calculated by income consumption method in current market prices	202
6. GDP consumption elements in constant prices	202
7. GDP formation structure by source of income in current market prices	202
8. Balance of household money income and expenses	203
9. Differentiation of population by income	204
10. Major financial performance indicators of large and medium-sized enterprises in 2008	205
11. Payments for produce shipped (work performed and services provided) by major taxpayers and industrial monopolies	206
12. Russia's merchandise trade	207
13. Commodity structure of Russian exports (according to customs statistical methodology)	208
14. Commodity structure of Russian imports (according to customs statistical methodology)	209
15. Russia's exports to major trading partners (according to customs statistical methodology)	210
16. Russia's imports from major trading partners (according to customs statistical methodology)	212
17. Russia's external trade in services by group of countries	214
18. Structure of Bank of Russia customers other than credit institutions and number of accounts opened for them	215
19. Russia's domestic government debt as of January 1, 2009	215
20. Finance Ministry debt to the Bank of Russia as of January 1, 2009	216
21. Volume (turnover) of resident operations with non-residents to buy and sell Russian government outstanding foreign currency debt obligations on secondary market	216
22. Institutionalised financial intermediaries	217
23. Russia's balance of payments (analytical presentation)	218
24. Private sector net capital inflow (outflow) (according to balance of payments data)	221
25. Cross-border transactions of individuals (residents and non-residents)	222
26. Cross-border remittances via money transfer operators and Russia's Postal Service	223
27. Functional structure of foreign investment in Russia	224
28. Functional structure of resident investment in foreign assets	224
29. Russian banking sector international investment position	225
30. Currency structure of Russian banking sector foreign assets and liabilities	227
31. Russian banking sector foreign assets and liabilities on interbank operations by group of countries as of January 1, 2009	228
32. Russia's international reserves	229
33. Yield on Bank of Russia foreign exchange reserves in 2008	229

34. Basic indicators of rouble's exchange rate in 2008.....	230
35. External debt of the Russian Federation	231
36. External debt of the Russian Federation (analytical presentation)	233
37. Key economic development indicators of Russia's leading trading partners	234
38. CIS key monetary indicators	236
39. Money supply (national definition) and its structure	237
40. Monetary base and its structure	237
41. Banking sector survey	238
42. Survey of credit institutions	239
43. Corrective measures taken against credit institutions in 2008	241
44. Russian payment system key indicators	242
45. Bank of Russia payment system	244
46. Structure of Bank of Russia banknotes in circulation	245
47. Structure of Bank of Russia coins in circulation	245
48. Bank of Russia stakeholdings in Russian and foreign credit institutions and other organisations	246

THE BOARD OF DIRECTORS OF THE CENTRAL BANK OF THE RUSSIAN FEDERATION



Chairman of the Central Bank
of the Russian Federation
S.M. Ignatiev



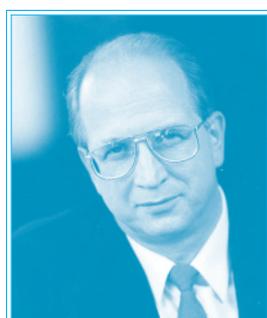
First Deputy Chairman
G.I. Luntovsky



First Deputy Chairman
G.G. Melikyan



First Deputy Chairman
A.V. Ulyukaev



Deputy Chairman
V.N. Melnikov



Chief Accountant —
Director of the Accounting
and Reporting
Department
L.I. Gudenko



Director,
General Economic
Department
N.Y. Ivanova



Director,
Banking Regulation and
Supervision Department
A.Y. Simanovsky



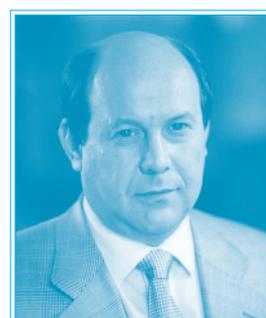
Director,
Credit Institutions
Licensing and Financial
Rehabilitation Department
M.I. Sukhov



Head of St. Petersburg
Main Territorial Branch
N.A. Savinskaya



Director,
Marketing Operations
Department
S.A. Shvetsov



Head of the Moscow
Main Territorial Branch
K.B. Shor

INTRODUCTION

The Bank of Russia Annual Report for 2008 was compiled pursuant to Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). This document comprises sections that analyse the state of the Russian economy and its key sectors, the results of the Bank of Russia's activities in 2008, and the Bank of Russia's annual financial statements as of January 1, 2009.

The year under review can be divided into two periods in terms of the conditions in which the economy functioned and the problems the Bank of Russia had to tackle. Up to the middle of the year, the favourable external economic situation for Russian exports, which resulted in high export revenues, contributed to dynamic economic growth, increased investment and real incomes, and caused an expansion of bank lending to the economy and the appreciation of the national currency. The main problem during this period was inflation, stimulated by the expansion of demand in the economy and the rise in global food prices.

In the second half of the year the Bank of Russia had to deal with the severe problems created by the impact of the global financial and economic crisis on the Russian economy. This affected the monetary and exchange rate policy pursued by the Bank of Russia, and forced it to change the regulation of credit institutions.

The sharp fall in the world price of oil, Russia's main export commodity, the outflow of capital from the domestic financial market, and the contraction of foreign credit to Russian banks, altered Russia's economic conditions. The situation was

compounded by the collapse of Lehman Brothers, the US largest investment bank, which undermined confidence between banks and led to a scaling down of operations on the global money market.

The deterioration of the terms of trade and capital outflow put strong devaluation pressure on the rouble. In the last few months of 2008, changes to the factors shaping the exchange rate of the rouble became sustained. To ensure that the rouble corresponded to its new equilibrium value, the Bank of Russia in the fourth quarter of the year let the rouble gradually depreciate by widening the trading band of fluctuations against the bi-currency basket. At the same time, the Bank of Russia restrained the pace of the rouble's devaluation, ensuring smooth changes by conducting currency interventions.

Foreign currency sales by the Bank of Russia reduced the level of rouble liquidity. As it became increasingly difficult for Russian banks and non-financial enterprises to borrow abroad, and as the domestic interbank money market shrank due to eroded confidence between banks, a threat of failures in the banking sector emerged. Financial stability therefore became the top monetary policy priority for the Bank of Russia, which carried out a series of measures to maintain the necessary level of liquidity in the banking sector by lowering the reserve requirements, increasing the volumes and easing the terms and conditions of refinancing of banks.

The erosion of customer confidence in banks led to an outflow of personal deposits. The legislative raising of the maximum insured deposit

compensation sum to 700,000 roubles was of great importance in slowing this process. Credit institutions, for their part, raised interest rates on deposits taken from non-financial enterprises and households.

Banking sector liquidity was restored, but the crisis-induced increase in credit risk did not allow banks to maintain growth in credit to the economy at previous levels. The fall in Russian share prices made it more difficult for banks to obtain loans against the collateral of securities. High credit risk and the increased cost of borrowing led to a rise in interest rates on loans to non-financial borrowers.

This resulted in a contraction of both the external and internal sources of money supply. In addition, growth in devaluation expectations was accompanied by an accelerated dollarisation of the economy, observed through the conversion of a portion of monetary assets into foreign currency. As a result, at the end of the year rouble money supply (M2 aggregate) contracted in absolute terms.

The depreciation of the rouble played a significant role in the fast growth of prices during the last few months of 2008. As a result, even though consumer price growth slowed in the second half of the year, inflation in 2008 exceeded the 2007 level.

In 2008, there was no absolute deterioration of key banking sector performance indicators, although credit institutions performed worse financially than in 2007. This was largely a result of emergency measures taken by the Government and the Bank of Russia to inject liquidity into

credit institutions, prevent bank bankruptcies, rehabilitate problem banks, and strengthen public trust in the banking system, in particular by improving the deposit insurance system. One result of these measures was a resumption of growth in personal deposits in December 2008. Government relief measures were mainly carried out through the largest systemically important banks, particularly those in which the state held a stake. They ensured stability on the deposit market and the redistribution of liquidity, particularly through interbank lending.

Of great importance were measures taken by the Bank of Russia to improve monitoring of bank financial performance indicators, early warning and prevention of problems in banks, and control over the use of funds banks received as anti-crisis support.

Efforts taken by the Bank of Russia to improve the institutional structure of the banking sector made credit institutions more open, increased the transparency of the structure of shareholder (member) ownership, optimised conditions for the expansion of banking services, and made reorganisation procedures simpler and less costly.

The economic crisis has not caused any failures in the Bank of Russia payment system, which remains reliable and efficient. As a result of upgrades of the real-time gross settlement system and its management and techniques in 2008, all express payments linked to the functioning of the financial markets, the implementation of monetary policy, and the execution of the federal budget can be effectuated through it.



**THE ECONOMIC AND
FINANCIAL SITUATION
IN RUSSIA**

I

I.1. GLOBAL ECONOMY AND INTERNATIONAL MARKETS

The external conditions of the Russian economy sharply deteriorated in 2008, and risks increased due to the economic problems faced by Russia's trading partners, price instability of major export commodities on world markets, and the turmoil in foreign financial systems and on world financial markets. Growth in the global output of goods and services slowed to 3.2% in 2008 from 5.2% in 2007, according to an IMF estimate. Russia's leading trading partners registered a significant slowdown in economic growth.

In the United States, the business cycle passed from a boom phase to a recession phase in December 2007. The main factor behind the cyclical recession in the US economy was a decline in investment in construction, resulting from the accumulation of excessive investments in this sector over previous years, the fall in inflated real estate prices, and the increase in risks involved in mortgage lending and investment in securitised assets. The US GDP contracted in the third and fourth quarters of 2008 quarter on quarter.

A contraction of GDP for at least two consecutive quarters, which testifies to a cyclical recession in the economy, was also registered from April to December 2008 in the European Economic and Monetary Union (including the largest Eurozone countries, Germany and Italy), and Japan, and from July to December in the United Kingdom. This situation reflected the trend to-

wards a decline in investment activity shared by many countries amid the correction of speculatively high real estate prices.

The situation created by the cyclical recession in developed economies was compounded by the financial crisis, which was largely caused by financial institutions' insufficient attention to risks involved in mortgage loans extended under non-standard terms and conditions, and operations on the under-regulated securitised asset market. Mortgage credit risk had increased by the beginning of 2007 as a result of falling real estate prices. Financial institutions subsequently incurred heavy losses, directly from lending, and also from the contraction of liquidity and the price downturn on the mortgage-backed securities market, which affected bonds issued by the US Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

In the first half of 2007, the United States experienced growth in overdue debt on mortgage loans and a shrinking of liquidity on the mortgage-backed financial asset markets. In the third quarter of that year the crisis began to manifest itself in a shortage of liquidity on money markets. Tensions continued to build up in 2008, as an increasing number of financial institutions went bankrupt, and situations arose that demanded government intervention in tackling the problems of individual systemically important financial in-

GROWTH IN OUTPUT OF GOODS AND SERVICES GLOBALLY AND IN INDIVIDUAL COUNTRIES (%)*

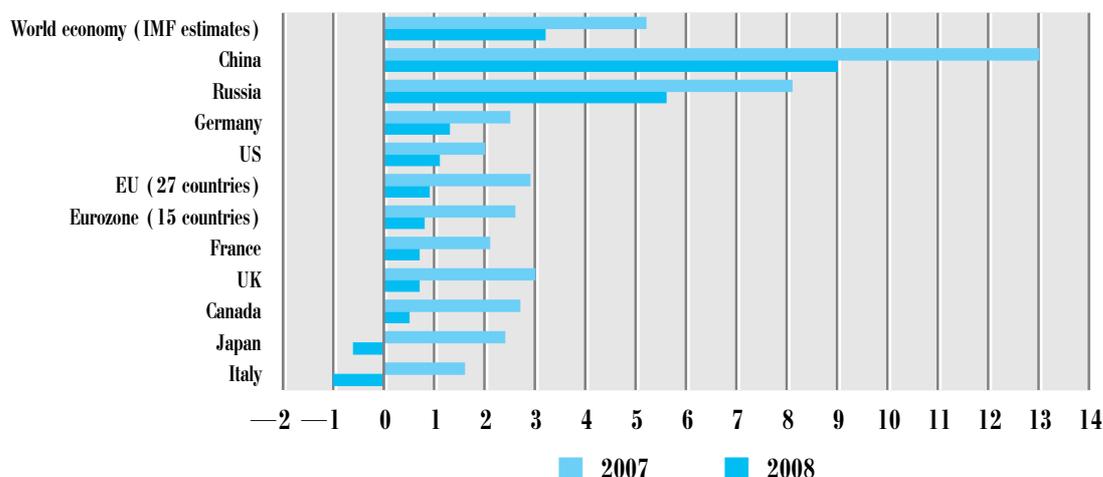


Chart 1

* Based on official statistics published by corresponding countries, Eurostat, and the IMF.

stitutions. The most important of these were actions to prevent the bankruptcy of the US investment bank Bear Stearns and to support Fannie Mae and Freddie Mac. Lehman Brothers, a large US investment bank, went bankrupt in September 2008.

The escalation of tensions in the financial sector in the fourth quarter of 2008 accelerated the fall in financial asset prices, and increased fears that banks could reduce lending to the real sector in industrialised nations. This affected the situation in the economy through the onset of massive job cuts and declines in household sector asset value, which in turn led to a further decline in consumer activity. The production decline accelerated significantly in industrialised nations in the fourth quarter, and the recession in this group of countries adversely impacted the situation in other countries, owing to a fall in demand for the industrial products and raw materials that they exported, and a contraction of capital inflow. A trend towards decline in the price of oil, metals, and farm produce emerged on world markets in the third quarter of 2008, as demand contracted in the economies of countries accounting for a considerable share of commodity consumption. The price drop accelerated in the fourth quarter, as the financial and economic crisis deepened.

The average annual increase in the price of Brent, Dubai and West Texas Intermediate crude

was 36.4% in 2008. This was due to the price rise in the first half of the year. In the second half, prices began to fall. The International Energy Agency estimates that the economic downturn caused oil consumption in member states of the Organisation for Economic Cooperation and Development (OECD) to decline by more than 3% in 2008. Global consumption has not decreased significantly, but the halting of growth in demand contained further growth in oil prices, which had earlier risen significantly. The outflow of short-term capital from the oil futures market provoked a sharp drop in the global market price of oil in the fourth quarter.

The terms of trade in 2008 improved on the whole for oil exporting countries, owing to the increase in average annual oil prices on the world market. The dynamics of the terms of trade was the best in three years. In the second half of the year, however, the terms of trade began to change for the worse due to the falling price of oil. For oil exporting countries in that period, they were the worst in seven years. For other countries they also deteriorated in 2008. Growth in the prices of goods and services imported by the OECD member countries accelerated significantly in 2008. Export price growth also quickened, but to a lesser extent than import prices.

According to IMF estimates, growth in international trade in goods and services slowed to 3.3% in 2008 from 7.2% in 2007. The US trade

deficit was relatively stable in 2008. US exports increased in value terms at a steady pace, exceeding the growth rate of imports. Growth in imports accelerated year on year in value terms, largely due to an increase in the average annual level of energy import prices. In real terms (without account for changes in prices of products imported into the US), imports of goods into the US declined in 2008. Imports of goods into China increased in value terms at a rapid rate relative to export growth, as a result of higher prices for energy imports. As for trade in manufactured goods, exports from China continued to increase at a faster rate than imports. The trend towards a gradual slowing of the expansion of export markets for China continued, while the export markets of countries of Central and Eastern Europe expanded at fairly rapid rates. Although growth in imports by oil-exporting emerging markets slowed year on year, it far surpassed growth in exports.

The fossil fuel export conditions were relatively favourable for Russia in 2008, due to the fact that a large share of fossil fuel exported by the country went to European Union (EU) member states. Oil consumption levels were relatively stable in Europe. Natural gas accounts for a large share of Russian energy exports to EU member states. EU expenditure on fossil fuel consumption increased in 2008, but in August began to decline due to the fall in the prices of crude oil and petroleum products. Russian exports have also decreased in value terms since August 2008.

As the financial crisis deteriorated in the fourth quarter of 2008, investors' efforts to minimise risks led to an outflow of capital from emerging markets. Even relatively developed economies felt the impact of capital outflow. This led to a sharp decline in the exchange rate of the South Korean won. The currencies of many other countries, including India, Brazil, Turkey, and the countries of Central and Eastern Europe, also saw their currencies lose much of their value.

The global financial and economic crisis increased risks for countries with unstable balances of payments. In the autumn of 2008, the crisis hit Iceland, a country whose economy had been developing in recent years largely on foreign borrowings. Ukraine also faced balance of payments-related problems, and in the fourth quarter of

2008 had to significantly devalue the exchange rate of its national currency, the hryvnia. Taking into consideration the balance of payments problems faced by Iceland, Ukraine, and certain other countries, the International Monetary Fund (IMF) decided in late 2008 to extend loans to them.

The US dollar continued to depreciate on the international currency market in the first half of 2008, but in the second half rallied sharply against the euro, pound sterling, and many other currencies. The US financial market, being the largest and most developed market in the world, was seen as a safe haven for short-term investments amid the crisis. However, the contraction in the volume of transactions based on the difference between interest rates and yields on assets denominated in different currencies, caused by financial market instability, led to the dollar's devaluation against the yen. The Chinese yuan's appreciation against the dollar accelerated in the first half of 2008, as the Chinese authorities eased their exchange rate policy in May 2007, but in the second half the rate of growth in the Chinese currency slowed down.

In 2008, the world's stock markets were affected most of all by negative factors connected with the global economic slowdown and financial sector problems. Equity and debt securities placement volumes contracted, and volumes of market trading in securities covered by mortgage and other assets shrank dramatically. Investors' high credit risk aversion also affected securities placements by borrowers registered in emerging market countries. Company mergers and acquisitions also contracted, while the crisis caused large-scale consolidation and nationalisation processes in the financial sector. A sharp fall in stock prices was registered during the culmination of the financial turmoil in September—November.

Central bank policies in many countries in 2008 focused heavily on countering negative trends in the financial sector. However, in the first half of the year the monetary policy of some countries was significantly affected by the need to curb inflation. Inflation accelerated during this period as energy and food prices grew. However, the recession in industrialised nations and the fall in the world market price of oil and agricultural

**GROWTH IN EXCHANGE RATES OF INDIVIDUAL CURRENCIES
AGAINST THE US DOLLAR IN 2008 (December 2008 as % of December 2007)***

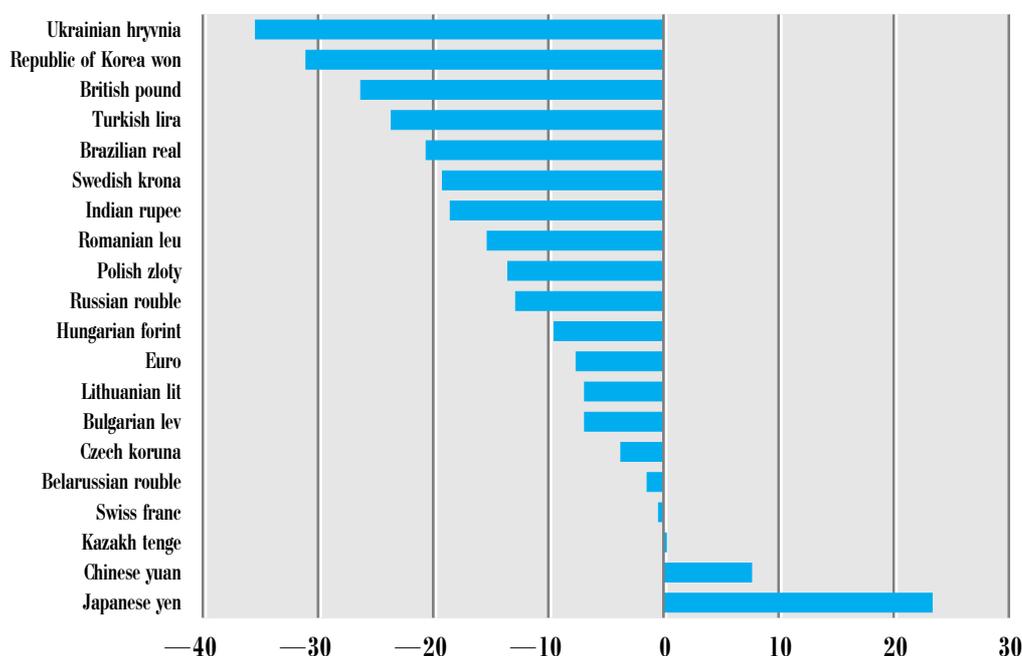


Chart 2

* (—) denotes dollar appreciation, (+) denotes dollar depreciation.

products in the second half of the year slowed inflation growth. In the fourth quarter, consumer prices fell quarter on quarter in the United States, Germany, France, Japan and several other countries.

The monetary policy of many countries in the fourth quarter was aimed at alleviating the economic consequences of the financial crisis. From October 8 to 11, interest rates were cut by the US Federal Reserve, the European Central Bank (ECB), the Bank of England, and several other central banks. Interest rate cuts continued until the end of the year in the United States, the eurozone, Britain, and several other countries, including the leading Asian economies (China, India, and South Korea).

From January to October 2008, the US Federal Reserve cut the benchmark federal funds rate from 4.25% to 1% p.a., and in December set the rate as an interval of 0% to 0.25% p.a. The ECB raised the refinancing rate from 4% to 4.25% p.a. in July, but in the period from October to December, lowered it to 2.5% p.a.

During the financial crisis, central banks developed new approaches to regulating banking sector liquidity. They held auctions at which banks received loans under flexible collateral and interest rate terms and conditions. Central banks concluded currency swap agreements with other central banks, enabling each side to raise funds in the currency of the other side, to conduct interventions for the purpose of eliminating liquidity shortages in this currency on the domestic foreign exchange market.

In the fourth quarter of 2008, the governments of the United States, Britain, and other leading European countries took steps to expand bank deposit guarantees, recapitalize banks, buy out problem assets, provide targeted aid to systemically important financial institutions, and nationalise some of them. These measures to some extent stabilised the external financial conditions by the end of the year. The prices of financial assets and exchange-traded products continued to decline, however, and the situation on currency markets remained strained.

I.2. THE ECONOMIC SITUATION IN RUSSIA

The conditions for the development of the Russian economy deteriorated significantly in 2008, as the global financial and economic crisis deepened. The contraction in global demand, aggravated by the fall in the price of oil, altered the dynamics of foreign trade operations and capital flows. By the end of the year the development of negative trends resulted in a reduction of revenue, which led to a contraction in domestic demand and a decline in output in the key sectors of the economy. Growth in jobless numbers accelerated.

The economic progress of the first half of the year affected the full-year results, which were characterised by growth in the output of goods and services, fixed capital investment, and real income, although this growth was smaller than in 2007. The federal budget remained in surplus.

The government's foreign debt contracted in 2008, while growth in private sector foreign debt slowed. The debt burden on the economy has decreased.¹

The fall in the price of oil and the increase in capital outflow from Russia created conditions for the rouble's depreciation. Devaluation expectations increased. These factors kept price growth rates high, and as a result, 2008 consumer price inflation exceeded the target set for the year. Nevertheless, the gradual easing of the acceler-

ating effect on inflation of certain factors, such as the slowing of global food price growth, the contraction in demand, and the slowing of growth in money supply, began to restrain price growth.

Consumer price inflation accelerated in 2008 by 1.4 percentage points compared with 2007, and stood at 13.3% (December on December). Core inflation stood at 13.6% as against 11.0% in 2007.

The full-year rates of growth in food, non-food and service prices were higher than in 2007. Food prices rose 16.5%, 0.9 percentage points more than in 2007, and non-food prices were up 8.0% as against 6.5% in 2007. Service prices increased 15.9% as against 13.3% a year earlier. Meanwhile, administered service price growth accelerated by an estimated 0.9 percentage points. The most significant increase was registered in passenger transport fares (up to 22.5% as against 13.6% in 2007) and rent and public utility prices (up to 16.4% as against 14.0% in 2007).

Industrial producer prices fell 7.0% in 2008, whereas in 2007 they rose 25.1%. This producer price trend was largely due to the sharp fall in fossil fuel producer prices.

Producer prices in the manufacturing sector increased 20.6% in January—August 2008, but in September—December dropped 15.5%. As a result, in 2008 producer prices in this activity

¹ Foreign debt relative to GDP.

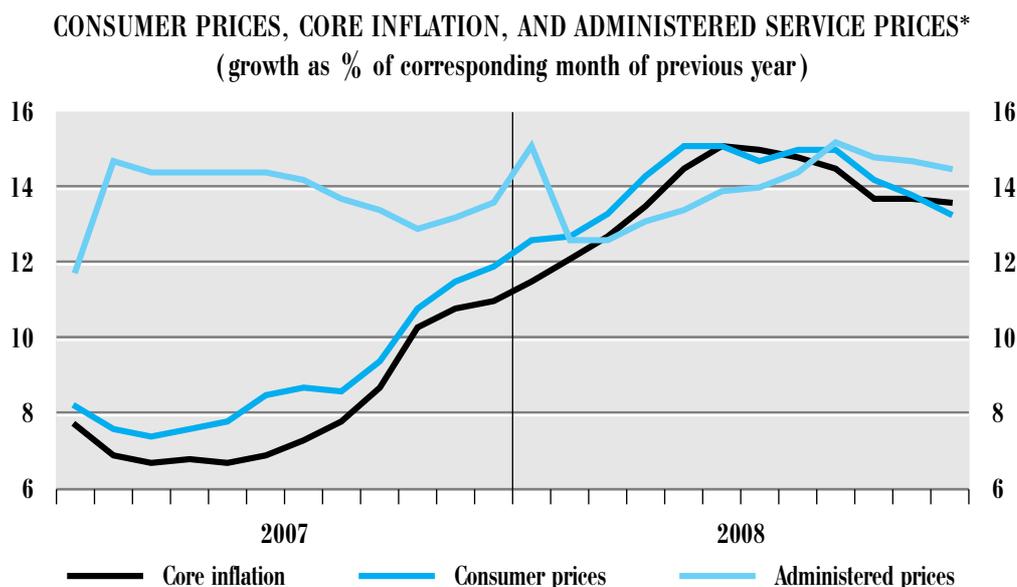


Chart 3

category rose 1.9% as against 17.9% in 2007. The largest price drop in this sector in 2008 was registered in petroleum product producer prices, which fell 27.7%, against a growth of 42.2% in 2007.

Prices for the production and distribution of electricity, natural gas and water grew 18.0% in 2008 as against 13.3% in 2007, and prices of the production, transmission and distribution of electricity went up 16.6% as against 15.0% a year earlier.

The number of jobs in the economy increased in 2008. After sustained growth in the first three quarters of the year, the number of jobs in November and December declined, compared with the same period a year earlier. The number of jobless rose significantly in the fourth quarter. The total number of unemployed, calculated according to the methodology recommended by the International Labour Organisation (ILO), stood at 6.4% of the economically active population in 2008, as against 6.1% in 2007.

GDP expanded 5.6%, compared to 8.1% in 2007. High rates of production growth were registered in the construction sector, agriculture, and

retail trade. Industrial output increased 2.1% in 2008 as against 6.3% in 2007.

The financial situation of Russian enterprises continued to improve in the first half of 2008. In January—August the economy's positive financial result¹ was more than 41.6% higher than the comparable indicator for 2007. In January—September 2008, the rate of return on goods, products and services sold² stood at 13.6% as against 12.2% in the same period of 2007.

In September—December 2008, as the global financial and economic crisis spread to the Russian economy, profits fell and losses increased. In 2008, the net financial result of the economy³ contracted 30.8% year on year, and stood at 3,984 billion roubles. The rate of return on goods, products, and services sold fell to 12.3% from 12.5% in 2007. The share of loss-making enterprises expanded by 1.8 percentage points to 25.2% of total enterprises. Enterprises found it increasingly difficult to raise funds, and growth in their total debt slowed to 31.6% in 2008 from 43% in 2007.

The deterioration of the financial situation of enterprises had no significant effect on payments

¹ Excluding enterprises engaged in crop growing, livestock breeding, crop growing combined with livestock breeding, small businesses, banks, insurance companies, and budget-financed organisations.

² Profit (loss) from sales to proceeds from the sale of goods, products, work, and services.

³ Excluding small businesses, banks, insurance companies and budget-financed organisations.

GDP CONSUMPTION
(as % of previous year)

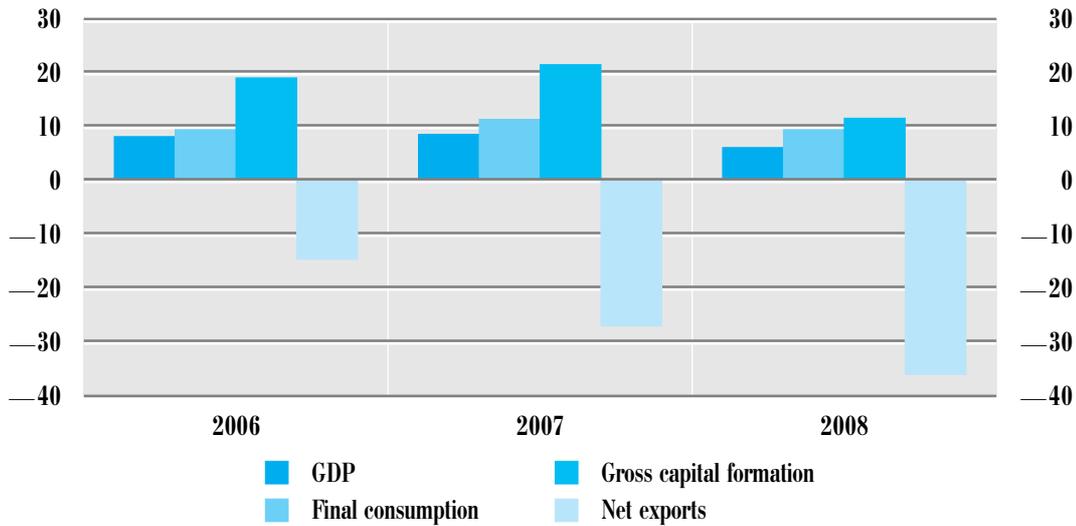


Chart 4

and settlements in the economy as a whole. Despite the more rapid growth in non-payments registered in August—December 2008, the share of overdue payables contracted from 7.8% of total payables at the end of 2007 to 7.4% at the end of 2008, and that of overdue receivables from 8.0% to 7.6%. The share of non-payments in total debt on bank loans decreased from 0.7% to 0.5%. The share of monetary settlements in the structure of payments for products shipped, work performed, and services provided by major Russian taxpayers and industrial monopolies remained high, at 99.0%.

During the second half of 2008, the fall in export revenues and the credit crunch on the domestic and foreign credit markets affected domestic demand dynamics. Household real disposable money income increased 2.9% in 2008, compared to 12.1% in 2007. There was a significant slowing of growth in real wages. Growth in household spending on final consumption slowed to 11.3% in 2008 from 13.7% in 2007, and the public's propensity for organised savings declined over the year.

Growth in expenditure on government-sector final consumption slowed from 3.4% to 2.5%.

Gross capital formation increased 11.1% in 2008 as against 21.0% in 2007. The largest **fixed capital investments** were made in transport and fossil fuel and energy production.

In 2008, as in 2007, fixed capital investment was largely conducted with raised funds. Bank loans accounted for the financing of 11.1% of investments, representing an increase of 0.7 percentage points on 2007.

As imports grew considerably faster than exports, there was a 36.0% drop in net exports of goods and services in 2008.

Despite its sharp deterioration in the second half of 2008, the overall price **situation on world commodity markets** was favourable for Russian exporters, and the terms of trade with other countries improved. The rise of the terms of trade index accelerated, to register 1.18 as against 1.03 in 2007.

In 2008, growth in exports accelerated due to the significant increase in export prices, while Russian export volumes contracted. Relative to 2007, oil export volumes decreased, while exports of natural gas and petroleum products increased. Oil exports in 2008 grew at virtually the same rate as overall exports, while exports of natural gas and petroleum products increased considerably faster. Growth in other exports slowed down, while exports of non-ferrous metals and products made from them, as well as timber, pulp and paper, declined. The share of major energy products (oil, petroleum products and natural gas) increased in the commodity export structure, due to the expansion of the share of natural gas

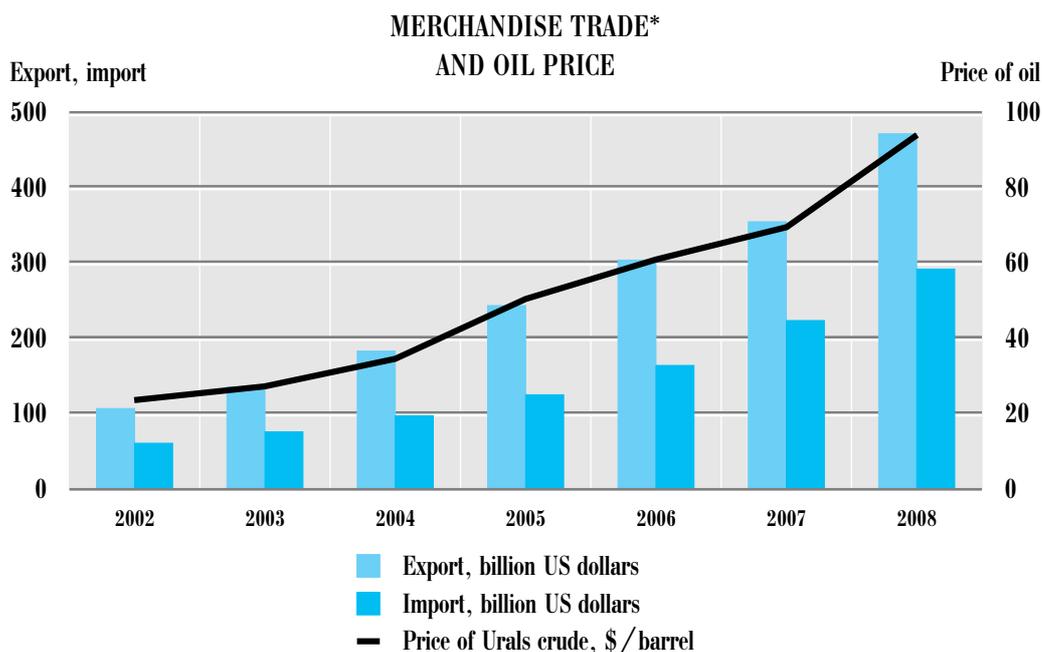


Chart 5

* According to balance of payments data.

and petroleum products, while the share of oil contracted slightly.

Growth in imports of goods slowed in 2008 due to the slowing of growth in import volumes. At the same time, growth in import prices, connected mainly with the rise in the world food and raw material prices, accelerated. Despite the significant slowdown in the fourth quarter

of the year, imports of investment goods continued to rise faster than consumer goods imports. At the same time, non-food consumer goods imports in 2008, as in 2007, grew almost as fast as investment goods imports. The share of machinery, equipment and transport vehicles in the commodity structure of imports continued to expand.

1.3. GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

Budget policy in 2008 was aimed at securing a long-term balanced budget, enhancing the effectiveness of budget expenditure, ensuring the execution of budget obligations, making the federal budget an effective tool for macroeconomic regulation, and further extending the budget planning horizon. The implementation of this policy, however, ran into significant difficulties created by the sharp deterioration of the situation on the global market for oil and petroleum products, the slowing of GDP growth, and the need to carry out additional measures to stabilise the financial system, support individual sectors of the economy, and provide social security to the population amid the financial and economic crisis.

According to the Federal Treasury's report, federal budget revenue in 2008 amounted to 9,275.9 billion roubles, or 103.5% of the federal budget revenue approved by the Federal Law on the Federal Budget for 2008 and the Plan Period of 2009 and 2010. Relative to GDP, federal budget revenue contracted by 1.2 percentage points year on year to 22.3%, largely as a result of changes to federal tax laws and the sharp fall in the price of Urals crude at the end of 2008.

The average price of Urals crude in 2008 was \$93.9 per barrel, compared to the price set down in the 2008 federal budget of \$92.0 per barrel, and the 2007 average price of \$69.5 per barrel.

The average price of Urals crude fell to \$38.1 per barrel in December from \$129.3 per barrel in July.

Federal budget expenditure in 2008 amounted to 7,570.9 billion roubles, according to the Federal Treasury's report, or 107.8% of the expenditure approved in the Federal Law on the Federal Budget for 2008 and the Plan Period of 2009 and 2010, and 18.2% of GDP (as against 18.1% of GDP in 2007).

The federal budget surplus stood at 1,705.1 billion roubles, or 87.7% of the federal budget surplus approved by the Federal Law on the Federal Budget for 2008 and the Plan Period of 2009 and 2010, and 4.1% of GDP. In November and December 2008, the federal budget registered a deficit of 272.2 billion roubles and 806.2 billion roubles, respectively.

The growth in federal budget expenditure relative to GDP compared with the previous year, and the contraction of the federal budget surplus from the amount envisaged by the federal law, resulted from the need to carry out measures in support of the economy and the financial system. Specifically, pursuant to the federal law, the Government allocated from the federal budget, including the National Wealth Fund, over 860 billion roubles in subordinated loans to credit institutions and payments to the authorised capital of the Agency for Housing Mortgage Lending, Vnesheconombank, and other organisations, and

as payment of property contribution to the Deposit Insurance Agency.

The federal budget performance in 2008 led to a reduction of federal budget balances net of the Reserve Fund and National Wealth Fund, and to a slowing of growth in the Reserve Fund and National Wealth Fund balances on accounts opened with the Bank of Russia.

The balances of rouble-denominated federal budget accounts with the Bank of Russia, net of the Reserve Fund and National Wealth Fund, contracted monthly from August 2008, and for the first time in 10 years decreased over the year, by 368.9 billion roubles (29.2%) and as of January 1, 2009 stood at 893.1 billion roubles.

The balances of the Reserve Fund and National Wealth Fund, initially created in January 2008 from the Stabilisation Fund, amounted in foreign currency to 4,007.2 billion roubles and 2,184.5 billion roubles as of January 1, 2009, and in total increased by 60.9% compared with the Stabilisation Fund balances as of January 1, 2008, while the Stabilisation Fund balances grew 64.0% in 2007.

Consolidated federal budget revenue in 2008 amounted to 16,003.9 billion roubles, or 38.5% of GDP, according to the Federal Treasury's report; expenditure stood at 13,991.8 billion roubles, or 33.7% of GDP; the surplus was 2,012.1 billion roubles, or 4.8% of GDP. Revenue and expenditure of the consolidated regional budgets stood at 6,198.8 billion roubles and 6,253.1 billion roubles, respectively; there was a deficit (for the first time since 2003) of 54.4 billion roubles (14.9%, 15.1% and 0.1% of GDP, respectively).

Federal Treasury data indicate that revenue of government extra-budgetary funds in 2008 amounted to 3,088.0 billion roubles, expenditure to 2,732.5 billion roubles, and the surplus to 355.5 billion roubles. This surplus was due to the 372.4-billion-rouble surplus registered by the Pension Fund. The Social Insurance Fund registered a deficit of 10.7 billion roubles, and the Federal Compulsory Medical Insurance Fund reported a deficit of 6.1 billion roubles.

According to the Finance Ministry's data, the Russian government's domestic debt increased in 2008 by 198.7 billion roubles, or 15.3%, and as of January 1, 2009, reached 1,499.8 billion

FEDERAL BUDGET EXPENDITURE IN 2008 (%)

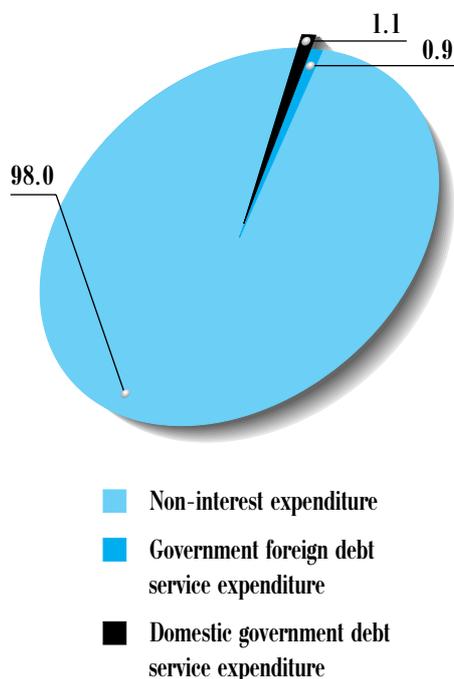


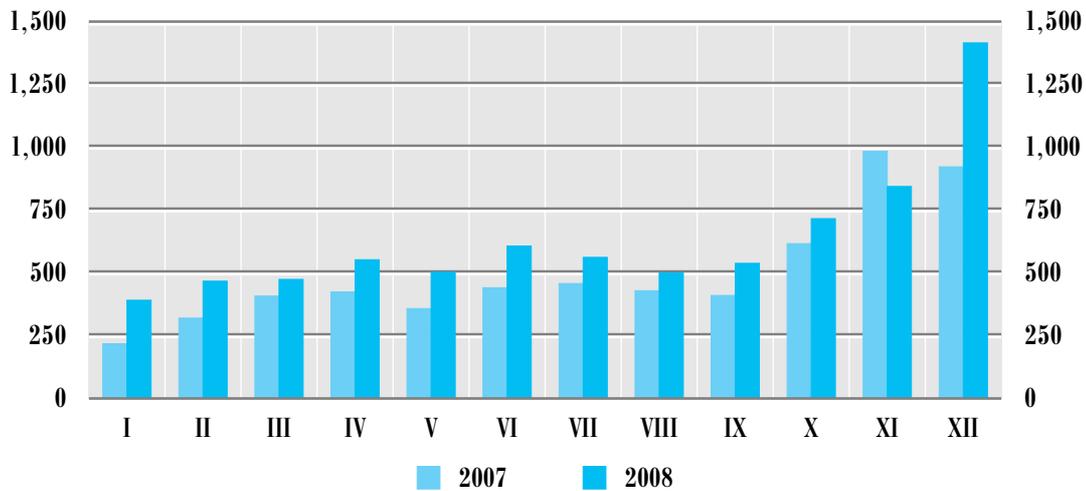
Chart 6

roubles, compared to the limit of 1,804.2 billion roubles set by the Federal Law on the Federal Budget for 2008 and for the Plan Period of 2009 and 2010. The Russian government's domestic debt to GDP is estimated at 3.6% as of January 1, 2009, representing a decrease of 0.3 percentage points from the same date a year earlier.

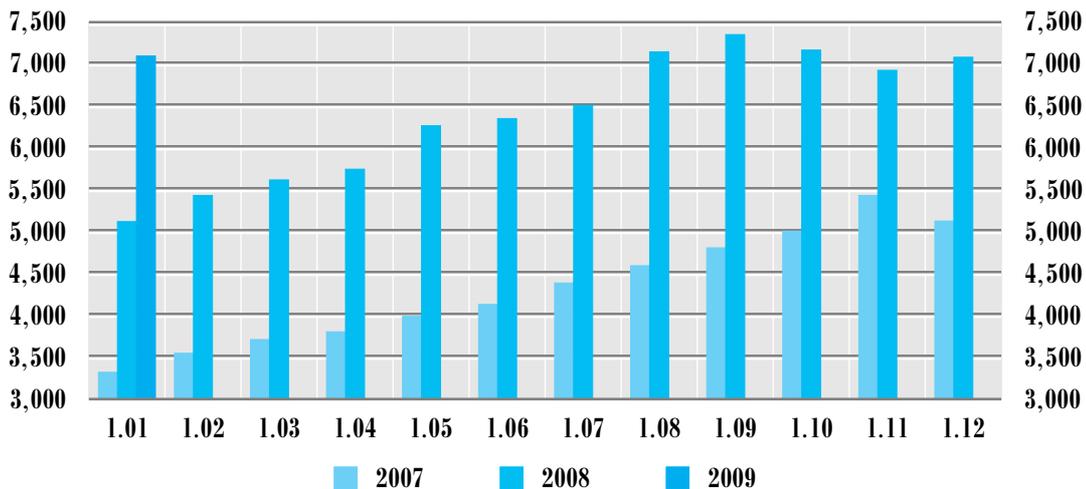
Federal government securities amounted to 1,421.4 billion roubles, or 94.8% of domestic government debt. This represents an increase of 172.6 billion roubles, or 13.8%, over the year. Government guarantees totalled 72.5 billion roubles, or 4.8% of domestic government debt, an increase of 25.8 billion roubles, or 55.3%. Other federal debt obligations remained unchanged from 2007 at 5.9 billion roubles, or 0.4% of domestic government debt.

Debt-depreciation federal loan bonds (OFZ) totalling 882.0 billion roubles accounted for 62.0% of the federal government's securitised domestic debt; permanent coupon-income federal loan bonds at 328.2 billion roubles accounted for 23.1% of debt; state savings bonds at 177.4 billion roubles accounted for 12.5%; and fixed coupon-income federal loan bonds at 33.8 billion roubles accounted for 2.4% of the debt.

FEDERAL BUDGET EXPENDITURE (billion roubles)



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



The volume of outstanding federal government securities on the organised securities market increased in 2008 by 96.6 billion roubles, or 9.2%, and as of January 1, 2009, reached 1,144.0 billion roubles, or 76.3% of total government domestic debt, whereas as of January 1, 2008, they accounted for 80.5% of this debt.

The Finance Ministry's debt to the Bank of Russia accounted for 36.8% of federal government domestic debt in 2008, an increase of 16.7 percentage points on the previous year.

The Finance Ministry's rouble-denominated debt to the Bank of Russia measured at the nomi-

nal value of securities increased by 290.7 billion roubles, or 110%, to reach 551.6 billion roubles. This amount includes federal government securities acquired by the Bank of Russia in repo transactions; net of these operations, this debt increased by 40.6 billion roubles, or 15.9%, to 295.7 billion roubles.

Most of the Finance Ministry's debt to the Bank of Russia (net of government securities acquired in repo operations), a total of 68.0% is represented by federal loan bonds with coupon income of 0% to 0.89% p.a., to a total value of 201.0 billion roubles. Federal loan bonds with

coupon income of 5.8% to 10.5% p.a. to a total value of 94.7 billion roubles account for 32.0%. Of these federal loan bonds, bonds with nominal value of 283.1 billion roubles have maturities from 7.5 to 27 years (95.7%), and 12.6 billion roubles of bonds have maturities from one year to 4.5 years (4.3%).

The Finance Ministry's foreign currency-denominated debt to the Bank of Russia, which

under the federal law is included in the Russian Government's foreign debt, stood at 229.5 billion roubles at par as of January 1, 2009. This represents an increase of 97.3 billion roubles, or 73.6%, including federal government securities acquired by the Bank of Russia in repo operations. Net of repo operations, this debt increased by 10.8 billion roubles, or 8.5%, to 138.0 billion roubles.

I.4. THE FINANCIAL SECTOR

At the end of 2008, the Russian financial intermediation system consisted of 1,108 operating credit institutions, 243 non-governmental pension funds,¹ 786 registered insurance companies, and 1,134 unit investment funds. Credit institutions have retained their dominant position among institutionalised financial intermediaries. Their equity capital relative to GDP increased to 9.1% from 8.1% in 2007. The authorised capital of insurance companies contracted from 0.5% to 0.4% of GDP, net assets of unit investment funds from 2.3% to 1.7%, and non-governmental pension funds' own property from 1.8% to 1.6%.²

The ratio between the growth rates of the major market segments changed significantly in 2008. Unlike in 2007, when bank lending to non-financial enterprises and households was the most dynamic segment, in 2008 bank credit to the non-financial sector and the debt securities market grew at roughly the same rates. The capitalisation of the Russian stock market decreased for the first time in 10 years. Relative to GDP, the stock market capitalisation of the Russian Trading System (RTS) contracted to 26% from 99% in 2007. Bank credit to non-financial enterprises and households in 2008 grew slower than in 2007,

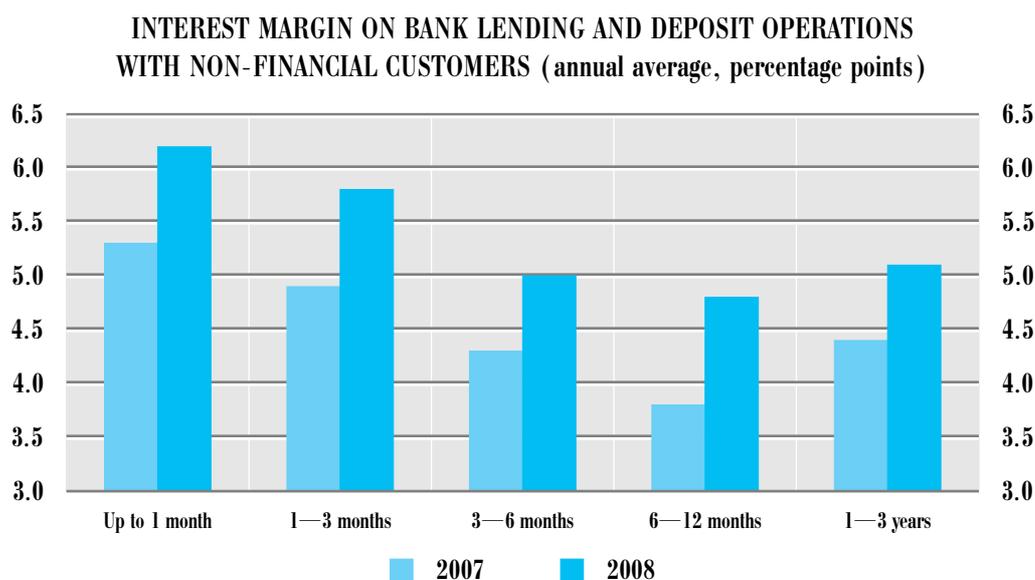
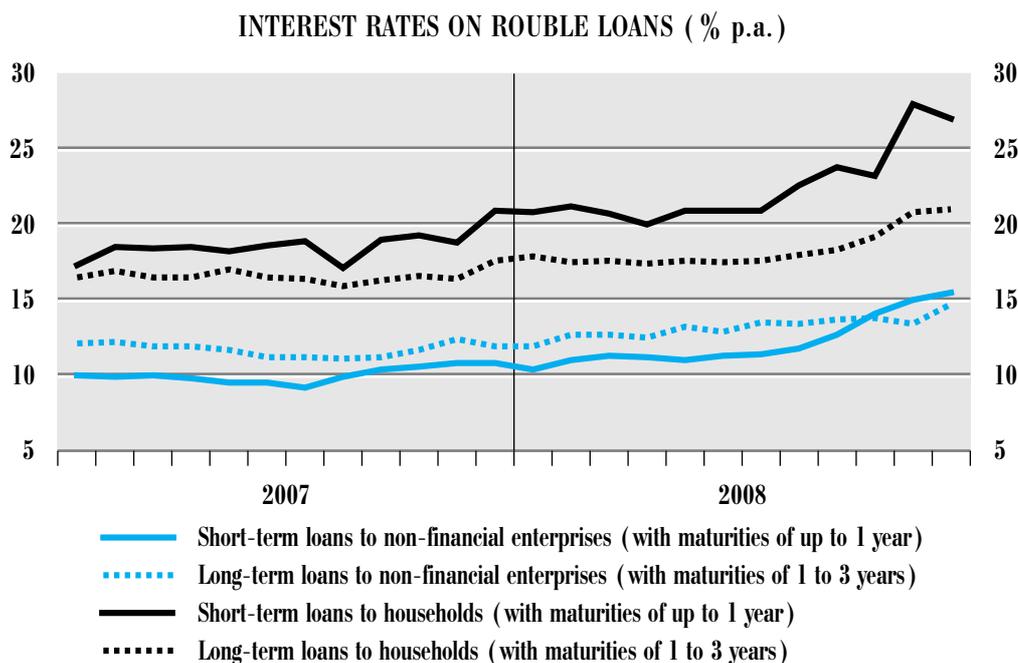
but relative to GDP increased from 37.1% to 39.7%.

The global financial and economic crisis caused turbulence on the Russian financial market in 2008. In August—December interest rates rose significantly and became more volatile, as money market participants found it increasingly difficult to raise funds abroad and confidence in the banking sector deteriorated. The devaluation of the rouble made financial instruments denominated in the national currency less attractive. The capital market saw a sharp contraction in bond placement volumes, and equity and bond secondary trade turnover, and prices of all categories of securities tumbled, while yields on debt securities soared. There was a rise in the number of defaults on corporate bonds. The urgent and large-scale anti-crisis measures taken by the Government and Bank of Russia in this situation held back the destabilisation of the Russian financial market.

Price dynamics varied among the key sectors of the financial market in 2008. The rouble government bond market saw yields gradually grow in January—July, and in August this growth accelerated, as demand for federal loan bonds shrank. The average annual gross yield to matu-

¹ Data as of October 1, 2008.

² Data as of October 1, 2008, and October 1, 2007, respectively.



rity of Russia's government bonds¹ rose to 7.7% p.a. from 6.5% p.a. in 2007. Corporate bond yields grew faster than government bond yields. The average yield on corporate bonds on the secondary market rose to 11.9% p.a. from 7.7% p.a. in 2007, according to the news agency Cbonds.ru. The stock market saw prices rise and fall intermittently in the first half of 2008, but in the sec-

ond half equity prices took a deep plunge. As the situation worsened on the interbank money market in the second half of the year, the average interest rate on rouble-denominated overnight interbank loans rose from 4.4% p.a. in 2007 to 5.6% p.a. in 2008.

As banks increasingly sought internal sources of funds in 2008, the cost of funds raised by banks

¹ Russian government bond gross yield to maturity (RBY) is the yield on federal loan bonds calculated by the Moscow Interbank Currency Exchange.

from non-financial enterprises and households increased compared with 2007. Interest rates on deposits to non-financial enterprises rose by more than interest rates on household deposits. The average rate on time deposits taken from non-financial enterprises in roubles with terms of up to one year increased from 3.8% p.a. in 2007 to 5.0% p.a. in 2008, and household deposit rates rose from 7.2% to 7.6% p.a., respectively. The average rate on non-financial enterprise deposits with terms of one to three years grew from 7.5% p.a. in 2007 to 9.8% p.a. in 2008, exceeding the average interest rate on household deposits with the same maturity periods.

The cost of bank credit increased significantly for non-financial enterprises and households in 2008. Interest rates on bank loans with terms shorter than one year grew more than on loans with terms longer than one year. The average in-

terest rate on loans extended to non-financial enterprises in roubles for terms shorter than one year rose from 10.0% p.a. in 2007 to 12.2% p.a. in 2008, and on household loans from 18.6% to 22.5% p.a., respectively. Interest rates on loans to non-financial enterprises and households with terms longer than one year increased by 1.6 percentage points and 0.9 percentage points, respectively.

Unlike in 2007, the interest margin on rouble credit and deposit operations conducted by banks with non-financial enterprises increased in 2008. Banks' margins on key operations with non-financial customers in roubles varied between 5 percentage points and 6 percentage points, depending on maturity. The interest margin on operations with households remained an average of 2 percentage points higher than the interest rate margin on operations with non-financial enterprises.

1.4.1. CREDIT INSTITUTIONS

In 2008, the global financial and economic crisis had a substantial negative impact on the Russian economy and banking sector. Russian banks found themselves almost completely cut off from external sources of funds, and experienced a sharp drop in the value of their financial assets. Against this background, a crisis of confidence emerged on the interbank money market, liquidity problems arose, and in September—November banks experienced a run on personal deposits. Growth in corporate and retail lending slowed, loan portfolio quality deteriorated, a negative revaluation of securities was registered, and the equity capital of some banks contracted.

As a result, the banking sector registered in 2008 a year-on-year slowing of growth in its key performance indicators, and the fourth quarter of the year was decisive in this process.

Banking sector assets expanded 39.2% to 28,022.3 billion roubles (in 2007 they grew 44.1%). Relative to GDP, they increased from 60.8% to 67.3%.

Equity capital grew by 42.7% (as against 57.8% in 2007) to reach 3,811.1 billion roubles as of January 1, 2009, and the ratio of equity capital to GDP increased from 8.1% to 9.1%.

As of January 1, 2009, 63.5% of Russian credit institutions had capital in excess of 5 million euros (63.9% as of January 1, 2008).

The crisis had a negative impact on all credit institutions. The deteriorated financial situation of certain banks of federal and regional significance posed a threat not only to the legitimate interests of their depositors and creditors, but also to banking sector stability as a whole. According to data as of January 1, 2009, banks on which action was taken to stabilise their financial situation, including action taken under Federal Law No. 175-FZ, dated October 27, 2008, 'On Additional Measures to Strengthen Banking System Stability in the Period until December 31, 2011,' accounted for 2.7% of banking sector assets.

Despite the crisis, foreign capital continued to increase its presence on the Russian banking services market in 2008. The number of credit institutions controlled by non-residents¹ reached 102 as of January 1, 2009 (there were 86 as of January 1, 2008), of which 17 are among the top 50 Russia-based credit institutions in terms of assets. The share of non-resident-controlled banks expanded from 17.2% to 18.7% of banking sector assets over the period under review, and from 15.7% to 17.3% of banking sector capital.

Banks controlled by non-residents gained an increasingly prominent presence on the retail banking services market. Their share in loans to households expanded from 19.4% to 23.3% in 2008, and in household deposits from 8.9% to 10.3%. Non-resident-controlled banks have been stepping up their activities in lending to non-financial enterprises: in 2008 the share of loans they extended to these enterprises in total banking sector credit to the non-financial sector increased from 15.5% to 16.6%.

Large banks continued to expand business to the regions in 2008. At the beginning of the year there were 16 bank branches and additional and operations offices per 100,000 residents, whereas as of January 1, 2009, there were 18. Growth was registered in all federal districts.

However, an opposing trend emerged during the crisis: large multi-branch banks are now trying to cut costs by optimising the number of their regional establishments, and this could adversely impact the servicing of clients, particularly in the regions, where local banks will not be able to offer high-quality banking services.

The situation in the Russian banking sector during the crisis has demonstrated some of the factors that were included in the stress-related conditions when the Russian banking sector's stability was stress-tested. The Bank of Russia will continue to upgrade the stress-test scenarios, with account for the actual shocks registered on the financial market.

¹ Credit institutions with a 50%-plus foreign stake in authorised capital.

KEY BANKING SECTOR INDICATORS
(as % of GDP)

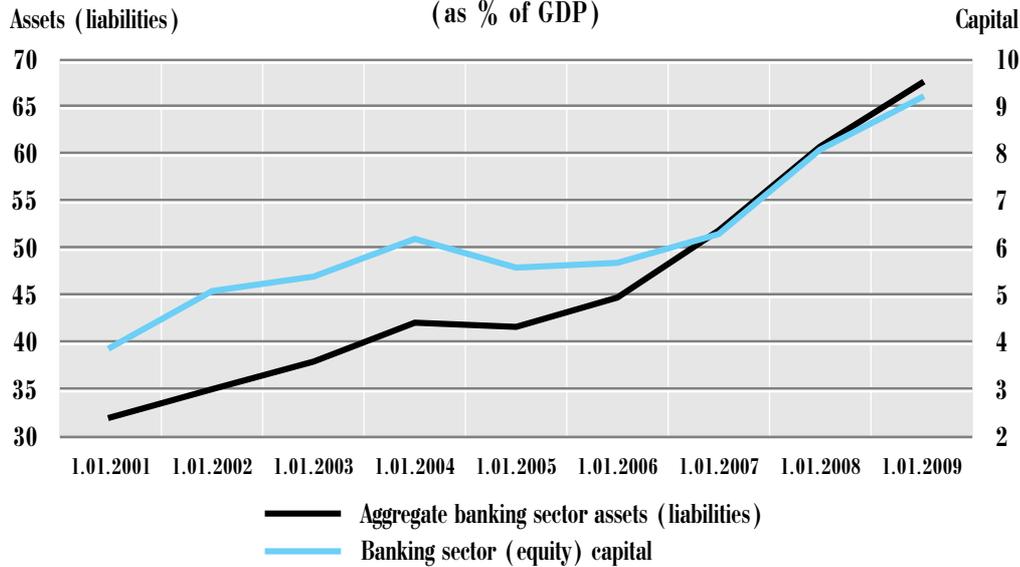


Chart 11

STRUCTURE OF CREDIT INSTITUTIONS' LIABILITIES. The global financial and economic crisis in 2008 significantly altered the structure of credit institutions' liabilities, as expansion of the traditional sources of funds slowed. The balances of customer accounts¹ in 2008 increased 20.4% to 14,748.5 billion roubles, and their share in banking sector liabilities contracted from 60.9% to 52.6%.

The total volume of funds raised from enterprises other than credit institutions in 2008 increased 24.4% (as against 47.2% in 2007) to 8,774.6 billion roubles, while their share in total banking sector liabilities contracted from 35.0% to 31.3%. Funds raised from enterprises accounted for 21.8% of total growth in banking sector liabilities. At the same time, the value of corporate deposits² increased 40.5% in 2008 (in 2007 it grew 64.0%). The slowdown of economic growth in the second half of 2008, and the reduction of non-financial enterprises' incomes, led to an outflow of corporate customer funds from bank accounts in the last few months of the year. Overall, growth in the balances of corporate settlement and other accounts in 2008 slowed to

8.9% from 34.7% in 2007, and their share in liabilities contracted from 16.1% as of January 1, 2008, to 12.6% as of January 1, 2009.

The total volume of household deposits increased 14.5% in 2008 (35.4% in 2007) to reach 5,907.0 billion roubles, while their share in banking sector liabilities contracted from 25.6% to 21.1% (in September—November deposits decreased 7.6%, but in December their growth resumed).

In this situation, from September onwards the resource base of credit institutions was largely maintained by Bank of Russia funds and budget deposits. By January 1, 2009, loans, deposits, and other funds raised by credit institutions from the Bank of Russia had reached 3.4 trillion roubles, accounting for 12.0% of banking sector liabilities (34.0 billion roubles, or 0.2% of liabilities as of January 1, 2008). In addition, state corporations deposited their temporarily free funds with banks. These measures made it possible to replace funds withdrawn by clients from bank accounts and deposits, and to ensure the uninterrupted effectuation of payments by the banking sector, including settlements with budgets of all levels.

¹ Balances of corporate accounts, including all-level budget funds and extra-budgetary funds, household funds, float relating to factoring and forfeiting operations, and funds written off from customer accounts but not passed through a credit institution's correspondent account. There were no funds in Finance Ministry accounts as of January 1, 2008, or January 1, 2009.

² Including certificates of deposits, which were previously accounted for as Debt obligations issued, and other funds raised from corporate entities.

BANKING SECTOR LIABILITY STRUCTURE (%)

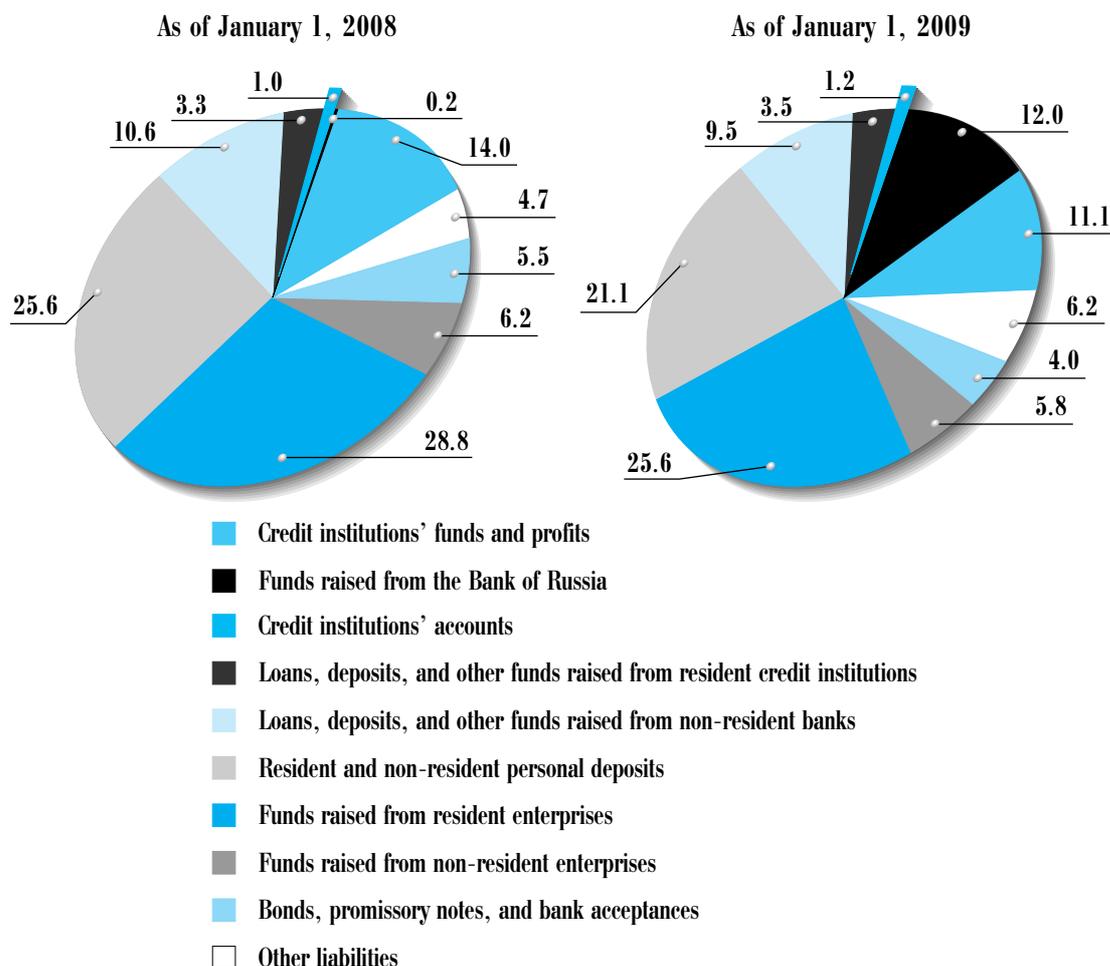


Chart 12

In the fourth quarter of 2008, as the rouble weakened against the dollar and euro, the public propensity for saving changed in favour of foreign currency. Household foreign currency deposits doubled in dollar terms in 2008, while rouble deposits contracted 3.6%. The share of foreign currency deposits in total household deposits expanded from 12.9% to 26.7% over the year (in 2005—2007 household foreign currency deposits grew considerably slower than rouble deposits).

As tensions escalated in the financial sector as a whole and in certain credit institutions in the fourth quarter of 2008, and a portion of deposits was transferred to state-controlled banks, Sberbank's share of household deposits expanded from 51.6% to 51.9%, whereas as of September 1, 2008, it was 49.8%.

The share of bonds and promissory notes in banking sector liabilities in 2008 contracted from

1.4% to 1.3%, and from 4.1% to 2.7%, respectively.

STRUCTURE OF CREDIT INSTITUTIONS' ASSETS.

Active operations by credit institutions in 2008 were characterised above all by a slowing of growth in credit to non-financial enterprises and households. Government aid to the banking sector help to avoid a complete halt in lending, but could not compensate for the significant slowing of its growth during the last months of the year. Total loans to all categories of borrowers increased 34.5% to 16,526.9 billion roubles in 2008, but their share in banking sector assets contracted from 61.1% to 59.0%. Relative to GDP, bank loans to non-financial enterprises and households increased from 37.1% to 39.7%.

Loans and other funds placed with non-financial enterprises in 2008 increased 34.3% (as

BANKING SECTOR ASSET STRUCTURE (%)

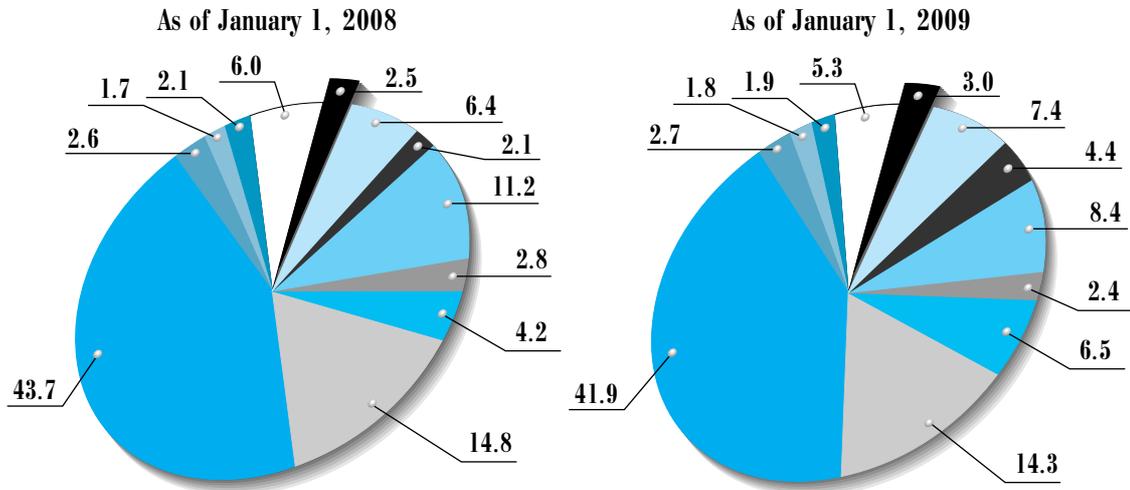


Chart 13

- Money, precious metals and gemstones
- Accounts with the Bank of Russia
- Correspondent accounts with credit institutions
- Securities
- Loans, deposits, and other funds placed with resident credit institutions
- Loans, deposits, and other funds placed with non-resident banks
- Loans extended to resident and non-resident individuals
- Loans and other funds placed with resident non-financial enterprises
- Loans and other funds placed with non-resident corporate entities other than banks
- Loans and other funds placed with financial enterprises other than banks
- Fixed and intangible assets
- Other assets

against 51.5% in 2007) to reach 12,509.7 billion roubles, but their share in banking sector assets contracted from 46.3% to 44.6%. Most of these loans (71.1%) were provided in roubles.

The deterioration of the general economic situation and the adoption by banks of more conservative risk evaluation methods led to a slowing of growth in retail lending. Total loans extended to households¹ in 2008 increased 35.2% (as against 57.8% in 2007) to reach 4,017.2 billion roubles, while their share in total banking sector loans contracted from 20.8% to 20.2%, and in total banking sector assets from 14.8% to 14.3%. Most loans to households (88.1%) were provided in roubles.

The credit crunch is one of the worst consequences of the financial crisis, and also a factor aggravating it. The main reasons for the sharp slowdown of growth in lending were the deterioration of the financial situation of borrowers and banks' unwillingness to assume additional risk, as well as the emergence in the fourth quarter of 2008 of an alternative source of income for banks — investment in foreign currency amid the depreciation of the rouble. This change of policy affected the currency structure of banking sector assets. Foreign currency assets in 2008 increased 62.7% in dollar terms, and their share in total assets expanded from 23.1% to 32.3%. The high returns from investment in foreign currency

¹ Excluding individual unincorporated entrepreneurs. Under the Civil Code of the Russian Federation (Part I, Article 23) these loans are not included in loans provided to households.

served as a factor adversely affecting lending to the non-financial sector of the economy.

Credit institutions' investments in securities increased 5.1% in 2008 (as against 28.9% in 2007) to reach 2,365.2 billion roubles, while their share in banking sector assets contracted from 11.2% to 8.4%. The year-on-year slowing of growth in investments in securities was largely due to the 8.8% contraction of the securities portfolio in August—October 2008. This development was a result of the sale of a part of the securities portfolio by banks for the purpose of maintaining liquidity levels amid the crisis on international financial markets, and a sharp increase in negative revaluation.

Investments in debt obligations continued to dominate the securities portfolio; their share expanded from 68.5% to 74.4% over the year. The value of these investments increased 14.2% (as against 23.2% in 2007) to reach 1,760.3 billion roubles. The share of discounted promissory notes in the securities portfolio contracted from 11.2% to 8.4%.

Investments in equities accounted for 8.2% of the securities portfolio as of January 1, 2009 (as against 14.1% as of January 1, 2008). Over the year, they contracted in value by 38.8% to 193.4 billion roubles (in 2007 investments in equities increased 70.9%).

CLAIMS AND OBLIGATIONS ON INTERBANK LOANS.

The dynamics of the Russian interbank market in 2008 was significantly affected by the turbulence on international financial markets. In the second half of the year, interest rates rose, but the trend towards growth in interbank loans¹ continued: interbank loans increased 29.6% (as against 62.2% in 2007) to reach 3,639.6 billion roubles. Interbank loans as a share of banking sector liabilities contracted from 13.9% to 13.0% over the year, while the balances of funds raised on the domestic interbank market grew 44.8%, and their share in banking sector liabilities expanded from 3.3% to 3.5%.

Obligations on loans taken from non-resident banks increased 24.9% in value as against 56.5% in 2007, and the share of these loans among total interbank loans taken contracted from 76.1% to 73.3% in 2008. As of January 1, 2009, this source of funding accounted for 9.5% of banking sector liabilities (10.6% as of January 1, 2008). A large share of loans from non-resident banks (44.8% as of January 1, 2009) were taken by credit institutions controlled by foreign capital (generally 100% foreign-owned).

Claims on interbank loans increased 76.4% in volume (as against 36.9% in 2007) to reach 2,501.2 billion roubles, and their share in banking sector assets expanded from 7.0% to 8.9%. Loans placed with non-resident banks grew 114.2% in volume in 2008, and their share in banking sector assets expanded from 4.2% to 6.5%.

The value of net borrowings of Russian credit institutions declined from 1,284.6 billion roubles to 843.1 billion roubles, or by 34.4%, and the ratio of net borrowings from non-resident banks to banking sector liabilities contracted from 6.4% to 3.0%.

FINANCIAL SITUATION OF CREDIT INSTITUTIONS.

The profit of operating credit institutions decreased 19.4% in 2008 year on year (in 2007 it grew 36.7%) to 409.2 billion roubles, and taking into account the financial result of the preceding years, amounted to 1,319.8 billion roubles² (508.0 billion roubles and 627.0 billion roubles in 2007, respectively).

The share of profit-making credit institutions in total operating credit institutions contracted from 98.9% to 94.8%. The number of loss-making credit institutions increased from 11 to 56 in 2008, or from 1.0% to 5.1% of total operating credit institutions. Operating credit institutions in 2008 posted a loss of 37.8 billion roubles³ (as against 900 million roubles in 2007).

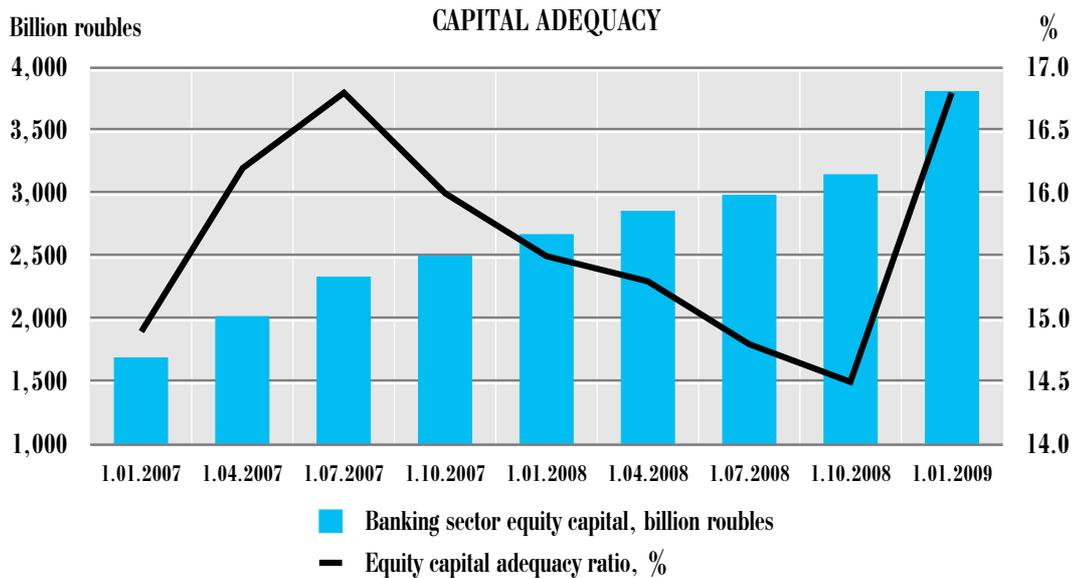
The rate of return on assets of credit institutions in 2008 stood at 1.8%, and the rate of re-

¹ Loans, deposits, and other funds raised on the interbank market, precious metals included.

² The significant increase in this figure from the previous year is due to the introduction in 2008 of new accounting rules in credit institutions by Bank of Russia Regulation No. 302-P, dated March 26, 2007, 'On Accounting Rules in Credit Institutions Located in the Russian Federation.'

³ Most of this loss is attributable to one bank that underwent financial rehabilitation.

Chart 14



turn on equity was 13.3% (as against 3.0% and 22.7% in 2007, respectively).¹

The fall in credit institutions' profit in 2008 compared with 2007 was primarily due to the negative revaluation of securities and the increase in loss provisions in September—December 2008. At the same time, there was a sharp rise in income from the revaluation of foreign currency funds, which partly offset the reduction in banking sector profit.

Net interest income² remains an important element of net income. Its share in banking sector net income in 2008 increased to 37.8% from 36.5% in 2007. The share of net commission income contracted to 14.7% from 16.6%.

The share of credit institutions' net income from transactions with foreign exchange and for-

eign currency valuables, including exchange rate differences, expanded as a share of net income from 2.4% to 8.2% due to the rouble's depreciation.

In 2008, operating credit institutions registered a net loss of 92.6 billion roubles, or 3.1% of total banking sector net income, from the sale, purchase, and revaluation of securities (in 2007 they gained a net income from these operations equal to 6.2% of total net income). The loss from these operations was due to the net negative revaluation of securities resulting from the decline of the stock indices in the second half of 2008.³

Loss provisions made by credit institutions in 2008 increased by a factor of 2.9 to 456.1 billion roubles, and the ratio between provisions and net income grew from 7.7% to 15.4%, which is in-

¹ The rate of return on assets is calculated as the ratio of the full-year financial result before taxation to bank assets, while the rate of return on capital is calculated as the ratio of the full-year financial result before taxation to bank capital. Assets and capital are calculated as the annual (chronological) averages for the period under review.

² The methodology for calculating net current income of credit institutions has been changed in connection with the coming into force of Bank of Russia Regulation No. 302-P, dated March 26, 2007, 'On Accounting Rules in Credit Institutions Located in the Russian Federation'. Net income is the sum of net interest income, net income from the sale and purchase of securities and their revaluation, net income from foreign exchange transactions and operations with currency valuables, including exchange rate differences, and net commission income and other income (prior to the deduction of other expenses, including expenses on the creation (recovery) of loss provisions and organisational and administrative expenses). The figure has been calculated on the basis of data reported by credit institutions (form code 0409102). The structure of net income for 2007 has been recalculated according to the new methodology for the purpose of data comparability.

³ To prevent credit institutions from fixing losses from the decline in the market value of securities, the Bank of Russia allowed them to make a one-off change to their accounting policies in 2008, a decision similar to that taken by the IAS Board in 2008, which enabled a bank to transfer securities from its trading book to its investment portfolio if it intended to hold the paper in its portfolio (Bank of Russia Ordinance No. 2129-U, dated November 17, 2008, 'On the Reclassification of Securities by Evaluation Categories').

dicative of increased credit risk and a more conservative assessment by banks of the quality of their loan portfolios.

Growth in operating and administrative costs of credit institutions in 2008 (up 38.0%) was slightly lower than in 2007 (40.9%), and their ratio to net income contracted to 22.6% from 23.5% a year earlier.

The banking sector's major economic performance indicators testify, by and large, to the continued stability of the banking sector, despite the increase in the number of problem banks. In the second half of 2008,¹ the number of banks assigned to classification groups 1 and 2 in terms of their financial situations fell from 1,021 to 916, and their share of total banks contracted from 94.5% to 86.6%. The number of banks in groups 3, 4 and 5 rose from 56 to 138, and their share increased from 5.0% to 13.0%.² At the same time, the share of group 1 and group 2 banks in total banking sector assets remained high (at 94.5% as of January 1, 2009).

The crisis had an adverse impact on the dynamics of the banking sector capital adequacy ratio, which declined from 15.5% as of January 1, 2008, to 14.5% as of October 1, 2008. Measures taken by the Government, such as the provision of subordinated loans to several large banks at the end of the year, helped raise the Russian banking sector capital adequacy ratio to 16.8% as of January 1, 2009.

Subordinated loans became the main source of banking sector capitalisation in 2008. They increased by 856.6 billion roubles, to account for 59.0% of overall growth in equity capital.³ Pursuant to Federal Law No. 173-FZ, dated October 13, 2008, 'On Additional Measures to Support the Financial System of the Russian Federation,' the Bank of Russia provided 500 billion

roubles in subordinated loans to Sberbank, 200 billion roubles to VTB, and 25 billion roubles to Rosselkhozbank. Several private banks also received subordinated loans. The second most important source was growth in profit (by 354.3 billion roubles) and funds created from profit (24.4% of total growth in equity capital).

BANKING SECTOR RISKS. In 2008, banks encountered the realisation of risks they had accumulated during economic growth, and risks created by the world financial turmoil. The volume of accumulated banking risk was largely determined by several years of rapid growth of the Russian economy, especially the banking sector.

In March—May and in August—October 2008, the most significant risk was **liquidity risk**. Its immediate cause was the increased difficulty of raising funds abroad, and the outflow of foreign capital in January—March and from August onwards. These problems were compounded by internal developments, particularly the loss of confidence in financial intermediaries on the part of economic counterparties. As a result, the volume of interbank money market operations contracted significantly, and banks experienced a substantial outflow from corporate and personal deposits. These factors, along with the maturity mismatches of assets and liabilities in a number of credit institutions, led to severe financial problems in some of them, including systemically important banks, and prompted the need to subject them to financial rehabilitation procedures.

In March—May 2008, the ratio between the average values⁴ of liquid assets⁵ and total banking sector assets stood at 6.8%, and in August—October at 7.2%. By the end of the year, measures taken by the Government and Bank of Russia had stabilised the liquidity situation (the li-

¹ *New bank classification rules set by Bank of Russia Ordinance No. 2005-U, dated April 30, 2008, 'On the Evaluation of the Economic Situation of Banks,' have been in effect since July 1, 2008. Non-bank credit institutions are classified in terms of their financial situation according to Bank of Russia Ordinance No. 766-U, dated March 31, 2000, 'On the Criteria for Determining the Financial Situation of Credit Institutions.'*

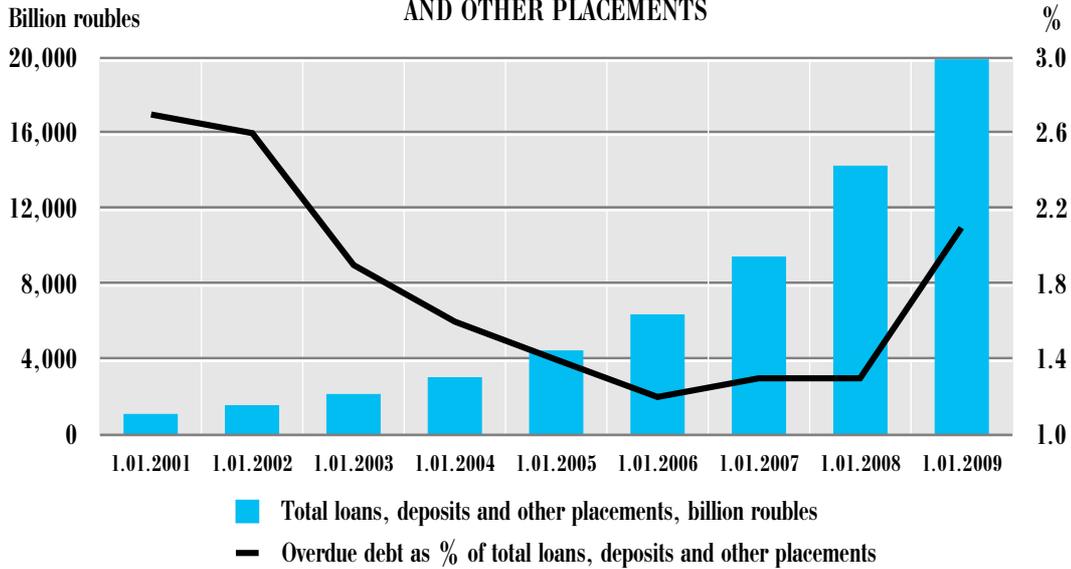
² *Three banks as of July 1, 2008, and four banks as of January 1, 2009, or 0.4% of total banks, were not classified by economic situation according to the classification rules set out for newly created banks (clause 6.1 of Bank of Russia Ordinance No. 2005-U of April 30, 2008).*

³ *Here and below, the ratios of capital growth factors are calculated in their sum total, i.e. net of the ratios of capital reduction factors.*

⁴ *Here and below, average values have been calculated as chronological averages for the corresponding period.*

⁵ *Banking sector liquid assets include cash, precious metals and gemstones, balances of correspondent nostro accounts, and balances of correspondent and deposit accounts with the Bank of Russia.*

OVERDUE DEBT ON LOANS, DEPOSITS AND OTHER PLACEMENTS



quidity ratio reached 10.4% in November—December), but in 2008 as a whole the banking sector liquidity ratio was lower than in 2007 (7.9% as against 8.8%).

As the negative economic situation developed and the financial situation of borrowers deteriorated, and they encountered problems in servicing loans, the importance of **credit risk** increased. This became apparent, above all, in the significant excess of growth in overdue debt on loans, deposits, and other placements over growth in total credit volume. As a result, overdue debt as a share of total credit to all categories of borrowers increased from 1.3% to 2.1%, of which overdue loans to non-financial enterprises rose from 0.9% to 2.1% and overdue loans to households from 3.2% to 3.7%.

As the stock market tumbled, **market risk** played a significant role, particularly for banks oriented towards securities trading. The negative revaluation of the securities portfolio, caused by the adverse situation on the stock market, led to a reduction of the financial result and a contraction of capital in certain banks. Interest rate risk was the largest market risk for the banking sector as of January 1, 2009, as was the case on January 1, 2008, accounting for 70.7% and 62.8% of market risk, respectively.

As the rouble declined in value, the importance of **foreign exchange risk** increased. The currency

component of banking sector assets expanded from 23.1% as of January 1, 2008, to 32.3% as of January 1, 2009, and the currency component of banking sector liabilities increased from 22.9% to 28.4%. At the same time, the excess of balance sheet foreign currency claims over obligations rose sharply relative to capital (from 1.1% to 28.3%). Off-balance positions demonstrated opposite dynamics: as of January 1, 2009, the balance of foreign currency claims and obligations became negative (–4.0% of capital, compared with 3.1% as of the beginning of 2008).

The realisation of banking risks, particularly liquidity risk, which occurred suddenly and focused within a short space of time, created a critical situation in the banking sector. However, the timely measures taken by the Government and the Bank of Russia helped resolve the problem of short-term liquidity risk, created conditions for a reduction of foreign exchange risk, and preserved creditor and depositor confidence in banks. However, credit risk remains a serious problem for the stability of banks.

The problems that arose in the activities of several banks due to the global financial crisis were in large measure the result of shortcomings in banking risk management. The crisis and its consequences demonstrated the paramount importance for banks of taking a well-balanced approach to the development strategy and tactics.

1.4.2. OTHER FINANCIAL INSTITUTIONS

INSURANCE COMPANIES. A total of 786 insurance companies were listed on the Single State Register of Insurers as of January 1, 2009 (compared with 857 insurance companies as of January 1, 2008). The aggregate authorised capital of insurance companies increased 2.9% in 2007, but in 2008 it contracted 3.7% to 152.0 billion roubles. The fall in the number of insurance companies and the contraction of their authorised capital are largely attributable to the revocation of licences from insurers for violations of insurance standards and rules.

According to the Federal Insurance Supervision Service, the 764 insurance companies that presented their statements in 2008 collected premiums totalling 952.0 billion roubles, an increase of 22.7% on 2007. Insurance indemnities increased 30.0% to 626.5 billion roubles. Compared to 2007, relative growth in these indicators had slowed.

Growth in voluntary insurance premiums slowed to 14.7% in 2008 from 20.7% in 2007, and their share in total premiums contracted by 3.4 percentage points to 49.1% (in 2007 their share contracted by 2.8 percentage points to 52.5%). As in 2007, property insurance accounted for the majority of voluntary insurance premiums (67.9%), but growth in property insurance premiums slowed to 15.7%. Unlike the situation in 2007, the volume of life assurance premiums declined by 14.9% in 2008. This, however, had no particular effect on voluntary insurance premium dynamics as a whole, as life assurance premiums made up a very small share (4.1%) of total insurance premiums.

Unlike the situation in 2007, compulsory insurance premiums in 2008 exceeded voluntary insurance premiums in volume, although their growth slowed from 34.9% to 31.5%. The share of compulsory medical insurance in total compulsory insurance premiums continued to expand, and as of January 1, 2009, reached 81.9%. Com-

pulsory third-party liability car insurance premiums increased 10.6% as against 13.5% in 2007, but their share in total compulsory insurance premiums contracted from 19.5% to 16.5%.

Total insurance indemnities to premiums increased to 65.8% as of January 1, 2009, from 62.1% as of January 1, 2008.

According to data reported by insurance companies,¹ their assets increased by about 20% in the first nine months of 2008. Securities portfolios accounted for 35.6% of insurance companies' total assets as of October 1, 2008, and funds deposited with banks for 24.7%. The share of reinsurers in insurance reserves, which is a measure of transferred risks, was about 8% of total assets, and resident reinsurers accounted for 70% of these.

Insurance companies made over 60% of their investments in the banking sector. In the first nine months of 2008, their total volume increased 13.1%. Funds in bank deposits increased 22.4%, while investments in certificates of deposit declined 12.3%.

Investments in the non-financial sector accounted for 17% of total investments of insurance companies as of October 1, 2008. In January—September 2008, unlike the situation in the same period of the previous year, these investments had a tendency to grow. In the first nine months of 2008, investments in the non-financial sector increased 17.1%, and most of this growth was due to investments in debt securities.

UNIT INVESTMENT FUNDS (PIFs). The key PIF performance indicators deteriorated in 2008 due to the unfavourable stock market situation. Growth in the net asset value (NAV) of all types of funds (open, interval and closed funds) was only registered in the first quarter of the year. Total net inflow of shareholder funds in 2008 contracted by more than seven times year on year, and came only from closed PIFs. Most of the open and interval funds registered negative annual

¹ According to Rosstat Order No. 38, dated February 15, 2008, 'On the Approval of Statistical Tools for Organising Statistical Surveillance by the Bank of Russia of Borrowings and Placements Made by Insurance Companies, and Financial Operations Conducted by Non-governmental Pension Funds.'

growth in unit value, and this substantially restricted the role of PIFs as a profitable instrument of savings for the public at large.

The number of PIFs rose by 110 in 2008, or by 3.5 times less than in 2007, and reached 1,134 as of January 1, 2009.¹ Closed PIFs accounted for much of the increase (their number rose by 103 to 547), and for the first time their share in total PIFs became the largest, at 48.2%. The most significant growth (by 91) was registered in the number of closed real estate funds.

The total NAV of unit investment funds decreased 6.6% in 2008, to 695.9 billion roubles. The NAV of open PIFs declined by 64.9%, and that of interval PIFs by 69.6%. The NAV of closed PIFs increased in 2008, but its growth (of 12.2%) was nine times smaller than in 2007. Closed PIFs accounted for 91.3% of total NAV as of January 1, 2009 (as against 76.0% as of January 1, 2008).

The largest NAV growth (74.2%) among closed PIFs was registered by real estate funds, whose share in total NAV expanded from 24.7% in 2007 to 46.2% in 2008. As in 2007, rapid growth of this type of PIF in 2008 was stimulated by the attractiveness of real estate as a reliable and profitable instrument of saving. As for most other categories of PIFs, including equity, bond and mixed investment PIFs, which are the most popular with private shareholders, their NAV contracted.

As of the beginning of 2009, there were 280 PIF management companies. In 2008, their number increased by 23, or 3.2 times less than in 2007. The most significant increase (by 29 to 174) was registered in closed real estate PIF management companies.² Unlike in other years, 2008 saw a fall in the number of equity fund management companies and bond fund management companies (both groups decreased by seven companies).

NON-GOVERNMENTAL PENSION FUNDS (NPFs).

According to the Federal Financial Markets Ser-

vice (FFMS), the number of registered NPFs decreased by nine in the first nine months of 2008, and as of October 1, 2008, stood at 243.

The popularity of NPFs among the public remains low, and the almost unchanged number of NPF members (6.8 million as of October 1, 2008) and small size of pensions in the non-governmental pension system illustrate this. Although the average monthly pension in NPFs increased 10.8% in the first nine months of 2008 to reach 1,245.9 roubles, it remained three times lower than in the government pension system.

Data on financial operations reported by NPFs indicate that the total value of property owned by the 220 NPFs that presented their statements to the Bank of Russia³ amounted to 647 billion roubles as of October 1, 2008, an increase of 7.7% from the beginning of the year. Pension reserves grew by 8.0%, and accumulated pension funds by 42.1%, while the value of property for authorised activities decreased by 2.3%. The most significant growth in investments in the first nine months of 2008 (by 46.2%) was registered in debt securities.

As of October 1, 2008, the share of investments in the non-financial sector stood at 43.6%, but is gradually contracting. Investments in PIFs continued to grow, and in the first nine months of 2008 increased 15.0%. Overall, the share of investments in the sub-sector of other financial institutions expanded from 26.0% to 32.3%.

NPF investments in the banking sector declined by 13.2% in the first nine months of the year. Meanwhile, investments in stocks and other forms of participation in the capital of credit institutions decreased almost by half. Deposits and other funds in credit institutions increased 14.7%, to reach 67.7% of total NPF investments in the banking sector as of October 1, 2008.

The Russian Pension Fund has reported that in 2008 NPFs concluded 1.97 million pension management agreements, representing an increase of 40% on 2007.

¹ Unless indicated otherwise, the assessment of PIF dynamics is based on statistical data compiled by the news agency Cbonds.ru.

² According to data provided by the National Managers' League.

³ According to Rosstat Order No. 38, dated February 15, 2008, 'On the Approval of Statistical Tools for Organising Statistical Surveillance by the Bank of Russia of Borrowings and Placements Made by Insurance Companies, and Financial Operations Conducted by Non-governmental Pension Funds.'

1.4.3. FINANCIAL MARKETS

INTERBANK MONEY MARKET

The situation on the Russian interbank money market varied through different periods of 2008. In the first half of the year, interbank rouble rates remained at the low level that had been established in December 2007. The average monthly rate on overnight rouble loans in January—July 2008 ranged between 2.7% and 4.6% p.a. (as against 3.2% and 6.2% p.a. in 2007).

In the second half of the year, turbulence on the global money market, the decline in the nominal rate of the rouble against the world's major currencies, and the reduction of confidence in the Russian banking sector led to growth in interbank rouble rates. In August—December 2008, the average monthly interest rate on overnight rouble loans varied between 6.1% and 9.4% p.a. The rise in interest rates was accompanied by a significant increase in their volatility. In the second half of the year, interbank interest rates peaked several times as a result of exchange rate and liquidity volume fluctuations. On certain days in November and December, the overnight rouble MIACR surged above 15% p.a.

Growing instability on the interbank money market was contained by the intensive measures carried out by the Russian monetary authorities in support of the banking sector. At the end of

2008, the value of interbank loans and deposits placed by Russian banks in resident credit institutions totalled 0.68 trillion roubles, an increase of 19.5% from the beginning of the year. Overdue interbank loans to resident credit institutions increased in 2008, but remained at a low level. At the end of the year they accounted for 0.18% of total interbank loans (as against 0.04% at the beginning of 2008).

In 2008, the foreign currency segment of the Russian interbank money market, as in the preceding years, was pegged to the global money market. Interest rates on US dollar- and euro-denominated interbank loans placed by Russian banks were close to global money market rates on instruments with comparable maturities in the corresponding currency for most of the year.

Russian banks remained net borrowers on the global financial market in 2008. However, the deterioration of the situation on the global money market and the fall in the nominal exchange rate of the rouble against foreign currencies made it more difficult for Russian banks to borrow from external sources. As a result, in 2008 the balance of funds raised by Russian banks from non-resident banks and funds placed with non-resident banks contracted by more than 30%.

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

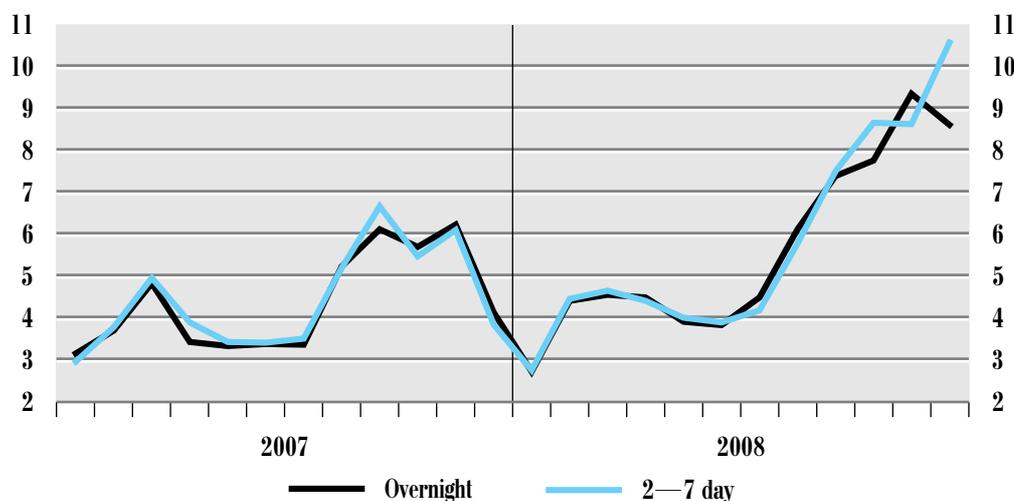


Chart 16

FOREIGN EXCHANGE MARKET

In January—July 2008, the situation on the domestic foreign exchange market was determined by the favourable external economic conditions and net private capital inflow, which contributed to the rouble's appreciation. However, in August, as the situation on global financial and commodity markets began to change for the worse, investors' withdrawal from Russian assets led to a sharp rise in demand for foreign currency on the domestic market.

The significant contraction of the current account surplus amid falling energy prices was an objective factor behind the rouble's devaluation. Therefore, in November the Bank of Russia embarked on a large-scale correction of the range of fluctuations in the value of the bi-currency basket, which caused the rouble to slide against the major world currencies.

As a result, the official US dollar/rouble exchange rate in 2008 gained 19.7%, and as of January 1, 2009 stood at 29.3916 roubles to the US dollar. The official euro/rouble exchange rate rose by 15.3%, to 41.4275 roubles to the euro as of January 1, 2009.

The expansion of foreign trade operations in the first half of 2008 and the increased intensity of cross-border transactions with capital and financial instruments led to growth in domestic foreign exchange market turnover. The average

daily interbank spot currency trade turnover increased 26.3% in 2008 year on year, from \$74.7 billion to \$94.3 billion.

In the currency structure of the interbank spot market, rouble/dollar transactions predominated, accounting for 59.0% of overall turnover. The average daily volume of rouble/dollar trade in 2008 expanded by 43.5% to \$55.7 billion.

The share of US dollar and euro transactions in total interbank spot market turnover in 2008 remained unchanged from 2007, while the share of rouble trade expanded and the share of trade in other currencies contracted.

In 2008, there was a rise in participants' activity on trading floors. The 2008 aggregate rouble/dollar exchange trade turnover at the Unified Trading Session of Interbank Currency Exchanges (UTS) grew 66.6% year on year to reach \$2,408.3 billion. Rouble/dollar trades for 'tomorrow' settlements accounted for 42.0% of UTS rouble/dollar trade turnover, rouble/dollar trades for 'today' settlements 14.3%, and US dollar swap transactions 43.7%.

Rouble/euro exchange trade turnover increased in 2008 by a factor of 6.3 year on year to reach 191.7 billion euros. There was a significant increase in the share of swap transactions in total UTS rouble/euro trades in 2008, to 64.9% from 46.4% in 2007. Rouble/euro trades for 'to-

OFFICIAL US DOLLAR/ROUBLE AND EURO/ROUBLE EXCHANGE RATES IN 2008

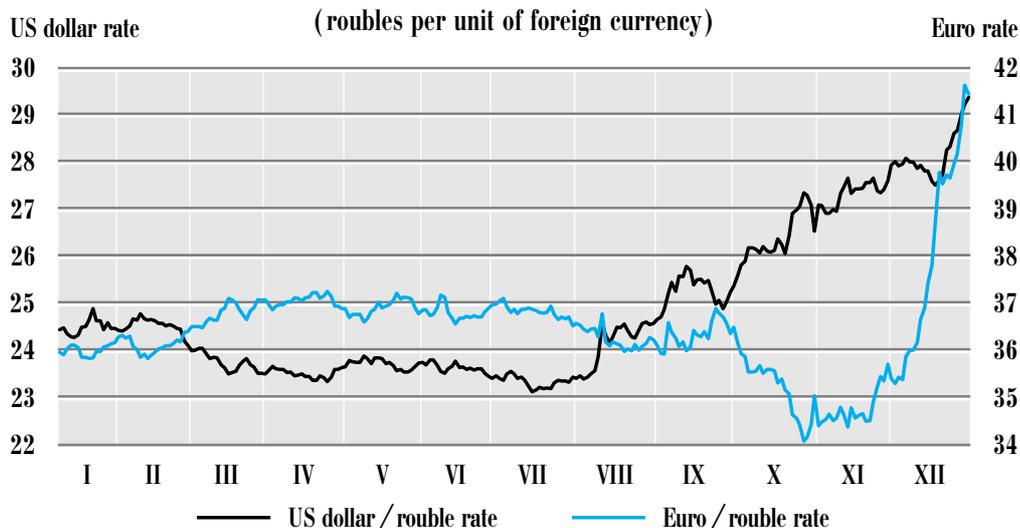


Chart 17

**CURRENCY STRUCTURE OF INTERBANK SPOT CONVERSION OPERATIONS
IN 2008 (%)***

US dollar	95
Russian rouble	62
Euro	32
Pound sterling	5
Yen	4
Swiss franc	1
Other	1

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

day' settlements accounted for 10.0%, and rouble/euro trades for 'tomorrow' settlements 25.2% of total UTS rouble/euro trade turnover.

In 2008, the domestic foreign exchange market saw an expansion of the volume of futures con-

version operations, but they accounted for no more than 4% of total interbank forex market turnover. The average daily interbank futures currency trade turnover in 2008 increased to \$3.8 billion from \$2.2 billion in 2007.

GOVERNMENT SECURITIES MARKET

FEDERAL LOAN BONDS. Despite the expansion of the volume of outstanding papers, the federal loan bond (OFZ) market saw secondary trade turnover contract by 37.9% to 932.6 billion roubles at market value in 2008, from 1,501.1 billion roubles in 2007. The volume of trade on the principal exchange floors decreased 39.4% to 298.2 billion roubles and off-board trade was down 37.1% to 634.4 billion roubles. One of the main reasons for the decline in demand for rouble-denominated government securities was the unfavourable situation on the Russian financial market in the second half of 2008.

The Finance Ministry held 41 OFZ auctions in 2008, raising a total of 183.3 billion roubles as against 252.0 billion roubles in 2007. In January—August 2008, the Finance Ministry placed four new permanent coupon-income federal loan bond (OFZ-PD) issues, and one debt-depreciation federal loan bond (OFZ-AD) issue. From September to the end of the year, the Finance Ministry held no OFZ auctions due to the difficult situation on the domestic financial market.

In 2008, the Finance Ministry bought back before maturity 22.2 billion roubles of federal loan bonds, and also exchanged the 46020 OFZ-

AD Issue for the 25063 OFZ-PD Issue in a volume of 300 million roubles.

Bondholders were paid 139.0 billion roubles in coupon income and principal. As a result, the nominal value of outstanding government bond issues in 2008 increased from 1,047.4 billion roubles to 1,144.0 billion roubles, while the portfolio duration decreased by 140 days to 1,965 days.

Overall, the OFZ market liquidity level was low. The average daily secondary market turnover ratio in trade on the main exchange floors declined in nominal terms to 0.11% from 0.19% in 2007.

OFZ yields increased continually throughout 2008 as money market rates rose, and this growth accelerated sharply in the second half of the year.

The federal government securities gross yield index in 2008 gained 2.4 percentage points year on year to reach 8.9% p.a. Federal loan bond gross yield dynamics became increasingly volatile during the year. The non-coupon yield on OFZ issues with varying maturity periods increased by 4.4 percentage points on average. The most significant growth in non-coupon yields was registered in OFZ issues with terms to maturity of between one and five years.

OFZ SECONDARY MARKET TURNOVER AND YIELD IN 2008

Chart 18

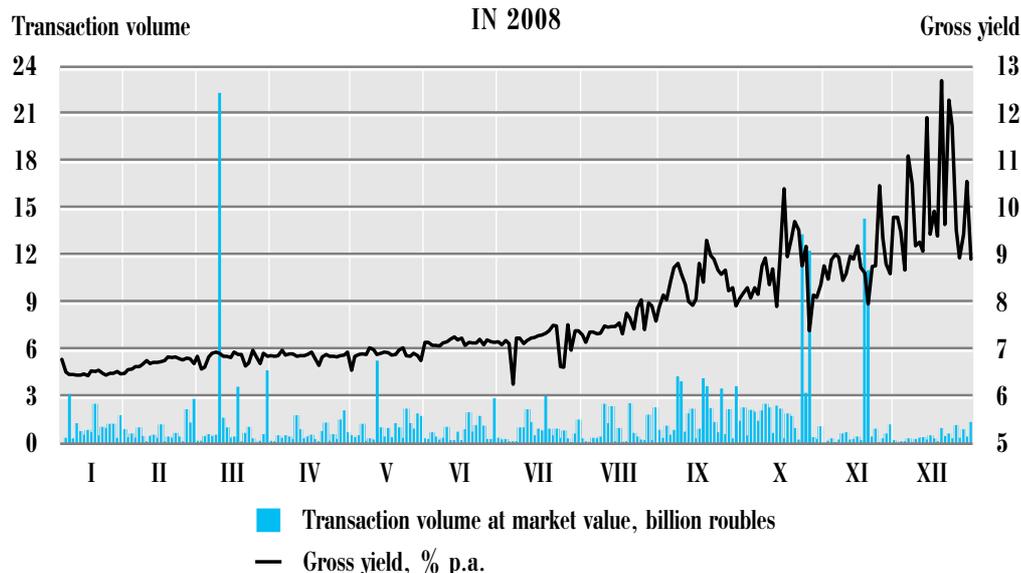
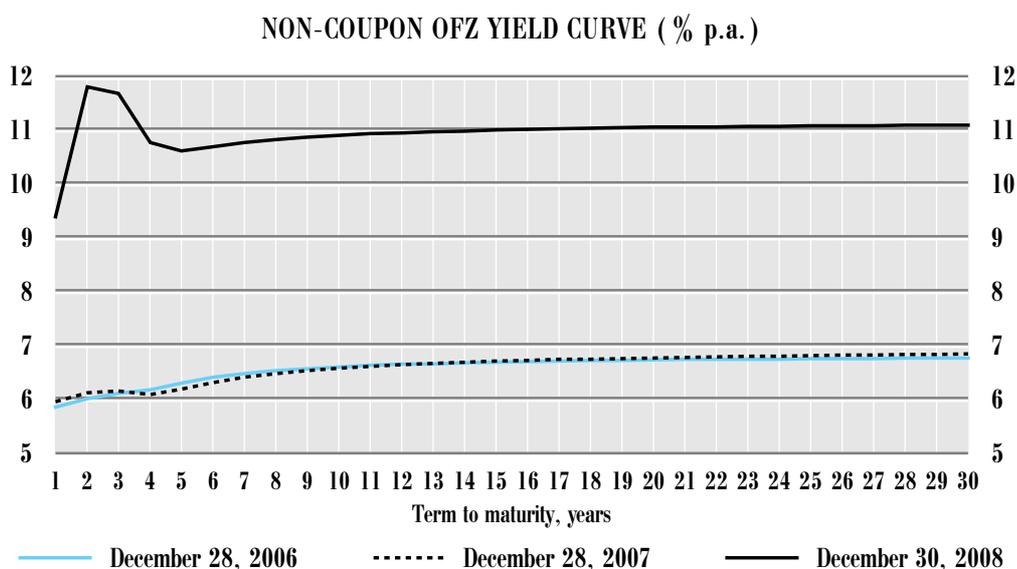


Chart 19



REGIONAL GOVERNMENT BONDS. According to Finance Ministry data, the nominal value of regional bond issues reached 268.9 billion roubles as of January 1, 2009, as against 190.9 billion roubles as of January 1, 2008. Municipal bond debt decreased from 13.7 billion roubles to 9.5 billion roubles over the year.

In January—June 2008, the regional (sub-federal and municipal) bond market registered significant initial placement volumes and secondary trade turnover. In July—September, the secondary market saw transaction volumes

expand and yields on most of the regional bond issues rise.

In October—December, certain corporate issuers that had regional governments as their guarantors defaulted on their bond issue obligations, and certain regional issuers had their ratings downgraded. These developments had an adverse impact on sub-federal and municipal bond market situation.

The volume of regional bonds placed on the Moscow Interbank Currency Exchange (MICEX) Stock Exchange in 2008 increased by a factor of

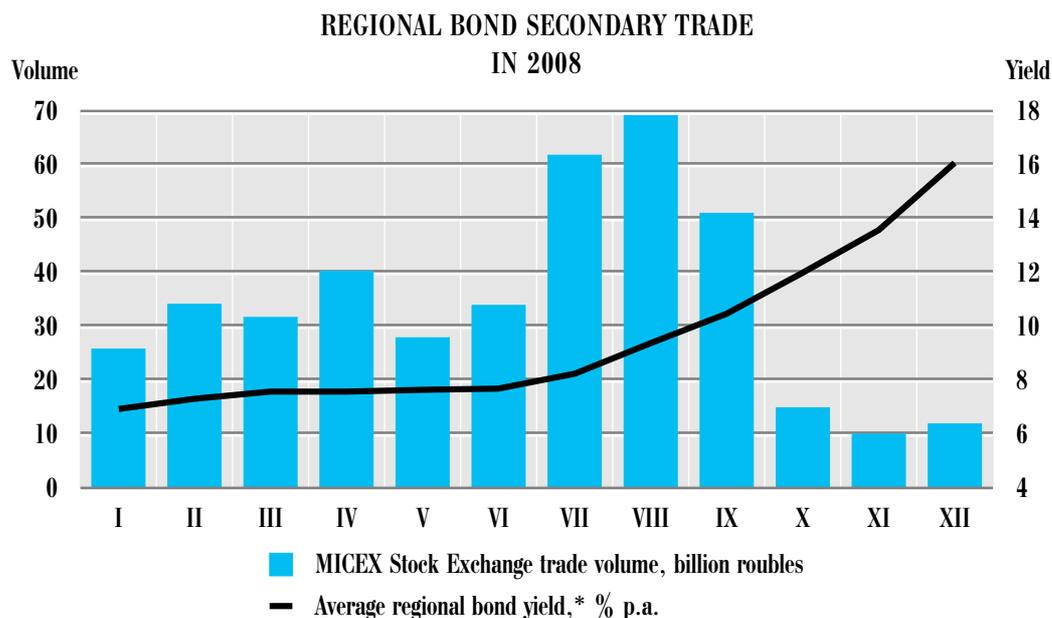


Chart 21

* According to Chonds.ru news agency.

2.4 year on year to reach 96.5 billion roubles at par. The largest bond placements were made by the Moscow Region (50.0 billion roubles) and Moscow (22.5 billion roubles). The auction yield on regional bonds ranged from 4.6% to 18.9% p.a. in 2008, compared to 7.1—9.3% p.a. in 2007.

Regional bond secondary trade turnover on the MICEX Stock Exchange in 2008 contracted by 21.5% year on year, to 412.3 billion roubles. The Moscow Region and Moscow accounted for the largest bond trade volumes, and their combined share in total regional bond secondary trade turnover on this trading floor reached 64%. The Samara, Irkutsk, Yaroslavl and Nizhny Novgorod Regions and the Republic of Sakha (Yakutia) accounted for significant bond trade volumes.

The secondary market regional bond yield in the group of leading issuers in 2008 varied between 6.8% and 19.4% p.a., compared to 6.6—7.4% p.a. in 2007. At the end of December, the regional bond yield reached an all-time record high, with the average annual yield up to 9.6% p.a. from 6.9% p.a. in 2007.

RUSSIAN GOVERNMENT FOREIGN CURRENCY-DENOMINATED DEBT OBLIGATIONS.

In 2008, the Russian government's bonded debt denominated in foreign currency was represented by eurobond issues and series V and VII internal government foreign-currency loan bond (OVGVZ) issues. According to the Finance Ministry, the nominal value of Russian government foreign currency-denominated bonds totalled \$33.1 billion as of January 1, 2008, and \$29.5 billion as of January 1, 2009.

In March and September 2008, the Russian government redeemed a part of the principal eurobond debt due in 2010 and 2030, and in May it redeemed the series V OVGZVZ bond issue. Coupon income was paid on all foreign currency-denominated bond issues in full and on schedule, and these payments totalled \$6.2 billion according to a Bank of Russia estimate.

Russian investors continued in 2008 to conduct operations with Russian eurobonds on the domestic organised market. Eurobond trade volume on MICEX and the MICEX Stock Exchange in 2008 grew 26.5% year on year, to 65.0 billion roubles at market value.

CORPORATE SECURITIES MARKET¹

Public offerings of **shares** by Russian companies on major domestic and foreign exchanges declined sharply in volume in 2008.

The Russian stock market's main price indices demonstrated mixed dynamics over the year. In January and the first 10 days of February, the MICEX and RTS stock indices lost 17% and 18% relative to the end of 2007, respectively. In April and May, Russian stock prices picked up, and by the middle of May the RTS index had reached an historic high. This growth was followed by a prolonged price downturn, which in August—November turned into a precipitous fall. After the end of November the decline in stock prices slowed significantly and price volatility decreased, owing to measures taken by the Government to stabilise the Russian stock market. As a result, in 2008 the MICEX index fell 67.2% and the RTS index 72.4% compared with the end of 2007.

Market capitalisation decreased significantly in 2008. The capitalisation of the RTS stock market decreased by a factor of 3.5 compared with the end of 2007, and at the end of 2008 stood at \$375.0 billion (11.0 trillion roubles).

The bulk of exchange trade in shares was conducted, as before, on Russia's three leading exchanges — the MICEX Stock Exchange, the St Petersburg Stock Exchange, and the RTS. The MICEX Stock Exchange remained the leader, accounting for more than 90% of aggregate stock exchange trade turnover. The volume of secondary trade in shares on the MICEX Stock Exchange in 2008 contracted 18.2% year on year, to 12.5 trillion roubles. The majority of exchange transactions were conducted with shares of companies in the oil and gas, metals, and banking sectors.

The rouble **corporate bond** market in 2008 saw the volume of outstanding corporate bonds expand amid growth in the volume of bond redemptions. The volume of corporate bonds placed on the MICEX Stock Exchange in 2008 increased 17.4% year on year, to 535.2 billion roubles at par, while the number of issues fell 22.3% to 146.

Four corporate bond issues in a total volume of 800 million roubles were placed on the St Petersburg Stock Exchange and the Moscow Stock Exchange in 2008. Credit institutions and finance companies remained the most active borrowers in the period under review.

Most of the scheduled redemptions, payments on buy-back offers, and coupon payments on corporate bonds were due in June—December 2008, and some sub-prime corporate borrowers were unable to service their bond issues on schedule. The number of obligations unfulfilled by corporate issuers grew rapidly from May to December.

The MICEX Stock Exchange corporate bond secondary trade turnover contracted 3.1% in 2008 year on year, to reach 2,632.8 billion roubles (in 2007 it increased 50%). Offers executed on this trading floor made up a part of secondary trade turnover. Instruments issued by credit institutions as well as finance, electricity, oil and gas, trade, and engineering companies accounted for the largest share of MICEX Stock Exchange corporate bond secondary trade turnover.

Yields on the most liquid corporate bonds on the secondary market in January—July 2008 fluctuated within a horizontal band, and averaged 8.8% p.a., but from August to December they rose rapidly to reach 21.9% p.a., the highest level since this indicator began to be calculated in July 2003.

The secondary **promissory note** market registered a very low number of trades in the second half of the year, due to lack of demand. According to the Promissory Note Market Participants Association (AUVER), the average weighted promissory note yield (based on leading operators' offer prices) rose sharply in secondary trade during this period.

The volume of transactions by banks to discount promissory notes issued by non-financial enterprises expanded in 2008. According to credit institutions' statements, the average rate on rouble promissory notes discounted by banks in 2008 increased to 12.0% p.a. from 10.0% p.a. in 2007. The average annual tenor of banks' dis-

¹ Includes securities issued by non-financial and financial institutions.

MICEX STOCK EXCHANGE SECONDARY EQUITY TRADE IN 2008

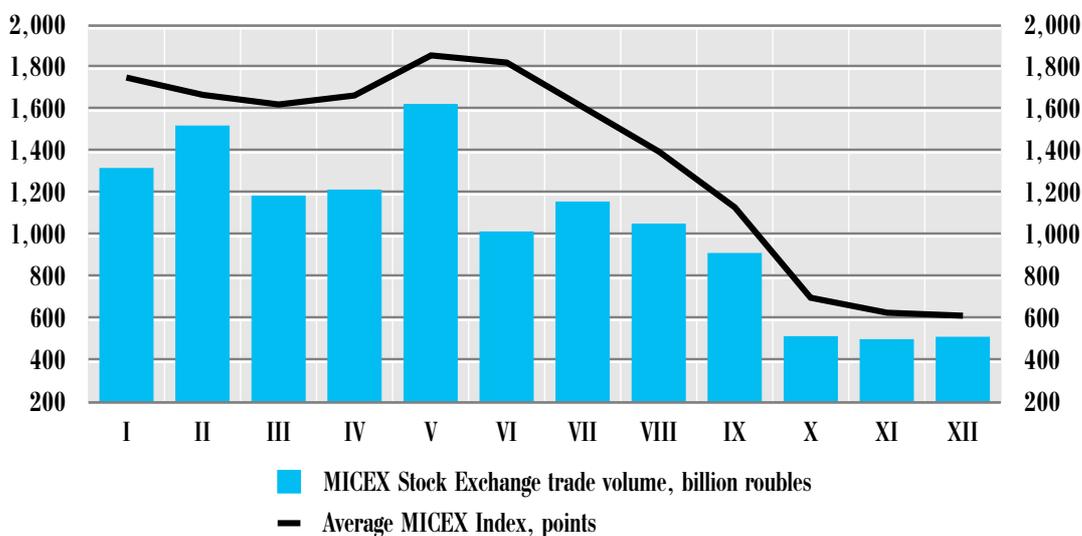


Chart 21

CORPORATE BOND SECONDARY TRADE IN 2008

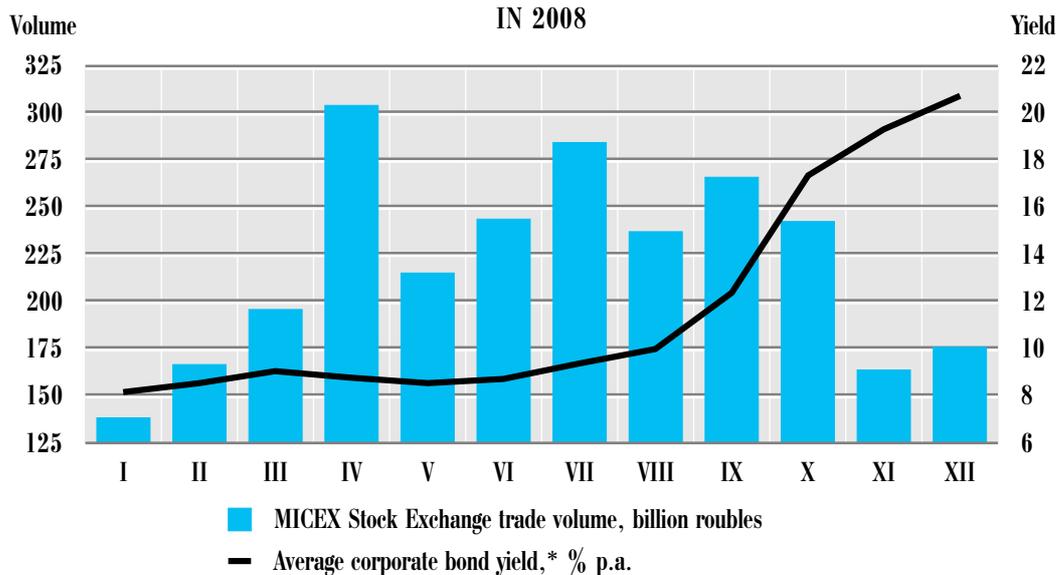


Chart 22

* According to data published by Chonds.ru news agency.

counting operations on rouble promissory notes decreased slightly in 2008, to 6.5 months.

CREDIT INSTITUTIONS' SECURITIES. In 2008, the Bank of Russia registered 274 share issues, of which 94.5% were issues registered to increase authorised capital; 3.7% were issues registered when credit institutions were created or reorganised; and 1.8% were issues registered for the purpose of diluting, consolidating and convert-

ing shares (the respective percentages in 2007 were 92.6%, 4.7%, and 2.7%).

The total nominal value of share issues registered in 2008 decreased to 174.5 billion roubles from 201.7 billion roubles in 2007. The decrease was largely due to the contraction in the value of share issues registered for the purpose of share splitting (from 68.1 billion roubles in 2007 to 100 million roubles in 2008). The nominal value of share issues registered for the purpose of aug-

menting authorised capital in 2008 increased 33.1% to 168.9 billion roubles.

The nominal value of bond issues registered in 2008 increased 15.3% compared to 2007, to 344.4 billion roubles. Due to the market situation, 61.7 billion roubles in bonds, or 17.9% of the nominal value of bonds registered in 2008, were placed (this compares with 99.5 billion roubles or 33.3% in 2007). In addition, the Bank of Russia in 2008 registered the reports and received the notices of placement on 30 bond issues in a volume of 105.5 billion roubles registered before January 1, 2008.

The deterioration of the situation on the Russian financial market in 2008 led to a significant increase in the number and volume of cancelled securities issues. Forty-nine securities issues in a total volume of 84.7 billion roubles were cancelled in 2008 (18 securities issues in a total volume of 7.7 billion roubles were cancelled in 2007). These included 21 share issues to a total of 13.2 billion roubles and 28 bond issues totalling 71.5 billion roubles (15 share issues worth 3.5 billion roubles and three bond issues totalling 4.2 billion roubles were cancelled in 2007).

Bank share prices fell rapidly in 2008. At the end of the year, compared with the end of 2007, prices of the most liquid instruments issued by credit institutions — VTB and Sberbank ordinary shares — dropped 73% and 78%, respectively, on the MICEX Stock Exchange.

Exchange trades in shares issued by credit institutions were conducted on the MICEX Stock Exchange and the RTS. The share of these equi-

ties in aggregate secondary stock trade on these bourses increased from 13% in 2007 to 19% in 2008. At the same time, growth in bank share trade volumes in 2008 slowed significantly compared with the previous year. Bank bonds accounted for almost 30% of aggregate secondary corporate bond trade turnover on the MICEX Stock Exchange, the St Petersburg Stock Exchange, and the RTS (compared to 19% in 2007).

The bank promissory note segment expanded rapidly in March—May 2008 due to the increase in the issue of promissory notes by Russia's top 30 banks. In July—December, however, the volume of issued bank promissory notes contracted. As a result, in 2008 the volume of promissory notes and bank acceptances issued by credit institutions decreased 8.0% year on year to 756.3 billion roubles, while their average annual volume exceeded the 2007 average by 13.4%.

The average annual rate on rouble-denominated bank promissory notes placed with corporate entities in 2008 rose by 1.6 percentage points year on year, to 9.2% p.a. In 2008, as in 2007, the average annual maturity of rouble-denominated bank promissory notes placed with corporate entities exceeded seven months.

During 2008 the Bank of Russia registered 17 terms of issue for certificates of deposit, and 13 terms of issue for savings certificates. As in 2007, most of the certificates of deposit and savings certificates (76.5 billion roubles) were issued by credit institutions based in Moscow and the Moscow Region.

FINANCIAL DERIVATIVES MARKET

The aggregate futures and options trade turnover on Russian exchanges¹ increased 50% in 2008 year on year, to reach 14.5 trillion roubles. The average annual value of open futures and options positions (in contracts) on the principal trading floors (RTS, MICEX and MICEX Stock Exchange) increased 80%. The rates of growth in market volumes in 2008 were lower than in 2007.

As a result of increased activity on the markets for the main basic assets (the stock market and the forex market) in the first half of 2008, derivative trade turnover almost trebled compared with the same period of 2007. Open futures positions on the main trading floors also increased during this period. However, trade turnover and the number of open positions declined dramatically in August—No-

¹ RTS, MICEX, MICEX Stock Exchange, St Petersburg Currency Exchange and St Petersburg Exchange.

FUTURES TRADE ON RUSSIAN EXCHANGES IN 2008
(billion roubles)

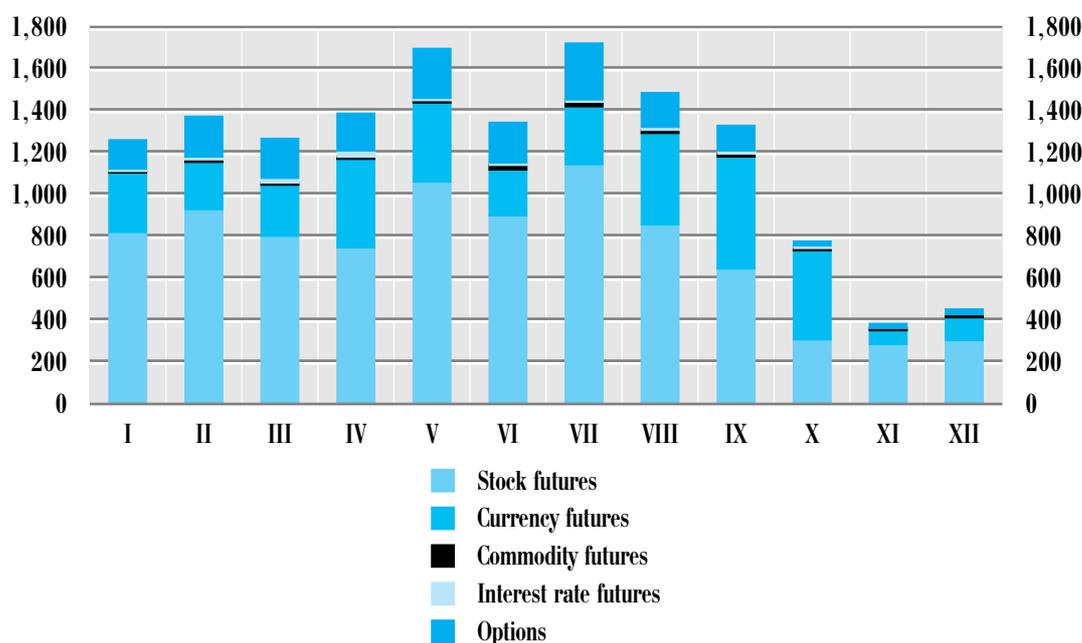


Chart 23

vember, as the Russian financial market destabilised.

The landslide decline in Russian share prices in August—November led to a significant contraction in trade turnover of the equities segment, the futures market's largest segment. As Russian share prices became increasingly volatile, FORTS¹ guarantee requirements for futures contracts were repeatedly raised from September until the end of 2008.

Trade in currency futures picked up in August—October, as the nominal rate of the US dollar rose against the rouble, but in November and December trade turnover shrank due to increased exchange rate volatility. In July MICEX, the main trading floor for currency futures, created a reserve fund to cover risks involved in transactions on the futures market.

As the stock market trembled, investors withdrew funds from the Russian equities and reinvested a part of these funds in precious metals, particularly gold, stimulating growth in transactions with the most liquid commodity futures, gold contracts. The commodity segment of the futures market demonstrated the most rapid rate of

growth in trade turnover, which increased by a factor of 3.8 compared with 2007.

The volume of interest rate derivative trades contracted significantly in October—December due to an exceptional rise in money market volatility.

As options market participants were unable to develop adequate options strategies amid the extreme price volatility of basic assets, the options trade volume contracted significantly in August—December.

The expansion of the range of instruments traded on the financial derivatives market in 2008 was less significant than in the previous years. Only eight new futures and options contracts were introduced on the futures exchange market last year (28 new contracts were introduced in 2007).

Despite the sharp reduction of the terms of futures contracts from September onwards, the volume of transactions with terms longer than six months expanded the most in 2008. RTS index futures contracts, dollar/rouble futures contracts, and options for RTS index futures contracts remained the most liquid exchange derivatives during the year.

¹ RTS futures and options market.

1.5. BALANCE OF PAYMENTS AND FOREIGN DEBT

1.5.1. BALANCE OF PAYMENTS

Russia's balance of payments in 2008 was affected by the changes in the external economic conditions brought about by the global financial crisis. Despite its rapid contraction in the fourth quarter of the year, the current account surplus in 2008 reached an all-time high. The direction of external capital flows changed: the net outflow of private sector capital exceeded the inflow seen during 2006—2007. As a result, for the first time since 1999 Russia registered a reduction in its international reserves.

CURRENT ACCOUNT

The current account surplus stood at \$102.3 billion in 2008, an increase of 32.9% due to growth in the balance of trade surplus.

Exports of goods increased 33.1% to \$471.6 billion. Their growth was registered from January to September, but in the fourth quarter of the year exports of goods declined by \$11.5 billion, or 10.5% year on year.

Significant growth in the average annual price of oil, petroleum products, and natural gas amid the expansion of export volumes of petroleum products and natural gas led to a 41.9% increase in the value of these exports, which reached \$310.1 billion. Despite the price decline in the second half of the year and the contraction of

crude oil export volumes, energy products accounted for more than two thirds of total exports.

Exports of metals and metal products increased from \$49.1 billion to \$54.7 billion. Exports of ferrous metals and ferrous metal products grew by more than 35.4%, whereas exports of non-ferrous metals and non-ferrous metal products declined 14.2% in value. As a result, the share of metal products in total exports contracted by 2.3 percentage points to 11.7%.

As fertilizer prices more than doubled, exports of chemicals and related products increased to \$30.3 billion, and their share in total exports expanded to 6.5%.

The European Union's share in Russian exports expanded slightly to reach 56.7%, and that of Asia-Pacific Economic Cooperation member states increased to 12.9%. As before, Russia's leading trading partners were the Netherlands (12.2%), Italy (9.0%) and Germany (7.1%).

Imports of goods stood at \$291.9 billion, an increase of 30.6% on 2007. As domestic demand contracted, growth in imports slowed significantly by the end of the year. In the first, second and third quarters it was over 40%, whereas in the fourth it was 5.3%.

Imports of the most important group of products — machinery, equipment and transport vehicles — grew slower than in 2007. However, their value increased 40% to \$140.8 billion.

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

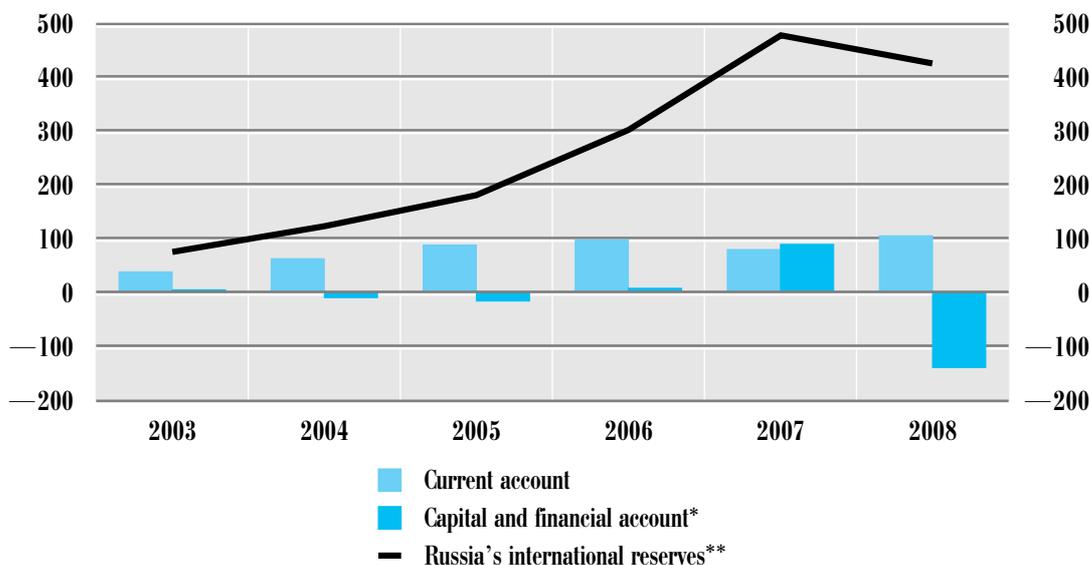


Chart 24

* Net of the change in reserves.

** As of end of year.

Imports of food products and raw materials for their production amounted to over \$35 billion, and imports of chemicals and related products were estimated at the same value. These groups of commodities accounted for 13.2% and 13.1% of total imports, respectively.

The rapid expansion of trade with APEC member states in 2008 led to an increase in the share of these countries to 33.3% of total Russian imports. The EU's share remained unchanged at 43.7%. The main suppliers to Russia were China (13.0%), Germany (12.8%) and Japan (7.0%).

In 2008, **the deficit in the balance of external trade in services** increased 27.5% year on year, to reach \$25.0 billion. Imports exceeded exports in most service categories.

Exports of services grew from \$39.4 billion to \$51.3 billion. A major contribution to this growth was made by the increase in the value of services relating to foreign nationals' trips to Russia (19.7% of growth in exports), transport services provided to non-residents (26.9%), and other business, professional and technical services (29.0%). Rapid rates of growth were registered in exports of services provided by the government bodies, which gained 110%, and computer and information services, which grew 50%.

Imports of services increased to \$76.3 billion from \$59.1 billion in 2007. The value of transportation services grew by \$3.6 billion, services accounted for as 'travel' by \$2.8 billion, and other services by \$10.9 billion. Royalties and licence fees paid to non-residents increased the most (by 60%).

The deficit of the compensation of employees balance rose 90% to \$14.2 billion. Compensation paid to foreign workers (totalling \$18.0 billion) outstripped that paid to resident workers (totalling \$3.8 billion) by a factor of 4.7. This was a result of the rapid growth in the number of foreign workers, which far surpassed the number of residents who travelled abroad to work, as well as the significant increase in their nominal compensation.

The deficit of the balance of investment income increased from \$23.4 billion in 2007 to \$35.1 billion in 2008. Income payable amounted to \$88.7 billion, and income receivable to \$53.6 billion.

The balance of investment income of the general government and monetary authorities remained favourable, rising 8.0% year on year to \$17.4 billion. The placement of reserves abroad remained the principal source of income.

Private sector debt service expenditure stood at \$86.6 billion, exceeding income from foreign assets by a factor of 2.5.

The deficit of the balance of current transfers contracted from \$3.5 billion in 2007 to \$3.1 billion in 2008. Transfers received were estimated at \$11.0 billion. The principal source of these transfers was non-resident taxes. Payments (estimated at \$14.1 billion) were largely connected with household money remittances.

CAPITAL AND FINANCIAL ACCOUNT

CAPITAL ACCOUNT. The capital account registered a surplus of \$500 million. The balance of capital transfers received and paid in 2008 saw a surplus of more than \$700 million. The value of **non-productive non-financial assets** (in the form of patents and trademarks) stood at \$200 million.

FINANCIAL ACCOUNT. There was a deficit of \$139.3 billion in the **balance of the financial account** (net of reserves) in 2008, whereas in 2007 there was a surplus of \$95.9 billion. Growth in the **foreign obligations of the Russian economy** slowed from \$208.8 billion in 2007 to \$95.2 billion in 2008. A particularly strong impact on the final result was made by the fourth-quarter contraction of debt to non-residents, caused by the withdrawal of non-resident funds from the stock market and the difficulty experienced by Russian borrowers in raising funds abroad.

The general government external obligations decreased by \$8.1 billion. The most significant contraction was registered in non-resident investments in foreign currency-denominated government bonds (by \$6.5 billion) and debt on foreign loans (by \$1.7 billion).

Actual government foreign debt payments, including interest, declined to \$6.8 billion in 2008 from \$8.9 billion in 2007. The coefficients indicating the debt burden decreased (the ratio of total payments to exports of goods and services fell from 2.3% to 1.3%, and to consolidated budget revenue from 1.7% to 1.1%).

The monetary authorities' debt to non-residents decreased by \$4.8 billion, whereas in 2007

it grew by \$900 million. The decisive factor was the contraction by \$6.2 billion in short-term foreign loans in the form of repos.

Banking sector foreign liabilities increased by \$8.2 billion (a factor of 8.7 less than in 2007). Of these, loans and deposits grew by \$11.4 billion (a factor of 4.5 less). Foreign direct investment in the Russian banking sector increased by \$10.1 billion, whereas portfolio investment contracted by \$4.3 billion. Banks paid a total of \$10.5 billion on financial derivatives, of which \$4.8 billion were paid in the fourth quarter.

External financing of other sectors¹ was estimated at \$100.0 billion as against \$144.7 billion in 2007. Direct investment amounted to \$60.2 billion, and loans to \$53.6 billion. For the first time in five years, non-residents reduced portfolio investments in Russian corporate securities (by \$15.3 billion) due to the global liquidity crisis.

Residents' **foreign assets** net of reserves increased by \$234.5 billion, i.e. by a factor of 2.1 more than in 2007 (\$112.9 billion). Direct investments abroad increased by \$52.4 billion, portfolio investments by \$7.9 billion, and other investments by \$182.7 billion. Proceeds from financial derivatives totalled \$8.4 billion.

External claims by the general government and monetary authorities grew by \$2.6 billion, of which overdue debt to the government in the form of accrued interest on previously extended loans increased by \$1.1 billion. Loans to non-residents increased by \$800 million.

Private sector investment abroad exceeded \$231.9 billion in 2008 (compared to \$119.7 billion a year before). Russian banks' claims on non-residents grew by \$65.8 billion. More than 90% of this growth was due to the expansion of credit, and the increase in the balances of current accounts and deposits, especially in the second half of the year. Foreign assets of other sectors increased by \$166.1 billion. Direct and portfolio investments grew almost as much as in 2007 (by \$52.8 billion). Foreign currency savings outside the banking sector increased by \$25.0 billion. Commercial loans and advances to non-residents exceeded the 2007 level by nine times, reaching \$8.1 billion.

¹ Other sectors include non-financial corporations, finance corporations other than credit institutions, non-profit organisations servicing households, and households.

Net private sector capital outflow in 2008 was estimated at \$132.7 billion, exceeding the 2006—2007 net inflow of \$123.9 billion.

INTERNATIONAL RESERVES

Reserves accounted for in the balance of payments contracted by \$45.3 billion in 2008. Allowing for other changes, including exchange

rate revaluation, Russia's international reserves decreased by \$51.7 billion, and as of January 1, 2009, stood at \$427.1 billion. Of this figure, foreign currency accounted for 96.6% and monetary gold 3.4%.

By international standards, Russia had sufficient international reserves to ensure balance of payments stability and to finance imports of goods and services for 14 months.

1.5.2. FOREIGN DEBT

Russia's foreign debt (debt to non-residents) increased from \$465.4 billion as of January 1, 2008, to \$484.7 billion as of January 1, 2009.¹

Measures taken to provide financial support for Russian banks and corporations in the second half of 2008 helped reduce private sector foreign debt in the fourth quarter of the year. Nevertheless, private sector debt to non-residents increased by 7.9% to reach \$451.9 billion, or 93.2% of Russia's total foreign debt. At the same time, debt owed by the general government and by monetary authorities contracted from \$46.4 billion to \$32.8 billion, and its share shrank from 10.0% to 6.8% of total debt.

In 2008, obligations classified as 'new Russian debt' accounted for 83.8% of total federal government debt. The debt assumed by Russia as the successor to the former USSR accounted for 16.2%.

Russia's new debt decreased by \$5.2 billion to \$23.6 billion in 2008. The most significant contraction (by \$4.1 billion) was registered in debt

in the form of foreign currency-denominated debt securities, which as of January 1, 2009, were estimated at \$17.3 billion, or 73.2% of Russia's new debt. Debt on loans from international financial organisations stood at \$4.5 billion, or 19.1% of total debt, debt to other creditors totalled \$1.4 billion, or 5.9%, and other debts totalled \$500 million, or 1.9%.

Russia's Soviet-era debt contracted by \$2.5 billion, and as of January 1, 2009, stood at \$4.6 billion. Of this total, debt to former Soviet-bloc countries stood at \$1.4 billion, or 31.3% of total Soviet-era debt, debt to other official creditors was \$1.9 billion, or 42.4%, and other debts, including OVGZ bonds, totalled \$1.2 billion, or 26.3%.

Regional government foreign debt stood at \$1.3 billion as of January 1, 2009.

Russian banks' debt to non-residents (net of capital stakeholdings) increased rapidly in January–September 2008, mostly in the form of loans, and contracted sharply in the fourth quarter. Banks' debt obligations, net of capital stakeholdings and financial derivatives, amounted

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

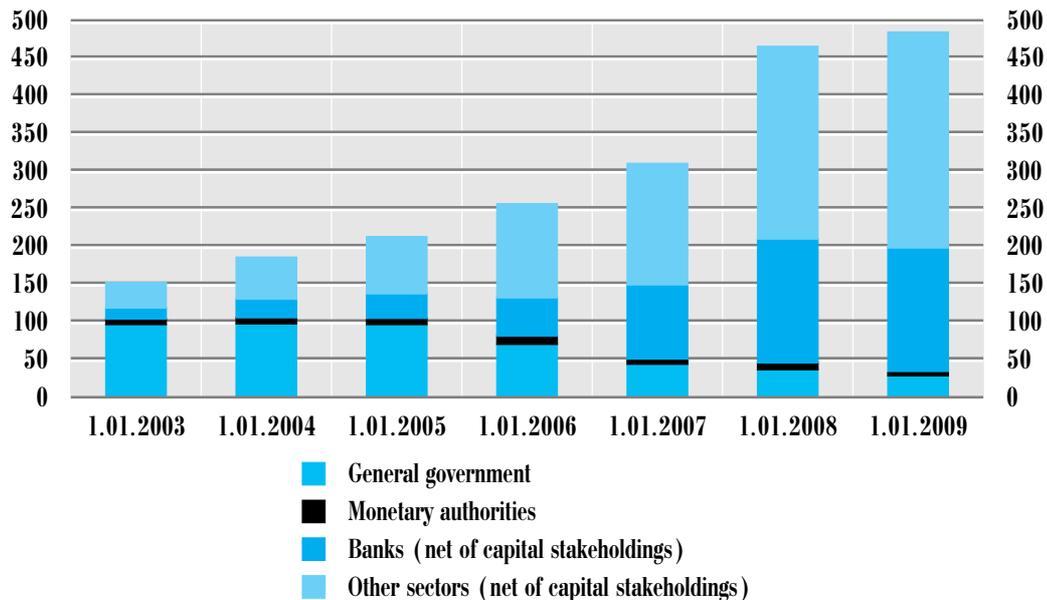


Chart 25

¹ Data take into account exchange rate and market revaluation.



to \$166.1 billion as of January 1, 2009, representing a slight increase on the same date a year earlier. The share of banks' debt obligations amounted to more than one third of the debt owed by the entire economy.

The most intensive growth in the debt of other sectors was also seen in the first nine months of 2008. In the fourth quarter it decreased. As a result, as of January 1, 2009, it was estimated at \$285.8 billion, or 59.0% of the economy's total foreign debt. Relative to January 1, 2008, growth stood at \$30.5 billion.

In the term structure of Russia's foreign debt, long-term obligations predominated, increasing

to \$404.9 billion, or 83.5% of total foreign debt. Short-term obligations contracted to \$79.8 billion, or 16.5% of total foreign debt. As for the currency structure of Russia's foreign debt, the share of foreign currency-denominated obligations expanded to 83.1% to reach \$402.8 billion. Rouble-denominated foreign debt obligations accounted for 16.9% of foreign debt, amounting to \$81.9 billion.

Russia's foreign debt relative to GDP stood at 28.9% as of January 1, 2009, as against 35.9% a year earlier, and Russian general government foreign debt obligations accounted for 1.8% of GDP as against 2.9% a year earlier.



**BANK OF RUSSIA
ACTIVITIES**

II

II.1. MONETARY POLICY

II.1.1. MONETARY POLICY OBJECTIVES AND RESULTS

According to the *Guidelines for the Single State Monetary Policy in 2008*, the principal objective of this policy was to reduce inflation. The target for consumer price inflation in 2008 was set at 6–7%, and core inflation was projected at 5–6%. GDP growth was expected to be between 5.4% and 6.7%, depending on the social and economic development scenario.

In reality, GDP expanded 5.6%, consumer prices rose 13.3%, and core inflation stood at 13.6%.

In the first half of 2008, with global food and energy prices steadily rising, boosting consumer price growth within the country, the Bank of Russia took measures to restrain inflation. Specifically, it raised interest rates on its operations, as well as the required reserve ratios. In addition, to improve the methods of implementing monetary policy, and to create conditions for greater flexibility of the exchange rate-setting policy and a gradual transition to a floating rouble exchange rate, the Bank of Russia made certain changes to foreign exchange policy in the second quarter of the year. Specifically, it began to schedule its foreign exchange purchases on the domestic market, and to consistently expand the range of fluctuations in the rouble value of the bi-currency basket.

However, in August the fundamental conditions of the functioning of the Russian economy

began to change dramatically under the adverse impact of the global financial crisis and the significant decline in oil prices on international markets. Increased capital outflow, the sharp drop in Russian securities prices, and the problems faced by Russian banks in raising funds on world capital markets weakened Russia's balance of payments and created persistent expectations of a rouble devaluation.

This situation necessitated measures aimed at preventing turbulence on the domestic foreign exchange market and creating conditions that would make it easier for the Russian economy to adapt to the altered externalities. To prevent the rouble from falling sharply, the Bank of Russia sold foreign currency on the domestic foreign exchange market, and on November 11 began to gradually devalue the national currency, a process that ended on January 23, 2009.

The altered external and internal factors in the second half of 2008 led to a contraction of banking sector liquidity and a scaling down of lending activity, which compelled the Bank of Russia to take steps aimed at maintaining stability and the uninterrupted functioning of the banking system. Therefore, the raising of interest rates by the Bank of Russia on its operations, for the purpose of containing capital outflow and reducing inflationary pressure, was accompanied by a significant growth in rouble liquidity injections,

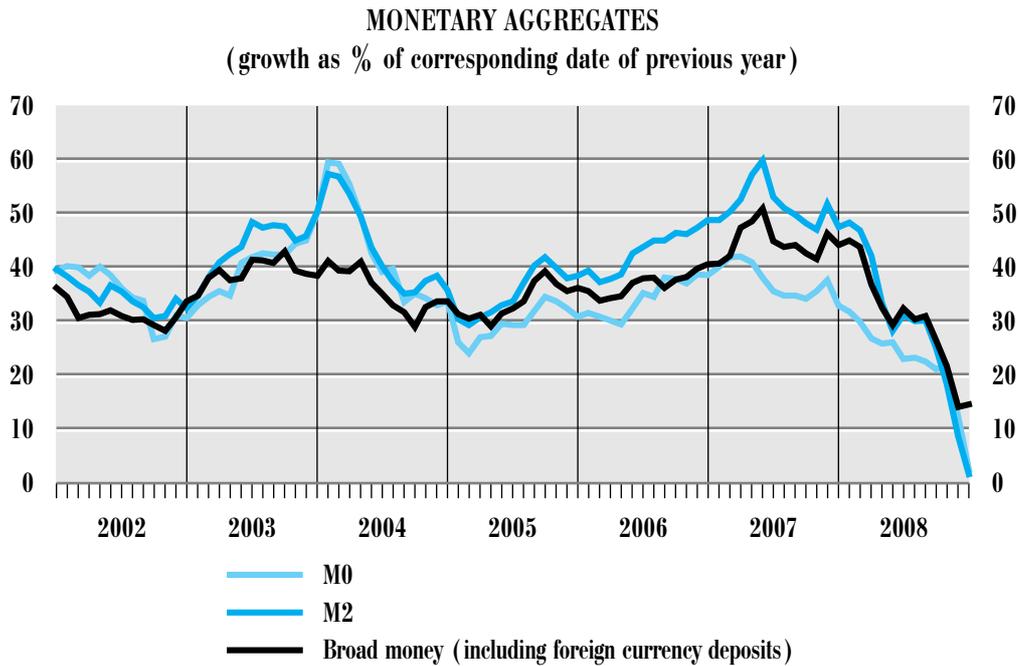


Chart 27

measures to give credit institutions wider access to refinancing operations, and cooperation with the Government in maintaining financial stability in the country.

As inflation continued at rapid rates, the rouble weakened, the dollarisation process resumed, and growth in asset prices as well as economic growth slowed in the second half of 2008, growth in demand for the national currency declined sharply.

Rouble supply also contracted as the Bank of Russia significantly increased foreign currency sales on the domestic foreign exchange market, and the banking sector scaled down its lending activities. As a result, the annualised rate of growth in money supply (M2) slowed significantly in 2008, and as of January 1, 2009, stood at a mere 1.7% (as against 47.5% on the same date a year earlier).

The velocity of money, calculated by the monetary aggregate M2, decreased by an annual average of 2.1%, compared to a decline of 18.6% in 2007. One reason for the slowing of the velocity of money was the increased dollarisation process in the second half of 2008.

In 2008, total net sales of foreign currency to the population through currency exchange outlets reached about \$47.5 billion, of which about \$30 billion were sold in the fourth quarter of the

year. This led to a slowing of growth in cash (M0). As a result, monetary aggregate M0 increased 2.5% in the year under review (in 2007 it grew 32.9%).

Demand deposits, which are largely represented by non-financial sector settlement and current accounts and reflect, like cash, the transactional needs of the economy, contracted more than other monetary aggregates. In 2008, they decreased by 8.9% in absolute terms (in 2007 they gained 52%).

The annual rates of growth in rouble-denominated time deposits slowed significantly in 2008. Despite growth in interest rates, the value of rouble-denominated time deposits increased by only 9.7% over the year (whereas in 2007 it grew 55.8%). In the fourth quarter, time deposits denominated in the national currency contracted 7.4% in absolute terms. The most significant contraction was registered in household rouble deposits, both short-term and long-term. As a result, in the period under review household rouble deposits decreased by 3.4% in absolute terms, and their share in total rouble deposits contracted from 47.7% to 45.5%.

Foreign currency-denominated deposits almost doubled in dollar terms in 2008, and the most significant growth in this type of deposit was also registered in the fourth quarter.

NET FOREIGN CURRENCY SALES TO HOUSEHOLDS
THROUGH CURRENCY EXCHANGE OUTLETS (US\$, million)

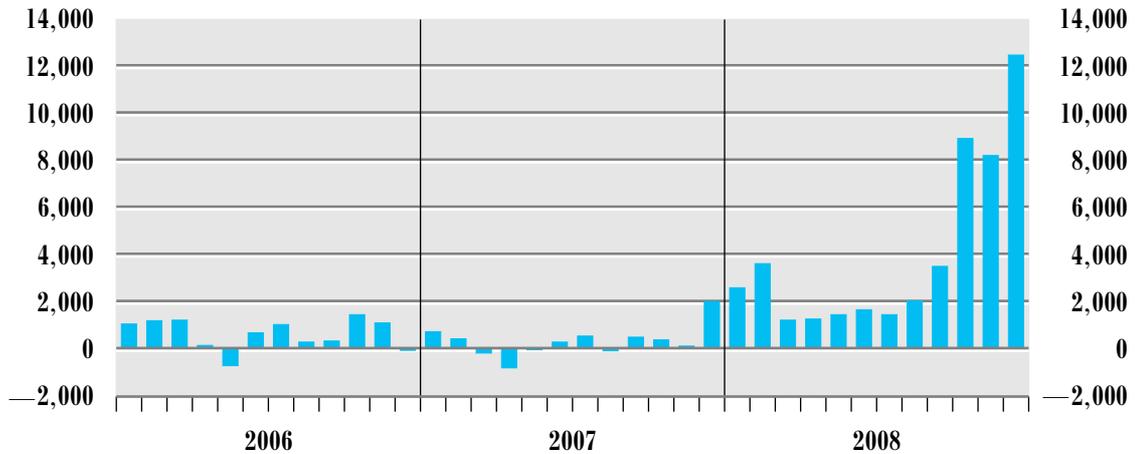


Chart 28

ROUBLE AND FOREIGN CURRENCY-DENOMINATED DEPOSITS
(growth as % of corresponding date of previous year)

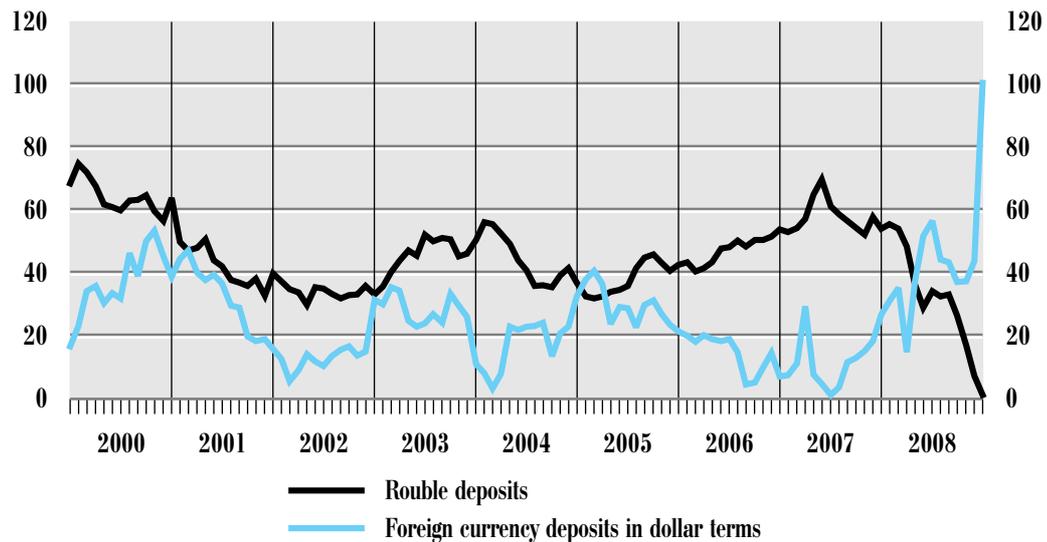


Chart 29

The broad monetary base, which comprises foreign currency-denominated deposits, expanded 14.6% in 2008, whereas in 2007 it increased 44.2%. The share of foreign currency deposits in broad money expanded from 9.3% as of January 1, 2008, to 19.6% as of January 1, 2009, and in total banking sector deposits increased from 12.5% to 25.3%. By the start of 2009, the dollarisation of deposits was therefore approaching the 2004–2005 level.

The Bank of Russia's interest rate policy in 2008 was aimed at reducing inflation while discouraging capital outflow. With these goals in

view, it raised interest rates on its operations several times during the year. As a result, the lowest interest rate at overnight repo auctions, which provided the largest source of liquidity for the banking sector, increased from 6.0% p.a. to 9.0% p.a. The overnight rate, which set the upper limit of the Bank of Russia interest rate band, rose from 10.0% to 13.0% p.a. The rate on 'tom-next,' 'spot-next' and 'call' deposit operations, which served as the lower limit of the interest rate band, was raised from 2.75% to 6.75% p.a. Interest rates on other operations conducted to provide or absorb liquidity increased accordingly over the

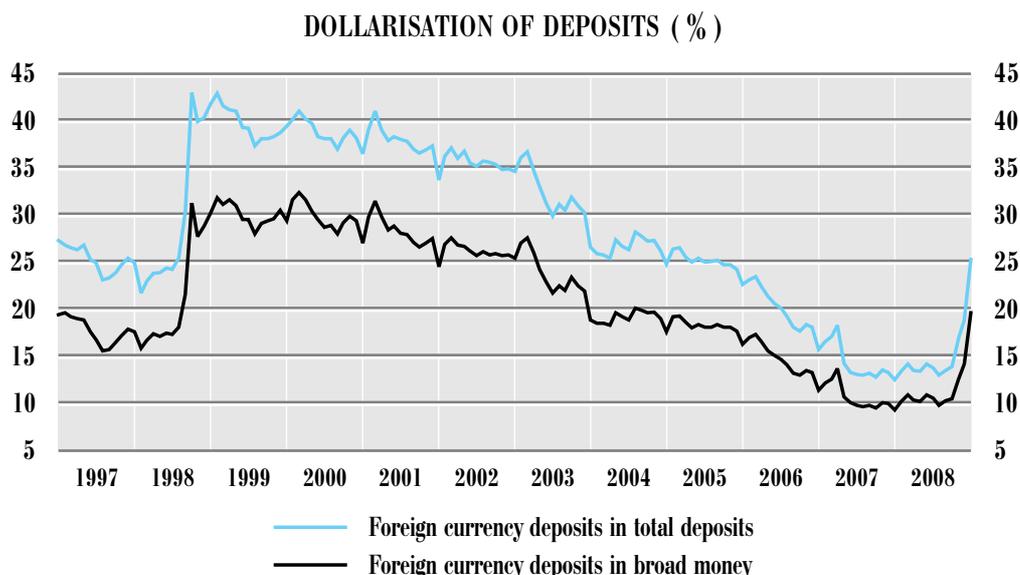


Chart 30

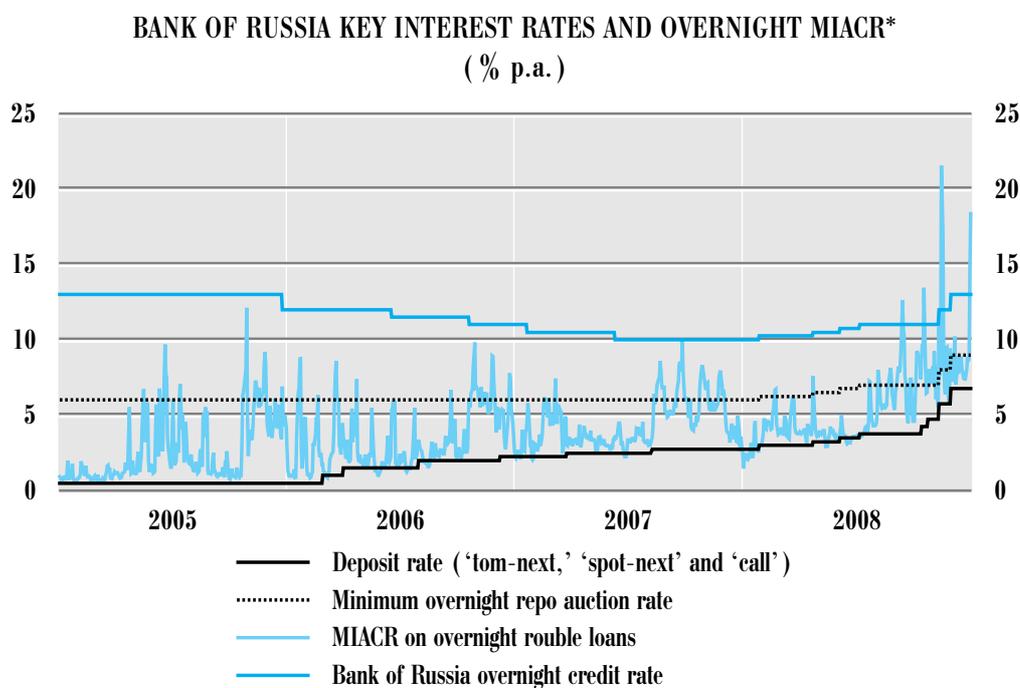


Chart 31

* MIACR is the average weighted interest rate on overnight interbank rouble-denominated loans on the Moscow market.

year. The raising of Bank of Russia interest rates was accompanied by an expansion in the volumes of liquidity injected into credit institutions through refinancing operations, especially in the fourth quarter of the year.

The acute shortage of liquidity caused a sharp rise in demand for rouble-denominated instruments on the interbank money market. Despite efforts made by the Bank of Russia to boost the

supply of rouble funds to credit institutions, interest rates on the Russian interbank market rose sharply in August—December 2008. The average weighted interest rate on overnight rouble loans on the Moscow interbank market grew from 3.8% p.a. in the first half of 2008 to an average of 8.3% p.a. in December (the average monthly rate reached a highpoint of 9.5% p.a. in November).

BANK OF RUSSIA OPERATIONS TO PROVIDE AND ABSORB LIQUIDITY
(billion roubles)

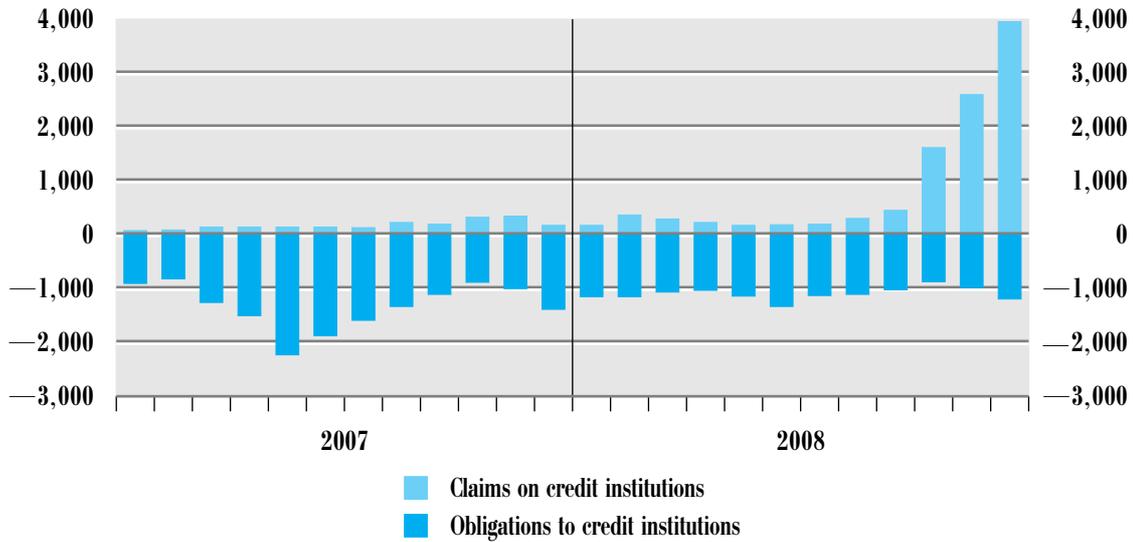


Chart 32

These developments raised the cost of credit for the non-financial sector of the economy. The average weighted interest rate on rouble loans to non-financial enterprises with terms of up to one year rose from 10.4% p.a. in January to 15.5% p.a. in December. Interest rates increased the most on short-term loans to non-financial enterprises in the first quarter and in the second half of 2008, i.e. when the situation on the foreign financial markets deteriorated significantly. Growth in interest rates on rouble long-term loans to non-financial enterprises was more moderate and evenly distributed. The average weighted interest rate on rouble loans to non-financial enterprises with terms longer than one year rose from 12.0% p.a. in January to 14.1% p.a. in December.

As credit institutions encountered difficulties in raising funds during 2008, they took steps to make the terms and conditions of bank deposits more attractive to the public. Specifically, the interest rate on personal deposits in roubles with a term of one to three years increased from 8.3% p.a. in January to 10.9% p.a. in December. Short-term deposit rates rose significantly in 2008. Interest rates on personal rouble deposits with terms of one to 30 days increased from 2.0% p.a. in January to 6.4% p.a. in December, on deposits with terms of one to three months from 5.1% to 7.4% p.a., and on deposits with terms of three to

six months from 7.4% to 9.9% p.a. Short-term deposit interest rates rose mainly in the second half of 2008.

Growth in credit provided to non-financial enterprises and households in 2008 slowed significantly. As the supply of loans from the banking sector and demand for loans on the part of economic agents declined, growth in total overdue loans slowed from 53% in 2007 to 34.5% in 2008.

The increased cost of credit for the real economy, the significant fall in the prices of Russian securities that could be used as collateral, the reduced solvency of borrowers, the slowing of economic growth, and higher foreign exchange risk caused a sag in demand for credit in the non-financial enterprise and household sector.

The lending capability of the banking sector also decreased significantly as banks struggled to borrow domestically and abroad (due to the rise in interest rates, among other factors) and the rouble deposit base contracted as economic agents converted funds into foreign currency. As devaluation expectations persisted, credit institutions avoided creating assets denominated in roubles.

Growth in rouble credit aggregates saw the sharpest decline. In the non-financial enterprise sector, their annual rate of growth declined from 54.8% to 28.5% in 2008 (in November loans

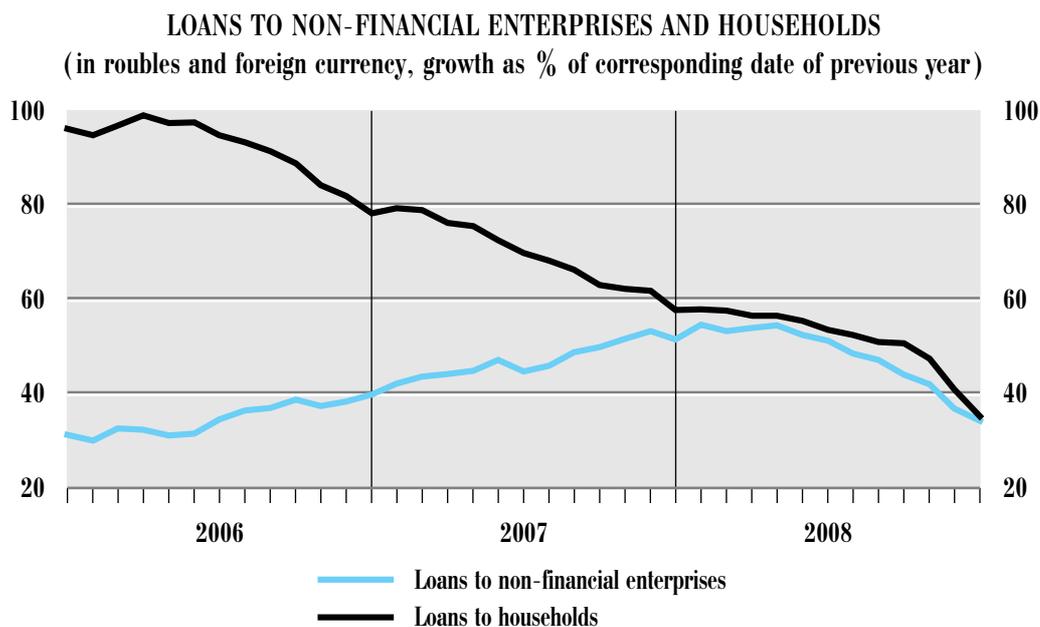


Chart 33

contracted in absolute terms). In the household sector, the annual rate of growth in rouble loans slowed from 62.6% to 37.8% (in November and December loans decreased in absolute terms).

Growth in credit aggregates denominated in foreign currency slowed less (in rouble terms) than growth in credit aggregates denominated in the national currency. In the household sector, growth in foreign currency-denominated loans

slowed from 33% in 2007 to 18.7% in 2008, while in the non-financial enterprise sector it accelerated from 42.9% to 51%. This trend was largely due to the significant depreciation of the rouble, and as a consequence, the expansion of foreign currency credit in rouble terms. The slowing of annual rates of growth in foreign currency-denominated loans in dollar terms was more significant.

II.1.2. MONETARY AUTHORITY INDICATORS AND MONETARY POLICY INSTRUMENTS

In 2008, the sudden change in the conditions in which the Russian economy functioned, and the revision of monetary policy priorities that this necessitated, determined the dynamics of money supply from the monetary authorities.

The expansion of the broad monetary base,¹ which characterises the level of money supply from the monetary authorities, slowed sharply in 2008 to 1.2%, compared to 33.7% in 2007. The change in monetary base dynamics from the previous year was caused by the following trends: the first half of 2008 saw slower growth in international reserves and a more significant increase in the balances of general government accounts with the Bank of Russia; the second half of the year saw an absolute contraction of international reserves amid large-scale foreign currency interventions conducted by the Bank of Russia on the domestic foreign exchange market. The decrease in the balances of general government accounts with the Bank of Russia in September—December, and the substantial growth in Bank of Russia credit to banks (funds provided by the Bank of Russia to maintain banking sector stability in September—December exceeded 9% of GDP) partly offset the impact caused by the reduction in international reserves, and as a result preserved the monetary base's favourable dynamics in 2008 as a whole.

Therefore, while in the first half of 2008 growth in international reserves (by \$90.2 billion at the current cross rates of foreign currencies against the US dollar) was the principal source of the expansion of the monetary base, as

was the case in previous years, in the second half of the year international reserves declined by \$141.9 billion, thereby reducing rouble liquidity. Growth in the balances of general government accounts, which stood at 1.7 trillion roubles in January—June and 2.6 trillion roubles for the entire year, was another channel through which funds were absorbed through most of the year. The principal source of growth in the monetary base was the expansion of Bank of Russia gross credit to credit institutions, which aggregated 3.6 trillion roubles.

Aggregate banking sector reserves² contracted by 1.5% in 2008. Liquidity levels were the lowest in certain periods of March, April, May, and September, when the ratio of total reserves to deposits included in M2 fell to 13.5% (as against 18.9% as of January 1, 2008). The Bank of Russia collaborated with the Government in implementing a package of measures aimed at making it easier for credit institutions to obtain necessary liquidity, and at creating credit resources for the country's economic development. Owing to these measures, the above ratio had been restored to 18.4% by the end of the year, although the average liquidity level in 2008 (14.9%) was considerably lower than in 2007 (20.7%).

Depending on the situation on foreign markets and the objectives of monetary policy, the Bank of Russia used either refinancing instruments, whose range was broadened significantly in the second half of 2008, or liquidity absorption instruments, of which there was greater need in the first half of the year.

¹ The broad monetary base comprises cash issued by the Bank of Russia, including balances in credit institutions' tills, funds in credit institutions' required reserve accounts with the Bank of Russia, credit institutions' correspondent accounts (including the averaged balances of the required reserves) and deposit accounts with the Bank of Russia, credit institutions' investments in Bank of Russia bonds, and other Bank of Russia obligations on rouble operations with credit institutions.

² Aggregate banking sector reserves comprise cash balances in credit institutions' tills, credit institutions' required reserve accounts with the Bank of Russia, credit institutions' correspondent accounts (including the averaged balances of the required reserves) and deposit accounts with the Bank of Russia, and credit institutions' investments in Bank of Russia bonds.

EXCHANGE RATE AND SOURCES OF MONEY SUPPLY
(quarterly change, billion roubles)

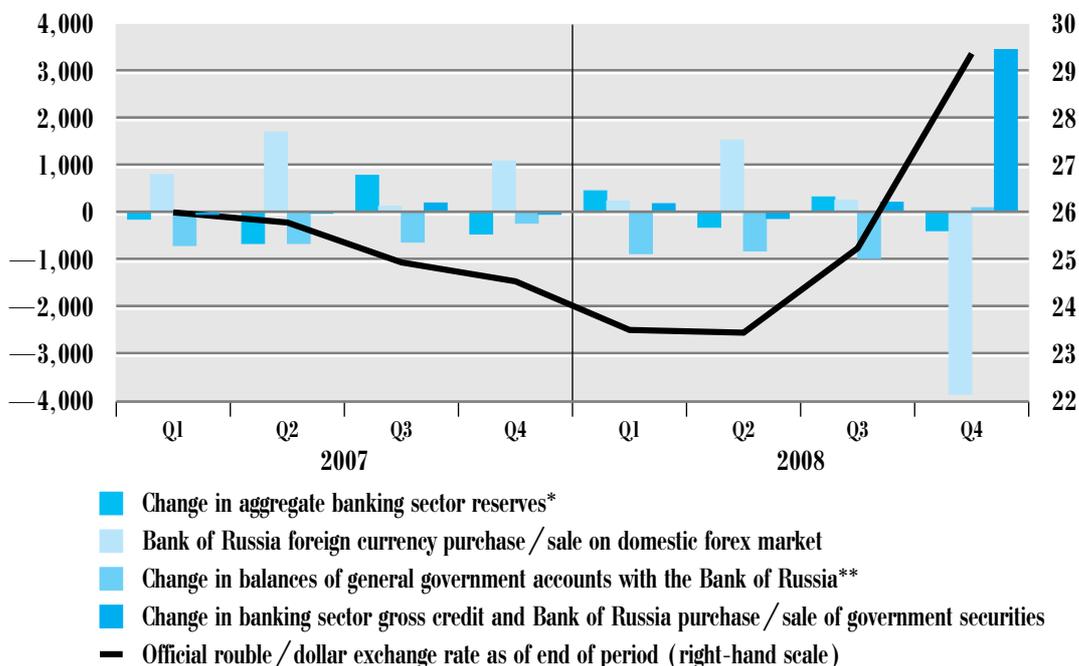


Chart 34

* (—) denotes increase, (+) denotes decrease.

** Taking into account early government foreign debt payments and transfers to state corporations. (—) denotes increase, (+) denotes decrease.

AGGREGATE BANKING SECTOR RESERVES AND BANK OF RUSSIA OPERATIONS
TO REFINANCE CREDIT INSTITUTIONS (billion roubles)

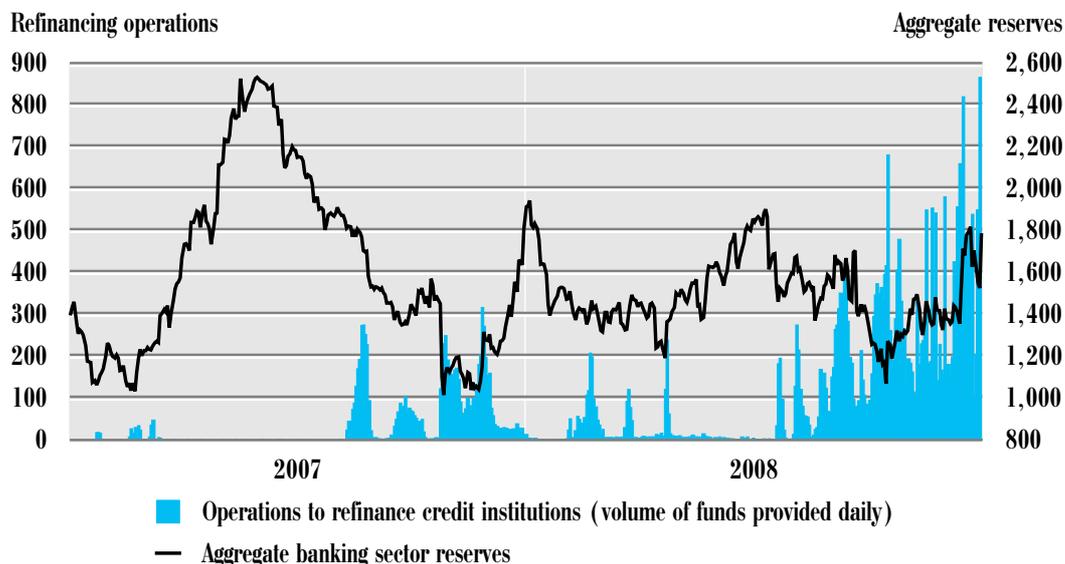


Chart 35

In January—July 2008, the Bank of Russia carried out measures to restrain inflation. During this period it raised interest rates on its operations on four occasions. In addition, the Bank

of Russia took a series of decisions to increase the reserves credit institutions were required to deposit with the Bank of Russia, simultaneously raising the averaging ratio for the calculation of

the average size of required reserves by credit institutions other than non-bank settlement credit institutions or the clearing centre of the organised securities market.¹

As structural liquidity shortages emerged in the second half of 2008, the Bank of Russia took steps to make refinancing instruments more accessible by broadening the range of types of eligible collateral, and extending the terms for which it provided liquidity. In addition, the Bank of Russia lowered the required reserve ratios.

To satisfy their demand for roubles, credit institutions were able to participate in repo operations, take intraday, overnight, Lombard and unsecured loans, and to conduct currency swap and certain other transactions with the Bank of Russia.

Pursuant to Federal Law No. 173-FZ, dated October 13, 2008, 'On Additional Measures in Support of the Financial System of the Russian Federation,' the Bank of Russia in the fourth quarter of 2008 began to extend **unsecured loans**. These operations involved a wide range of credit institutions with international and (or) Russian credit ratings (over 140 credit institutions as of the end of 2008), which received additional opportunities to raise their liquidity. In October—December 2008, the Bank of Russia provided to credit institutions 3.03 trillion roubles in unsecured loans, with terms ranging from one week to six months, and at the end of the year banking sector debt on these loans stood at 1.76 trillion roubles.

At the same time, to prevent banks from using these funds for speculation on the domestic foreign exchange market, the Bank of Russia monitored changes in foreign assets and in net balance sheet positions in foreign currencies of credit institutions able to participate in unsecured credit auctions, and when necessary revised the limits imposed on credit institutions that received funds through these operations.

Bank of Russia **repo** auctions and fixed-rate repo operations were among the key refinancing instruments in 2008. The total volume of these operations increased by a factor of 2.8 year on year, to reach 21.51 trillion roubles. The Bank

of Russia provided to banks an average of 85.7 billion roubles per day in repo operations, and on December 30 provided a record daily amount of 614.8 billion roubles.

To enable the banking sector to raise more funds through repo operations, in the middle of February the Bank of Russia began to conduct over-the-counter repo operations, in which bonds issued by non-resident corporate entities and guaranteed by Russian corporations were accepted as collateral. For the whole year, the volume of these transactions totalled 1.1 trillion roubles.

In October, the Bank of Russia resumed 90-day repo operations. In addition, legislative amendments were made to give the Bank of Russia the right to conclude repo deals with exchange-traded securities, such as shares and bonds, on the stock exchange. The Bank of Russia Board of Directors also passed a decision enabling the Bank of Russia to conduct six and 12-month repos.

During 2008, credit institutions more actively used intraday loans, which increased 28.1% in volume year on year, to reach 17.3 trillion roubles.

Overnight loans grew by more than 70% in volume year on year to reach 230.2 billion roubles.

The volume of **Lombard loans** extended to credit institutions in 2008 increased almost nine-fold year on year to 212.7 billion roubles.

In October 2008, the Bank of Russia added to the existing refinancing instruments fixed-rate loans for 30 calendar days and three-month Lombard loan auctions, and in December its Board of Directors took a decision to start holding six and 12-month Lombard loan auctions.

The Bank of Russia also provided to credit institutions in 2008 **loans secured by promissory notes, claims under credit agreements, or credit institution guarantees**, for terms of up to 180 days pursuant to Bank of Russia Regulation No. 273-P, dated July 14, 2005. The volume of loans extended in 2008 increased by a factor of 10.9 to 357.8 billion roubles.

Credit institutions were also granted the opportunity to receive **intraday, overnight, and**

¹ The highest averaging ratio of 1.0 was used for non-bank settlement credit institutions and the clearing center of the organised securities market.

**BANK OF RUSSIA GROSS CREDIT TO CREDIT INSTITUTIONS
(by term, billion roubles)**

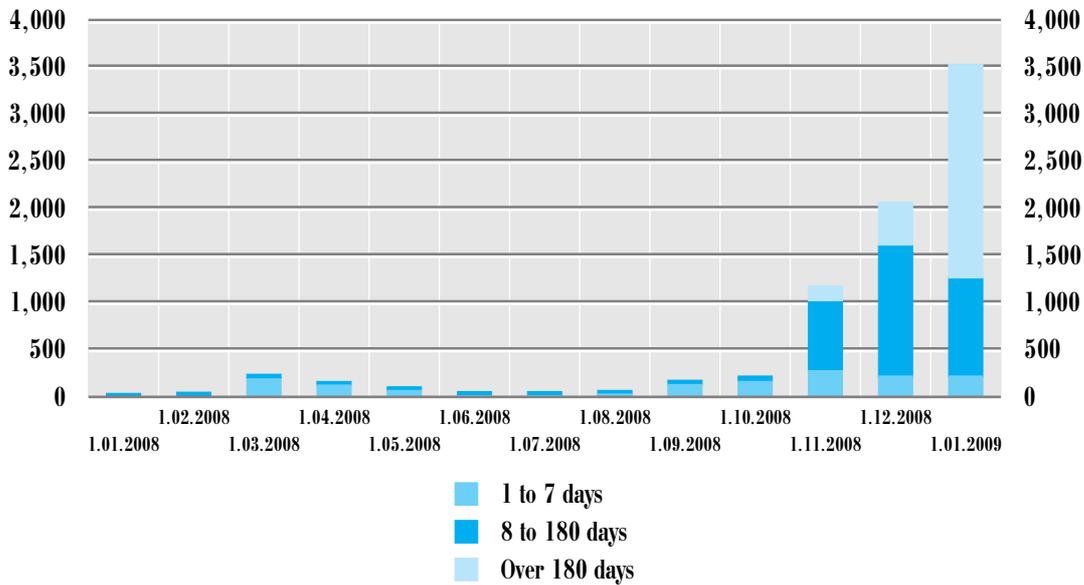


Chart 36

**STRUCTURE OF BANK OF RUSSIA GROSS CREDIT TO CREDIT INSTITUTIONS
(billion roubles)**

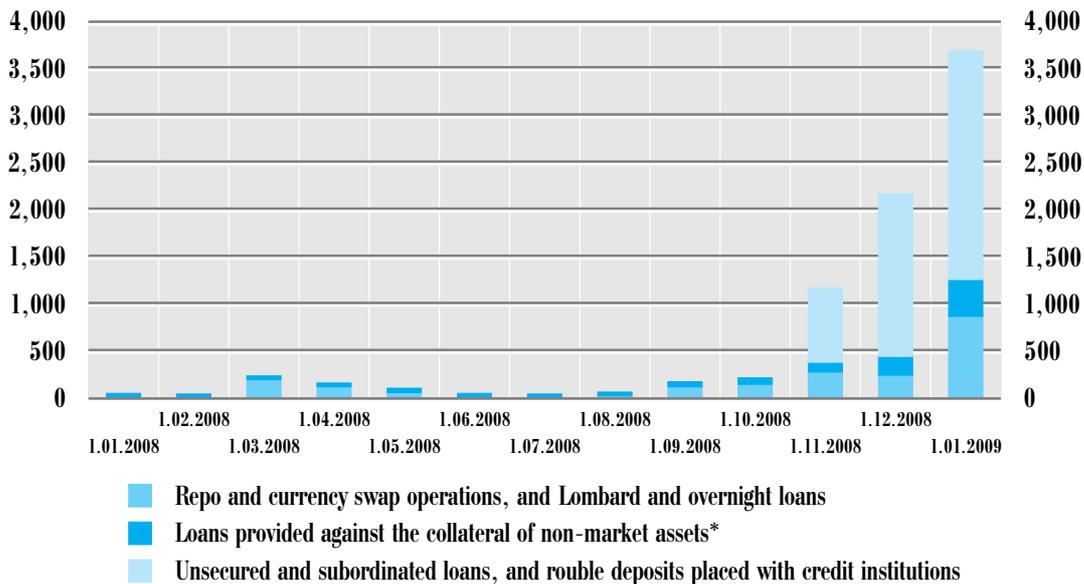


Chart 37

* Bank of Russia loans extended pursuant to Bank of Russia Regulation No. 273-P of July 14, 2005, and Regulation No. 312-P of November 12, 2007.

fixed-rate loans against the collateral of non-market assets, such as promissory notes and claims under credit agreements, pursuant to Bank of Russia Regulation No. 312-P, dated November 12, 2007, 'On the Procedure for the Extending by the Bank of Russia of Asset-Backed

Loans to Credit Institutions.' The Bank of Russia began to actively provide these loans in the third quarter, and in 2008 their total volume reached 87.9 billion roubles.

On October 20, the maximum term for the provision of asset-backed loans was extended from

30 to 90 days (with no change to the interest rate), and on December 1 it was further extended to 180 days.

To make these instruments more accessible, the Bank of Russia allowed credit institutions to refinance in the Bank of Russia their claims on agricultural, wholesale and retail trade, and state unitary enterprises, limited liability companies, and small and medium-sized businesses. It also raised from 0.2—0.5 to 0.5—0.8 the adjustment ratios used in calculating the value of non-market assets accepted as collateral for Bank of Russia loans under Bank of Russia Regulation No. 312-P of November 12, 2007.

The Bank of Russia continued in 2008 to broaden the range of assets (securities) on its **Lombard List** that credit institutions could use as collateral when conducting operations with the Bank of Russia for the purpose of raising funds from it.

It lowered requirements for the issuer/issue ratings of bonds put on the Bank of Russia Lombard List from B+/B1 to B-/B3 under the classification of rating agencies Standard & Poor's, Moody's Investors Service and Fitch Ratings.

Two new categories of securities were put on the Bank of Russia Lombard List — shares of resident corporations other than credit institutions, and exchange-traded bonds. In addition, the Bank of Russia provided for the possibility of including on its Lombard List mortgage-backed bonds issued pursuant to the Federal Law on Mortgage Securities, in cases where the issuer's obligations on these bonds are secured by the joint guarantee of the Agency for Housing Mortgage Lending.

The Bank of Russia eased the terms and conditions for the raising of funds by credit institutions using certain types of collateral: it cancelled discounts on repo operations with federal loan bonds (OFZ) and Bank of Russia bonds (OBR), and raised the adjustment ratios used in calculating the value of OBR and the value of collateral for a number of refinancing instruments.

In 2008, the volume of Bank of Russia **currency swap operations** totalled 1.91 trillion roubles. On October 20, the Bank of Russia established a procedure for setting a limit on the funds provided to credit institutions through currency swap operations, which is set daily on the

basis of the banking sector liquidity forecast and the situation on the domestic foreign exchange market.

As an additional means of regulating banking sector liquidity, the Bank of Russia **bought and sold government securities from its own portfolio**. In 2008, it bought 42.3 billion roubles of OFZ and 74.5 billion roubles of Russian eurobonds and OVGZ bonds, and sold 1.9 billion roubles of OFZ and 63.6 billion roubles of Russian eurobonds.

In April, the Bank of Russia, the Federal Treasury, and the Finance Ministry began to **deposit with banks temporarily free federal budget funds**, a measure that helped banks to raise 1.79 trillion roubles from April to November. As of November 1, 2008, the banking sector's debt on this instrument amounted to 0.88 trillion roubles. During that period the Bank of Russia monitored the funds provided on the domestic interbank market by the largest credit institutions-participants in auctions of federal budget resources. In November it took a decision to suspend the placement of federal budget funds in bank deposits. By the end of the year the provision of resources through this means had been completely replaced by other Bank of Russia refinancing instruments, which accorded with the changed situation on the money market.

In 2008, the Bank of Russia more actively used the **reserve requirements** as an immediate means of regulating banking sector liquidity.

To alleviate inflationary pressure, it raised the required reserve ratios (on March 1, July 1 and September 1) as follows: the ratios for obligations to non-resident banks in roubles and foreign currency were increased from 4.5% to 8.5%; the ratios for credit institutions' obligations to individuals in roubles were increased from 4.0% to 5.5%; and the ratios for other obligations of credit institutions in roubles and foreign currency were raised from 4.5% to 6.0%.

However, whenever the situation on global financial markets deteriorated and liquidity shortages emerged, the Bank of Russia temporarily lowered the required reserve ratios. On September 18, it lowered by 4 percentage points the ratios for each category of obligations (to 4.5% for obligations to non-resident banks, to 1.5% for obligations to individuals in roubles, and to 2%

for other obligations), and on October 15, the Bank of Russia lowered all ratios to 0.5% and provided for their gradual raising to 1.5% from May 1, 2009, and to 2.5% from June 1, 2009.

The Bank of Russia also raised from 0.4 to 0.6 the **averaging ratio** for the reserve requirements for credit institutions other than non-bank settlement credit institutions or the clearing centre of the organised securities market. Temporarily (from October 1, 2008, to July 1, 2009) the Bank of Russia granted to credit institutions the right to average their required reserves regardless of the classification group to which they were assigned, as a result of the assessment of their economic situation in compliance with requirements set by the relevant Bank of Russia regulations and instructions. The number of credit institutions that used the averaging right increased from 777 in January to 826 in December 2008, accounting for 73.9% of all credit institutions.

Under the right conditions, credit institutions could use Bank of Russia operations to place their temporarily free funds.

In 2008, the Bank of Russia continued to hold weekly four-week and three-month **deposit auctions**, and to conduct daily deposit operations at fixed interest rates on the standard ‘tom-next,’ ‘spot-next,’ ‘call,’ ‘one-week’ and ‘spot-week’ conditions. The total volume of deposit transactions concluded by the Bank of Russia in 2008 decreased almost by a factor of 2.5 year on year, to 17.7 trillion roubles. Because of extreme uncertainty on the financial markets, demand deposits predominated, accounting for 47.4% of total funds raised (as against 8.8% in 2007).

To discourage capital outflow, the Bank of Russia in 2008 raised to 6.75% p.a. interest rates

on demand, ‘tom-next’ and ‘spot-next’ deposits, and to 7.25% p.a. interest rates on ‘one-week’ and ‘spot-week’ deposits (as of the end of 2007, the fixed interest rates stood at 2.75% and 3.25%, respectively).

Due to the shortage of banking liquidity and the high money market interest rates, demand for Bank of Russia bonds was low. In 2008, the nominal value of outstanding **Bank of Russia bonds** decreased from 103.0 billion roubles to 12.9 billion roubles. The market value of operations to place Bank of Russia bonds on the primary market stood at 86.4 billion roubles, and the market value of Bank of Russia bond placements and redemptions on the secondary market stood at 2.9 billion roubles and 122.4 billion roubles, respectively.

As part of the package of measures aimed at supporting the Russian financial system, and in order to implement the provisions of Article 3 and Article 5 of Federal Law No. 173-FZ, dated October 13, 2008, ‘On Additional Measures in Support of the Financial System of the Russian Federation,’ the Bank of Russia:

- provided to Sberbank a 500-billion-rouble subordinated loan in instalments with a term until December 31, 2019;
- concluded agreements with banks on compensation of a part of the losses (expenses) they incurred in transactions with other credit institutions, concluded during the period from October 14, 2008, to December 31, 2009, in cases where these credit institutions subsequently had their banking licences revoked. As of January 1, 2009, the Bank of Russia held such agreements with 11 credit institutions.

II.1.3. EXCHANGE RATE POLICY

The exchange rate policy pursued by the Bank of Russia in 2008 was aimed at maintaining the managed floating exchange rate regime and ensuring the stability of the national currency. It helped to mitigate the effect of economic externalities on the Russian financial system amid limited access to external borrowings during the second half of the year, the high level of corporate indebtedness, and the fall in the prices of Russia's major exports.

The Bank of Russia continued to use the rouble value of the bi-currency basket, composed of dollars and euros (0.55 US dollars and 0.45 euros), as an operational benchmark when conducting transactions on the domestic foreign exchange market. At the same time, it reviewed several times during the year the limits of the bi-currency basket's fluctuation band as the fundamental balance of payments factors changed in connection with the gradual transition to a more flexible exchange rate-setting policy envisaged by the *Guidelines for the Single State Monetary Policy in 2008*.

The trends influencing the domestic foreign exchange market during 2008 were of a varied nature.

In the first half of 2008, when the price situation on world energy markets was favourable, Russia registered a steady inflow of foreign currency earnings from exports. Net private capital outflow in the first quarter, which to some extent offset the inflow of funds from foreign trade operations, gave way to a net inflow, which continued from April to July amid relative stability on world financial markets and unprecedented growth in prices of major Russian exports. This created a trend towards the rouble's appreciation.

In January—July, as the supply of foreign currency outstripped demand on the domestic market, the Bank of Russia purchased a total of \$99.0 billion to keep the market value of the bi-currency basket within the operating band. At the same time, taking into account the changing situation on the domestic foreign exchange market, the Bank of Russia reviewed its exchange rate policy. Specifically, in June and early August it

consistently broadened the fluctuation band of the market value of the bi-currency basket, and changed the procedure for conducting foreign currency interventions.

From May 14 to the beginning of September, the Bank of Russia complemented its 'traditional' currency interventions with planned purchases of foreign currency on the domestic market, to eliminate imbalances between demand and supply caused by changing export revenue trends, the procedure for implementing the federal budget, and the procedure for replenishing the Reserve Fund and National Wealth Fund. The Bank of Russia set the current parameters of scheduled interventions taking into account the situation on the domestic foreign exchange and money markets, and conducted operations only when foreign currency supply outstripped demand.

However, the external factors determining the situation on the domestic foreign exchange market changed dramatically in the second half of 2008. A new wave of the world financial turmoil, which provoked a full-scale economic crisis, brought about a sharp fall in prices on raw material markets, and changed the dimensions and direction of cross-border capital flows. The drop in revenue from foreign trade that followed the sharp downturn in energy prices on world markets, and the net private capital outflow (estimated by the Bank of Russia at \$168.1 billion in August—December 2008) amid the revaluation by market participants of risks involved in investments in Russian assets, pushed up demand for foreign currency on the domestic foreign exchange market.

Under these circumstances, the Bank of Russia sought to prevent turbulence on the domestic foreign exchange market, which posed a threat of disruptions to the national financial system, and to cushion the external shocks received by economic agents of all levels. For this purpose, the Bank of Russia prevented the rouble from weakening too rapidly, by means of selling large volumes of foreign currency.

At the same time, the altered conditions of Russia's foreign trade, which created objective

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

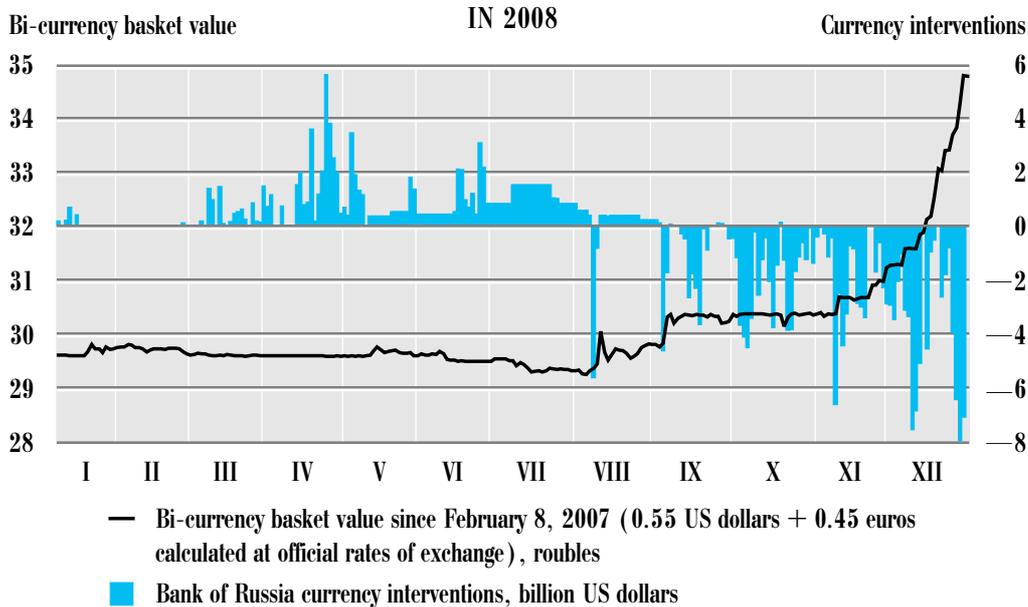


Chart 38

**REAL ROUBLE EXCHANGE RATE
(growth as % of December of previous year)**

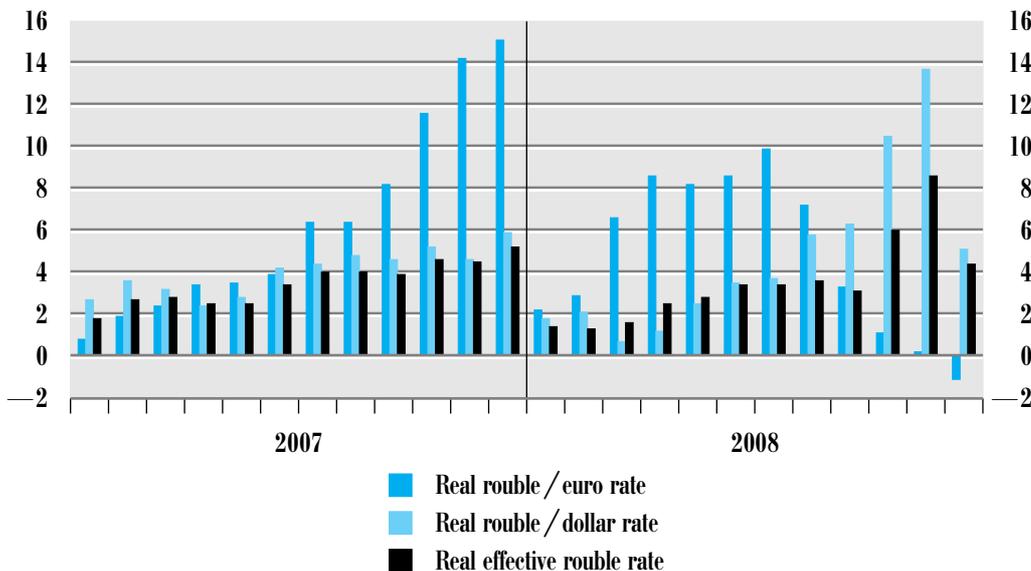


Chart 39

grounds for the weakening of the national currency, necessitated a review of the exchange rate-setting policy, for the purpose of helping the Russian economy to adjust to the new externalities. On November 11, the Bank of Russia began to conduct a large-scale correction of the bi-currency basket's fluctuation band, setting the parameters

of the basket on the basis of the current balance of payments dynamics, changes in the real effective rate, and Russia's international reserves. The correction was completed on January 23, 2009. As of the end of 2008, the market value of the bi-currency basket stood at 34.81 roubles, an increase of 17.3% on the end of the previous year.

Total net sales of foreign currency by the Bank of Russia on the domestic foreign exchange market from August to December 2008 stood at \$168.1 billion, and the full-year figure stood at \$69.2 billion. Russia's gold and foreign exchange reserves contracted 10.8% over the year (by

\$51.7 billion), and as of January 1, 2009, stood at \$427.1 billion.

The rouble appreciated 4.3% against foreign currencies in real terms in 2008, losing 1.1% against the US dollar but gaining 5.0% against the euro.

II.2. RESERVE MANAGEMENT¹

The Bank of Russia's foreign exchange reserves are Bank of Russia claims denominated in US dollars, euros, pounds sterling, Japanese yen, and Swiss francs² (hereinafter referred to as the reserve currencies) on foreign counterparties, and Bank of Russia-owned foreign issuers' securities denominated in the above-listed currencies.³

In managing the foreign exchange reserves of the Bank of Russia, the goal is to ensure an optimal combination of their safety, liquidity and profitability.

In the second quarter of 2008, the Bank of Russia began to group its assets in reserve currencies⁴ in portfolios by type of currency. Previously, foreign currency assets were grouped into transaction and investment portfolios.⁵

The preservation of foreign exchange reserves is ensured by the use of a comprehensive risk management system based on: the exclusive use of highly reliable financial market instruments;

stringent requirements established for the foreign counterparties of the Bank of Russia; exposure limitations set for each of them, based on assessments of their creditworthiness; and the conducting of operations under agreements concluded with foreign counterparties that protect the interests of the Bank of Russia.

An optimal ratio between the liquidity and profitability of foreign exchange reserves was maintained through the use of short- and long-term instruments: deposits and repo transactions with foreign counterparties of the Bank of Russia, and foreign issuers' short- and long-term securities.

To increase profitability while maintaining the necessary level of safety and liquidity, the Bank of Russia made investment decisions based on the current situation on global forex and financial markets, and forecasts for their future dynamics.

The management of the Bank of Russia foreign exchange reserves involves the taking of fi-

¹ All distributions and indicators cited in this section were calculated on the basis of management reporting.

² Data on Bank of Russia reserves in Swiss francs are not cited, as they are negligible in volume.

³ Except for foreign issuers' securities denominated in reserve currencies purchased by the Bank of Russia with an obligation to resell (reverse repo).

⁴ The Bank of Russia's assets in reserve currencies are Bank of Russia foreign exchange reserves and Bank of Russia-owned foreign currency assets in reserve currencies that are not categorised as reserves: Bank of Russia investments in Russian eurobonds, deposits with Russian banks, and other assets in reserve currencies.

⁵ The transaction portfolio comprised short-term instruments, such as balances of correspondent accounts, deposits, repo transactions, and short-term non-coupon securities; the investment portfolio was represented by long-term coupon securities.

**BANK OF RUSSIA
FOREIGN EXCHANGE RESERVES
BY CURRENCY
AS OF JANUARY 1, 2009 (%)**

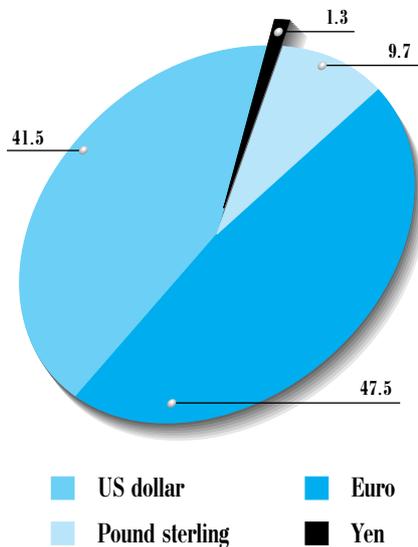


Chart 40

financial risks, the most important of which are market (foreign exchange and interest rate) risk and credit risk. The risk management process relating to operations with foreign exchange reserves includes risk identification and assessment procedures, setting limits, and monitoring compliance with these limits.

The distribution of Bank of Russia foreign exchange reserves by reserve currency is shown net of conversion transactions that had not been settled by the reporting date.

In the period under review the Bank of Russia also held obligations in reserve currencies (the balances of customer accounts, including the Federal Treasury accounts with the Bank of Russia and funds raised through repo operations with foreign counterparties), and foreign currency-denominated assets other than reserves. The difference between Bank of Russia assets denominated in reserve currencies and

Bank of Russia liabilities in these currencies represents net foreign currency assets, and the currency structure of these assets is the principal source of foreign exchange risk. The level of foreign exchange risk assumed by the Bank of Russia¹ is limited by the standard currency structure, which determines the target ratios of the reserve currencies in net foreign currency assets, and permissible deviations from this structure.

In 2008, the Bank of Russia conducted conversion transactions with reserve currencies on the international forex market: as it had to sell significant volumes of US dollars on the domestic foreign exchange market, the Bank of Russia conducted mainly US dollar buying operations against other reserve currencies, in order to bring their share in net foreign currency assets into compliance with the standard ratio.

Foreign exchange reserves declined by \$56.6 billion in 2008. The main reason for the contraction was the sale by the Bank of Russia of foreign currency on the domestic foreign exchange market² and the fall in the exchange rates of major reserve currencies against the US dollar. *Other write-downs/receipts* include the increase in value due to the entry of funds to foreign currency loro accounts opened by Russian banks with the Bank of Russia, and the decrease in value resulting from placements of the Bank of Russia's funds with certain Russian banks, including Vnesheconombank.

As of January 1, 2009, Bank of Russia foreign exchange reserves were invested in the following instruments: deposits and balances of correspondent accounts with foreign banks (8.1%), repo transactions with foreign counterparties (1.2%), and foreign issuers' securities (90.7%). The securities are largely government bonds of the United States, Germany, UK, France, the Netherlands, Belgium, Spain and Japan, securities issued by international financial institutions and extra-budgetary funds, and

¹ Since assets denominated in reserve currencies are measured in US dollars, currency risk involved in reserve management is understood to mean the reduction in the value of these assets due to deviations of the actual currency structure from the standard one as a result of unfavourable fluctuations in the exchange rate of the reserve currencies against the US dollar.

² Including currency swap transactions. Operations conducted in euros have been recalculated in US dollars at the exchange rate as of the end of the period.

**FACTORS BEHIND CHANGES IN BANK OF RUSSIA FOREIGN EXCHANGE RESERVES IN 2008
(US\$, billion)**

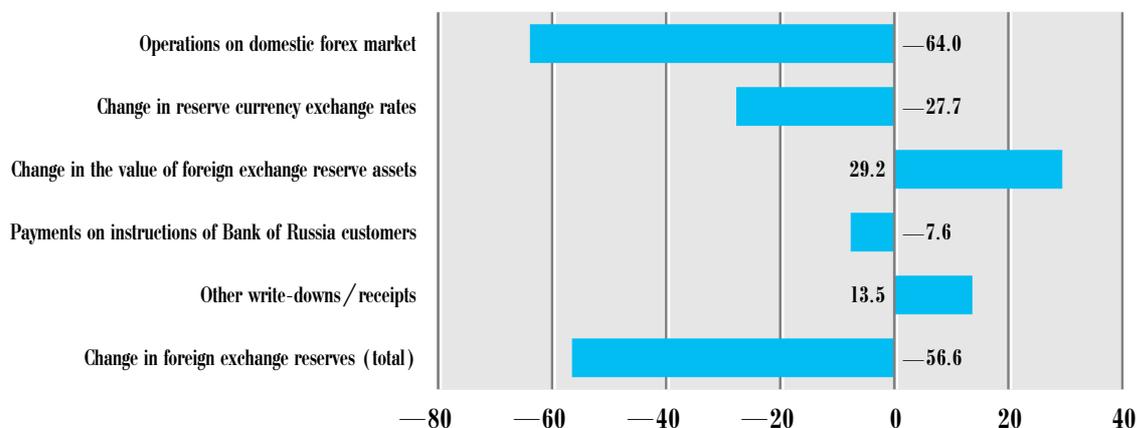


Chart 41

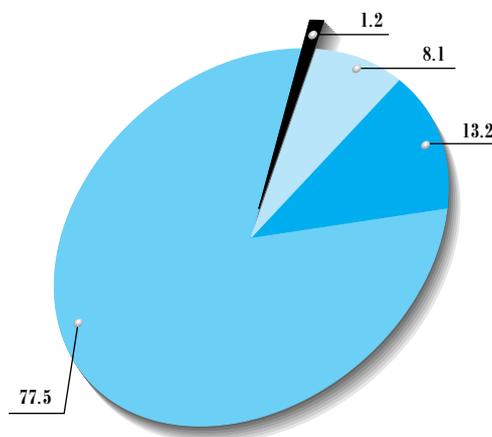
agencies of the above-listed countries and covered securities of German credit institutions.

Credit risk was controlled by the limits imposed on the Bank of Russia’s counterparties, and by the requirements for the credit quality of issuers and issues of securities included in the Bank of Russia’s foreign exchange reserves. The lowest permissible long-term credit rating of the Bank of Russia’s counterparties and debtors in operations with Bank of Russia foreign exchange reserves was set at A under the classification of rating agencies Fitch Ratings and Standard & Poor’s (or A2 in the classification of Moody’s Investors Service). The lowest permissible rating of the debt securities issues (or issuers) was set at AA– under the classification of Fitch Ratings and Standard & Poor’s (or Aa3 in the classification of Moody’s Investors Service).

The distribution of Bank of Russia foreign exchange reserves by credit rating as of January 1, 2009, is based on information on the long-term credit ratings assigned to the Bank of Russia’s foreign counterparties and Bank of Russia-owned foreign securities by the rating agencies Fitch Ratings, Standard & Poor’s and Moody’s Investors Service. In cases where counterparty or issue ratings differed between agencies, the lowest rating was used. Ratings are distributed among the main categories — AAA, AA and A — with-

out disaggregation of the rating scale within each category.¹ Assets in the ‘no rating’ category are Bank of Russia deposits with the Bank for International Settlements.

**BANK OF RUSSIA
FOREIGN EXCHANGE RESERVES
BY INSTRUMENT
AS OF JANUARY 1, 2009 (%)**



- Foreign currency deposits and balances of accounts
- Repo transactions
- Government securities
- Non-government securities

Chart 42

¹ To compare long-term credit ratings within each rating category, Standard & Poor’s and Fitch Ratings affix ‘+’ or ‘-’ to their ratings, and Moody’s Investors Service affixes digits 1, 2 and 3.

**BANK OF RUSSIA
FOREIGN EXCHANGE RESERVES
BY CREDIT RATING
AS OF JANUARY 1, 2009 (%)**

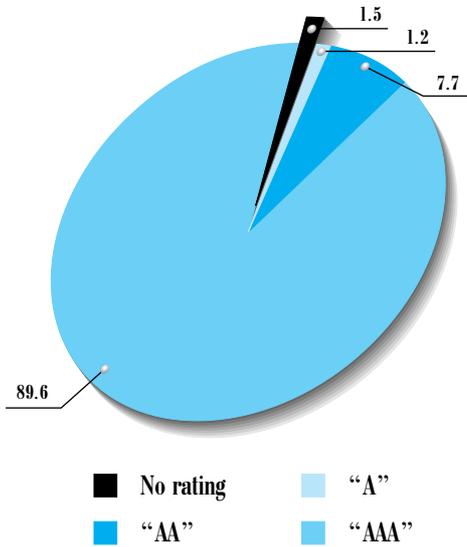


Chart 43

The distribution of foreign exchange reserves by country as of January 1, 2009, was as follows: the United States accounted for 38.3% of assets, Germany 20.3%, France 13.6%, Great Britain 9.9%, and other countries 17.9%. The

distribution is based on the residence of the Bank of Russia's foreign counterparties and of the foreign issuers of securities owned by the Bank of Russia.

Standard portfolios were used as a benchmark in assessing interest rate risk and the rate of return on Bank of Russia assets denominated in reserve currencies. A standard portfolio comprised a set of instruments (an index) put together by assigning to each instrument a weight (share) in the portfolio. The weight of an instrument in the standard portfolio was determined on the basis of the market depth of this instrument. The standard portfolios were rebalanced weekly.

Effective duration was used as an indicator of the level of interest rate risk, which consisted of financial losses incurred as a result of changes in interest rates on each reserve currency. To limit interest rate risk, the Bank of Russia set limits on the deviation of the effective duration of its assets in each reserve currency from the same indicators in the standard portfolios.

The rate of return and effective duration of Bank of Russia assets in reserve currencies and the corresponding standard portfolios were evaluated on a daily basis. The rates of return accounted for realised income, along with the

**BANK OF RUSSIA FOREIGN EXCHANGE RESERVES BY COUNTRY
AS OF JANUARY 1, 2009 (%)**

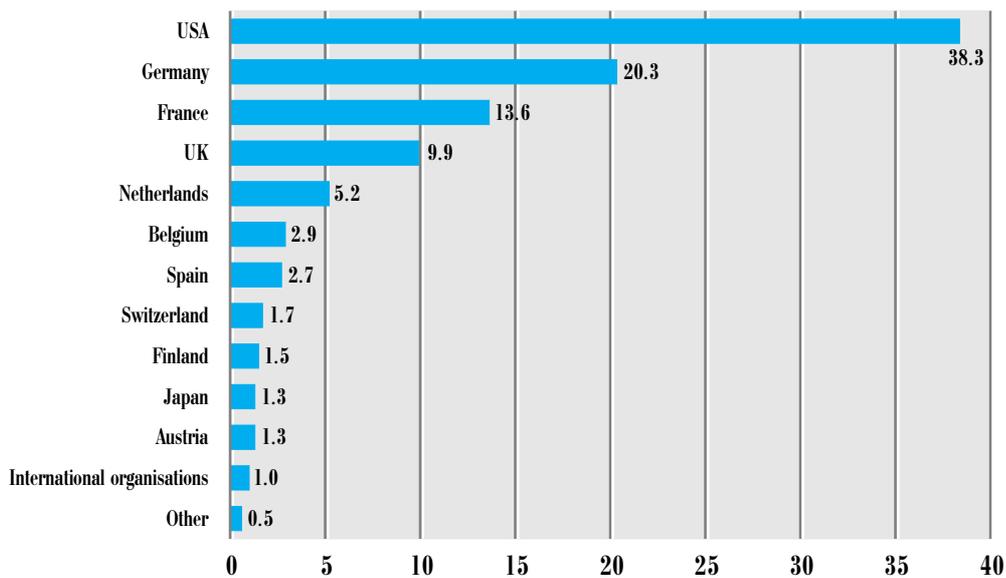


Chart 44

changes in the value of these assets.¹ The rate of return on Bank of Russia reserve currency assets was evaluated for each single-currency portfolio.

The rates of return on Bank of Russia foreign exchange reserves in 2008, calculated on an accrual basis,² are shown in Table 33 in *IV.3. Statistical tables*.

As the crisis developed on the international financial market, the Bank of Russia in 2008 took a range of additional measures to minimise its adverse effect on Bank of Russia foreign exchange reserves. During the year, the Bank of Russia reduced its deposits in foreign commercial banks and investments in foreign non-government securities, including securities of US federal mortgage agencies.³ At the same time, it significantly increased its investments in foreign government securities. The Bank of Russia tightened its re-

quirements for collateral in repo transactions and for counterparties in deposit operations. Its deposits with central banks and the Bank for International Settlements increased. In addition, the Bank of Russia reduced the terms of deposit and repo transactions with foreign counterparties, and cut the term to maturity of the foreign securities it acquired.

The Bank of Russia managed its assets in precious metals, including gold, separately from its foreign exchange reserves. In 2008, it increased the volume of its monetary gold by 69.20 tonnes, an increase of 16.62% on the beginning of the year, and continued to place gold in accounts with foreign credit institutions on short-term deposits with highly reliable banks. Due to the crisis on the global financial markets, the term of placing gold on deposits in 2008 was reduced.

¹ Relative index of the change in value of the asset portfolio during one business day. The daily portfolio rate of return is calculated according to the formula:

$$R = \frac{MV_1 - MV_0 \pm CF}{MV_0} - 1, \text{ where}$$

R is the portfolio rate of return for one day;

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

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

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

² The aggregate rate of return of the portfolios is calculated according to the linked indices method. The rate of return for the period was calculated according to the formula:

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

R_i is the day's rate of return.

³ As the investor confidence in non-government securities continued to fall and the economic situation in the United States deteriorated, the Bank of Russia decided to sell its US federal mortgage agency securities, and by the end of January 2009 had sold all these papers.

II.3. BANKING REGULATION AND SUPERVISION

II.3.1. REGISTRATION AND LICENSING OF BANKING ACTIVITIES

The institutional changes that took place in 2008 were characterised by a slower reduction in the number of operating credit institutions compared with 2007, an increased presence of credit institutions with foreign stakes in their authorised capital in the banking sector, and a continued expansion of branch networks and growth in the number of internal divisions of credit institutions. The number of credit institutions with licences to conduct banking operations had declined by 28, or 2.5% year on year, to 1,108 (including reorganisations) as of January 1, 2009 (in 2007 this figure fell by 4.4%, and in 2006 by 5.1%). The slower rate of decline in the number of credit institutions was due to the financial rehabilitation of 20 banks at the end of 2008. The number of registered credit institutions fell by 68, or 5.2%, to 1,228 (in 2007 the number of registered credit institutions declined by 49, or 3.6%, to 1,296), due to the completion of liquidation processes of some credit institutions that had their licences revoked in previous years.

Using its registration and licensing system, the Bank of Russia continued to register newly created credit institutions in compliance with international requirements. In the period under review, it registered 13 new credit institutions (eight banks and five non-bank credit institutions). Five of the newly registered banks are controlled by foreign capital. This compares with

12 credit institutions registered in 2007, including eight banks, six of them controlled by foreign capital. The Bank of Russia refused to register four newly created credit institutions (compared to one in 2007) following evaluation of the financial situations of their prospective founders and their business plans.

During the year under review, 37 banks, or 3.3% of total operating credit institutions, expanded the range of their operations by obtaining additional licences (this compares with 41 credit institutions, or 3.6% of the total in 2007), and 10 banks were issued several types of licence.

In 2008, the Bank of Russia issued general licences to eight banks; 10 banks received licences to take on deposit and place precious metals, of which three received this licence along with the general licence; seven banks received licences to conduct operations in roubles and foreign currency (without the right to take personal deposits), which were issued along with licences to take personal deposits in roubles and foreign currency; 13 banks received licences to take personal deposits in roubles and foreign currency; and six banks — members of the deposit insurance system that held licences to take personal deposits in roubles — also obtained licences to take personal deposits in foreign currency. Three banks had their licences replaced after restrictions im-

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

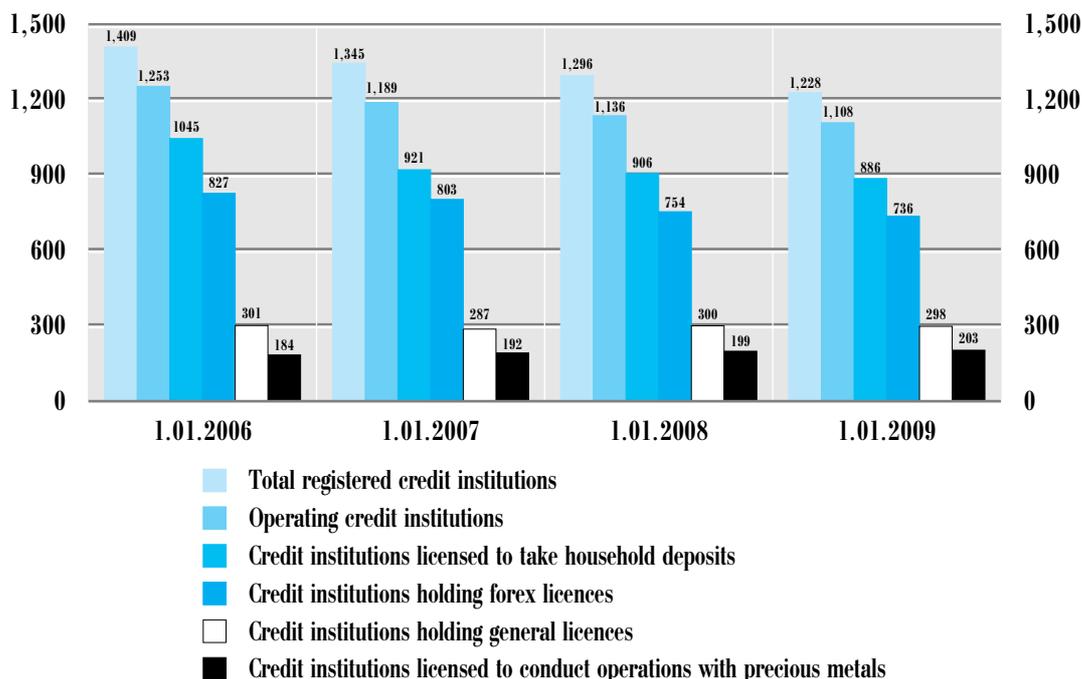


Chart 45

REGISTERED AUTHORISED CAPITAL
OF OPERATING CREDIT INSTITUTIONS

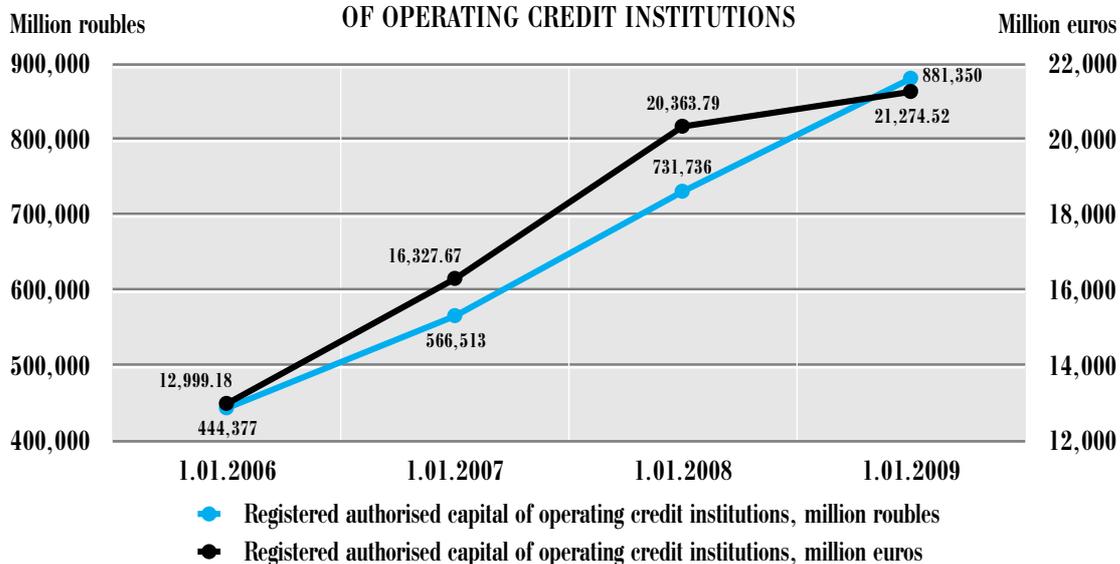


Chart 46

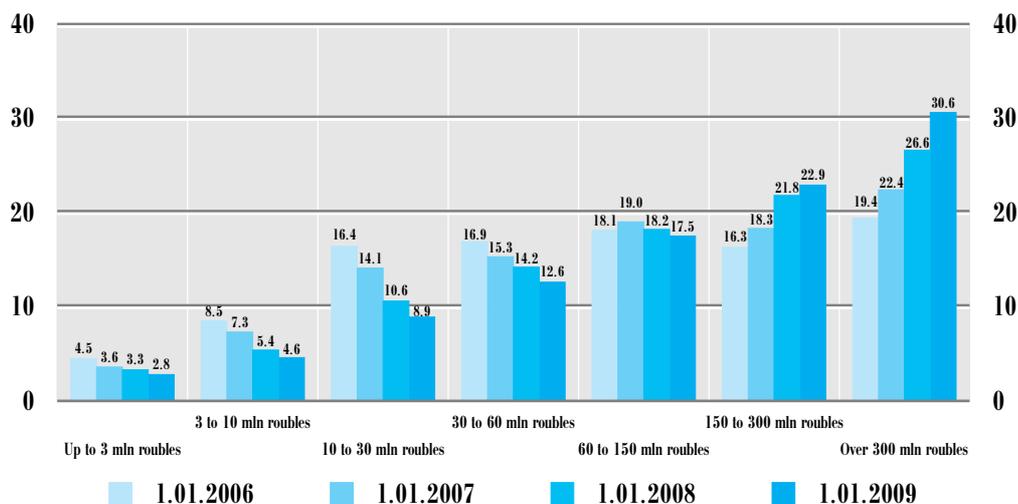
posed on some of their operations were lifted. One bank was issued a licence to take on deposit and place precious metals, which replaced the permission it had earlier received to conduct operations with precious metals.

Six credit institutions (down from 11 in 2007) were denied additional licences to expand

the range of their operations due to non-compliance with federal laws and Bank of Russia regulations; of these, four banks were denied additional licences due to non-compliance with Federal Law No. 177-FZ, dated December 23, 2003, 'On Insurance of Household Deposits in Russian Banks'.

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

Chart 47



As of January 1, 2009, 886 of the 1,108 operating credit institutions, or 79.96%, held licences to take personal deposits; 736 credit institutions, or 66.43%, held licences to conduct banking operations in roubles and foreign currency; 298 credit institutions, or 26.90%, held general licences; and 203 credit institutions, or 18.32%, held licences to take on deposit and place precious metals or permission to conduct operations with precious metals.

Owing to measures taken by credit institutions' shareholders (members) to raise the level of capitalisation of their credit institutions, the total authorised capital of operating credit institutions in 2008 increased from 731.7 billion roubles to 881.4 billion roubles, i.e. by 149.7 billion roubles. However, relative growth in registered authorised capital stood at 20.4% as against 29.2% in 2007. The slowing of growth in the registered authorised capital of operating credit institutions in 2008, compared with 2007, was largely due to the less favourable situation on the domestic and foreign financial markets.

The consolidation of the banking business continued in the period under review: three credit institutions merged with five credit institutions. In addition, nine credit institutions changed their form of incorporation from limited liability company to joint stock company.

The trend seen in the past few years towards an expansion of the share of credit institutions

with capital in excess of 150 million roubles continued in 2008. The number of operating credit institutions that as of January 1, 2009, had authorised capital of more than 300 million roubles stood at 339, or 30.6% of total operating credit institutions (this compares with 302 credit institutions, or 26.6% of the total, as of January 1, 2008, and 266 credit institutions, or 22.4%, as of January 1, 2007). The number of credit institutions with authorised capital of between 150 million roubles and 300 million roubles stood at 254, or 22.9% of total operating credit institutions (248 credit institutions, or 21.8%, as of January 1, 2008, and 217 credit institutions, or 18.3%, as of January 1, 2007).

The number of credit institutions with registered authorised capital of less than 150 million roubles fell to 515, or 46.4% of total operating credit institutions. This compares with 586 credit institutions, or 51.7%, a year earlier.

While the total number of operating credit institutions declined in 2008, the number of credit institutions with foreign stakes in their authorised capital increased by 9.4% to 221, from 202 a year earlier. Of these, the number of credit institutions with a foreign stake of more than 50% rose by 18.6% to 102 (in 2007 the number of such credit institutions increased 32.3% to 86). As of January 1, 2009, these credit institutions accounted for 9.2% of total operating credit institutions and

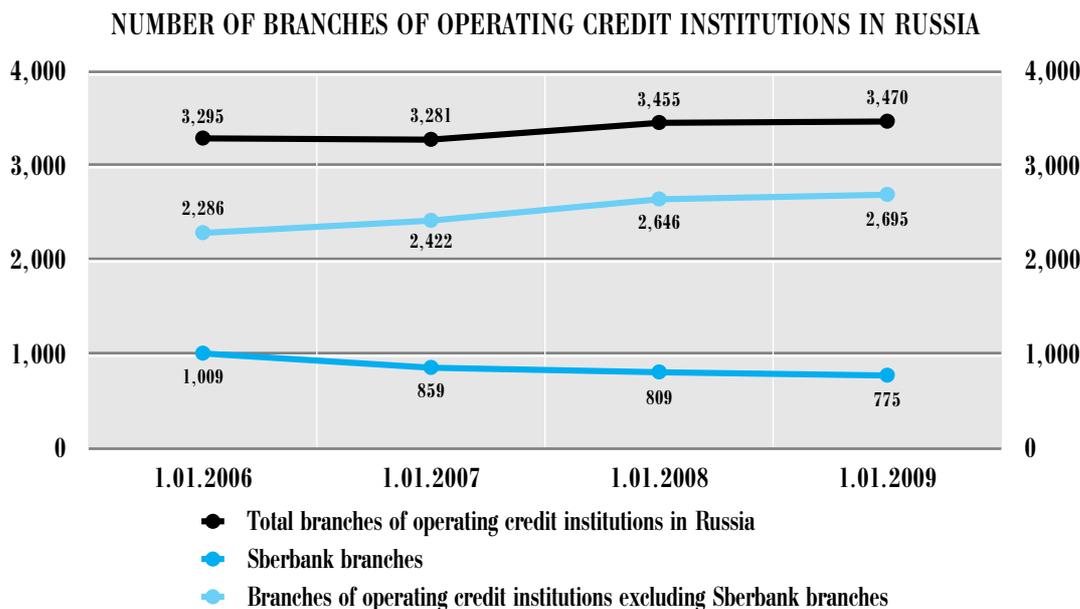


Chart 48

18.7% of total banking sector assets (as against 17.2% as of January 1, 2008).

The year under review saw an expansion of foreign capital participation in the Russian banking system. Non-resident participation in the total authorised capital of operating credit institutions in 2008 increased from 183.5 billion roubles to 251.1 billion roubles, or by 36.8% (in 2007 it doubled, by 93.4 billion roubles). The non-resident share in total banking sector authorised capital expanded to 28.5% from 25.1% as of January 1, 2008, compared to 15.9% as of January 1, 2007. The non-resident share in total banking sector registered authorised capital, net of non-residents subject to the material influence of residents, increased to 26.2% from 22.8%.

Credit institutions with a foreign stake in their authorised capital are located in 38 regions of the Russian Federation; 129, or 58.4% of them, are located in Moscow and the Moscow Region, and 15 are in St Petersburg.

The branch networks of operating credit institutions increased very slightly in 2008: as of January 1, 2009, there were 3,470 branches of credit institutions, including 775 Sberbank branches (compared to 3,455 branches, including 809 Sberbank branches as of January 1, 2008). In all federal districts except the Central Federal District, the number of branches of banks based in other regions far exceeded the number of local credit institutions and their branches. This

specific of the Russian banking system was primarily a result of the high concentration of credit institutions and their assets in Moscow and the Moscow Region and the size of the network of Sberbank regional branches, which accounted for 22.3% of total credit institution branches.

The number of representative offices of operating credit institutions in 2008 declined by 83, or 10.3%, to 721.

The number of branches of wholly foreign-owned credit institutions rose significantly (by 43.2%, from 169 as of January 1, 2008, to 242 as of January 1, 2009), due to two banks with large networks of branches (53 branches) coming under non-resident control.

In 2008, as in previous years, credit institutions continued to expand and optimise their regional networks, extending the geographical reach of their banking services by opening new internal divisions. This is the basic means of making banking services more accessible to the public. As credit institutions found that they had an opportunity to provide a virtually complete range of banking services, they opened more and more internal divisions, such as operations offices (the number of these trebled, from 497 to 1,498) and additional offices (their number increased by 12.1%, from 18,979 to 21,272). At the same time, the number of internal divisions, such as external cash desks and cash credit offices decreased (by 818 and 98, respectively) to 13,871 and 1,445, respectively.

NUMBER OF INTERNAL DIVISIONS OF OPERATING CREDIT INSTITUTIONS

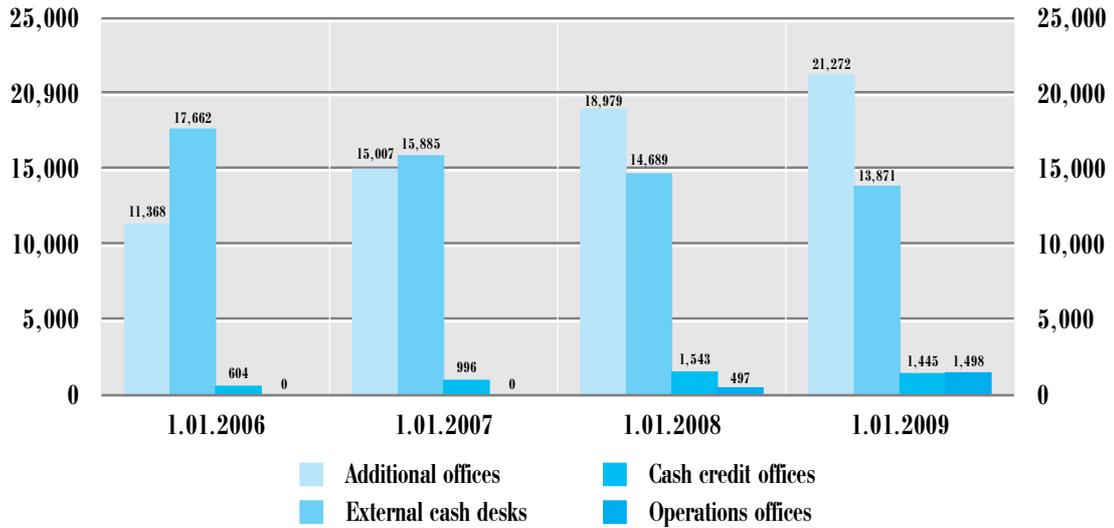


Chart 49

The total number of internal divisions of credit institutions increased by 2,389 in the year under review, to reach 38,148 as against 35,759 a year

earlier. The density of credit institutions' internal divisions per 100,000 residents increased from 25 in 2007 to 27 in 2008.

II.3.2. OFF-SITE SUPERVISION

The problems that arose in credit institutions during the crisis became a test for the banking supervision system. The most important characteristic of the system during that period was its improved efficiency.

The Bank of Russia improved the monitoring of liquidity, capital, assets and profitability of credit institutions. When evaluating the financial situation of problem banks, it first of all decided the question of whether a bank was salvageable. If a bank proved fundamentally unviable but was systemically important, the Bank of Russia initiated financial rehabilitation procedures; in other cases, banks had their banking licences swiftly revoked.

The situation on the financial markets dictated the need to pay closer attention to the current liquidity of credit institutions, and to ensure that they had adequate liquidity risk management systems in place. To protect the interests of creditors and depositors, the Bank of Russia began in October 2008 to pay closer attention to systemically important credit institutions, monitoring on a daily basis their turnovers and balances in correspondent accounts with the Bank of Russia.

Guided by the Core Principles for Effective Banking Supervision (Principle 17), the Bank of Russia began to hold more frequent meetings with banks' managers, at which the sides discussed the profile and level of risks assumed by the banks and the quality of risk management.

To tighten monitoring of the use by credit institutions of funds allocated in support of the Russian financial system, Federal Law No. 317-FZ, dated December 30, 2008, 'On Making Amendments to Article 46 and Article 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)', gave the Bank of Russia the power to appoint its authorised representatives to credit institutions that had received these funds. The Bank of Russia drafted a number of regulations in pursuance of this law. The analysis of information collected by the authorised representatives will allow the Bank of Russia to focus additional attention on the most significant

risks assumed by credit institutions of federal and regional importance.

To create more favourable conditions for lending to the real sector during the crisis, the Bank of Russia granted to credit institutions broader powers in assessing the quality of loan servicing than they had under 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'.

As the economic situation deteriorated in the fourth quarter of 2008, the number of complaints from corporate and individual borrowers increased significantly. Most of these related to unilateral decisions by credit institutions to change interest rates in effective credit agreements, especially on mortgage loans. When considering these complaints, the Bank of Russia explained to credit institutions that their actions increased the risk of borrowers defaulting on loans, and that in certain cases banks were putting their business reputations at risk.

In addition to carrying out anti-crisis measures, the Bank of Russia continued in 2008 to develop risk-based supervision and to prevent problems in credit institutions at an early stage.

Following the recommendations of the Basel Committee on Banking Supervision and international practice aimed at ensuring the comprehensiveness of assessments, replacing formal procedures with substantive evaluation of banks' performance, and implementing a risk-based approach, the Bank of Russia upgraded the methodology for evaluating banks' performance. The new methodology for assessing the economic situation of banks ensures the uniformity of the approaches used in assessments of banks' performances carried out by the Bank of Russia in the course of supervision, and of the approaches to evaluating banks' compliance with the deposit insurance system requirements.

The Bank of Russia continued to actively appoint curators to credit institutions, pursuant to its Regulation No. 310-P, dated September 7, 2007, 'On the Curators of Credit Institutions'.

The appointment of curators to structurally important banks allowed the Bank of Russia to expedite supervisory responses.

The Bank of Russia significantly changed the methods of evaluating credit institutions' risks on loans. These changes aimed to promote a substantive approach to the evaluation of the quality of loans extended by credit institutions, and established a requirement to classify portfolios of homogeneous loans by quality category.

To tackle the problem of inadequate loan classification and provisioning for losses that may arise when a borrower has presented reports and (or) information that differ from the reports and information that had been presented to government agencies and (or) published and (or) from the reports and information held in the credit bureau, the Bank of Russia established a requirement to treat these loans as involving significant credit risk, classify them as doubtful (Quality Category 3), and set the maximum provision required for this loan quality category (50%).

Special attention was paid to credit risk in the course of supervision. The Bank of Russia continued to study credit risk concentrations, ascertain whether borrowers were actually engaged in production or the provision of services and how they used the loans they received, and monitor cash flows and the sources of funds used to service loans, as well as the quality of their securitisation.

It continued to detect cases (signs) of the use of inappropriate assets in equity capital creation, monitoring for this purpose 318 credit institutions. Such cases (signs) were established in 15 credit institutions, and the sum of money involved totalled 335.3 million roubles. Three of these credit institutions were taken off the suspect list after their investors or third parties replaced inappropriate assets with safe assets, and three others had their requests to cancel orders to correct their equity capital satisfied.

Preventive measures continued to prevail in supervisory response in 2008, their number increasing by 6.5% year on year to 7,386. The most common preventive measure was the sending of a memo to the bank's management (such memos were sent to 1,071 banks). Bank of Russia regional branches held meetings with the managers of 509 banks.

The Bank of Russia continued in 2008 to improve reporting forms used for supervisory purposes (prudential reporting). Specifically, certain old forms were replaced by new ones, to enable supervisors to obtain more detailed information on credit risk concentrations and securities trading by credit institutions. Along with the introduction of new forms, the Bank of Russia on October 1, 2008, cancelled reporting form 0409102 'Income statement of credit institution' for branches of credit institutions, and on January 1, 2009, cancelled reporting form 0409156 'Information on investments made by credit institution'.

At the same time, the Bank of Russia made significant progress in harmonising Russian reporting forms with IFRS formats. Starting with their reports for 2008, credit institutions will disclose annual reports comprising a balance sheet, an income statement, an updated equity capital adequacy report, a report on loss provisions for doubtful loans and other assets, a cash flow report, and information on the required ratios. The Bank of Russia also set out a list and procedure for the presenting of information by credit institutions and the parent credit institutions of banking (consolidated) groups on their activities in locations where they provide services to individuals and corporate clients. Specifically, the Bank of Russia recommended that credit institutions display in these places data used to determine the full cost of a loan, along with other information for borrowers, and established the frequency of updating this information.

The Bank of Russia took steps in 2008 to further improve the methods of monitoring banking risks, and to improve its effectiveness. At present, the banking risk monitoring system, which is an element of risk-based supervision, comprises the monitoring of credit institutions' liquidity, the monitoring of lending to non-financial enterprises, the monitoring of lending to households, capital adequacy monitoring, and market risk monitoring. The purpose of monitoring is to prevent negative trends emerging in the banking sector, including for the identification of groups of credit institutions and individual banks whose operations are to a decisive extent responsible for these trends.

To improve the quality of credit risk assessment, the Bank of Russia continued to improve

the monitoring of non-financial enterprises, using monitoring results to analyse the solvency and financial soundness of individual enterprises and groups of loan-takers.

The Bank of Russia attaches great importance to the transparency of individual credit institutions, and of the banking sector as a whole. More than 86% of total operating credit institutions had disclosed information on their activities on the Bank of Russia website as of January 1, 2009, an increase of 2.6 percentage points on 2007. As of the beginning of 2009, 729 credit institutions,

or over 65% of total operating credit institutions, had agreed to disclose information.

A number of software systems, such as the State Register of Credit Institutions and the Analysis of the Financial Situation of Credit Institutions, were developed as part of the Single Bank of Russia Regulation and Banking Sector Development Information System. All software systems are centralised and therefore provide quick access to information, and make automated system replication and monitoring less expensive.

II.3.3. INSPECTION OF CREDIT INSTITUTIONS

In 2008, the Bank of Russia's inspection activities followed the Guidelines for the Single State Monetary Policy in 2008, the Bank of Russia Plan for the Implementation of the Russian Banking Sector Development Strategy until 2008, and the General Plan of Comprehensive and Thematic Inspections of Credit Institutions and their Branches in 2008.

Most inspections of credit institutions and their branches were scheduled, and were aimed at detecting at the earliest possible stage violations of applicable legislation and Bank of Russia regulations, as well as risks and problems in credit institutions.

Inspections focused on the financial soundness of credit institutions, the quality of their assets and management, the organisation and effectiveness of internal controls, and compliance with legislation on countering money laundering and terrorist financing. To prevent credit institutions from conducting operations with so-called 'mirror' promissory notes (mirror-like copies of genuine promissory notes) and fictitious promissory notes, the Bank of Russia inspected the credit institutions that were the principal operators on this market. After inspection results had been analysed, supervisory measures were taken, and inspectors met with the managers of credit institutions that held a large share of suspect promissory notes in their portfolios. Inspectors scrutinised the organisation of consumer lending in credit institutions and their branches. To ascertain the real situation in consumer lending, they inspected 51 credit institutions that extended the largest volumes of consumer loans.

As the crisis emerged in the economy, including the banking sector, inspectors in the fourth quarter of 2008 shifted their emphasis to liquidity management, the timeliness of payments, and the assessment of the outlook for credit institutions.

In 2008, the Bank of Russia's authorised representatives conducted a total of 1,510 inspections of credit institutions and their branches.

In line with the General Plan of Comprehensive and Thematic Inspections of Credit Institutions and their Branches in 2008, Bank of Rus-

sia inspectors carried out 1,121 inspections, or 74% of total inspections. Of these, 691 inspections were conducted in credit institutions, 41 inspections in Sberbank branches, 385 inspections in the branches of other credit institutions, and four inspections in the internal divisions of credit institutions. In total, 205 scheduled interregional inspections of credit institutions and their branches were conducted in 2008.

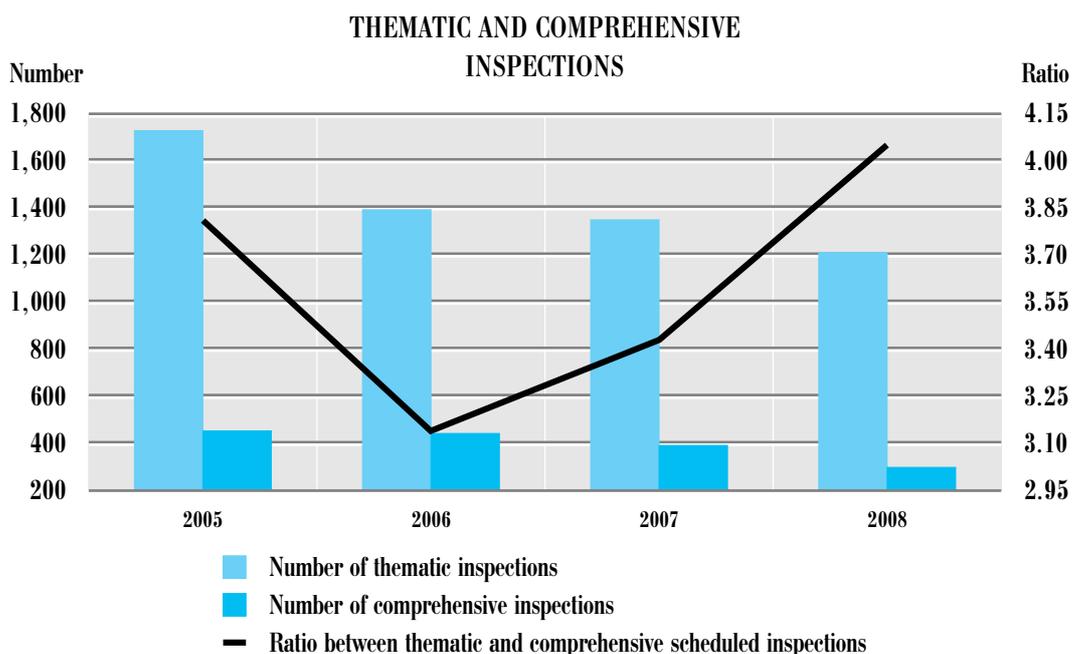
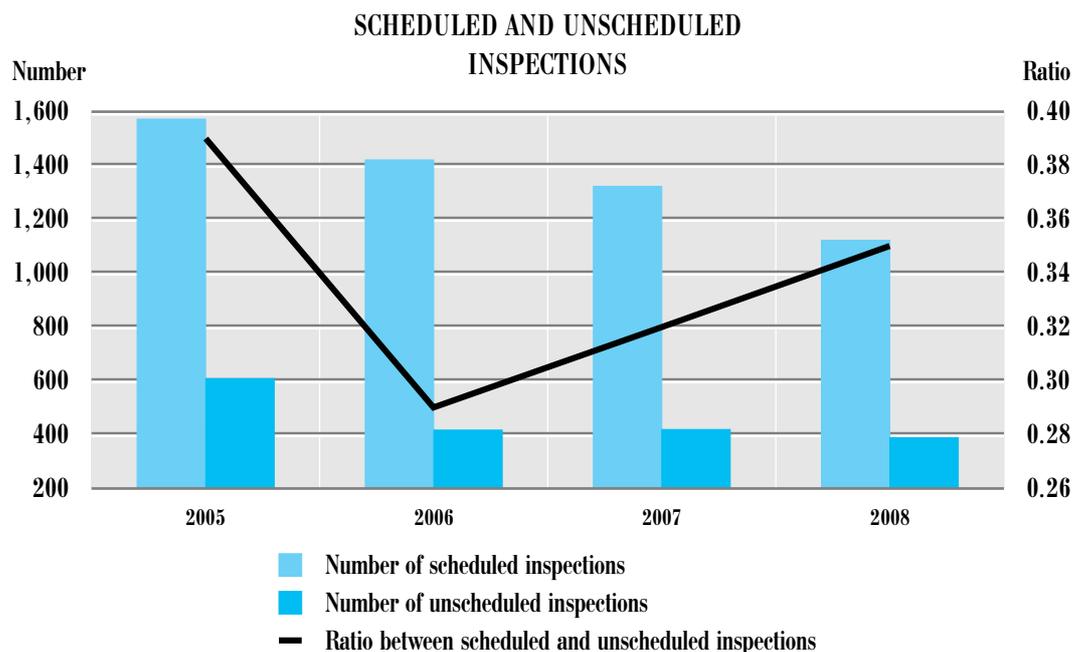
Of the total number of inspections conducted in credit institutions and their branches 299 (19.8%) were comprehensive inspections and 1,211 (80.2%) — thematic inspections.

To ensure the functioning of the deposit insurance system and to guarantee protection of the rights and interests of commercial banks' depositors, in compliance with the requirements of Article 32 of Federal Law No. 177-FZ, dated December 23, 2003, 'On Insurance of Household Deposits in Russian Banks', the Bank of Russia conducted with the participation of the Deposit Insurance Agency (DIA) 91 scheduled inspections of banks participating in the deposit insurance system.

The Bank of Russia's authorised representatives conducted 389 unscheduled inspections in 2008, comprising 26% of total inspections.

Of the total number of unscheduled inspections, 98, or 25.2%, were conducted on the decision of the Bank of Russia management. These inspections focused on banking operations involving high risk. Specifically, inspectors assessed the quality of assets of credit institutions, the liquidity situation, and settlement discipline, including the timeliness and completeness of the effectuation of customer payments.

Most unscheduled inspections (291, or 74.8% of total unscheduled inspections) were conducted on the decision of the management of Bank of Russia regional branches. Of these, 246 inspections were conducted when credit institutions increased their registered authorised capital by more than 20%, and 24 inspections were conducted when credit institutions filed requests to expand the range of their operations; 17 inspections were conducted in connection with the implementation of bankruptcy prevention mea-



tures; and four inspections were conducted to make certain that the assets provided by banks as collateral for Bank of Russia loans met the criteria established by Bank of Russia Regulation No. 312-P, dated November 12, 2007, ‘On the Procedure for the Extending by the Bank of Russia of Asset-Backed Loans to Credit Institutions’.

In total, 824 credit institutions (72.5% of the credit institutions in operation as of January 1,

2008) and 462 branches of credit institutions (13.4% of the credit institution branches in operation as of January 1, 2008), including 44 Sberbank branches (5.4% of the Sberbank branches that were in operation as of January 1, 2008) were inspected in 2008.

The inspections conducted in 2008 revealed 16,997 violations committed by credit institutions and their branches.

INSPECTIONS PER CREDIT INSTITUTION

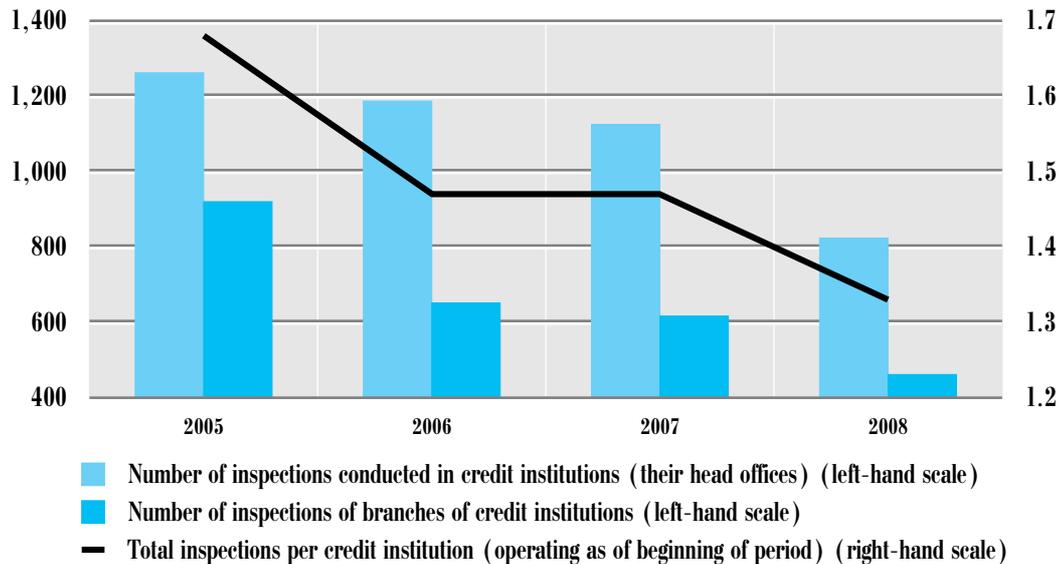


Chart 52

The largest number of violations (4,651, or 27.4% of the total) related to infringements of the law on countering money laundering and terrorist financing. A substantial share of violations — 3,794, or 22.3% — were violations committed in the course of conducting lending operations; 1,569, or 9.2%, were violations of accounting rules; and 1,334, or 7.8%, were cases of false accounting and misreporting. Violations of the procedure for conducting cash operations numbered 1,013 cases (6%), and violations of the requirements of foreign exchange law totalled 862 cases (5.1%).

In the period under review, the Bank of Russia made continual efforts to improve the quality of inspections, enhance the effectiveness and quality of preparations for inspections, upgrade inspection methodologies, and tighten control over the quality of inspection reports.

To optimise and improve the quality of inspections, the Bank of Russia continually monitored the progress and preliminary results of inspections, and developed bank inspection requirement cards to evaluate the quality of corporate loans, credit risk on third-party promissory note debt, credit institutions' consumer lending activities, and to examine active operations with securities.

It continued the practice of hearing reports by its regional branches on the quality of inspections,

which allowed the Main Inspectorate for Credit Institutions in 2008 to analyse 54 inspection reports by eight Bank of Russia branches located in the Siberian Federal District, the Southern Federal District, the Far Eastern Federal District, the Urals Federal District, and the Volga Federal District. Analysis results in the form of 49 recommendations on ways to improve inspection activities have been sent to Bank of Russia regional branches.

During 2008, the interregional inspectorates of the Main Inspectorate for Credit Institutions played a more important role in planning, organising, and improving the quality of inspections. Specialists of the Main Inspectorate for Credit Institutions conducted, in some cases in collaboration with interregional inspectorates, 47 inspections, and analysed about 900 inspection reports by Bank of Russia regional branches. In response to 199 of these reports, recommendations were sent on means of improving inspections.

In line with a decision of the Board of Directors, the Bank of Russia has begun an experiment in the North-Western Federal District to centralise inspection activities in that region. This project is designed to radically change the organisational structure of inspections: the inspection divisions of regional branches in the Federal District have been transformed into divisions

of Inspectorate No. 3 of the Main Inspectorate for Credit Institutions, located in their respective territories.

The centralisation of inspection activities is designed to improve the quality and enhance the effectiveness of inspections, alleviate the inspection burden on credit institutions, make inspec-

tors independent, relocate inspection resources whenever necessary, share expertise, and improve cooperation between inspection and supervision divisions.

The Bank of Russia continued in 2008 to upgrade the regulation of inspections and the methodologies for organising and conducting them.

II.3.4. BANK BANKRUPTCY (INSOLVENCY) PREVENTION AND THE WITHDRAWAL OF INSOLVENT CREDIT INSTITUTIONS FROM THE BANKING SERVICES MARKET

Pursuant to Article 74 of Federal Law No. 86-FZ, dated July 10, 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', and Articles 20 and 23 of Federal Law No. 395-1, dated December 2, 1990, 'On Banks and Banking Activities', the Bank of Russia in 2008 issued orders to revoke the banking licences of 33 credit institutions, and three credit institutions had their licences cancelled on the decision of their shareholders (members). Most of the revoked (cancelled) licences (25) were of credit institutions registered in Moscow and the Moscow Region.

Up to September 2008, the Bank of Russia consistently took steps to remove from the banking services market unviable credit institutions that were incapable of rectifying their situations at their own expense or at the expense of their owners.

From January 1 to September 1, 2008, the Bank of Russia withdrew licences from 14 credit institutions, of which seven credit institutions had their licences revoked for repeated violations, within one year, of Article 6 and Article 7 (excluding clause 3 of Article 7) of Federal Law No. 115-FZ, dated August 7, 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism', and three credit institutions had their licences revoked for failing to satisfy creditors' monetary claims and (or) to effectuate compulsory payments.

From January 1 to September 1, 2008, 32 credit institutions were liable for insolvency (bankruptcy) prevention measures. One of these recovered due to the implementation of the financial rehabilitation plan, and 19 eliminated their liability.

After September 1, 2008, as the international financial crisis escalated, 63 credit institutions became liable for insolvency (bankruptcy) prevention measures. Of these, 21 credit institutions

have rectified their situations independently, and one credit institution has presented its rehabilitation plan to the Bank of Russia, and is currently implementing it.

Simultaneously, in September 2008 the Bank of Russia began to implement a package of measures to ensure the solvency of systemically important banks facing liquidity and capital problems. Prior to October 28, 2008, the Bank of Russia had deposited 160 billion roubles and \$2.5 billion in organisations that were rehabilitating six problem banks (as of January 1, 2009). After October 29, the Bank of Russia collaborated with the Deposit Insurance Agency (DIA) to implement bankruptcy prevention measures in 15 banks, pursuant to Federal Law No. 175-FZ, dated October 27, 2008, 'On Additional Measures to Strengthen Banking Sector Stability in the Period up to December 31, 2011', and in line with the DIA's Bankruptcy Prevention Plans agreed with the Bank of Russia Banking Supervision Committee (of the 15 plans that envisaged the use of Bank of Russia funds, 10 were approved by the Bank of Russia Board of Directors). In accordance with these plans, the DIA received 114.3 billion roubles in unsecured loans at an interest rate of 5.5% p.a. for terms of two and a half to five years.

The funds provided by the Bank of Russia and the DIA helped to rehabilitate 18 banks (these banks owed their creditors a total of 735.9 billion roubles, or 3.64% of total banking sector liabilities as of October 1, 2008), and enabled three banks to meet all their obligations to depositors. These 21 banks held a total of 203.5 billion roubles in personal deposits, or 3.46% of total personal deposits as of October 1, 2008.

From September 1, 2008, to January 1, 2009, the Bank of Russia revoked the licences of 19 credit institutions, of which 18 credit institutions had their licences revoked pursuant to paragraph 2 of Article 20 of Federal Law No. 395-1,

dated December 2, 1990, 'On Banks and Banking Activities'. Seventeen of these credit institutions had their licences revoked due to their inability to satisfy creditors' monetary claims and (or) effectuate compulsory payments. In addition, 11 credit institutions had their licences revoked for gross misreporting. These 19 banks' obligations to all creditors totalled 55.4 billion roubles, or 0.27% of total banking sector liabilities, as of October 1, 2008. Personal deposits in these banks totalled 19.2 billion roubles, or 0.33% of total personal deposits, while the insurance indemnity paid out of the deposit insurance fund amounted to 13.5 billion roubles, or 16.7% of the total fund, as of October 1, 2008.

During 2008, four credit institutions initiated court proceedings to dispute licence revocation orders issued by the Bank of Russia (in all cases the court corroborated the decisions taken by the Bank of Russia).

In 2008, the Bank of Russia oversaw 42 provisional administrations of credit institutions, which conducted their activities pursuant to Federal Law No. 40-FZ, dated February 25, 1999, 'On the Insolvency (Bankruptcy) of Credit Institutions'. Over the year it appointed 33 provisional administrations, of which 19 were appointed after September 1, and disbanded 26 provisional administrations (of which 13 were dismissed after arbitration courts ordered the compulsory liquidation of credit institutions and the appointment of a liquidator, and 13 were disbanded after arbitration courts declared credit institutions insolvent (bankrupt) and appointed a receiver. In 2008, DIA representatives worked in 29 provisional administrations. As of January 1, 2009, there were 16 provisional administrations in operation, appointed in connection with the revocation of licences from credit institutions. In four banks the Bank of Russia appointed DIA provisional administrations. From three of them, obligations to depositors and the equivalent amount of property were transferred to financially sound banks (in one bank this process had been completed in 2008, and this bank had its licence revoked). As of January 1, 2009, the DIA performed provisional administration functions in three banks (two of which later had their licences revoked).

As of January 1, 2009, 117 credit institutions that had had their licences withdrawn (annulled), but whose liquidation had not yet been registered, were in line for liquidation. Liquidation proceedings were undertaken in 102 of these credit institutions, and as for the remaining 15 credit institutions, no court decisions had been taken on them as of the reporting date after the revocation of their licences. Most credit institutions in line for liquidation (60 credit institutions) were declared insolvent (bankrupt), and bankruptcy proceedings were initiated in them (these include 18 credit institutions declared bankrupt in 2008, of which five were to be liquidated by an earlier court order). Thirty-four credit institutions were ordered to be liquidated by arbitration courts (including 12 credit institutions ordered to be liquidated in 2008, of which two were subsequently declared bankrupt). In addition, eight credit institutions are being liquidated voluntarily on the decision of their founders (members) (decisions to liquidate three of these credit institutions were taken by their founders (members) in 2008).

In most of the credit institutions liquidated as of January 1, 2009 (85 credit institutions), the liquidation proceedings were conducted by the DIA, including 56 in which the DIA was the receiver and 29 in which it was the liquidator.

In 2008, the Bank of Russia registered the liquidation of 70 credit institutions, of which 32 were liquidated after arbitration courts ruled that bankruptcy proceedings had been completed, 34 were liquidated on court rulings without any signs of bankruptcy, and four credit institutions were liquidated on the decision of their founders (members).

In 2008, the Bank of Russia accredited 21 receivers of bankrupt credit institutions and extended the accreditation of 16 receivers.

Thirty-eight receivers were accredited with the Bank of Russia as of January 1, 2009.

In 2008, the Bank of Russia inspected 15 receivers (liquidators), of which 13 were DIA receivers and two were independent receivers.

Pursuant to Federal Law No. 96-FZ, dated July 29, 2004, '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 a decision to pay 2 million roubles to five deposi-

tors of one credit institution. Also, the Bank of Russia Board took a decision to pay an additional 900,000 roubles to 17 depositors of credit institutions on which decisions to pay compensation had been taken in previous years.

From the first compensation payments up to January 1, 2009, the Bank of Russia took

decisions to pay 40,042 depositors a total of 1,213.7 million roubles; 35,909 depositors, or 89.7% of eligible depositors, received a total of 1,180.3 million roubles in Bank of Russia compensation payments, or 97.2% of the total funds allocated for Bank of Russia compensation payments.

II.3.5. HOUSEHOLD DEPOSIT INSURANCE

Pursuant to Federal Law No. 177-FZ, dated December 23, 2003, ‘On Insurance of Household Deposits in Russian Banks’, (hereinafter referred to as Federal Law No. 177-FZ), the Bank of Russia in 2008 supervised banks to ensure their compliance with the deposit insurance system’s requirements.

As of January 1, 2009, 937 banks had participated in the compulsory deposit insurance system; these include banks that had earlier had their banking licences withdrawn (annulled).

New banks continued to join the system in 2008: 13 banks that had requested permission to expand the range of their operations received licences to take personal deposits in roubles and foreign currency.

Insured events occurred in 27 participating banks in 2008 (of these, 25 had their licences revoked, and two had their licences cancelled after they decided to undergo voluntary liquidation). In all insured cases connected with licence revocation, the registers of obligations to creditors were sent by Bank of Russia-appointed provisional administrations to the DIA within the seven-day period established by Federal Law No. 177-FZ, and this allowed the DIA to start paying indemnities to depositors on time.

Pursuant to Article 48 of Federal Law No. 177-FZ, the Bank of Russia Banking Supervision Committee prohibited in 2008 six banks participating in the deposit insurance system from taking personal deposits and opening personal accounts due to their failure to comply with the deposit insurance system requirements.

In line with the requirements of Federal Law No. 177-FZ and agreements signed in 2008, the Bank of Russia and the DIA engaged in joint activities, coordinated their work, and shared information on the functioning of the deposit in-

urance system, the participation of banks within it, the payment of insurance premiums and deposit compensation, the inspection of participating banks by the Bank of Russia, the sanctions against them, and other issues relating to the deposit insurance system.

A federal law passed in 2008 raised the maximum level of personal deposit insurance compensation to 700,000 roubles, and Bank of Russia compensation to depositors of bankrupt banks not covered by the deposit insurance system was raised commensurately.

Federal Law No. 270-FZ, dated December 22, 2008, ‘On Amending the Federal Law on Insurance of Household Deposits in Russian Banks and Certain Other Federal Laws’ (hereinafter referred to as Federal Law No. 270-FZ), which came into force on December 26, 2008, set out the criteria of Bank of Russia oversight of banks’ compliance with the deposit insurance system requirements, the arrangements for ensuring the payment of insurance indemnities, and the functions and powers of the DIA, including its functions and powers as the liquidator of banks participating in the deposit insurance system. Specifically, it extended from three to six months the maximum permissible period of non-compliance by a bank with the deposit insurance system requirements, after which the Bank of Russia must prohibit the bank from raising funds from individuals and eventually from handling deposits. Federal Law No. 270-FZ also required banks participating in the deposit insurance system to disclose to the public at large information on persons who directly or indirectly exert material influence on the decision-making of the bank’s management. This requirement is consistent with the global trend in banking supervision towards greater transparency and openness among banks.

II.3.6. CENTRAL CATALOGUE OF CREDIT HISTORIES

Created by the Bank of Russia in 2005 under Federal Law No. 218-FZ, dated December 30, 2004, 'On Credit Histories', (hereinafter referred to as Federal Law No. 218-FZ), the Central Catalogue of Credit Histories in 2008 contained over 21 million credit history titles. At the end of 2008, Federal Law No. 218-FZ and the Bank of Russia regulations issued in pursuance of this law gave credit history holders and users access to 55.5 million credit history titles with information on the credit bureaus where credit history holders' credit histories were kept.

This number of credit history titles approximately corresponds to 32.5 million borrowers who are credit history holders and who have agreed to pass information to the credit bureau. Individuals accounted for 99.7% of total credit history holders as of January 1, 2009.

Last year saw significant growth in demand for the services provided by the Central Cata-

logue of Credit Histories, and the number of inquiries sent to the Catalogue in 2008 (1.6 million, or an increase of 250% on the previous year) illustrates this. Of these, 1.4 million were inquiries by credit history holders and users concerning the credit bureaus where credit history holders' credit histories were kept, and about 200,000 inquiries related to the creation of, changes to, and cancellation of credit history holders' codes.

The Bank of Russia inspected in 2008 the quality of information stored in the Central Catalogue of Credit Histories, and sent to the Federal Financial Markets Service information on violations of Federal Law No. 218-FZ by registered credit bureaus. This process resulted in the correction of errors made, and the sending of verified information by credit institutions to credit bureaus and the Central Catalogue of Credit Histories.

II.3.7. BANK OF RUSSIA ACTIVITIES AIMED AT PREVENTING MONEY LAUNDERING AND TERRORIST FINANCING

In 2008, the Bank of Russia continued to exercise the powers granted to it by Federal Law No. 115-FZ, dated August 7, 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (hereinafter referred to as Federal Law No. 115-FZ).

To provide methodological assistance to credit institutions with respect to the implementation of the provisions of the anti-money laundering and combating the financing of terrorism (AML/CFT) law, the Bank of Russia in 2008 issued recommendations for detecting operations conducted by their customers connected with:

- advance payments made under import contracts to the accounts of non-residents registered in off-shore zones opened with the banks of certain countries;
- the presentation of promissory notes issued by large Russian banks for payment by off-shore companies that are not the first holders of these promissory notes;
- transfers by Russian enterprises of large sums of money, incommensurate with the scale of their business, to the accounts of these enterprises opened with the banks of foreign states;
- transfers under import contracts that provide for the payment for goods after they have been brought into Russia, accompanied by the presentation to credit institutions, by dishonest economic entities, of fictitious cargo customs declarations and other supporting documents.

To fulfil its supervisory functions, the Bank of Russia in 2008 verified compliance with AML/CFT legislation in the course of inspecting 637 credit institutions and/or their branches.

In conducting these inspections, the Bank of Russia uncovered a number of cases in which credit institutions failed to comply with the requirements of Federal Law No. 115-FZ and Bank of Russia regulations on customer and beneficiary identification and the detection, recording, and reporting to the competent authority of information on cash and other property transactions subject to mandatory control.

Various sanctions were employed against credit institutions for violations of Federal Law No. 115-FZ. Preventive measures (making information on shortcomings discovered in a credit institution known to its management) were taken in 339 cases; corrective measures (issuing orders to rectify faults) were taken in 229 cases; fines were imposed in 170 cases; in 252 cases credit institutions were prohibited from conducting certain banking operations; and seven credit institutions had their licences revoked.

The Mutual Evaluation Report on Russia, which was approved by the Financial Action Task Force (FATF) and contains FATF expert assessments of the Russian AML/CFT system's compliance with international AML/CFT standards, noted the Russian banking sector's effectiveness in the field of AML/CFT, the active role played by the Bank of Russia in this work, and the high level of supervision.

II.4. THE RUSSIAN PAYMENT SYSTEM

II.4.1. THE STATE OF THE RUSSIAN PAYMENT SYSTEM

The Russian payment system continued in 2008 to demonstrate positive trends, becoming increasingly efficient.

The number of banking institutions¹ providing payment services increased over the year by 5.4% to 43,300 as of January 1, 2009. Their growth per one million residents from 289 as of January 1, 2008, to 305 as of January 1, 2009, shows that the banking system has made payment services more accessible. The institutional structure of the banking sector has altered significantly. The number of credit institutions' operations offices more than trebled in 2008, while the number of additional offices and branches of credit institutions increased slightly (by 12.1% and 0.4%, respectively). Credit institutions prefer operations offices to other organisational means of providing banking services, primarily because they are easier to register and can conduct a wide range of banking operations.

The number of transaction accounts opened in credit institutions by private individuals and corporate entities other than credit institutions increased 11.0% in 2008 to reach 467.8 million. Most of these were personal accounts, with corporate accounts making up 2% at most. At the end of 2008, there were on average 3.3 transaction accounts per capita (3.0 accounts a year earlier).

As Russian banks actively adopted advanced information and communications technology, the payment services market registered further growth in customer demand for online account management services. The number of accounts that could be accessed online increased by 40.2%, and as of January 1, 2009, accounted for 31.0% of total accounts through which payments were effectuated in the year under review (compared to 25.3% as of January 1, 2008). Significant growth was registered in the number of accounts that could be accessed via mobile phones (their number doubled) and via the Internet (an increase of 60%).

The number and volume of non-cash payments passing through the Russian payment system in 2008 increased by 13.3% and 18.3% year on year, respectively, to reach 2.8 billion transactions to a total sum of 882.3 trillion roubles. An average of 11.2 million payment transactions to a total of 3.5 trillion roubles were conducted daily (9.9 million transactions aggregating 3.0 trillion roubles were registered in 2007).

Over the year, private payment systems passed 1.8 billion payments to the amount of 366.1 trillion roubles. Of this sum, payments within a single division of a credit institution accounted for 71.4% of the total number and 46.9% of the total volume of payments, inter-branch payments

¹ Bank of Russia establishments, credit institutions and their branches, additional offices, operations offices, cash and credit offices, and external cash desks.

accounted for 23.4% and 36.9%, respectively, and settlements through credit institutions' correspondent accounts opened with other credit institutions made up 5.2% and 16.2%, respectively.

Non-bank credit institutions, such as the MICEX Clearing House and the RTS Clearing House, accounted for the majority of settlements on the securities market. The volume of transactions conducted across the participants' accounts in the largest clearing centre on the organised securities market, the MICEX Clearing House, expanded by 36.5% year on year in 2008 to reach 168.6 trillion roubles.

Settlements by payment orders remained the most common form of non-cash settlements in 2008, accounting for 55.0% of the total number of payments, and 96.9% of the total volume of payments. Compared to 2007, their number increased by 11.4% to 1.2 billion transactions, while in volume they grew 3.3% to 527.8 trillion roubles. The small growth in the volume of payments was due to a reduction of the average transaction value from 458,400 roubles to 425,100 roubles, a decrease of 7.2%. Collection letters, payment requests, letters of credit, and cheques were more widely used in 2008. The number of payments made using these instruments rose 30.3%, but their share in the total volume of payments remained small.

Cash was by far the most widely used instrument in retail payments. More than half of the total sum of cash received by the cash departments of Bank of Russia divisions and credit institutions came from transactions connected with payments for consumer goods (33.9%) and services (9.3%), and the purchase of foreign currency (8.3%) and real estate (1.7%).

Money transfers made at the request of private individuals without opening a bank account were the most dynamic segment of the retail banking services market in 2008. Credit institutions' clients carried out 813.5 million money transfers to the amount of 2.6 trillion roubles. Compared to 2007, this represents an increase of 12.8% in

number and 20.8% in volume. Remittances made at the request of private individuals to other private individuals without opening a bank account made up 19.9% of the total volume of money transfers, and money transfers to corporate entities accounted for 80.1%.

Owing to changes in the banking laws,¹ credit institutions can now arrange agent relations with commercial organisations and transfer individuals' funds without opening a bank account, in order to pay for electricity, and housing and utility services. In 2008, these transfers amounted to nearly 80 billion roubles.

The payment card market has been expanding rapidly. In 2008, the number of bank cards issued by credit institutions rose 15.2% to 119.2 million. However, despite significant growth in the issuing of banking cards (there were 0.8 banking cards per resident of the Russian Federation as of January 1, 2009), banking cards in use accounted for less than 50% of all issued cards.

A total of 2.1 billion payment card transactions to the amount of 9.1 trillion roubles were conducted in Russia in 2008. Of these, cash withdrawals accounted for 76.2% of the total number of payment card transactions and 88.9% of their volume, card payments for goods and services² accounted for 23.4% and 9.7%, respectively, and other operations³ accounted for 0.4% and 1.4%. The significant growth in card payments for goods and services (by 42.0% in quantity and 51.1% in volume) was a direct result of the expansion of card processing infrastructure. The number of devices used for card payments for goods and services⁴ reached 458,300 as of January 1, 2009, an increase of 45.6% on 2007.

The adoption of online banking has been expanding. Individual non-cash retail payments made from personal bank accounts on request and passed to credit institutions via the Internet or mobile phones saw the most rapid rates of growth. The number of such payments rose 70.6% in 2008 to 20.0 million, and their volume increased 65.3% to 474.1 billion roubles.

¹ Article 13.1 of Federal Law No. 395-1, dated December 2, 1990 (with amendments effective as of February 28, 2009) 'On Banks and Banking Activities'.

² Including customs payments.

³ Card-to-card transactions, donations and similar operations.

⁴ ATMs, points of sale terminals and imprinters.

II.4.2. DEVELOPMENT AND UPGRADING OF THE BANK OF RUSSIA PAYMENT SYSTEM

During 2008, the Bank of Russia payment system carried 940.1 million payments to a total value of 516.3 trillion roubles. The share of payments that passed through the Bank of Russia payment system in 2008 in the total number and volume of payments in the country remained virtually unchanged from 2007 at 33.8% and 58.5%, respectively (34.0% and 59.7% in 2007). This means that the Bank of Russia payment system remained the most important element of the Russian payment system.

Payments passing through the Bank of Russia payment system in 2008 increased by 12.7% in number and 15.8% in volume, while the share of payments processed by the Bank of Russia payment system relative to GDP contracted from 13.5% in 2007 to 12.4% in 2008. The slowing of growth in the volume of payments passing through

the Bank of Russia payment system relative to GDP compared with the previous year was a result of the impact the global financial crisis had on the Russian economy.

The average number of payments passing daily through the Bank of Russia payment system increased by 11.8% over the year to reach 3.8 million, while the average size of payments passing through this system grew 2.7% to 549,200 roubles.

Of the total number and volume of payments passing through the Bank of Russia payment system, credit institutions' payments accounted for 83.6% in number and 84.8% in volume in 2008 (compared to 83.7% and 80.3%, respectively, in 2007). The Bank of Russia payment system processed 47.2% of the total number of interbank payments in Russia in 2008, and 71.7% of their total volume.¹

BANK OF RUSSIA PAYMENT SYSTEM PARTICIPANTS
(number)

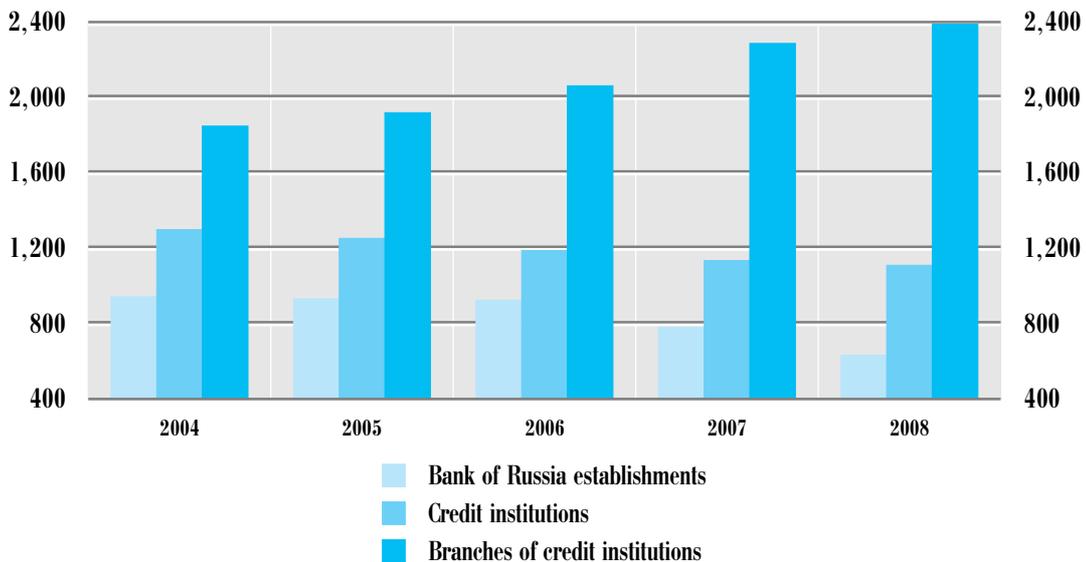


Chart 53

¹ These include payments effected between credit institutions and their branches through the Bank of Russia payment system, payments effected by non-bank settlement credit institutions, payments passed through credit institutions' correspondent accounts opened in other credit institutions, and payments between the divisions of a single credit institution.

As of January 1, 2009, the Bank of Russia payment system's participants comprised 632 Bank of Russia establishments (down from 782 as of January 1, 2008), 1,108 credit institutions (1,136 as of January 1, 2008), and 2,395 branches of credit institutions (2,285 as of January 1, 2008). Credit institutions and their branches held 3,503 correspondent accounts and sub-accounts with the Bank of Russia, an increase of 2.4% on the previous year.

The number of clients other than credit institutions serviced by the Bank of Russia, which in 2008 accounted for 16.1% of the total number and 10.1% of the total volume of payments passing through the Bank of Russia payment system, declined during the year under review from 29,324 to 20,541, or by 30.0% (compared to 19.4% in 2007). As in previous years, the reduction in the number of these clients was a result of the implementation of the provisions of Article 215.1 of the Budget Code of the Russian Federation, which transferred the cash execution of the federal, regional and municipal budgets to the Federal Treasury.

Electronic payments accounted for 99.7% of total payments that passed through the Bank of

Russia payment system, and 99.6% of their total volume.

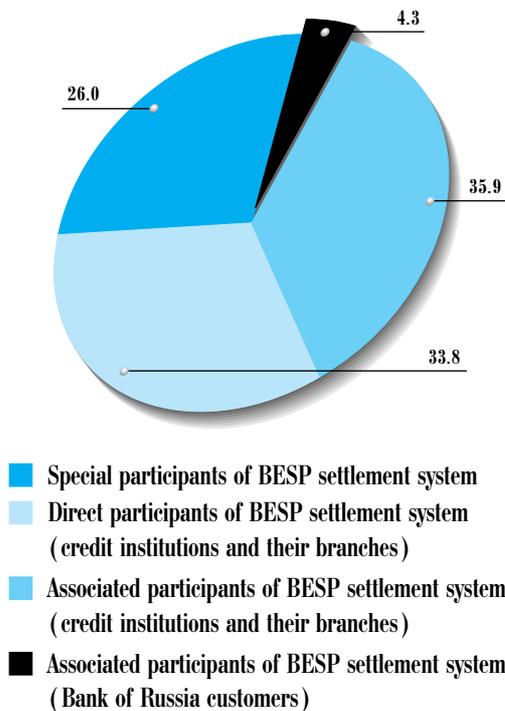
Bank of Russia client credit institutions, and branches of credit institutions participating in the exchange of electronic documents with the Bank of Russia, accounted for 96.8% of total credit institutions and their branches as of January 1, 2009, and the share of electronic payments that passed through the Bank of Russia payment system accounted for 98.8% of total payments in 2008 (as against 97.8% in 2007).

The average monthly availability ratio of the Bank of Russia payment system, i.e. its readiness to accept settlement documents from Bank of Russia customers, ranged in 2008 from 99.99% to 100% (as against 99.95% to 100% in 2007) with respect to the settlement documents on paper, and from 98.76% to 99.92% (99.02% to 99.89% in 2007) for electronic settlement documents.

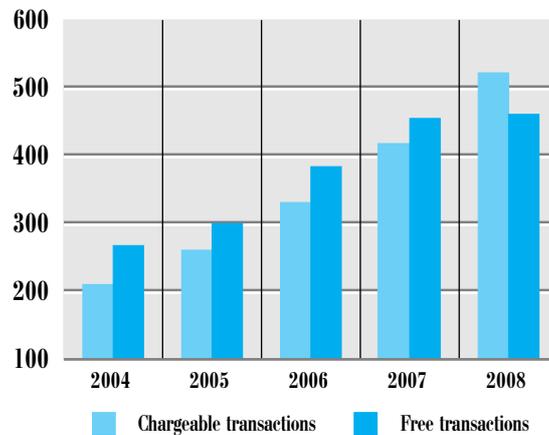
Bank of Russia average settlement times decreased by 0.02 days to 0.62 days at the intraregional level, and by 0.04 days to 0.97 days at the interregional level, due largely to the reduction of average electronic settlement times by 0.02 days at the intraregional level and by 0.03 days at the interregional level.

The Bank of Russia provided support in 2008 for the functioning of the real-time gross settlement system, known in Russia as the Banking

STRUCTURE OF BESP PARTICIPANTS AS OF JANUARY 1, 2009 (%)



RATIO BETWEEN CHARGEABLE AND FREE TRANSACTIONS CONDUCTED IN BANK OF RUSSIA PAYMENT SYSTEM (million transactions)



Charts 54, 55

Electronic Speed Payment (BESP) system, which was put into operation in July 2007.

In 2008, BESP participants made over 9,000 payments with a total value of 2,268 billion roubles. Payments of over 1 million roubles accounted for 91.0% of the total number and 99.9% of the total volume of payments that passed through the BESP system.

The Bank of Russia continued in 2008 to optimise its branch network, and over the year

closed down 150 Bank of Russia cash settlement centres.

The ratio between free and chargeable operations conducted by the Bank of Russia altered as the share of free transactions contracted from 52.1% in 2007 to 46.9% in 2008, while the share of priced transactions expanded from 47.9% to 53.1%.¹

Ensuring the reliable functioning of the Russian payment system and its upgrading were high on the Bank of Russia's list of priorities.

¹ Pursuant to the Russian Federation legislation the Bank of Russia conducted operations with funds of budgets of all levels on a free-of-charge basis.

II.4.3. BANK OF RUSSIA PAYMENT SYSTEM INFRASTRUCTURE DEVELOPMENT

The key elements of the Bank of Russia payment system infrastructure are three collective data processing centres (CDPC), which together constitute the collective data processing system (CDPS).

To increase the productivity of the CDPC, the Bank of Russia modernised (re-scaled) and upgraded their IBM zSeries/xSeries platforms and corresponding hardware management systems.

As of January 1, 2009, the Bank of Russia's information technology infrastructure ensures the effectuation of electronic settlements in 77 out of 78 Bank of Russia regional branches, and in 74 regional branches data are processed by the CDPC.

The Bank of Russia's IT infrastructure has ensured the stable functioning of the Bank of

Russia payment system, including the BESP system, which sets for it particularly high requirements in terms of fault tolerance.

To improve the reliability of the CDPS, the Bank of Russia opened a CDPS control centre and installed software for the CDPS emergency control system, and for the analysis and monitoring system.

To broaden the exchange of electronic messages, the Bank of Russia upgraded its Electronic Settlement Transportation System (ESTS). Specifically, it modernised the ESTS hub to make it more efficient and reliable, put into operation the ESTS of the Data Processing Centre for Moscow and the Moscow Region, and prepared for the launch of the ESTS control system.

II.5. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

To improve the effectiveness of foreign exchange control in line with applicable legislation, the Bank of Russia made certain changes and amendments in 2008 to its regulations setting out the procedure for conducting foreign exchange operations.

Specifically, it set deadlines for the redrafting of operation IDs by residents in the event of the transfer to another authorised bank of settlements under foreign trade contracts connected with: the export or import of goods, the performance of work, the provision of services, the transmission of information and the results of intellectual activities, including the exclusive rights to them, and also under loan agreements. Since this regulation came into force, there have been virtually no cases in which operation IDs that were closed in one authorised bank due to a client's transfer to another authorised bank were not reopened by the established deadlines.

To ensure effective monitoring of the reliability of foreign exchange operations, the Bank of Russia clarified the requirements for the presentation by residents of documents confirming the import or export of goods. It stipulated that in cases where goods crossing the customs border of the Russian Federation must be declared under federal legislation, the customs declaration is the only document confirming the import or export of these goods to or from the customs territory of the Russian Federation (with the exception of the temporary customs declaration). This regulation significantly reduced the workload of authorised banks when processing source documents: the average monthly number of documents confirming the import/export of goods under foreign trade contracts, submitted

by residents to authorised banks, declined by nearly 22%.

As instability increased on world financial markets and the exchange rate of the rouble altered, significant changes took place on the domestic foreign exchange market.

From January to August 2008, average monthly net demand (the difference between the value of foreign currency sold to individuals and paid out to them from their foreign currency accounts, and the value of foreign currency bought from individuals and entered into their accounts) stood at about \$700 million in dollar terms. In the autumn of 2008, the public propensity to convert assets into foreign currency increased significantly. Under these conditions, net demand for foreign exchange rose in dollar terms to \$3.1 billion in September, \$10.3 billion in October, \$7.6 billion in November, and \$10.3 billion in December.

As a result, net demand for foreign exchange in 2008 stood at about \$37.3 billion in dollar terms, compared with net supply of \$4.4 billion in 2007.

In total, authorised banks brought into the country \$44.0 billion in dollar terms — 3.4 times the amount they brought into Russia in 2007. The share of the US dollar in foreign currency brought into Russia expanded to 39.2% in 2008 from 29.6% in 2007. At the same time, the volume of foreign currency that authorised banks took out of the country contracted by 43% to \$11.8 billion in dollar terms. The amount of foreign currency brought into Russia by authorised banks in 2008 exceeded the amount taken out of the country by \$32.2 billion in dollar terms, whereas in 2007 foreign currency taken out of this country exceeded that brought into Russia by \$7.8 billion in dollar terms.



II.6. BANK OF RUSSIA ACTIVITIES RELATING TO GOVERNMENT FINANCE

The Bank of Russia carried out work in 2008 to assist the Federal Treasury in effectively managing funds in the single federal budget account and transferring budget-financed institutions to servicing through accounts opened in Federal Treasury establishments. It also further upgraded methodologies for the servicing of budget accounts by Bank of Russia establishments, and in cases stipulated by federal law, by credit institutions, and upgraded methodologies for the managing by the Bank of Russia of certain types of federal budget revenue. The Bank of Russia tightened controls over the correct and timely compiling by credit institutions and Bank of Russia regional branches of reports on the balances of budget funds, and collaborated with the Finance Ministry in implementing measures aimed at supporting the economy and stabilising the financial system amid the global financial and economic crisis.

The implementation of provisions of the Russian Federation Budget Code and regulations issued by the Finance Ministry, the Federal Treasury and Bank of Russia on the transfer of budget-financed institutions and regional and municipal financial authorities to cash servicing of their budgets by Federal Treasury establishments led to a reduction in the total number of Bank of Russia customers other than credit institutions. This number fell by 8,800, to reach 20,500 as of January 1, 2009.

At the same time, the total number of accounts opened in Bank of Russia establishments by organisations other than credit institutions in 2008 decreased by 7,200 to 72,700. The number of accounts opened in Bank of Russia establishments by Federal Treasury establishments to record local budget funds and funds received by

local budget-financed organisations from profit-making activities increased by 3,200 to 40,300.

As the Federal Treasury continued to centralise budget accounts at the level of regional Federal Treasury divisions, the trend towards change in the ratio between accounts opened in the Bank of Russia main cash settlement centres and cash settlement centres remained in 2008. As of January 1, 2009, the ratio stood at 63% and 37%, whereas as of January 1, 2008, it was 53% and 47%. The number and volume of operations conducted by Federal Treasury bodies through the Bank of Russia payment system increased by 13.4% and 55.9% over the year, respectively, and stood at 172.8 million operations and 64.0 trillion roubles.

To accelerate payments across budget accounts and to help the Federal Treasury to improve the management of federal budget funds in the single federal budget account, the Bank of Russia concluded in 2008 with the Federal Treasury and its regional establishments additional agreements to bank account agreements and electronic document exchange agreements when passing payments and effectuating settlements in the BESP system. The Federal Treasury and 31 Federal Treasury regional branches became associated BESP settlement participants in 2008.

The Bank of Russia continued to upgrade regulation of the servicing by its establishments, and in the cases stipulated by law, by credit institutions, of budget accounts. It also continued to collaborate with the Finance Ministry in publishing long-term regulatory documents to replace the annually published emergency regulations, and re-issue regulatory documents in connection with amendments made to the Budget Code of the

Russian Federation and to the Bank of Russia regulation setting the procedure for managing certain types of budget revenue by the Bank of Russia.

To ensure that all budget-financed organisations had completely switched to cash servicing of budgets via Federal Treasury establishments, and that budget-financed organisations had closed their accounts in Bank of Russia establishments and credit institutions, the Bank of Russia in 2008, pursuant to the Federal Budget Law for 2008 and the Planned Period of 2009 and 2010, passed information to the Federal Treasury on a quarterly basis on accounts opened in Bank of Russia establishments and credit institutions by federal budget-financed organisations, in order to record operations with federal budget funds, funds received from profit-making activities, and funds that federal budget-financed organisations received for temporary

use, and also budget accounts opened for regional and municipal financial authorities and budget-financed organisations.

To improve the effectiveness of cooperation between the Bank of Russia and the Federal Treasury in the course of the managing of certain types of budget revenue by the Bank of Russia, a switch was made to exchanges of electronic documents on this issue between the Bank of Russia and Federal Treasury regional branches.

Pursuant to the Budget Code of the Russian Federation and Russian Federation Government Resolution No. 227 of March 29, 2008, 'On the Procedure for Placing Federal Budget Funds on Bank Deposits', the Bank of Russia issued regulations on the depositing of federal budget funds with credit institutions, and kept the Federal Treasury and credit institutions informed on the procedure for selecting credit institutions' bids for taking federal budget funds on deposit.

II.7. CASH CIRCULATION MANAGEMENT

The Bank of Russia took steps in 2008 to maintain the stability of the national currency and ensure an uninterrupted supply of payment turnover with banknotes and coins.

The trend towards growth in the volume of cash in circulation continued in the period under review. In 2008, the amount of cash in circulation increased by 6.2%, whereas in 2007 it grew by 34.5%.

According to balance sheet data, as of January 1, 2009, there was a total of 4,378.2 billion roubles of cash in circulation, including coins made from precious metals; there were 4,354.4 billion roubles in banknotes (6.4 billion notes) and 23.8 billion roubles' worth of coins (40.1 billion pieces¹). Banknotes accounted for 99.5% of the total value of cash and 13.8% of the total number of notes and coins, while coins accounted for 0.5% of the total value of cash and 86.2% of the total number of notes and coins.

Balance sheet data indicate that the value of Bank of Russia notes and coins, including coins made from precious metals, increased by a total of 253.9 billion roubles, of which the value of banknotes grew by 250.7 billion roubles, and coins by 3.2 billion roubles. The number of banknotes decreased by 300 million notes, while

the number of coins increased by 4.8 billion pieces.

In the note structure of cash in circulation, the share of 5,000-rouble notes expanded by a factor of 1.6 in 2008, to reach 33.7%. Meanwhile, the share of 1,000-rouble notes contracted from 60.2% to 50.8%, 500-rouble notes from 15.1% to 12.1%, and 100-rouble notes from 2.7% to 2.5%. The share of 50-rouble, 10-rouble and 5-rouble notes remained virtually unchanged from 2007.

The Bank of Russia monitored the cash circulation, examined its structure, and analysed the note structure of money supply in circulation and in the reserve funds of Bank of Russia establishments, and ensured that its level was sufficient to meet the needs of the payments turnover.

Cash was issued in amounts that met in full and on time the needs of the population and of economic agents. No shortfalls in the supply of cash from Bank of Russia establishments arose through the fault of the Bank of Russia during the period under review.

A sociological survey conducted at the request of the Bank of Russia in 2008 to determine demand for different denominations of currency confirmed the adequacy of the existing denomination structure.

¹ Data on number of coins are cited net of coins made from precious metals.

CASH IN CIRCULATION ACCORDING TO BALANCE SHEET DATA
(billion roubles)

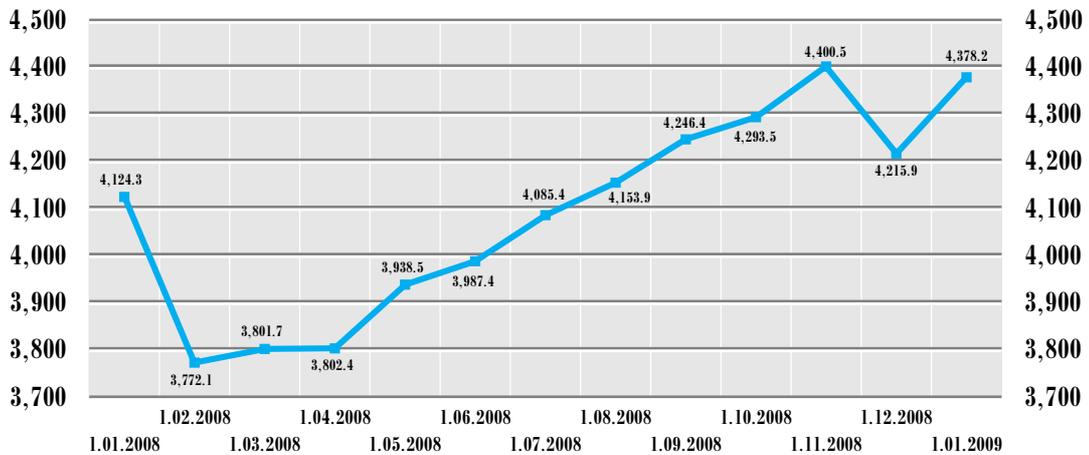


Chart 56

Bank of Russia establishments in 2008 provided cash services to 7,679 credit institutions and their divisions, and to 115,499 organisations other than credit institutions. The number of clients receiving cash services in Bank of Russia establishments in 2008 declined as the Bank of Russia optimised the network of its cash service establishments, and as some of their customers began to receive cash services at credit institutions.

In order to verify the compliance of new cash processing devices with Bank of Russia currency standards, and to decide on the possibility of using them in credit institutions, the Bank of Russia set up a Service Centre. On the Bank of Russia

website a list has been published of machine-readable Bank of Russia note security features that credit institutions are required to check when accepting and processing cash, and recommendations on how these devices should be used.

The Bank of Russia continued to optimise its spending on the manufacture of notes and coins. At its request, the federal government-owned mint Goznak test produced a coin with a galvanised coating.

Bank of Russia establishments in 2008 conducted 1.24 million expert examinations of Bank of Russia notes and coins, including 600,000 examinations of suspect notes and coins, and 640,000 assessments of the correctness of the exchange of notes and coins. According to data reported by Bank of Russia regional branches, 133,864 counterfeit Bank of Russia notes and coins were detected, withdrawn from circulation, and handed over to the Interior Ministry authorities in 2008. This represents an increase of 22.7% on 2007. At the same time, the trend towards a reduction in the number of detected counterfeit Bank of Russia coins continued in 2008, declining from 440 to 340.

Most of the counterfeit Bank of Russia notes handed over to the Interior Ministry authorities were 1,000-rouble notes (127,490 notes); there were also 3,273 counterfeit 500-rouble notes and 2,076 counterfeit 100-rouble notes detected in 2008. The total number of counterfeit 10-rouble and 50-rouble notes stood at 583. A total of

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

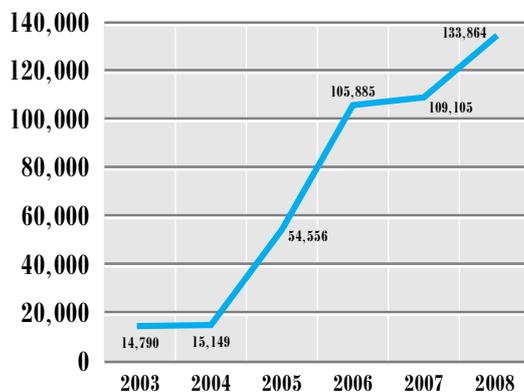


Chart 57

**DETECTION OF COUNTERFEIT BANK OF RUSSIA NOTES AND COINS
BY FEDERAL DISTRICT IN 2008 (pieces)**

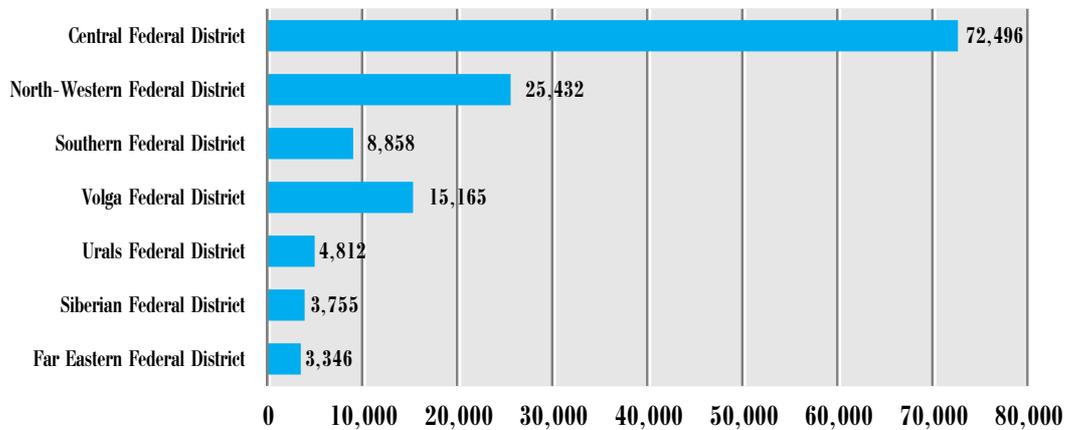


Chart 58

102 counterfeit 5,000-rouble notes were detected. As for counterfeit coins, 338 counterfeit 5-rouble coins and two 1-rouble coins were detected in the period under review.

As in 2004—2007, the majority of counterfeit notes and coins were detected in the Central, North-Western, and Volga Federal Districts.

Counterfeit Russian currency detected in credit institutions accounted for 39.2% of the total amount of counterfeit cash. The remaining 60.8% of counterfeit notes and coins were detected in Bank of Russia establishments.

Bank of Russia establishments and credit institutions in 2008 detected and passed on to Interior Ministry authorities 5,801 counterfeit foreign banknotes.

In the period under review, the Bank of Russia issued 45 commemorative coins made from precious metals: 10 gold coins, 29 silver coins,

and six coins made from gold and silver. It continued to issue the investment gold coin Georgi Pobedonosets (St. George the Victor).

**DETECTION OF COUNTERFEIT
FOREIGN BANKNOTES (pieces)**

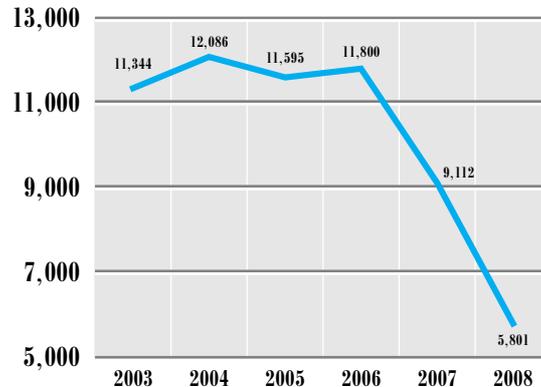


Chart 59

II.8. BANK OF RUSSIA ACTIVITIES AIMED AT UPGRADING ACCOUNTING AND REPORTING

The Bank of Russia improves accounting standards and practices in the Russian banking system in line with its programme for the further harmonisation of Russian accounting rules with International Financial Reporting Standards (IFRS), taking into consideration changes to Russian accounting laws.

During 2008, a priority task in the upgrading of accounting practices in the Russian banking system was to continue to introduce international accounting and reporting standards, while placing greater emphasis on the sufficiency, accuracy, and credibility of the required information.

After the Finance Ministry altered the accounting procedure for intangible assets, the Bank of Russia made corresponding changes and amendments to its accounting rules and regulations, specifying the conditions under which assets can be qualified as intangible, the expenses that create their historical value and cases in which it can change, and establishing the procedure for taking account of business reputation in the acquisition of property.

To implement federal laws on additional measures to support the Russian financial system and strengthen the stability of the banking system, the Bank of Russia added to the charts of accounts used in credit institutions, and in the Bank of Russia, accounts to record loans and deposits, including deposits used by the Bank of Russia to compensate credit institutions for a part of their

losses (costs), as provided under these federal laws. The Bank of Russia sent to credit institutions and to its own divisions methodological explanations on the compensation deposit accounting procedure.

The Regulation on Accounting Rules in Credit Institutions and the Bank of Russia, which came into force on January 1, 2008, provides for the accounting of income and expenditure on an accrual basis. It also sets out the procedure for classifying securities by valuation category, which requires securities to be revalued at fair price, with the revaluation results to be recorded, depending on classification, on the income (expense) accounts or capital accounts. In addition, in line with a decision taken by the International Accounting Standards Board (IASB) in 2008, the Bank of Russia issued a regulation allowing securities holders to reclassify securities by valuation category on special terms and conditions, with the aim of mitigating the negative effect of the devaluation of securities.

Having abandoned the cash accounting principle and modified the procedure for evaluating the financial performance of credit institutions, the Bank of Russia issued an ordinance establishing the procedure for the compiling of annual reports by credit institutions, clarifying the meaning of 'post-reporting date events', and extending the list of events that must be accounted for and disclosed in an explanatory note. The struc-

ture of the annual report and of the information disclosed in it approximate to the IFRS principles of disclosing information. Starting with the annual report for 2008, all of its forms are completed and presented as forms designed for publication.

To standardise document forms in credit institutions, the Bank of Russia issued an ordinance that set the procedure for the compiling (and drafting) of a memorandum order.

Changes have been made to the Bank of Russia precious metals accounting procedure in regard to the revaluation of precious metals. The Bank of Russia issued clarifications on the procedure for accounting for foreign exchange purchase and sale transactions on the domestic over-the-counter market and currency exchanges, deposit operations, operations to extend Bank of Russia loans to credit institutions using the accrual method, and official travelling and hospitality expenses.

The Bank of Russia continued in 2008 to draft regulations on the management of the electronic document exchange and on the maintaining of electronic document archives in the Russian banking system. It formed a working group to prepare for the introduction of electronic document turn-

over in accounting. The Bank of Russia has drafted and is now discussing with the banking community the application of electronic document turnover in accounting.

The implementation of the TACIS Project *Transition to International Financial Reporting Standards (IFRS) in the Banking Sector — Introduction of International Accounting Principles and Preparation of IFRS Financial Statements in the Banking Sector* continued in 2008.

The Bank of Russia drafted and presented for discussion to banking associations, credit institutions, and audit firms new methodological recommendations on the procedure for the compiling and presenting of financial statements by credit institutions. These take into account the requirements of applicable international financial reporting standards and their interpretations, which credit institutions must comply with when compiling IFRS financial statements for 2008.

In 2008, the Bank of Russia made proposals and comments on the drafts of the new IFRS and changes made by the International Accounting Standards Board (IASB) to the earlier adopted IFRS.

II.9. INTERNATIONAL COOPERATION

II.9.1. COOPERATION BETWEEN THE BANK OF RUSSIA AND INTERNATIONAL FINANCIAL AND ECONOMIC ORGANISATIONS

The Bank of Russia participated in 2008 in regular meetings of the **IMF** and **World Bank**, and in annual consultations on Article IV of the IMF Articles of Agreement. It continued to work with the IMF and World Bank technical missions on issues such as the development of the collateral system in providing liquidity to credit institutions, financial sector assessment (including assessment of its compliance with the Core Principles for Effective Banking Supervision of the Basel Committee on Banking Supervision) and showing financial sector operations in the national accounts of the Russian Federation.

The Bank of Russia continued to pass relevant information to the IMF Banking Supervision Regulatory Database.

To ensure that published monetary statistical indicators comply with the provisions of the Monetary and Financial Statistics Manual, issued by the IMF in 2000, the Bank of Russia switched to the dissemination of monetary statistics in the format of three surveys: the central bank survey, the credit institutions' survey, and the banking sector survey. The retrospective series of these indicators have been posted on the Bank of Russia website, and in the quarterly supplement to the IMF's International Financial Statistics.

To effect a transition from surveys of the banking system to surveys of the financial sector, the Bank of Russia began in 2008 to publish on a quarterly basis indicators of non-bank financial intermediaries, such as insurance companies and non-governmental pension funds, and to present these surveys to the IMF.

In line with the IMF Special Data Dissemination Standard (SDDS), the Bank of Russia pre-

sented to the Russian Finance Ministry (the SDDS National Co-ordinator) the SDDS-recommended set of statistical data on the financial and foreign sectors for posting on the National Summary Data Page.

During the year under review, the Bank of Russia participated in central bank governors' meetings at the **Bank for International Settlements (BIS)**. The Bank of Russia continued to expand the range of data it presented to the BIS. It also took part in the work of the BIS-sponsored Irving Fisher Committee on central bank statistics. The Bank of Russia took part in a BIS study on the functions of central banks and government bodies responsible for monetary policy decisions. On the basis of the study's results, the BIS drew up recommendations on ways to improve certain aspects of central banks' work.

The BIS and the Bank of Russia signed a memorandum of understanding in 2008 on the Russian translation and integration of the Russian-language version of the computer-based training system FSI Connect, developed by the BIS Financial Stability Institute, on banking regulation and supervision.

The Bank of Russia took part during 2008 in the activities of the International Liaison Group (ILG) of the Basel Committee on Banking Supervision.

In 2008, the Bank of Russia was involved in the evaluation of the investment projects for the Russian banking sector prepared by the **International Finance Corporation**. The Bank of Russia took part in the annual meeting of the Board of Governors of the **European Bank for Reconstruction and Development** and the board meet-

ings of the **International Investment Bank** and the **International Bank for Economic Cooperation**, which discussed reforms to be conducted in these banks. It also participated in international consultations on Russia's entry into the **Asian Development Bank** and the **Inter-American Development Bank**, and in the drafting of proposals on the development of banking cooperation with member states of the **Islamic Conference Organisation**.

In 2008, the Bank of Russia participated in coordinating Russia's position on increasing the authorised capital of the **Black Sea Trade and Development Bank**, and in an annual meeting of the bank's board of governors and was involved in the elaboration of the bank's strategy in Russia.

The Bank of Russia took part in three meetings of **Group of Eight** finance ministers and central bank governors (in Tokyo and twice in Washington). On the instructions of the Russian president and government, the Bank of Russia began in June 2008 to prepare quarterly reports on its participation in implementing a plan to promote Russia's interests in the Group of Eight.

The past year saw a rise in the international status of the **Group of 20**. In November 2008, this forum held its first summit in Washington, which was attended by the Russian president. At a preparatory meeting of Group of 20 finance ministers and central bank governors in Sao Paulo, the G20 study group presented its final report on global credit market disruptions, which was prepared with active participation from the Bank of Russia. The Bank of Russia also took part in a G20 meeting of finance ministers and central bank governors in Washington, a meeting of their deputies in Rio de Janeiro, and several G20 seminars (Competition in the Financial Sector, Clean Energy and Global Markets, and Fiscal Space for Stability, Growth and Social Inclusion). A Bank of Russia representative in 2008 became a member of the G20 working group formed to prepare a report on reinforcing international cooperation and promoting the integrity of financial markets for the second G20 summit, held in London in April 2009.

To boost Russia's role and status in the **Asia-Pacific Economic Cooperation (APEC)** organisation, the Bank of Russia continued ac-

tively to cooperate with this forum in the course of preparations for Russia's APEC presidency in 2012. Bank of Russia representatives took part in all major events of the annual cycle of the APEC Finance Ministers' Process (FMP), including the meeting of deputy finance ministers and central bank governors, the meeting of APEC finance ministers, and the senior financial officials meeting. The Bank of Russia also participated in the Second APEC Public-Private Sector Forum on Bond Market Development, and in seminars discussing credit risk management, the improvement of risk management and governance in the banking system, and the financing of small and medium-sized enterprises.

In 2008, the Bank of Russia along with several ministries and government agencies took part in preparations for Russia's accession to the **World Trade Organisation (WTO)** and the **Organisation for Economic Cooperation and Development (OECD)**.

On April 1, 2008, the Bank of Russia and the Eurosystem, which comprises the European Central Bank and 15 national (central) banks, began to implement a three-year programme for cooperation in banking supervision and internal audit, financed by the **European Union (EU)**. The programme aims to facilitate the Russian banking sector's conversion to the principles of the Basel Committee's New Capital Accords (Basel II), and to assist in the upgrading of Bank of Russia internal audit.

The Bank of Russia participated in a meeting of the Russia-EU Dialogue leaders on financial and macroeconomic policy, and took part in preparing negotiations on a new Russia-EU partnership and cooperation agreement.

In October 2008, the Bank of Russia took part in the 22nd meeting of the **Foreign Investment Advisory Council (FIAC)** in Moscow. During the year it participated in meetings of the FIAC working group on the development of the banking sector and financial markets in Russia, and the meeting of the FIAC standing committee. These meetings discussed Russian banking sector stability, the sharing of information between credit institutions that are members of banking groups or bank holdings and their parent institutions, and the regulation of financial derivatives.

II.9.2. COOPERATION BETWEEN THE BANK OF RUSSIA AND FOREIGN COUNTRIES, AND THEIR CENTRAL (NATIONAL) BANKS

During 2008 the Bank of Russia was actively involved in drafting documents within its competence designed to promote integration processes among members of the **Commonwealth of Independent States (CIS)**, the **Eurasian Economic Community (EurAsEC)** and the **Russia-Belarus Union State**.

It collaborated with **CIS** countries in carrying out measures envisaged under the Concept for Cooperation and Coordination of Activities of CIS Member States in the Monetary Sphere. Specifically, the sides drew up and approved Methodological Recommendations on the Preparation of Information for the Analysis of the Situation on Foreign Exchange Markets, and drafted the Agreement on Information Analysis and Consultative Cooperation between Central (National) Banks. In addition, considerable attention was devoted to developing the CIS Economic Development Strategy for the Period until 2020.

The Bank of Russia continued to collaborate with **EurAsEC** countries within the framework of the Council of Central (National) Bank Governors to carry out measures envisaged by the EurAsEC Concept of Cooperation in the Monetary Sphere, and to implement cooperation agreements on the creation of a EurAsEC integrated currency market.

Work conducted by the Bank of Russia within the framework of the **Interbank Monetary Council of the Central Bank of the Russian Federation** and the **National Bank of the Republic of Belarus** focused on the further harmonisation and standardisation of the regulatory framework of the two countries' central banks, and the expansion of cooperation between their internal divisions.

Bank of Russia representatives continued in 2008 to participate in meetings of the **intergovernmental commissions** Russia had set up with Austria, Argentina, Armenia, the Belgium-Luxembourg Economic Union, Brazil, Venezuela, Egypt, Indonesia, Kazakhstan, Cyprus, Kyrgyzstan, Turkmenistan, Turkey, Uzbekistan, Chile, and South Africa. Regular meetings were held by specialised structures on interbank cooperation within the framework of intergovernmental commissions with Vietnam, Germany, India, Kazakhstan, and China. In the period under review, the Bank of Russia held consultations with the central banks of Austria, Egypt, China, Saudi Arabia, the United States, South Africa, and Japan.

Within the framework of the Year of Russia in India, the Bank of Russia and the Reserve Bank of India held Days of Russian Banks in India and consultations on banking supervision and payment systems.

In 2008, the Governor of the Central Bank of Egypt made his first visit to Moscow in the course of which the following documents were signed: the Regulation for the Working Group on Interbank Cooperation within the framework of the Joint Russian-Egyptian Intergovernmental Commission for Trade, Economic, Scientific, and Technical Cooperation and the Memorandum of Understanding in the Field of Banking Supervision.

The Bank of Russia continued to cooperate with foreign banking (financial) supervision authorities. To date, it has concluded 28 corresponding bilateral cooperation agreements. In 2008, it signed memorandums of understanding in the field of banking supervision with the Central Bank of Bahrain, the Financial Supervisory Authority of Hungary, the Central Bank of Egypt, the Republic of Kazakhstan's Agency for the Regulation and Supervision of the Financial Market and Financial Institutions, the Central Bank of Mongolia, the National Bank of Serbia, the National Bank of Ukraine, and the Financial Supervision Authority of Estonia.

During 2008 consultations were held in the Bank of Russia with the banking (financial) supervisory authorities of Austria, Bahrain, Italy, Mongolia, the Netherlands, and Estonia.

II.10. UPGRADING THE BANK OF RUSSIA SYSTEM AND ENHANCING ITS EFFICIENCY

II.10.1. BANK OF RUSSIA ORGANISATIONAL STRUCTURE AND MEASURES TAKEN TO IMPROVE IT

In 2008, as in previous years, the Bank of Russia continued to carry out organisational measures to improve the structure of its establishments and divisions, and reduce staff numbers.

The year under review represented a new stage in the gradual optimisation of the Bank of Russia settlement network. The number of Bank of Russia cash settlement centres had declined to 548 as of the end of 2008, from 1,088 in 2003.

The Bank of Russia closed down one of the four interregional depositories in 2008 in order to optimise the structure of its Central Depository.

The number of Bank of Russia field institutions declined by 12 in 2008.

In the course of measures to reduce its assets in the social sphere started in 2004, the Bank of Russia in 2008 liquidated eight health centres of its regional branches.

The structural changes made in 2008, and the more efficient use of internal resources, such as the raising of labour productivity, the introduction of advanced technology, improvements to the management structure, and the elimination of overlapping functions, allowed the Bank of Russia to redistribute labour resources, filling vacancies in new areas of professional activity by workers that had been made redundant in other areas.

The reform process also affected the Bank of Russia head office.

To implement a unified personnel policy and to improve cooperation with regional branches, the Bank of Russia transformed the Personnel Department into the Human Resources and Per-

NUMBER OF BANK OF RUSSIA EMPLOYEES BY DIVISION AS OF JANUARY 1, 2009 (%)

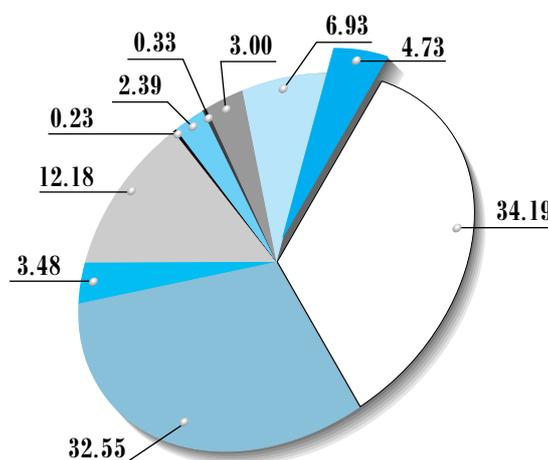


Chart 60

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

sonnel Management Department, and closed down the Department for Bank of Russia Regional Branches.

The personnel optimisation measures carried out in 2008 allowed the Bank of Russia to reduce the total number of its staff by 1,700, or 2.4%.

As of the beginning of 2009, the Bank of Russia had on its staff a total of 71,200 people.

Structurally, the Bank of Russia consists of 1,038 divisions: the head office, 79 regional branches, 625 settlement divisions, five departments and the Operations Department of the Moscow Branch, the First Operations Department, the Interregional Security Centre, the Central Depository, 123 field institutions, four IT divisions, and other auxiliary divisions.

II.10.2. STAFFING AND PERSONNEL TRAINING

The personnel policy pursued by the Bank of Russia in 2008 was aimed at improving the effectiveness of the Bank of Russia's work by attracting young workers and encouraging them to stay, creating stimuli for personnel efficiency and effective businesslike relations within divisions, and improving the managerial and professional competences of executives and specialists. The Bank of Russia continued to use advanced techniques in studying the state of personnel and their professional development, and in developing the corporate culture of regional branches.

As of January 1, 2009, the number of Bank of Russia executive and specialist positions declined by 3.1%, and the staffing level among these jobs rose by 2.9% to 97.4%. More than a half of all Bank of Russia employees (59.2%) were aged between 30 and 50 and had worked in the Bank of Russia system for three to 15 years (51.8%).

The encouraging tendency towards growth in the number of employees aged under 30, which began in 2007, continued in 2008. The number of young workers increased by 0.5% in 2008, to reach 9.8%. The number of employees who had worked in the Bank of Russia system for more than 15 years rose by 5.2%, while the number of pension-age workers increased by 1.9%.

The educational level of Bank of Russia personnel improved in 2008: 786 employees, including employees of Bank of Russia organisations and establishments completed courses of training at institutions of higher education, and 2,755 continued their studies. Last year, 93.4% of all executives and specialists at economic departments of Bank of Russia regional branches and national banks held higher professional education degrees.

The Bank of Russia regional branches continued to prepare young employees for executive positions, and 62.8% of new appointments to executive jobs were made from this group.

In the period under review, 77 Bank of Russia regional branches conducted regular personnel assessments, involving 85.9% of executives and specialists, which resulted in the taking of about 40,000 executive decisions. Special empha-

sis was placed on comprehensive assessment of personnel, which is one of the forms of monitoring the state of personnel and their level of satisfaction with organisational and management conditions. This study involved nearly 900 employees. The assessment results are used as the basis of personnel programmes, including those aimed at advancing professional competence.

The 296 training courses on banking (seminars and advanced training courses) conducted at Bank of Russia training centres and banking schools (colleges) in line with the Bank of Russia Vocational Training Programmes for 2008 involved 6,700 executives and specialists, of which 3,500 executives and specialists received training through 175 courses provided by banking schools.

To improve the efficiency of its regional branches, the Bank of Russia continued in 2008 to centralise the management training of regional branch executives and candidates for executive positions under the Top Bank Manager advanced training programme, which included elements of online learning.

The Bank of Russia continued to train its supervisors (500-hour training courses), and has completed the training of a pilot group of specialists in payment systems and settlements under the Bank Manager — Payment System Specialist advanced training programme.

AGE STRUCTURE OF BANK OF RUSSIA
EXECUTIVES AND SPECIALISTS (%)

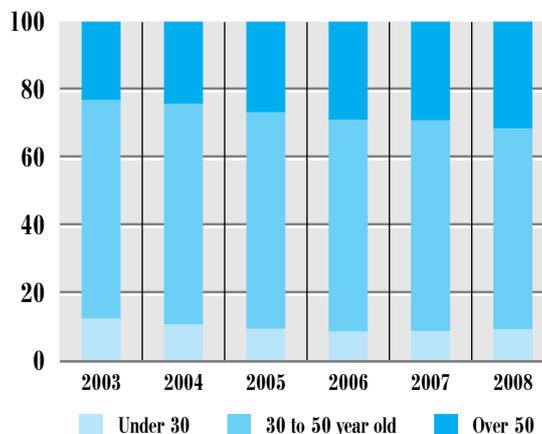


Chart 61

RATIO OF EXECUTIVES AND SPECIALISTS WITH HIGHER PROFESSIONAL EDUCATION
(as % of total executives and specialists)



Chart 62

In 2008, the Bank of Russia began to implement new advanced training and retraining programmes for specialists with its legal divisions under the Finance and Law and Legal Regulation of Banking programmes.

In total, 1,080 executives and specialists have received re-training, including MBA-level training, since 2003.

The Bank of Russia continued in 2008 to train its personnel in international financial reporting standards under an agreement for 2007—2009 with the PricewaterhouseCoopers Expert Corporate Training Centre. A total of 49 training courses were conducted under the agreement in 2008, involving 970 Bank of Russia specialists.

A total of 14,113 employees have received training under 81 centralised training agreements concluded in the period under review.

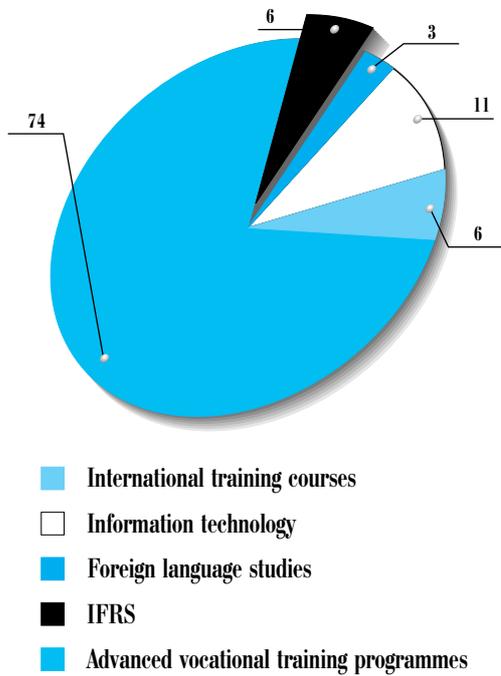
The Bank of Russia continued in 2008 to take efforts to improve the professional competence of its personnel, making use of opportunities for cooperation with foreign central banks, international organisations, and training centres in studying foreign expertise. More than 1,000 Bank of Russia specialists attended 229 international training courses in 2008, of which 170 courses were conducted abroad.

Twenty international seminars were held in 2008 under the EurAsEC central (national) bank executive and specialist advanced training

and retraining programme, of which 15 were held at the Bank of Russia. Seminars were conducted by representatives of the Deutsche Bundesbank, the Banque de France, and the National Bank of Poland. Bank of Russia employees had the opportunity to study banking expertise during six internships to banks of CIS member states.

In December 2008, the training of accounting specialists and supervisors from the Bank of Russia head office and regional branches, organised as part of the European Union's TACIS project 'Transition to International Financial Reporting Standards (IFRS) in the Banking Sector — Introduction of International Accounting Principles and Preparation of IFRS Financial Statements in the Banking Sector' (2006—2009) was completed. In the period under review, five groups of Bank of Russia specialists received training under Programme 2, 'Adoption of IFRS in credit institutions' operations and analysis of credit institutions' IFRS financial statements', and six groups under Programme 3, 'Main principles and concepts of IFRS'. In addition, 88 groups of specialists from other organisations received TACIS-sponsored training under programmes developed by the TACIS Project working group for employees of credit institutions, institutions of higher education, and audit firms. In total,

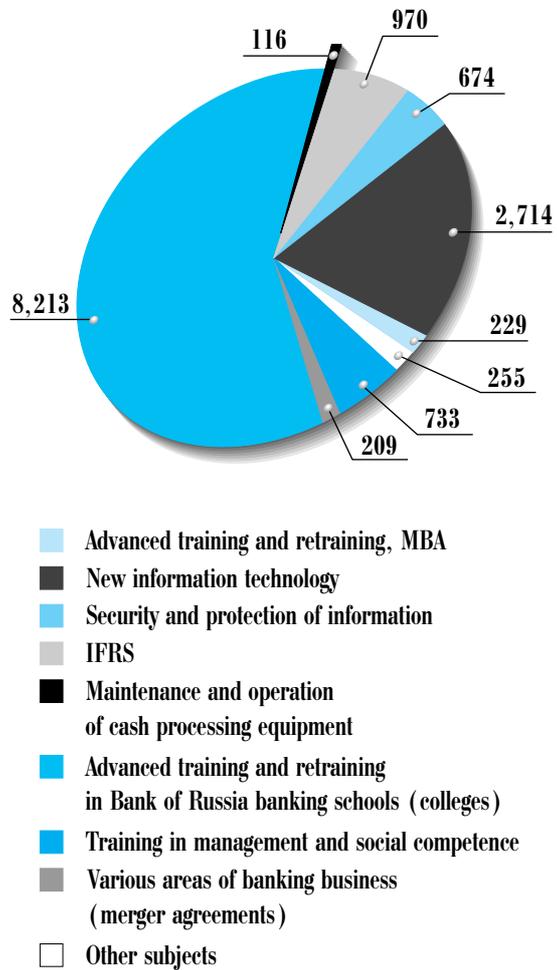
**CENTRALISED TRAINING
OF BANK OF RUSSIA PERSONNEL IN 2008
(as % of total trainees)**



224 Bank of Russia executives and specialists and 1,618 employees of other organisations received training in 2008.

The implementation of the training component of the cooperation programme between the Eurosystem and the Bank of Russia in banking supervision and internal audit for 2008—2010 began during the year under review.

**NUMBER OF BANK OF RUSSIA
EMPLOYEES WHO RECEIVED TRAINING
UNDER CONTRACTS IN 2008,
BY SUBJECT (number of trainees)**



Charts 63, 64

II.10.3. BANK OF RUSSIA INFORMATION AND TELECOMMUNICATIONS SYSTEM DEVELOPMENT

The Bank of Russia continued in the period under review to upgrade its information and telecommunications system (ITS), which is designed to ensure that the Bank of Russia fulfils its functions efficiently and reliably.

The strategy for the development of Bank of Russia information technology is set out in the ITS Development Concept for the period until 2013.

In implementing the strategy for the development of the Bank of Russia's Unified Information System for Banking Sector Regulation and Development, the Bank of Russia began to test-run the first stage of the system. It tested techniques for providing its functional departments with access to credit institutions' statements, gathering reports from multi-branch credit institutions through their parent credit institutions, and subsequently sending branch reports to Bank of Russia regional branches operating in location of the reporting branches (the 'one-window' technique).

The Bank of Russia continued to build its Corporate Data Warehouse based on IBM Banking Data Warehouse technology.

Testing was conducted of a technique for centralising the provision of information to the interregional inspectorates of the Main Inspectorate for Credit Institutions.

To create conditions for the consolidation of electronic information resources, and to provide online access to corporate information and various attachments, work on developing the Bank of Russia Corporate Intranet Portal continued.

The Bank of Russia organised the maintenance and operation of the automated internal economic activities system within the centralised intrabank accounting system at the regional branch level.

To enhance the effectiveness of the monitoring and management of the Bank of Russia's ITS resources and services, the Bank of Russia continued to upgrade the integrated telecommunications and information resource management system, as well as the unified transportation subsystem of electronic settlements.

The Bank of Russia continued to expand the Unified Banking Telecommunications Network, which comprises satellite communication systems and the Bank of Russia's unified mobile radio communications system. It completed preparations for the modernisation of the trunk-line component of the Unified Banking Telecommunications Network, using advanced technology. The Bank of Russia expanded and modernised the telecommunications system of Moscow and the Moscow Region to facilitate the operation of the Moscow-based collective data processing centre. Work was continued on developing primary communications networks in Moscow and the Moscow Region, as well as in Bank of Russia regional branches, with the use of digital technology.

The Bank of Russia replaced obsolete automated telephone exchanges in 11 regional branches, and carried out a set of organisational and technical measures to protect the interdepartmental telephone communications network from unsanctioned access in 12 Bank of Russia regional branches.

In the period under review, work was carried out to standardise systemic and applied computer software used by the Bank of Russia, to develop, expand, and modernise local computer systems and structured cable systems, and to upgrade the Bank of Russia's ITS infrastructure.

Efforts were continued in 2008 to upgrade the Bank of Russia ITS operation system and to replace obsolescent computers and office equipment.

II.10.4. BANK OF RUSSIA ACTIVITIES AIMED AT UPGRADING BANKING LEGISLATION. MANAGING SUITS AND CLAIMS AT BANK OF RUSSIA ESTABLISHMENTS

BANK OF RUSSIA ACTIVITIES AIMED AT UPGRADING BANKING LEGISLATION

Significant changes were made to banking legislation in 2008. The Bank of Russia closely collaborated with the government in drafting proposals and examining draft laws within its competence.

The first half of the year focused on the implementation of the Russian Banking Sector Development Strategy until 2008 (hereinafter referred to as the Banking Sector Development Strategy). In the second half of the year, Russian legislators swiftly passed federal laws necessitated by the global financial turmoil. These laws contain a package of anti-crisis measures aimed at stabilising the financial market and maintaining banking sector liquidity.

Federal Law No. 20-FZ, dated March 3, 2008, ‘On Amending Article 22 of the Federal Law on Banks and Banking Activities’, was passed in line with the Banking Sector Development Strategy, to facilitate the expansion of the banking services network, and to create conditions for ensuring equal access to banking services in the regions.

To regulate consumer lending, Russia passed **Federal Law No. 46-FZ, dated April 8, 2008, ‘On Amending Article 30 of the Federal Law on Banks and Banking Activities’**, which required credit institutions to inform individual borrowers of the full cost of loans and the types and amounts of payments the borrower would be required to make for non-compliance with the terms and conditions of a loan agreement, before concluding the loan agreement with individual borrowers and before the terms and conditions of this agreement are changed in a way that alters the full cost of the loan.

In December 2008, Russia passed the following three federal laws, which were of significant importance even though they were not connected

with the Banking Sector Development Strategy, or with the crisis:

- **Federal Law No. 270-FZ, dated December 22, 2008, ‘On Amending the Federal Law on Insurance of Household Deposits in Russian Banks and Other Federal Laws**, which was designed to improve the criteria and procedures for monitoring of the compliance by banks participating in the deposit insurance system with the requirements for participation in this system, for the purpose of enhancing its effectiveness, maintaining systemic banking sector stability, and boosting public confidence in banks;
- **Federal Law No. 276-FZ, dated December 25, 2008, ‘On Amending Article 56 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’**, which stipulated that the statute of the Banking Supervision Committee must be approved by the Bank of Russia Board of Directors;
- **Federal Law No. 274-FZ, dated December 25, 2008, ‘On Amending Certain Laws of the Russian Federation in Connection with the Passing of the Federal Law on Countering Corruption’**, which made amendments to several federal laws, including Article 90 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). The law imposed a number of new restrictions that Bank of Russia employees, and persons holding positions on a list established by the Bank of Russia Board of Directors, must abide by after their resignation from the Bank of Russia.

Federal laws passed in the second half of 2008 may be divided into two groups. In the first group is the package of anti-crisis laws passed before November 6, when Prime Minister Vladimir Putin approved the Rescue Plan for the Financial Sector and Certain Sectors of the Economy; in the second group is the package of laws passed to facilitate the implementation of the plan.

The federal laws in the first group are:

1. **Federal Law No. 171-FZ, dated October 13, 2008, ‘On Amending Article 46 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’** (these amendments concern the provision of unsecured loans). This law included a novel in Article 46 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) granting the Bank of Russia the right to extend unsecured loans to Russian credit institutions for a maximum term of six months.

Subsequently, **Federal Law No. 317-FZ, dated December 30, 2008, ‘On Amending Articles 46 and 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’** extended this term to one year.

2. A new law, which was drawn up and passed within a very short space of time, was **Federal Law No. 173, dated October 13, 2008, ‘On Additional Measures to Support the Financial System of the Russian Federation’**.

The purpose of this law was to grant to the Bank for Development and Foreign Economic Affairs (Vnesheconombank), a state corporation, the right to extend to credit institutions and other organisations foreign currency-denominated loans, to enable these organisations to repay and service loans that they had received before September 25, 2008 from foreign organisations. The law stipulates that the total size of these loans must not exceed \$50 billion as of December 31, 2009.

To enable Vnesheconombank to provide loans, the law required that the Bank of Russia deposit no more than \$50 billion with Vnesheconombank for a term of one year at an interest rate exceeding by one percentage point the LIBOR as of the deposit placement date, and provided for the possibility of extending the term of the deposit under the terms and conditions of the loan agreements concluded by Vnesheconombank.

The law stipulated that Vnesheconombank would extend subordinated unsecured loans for a term to expire December 31, 2019, to VTB Bank, an open joint-stock company, Rosselkhozbank, an open joint-stock company, and other Russian credit institutions on the condition that they comply with the law. The National Wealth

Fund may deposit with Vnesheconombank for this purpose no more than 450 billion roubles at an interest rate of 7% p.a., in accordance with the procedure established by the government.

Under the law, the Bank of Russia was to extend unsecured subordinated loans to Sberbank.

In order to provide support to the interbank money market, the Bank of Russia was granted the right to conclude agreements with credit institutions whereby the Bank of Russia would compensate these credit institutions for a part of the losses they incurred in transactions conducted before this law came into force, and up to and including December 31, 2009 with credit institutions that had their banking licences revoked.

3. **Federal Law No. 174-FZ, dated October 13, 2008, ‘On Amending Article 11 of the Federal Law on Insurance of Household Deposits in Russian Banks and Certain Other Federal Laws’**, was passed to protect depositors’ interests.

This law stipulated that compensation for deposits in a bank in regard of which an insured event has occurred must be paid to the depositor in an amount equal to 100% of the size of their deposits in the bank, but no more than 700,000 roubles.

4. **Federal Law No. 176-FZ, dated October 27, 2008, ‘On Amending the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Article 12 of the Federal Law on the Securities Market’**, passed to improve the effectiveness of the banking sector refinancing system, granted to the Bank of Russia the right to conduct operations with corporate securities on stock exchanges.

5. **Federal Law No. 175-FZ, dated October 27, 2008, ‘On Additional Measures to Increase the Stability of the Banking System in the Period until December 31, 2011’**, which introduced a set of additional instruments necessary to prevent bank failures, was passed in order to resolve problems in certain banks, for the most part large banks, whose bankruptcy could pose a systemic threat to the banking sector, creditors’ interests, and social stability.

In pursuance of this law, the Bank of Russia swiftly issued 13 regulations setting the procedure for implementing the law.

The following laws passed in the end of 2008 fall into the second group:

1. **Federal Law No. 264-FZ, dated December 22, 2008, 'On Amending the Federal Mortgage Law and Certain Other Federal Laws'**, which specified the procedure for the transfer of mortgage rights, defining the rights and duties of the lawful owners of mortgages, the rights to which are registered in the depository, and also the rights and duties of the borrower in relation to such mortgages, and of the corresponding depository.

2. **Federal Law No. 306-FZ, dated December 30, 2008, 'On Amending Certain Laws of the Russian Federation in Connection with Improving the Procedure for Mortgage Foreclosure'**, was passed in order to simplify the mortgage foreclosure procedure, and the procedure for selling mortgaged property.

The law also specified the procedure for satisfying creditors' claims secured by the debtor's mortgaged property during bankruptcy proceedings, so that these claims were met using mortgaged property as quickly as possible.

3. **Federal Law No. 317-FZ, dated December 30, 2008, 'On Amending Articles 46 and 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)'**, was passed to improve monitoring of the use by credit institutions of funds allocated to them to support the financial system.

4. **Federal Law No. 315-FZ, dated December 30, 2008, 'On Amending the Federal Law on Banks and Banking Activities and Certain Other Laws of the Russian Federation'**, was passed to settle relations that arise in the course of reorganising commercial organisations.

This law set out a separate procedure for credit institutions to regulate relations involved

in the disclosure of information on reorganisation, and stipulated the legal implications of the reorganisation of a credit institution for its creditors.

In addition to drafting and examining the above federal laws, and considering other draft federal laws and draft federal law concepts, the Bank of Russia issued during 2008 regulations and instructions. Specifically, from January 1 to December 31 it issued 215 regulations and ordinances (17 regulations and 198 ordinances), of which 82 regulations and ordinances (eight regulations and 74 ordinances) were registered by the Ministry of Justice, and sent 187 letters to its regional branches.

MANAGING SUITS AND CLAIMS

AT BANK OF RUSSIA ESTABLISHMENTS

During 2008, a total of 398 property claims and suits to the amount of 71.75 million roubles were initiated against Bank of Russia regional branches, of which 112 claims and suits totalling 347,450 roubles were satisfied. These figures show that the majority of the claims and suits were legally untenable.

Forty-seven labour relations suits were initiated against the Bank of Russia in 2008.

Some credit institutions disputed in court sanctions imposed on them by the Bank of Russia, but none of these seven suits were satisfied.

Bank of Russia regional branches initiated claims and suits in the course of supervising credit institutions: 605 claims and 36 suits totalling 25.67 million roubles were initiated against credit institutions, of which 579 claims and suits totalling 24.11 million roubles were satisfied.

II.10.5. BANK OF RUSSIA INTERNAL AUDIT

The Bank of Russia chief auditor's service in 2008 conducted its work on the basis of plans approved in accordance with the established procedure, and aimed to verify the fulfillment by the Bank of Russia's various divisions of their tasks and functions, and to evaluate the state and adequacy of internal controls.

All major areas of the Bank of Russia's activities were covered by various internal audit procedures. Auditors studied in detail the planning, control, and use of budget allocations in all audited divisions.

In addition to annual audits of operations conducted by the Bank of Russia to manage its gold and currency (international) reserves, the internal auditors continued to monitor compliance with the main restrictions imposed in this area of activity, which involves the greatest risks, and broadened and upgraded control procedures.

Whenever violations or shortcomings were detected, appropriate management decisions were taken.

The Bank of Russia chief auditor's service coordinated joint work between the Bank of Russia and the Audit Chamber of the Russian Federation during its audits. It monitored the implementation by Bank of Russia divisions of the measures set out, taking into account the recommendations issued by the Audit Chamber after the 2007 audit, and the plans drawn up for the purpose of fulfilling the Bank of Russia external auditor's recommendations after the audit of the Bank of Russia Annual Financial Statements for 2007.

Following the recommendations of the Audit Chamber, the Bank of Russia drafted in 2008 a regulation on the organisation of internal audit in the Bank of Russia.

The Collection of Methodological Recommendations expanded the methodological basis of internal audit.

The Bank of Russia began in 2008 a large-scale project under the Eurosystem-Bank of Russia programme of cooperation in banking supervision and internal audit for 2008—2010, to train staff of the Bank of Russia chief auditor's service in risk-based audit and audit of IT systems, and also began to publish a collection of materials on the Eurosystem's effective practices in internal audit.

Pursuant to Articles 13 and 95 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the National Banking Board heard in December 2008 a report from the chief auditor of the Bank of Russia.

Internal audit results enabled the Bank of Russia management to obtain independent information on the various Bank of Russia divisions' success in fulfilling the tasks and functions assigned to them, and which violations and problems were detected.

Internal audit results show that the activities of the Bank of Russia in all significant aspects accorded with federal legislation and Bank of Russia regulations, and that the internal control system was, on the whole, adequate to meet assumed risks.

II.10.6. 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 2008 participated in the capital of Sberbank, an open joint-stock company, and the capital of resident organisations that support the activities of the Bank of Russia, such as the Moscow Interbank Currency Exchange (MICEX), a closed joint-stock company, the St Petersburg Currency Exchange (SPCEX), a closed joint-stock company, and the National Depository Centre (NDC), a non-profit partnership. It did this through its representatives in the management or supervisory bodies of these resident organisations, and the purpose of this participation was to implement the strategic objectives of the state economic policy, and to consistently upgrade the financial market's infrastructure.

The Bank of Russia's stake in Sberbank remained unchanged in 2008 at 57.58%.

In October 2008, Sberbank's Supervisory Board drew up and approved the Sberbank Development Strategy for the Period until 2014. The Supervisory Board therefore instructed Sberbank's management to develop a strategy schedule, and to report to the Board on a quarterly basis on progress in implementing it.

Pursuant to Article 5 of Federal Law No. 173-FZ, dated October 13, 2008, 'On Additional Measures to Support the Financial System of the Russian Federation', the Bank of Russia provided to Sberbank 500.0 billion roubles in subordinated unsecured loans due on December 31, 2019. The Sberbank Supervisory Board with the participation of Bank of Russia representatives decided to issue six bond series in a total volume of 60 billion roubles (10 billion roubles each) with the objective of diversifying liabilities.

In December 2008, the Sberbank Supervisory Board analysed progress in the implementation of the anti-crisis programme, and the specifics of Sberbank's lending policy during the crisis period.

On the instructions of the government, it discussed lending priorities, and took a decision that the Sberbank Board must report to the Sberbank Supervisory Board on a quarterly basis on the situation concerning lending to the real sector.

In 2008, total dividends paid to the Bank of Russia from Sberbank's profit in 2007 exceeded the 2006 dividend by 2.1 billion roubles, and stood at 6.6 billion roubles.

Participation in the capital of MICEX, SPCEX, and the NDC allowed the Bank of Russia to control operations on the domestic foreign exchange market and domestic government debt market, and to use the trading floor's infrastructure for monetary policy operations.

The Bank of Russia's stake in the authorised capital of MICEX remained unchanged in 2008 at 29.79%. The MICEX Board of Directors examined in 2008 the MICEX Group's activities, and developed and approved a new risk management system for the Group's futures market. This necessitated amendments to MICEX internal documents. To implement anti-crisis measures, the MICEX Board of Directors approved in October 2008 rules on holding Bank of Russia auctions for unsecured loans with the aid of the MICEX electronic trade system. An extraordinary meeting of MICEX shareholders held in late 2008 elected a new management and supervisory board of MICEX.

In 2008, MICEX paid the Bank of Russia dividends for 2007 in excess of 66.9 million roubles. This sum is 16.8 million roubles more than the dividend for 2006.

The Bank of Russia's stake in SPCEX in 2008 remained unchanged at 8.9%. The Bank of Russia participates in the capital of this exchange as St Petersburg is Russia's second most important financial centre, and its exchange can be used as a reserve trading floor.

In 2008, the SPCEX Board and Bank of Russia representatives took decisions aimed at imple-

menting the programme for the placement of temporarily free resources of the housing and communal services reform fund, using the exchange's trading and settlement system, and made amendments to exchange trading rules to bring them into compliance with the requirements set down by the Federal Financial Markets Service. On the decision of shareholders, the SPCEX's net profit for 2007, totalling 119.1 million roubles, was directed to the exchange's reserves.

The Bank of Russia's stake in the authorised capital of the NDC in 2008 remained unchanged at 49.0%.

Pursuant to Federal Law No. 336-FZ, dated December 6, 2007, 'On Amending Articles 7 and 11 of the Federal Law on the Securities Market', which made it possible to transform the settlement depositories from non-profit organisations into joint-stock companies, the NDC formed in early

2008 a working group with the participation of a Bank of Russia representative to deal with issues relating to the conversion of the partnership into a closed joint-stock company. The results of the group's work were discussed at the NDC shareholders' meeting, which approved the main parameters of the conversion of the non-profit partnership into a closed joint-stock company.

Pursuant to Article 9 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia participated during 2008 in the capital and activities of the following international organisations: the Basel-based Bank for International Settlements (0.59% of authorised capital), the Moscow-based Interstate Bank (50.0% of authorised capital), and the Belgium-based Society for Worldwide Interbank Financial Telecommunications, or S.W.I.F.T. (0.006% of authorised capital).

**BANK OF RUSSIA ANNUAL
FINANCIAL STATEMENTS
AS OF JANUARY 1, 2009**



INTRODUCTION

The annual financial statements include operations conducted by the Bank of Russia to fulfil its principal purposes and functions as stipulated by Federal Law No. 86-FZ, dated July 10, 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'.

The annual financial statements presented below (hereinafter referred to as the financial statements) as of January 1, 2009, comprise:

- Annual Balance Sheet;
- Profit and Loss Account;
- Statement of Profit and its Allocation;
- Statement of Bank of Russia Reserves and Funds;
- Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property;
- Statement of Volume of Bank of Russia Transactions on Stock Exchanges and (or) Other Trade Organisers on the Securities Market;
- Statement of Bank of Russia Personnel Costs;
- Statement of Capital Investment Budget Performance.

The principal objectives of the Bank of Russia are:

- to protect the rouble and ensure its stability;

- to upgrade and strengthen the Russian banking system;
- to ensure the effective and uninterrupted functioning of the payment system.

The deepening of the global financial and economic crisis had a significant impact on the monetary and exchange rate policy pursued by the Bank of Russia. The monetary policy priority in the second half of 2008 was to maintain financial stability, ensure the necessary level of liquidity in the banking sector by lowering reserve requirements, and expand the volume and ease the conditions for the refinancing of banks.

The global crisis had a strong negative impact on the Russian economy and banking sector. The Bank of Russia took all supervisory actions with regard to credit institutions promptly, improved the monitoring of their liquidity, capital, assets and profitability, and carried out other measures to stabilise the situation in the banking sector.

Throughout 2008, the Bank of Russia safeguarded the effective and uninterrupted functioning of the payment system, and continued to facilitate the use by credit institutions and other clients of the possibilities provided by the Bank of Russia's real-time gross settlement system, or BESP.

ANNUAL BALANCE SHEET AS OF JANUARY 1, 2009

(million roubles)

	Note	2008	2007
ASSETS			
1. Precious metals	3	450,332	346,523
2. Funds placed with non-residents and securities issued by non-residents	4	12,091,074	11,511,619
3. Loans and deposits	5	3,871,335	52,282
4. Securities, of which:	6	441,019	426,775
4.1. Federal government debt obligations		353,205	341,405
5. Other assets, of which:	7	109,954	96,918
5.1. Fixed assets		64,656	62,617
5.2. Profit tax advance payments		187	113
Total assets		16,963,714	12,434,117
LIABILITIES			
1. Cash in circulation	8	4,378,238	4,124,302
2. Funds in accounts with the Bank of Russia, of which:	9	10,237,559	7,608,963
2.1. Federal government funds		7,093,937	5,119,493
2.2. Funds of resident credit institutions		2,010,099	1,298,842
3. Float	10	16,119	20,847
4. Securities issued	11	12,493	100,377
5. Other liabilities	12	319,165	93,012
6. Capital, of which:		1,902,352	462,051
6.1. Authorised capital		3,000	3,000
6.2. Reserves and funds		1,899,352	459,051
7. Reporting year profit	13	97,788	24,565
Total liabilities		16,963,714	12,434,117

Bank of Russia Chairman

S.M. Igantiev

Bank of Russia Chief Accountant

L.I. Gudenko

May 13, 2009

PROFIT AND LOSS ACCOUNT

(million roubles)

	Note	2008	2007
INCOME			
Interest income	14	620,344	392,530
Income from securities trading	15	129,716	96,602
Income from operations with precious metals		4	2
Income from stakeholdings in credit and other institutions		6,733	4,653
Other income	16	7,624	3,259
Total income		764,421	497,046
EXPENSES			
Interest expenses	17	289,457	187,824
Expenses on securities trading	18	37,147	16,660
Cash turnover management expenses	19	13,985	13,579
Expenses on operations with precious metals		129	131
Net expenses on provisions	20	75,906	2,570
Expenses on negative revaluation of foreign currency		—	165,740
Expenses on negative revaluation of securities available for sale	21	98,048	—
Other operating expenses	22	95,728	41,157
Personnel costs	23	56,233	44,820
Total expenses		666,633	472,481
Financial result: profit	13	97,788	24,565

CAPITAL, FUNDS AND PROFIT ALLOCATION

(million roubles)

	Authorised capital	Reserves	Social fund	Accrued revaluation of precious metals	Accrued foreign currency exchange rate differences	Positive revaluation of securities available for sale	Growth in property value due to revaluation	Other funds	Total capital	Profit for the year
Balance as of January 1, 2008, before taxation and allocation of profit for 2007	3,000	88,156	3,117	359,731	—	—	7,965	82	462,051	24,565
Taxes and duties paid from Bank of Russia profit for 2007										(115)
Allocation of profit for 2007		11,736	489						12,225	(12,225)
Transferred to federal budget										(12,225)
Balance as of January 1, 2008, after taxation and allocation in 2008 of profit for 2007	3,000	99,892	3,606	359,731	—	—	7,965	82	474,276	—
Profit for the year										97,788
Transferred to funds				89,027	1,033,190	306,549			1,428,766	
Paid from funds			(608)					(82)	(690)	
Balance as of January 1, 2009, before taxation and allocation of profit for 2008	3,000	99,892	2,998	448,758	1,033,190	306,549	7,965	—	1,902,352	97,788
Taxes and duties paid in advance in 2008 from Bank of Russia profit										(187)
Taxes and duties overpaid in 2009 after final settlement from Bank of Russia profit for 2008										23
Profit for 2008 after tax and duty payments effected under the Tax Code of the Russian Federation, taking into account the adjustment of taxes and duties overpaid in advance in 2008										97,624
— to be transferred to federal budget										(48,812)
— to be allocated to funds		46,860	1,952						48,812	(48,812)
Total after taxation and allocation in 2009 of profit for 2008	3,000	146,752	4,950	448,758	1,033,190	306,549	7,965	—	1,951,164	—



Precious metals in physical form and funds in precious metals in unallocated metal accounts and deposits are accounted for at the book price and revalued under Bank of Russia regulations. The surplus unrealised differences that arose from the revaluation of precious metals balances due to change in the book price of precious metals are recorded in the balance sheet account *Accrued revaluation of precious metals* as part of capital, and as of January 1, 2009, they totalled 448,758 million roubles (as against 359,731 million roubles in 2007) (Note 1 (c) and Statement of Bank of Russia Reserves and Funds).

There was an excess of positive unrealised foreign currency exchange rate differences over negative unrealised foreign currency exchange rate differences during 2008, which was accounted for in the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital, and totalled 1,033,190 million roubles (compared to 0 million roubles in 2007) (Note 1 (d) and Statement of Bank of Russia Reserves and Funds).

There was an excess of positive differences from the revaluation of securities available for sale over negative differences of the corresponding issue (issuer) (for the most part debt obligations of foreign issuers), which is accounted for in the balance sheet account *Positive revaluation of securities available for sale* as part of capital, to a total of 306,549 million roubles (0 million roubles in 2007) (Note 1 (e) and Statement of Bank of Russia Reserves and Funds).

The adjustment of the sum of taxes and duties paid upon the final settlement for the reporting tax period, including 23 million roubles in overpaid profit tax advances, the transfer to the federal budget, and the allocation of actual profit for 2008 remaining after transfers to the federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), taking into account the amount of the profit tax settlement, are included in Bank of Russia accounting records in 2009 (Note 26, Statement of Profit and its Allocation).

NOTES TO ANNUAL FINANCIAL STATEMENTS AS OF JANUARY 1, 2009

I. 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 Regulation No. 66-P, dated January 1, 2009, 'On Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter referred to as Regulation No. 66-P), and other Bank of Russia regulations issued in pursuance of these federal laws.

(a) Accounting principles

Accounting is based on the principle of recording balance sheet items at their initial cost at the time assets are acquired, and when obligations arise, under the terms and conditions stipulated by the agreement. The principles of revaluing individual items of assets and liabilities are described below.

(b) Financial reporting framework

These financial statements have been compiled on the basis of the balance sheet data provided by the Bank of Russia, its regional branches, and other divisions incorporated in the Bank of Russia as a legal entity.

These financial statements have been compiled exclusive of the financial statements of credit institutions and other organisations within and outside Russia in which the Bank of Russia holds a stake, and/or which the Bank of Russia controls. Under Russian law, the Bank of Russia is not required to compile a consolidated financial statement and to include in it the financial statements of credit institutions and other organisations in which it holds a stake and/or which it controls.

These financial statements have been compiled in the currency of the Russian Federation, the Russian rouble (hereinafter referred to as the rouble), in millions of roubles, abbreviated as Rbs m.

Data in the Table *Capital, funds and profit allocation* and the Statement of Bank of Russia Reserves and Funds have been adjusted for the purpose of compiling Bank of Russia annual financial statements, taking into account events that occurred after the reporting date, including the adjustment of the sum of taxes and duties upon the final settlement for the reporting tax period. They also take into account overpaid profit tax advance payments for 2008, the transfer to the federal budget of 50% of actual profit for the year, remaining after the payment of taxes and duties pursuant to the Tax Code of the Russian Federation, and the allocation to the Bank of Russia reserves and funds of profit retained by the Bank of Russia (Note 26, Statement of Profit and its Allocation, and the Table *Capital, funds and profit allocation*).

Figures in brackets denote negative values.

For the purposes of these financial statements, Bank of Russia operations with credit institutions and the Bank for Development and Foreign Economic Affairs (Vnesheconombank), a state corporation, are referred to as operations with resident banks.

Changes in comparative data as of January 1, 2008, are shown in Note 1 (t).

(c) Precious metals

Precious metals are accounted for at the book price and revalued, as book prices of precious metals are set in accordance with Bank of Russia standards and regulations.

Prior to July 1, 2008, the Bank of Russia calculated book prices on the basis of the current fixed prices of precious metals on the London Metal Exchange, reduced by a discount equalling the average cost of delivery of each type of precious metal to the international market. These costs comprise the expenses involved in the customs clearing, transportation, and insurance of precious metals. Since July 1, 2008, the Bank of Russia has calculated book prices on the basis of the current fixed prices of

precious metals on the London Metal Exchange. The fixed prices of precious metals, denominated in US dollars, are recalculated into roubles at the official US dollar/rouble exchange rate effective as of the day after the setting of the book prices.

The unrealised differences that arise from the revaluation of the precious metal balances due to the change in the book prices of precious metals are recorded to the balance sheet account *Accrued revaluation of precious metals* as part of capital and are not included in the profit and loss account.

In cases where the negative unrealised difference exceeds the positive unrealised difference in the results of the full-year performance, the excess is compensated for from previously accrued unrealised differences recorded in the balance sheet account *Accrued revaluation of precious metals* as part of capital, by the decision of the Bank of Russia Board of Directors. If the balance sheet account *Accrued revaluation of precious metals* is empty or insufficient, the negative unrealised differences are entirely (or to the amount of the excess of the credit balance of the balance sheet account *Accrued revaluation of precious metals*) recorded as Bank of Russia operating expenses for the corresponding reporting year, by the decision of the Bank of Russia Board of Directors.

The realised differences — income or expenses — that arise when operations with precious metals are conducted at a price that differs from the book price of the precious metal, are calculated individually for each operation. The realised difference is the difference between the actual value of the transaction and the value based on the book price of the corresponding precious metal. The realised differences in operations with precious metals are determined as of the date that the title for the precious metal in the transaction is transferred. Net positive realised differences are accounted for as other income, while net negative realised differences are recorded to other operating expenses.

Precious metals placed on deposits or unallocated metal accounts in non-resident credit institutions are accounted for at the book price under Bank of Russia regulations, and are recorded to *Funds placed with non-residents and foreign issuers' securities*.

Precious metals in commemorative and investment coins are not revalued.

Bank of Russia claims and obligations with respect to the delivery of precious metals in forward transactions under signed contracts are recorded in off-balance sheet accounts from the transaction date to the settlement date, and are revalued as book prices of precious metals are set.

Book prices used to recalculate assets and liabilities in precious metals as of January 1, 2009, were as follows: 821.8000 roubles per gram of gold (2007: 654.6900 roubles per gram of gold); 10.3200 roubles per gram of silver (2007: 11.4100 roubles per gram of silver); 856.7500 roubles per gram of platinum (2007: 1,116.8800 roubles per gram of platinum); and 173.3300 roubles per gram of palladium (2007: 265.7200 roubles per gram of palladium).

(d) Foreign currency assets and liabilities

Foreign currency assets and liabilities are accounted for in roubles at the official rates of exchange of the rouble against foreign currencies 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 at the official exchange rates. Income and expenses relating to Bank of Russia foreign exchange operations are accounted for in the balance sheet in roubles at the official exchange rates, as of the day income is received or expenses are incurred.

Unrealised exchange rate differences arising due to the revaluation of balances in debit and credit balance sheet accounts are accounted for as *Accrued exchange rate differences* as part of capital, and are not included in the profit and loss account.

If the accrued negative unrealised exchange rate differences exceed the accrued positive unrealised exchange rate differences for the whole year, the excess is compensated for by previously accrued net positive exchange rate differences, accounted for as *Accrued foreign currency exchange rate differences* as part of capital by the decision of the Bank of Russia Board of Directors. If the balance sheet account *Accrued exchange rate differences* is empty or insufficient, the negative unrealised exchange rate differences are entirely (or in an amount that exceeds the credit

balance of the balance sheet account *Accrued foreign currency exchange rate differences*) recorded to Bank of Russia expenses for the corresponding reporting year by the decision of the Bank of Russia Board of Directors.

Realised exchange rate differences that arise in foreign exchange transactions conducted at rate that differs from the official exchange rates are calculated individually for each transaction, and are recorded as Bank of Russia income or expenses. Net positive realised exchange rate differences are recorded as part of other income, while net negative realised exchange rate differences are recorded as part of other operating expenses.

Bank of Russia claims and obligations under foreign currency purchase and sale forward contracts are recorded in off-balance sheet accounts from the transaction date to the settlement date, and are revalued at the official exchange rates.

The official exchange rates used in recalculating foreign currency assets and liabilities as of January 1, 2009, were as follows: 29.3804 roubles to the US dollar (2007: 24.5462 roubles to the US dollar) and 41.4411 roubles to the euro (2007: 35.9332 roubles to the euro).

(e) Securities

Securities are taken on discount at the purchase price, taking into account coupon income paid, increased by material additional expenses (costs) directly related to their purchase. Expenses exceeding 5% of the transaction value are recognised as material.

Securities are taken on discount in the currency in which they were issued.

The price of securities purchased in currency other than that in which they were issued is determined at the Bank of Russia official rate of exchange as of the purchase date, or at the cross rate set for the corresponding currencies.

Investments in securities other than promissory notes are categorised as follows, depending on the purpose of purchase:

Debt obligations appraised at fair value through profit or loss. These are securities purchased for short-term sale (up to one year), whose current (fair) value can be determined;

Debt obligations held until redemption. These are securities which the Bank of Russia intends to hold until redemption, regardless of the period elapsing from the purchase date to the redemption date;

Debt obligations available for sale. These are securities that are not categorised when purchased as 'appraised at fair value through profit or loss' or 'held until redemption'.

The balance sheet value of securities after their initial recognition is altered by the amount of the discount (premium) and coupon (interest) income accrued and received from initial recognition until retirement.

The amount of discount (premium) and coupon (interest) income on securities is recognised as interest income accrued in the period to maturity.

Interest income on securities is recognised as income on the last working day of the month in which the securities are retired (sold), or when interest income is paid by the issuer.

Securities categorised as securities appraised at fair value through profit or loss, and securities categorised as available for sale, are revalued at current (fair) value.

Market prices from the latest trades are used to evaluate securities at current (fair) value if the securities are listed on the exchange, or the latest available representative purchase prices quoted by the financial news and data service Bloomberg are used if the securities are traded on the over-the-counter market. Appraisals based on market data are used if it is impossible to determine the market price of securities from external independent sources.

The sum of the securities revaluation is the difference between the fair price of the securities and their balance sheet price, inclusive of accrued interest income. Revaluation amounts that arose during the year due to the change in the current (fair) value are recorded in the accounts, reflecting a positive or negative revaluation of securities.

The revaluation of securities categorised as securities appraised at fair value through profit or loss is recorded for the year on the accounts recording income from securities trading (positive differences) or the accounts recording expenses incurred in securities trading (negative differences).

The excess of accrued positive revaluation over accrued negative revaluation of securities of a particular issue (issuer) available for sale is recorded for the year on the balance sheet account *Positive revaluation of securities available for sale* as part of capital, while the excess of accrued negative revaluation over accrued positive revaluation of securities of a particular issue (issuer) available for sale is written off from the account recording the expenses involved in securities trading in the profit and loss account.

The financial result in the event of the retirement of securities available for sale is determined as the difference between the balance sheet price of the security as of the retirement date, inclusive of accrued interest income and the accrued revaluation as of the retirement date, and the redemption price or the retirement (purchase) price set by the contract.

Income and expenses from the sale of securities are accounted for as income and expenses relating to securities trading in the profit and loss account.

Securities received by the Bank of Russia through repo transactions with resident or non-resident credit institutions are accounted for in off-balance sheet accounts as securities received as collateral in repo transactions and revaluated at current (fair) value. Funds provided through repo transactions with resident and non-resident credit institutions are accounted for on the Bank of Russia balance sheet as placements made against the collateral of securities. Income from the placement of funds in repo transactions is recorded as interest income.

Securities received by the Bank of Russia as collateral in repo transactions with resident and non-resident credit institutions continue to be accounted for in the Bank of Russia balance sheet in the same category that they were accounted for before the repo transaction was conducted, in separate balance sheet accounts. The raising of funds through repo transactions with resident and non-resident credit institutions is accounted for in the Bank of Russia balance sheet as operations to raise funds against the collateral of securities. Expenses involved in raising funds through repo transactions are recorded as interest expenses.

Promissory notes issued by credit institutions are accounted for at their purchase price net of the provisions made for them.

(f) Bank of Russia bonds

Bank of Russia bonds (OBR), when placed and sold, are accounted for at par value net of the discount (the difference between par value and the actual placement or selling price).

The size of the discount is recognised as interest expenses accrued during the OBR period to maturity and recorded on the expense accounts on the last working day of the month in which the bonds are bought back or redeemed.

When OBRs are bought back by the Bank of Russia, securities that were placed first are written off the Bank of Russia balance sheet, while the difference between the balance sheet price of securities (inclusive of accrued interest expenses) and the amount paid is recorded on the profit and loss account as expenses (income) relating to securities trading.

OBR repo transactions are accounted for in the same way as the securities repos. OBR received by the Bank of Russia in repo transactions with resident credit institutions are recorded on off-balance sheet accounts as securities received as collateral in repo transactions. The provision of funds in repo transactions with resident credit institutions is recorded on the Bank of Russia balance sheet as placements made against the collateral of securities. Income from the placement of funds in repo transactions is accounted for as interest income.

(g) Investments

Bank of Russia investments in the authorised capital of credit institutions and other organisations within and outside Russia are accounted for at the purchase price.

(h) Loans and deposits

Loans and deposits provided to credit institutions and state corporations are recorded as principal debt net of depreciation provisions.

The Bank of Russia extends loans against the collateral of securities and assets or guarantees of credit institutions.

The Bank of Russia places deposits and extends subordinated and unsecured loans in roubles and foreign currency in accordance with certain federal laws and decisions of the Bank of Russia Board of Directors, as part of the package of measures aimed at providing assistance to the Russian financial system.

Foreign currency-denominated deposits placed with non-resident banks are recorded as principal debt net of depreciation provisions.

(i) Bank of Russia loss provisions

To cover the risks (losses) to which it may be exposed when conducting operations or fulfilling its duties, the Bank of Russia, pursuant to applicable laws of the Russian Federation, makes the following loss provisions: for operations with resident credit institutions and other borrowers; operations with securities; the Finance Ministry's debt to the Bank of Russia, except the debt in the form of government securities; operations with non-resident credit institutions and other organisations; Bank of Russia compensation payments to depositors of bankrupt banks uncovered by the deposit insurance system; other Bank of Russia operations in roubles and foreign currency; deferred expenses to guarantee obligations to participants in the Bank of Russia pension scheme; and contingency credit obligations of the Bank of Russia. The Bank of Russia can make provisions for other assets and possible losses if it has reason to believe that such losses may arise. The Bank of Russia evaluates the risk of possible losses on its assets (contingency obligations) for which provisions are made by determining the probability of its failure to retrieve its funds invested in assets, and the amount of possible losses according to the provisioning procedure approved by the National Banking Board. Bank of Russia provisions are made on the decision of the Bank of Russia Board of Directors, and are recorded to Bank of Russia expenses. When the amount of provisions made decreases as a result of the redemption of loans and repayment of deposits, promissory notes, and other debts, and the disposal of other assets, the termination of contingency obligations, the improvement of the quality of assets, and the reduction of the risk of possible losses on Bank of Russia assets (contingency obligations), the corresponding part of the provisions is recovered as Bank of Russia income.

Provisions for operations with resident credit institutions and other resident borrowers in roubles are made by the Bank of Russia whenever these operations pose a risk of possible losses (credit risk) due to the deterioration of the financial situation of borrowers and (or) because of the non-fulfilment (inadequate fulfilment) by borrowers of their obligations on Bank of Russia loans under the terms and conditions of the agreement or other relevant documents confirming the provision of Bank of Russia loans, or the failure to satisfy other Bank of Russia rouble-denominated claims, repay a promissory note and (or) meet obligations by a person whose due diligence with regard to the fulfilment of obligations is guaranteed by the obligation (contingent obligations) assumed by the Bank of Russia.

Provisions for foreign exchange transactions are made by the Bank of Russia whenever these transactions pose a risk of possible losses because of the non-fulfilment by counterparties of their contract obligations to the Bank of Russia, and (or) the devaluation of Bank of Russia assets, and (or) non-fulfilment of obligations by a person whose due diligence in fulfilling obligations is guaranteed by the obligation (contingent obligations) assumed by the Bank of Russia.

Provisions for Bank of Russia compensation payments for household deposits in bankrupt banks uncovered by the compulsory deposit insurance system are made in the actual amount that the Bank of Russia has transferred to the agent bank to effectuate Bank of Russia compensation payments, and also in the amount owed by the bankrupt bank to the Bank of Russia on obligations that arose in connection with the transfer of funds to the bankrupt bank's depositors by the Bank of Russia.

Bank of Russia provisions to guarantee obligations to participants in the Bank of Russia pension scheme are made for the purpose of ensuring the fulfilment of pension obligations to Bank of Russia employees under the terms and conditions of the pension scheme.

Bank of Russia assets for which provisions are made are accounted for in the balance sheet, net of the sum of provisions.

(j) Fixed assets

The Bank of Russia's fixed assets are the part of its property with a service life in excess of 12 months, and a value in excess of the limit set by the Bank of Russia for the recognition of property as fixed assets. Since January 1, 2008, this limit has been set at 20,000 roubles.

Intangible assets are identifiable objects that have no material form and are intended for long-term use.

Fixed assets and intangible assets are accounted for at residual value, i.e. at the purchase price inclusive of revaluation and exclusive of accrued depreciation.

Bank of Russia fixed assets have been revalued in compliance with Russian Federation Government resolutions. The latest revaluation was made on January 1, 1997.

Intangible assets have not been revalued.

Depreciation allowances are made each month, on the first day of the month following the month in which the fixed or intangible asset was put into operation, at a rate of one twelfth of the annual sum, and are continued during its entire service life (except in cases when the asset is in the process of reconstruction or modernisation for more than 12 months, or deactivated for more than three months on the decision of the Bank of Russia), and discontinued from the first day of the month following the month during which the cost of the asset was completely repaid or written off from the books.

The maximum amount of accrued depreciation must equal the balance sheet value of the fixed or intangible asset.

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 Allowances for the Complete Restoration of Fixed Assets of the National Economy of the USSR':

	%
Buildings and other facilities	1.0—14
Equipment (including computers, furniture, transport vehicles, etc.)	2—18

Fixed assets put into operation from January 1, 2002, are depreciated at rates set by Bank of Russia Order No. OD-512, dated July 16, 2007, 'On the Approval of the List of Bank of Russia Depreciated Fixed Assets Disaggregated into Depreciation Groups with the Indication of the Serviceability Periods, and the Regulation on the Procedure for Using the List of Bank of Russia Depreciated Fixed Assets Disaggregated into Depreciation Groups with the Indication of the Serviceability Periods' (with changes and amendments), issued pursuant to Russian Federation Government Resolution No. 1, dated January 1, 2002, 'On the Classification of Fixed Assets Included in the Depreciation Groups' (revised by Russian Federation Government Resolutions No. 415 of July 9, 2003, No. 476 of August 8, 2003, No. 697 of November 18, 2006, and No. 676 of September 12, 2008).

	%
Buildings and other facilities	1.1—14
Equipment (including computers, furniture, transport vehicles, etc.)	2—67

Repair and maintenance expenses on fixed assets are recorded on the profit and loss account as other operating expenses.

Profit and losses arising from the retirement of fixed assets are calculated as the difference between their balance sheet value and retirement value, and are recorded on the profit and loss account as other income or other operating expenses.

(k) 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 nominal value.

(l) Funds in accounts with the Bank of Russia

Funds in accounts with the Bank of Russia comprise federal government funds, credit institutions' correspondent accounts and required reserves deposited with the Bank of Russia, credit institutions' and other organisations' deposits received by the Bank of Russia, and also 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.

(m) Float

As of the end of the year, float includes the balances of funds connected with the completion of settlement operations across electronic and letter of advice settlement accounts, and the balances of funds resulting from operations between Bank of Russia establishments connected with the transfer of payments of Bank of Russia establishments and their customers. Float is accounted for in the balance sheet at par value.

(n) Capital

Bank of Russia capital 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 roubles;
- various reserves and funds created to enable the Bank of Russia to fulfil the functions assigned to it by the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). Information on the sources and use of Bank of Russia reserves and funds is contained in the Statement of Bank of Russia Reserves and Funds, as part of these Annual Financial Statements as of January 1, 2009.

(o) Reporting year profit

Bank of Russia profit is the difference between total income from transactions stipulated by Article 46 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and income from participation in the capital of credit institutions and expenses involved in the Bank of Russia's fulfilment of the functions assigned to it by Article 4 of this Federal Law.

Profit for the year, accounted for in the Bank of Russia balance sheet, is the financial result of the Bank of Russia's performance during the reporting year.

After the Bank of Russia Annual Financial Statements are approved by the Board of Directors, the Bank of Russia transfers to the federal budget 50% of its actual full-year profit remaining after the payment of taxes and duties under the Tax Code of the Russian Federation. The remaining profit of the Bank of Russia is transferred by the Board of Directors to various reserves and funds (Note 26, Statement of Profit and its Allocation, Table *Capital, funds and profit allocation*).

(p) Recognition of Bank of Russia income and expenses

Income and expenses are accounted for in the profit and loss account on the accrual basis, i.e. as soon as they are received or incurred, not after funds (or their equivalents) have been actually received or paid.

Income (expenses) received (incurred) and accrued in previous reporting periods are recorded to the corresponding items of the profit and loss account for the reporting period.

Income and expenses are accounted for in the period to which they relate.

(q) Financial result

The financial result, i.e. profit or loss, is the difference between total income and total expenses relating to the core and non-core activities of the Bank of Russia, which are recorded in the books for the reporting year.

(r) Taxation of the Bank of Russia

The Bank of Russia pays taxes and duties under the Tax Code of the Russian Federation. The Bank of Russia has drawn up and approved its accounting policy for the purposes of taxation, which sets out the tax accounting principles, and methods and rules on and the procedure for creating the tax base for the calculation of taxes and duties paid by the Bank of Russia.

(s) Transfer of profit to the Federal Budget

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 the federal budget after the approval by the Board of Directors of the Bank of Russia Annual Financial Statements 50% of its actual profit for the year remaining after the payment of taxes and duties under the Tax Code of the Russian Federation.

(t) Changes to comparative data

Due to the changes made to Regulation No. 66-P, beginning from January 1, 2008, securities categorised as securities available for sale are revalued at the current (fair) value, securities received by the Bank of Russia in repo transactions with resident credit institutions are accounted for in off-balance sheet accounts as securities received as collateral in repo transactions and revalued at current (fair) value, and income and expenses are accounted for on the accrual basis.

Data in the Bank of Russia Annual Financial Statements as of January 1, 2008, pertaining to the value of securities in the Bank of Russia portfolio as of January 1, 2008, are not subject to adjustment in connection with the amendments made to Regulation No. 66-P. The current (fair) value of the securities that the Bank of Russia held in its portfolio as of January 1, 2008, is used for comparison of data in Note 4 *Funds placed with non-residents and foreign issuers' securities*, Note 6 *Securities*, and the Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property.

Data in the Bank of Russia Annual Financial Statements as of January 1, 2008, pertaining to income (expenses) for 2007 are not subject to adjustment in connection with the amendments made to Regulation No. 66-P. Income (expenses) accrued in previous reporting periods and received (incurred) in 2008 are recognised as corresponding items of the profit and loss account for 2008 owing to their economic content, and information on them is disclosed in Notes 14, 15, 16 and 17.

Due to the changes made as of January 1, 2008 to Regulation No. 66-P, and the Bank of Russia Board's decision of February 15, 2008, to change the presentation form of the balance sheet and the aggregation of balance sheet accounts, and also to the form of the profit and loss account and the aggregation of its symbols, the comparative data of the Annual Financial Statements as of January 1, 2008 have been corrected to match the changes in the presentation form of the financial statements for the reporting year.

The changes to comparative data for 2007 are shown below.

(million roubles)

Balance sheet items		2007 (previously recorded amounts)	Changes	2007 (recalculated amounts)
Assets				
Loans and deposits	A	37,109	15,173	52,282
Securities, of which:	B	441,948	(15,173)	426,775
— federal government debt obligations	C	352,772	(11,367)	341,405
Other assets	D	99,482	(2,564)	96,918
Total assets		12,436,681	(2,564)	12,434,117
Liabilities				
Securities issued	E	—	100,377	100,377
Other liabilities, of which:	F	195,953	(102,941)	93,012
— Bank of Russia bonds	G	102,941	(102,941)	—
Total liabilities		12,436,681	(2,564)	12,434,117

(A) *Loans and deposits* have been increased by the value of debt obligations of the federal government and other issuers acquired by the Bank of Russia through repo transactions. The change is connected with the classification of repo transactions by the Bank of Russia as transactions to place funds against the collateral of securities.

(B) *Securities* have been reduced by the value of debt obligations of the federal government and other issuers acquired by the Bank of Russia through repo transactions. The change is connected with the classification of repo transactions by the Bank of Russia as transactions to place funds against the collateral of securities.

(C) *Federal government debt obligations* have been reduced by the value of federal government debt obligations acquired by the Bank of Russia through repo transactions. The change is connected with the classification of repo transactions by the Bank of Russia as transactions to place funds against the collateral of securities.

(D) *Other assets* have been reduced by the amount of deferred expenses on securities, which represent the difference between the nominal value and selling (seller) price of Bank of Russia bonds (OBR) (discount).

(E) *Securities issued* is a new item recognising the nominal value of bonds issued by the Bank of Russia, net of the discount.

(F) *Other liabilities* have been reduced by the nominal value of bonds issued by the Bank of Russia.

(G) *Bank of Russia bonds* have been itemised as Securities issued.

(million roubles)

Profit and loss account items		2007 (previously recorded amounts)	Changes	2007 (recalculated amounts)
Income				
Interest income	H	392,588	(58)	392,530
Income from securities trading	H	104,067	(7,465)	96,602
Income from operations with precious metals	I	357	(355)	2
Total income		504,924	(7,878)	497,046
Expenses				
Interest expenses	H	174,967	12,857	187,824
Expenses involved in securities trading	H	37,040	(20,380)	16,660
Expenses involved in operations with precious metals	I	1,351	(1,220)	131
Other operating expenses	I	40,292	865	41,157
Total expenses		480,359	(7,878)	472,481

(H) These changes are connected with:

- 1) the classification by the Bank of Russia of repo transactions as operations to place funds against the collateral of securities, and the recording as *Interest income* of the excess of expenses over income in these operations — which in 2007 were recorded as *Income from securities trading* at 503 million roubles and *Expenses involved in securities trading* at 822 million roubles — for the purpose of reducing interest income from repo transactions on securities (excluding OBR repo transactions) recorded in 2007, which resulted from the accounting of these transactions as purchase and sale transactions;
- 2) the classification of OBR repo transactions as operations to place funds against the collateral of securities and recording as *Interest income* of 261 million roubles of income from these operations, and the classification of the 12,857-million-rouble excess of expenses over income in OBR placement operations as interest expenses, and recording these expenses as *Interest expenses*. When disaggregating interest income and expenses, the Bank of Russia transferred to income and expenses relating to these operations 6,961 million roubles previously recorded as *Income from securities trading*, and 19,557 million roubles previously recorded as *Expenses involved in securities trading*.

(I) The change is due to recording as *Other operating expenses* net negative realised differences on precious metals, which were previously recorded as positive realised differences on precious metals to *Income from operations with precious metals* and negative realised differences on precious metals to *Expenses involved in operations with precious metals*.

2. IMPACT OF ECONOMIC CONDITIONS ON BANK OF RUSSIA FINANCIAL STATEMENTS

The global financial and economic crisis and the anti-crisis measures taken by the Russian Government and the Bank of Russia in 2008 affected the annual balance sheet and the financial performance of the Bank of Russia.

The Bank of Russia pursued a monetary policy designed to contain inflation and maintain the stability of the banking system amid the dramatically changing economic circumstances.

In the second half of 2008, when liquidity problems arose on foreign financial markets and the prices of Russia's main exports fell, a large-scale outflow of capital from Russia began. The need for Russian private companies to repay their debts to foreign creditors, and their difficulty in raising funds from external sources, led to a surge in demand for foreign currency, which increased pressure on the rouble's exchange rate.

While maintaining a managed floating exchange rate regime, the Bank of Russia took steps to restrain short-term exchange rate fluctuations by selling foreign currency on the domestic market. At the end of the year, as the fundamental macroeconomic indicators changed, the Bank of Russia let the rouble gradually weaken.

The depreciation of the rouble provoked a sharp rise in the dollarisation of the Russian economy. The conversion of rouble-denominated deposits into foreign currency deposits by households and non-financial enterprises was accompanied by the replacement of cash roubles by cash euros and dollars. As a result, the share of cash roubles in circulation in the structure of Bank of Russia annual balance sheet liabilities contracted.

The Bank of Russia collaborated with the government in carrying out a series of economic policy measures aimed at mitigating the negative consequences of the crisis for Russian credit institutions, by granting them wider access to liquidity, and creating credit resources for economic development.

The easing of refinancing conditions for credit institutions by the Bank of Russia, which began to provide unsecured loans, led to significant growth in the funds provided to banks, and caused an expansion of their debt to the Bank of Russia on instruments used to provide liquidity.

To maintain banking sector liquidity, the Bank of Russia in September and October twice cut the required reserve ratios for credit institutions, thereby releasing over 300 billion roubles to their correspondent accounts. To give credit institutions greater opportunities to manage short-term liquidity, the Bank of Russia opened foreign currency correspondent accounts for certain resident banks.

As a result of these measures, as well as measures aimed at boosting refinancing and discouraging capital outflow, resident credit institutions' funds with the Bank of Russia increased by almost 50% over the year, and the share of these funds expanded in the structure of Bank of Russia annual balance sheet liabilities.

The Russian Government's policies on managing the Reserve Fund and National Wealth Fund, along with the budget surplus, led to growth in funds in federal government accounts, but their share in Bank of Russia annual balance sheet liabilities remained virtually unchanged.

Bank of Russia income and expenses in the reporting year were influenced by a number of different factors. In the first half of 2008, as international reserves continued to grow rapidly, the principal factor behind the Bank of Russia's financial performance was growth in income from reserve placements. As the situation on the global financial markets deteriorated in the second half of the year, and international reserves declined amid the transition to a new rouble exchange rate, the effect on financial performance of the Bank of Russia's operations in support of the country's financial system increased significantly. During this period, significant growth in income from operations to inject liquidity into credit institutions, which received wider access to refinancing, was accompanied by a substantial increase in spending connected with the deterioration of the Bank of Russia asset structure, and the risk of possible losses from these operations. Due to the switch on January 1, 2008, to accounting of income (expenses) on the accrual basis, and the recording of income (expenses) of previous years as 2008 income (expenses), and the fact that total income of previous years surpassed total expenses of previous years, the financial result of the Bank of Russia's operations was better than in 2007.

3. PRECIOUS METALS

	<i>(million roubles)</i>	
	2008	2007
Precious metals	450,332	346,523
Total	450,332	346,523

The increase under this item is largely due to the purchase of gold from Russian credit institutions under general agreements and the revaluation of precious metals at book prices.

4. FUNDS PLACED WITH NON-RESIDENTS, AND FOREIGN ISSUERS' SECURITIES

	<i>(million roubles)</i>	
	2008	2007
Foreign securities	10,841,756	6,684,818
Balances of correspondent accounts and deposits placed with non-resident banks	1,095,064	2,887,937
Funds placed with non-residents under repo transactions	154,254	1,938,864
Total	12,091,074	11,511,619

Foreign securities have been categorised as securities available for sale.

Foreign securities are for the most part US Treasuries and government debt obligations of Germany, France, Britain, Sweden, Belgium, the Netherlands, Austria, Spain, Finland, Ireland, and Japan, debt obligations of extra-budgetary funds and federal government agencies of these countries as well as of international financial organisations, and covered securities of German credit institutions. Growth under this item was due to the increase in investment in foreign government securities, the change in the official exchange rate of the rouble against foreign currencies, and the revaluation of securities in the Bank of Russia portfolio at current (fair) value. The current (fair) value of foreign securities in the Bank of Russia portfolio as of January 1, 2008, was 6,791,696 million roubles (Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property).

To determine the current (fair) value of foreign securities, the latest representative price information provided by the financial news and data service Bloomberg was used.

As of January 1, 2009, 0.89% of total *Foreign securities* (compared to 37.03% in 2007) were Bank of Russia investments in bonds of the following US mortgage agencies: the Federal Home Loan Banks, Federal National Mortgage Association, and the Federal Loan Mortgage Corporation. Valued at 96,141 million roubles (2007: 2,475,194 million roubles), 95.12% of these bonds as of January 1, 2009, had terms to maturity of less than one year. The agencies cited above have the highest long-term credit rating of AAA, and their coupon-yielding bonds in the Bank of Russia portfolio also held the highest rating of AAA as of the reporting date.

The decrease in *Balances of correspondent accounts and deposits placed with non-resident banks* is largely due to the reduction of Bank of Russia foreign exchange reserves.

Under the item *Funds placed with non-residents under repo transactions* are funds placed with non-resident banks, worth 137,040 million roubles (2007: 1,764,904 million roubles), resulting from

the purchase of foreign securities with an obligation to resell, covered by foreign securities, and 17,214 million roubles (2007: 173,960 million roubles) in foreign securities placed through purchase transactions with non-residents with an obligation to resell (reverse repo transactions), which had been received in transactions to sell securities from the Bank of Russia portfolio with an obligation to repurchase (repo transactions), concluded with the same counterparty (Note 9 and Note 24).

The decrease under this item is due to the contraction in the overall volume of funds provided by the Bank of Russia in open securities purchase transactions with an obligation to resell.

Securities received by the Bank of Russia as collateral in repo transactions with non-residents are recorded in off-balance sheet accounts at the current (fair) value, and have a total value of 164,347 million roubles (2007: 1,947,633 million roubles); of these, securities received in reverse repo transactions, which are equivalent to repo transactions (Note 9), have a current (fair) value of 17,570 million roubles (2007: 174,882 million roubles) (Note 24).

5. LOANS AND DEPOSITS

	<i>(million roubles)</i>	
	2008	2007
Loans to and deposits with resident banks (in roubles)	2,866,787	34,031
of which:		
— extended and placed under individual federal laws	2,265,223	—
Other funds placed with credit institutions (through repo transactions)	614,752	15,173
Loans to and deposits with resident banks (in foreign currency)	360,818	442
of which:		
— extended and placed under individual federal laws	287,367	—
Other	118,740	3,596
of which:		
— extended and placed under individual federal laws	114,300	—
Provisions	(89,762)	(960)
Total	3,871,335	52,282

As part of measures stipulated by federal legislation to provide support to the Russian financial system, the Bank of Russia extended 500,000 million roubles in subordinated loans to Sberbank and placed 287,367 million roubles in foreign currency deposits with Vnesheconombank. Pursuant to federal laws and decisions of the Bank of Russia Board of Directors, the Bank of Russia provided 1,765,223 million roubles to credit institutions and Vnesheconombank in loans and deposits. In 2008, the Bank of Russia provided 730,747 million roubles in loans and deposits to banks in which the state owned more than 50% of authorised capital.

Growth in *Loans to and deposits with resident banks (in roubles)* is due to the implementation by the Bank of Russia of Federal Law No. 173-FZ, dated October 13, 2008, 'On Additional Measures in Support of the Financial System of the Russian Federation' (hereinafter referred to as Federal Law No. 173-FZ), and Federal Law No. 86-FZ, dated July 10, 2002, 'On the Central Bank of the Russian Federation (Bank of Russia) (Article 46, amended by Federal Law No. 176-FZ of October 27, 2008), and to a significant increase in demand from credit institutions for Bank of Russia Lombard loans, and loans secured by promissory notes, claims under loan agreements of organisations or credit institutions' guarantees, caused by the amendments made to the Federal Law.

Other funds placed with credit institutions (through repo transactions) reflect funds placed with credit institutions through transactions to purchase securities with an obligation to resell, backed by other securities.

Securities received by the Bank of Russia as collateral in repo transactions with credit institutions are recorded to off-balance sheet accounts at their current (fair) value, and have a total value of 657,794 million roubles (2007: 16,073 million roubles) (Note 24).

The increase under this item is due to significant growth in the total volume of funds provided by the Bank of Russia on the domestic market by purchasing securities with an obligation to resell.

The volume of other funds placed through repo transactions with credit institutions with a 50%-plus government stake in their authorised capital stood at 250,082 million roubles.

The increase in *Loans to and deposits with resident banks (in foreign currency)* is due to the placement by the Bank of Russia of US dollar-denominated deposits in accordance with decisions of the Bank of Russia Board of Directors, and in pursuance of Federal Law No. 173-FZ, which stipulates that the Bank of Russia can deposit no more than \$50 billion with Vnesheconombank.

The increase in *Other* is due mainly to the provision of loans to the Deposit Insurance Agency, a state corporation, as part of measures taken under federal laws to support the Russian financial system and prevent bank bankruptcies.

Provisions totalling 89,762 million roubles (2007: 960 million roubles) have been made for debt on loans and other placements, and deposits in roubles and foreign currency. This debt comprises:

- debt on rouble-denominated loans provided to credit institutions under individual federal laws totalling 25,057 million roubles (2007: 0 million roubles);
- debt on secured loans provided by the Bank of Russia to resident banks in roubles, and deposits placed by the Bank of Russia with Vnesheconombank in roubles totalling 28,006 million roubles (2007: 2 million roubles);
- debt on US dollar-denominated deposits placed with Vnesheconombank with the objective of implementing Federal Law No. 173-FZ and decisions of the Bank of Russia Board of Directors, totalling 36,082 million roubles (2007: 442 million roubles);
- debt on other loans and deposits, totalling 617 million roubles (2007: 516 million roubles).

6. SECURITIES

	<i>(million roubles)</i>	
	2008	2007
Federal government debt obligations		
Federal loan bonds (OFZ)	188,270	235,595
Russian government internal and external foreign currency-denominated loan bonds, of which:	164,935	118,547
— Russian government external foreign currency loan bonds (Russian Eurobonds)	148,656	113,923
— Russian government internal foreign currency loan bonds (OVLVZ)	16,279	4,624
Provisions	—	(12,737)
Subtotal	353,205	341,405
Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)	85,588	85,370
Other Russian issuers' debt obligations	2,226	—
Credit institutions' promissory notes acquired by the Bank of Russia	27	27
Provisions	(27)	(27)
Total	441,019	426,775

Debt obligations in the Bank of Russia portfolio are categorised as securities available for sale.

Federal loan bonds (OFZ)

The Bank of Russia's OFZ portfolio was formed as a result of the 2003—2005 restructuring of government securities under federal budget laws, and purchase and sale transactions conducted on the domestic securities market in 2007 and 2008. The characteristics of the securities received as a result of the restructuring process are established by provisions of federal laws and agreements between the Finance Ministry and the Bank of Russia.

As a result of amendments to Regulation No. 66-P, which came into effect on January 1, 2008, setting the accounting procedure for securities and repo transactions with securities, OFZ bonds that were in the trading book as of January 1, 2008, have been categorised as debt obligations available for sale.

The table below shows the structure of the portfolio of federal government debt obligations categorised as 'available for sale' and disaggregated by coupon income rate and maturity period as of January 1, 2009.

(million roubles)

OFZ type	2008	2007 (current (fair) value)	2007 (previous report data)
Zero-coupon debt depreciation OFZ due in 2019—2028	77,668	94,017	154,099
0.89% coupon-income debt depreciation OFZ due in 2029	25,213	—	—
6.90% coupon-income debt depreciation OFZ due in 2036	20,025	15,735	15,460
10.5% coupon-income debt depreciation OFZ due in 2018	19,108	—	—
8.5% coupon-income debt depreciation OFZ due in 2021	17,176	—	—
9% coupon-income debt depreciation OFZ due in 2012—2021	8,326	15,260	15,089
8.0% coupon-income debt depreciation OFZ due in 2016	7,341	4,320	4,278
7.5% coupon-income debt depreciation OFZ due in 2018—2023	5,208	—	—
6.1% permanent coupon-income OFZ due in 2012	3,990	3,035	2,998
5.80% to 6.1% permanent coupon-income OFZ due in 2010—2013	2,672	—	—
10% coupon-income debt depreciation OFZ due in 2010	777	—	—
7.4% permanent coupon-income OFZ due in 2010	766	—	—
1.566% coupon-income debt depreciation OFZ due in 2029	—	26,553	23,873
7.25% coupon-income debt depreciation OFZ due in 2018	—	19,980	19,798
Total	188,270	178,900	235,595

As of January 1, 2009, the OFZ portfolio is recognised at current (fair) value. Column 2007 (current (fair) value) shows the current (fair) value of Bank of Russia investments in OFZ as of January 1, 2008.

Market prices provided by the MICEX trade organiser, based on the results of the most recent trades, have been used to determine the current (fair) value of outstanding OFZ issues on the organised (exchange) securities market. As of January 1, 2009, the current (fair) value of these papers stood at 165,779 million roubles.

To determine the current (fair) value of OFZ issues not traded on the organised (exchange) securities market, the Bank of Russia evaluated future cash flows, discounted using non-coupon interest rates on government securities, calculated by the Moscow Interbank Currency Exchange as of the last trading day.

As of January 1, 2009, the current (fair) value of these papers, including zero-coupon bonds due in 2021—2027, stood at 22,491 million roubles.

The change in the value of the OFZ portfolio is due to the purchase and sale of OFZ bonds on the securities market, and their revaluation at current (fair) value.

As of January 1, 2009, the Bank of Russia held in its portfolio OFZ bonds maturing from 2010 to 2036, the majority of which (56%) in terms of nominal value were zero-coupon bonds due in 2019—2028.

As of January 1, 2008, the Bank of Russia held in its portfolio OFZ bonds maturing from 2012 to 2036, the majority of which (65%) in terms of nominal value were zero-coupon bonds due in 2019—2028.

Russian government internal and external foreign currency-denominated loan bonds

Russian government external foreign currency-denominated loan bonds (Russian Eurobonds) are US dollar-denominated government securities issued by the Finance Ministry and traded on the international market. Due in 2010 to 2030, they have coupon income of 7.5% to 12.75% p.a.

The change in the value of Russian government external foreign currency-denominated loan bonds is due to the purchase of Russian Eurobonds by the Bank of Russia, their revaluation at current (fair) value, and the change in the exchange rate of the US dollar against the rouble.

Russian government internal foreign currency-denominated loan bonds (OVGVZ) are US dollar-denominated government securities issued by the Finance Ministry, maturing in 2011, with coupon income of 3% p.a.

The change in the value of Russian government internal foreign currency-denominated loan bonds is due to the purchase of OVGZVZ bonds by the Bank of Russia, their revaluation at current (fair) value, and the change in the exchange rate of the US dollar against the rouble.

The current (fair) value of Russian Eurobonds and OVGZVZ bonds is based on their latest representative purchase prices cited by the financial news and data service Bloomberg.

Provisions

Since OFZ that were in the trading book as of January 1, 2008, have been categorised as debt obligations available for sale and evaluated at current (fair) value, 12,737 million roubles of provisions made in 2007 were recovered to Bank of Russia income in 2008.

Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)

The structure of Bank of Russia investments in the shares of credit institutions and other organisations is shown in the Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property.

Other Russian issuers' debt obligations

As a result of the settlement of obligations on unexecuted repo transactions on the domestic market in 2008, the Bank of Russia received securities issued by regional governments. These securities mature from 2009 to 2015 and have coupon income of between zero and 12% p.a. Their current (fair) value as of December 31, 2008, stood at 1,346 million roubles.

In addition, as a result of the settlement of obligations on unexecuted repo transactions on the domestic market in 2008, the Bank of Russia received securities issued by other Russian issuers. Their current (fair) value as of January 1, 2009, stood at 880 million roubles. These securities mature from 2009 to 2017 and have coupon income of between 7.20% and 9.00% p.a.

To determine the current (fair) value of the securities issued by regional governments and other Russian issuers, the Bank of Russia used market prices quoted by the trade organiser (MICEX) on the results of the latest trades.

Provisions for promissory notes issued by credit institutions and acquired by the Bank of Russia

Under the item Provisions are shown the provisions made for 27 million roubles of promissory notes issued by credit institutions and acquired by the Bank of Russia under the terms and conditions of the Amicable Agreement in 2001 (2007: 27 million roubles).

7. OTHER ASSETS

	<i>(million roubles)</i>	
	2008	2007
Fixed assets (at residual value)		
Buildings and other facilities	33,891	33,144
Equipment (including computers, IT and data processing systems, furniture, transport vehicles, etc.)	30,765	29,473
Subtotal fixed assets	64,656	62,617
Bank of Russia interest claims	26,110	19,148
Incomplete construction projects	7,987	5,270
Till cash	6,237	5,838
Settlements with CIS and Baltic banks	1,446	1,446
Settlements with suppliers, contractors and buyers	1,047	573
Bank of Russia funds transferred to agent banks for payments to depositors of bankrupt banks	697	863
Profit tax advance payments	187	113
Bank of Russia correspondent accounts	5	19
Other	4,039	3,749
Provisions	(2,457)	(2,718)
Subtotal other assets	45,298	34,301
Total	109,954	96,918

The table below shows the movement of fixed assets:

	<i>(million roubles)</i>	
	2008	2007
Fixed asset value net of accrued depreciation		
Balance as of January 1	105,767	96,937
Receipt	11,374	10,743
Retirement	(3,955)	(1,913)
Balance as of end of year	113,186	105,767
Accrued depreciation		
Balance as of January 1	43,150	36,278
Depreciation allowances due to expenses (Note 22)	8,905	8,491
Depreciation allowances due to other sources	22	1
Accrued depreciation of retired fixed assets	(3,547)	(1,620)
Balance as of end of year	48,530	43,150
Fixed asset residential value as of end of year	64,656	62,617

Structure and value of fixed assets net of accrued depreciation:

	<i>(million roubles)</i>	
	2008	2007
Buildings and other facilities	39,209	37,926
Computers, office equipment and furniture	35,024	32,721
Equipment	16,517	14,866
IT and data processing systems	16,379	14,841
Transport vehicles	2,727	2,476
Intangible assets	1,602	1,322
Other	1,728	1,615
Total	113,186	105,767

The increase in *Buildings and other facilities* is largely due to the construction and reconstruction of Bank of Russia office buildings and social infrastructure projects.

The increase in *Computers, office equipment and furniture* is due to the purchase and modernisation of: information technology and systems; devices designed to automate data storage and processing in the Bank of Russia's payment, accounting, and information analysis systems; printing and copying equipment; facilities designed to protect banking information; security and fire-alarm systems; video security and surveillance systems; local computer networks; and other systems supporting the work of the Bank of Russia.

The increase in *Equipment* is due to the purchase of equipment for the development and upgrading of systems providing uninterrupted and guaranteed electricity supply, mechanisation of cash processing operations, cash machines, and other equipment.

The increase in *IT and data processing systems* is largely due to the purchase of computers and technical equipment, telecommunications and network equipment, the development of a structured cable network along with its modernisation and upgrading, and the putting into operation of a fibre optic communications line and other information systems.

The increase in *Transport vehicles* is due mainly to the purchase of special-purpose transport vehicles to carry cash, and other transport vehicles.

The increase in *Intangible assets* is due to the purchase of software products to which the Bank of Russia has exclusive rights.

The increase in *Other* is primarily due to the purchase of production equipment and household goods.

The increase in *Bank of Russia interest claims* is largely due to the recording on the balance sheet of interest accrued in Bank of Russia operations to extend loans to credit institutions, whose receipt has been recognised as definitive.

The increase in *Incomplete construction projects* is mainly due to capital investment in the construction of an interregional depository (a carryover project), and the creation and development of information analysis systems, including information security and protection facilities.

Other assets in the Bank of Russia Annual Financial Statements as of January 1, 2008, included 2,564 million roubles in deferred expenses on securities, representing the difference between the nominal value and the actual realisation value (discount) of OBR bonds, which reduce the OBR nominal value in the newly-introduced *Securities issued* balance sheet item (Note I (t) and Note 11).

Provisions include:

- 1,446 million roubles for debt on 1992—1993 intergovernment settlements with CIS and Baltic states (unchanged from 2007);
- 697 million roubles transferred to agent banks to pay compensation to depositors of bankrupt banks (2007: 863 million roubles);
- other assets worth 314 million roubles (2007: 409 million roubles), of which 9 million roubles (2007: 0 roubles) were provided for overdue interest and Bank of Russia interest claims on unsecured loans provided to credit institutions.

8. CASH IN CIRCULATION

Cash in circulation grew slightly due to the expansion of cash turnover.

9. FUNDS IN ACCOUNTS WITH THE BANK OF RUSSIA

	<i>(million roubles)</i>	
	2008	2007
Federal government funds, of which:	7,093,937	5,119,493
— Stabilisation Fund	—	3,849,111
— Reserve Fund	4,007,199	—
— National Wealth Fund	2,184,494	—
Credit institutions' funds in correspondent accounts, of which:	1,843,537	806,954
— foreign currency funds in correspondent accounts	815,797	4,638
Regional and local budget funds	398,288	324,166
Government and other extra-budgetary funds	345,012	196,041
Deposits taken by the Bank of Russia from credit institutions	136,646	270,268
Required reserves deposited with the Bank of Russia	29,916	221,620
Non-resident bank funds raised through repo transactions	17,214	173,960
Other	373,009	496,461
Total	10,237,559	7,608,963

Growth in the balance of *Federal government funds* is due to the increase in federal budget revenue. In compliance with federal government resolutions, the Bank of Russia concluded bank account agreements with the Federal Treasury, whereby the Bank of Russia opened foreign currency accounts for the Reserve Fund and the National Wealth Fund, to which the balances of the Stabilisation Fund accounts were transferred on January 30, 2008.

Foreign currency funds in correspondent accounts show, in compliance with bank account agreements, the balances of the foreign currency correspondent accounts of Vnesheconombank and VTB Bank to a total sum of 137,341 million roubles (4,650 million US dollars, 10 million euros, and 982 million Japanese yen) (2007: 4,638 million roubles (168 million US dollars and 14 million euros) and the balances of foreign currency correspondent accounts of other credit institutions that have concluded with the Bank of Russia general agreements on the provision of Bank of Russia unsecured loans, and for which the Bank of Russia has opened since December 1, 2008, foreign currency correspondent accounts for the purpose of providing credit institutions with wider opportunities for managing short-term liquidity, to a total sum of 678,456 million roubles (15,495 million US dollars and 5,386 million euros).

Growth in *Government and other extra-budgetary funds* is due to the increase in the balances of the Federal Pension Fund accounts. In the Bank of Russia Annual Financial Statements as of January 1, 2008, the balance of government and other extra-budgetary funds was recorded in this Note to *Other*.

Deposits taken by the Bank of Russia from credit institutions include the balances of funds raised from resident credit institutions in roubles, which comprise 2,491 million roubles in deposits taken from credit institutions in which the government holds a 50%-plus stake in authorised capital. The decrease in the value of deposits taken by the Bank of Russia is due to the contraction of banking sector disposable liquidity, caused by the deterioration of the financial market situation in the second half of 2008.

The decrease in *Required reserves deposited with the Bank of Russia* is a consequence of the Bank of Russia Board's decisions to lower the required reserve ratios for credit institutions.

Non-resident bank funds raised through repo transactions are funds raised from non-resident banks under contracts whereby the counterparty receives securities from the Bank of Russia portfolio on a recoverable basis by concluding repo deals with the Bank of Russia. Funds raised under repo contracts are placed by concluding reverse repo deals with the same counterparty to the amount of the repo transaction and for the same period at the market repo rate.

Funds raised under repo deals effective as of the end of the year totalled 17,214 million roubles (2007: 173,960 million roubles). Foreign securities provided by the Bank of Russia under these repos, which had a total current (fair) value of 17,120 million roubles (2007: 174,104 million roubles), are accounted for as *Foreign securities* in Note 4, *Funds placed with non-residents and foreign issuers' securities*. Interest expenses involved in repo transactions totalled 1,744 million roubles (2007: 10,401 million roubles), and were recorded as *Interest expenses on funds raised against the collateral of foreign currency-denominated securities on foreign markets* in Note 17, *Interest expenses*.

The corresponding volume of funds placed under transactions effective as of the end of the year to purchase foreign securities covered by other foreign securities with an obligation to resell stood at 17,214 million roubles (2007: 173,960 million roubles), and was covered by foreign securities with a current (fair) value of 17,570 million roubles (2007: 174,882 million roubles) (Note 24). Interest income from repo transactions totalled 1,976 million roubles (2007: 10,918 million roubles), and were recorded to *Interest income from foreign currency loans, deposits and other placements* in Note 14, *Interest income*.

The decrease in the balance of *Non-resident bank funds raised through repo transactions* is due to the fall in the value of funds raised by the Bank of Russia through open securities sales with an obligation to repurchase.

Other include the balances of accounts of federal government-owned organisations, non-profit organisations, non-government organisations and other customers, and also a deposit taken from the Deposit Insurance Agency. The decrease under this item is due to the reduction of funds in the accounts of non-profit organisations, especially the Housing Reform Fund, a state corporation.

Pursuant to the Budget Code of the Russian Federation and 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 government budget funds without charging commission.

10. FLOAT

The decrease in *Float* was due to the reduction in the value of unfinished interregional electronic payments, which the Bank of Russia completed in the first working days of January 2009.

11. SECURITIES ISSUED

	<i>(million roubles)</i>	
	2008	2007
Bank of Russia bonds	12,493	100,377
Total	12,493	100,377

Bank of Russia bonds reflect the nominal value of OBR placed as of the end of the reporting period net of the discount (taking into account accrued interest expenses). In the Bank of Russia Annual Financial Statements as of January 1, 2008, the OBR nominal value was recorded to *Other liabilities* (Note 1 (t)).

The decrease in the value recorded under this item is due to the contraction in OBR transaction volumes, and early redemptions of OBR held by credit institutions.

12. OTHER LIABILITIES

	<i>(million roubles)</i>	
	2008	2007
Interest obligations	241,883	413
Supplementary pension provisions for Bank of Russia employees	74,688	62,125
Deferred income from lending operations	—	19,172
Deferred income from securities	—	8,611
Other	2,594	2,691
Total	319,165	93,012

The increase in *Interest obligations* is mainly due to the recording of interest accrued on Reserve Fund and National Wealth Fund assets in the period from January 30 to December 31, 2008 (241,522 million roubles). Under the bank account agreement, interest accrued on funds placed in the Reserve Fund and National Wealth Fund accounts are paid on the 15th of January of the year following the reporting year (Note 26). In the Bank of Russia Annual Financial Statements as of January 1, 2008, interest obligations were recorded in this Note to *Other*.

Under the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia has the right to set up a supplementary pension fund for its employees. Payments under the Bank of Russia pension plan are regulated by Bank of Russia instructions. These take into account the fact that Bank of Russia employees are not covered by guarantees to which civil servants are entitled, and that this pension arrangement is the internationally accepted practice for central banks. The volume of funds allocated for supplementary pension payments to Bank of Russia employees is determined on the basis of an actuarial evaluation conducted by a certified actuary. As of January 1, 2009, the Bank of Russia had added 13,077 million roubles to the supplementary pension fund, recording this sum as expenses (Note 22).

Due to the switch on January 1, 2008, to accounting for income and expenses on the accrual basis, accrued interest income receivable on loans, deposits, and other placements as of January 1, 2008, was recorded to Bank of Russia income (Note 14).

In view of the amendments made to Regulation No. 66-P with regard to accounting of securities, deferred income from government securities and other debt owed by the Finance Ministry, restructured under 1999—2001 and 2003—2005 federal budget laws into government securities and recorded on the Bank of Russia balance sheet as of January 1, 2008, was recorded in January 2008 to Bank of Russia income (Note 15).

Other consist mainly of funds deposited by credit institutions for the purpose of receiving cash.

In the Bank of Russia Annual Financial Statements as of January 1, 2008, the nominal value of OBR, which stood at 102,941 million roubles, was included in this Note. It is now recorded as *Securities issued* net of the discount of 2,564 million roubles.

13. REPORTING YEAR PROFIT

Reporting year profit is a balance sheet item recognising the Bank of Russia's financial result for 2008, resulting from the recognition in accounts of income accrued and received, and expenses accrued and paid.

The allocation of actual profit for the reporting year remaining after payment of taxes and duties under the Tax Code of the Russian Federation, and transfers to the federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), is recognised in the Bank of Russia accounting records for 2009 (Note 26, the Statement of Profit and its Allocation and Table *Capital, funds and profit allocation*).

In view of the recognition of income (expenses) on the accrual basis from January 1, 2008, the corresponding income (expenses) items of the profit and loss account for 2008 recognise income totalling 109,655 million roubles and expenses totalling 242 million roubles, accrued in previous reporting periods (Notes 14, 15, 16 and 17).

The main factors that affected the Bank of Russia's financial result in 2008 are as follows:

- the increase in interest income from foreign securities (Note 14);
- the increase in interest income from loans provided to credit institutions, including loans provided under individual laws, and other funds placed through repo transactions on the domestic market (Note 14);
- the increase in income from selling foreign securities available for sale (Note 15);
- the increase in interest expenses, including expenses relating to the balances of the Reserve Fund and National Wealth Fund foreign currency accounts (Note 17);
- the recovery of the negative revaluation of certain securities issues available for sale, recorded to Bank of Russia expenses (Note 21);
- provisions made in connection with the deterioration of the quality of Bank of Russia assets and the increased risk of possible losses (Note 20).

14. INTEREST INCOME

	<i>(million roubles)</i>	
	2008	2007
Interest income from securities	407,702	125,849
Interest income from foreign currency loans, deposits, and other placements	166,595	262,318
of which:		
— placements sanctioned by individual federal laws	1,486	—
Interest income from rouble loans, deposits, and other placements with resident banks	44,053	2,305
of which:		
— placements sanctioned by individual federal laws	29,578	—
Other,	1,994	2,058
of which:		
— sanctioned by individual federal laws	654	—
Total	620,344	392,530

Interest income from securities reflects for the most part interest income from foreign issuers' debt obligations acquired in the course of managing foreign exchange reserves, and from the federal government's debt obligations. Due to the recognition of income on the accrual basis from January 1, 2008, Bank of Russia income included actual interest income receivable accrued in previous reporting periods, to a total of 81,705 million roubles. In the Bank of Russia Annual Financial Statements as of January 1, 2008, interest income from repo transactions with federal government debt obligations were accounted for under this item; however, they are now recorded as *Interest income from rouble loans, deposits, and other placements with resident banks* in this Note.

Interest income from foreign currency loans, deposits, and other placements largely recognises interest on Bank of Russia placements with non-resident banks, including interest on funds provided through repo transactions with foreign securities, and deposits placed with Vnesheconombank pursuant to Federal Law No. 173-FZ and for the purpose of rendering financial assistance to credit institutions. Due to the recognition of income on the accrual basis since January 1, 2008, 19,062 million roubles in interest income receivable accrued during previous reporting periods have been recorded as Bank of Russia income.

The increase in *Interest income from rouble loans, deposits, and other placements with resident banks* is due to growth in Bank of Russia loans provided to credit institutions during the reporting year in the course of implementing additional measures to maintain banking sector liquidity and make refinancing instruments more accessible, and also to the expansion of repo transactions on the domestic market, which the Bank of Russia used to provide funds against the collateral of securities. In the course of implementing measures in support of the Russian financial system, the Bank of Russia provided subordinated loans to Sberbank and placed deposits with Vnesheconombank and some credit institutions, pursuant to the federal law and the Bank of Russia Board's decisions. Due to the Bank of Russia's recognition of income on the accrual basis from January 1, 2008, 84 million roubles of Bank of Russia interest income accrued in previous reporting years and actually receivable have been recorded as Bank of Russia income. Due to the classification by the Bank of Russia of repo transactions as operations to provide funds against the collateral of securities, Bank of Russia income from repo transactions with Russian debt obligations, which in the Bank of Russia Annual Financial Statements as of January 1, 2008, were recorded as *Interest income from securities, Income from securities trading, and Expenses involved in securities trading*, have been recorded as *Interest income from rouble loans, deposits, and other placements with resident banks* (Notes 1 (t), 15 and 18).

Other include mainly interest income from accounts opened in non-resident banks and interest income from loans provided to the Deposit Insurance Agency under individual federal laws. Due to the Bank of Russia's recognition of income on the accrual basis from January 1, 2008, 8 million roubles of receivable interest income accrued in previous reporting periods have been recorded to Bank of Russia income.

15. INCOME FROM SECURITIES TRADING

	<i>(million roubles)</i>	
	2008	2007
Income from operations with foreign securities	120,405	62,938
Income from operations with Russian debt obligations	9,311	33,664
Total	129,716	96,602

Income from operations with foreign securities comprises income from the sale of foreign government securities, securities issued by non-resident banks, and other non-resident debt obligations. The increase under this item is largely due to growth in the volume of foreign securities sales.

Income from operations with Russian debt obligations comprises income from the sale of securities, and deferred income from government securities and other Finance Ministry debt restructured under the 1999—2001 and 2003—2005 federal budget laws into 8,611 million roubles of securities accrued in previous reporting years and recorded to Bank of Russia income in connection with the recognition of income on the accrual basis since January 1, 2008.

The decrease in *Income from operations with Russian debt obligations* is due to amendments made to Regulation No. 66-P with regard to the securities accounting procedure, in accordance with which, in contrast to the previous year's procedure, this item excludes the results of the positive revaluation of Russian debt obligations (unrealised income), which have been recorded as *Positive revaluation of securities available for sale* as part of capital in the amount of 2,075 million roubles (Table *Capital, funds and profit allocation* and the Statement of Reserves and Funds). The decrease in the positive revaluation is due to the fall in the value of Russian debt obligations. The negative revaluation of Russian debt obligations, totalling 95,433 million roubles, has been recorded to expenses (Note 1 (e) and Note 21).

16. OTHER INCOME

	<i>(million roubles)</i>	
	2008	2007
Fees for services provided by the Bank of Russia to customers	4,846	1,786
Income from sale of coins made from precious metals	899	482
Income of previous years (net of interest income) identified during reporting year	125	138
Fines and penalties received	67	26
Other	1,687	827
Total	7,624	3,259

Fees for services provided by the Bank of Russia to customers comprise 4,815 million roubles in fees paid for the settlement services provided by the Bank of Russia (2007: 1,764 million roubles), 12 million roubles in telegraph expenses reimbursed by customers (2007: 11 million roubles recorded as *Reimbursement of telegraph and other expenses by customers*), and 19 million roubles of fees paid for other services (2007: 11 million roubles recorded as *Other*). Due to the Bank of Russia's recognition of income on the accrual basis from January 1, 2008, 185 million roubles of income receivable accrued in previous reporting periods have been recorded to Bank of Russia income; of this sum, 184 million roubles are fees paid for settlement services.

Income from sale of coins made from precious metals is income received from the sale of Russian coins made from precious metals on the domestic and international markets. The increase under this item was due to growth in sales and higher prices of precious metals on the international market.

17. INTEREST EXPENSES

	<i>(million roubles)</i>	
	2008	2007
Interest expenses on federal budget fund balances, including	270,153	151,893
— Stabilisation Fund balances	28,631	151,893
— Reserve Fund balances	186,201	—
— National Wealth Fund balances	55,321	—
Interest expenses on deposits taken from credit institutions on domestic market	10,601	12,615
Interest expenses on debt obligations issued by the Bank of Russia	2,419	12,857
Interest expenses on funds raised against the collateral of foreign currency-denominated securities on foreign markets	2,085	10,403
Other	4,199	56
Total	289,457	187,824

Pursuant to resolutions of the Russian Federation Government, the Bank of Russia concluded bank account agreements with the Federal Treasury, whereby the Bank of Russia opened Reserve Fund and National Wealth Fund foreign currency accounts to which the balances of Stabilisation Fund accounts were transferred on January 30, 2008.

Interest expenses on federal budget fund balances as of January 1, 2008, are interest accrued and paid on the balances of Stabilisation Fund foreign currency accounts.

Under bank account agreements, the Bank of Russia paid to the 2009 Federal Budget revenue on February 1, 2008, accrued interest on the Stabilisation Fund balances (for the period from December 16, 2007 to January 29, 2008), and on January 20, 2009, accrued interest on the Reserve Fund and National Wealth Fund balances (for the period from January 30 to December 31, 2008).

The decrease in *Interest expenses on deposits taken from credit institutions on domestic market* is due to the contraction of deposit operation volumes.

Interest expenses on debt obligations issued by the Bank of Russia include interest expenses on OBR. The decrease under this item is a result of the contraction of OBR operation volumes. Due to the recording of expenses on the accrual basis from January 1, 2008, 235 million roubles in interest expenses accrued for previous reporting periods have been recorded to Bank of Russia expenses. In view of the classification of repo transactions by the Bank of Russia as operations to place funds against the collateral of securities, and the recognition of expenses on OBR operations as interest expenses, this item has included interest expenses on OBR operations which in the Bank of Russia Annual Financial Statements as of January 1, 2008, were recorded as *Expenses on securities trading* (Note 1 (t) and Note 18).

The decrease in *Interest expenses on funds raised against the collateral of foreign currency-denominated securities on foreign markets* is due to the contraction of the average annual volume of operations to raise funds against the collateral of foreign currency-denominated securities.

Other include mainly interest expenses made by the Bank of Russia on raising funds from state corporations. Due to the recording of expenses on the accrual basis from January 1, 2008, 7 million roubles in interest expenses accrued for previous reporting periods have been recorded to Bank of Russia expenses.

18. EXPENSES ON SECURITIES TRADING

	<i>(million roubles)</i>	
	2008	2007
Expenses on operations with foreign securities	36,470	15,238
Expenses on operations with Russian debt obligations	534	1,259
Other	143	163
Total	37,147	16,660

Expenses on operations with foreign securities include spending resulting from the sale and negative revaluation of retired (realised) foreign government securities, securities issued by non-resident banks, and other non-resident debt obligations.

Expenses on operations with Russian debt obligations include expenses resulting from the sale and negative revaluation of retired (realised) Russian government debt obligations. In the Bank of Russia Annual Financial Statements as of January 1, 2008, this item included interest expenses on OBR operations, which in these Annual Financial Statements are recorded as *Interest expenses* (Note 1 (t)).

Other include for the most part expenses on commissions in securities trading and fees paid to the depository, which in the Bank of Russia Annual Financial Statements as of January 1, 2008, were recorded as *Expenses on operations with Russian debt obligations*.

19. CASH TURNOVER MANAGEMENT EXPENSES

This balance sheet item includes expenses involved in the manufacture, transportation, and destruction of banknotes and coins, their protection against counterfeiting, and the purchase and delivery of packaging materials and accessories necessary for the processing of cash.

Growth under this item is due to greater production of banknotes and coins, and the increased cost of their production.

20. NET EXPENSES ON PROVISIONS/INCOME FROM THE RECOVERY OF PROVISIONS

	<i>(million roubles)</i>	
	2008	2007
Increase/(decrease) in provisions for foreign currency loans and deposits placed in resident banks	35,742	(10,103)
Increase in provisions for rouble loans provided to credit institutions under individual federal laws	25,057	—
Increase in provisions for rouble loans and deposits placed with resident banks	28,006	—
Decrease in provisions for other active operations	(51)	(3)
(Decrease)/increase in provisions for securities	(12,737)	12,737
(Decrease)/increase in provisions for Bank of Russia compensation payments to depositors of bankrupt banks	(67)	13
Decrease in provisions for credit institutions' debt on other operations	(44)	(74)
Total	75,906	2,570

The increase in net expenses on provisioning in the reporting year reflects the deterioration of the quality of Bank of Russia assets, and the increased risk of possible losses from operations conducted to provide liquidity resulting from changes in the financial situations of credit institutions.

The increase in provisions for foreign currency loans and deposits placed with resident banks is largely due to provisioning for US dollar-denominated deposits placed by the Bank of Russia with Vnesheconombank to enable it to provide financial aid to credit institutions.

The increase in provisions for rouble loans provided to credit institutions under individual federal laws is due to provisioning for unsecured loans provided by the Bank of Russia under these federal laws.

The decrease in provisions for other active operations is due to the settlement of 60 million roubles of Bank of Russia claims, and the simultaneous increase by 9 million roubles in provisions in 2008 for Bank of Russia claims for (due and overdue) interest on unsecured loans provided to credit institutions.

Due to the categorisation of OFZ in the Bank of Russia trading book as of January 1, 2008, as debt obligations available for sale and their evaluation at current (fair) value, 12,737 million roubles of provisions made in 2007 were recovered to income in 2008.

Provisions for Bank of Russia compensation payments to depositors of bankrupt banks have been made pursuant to the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System and Bank of Russia regulations.

The decrease in provisions for credit institutions' debt on other operations is a result of the repayment by credit institutions of their debt to the Bank of Russia under agreements on the assignment of claims for promissory notes issued by credit institutions.

21. EXPENSES ON NEGATIVE REVALUATION OF SECURITIES AVAILABLE FOR SALE

	<i>(million roubles)</i>	
	2008	2007
Expenses on negative revaluation of securities available for sale	98,048	—
Total	98,048	—

The accrued negative unrealised revaluation of securities available for sale in 2008, totalling 95,433 million roubles for certain issues of federal government debt obligations and 2,615 million roubles for foreign issuers' debt obligations, has been recorded as Bank of Russia expenses (Note 1 (e)).

22. OTHER OPERATING EXPENSES

	<i>(million roubles)</i>	
	2008	2007
Net realised foreign currency exchange rate differences	48,883	704
Expenses on replenishment of supplementary pension funds	13,077	10,778
Depreciation allowances (Note 7)	8,905	8,491
Expenses on IT maintenance and logistics	3,629	2,869
Security expenses	3,566	2,891
Repair expenses	3,064	2,663
Expenses on delivery of bank documents and valuables	2,663	2,116
Expenses involved in the use of title to intellectual property	2,227	2,168
Expenses on maintenance of buildings	2,010	1,674
Taxes and duties paid	1,548	1,432
Postage, telegraph and telephone expenses and expenses on renting communication lines and channels	1,224	1,065
Net negative realised differences for precious metals	804	865
Expenses on foreign exchange operations	373	191
Other	3,755	3,250
Total	95,728	41,157

Net realised foreign currency exchange rate differences include for the most part expenses involved in the purchase and sale of foreign currency by the Bank of Russia on the domestic market. Net negative realised exchange rate differences are a result of foreign currency exchange rate fluctuations.

Additional funds to a total of 13,077 million roubles were allocated to the supplementary pension funds for Bank of Russia employees as of January 1, 2009, on the basis of the actuarial valuation report on Bank of Russia pension obligations as of December 31, 2008, and pension expenses for 2008, and were recorded to Bank of Russia expenses (Note 12).

Net negative realised differences for precious metals are realised differences that arose as a result of the purchase (sale) of precious metals on the domestic and foreign markets at prices higher (lower) than Bank of Russia book prices (Note 1 (c)).

Expenses on foreign exchange operations largely include expenses involved in maintaining Bank of Russia correspondent accounts in non-resident banks.

Other refer mainly to expenses on personnel training, expenses on the retirement (sale) of property, travel expenses, expenses on the printing, purchasing and mailing of blank forms and data media, and expenses on the purchase of appliances and accessories put into operation (put to use). In the Bank of Russia Annual Financial Statements as of January 1, 2008, expenses involved in the use of titles to intellectual property were recorded to *Other* in this Note.

23. PERSONNEL COSTS

For explanation, see the Statement of Bank of Russia Personnel Costs.

24. OFF-BALANCE SHEET CLAIMS AND OBLIGATIONS ACCOUNTS

Claims and obligations on forward operations recorded to off-balance sheet accounts are as follows:

	<i>(million roubles)</i>	
	2008	2007
Claims		
Claims for delivery of roubles in spot transactions	210,770	—
Claims for delivery of foreign currency in spot transactions	27,065	13,489
Claims for delivery of foreign currency in forward transactions	839,720	8,472
Claims for delivery of precious metals	22,188	—
Claims for delivery of foreign currency-denominated securities in forward transactions	14,672	—
Claims for delivery of funds in reverse part of repo transactions	—	15,227
Unrealised (negative) exchange rate differences	—	104
Total claims	1,114,415	37,292

(million roubles)

	2008	2007
Obligations		
Obligations to deliver foreign currency	209,297	—
Obligations to deliver securities in spot transactions	27,065	—
Obligations to deliver foreign currency in spot transactions	—	13,434
Obligations to deliver roubles in forward transactions	22,354	—
Obligations to deliver foreign currency in forward transactions	835,920	5,690
Obligations to deliver precious metals	—	2,546
Obligations to deliver foreign currency-denominated securities in forward transactions	16,531	—
Obligations to sell securities in reverse part of repo transactions	—	15,622
Unrealised (positive) exchange rate differences	3,248	—
Total obligations	1,114,415	37,292

The increase in *Claims for delivery of roubles in spot transactions* and *Obligations to deliver foreign currency* is a result of conversion spot transactions executed in the Unified Trading Session on the Moscow Interbank Currency Exchange on December 30, 2008.

The increase in *Claims for delivery of foreign currency in spot transactions* and *Obligations to deliver securities in spot transactions* is a result of spot transactions concluded by the Bank of Russia to sell securities on the international financial market.

The increase in *Claims for delivery of foreign currency in forward transactions* is due to expansion in the volume of conversion forward transactions on the domestic and foreign financial markets, and to forward transactions by the Bank of Russia to sell securities on the international market.

The increase in *Claims for delivery of foreign currency-denominated securities in forward transactions* is a result of the purchase of securities by the Bank of Russia under forward contracts.

The increase in *Claims for delivery of precious metals* and *Obligations to deliver roubles in forward transactions* is a result of the conclusion of forward contracts to buy precious metals on the domestic market.

The increase in *Obligations to deliver foreign currency-denominated securities in forward transactions* is a result of the sale of securities by the Bank of Russia under forward contracts on the international market.

The increase in *Obligations to deliver foreign currency in forward transactions* is due to the expansion of conversion forward transaction volumes on the domestic and foreign markets, and the purchase of securities by the Bank of Russia under forward contracts.

Other claims and obligations recorded to off-balance sheet accounts are as follows:

(million roubles)

	2008	2007
Securities accepted as collateral for loans provided	84,040	1,499
Securities transferred as collateral for loans received	—	171,085
Securities received on repo basis	822,141	1,906,032
Guarantees and sureties received by the Bank of Russia	270,285	25,441
Open credit lines	—	319

Securities accepted as collateral for loans provided are for the most part securities accepted by the Bank of Russia from credit institutions as collateral for loans.

Securities transferred as collateral for loans received were, as of January 1, 2008, foreign securities transferred by the Bank of Russia as collateral in repo transactions with non-residents and recorded at nominal value. Due to the change in Regulation No. 66-P, in 2008 securities transferred by the Bank of Russia in these operations are not recorded in off-balance sheet accounts. They are recorded to separate balance sheet accounts used to record the Bank of Russia's investments in foreign issuers' securities. As of January 1, 2009, the fair value of these securities, as recognised in balance sheet accounts, stood at 17,120 million roubles.

Securities received on a repo basis constitute securities accepted as collateral in repo transactions on the organised securities market and domestic over-the-counter market, and also securities of foreign issuers received by the Bank of Russia in repo transactions on the international market. The decrease is mainly a result of the reduced volume of repo transactions to provide funds to non-residents against the collateral of securities.

Securities received by the Bank of Russia in 2008 as collateral in repo transactions with non-residents and accounted for at current (fair) value total 164,347 million roubles, of which securities received in reverse repo transactions that matched repo transactions (Note 4 and Note 9) have a fair value of 17,570 million roubles.

Securities received through these operations in 2007 were accounted for at nominal value and totalled 1,906,032 million roubles, and their current (fair) value as of January 1, 2008, was 1,947,633 million roubles. Meanwhile, securities received in reverse repo deals that matched repo deals (Note 4 and Note 9) had a fair value of 174,882 million roubles.

Securities received by the Bank of Russia as collateral against repo transactions in Russian government debt obligations with resident credit institutions, accounted for at current (fair) value, totalled 657,794 million roubles, while the current (fair) value of securities received by the Bank of Russia in these transactions as of January 1, 2008, stood at 16,073 million roubles. In 2007, these items were recorded to balance sheet accounts under securities acquired in repo transactions, and were valued at 15,173 million roubles (Note 1 (t) and Note 5).

Guarantees and sureties received by the Bank of Russia are the sureties accepted as collateral for loans provided.

25. IMPACT OF GLOBAL FINANCIAL MARKET TURMOIL ON BANK OF RUSSIA MANAGEMENT OF FOREIGN EXCHANGE RESERVES

The global financial and economic crisis along with liquidity problems in the second half of 2008 increased credit risks involved in the management of foreign exchange reserves by the Bank of Russia. To control credit risks involved in investing foreign exchange reserves, and taking into account the evolving situation, the Bank of Russia took the following measures:

- lowered credit limits for Bank of Russia counterparties in operations on foreign markets;
- limited the range of Bank of Russia counterparties in deposit operations on foreign markets to the most reliable banks;
- reduced the maximum deposit maturity periods;
- reduced the total volume of deposits in Bank of Russia reserves;
- reduced the volume of investments in non-government securities, notably US federal mortgage agencies, suspended their acquisition, and reduced the maximum term to maturity of foreign issuers' securities;
- set the requirement for overcollateralisation of securities in reverse repo transactions.

Consequently, during the reporting year the Bank of Russia took steps to minimise the adverse impact of the global financial market crisis on the value of its foreign exchange reserves, and to ensure an optimal combination of their safety, liquidity, and profitability.

26. POST-ACCOUNTING DATE EVENTS

The amount of taxes and duties adjusted after the final settlement for the reporting tax period, including overpaid profit tax advances to a total of 23 million roubles, and the transfer to the federal budget and allocation of actual profit for 2008 retained after the transfer to the federal budget, pursuant to Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), including profit tax, are recognised in the Bank of Russia accounting records in 2009 (Statement of Profit and its Allocation, and Table *Capital, funds and profit allocation*).

Under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), 48,812 million roubles are to be transferred to the federal budget (Statement of Profit and its Allocation, and Table *Capital, funds and profit allocation*).

On the decision by the Bank of Russia Board of Directors, 46,860 million roubles were transferred from retained profit to the Bank of Russia Reserve Fund, and 1,952 million roubles to the Bank of Russia Social Fund (Statement of Profit and its Allocation, Statement of Bank of Russia Reserves and Funds, and Table *Capital, funds and profit allocation*).

Interest paid by the Bank of Russia to 2009 federal budget revenue on Reserve Fund and National Wealth Fund accounts for the period from January 30 to December 31, 2008, totalled 241,522 million roubles, and for the period from January 1 to 15, 2009, 26,933 million roubles. These transfers were made on January 20, 2009, as stipulated by the bank account agreements.

STATEMENT OF PROFIT AND ITS ALLOCATION

	<i>(million roubles)</i>	
	2008	2007
1. Actual profit for the year	97,788	24,565
2. Taxes and duties paid from Bank of Russia profit under the Tax Code of the Russian Federation, total:	164	115
of which:		
— as advance payments in the reporting year	187	113
— after the final settlement for the reporting year*	(23)	2
3. Profit after payment of taxes and duties under the Tax Code of the Russian Federation	97,624	24,450
4. To be transferred to federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)**	48,812	12,225
5. Bank of Russia retained profit, total**	48,812	12,225
of which transferred to:		
— Bank of Russia Reserve Fund	46,860	11,736
— Bank of Russia Social Fund	1,952	489

Under Article 11 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Bank of Russia profit for the year is determined as the difference between total income from banking operations and transactions conducted under Article 46 of this Federal Law and income from stakeholdings in the capital of credit institutions, and expenses involved in the fulfilment by the Bank of Russia of the functions assigned to it by Article 4 of the same law.

Bank of Russia income and expenses formed under the influence of varied factors during the reporting year. In the first half of 2008, as international reserves grew rapidly, growth in income from the placement of international reserves was the main factor behind the Bank of Russia's financial performance. As the situation on global financial markets deteriorated in the second half of the year and international reserves decreased amid the transition to a new rouble exchange rate, the effect of Bank of Russia operations in support of the national financial system on the financial indicators increased significantly. Growth in income from liquidity injections in this period, when refinancing became more accessible to credit institutions, was accompanied by a significant increase in expenses due to the worsening of the Bank of Russia's asset structure and the risk of losses from these operations. However, due to the Bank of Russia's transition on January 1, 2008, to using the accrual method of accounting and recognising 'income from previous periods' in its balance sheet, the Bank of Russia financial result in 2008 was better than in 2007.

Bank of Russia profit for the year 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). This article stipulates that after the Bank of Russia annual financial statements have been approved by the Board of Directors, the Bank of Russia transfers to the federal budget 50% of its actual profit for the year remaining after the payment of taxes and duties pursuant to the Tax Code of the Russian Federation. The Bank of Russia Board of Directors transfers retained profit to reserves and various funds.

* Taxes and duties to be offset after the final settlement in 2009 as overpaid from Bank of Russia profit in 2008 (Note 26).

** Allocation of actually received profit for the reporting year, remaining after the payment of taxes and duties under the Tax Code of the Russian Federation, is recognised in the Bank of Russia balance sheet in the current year (Note 26).

STATEMENT OF BANK OF RUSSIA RESERVES AND FUNDS

(million roubles)

	Reserve Fund	Social Fund	Accrued precious metal revaluation	Positive revaluation of securities available for sale	Accrued foreign currency exchange rate differences	Growth in value of property after revaluation	Other funds	Total
Balance as of beginning of the reporting year, inclusive of funds received as a result of allocation of profit for the year preceding the reporting year	99,892	3,606	359,731	—	—	7,965	82	471,276
Transferred to funds from other sources			89,027	306,549	1,033,190			1,428,766
Reserves and funds used		(608)					(82)	(690)
Balance as of beginning of the year following the reporting year	99,892	2,998	448,758	306,549	1,033,190	7,965	—	1,899,352
Transferred from reporting year profit*	46,860	1,952						48,812
Total, including funds received as a result of allocation of reporting year profit	146,752	4,950	448,758	306,549	1,033,190	7,965	—	1,948,164

* The allocation of actual profit for the reporting year retained after the payment of taxes and duties under the Tax Code of the Russian Federation, and the transfers made to the federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) are recognised on the Bank of Russia balance sheet in the current year (Note 26).

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, profit remaining at its disposal after the payment of taxes and duties under the Tax Code of the Russian Federation. The procedure for allocating Bank of Russia retained profit is established by the Bank of Russia Regulation on the Procedure for Allocating Profit Retained by the Bank of Russia, approved by the National Banking Board on April 9, 2003.

Pursuant to the Bank of Russia Regulation on the Bank of Russia Reserve Fund, the Bank of Russia creates the Reserve Fund for the purpose of ensuring stability for the fulfilment by the Bank of Russia of the functions assigned to it by law. The Bank of Russia Reserve Fund is formed from Bank of Russia profit. By the decision of the Bank of Russia Board of Directors, the Bank of Russia may also transfer to the Reserve Fund money from other funds and reserves that are part of Bank of Russia equity capital.

In accordance with the procedure for allocating profit retained by the Bank of Russia, and in line with a decision taken by the Bank of Russia Board of Directors, 46,860 million roubles (2007: 11,736 million roubles) were allocated to the Bank of Russia Reserve Fund from retained profit for 2008.

The Bank of Russia Social Fund was set up to provide for the social needs of Bank of Russia employees and, in some cases, pensioners registered with the Bank of Russia.

Money from the Bank of Russia Social Fund, which is formed from Bank of Russia retained profit, is used mainly to make one-off social benefit payments to Bank of Russia employees. The Bank of Russia Social Fund is formed from Bank of Russia retained profit.

The procedure for creating and using the Social Fund is established by the Bank of Russia Regulation on the Social Fund of the Central Bank of the Russian Federation.

In accordance with the procedure for allocating Bank of Russia retained profit and a decision taken by the Bank of Russia Board of Directors, 1,952 million roubles (2007: 489 million roubles), or 4% of Bank of Russia retained profit for 2008, has been transferred to the Bank of Russia Social Fund.

In accordance with a decision of the Bank of Russia Board of Directors, beginning from January 1, 2007, precious metals are recognised in accounting records at the book price and revalued on a daily basis. The accrued revaluation of precious metals, which represents the excess of positive unrealised differences over negative unrealised differences, totalling 89,027 million roubles, was recorded to the balance sheet account *Accrued precious metal revaluation* as part of Bank of Russia capital in 2008.

Accrued foreign currency exchange rate differences are a result of the revaluation of foreign currency funds caused by changes in the official rate of foreign currencies against the rouble. The excess of positive unrealised exchange rate differences over negative ones, to a total of 1,033,190 million roubles, was recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of Bank of Russia capital in 2008.

In compliance with the Bank of Russia accounting rules starting from January 1, 2008, securities available for sale are evaluated (revalued) at current (fair) value. The accrued positive revaluation of securities available for sale, to a total of 306,549 million roubles, was recorded to the balance sheet account *Positive revaluation of securities available for sale* as part of Bank of Russia capital in 2008.

The fixed asset revaluation fund represents the increase in the value of property due to the revaluation of fixed assets conducted in compliance with the Russian Federation Government Resolution in 1992, 1994, 1995, 1996 and 1998.

**STATEMENT OF BANK OF RUSSIA MANAGEMENT OF SECURITIES
AND STAKEHOLDINGS IN THE CAPITAL OF ORGANISATIONS
CONSTITUTING BANK OF RUSSIA PROPERTY**

BANK OF RUSSIA INVESTMENTS IN DEBT OBLIGATIONS

(million roubles)

	2008	2007 (current (fair) value data)	2007 (previous report data)
Foreign issuers' debt obligations, of which:			
US and Canada debt obligations	4,064,894	3,703,271	3,634,160
— denominated in US dollars	4,064,894	3,699,573	3,630,562
— denominated in euros	—	3,698	3,598
EU debt obligations	6,503,907	3,007,462	2,970,215
— denominated in US dollars	261,136	65,541	63,552
— denominated in euros	5,174,291	2,359,673	2,344,150
— denominated in pounds sterling	1,068,480	582,248	562,513
Japan debt obligations	151,225	—	—
— denominated in Japanese yen	151,225	—	—
Debt obligations issued by international organisations	121,730	80,963	80,443
— denominated in US dollars	35,278	31,267	30,679
— denominated in euros	63,185	49,696	49,764
— denominated in pound sterling	23,267	—	—
Subtotal	10,841,756	6,791,696	6,684,818
Russian debt obligations and foreign debt obligations issued in Russia, of which:			
Federal government debt obligations	353,205	344,961	365,509
— denominated in roubles	188,270	178,900	241,440
— denominated in US dollars	164,935	166,061	124,069
Other Russian debt obligations	2,226	—	2,345
— denominated in roubles	2,226	—	2,345
Foreign debt obligations issued in Russia	—	—	1,461
— denominated in roubles	—	—	1,461
Promissory notes issued by credit institutions	27	—	27
Subtotal	355,458	344,961	369,342
Total	11,197,214	7,136,657	7,054,160

As of January 1, 2009, Bank of Russia investments in debt obligations are shown at their current (fair) value. The 2007 (*current (fair) value data*) column presents data on the fair value of Bank of Russia investments as of January 1, 2008.

The 2007 (*previous report data*) column includes data on debt obligations purchased in repo transactions with OFZ bonds, totalling 5,845 million roubles, Russian Eurobonds totalling 5,522 million roubles, other Russian debt obligations totalling 2,345 million roubles, and foreign debt obligations issued in Russia totalling 1,461 million roubles.

Foreign securities are for the most part US Treasuries and government debt obligations of Germany, France, Britain, Sweden, Belgium, the Netherlands, Austria, Spain, Finland, Ireland, and Japan, debt securities issued by extra-budgetary funds and federal agencies of these countries and international financial organisations, and covered securities of German credit institutions.

Growth under this item was due to the increase in investments in foreign government securities resulting from the contraction in the volume of Bank of Russia investment in instruments vulnerable to credit risk.

In 2008, the Bank of Russia continued to actively use market instruments for monetary regulation. Depending on the monetary situation, it used government securities, its own bonds, and other Russian debt obligations on the securities market to sterilise excess liquidity, or to provide funds to credit institutions. Specifically, the Bank of Russia

- bought and sold government bonds without an obligation to repurchase (resell);
- bought securities with an obligation to resell for terms of one day and seven days (repo operations);
- bought and sold Bank of Russia bonds placed without an obligation to repurchase.

Russian government debt obligations denominated in roubles are OFZ bonds.

The principal factor behind growth in the balance recorded under this item compared with the OFZ current (fair) value data for 2007 is the purchase of OFZ bonds on the domestic securities market.

Russian government debt obligations denominated in US dollars are internal and external foreign currency loan bonds.

Debt obligations recorded as *Other Russian debt obligations* are securities issued by regional governments and other Russian issuers. The Bank of Russia received these papers as a result of the settlement of obligations on unexecuted repo transactions on the domestic market.

**BANK OF RUSSIA INVESTMENTS IN THE AUTHORISED CAPITAL
OF BANKS AND OTHER ORGANISATIONS**

(million roubles)

Title	2008		2007	
	Balance sheet value	% share in authorised capital (at par)	Balance sheet value	% share in authorised capital (at par)
Investments in resident shares, of which:	84,307		84,307	
Sberbank	84,004	57.58	84,004	57.58
Moscow Interbank Currency Exchange (MICEX)	300	29.79	300	29.79
St Petersburg Currency Exchange (SPCEX)	3	8.90	3	8.90
Investments in non-resident shares, of which:	1,281		1,063	
Bank for International Settlements, Basel	1,280	0.59	1,062	0.59
Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.), Belgium	0.667	0.006	0.579	0.006
Other investments in resident capital, of which:	25		25	
National Depository Centre (NDC), a Moscow-based non-profit partnership	25	49.00	25	49.00
Other investments, of which:	10		10	
Interstate Bank	10	50.00	10	50.00

The Bank of Russia participates in the capital of credit institutions and other organisations pursuant to Article 8 and Article 9 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

In 2008, the Bank of Russia did not conduct any operations with its shares and stakes in the authorised capital of Sberbank, MICEX, SPCEX, or the NDC.

Growth in *Shares of credit institutions and other organisations (Bank of Russia stakes)* was due to the revaluation of Bank of Russia investment in the authorised capital of the Basel-based Bank for International Settlements resulting from the change in the exchange rate of foreign currencies against the rouble.

**STATEMENT OF VOLUME OF BANK OF RUSSIA TRANSACTIONS
ON STOCK EXCHANGES AND (OR) OTHER TRADE ORGANISERS
ON THE SECURITIES MARKET**

(million roubles)

Trade organiser	Volume of Bank of Russia own operations with securities, including repo transactions		Volume of Bank of Russia operations with securities conducted on customers' instructions		Volume of Bank of Russia sales of collateral for Lombard loans and repo transactions	
	2008	2007	2008	2007	2008	2007
MICEX	40,591,244	16,939,979	381,479	457,833	4,431	—
	40,591,244	16,939,979	381,479	457,833	4,431	—

The column *Volume of Bank of Russia own operations with securities, including repo transactions* shows aggregate data on the following Bank of Russia operations with securities:

- the purchase of Russian government securities to the Bank of Russia portfolio and sale of Russian government securities from the Bank of Russia portfolio;
- the placement (sale) and repurchase of securities issued by the Bank of Russia (Bank of Russia bonds);
- the purchase of securities in the first part of repo transactions, and sale of securities in their second part.

The change in the volume of transactions was mainly a result of the significant expansion in repo volumes.

The column *Volume of Bank of Russia operations with securities conducted on customers' instructions* shows aggregate data for the corresponding year on the purchase and sale of Russian government securities by the Bank of Russia on the instructions of the Pension Fund and Ministry of Finance under agency agreements.

The column *Volume of Bank of Russia sales of collateral for Lombard loans and repo transactions* shows aggregate data on the volume of sales of collateral in the form of securities received by the Bank of Russia in repo and lending operations, as a result of the failure by credit institutions to fulfil their obligations to repay their debts to the Bank of Russia.

STATEMENT OF BANK OF RUSSIA PERSONNEL COSTS

Items of expenditure	<i>(million roubles)</i>	
	2008	2007
Compensation	44,763	35,437
Salary and other benefit accruals	6,440	5,835
Other benefits	5,030	3,548
Total Bank of Russia personnel costs	56,233	44,820

Bank of Russia personnel costs in 2008 increased by 11,413 million roubles, or 25.5% year on year; of this sum, compensation grew by 9,326 million roubles, or 26.3%, other benefits rose by 1,482 million roubles, or 41.8%, and salary accruals went up by 605 million roubles, or 10.4%.

Compensation expenses comprise: salaries, seniority bonuses, hardship bonus payments to employees working in the Extreme North and similar regions under the applicable legislation, other bonus payments established by Bank of Russia regulations, annual paid leaves and study leaves, monthly and year-end bonus payments, and other benefits.

Other benefits that Bank of Russia employees receive under the applicable legislation and Bank of Russia regulations are as follows: holiday and one-off emergency allowances; compensation of holiday travel expenses of employees working in the Extreme North and similar regions and non-working members of their families; compensation of expenses to employees working in the Extreme North and similar regions and members of their families who have moved for permanent residence elsewhere upon the expiry of their labour contract or due to retirement; benefits for employees living or working in regions affected by the Chernobyl nuclear power plant disaster; benefits for employees taking leave to care for a child until the age of three; and allowances for temporary disability due to disease or injury paid during the first two days of disability.

The number of Bank of Russia employees, which totalled 72,942 as of January 1, 2008, declined by 1,736, or 2.4%, in 2008 and as of January 1, 2009, totalled 71,206. This reduction is a result of the implementation of measures to optimise the network of Bank of Russia settlement divisions, which led to the closure of 151 cash settlement centres in 2008.

The average monthly income of a Bank of Russia employee in 2008 was 59,668 roubles (2007: 44,441 roubles). Average monthly pay does not include accrued salary benefits and other payments.

The unified social tax rate averaged 14.2% in 2008 (2007: 16.3%). Deductions to the Social Insurance Fund for compulsory social insurance against employment injury and occupational illness were made at the established rate of 0.2%.

STATEMENT OF CAPITAL INVESTMENT BUDGET PERFORMANCE

(million roubles)

	Approved for 2008	Actual amount in 2008	Actual amount in 2007
Capital investment			
Capital investment	14,555	14,057	10,632
Capital investment in fixed assets, of which:	14,138	13,650	10,301
— capital investment in information technology	5,450	5,259	5,187
— capital investment relating to cash turnover management	4,576	4,496	1,056
— capital investment in construction (reconstruction) and logistics (except cash turnover management)	2,928	2,734	2,990
— capital investment relating to security and protection of Bank of Russia facilities	1,184	1,161	1,068
Capital investment in intangible assets	417	407	331
Centralised capital investment reserve	—	—	—
Other capital expenses	302	261	385
Total capital expenses	14,857	14,318	11,017

Capital investment in information technology made up the largest part of Bank of Russian capital investment (37.4%). Capital investment relating to the management of cash turnover accounted for 32.0%, capital investment in construction (reconstruction) and logistics 19.4%, capital investment relating to security and the protection of Bank of Russia facilities 8.3%, and capital investment in intangible assets 2.9%.

Capital investment in information technology in 2008 increased by 72 million roubles, or 1.4%, year on year, and was used to finance the maintenance and operation of the accounting systems, the continued transfer of Bank of Russia regional branches to collective data processing, the upgrading of the infrastructure of collective data processing centres, the development of the automated banking electronic speed payment system and the electronic settlement transportation system, security and the protection of information, the replacement of obsolete computer and office equipment, and the maintenance and modernisation of the Bank of Russia technical infrastructure.

Capital investment relating to cash turnover management comprises expenses on the construction (reconstruction) of cash depositories and cash centres (in all, seven projects: one is a carryover project, three projects have been launched, and three blueprinted), expenses on the modernisation of cash counting and sorting machines, expenses on the purchase of equipment to automate and modernise cash operations, and expenses on manufacturing a specialised van. The increase in expenses listed above by 3,440 million roubles, or by a factor of 4.3, was due to the construction of an interregional depository in the city of Krasnodar.

Capital investment in the construction (reconstruction) and logistics projects of the Bank of Russia, excluding cash turnover management, decreased by 256 million roubles, or 8.6% year on year, and was used to finance the construction (reconstruction) of office buildings and structures, and the purchase of large appliances, equipment, furniture and transport vehicles.

In 2008, the Bank of Russia financed 131 construction (reconstruction) projects, of which 20 were carryover projects, 47 were re-launched, and 64 were at the blueprint stage.

Large appliances, equipment, and furniture were purchased to fit out capital repair projects, replace out-of-date equipment, appliances and furniture, and develop and install air conditioning as well as fire-alarm and fire-extinguishing systems in offices where information and telecommunications systems are installed.

Capital investment relating to security and the protection of Bank of Russia facilities increased by 93 million roubles, or 8.7%, in 2008 year on year and included expenses on the replacement of out-of-date fire alarm systems and the development of new security and surveillance systems.

Capital investment in intangible assets grew by 76 million roubles, or 23.0%, in 2008, compared with 2007, and were used to buy and develop new software products for IT systems and for the security and protection of information constituting the intellectual property of the Bank of Russia.

Other capital expenses consist of expenses on the purchase of software products (and usage rights) unrelated to intangible assets to support Bank of Russia activities, and licences, certificates, and permits with terms longer than one year.



CJSC Ernst & Young Vneshaudit
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia

Tel: +7 (495) 7059700
+7 (495) 7559700

Fax: +7 (495) 7559701
www.ey.com/russia

AUDITOR'S REPORT
on the Bank of Russia Annual Financial Statements
by an Independent Audit Firm

To the management of the Central Bank of the Russian Federation

Auditor:

Full title: Closed Joint-Stock Company Ernst & Young Vneshaudit

Domicile: 115035, Russian Federation, Moscow, Sadovnicheskaya Nab., 77, bld. 1

Certificate of registration in the Single State Register of Corporate Entities of a corporate entity registered before July 1, 2002, registration date September 16, 2002, serial number 77 No. 008050714, registered by state enterprise Moscow Registration Chamber on August 30, 1994, under No. 033.468, under main state registration number 1027739199333.

Audit licence No. E003246, approved by Russian Federation Ministry of Finance Order No. 9 of January 17, 2003, valid for five years, extended until January 17, 2013, by Russian Federation Ministry of Finance Order No. 746 of December 14, 2007.

Audited entity:

Full title: Central Bank of the Russian Federation, hereinafter referred to as 'Bank of Russia'.

Abbreviated title: Bank of Russia

Domicile: 107016, Russian Federation, Moscow, ul. Neglinnaya, 12

The Bank of Russia performs its functions pursuant to the Constitution of the Russian Federation, Federal Law No. 86-FZ, dated July 10, 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' and other federal laws.

20 great years in Russia

Ernst & Young's milestone in 2009 is our 20-th anniversary in Russia.

A member firm of Ernst & Young Global Limited





We have conducted an audit of 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, 2008, up to December 31, 2008. Pursuant to Article 25 of Federal Law No. 86-FZ, dated July 10, 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia Annual Financial Statements consist of the annual balance sheet, the profit and loss account, including the statement of profit and its allocation, the statement of Bank of Russia reserves and funds, the statement of Bank of Russia management of securities and stakeholdings in the capital of organisations constituting Bank of Russia property, the statement of Bank of Russia personnel costs, the statement of capital investment budget performance, and the statement of volume of Bank of Russia transactions on stock exchanges and (or) other trade organisers on the securities market (hereinafter all these statements are collectively referred to as the Annual Financial Statements). The audit of the Bank of Russia Annual Financial Statements as of January 1, 2008, and for the period from January 1, 2007, up to December 31, 2007, was conducted by another audit organisation, which issued to the Bank of Russia an auditor's report dated May 13, 2008, with an indication to restrict examining operations and corresponding profit and loss account indicators to which access was restricted under the provisions of Russian Federation Law No. 5485-1, dated July 21, 1993, 'On State Secrecy' (with subsequent amendments).

Responsibility for the accounting procedure and the compilation and presentation of the Annual Financial Statements is borne by the Bank of Russia. Our duty 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 used in compiling the Annual Financial Statements with the requirements of Russian Federation laws and Bank of Russia regulations.

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), Federal Audit Rules (Standards), Audit Rules (Standards) approved by the Russian Federation President's Audit Commission, and International Audit Standards.

With the exception of circumstance described below, this audit was planned and conducted in a manner that provided us with reasonable certainty that the Annual Financial Statements contained no material distortions. This audit was conducted on a selective basis and included an examination through the testing of evidence confirming the numerical indicators and disclosure of information on the financial and economic activities in the Annual Financial Statements, an assessment of compliance with the accounting principles and rules used in compiling the Annual Financial Statements, a consideration of accounting estimates made by the Bank of Russia management, and an assessment of the general presentation of the Annual Financial Statements. We believe that the audit we have conducted gives us sufficient grounds to express our view that the Annual Financial Statements are credible in all material aspects, and that the accounting procedure used in compiling the Annual Financial Statements complies with Russian Federation laws and Bank of Russia regulations.

The volume of our work was restricted with respect to operations and relevant annual balance sheet and profit and loss account indicators to which access was restricted by the provisions of Russian



Federation Law No. 5485-1, dated July 21, 1993, 'On State Secrecy' (with subsequent amendments). Pursuant to Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the annual balance sheet and profit and loss account indicators listed below were confirmed by the Audit Chamber of the Russian Federation in its Statement of May 4, 2009, on the Results of the Examination of the Accounts and Operations of the Central Bank of the Russian Federation and Data Covered by Russian Federation Law on State Secrecy as of January 1, 2009, and for the Period from January 1, 2008, up to December 31, 2008. These operations and items in the Bank of Russia Annual Financial Statements as of January 1, 2009, and for the period from January 1, 2008, to December 31, 2008, comprise:

- assets totalling 61,833 million roubles;
- liabilities totalling 1,340 million roubles;
- income totalling 110 million roubles;
- expenses totalling 16,625 million roubles;
- negative unrealised differences from precious metal revaluation totalling 16,226.1 million roubles;
- negative unrealised exchange rate differences from foreign currency revaluation totalling 0.03 million roubles.

In our opinion, the accounting procedure used for the purpose of compiling the Bank of Russia Annual Financial Statements complied in all material aspects with the requirements of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Federal Law on Accounting, and with Regulation No. 66-P of January 1, 2006, 'On the Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia)', and, excluding corrections (if there were any) that may have been necessary if we had been able to verify the aforementioned indicators, the above-mentioned Annual Financial Statements reflect in good faith and in all material aspects the financial situation of the Bank of Russia as of January 1, 2009, and the results of its financial and economic activities in the period from January 1 up to December 31, 2008, in compliance with the requirements of Russian Federation laws and Bank of Russia regulations with regard to the compiling of the Annual Financial Statements by the Bank of Russia.

The purpose of the attached Annual Financial Statements is not to present the financial situation and results in accordance with the accounting principles or methods accepted in countries and territories other than the Russian Federation. Consequently, the attached Annual Financial Statements are not intended for persons unfamiliar with the accounting principles, procedures, and methods accepted in the Russian Federation.

May 13, 2009

Director General

O.V. Yushenkov

Audit leader, partner

(certificate of competence No. K 012131
of February 5, 2004, valid for an indefinite term)

D.Y. Vainshtein



THE AUDIT CHAMBER OF THE RUSSIAN FEDERATION

119992, Moscow, GSP-2, Zubovskaya St 2 Tel: 986-05-09, fax: 986-09-52

May 4, 2009

No. 06-105/06-03

To the Chairman of the
Central Bank of the
Russian Federation

S.M. Ignatiev

STATEMENT

on the Results of the Examination of the Accounts and Operations of the Central Bank of the Russian Federation for 2008 Covered by the Russian Federation State Secrecy Law (approved by the decision of the Collegium of the Audit Chamber of the Russian Federation of April 30, 2009, protocol No. 23K (660))

The Audit Chamber of the Russian Federation has examined the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) for 2008 covered by the Russian Federation State Secrecy Law in accordance with the work schedule of the Audit Chamber of the Russian Federation for 2009 and pursuant to Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

Responsibility for categorising data as information covered by the Russian Federation State Secrecy Law and for delineating the competences of the Audit Chamber of the Russian Federation and the audit organisation CJSC Ernst & Young Vneshaudit, the auditor of the Bank of Russia Annual Financial Statements as of January 1, 2009, is borne by the management of the Central Bank of the Russian Federation.

It is the duty of the Audit Chamber of the Russian Federation, in line with the applicable legislation, to present to the Bank of Russia a statement compiled as a result of the examination of the accounts and operations of the Central Bank of the Russian Federation and information for 2008 covered by the Russian Federation State Secrecy Law, and to express an opinion on the credibility in all material aspects of the Bank of Russia Annual Financial Statements as of January 1, 2009, and on the compliance of the accounting procedure with Russian Federation Legislation and Bank of Russia regulations.

The Audit Chamber of the Russian Federation has conducted an examination of Bank of Russia accounts and operations in 2008 covered by the Russian Federation State Secrecy Law in such a way as to gain sufficient confidence that the Bank of Russia consolidated annual balance sheet (with respect to sub-accounts and off-balance sheet accounts) as of January 1, 2009, the consolidated income statement for 2008, and the statements included in the Bank of Russia Annual Financial Statements for 2008 in respect to the data that falls within the Audit Chamber competence, do not contain significant errors, and properly recognise in all material aspects the assets and liabilities of the Central Bank of the Russian Federation (Bank of Russia) as of January 1, 2009, and income and expenses of the Central Bank of the Russian Federation (Bank of Russia) for 2008 in line with the Bank of Russia's accounting policy.

Having examined Bank of Russia accounts and operations, and data for 2008 covered by the Russian Federation State Secrecy Law, the Audit Chamber of the Russian Federation confirms, within the scope of its competence, the following data:

the Bank of Russia annual balance sheet as of January 1, 2009 (balance sheet assets totalling 61,833 million roubles and balance sheet liabilities totalling 1,340 million roubles), profit and loss account as of January 1, 2009 (income totalling 110 million roubles and expenses totalling 16,625 million roubles) and other statements included in the Bank of Russia Annual Financial Statements for 2008;

the revaluation of foreign currency and precious metals for the reporting year, and as of January 1, 2009:

negative unrealised differences from the revaluation of precious metals to a total of 16,226.1 million roubles;

negative unrealised exchange rate differences from the revaluation of foreign currency to a total of 0.03 million roubles;

the consolidated annual balance sheet as of January 1, 2009 (with respect to sub-accounts and off-balance sheet accounts), and the consolidated income statement for 2008;

information on total Bank of Russia notes and coins of the 1997 issue (exclusive of coins containing precious metals and issued to mark anniversaries or other occasions) which should be in circulation as of January 1, 2009.

According to the accounting data of the Central Bank of the Russian Federation relating to the accounts and operations covered by the Russian Federation State Secrecy Law, a total of 4,378,129.7 million roubles in Bank of Russia notes and coins of the 1997 issue should be in circulation as of January 1, 2009 (excluding coins containing precious metals and issued to mark anniversaries or other occasions).

In the period from January 1 up to December 31, 2008, the Bank of Russia put into circulation banknotes and coins of the 1997 issue (excluding coins containing precious metals and issued to mark anniversaries or other occasions) to a total value of 6,733,087.3 million roubles, and withdrew from circulation Bank of Russia notes and coins of the 1997 issue (excluding coins containing precious metals and issued to mark anniversaries or other occasions) totalling 6,479,193.9 million roubles.

Consequently, in the period under review, the sum of Bank of Russia notes and coins of the 1997 issue (excluding coins containing precious metals and issued to mark anniversaries or other occasions) in circulation increased by 253,893.4 million roubles.

V.P. Goreglyad



ADDENDA

IV

IV.1. PRINCIPAL MEASURES TAKEN BY THE BANK OF RUSSIA TO IMPLEMENT THE SINGLE STATE MONETARY POLICY IN 2008

MONETARY POLICY INSTRUMENTS AND MEASURES

REQUIRED RESERVES. To implement the decisions of the Bank of Russia Board of Directors with respect to the required reserves, the Bank of Russia issued the following documents:

- Bank of Russia Ordinance No. 1970-U, dated February 1, 2008, ‘On the Setting of Required Reserve Ratios (Reserve Requirements) by the Bank of Russia’;
- Bank of Russia Ordinance No. 2014-U, dated May 26, 2008, ‘On the Setting of Required Reserve Ratios (Reserve Requirements) by the Bank of Russia’;
- Bank of Russia Ordinance No. 2048-U, dated August 1, 2008, ‘On the Setting of Required Reserve Ratios (Reserve Requirements) by the Bank of Russia’;
- Bank of Russia Ordinance No. 2066-U, dated September 17, 2008, ‘On the Setting of Required Reserve Ratios (Reserve Requirements) by the Bank of Russia’;
- Bank of Russia Ordinance No. 2092-U, dated October 14, 2008, ‘On the Setting of Required Reserve Ratios (Reserve Requirements) by the Bank of Russia’;
- Bank of Russia Ordinance No. 2069-U, dated September 19, 2008, ‘On the Specifics of Granting to Credit Institutions the Right to Average the Required Reserves’;
- Bank of Russia Letter No. 87-T, dated July 23, 2008, ‘On the Procedure for Setting Requirements for Credit Institutions to Comply with Certain Criteria’;
- Bank of Russia Letter No. 116-T, dated September 19, 2008, ‘On Granting to Credit Institutions the Right to Average the Required Reserves’.

INTEREST RATES. As of the beginning of 2008, the Bank of Russia’s refinancing rate and overnight credit rate stood at 10% p.a. By the decision of the Bank of Russia Board of Directors, these rates were raised to 10.25% effective from February 4, 10.5% from April 29, 10.75% from June 10, 11% from July 14, 12% from November 12, and 13% p.a. from December 1, 2008.

The minimum Lombard loan auction cut-off rates were set as follows:

- for two-week loans: 7% as of the beginning of 2008, 7.25% effective from February 4, 7.5% from April 29, 7.75% from June 10, 8% from July 14, 7.5% from September 18, 8.5% from November 12, and 9.5% p.a. from December 1, 2008;
- for three-month loans: 8.5% effective from October 20, 9.5% from November 12, and 10.5% p.a. from December 1, 2008;
- for six-month loans: 11.25% p.a. from December 11, 2008;
- for 12-month loans: 11.75% p.a. from December 11, 2008.

Interest rates on Lombard loans provided under Bank of Russia Regulation No. 236-P of August 4, 2003, by the decision of the Bank of Russia Board of Directors were set as follows:

- for one-day loans: 8% as of the beginning of 2008, 8.25% effective from February 4, 8.5% from April 29, 8.75% from June 10, 9% from July 14, 8% from September 18, 9% from November 12, and 10% p.a. from December 1, 2008;
- for seven-day loans: average weighted two-week Lombard auction rate;
- for a term of up to 30 days: 8% effective from October 20, 9% from November 12, 2008, and 10.25% p.a. from December 1, 2008.

Interest rates on loans covered by assets and guarantees provided under Bank of Russia Regulation No. 312-P of November 12, 2007, by the decision of the Bank of Russia Board of Directors were set as follows:

- for a term of up to 30 days (on October 20 the term was extended to 90 days): 9.25% as of the beginning of 2008, 9.5% effective from April 29, 9.75% from June 10, 10% from July 14, 9.5% from September 18, 9% from October 15, 10% from November 12, and 11% p.a. from December 1, 2008;
- for a term of 91 days to 180 days: 12% p.a. from December 1, 2008.

Interest rates on loans provided against the collateral of promissory notes, claims under loan agreements concluded by organisations, or credit institutions' guarantees under Bank of Russia Regulation No. 273-P of July 14, 2005, by the decision of the Bank of Russia Board of Directors were set as follows:

- for a term of up to 90 days: 7% as of the beginning of 2008, 7.25% effective from February 4, 7.5% from April 29, 7.75% from June 10, 8% from July 14, 7.5% from September 18, 8.5% from November 12, and 11% p.a. from December 1, 2008;
- for a term of 91 days to 180 days: 8% as of the beginning of 2008, 8.25% effective from February 4, 8.5% from April 29, 8.75% from June 10, 9% from July 14, 8.5% from September 18, 8.25% from October 20, 9.25% from November 12, and 12% p.a. from December 1, 2008.

The minimum repo auction rates were set by the decision of the Bank of Russia Board of Directors as follows:

- for one day: 6% as of the beginning of 2008, 6.25% effective from February 4, 6.5% from April 29, 6.75% from June 10, 7% from July 14, 8% from November 12, and 9% p.a. from December 1, 2008;
- for seven days: 6.5% as of the beginning of 2008, 6.75% effective from February 4, 7% from April 29, 7.25% from June 10, 7.5% from July 14, 8.5% from November 12, and 9.5% p.a. from December 1, 2008;
- for 90 days: 8.5% from October 15, 9.5% from November 12 and 10.5% p.a. from December 1, 2008;
- for six months: 11.25% p.a. from December 11, 2008;
- for 12 months: 11.75% p.a. from December 11, 2008.

The Bank of Russia Board of Directors set fixed repo interest rates as follows:

- for one day: 8% as of the beginning of 2008, 8.25% effective from February 4, 8.5% from April 29, 8.75% from June 10, 9% from July 14, 8% from September 18, 9% from November 12, and 10% p.a. from December 1, 2008;
- for seven days: 7% as of the beginning of 2008, 7.25% effective from February 4, 7.5% from April 29, 7.75% from June 10, 8% from July 14, 9% from November 12, and 10% p.a. from December 1, 2008.

The minimum interest rates at the auctions of unsecured loans were set by the Bank of Russia Board of Directors as follows:

- for one-week loans: 8.25% effective from October 20, 2008, 9.25% from November 6, 10.25% from November 12, and 11.25% p.a. from December 1, 2008;
- for five-week loans: 8.5% effective from October 20, 2008, 9.5% from November 6, 10.5% from November 12, and 11.5% p.a. from December 1, 2008;
- for three-month loans: 8.75% effective from October 20, 2008, 9.75% from November 6, 10.75% from November 12, and 11.75% p.a. from December 1, 2008;
- for six-month loans: 9% effective from October 20, 2008, 10% from November 6, 11% from November 12, and 12% p.a. from December 1, 2008.

The minimum dollar and euro swap interest rates set by the Bank of Russia Board of Directors are as follows:

- 8% as of the beginning of 2008, 8.25% effective from February 4, 8.5% from April 29, 8.75% from June 10, 9% from July 14, 10% from October 15, 12% from November 12, and 13% p.a. from December 1, 2008.

The maximum cut-off deposit auction rates set by the Bank of Russia Board of Directors are as follows:

- 9% p.a. for four-week deposits, and
- 10% p.a. for three-month deposits.

The Bank of Russia Board of Directors set the following fixed interest rates on deposit operations conducted pursuant to Bank of Russia Regulation No. 203-P of November 5, 2002:

- for standard ‘tom-next’, ‘spot-next’ and ‘call’ deposits: 2.75% as of the beginning of 2008, 3% effective from February 4, 3.25% from April 29, 3.5% from June 10, 3.75% from July 14, 4.25% from October 15, 4.75% from October 24, 5.75% from November 12, and 6.75% p.a. from December 1, 2008;
- for standard ‘one-week’ and ‘spot-week’ deposits: 3.25% as of the beginning of 2008, 3.5% effective from February 4, 3.75% from April 29, 4% from June 10, 4.25% from July 14, 4.75% from October 15, 5.25% from October 24, 6.25% from November 12, and 7.25% p.a. from December 1, 2008.

REFINANCING OF CREDIT INSTITUTIONS. To upgrade refinancing mechanisms and provide credit institutions with broader opportunities to obtain liquidity from the Bank of Russia, the Bank of Russia issued the following regulatory documents in 2008:

- Bank of Russia Ordinance No. 2056-U, dated August 26, 2008, ‘On Invalidating Certain Bank of Russia Regulations’ with respect to Bank of Russia Regulation No. 273-P, dated July 14, 2005, ‘On the Procedure for Providing Bank of Russia Loans to Credit Institutions against the Collateral of Promissory Notes, Claims under Loan Agreements of Organisations, or Credit Institution Guarantees’;
- Bank of Russia Ordinance No. 2057-U, dated August 26, 2008, ‘On Invalidating Certain Bank of Russia Regulations’ with respect to Bank of Russia Ordinance No. 1601-U, dated August 5, 2005, ‘On the Terms and Conditions of the Provision of Loans by the Bank of Russia to Credit Institutions against the Collateral of Promissory Notes, Claims under Loan Agreements of Organisations, and Credit Institution Guarantees’;
- Bank of Russia Ordinance No. 2084-U, dated October 3, 2008, ‘On Amending Bank of Russia Regulation No. 312-P, Dated November 12, 2007, on the Procedure for the Provision of Asset-Backed Loans to Credit Institutions by the Bank of Russia’, which extended the list of types of economic activity of enterprises whose promissory notes (claims under loan agreements) may be accepted as collateral for Bank of Russia loans, by adding to the list the farming sector and retail trade, and the list of forms of incorporation that these enterprises may have, by including in it state unitary enterprises;
- Bank of Russia Ordinance No. 2104-U, dated October 23, 2008, ‘On Amending Bank of Russia Regulation No. 312-P, Dated November 12, 2007, on the Procedure for the Provision of Asset-Backed Loans to Credit Institutions by the Bank of Russia’, which introduced (until January 1, 2009) a simplified procedure for accepting claims under loan agreements as collateral for Bank of Russia loans, lifted the limits set on credit institutions for Bank of Russia loans provided at a fixed interest rate, and reduced from 10 to five working days the period within which the Bank of Russia must take a decision on the inclusion of non-market assets offered by credit institutions in the assets accepted as collateral for Bank of Russia loans;
- Bank of Russia Ordinance No. 2151-U, dated December 16, 2008, ‘On Amending Bank of Russia Regulation No. 312-P, Dated November 12, 2007, on the Procedure for the Provision of Asset-Backed Loans to Credit Institutions by the Bank of Russia’, which extended the list of collateral that credit institutions can use to receive Bank of Russia loans, adding guarantees provided by financially sound credit institutions with the required international ratings;
- Bank of Russia Order No. OD-728, dated October 17, 2008, ‘On Amending Sub-clause 3.1 of Clause 3 of Bank of Russia Order No. OD-101, Dated February 14, 2008, on the Provision of Asset-Backed

Loans to Credit Institutions by the Bank of Russia', which raised the adjustment ratios used in calculating the value of non-market assets accepted as collateral for Bank of Russia loans;

- Bank of Russia Ordinance No. 2134-U, dated November 27, 2008, 'On the List of Securities Included in the Bank of Russia Lombard List';
- Bank of Russia Regulation No. 323-P, dated October 16, 2008, 'On the Provision of Unsecured Loans to Credit Institutions by the Bank of Russia', whereby on October 20, 2008, the Bank of Russia began to hold auctions of unsecured loans;
- Bank of Russia Regulation No. 329-P, dated November 28, 2008, 'On the Terms and Conditions of Repo Operations Conducted by the Bank of Russia with Russian Credit Institutions on the MICEX Stock Exchange', whereby the Bank of Russia created a regulatory framework and provided the necessary technical support for repo operations on the MICEX Stock Exchange;
- Bank of Russia Letters No. 6-T of January 16, 2008, No. 9-T of January 29, 2008, No. 19-T of February 22, 2008, No. 30-T of March 26, 2008, No. 53-T of May 5, 2008, No. 71-T of June 19, 2008, No. 98-T of August 12, 2008, No. 108-T of August 28, 2008, No. 117-T of September 22, 2008, No. 127-T of October 7, 2008, No. 133-T of October 21, 2008, No. 149-T of November 27, 2008, and No. 162-T of December 10, 2008, 'On the Inclusion of Securities in the Bank of Russia Lombard List';
- Bank of Russia Orders No. OD-100 of February 14, 2008, No. OD-172 of March 18, 2008, No. OD-306 of May 5, 2008, No. OD-468 of June 18, 2008, No. OD-539 of July 23, 2008, No. OD-645 of September 3, 2008, No. OD-654 of September 17, 2008, No. OD-712 of October 14, 2008, No. OD-770 of October 29, 2008, and No. OD-959 of December 18, 2008, 'On Bank of Russia Adjustment Ratios'.

To implement the decisions of the Board of Directors to change interest rates on certain Bank of Russia operations, the Bank of Russia issued the following regulatory documents:

- Bank of Russia Ordinances No. 1974-U of February 1, 2008, No. 1999-U of April 28, 2008, No. 2023-U of June 9, 2008, No. 2036-U of July 11, 2008, No. 2124-U of November 11, 2008, and No. 2138-U of November 28, 2008, 'On the Bank of Russia Overnight Interest Rate';
- Bank of Russia Ordinances No. 1975-U of February 1, 2008, No. 1997-U of April 28, 2008, No. 2022-U of June 9, 2008, No. 2037-U of July 11, 2008, No. 2123-U of November 11, 2008, and No. 2135-U of November 28, 2008, 'On the Bank of Russia Refinancing Rate';
- Bank of Russia Ordinances No. 2002-U of April 28, 2008, No. 2024-U of June 9, 2008, No. 2038-U of July 11, 2008, No. 2122-U of November 11, 2008, and No. 2136-U of November 28, 2008, 'On the Bank of Russia Lombard Credit Rates';
- Bank of Russia Ordinance No. 2065-U, dated September 17, 2008, 'On the Bank of Russia Lombard Overnight Credit Rates';
- Bank of Russia Ordinance No. 2099-U, dated October 17, 2008, 'On the Bank of Russia Lombard 30-Day Credit Rates';
- Bank of Russia Ordinance No. 1971-U, dated February 1, 2008, 'On the Bank of Russia Credit Rates';
- Bank of Russia Ordinances No. 1972-U of February 1, 2008, No. 2000-U of April 28, 2008, No. 2026-U of June 9, 2008, No. 2039-U of July 11, 2008, No. 2063-U of September 17, 2008, No. 2100-U of October 17, 2008, No. 2125-U of November 11, 2008, and No. 2140-U of November 28, 2008, 'On Amending Bank of Russia Ordinance No. 1601-U, Dated August 5, 2005, on the Terms and Conditions of the Provision of Loans by the Bank of Russia to Credit Institutions against the Collateral of Promissory Notes, Claims under Loan Agreements of Organisations, or Credit Institution Guarantees';
- Bank of Russia Ordinances No. 2001-U of April 28, 2008, No. 2025-U of June 9, 2008, No. 2040-U of July 11, 2008, No. 2064-U of September 17, 2008, No. 2096-U of October 14, 2008, and No. 2127-U of November 11, 2008, 'On Amending Bank of Russia Ordinance No. 1979-U, Dated February 14, 2008, on the Interest Rate on Asset-Backed Loans';

- Bank of Russia Ordinance No. 2139-U, dated November 11, 2008, ‘On Interest Rates on Asset-Backed Loans’.

In addition, the Bank of Russia participated in drafting the following federal laws:

- Federal Law No. 171-FZ, dated October 13, 2008, ‘On Amending Article 46 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’, which enabled the Bank of Russia to extend unsecured loans to the banking sector;
- Federal Law No. 317-FZ, dated December 30, 2008, ‘On Amending Article 46 and Article 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’, which enabled the Bank of Russia to extend unsecured loans to credit institutions for a term of up to one year;
- Federal Law No. 176-FZ, dated October 27, 2008, ‘On Amending the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Article 12 of the Federal Law on the Securities Market’, which allowed the Bank of Russia to conduct operations with corporate securities on stock exchanges under certain conditions;
- Federal Law No. 320-FZ, dated December 30, 2008, ‘On Amending Article 27.5.2 of the Federal Law on the Securities Market’, which made it possible to set a variable interest rate on an exchange-traded bond, and to extend to three years the term of obligations on exchange-traded bonds.

DEPOSIT OPERATIONS. To improve the regulatory framework of its deposit operations in roubles with resident credit institutions, the Bank of Russia issued the following documents:

- Bank of Russia Ordinance No. 2019-U, dated June 4, 2008, ‘On Amending Bank of Russia Regulation No. 203-P, Dated November 5, 2002, on the Procedure for the Conducting of Deposit Operations by the Central Bank of the Russian Federation with Credit Institutions in the Russian Federation Currency’;
- Bank of Russia Letter No. 73-T, dated June 24, 2008, ‘On Harmonising Applicable General Agreements with Bank of Russia Regulation No. 203-P, Dated November 5, 2002, on the Procedure for the Conducting of Deposit Operations by the Central Bank of the Russian Federation with Credit Institutions in the Russian Federation Currency’ (with amendments);
- Bank of Russia Ordinances No. 1973-U of February 1, 2008, No. 1998-U of April 28, 2008, No. 2021-U of June 9, 2008, No. 2041-U of July 11, No. 2095-U of October 14, 2008, No. 2103-U of October 23, 2008, and No. 2126-U of November 11, 2008, ‘On Setting Interest Rates on Bank of Russia Deposit Operations’;
- Bank of Russia Ordinance No. 2137-U, dated November 28, 2008, ‘On Bank of Russia Deposit Interest Rates’;
- Bank of Russia Letter No. 118-T, dated September 23, 2008, ‘On the Appointment of a Bank of Russia Regional Branch as Authorised Representative and on the Authorised Representatives of the Settlement Centre of the Organised Securities Market’;
- Bank of Russia Letter No. 119-T, dated September 23, 2008, ‘On Measures to Ensure the Conclusion of Deposit Transactions Using the MICEX Electronic Trading System in Connection with Changes to the Composition of Authorised Representatives of the Settlement Centre of the Organised Securities Market’.

RELATIONS WITH THE FEDERAL BUDGET AND GOVERNMENT EXTRA-BUDGETARY FUNDS

To implement the provisions of the Budget Code of the Russian Federation with respect to the provision of cash services for the execution of the budgets of the Russian Federation budget system by the Federal Treasury, and to upgrade the regulatory framework for the servicing of budget accounts, the Bank of Russia issued the following documents:

- Bank of Russia Letter No. 18-T, dated February 22, 2008, ‘On the Opening of Accounts for Municipal Financial Authorities’, which regulates the opening of accounts in balance sheet account No. 40302 Funds received by budget-financed institutions for temporary use;

- Finance Ministry-Bank of Russia Joint Regulation No. 127n/328-P, dated November 12, 2008, ‘On the Procedure for Completing in the Current Financial Year Operations Between Federal Budget Accounts Opened in Bank of Russia Settlement Divisions and Credit Institutions and their Branches’, and Bank of Russia Letter No. 08-22-2/7703DSP of December 22, 2008, ‘On the Transfer of Income’;
- Bank of Russia-Ministry of Finance Joint Ordinance No. 1989-U/34n, dated March 17, 2008, ‘On Declaring Null and Void Regulation No. 272-P/91n of the Central Bank of the Russian Federation and the Ministry of Finance of the Russian Federation, Dated July 13, 2005, ‘On the Procedure for the Provision of Cash Services by Bank of Russia Settlement Divisions and Credit Institutions and their Branches for the Accounts of Regional and Local Government Agencies Responsible for the Execution of their Respective Regional and Local Government Budgets’;
- Bank of Russia Letter No. 10-T, dated January 30, 2008, ‘On the Cancellation of Bank of Russia Telegram No. 82-97 of September 30, 1997, and Bank of Russia Operating Ordinances No. 45-T of February 3, 1998, and No. 31-T of March 4, 2003, on the Provision of Information on the Number of Budget-financed Institutions and Organisations Transferred to Financing through Personal Accounts Opened for them in Federal Treasury Bodies’;
- Bank of Russia Letter No. 114-T, dated September 12, 2008, ‘On the Expiry of the Term of Acceptance of Settlement Documents from Private Individuals for Payment of the Declaration Fee’.

The Bank of Russia issued the following documents in connection with measures taken to connect the Federal Treasury and its regional branches to the Bank of Russia real-time gross settlement system (BESP) in 2008:

- Bank of Russia Letter No. 109-T, dated August 28, 2008, ‘On the Specifics of the Bank Account Agreement Stipulating the Powers and Duties of the Federal Treasury Regional Branch and the Bank of Russia Relating to the Effectuation of Payments through the Bank of Russia Real-Time Gross Settlement System’;
- Bank of Russia Letter No. 08-22-2/7786, dated December 24, 2008, ‘On the Conclusion of Additional Agreements to the Bank Account Agreement and Electronic Document Exchange Agreement in Conducting Payments and Effectuating Settlements through the Bank of Russia Real-Time Gross Settlement System’;
- Bank of Russia Order No. R-684, dated June 27, 2008, ‘On Setting up a Commission to Test the Hardware, Software and Electronic Message Exchange Systems in the Course of Connecting the Federal Treasury to the Bank of Russia Real-Time Gross Settlement System as an Associated Settlement Participant’;
- the Bank of Russia and the Federal Treasury on June 30, 2008, approved the work plan and schedule for the inclusion of the Federal Treasury and its branches in the BESP system as associated settlement participants.

To tighten control over the correctness and timeliness of the reports on the amount and balances of funds in Russian Federation budget accounts, the Bank of Russia issued the following documents:

- Bank of Russia Letter No. 16-T, dated February 14, 2008, ‘On Verification of Reports Presented in Form 0409914’;
- Bank of Russia Letter No. 20-T, dated March 3, 2008, ‘On Clarifications to Reports Presented in Form 0409915’;
- Bank of Russia Ordinance No. 2031-U, dated June 26, 2008, ‘On Amending Bank of Russia Ordinance No. 1398-U, Dated March 22, 2004, on the List, Forms, Rules, and Procedure for the Compilation and Presentation of Reports by Bank of Russia Divisions to the Central Bank of the Russian Federation’, which introduced from January 1, 2009, for Bank of Russia divisions reporting form 0409920 *Report on the number of Bank of Russia customers other than credit institutions and the number of accounts opened for them*;
- Bank of Russia Ordinances No. 2055-U, dated August 26, 2008, ‘On Amending Bank of Russia Ordinance No. 1376-U of January 16, 2004, on the List, Forms, and Procedure for the Compila-

tion and Presentation of Reports by Credit Institutions to the Central Bank of the Russian Federation' and No. 2082-U, dated September 30, 2008, 'On Amending Bank of Russia Ordinance No. 1398-U of March 22, 2004, on the List, Forms, Rules and Procedure for the Compilation and Presentation of Reports by Bank of Russia Divisions to the Central Bank of the Russian Federation' in reporting forms 0409911, 0409912, 0409914 and 0409919.

The Bank of Russia issued the following documents for the purpose of managing federal budget revenue:

- Bank of Russia Regulation No. 320-P, dated August 27, 2008, 'On the Procedure for the Managing of Certain Types of Federal Budget Revenue by the Central Bank of the Russian Federation', and Bank of Russia Ordinance No. 2158-U, dated December 25, 2008, 'On Amending Bank of Russia Regulation No. 320-P of August 27, 2008, on the Procedure for the Managing of Certain Types of Federal Budget Revenue by the Central Bank of the Russian Federation';
- Bank of Russia Ordinance No. 2062-U, dated September 1, 2008, 'On Declaring Null and Void Certain Bank of Russia Regulations', which invalidated Bank of Russia Regulation No. 300-P, dated December 25, 2006, 'On the Procedure for the Managing of Certain Types of Federal Budget Revenue by the Bank of Russia', and ordered that amendments be made to this Regulation;
- Bank of Russia Letter No. 21-T, dated March 6, 2008, 'On the Use of Budget Classification Codes in Managing Monetary Penalties (Fines)';
- Bank of Russia Ordinance No. 2083-U, dated October 1, 2008, 'On Granting to the Bank of Russia's Credit Institutions Licensing and Financial Rehabilitation Department and to Bank of Russia Regional Branches the Powers to Manage Certain Sources of Federal Budget Revenue';
- Federal Treasury-Bank of Russia Joint Letter No. 42-7.1-15/5.4-313 of July 11, 2008, and No. 83-T of July 15, 2008, which brought Annex 1 to the agreements on the management by the Bank of Russia of certain types of federal budget revenue concluded by budget managers accountable to the Bank of Russia with Federal Treasury regional branches into compliance with the annex to Bank of Russia Letter No. 83-T of July 15, 2008;
- Bank of Russia Letter No. 143-T, dated November 12, 2008, 'On Recognition in Accounting Records of Unidentified Receipts Entered to the Federal Budget before the Coming into Force of Bank of Russia Regulation No. 300-P of December 25, 2006';
- Bank of Russia Letter No. 145-T, dated November 17, 2008, 'On Completing the Application for the Inclusion (Change) of Particulars of the Manager of Certain Types of Budget Revenue';
- Federal Treasury-Bank of Russia Joint Letter No. 42-7.1-15/5.4-576 of December 16, 2008, and No. 169-T of December 18, 2008, 'On Document Particulars (Details)'.

In line with Russian Federation government resolutions on the improvement of the quality of the health services, the Bank of Russia sent to its regional branches the following documents:

- Bank of Russia Letter No. 13-T, dated February 14, 2008, 'On the Recognition of Subsidies Provided from the Federal Compulsory Medical Insurance Fund Budget in 2008—2009 for Additional Medical Examination of Workers and Employees';
- Bank of Russia Letter No. 14-T, dated February 14, 2008, 'On the Recognition of Subsidies Provided from the Federal Compulsory Medical Insurance Fund Budget in 2008—2010 for the Medical Examination of In-Patient Orphaned and Uncared-for Children';
- Bank of Russia Letter No. 15-T, dated February 14, 2008, 'On the Recognition of Grants Made from the Federal Compulsory Medical Insurance Fund Budget in 2008 for the Funding of the Government Programme for the Provision of Additional Medical Aid';
- Bank of Russia Letter No. 08-22-2/557, dated February 14, 2008, 'On the Recognition of Funds Transferred in 2008 to Finance the Completion of a Pilot Project to Improve the Quality of Health Services in the Constituent Territories of the Russian Federation'.

FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

In order to exercise its powers under Federal Law No. 173-FZ, dated December 10, 2003, 'On Foreign Exchange Regulation and Foreign Exchange Control', the Bank of Russia in 2008 continued to organise control by authorised banks over foreign exchange operations conducted by their customers.

To this end, the Bank of Russia issued the following documents:

- Bank of Russia Ordinance No. 2052-U, dated August 12, 2008, 'On Amending Bank of Russia Instruction No. 117-I, Dated June 15, 2004, on the Procedure for the Presentation of Documents and Disclosure of Information by Residents and Non-Residents to Authorised Banks in the Course of Conducting Foreign Exchange Operations, and the Procedure for the Recognition of Foreign Exchange Operations by Authorised Banks and Issuing of Operation IDs', which set deadlines for the redrafting of operation ID by residents in the event of the transfer of a foreign trade contract or loan agreement to another authorised bank. The Ordinance also specified the time period during which a resident must present documents in the course of drafting (redrafting) an operation ID, and the procedure for the drafting (redrafting) of an operation ID by an authorised bank's competent representative;
- Bank of Russia Ordinance No. 2080-U, dated September 26, 2008, 'On Amending Bank of Russia Regulation No. 258-P of June 1, 2004, on the Procedure for the Presentation of Documents and Disclosure of Information by Residents to Authorised Banks, Connected with Foreign Exchange Operations with Non-Residents under Foreign Trade Contracts, and the Exercising of Control by Authorised Banks over Foreign Exchange Operations' (hereinafter referred to as Regulation No. 258-P), which pronounced the customs declaration (except the temporary declaration) as the sole document confirming the entry of goods that must be declared into the customs territory of the Russian Federation or their exit from the customs territory of the Russian Federation. The Ordinance specified the time period during which a resident must present confirming documents and the procedure for the completing of statements stipulated by Regulation No. 258-P by the authorised bank's competent representative, in the event of the return of these documents on account of their being inappropriately completed by the resident. The Ordinance also set the procedure for the correction by a resident of data on the cost of work, services, information, or results of intellectual activity, including exclusive titles to them.

IV.2. PRINCIPAL MEASURES TO UPGRADE BANKING REGULATION AND SUPERVISION IN 2008

LICENSING OF CREDIT INSTITUTIONS' ACTIVITIES

Due to the entering into force on March 8, 2008, of Federal Law No. 325-FZ, dated December 4, 2007, 'On Amending Article 36 of the Federal Law on Banks and Banking Activities', the Bank of Russia issued Ordinance No. 1977-U of February 5, 2008, 'On Amending Bank of Russia Instruction No. 109-I of January 14, 2004, on the Bank of Russia Decision-Making Procedure Relating to the State Registration of Credit Institutions and Licensing of Banking Operations' (this came into force on March 16, 2008), which set at the rouble equivalent of 100 million euros the minimum amount of authorised capital for a newly registered bank, or equity capital for a bank that was registered less than two years earlier, for the purpose of granting it the right to take personal deposits. The document also set a requirement for banks to disclose to the public at large information on persons or groups of persons exerting direct or indirect material influence over decisions taken by their management.

Bank of Russia Ordinance No. 2007-U, dated May 8, 2008, 'On Amending Bank of Russia Ordinance No. 1548-U of February 7, 2005, on the Procedure for Opening (Closing) and Managing a Mobile Cash Point of a Bank', allowed banks and their branches to grant to their mobile cash points the right to conclude bank account and bank deposit agreements, the most frequently requested service in rural areas.

To make the procedure for reorganising credit institutions less complicated and costly, the Bank of Russia made amendments to its Regulation No. 230-P of June 4, 2003, and Instruction No. 109-I of January 14, 2004 (Bank of Russia Ordinances No. 2162-U and No. 2164-U of December 30, 2008). These amendments:

- lifted the requirement for credit institutions to present documents unrelated to control over the observance of the provisions of civil law;
- reduced the period (by four times for mergers and by three times for acquisitions) permitted for the consideration of documents to one month;
- allowed credit institutions undergoing reorganisation before filing an official request to the Bank of Russia head office, to submit documents or their drafts to the Bank of Russia head office for the latter to issue a statement on their compliance with the requirements of federal laws and Bank of Russia regulations.

Bank of Russia Ordinance No. 2148-U, dated December 1, 2008, 'On the Possibility of the Temporary Functioning of a Correspondent Sub-Account of a Branch of a Credit Institution Converted into an Internal Division', extended until July 1, 2009, the time during which a Bank of Russia regional branch may take a decision to allow a branch of a credit institution to continue to maintain a sub-account for a certain period after it has been transformed into an internal division.

Bank of Russia Ordinance No. 2016-U, dated June 4, 2008, 'On Amending Clause 3.1 and Clause 3.3 of Bank of Russia Regulation No. 290-P of July 4, 2006, on the Procedure for the Issuance of Permits by the Bank of Russia to Credit Institutions to Open Subsidiaries in Foreign Countries', stipulated that the documents submitted by credit institutions in such cases must include permission in writing from individual managers, the chief accountant, or a candidate for these positions, and the founders of the subsidiary, in order to have their personal data processed by the Bank of Russia, and also cancelled the requirement for credit institutions to present a business plan as an addendum to the economic feasibility study for the subsidiary project. These amendments were made in compliance with the requirements of Federal Law No. 152-FZ, dated July 27, 2006, 'On Personal Data', and aimed to optimise the package of documents presented in compliance with the aforementioned Regulation.

MEASURES TO UPGRADE BANKING RISK REGULATION AND SUPERVISION METHODOLOGIES

In order to upgrade methodologies in line with the recommendations of the Basel Committee on Banking Supervision and international practice of risk-based supervision, the Bank of Russia issued Ordinance No. 2005-U, dated April 30, 2008, 'On the Assessment of the Economic Situation of Banks' (hereinafter referred to as Ordinance No. 2005-U), which established the methodology for evaluating a bank's performance. It harmonised the approaches taken for the evaluation of banks' performance in the course of supervision with those taken to assess banks' compliance with the deposit insurance system requirements.

In accordance with Ordinance No. 2005-U, the economic situation of a bank is assessed on the basis of the evaluation of its capital, assets, profitability, liquidity, quality of management, including the evaluation of the risk management, internal control, and strategic risk management systems, transparency of the ownership structure, compliance with the required ratios, and the use of corrective action against the bank. When capital and profitability indicators are evaluated, their projected values are used, which are calculated for the coming 12 months for the purpose of detecting problems in banks at early stages. The assessment of banks' economic situation is made at least quarterly with the monthly monitoring of their financial indicators (capital, assets, profitability, and liquidity). On the basis of evaluation results, banks are placed in one of five classification groups. Information on the classification group to which the bank is assigned, and the shortcomings in its work that served as grounds for the classification, are made known to the bank's one-person executive body, which is advised to pass this information to the bank's board of directors (supervisory board) and collegiate executive body. Information on the classification group to which the bank is assigned is restricted, and may not be disclosed to third parties.

To emulate international practice of regulating liquidity risk, the Bank of Russia issued Ordinance No. 1991-U, dated March 31, 2008, 'On Amending Bank of Russia Instruction No. 110-I of January 16, 2004, on Banks' Required Ratios', which stipulated that banks must account for the minimum balances of customer accounts on the cash flow basis when calculating required liquidity ratios.

To protect consumer rights in the field of consumer lending, the Bank of Russia, pursuant to Federal Law No. 46-FZ, dated April 8, 2008, 'On Amending Article 30 of the Federal Law on Banks and Banking Activities', issued Ordinance No. 2008-U of May 13, 2008, 'On the Procedure for Calculating and Making Known to an Individual Borrower the Full Cost of a Loan', which set up the procedure for calculating the full cost of a loan (using the effective interest rate in percentage terms per annum) and required credit institutions to make known to each individual borrower the full cost of loans they receive, the number of instalment payments and their amounts, including payments to third parties not mentioned in the loan agreement (insurance companies and notary's offices), and not included in the calculation of the full cost of the loan, including payments connected with the borrower's failure to comply with the terms and conditions of the loan agreement. Moreover, credit institutions are required to make known to each individual borrower the full cost of a loan, the number and size of instalment payments included and not included in its calculation, and payments to third parties not mentioned in the loan agreement before the conclusion of the loan agreement, and before making changes to its terms and conditions leading to changes in the full cost of the loan.

To implement Article 3 of Federal Law No. 173-FZ, dated October 13, 2008, 'On Additional Measures in Support of the Financial System of the Russian Federation', the Bank of Russia issued Ordinance No. 2155-U, dated December 19, 2008, 'On Amending Bank of Russia Regulation No. 254-P of March 26, 2004, on the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loan and Similar Debts',¹ which categorised the Bank of Russia compensa-

¹ Ordinance No. 2155-U is to come into force on July 1, 2009, except for sub-clause 1.25 of clause 1 on adding the Bank of Russia compensation deposit to the list of Quality Category I types of collateral, which comes into force as of the day of the official publication of the Ordinance in the Bank of Russia Bulletin (February 4, 2009).

tion deposit (funds that the Bank of Russia provides to credit institutions under the aforementioned Article of the Federal Law to compensate them for a part of the losses (expenses) they incurred in transactions conducted from October 14, 2008, up to December 31, 2009, with other credit institutions that (subsequently) had their banking licences revoked) as Quality Category 1 collateral for interbank loans, for the purpose of calculating loss provisions.

To prevent the use of funds allocated as government support for the national financial system in speculative operations with foreign currency, the Bank of Russia issued Letter No. 01-13-1/5713 of October 28, 2008, and Letter No. 01-15-3/7850 of December 25, 2008, which recommended that credit institutions maintain their actual average balance of foreign currency assets at levels not higher than the level they had between August 1 and October 25, 2008, and maintain the average net balance sheet foreign currency position not higher than the average registered between October 25 and November 25, 2008 (hereinafter referred to as the base periods), and that they do not open a long balance sheet foreign currency position if in the base period the credit institution had a short balance sheet foreign currency position.

To this end, the Bank of Russia set out methods for the monitoring of compliance with these recommendations by credit institutions and the lowering of credit limits for credit institutions that have concluded general agreements with the Bank of Russia, whereby the Bank of Russia is to extend unsecured loans to a credit institution under Bank of Russia Regulation No. 323-P of October 16, 2008, 'On the Provision of Unsecured Loans to Russian Credit Institutions by the Bank of Russia', (hereinafter referred to as the general agreement) if credit institutions have failed to follow the Bank of Russia's recommendations.

To monitor open currency positions, the Bank of Russia issued Letter No. 04-15-3/7393 of December 11, 2008, and Letter No. 04-15-3/7851 of December 25, 2008, 'On Reporting by Credit Institutions', which required credit institutions that have concluded a general agreement with the Bank of Russia to present reports in form 0409634 'Open currency position report' every 10 days (broken down into each working day) in the fourth quarter of 2008 and the first quarter of 2009.

To create more favourable conditions for lending to the real economy, the Bank of Russia issued as part of the anti-crisis package Ordinance No. 2156-U, dated December 23, 2008, 'On the Specifics of Assessing Credit Risk on Loans, Loan and Similar Debts',¹ which allowed credit institutions not to downgrade the loan debt service quality assessment compared with the standards set by 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', in the following cases:

- if the period of overdue debt on the principal amount of the loan and (or) interest has exceeded the period established by this Bank of Russia Regulation by 30 calendar days;
- if the loan has been restructured (in case of change in the currency in which the loan is denominated, or change in the term to maturity of the loan (the principal amount of the debt and (or) interest), or change in the interest rate) after October 1, 2008;
- if after October 1, 2008, the loan has been used to repay the borrower's earlier loan.

To provide methodological support to its regional branches, the Bank of Russia issued the following documents:

- Bank of Russia Letter No. 41-T, dated April 14, 2008, 'On the Need to Improve the Effectiveness of Operational Risk Management Systems', which recommended credit institutions to pay attention to ensuring conformity of operational risk management systems with the factors determining this risk and the level of risk assumed by credit institutions.
- Bank of Russia Letter No. 52-T, dated May 5, 2008, 'On Consumer Loan Borrower Instruction Sheet', which urged Bank of Russia regional branches to carry out additional measures to ensure that credit institutions disclose all information on the terms and conditions of consumer loan to

¹ This Ordinance came into force on December 31, 2008, and will remain in force until December 31, 2009.

borrowers, including by posting an instruction sheet for borrowers, containing essential information that may help them to make a decision on taking a loan.

To provide information and recommend methodologies to credit institutions on advanced practice in assessing risks for the purpose of determining capital adequacy in banking regulation and supervision, the Bank of Russia Banking Regulation and Supervision Department sent to Bank of Russia regional branches Letter of Information No. 15-1-5/4383, dated September 4, 2008, ‘On the Internal Ratings-Based Approach to Calculating the Minimum Regulatory Capital Necessary to Cover Credit Risk (IRB-approach)’.

To upgrade country risk assessment by credit institutions, the Bank of Russia Banking Regulation and Supervision Department sent to Bank of Russia regional branches Letter of Information No. 15-1-5/4957, dated October 7, 2008, ‘On International Country Risk Management and Supervision Practice (Standards)’.

OFF-SITE SUPERVISION OF CREDIT INSTITUTIONS

To implement Clause 6 of the Joint Action Plan to Prevent Legal Violations in the Economic and Social Spheres, and in line with Russian Government resolutions and measures taken to strengthen the financial and other sectors of the economy, the Bank of Russia issued Letter No. 138-T, dated November 1, 2008, ‘On the Dissemination of Negative Information on the Activities of Credit Institutions’, and Letter No. 157-T, dated December 5, 2008, ‘On the Provision of Information’.

To oversee the use by credit institutions of funds allocated to the them with the objective of supporting the Russian financial system, and to comply with the provisions of Federal Law No. 317-FZ, dated December 30, 2008, ‘On Amending Article 46 and Article 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)’, the Bank of Russia on February 9, 2009, issued Ordinance No. 2181-U, ‘On the Procedure for the Presentation of Information and Documents by Credit Institutions to Bank of Russia Authorised Representatives’, and Ordinance No. 2182-U, ‘On the Procedure for Appointing Bank of Russia Authorised Representatives, and Conducting and Terminating their Activities’.

To ensure that corrective action taken against credit institutions had no negative impact on their financial situations amid the global financial and economic crisis, the Bank of Russia issued Letter No. 160-T, dated December 9, 2008, ‘On the Application of Corrective Actions’, in which it recommended that its regional branches refrain from using punitive measures such as fines and restrictions on individual banking operations for non-compliance by credit institutions with prudential requirements, if their financial situations and violations of prudential standards were caused by systemic factors and posed no threat to the interests of their creditors and depositors, or to banking sector stability.

To improve reporting forms used for supervisory purposes (prudential reporting), the Bank of Russia issued Ordinance No. 2055-U, dated August 26, 2008, ‘On Amending Bank of Russia Ordinance No. 1376-U of January 16, 2004, on the List, Forms and Procedure for the Compiling and Presentation of Reporting Forms by Credit Institutions to the Central Bank of the Russian Federation’, which established the following new standards and requirements:

- it replaced reporting form 0409118 *Data on large-value loans* with form 0409118 *Data on credit risk concentration* (which requires the disclosure of information on counterparties and groups of related counterparties responsible for high credit risk concentrations as of the reporting date) and form 0409117 *Data on large-value loans* (which requires the disclosure of detailed information on the 30 largest loans extended to non-credit institutions, indicating the amount of the loan, its purpose, interest rate, date of issue, maturity, restructurings, amount and period of overdue loans, and the market value of collateral);
- it introduced reporting form 0409116 *Information on securities acquired by credit institutions*, which requires credit institutions to disclose information on the structure of the acquired securi-

- ties, including their structure by issuer, the type of securities, the currency in which they are denominated, their purchase price or current (fair) value, and the quality category and actual amount of the loss provisions made for them;
- it changed the name of reporting form 0409711 from *Depository report* to *Securities report*, and added section 2 *Promissory note transactions*, in order to obtain sufficiently full information on securities trading by credit institutions;
 - it cancelled from October 1, 2008, reporting form 0409102 *Credit institution income statement* for branches of credit institutions, and from January 1, 2009, reporting form 0409156 *Information on credit institutions' investments*.

MEASURES TO IMPROVE INSPECTION ACTIVITIES

To improve the procedure for organising and conducting inspections in 2008, the Bank of Russia issued the following regulatory documents:

- Bank of Russia Ordinance No. 2075-U, dated September 24, 2008, 'On Amending Bank of Russia Instruction No. 105-I of August 25, 2003, on the Procedure for Conducting Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation', registered by the Ministry of Justice of the Russian Federation on October 8, 2008, under No. 12417;
- Bank of Russia Ordinance No. 2076-U, dated September 24, 2008, 'On Amending Bank of Russia Instruction No. 108-I of December 1, 2003, on Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)'.

To improve the effectiveness of inspections, the Bank of Russia issued the following documents:

- Bank of Russia Letter No. 29-T, dated March 18, 2008, 'On the Use of Bank of Russia Methodological Recommendations in Organising and Conducting Inspections of Credit Institutions and their Branches';
- Bank of Russia Letter No. 54-T, dated May 8, 2008, 'On Clarification for Bank of Russia Regional Branches of Questions Arising in the Course of Organising and Conducting Inspections of Credit Institutions and their Branches to Verify their Compliance with the Required Reserve Ratios';
- Bank of Russia Letter No. 68-T, dated June 17, 2008, 'On Clarifications for Bank of Russia Regional Branches of Questions Arising in the Course of Organising and Conducting Inspections of Credit Institutions and their Branches';
- Bank of Russia Letter No. 158-T, dated December 8, 2008, 'On Tightening Control over the Credibility of Reports Compiled in Form 0409904 *Statement of the balances of federal and local government accounts, and government and other extra-budgetary funds opened in a credit institution or its branch* in the Course of Inspecting Credit Institutions and their Branches';
- Bank of Russia Letter No. 164-T, dated December 11, 2008, 'On Methodological Recommendations for Analysis of the Financial Situations of Credit Institutions and their Branches, Conducted by Inspection Divisions as Part of Preparations for Inspections';
- Joint Letter of the Main Inspectorate for Credit Institutions and the Bank of Russia's Banking Regulation and Supervision Department No. 25-3-6/254 of February 18, 2008, 'On Upgrading Methods of Organising and Conducting Work in Preparation for an Inspection';
- Joint Letter of the Main Inspectorate for Credit Institutions and the Bank of Russia's Banking Regulation and Supervision Department No. 25-3-2/965 of May 26, 2008, 'On Sampling for the Purpose of Examining Homogenous Loan Portfolios';
- Joint Letter of the Main Inspectorate for Credit Institutions and the Bank of Russia's Banking Regulation and Supervision Department No. 25-3-6/1467 of August 15, 2008, 'On Upgrading Methods of Recording in the Inspection Report the Results of an Examination of Loans, Loan and Similar Debts of a Credit Institution or Branch of a Credit Institution'.

To improve the organisation of Bank of Russia inspections and the quality of inspection reports on credit institutions and their branches, and to increase the role of inspectors-general of the Main Inspectorate for Credit Institutions, the Bank of Russia drafted proposals for conducting an experiment to centralise inspection in the North-Western Federal District from January 1, 2009, to July 1, 2011, which were approved by the Bank of Russia Board of Directors (protocol of meeting No. 17 of August 25, 2008). To this end, the Bank of Russia issued the following documents:

- Bank of Russia Ordinance No. 2077-U, dated September 24, 2008, ‘On Organising an Experiment to Centralise Bank of Russia Inspections;
- Bank of Russia Order No. R-1272, dated October 7, 2008, ‘On Organising an Experiment to Centralise Inspections by the Bank of Russia’;
- Bank of Russia Letter No. 01-25-3/4478 of September 1, 2008, ‘On Inspection Divisions of Bank of Russia Regional Branches in the North-Western Federal District’.

To encourage the use of substantive (risk-based) approaches, implement the provisions of Article 73 of Federal Law No. 86-FZ, dated July 10, 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia)’, and to emulate international good practice, the Bank of Russia drafted an Ordinance on Organising and Conducting Inspections of Credit Institutions and their Branches by Audit Organisations on the Instructions of the Bank of Russia Board of Directors.

FINANCIAL REHABILITATION AND LIQUIDATION OF CREDIT INSTITUTIONS

Due to the passing of Federal Law No. 174-FZ, dated October 13, 2008, ‘On Amending Article 11 of the Federal Law on Insurance of Household Deposits in Russian Banks and Certain Other Laws of the Russian Federation’, which raised the amount of insurance indemnity and Bank of Russia compensation payment to 700,000 roubles, the Bank of Russia issued Ordinance No. 2091-U, dated October 14, 2008, ‘On Amending Bank of Russia Ordinance No. 1517-U of November 17, 2004, on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System and on the Procedure for Cooperation between Agent Banks and the Bank of Russia’.

To maintain banking sector stability and protect the legitimate interests of bank depositors and creditors, Federal Law No. 175-FZ, dated October 27, 2008, ‘On Additional Measures to Strengthen the Stability of the Banking System in the Period until December 31, 2011’, gave the Bank of Russia and the Deposit Insurance Agency (DIA) the right to prevent bankruptcies of banks participating in the deposit insurance system, and to evaluate the financial situation of banks for the purpose of deciding whether the DIA should participate in carrying out bankruptcy prevention measures with regard to these banks. To implement the provisions of this Federal Law, the Bank of Russia has been granted the right not to use against these banks measures stipulated by Article 74 of Federal Law No. 86-FZ, dated July 10, 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia), not to prohibit them from taking household deposits, and not to revoke their banking licences. The Bank of Russia has the power to reduce the authorised capital of these banks to the level of their equity capital unless their owners decide to do so themselves. It has also been stipulated that the Bank of Russia may appoint the DIA as the provisional administration of a bank with the Agency’s consent. In its capacity as the provisional administration of a bank, the DIA may carry out a set of measures to transfer to the acquirers the bank’s property and obligations or a part thereof. The Federal Law established the financial grounds for the implementation of measures stipulated by it. In pursuance of Federal Law No. 175-FZ, dated October 27, 2008, ‘On Additional Measures to Strengthen the Stability of the Banking System in the Period until December 31, 2011’, the Bank of Russia has issued 13 regulatory documents (Bank of Russia Regulation No. 325-P of October 29, 2008, and Bank of Russia Ordinances Nos. 2106-U—2113-U of October 29, 2008, and Nos. 2114-U—2117-U of November 1, 2008).

Bank of Russia Ordinance No. 2106-U, dated October 29, 2008, ‘On the Procedure for the Taking of a Decision by the Bank of Russia to Invite the Deposit Insurance Agency to Participate in

Preventing a Bank's Bankruptcy, and the Agreeing (Approving) of a Plan for the Deposit Insurance Agency's Participation in Preventing a Bank's Bankruptcy', stipulated that the Bank of Russia may take a decision on the invitation of the DIA to participate in preventing a bank's bankruptcy and in the agreeing (approving) of a plan for the DIA's participation in preventing a bank's bankruptcy. It also stipulated that the Bank of Russia may take a decision that the DIA cannot participate in preventing a bank's bankruptcy, or that it can perform the functions of a provisional administration. The document also set the procedure for the presenting of a progress report by the DIA to the Bank of Russia, the procedure for examining it by the Bank of Russia, and the requirements as to the content of this report.

Bank of Russia Ordinance No. 2107-U, dated October 29, 2008, 'On the Assessment of the Financial Situation of a Bank for the Purpose of Deciding whether the Deposit Insurance Agency Should Be Invited to Participate in Preventing its Bankruptcy', set the procedure for taking a decision to assess the financial situation of a bank, stipulated the duties of the bank in the process of the assessment of its financial situation, and established the procedure for assessing the financial situation of a bank as well as the procedure for recording the assessment results.

Bank of Russia Ordinance No. 2108-U, dated October 29, 2008, 'On the Procedure for the Taking of a Decision by the Bank of Russia to Reduce the Authorised Capital of a Bank to the Level of its Equity Capital' set the procedure for preparing a request on taking a decision to reduce the authorised capital of a bank to the level of its equity capital, the procedure for cooperation between structural divisions of the Bank of Russia head office and its regional branches in the course of preparing the request, and the procedure for informing the bank and Bank of Russia regional branches about the decision taken.

Bank of Russia Ordinance No. 2109-U, dated October 29, 2008, 'On Amending Bank of Russia Regulation No. 279-P of November 9, 2005, on the Provisional Administration of a Credit Institution', stipulated that a provisional administration, including a provisional administration appointed by the Bank of Russia under Federal Law No. 40-FZ, dated February 25, 1999, 'On the Insolvency (Bankruptcy) of Credit Institutions', must carry out measures to change the authorised capital of the bank in pursuance of Article 7 of Federal Law No. 175-FZ, dated October 27, 2008, 'On Additional Measures to Strengthen the Stability of the Banking System in the Period until December 31, 2011', and may change the size of the provisions made by the bank in compliance with the requirements of Bank of Russia regulations. The document also set the procedure for the assigning to the DIA of the functions and powers of a provisional administration by the Bank of Russia, the procedure for the implementation by the DIA of its functions and powers of a provisional administration, the procedure for the presentation of progress reports by the provisional administration to the Bank of Russia, and the procedure for dismissing the provisional administration whose functions were assigned to the DIA.

Bank of Russia Regulation No. 325-P, dated October 29, 2008, 'On the Specifics of the Issue (Additional Issue) and Registration of a Bank's Shares in the Course of Implementation by the Central Bank of the Russian Federation (Bank of Russia) and the Deposit Insurance Agency of Bankruptcy Prevention Measures with Regard to a Member Bank of the Compulsory Household Deposit Insurance System':

- set the procedure for selecting an agency to register the issue (additional issue) of a bank's shares in the course of the implementation of bankruptcy prevention measures by the Bank of Russia and the DIA;
- gave specifics on a bank's share issue in the event of a reduction of the bank's authorised capital to the level of its equity capital, and in the event of an increase in the bank's authorised capital in the course of implementing bankruptcy prevention measures by the provisional administration;
- set the requirements for the package of issuance documents in the event of a reduction in the bank's authorised capital to the level of its equity capital, and in the event of an increase in the bank's authorised capital;

- set the procedure and time period for the submission of issuance documents by the provisional administration;
- contained an exhaustive list of documents that must be submitted to a Bank of Russia regional branch for verification of the correctness of payment made for the bank's shares.

Bank of Russia Ordinance No. 2110-U, dated October 29, 2008, made amendments to Bank of Russia Instruction No. 109-I of January 14, 2004, which established:

- a shortened time period for the presentation to a Bank of Russia regional branch supervising a bank of documents for state registration of changes to its charter, and a shortened list of documents to be presented;
- a minimum period of one working day for the consideration of documents by a Bank of Russia regional branch, for the taking of a decision on the state registration of changes to the founding documents, made on the decision of the provisional administration, and the sending of a corresponding package of documents to the regional branch of the Federal Tax Service. The Ordinance also stipulated that the bank must be notified of the documents received from the Federal Tax Service regional branch on the day of their receipt.

Bank of Russia Ordinance No. 1994-U, dated April 16, 2008, 'On Amending Bank of Russia Regulation No. 265-P of December 14, 2004, on the Accreditation of Arbitration Managers at the Bank of Russia as Receivers of Bankrupt Credit Institutions' was issued to improve Bank of Russia activity for the accreditation of arbitration managers in bankruptcy of credit institutions and with due consideration of the practice of applying Bank of Russia Regulation No. 265-P of December 14, 2004.

Bank of Russia Ordinance No. 2015-U, dated May 27, 2008, 'On Amending Bank of Russia Ordinance No. 1853-U of July 5, 2007, on the Specifics of the Effectuation by a Credit Institution of Settlement Operations After the Revocation of its Banking Licence and on the Accounts Used by the Receiver (Liquidator or Liquidation Commission)', was issued in connection with the passage of Federal Law No. 303-FZ, dated December 1, 2007, 'On Declaring Null and Void Certain Provisions of Russian Federation Laws', which cancelled the requirement for government approval of the list of credit institutions in which a receiver can open foreign currency accounts of the debtor credit institution, and gave receivers the option of opening foreign currency accounts in banks offering better terms and conditions. It also excluded from Bank of Russia Ordinance No. 1853-U of July 5, 2007, the provision stipulating that receivers (liquidators or liquidation commissions) could only open and use foreign currency accounts in credit institutions authorised by the government.

Bank of Russia Ordinance No. 2011-U, dated May 16, 2008, 'On Amending Bank of Russia Ordinance No. 1594-U of July 14, 2005, on the List, Forms, and Procedure for the Compiling and Presentation of Reports by Credit Institutions Undergoing Liquidation to the Central Bank of the Russian Federation', was issued to make the reports of credit institutions being liquidated more informative, and to enhance the effectiveness of control over liquidation procedures.

HOUSEHOLD DEPOSIT INSURANCE IN RUSSIAN BANKS

Bank of Russia Ordinance No. 2053-U, dated August 12, 2008, 'On Amending Bank of Russia Ordinance No. 1655-U of February 5, 2006, on the Procedure for Considering a Request to Prohibit a Bank Declared Unfit to Participate in the Deposit Insurance System from Taking Household Deposits and Opening Personal Accounts', specified the grounds and procedure for preparing a request to prohibit a bank that failed to comply with the deposit insurance system requirements from taking household deposits and opening personal accounts, and specified the procedure for the consideration of such requests by Bank of Russia regional branches in the Bank of Russia head office.

UPGRADING THE LEGISLATIVE FRAMEWORK OF OPERATION OF CREDIT INSTITUTIONS, AND BANKING REGULATION AND SUPERVISION

In 2008, the Bank of Russia took part in the drafting of the following federal laws:

- Federal Law No. 46-FZ, dated April 8, 2008, ‘On Amending Article 30 of the Federal Law on Banks and Banking Activities’ (with regard to the disclosure of information by a credit institution to individual borrowers);
- Federal Law No. 174-FZ, dated October 13, 2008, ‘On Amending Article 11 of the Federal Law on Insurance of Household Deposits in Russian Banks and Certain Other Laws of the Russian Federation’ (with regard to the increase in deposit compensation);
- Federal Law No. 306-FZ, dated December 30, 2008, ‘On Amending Certain Laws of the Russian Federation in Connection with Upgrading the Foreclosure Procedure’;
- Federal Law No. 224-FZ, dated November 26, 2008, ‘On Amending Section 1 and Section 2 of the Tax Code of the Russian Federation and Certain Laws of the Russian Federation’ (with regard to Article 59 and Article 76 to provide for the possibility of writing off uncollectible debt resulting from the write-off as tax payments of funds from taxpayers’ settlement accounts that were not transferred to the budget due to a lack of funds in the correspondent accounts of banks that were liquidated at the time the debt was declared uncollectible, and the procedure and time periods for the taking of a decision by the tax authority to suspend or cancel the suspension of operations on the accounts of organisations and individual entrepreneurs with banks);
- Federal Law No. 20-FZ, dated March 3, 2008, ‘On Amending Article 22 of the Federal Law on Banks and Banking Activities’ (these amendments aim to create conditions conducive to the expansion of the range of banking services provided to customers of a credit institution outside its place of residence, and to ensure a more active presence of credit institutions in regions with a low density of banking services);
- Federal Law No. 175-FZ, dated October 27, 2008, ‘On Additional Measures to Strengthen the Stability of the Banking System in the Period until December 31, 2011’ (regarding the use of a set of additional instruments to prevent banks’ bankruptcies);
- Federal Law No. 270-FZ, dated December 22, 2008, ‘On Amending the Federal Law on Insurance of Household Deposits in Russian Banks and Certain Other Laws of the Russian Federation’ (these amendments are aimed at improving the criteria for and control over banks’ compliance with the deposit insurance system requirements, clarifying the procedure for making compensation payments to depositors and the functions and powers of the Deposit Insurance Agency, and establishing the requirement for deposit insurance system member banks to disclose to the public at large information on persons who exert a direct or indirect material influence on decisions taken by the bank’s management);
- Federal Law No. 315-FZ, dated December 30, 2008, ‘On Amending the Federal Law on Banks and Banking Activities, and Certain Other Laws of the Russian Federation’ (regarding the regulation of procedures for reorganising commercial organisations);
- Federal Law No. 201-FZ, dated November 8, 2008, ‘On Amending Article 1473 of Section 4 of the Civil Code of the Russian Federation’ (regarding the use of the words ‘Russian Federation’ in the brand names of legal entities).

In 2008, the Bank of Russia participated in writing the following draft laws relating to various areas of activity of credit institutions:

- ‘On Amending the Federal Law on Insolvency (Bankruptcy)’ (regarding the change to the priority of creditors’ claims);
- ‘On Amending the Federal Law on Banks and Banking Activities’ (these amendments specify the main aspects of consolidated supervision and information disclosure requirements for credit institutions, banking groups, and bank holdings);

- ‘On Amending the Federal Law on Accounting’ (regarding the time for the presentation of annual accounting statements by commercial organisations);
- ‘On Amending the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and the Federal Law on Banks and Banking Activities’ (to specify requirements for credit institution managers and executives, and to grant to the Bank of Russia the right to set business reputation criteria for them);
- ‘On Amending Article 68 of the Federal Law on Joint Stock Companies’ (to specify the decision-making procedure for the board of directors);
- ‘On the Protection of Competition’ (to specify the range of agreements which financial organisations must report to the anti-monopoly authority);
- ‘On Amending Article 446 of the Code of Civil Procedure of the Russian Federation’ (regarding the list of properties that cannot be foreclosed);
- ‘On Amending the Federal Law on Foreign Investments in the Russian Federation’ and ‘On Amending Article 22 of the Federal Law on Banks and Banking Activities’ (to settle the problem of accrediting representative offices of foreign organisations operating in the Russian Federation);
- ‘On Amending Article 14 of the Federal Law on the Enforcement of Section 4 of the Civil Code of the Russian Federation’ (on the brand name of the Savings Bank of the Russian Federation);
- ‘On Amending Article 349 of the Civil Code of the Russian Federation and Article 55 of the Federal Law on Mortgages’ (regarding the fulfilment of a mortgagee’s claims at the expense of mortgaged property without taking the case to court, on the basis of a notarised agreement between the mortgagee and mortgagor);
- ‘On Amending Article 7 of the Federal Law on Banks and Banking Activities’ (regarding regulation of the use by Sberbank of the terms ‘Russian Federation’ and ‘Russia’ in its name);
- ‘On Amending and Invalidating Certain Laws of the Russian Federation and the Supreme Council of the Russian Federation, and on the Non-Use in the Russian Federation of Certain Decrees of the USSR and the Presidium of the Supreme Soviet of the USSR’ (regarding the upgrading of the direct debiting procedure);
- ‘On Amending the Federal Law on Banks and Banking Activities’ (for the purpose of regulating credit institution activities relating to trust management of bank-administered common funds);
- ‘On Amending Certain Laws of the Russian Federation’ (regarding the regulation of financial asset securitisation);
- ‘On the Specifics of Security Provided to Ensure the Fulfilment of Financial Obligations’ (regarding the use of mortgaged property rights (claims), including rights arising from bank account (deposit) agreements, as security for the fulfilment of financial obligations);
- ‘On Clearing, and Clearing Activities’ (a draft law on the regulation of clearing) prepared by the Federal Financial Markets Service;
- ‘On Amending the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions’ (a draft law establishing the liquidation netting procedure);
- ‘On Microfinance Organisations’;
- ‘On Amending Certain Laws for the Purpose of Improving the Procedure for Investing Funds to Finance the Funded Part of the Retirement Pension in the Russian Federation’;
- ‘On Amending Certain Laws Regarding Rehabilitation Procedures Relating to Individual Debtors’;
- ‘On Amending Certain Laws of the Russian Federation for the Purpose of Regulating Shareholders’ Agreements’;
- ‘On Amending the Federal Law on Banks and Banking Activities’ (for the purpose of gradually raising equity capital requirements for credit institutions);
- ‘On Consumer Lending’;
- ‘On Amending Certain Laws of the Russian Federation’ (to revise restrictions imposed on business entities in the course of authorised capital creation, change the requirements for business

- entities in the event of a mismatch between authorised capital and net asset value, and to revise the restrictions on the issue of bonds by business entities);
- ‘On Amending Article 14 of the Federal Law on Banks and Banking Activities’ (regarding the qualification requirements for managers of non-bank credit institutions);
 - ‘On Amending the Civil Code of the Russian Federation, the Federal Law on Joint-Stock Companies, and Certain Other Laws of the Russian Federation’ (regarding the regulation of large-value transactions, related-party transactions, and transactions with affiliated persons);
 - ‘On Amending Article 368 of Section 1 of the Civil Code of the Russian Federation and the Federal Law on Amending the Russian Federation Insurance Law’ (to exclude insurance companies from the list of guarantors that have the right to issue bank guarantees);
 - ‘On Consumer Credit Societies’;
 - ‘On Amending Article 25 and Article 27.2.5 of the Federal Securities Market Law’ (for the purpose of replacing the registration of reports on issues of securities (additional issues) with notification of such issues);
 - ‘On Amending Certain Laws for the Purpose of Improving the Procedure for Striking Non-Operational Legal Entities off the State Register of Legal Entities, and Absent Debtor Bankruptcy Proceedings’;
 - ‘On Amending Article 14.13 of the Code of Administrative Offences of the Russian Federation’ (for the purpose of increasing responsibility for the failure of receivers and heads of provisional administrations of credit institutions to comply with requirements set by the insolvency (bankruptcy) laws);
 - ‘On Amending the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and the Federal Law on Insolvency (Bankruptcy)’ (for the purpose of refining provisions on challenging a debtor’s deals in the course of bankruptcy proceedings, and on vicarious liability of persons who hold or have held the power to issue binding instructions to the debtor);
 - ‘On Amending the Federal Law on the Securities Market’ (for the purpose of obliging nominee shareholders to disclose information to the credit institution on the owners of shares in the credit institution, and the owners of shares in joint-stock companies, through which the real owner of the credit institution indirectly exerts material influence on the decisions taken by the credit institution’s management);
 - ‘On Amending Article 13.1 of the Federal Law on Banks and Banking Activities, ‘On the Receipt of Individual Payments by Paying Agents’, and ‘On Amending Certain Laws of the Russian Federation in Connection with the Adoption of the Federal Law on the Receipt of Individual Payments by Paying Agents’ (for the purpose of regulating the activities of paying agents and bank paying agents);
 - ‘On Amending Article 30 of the Federal Law on Banks and Banking Activities’ (for the purpose of ensuring that individual customers of credit institutions are personally informed of changes in the rates they are charged for operations on their bank accounts);
 - ‘On Building Societies’ (which instituted a new type of specialised bank, the building society, which is not envisaged by the Federal Law on Banks and Banking Activities, and set rules and procedures for their operation);
 - ‘On Amending Article 5 of the Federal Law on Insurance of Household Deposits in Russian Banks’ (which extended the safeguards provided by the household deposit insurance system to the bank accounts of unincorporated individual entrepreneurs);
 - ‘On Amending the Russian Federation Law on the Insurance Industry in the Russian Federation and Certain Other Laws of the Russian Federation’ (which regulated specific bankruptcy proceedings and bankruptcy prevention measures relating to financial organisations);
 - ‘On Amending Article 11 of the Federal Law on Additional Measures to Strengthen Stability of the Banking System in the Period until December 31, 2011’ (which extended part 3 of Article 3 of this Federal Law to the banks with regard to which the Bank of Russia in the period from Septem-

ber 15, 2008, until the entering into force of this Federal Law, had taken measures similar to the bank bankruptcy prevention measures stipulated by Article 2 of this Federal Law).

The Bank of Russia has considered and put forward proposals on the following drafts:

- the concept and specifications of the draft federal law ‘On Making Amendments to Certain Laws of the Russian Federation Aimed at Improving the Quality of Assets of Credit Institutions’;
- the concept of the draft federal law ‘On Amending the Federal Law on the Securities Market’ (regarding prudential supervision of securities market professionals);
- the concept of the federal law ‘On Amending the Federal Law on Insolvency (Bankruptcy) of Credit Institutions’ (regarding the transfer of the debtor credit institution’s property and the transfer of property to creditors as indemnity);
- the concept of the federal law ‘On Amending the Federal Law on Banks and Banking Activities’ (for the purpose of broadening the grounds for access to banking secrets by law enforcement authorities).

IV.3. STATISTICAL TABLES

Table 1

KEY MACROECONOMIC INDICATORS
(in constant prices, as % of previous year)

	2006	2007	2008
Gross domestic product	107.7	108.1	105.6
of which:			
— agriculture, hunting and forestry	103.8	102.6	108.5
— hydrocarbon production and mining	96.7	97.3	100.4
— manufacturing	107.3	108.1	101.2
— production and distribution of electricity, gas and water	105.7	100.4	101.0
— construction	111.8	113.7	113.2
— wholesale and retail trade, and other	114.1	112.5	108.4
— transport and communications	109.7	103.4	107.4
GDP deflator index	115.5	113.9	119.1
Consumer price index (December on previous December)	109.0	111.9	113.3
Fixed capital investment	116.7	122.7	109.8
Retail trade turnover	114.1	116.1	113.5
Unemployment rate according to ILO methodology, as % of economically active population, annual average	7.2	6.1	6.4

Table 2

CONSUMER PRICES BY GROUP OF GOODS AND SERVICES
(growth, December as % of previous December)

	2006	2007	2008
Consumer prices, total	9.0	11.9	13.3
of which:			
— food prices	8.7	15.6	16.5
of which:			
— food prices exclusive of fruit and vegetables	8.5	14.9	17.5
— fruit and vegetable prices	10.3	22.2	7.7
— non-food prices	6.0	6.5	8.0
— paid services provided to the public	13.9	13.3	15.9
Prices of goods and services included in calculation of core consumer price index (CCPI)	7.8	11.0	13.6

Note. Tables 1 and 3 are based on Rosstat data as of April 30, 2009, and Bank of Russia calculations.
Tables 2 and 4 to II are based on Rosstat data as of April 30, 2009.

Table 3

CONSUMER PRICE INFLATION STRUCTURE

	2007		2008	
	growth in percentage points	% contribution to growth	growth in percentage points	% contribution to growth
Headline inflation (December on December)	11.9	100.0	13.3	100.0
Inflation growth due to:				
— change in prices of goods and services included in CCPI calculation	8.7	72.8	10.8	81.5
— change in prices of goods and services not included in CCPI calculation	3.2	27.2	2.5	18.5
of which:				
— change in fruit and vegetable prices	0.9	7.2	0.3	2.2
— change in administered service and fuel prices	2.4	20.1	2.2	16.3

Table 4

GROSS VALUE ADDED STRUCTURE BY ECONOMIC ACTIVITY IN BASIC PRICES (%)

	2006	2007	2008
Gross value added	100.0	100.0	100.0
of which:			
— agriculture, hunting and forestry	4.7	4.6	4.7
— hydrocarbon production and mining	10.7	9.9	9.2
— manufacturing	18.1	18.0	17.4
— production and distribution of electricity, gas and water	3.2	3.1	3.0
— construction	5.2	5.7	6.5
— wholesale and retail trade, and other	20.1	20.1	20.6
— transport and communications	9.7	9.3	9.4
— other activities	28.3	29.3	29.2

Table 5

STRUCTURE OF GDP CALCULATED BY INCOME CONSUMPTION METHOD IN CURRENT MARKET PRICES (%)

	2006	2007	2008
GDP calculated by income consumption method	100.0	100.0	100.0
Expenditure on final consumption	65.8	66.7	65.3
of which:			
— household sector	48.1	48.7	48.1
— government sector	17.1	17.5	16.7
— non-profit organisations providing services to households	0.6	0.5	0.5
Gross capital formation	21.4	24.6	25.5
of which:			
— gross fixed capital formation (including net acquisition of valuables)	18.6	21.4	21.9
— change in inventories	2.9	3.2	3.6
Net exports of goods and services	12.8	8.7	9.2

Table 6

GDP CONSUMPTION ELEMENTS IN CONSTANT PRICES (as % of previous year)

	2006	2007	2008
Gross Domestic Product	107.7	108.1	105.6
of which:			
— expenditure on final consumption	109.0	110.9	108.9
— by household sector	111.4	113.7	111.3
— by government sector	102.4	103.4	102.5
— by non-profit organisations providing services to households	98.2	102.4	98.6
— gross capital formation (including net acquisition of valuables)	118.6	121.0	111.1
— net exports of goods and services	85.3	72.9	64.0

Table 7

GDP FORMATION STRUCTURE BY SOURCE OF INCOME IN CURRENT MARKET PRICES (%)

	2006	2007	2008
Gross Domestic Product	100.0	100.0	100.0
of which:			
— compensation paid to hired workers (including unreported earnings)	44.5	46.2	45.6
— net taxes on production and imports	20.0	18.8	20.2
— gross profit of the economy and gross mixed income	35.5	35.0	34.2

Table 8

BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENSES (million roubles)

	2007	2008	2008 as % of 2007
Money income	21,311,451.9	25,561,221.4	119.9
Wages and salaries	14,381,864.1	17,523,835.9	121.8
% share	67.5	68.6	
Social allowances	2,477,673.8	3,283,686.0	132.5
% share	11.6	12.8	
Income from entrepreneurial activities	2,133,848.4	2,547,575.0	119.4
% share	10.0	10.0	
Income from property	1,892,609.2	1,693,835.5	89.5
% share	8.9	6.6	
Other income	425,456.4	512,289.0	120.4
% share	2.0	2.0	
Money expenses	17,335,322.6	22,029,786.7	127.1
— consumer expenses	14,831,380.6	18,697,991.7	126.1
— compulsory payments and contributions	2,503,942.0	3,331,795.0	133.1
Growth in savings and cash on hand, purchase of foreign currency	3,976,129.3	3,531,434.7	88.8
— savings ¹	2,051,873.4	1,485,701.2	72.4
of which:			
— deposits and securities	1,396,850.1	-863.9	-0.1
— foreign currency purchase	1,105,262.7	2,004,225.7	181.3
— cash on hand	818,993.2	41,507.9	5.1
For the record:			
% share of money income			
— consumer expenses	69.6	73.2	
— compulsory payments and contributions	11.8	13.0	
— savings	9.6	5.8	
of which:			
— deposits and securities	6.6	0.0	
— foreign currency purchase	5.2	7.8	
— cash on hand	3.8	0.2	
Disposable money income	19,266,581.2	22,617,584.3	117.4
% share of			
— consumer expenses	77.0	82.7	
— savings	10.6	6.6	
of which:			
— deposits and securities	7.3	0.0	
— foreign currency purchase	5.7	8.8	
— cash on hand	4.3	0.2	
— remittances	2.4	1.7	

¹ Savings include increase (decrease) in deposits, purchase of securities, change in accounts of individual entrepreneurs, change in debt on loans and purchase of real estate.

Table 9

DIFFERENTIATION OF POPULATION BY INCOME

	2006	2007	2008
Funds ratio, times ¹	16.0	16.8	16.9
Gini coefficient, units ²	0.416	0.423	0.424

¹ The funds ratio is the ratio between the average income of the highest-income 10% of the population and the lowest-income 10% of the population.

² The Gini coefficient (income concentration index) shows the extent to which the actual distribution of household income deviates from the even distribution line. When income is distributed evenly, 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 2008 (as % of 2007)

	Net financial result	Working assets			Payables		Receivables	
		total	of which:		total	of which overdue	total	of which overdue
			short-term financial investments	cash				
Total	69.2	131.5	155.0	136.1	125.3	119.5	124.6	118.5
Agriculture, hunting and forestry	94.2	132.3	136.3	107.2	114.8	70.5	118.0	84.0
Hydrocarbon production and mining	97.9	133.8	186.2	129.5	124.0	130.7	110.6	129.5
of which:								
— fuel and energy production	94.5	131.0	191.8	145.3	121.4	131.0	107.5	127.0
Manufacturing	91.5	136.2	194.9	149.4	116.9	139.6	124.2	144.2
Production and distribution of electricity, gas and water	87.3	180.4	166.9	108.4	123.8	106.2	155.1	110.8
Construction	123.3	148.2	161.6	121.6	147.6	120.9	139.2	129.0
Wholesale and retail trade, and other	57.3	121.5	99.2	132.8	113.5	110.5	116.8	89.2
Transport and communications	87.3	108.8	286.3	133.1	124.9	97.2	120.0	105.6

Table 11

**PAYMENTS FOR PRODUCE SHIPPED (WORK PERFORMED AND SERVICES PROVIDED)
BY MAJOR TAXPAYERS AND INDUSTRIAL MONOPOLIES**

	2008		as % of 2007
	billion roubles	structure of payments, %	
Value of produce shipped	19,945.0		120.4
of which:			
— paid-for produce	18,620.6	100.0	121.8
of which produce paid for with:			
— money	18,435.7	99.0	122.1
— promissory notes	24.2	0.1	137.6
— transfer of claims on pecuniary obligations	7.3	0.0	137.3
— netting of claims	124.8	0.7	91.3
— barter arrangements	3.1	0.0	86.1
— other kinds of settlement	25.5	0.2	128.7

Table 12

RUSSIA'S MERCHANDISE TRADE
(according to balance of payments methodology)

	Billion US dollars							As % of previous year						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
All countries														
Turnover	168.3	212.0	280.6	369.2	467.8	577.9	763.5	108.1	126.0	132.4	131.6	126.7	123.5	132.1
Exports	107.3	135.9	183.2	243.8	303.6	354.4	471.6	105.3	126.7	134.8	133.1	124.5	116.8	133.1
Imports	61.0	76.1	97.4	125.4	164.3	223.5	291.9	113.4	124.8	128.0	128.8	131.0	136.0	130.6
Balance	46.3	59.9	85.8	118.4	139.3	130.9	179.7	96.3	129.2	143.4	137.9	117.7	94.0	137.3
Non-CIS countries														
Turnover	139.7	175.6	230.5	313.8	400.4	492.3	653.4	109.7	125.6	131.3	136.1	127.6	122.9	132.7
Exports	90.9	114.6	153.0	210.2	260.2	300.6	400.5	105.0	126.0	133.5	137.4	123.7	115.5	133.2
Imports	48.8	61.0	77.5	103.5	140.2	191.7	252.9	119.9	124.9	127.0	133.6	135.4	136.7	131.9
Balance	42.1	53.6	75.5	106.7	119.9	108.9	147.5	91.8	127.2	140.9	141.3	112.4	90.8	135.5
CIS countries														
Turnover	28.5	36.4	50.1	55.4	67.4	85.6	110.1	100.8	127.7	137.5	110.7	121.6	127.0	128.6
Exports	16.4	21.4	30.2	33.5	43.4	53.8	71.1	107.2	130.4	141.4	111.1	129.3	124.1	132.2
Imports	12.2	15.1	19.9	21.9	24.0	31.8	39.0	93.2	124.1	131.9	110.1	109.8	132.2	122.5
Balance	4.2	6.3	10.3	11.7	19.3	22.0	32.2	189.5	148.7	164.2	113.0	166.0	114.0	146.0

Note. Total exports for 2003 in Tables 12, 13 and 15 include the value of crude oil exported in 2003 and customs cleared in January 2004.

Table 13

COMMODITY STRUCTURE OF RUSSIAN EXPORTS
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Total	100	100	100	100	100	100	100	107	126	135	133	125	117	133
Mineral products	55.2	57.6	57.8	64.8	65.9	64.9	69.7	108	132	136	149	127	115	143
of which:														
— fuel and energy products	54.6	57.0	57.2	64.0	65.4	64.2	68.6	108	132	135	149	127	115	142
of which:														
— oil	27.3	29.5	32.5	34.6	34.0	34.5	34.4	116	136	149	141	123	119	133
— natural gas	14.9	14.9	12.0	13.0	14.5	12.7	14.8	89	126	109	144	140	102	154
Metals, metal products	14.1	13.8	16.7	14.0	13.7	14.0	11.7	103	123	164	111	122	119	111
Chemicals, rubber	9.4	8.9	7.7	5.6	5.6	5.9	6.5	96	119	117	96	117	124	145
Machinery, equipment, transport vehicles	6.9	6.8	6.6	5.9	5.8	5.5	4.9	99	124	131	120	129	113	117
Timber and pulp-and-paper products	4.6	4.2	3.9	3.4	3.2	3.5	2.5	111	114	126	118	115	129	94
Foodstuffs, agricultural raw materials (except textiles)	2.6	2.5	1.8	1.9	1.8	2.6	2.0	148	122	96	137	122	165	103
Gemstones, precious metals and articles made from them	4.5	3.9	3.5	2.8	2.6	1.9	1.6	116	109	122	107	114	88	108
Textiles, textile products, footwear	0.8	0.7	0.6	0.4	0.3	0.3	0.2	111	107	118	86	100	98	93
Leather, furs and articles made from them	0.3	0.2	0.2	0.1	0.1	0.1	0.1	117	124	107	93	111	92	105
Other goods	1.6	1.4	1.2	1.1	1.0	1.3	0.8	129	117	113	117	125	141	100
For the record:														
Total exports, billion US dollars (Source: Federal Customs Service)	106.7	134.5	181.7	241.5	301.2	351.9	468.0							

Table 14

COMMODITY STRUCTURE OF RUSSIAN IMPORTS
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Total	100	100	100	100	100	100	100	110	124	132	131	140	145	134
Machinery, equipment, transport vehicles	36.3	37.4	41.1	44.0	47.7	50.9	52.7	118	128	145	140	151	155	138
Foodstuffs and agricultural raw materials, except textiles	22.5	21.0	18.3	17.7	15.7	13.8	13.2	113	116	115	126	124	128	127
Chemicals, rubber	16.7	16.8	15.8	16.5	15.8	13.8	13.1	101	124	124	136	134	126	127
Metals, metal products	6.3	7.2	7.7	7.5	7.5	7.9	6.9	97	141	141	127	140	153	117
Textiles, textile products, footwear	5.3	4.8	4.3	3.7	4.0	4.3	4.4	106	114	118	111	152	157	135
Mineral products	3.7	3.8	4.0	3.1	2.4	2.3	3.1	101	125	142	99	109	142	177
of which:														
— fuel and energy products	2.2	2.3	2.2	1.6	1.4	1.2	1.5	100	129	126	97	115	134	166
Timber and pulp-and-paper products	4.2	4.2	3.8	3.3	2.9	2.7	2.4	114	125	119	114	121	134	122
Leather, fur and articles made from them	0.4	0.4	0.3	0.3	0.3	0.4	0.4	94	110	109	112	157	161	149
Gemstones, precious metals and articles made from them	0.1	0.1	0.2	0.3	0.2	0.3	0.3	143	173	252	150	119	173	134
Other goods	4.5	4.3	4.5	3.6	3.5	3.6	3.5	111	122	130	114	131	148	129
For the record:														
Total imports, billion US dollars (Source: Federal Customs Service)	46.2	57.3	75.6	98.7	137.8	199.8	267.1							

Table 15

RUSSIA'S EXPORTS TO MAJOR TRADING PARTNERS
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Total	100	100	100	100	100	100	100	107	126	135	133	125	117	133
of which:														
CIS countries	14.7	15.3	16.2	13.5	14.0	15.0	14.9	107	131	143	111	130	124	133
of which:														
EurAsEC countries	8.0	8.3	9.0	7.1	8.0	9.2	8.8	102	132	146	106	139	134	127
Other countries	6.7	7.0	7.2	6.4	6.0	5.8	6.1	114	130	140	117	119	112	141
Non-CIS countries	85.3	84.7	83.8	86.5	86.0	85.0	85.1	106	125	133	138	124	116	133
of which:														
EU countries	35.4	35.3	46.0	55.3	56.6	55.7	56.7	103	126	176	160	128	115	136
APEC countries	15.3	14.4	14.8	12.4	11.8	12.2	13.0	108	119	139	111	119	121	141
Other countries	34.6	35.0	23.0	18.8	17.6	17.1	15.4	110	128	88	110	116	115	119
For the record:														
OECD countries	57.6	56.6	58.3	64.6	66.6	65.5	66.8	105	124	139	147	128	115	136

Note. In Tables 15, 16, 17 and 31, the EU is represented from May 2004 by 25 member states and from January 2007 by 27 member states; EurAsEC includes the Republic of Uzbekistan since 2006.

End

	Structure, %							Growth rates as % of previous year						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Major trading partners														
Netherlands	7.0	6.6	8.4	10.2	11.9	12.2	12.2	158	119	173	161	146	119	133
Italy	7.0	6.5	6.7	7.9	8.3	7.8	9.0	101	117	139	158	132	110	152
Germany	7.6	7.8	7.3	8.2	8.1	7.5	7.1	88	130	127	148	124	108	126
Turkey	3.2	3.6	4.1	4.5	4.7	5.3	5.9	103	145	153	146	132	130	150
Belarus	5.5	5.6	6.2	4.2	4.3	4.9	5.0	110	129	148	90	129	131	137
Ukraine	5.5	5.7	5.9	5.1	5.0	4.7	5.0	111	130	141	115	121	110	143
China	6.4	6.2	5.6	5.4	5.2	4.5	4.5	122	122	122	129	121	101	133
Poland	3.5	3.4	3.1	3.6	3.8	3.8	4.3	89	124	123	151	133	116	152
Finland	2.8	3.2	3.2	3.2	3.1	3.1	3.4	94	148	134	131	120	117	147
UK	3.6	3.7	3.1	3.5	3.5	3.1	3.2	89	130	114	149	123	106	135
USA	3.7	3.1	3.6	2.6	2.9	2.4	2.9	95	106	157	96	137	96	162
Kazakhstan	2.3	2.4	2.6	2.7	3.0	3.4	2.9	86	137	142	140	137	133	112
France	2.5	2.6	2.4	2.5	2.5	2.5	2.6	118	132	126	138	125	113	140
Japan	1.7	1.8	1.9	1.5	1.5	2.2	2.2	74	135	140	110	120	171	136
Switzerland	5.0	4.3	4.2	4.5	4.0	3.8	2.1	232	109	132	140	113	111	73
South Korea	1.2	1.0	1.1	1.0	0.9	1.8	1.7	115	104	148	120	116	226	126
For the record:														
Total exports, billion US dollars (Source: Federal Customs Service)	106.7	134.5	181.7	241.5	301.2	351.9	468.0							

Table 16

RUSSIA'S IMPORTS FROM MAJOR TRADING PARTNERS
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Total	100	100	100	100	100	100	100	110	124	132	131	140	145	134
of which:														
CIS countries	22.0	22.9	23.5	19.2	16.2	15.0	13.7	91	129	135	107	118	134	123
of which:														
EurAsEC countries	13.2	13.1	13.4	9.3	8.9	7.7	7.1	98	124	135	90	134	125	123
Other countries	8.8	9.8	10.1	9.9	7.3	7.3	6.6	81	137	135	130	103	143	122
Non-CIS countries	78.0	77.1	76.5	80.8	83.8	85.0	86.3	117	123	131	138	145	147	136
of which:														
EU countries	39.7	38.7	43.0	44.2	44.0	43.7	43.7	119	121	146	134	139	144	134
APEC countries	19.1	19.8	21.5	25.6	28.5	31.9	33.3	113	129	144	155	156	162	140
Other countries	19.2	18.6	12.0	11.0	11.3	9.4	9.3	119	120	85	118	144	123	130
For the record:														
OECD countries	59.5	58.7	59.0	61.3	62.6	61.9	62.6	116	123	132	136	142	143	135

End

	Structure, %							Growth rates as % of previous year						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Major trading partners														
China	5.2	5.8	6.3	7.4	9.4	12.2	13.0	146	138	143	153	178	189	142
Germany	14.3	14.1	14.0	13.4	13.4	13.3	12.8	114	123	130	126	139	144	128
Japan	2.1	3.3	5.2	5.9	5.6	6.4	7.0	113	192	209	148	134	163	146
Ukraine	7.0	7.7	8.1	7.9	6.7	6.7	6.1	84	137	137	128	118	144	122
USA	6.5	5.2	4.2	4.6	4.6	4.7	5.2	92	99	108	143	140	148	145
Italy	4.8	4.2	4.2	4.5	4.2	4.3	4.1	130	108	133	138	130	149	129
Belarus	8.6	8.5	8.6	5.8	5.0	4.4	4.0	101	122	133	88	120	130	119
South Korea	2.0	2.3	2.7	4.1	4.9	4.4	3.9	128	143	152	198	169	130	119
France	4.1	4.1	4.1	3.7	4.3	3.9	3.8	123	124	131	120	160	132	130
UK	2.4	2.5	2.7	2.8	2.7	2.8	2.9	112	129	143	135	132	154	135
Poland	2.8	3.0	3.1	2.8	2.5	2.3	2.6	135	132	135	119	124	136	152
Finland	3.3	3.2	3.1	3.1	2.9	2.5	2.5	118	122	126	133	129	126	132
Kazakhstan	4.2	4.3	4.6	3.3	2.8	2.3	2.4	96	127	139	94	119	120	138
Turkey	1.6	1.6	1.6	1.8	2.0	2.1	2.3	140	127	133	141	159	152	147
Netherlands	2.3	2.2	1.8	2.0	1.9	1.9	1.8	125	119	109	141	138	144	125
Switzerland	0.9	0.9	0.9	0.9	0.9	0.9	0.9	107	127	122	135	148	135	136
For the record:														
Total imports, billion US dollars (Source: Federal Customs Service)	46.2	57.3	75.6	98.7	137.8	199.8	267.1							

Table 17

RUSSIA'S EXTERNAL TRADE IN SERVICES BY GROUP OF COUNTRIES (million US dollars)

	Turnover			Exports			Imports			Balance		
	2007	2008	rate of growth, %	2007	2008	rate of growth, %	2007	2008	rate of growth, %	2007	2008	rate of growth, %
Total	98,477	127,655	130	39,416	51,306	130	59,061	76,349	129	-19,645	-25,043	127
of which:												
CIS countries	14,261	18,670	131	8,119	11,233	138	6,142	7,437	121	1,978	3,796	192
of which:												
EurAsEC countries	6,319	8,382	133	4,223	5,754	136	2,096	2,628	125	2,127	3,126	147
Other countries	5,963	8,426	141	2,793	4,774	171	3,170	3,652	115	-377	1,122	x
Services not allocated by country	1,979	1,861	94	1,103	705	64	876	1,156	132	227	-451	x
Non-CIS countries	84,217	108,985	129	31,297	40,073	128	52,920	68,912	130	-21,623	-28,839	133
of which:												
EU countries	41,629	53,417	128	15,865	20,674	130	25,764	32,744	127	-9,899	-12,070	122
APEC countries	12,481	15,009	120	6,319	7,101	112	6,162	7,908	128	157	-807	x
Other countries	20,414	26,267	129	7,125	9,559	134	13,289	16,708	126	-6,164	-7,149	116
Services not allocated by country	9,692	14,291	147	1,988	2,739	138	7,704	11,552	150	-5,717	-8,813	154
For the record:												
OECD countries	53,845	67,769	126	20,753	25,780	124	33,092	41,989	127	-12,339	-16,209	131

Table 18

STRUCTURE OF BANK OF RUSSIA CUSTOMERS OTHER THAN CREDIT INSTITUTIONS AND NUMBER OF ACCOUNTS OPENED FOR THEM (thousands)

	Number of customers			Number of accounts		
	as of 1.01.2008	as of 1.01.2009	change over 2008	as of 1.01.2008	as of 1.01.2009	change over 2008
Total	29.3	20.5	-8.8	79.9	72.7	-7.2
Federal Treasury	1.0	0.8	-0.2	37.1	40.3	3.2
Regional and local budget management bodies	2.2	1.5	-0.7	6.0	4.8	-1.2
Organisations financed from budgets of all levels	20.5	14.3	-6.2	28.5	21.4	-7.1
Government and other extra-budgetary funds	1.8	1.7	-0.1	3.4	3.2	-0.2
Other organisations	3.8	2.2	-1.6	4.9	3.0	-1.9

Table 19

RUSSIA'S DOMESTIC GOVERNMENT DEBT AS OF JANUARY 1, 2009 (at nominal value, billion roubles)

Debt instruments	Total within domestic government debt	Of these, traded on organised securities market
Debt depreciation federal loan bonds (OFZ-AD)	882.0	782.0
Permanent coupon-income federal loan bonds (OFZ-PD)	328.2	328.2
Fixed coupon-income federal loan bonds (OFZ-FD)	33.8	33.8
Other debt recognised as part of domestic government debt	255.8	—
Total	1,499.8	1,144.0

Table 20

FINANCE MINISTRY DEBT TO THE BANK OF RUSSIA AS OF JANUARY 1, 2009 (million roubles)¹

	At nominal value
Russian government debt obligations	433,680
of which:	
— OFZ-AD and OFZ-PD received as a result of the restructuring of Bank of Russia-owned OFZ-PK, OFZ-PD and OFZ-AD and acquired by the Bank of Russia	295,718
— other debt obligations	137,962

¹ Exclusive of repo transactions.

Table 21

**VOLUME (TURNOVER) OF RESIDENT OPERATIONS WITH NON-RESIDENTS TO BUY AND SELL
RUSSIAN GOVERNMENT OUTSTANDING FOREIGN CURRENCY DEBT OBLIGATIONS ON SECONDARY MARKET
(at market prices, billion US dollars)**

	Q1	Q2	Q3	Q4	2008
Eurobonds placed by open subscription	0.99	0.68	0.94	1.01	3.62
Eurobonds issued in the course of restructuring GKO	0.28	0.21	0.62	0.44	1.55
Eurobonds issued in the course of restructuring debt to London Club of commercial bank creditors	12.55	4.41	2.94	6.89	26.8
OVG VZ	0.36	0.13	0.13	0.52	1.14

Table 22

INSTITUTIONALISED FINANCIAL INTERMEDIARIES

	1.01.2009	For the record: 1.01.2008
Credit institutions		
Operating credit institutions, total	1,108	1,136
of which:		
— banks	1,058	1,092
— non-bank credit institutions	50	44
Operating credit institutions with foreign stakes in authorised capital	221	202
Branches of credit institutions operating in Russia	3,470	3,455
Representative offices of operating Russian credit institutions	721	804
Insurance companies¹		
Registered insurance companies	786	857
Unit investment funds²		
Unit investment funds, total	1,134	1,024
of which:		
— open-end	488	479
— interval	99	101
— closed-end	547	444
Non-governmental pension funds³		
Operating non-governmental pension funds	243 ⁴	252

¹ Source: Federal Insurance Supervision Service.

² Source: News agency Cbonds.ru.

³ Source: Federal Financial Markets Service.

⁴ As of October 1, 2008.

Table 23

RUSSIA'S BALANCE OF PAYMENTS (analytical presentation, million US dollars)

	Q1	Q2	Q3	Q4	2008	For the record: 2007
Current account	38,000	26,187	29,549	8,595	102,331	77,012
Goods	49,913	51,227	53,869	24,733	179,742	130,915
<i>Export</i>	<i>110,129</i>	<i>126,669</i>	<i>136,771</i>	<i>98,035</i>	<i>471,603</i>	<i>354,401</i>
oil	38,623	47,079	47,730	27,715	161,147	121,503
oil products	17,629	20,737	26,206	15,314	79,886	52,228
natural gas	17,948	17,233	16,169	17,756	69,107	44,837
other	35,929	41,620	46,665	37,250	161,464	135,833
<i>Import</i>	<i>-60,216</i>	<i>-75,442</i>	<i>-82,902</i>	<i>-73,302</i>	<i>-291,861</i>	<i>-223,486</i>
Services	-4,596	-6,330	-8,603	-5,515	-25,043	-19,645
<i>Export</i>	<i>10,292</i>	<i>13,397</i>	<i>14,784</i>	<i>12,833</i>	<i>51,306</i>	<i>39,416</i>
transportation	3,163	3,860	4,259	3,743	15,024	11,829
travel	2,203	3,311	4,076	2,353	11,944	9,607
other services	4,927	6,225	6,449	6,737	24,338	17,980
<i>Import</i>	<i>-14,888</i>	<i>-19,726</i>	<i>-23,386</i>	<i>-18,348</i>	<i>-76,349</i>	<i>-59,061</i>
transportation	-2,523	-3,345	-3,709	-3,376	-12,953	-9,348
travel	-4,780	-6,318	-8,529	-5,264	-24,890	-22,133
other services	-7,585	-10,064	-11,149	-9,708	-38,506	-27,581
Compensation of employees	-2,777	-3,887	-4,490	-3,025	-14,179	-7,318
Investment income	-3,772	-14,751	-10,208	-6,363	-35,094	-23,434
Receivable	14,757	15,677	13,941	9,241	53,616	44,784
Payable	-18,529	-30,428	-24,148	-15,604	-88,710	-68,218
<i>General government</i>	<i>307</i>	<i>-317</i>	<i>-351</i>	<i>-335</i>	<i>-695</i>	<i>-1,005</i>
Receivable	821	192	109	119	1,241	1,383
Payable	-514	-508	-459	-454	-1,936	-2,389
<i>Regional and local governments (payable)</i>	<i>-10</i>	<i>-11</i>	<i>-12</i>	<i>-67</i>	<i>-100</i>	<i>-105</i>
<i>Monetary authorities</i>	<i>4,786</i>	<i>4,732</i>	<i>5,003</i>	<i>3,625</i>	<i>18,146</i>	<i>17,183</i>
Receivable	4,816	4,740	5,019	3,643	18,217	17,183
Payable	-30	-8	-16	-18	-71	0

Cont.

	Q1	Q2	Q3	Q4	2008	For the record: 2007
<i>Banks</i>	-1,916	-1,737	-1,616	-1,602	-6,871	-5,147
Receivable	1,559	1,683	2,174	2,091	7,508	4,716
Payable	-3,475	-3,420	-3,790	-3,693	-14,379	-9,863
<i>Other sectors</i>	-6,939	-17,418	-13,233	-7,983	-45,574	-34,359
Receivable	7,561	9,062	6,639	3,388	26,650	21,502
Payable	-14,500	-26,481	-19,871	-11,372	-72,223	-55,861
Current transfers	-769	-73	-1,020	-1,235	-3,096	-3,506
Capital and financial account	-25,736	34,102	-10,226	-136,898	-138,758	85,692
Capital account	-55	227	159	164	496	-10,224
Financial account (excluding reserve assets)	-25,682	33,875	-10,385	-137,062	-139,254	95,916
Liabilities ('+' — increase, '-' — decrease)	22,348	69,739	40,890	-37,735	95,243	208,818
<i>General government</i>	-1,366	-1,664	-2,420	-2,639	-8,088	-7,499
Portfolio investment	-843	-1,168	-2,139	-2,356	-6,505	-3,863
issue	4	0	0	0	4	2
redemption	-1,083	-2,255	-1,038	-85	-4,462	-4,603
principal	-346	-2,059	-318	0	-2,722	-2,837
coupons	-737	-197	-721	-85	-1,740	-1,766
income reinvestment	411	401	397	343	1,552	1,907
secondary market	-175	687	-1,497	-2,613	-3,599	-1,169
Loans	-532	-495	-284	-342	-1,653	-2,882
Arrears	5	8	0	68	80	-763
Other liabilities	4	-9	3	-9	-11	9
<i>Local government</i>	41	-112	81	-64	-54	-133
<i>Monetary authorities</i>	-5,056	7	6,406	-6,136	-4,779	882
<i>Banks</i>	4,410	22,249	10,136	-28,627	8,168	70,910
Direct investment	2,061	2,290	2,896	2,828	10,075	7,221
Loans and deposits	4,127	21,517	10,380	-24,595	11,428	50,959
Other liabilities	-1,778	-1,558	-3,140	-6,860	-13,336	12,731

End

	Q1	Q2	Q3	Q4	2008	For the record: 2007
<i>Other sectors</i>	24,319	49,259	26,687	-269	99,996	144,657
Direct investment	18,476	20,389	13,903	7,477	60,245	47,853
Portfolio investment	-2,824	6,586	-6,930	-12,116	-15,285	6,498
Loans	8,794	22,532	19,610	2,658	53,595	90,800
Other liabilities	-127	-249	104	1,712	1,441	-494
Assets, excluding reserve assets ('+' — decrease, '-' — increase)	-48,029	-35,864	-51,275	-99,328	-234,497	-112,902
<i>General government</i>	-1,152	-793	167	-700	-2,477	7,224
Loans	91	163	0	-1,036	-782	-1,594
Arrears	-799	-182	-71	-84	-1,136	8,779
Other assets	-443	-773	238	420	-558	39
<i>Monetary authorities</i>	-12	-63	43	-46	-79	-467
<i>Banks</i>	-14,338	-179	-23,642	-27,653	-65,813	-25,122
Direct investment	-368	-610	-678	-180	-1,836	-687
Loans and deposits	-15,123	1,692	-23,979	-22,793	-60,203	-21,913
Other assets	1,152	-1,261	1,015	-4,680	-3,774	-2,522
<i>Other sectors</i>	-32,528	-34,830	-27,843	-70,928	-166,128	-94,537
Direct and portfolio investment	-16,275	-16,051	-10,709	-9,732	-52,767	-50,688
Cash foreign currency	-2,237	3,189	969	-26,961	-25,040	15,590
Trade credits and advances extended	1,267	-1,594	788	-8,602	-8,141	-904
Indebtedness on supplies according to intergovernmental agreements	-326	-233	259	318	18	-282
Non-repatriation of export proceeds, non-supply of goods and services against import contracts, remittances against fictitious transactions in securities	-9,323	-11,783	-10,044	-7,611	-38,760	-34,497
Other assets	-5,633	-8,359	-9,107	-18,341	-41,439	-23,756
Net errors and omissions	-5,819	3,951	-4,279	-2,766	-8,912	-13,776
Change in foreign currency reserve assets ('+' — decrease, '-' — increase)	-6,445	-64,240	-15,044	131,069	45,340	-148,928

Note. Other sectors are non-financial corporations, financial corporations except credit institutions, non-profit organisations providing services to households, and households.

Table 24

PRIVATE SECTOR NET CAPITAL INFLOW (OUTFLOW) (according to balance of payments data, billion US dollars)

	Private sector net capital inflow (outflow), total	Banking sector net capital inflow (outflow)	of which:		Other sectors' net capital inflow (outflow)	of which:		balance of payments net errors and omissions ²
			foreign assets	foreign liabilities		foreign assets ¹	foreign liabilities	
2001	-15.0	1.3	-1.4	2.7	-16.2	-10.4	3.7	-9.5
2002	-8.1	2.5	-1.1	3.6	-10.6	-18.9	14.3	-6.1
2003	-1.9	10.3	-1.0	11.3	-12.2	-25.1	22.1	-9.2
2004	-8.9	3.5	-3.6	7.1	-12.4	-38.3	31.8	-5.9
2005	-0.1	5.9	-13.4	19.2	-6.0	-50.6	52.5	-7.9
2006	41.4	27.5	-23.6	51.2	13.9	-47.8	52.2	9.5
2007	82.4	45.8	-25.1	70.9	36.6	-94.3	144.7	-13.8
Q1	13.8	0.1	-14.9	14.9	13.8	-11.6	29.5	-4.1
Q2	54.3	36.9	13.8	23.1	17.4	-33.1	48.0	2.6
Q3	-7.2	-3.5	-20.5	17.0	-3.7	-21.7	22.1	-4.1
Q4	21.5	12.3	-3.5	15.9	9.1	-27.8	45.1	-8.2
2008	-132.7	-57.6	-65.8	8.2	-75.1	-166.1	100.0	-8.9
Q1	-23.6	-9.9	-14.3	4.4	-13.7	-32.2	24.3	-5.8
Q2	40.7	22.1	-0.2	22.2	18.6	-34.6	49.3	4.0
Q3	-19.2	-13.5	-23.6	10.1	-5.7	-28.1	26.7	-4.3
Q4	-130.6	-56.3	-27.7	-28.6	-74.3	-71.2	-0.3	-2.8

¹ Excluding debt on commodity deliveries under intergovernmental agreements.

² Net errors and omissions fully apply to other sectors' operations. This means that accounting for financial operations conducted by these sectors poses the greatest difficulty in compiling the balance of payments.

Note. '−' signifies capital outflow, '+' signifies capital inflow.

Table 25

CROSS-BORDER TRANSACTIONS OF INDIVIDUALS (Residents and Non-Residents)¹

	Q1	Q2	Q3	Q4	2007	Q1	Q2	Q3	Q4	2008
Total, million US dollars										
Money transfers from individuals in the Russian Federation	5,946	5,844	8,733	9,284	29,807	7,992	10,600	11,084	11,389	41,066
to non-CIS countries	4,522	3,765	5,729	6,117	20,133	5,646	7,179	6,386	7,900	27,111
to CIS countries	1,424	2,079	3,005	3,167	9,675	2,346	3,421	4,699	3,489	13,955
Money transfers in favour of individuals to the Russian Federation	2,294	2,613	2,711	2,613	10,231	2,340	3,125	2,925	2,422	10,813
from non-CIS countries	1,947	2,176	2,164	2,088	8,376	1,918	2,628	2,372	1,917	8,834
from CIS countries	347	437	547	525	1,856	423	497	554	505	1,979
Balance²	-3,652	-3,231	-6,022	-6,672	-19,576	-5,652	-7,475	-8,159	-8,967	-30,253
with non-CIS countries	-2,575	-1,588	-3,564	-4,029	-11,757	-3,729	-4,551	-4,014	-5,983	-18,277
with CIS countries	-1,077	-1,642	-2,458	-2,642	-7,819	-1,923	-2,924	-4,145	-2,984	-11,976
Average transaction, US dollars										
Money transfers from individuals in the Russian Federation	1,908	1,431	1,779	1,795	1,725	1,797	1,924	1,705	1,985	1,850
to non-CIS countries	11,175	8,010	11,119	9,872	10,019	10,226	11,420	9,745	11,903	10,846
to CIS countries	525	575	684	696	634	602	701	804	688	709
Money transfers in favour of individuals to the Russian Federation	2,501	2,399	2,933	2,377	2,539	2,467	3,097	2,505	2,365	2,606
from non-CIS countries	3,601	3,103	3,971	3,308	3,463	3,658	4,925	3,149	3,631	3,777
from CIS countries	922	1,126	1,442	1,121	1,151	995	1,046	1,335	1,018	1,093

¹ Money transfers to Russia in favour of resident and non-resident individuals and money transfers from Russia of resident and non-resident individuals made via credit institutions (with/without opening an account) including remittances via money transfer operators and the Russian Postal Service.

² Negative balance reflects the excess of the amount of remittances from the Russian Federation over the amount of remittances to the Russian Federation.

Table 26

CROSS-BORDER REMITTANCES VIA MONEY TRANSFER OPERATORS¹ AND RUSSIA'S POSTAL SERVICE

	Q1	Q2	Q3	Q4	2007	Q1	Q2	Q3	Q4	2008
Total, million US dollars										
Remittances from Russia	1,372	2,005	2,939	3,127	9,444	2,336	3,344	4,567	3,460	13,707
to non-CIS countries	172	182	230	285	868	248	278	287	285	1,098
to CIS countries	1,201	1,824	2,709	2,842	8,575	2,088	3,066	4,280	3,174	12,609
Remittances to Russia	342	400	451	489	1,681	440	513	522	502	1,977
from non-CIS countries	180	202	210	220	813	195	210	204	186	796
from CIS countries	162	197	241	268	868	245	304	317	315	1,182
Balance²	-1,030	-1,606	-2,488	-2,639	-7,763	-1,896	-2,831	-4,045	-2,958	-11,729
with non-CIS countries	8	21	-20	-65	-55	-53	-68	-82	-99	-302
with CIS countries	-1,039	-1,626	-2,469	-2,574	-7,707	-1,843	-2,763	-3,963	-2,859	-11,427
Average remittance, US dollars										
Remittances from Russia	512	561	674	687	623	601	688	786	680	698
to non-CIS countries	1,315	1,304	1,448	1,512	1,407	1,471	1,522	1,511	1,475	1,495
to CIS countries	471	531	644	652	589	561	656	761	649	667
Remittances to Russia	488	562	661	603	579	609	671	771	644	671
from non-CIS countries	519	580	638	597	583	608	666	713	608	647
from CIS countries	458	545	682	607	575	610	674	813	668	689

¹ Anelik, BLIZKO, Coinstar Money Transfer, Contact, InterExpress, Migom, MoneyGram, PrivatMoney, UNISStream, Western Union, AsiaExpress, ALLUR, Blitz, Bystraya Pochta, Guta Sprint, Zolotaya Korona, and LIDER.

² Negative balance reflects the excess of the amount of remittances from the Russian Federation over the amount of remittances to the Russian Federation.

Table 27

FUNCTIONAL STRUCTURE OF FOREIGN INVESTMENT IN RUSSIA
(billion US dollars)¹

Type of investment	Q1	Q2	Q3	Q4	2008	For the record: 2007
Direct	20.5	22.7	16.8	10.3	70.3	55.1
Portfolio	-4.5	5.2	-10.7	-16.1	-26.1	16.9
Financial derivatives	-1.9	-1.4	-2.3	-4.8	-10.5	-2.4
Other	8.2	43.3	37.2	-27.1	61.6	140.1
Total	22.3	69.7	40.9	-37.7	95.2	209.6

¹ Net growth in liabilities to non-residents according to balance of payments data. Exclusive of operations related to debt restructuring and remission.

Note. '-' signifies decrease in residents' foreign liabilities. Minor discrepancies between the total and the sum of items are due to the rounding of data.

Table 28

FUNCTIONAL STRUCTURE OF RESIDENT INVESTMENT IN FOREIGN ASSETS (except reserves)
(billion US dollars)¹

Type of investment	Q1	Q2	Q3	Q4	2008	For the record: 2007
Direct	15.8	16.3	11.2	9.1	52.4	45.9
Portfolio	0.5	1.9	0.6	4.9	7.9	10.0
Financial derivatives	-2.2	-1.4	-1.9	-2.9	-8.4	-2.8
Other	33.9	19.0	41.5	88.3	182.7	69.5
Total	48.0	35.9	51.3	99.3	234.5	122.6

¹ Net growth in residents' assets according to balance of payments data. Exclusive of operations related to debt restructuring and remission.

Note. '-' signifies decrease in residents' foreign assets. Minor discrepancies between the total and the sum of items are due to the rounding of data.

Table 29

RUSSIAN BANKING SECTOR INTERNATIONAL INVESTMENT POSITION
(million US dollars)

	Balance as of 1.01.2008	Changes due to operations	Changes due to revaluation	Other changes	Total changes	Balance as of 1.01.2009
	1	2	3	4	5	6
Assets	96,843	65,813	4,930	-68	70,675	167,517
Direct investment abroad	2,533	1,836	-960	4	880	3,413
Equity capital and reinvested earnings	2,163	1,719	-919	0	800	2,963
Other capital	370	117	-41	4	80	450
Portfolio investment	12,855	5,571	-2,649	-3	2,919	15,774
Equity capital	2,053	7	-547	-1	-541	1,512
Debt securities	10,802	5,565	-2,102	-2	3,460	14,262
long-term	10,384	3,926	-1,866	1,465	3,525	13,909
short-term	417	1,638	-236	-1,467	-65	353
Financial derivatives	1,423	-8,417	11,988	0	3,571	4,994
Other investment	80,032	66,823	-3,449	-69	63,305	143,336
Cash foreign currency and deposits	43,463	38,067	-536	-50	37,480	80,944
Foreign currency in tills	2,896	4,631	-64	-18	4,548	7,445
Current accounts and deposits	40,567	33,436	-472	-32	32,932	73,499
long-term	8,372	2,128	-117	-5	2,005	10,377
short-term	32,195	31,308	-355	-27	30,927	63,122
Loans	34,312	26,767	-2,520	-16	24,232	58,543
long-term	16,598	9,434	-1,032	-12	8,389	24,987
short-term	17,714	17,333	-1,488	-3	15,842	33,556
Overdue loans	36	210	-29	-4	177	213
Other assets	2,221	1,778	-363	0	1,415	3,636
long-term	392	989	-39	1	951	1,343
short-term	1,828	789	-324	0	464	2,293

End

	Balance as of 1.01.2008	Changes due to operations	Changes due to revaluation	Other changes	Total changes	Balance as of 1.01.2009
	1	2	3	4	5	6
Liabilities	214,771	8,168	-18,643	221	-10,254	204,516
Direct investment in Russia	20,682	10,075	-8,876	789	1,988	22,670
Equity capital and reinvested earnings	19,487	9,520	-8,859	834	1,494	20,981
Other capital	1,194	556	-17	-45	494	1,689
Portfolio investment	36,445	-4,305	-21,708	-270	-26,283	10,162
Equity capital	30,752	-2,585	-21,128	-304	-24,017	6,736
Debt securities	5,693	-1,720	-580	34	-2,266	3,426
long-term	3,229	-927	-486	54	-1,359	1,871
short-term	2,463	-793	-94	-20	-907	1,556
Financial derivatives	875	-10,487	20,263	0	9,776	10,651
Other investment	156,769	12,884	-8,322	-298	4,264	161,033
Current accounts and deposits	40,653	-4,179	-3,547	-49	-7,776	32,878
long-term	15,741	1,919	-1,852	-3	64	15,805
short-term	24,913	-6,098	-1,695	-47	-7,840	17,073
Loans	113,236	15,608	-4,104	-86	11,417	124,654
long-term	89,384	17,047	-2,979	-55	14,014	103,398
short-term	23,853	-1,439	-1,126	-32	-2,597	21,256
Arrears	4	14	-2	-13	-1	2
Other liabilities	2,876	1,442	-670	-149	624	3,500
long-term	478	142	-27	-1	114	592
short-term	2,398	1,300	-643	-148	510	2,908
International investment position, net	-117,928	57,645	23,573	-289	80,929	-36,999

Notes.

1. '+' in columns 2, 3, 4 and 5 denotes net growth in assets and liabilities, '-' denotes their net decrease. This conditional use of the sign differs from its use in balance of payments statistics.

2. This table presents data compiled by credit institutions and Vnesheconombank.

3. Column 4 shows, among other things, assets and liabilities of credit institutions that had their banking licences revoked in the period under review.

Table 30

CURRENCY STRUCTURE OF RUSSIAN BANKING SECTOR FOREIGN ASSETS AND LIABILITIES (%)

	Foreign assets					Foreign liabilities ¹				
	US dollar	euro	rouble	other currencies	total	US dollar	euro	rouble	other currencies	total
1.01.2002	80.6	6.6	4.5	8.3	100.0	75.5	5.1	17.7	1.7	100.0
1.01.2003	78.2	10.3	4.9	6.6	100.0	79.7	8.2	11.0	1.1	100.0
1.01.2004	76.0	11.4	6.0	6.6	100.0	80.5	5.5	12.7	1.3	100.0
1.01.2005	70.8	15.7	5.2	8.3	100.0	80.9	7.0	11.0	1.1	100.0
1.01.2006	76.2	14.1	3.9	5.8	100.0	85.0	7.0	7.0	1.0	100.0
1.01.2007	69.2	15.6	10.5	4.7	100.0	72.9	9.2	17.0	0.9	100.0
1.01.2008	66.5	17.2	11.7	4.6	100.0	67.5	10.2	20.9	1.4	100.0
1.04.2008	64.0	18.9	12.5	4.6	100.0	66.3	10.3	21.9	1.5	100.0
1.07.2008	63.0	19.1	13.1	4.8	100.0	64.3	11.5	22.6	1.6	100.0
1.10.2008	63.9	18.8	12.9	4.4	100.0	64.3	11.2	22.7	1.8	100.0
1.01.2009	62.6	20.1	13.7	3.6	100.0	67.2	13.5	17.3	2.0	100.0

¹ Foreign liabilities exclude equities.

Note. Financial derivatives are not included.

Table 31

RUSSIAN BANKING SECTOR FOREIGN ASSETS AND LIABILITIES ON INTERBANK OPERATIONS BY GROUP OF COUNTRIES AS OF JANUARY 1, 2009
(million US dollars)

	Foreign assets			Foreign liabilities			Balance of foreign assets and liabilities
	short-term	long-term	total	short-term	long-term	total	
Total	86,520.9	17,538.2	104,059.1	23,363.3	77,219.6	100,582.9	3,476.2
of which:							
CIS countries	1,806.5	2,294.1	4,100.5	1,279.1	246.4	1,525.6	2,575.0
of which:							
EurAsEC countries	556.6	404.1	960.6	798.0	155.6	953.6	7.0
Other countries	1,249.9	1,890.0	3,139.9	481.1	90.8	571.9	2,568.0
Non-CIS countries	84,633.9	15,244.1	99,878.0	22,003.1	76,944.9	98,948.0	930.1
of which:							
EU countries	55,743.9	15,194.5	70,938.4	16,699.3	70,424.7	87,124.0	-16,185.6
APEC countries	24,062.2	0.4	24,062.6	1,784.7	4,971.0	6,755.7	17,306.9
Other countries	4,827.8	49.2	4,877.0	3,519.1	1,549.1	5,068.2	-191.2
International financial organisations	80.5	0.0	80.5	81.0	28.0	109.4	-28.9
For the record:							
OECD countries	78,017.2	14,848.1	92,865.3	18,601.2	72,342.7	90,943.9	1,921.4

Note. Data in this table only include balances on interbank operations in the form of loans, deposits and correspondent accounts, and foreign currency in credit institutions' cash departments.

Table 32

RUSSIA'S INTERNATIONAL RESERVES (billion US dollars)

	1.01.2008	1.02.2008	1.03.2008	1.04.2008	1.05.2008	1.06.2008	1.07.2008	1.08.2008	1.09.2008	1.10.2008	1.11.2008	1.12.2008	1.01.2009
Reserve assets	478.8	488.4	494.9	512.6	532.5	546.0	569.0	596.6	582.2	556.8	484.6	455.7	427.1
Foreign currency assets	466.8	475.1	481.0	498.9	519.8	533.1	555.2	582.7	569.1	542.8	472.0	442.4	412.5
Monetary gold	12.0	13.3	13.9	13.7	12.7	12.9	13.8	13.9	13.1	14.0	12.6	13.3	14.5

Table 33

YIELD ON BANK OF RUSSIA FOREIGN EXCHANGE RESERVES IN 2008 (% p.a.)

	Actual	Standard
US dollar	5.50	5.50
Euro	6.51	6.45
Pound sterling	9.08	9.39
Yen	0.58	0.74

Table 34

BASIC INDICATORS OF ROUBLE'S EXCHANGE RATE IN 2008

	January	February	March	April	May	June	July	August	September	October	November	December
Nominal exchange rate of US dollar against rouble, end of period, roubles per dollar	24.48	24.12	23.52	23.65	23.74	23.46	23.45	24.58	25.25	26.54	27.61	29.38
Nominal exchange rate of US dollar against rouble, period averages, roubles per dollar	24.50	24.53	23.76	23.51	23.73	23.64	23.35	24.13	25.28	26.35	27.31	28.13
Nominal exchange rate of US dollar against rouble, period averages from the beginning of the year, roubles per dollar	24.50	24.52	24.26	24.07	24.00	23.94	23.86	23.89	24.04	24.26	24.53	24.81
Nominal exchange rate of euro against rouble, end of period, roubles per euro	36.17	36.41	37.07	36.89	36.78	36.91	36.53	36.23	36.37	35.04	35.72	41.44
Nominal exchange rate of euro against rouble, period averages, roubles per euro	35.98	36.12	36.79	37.06	36.89	36.80	36.84	36.26	36.34	35.28	34.74	37.94
Nominal exchange rate of euro against rouble, period averages from the beginning of the year, roubles per euro	35.98	36.05	36.29	36.49	36.57	36.61	36.64	36.59	36.56	36.43	36.28	36.41
Growth as % of December 2007¹												
Index of nominal exchange rate of rouble against US dollar	0.3	0.1	3.4	4.5	3.5	3.9	5.2	1.8	-2.8	-6.8	-10.0	-12.7
Index of nominal exchange rate of rouble against euro	-0.5	-0.9	-2.7	-3.4	-3.0	-2.7	-2.8	-1.3	-1.5	1.5	3.0	-5.6
Index of nominal effective exchange rate of rouble against foreign currencies	-0.4	-0.9	-1.0	-0.8	-1.3	-1.4	-1.6	-1.8	-2.7	-0.6	0.8	-3.8
Index of real exchange rate of rouble against US dollar	2.1	2.8	6.5	8.5	8.1	8.5	9.8	7.1	3.2	1.0	0.1	-1.1
Index of real exchange rate of rouble against euro	1.7	2.0	0.6	1.1	2.4	3.4	3.6	5.7	6.2	10.4	13.6	5.0
Index of real effective exchange rate of rouble against foreign currencies	1.3	1.2	1.5	2.4	2.7	3.3	3.3	3.5	3.0	5.9	8.5	4.3
Growth as % of previous period¹												
Index of nominal exchange rate of rouble against US dollar	0.3	-0.1	3.3	1.1	-0.9	0.4	1.2	-3.2	-4.6	-4.1	-3.5	-2.9
Index of nominal exchange rate of rouble against euro	-0.5	-0.4	-1.8	-0.8	0.5	0.3	-0.1	1.6	-0.2	3.0	1.6	-8.4
Index of nominal effective exchange rate of rouble against foreign currencies	-0.4	-0.5	-0.1	0.1	-0.5	-0.1	-0.2	-0.3	-0.9	2.1	1.5	-4.5
Index of real exchange rate of rouble against US dollar	2.1	0.8	3.6	1.9	-0.4	0.4	1.2	-2.5	-3.7	-2.2	-0.8	-1.2
Index of real exchange rate of rouble against euro	1.7	0.4	-1.4	0.4	1.3	1.0	0.2	2.0	0.4	4.0	2.8	-7.6
Index of real effective exchange rate of rouble against foreign currencies	1.3	-0.1	0.3	0.9	0.3	0.5	0.1	0.1	-0.4	2.7	2.5	-3.8

¹ '+' denotes appreciation of the Russian rouble against foreign currencies, '-' denotes depreciation of the Russian rouble against foreign currencies.

Table 35

EXTERNAL DEBT OF THE RUSSIAN FEDERATION (billion US dollars)

	1.01.2008	1.04.2008	1.07.2008	1.10.2008	1.01.2009
Total	465.4	479.0	528.6	542.1	484.7
General government	37.4	36.9	34.7	32.6	29.4
Federal government	35.8	35.2	33.1	31.1	28.1
<i>New Russian debt</i>	<i>28.7</i>	<i>28.2</i>	<i>28.4</i>	<i>26.5</i>	<i>23.6</i>
Multilateral creditors	5.0	4.9	4.7	4.6	4.5
<i>IBRD</i>	<i>4.3</i>	<i>4.2</i>	<i>4.1</i>	<i>3.9</i>	<i>3.8</i>
<i>Other</i>	<i>0.7</i>	<i>0.7</i>	<i>0.7</i>	<i>0.7</i>	<i>0.7</i>
Other credits	1.7	1.8	1.6	1.4	1.4
Foreign currency bonds	21.3	21.1	21.6	20.0	17.3
<i>Eurobonds issued by public subscription and Eurobonds related to GKO restructuring</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>	<i>2.1</i>	<i>1.7</i>
<i>Eurobonds related to London Club debt restructuring</i>	<i>17.6</i>	<i>17.4</i>	<i>17.9</i>	<i>17.1</i>	<i>15.1</i>
<i>MinFin Foreign Currency Bonds (Series VII)</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>	<i>0.8</i>	<i>0.4</i>
OFZ	0.3	0.1	0.2	0.2	0.1
Other	0.3	0.3	0.3	0.3	0.3
Debt of the former USSR	7.1	7.0	4.7	4.6	4.6
Paris Club member countries	0.0	0.0	0.0	0.0	0.0
Debt owed to former socialist countries	1.5	1.6	1.5	1.4	1.4
Debt to other official creditors	2.2	2.2	2.0	2.0	1.9
MinFin Foreign Currency Bonds (Series III, IV, and V)	2.0	2.0	0.0	0.0	0.0
Other	1.3	1.2	1.2	1.2	1.2
Local Government	1.5	1.7	1.5	1.5	1.3
Loans	1.1	1.2	1.2	1.1	1.1
Rouble-denominated bonds	0.4	0.4	0.3	0.3	0.2

End

	1.01.2008	1.04.2008	1.07.2008	1.10.2008	1.01.2009
Monetary authorities	9.0	4.1	4.2	10.2	3.3
Loans ¹	7.1	1.6	0.9	6.9	0.6
Currency and deposits	1.9	2.6	3.3	3.4	2.8
Banks (excluding equity capital)	163.7	171.4	192.8	197.9	166.1
Debt liabilities to direct investors	1.2	1.4	1.5	1.5	1.7
Loans	113.2	121.6	136.2	144.2	124.7
Current accounts and deposits	40.7	39.0	45.9	43.4	32.9
Debt securities	5.7	5.4	5.2	4.3	3.4
Other	2.9	4.0	3.9	4.6	3.5
Other sectors (excluding equity capital)	255.3	266.6	297.0	301.4	285.8
Debt liabilities to direct investors	25.7	26.1	31.2	31.4	29.1
Loans	205.6	217.7	239.6	249.3	242.0
Debt securities ²	18.9	17.5	16.6	11.8	6.5
Financial leases	4.1	4.4	4.8	5.1	5.8
Other	1.0	0.9	4.8	3.9	2.4

¹ Repo transactions.

² Including Russian companies' debt on promissory notes owned by non-residents.

Note. These include external debt denominated in national and foreign currency. Government securities are accounted for as part of debt owed to non-residents and evaluated at nominal value.

Table 36

EXTERNAL DEBT OF THE RUSSIAN FEDERATION (analytical presentation, billion US dollars)

	1.01.2008	1.04.2008	1.07.2008	1.10.2008	1.01.2009
External debt of the Russian Federation	465.4	479.0	528.6	542.1	484.7
Short-term	108.0	98.6	105.2	115.8	79.8
Long-term	357.4	380.4	423.4	426.3	404.9
Public sector external debt¹	190.8	185.2	198.3	191.4	163.3
Short-term	22.6	17.4	21.7	28.9	16.5
Long-term	168.2	167.8	176.6	162.5	146.8
General government	37.4	36.9	34.7	32.6	29.4
Short-term	1.7	1.6	1.6	1.6	1.6
Long-term	35.7	35.2	33.0	31.0	27.8
Monetary authorities	9.0	4.1	4.2	10.2	3.3
Short-term	9.0	4.1	4.2	10.2	3.3
Banks	65.5	67.4	78.2	71.2	61.7
Short-term	11.4	11.2	11.9	13.2	9.4
Long-term	54.2	56.2	66.3	58.0	52.2
Other sectors	78.9	76.8	81.3	77.4	68.8
Short-term	0.5	0.4	4.0	3.9	2.1
Long-term	78.4	76.4	77.3	73.5	66.7
Private sector external debt¹	274.6	293.8	330.4	350.7	321.5
Short-term	85.4	81.2	83.6	86.9	63.3
Long-term	189.2	212.6	246.8	263.8	258.2
Banks	98.1	104.0	114.7	126.7	104.5
Short-term	42.3	44.6	48.6	50.3	33.4
Long-term	55.9	59.4	66.1	76.3	71.1
Other sectors	176.4	189.8	215.7	224.1	217.0
Short-term	43.1	36.6	35.0	36.6	29.9
Long-term	133.3	153.2	180.7	187.5	187.1

¹ Public sector external debt covers liabilities of the general government, monetary authorities, and banks and non-financial corporations in which the government and monetary authorities hold, directly or indirectly, 50% or more of shares or control them through other means. Liabilities owed by other residents to non-residents which do not fall under this definition are classified as private sector external debt.

Note. Including external debt denominated in national and foreign currency.

Table 37

KEY ECONOMIC DEVELOPMENT INDICATORS OF RUSSIA'S LEADING TRADING PARTNERS¹

	Real GDP, growth as % of previous year			Consumer prices, growth in December of reporting year as % of December of previous year ²			Current account balance, as % of GDP ³			International foreign currency-denominated reserves, billion US dollars ⁴		
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
USA	2.8	2.0	1.1	2.5	4.1	0.1	-6.0	-5.3	-4.7	54.9	59.5	66.6
European Union (27 countries) ⁵	3.1	2.9	0.9	2.2	3.2	2.2	-1.1	-1.0	-1.6	431.9	500.1	494.8
Eurozone (15 countries) ⁶	2.9	2.6	0.8	1.9	3.1	1.6	0.1	0.4	-0.7	197.0	215.6	232.1
Belgium	3.0	2.6	1.1	2.1	3.1	2.7	2.6	1.7	-2.5	8.8	10.4	9.3
Germany	3.0	2.5	1.3	1.4	3.1	1.1	6.1	7.5	6.4	41.7	44.3	43.1
Italy	2.0	1.6	-1.0	2.1	2.8	2.4	-2.6	-2.4	-3.2	25.7	28.4	37.1
Spain	3.9	3.7	1.2	2.7	4.3	1.5	-8.9	-10.1	-9.6	10.8	11.5	12.4
Netherlands	3.4	3.5	2.1	1.7	1.6	1.7	8.2	6.1	4.4	10.8	10.3	11.5
Finland	4.9	4.2	0.9	1.2	1.9	3.4	4.5	4.1	2.5	6.5	7.1	7.0
France	2.4	2.1	0.7	1.7	2.8	1.2	-0.6	-1.0	-1.6	42.7	45.7	33.6
United Kingdom	2.8	3.0	0.7	3.0	2.1	3.1	-3.4	-2.9	-1.7	40.7	49.0	44.4
Hungary	4.1	1.1	0.5	6.5	7.4	3.5	-7.5	-6.4	-7.8	21.5	24.0	33.8
Lithuania	7.8	8.9	3.0	4.5	8.1	8.5	-10.7	-14.6	-11.6	5.7	7.6	6.3
Poland	6.2	6.7	4.8	1.4	4.0	3.3	-2.7	-4.7	-5.5	46.4	63.0	59.3
Slovak Republic	8.5	10.4	6.4	4.2	3.4	4.4	-7.1	-5.4	-6.3	12.6	18.0	17.9
Czech Republic	6.8	6.0	3.2	1.7	5.5	3.6	-2.6	-3.2	-3.1	31.2	34.6	36.6
Sweden	4.2	2.6	-0.2	1.6	3.5	0.9	8.6	8.6	8.3	24.8	27.0	25.9
Estonia	10.4	6.3	-3.6	5.1	9.6	7.0	-16.7	-18.1	-9.2	2.8	3.3	3.8
Bulgaria	6.3	6.2	6.0	6.5	12.5	7.8	-18.4	-25.1	-24.4	10.9	16.5	16.8
Romania	7.9	6.2	7.1	4.9	6.6	6.3	-10.4	-13.9	-12.6	28.1	37.2	36.9

	Real GDP, growth as % of previous year			Consumer prices, growth in December of reporting year as % of December of previous year ²			Current account balance, as % of GDP ³			International foreign currency-denominated reserves, billion US dollars ⁴		
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
Switzerland	3.4	3.3	1.6	0.6	2.0	0.7	14.5	10.1	9.1	38.1	44.5	45.1
Turkey	6.9	4.7	1.1	9.7	8.4	10.1	-6.0	-5.8	-5.7	60.9	73.4	70.4
Belarus	10.0	8.6	10.0	6.6	12.1	13.3	-3.9	-6.8	-8.4	1.1	4.0	2.7
Ukraine	7.3	7.9	2.1	11.6	16.6	22.3	-1.5	-3.7	-7.2	21.8	31.8	30.8
Kazakhstan	10.7	8.9	3.2	8.4	18.8	9.5	-2.5	-7.8	5.3	17.8	15.8	17.4
Japan	2.0	2.4	-0.6	0.3	0.7	0.4	3.9	4.8	3.2	879.7	952.8	1,009.4
China	11.6	13.0	9.0	2.8	6.5	1.2	9.5	11.0	10.0	1,068.5	1,530.3	1,758.7
South Korea	5.2	5.1	2.2	2.1	3.6	4.1	0.6	0.6	-0.7	238.9	262.2	201.1
India	9.8	9.3	7.3	6.9	5.5	9.7	-1.1	-1.0	-2.8	170.7	267.0	247.4
Brazil	4.0	5.7	5.1	3.1	4.5	5.9	1.3	0.1	-1.8	85.2	179.4	192.8

¹ According to official sources of statistical information of corresponding countries, the EUROSTAT agency, and the IMF as of April 23, 2009.

² For EU, UK, eurozone, Germany, France and Italy: harmonised consumer price indices calculated in accordance with the EU Commission's general recommendations with respect to the consumer goods basket and the methods of determining unit weights of goods and services and calculating averages.

³ '+' denotes surplus, '-' denotes deficit.

⁴ As of end of year; including monetary authorities' assets in foreign currency and SDRs, and reserve position in the IMF (each country's reserve share and credit position in the IMF). For the EU: estimates based on IMF data (sum total of international reserves of EU member states). For the eurozone: as determined by the European system of central banks.

⁵ Austria, Belgium, Bulgaria, the UK, Hungary, Germany, Greece, Denmark, Ireland, Spain, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Finland, France, the Czech Republic, Sweden, and Estonia.

⁶ Austria, Belgium, Germany, Greece, Ireland, Spain, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Portugal, Slovenia, Finland, and France.

Table 38

CIS KEY MONETARY INDICATORS¹

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kyrgyzstan	Moldova	Russia	Tajikistan	Ukraine
Official central (national) bank rate (refinancing rate), as of end of year, %										
2007	13	5.75	10	—	11.0	8.79	16	10	15.0	8
2008	8	7.25	12	8	10.5	15.22	14	13	13.5	12
Official central (national) bank exchange rate (units of national currency) as of end of year										
Against US dollar:										
2007	0.8453	304.22	2,150	1.5916	120.30	35.4988	11.3192	24.5462	3.4649	5.05
2008	0.8010	306.73	2,200	1.6670	120.77	39.4181	10.4002	29.3804	3.4519	7.70
Against Russian rouble:										
2007	0.0346	12.40	87.61	0.0649	4.92	1.4466	0.4619	—	0.14116	0.20574
2008	0.0272	10.46	76.89	0.0567	4.11	1.3590	0.3548	—	0.11223	0.26208
Number of registered commercial banks										
2007	46	22	31	19	35 ²	22	16	1,243	15	198
2008	46	22	33	20	37 ²	21	16	1,172	16	198

¹ According to data compiled by CIS national (central) banks.

² According to data provided by the Agency for Regulation and Supervision of the Financial Market and Financial Institutions of the Republic of Kazakhstan.

Table 39

MONEY SUPPLY (NATIONAL DEFINITION) AND ITS STRUCTURE

	As of 1.01.2008		As of 1.01.2009		1.01.2009 as % of 1.01.2008
	billion roubles	%	billion roubles	%	
Money supply (M2), total	13,272.1	100.0	13,493.2	100.0	101.7
of which:					
— cash in circulation (M0) ¹	3,702.2	27.9	3,794.8	28.1	102.5
— non-cash funds	9,569.9	72.1	9,698.3	71.9	101.3
of which:					
— non-financial organisation funds	5,005.0	37.7	5,287.4	39.2	105.6
— household deposits	4,564.9	34.4	4,410.9	32.7	96.6

¹ Cash in circulation outside the banking system.

Table 40

MONETARY BASE AND ITS STRUCTURE

	As of 1.01.2008		As of 1.01.2009		1.01.2009 as % of 1.01.2008
	billion roubles	%	billion roubles	%	
Monetary base (broad definition)	5,513.3	100.0	5,578.7	100.0	101.2
of which:					
— cash in circulation, including balances in credit institutions' cash departments ¹	4,118.6	74.7	4,372.1	78.4	106.2
— credit institutions' correspondent accounts with the Bank of Russia ²	802.2	14.6	1,027.6	18.4	128.1
— required reserves ³	221.6	4.0	29.9	0.5	13.5
— credit institutions' deposits with the Bank of Russia	270.3	4.9	136.6	2.5	50.6
— Bank of Russia bonds held by credit institutions ⁴	100.7	1.8	12.5	0.2	12.4

¹ Excluding cash in Bank of Russia establishments' cash departments.

² Rouble-denominated accounts, including cash balances on organised securities market.

³ For rouble and foreign currency funds raised by credit institutions to accounts.

⁴ At market value.

Table 41

BANKING SECTOR SURVEY (billion roubles)

	1.01.2008	1.01.2009	1.01.2009 as % of 1.01.2008
Net foreign assets	9,923.4	12,218.7	123.1
Claims on non-residents	14,222.7	17,249.0	121.3
Obligations to non-residents	4,299.3	5,030.3	117.0
<i>Domestic claims</i>	<i>8,325.9</i>	<i>10,645.1</i>	<i>127.9</i>
Net claims on government	-4,755.0	-7,345.1	—
Claims on government	1,223.2	1,241.7	101.5
Obligations to government	5,978.1	8,586.8	143.6
Claims on other sectors	13,080.9	17,990.1	137.5
Other financial organisations	251.6	546.2	2.2 times
Non-financial government organisations	288.7	407.0	141.0
Other non-financial organisations	9,302.3	12,692.6	136.4
Households	3,238.2	4,344.3	134.2
<i>Obligations included in broad money</i>	<i>14,636.7</i>	<i>16,774.7</i>	<i>114.6</i>
Cash outside banking system	3,702.2	3,794.8	102.5
Transfer deposits	4,200.3	3,796.6	90.4
Other financial organisations	212.9	164.2	77.1
Non-financial government organisations	422.5	483.8	114.5
Other non-financial organisations	2,640.7	2,242.3	84.9
Households	924.2	906.4	98.1
Other deposits	6,734.2	9,183.3	136.4
Other financial organisations	263.7	445.2	168.8
Non-financial government organisations	86.0	435.9	5.1 times
Other non-financial organisations	2,094.9	3,249.3	155.1
Households	4,289.6	5,052.9	117.8
Deposits not included in broad money	40.7	238.0	5.8 times
Securities other than shares not included in broad money	710.4	648.6	91.3
Shares and other stakeholdings in capital	3,201.9	5,158.2	161.1
Other items (net)	-340.5	44.4	—
Other liabilities	1,293.7	2,356.4	182.1
Other assets	1,445.5	2,058.3	142.4
Consolidating correction	-188.8	-253.7	—

Table 42

SURVEY OF CREDIT INSTITUTIONS (billion roubles)

	1.01.2008	1.01.2009	1.01.2009 as % of 1.01.2008
Net foreign assets	-1,830.1	-332.6	—
Claims on non-residents	2,293.5	4,679.2	2.0 times
Foreign currency	72.2	219.1	3.0 times
Deposits	999.9	2,157.1	2.2 times
Securities other than shares	261.3	407.5	156.0
Loans	846.6	1,724.4	2.0 times
Other	113.6	171.0	150.5
Obligations to non-residents	4,123.7	5,011.8	121.5
Deposits	1,004.4	979.7	97.5
Securities other than shares	142.3	106.0	74.5
Loans	2,797.8	3,714.7	132.8
Other	179.2	211.3	117.9
Claims on the Bank of Russia	1,817.7	2,593.0	142.7
Cash foreign currency	416.3	577.3	138.7
Deposits	1,300.7	2,003.3	154.0
Securities other than shares	100.7	12.5	12.4
Net claims on government	562.0	196.9	35.0
Claims on government	868.6	887.0	102.1
Securities	740.0	709.1	95.8
Other claims	128.6	177.9	138.3
Obligations to government	306.6	690.1	2.3 times
Deposits	300.6	676.0	2.2 times
Other obligations	6.0	14.1	2.4 times
Claims on other sectors	13,080.0	17,873.9	136.7
Other financial organisations	251.3	545.6	2.2 times
Non-financial government organisations	288.7	292.6	101.4
Other non-financial organisations	9,301.7	12,691.4	136.4
Households	3,238.2	4,344.3	134.2
Obligations to the Bank of Russia	50.7	3,844.3	75.8 times
Deposits included in broad money	10,488.5	12,708.1	121.2
Transfer deposits	3,754.4	3,624.8	96.5
Other financial organisations	212.8	164.1	77.1
Non-financial government organisations	221.9	317.9	143.3
Other non-financial organisations	2,395.5	2,236.5	93.4
Households	924.2	906.4	98.1
Other deposits	6,734.1	9,083.3	134.9
Other financial organisations	263.7	445.2	168.8
Non-financial government organisations	86.0	335.9	3.9 times
Other non-financial organisations	2,094.9	3,249.3	155.1
Households	4,289.6	5,052.9	117.8

End

	1.01.2008	1.01.2009	1.01.2009 as % of 1.01.2008
Deposits not included in broad money	40.7	238.0	5.8 times
Securities other than shares not included in broad money	710.4	648.6	91.3
Shares and other stakeholdings in capital	2,739.9	3,255.8	118.8
Other items (net)	-400.7	-363.6	—
Other liabilities	910.2	1,503.2	165.2
Other assets	1,212.4	1,690.4	139.4
Consolidating correction	-98.5	-176.4	—

Table 43

CORRECTIVE MEASURES TAKEN AGAINST CREDIT INSTITUTIONS IN 2008

No.	Description of measures	Number of banks
Preventive measures		
1	Notifying in writing the management and/or board of directors (supervisory board) of a credit institution on shortcomings in its work, and recommending remedial action	1,071
2	Calling a meeting	509
3	Other (recommendations to draw up a plan of remedial action, tighten control over reporting, make a realistic assessment of credit risk, avoid misstatements in reports, etc.)	150
Punitive measures		
4	Fines ¹	351
	of which:	
4.1	for non-compliance with reserve requirements	75
4.2	for breaches of federal laws and Bank of Russia rules and regulations issued in pursuance of these laws and for non-reporting, under-reporting, or false reporting	309
5	Restrictions on individual banking operations conducted by credit institutions,	68
	such as:	
5.1	taking personal deposits	22
5.2	settlements on behalf of corporate entities relating to transfer of funds to budgets of all levels and government extra-budgetary funds	34
6	Prohibiting credit institutions from conducting individual banking operations, ¹	46
	such as:	
6.1	taking personal deposits	29
6.2	opening personal bank accounts, including unallocated metal accounts (demand and time accounts)	22
6.3	other	42
	For the record:	
	Bans on taking personal deposits and opening personal bank accounts imposed on credit institutions pursuant to Article 48 of Federal Law No. 177-FZ, dated December 23, 2003	6
7	Prescriptive orders	623
	of which:	
7.1	orders to comply with Bank of Russia required ratios	10
7.2	orders to replace managers	4
8	Prohibiting credit institutions from opening branches	44
9	Appointing provisional administrations to credit institutions without revoking their licences	— ²
10	Banking licence revocation	33

¹ The number of credit institutions indicated under points 4 and 6 differs from the sub-points total, as in some cases banks have been subjected to several corrective actions and placed under several sub-points.

² In 2008, the Deposit Insurance Agency was appointed as provisional administrator of four banks under Federal Law No. 175-FZ, dated October 27, 2008, 'On Additional Measures to Strengthen Stability of the Banking System in the Period until December 31, 2011'.

As of January 1, 2009, the ban on carrying out settlements on behalf of corporate entities, such as transferring funds to budgets of all levels and government extra-budgetary funds, was in effect with regard to four credit institutions.

As of January 1, 2009, four credit institutions had a backlog of non-executed settlement documents on payments to budgets of all levels and government extra-budgetary funds.

Table 44

RUSSIAN PAYMENT SYSTEM KEY INDICATORS

	2007	2008
Institutional structure of Russian payment system¹		
Number of payment system participants:	5,373	5,210
— Bank of Russia establishments	782	632
— credit institutions	1,136	1,108
of which:		
— non-bank settlement credit institutions	42	50
— branches of credit institutions	3,455	3,470
For the record:		
Number of additional offices of credit institutions (branches)	18,979	21,272
Number of other internal divisions of credit institutions (branches) ²	16,729	16,812
of which:		
— operations offices	497	1,497
Number of accounts opened for customers by payment system participants, ³ million	421.7	467.9
— personal accounts	415.9	461.6
— corporate accounts	5.8	6.3
Payments effected by individual payment systems		
Number of payments, thousands		
of which:		
— payments effected by Bank of Russia payment system	833,867.7	940,115.3
— payments effected by interbank private payment systems	83,652.0	96,336.3
— payments effected by intrabank payment systems between divisions of one bank	386,750.8	430,446.0
Value of payments, billion roubles		
of which:		
— payments effected by Bank of Russia payment system	445,753.2	516,274.0
— payments effected by interbank private payment systems	35,057.4	59,428.8
— payments effected by intrabank payment systems between divisions of one bank	102,153.8	135,102.7
Non-cash payment instruments used in Russian payment system		
Number of payments, thousands		
effectuated using:		
— payment orders	1,114,584.5	1,241,374.2
— payment requests and collection orders	80,506.8	105,203.0
— letters of credit	29.1	35.0
— cheques	263.5	32.6
— other payment instruments	792,841.2	908,506.4
Value of payments, billion roubles		
effectuated using:		
— payment orders	510,874.7	527,763.5
— payment requests and collection orders	6,630.3	6,605.8
— letters of credit	138.4	368.8
— cheques	57.6	7.5
— other payment instruments	4,859.2	9,812.8

End

	2007	2008
Non-cash payments in Russian payment system by technique		
Number of payments, thousands effectuated		
— electronically	1,718,440.8	1,917,790.3
— on paper	737,227.6	863,876.3
Value of payments, billion roubles effectuated		
— electronically	691,061.3	817,148.9
— on paper	55,014.9	65,200.8
Payment card market key indicators		
Number of payment cards issued by Russian credit institutions, ¹ thousands	103,496.6	119,242.3
of which:		
— credit cards, thousands	8,944.3	9,295.8
Total number of payment card operations in Russia, ⁴ thousands	1,624,697.2	2,083,608.9
of which:		
— operations conducted using credit cards issued by Russian credit institutions, thousands	32,231.4	47,335.0
Total value of payment card operations in Russia, ⁴ billion roubles	6,449.7	9,130.0
of which:		
— operations conducted using credit cards issued by Russian credit institutions, billion roubles	133.7	182.2

¹ As of end of year.

² Operations offices, cash and credit offices, and external cash desks.

³ Accounts that can be used to effect payments.

⁴ Payment cards issued by Russian credit institutions and payment cards issued outside Russia.

Table 45

BANK OF RUSSIA PAYMENT SYSTEM

	2007	2008
Number of customers served ¹	32,745	24,044
of which:		
— credit institutions	1,136	1,108
— branches of credit institutions	2,285	2,395
— customers other than credit institutions	29,324	20,541
Number of payments effected, thousands	833,867.6	940,115.2
of which:		
— by credit institutions and their branches	697,944.2	786,269.0
— by customers other than credit institutions	135,062.6	151,694.6
— by Bank of Russia divisions	860.9	2,151.6
Value of payments effected, billion roubles	445,753.2	516,274.0
of which:		
— by credit institutions and their branches	358,178.2	437,948.0
— by customers other than credit institutions	38,660.9	52,262.0
— by Bank of Russia divisions	48,914.1	26,064.0
Number of electronic payments, thousands	831,019.7	937,055.6
Value of electronic payments, billion roubles	444,622.2	514,058.2
Number of Bank of Russia establishments participating in intraregional electronic settlements ¹	757	630
Number of Bank of Russia establishments participating in interregional electronic settlements ¹	757	630
Total number of customers exchanging electronic documents ¹	3,809	4,006
of which:		
— credit institutions and their branches	3,324	3,398
— customers other than credit institutions	485	608
Number of payments received through communication channels, thousands ²	812,872.4	919,170.7
Number of payments effected on paper, thousands	2,847.9	3,059.6
Value of payments effected on paper, billion roubles	1,131.0	2,215.8

¹ As of end of year.

² Based on reporting form compiled according to methodology that differs from methodology for calculating other Bank of Russia payment system indicators.

Table 46

STRUCTURE OF BANK OF RUSSIA BANKNOTES IN CIRCULATION

Denomination, roubles	Total in circulation, million roubles		As % of 1.01.2008	% share	
	as of 1.01.2008	as of 1.01.2009		as of 1.01.2008	as of 1.01.2009
5,000	859,776.9	1,466,148.7	170.5	21.0	33.7
1,000	2,471,069.2	2,211,651.3	89.5	60.2	50.8
500	619,066.7	527,875.0	85.3	15.1	12.1
100	112,369.3	108,109.8	96.2	2.7	2.5
50	30,430.0	28,697.5	94.3	0.7	0.6
10	11,038.3	11,928.1	108.1	0.3	0.3
5	36.8	36.2	98.1	0.0	0.0
Total balance sheet number of banknotes of 1997 issue	4,103,787.2	4,354,446.6	106.1	100.0	100.0

Table 47

STRUCTURE OF BANK OF RUSSIA COINS IN CIRCULATION¹

Denomination	Total in circulation, million roubles		As % of 1.01.2008	% share	
	as of 1.01.2008	as of 1.01.2009		as of 1.01.2008	as of 1.01.2009
1 kopeck	64.7	69.7	107.7	0.3	0.3
5 kopecks	241.7	268.2	111.0	1.2	1.1
10 kopecks	1,357.20	1,566.30	115.4	6.7	6.6
50 kopecks	1,594.60	1,874.60	117.6	7.8	7.9
1 rouble	3,966.80	4,578.20	115.4	19.4	19.3
2 roubles	2,985.60	3,563.30	119.4	14.6	15.1
5 roubles	6,753.10	7,660.30	113.4	33.0	32.4
10 roubles	3,485.30	4,102.40	117.7	17.0	17.3
Total balance sheet number of coins of 1997 issue	20,449.00	23,683.00	115.8	100.0	100.0

¹ Excluding coins made from precious metals.

Table 48

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 1.01.2009	
		as of 1.01.2009	as of 1.01.2008	in authorised capital	in voting capital
Sberbank, Moscow	thousand roubles	39,019,407	39,019,407	57.58	60.25
Moscow Interbank Currency Exchange (MICEX), Moscow	thousand roubles	331,940	331,940	29.79	29.79
St Petersburg Currency Exchange (SPCEX), St Petersburg	thousand roubles	302	302	8.90	8.90
National Depository Centre, Moscow	thousand roubles	24,500	24,500	49.00	42.30
Bank for International Settlements, Basel	SDR	16,055,000	16,055,000	0.59	0.55
Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.), Belgium	euro	875	875	0.01	—
Interstate Bank, Moscow	thousand roubles	10,000	10,000	50.00	50.00

MEMO

Published by Business News Agency Prime-TASS

Printed by Novosti Press

Number of copies — 330. Order No. 1310

BANK OF RUSSIA **2008** ANNUAL REPORT

THE CENTRAL BANK
OF THE RUSSIAN FEDERATION

ANNUAL REPORT
2008