

THE CENTRAL BANK OF THE RUSSIAN FEDERATION



A N N U A L **2 0 0 7** R E P O R T



Approved by the Bank of Russia Board of Directors on May 13, 2008

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Contents

Introduction	8
I. The economic and financial situation in Russia	11
I.1. The economic situation in Russia	12
I.2. Government finance and domestic government debt	16
I.3. The financial sector	19
I.3.1. Credit institutions	22
I.3.2. Other financial institutions	30
I.3.3. Financial markets	32
I.4. Balance of payments and foreign debt	41
I.4.1. Balance of payments	41
I.4.2. Foreign debt	45
I.5. The world economy and international markets	47
II. Bank of Russia activities	51
II.1. Monetary policy	52
II.1.1. Monetary policy objectives and results	52
II.1.2. Monetary authority indicators and monetary policy instruments	58
II.1.3. Exchange rate policy	64
II.2. Reserve management	66
II.3. Banking regulation and supervision	71
II.3.1. Registration and licensing of banking activities	71
II.3.2. Off-site supervision	75
II.3.3. Inspection of credit institutions	78
II.3.4. Bank bankruptcy (insolvency) prevention and withdrawal of insolvent credit institutions from the banking services market	81
II.3.5. Household deposit insurance	83
II.3.6. Central Catalogue of Credit Histories	84
II.4. The Russian payment system	85
II.4.1. The state of the Russian payment system	85
II.4.2. Development and upgrading of the Bank of Russia payment system	87
II.4.3. Bank of Russia payment system infrastructure development	89
II.5. Bank of Russia activities aimed at countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism	90
II.6. Foreign exchange regulation and foreign exchange control	91
II.7. Bank of Russia activities relating to government finance	93
II.8. Cash circulation management	95
II.9. Bank of Russia activities aimed at upgrading accounting and reporting	98
II.10. International cooperation	100
II.10.1. Cooperation between the Bank of Russia and international financial and economic organisations	100
II.10.2. Cooperation between the Bank of Russia and foreign countries, and their central (national) banks	103

II.11. Upgrading Bank of Russia system and enhancing its efficiency	105
II.11.1. Bank of Russia organisational structure and measures taken to improve it	105
II.11.2. Staffing and personnel training	106
II.11.3. Bank of Russia information and telecommunications system development	109
II.11.4. Bank of Russia activities aimed at upgrading banking legislation. Managing suits and claims at Bank of Russia institutions	110
II.11.5. Bank of Russia internal audit	113
II.11.6. Bank of Russia stakeholdings in the capital of Russian and foreign credit institutions and other organisations	114
III. Bank of Russia annual financial statements as of January 1, 2008	117
Introduction	118
Annual balance sheet as of January 1, 2008	119
Profit and loss account	120
Capital, funds and profit allocation	121
Notes to Annual Financial Statements as of January 1, 2008	123
1. Accounting and financial reporting principles	123
2. Impact of economic conditions on Bank of Russia financial statements	128
3. Precious metals	130
4. Funds placed with non-residents and securities issued by non-residents	130
5. Loans and deposits	131
6. Securities	132
7. Other assets	135
8. Cash in circulation	137
9. Funds in accounts with the Bank of Russia	137
10. Float	138
11. Other liabilities	139
12. Reporting year profit	139
13. Interest income	140
14. Income from securities trading	141
15. Income from operations with precious metals	141
16. Other income	142
17. Interest expenses	142
18. Expenses on securities trading	143
19. Cash turnover management expenses	143
20. Expenses on operations with precious metals	143
21. Net expenses on provisions/income from the recovery of provisions	144
22. Expenses on negative revaluation of foreign currency	145
23. Other operating expenses	145
24. Personnel costs	146
25. Off-balance sheet claims and obligations accounts	146
26. Effect of global financial market turmoil on Bank of Russia management of foreign exchange reserves	147
27. Post-accounting date events	148
Statement of profit and its allocation	149
Statement of Bank of Russia reserves and funds	150
Statement of Bank of Russia management of securities and stakeholdings in the capital of companies constituting Bank of Russia property	152
Statement of Bank of Russia personnel costs	155
Statement of capital investment budget performance	156

Auditor's Report	158
IV. Addenda	163
IV.1. Principal measures taken by the Bank of Russia to implement the single state monetary policy in 2007	164
IV.2. Principal measures to upgrade banking regulation and supervision in 2007	170
IV.3. Statistical tables	182

List of Charts

1. Consumer prices, core inflation and administered service prices	13
2. GDP consumption	14
3. Merchandise trade and price of oil	14
4. Federal budget expenditure in 2007	17
5. Federal budget expenditure	18
6. Balances of federal budget accounts opened with the Bank of Russia	18
7. Interest rates on ruble loans	20
8. Interest margin on bank lending and deposit operations with non-financial customers with different terms in 2006—2007	20
9. Key banking sector indicators	23
10. Banking sector liability structure	24
11. Banking sector asset structure	25
12. Capital adequacy	28
13. Overdue debt on loans, deposits and other placements	28
14. Interest rates on interbank ruble loans	32
15. Official dollar/ruble and euro/ruble exchange rates in 2007	33
16. OFZ secondary market turnover and yield in 2007	34
17. Non-coupon OFZ yield curve	35
18. MICEX Stock Exchange equities trade in 2007	37
19. Corporate bond secondary trade in 2007	37
20. Forward contract exchange trade turnovers in 2007	39
21. Russia's major balance of payments components and international reserves	42
22. Russia's foreign debt (US\$, billion)	45
23. Russia's foreign debt (as % of GDP)	46
24. Growth in output of goods and services in the world and in individual countries	48
25. Growth in exchange rates of individual currencies against the US dollar in 2007	49
26. Monetisation of the economy (according to monetary aggregate M2)	53
27. Monetary aggregates	53
28. Ruble-denominated deposits of households and non-financial and financial enterprises other than credit institutions	54
29. Bank of Russia key interest rates and overnight MIACR	55
30. Interest rates on ruble loans to non-financial enterprises	56
31. Loans to non-financial enterprises and households in rubles and foreign currency	56
32. Exchange rate and sources of money supply in 2006—2007	59

33. Exchange rate, aggregate reserves and net foreign assets of credit institutions in 2006—2007	60
34. Aggregate banking sector reserves and Bank of Russia operations to refinance credit institutions in 2006—2007	62
35. Bank of Russia interventions on domestic forex market and bi-currency basket ruble value in 2007	64
36. Real ruble exchange rate in 2006—2007	65
37. Factors of change in Bank of Russia foreign exchange reserves in 2007	67
38. Bank of Russia foreign exchange reserves by instrument in 2007	67
39. Bank of Russia foreign exchange reserves by country in 2007	68
40. Bank of Russia foreign exchange reserves by currency in 2007	68
41. Bank of Russia foreign exchange reserves by credit rating in 2007	69
42. Number of registered operating credit institutions and banking licences granted to them	72
43. Number of branches of operating credit institutions by region	72
44. Number of operating credit institutions and their registered authorised capital	73
45. Number of operating credit institutions by authorised capital	74
46. Scheduled and unscheduled inspections	79
47. Thematic and comprehensive inspections	79
48. Inspections per credit institution	80
49. Cash in circulation in 2007	96
50. Detection of counterfeit Bank of Russia notes and coins in 2002—2007	96
51. Detection of counterfeit Bank of Russia notes and coins by Federal District in 2007	97
52. Detection of counterfeit foreign banknotes in 2002—2007	97
53. Number of Bank of Russia employees by division as of January 1, 2008	105
54. Age structure of Bank of Russia executives and specialists	107
55. Ratio of executives and specialists with higher education	107
56. Centralised training of Bank of Russia personnel in 2007	108
57. Subjects of Bank of Russia personnel advanced training and retraining by contract in 2007	108

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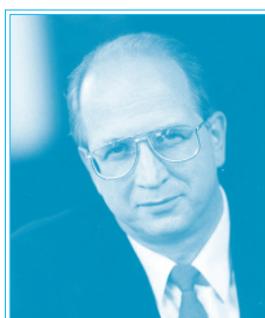
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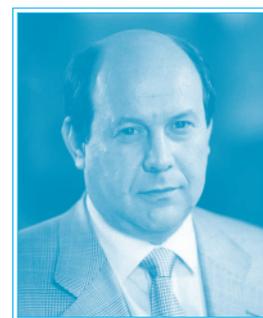
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INTRODUCTION

Compiled pursuant to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia Annual Report reflects the results of the work done by the Bank of Russia in 2007 to ensure the stability of the ruble, improve and strengthen the country's banking system and upgrade and ensure the effectiveness of the payment system. This Report contains information for a wide range of economic agents on the results of the Bank of Russia's work in 2007 and includes Bank of Russia annual financial statements, the auditor's report and the report by the Audit Chamber of the Russian Federation.

In 2007, Russia's gross domestic product continued to grow faster than the world economy. There was a rise in employment and real money income kept growing at rapid rates. Fixed capital investment increased significantly.

During the year under review the Russian economy was affected by both a favourable price situation for Russian exports and instability on world financial markets, caused by the US mortgage crisis, which created confusion in the direction of capital flows.

Rapid economic growth was due to the expansion of demand for domestic products, while the external factors stimulated growth in exports. At the same time, demand for imports increased significantly due to growth in revenues in the economy. As a result, the current account surplus contracted, but, despite the withdrawal of funds from Russian assets by foreign investors in the third quarter, net capital inflow into the pri-

vate sector increased considerably and far surpassed the projected amounts and proceeds from current operations.

Using the managed floating exchange rate regime, the Bank of Russia cushioned fluctuations in the exchange rate of the ruble, restraining the pace of its appreciation. Bank of Russia interventions on the domestic foreign exchange market led to further significant growth in international reserves and this strengthened the financial position of the country but made it more difficult to implement a monetary policy aimed at reducing inflation.

As foreign currency flowed into the country, the monetary policy and the Russian Federation Stabilisation Fund helped control the excess money supply created by currency interventions. Nevertheless, although M2 growth slowed down in the second half of 2007, it remained high last year and exceeded the projected increase in money demand. This process showed that growing money supply created a risk for price stability not only in the year under review, but also in the medium term.

As budget expenditure rose, consumer demand continued to increase. As before, labour productivity grew more slowly than real wages and this also created the risk of higher inflation. The problem was compounded by the fact that food prices were rising on the world market and inflation was accelerating in the countries trading with Russia. As a result, consumer price growth grew in 2007 and full-year inflation reached 11.9%.

In 2007, the banking sector continued to demonstrate dynamic growth and its functional role in the economy has increased. This was the result of the measures taken by the Bank of Russia to strengthen the banking sector's capital base, improve the quality of banking risk management and upgrade the deposit insurance system.

The concentration of banking capital allowed the banking sector to meet to a fuller extent the demand for banking services and made Russian credit institutions more competitive. The growing presence of credit institutions with foreign interest on the Russian banking services market gave additional impetus to competition in the banking sector.

The world liquidity crisis became a serious test for the Russian banks. The shortage of funds on world financial markets in the second half of 2007 stimulated the Bank of Russia to maintain the banking sector's current liquidity by refinancing Russian banks. As a result, by most of the key indicators the Russian banking sector's performance in 2007 was better than in 2006 and by some indicators it was just slightly worse than in the previous year.

The problems of the world financial markets compelled the Bank of Russia to pay more attention to the assessment of liquidity of credit institutions, the performance of banks oriented to external borrowings and the effectiveness of the liquidity risk management system. It also took a series of measures to reduce to a minimum the adverse impact of the crisis on the value of its foreign exchange reserves.

The efforts made by the Bank of Russia to improve the institutional structure of the banking sector served the purpose of making it easier for credit institutions to set up new internal divisions and branches, encouraging the development of new banking services, ensuring transparency of the ownership structure of credit institutions and protecting the market against violators of banking laws. These measures led to a growth in the range of banking services, which became more accessible and affordable, and the further organisational and financial rehabilitation of the banking sector.

The upgrading of the payment system in 2007 made banking services more effective and the payment services provided by the banking system less costly and more affordable, and stimulated the use of new, advanced methods of effecting non-cash retail payments. To implement the Russian Banking Sector Development Strategy until 2008, the Bank of Russia in the second half of 2007 put into operation a real-time banking electronic speed payment system (BESP).

To make its activities transparent, the Bank of Russia in 2007 continued to publish analytical materials and statistical data in the *Bank of Russia Bulletin* and the *Bulletin of Banking Statistics* and post them on its website. In 2007, the Bank of Russia launched two new specialised publications, *Bank of Russia Currency Reserve Management* and *Payment and Settlement Systems* and created on its website a section titled *BESP System*. In addition, the Bank of Russia created an Extranet portal for contact with credit institutions.



**THE ECONOMIC AND
FINANCIAL SITUATION
IN RUSSIA**

I

I.1. THE ECONOMIC SITUATION IN RUSSIA

In 2007, the Russian economy developed in a situation of favourable prices of Russian exports on world markets and rapid growth in domestic demand. The growth of gross domestic product (GDP) and fixed capital investment accelerated, real disposable money income continued to increase, unemployment declined and a federal budget surplus remained.

The balance of payments was stable. Capital flow to the private sector and growth in foreign exchange reserves reached the highest levels since 1992. At the same time, the current account surplus went down year on year.

Russia's foreign debt continued to decrease due to both scheduled and ahead-of-schedule payments. Russia continued to repay its debt to the Paris Club of creditor nations, but the debt burden¹ on the country's economy increased due to a growth in private sector debt.

In 2007, rapid growth in aggregate demand, especially due to massive inflow of foreign capital, significantly increased the risk of higher inflation.

Consumer price inflation increased by 2.9 percentage points, as compared with 2006, and stood at 11.9% (December on December). The target set for 2007 inflation was surpassed. Core inflation stood at 11% as against 7.8% in 2006. Significant growth in food prices (to 15.6%

as against 8.7% in 2006) made a substantial contribution to the acceleration of price growth. Food prices rose in many countries in 2007.

Non-food prices increased by 6.5% in 2007, exceeding the previous year's growth by half a percentage point. Prices of construction materials went up by 16.2% (as against 11.5% in 2006).

Growth in the prices of paid services provided to the public slowed down slightly: in 2006 service prices grew by 13.9%, whereas in 2007 they increased by 13.3%. Growth in administered service prices slowed down by an estimated 0.1 percentage points. The most significant slowing of growth was registered in rent and public utility prices (to 14% from 17.9% in 2006).

Industrial producer prices rose by 25.1% in 2007 (as against 10.4% in 2006). The acceleration of growth in industrial producer prices was due to a 52.3% increase in producer prices in the mining sector (as against a 1.6% growth in 2006). Producer prices in the production, transmission and distribution of electricity grew by 15.0% (as against 9.8% in 2006).

In the manufacturing sector price growth accelerated to 17.9% as against 13.3% in 2006. The biggest increase in producer prices was registered in the production of coke (88% as against a fall of 4.7% in 2006) and petroleum products (42.2% as against 3.1% a year earlier).

¹ Foreign debt to GDP.

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

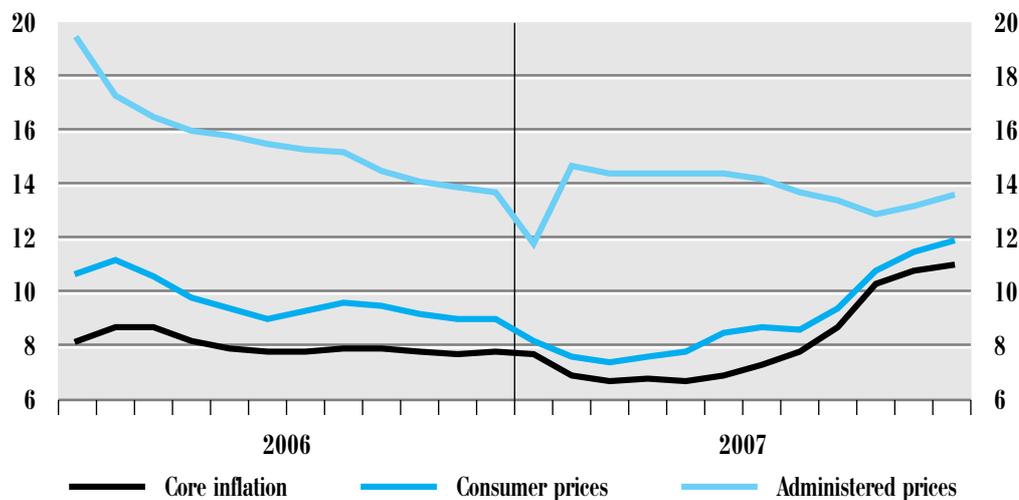


Chart 1

* Bank of Russia estimate.

As the number of gainfully employed citizens continued to grow in 2007, the number of unemployed continued to go down. The total number of jobless, calculated according to a methodology developed by the International Labour Organisation (ILO), stood at 6.1% of the economically active population (as against 7.2% in 2006).

GDP increased by 8.1% in 2007 (as against 7.4% in 2006). The most rapid rates of output growth were registered in construction, communications and retail and wholesale trade. Growth in industrial output remained unchanged from 2006 at 6.3%.

The positive net financial result in the economy¹ increased by 17.7% in 2007 year on year and reached 5,726.3 billion rubles. The share of loss-making enterprises contracted by 6.3 percentage points to 23.4% of total enterprises. The rate of return on goods, produce, work and services sold² rose slightly in 2007 (to 12.5% as against 12.3% in 2006).

Economic growth was due to the rapid expansion of investor and consumer demand. Growth in expenditures on household sector final consumption accelerated to 12.8% in 2007 from 11.2% in 2006.

Real disposable money income increased by 10.7% in 2007 (as against 13.5% in 2006). There was a rise in wages and salaries and government expenditures on social security. Growth in incomes was accompanied by a rapid expansion of consumer lending. As interest rates on deposits were too low to stimulate savings, the share of household spending on goods and services increased.

The acceleration of growth in government expenditures on final consumption (from 2.5% in 2006 to 5.0% in 2007) stimulated a more rapid increase in domestic demand.

Gross capital formation increased by 22.6% in 2007 (as against 18.3% in 2006). The biggest fixed capital investments were made in transportation and the fuel and energy sector.

In 2007, as in the previous year, fixed capital investments were financed mainly by borrowed funds. Bank loans accounted for 9.4% of the investment financing.

As imports grew considerably faster than exports, net exports of goods and services decreased by 28.1% in 2007.

Positive trends continued in foreign trade in 2007. As the terms of Russia's trade with other countries improved, the terms of trade index rose by 3% (as against 11% a year earlier).

¹ Excluding small businesses, banks, insurance companies and budget-financed organisations.

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

GDP CONSUMPTION
(as % of previous year)

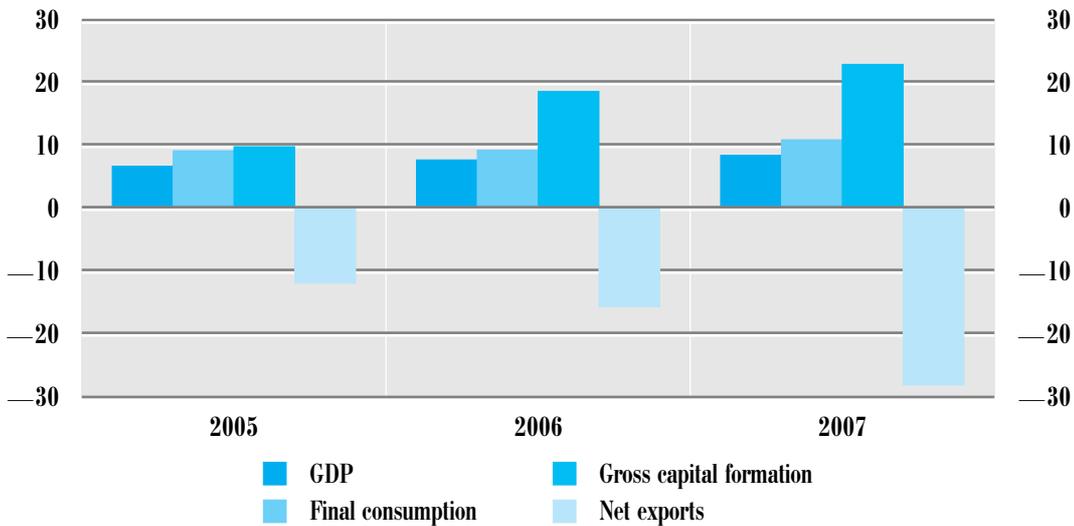


Chart 2

MERCHANDISE TRADE*
AND PRICE OF OIL

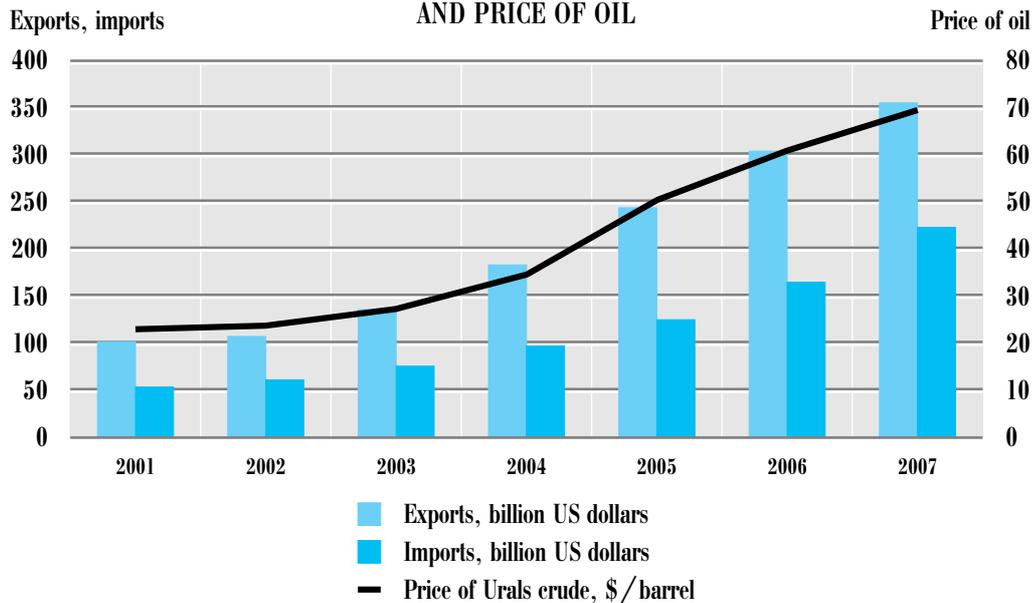


Chart 3

* According to balance of payments data.

Growth in export prices slowed down in 2007. There was also a slowing of growth in Russian export volumes. Exports of natural gas decreased as compared with the previous year. The value of oil exports in 2007 grew faster than overall exports, whereas the value of petroleum products and natural gas exports increased more slowly than exports in general. Growth in other exports accelerated and

their growth rates were higher than those of the major energy exports (oil, petroleum products and natural gas). The share of the major energy products in the commodity structure of exports contracted as the share of natural gas shrank, while the share of oil expanded.

Import growth continued to accelerate in 2007, mostly due to the expansion of import

volumes. As a result of the rise in world food and raw material prices, growth in import prices also accelerated, although the expansion of import volumes continued at rapid rates. The value of imports of investment goods continued to increase faster than the value of consumer

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

1.2. GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

The budget policy in 2007 was aimed at maintaining a well-balanced budget system and accumulating additional revenues from the severance tax and oil export duties in the Stabilisation Fund of the Russian Federation (hereafter Stabilisation Fund) for the purpose of ensuring macroeconomic stability and the effectiveness of budget expenditures.

Several factors contributed to the stability of government finance. Faster-than-expected growth in export and import volumes brought additional revenues to the federal budget. The acceleration of GDP growth was another contributing factor.

According to the Federal Treasury's preliminary report, federal budget revenue in 2007 aggregated 7,779.1 billion rubles, or 104.5% of the revenue approved by the 2007 Federal Budget Law. Relative to GDP, federal budget revenue stood at 23.6% as against 23.4% in 2006.

Federal budget expenditure aggregated 5,983.0 billion rubles, or 91.6% of the expenditure approved by the 2007 Federal Budget Law and 18.1% of GDP (as against 15.9% in 2006). Of these, non-interest expenditures equalled 5,840.0 billion rubles, or 91.5% of the non-interest expenditures approved by this Law and 17.7% of GDP (as against 15.3% in 2006).

The federal budget surplus stood at 1,796.1 billion rubles, or 196.8% of the surplus approved by the 2007 Federal Budget Law and 5.4% of GDP.

The excess of the average price of Urals crude over the benchmark price and the price assumed for the calculation of federal budget revenue indicators for 2007 allowed the Russian Government to increase the Stabilisation Fund, the balances of which in foreign currency accounts opened with the Bank of Russia grew by 1,502.2 billion rubles over the year and as of January 1, 2008, amounted to 3,849.1 billion rubles.

The balances of federal budget accounts opened with the Bank of Russia, including Stabilisation Fund accounts, and the balances of regional government and federal government extra-budgetary fund accounts increased by more than 50% in 2007 and as of January 1, 2008, stood at 5,119.5 billion rubles, 324.2 billion rubles and 203.6 billion rubles, respectively.

Pursuant to Russian Federation Government Resolution No. 229, dated April 21, 2006, 'On the Procedure for Managing the Stabilisation Fund of the Russian Federation,' in 2007 the Ministry of Finance continued to use money from the Stabilisation Fund to acquire US dollars, euros and British pounds and place them into the

Stabilisation Fund foreign currency accounts opened for the Federal Treasury with the Bank of Russia. As of January 1, 2008, there were no balances in the Stabilisation Fund ruble account opened with the Bank of Russia.

According to the Federal Treasury's preliminary data, consolidated federal budget revenue for 2007 aggregated 13,250.7 billion rubles, or 40.2% of GDP, expenditure stood at 11,245.8 billion rubles, or 34.1% of GDP, and the surplus equalled 2,004.9 billion rubles, or 6.1% of GDP. Regional consolidated budget revenue and expenditure stood at 4,841.8 billion rubles and 4,803.3 billion rubles, respectively, and the surplus equalled 38.5 billion rubles (14.7%, 14.6% and 0.1% of GDP, respectively).

According to the Federal Treasury's preliminary data, revenues and expenditures of the Pension Fund of the Russian Federation in 2007 stood at 1,946.6 billion rubles and 1,786.5 billion rubles, respectively, showing a surplus of 160.1 billion rubles; revenues and expenditures of the Social Insurance Fund of the Russian Federation stood at 167.7 billion rubles and 162.0 billion rubles, respectively, the surplus equalling 5.7 billion rubles; revenues and expenditures of the Federal Compulsory Medical Insurance Fund stood at 157.8 billion rubles and 158.2 billion rubles, respectively, showing a deficit of 400 million rubles.

According to the Finance Ministry's preliminary data, Russia's domestic government debt in 2007 increased by 236.3 billion rubles, or 22.2%, and totalled 1,301.1 billion rubles, whereas the upper limit set by the 2007 Federal Budget Law was 1,363.3 billion rubles. The estimated ratio of domestic government debt to GDP stood at 3.9% as of January 1, 2008, which represents a decrease of 0.1 percentage points from January 1, 2007.

As for the structure of the domestic government debt, government securities, valued at 1,248.8 billion rubles, accounted for 96.0% as of January 1, 2008, an increase of 220.8 billion rubles, or 21.5% over the year; government guarantees, valued at 46.7 billion rubles, accounted for 3.6%, an increase of 15.5 billion rubles, or 49.6%; other federal government debt obligations, valued at 5.6 billion rubles, accounted for 0.4%, unchanged from 2006.

As for the structure of the domestic government debt expressed in government securities,

FEDERAL BUDGET EXPENDITURE IN 2007 (%)

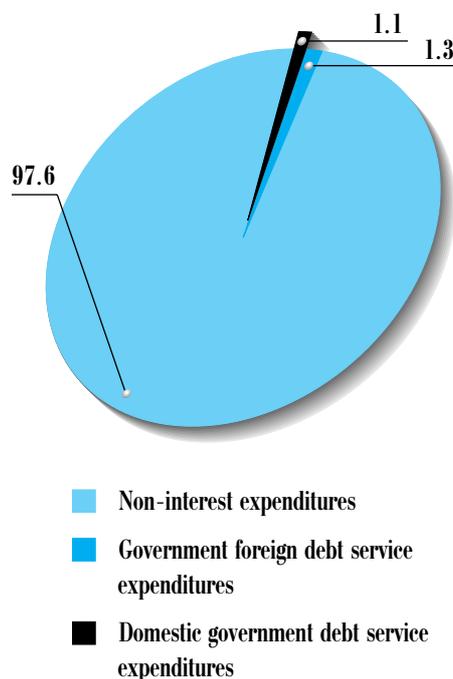


Chart 4

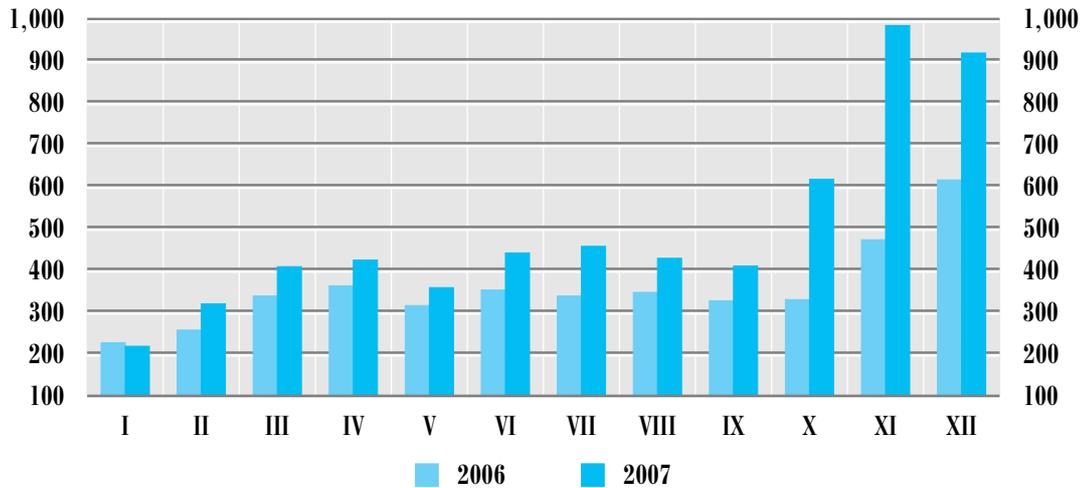
debt depreciation federal loan bonds (OFZ) accounted for 64.7% (807.6 billion rubles), permanent coupon-income federal loan bonds — 23.1% (288.4 billion rubles), government savings bonds — for 8.1% (101.4 billion rubles) and fixed coupon-income federal loan bonds — 4.1% (51.4 billion rubles).

The value of outstanding government securities traded on the organised securities market increased by 171.8 billion rubles, or 19.6%, over the year and as of January 1, 2008, it amounted to 1,047.4 billion rubles, or 80.5% of the total domestic government debt, as against 82.2% as of January 1, 2007.

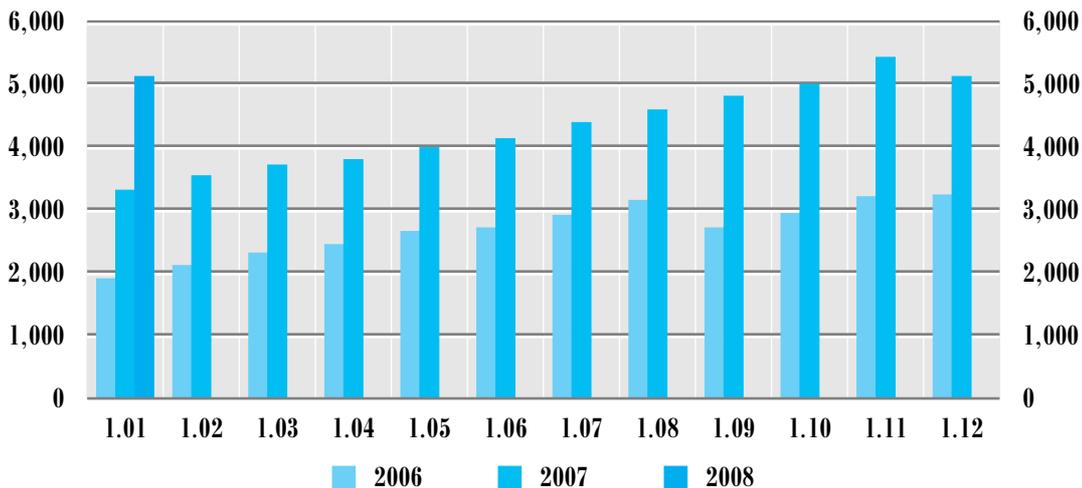
The share of the Finance Ministry's debt to the Bank of Russia in 2007 contracted by 3.0 percentage points to 20.1% of total domestic government debt.

The Finance Ministry's ruble-denominated debt to the Bank of Russia, calculated at the nominal value of government securities, rose by 15.4 billion rubles, or 6.3% over the year and reached 260.9 billion rubles, taking into account the government securities acquired by the Bank of Russia through repo operations; exclusive of these operations, it increased by 35.5 billion rubles, or 16.2%, to 255.1 billion rubles.

FEDERAL BUDGET EXPENDITURE (billion rubles)



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



Most of the Finance Ministry's debt to the Bank of Russia, including federal government securities acquired through repo transactions, is represented by federal loan bonds with a coupon income of 0% to 1.57% p.a. (evaluated at 200.9 billion rubles, they account for 77% of the debt) and federal loan bonds with a coupon income of 5.8% to 9% p.a. (these are evaluated at 60.0 billion rubles and account for 23% of the debt). Of these, federal loan bonds with a nominal value of 254.3 billion rubles have maturities from 9 to 29 years and 6.6 billion rubles of federal loan bonds mature in one year to five years.

The Finance Ministry's foreign currency-denominated debt to the Bank of Russia, which under federal law is included in Russia's foreign debt, stood as of January 1, 2008, at 132.2 billion rubles at the nominal value of foreign currency-denominated federal government securities, which represents an increase of 25.3 billion rubles, or 23.6%, over the year, taking into account the government securities acquired by the Bank of Russia through repo operations; exclusive of these operations, this debt grew by 20.3 billion rubles, or 19.0%, to 127.2 billion rubles.

I.3. THE FINANCIAL SECTOR

At the end of 2007 the Russian system of financial intermediation comprised 1,136 operating credit institutions, 857 registered insurance companies, 252 non-governmental pension funds and 1,024 unit investment funds. Credit institutions remained the most important type of financial enterprise: in 2007 their equity capital increased to 8.1% of GDP as against 6.3% in 2006. Net assets of unit investment funds grew to 2.3% of GDP (as against 1.6% a year earlier), whereas non-governmental pension funds saw their own property contract to 1.8% of GDP (from 1.9% in 2006) and the authorised capital of insurance companies decreased to 0.5% of GDP (as against 0.6% a year earlier).

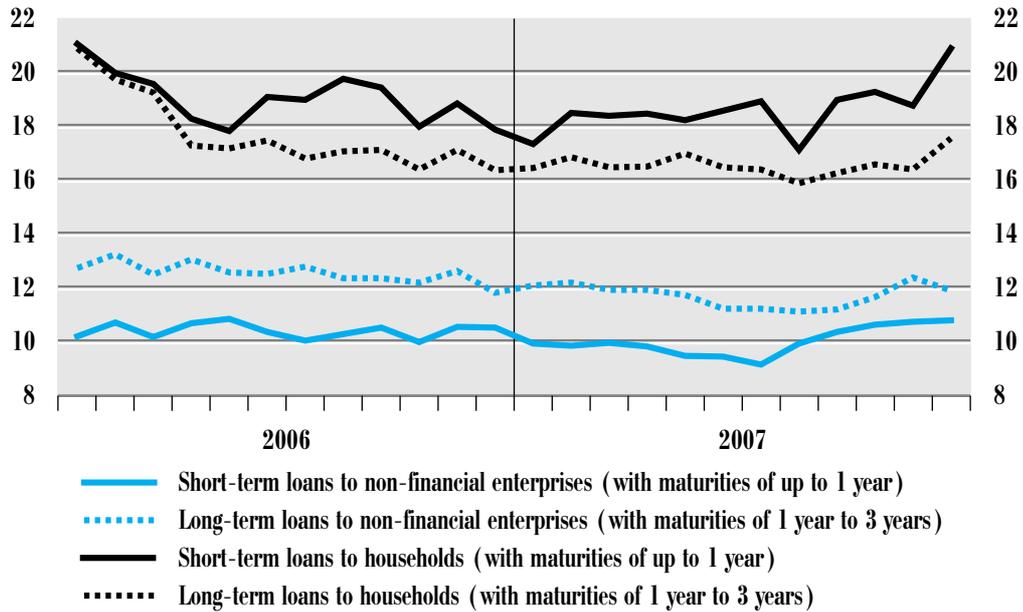
The rates of growth in the major segments of the market changed in 2007. Unlike the situation in 2006, when rapid growth in stock market capitalisation largely affected the overall dynamics of the Russian financial market, in 2007 the most dynamic segment was bank lending to the non-financial enterprise and household sectors. Capitalisation of the stock market grew somewhat faster than GDP. Bank loans to non-financial enterprises increased by more than 50% to 27.4% of GDP as of January 1, 2008. As before, the private corporate bond segment expanded more rapidly than the government bond segment.

The liquidity crisis on the world financial market affected the situation on the Russian financial market in the second half of 2007. In August and September the reduction of aggregate banking sector reserves was accompanied by significant growth in money market rates and volatility and the ruble value of the Bank of Russia bi-currency basket also became more volatile. The capital market demonstrated a sharp fall in primary corporate and regional bond placements; stock prices went down and the yield of debt securities increased on the secondary market. The difficult situation in most sectors of the Russian financial market continued into October and November and only by the end of the year things began to return to normal (money market rates started to fall and stock prices began to rise). It was the result of the measures taken by the Bank of Russia to expand the refinancing of credit institutions and the seasonal increase in the flow of budget funds to the banking system.

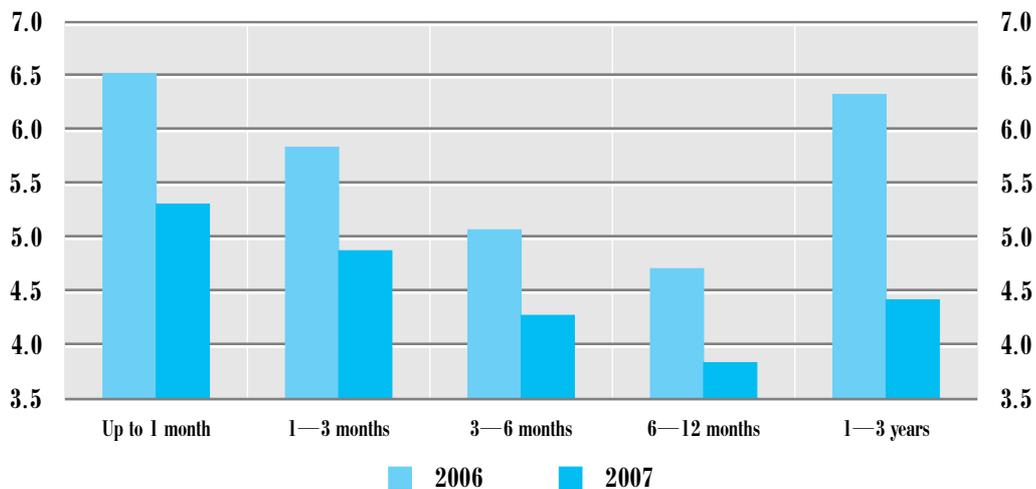
Price indicators in the main sectors of the financial market had different dynamics. The government bond market yield fluctuated within a narrow flat range almost throughout the entire year, except September, when it surged due to an abrupt fall in demand on the OFZ market. The average annual gross yield to redemption¹ of Russian government bonds rose to 6.5% p.a. in 2007

¹ *Russian government bond gross yield to redemption (RGBY) is the federal loan bond yield indicator compiled by the Moscow Interbank Currency Exchange.*

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



INTEREST MARGIN ON BANK LENDING AND DEPOSIT OPERATIONS
WITH NON-FINANCIAL CUSTOMERS WITH DIFFERENT TERMS IN 2006—2007
(annual average, percentage points)



as against 6.6% p.a. in 2006. The corporate bond market registered a fall in yields in the period from January to July, but in August and September yields soared and their average annual level increased as a result. The average yield on corporate bonds on the secondary market rose to 7.7% p.a. in 2007 as against 7.6% in 2006, according to news agency Cbonds.ru. There was a sharp slowing of growth in Russian stock prices in 2007. As rates rose on the interbank loan market in

August—November 2007 due to the increased cost of external funding, the average interest rate on overnight interbank ruble loans went up to 4.4% p.a. in 2007 from 3.4% p.a. in 2006.

The cost of funds raised by the banking sector from the household and corporate sector changed as follows: the average interest rate on deposits with maturities of up to one year differed slightly from 2006, the average interest rate on household ruble-denominated time deposits and depos-

its with maturities of more than one year increased from 5.9% to 7.3% p.a. and the average interest rate on corporate ruble deposits rose from 5.0% to 7.5% p.a.

The level of interest rates on ruble loans to non-financial enterprises in 2007 was lower than in 2006. The average monthly rate on short-term ruble loans to non-financial enterprises varied between 9.2% and 10.8% p.a. during 2007 and the rate on long-term loans ranged from 10.8% to 12.2% p.a. Interest rates on bank loans extended to households in rubles continued to decline in 2007 but to a lesser extent than in 2006. The most significant fall (by 1.8 per-

centage points to 14.5% p.a.) was registered in the interest rate on 1- to 3-month loans to households. As was the case in 2006, the interest rate on 6- to 12-month loans to households was the highest at 20.1% p.a.

The overall level of the interest margin in bank operations with non-financial customers declined as compared with 2006. The average interest margin in major operations with non-financial customers was 4—5 percentage points, depending on maturity. As before, the interest margin in operations with households was higher than in operations with non-financial enterprises. Interest rates continued to differ by region.

1.3.1. CREDIT INSTITUTIONS

In 2007, the Russian banking sector retained its dynamics, despite the turmoil on world financial markets in the second half of the year. As the external borrowing conditions became tougher, the expansion of the resource base of some credit institutions slowed down and the cost of refinancing obligations and maintaining liquidity increased. Nevertheless, Russia successfully coped with the consequences of turbulence on world financial markets, while its banking sector demonstrated resistance to external adversities.

Banking sector assets increased by 44.1% to 20,241.1 billion rubles¹ in 2007, demonstrating the same growth as in 2006. The expansion of lending to non-financial enterprises (by 51.6%) and households² (by 57.0%) had a significant effect on asset dynamics in 2007. Assets to GDP increased from 52.2% to 61.4%.

Equity capital increased by 57.8% (as against 36.3% in 2006). As of January 1, 2008, almost 64% of Russian credit institutions had a capital of more than 5 million euros (about 57% of credit institutions as of January 1, 2007). Capital to GDP increased from 6.3% to 8.1%.

In 2007, competition continued to increase in all major segments of the banking services market, particularly on the retail banking market. More and more banks actively increased lending to households. In 2007, the number of banks in which loans to households exceeded 20% of assets (the banking sector average ratio was 16.0% as of January 1, 2008) increased from 295 to 324.

Competition increased rapidly on the household deposit market as reflected in the reduction of Sberbank's share of this market from 53.3% to 51.4% (by 1.9 percentage points as against 1.1 percentage points in 2006).

Foreign capital continued to expand its presence on the Russian banking services market. The number of foreign-controlled credit institutions³

reached 86 as of January 1, 2008 (as against 65 as of January 1, 2007). Of these, 15 are among the 50 credit institutions operating in Russia with the greatest assets. The share of foreign-controlled banks expanded from 12.1% to 17.2% in banking sector assets and from 12.7% to 15.7% in banking sector equity capital in the period under review.

The presence of foreign-controlled banks is becoming increasingly noticeable on the retail banking services market: household deposits in these banks and loans they extend to individuals are growing faster than in the banking sector as a whole. The share of these banks on the household lending market in 2007 expanded from 14.0% to 18.8% and on the household deposit market — from 6.2% to 8.9%. Foreign-controlled banks are rapidly increasing lending to the non-financial corporate sector: in 2007 their share of aggregate banking sector loans to non-financial enterprises grew from 10.0% to 15.6%.

Increased competition in the banking sector stimulates the expansion of banking services and products to the regions, which now have a wider choice of banking services due to the expansion by credit institutions of their regional branch networks.

While at the beginning of 2007 there were 14 credit institutions, branches and additional offices per 100,000 of population in Russia, as of January 1, 2008, there were 17 (inclusive of internal divisions of credit institutions, this number increased from 22 to 25). This growth was registered in all federal districts.

BANKING SECTOR LIABILITY STRUCTURE. Despite the crisis on world financial markets, Russian credit institutions continued to strengthen their resource base, while structural changes occurred in banking sector liabilities.

¹ Pursuant to Bank of Russia Regulation No. 302-P, dated March 26, 2007, 'On the Accounting Rules in Credit Institutions Incorporated in the Russian Federation,' banking sector assets as of January 1, 2008, were recalculated and stood at 20,125.1 billion rubles.

² Including unincorporated entrepreneurs unless indicated otherwise.

³ Credit institutions with a 50%-plus foreign stake in authorised capital.

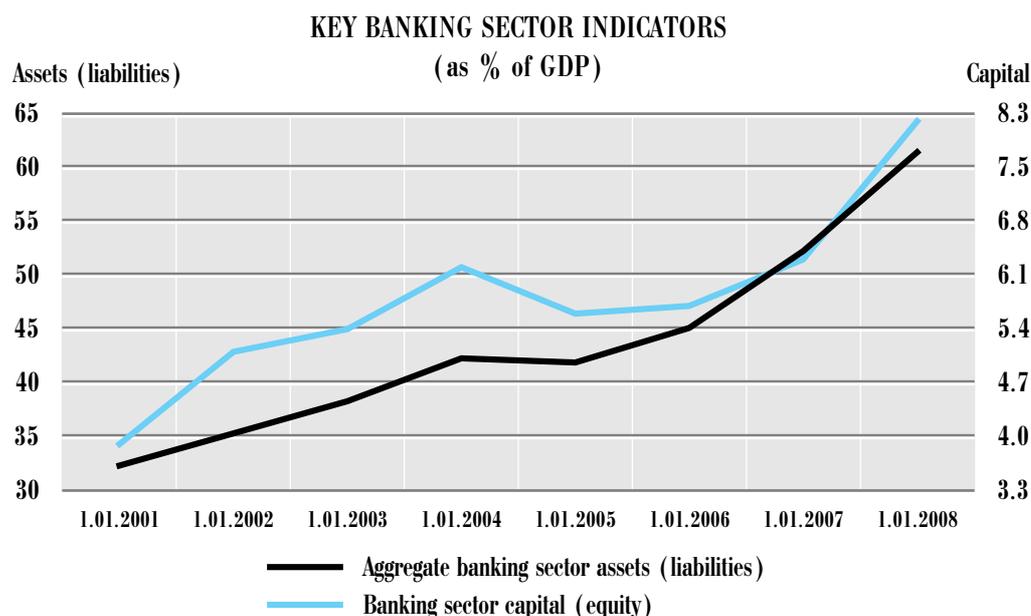


Chart 9

The balances of customer accounts¹ increased by 42.3% in 2007 and reached 12,053.1 billion rubles, but their share in banking sector liabilities somewhat reduced from 60.3% to 59.5%.

As the overall economic situation remained good, the principal source of expansion of the resource base of credit institutions in 2007, as in 2006, was funds raised from enterprises², which increased by 48.1% (as against 54.8% in 2006). Their share in aggregate banking sector liabilities grew from 32.5% to 33.4%. Funds raised from enterprises accounted for 35.5% of overall growth in banking sector liabilities.

Corporate deposits increased at the most rapid rate in 2007: their growth stood at 67.5% (as against 64.8% in 2006) and their share increased from 11.0% to 12.8% of aggregate banking sector liabilities.

Growth in household deposits, which had reached 5,136.8 billion rubles by the end of 2007, slowed down to 35.4% from 37.7% in 2006. The share of this source of funds also contracted slightly, from 27.0% to 25.4% of aggregate banking sector liabilities. At the same time, household

deposits remained the most steadily growing source of resources for banks. The slight fall in the rate of growth in these deposits was due to the increased public attention to alternative investments, such as unit investment funds (PIFs) and Sberbank and VTB Bank shares. Ruble deposits have become somewhat less attractive as a means of protecting household savings against accelerating inflation.

Beginning from 2004, household ruble deposits have been growing considerably faster than foreign currency deposits. In 2007, ruble deposits increased by 41.3%, whereas foreign currency deposits³ grew by 13.5% (51.9% and 2.4% in 2006, respectively). These figures show that in recent years people have preferred to keep their savings in the national currency. In 2007, the share of ruble deposits expanded from 83.4% to 87.0% of total household deposits. Household deposits with terms longer than one year increased by 39.0% in 2007 and their share grew from 61.0% to 62.6% of total household deposits with banks.

Funds raised by credit institutions by issuing debt obligations increased by 15.5% in 2007 (as

¹ Balances of corporate accounts, including all-level budget funds and extra-budgetary funds, household funds and float relating to factoring and forfeiting operations and funds written off from customer accounts but not passed through a credit institution's correspondent account.

² Except resident credit institutions and non-resident banks. The main component of this aggregate, the funds raised from enterprises, comprises two major items, the balances of settlement and other accounts and corporate deposits.

³ In dollar terms.

BANKING SECTOR LIABILITY STRUCTURE (%)

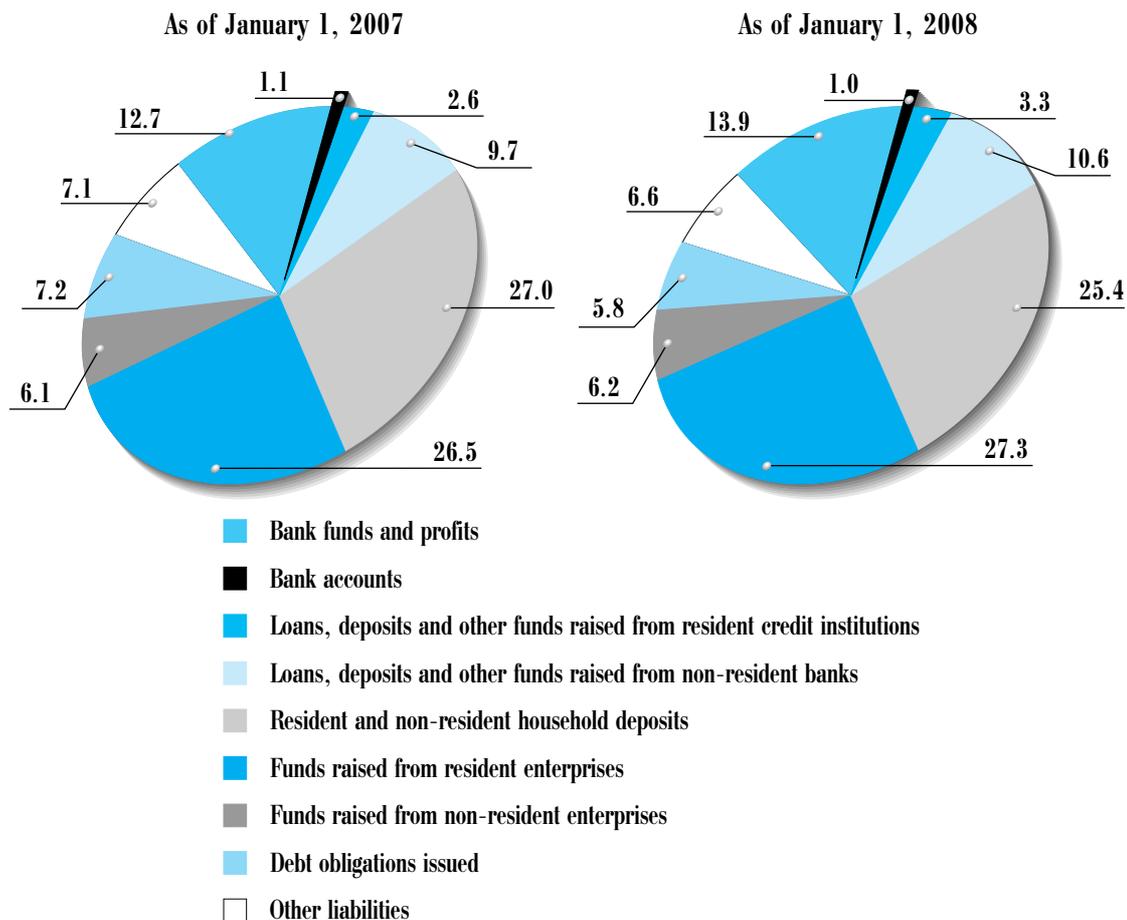


Chart 10

against 35.9% in 2006) and totalled 1,176.1 billion rubles, accounting for 5.8% of banking sector liabilities. Promissory notes continue to account for most of the debt obligations issued by banks, although their share reduced significantly (from 77.6% as of January 1, 2007, to 69.9% as of January 1, 2008). The value of bonds and savings certificates issued by banks increased considerably (by 70% and 40%, respectively). However, their aggregate share in banking sector liabilities has remained small (1.3% as of January 1, 2007, and 1.5% as of January 1, 2008).

The issue of bank bonds on the domestic financial market is still contained by high issue and placement costs and the deterioration of the situation on the debt market as a result of instability on world financial markets in the second half of 2007. On the other hand, the in-

clusion of bank bonds in the Bank of Russia Lombard List has provided an additional impetus for issuers.

Funds raised by credit institutions from the Bank of Russia accounted for about 0.1% of banking sector liabilities at the beginning of 2007 and 0.2% at the end. However, in some periods the share of these funds expanded significantly: to 0.6% as of September 1, 2007, 1.1% as of November 1, 2007, and 1.2% as of December 1, 2007¹. This was the result of the significant increase in liquidity provided by the Bank of Russia (see II.1.2).

BANKING SECTOR ASSET STRUCTURE. Credit institutions' active operations in 2007 were characterised, above all, by further growth in loans to non-financial enterprises and households.

¹ Taking into account repo transactions.

BANKING SECTOR ASSET STRUCTURE (%)

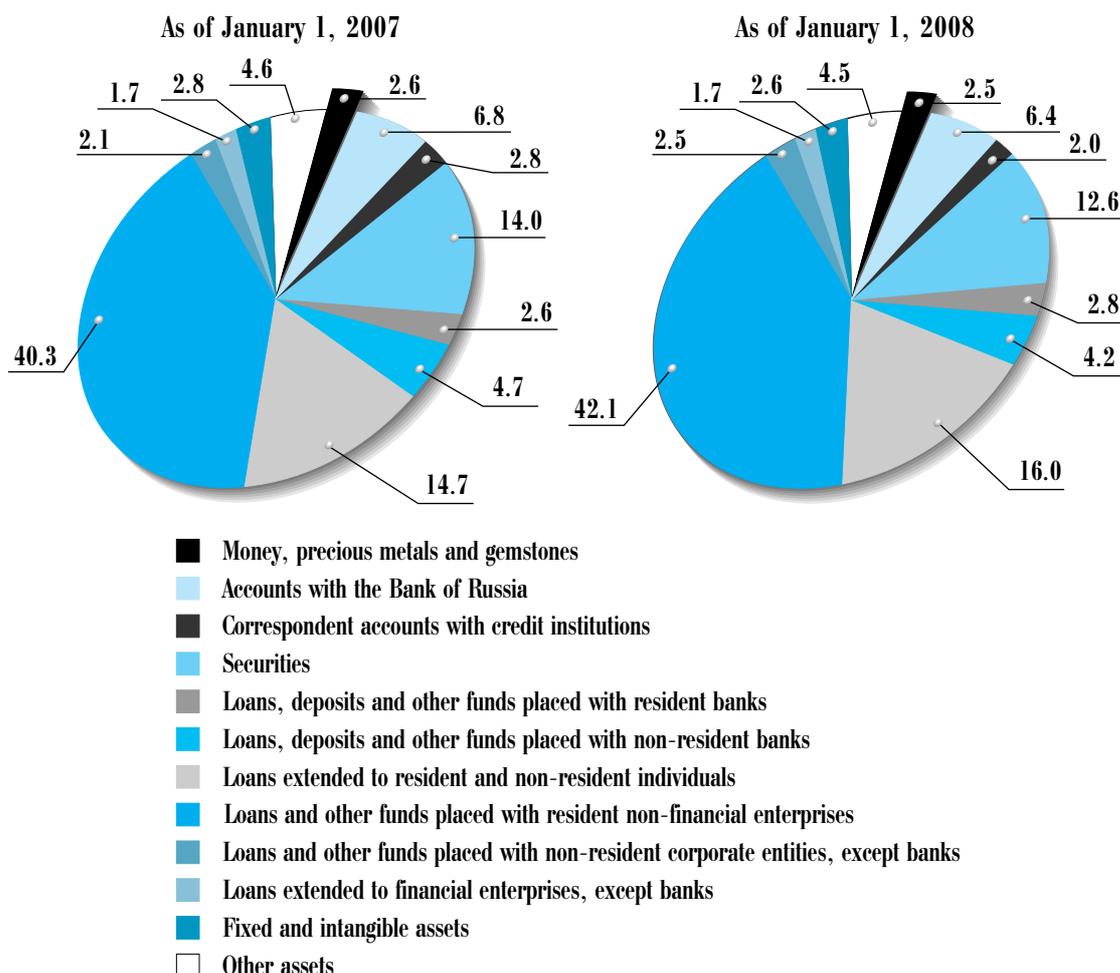


Chart 11

These accounted for 68.7% of growth in banking sector assets in 2007. Total loans to this category of borrowers increased by 53.0% in 2007 and reached 12,288 billion rubles as of January 1, 2008, and their share in banking sector assets grew from 57.2% to 60.7%. Relative to GDP, the value of these bank loans increased from 29.9% to 37.3%.

Loans to non-financial enterprises grew by 51.6% (as against 39.6% in 2006) and reached 9,046.2 billion rubles as of January 1, 2008, and their share in banking sector assets increased from 42.5% to 44.7%. Most of these loans (73.6%) were extended in rubles. The improved financial situation of non-financial enterprises stimulated growth in loans to this sector. Lending volumes expanded particularly in sectors characterised by high investor activity, such as construction (by 85.1%), agriculture, hunting and forestry (by

56.4%) and transportation and communications (by 50.8%).

The share of long-term loans (with terms over one year) expanded to 51.6% of total loans to resident non-financial enterprises (as against 45.9% by the beginning of 2007) and almost 66% of these loans were extended in rubles.

As before, lending to households increased at rapid rates (by 57.0% in 2007 as against 75.1% in 2006). Over the year the share of loans to households in total bank loans expanded from 21.9% to 22.7% and in aggregate banking sector assets from 14.7% to 16.0%. Most of the loans to households (87.3%) were extended in rubles. At the same time, housing mortgage loans expanded fast. Debt on housing mortgage loans increased by a factor of 2.6. The share of housing mortgage loans in total household loans grew from 12.5% to 20.6%, but their share in banking sector as-

sets remained quite small (3.0% as of January 1, 2008).

There was a rise in credit institutions' activity on the securities market in 2007: bank financial investments increased by 30.2% (as against 27.4% in 2006) and reached 2,554.7 billion rubles, but their share in banking sector assets went down from 14.0% to 12.6%. Lower rates of growth in financial investments amid the expansion of aggregate banking sector assets were due to the increased volatility of the Russian stock market, caused by the liquidity crisis on the world financial market. As a result, in the third quarter of 2007 bank financial investments declined, mostly due to the reduction of debt obligation portfolios prompted by the need to create a 'liquidity cushion.'

It should be noted that different banks reacted differently to the changed market conditions. The larger banks that had no problem with liquidity used the situation to strengthen their leading positions on the loan market: the share of the top five banks in terms of assets in total loans to non-financial enterprises grew from 46.1% to 50.3% in the second half of 2007.

Price fluctuations on the stock market did not affect the dynamics of bank investments in shares. In 2007, growth in bank investments in shares (by 61.0%) was 1.8 times higher than in 2006 and exceeded growth in investments in all other securities. The share of stocks in the securities portfolios went up from 19.9% to 24.6%. The share of debt obligations reduced from 68.4% to 65.5% and that of discounted promissory notes — from 11.7% to 9.8% in 2007.

Unlike the situation in 2006, in 2007 the share of investments in resident corporate debt obligations (bonds) in total investments in debt obligations went down by 4.3% to 384.9 billion rubles and their share in total investments in debt obligations shrank from 30.0% to 23.0% and in banking sector assets — from 2.9% to 1.9%.

In the meantime, investments in resident bank debt obligations grew at high rates (by 159.8%) and their share in total investments in debt obligations reached 7.6% as of January 1, 2008. Investments in federal government debt obligations increased by 8.0% and reached 580.3 billion

rubles, but their share went down from 40.1% to 34.7% of total debt obligations and from 3.8% to 2.9% in aggregate banking sector assets.

INTERBANK CREDIT CLAIMS AND OBLIGATIONS.

The crisis on international financial markets seriously affected Russian interbank market dynamics in 2007. The second half of the year saw a rise in interest rates. At the same time, the trend towards growth in interbank loans taken¹ continued in 2007. Last year they increased by 62.2% (as against 59.3% in 2006) to 2,807.4 billion rubles and their share in banking sector liabilities grew from 12.3% as of January 1, 2007, to 13.9% as of January 1, 2008. The balances of funds raised on the domestic interbank market in 2007 grew by 83.5% and their share in banking sector liabilities increased from 2.6% to 3.3%.

The possibility of borrowing from non-residents by Russian banks was affected by the global reassessment by foreign investors of financial market risks in the second half of 2007, which resulted in growth (by 150—200 basis points) in borrowing costs alongside a reduction by foreign creditors of loan limits on most of their Russian counterparties. The value of obligations on loans received from non-resident banks in 2007 increased by 56.5% (as against 74.1% in 2006). The share of loans from non-resident banks in total interbank loans taken over the year went down from 78.9% to 76.1% and as of January 1, 2008, this source of funds accounted for 10.6% of banking sector liabilities (as against 9.7% as of January 1, 2007). Loans taken from non-resident banks by foreign-controlled banks increased by 117.4% in 2007, whereas loans taken from non-resident banks by banks controlled by Russian capital grew by 34.7%.

Claims on interbank loans extended in 2007 increased in value by 36.9% (as against 55.0% in 2006) and reached 1,418.1 billion rubles, whereas their share in banking sector assets went down from 7.4% to 7.0%. Unlike the situation in 2006, in 2007 the most rapid growth was typical of funds placed on the domestic interbank market (52.6%); as a result, their share in banking sector assets expanded from 2.6% to 2.8%. Loans placed with non-resident banks

¹ Loans, deposits and other funds raised on the interbank market (including precious metals).

increased by 28.2% in 2007, whereas their share in banking sector assets went down from 4.7% to 4.2%.

The ratio between the excess of loans obtained from non-resident banks over loans extended to these banks in 2007 and banking sector liabilities increased from 5.0% as of January 1, 2007, to 6.3% as of January 1, 2008.

FINANCIAL SITUATION OF CREDIT INSTITUTIONS. Banking sector profit increased by 36.7% in 2007 (as against 41.8% in 2006). Profit made by credit institutions in 2007 grew to 508.0 billion rubles and, inclusive of the financial results of prior years, it reached 627.0 billion rubles (as against 371.5 billion rubles and 444.7 billion rubles in 2006, respectively).

The share of profit-making credit institutions expanded from 98.4% to 98.9% of the total number of operating credit institutions, while the number of loss-making credit institutions fell from 18 to 11, or from 1.5% to 1.0% of the total. In 2007, operating credit institutions incurred a total loss of 900 million rubles (as against 800 million rubles in 2006).

The rate of return on banking sector assets in 2007 stood at 3.0% and the rate of return on capital — at 22.7% (as against 3.2% and 26.3% in 2006, respectively)¹. The slowdown in the growth in profit and profitability of credit institutions is, to some extent, the result of overcoming the liquidity shortage in the banking sector in August—November 2007. In addition, the reduction of the rate of return on capital is attributable to the significant growth in capital in the first half of 2007.

The banking sector income structure was largely determined by the further expansion of credit investments and growth in commission received from banking operations. Net interest income remains the main component of banking sector net income²: in 2007 it accounted for 60.1% of net income (as against 59.9% in 2006).

The second most important element of net income is net commission income. Its share has not changed significantly either: 27.6% in 2006 and 27.3% in 2007. At the same time, growth in net commission income slowed down and became comparable with growth in net interest income (in 2006 net commission income grew almost twice as fast as interest income) and one of the reasons for this was the tightening of supervision over lending to households.

The share of net income from securities trading and revaluation went down to 10.1% of total income in 2007 from 11.3% in 2006, largely due to the fact that in the third quarter of 2007 banks restructured their assets, reducing financial investments with the objective of maintaining growth in loans, the principal source of income from banking operations.

The share of banking sector net income from operations with foreign currency and foreign currency valuables, including the exchange rate differences, went down to 3.9% of net income in 2007 from 4.5% in 2006.

Maintenance and administrative expenses of credit institutions increased by 41.2% in 2007 (as against 37.5% in 2006) and their share in net income expanded to 46.8% (as against 45.4% in 2006). This growth was partly the result of the expansion of the banking business.

The analysis of the banking sector's key financial performance indicators shows that the banking sector remained quite stable in 2007. The share of financially sound credit institutions expanded over the year from 94.7% to 96.3% of total credit institutions. It is important to note that the share of financially sound credit institutions in aggregate banking sector assets in 2007 remained very large — 99.6%.

The equity capital of operating credit institutions aggregated 2,671.5 billion rubles as of January 1, 2008. The principal source of banking sector capitalisation in 2007 was paid-up authorised capital and issue proceeds. These increased by 645.9 billion rubles (62% of aggregate equity capi-

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 Net income is the financial result before making (recovering) provisions and exclusive of maintenance and administrative expenses. It is calculated in accordance with the Profit and Loss Statement of Credit Institutions (form code 0409102).

Chart 12

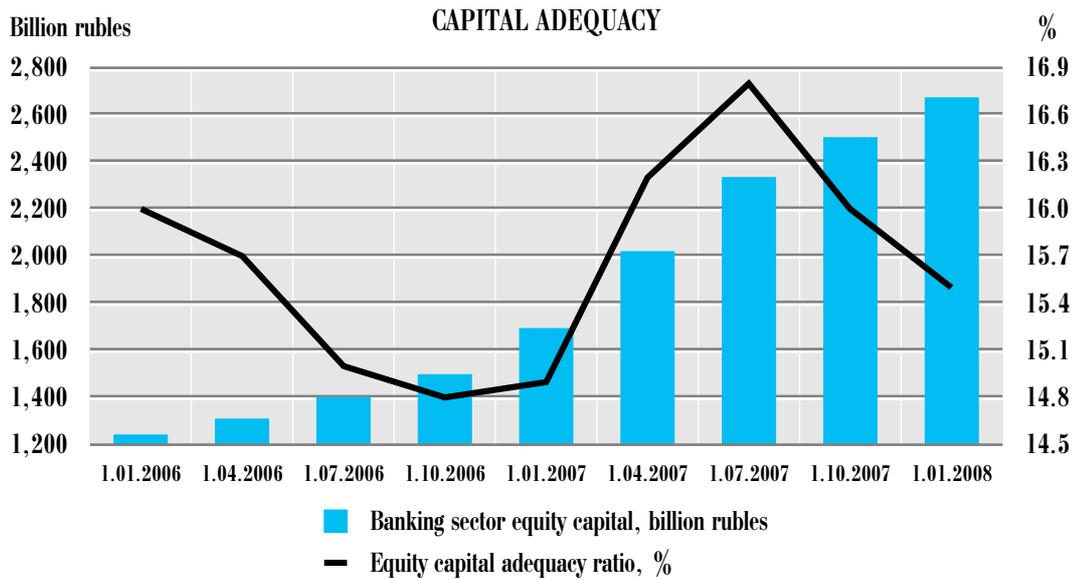
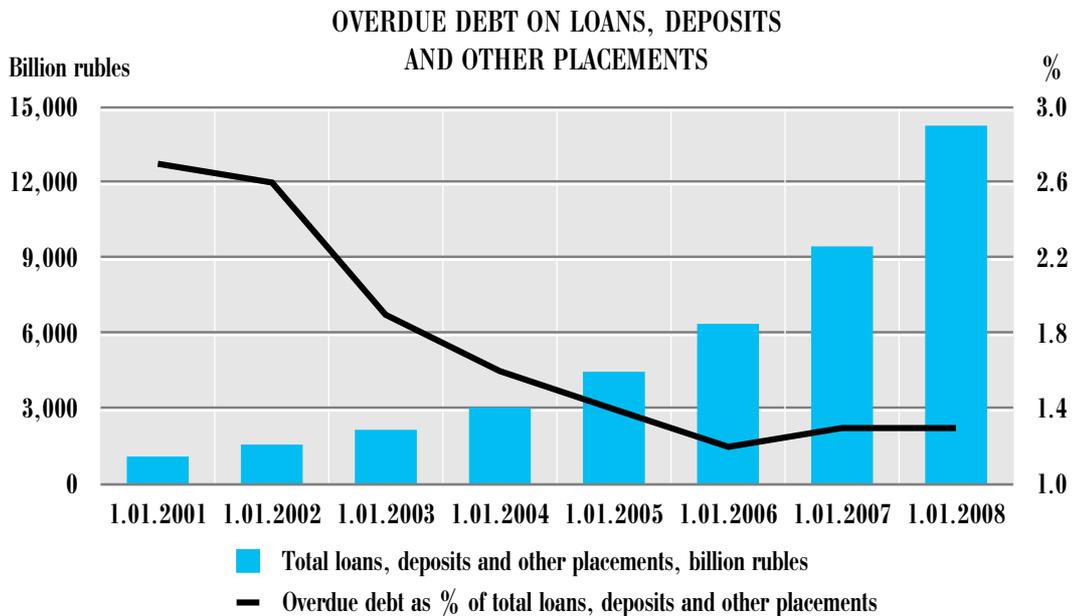


Chart 13



tal growth¹). It should be noted that growth in the authorised capital and issue proceeds of Sberbank and VTB Bank, which was largely the result of their IPOs, accounted for two-thirds of the growth in the authorised capital and issue proceeds of the entire banking sector. The second most important source was the increase by 294.9 billion rubles, or 28.3% of aggregate equity capital growth, of profit and funds created from profit.

As a result of accelerated growth in equity capital relative to risk-weighted assets, the average banking sector capital adequacy ratio rose from 14.9% to 15.5% in 2007. It should be emphasised that the high rates of capitalisation have been achieved because the Bank of Russia is watching closely the quality of bank capital and taking resolute actions to prevent capital padding.

¹ Here and below capital growth factor ratios are calculated in their sum total, that is, exclusive of capital loss factor ratios.

BANKING SECTOR RISKS. Instability on international financial markets in the second half of 2007 demonstrated the need for the whole world, including Russia, to take a more conservative approach to risk evaluation by both bankers and regulators. Net capital outflow from Russia in August and September 2007 provoked a sharp rise in demand for ruble liquidity by Russian banks and a corresponding increase in interbank rates. It showed how important liquidity risk management was. Overall, the average level of banking sector liquidity in 2007 was higher than in 2006: the value of the most liquid assets¹ in 2007² reached 1,477.9 billion rubles (as against 977.3 billion rubles in 2006), which represents 8.8% of the average value of banking sector assets (8.5% in 2006). However, there were several periods in 2007 when liquidity dynamics were different. Special mention should be made of the period from August to November, when the average monthly value of liquid assets declined significantly (the November average stood at 1,284.6 billion rubles, or 6.9% of assets), confirming the importance of liquidity risk management.

As for credit and market risk, the expansion of the banking business in 2007 did not cause them to grow to an extent as would not allow the banks to cover them adequately by capital and reserves.

Credit risk, which predominated in terms of quantity when capital adequacy was determined (credit risk accounted for 94.4% of aggregate

risk³ as of January 1, 2008), increased by 50.5% in the period under review (as against 46.1% in 2006).

Judging by credit institutions' reports, the overdue debt dynamics of the corporate portfolio differed from those of the retail portfolio. As loans to non-financial enterprises grew more than twice as fast as overdue debt, the latter's share reduced from 1.1% to 0.9%. Conversely, the share of overdue debt on loans to individuals expanded from 2.6% to 3.1%.

The share of market risk in aggregate banking sector risks in 2007 remained small (5.6%). It is interest rate risk that accounts for the largest share of market risk (62.8%) as banks are actively engaged in securities trading.

The assessments of stability of the Russian banking sector in 2007 made using the stress testing methods, showed that capital can absorb losses calculated in the stress tests. At the same time, the tests showed that the Russian banking sector vulnerability to the major types of risk had increased.

The continued dynamic growth of the banking sector, especially the lending operations conducted by Russian banks, should be judged in the context of changed external conditions, particularly the global reassessment of financial risk. Therefore, the gradual shift by some banks from the strategies effective in the period of credit expansion to more conservative policies, in the second half of 2007 was quite logical and conducive to the betterment of risk management.

¹ 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.

² Here and below average liquidity risk ratios are calculated as the chronological average for the corresponding period.

³ The credit risk share in the denominator of the formula used to calculate the NI ratio.

1.3.2. OTHER FINANCIAL INSTITUTIONS

INSURANCE COMPANIES. As of January 1, 2008, 857 insurance companies were on the Single State Register of Insurers (as against 918 insurance companies as of January 1, 2007). The main reasons for the fall in the number of insurance companies were the revocation by the Federal Insurance Supervision Service (FISS) of licences from insurers that failed to comply with the minimum authorised capital requirements and the increase in the number of mergers and acquisitions, including those that involved non-residents. The aggregate authorised capital of insurance companies expanded by 2.9% in 2007 (as against 9.5% in 2006) and reached 157.9 billion rubles. The share of foreign capital more than doubled and stood at 9.9%.

According to the FISS, 819 insurance companies that have presented their reports received 776.0 billion rubles in insurance premiums in 2007, an increase of 27.1% on 2006. They paid 481.9 billion rubles in indemnities, which represents an increase of 36.6%. Both premiums and indemnities in 2007 grew faster than in 2006.

Growth in voluntary insurance premiums accelerated to 20.7% in 2007 from 15.5% in 2006, but the trend towards a reduction of their share in total premiums continued (55.2% as of January 1, 2007, and 52.5% as of January 1, 2008). The value of life insurance premiums increased (by 42.0%) for the first time since 2003. This was largely the result of the completion of the FISS's efforts to clear this segment of the insurance market from tax evasion schemes. As before, property insurance accounted for the largest part of voluntary insurance premiums (67.3%).

Growth in compulsory insurance premiums was almost unchanged from 2006 at 34.9%. As usual, compulsory medical insurance accounted for the bulk of their total value (78.6%). Growth in compulsory third-party liability car insurance premiums slowed down 1.3 times compared with 2006 (to 13.5% for 2007), and their share in

total compulsory insurance premiums went down from 23.4% to 19.7%.

In the first nine months of 2007, the share of reinsurers in total insurance company assets reduced to 10% with resident reinsurers accounting for 60%.

The ratio of insurance indemnities to insurance premiums continued to increase in 2007 and reached 62.1% as of January 1, 2008, as against 57.8% as of January 1, 2007. It grew particularly (by 5.0 percentage points to 33.3%) in property insurance.

According to reports presented by insurance companies to the Bank of Russia, the insurers' principal investments remained securities (42.0% as of October 1, 2007) and bank deposits (22.0%). In the first nine months of 2007, insurers' investments in the banking sector increased by 24%, whereas their investments in the non-financial enterprise sector decreased by 15%.

UNIT INVESTMENT FUNDS (PIFs). PIF growth dynamics in 2007 was mostly affected by the somewhat less favourable situation on the Russian stock market as compared to 2006. More than 60% of growth in the net asset value (NAV) occurred in the first half of 2007 and the average annual rate of return of most PIFs was lower than in 2006. Net inflow of shareholder funds exceeded the 2006 level more than two-fold, but unlike the situation in 2006, closed-end PIFs accounted for almost its entire value.

The number of PIFs in 2007 rose by 383 to reach 1,024¹ as of January 1, 2008. The biggest increase was registered in the number of closed-end PIFs — by 197. The growth of the share of these funds in total PIFs to 43.4% is attributable to a high demand for their services, especially on the real estate market. Open-end PIFs accounted for 46.8% and interval PIFs — for 9.8%.

The total value of unit investment fund net assets reached 745.1 billion rubles, but in 2007 it grew more slowly than in 2006. Growth in the

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

NAV of open-end PIFs slowed down to 49.4% in 2007 and for the first time in years the NAV of interval PIFs decreased (by 28.0%). Closed-end PIFs showed the most rapid rates of growth: their NAV increased by 110.0% and they accounted for 91.4% of growth in aggregate NAV. As a result, the share of the NAV of closed-end PIFs expanded to 76.0% of aggregate NAV.

As in 2006, the reduction of the share of equity funds in the NAV structure in 2007 is mainly attributable to more rapid growth in the NAV of mixed investment funds and, particularly real estate funds, than the NAV of equity funds. The rapid growth of real estate funds (their NAV increased by 161.2% in 2007), though more moderate than in 2006, is due, as before, to the attractiveness of real estate as a profitable savings instrument.

The number of PIF management companies rose by 78 in 2007 as against 51 in 2006 and reached 256. The number of closed-end PIF management companies increased particularly (by 60% to 177)¹. One of the measures taken by management companies to make PIFs more attractive was to turn some interval PIFs into open-end PIFs, which are more efficient in conducting transactions with units.

NON-GOVERNMENTAL PENSION FUNDS (NPFs).

According to preliminary data released by the Federal Financial Markets Service (FFMS), the number of operating NPFs fell by 37 in 2007 and as of January 1, 2008, stood at 252. The total value of the reporting NPFs' own property increased by 17.1% in 2007 and reached 602.8 billion rubles. Pension reserves expanded by 16.7% to 472.8 billion rubles, while the value of prop-

erty necessary to ensure the authorised activities increased by 5.5% to 96.4 billion rubles. These are the worst performance indicators for the NPFs in recent years.

The number of NPF members increased to 6.8 million in 2007, while the number of people who received their pension in NPFs rose to 1,026,200. The average non-government pension grew by 13.2% to 1,124.1 rubles a month, but it remained almost three times smaller than the government pension.

The value of accumulated pension funds transferred to NPFs from the compulsory pension insurance system reached 26.5 billion rubles as of January 1, 2008, an increase of 170% on the beginning of 2007. According to the Russian Pension Fund, in 2007 NPFs concluded nearly 1.5 million pension management agreements, which represent an increase of 80% on 2006 and a record number for the entire period of NPFs' presence on the compulsory pension insurance market.

The share of investments in stocks and corporate bonds in the NPF investment portfolio in 2007 went down from 70.6% to 42.2% and investments in promissory notes shrank from 8.3% to 3.7%. NPF investments in government and municipal securities accounted for 5.4% of the NPF aggregate investment portfolio and bank deposits accounted for 8.4%. Taking advantage of the new pension reserve placement rules adopted in 2007, NPFs expanded the share of their investments in PIFs from 1.9% to 4.2%. Virtually all NPF pension reserve investment operations were conducted with residents in the Russian currency. Investments in foreign government and corporate securities accounted for 0.01% as of January 1, 2008.

¹ According to data compiled by the National Managers' League.

1.3.3. FINANCIAL MARKETS

INTERBANK CREDIT MARKET

Total interbank loans placed by Russian banks by the end of 2007 exceeded by 36.9% the amount placed at the beginning of the year. Most of these loans were placed with non-resident banks, but the share of Russian banks grew slightly. There was also an increase in the share of loans extended in rubles.

Credit risk in operations on the interbank credit market remained low in 2007 due to the sound financial position of the principal market participants. For most of the year overdue debt accounted for no more than 0.1% of total interbank loans extended by Russian banks.

The structure of the interbank credit market by maturity remained virtually unchanged in 2007. Transactions with terms of up to one month continued to predominate on the market, accounting for more than 50% of total interbank loans placed.

The average monthly interest rates on overnight ruble loans in 2007 varied between 3.2% and 6.2% p.a. (as against 2.1–6.3% p.a. in 2006). In January–July the overnight ruble interbank interest rates were low (3.2–4.8% p.a.)

but as the situation on the world money market deteriorated, they rose to 5.2–6.2% p.a. in August–November. Only in December interbank rates started to fall.

Interbank rate volatility remained moderate in 2007. Intramonth rate recurrence was observed throughout the year, but the local rate highs caused by a demand for rubles required by banks and their clients to effect compulsory payments in 2007 were somewhat lower than in 2006.

The foreign exchange segment of the Russian interbank credit market in 2007 remained closely tied to the world money market. For most of the year, interest rates on the dollar and euro interbank loans placed by Russian banks were close to world money market rates on instruments with comparable maturity and denominated in the same currency.

In 2007, Russian banks remained net borrowers on the world financial market. The balance of funds raised by Russian banks from non-resident banks and funds placed with non-resident banks increased by more than 80% year on year.

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

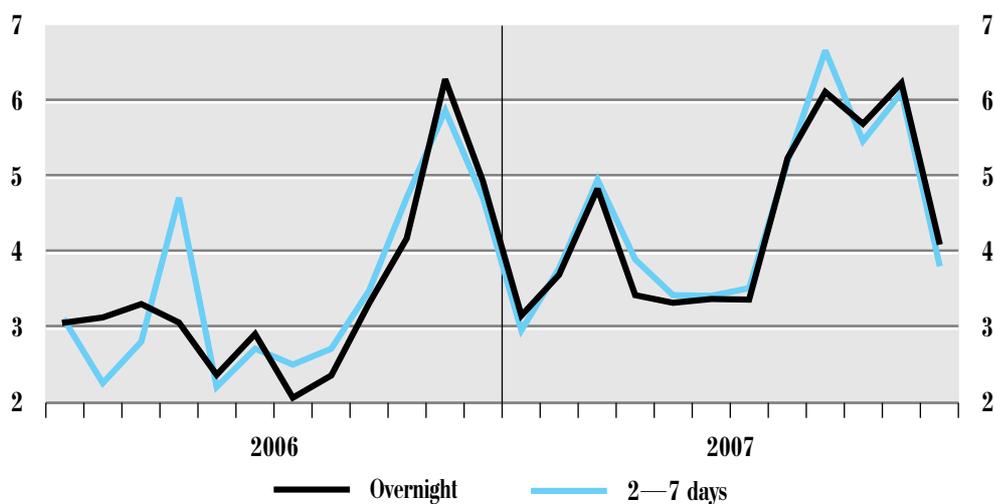


Chart 14

FOREIGN EXCHANGE MARKET

The exchange rate of the ruble against the world's major currencies in 2007 was determined by the exchange rate trends on the international market, the state of the balance of payments and the policy pursued by the Bank of Russia on the domestic foreign exchange market.

In 2007, the official rate of the US dollar against the ruble fell by 6.8% and as of January 1, 2008, it was 24.5462 rubles to the dollar. The official euro/ruble exchange rate gained 3.6% standing at 35.9332 rubles to the euro as of January 1, 2008.

The expansion of export/import operations and operations with capital and financial instruments predetermined high activity on the domestic forex market. As a result, the average daily

turnover of interbank spot transactions in all currency pairs grew by 80% in 2007 year on year, from \$42.0 billion to \$74.7 billion.

Ruble/dollar transactions prevailed in the currency structure of the interbank spot market, accounting for 52% of its total turnover. The average daily volume of transactions with this currency pair in 2007 increased by 45% year on year and reached \$38.8 billion. The average daily turnover of interbank spot dollar-versus-all-currencies transactions expanded by 74% to \$70.6 billion.

As market participants' interest in the single European currency increased, euro trade turnovers expanded. Euro/dollar transactions accounted for most of this growth: their share reached 90.4% of total euro trades in 2007,

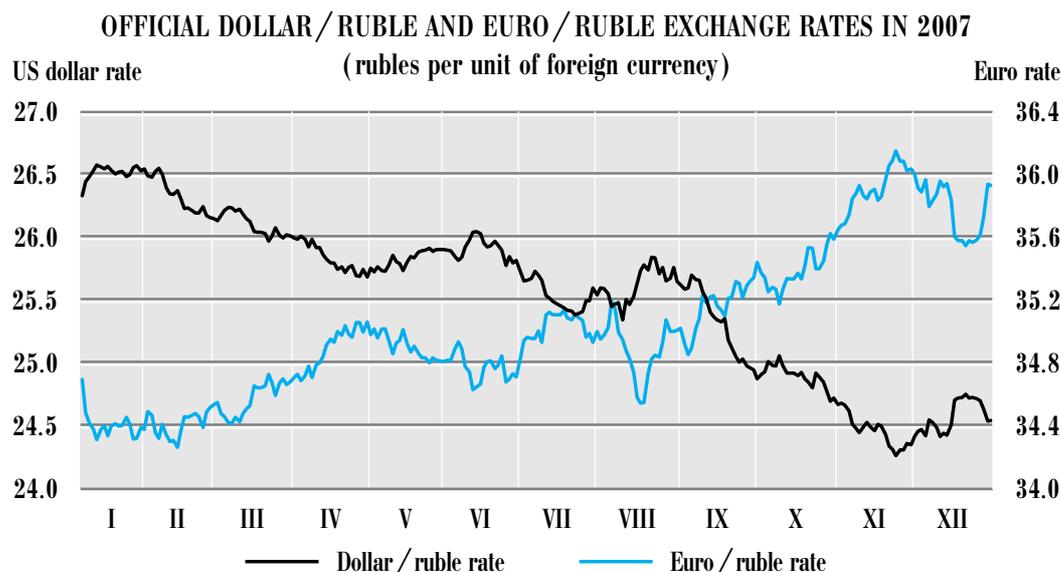


Chart 15

**CURRENCY STRUCTURE OF SPOT INTERBANK CONVERSION OPERATIONS
IN 2007 (%)***

US dollar	95
Russian ruble	54
Euro	32
Pound sterling	9
Yen	7
Swiss franc	1
Other	2

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

whereas euro/ruble transactions accounted for only 5.3% of the total euro trade turnover. Overall, the average daily interbank spot euro trade turnover in 2007 increased 2.1 times to \$24.1 billion. Growth in euro trade turnover was accompanied by a growth in trade in other currencies, such as the Japanese yen, the British pound and the Swiss franc.

There was a rise in exchange traders' activity in 2007. Aggregate ruble/dollar trade turnover at the Unified Trading Session of Interbank Currency Exchanges (UTS) grew by 53.8% in 2007, as compared to 2006, and reached \$1,445.6 billion. It should be noted that ruble/dollar trades for 'tomorrow' settlements accounted for most of the turnover (42.4%). Ruble/dollar trades for

'today' settlements accounted for 17.3% of aggregate UTS trade turnover and US dollar swaps accounted for 40.3%.

Total ruble/euro trade turnover increased 2.4 times and reached 30.2 billion euros as against 12.7 billion euros in 2006. Euro swaps accounted for most of the trade turnover (46.4%). Ruble/euro trades for 'today' and 'tomorrow' settlements accounted for 27.2% and 26.4% of aggregate UTS ruble/euro trade turnover, respectively.

As in 2006, spot trades accounted for most of the transactions on the interbank forex market (about 97%). The average daily interbank futures currency trade turnover grew by 58% in 2007 and reached \$2.2 billion.

GOVERNMENT SECURITIES MARKET

FEDERAL LOAN BONDS. The federal loan bond (OFZ) market in 2007 demonstrated a growth in secondary trade turnover, which increased 2.8 times to 1,501.1 billion rubles at market value as against 536.4 billion rubles in 2006. The value of exchange trades increased by 45.7% to 491.9 billion rubles, whereas off-board trades grew 5.1 times to 1,009.1 billion rubles. Trades on the secondary market peaked in September and October (765.0 billion rubles).

As in the previous years, the Ministry of Finance in 2007 implemented a debt policy aimed at extending the OFZ market duration and increasing the volume of trade in the basic issues, which serve as indicators for the cost of raising funds for major terms. In 2007, the Finance Ministry held 25 OFZ auctions at which only basic issues were placed: permanent coupon-income federal loan bonds (two issues) and debt depreciation federal loan bonds (three issues). A total of 252.0 billion rubles were raised as against

OFZ SECONDARY MARKET TURNOVER AND YIELD

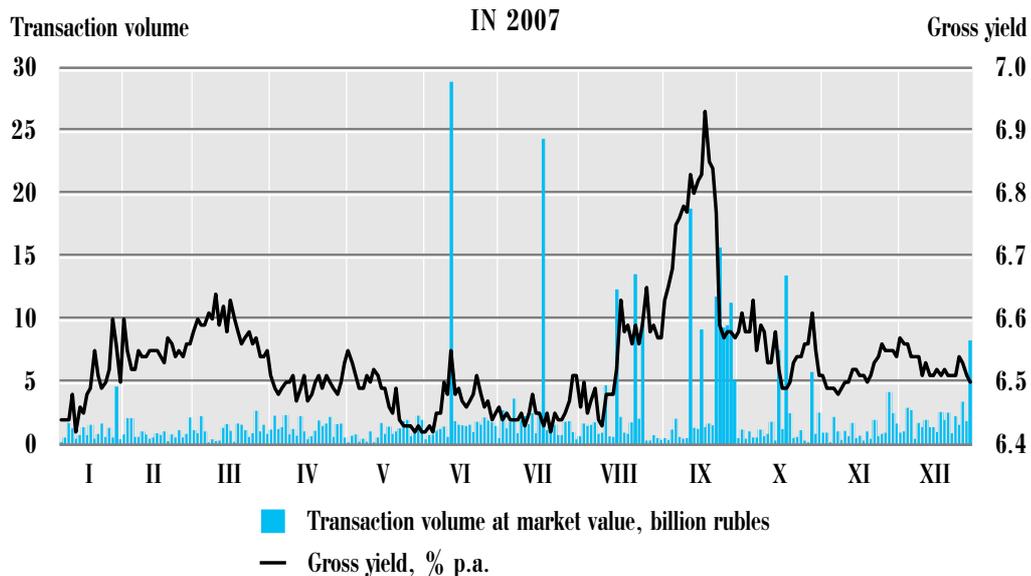


Chart 16

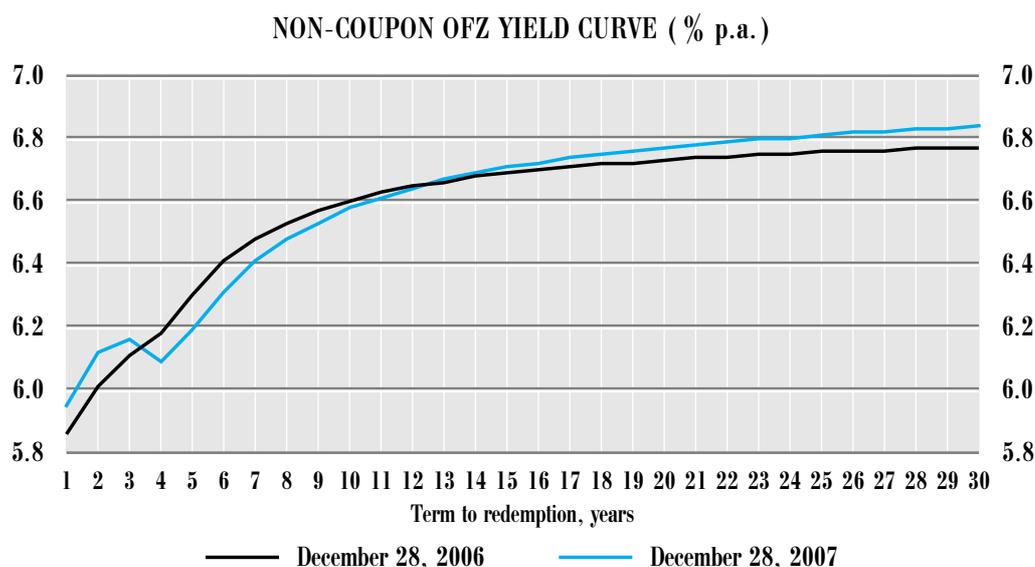


Chart 17

190.7 billion rubles in 2006 and 138.5 billion rubles were paid to bondholders in coupon income and principal. As a result, the nominal value of outstanding government bonds on the market grew from 875.6 billion rubles to 1,047.4 billion rubles and the market portfolio duration increased by 111 days to 2,105 days (5.8 years).

Despite the growth in market turnovers, market liquidity remained low. The average daily turnover ratio of the secondary exchange market stood at 0.19% at par as against 0.16% in 2006.

In 2007, as in 2006, most of the OFZ holders were 'passive' market participants who stuck to the 'buy and hold' strategy. The non-resident OFZ portfolio contracted by half and stood at 0.8% of total OFZ issues.

OFZ yield dynamics in 2007 were basically the same as in 2006. The gross yield of federal government securities ranged from 6.42% to 6.93% p.a. and had no clear trend towards growth or decline. The surge in September was caused by a major fall in demand on the OFZ market due to a shortage of spare ruble funds. As a result, in 2007 OFZ gross yield gained 6 basis points and stood at 6.5% p.a.

The period under review saw a slight elevation of the short- and long-term segments of the non-coupon OFZ market yield curve (by 3—10 basis points). In the medium-term segment the non-coupon yield curve dropped by 1—10 basis points.

REGIONAL GOVERNMENT BONDS. The nominal value of the initial placement of regional bonds on the Stock Exchange of the Moscow Interbank Currency Exchange (MICEX), the principal trading floor for sub-federal and municipal bonds, decreased from 47.8 billion rubles in 2006 to 40.7 billion rubles in 2007. The auction yield of regional bond issues ranged from 7.1% to 9.3% p.a. in 2007 (in 2006 it ranged between 6.0% and 8.3% p.a.). The value of sub-federal and municipal bonds placed on the over-the-counter market increased from 14.0 billion rubles in 2006 to 14.9 billion rubles in 2007, according to news agency Cbonds.ru. The largest bond placements in 2007 were made by the Moscow, Irkutsk and Samara Regions (16.0 billion rubles, 6.0 billion rubles and 5.0 billion rubles, respectively).

The aggregate turnover of secondary exchange trade in regional bonds in 2007 declined slightly due to the reduction of trade turnover on the MICEX Stock Exchange and the Russian Trading System (RTS). On the MICEX Stock Exchange secondary trade in regional bonds went down from 536.9 billion rubles in 2006 to 527.6 billion rubles in 2007. Bonds issued by the Moscow government and the government of the Moscow Region accounted for the largest part of aggregate secondary trade turnover (59.5%) on this trading floor. Bonds issued by the governments of the Samara and Irkutsk Regions as well as the Republic of Sakha (Yakutia) and Yaroslavl

Region accounted for significant amounts of bond trade.

Regional bonds were traded only occasionally on the RTS in 2007. As a result, their secondary trade turnover on this trading floor contracted dramatically, from 3.9 billion rubles in 2006 to 500 million in 2007.

The St Petersburg Currency Exchange (SPCEX) registered a 13.1% rise in regional bond secondary trade turnover in 2007, which aggregated 5.4 billion rubles. As before, the major instrument of secondary trade was bonds issued by the St Petersburg government.

According to news agency Cbonds.ru, the yield of regional bonds issued by the leading secondary market participants varied between 6.6% and 7.4% p.a. in 2007 (as against 6.5—7.4% p.a. in 2006), whereas its average annual value remained unchanged from 2006 at 6.9% p.a.

RUSSIAN GOVERNMENT FOREIGN CURRENCY-DENOMINATED DEBT OBLIGATIONS. The Russian government's bonded debt denominated in foreign currency in 2007 was represented by eurobonds, series V and VII internal government

foreign-currency loan bonds (OVGVZ) and 1999 government foreign-currency loan bonds (OGVZ). According to Finance Ministry data, the total nominal value of these bonds stood at \$36.8 billion as of January 1, 2007, and at \$33.1 billion as of January 1, 2008.

In March and September 2007 the Russian government repaid part of the principal debt on its eurobonds maturing in 2010 and 2030. In June 2007, it redeemed the eurobonds the Russian government issued in 1997 and in November it redeemed the OGVZ bonds issued in 1999. Coupon income on all foreign currency-denominated bond issues was paid fully and on schedule and in 2007 coupon income payments totalled \$6.6 billion.

In 2007, Russian investors continued to trade Russian eurobonds on the organised domestic market. The actual-price value of eurobond trades for ruble settlements increased 2.7 times year on year and reached 93.2 million rubles on MICEX. Eurobond trades for dollar settlements on the MICEX Stock Exchange in 2007 went down by 63% year on year and stood at \$8.6 million at actual price.

CORPORATE SECURITIES MARKET

Growth in the main segments of the Russian corporate securities market¹ slowed down significantly in 2007. As before, most of the exchange trades in shares were conducted on the MICEX Stock Exchange and St Petersburg Stock Exchange and on the RTS, while the ruble-denominated corporate bonds were mostly traded on the MICEX Stock Exchange, on the RTS and on the SPCEX.

The number of **IPOs** by Russian companies on leading Russian and foreign exchanges increased in 2007. Rates of growth in the major Russian stock market price indicators slowed down significantly compared with 2006. From January to the middle of September 2007, Russia's key stock indices fluctuated widely without setting any particular trend and in the subsequent months Russian stock prices rose significantly. In December the MICEX and RTS stock

indices hit their historical highs. As a result, in 2007 the MICEX index gained 12% and the RTS index 19% (as against 68% and 71% in 2006).

Market capitalisation slowed down in 2007. RTS stock market capitalisation increased by 38% year on year (as against 190% in 2006) and reached \$1,328.8 billion (32.6 trillion rubles).

MICEX Stock Exchange equities secondary trade volume expanded by 38% year on year (as against 240% in 2006) and reached 15.3 trillion rubles. Transactions with shares issued by fuel, power and metallurgy companies and credit institutions accounted for most of the exchange transactions.

Growth slowed down in the volume of outstanding corporate bonds on the ruble **corporate bond** market in 2007 due to the fall in issuing activity in August—December and the increase in the value of bond redemptions. The value of

¹ Including securities issued by non-financial enterprises and financial institutions.

MICEX STOCK EXCHANGE EQUITIES TRADE IN 2007

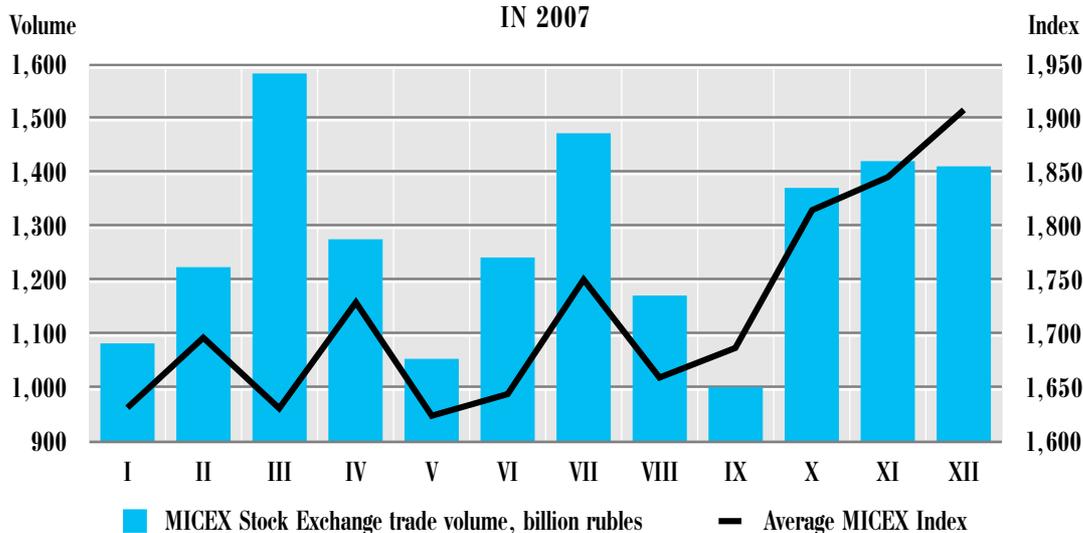


Chart 18

CORPORATE BOND SECONDARY TRADE IN 2007

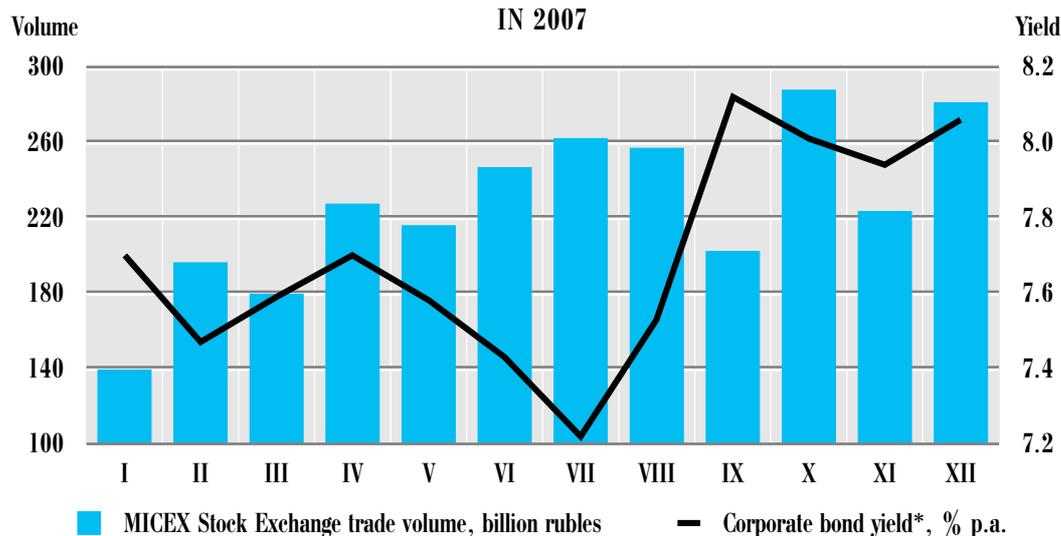


Chart 19

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

corporate bond placements on the MICEX Stock Exchange in 2007 decreased by 1.8% year on year and stood at 456.0 billion rubles (in 2006 it increased 80%).

MICEX Stock Exchange corporate bond secondary trade turnover grew by 51% in 2007 year on year and aggregated 2,729.7 billion rubles (in 2006 it doubled). Debt securities issued by credit institutions and finance, oil, gas, power, railway and communications and telecommunications companies predominated in the structure of MICEX Stock Exchange secondary trade.

Corporate bond yields demonstrated different dynamics during 2007. In January—July the average monthly yield of liquid corporate bonds on the secondary market fell from 7.7% to 7.2% p.a., whereas in August—September it rose to 8.1% p.a. and in the subsequent months of 2007 it fluctuated close to this level.

The **promissory note** market in 2007 continued to register a reduction in volumes of bank transactions with promissory notes issued by non-financial enterprises.

According to data compiled by Region Group of Companies¹, the yield of ruble-denominated promissory notes tended to rise in January—July 2007 and in the period from August through the middle of November promissory note yields soared. However, by the end of the year the yields on most issues had dropped. The average annual yield on 1-, 3-, 6- and 12-month promissory notes in 2007 rose by 0.9—1.1 percentage points year on year and reached 8.1%, 8.5%, 8.8% and 9.1% p.a., respectively.

According to credit institutions' reports, the average interest rate on ruble-denominated promissory notes discounted by banks in 2007 edged down by 0.1 percentage points to 10.0% p.a. The average annual maturity of the ruble promissory notes discounted by banks in 2007 increased to over seven months.

BANK SECURITIES. The nominal value of bank share and bond issues registered in 2007 increased by 45.1% year on year, from 344.7 billion rubles to 500.3 billion rubles, while the number of issues rose by 14.3%.

The total value of share issues registered in 2007 fell to 201.7 billion rubles from 231.9 billion rubles in 2006. The value of share issues launched to increase authorised capital decreased from 176.4 billion rubles in 2006 to 126.9 billion rubles last year. The value of share issues placed in the course of setting up new credit institutions or reorganising existing ones increased from 1.7 billion rubles in 2006 to 6.2 billion rubles in 2007. The value of the share issues registered for the purpose of dilution, consolidation and conversion rose from 53.7 billion rubles in 2006 to 68.6 billion rubles in 2007.

Share issues registered with the objective of increasing authorised capital accounted for 92.6% of all registered share issues in 2007 (as against 94.2% in 2006). Share issues registered in the course of setting up new credit institutions or reorganising existing ones in 2007 accounted for 4.7% of all share issues as against 2.9% in 2006. Share issues registered for the purpose of dilution and conversion accounted for 2.7% of all share issues (as against 2.9% in 2006).

In 2007, Sberbank and VTB Bank registered the results of a public placement of the largest share issues. According to its share issue report, Sberbank placed 230.2 billion rubles worth of ordinary registered uncertified shares at the offered price. VTB Bank placed 206.3 billion rubles worth of ordinary registered uncertified shares at the offered price. As a result, the Sberbank and VTB Bank share placements accounted for 44.6% of the growth in aggregate banking sector equity capital in 2007.

The value of bond issues registered in 2007 increased to 298.6 billion rubles as against 112.8 billion rubles in 2006. It should be noted that because of the market situation, only 33.3% of the total value of bank bond issues registered in 2007 were placed, which amounted to 99.5 billion rubles at par.

During most of 2007, bank share price dynamics differed by issuer, but in August there was a fall in the prices of all banking sector equities. As a result, in 2007 the price of Sberbank ordinary shares rose by 13% (in 2006 it grew 140%), whereas VTB Bank share prices fell by 14%.

The number of credit institutions whose shares were traded on the Russian exchange market continued to increase in 2007 and the volume of trade in these papers expanded significantly. The share of banking sector equities in the total secondary trade stock turnover on the MICEX Stock Exchange and St Petersburg Stock Exchange and on the RTS more than doubled as compared with 2006 and reached 13%. The share of bank bonds in the total turnover of corporate bond exchange secondary trade on the MICEX Stock Exchange, SPCEX and RTS increased to 19%.

To raise short- and medium-term funds, credit institutions issued their own promissory notes. Russia's top 30 banks accounted for more than half of the total value of promissory notes issued by banks. In January—September 2007, the value of promissory notes placed by these banks declined, causing a fall in the total value of bank promissory notes issued in that period. In October—December the value of bank promissory note placements increased. The value of promissory notes and bank acceptances issued by credit in-

¹ Region Group of Companies is a leading operator of the Russian promissory note market and organiser of public promissory note programmes, which regularly calculates and publishes promissory note market price indicators.

stitutions in 2007 increased by 4.0% to 822.2 billion rubles and their average annual value exceeded the 2006 average by 5.7%.

The average annual interest rate on the ruble-denominated bank promissory notes sold to corporate entities in 2007 increased by 0.2 percentage points year on year, to 7.6% p.a. The average annual maturity period of the ruble-denomi-

nated bank promissory notes sold to corporate entities exceeded seven months in 2007.

In 2007, the Bank of Russia registered 25 certificate of deposit terms of issue and trade and nine savings certificate terms of issue. As in 2006, credit institutions incorporated in Moscow and the Moscow Region accounted for the bulk of the issue (98.0 billion rubles).

FINANCIAL DERIVATIVES MARKET

The aggregate futures and options exchange trade turnover increased by 170% in 2007 year on year and stood at 9,734.8 billion rubles.

The expansion of trade on the Russian forward market was due to the amendments made to Article 1062 of Part 2 of the Civil Code of the Russian Federation, which guaranteed legal protection for settlement (non-deliverable) contracts that were previously treated by Russian law as bets. In addition, demand for exchange derivatives as risk-hedging instruments rose in the second half of 2007 as financial market participants grew increasingly uncertain about future prices.

The expansion of forward exchange market turnovers in 2007 was accompanied by growth

in the value of open positions on forward instruments on the principal trading floors. The aggregate value of open positions on forward exchange contracts in the FORTS¹ system in 2007 increased by 70% and on MICEX and the MICEX Stock Exchange — by a factor of 3.4, as compared with 2006.

The range of forward exchange contracts expanded significantly in 2007 as 28 new futures and options were introduced in FORTS and on the MICEX and the MICEX Stock Exchange.

In 2007, the volume of futures trade with delivery terms longer than three months expanded significantly, a process that may reflect the increased use of exchange derivatives for hedging risks.

FORWARD CONTRACT EXCHANGE TRADE TURNOVERS IN 2007
(billion rubles)*

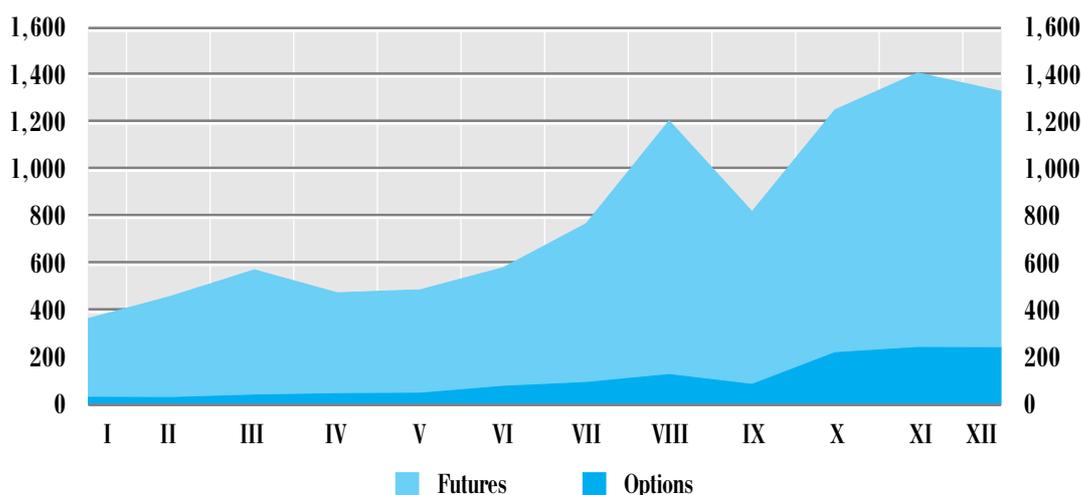


Chart 20

* Source: FORTS, MICEX, MICEX Stock Exchange, SPCEX and St Petersburg Stock Exchange.

¹ RTS futures and options market.

As for the futures market, most of trade was conducted on its stock segment (contracts for stock indices, stocks and bonds) and currency segment. There was an expansion of the commodities and interest rate futures segments, with the latter demonstrating in 2007 the biggest growth in futures trade turnover (it quadrupled compared with 2006).

It should be noted that the Russian exchange derivatives market in 2007 demonstrated a more rapid development of the options market than the

futures market. Conducted in the FORTS system, options trade increased 4.2 times, whereas trade in futures contracts on Russian exchanges increased 2.5 times. The stock segment (options for RTS index futures contracts and Russian stocks) was the most developed one on both the options and futures markets. Options for dollar/ruble exchange rate futures and gold futures were also traded.

The most liquid contracts on the exchange derivatives market in 2007 were the RTS index futures and options.

I.4. BALANCE OF PAYMENTS AND FOREIGN DEBT

I.4.1. BALANCE OF PAYMENTS

As in the previous years, Russia had a strong balance of payments in 2007 due to the favourable external economic conditions and massive foreign capital inflow into the private sector.

The Russian government has fulfilled all its external financial obligations and continued to accumulate international reserves.

CURRENT ACCOUNT

The current account surplus decreased by 17.0% in 2007 as compared with 2006 and equalled \$78.3 billion. It was a result of the reduction of the foreign trade surplus, caused by an accelerated growth of imports.

Exports of goods increased by 17.1% to \$355.5 billion. Export volumes expanded by 4.6% as average prices grew by 12.0%.

As in 2006, the principal exports were crude oil, petroleum products and natural gas. Their value increased by 14.6% and reached \$218.6 billion and their share in total exports remained large — 61.5% (as against 62.8% in 2006).

Due to a high demand in the world exports of metals and metal products increased by 21.1%, from \$41.1 billion to \$49.8 billion. Ferrous metal exports are valued at \$25.3 billion and non-ferrous metal exports — at \$24.5 billion.

Exports of food products and raw materials for their production increased rapidly (1.6 times), mainly due to the rise in the value of wheat exports.

The European Union accounted for 55.8% of Russian exports and Asia-Pacific Economic Cooperation (APEC) member countries — 12.0%. Russia's leading trading partners were, as before, the Netherlands (12.1% of Russian exports), Italy (7.8%) and Germany (7.5%). There was a rapid growth of Russian exports to the Republic of Korea (an increase of 120% in 2007) and Japan (70%).

Imports of goods increased by 36.0% compared with 2006 and reached \$223.4 billion. Thanks to a rapid growth in domestic demand, import volumes expanded by 24.9%. The price factor was less important: import prices rose by 8.9% on average.

Imports of most commodities increased but the biggest growth was registered in the import of machinery, equipment and transport vehicles (51.0% of aggregate imports), chemicals and related products and foodstuffs and raw materials for their production (13.8% each). Compared to 2006, the value of imports of these products increased by 54.9%, 26.2% and 27.6%, respectively.

The APEC's share in Russian imports expanded to 31.8%. The share of the European

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

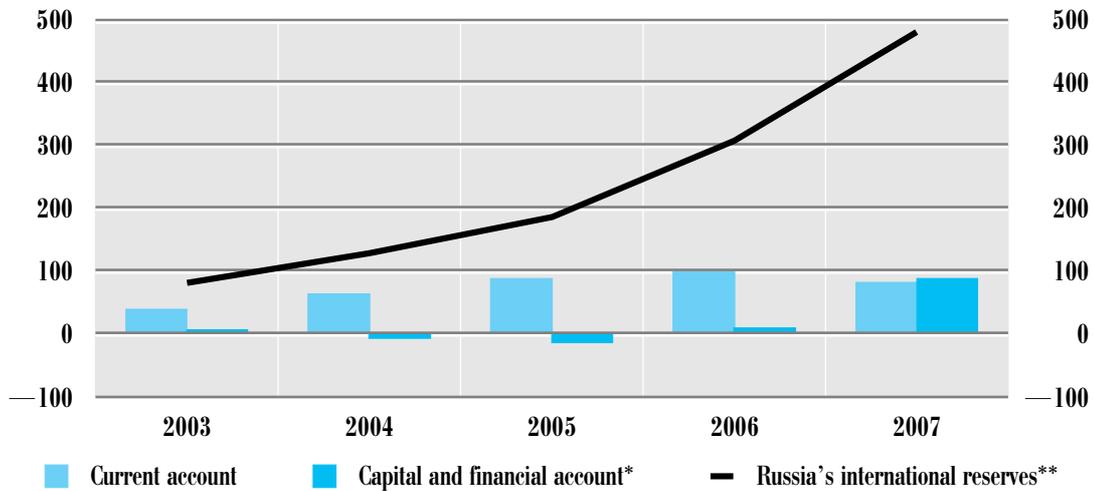


Chart 2.1

* Net of the change in reserves.

** As of end of year.

Union remained virtually unchanged from 2006 at 43.7%, despite the latter's enlargement. As for individual countries, the leaders were Germany (13.3%), China (12.2%) and Ukraine (6.7%).

The deficit of foreign trade in services in 2007 increased by 44.4% year on year and stood at \$19.8 billion. The main reason for growth was a significant excess of imports over exports in the 'travel' item.

Exports of services increased by 26.5% to \$39.3 billion, mainly due to growth in the value of transportation services (21.2% of export growth), travel-related services (24.0%) and other business services (29.8%) provided to non-residents.

The most rapid growth was registered in exports of financial services, which almost doubled, and computer and information services, which increased 1.7 times.

Imports of services increased by 32.0% year on year to \$59.2 billion. Most of this growth was due to the expansion of travel-related imports (28.0% of import growth), other business services (21.7%) and transportation services (18.3%). These imports accounted for 73.1% of total imports and their value grew to \$43.3 billion. The highest rates of growth (60%) were registered in imports of financial, computer and information services.

The deficit of the compensation of employees balance increased by 80%, from \$4.4 billion in 2006 to \$7.9 billion in 2007. Compensation paid to non-residents (\$9.9 billion) was 4.9 times the compensation received by Russian residents abroad (\$2.0 billion). This difference was largely the result of labour migration figures: the number of foreign workers employed in the Russian economy far surpassed the number of Russian residents who sought temporary employment abroad.

The deficit of the balance of investment income contracted by 10.8%, from \$25.2 billion in 2006 to \$22.5 billion in 2007. Total accrued income receivable amounted to \$44.8 billion and payable — to \$67.3 billion.

The surplus of the balance of investment income of general government and monetary authorities doubled as compared to 2006 reaching \$16.0 billion. Just as in the previous year, the major contributing factors were a reduction of foreign debt and a significant expansion of international reserves.

Private sector foreign debt service expenditures exceeded incomes from foreign assets by \$38.5 billion, but in 2007 the deficit of the balance increased far more slowly than in 2006.

The deficit of the balance of current transfers increased 2.3 times to \$3.5 billion (it was

\$1.5 billion in 2006). Transfers received stood at \$8.4 billion and transfers paid — at \$11.9 billion. Most of the transfers were various tax payments and remittances related to migrant workers.

CAPITAL AND FINANCIAL ACCOUNT

CAPITAL ACCOUNT. In 2007, Russia registered a deficit of \$10.2 billion in the balance of capital transfers (there was a surplus of \$200 million in 2006). The balance of capital transfers in 2007 was determined by government sector transactions connected with the settlement of the debt developing countries owed the former Soviet Union. Accounted for as part of the capital transfers paid, debt remission of this kind equalled \$9.7 billion.

FINANCIAL ACCOUNT. The favourable balance of the financial account (net of reserves) increased to \$94.5 billion in 2007 from \$5.4 billion in 2006.

The international investment position of the general government and monetary authorities was virtually unchanged. Massive inflow of foreign capital into the private sector led to an almost 100% increase in its net foreign liabilities.

The Russian economy's **financial obligations** to non-residents grew by \$199.6 billion in 2007 (as against \$70.5 billion in 2006). Foreign direct investments increased by \$52.5 billion, portfolio investments by \$12.7 billion and other investments by \$136.8 billion. Debt obligations on financial derivatives decreased by \$2.4 billion.

General government foreign liabilities went down by \$7.6 billion. Obligations in the form of outstanding debt securities declined by \$3.9 billion, foreign loans by \$2.8 billion and other liabilities by \$900 million. In 2007, the Russian Government paid \$8.9 billion in foreign debt and foreign debt service.

The government debt service ratio (the ratio of total payments to exports of goods and services) decreased from 9.8% in 2006 to 2.3% in 2007, while relative to consolidated budget revenue total payments fell from 8.4% to 1.7%.

Growth in the monetary authorities' foreign liabilities, mostly cash rubles held by non-residents, stood at \$900 million.

Foreign capital inflow to the private sector doubled in 2007 as compared to 2006 and reached an estimated \$206.2 billion.

Banking sector obligations to non-residents increased by \$70.9 billion (as against \$51.2 billion in 2006). Of these, obligations on other investments accounted for \$51.8 billion and obligations on foreign loans — for \$39.4 billion. Foreign direct investment increased by \$7.4 billion and portfolio investment grew by \$14.1 billion. Obligations on financial derivatives decreased by \$2.4 billion.

Other sectors also actively raised funds from external sources: these are estimated at \$135.4 billion, an increase of 150% on 2006. Foreign capital inflow in the form of direct investments increased by 50% to \$45.1 billion, whereas growth in non-resident portfolio investments slowed down to \$2.6 billion. Foreign loans, mostly long-term, grew 5.2 times to \$88.2 billion.

Resident **foreign assets**, net of the official foreign exchange reserves, increased by \$105.1 billion in 2007 (as against \$65.1 billion in 2006). Direct investments abroad grew by \$45.7 billion, portfolio investments by \$7.0 billion and other investments by \$55.2 billion. Foreign assets in the form of financial derivatives decreased by \$2.8 billion.

Foreign claims by the general government and monetary authorities decreased by \$6.8 billion, mostly due to the reduction of overdue debt of foreign countries on loans from the former Soviet Union.

Growth in private sector foreign assets is estimated at \$111.9 billion (as against \$71.2 billion in 2006). Bank claims on non-residents increased by \$25.0 billion, of which bank claims on loans, current accounts and deposits grew by \$21.8 billion. By January 1, 2008, banking sector foreign assets had reached \$96.7 billion and obligations to non-residents — \$210.8 billion. The share of short-term financial instruments contracted significantly. The banking sector's negative net international investment position in 2007 increased by 90% to \$114.1 billion.

Overall, other sectors' foreign assets increased by \$86.9 billion, while the value of foreign cash in the non-banking sector decreased by \$15.7 billion.

The unprecedented inflow of foreign capital into the private sector caused the favourable bal-

ance of cross-border private capital flows to expand 1.9 times as compared to 2006 and in the year under review it reached \$81.2 billion.

INTERNATIONAL RESERVES

In 2007, Russia's international reserves grew by \$172.7 billion and reached \$476.4 billion as of

January 1, 2008. Their foreign currency component expanded by \$168.8 billion (net of the exchange rate revaluation, it increased by \$148.9 billion) and stood at \$464.4 billion. The value of monetary gold increased by \$3.8 billion to \$12.0 billion. By international standards Russia has enough reserves to ensure stability of its balance of payments in the medium term.

1.4.2. FOREIGN DEBT

Russia's foreign debt (debt to non-residents) increased by 50% in 2007 and as of January 1, 2008, stood at \$459.6 billion¹.

Private sector borrowings predominated: compared to the beginning of 2007, debt obligations of the banking and other sectors increased from \$261.9 billion to \$413.2 billion and their share in total foreign debt expanded from 84.3% to 89.9%. General government and monetary authorities foreign debt decreased from \$48.6 billion to \$46.4 billion and its share contracted from 15.7% to 10.1% of total foreign debt.

As of January 1, 2008, obligations classified as 'new Russian debt' accounted for 80.2% of total federal government debt. The debt assumed by Russia as the successor to the former USSR accounted for 19.8%.

In 2007, new Russian debt went down by \$5.1 billion to \$28.7 billion. The debt component that decreased the most was foreign currency-denominated securities. Its reduction was the result of major payments connected with the redemption

of eurobonds placed in 1997 and partial redemption of eurobonds issued in the course of restructuring the debt to the London Club of commercial bank creditors. As of January 1, 2008, foreign currency-denominated securities accounted for \$21.3 billion, or 74.2%, of new Russian debt, loans from international financial organisations — for \$5.0 billion, or 17.4%, debt on other loans — \$1.7 billion, or 6.0%, and other debts — \$700 million, or 2.4%.

Debt of the former Soviet Union went down from \$9.4 billion to \$7.1 billion. After August 2007 when Russia had paid most of its debt to the Paris Club of creditor nations, its debt to these countries amounted to no more than \$100 million, or less than 1.0% of the former Soviet Union's debt. Russia's debt to former Soviet-bloc countries accounted for \$1.5 billion, or 21.2%, debt obligations to non-residents in the form of OVGZ bonds — for \$2.0 billion, or 28.3%, and other debts, including debt to the official creditors — for \$3.5 billion, or 49.5%.

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

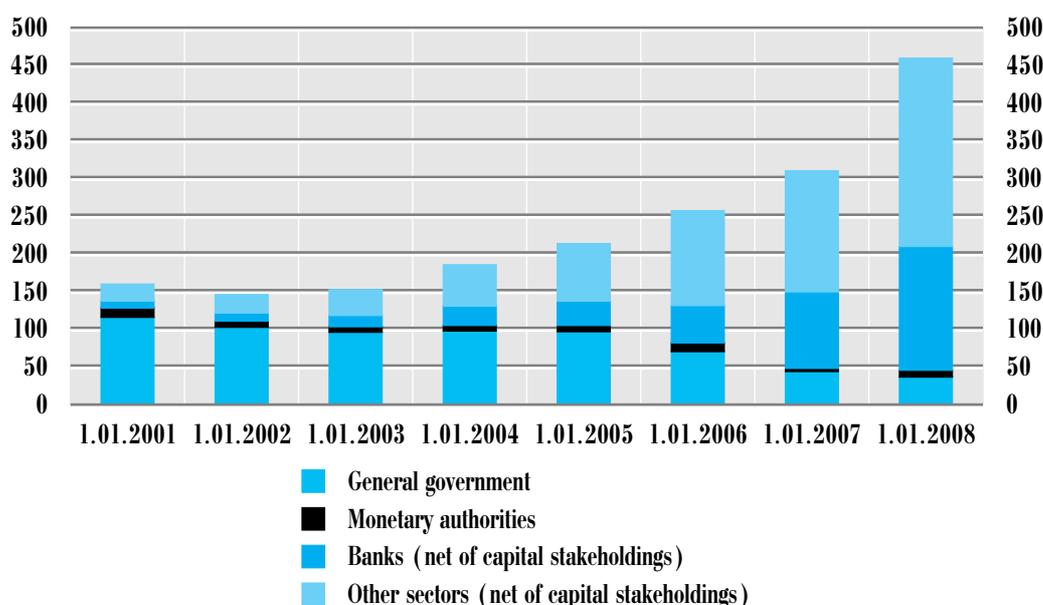


Chart 22

¹ Taking into account exchange rate and market revaluation.

RUSSIA'S FOREIGN DEBT
(as % of GDP)

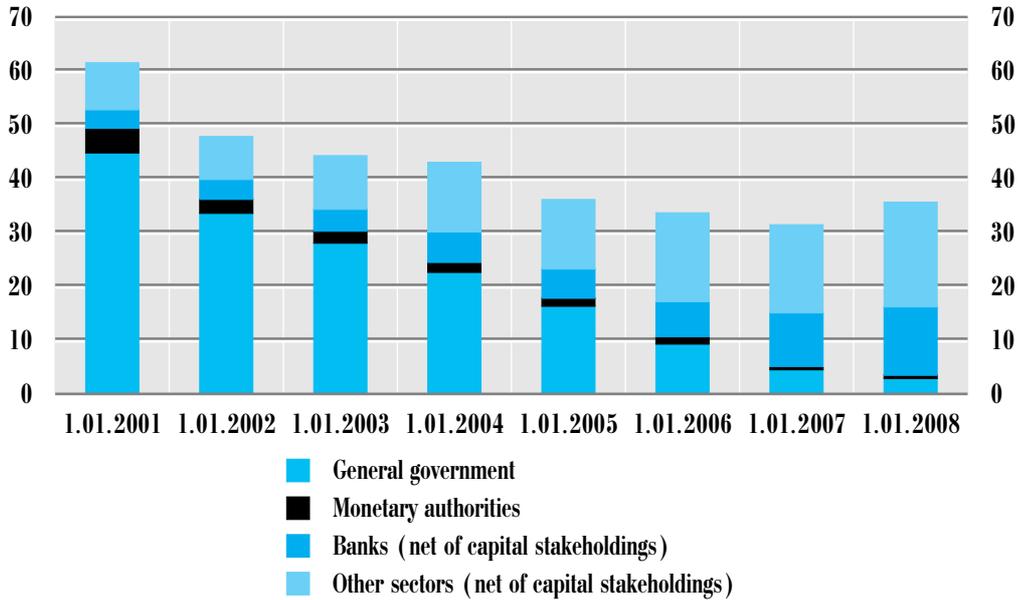


Chart 23

Banking sector foreign debt increased 1.6 times in 2007 and reached \$163.7 billion and its share in foreign debt of all sectors of the economy expanded from 32.6% to 35.6%.

Growth in other sectors' debt was the biggest at \$88.9 billion. The need to finance the purchase of large amounts of assets played a major role in the expansion of external borrowings. By January 1, 2008, this debt had reached \$249.6 billion and accounted for 54.3% of the economy's aggregate foreign debt.

As of the beginning of 2008, long-term foreign debt amounted to \$354.4 billion, or 77.1% of total foreign debt, and short-term foreign debt equalled \$105.3 billion, or 22.9% of the total. It should be noted that 80.2% of the economy's foreign debt (\$368.4 billion) was denominated in foreign currency.

Relative to GDP, Russia's foreign debt stood at 35.5% in 2007 (as against 31.3% in 2006) and general government foreign debt accounted for 2.9% (as against 4.5% a year earlier).

1.5. THE WORLD ECONOMY AND INTERNATIONAL MARKETS

The external conditions for the Russian economy in 2007 were characterised by increased risks due to the acceleration of imported inflation and turmoil on global financial markets.

The world rates of inflation increased in 2007. Inflation also grew in the leading exporters of goods to Russia (from 3.5% in December 2006 to an estimated 5.9% in December 2007). Inflation accelerated as growth in energy prices resumed. The increased world demand for foodstuffs and their undersupply connected with relatively poor grain harvests, the reduction of subsidies for agriculture and exports and the use of agricultural raw materials in the production of fuel led to significant growth in food prices. This particularly affected inflation in the countries where foodstuffs account for a large share in the consumer goods basket, including China and the former Soviet republics.

Growth in the world output of goods and services in 2007 is estimated by the IMF at 4.9% (as against 5.0% in 2006). Economic growth slowed down in the countries that are the major importers of goods from Russia (it is estimated at 4.6% as against 5.0% in 2006). The world economic slowdown was largely due to the reduction or slowing of growth in housing construction, especially in the United States, Japan, Germany and some other countries. Export growth had a major role to play in the accelera-

tion of growth in China's GDP, but Chinese imports also grew rapidly due to the expansion of domestic consumption.

The situation on the world oil market was largely affected by growth in consumption, especially in Asian countries. Oil and petroleum product prices showed an upward trend but until the middle of the year they were lower than in the middle of 2006. In the second half of 2007, growth in natural gas prices resumed but it was not until the fourth quarter of the year that they rose above the level registered before the price fall in late 2006 and the first half of 2007.

The international trade situation of Russia evolved under the impact of uneven intrayear energy price dynamics. Oil and petroleum product exports from Russia to the European Union and China in 2007 increased in value far less than in 2006. Growth in the value of Russian exports to Belarus was mainly due to the rise in energy prices. The share of Russian exports in the structure of commodity imports of Ukraine and Kazakhstan contracted as these countries increasingly sought after products with a high value added, including investment goods.

Terms of trade for oil-exporting countries continued to improve in 2007 for the fifth consecutive year, but the improvement was less pronounced than in the previous four years. Other countries saw their terms of trade change slightly for the worse as compared with 2006. The aver-

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

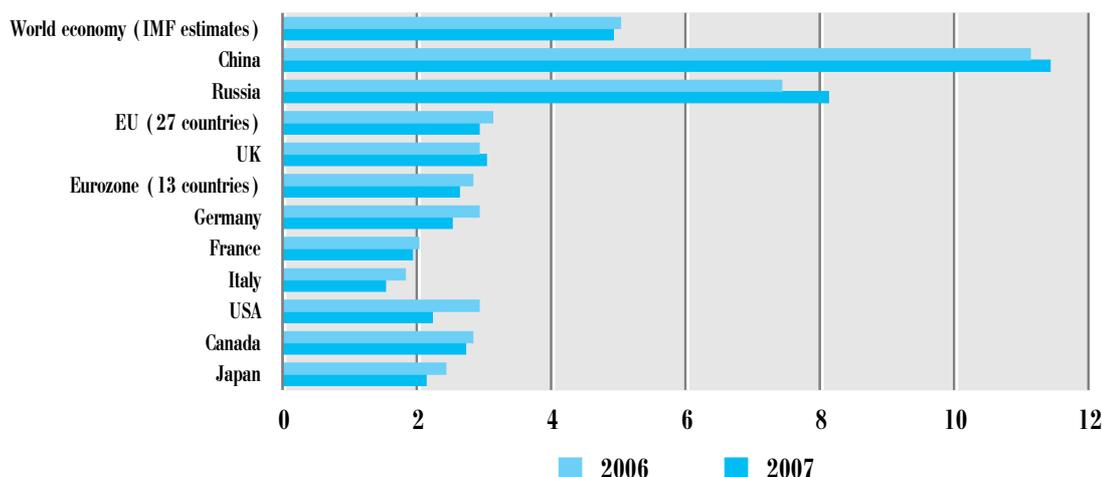


Chart 24

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

age weighted rates of growth in the level of import prices (in the currencies of the importing countries) in the member countries of the Organisation for Economic Development and Cooperation (OECD) in 2007 were the lowest in four years. There was also a slowing of growth in export prices. Import and export prices in this group of countries grew almost at the same rates.

The IMF estimates growth in international trade in goods and services in 2007 at 6.8% (as against 9.2% in 2006). The United States registered a reduction in its trade deficit for the first time since 2001, which was due to the slowing of growth in the price of imported primary commodities and materials, including energy products, and investment goods. Eurozone import dynamics were basically the same. China's foreign trade turnover continued to expand and growth in Chinese exports to the countries of Europe and Asia accelerated, whereas growth in exports to the United States slowed down. Import growth in the oil-exporting emerging markets accelerated year on year and far surpassed growth in exports.

Export markets for the European emerging market economies, including Turkey, and the new industrial countries of Asia and the leading members of the Association of South East Asian Nations (ASEAN)¹ expanded most rapidly in 2007.

China's export market grew at rates close to the average rate of growth in the export markets of the OECD member countries. Exports from countries other than the OECD members accounted for more than 35% of total world exports of goods and services. Export and import operations by the developing countries of Asia made the biggest contribution to the expansion of world trade in 2007.

According to the IMF, gold and foreign exchange reserves of the world's nations, calculated in SDR (Special Drawing Rights) terms, increased by 19.7% in 2007. The emerging markets increased their reserves by 27.1% and they accounted for more than 75% of the world's aggregate reserves. China's gold and foreign exchange reserves rose to more than \$1.5 trillion. Russia ranks third in terms of gold and foreign exchange reserves after China and Japan.

The international currency market in 2007 saw the US dollar fall against the euro and other currencies, including the currencies of most of Russia's trading partners. The dollar depreciated the most against the Turkish lira, the Brazilian real, the Polish zloty and the Czech and Slovak koruna and the least against the Japanese yen and the British pound. In May 2007, China let the yuan fluctuate against the US dollar within a wider intraday exchange rate band.

¹ OECD estimates. Export market growth in a country is an aggregated indicator of the increase in imports of goods in the countries that are this country's trading partners, weighted by their unit weights in the geographical structure of exports from this country.

**GROWTH IN EXCHANGE RATES OF INDIVIDUAL CURRENCIES AGAINST THE US DOLLAR
IN 2007 (December 2007 as % of December 2006) ***

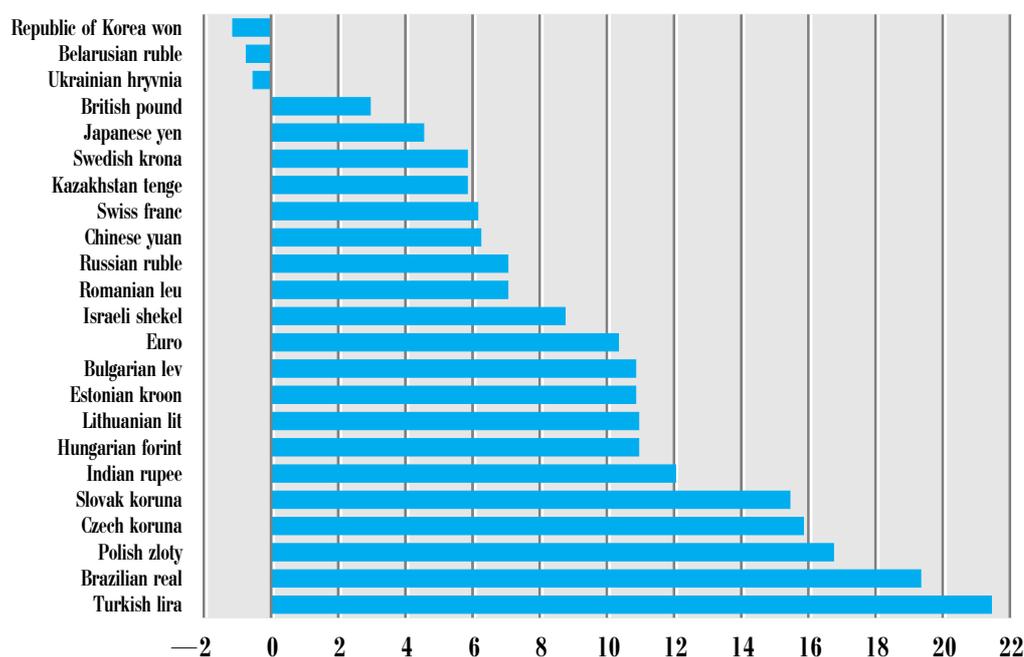


Chart 25

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

Conditions conducive to flow of capital to the emerging markets remained in the first half of 2007. Specifically, the net issue of debt securities on the international capital market by private financial and non-financial corporations in Russia, the United Arab Emirates, India, South Korea, South Africa, Kazakhstan, China and some other countries increased. However, the risk reassessment by investors in the second half of the year made the international capital market inaccessible to many borrowers, including residents of the emerging market countries.

The situation on world financial markets in 2007 was characterised by an escalation of risks and increased volatility of interest rates, exchange rates and share prices. It was an aftermath of the mortgage crisis in the United States. Mortgage loan risk had increased by the beginning of 2007 as a result of the rise in US interest rates in the period from the middle of 2004 to the middle of 2006 and the subsequent fall in investor activity in housing construction and the real estate price downturn. Growth in non-payments adversely impacted mortgage credit institutions.

The increased mortgage credit risk undermined confidence in mortgage-related assets

created by securitisation and this led to the downgrading of credit ratings of these assets and the reduction of liquidity in the corresponding segments of the financial market. Misgivings about some assets eventually turned into a global problem of declining trust in counterparties, which in the latter half of the year led to a shortage of supply on the money markets of many countries and forced their central banks to take emergency measures to boost liquidity. Such measures were taken by the US Federal Reserve, the European Central Bank (ECB) and the monetary authorities of Canada, Britain, Japan and some other countries.

The actions taken by the central banks (providing liquidity to the banking sector, the reduction of the Federal Reserve benchmark interest rate, the long-term refinancing operations conducted by the ECB and the Bank of England and so forth) helped restore relative stability on the markets by the middle of September. However, volatility increased again in the fourth quarter in the wake of reports about losses incurred by financial institutions in connection with mortgage-backed securities trading and the continued downgrading of financial asset credit ratings. These

developments again compelled the US Federal Reserve, the ECB and the central banks of Britain, Switzerland and Canada to take liquidity-regulating measures at the end of the year.

The crisis provoked a rise in demand for high-security assets. The spread between yields on the lowest credit risk securities (government bonds) and yields on less secure assets widened. Fears of negative macroeconomic consequences of the crisis and its effect on the financial performance of corporations increased price volatility on stock markets. The number of corporate mergers and acquisitions declined. The crisis caused a sharp depreciation of the US dollar in the second half of 2007.

The monetary policy of foreign countries depended on their economic situation, the situation on the financial markets and the nature and level of risk. It was seriously affected by the consequences of the US mortgage crisis. From September to December 2007, the US Federal Reserve cut the benchmark federal funds rate (the rate on the shortest-term loans on the interbank money market) from 5.25% to 4.25% p.a. The cut was aimed at stabilising the financial sector and the macroeconomic situation. The ECB raised the refinance rate from 3.5% to 4.0% p.a. in the first half of 2007, while the Bank of England at the end of the year switched from raising interest rates to cutting them.

Denmark, Sweden, Switzerland, Poland, the Czech Republic, Japan, South Korea and India raised interest rates in 2007 to contain inflation. The People's Bank of China repeatedly raised the benchmark rates on the yuan-denominated deposits and loans and the required reserve ratios for credit institutions. At the same time, some countries whose monetary policy succeeded in curbing inflation, such as Hungary, Slovakia, Turkey, Indonesia, Thailand and the Philippines, cut their interest rates.

The changes that took place in the global economy and on financial markets in 2007 have created less stable external conditions for the Russian economy than they were in the previous years. They also created preconditions for a further slowing of economic growth in the world, including Russia's trading partners, and a reduction in global demand for industrial products and raw materials. This is a consequence of the negative effect of the real estate market situation and the increased credit risks on domestic demand dynamics in foreign countries. Instability on world financial markets and the possibility of decline in external financing increase the risk for countries where previously growth in domestic loans was accompanied by an expansion of banking sector international obligations. There remains the risk of inflation connected with a growth in the prices of energy and agricultural products.

**BANK OF RUSSIA
ACTIVITIES**

II

II.1. MONETARY POLICY

II.1.1. MONETARY POLICY OBJECTIVES AND RESULTS

The monetary policy pursued by the Bank of Russia in 2007 was aimed at consistently reducing the rate of inflation and maintaining the stability of the national currency, which was necessary to create conditions conducive to sustainable economic growth. The Guidelines for the Single State Monetary Policy in 2007 set the target for consumer price inflation at 6.5—8.0% (December on December). Core inflation that corresponded to this target was projected at 5.5—7.0%. At the same time, the social and economic development forecast of the Russian Federation for 2007 set GDP growth at 5.0—6.6%.

In reality, GDP growth in 2007 stood at 8.1%, consumer prices rose by 11.9% and core inflation ran at 11.0%.

External factors, such as significant growth in food prices on foreign markets, had a major effect on inflation in the year under review. In addition, money supply that year grew faster than expected due to massive capital inflow in the first half of the year and the expansion of the refinancing of Russian banks in the second half due to liquidity problems created by the crisis on world financial markets.

In 2007, the Bank of Russia continued to maintain the managed floating exchange rate regime. While restricting the ruble exchange rate volatility, it did not resist the evolving trend towards the ruble's appreciation but merely controlled the pace of this appreciation in order to maintain a balance between inflation dynamics and the existing rate of economic growth.

Demand for the national currency grew at rapid rates in 2007. One key factor determining money demand and its dynamics was, as before, the acceleration of growth in domestic demand (estimates show that in 2007 it was the fastest in recent years). Other major factors of money demand were growth in asset prices¹ and ruble exchange rate dynamics. In 2007, the velocity of money, calculated by the monetary aggregate M2, decreased by 18.8% on an average annual basis, that is, far more than in 2006 (13.2%). The rate of monetisation of the economy, measured by the monetary aggregate M2, increased from 26.1% to 32.2%.

The monetary authorities regulated money supply in 2007 amid massive inflow/outflow of capital and it was affected, to a great extent, by the actions taken by the Bank of Russia within

¹ The sharp rise in prices on the housing market in the second half of 2006 and early 2007 may serve as an indication of growth in asset prices.

MONETISATION OF THE ECONOMY
(according to monetary aggregate M2, %)

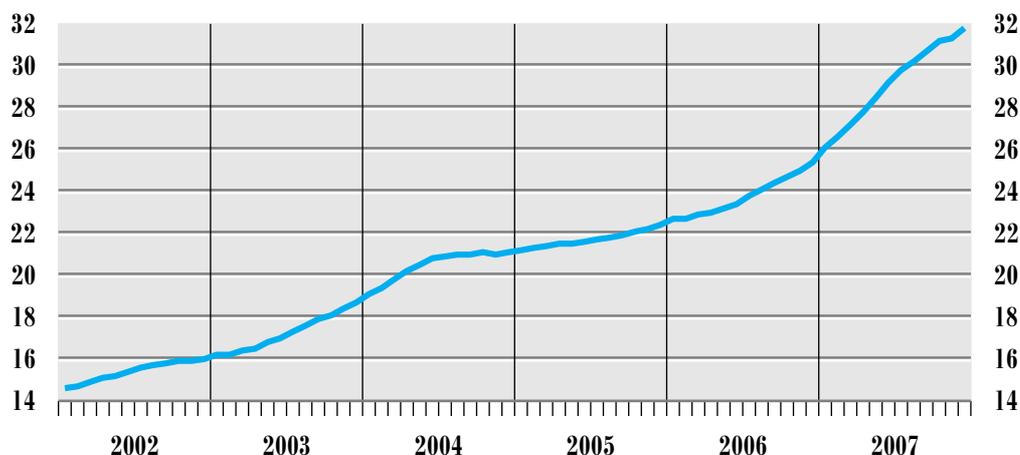


Chart 26

MONETARY AGGREGATES
(as % of corresponding date of previous year)

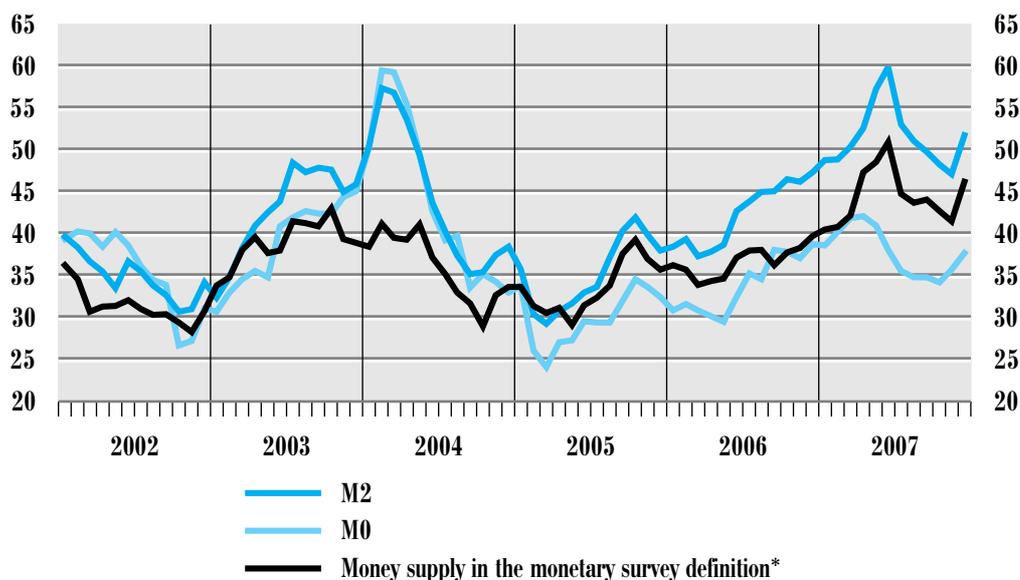


Chart 27

* Money supply in the monetary survey definition includes monetary aggregate M2 and foreign currency deposits.

the established exchange rate regime. To control the inflationary effect of the excess money supply, the Bank of Russia and the Russian Government took steps to absorb liquidity, of which a large part was sterilised, as in the previous three years, by the Stabilisation Fund. At the same time, the deterioration of borrowing terms on foreign markets in the second half of 2007 caused a sharp rise in banking sector demand for Bank of Russia refinancing operations, which increased significantly in volume.

Bank of Russia currency interventions on the domestic forex market reached the highest level in the second quarter of the year under review. As a result, monetary aggregate M2 annualised growth reached almost 60% by June 1, 2007. In August and September the Bank of Russia registered private sector net capital outflow and therefore significantly scaled down its currency interventions. As a result, the annualised rate of M2 growth declined since August and as of January 1, 2008, it stood at 47.5% (as against

RUBLE-DENOMINATED DEPOSITS OF HOUSEHOLDS AND NON-FINANCIAL AND FINANCIAL ENTERPRISES OTHER THAN CREDIT INSTITUTIONS
(as % of corresponding date of previous year)

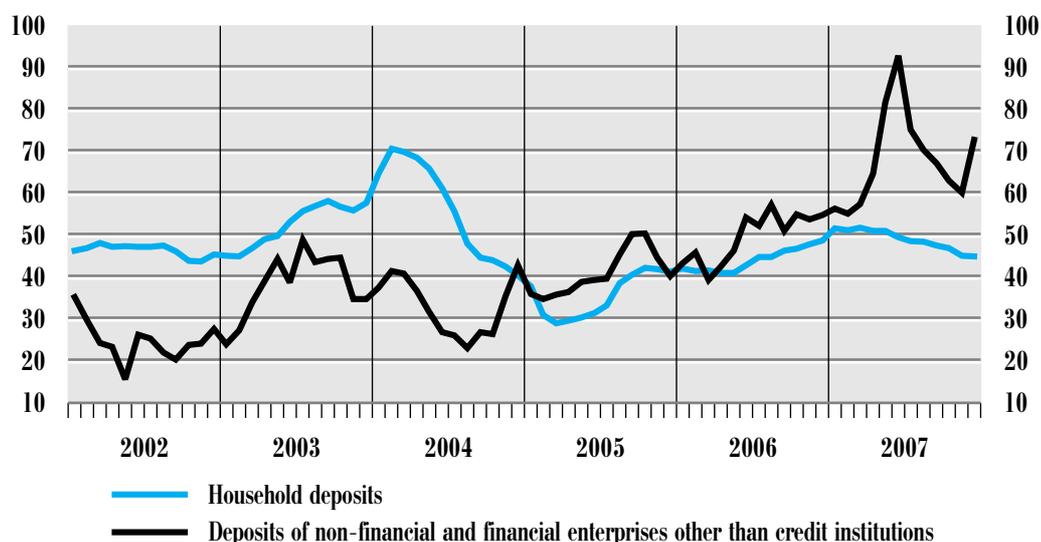


Chart 28

48.8% a year earlier). However, it was higher than the projected increase in money demand.

Cash in circulation and demand deposits made the biggest contribution to M2 growth in 2007. For most of the year under review their overall growth was considerably faster than a year earlier. Demand deposits, which are created mainly from the funds of non-financial and financial corporations other than credit institutions, continued to demonstrate particularly fast growth.

Growth in cash in the year under review was largely due to the continued increase in household income and the reduction of household demand for foreign currency. Net sales of foreign cash to households through the exchange offices fell by half in 2007 as compared with 2006. According to balance of payments data, foreign currency outside the banking sector decreased by \$15.7 billion in 2007 (as against \$10.2 billion in 2006). At the same time, M0 growth slowed down to 32.9% (as against 38.6% in 2006) and the share of cash in M2 contracted to 27.9% as against 31.0% a year earlier.

The trend towards continuous annual growth in ruble-denominated time deposits, most of which (68—80%) are household deposits, began to change in 2007. In the previous two years growth in these deposits constantly accelerated, expanding the share of ruble-denominated time

deposits in household money income consumption. In 2007, however, this growth started to slow down and stood at 39.9% as against 48.8% a year earlier. One reason for this was the transfer of funds from ruble deposits to foreign currency deposits, and the acceleration by several times of growth in household foreign currency deposits in 2007 as compared with 2006 bears this out. The reduction throughout 2007 of interest rates on one-year-plus ruble deposits, which in recent years have accounted for the largest share of household deposits, was a contributing factor. Moreover, the acceleration of inflation in the second half of 2007, which made household savings less attractive, caused the growth in household ruble-denominated deposits to slow down.

At the same time, in 2007, as in the previous three years, time deposits of non-financial and financial corporations other than credit institutions increased at rapid rates. As a result, the share of time deposits in the monetary aggregate M2 expanded from 37.7% to 39.9%.

The dynamics of the aggregate value of foreign currency deposits did not demonstrate any sustained trends in 2007, but their overall growth accelerated compared with 2006. Nevertheless, foreign currency deposits in money supply that comprises these deposits went down from 11.4% to 9.3%.

BANK OF RUSSIA KEY INTEREST RATES AND OVERNIGHT MIACR*
(% p.a.)

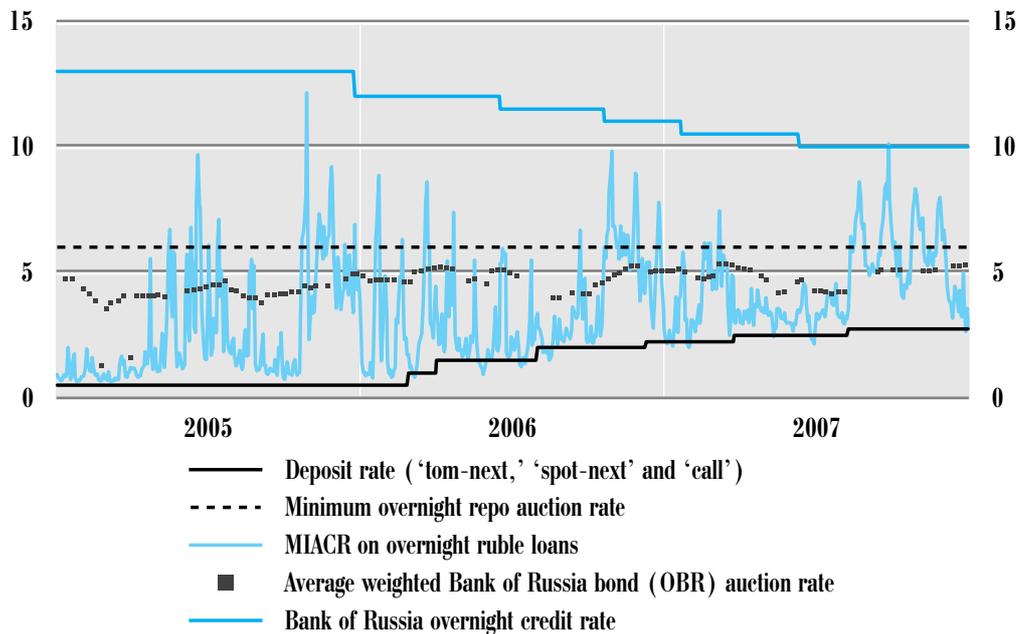


Chart 29

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

The principal source of growth in money supply in 2007 was, as before, the expansion of net foreign assets of the monetary authorities and bank claims on the non-financial corporations. However, growth in net foreign assets of the monetary authorities slowed down and stood at 46.2% as against 52.4% in 2006, whereas growth in claims on the non-financial corporations accelerated to 50.4% (as against 47.2% in 2006). The continued increase in general government deposits with the Bank of Russia restrained money supply growth. At the same time, the rate of their growth slowed down significantly in the year under review and stood at 53.8% as against 71.8% in 2006.

To control money supply growth, the Bank of Russia changed interest rates on its operations, thus managing banking sector liquidity. To sterilise excess liquidity created by massive currency inflow to the domestic forex market, in January—August 2007 the Bank of Russia raised its fixed deposit interest rate and as a result, the lower limit of the Bank of Russia interest rate band rose to 2.75% p.a. The upper limit of the band, set by the overnight rate, was lowered to 10.0% p.a. with the objective of gradually nar-

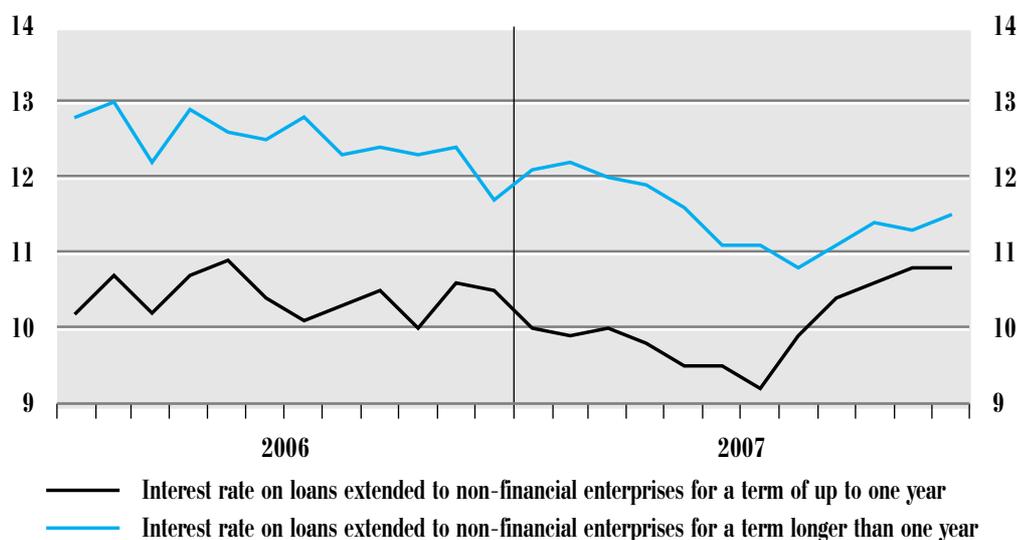
rowing this band. In August—December, when demand for refinancing increased, the Bank of Russia cut the currency swap rate and took a series of measures to provide more liquidity to credit institutions.

As a result of the liquidity regulation measures taken by the Bank of Russia in August—December 2007, MIACR dropped from 5.8% p.a. in August—November (occasionally it surged to 8—10% p.a.) to 4.4% p.a. in December. At the end of the year there was a fall in interest rates on longer-term interbank loans as well.

The situation on the interbank credit market in August—December 2007 affected other interest rates. Least of all it influenced household deposit rates. In 2007, interest rates fell on ruble-denominated household deposits with terms longer than one year. Specifically, the interest rate on deposits with maturities from one year to three years in 2007 declined from 9.3% p.a. in January to 7.5% p.a. in December. Interest rates on household ruble deposits with maturities of up to one year, except demand deposits, also decreased until October. However, in September—December the rise of the general level of interest rates was followed by a certain increase in interest rates

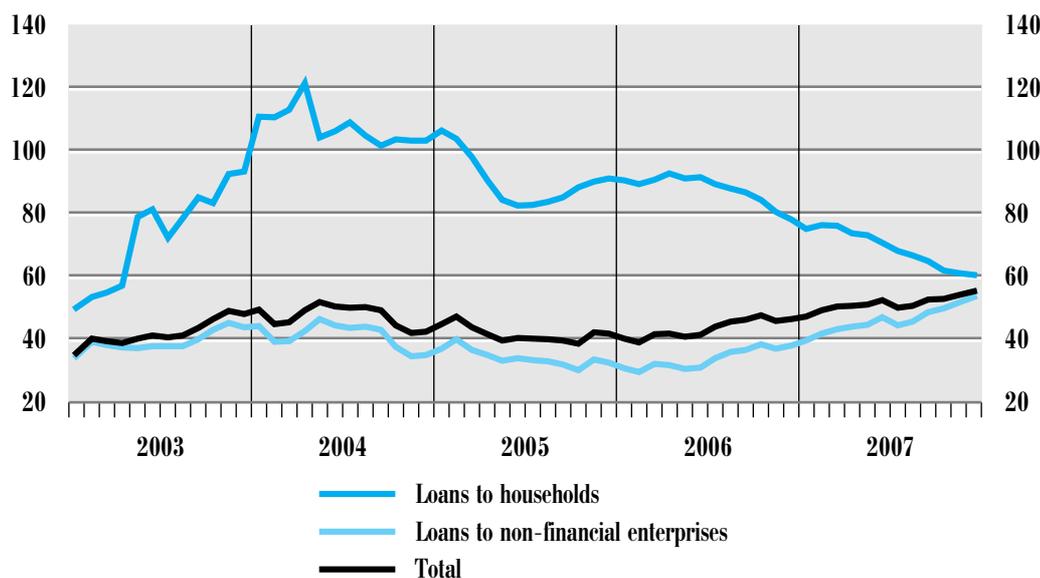
INTEREST RATES ON RUBLE LOANS TO NON-FINANCIAL ENTERPRISES
(% p.a.)

Chart 30



LOANS TO NON-FINANCIAL ENTERPRISES AND HOUSEHOLDS
IN RUBLES AND FOREIGN CURRENCY
(growth as % of corresponding date of previous year)

Chart 31



on some short-term household deposits. For example, the rate on the three- to six-month ruble deposits rose from 6.8% p.a. in August to 7.6% p.a. in December, while the rate on household ruble deposits with maturities shorter than one year, except demand deposits, increased from 7.0% p.a. to 7.3% p.a.

Average interest rates on loans to non-financial enterprises continued to fall in the first half

of 2007. In the first seven months, the interest rate on ruble loans to non-financial enterprises with terms of up to one year declined from 10.0% p.a. in January to 9.2% p.a. in July and the one-year-plus deposit rate went down from 12.1% to 11.1% p.a. However, in the period from August through December, when there was a shortage of liquidity on the money market, the rate on loans extended to non-financial enterprises for a term

of up to one year rose to 10.8% p.a. Long-term credit rates (over one year) also increased (to 11.5% p.a.).

Growth in total loans extended in rubles and foreign currency had been accelerating since the second half of 2006. This was particularly obvious in the dynamics of loans to non-financial enterprises, which account for the largest share of loans. Growth in loans to non-financial enterprises accelerated significantly (to 51.6% in 2007 as against 39.6% a year earlier) due to the rise in economic activity, including investor activity. In the second half of 2007, conditions for borrowing somewhat deteriorated as interest rates grew on the domes-

tic and international credit market, the latter remaining a major source of funds for Russian companies. However, these changes had no marked effect on lending to the non-financial enterprise sector in the second half of the year under review.

In 2007, as in the previous years, growth in loans extended to households was faster than growth in loans extended to non-financial enterprises. In the past four years loans extended to households in rubles and foreign currency grew by an average 81.5% a year, but in the second half of 2006 their growth began to slow down and in 2007 it stood at 57.0% as against 75.1% a year earlier.

II.1.2. MONETARY AUTHORITY INDICATORS AND MONETARY POLICY INSTRUMENTS

External shocks impacted monetary indicator dynamics in 2007. In that situation the Bank of Russia regulated money supply so as to ensure that it matched the dynamics of money demand and cushioned banking sector liquidity fluctuations. To solve these tasks the Bank of Russia used its monetary policy instruments and made them more accessible to credit institutions.

The dependence of money supply on private sector capital flows noted above led in 2007 to a growth in the banking sector liquidity volatility and a need for the monetary authorities to take effective measures to stabilise the situation.

In the first half of 2007, which accounted for over 80% of the year's total net capital flow to the private sector, the Bank of Russia actively used mechanisms to absorb excess banking sector liquidity, such as deposit operations and Bank of Russia bond (OBR) operations, to eliminate imbalances on the money market. In the second half of the year, it cooperated with the Government in carrying out measures that allowed it to quickly provide liquidity to the banking sector and improve the system of refinancing banks.

The aggregate effect of all these factors was reflected in the dynamics of money supply by the monetary authorities.

The expansion of the broad monetary base¹, which characterises the level of money supply by the monetary authorities, slowed down to 33.7% in 2007 from 41.5% in 2006. This was a result of the 10.7% reduction in the rate of broad money supply growth in the third quarter when banks had a shortage of liquidity. In the second and

fourth quarters of the year the monetary base expanded rapidly due to massive interventions conducted by the Bank of Russia on the domestic forex market.

As Russia had a strong balance of payments, the main source of growth in the monetary base was the expansion of the country's international reserves, which in 2007 reached \$172.7 billion at the current cross rates of foreign currencies against the US dollar. This represents an increase of more than 40% on 2006 growth. Net domestic assets of the monetary authorities decreased by 2,848 billion rubles in 2007 (over 78% of the value of Bank of Russia interventions on the domestic forex market). The main reason for the contraction of net domestic assets of the monetary authorities was, as before, the increase in the balances of general government accounts with the Bank of Russia², which stood at 1,802.4 billion rubles in 2007 (about 50% of the value of Bank of Russia interventions).

The Stabilisation Fund mechanism continued to play a major role in absorbing excess liquidity amid massive inflow of foreign currency to the domestic market (in 2007 Stabilisation Fund accounts grew by 1,502 billion rubles and aggregated 3,849 billion rubles). It should be noted here that in November and December 2007 budget spending affected to some extent the liquidity level in the economy as the balances of all categories of budget accounts with the Bank of Russia contracted. Part of these funds went to capitalise the government development institutions.

Aggregate banking sector reserves³ increased by 35.4% in 2007 (as against 47.8% in 2006).

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

² The balances of general government accounts with the Bank of Russia include the balances of funds of the federal government, consolidated budgets of the constituent territories of the Russian Federation and government extra-budgetary funds in accounts with the Bank of Russia.

³ Aggregate banking sector reserves comprise cash balances in credit institutions' tills, credit institutions' required reserve accounts with the Bank of Russia, funds in credit institutions' correspondent and deposit accounts with the

EXCHANGE RATE AND SOURCES OF MONEY SUPPLY IN 2006—2007
(quarterly change, billion rubles)

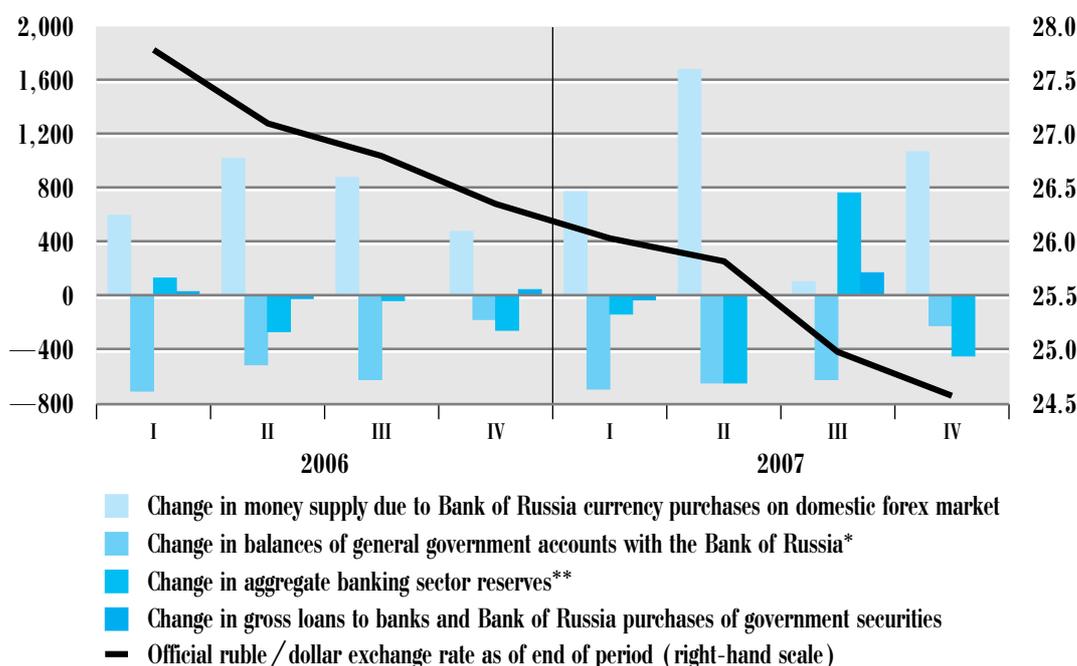


Chart 32

* Including early foreign debt payments and transfers of funds to government corporations. (—) signifies increase, (+) signifies decrease.
** (—) signifies increase, (+) signifies decrease.

Intrayear aggregate banking sector reserve fluctuations corresponded to the dynamics of the monetary base but had a wider range: in the third quarter they went down by 35.3%, whereas in the second and fourth quarters they grew significantly (by 43.7% and 32.6%, respectively).

To regulate money supply, in 2007 the Bank of Russia not only sterilised excess liquidity, but also supplied credit institutions with money, utilising both open market operations and standing facilities. It used monetary policy instruments to reduce the inflationary pressure amid an unprecedented inflow of foreign capital and mitigate the negative effects of the international liquidity crisis on the domestic money market. Consequently, to balance out the situation, the Bank of Russia in some periods had to provide liquidity and in others — to sterilise it.

Given the Russian interbank market being somewhat underdeveloped and segmented, there were times when credit institutions simultaneously needed both refinancing and liquidity absorption instruments.

In the first half of 2007, when the liquidity level was high, the Bank of Russia pursued a monetary policy aimed at minimising the inflationary consequences of money supply growth. It cut the refinance rate and raised interest rates on the liquidity absorption instruments and thus narrowed the interest rate band for Bank of Russia operations from 8.75 percentage points to 7.50 percentage points, while interbank market interest rates on overnight ruble loans ranged between 2% and 7.45% p.a.

Deposit and OBR operations were the monetary policy mechanisms that allowed the Bank of Russia to absorb excess banking sector liquidity. It used them most actively in January—July when massive capital inflow and record foreign currency purchases by the Bank of Russia on the domestic forex market created a large excess of banking sector liquidity. The average daily Bank of Russia debt on these operations increased 2.2 times in 2007 as compared to 2006 (from 288 billion rubles to 638 billion rubles). At the same time, the average daily amount of free bank-

Bank of Russia, credit institutions' investments in Bank of Russia bonds, and reserves for foreign exchange operations deposited with the Bank of Russia.

EXCHANGE RATE, AGGREGATE RESERVES AND NET FOREIGN ASSETS
OF CREDIT INSTITUTIONS IN 2006—2007

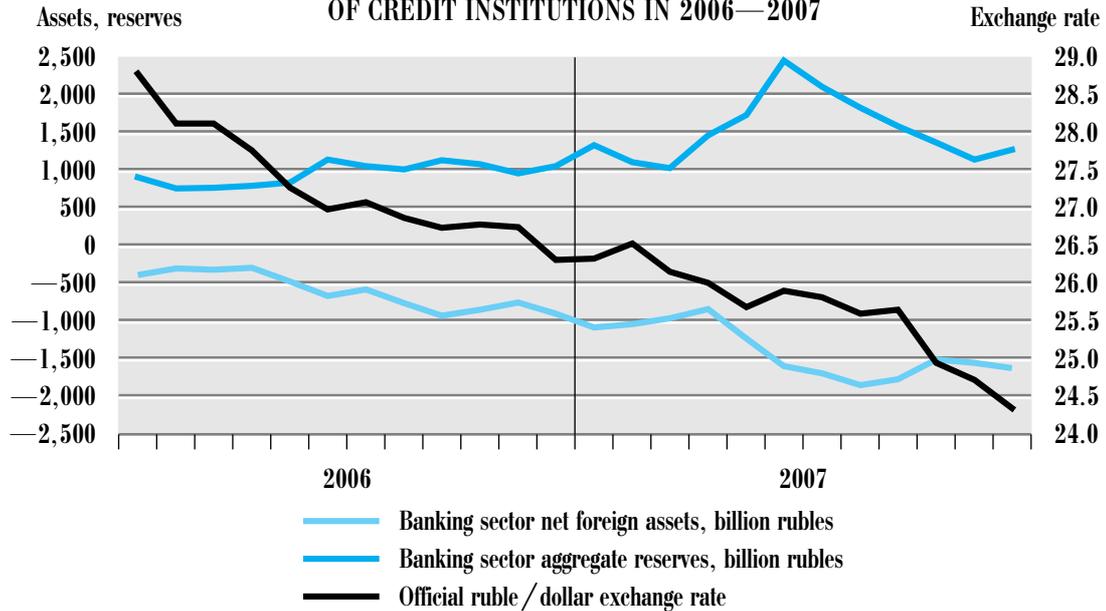


Chart 33

ing sector liquidity, which, apart from the above, included the balances of credit institutions' accounts with the Bank of Russia, reached 1,133 billion rubles in 2007, an increase of more than 70% on 2006.

The Bank of Russia conducted **deposit operations** weekly at 4-week and 3-month deposit auctions and daily at fixed interest rates on standard 'tom-next,' 'spot-next,' 'call,' '1-week' and 'spot-week' terms. The total value of deposit transactions executed by the Bank of Russia in 2007 increased almost 4.6 times compared to 2006 and equalled 45,096 billion rubles, while its maximum debt on deposit operations reached 1,298 billion rubles as against 375 billion rubles in 2006. Fixed-rate 'tom-next' deposits accounted for 73.0% of total funds raised. Most of the deposit operations were accessible through the Reuters Dealing system (98.0% of total operations in 2007 as against 95.0% in 2006).

The Bank of Russia Board of Directors in 2007 doubled the fixed rates on deposit operations conducted with credit institutions on standard terms. Over the year these rates increased from 2.25% to 2.75% p.a. on overnight and call deposits and from 2.75% to 3.25% p.a. on 1-week deposits. While raising the fixed interest rates, the Bank of Russia revised interest rates on deposit operations conducted at auctions. The average

weighted deposit interest rates stood at 3.02% p.a. in 2007 (as against 2.41% p.a. in 2006). The average weighted 4-week and 3-month deposit auction rate stood at 4.33% p.a. (as against 4.06% p.a. in 2006).

The Bank of Russia in 2007 conducted **operations with its own bonds** on the primary market (by auction) and on the secondary market. During the year it placed new OBR issues at auctions on standard terms (buy-back through an embedded put option or redemption in six months' time) and according to uniform schedule (in the middle of the last month of each quarter) with subsequent regular additional placements at weekly auctions.

Each quarterly OBR bond placement in 2007 was accompanied by a Bank of Russia offer to buy back an outstanding issue if market participants used the funds they raised to buy new bonds. This arrangement enabled market participants to exchange an OBR issue that was losing its liquidity for a more liquid one.

To reduce the risk of a massive inflow of short-term capital at OBR auctions, the Bank of Russia set interest rates based on the level of interest rates on the domestic and international interbank markets. The OBR average weighted yield in 2007 stood at 4.9% p.a.

The average daily nominal value of outstanding Bank of Russia bonds in 2007 increased to

about 220 billion rubles as against 142 billion rubles in 2006. By August the OBR market volume had reached an all-time record high of over 380 billion rubles at par.

Total Bank of Russia bond sales in 2007 reached 662.1 billion rubles at market price, of which 660.0 billion rubles worth of bonds were sold by auction. A part of Bank of Russia bonds, worth 101.3 billion rubles, were acquired by market participants by exchanging outstanding bonds on the days the new bond issues were put on auction. Most of the OBR placements (539.0 billion rubles) were made in the first half of the year.

As the Finance Ministry scaled down federal loan bond (OFZ) placements on the primary market, in the fourth quarter of 2007 the Bank of Russia **sold 13.6 billion rubles worth of OFZ bonds from its own portfolio** to meet dormant investors' demand.

As the conditions in which Russian credit institutions operated changed dramatically in the second half of 2007, demand for Bank of Russia refinancing instruments soared. To meet their demand for rubles, credit institutions could use repo operations, intraday, overnight and Lombard loans, currency swap transactions with the Bank of Russia and certain other operations.

Repo operations were the major market instrument in terms of the amount of liquidity supplied to the banking sector in 2007. At the same time, in January—July when there was a lot of idle funds in the banking sector, interest rates on this instrument were mostly higher than the money market rates and there was little demand for this instrument. However, in the second half of the year, when banking sector liquidity contracted under the effect of the external shock, demand for repos rose sharply.

From the latter half of August repo operations were held each business day. Market participants' demand focused on overnight repo auctions, with the average weighted interest rate ranging from 6.03% to 6.70% p.a.

Total funds raised through auction-based repos in 2007 almost quadrupled compared to 2006 and reached 7,731 billion rubles.

As the situation on the money market deteriorated in the third quarter of 2007, the Bank of Russia decided to expand the refinancing of the

banking sector and for this purpose reduced discounts on the prices of securities involved in repo operations and raised the limit on the repo operations it conducted and the limit on net growth in the nominal value of its portfolio.

In late November 2007, in addition to repo auctions the Bank of Russia began to conduct *fixed-rate overnight and 1-week repos* at the rate of 8.0% p.a. and 7.0% p.a., respectively. The total value of these operations equalled 6.6 billion rubles.

To enable market participants to conduct repo transactions with foreign securities, the Bank of Russia worked out rules and procedures for conducting over-the-counter repo operations.

To obtain refinancing, banks in 2007 could take not only intraday, overnight and Lombard loans against the collateral (blocking) of securities on the Bank of Russia Lombard List, but also loans against the collateral of promissory notes, claims under corporate loan agreements or bank guarantees. The most sought-after loans were **intraday loans**, which increased in value by almost 20% year on year and reached 13,500 billion rubles.

Overnight loans, extended by the Bank of Russia at the refinance rate, grew in value 2.8 times and totalled 133.3 billion rubles.

Lombard loans increased in value almost four times as compared to 2006 and totalled 24.2 billion rubles.

In 2007, credit institutions began to execute Lombard loan transactions (at a fixed interest rate and by auction) through the Moscow Interbank Currency Exchange Electronic Trade System, which allows banks to conduct from a single workplace the entire range of operations conducted by the Bank of Russia as part of its monetary policy (loans, deposits and repos).

On November 28, 2007, the Bank of Russia introduced a new bank refinancing instrument, the Bank of Russia *Lombard loan extended at a fixed interest rate for one calendar day* (the interest rate was set at 8.0% p.a.).

Earlier, on October 11, 2007, the Bank of Russia Board of Directors ruled that the fixed interest rate on 7-day Lombard loans would be reduced from 10.0% to 8.0% p.a. if two Lombard auctions have been declared invalid or if it is used in currency swaps.

AGGREGATE BANKING SECTOR RESERVES AND BANK OF RUSSIA OPERATIONS
TO REFINANCE CREDIT INSTITUTIONS IN 2006—2007

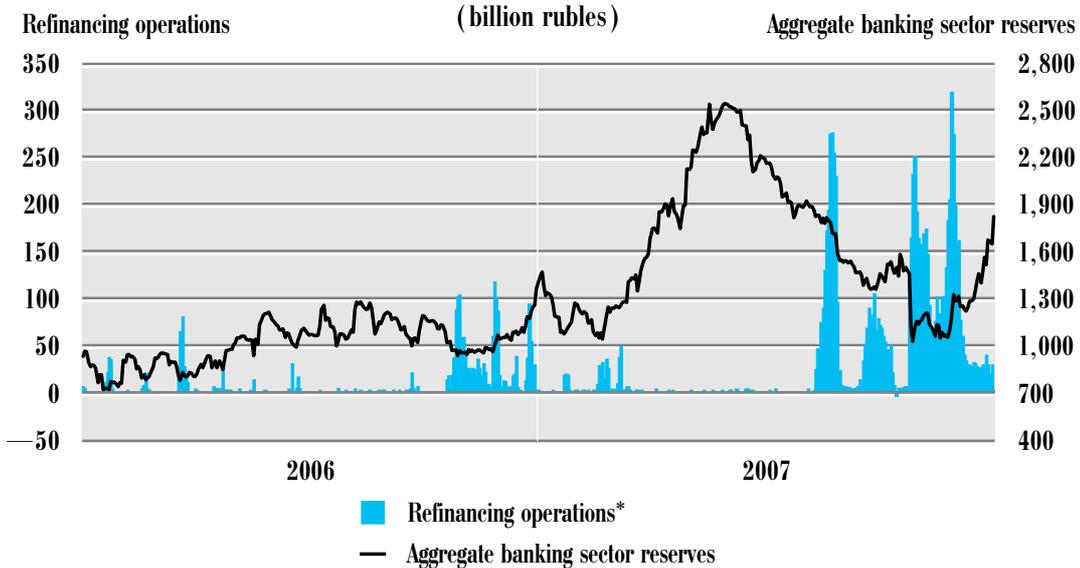


Chart 34

* Total value of repo and currency swap operations, Lombard, overnight and other loans extended by the Bank of Russia and total government securities purchases.

The average weighted Lombard credit rate fell in 2007 by 0.18 percentage points year on year to 7.0% p.a.

In the fourth quarter of 2007 for the first time credit institutions began to take **Bank of Russia loans against the collateral of promissory notes, claims under corporate loan agreements and bank guarantees**. The Bank of Russia started to conduct these operations on October 9 and as of January 1, 2008, their value reached 32.8 billion rubles. The average weighted interest rate on these loans stood at 7.72% p.a.

The Bank of Russia in 2007 stepped up its efforts to expand the range of assets (securities) included in the **Bank of Russia Lombard List**, which may be used by credit institutions as collateral in conducting operations to raise funds from the Bank of Russia.

To give credit institutions broader opportunities for obtaining liquidity, the Bank of Russia Board of Directors in August 2007 decided to *lower the minimum international rating* for the issuer (issue) of corporate and sub-federal bonds that may be put on the Bank of Russia Lombard List from BB in the Standard & Poor's or Fitch Ratings classification or Ba2 in the Moody's Investors Service classification to B+ (Standard & Poor's or Fitch Ratings) or B1 (Moody's Investors Service).

At the same time, the Bank of Russia Board of Directors lowered the requirements for the international rating of organisations whose obligations are accepted as security for Bank of Russia loans, and for credit institutions whose guarantees are accepted as security for Bank of Russia loans.

In the course of 2007, 97 sub-federal and resident corporate bond issues and 24 securities issues issued by non-resident corporate entities outside Russia were placed on the Bank of Russia Lombard List.

In 2007, the Bank of Russia raised its *adjustment ratios*, which now range from 0.75 (for sub-federal and resident corporate bonds with international ratings B+ in the classification of Standard & Poor's and Fitch Ratings or B1 in the classification of Moody's Investors Service) to 0.99 (for Bank of Russia bonds).

On December 28, 2007, the Bank of Russia put into effect a regulation that set up a new procedure for extending Bank of Russia **loans** to credit institutions **against the collateral of non-market assets** (promissory notes and claims under loan agreements), such as intraday loans, overnight loans and fixed-rate loans for up to 30 calendar days.

In August—November, when demand for rubles soared, the Bank of Russia conducted

currency swap transactions as an additional instrument to supply banks with liquidity. The total value of ruble liquidity provided by the Bank of Russia through the ruble/dollar and ruble/euro swaps in the period under review stood at 194.8 billion rubles. The increase in demand for these operations was largely due to a reduction in October 2007 of the interest rate on them from 10.0% to 8.0% p.a.

From the middle of August, when an acute shortage of liquidity broke out, **Bank of Russia bond buyout operations** provided an additional channel of liquidity supply. In 2007, the Bank of Russia bought out on the secondary market (not counting the buyouts by offer or in connection with the execution of the put option and the exchange of outstanding bond issues for new ones) 232.3 billion rubles worth of OBR bonds, of which 231.8 billion rubles worth of bonds were bought out in the second half of the year.

The Bank of Russia occasionally used **operations to buy and sell securities from its own portfolio** as an additional means of regulating liquidity. In September 2007, it bought 51.1 billion rubles worth of federal loan bonds (OFZ) on the open market and in October it bought 51.0 billion rubles worth of Russian eurobonds.

As short-term capital flowed into Russia in quantity in the first half of 2007, the Bank of Russia decided to raise from July 1 the **required reserve ratios** to 4.5% for obligations to non-resident banks in rubles and foreign currency and other bank obligations in rubles and foreign cur-

rency and to 4.0% for bank ruble obligations to individuals.

As banking sector liquidity went down significantly in the third quarter of 2007, the Bank of Russia lowered for three months (beginning October 11) the required reserve ratios for bank ruble obligations to individuals from 4.0% to 3.0% and for ruble and foreign currency obligations to non-resident banks and other bank obligations in rubles and foreign currency from 4.5% to 3.5%. At the same time, it allowed credit institutions that intended to recalculate their required reserves on the basis of the new standards to conduct an extraordinary regulation on October 11—15, 2007.

In addition, on November 1 the Bank of Russia raised from 0.3 to 0.4 the **averaging ratio** for the calculation of the average amount of required reserves.

The number of credit institutions that used their right to average their required reserves grew from 726 as of January 1, 2007, to 767 as of January 1, 2008 (from 61.0% to 67.0% of total credit institutions), while the part of the required reserves that credit institutions kept in correspondent accounts (sub-accounts) with the Bank of Russia grew from 43.2 billion rubles in December 2006 to 124.1 billion rubles in December 2007. Most of the credit institutions that applied for the right to average their required reserves were then using the highest averaging ratio established by the Bank of Russia¹.

¹ For credit institutions it was 0.3 until November 1, 2007, and 0.4 afterwards; for non-bank settlement credit institutions and the Organised Securities Market Settlements Centre it was 1.0.

II.1.3. EXCHANGE RATE POLICY

Following the *Guidelines for the Single State Monetary Policy in 2007*, the Bank of Russia in 2007 continued to maintain the managed floating exchange rate regime.

It used the ruble value of the bi-currency basket, comprised of US dollars and euros, as the operational target for its exchange rate policy. This allowed the Bank of Russia to flexibly and sensibly respond to the euro/dollar fluctuations and cushion fluctuations in the nominal effective rate of the ruble. In February 2007, it revised the structure of the bi-currency basket, increasing the share of the euro (from 0.4 euros to 0.45 euros).

As in 2006, during most of 2007 supply exceeded demand on the domestic forex market.

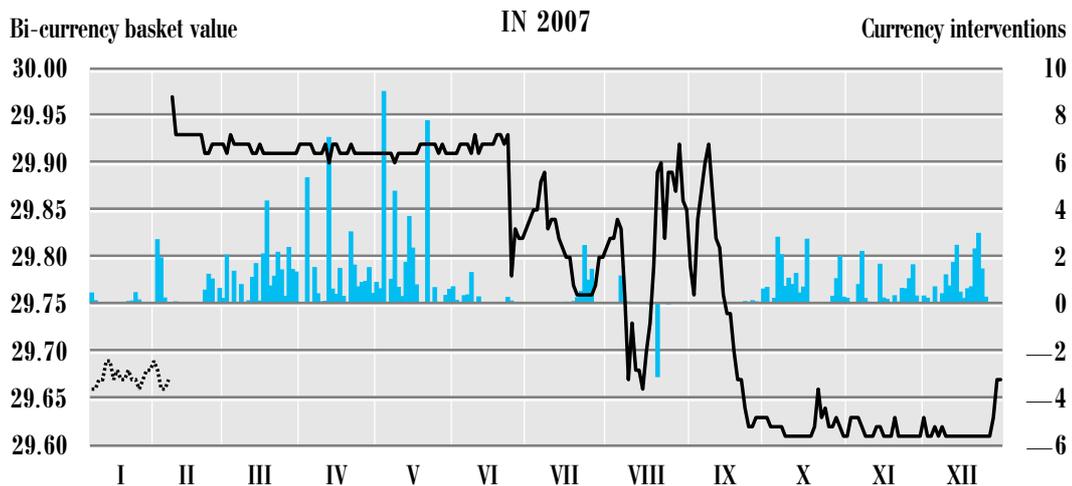
In the first half of 2007, the reduction of the current account surplus (to \$38.8 billion from \$54.6 billion in the first half of 2006), caused by import growth, was offset by massive private capital inflow. Net private sector capital inflow reached \$66.4 billion in the first and second quar-

ters of 2007 (as against \$42.0 billion in the entire year 2006), mostly due to the IPOs placed by the top two Russian issuers, Sberbank and VTB Bank, and major property auctions. In that situation, Bank of Russia net foreign currency purchases reached a record high of \$96.2 billion in the period from January to June 2007.

The second half of 2007 was full of developments that influenced significantly the world and national financial systems. The crisis in the high-risk sub-prime loan sector of the US mortgage market and the ensuing risk reassessment by the leading financial market participants led to a contraction of liquidity on world financial markets and capital outflow from emerging markets. The dollar sharply fell in value, while the price of oil and other major exchange commodities, such as gold, platinum and other, surged.

To reduce the risk of inflation amid persistent growth in export prices and massive inflow of foreign currency, at the beginning of the second half of 2007 the Bank of Russia twice (in July and

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



- Bi-currency basket value before 8.02.2007 (0.6 dollars + 0.4 euros, calculated at official rates of exchange), rubles
- Bi-currency basket value after 8.02.2007 (0.55 dollars + 0.45 euros, calculated at official rates of exchange), rubles
- Bank of Russia currency interventions, billion US dollars

Chart 35

REAL RUBLE EXCHANGE RATE IN 2006—2007
(growth as % of December of previous year)

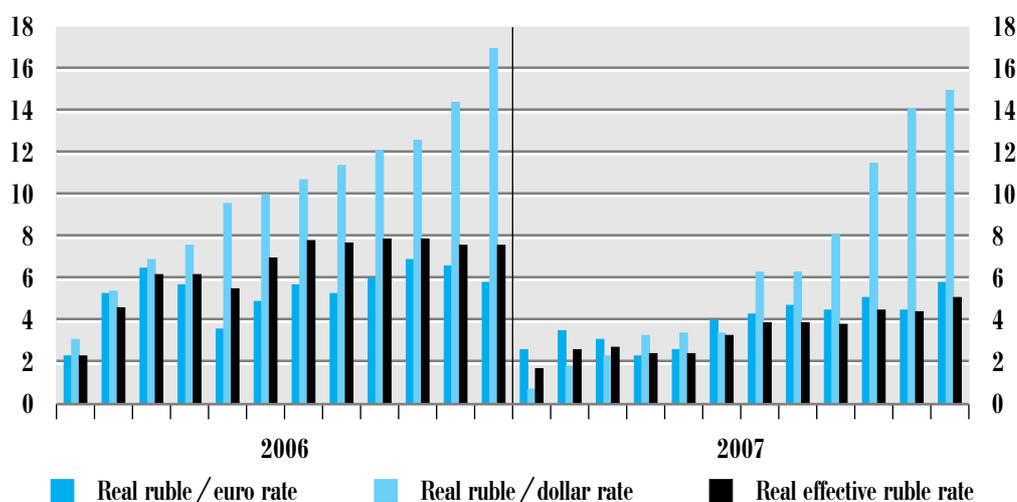


Chart 36

early August) scaled down its support for the bi-currency basket. Nevertheless, in the middle of August, as foreign investors withdrew from Russian assets while residents hoarded foreign currency to service foreign debt, demand for foreign currency on the domestic market increased many times over and exceeded supply and the current market value of the bi-currency basket reached the upper limit of fluctuations of the ruble value of the currency basket, used by the Bank of Russia as the operational target. To prevent the ruble's abrupt depreciation against the major world currencies, during that period the Bank of Russia sold \$3.14 billion in foreign currency on the domestic market.

In late August and September demand matched supply on the domestic forex market, whereas in the fourth quarter, when private capital inflow resumed (\$23.5 billion in October—December) and the banking sector experienced a shortage of liquidity, foreign currency supply exceeded demand and the Bank of Russia was buying up foreign currency.

As a result, in the year under review aggregate Bank of Russia net foreign currency purchases increased by 21.0% year on year reaching \$142.3 billion.

Due to massive foreign currency inflow through capital and foreign trade operations registered for most of the year, Russia's gold and foreign exchange reserves increased by \$172.7 billion, or 56.8% and as of January 1, 2008, reached \$476.4 billion.

The nominal effective rate of the ruble against foreign currencies in 2007 fell by 0.9%, whereas the nominal rate of the ruble against the US dollar rose by 6.7% and against the euro it declined by 2.7%.

In 2007, the real rate of the ruble gained less than in 2006. The real effective rate rose by 5.1%, remaining within the exchange rate band projected in the social and economic development scenarios of the *Monetary Policy Guidelines for 2007*. The real rate of the ruble gained 15.0% against the US dollar and 5.8% against the euro.

II.2. RESERVE MANAGEMENT

When managing its foreign exchange reserves¹, the Bank of Russia sought to ensure their safety, liquidity and profitability.

Safety of the foreign exchange reserves is ensured by using a comprehensive risk management system, based exclusively on the application of high-security financial market instruments, imposing stringent requirements on the foreign counterparties of the Bank of Russia and setting risk limits on each of them depending on their solvency, and conducting operations under agreements with foreign counterparties that protect the interests of the Bank of Russia.

To ensure in the most effective way the safety, liquidity and profitability of foreign exchange reserves, they are divided into the transaction portfolio and the investment portfolio. The transaction portfolio comprises short-term money market instruments, such as the balances of correspondent accounts, deposits, repos and short-term discount securities. The management of this portfolio ensures the necessary level of low-risk short-term foreign exchange assets. Funds in the investment portfolio are invested in long-term and, consequently, riskier and, as a rule, more profitable international capital market instruments. There-

fore, the management of the investment portfolio is aimed at receiving additional profitability without violating the established safety and liquidity requirements. To increase profitability and, at the same time, maintain the necessary level of safety and liquidity, the Bank of Russia makes investment decisions bearing in mind the current state of the international currency and financial market and forecasts for their future dynamics.

The main factor of growth in foreign exchange reserves in 2007 was the purchase by the Bank of Russia of foreign currency on the domestic forex market. Other contributing factors were the proceeds from operations with Bank of Russia foreign exchange assets and precious metals and the change in the exchange rates of other reserve currencies against the US dollar.

The transaction portfolio of foreign exchange reserves in 2007 expanded from \$213.1 billion to \$281.2 billion. To make more income from foreign exchange reserve placements, the Bank of Russia used part of the reserves to buy bonds denominated in US dollars, euros and British pounds (about \$33.3 billion, 34 billion euros and 3.8 billion pounds). As a result, the share of the Bank of Russia foreign exchange reserve transaction portfolio in total foreign exchange reserves went

¹ Denominated in reserve currencies Bank of Russia claims on foreign counterparties and Bank of Russia-owned securities, except reserve currency-denominated foreign securities purchased by the Bank of Russia with an obligation to resell (reverse repo).

**FACTORS OF CHANGE IN BANK OF RUSSIA FOREIGN EXCHANGE RESERVES IN 2007
(US\$, billion)**

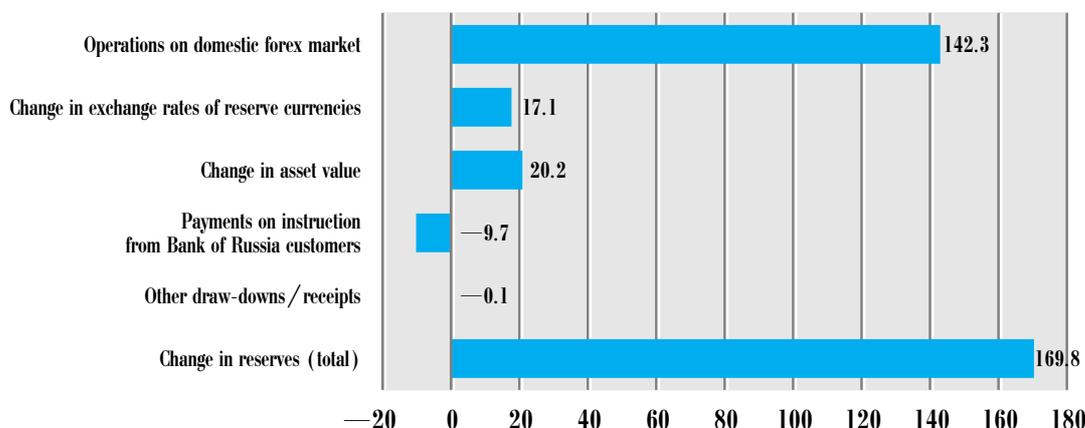


Chart 37

down from 73.0% to 61.0%. The total value of the foreign exchange reserve investment portfolio increased from \$78.4 billion to \$180.1 billion in 2007 and its share in the total value of the transaction and investment portfolios grew from 27.0% to 39.0%.

As of January 1, 2008, Bank of Russia foreign exchange reserves were invested in the following classes of instruments¹: deposits and balances of correspondent accounts (24.5%), repo transactions (15.6%) and foreign securities (59.9%). (Foreign securities are mostly government coupon bonds of the United States, Germany, Britain, France, the Netherlands, Austria, Belgium, Spain, Finland and Ireland and discount and coupon securities issued by agencies of these countries).

The geographical structure of Bank of Russia foreign exchange reserves as of January 1, 2008, was as follows: the United States accounted for 37.3% of assets, Germany — for 14.6%, Britain — for 12.7%, France — for 9.7%, Switzerland — for 7.1% and other countries — for 18.6%. This structure is based on the residence of the head offices of the banking groups that are counterparties of the Bank of Russia in money market operations (balances of correspondent accounts, deposits and repos) and the issuers of the securities in the Bank of Russia foreign exchange reserve portfolios.

The management of foreign exchange reserves entails undertaking financial risks by the Bank of Russia, especially market (currency and interest rate) risk and credit risk. Risk management in operations with foreign exchange reserves in-

**BANK OF RUSSIA
FOREIGN EXCHANGE RESERVES
BY INSTRUMENT IN 2007 (%)**

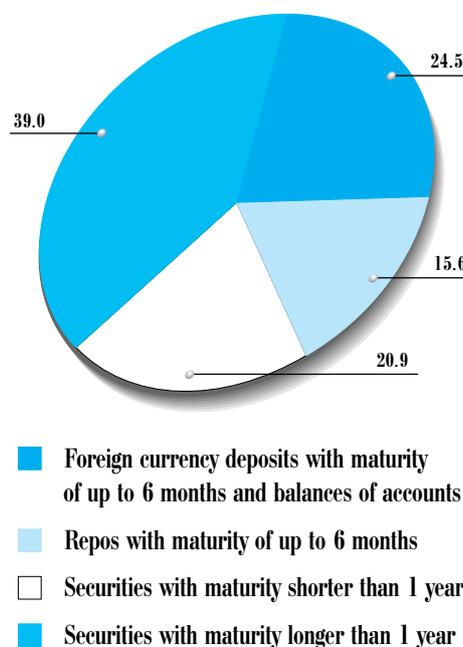


Chart 38

¹ Based on management reports on the market value of assets in the Bank of Russia foreign exchange reserve portfolios (net of gold).

BANK OF RUSSIA FOREIGN EXCHANGE RESERVES BY COUNTRY IN 2007
(as % of market value of reserves)

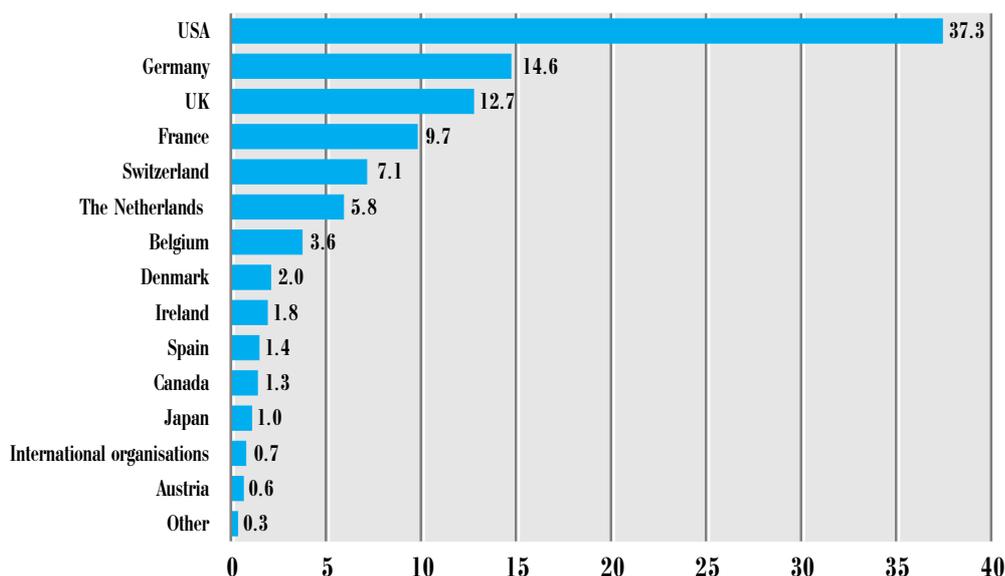


Chart 39

cludes procedures for identifying and assessing risks, setting limits on them and monitoring compliance with these limits.

In 2007, Bank of Russia foreign exchange reserve assets were denominated in US dollars, euros, British pounds and Japanese yen (hereinafter

referred to as “reserve currencies”). In the period under review the Bank of Russia also had obligations expressed in reserve currencies (balances of customer accounts, including Federal Treasury accounts with the Bank of Russia, and funds raised from repos with foreign counterparties¹).

**BANK OF RUSSIA
FOREIGN EXCHANGE RESERVES
BY CURRENCY IN 2007 (%)**

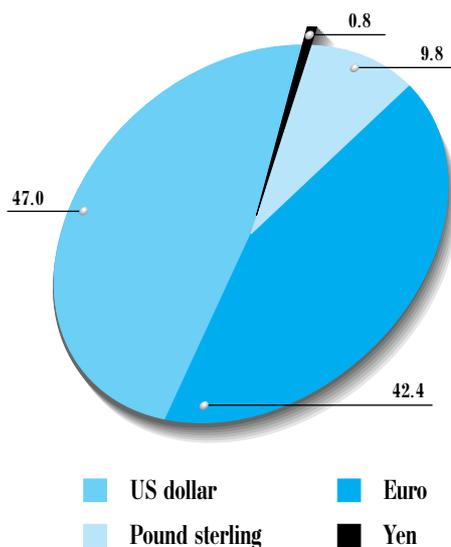


Chart 40

The difference between Bank of Russia assets in reserve currencies and Bank of Russia obligations in these currencies represents net foreign exchange reserves, whose currency structure is the source of currency risk. The level of currency risk assumed by the Bank of Russia is limited by the standard currency structure of Bank of Russia foreign exchange reserves, which sets the target ratios of the reserve currencies in net foreign exchange reserves and the permissible deviations. Since foreign exchange reserves are measured in US dollars, currency risk in the management of foreign exchange reserves signifies the possibility of a fall in the value of foreign exchange reserves due to the deviation of the actual currency structure from the standard one, caused by unfavourable fluctuations in the exchange rates of reserve currencies against the US dollar.

The standard currency structure of Bank of Russia foreign exchange reserves has changed in

¹ Funds raised in repo operations with foreign counterparties are not included in foreign exchange reserves.

the year under review as follows: the standard share of the Japanese yen was expanded at the expense of the share of the US dollar.

In 2007, the Bank of Russia conducted conversion transactions with the US dollar, the euro, the pound sterling and the yen on the international currency market. Massive US dollar purchases on the domestic forex market and the changed amount and structure of Bank of Russia foreign currency obligations (Federal Treasury accounts¹) compelled the Bank of Russia to mostly sell dollars for other reserve currencies in order to bring their share in net foreign exchange assets up to standard.

Credit risk was controlled by the limits set on the Bank of Russia counterparties and the requirements for the credit quality of the issuers of securities included in Bank of Russia foreign exchange reserves. The lowest permissible long-term credit rating of Bank of Russia counterparties and debtors in operations with Bank of Russia foreign exchange reserves was set at A in the classification of Fitch Ratings and Standard & Poor's rating agencies (or A2 in the classification of Moody's Investors Service). The lowest permissible securities or securities issuer rating was set at AA- in the classification of Fitch Ratings and Standard & Poor's (or Aa3 in the classification of Moody's Investors Service). Deals that involved the management of foreign exchange reserves were struck with foreign counterparties included in the corresponding list within the credit risk limits established for them.

The structure of assets in the Bank of Russia foreign exchange reserve portfolios by credit rating as of January 1, 2008, was as follows: AAA-rated assets accounted for 58.7%, AA-rated assets — for 33.9%, and A-rated assets — for 7.4%. This structure is based on data on long-term credit ratings assigned by Fitch Ratings, Standard & Poor's and Moody's Investors Service to the head offices of the banking groups that are the counterparties of the Bank of Russia in money market operations (balances of correspondent accounts, deposits and repos) and the issuers of the securities in the Bank of Russia foreign ex-

change reserve portfolios. When the counterparty or issuer ratings of these agencies differed, the lowest rating was accepted. The asset structure by rating is represented by major rating categories AAA, AA and A without a breakdown of the rating scale within each category².

To assess the interest rate risk and the rate of return of the portfolios of actual assets, the Bank of Russia used standard portfolios created under the procedure established by Bank of Russia internal documents. The standard foreign exchange reserve investment portfolio was rebalanced on a monthly basis and the standard transaction portfolio — on a weekly basis. The standard portfolio represented a set of instruments (index) formed by assigning to each instrument that met the requirements established by Bank of Russia internal documents a certain weight (share) in the portfolio. The weight of an instrument in the standard portfolio was determined on the basis of the depth of the market for that instrument.

Effective duration was an indicator used to assess the level of interest rate risk, which signifies financial loss due to the change in interest rates on each reserve currency. To control inter-

**BANK OF RUSSIA
FOREIGN EXCHANGE RESERVES
BY CREDIT RATING IN 2007 (%)**

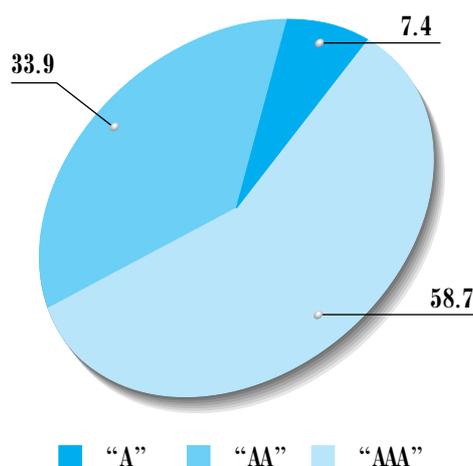


Chart 4.1

¹ Foreign exchange purchases by the Federal Treasury with money from the Stabilisation Fund.

² Additionally to compare long-term credit ratings within each rating category, ‘+’ or ‘-’ are added to Standard & Poor's and Fitch Ratings figures and the digits 1, 2 and 3 are added to Moody's Investors Service ratings.

est rate risk, the Bank of Russia set limits on the deviation of the effective duration of the actual foreign exchange reserve portfolios from the effective duration of the standard portfolios.

The rate of return and effective duration of the actual portfolios and the corresponding standard portfolios were evaluated daily. The rate of return took into account both realised income and the change in the value of the assets that form the portfolios¹. The rate of return was evaluated for each currency part of the transaction and investment portfolios.

The rates of return on the Bank of Russia foreign exchange reserve portfolios in 2007, calculated on the accrual basis², are shown in Addenda, Section IV, IV.3. *Statistical tables*.

The US mortgage crisis that broke out in 2007, had affected virtually all major financial markets by the end of the year and the Bank of Russia had to take a series of measures to reduce to a minimum the adverse after-effects of the crisis on the value of its foreign exchange reserves. Specifically, it reduced the share of assets rated below AA;

tightened requirements for counterparties and deposit terms, and further limited the volumes of operations with foreign counterparties. As investor confidence in non-government securities declined, the Bank of Russia reduced the share of these securities in its foreign exchange reserves in favour of shorter-term instruments and government bonds and imposed additional restrictions on the volume of investments in non-government securities.

Bank of Russia gold assets are managed separately from its foreign exchange reserve portfolios. During 2007 the Bank of Russia expanded its monetary gold assets by 47.46 tonnes, an increase of 12.9% on the beginning of the year.

The Bank of Russia continued to place gold it kept in accounts in foreign credit institutions on short-term deposits with prime banks. In the period from January to August 2007, it placed gold for terms of up to six months. In the subsequent months, when the crisis on world financial markets came to a head, it started to place gold for shorter periods.

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

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

R is the portfolio rate of return in one day;

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

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

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

² The aggregate rate of return of the portfolios is calculated using the linked index method. The rate of return for the period was calculated using 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.



II.3. BANKING REGULATION AND SUPERVISION

The activities of the Bank of Russia in the field of banking regulation and supervision, conducted pursuant to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), in 2007 were aimed at maintaining stability of the Russian banking system and protecting the interests of depositors and creditors. The Bank of Russia continued to carry out measures designed to improve banking supervision in line with the Russian Banking Sector Development Strategy until 2008 and

in compliance with internationally accepted standards.

In 2007, it issued regulations and instructions aimed at upgrading Bank of Russia key policies in banking regulation and supervision, including the state registration of credit institutions, the licensing of banking operations, risk assessment, management and control, off-site supervision, inspection, financial rehabilitation and liquidation of credit institutions and the prevention of money laundering and terrorist financing.

II.3.1. REGISTRATION AND LICENSING OF BANKING ACTIVITIES

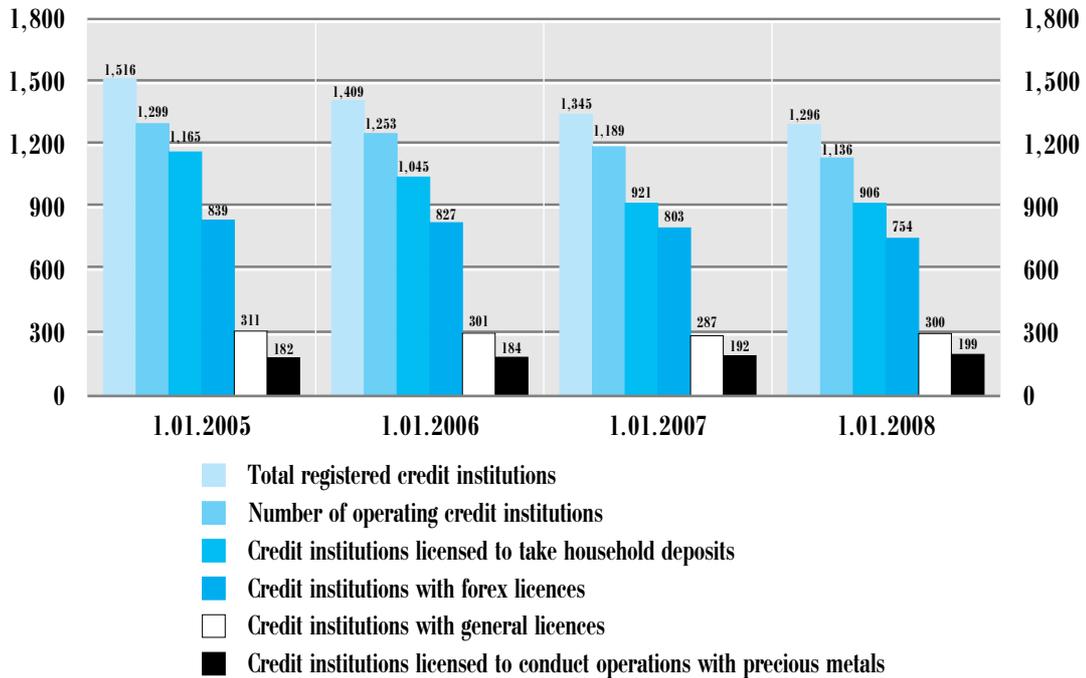
During the year under review, the Bank of Russia registered new credit institutions, issued banking licences, evaluated the financial situation of the founders (members) of credit institutions, sought to create conditions conducive to banking capital consolidation and took action to ensure that credit institutions have a transparent ownership structure.

At the same time, the Bank of Russia upgraded methodologies to create favourable conditions for banking sector capitalisation, introduce new banking services and make it easier for the divi-

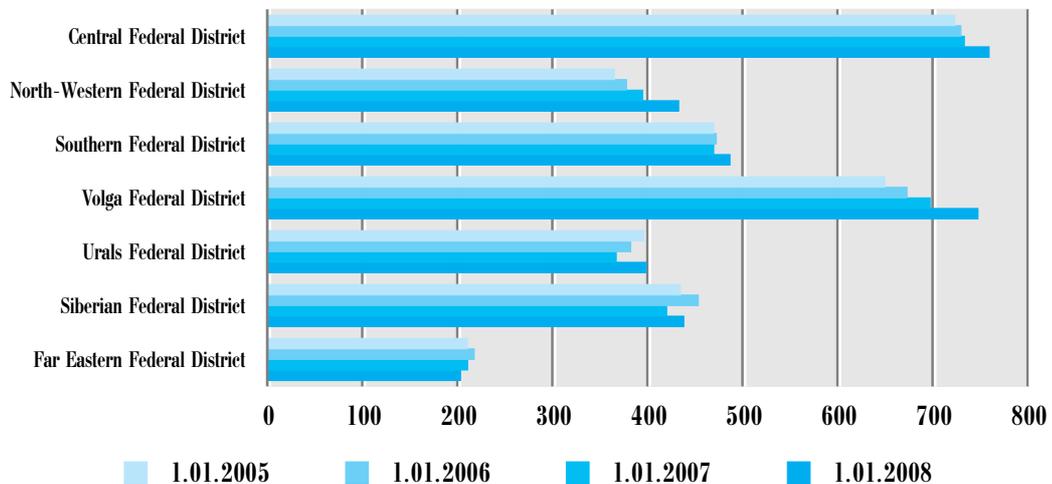
sions and branches of credit institutions to begin conducting banking operations.

The number of operating credit institutions licensed to conduct banking operations decreased by 53 in 2007 as compared with 2006 (taking into account bank reorganisation) and as of January 1, 2008, it stood at 1,136. The number of registered credit institutions fell by 49, or 3.6%, and as of January 1, 2008, stood at 1,296 (in 2006, the number of registered credit institutions dropped by 64, or 4.5%, and as of January 1, 2007, equalled 1,345).

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



NUMBER OF BRANCHES OF OPERATING CREDIT INSTITUTIONS BY REGION



Twelve new credit institutions (eight banks and four non-bank credit institutions) were registered during the year under review. Of these, six banks are controlled by foreign capital. For comparison, in 2006 seven credit institutions were registered, including five banks (three of them controlled by foreign capital).

Forty-one credit institutions, or 3.6% of total operating credit institutions, expanded the range

of their activities by obtaining additional licences in 2007 (48 credit institutions, or 4% of the total, in 2006).

In 2007, the Bank of Russia issued 17 general licences, 12 licences to conduct foreign currency operations and 10 licences to attract funds on deposit and to place precious metals. It granted the right to attract household deposits to six banks, of which four received this right for the first time

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

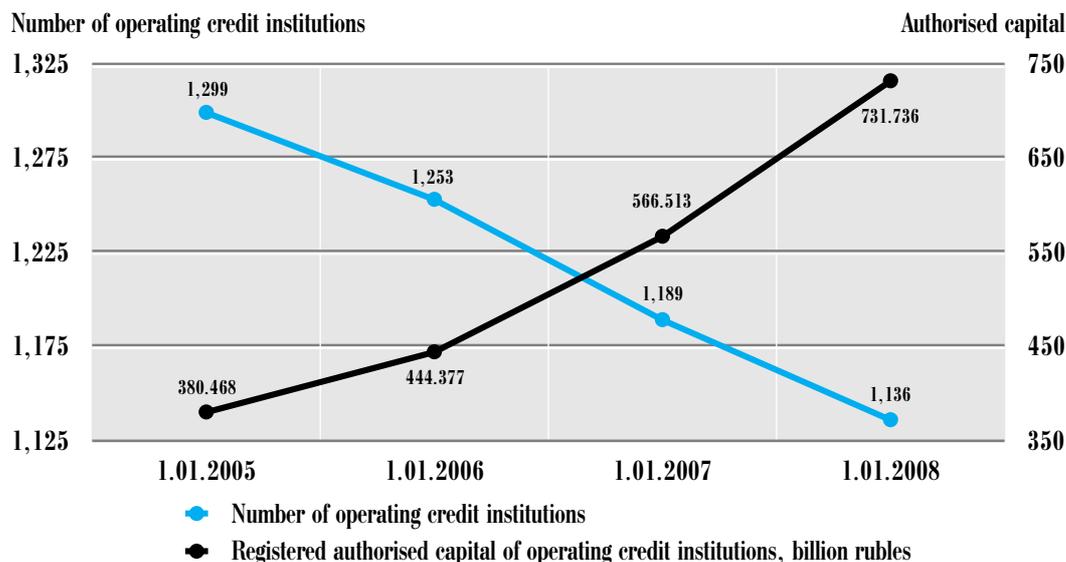


Chart 44

and two that had refused to participate in the household deposit insurance system after the Federal Law on Insurance of Household Deposits in Russian Banks came into effect. Eleven credit institutions in 2007 were denied additional licences to expand the range of their operations for non-compliance with the requirements of federal legislation and Bank of Russia regulations (13 credit institutions in 2006).

As of January 1, 2008, 906 out of 1,136 operating credit institutions were licensed to take household deposits, 754 credit institutions had licences to conduct operations in rubles and foreign currency, 300 credit institutions had general licences and 199 credit institutions had licences to deposit and place precious metals or permission to conduct operations with precious metals.

The consolidation of the banking business continued in 2007: eight credit institutions merged with three credit institutions. In addition, seven credit institutions changed their form of incorporation and legal status as they turned from limited liability companies into joint-stock companies.

As of January 1, 2008, the number of branches of operating credit institutions reached 3,455 (as against 3,281 a year earlier), of which 169 were branches of wholly foreign-owned banks (90 a year earlier). The number of branches of

credit institutions differs by region: there are 758 branches, or 21.9% of the total, in the Central Federal District, 746, or 21.6%, in the Volga Federal District and 202, or 5.8%, in the Far Eastern Federal District.

There is a trend for credit institutions to optimise their regional networks. The number of additional offices increased by 26.5% to 18,979 as of January 1, 2008, and the number of cash and credit offices rose by 54.9% to 1,543. At the same time, the number of cash departments outside cash settlement centres declined from 15,885 to 14,689. Many credit institutions and their branches opened new divisions established under Bank of Russia regulations, such as operations offices and mobile cash points. As of January 1, 2008, there were 497 operations offices and 51 mobile cash points. The total number of internal divisions of credit institutions and their branches increased by 3,871 and as of January 1, 2008, reached 35,759 as against 31,888 as of January 1, 2007. The number of internal divisions of credit institutions and their branches per 100,000 population rose from 22 in 2006 to 25 in 2007.

Measures taken by members (shareholders) to increase the capitalisation of their credit institutions led to the expansion of the aggregate authorised capital of operating credit institutions, which increased by 165.2 billion rubles compared

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

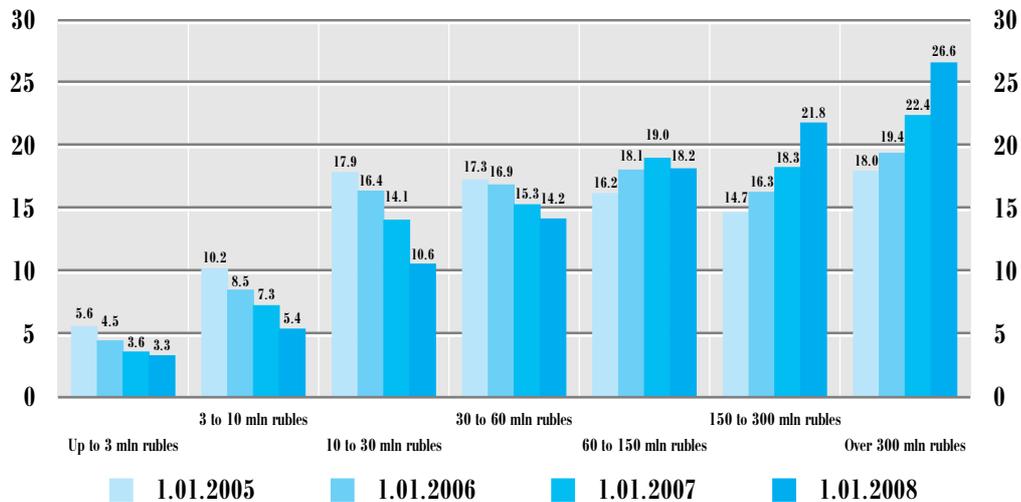


Chart 45

to 2006 and reached 731.7 billion rubles. Sberbank and VTB Bank IPOs accounted for 13.9% of the growth in banking sector authorised capital, which amounts to 22.9 billion rubles. The number of credit institutions with a registered authorised capital of more than 175 million rubles (5 million euros) rose to 470 as of January 1, 2008, or 41.4% of total operating credit institutions. The number of credit institutions with an authorised capital of more than 300 million rubles stood at 302 as of January 1, 2008, or 26.6% of total operating credit institutions (as against 266, or 22.4%, as of January 1, 2007, and 243, or 19.4% as of January 1, 2006) and the number of credit institutions with an authorised capital of 150 million rubles to 300 million rubles stood at 248, or 21.8% (as against 217, or 18.3%, as of January 1, 2007, and 204, or 16.3%, as of January 1, 2006).

Compared to 2006, the number of operating credit institutions with an authorised capital of less than 150 million rubles fell by 120 to 586 (as

against 706 as of January 1, 2007, and 806 as of January 1, 2006).

The year under review saw a rise in the share of non-residents in the Russian banking system. Total foreign investment in the banking sector reached 183.5 billion rubles. In 2007, it increased by 93.4 billion rubles, or doubled, mostly due to the increase by operating credit institutions of their authorised capital with non-resident funds. The non-resident share of the aggregate registered authorised capital of Russian credit institutions increased from 15.9% as of January 1, 2007, to 25.1% as of January 1, 2008. Exclusive of the share of non-residents under material influence of Russian Federation residents, the non-resident share of the aggregate registered authorised capital of credit institutions grew over that period from 14.9% to 22.8%.

Credit institutions with foreign interest are located in 40 Russian regions, 124 of them, or 61.4% of the total, in Moscow and the Moscow Region, and 16 in St Petersburg.

II.3.2. OFF-SITE SUPERVISION

In the field of off-site supervision the Bank of Russia in 2007 focused on the prevention of problems in credit institutions on early stages (early warning system), with risk-based supervision being one of the methods of achieving this goal.

The Bank of Russia used the early warning system when it conducted its monthly monitoring of the banks participating in the deposit insurance system to make sure that they complied with the requirements of Federal Law No. 177-FZ, dated December 23, 2003, 'On Insurance of Household Deposits in Russian Banks.' Whenever banks failed to comply with the deposit insurance system requirements, the Bank of Russia examined the reasons for non-compliance and the remedial measures taken.

Taking into consideration the situation on international financial markets in the second half of 2007, the Bank of Russia paid increased attention to the liquidity situation in credit institutions and made sure that they had an adequate liquidity risk management system. Its regional branches, which exercise immediate supervision over credit institutions, constantly monitored the state of liquidity in credit institutions, including their correspondent accounts opened with the Bank of Russia. They watched particularly closely the banks that borrowed heavily on the Russian interbank market and abroad. In October 2007, the Bank of Russia made known to its regional branches information on the advanced methods of organising effective liquidity risk management and control in credit institutions.

Taking into consideration the rapid expansion of consumer lending, the Bank of Russia attached priority to off-site supervision of credit institutions in this sphere of activity. Realising that in some regions there was a sustained trend towards growth in overdue debt on consumer loans, the Bank of Russia tightened control over the creation by banks of portfolios of homogeneous loans extended to households and the loss provisioning for these loans. Specifically, it made sure that banks only included in the portfolio of homogeneous loans those in regard of which the

borrower has been informed about their effective interest rate, as required by Bank of Russia Ordinance No. 1759-U, dated December 12, 2006, 'On Amending Bank of Russia Regulation No. 254-P, Dated March 26, 2004, on the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loan and Similar Debts.'

When implementing off-site supervision of credit institutions, the Bank of Russia considered all information the supervisory authority had about them, including customer complaints, most of which were connected with consumer lending. With regard to banks that accounted for a large number of complaints, supervisory decisions were taken which included working meetings, sometimes with the participation of the complainants. Among the main causes of disputes and conflicts are the desire by banks to make maximum profit in minimum time in this segment of the market; the lack of legal and financial expertise among borrowers and loopholes in legislation on consumer lending. In 2007, the Bank of Russia was actively involved in upgrading the legal framework of consumer lending. In addition, it has planned a series of measures aimed at arranging closer supervisory cooperation with credit institutions and improving the general public's financial literacy.

The shortcomings and violations of the law discovered in the work of credit institutions and the necessary remedial measures were promptly discussed with their managers and owners. Preventive measures continued to prevail in supervisory decisions taken in 2007.

The Bank of Russia in 2007 continued efforts to detect credit institutions that used inappropriate assets to create equity capital. It examined 389 credit institutions for this purpose, of which 12 were found guilty of this malpractice. The Bank of Russia met the request of five credit institutions to repeal the equity capital readjustment requirements it had imposed on them earlier, and suspended the enforcement of Ordinance No. 1656-U, dated February 6, 2006, with regard to two credit institutions after they had cov-

ered the risks they had assumed when using inappropriate assets as a source of equity capital.

In 2007, the Bank of Russia implemented consolidated supervision of banking (consolidated) groups, analysing on a regular basis the consolidated statements submitted by parent credit institutions and other information, including inspection results. It paid special attention to the assessment of the completeness of the determination of the consolidation perimeter, the correctness of reporting and the financial situation of the group, including the observance of prudential standards. When it discovered violations of banking legislation and Bank of Russia regulations by the parent credit institutions of the groups, it took preventive measures (sending information in writing) or forced measures (mostly fines).

In 2007, the Bank of Russia analysed statements compiled by credit institutions and banking groups under the International Financial Reporting Standards (IFRS statements) for 2006. IFRS statements for 2006 were presented to the Bank of Russia by 1,155 credit institutions and 175 banking groups (out of 1,189 credit institutions and 212 banking groups) and nine banking groups that recognised themselves as such according to the IFRS. The overwhelming majority of the IFRS statements presented by credit institutions and banking groups to the Bank of Russia had been vetted by auditors. The so-called modified auditor's report, that is, the auditor's report that contains additional information for users, was presented with regard to statements by 13 credit institutions, which accounted for 3.0% of aggregate banking sector assets, and two banking groups, which accounted for 5.4% of aggregate banking group assets.

Unconsolidated IFRS statements were disclosed by 510 credit institutions (44% of total credit institutions that presented IFRS statements), of which 489 credit institutions, or 42%, disclosed them by posting them on their websites. In some cases, IFRS statements were published by the mass media. Consolidated IFRS statements were disclosed by 102 banking groups (56% of total groups that presented IFRS consolidated statements) on the websites of their parent credit institutions and one group published its IFRS consolidated statement in *Bukhgaltersky balans* (Balance Sheet) journal.

The Bank of Russia analysed IFRS statements by comparing indicators and data on credit institutions and banking groups in their IFRS statements and statements compiled according to Russian accounting rules with the objective of detecting discrepancies and establishing their causes. This analysis showed that there were minor differences between data on assets, liabilities, equity capital and financial results reported by credit institutions and banking groups under IFRS and under Russian accounting rules.

In the course of upgrading the regular monitoring of banking risks as a major element of risk-based supervision, in 2007 the Bank of Russia worked out principles for monitoring market risks and capital adequacy. Its banking risk monitoring system comprised five sub-systems: liquidity monitoring, non-financial enterprise sector loan monitoring, household loan monitoring, capital adequacy monitoring and market risk monitoring. The purpose of the regular monitoring was to prevent negative trends in the banking sector and to identify banks that may provoke the development of such trends. Credit institutions where monitoring results revealed negative trends were further examined for the purpose of supervisory response.

The monitoring of non-financial enterprises by the Bank of Russia in 2007 was necessary for informational and analytical support of the functioning of supervisory divisions, primarily in Bank of Russia regional branches. Thus, the assessment of the circumstances capable of affecting the financial stability of the banks included an analysis of the economic conditions of the non-financial enterprises that are counterparties of the supervised bank and their production and financial performance. In addition, supervisors examined the quality of the methodologies used by the supervised credit institution to evaluate the financial situation of its borrowers.

The Bank of Russia attached great importance to the transparency of individual credit institutions and the banking sector as a whole. In 2007, it issued the annual Banking Supervision Report and continued to post an online version of the monthly Russian Banking Sector Review.

As of January 1, 2008, over 84% of total operating credit institutions disclosed information about their activities on the Bank of Russia

website, an increase of 14% on 2006. As of the beginning of 2008, 698 credit institutions, or more than 61% of the total, agreed to disclose information in compliance with Bank of Russia Letter No. 165-T, dated December 21, 2006, 'On Disclosure of Information by Credit Institutions,' that is, agreed to disclose all data required in forms 0409101 and 0409102.

In response to repeated requests from representatives of the banking community, the Bank of Russia in 2007 opened an Extranet portal to communicate with credit institutions, based on the automated electronic communication system in the Bank of Russia Moscow branch. In addition to inquiries by credit institutions, audit firms and other companies and official answers and clarifications, the Bank of Russia posts the format and control rules for the collection of reports from credit institutions, versions of the computer software for the collection of reports from credit

institutions and other information. As of the beginning of 2008, more than 2,500 users such as credit institutions and their branches and specialists with Bank of Russia regional branches were linked up to the Bank of Russia Extranet portal, among them all the credit institutions based in Moscow and the Moscow Region and 167 regional credit institutions.

To provide effective information support for its divisions, expedite and improve decision-making and optimise the sharing of information in the course of collecting, consolidating and analysing bank statements and other information on credit institutions, the Bank of Russia in 2007 worked to develop a Single Bank of Russia Banking Sector Regulation and Development Information System. This work will continue in 2008 and when it is completed, Bank of Russia supervisors will have a single information system at their disposal.

II.3.3. INSPECTION OF CREDIT INSTITUTIONS

Most of the inspections of credit institutions and their branches in 2007 were conducted according to schedule. Inspections of credit institutions and their branches focused on banking operations that involved high risk, such as loans to households. In addition, inspectors detected violations of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism and identified banks with liquidity problems. Inspection assignments included questions that enabled inspectors to assess the actual risk levels in these areas of banking and, consequently, assess the financial soundness of credit institutions and their branches.

A total of 1,742 inspections of credit institutions and branches of credit institutions were conducted by Bank of Russia authorised representatives in 2007.

Of these, 393 (22.6%) were comprehensive inspections and 1,349 (77.4%) — thematic inspections. At the same time, 97 comprehensive inspections and 520 thematic inspections were conducted in the branches of credit institutions (87 of these, all of them thematic, were conducted in Sberbank branches).

The Bank of Russia inspected 866 credit institutions (72.8% of the total as of January 1, 2007) and 609 branches of credit institutions (18.6% of the total as of January 1, 2007), including 84 Sberbank branches (9.8% of total Sberbank branches in operation as of January 1, 2007).

The trend towards a reduction in the number of inspections per credit institution, which began several years ago, continued in the year under review, which was reflected in the decrease of the total number of inspections and the change in the ratio between scheduled and unscheduled inspections in favour of the former. In line with the General Plan of Comprehensive and Thematic Inspections of Credit Institutions and their Branches for 2007, the Bank of Russia conducted 1,322 scheduled inspections (76% of total inspections), of which 726 inspections were conducted in credit institutions, 511 in the branches of credit

institutions and 85 in Sberbank branches. In 2007, the Bank of Russia conducted 173 scheduled interregional inspections of credit institutions and their branches.

Pursuant to Article 32 of the Federal Law on Insurance of Household Deposits in Russian Banks, the Bank of Russia conducted with the participation of the Deposit Insurance Agency 131 scheduled inspections of banks participating in the deposit insurance system (14.2% of total banks that participated in this system as of January 1, 2007).

In 2007, the Bank of Russia conducted 420 unscheduled inspections (24% of total inspections), of which one inspection was conducted with the participation of the Deposit Insurance Agency.

At the decision of its management the Bank of Russia conducted 109 unscheduled inspections, or 26% of the total number. The purpose of most of these inspections was to verify compliance with the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism, and Bank of Russia regulations on cash and currency exchange operations. Special attention was paid to the detection and prevention of dubious operations.

Most of the unscheduled inspections (311, or 74% of the total) were conducted by the decision of the management of regional branches of the Bank of Russia. Virtually all of them (307) were conducted after credit institutions had increased their authorised capital by more than 20% or when credit institutions requested permission to expand the range of their operations. Four inspections were conducted in connection with the implementation of bankruptcy-prevention measures.

In the course of inspections held in 2007 the Bank of Russia detected 17,969 infractions committed by credit institutions and their branches.

Most of the violations (4,376, or 24.4% of the total) were connected with non-compliance with the requirements of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism. Many violations were detected in credit

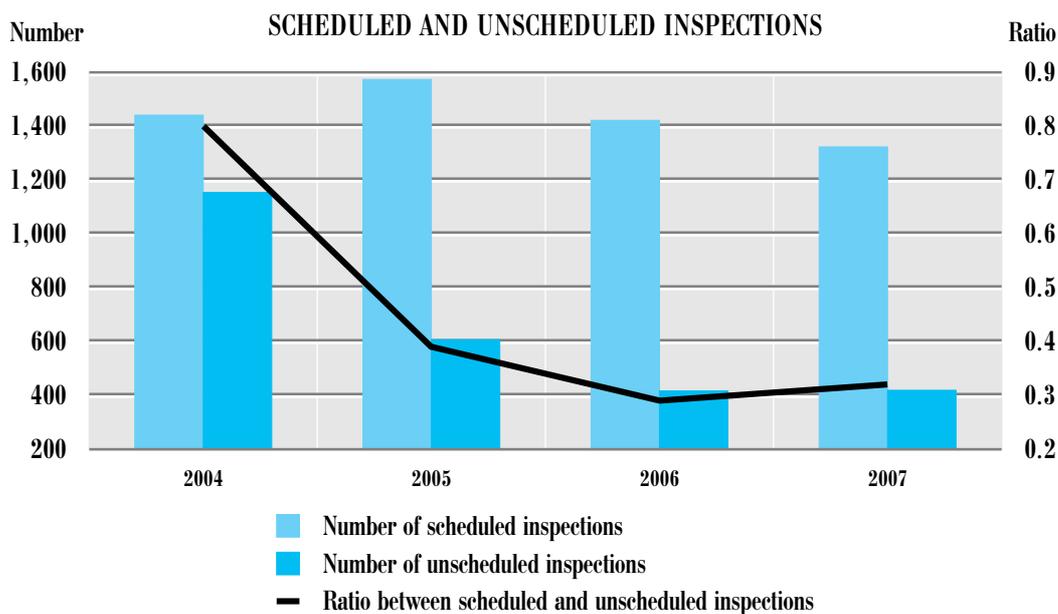


Chart 46

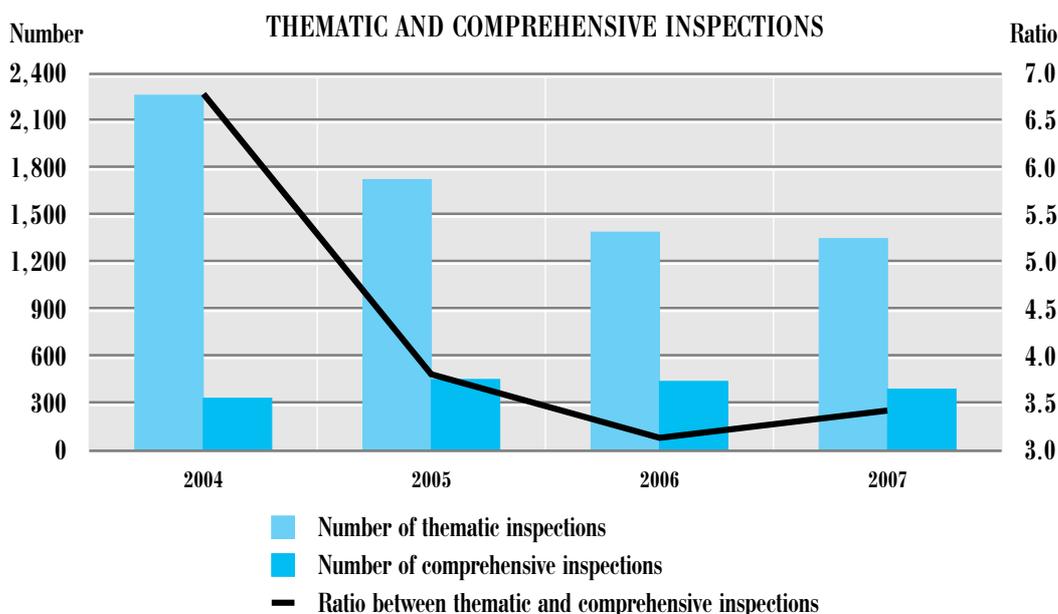


Chart 47

operations (3,469, or 19.3%), bookkeeping (1,698, or 9.4%) and accounting and reporting (1,425, or 7.9%). There were 1,244 violations of cash operations rules (7% of the total) and 1,024 violations of currency legislation (5.7%). Compared to 2006, the number and structure of violations remained virtually unchanged.

The Bank of Russia Main Inspectorate for Credit Institutions in 2007 constantly carried out measures to improve the quality of inspection, making special emphasis on the need to enhance the effectiveness and quality of preparations for

inspections, to improve inspection methodologies and to tighten control over the quality of inspection reports.

When preparing inspections, special attention was paid to cooperation with off-site supervision divisions and to functional interaction between the heads of the working groups and the curators of credit institutions.

To improve the quality of inspections and to optimise and rationalise the inspectors' work, the Bank of Russia began to develop and introduce bank inspection flow charts, which represent an

INSPECTIONS PER CREDIT INSTITUTION

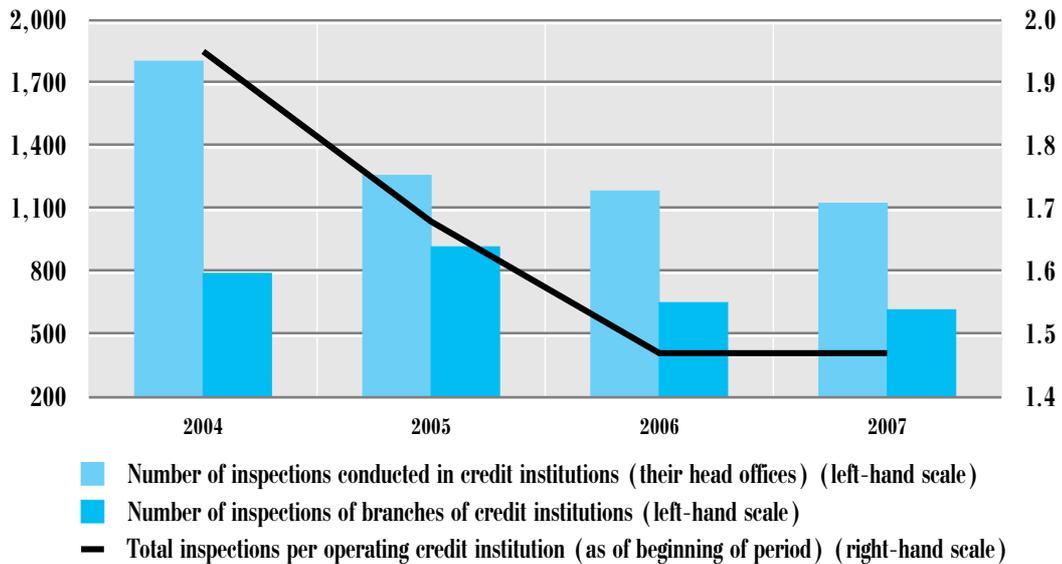


Chart 48

algorithm of the inspector's actions, from the analysis of a credit institution's statements to compiling the inspector's report.

The Bank of Russia continued the practice of hearing reports by its regional branches on inspection and in the course of these hearings in 2007 the Bank of Russia analysed 56 reports on inspections conducted by eight Bank of Russia regional branches located in the Central Federal District, North-Western Federal District, Southern Federal District, Urals Federal District and Siberian Federal District. Thirty-nine expert reports were presented to the management of the Bank of Russia Main Inspectorate for Credit Institutions.

In the year under review, the Bank of Russia continued to take measures to enhance the efficiency of the interregional inspectorates of its

Main Inspectorate for Credit Institutions. Emphasis was made on coordinating the efforts of the inspection divisions of Bank of Russia regional branches and providing them with methodological support. Specialists with the interregional inspectorates took part in 81 inspections and analysed 948 inspection reports, sending to the regional branches their comments on 220 of them.

To improve inspection regulations and methodologies, the Bank of Russia in 2007 issued methodological recommendations on the inspection of the bank risk management system, credibility of accounting and reporting and compliance with the required reserve ratios. To streamline the process of recording inspection results, it drafted methodological recommendations on the sample structure and content of an inspection report.

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

In 2007, Bank of Russia regional branches controlled the activities of credit institutions liable to insolvency (bankruptcy) prevention procedures under Article 4 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions.

In 2007, the Bank of Russia ordered 10 credit institutions to undergo financial rehabilitation (seven credit institutions fulfilled the order on time, whereas three failed to do so and subsequently had their banking licences revoked).

During the year under review the Bank of Russia oversaw the activities of 62 provisional administrations of credit institutions. It appointed 50 provisional administrations to run credit institutions and dismissed 53 provisional administrations, 41 of them in connection with arbitration court rulings on compulsory liquidation and the appointment of a liquidator and 12 — in connection with arbitration court rulings to declare credit institutions insolvent (bankrupt) and appoint receivers. Representatives of the Deposit Insurance Agency participated in 41 provisional administrations of credit institutions in 2007.

Pursuant to Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Articles 20 and 23 of the Federal Law on Banks and Banking Activities, the Bank of Russia issued orders to revoke (cancel) banking licences from 54 credit institutions, of which five credit institutions had their licences cancelled. Most of the licences (43) were revoked (cancelled) from credit institutions incorporated in Moscow and the Moscow Region. Forty-four banks (51 in 2006) had their licences revoked in 2007 for repeated violations within one year of the provisions of Articles 6 and 7 (excluding clause 3 of Article 7) of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism. Two credit institutions (the same number as in 2006) had their licences revoked for failure to

meet their pecuniary obligations to creditors and (or) effect compulsory payments.

As of January 1, 2008, 157 credit institutions were subject to liquidation that had their licences revoked (cancelled) and for which the Bank of Russia had not received liquidation registration certificates from the registration authority. Liquidation procedures were implemented in 150 of them and as for the remaining seven credit institutions, by the reporting date no court rulings had been made on them after the revocation of their licences. Most of the liquidated credit institutions (78) were declared bankrupt and bankruptcy proceedings were initiated (23 of them were declared bankrupt with bankruptcy proceedings initiated in 2007); 64 credit institutions were to be liquidated by arbitration court rulings (43 credit institutions in 2007); eight credit institutions were liquidated on a voluntary basis by decision of their founders (members) (of these, five credit institutions were liquidated in 2007).

Pursuant to clause 2 of Article 50.11 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and Article 23.2 of the Federal Law on Banks and Banking Activities, representatives of the Deposit Insurance Agency as of January 1, 2008, implemented liquidation procedures in 119 credit institutions; in 29 of them liquidation procedures were completed in 2007 and arbitration courts pronounced the relevant rulings.

In 2007, the Bank of Russia registered the liquidation of 61 credit institutions, of which 33 credit institutions were liquidated by ruling of the arbitration court on the completion of bankruptcy proceedings, one credit institution was liquidated by its founders (members) and creditors through out-of-court bankruptcy proceedings, 23 credit institutions were liquidated by court ruling for reasons other than bankruptcy and four credit institutions were liquidated by their founders (members) on a voluntary basis.

Twenty-eight arbitration managers were accredited with the Bank of Russia in 2007 as the receivers of bankrupt credit institutions and 13 of them had their accreditation extended. The Bank of Russia extended the terms of 14 arbitration managers' (liquidators') certificates issued before the coming into force of Federal Law No. 121-FZ, dated August 20, 2004, 'On Amending the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and Invalidating Certain Laws and Provisions of Laws of the Russian Federation,' and refused to extend two certificates. As of January 1, 2008, 26 arbitration managers were accredited with the Bank of Russia and three credit institution arbitration managers' (liquidators') certificates were in force.

In 2007, the Bank of Russia conducted 14 inspections of receivers (liquidators), including

nine inspections of Deposit Insurance Agency representatives. After the inspections, receivers (liquidators) were ordered to take remedial actions.

Pursuant to the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System, the Bank of Russia Board of Directors in 2007 took decisions to effect payments to 528 depositors of three bankrupt banks to the total amount of 40.9 million rubles. In addition, 1.5 million rubles were allocated as payment to 35 depositors of six banks on which the decisions to effect Bank of Russia payments were taken in 2005 and 2006. In accordance with these decisions, the Bank of Russia in 2007 paid 590 depositors of these banks a total of 42.7 million rubles.

II.3.5. HOUSEHOLD DEPOSIT INSURANCE

Pursuant to the Federal Law on Insurance of Household Deposits in Russian Banks, the Bank of Russia in 2007 oversaw banks to make sure that they comply with the deposit insurance system requirements.

As of January 1, 2008, 934 banks participated in the compulsory deposit insurance system, including banks that had their banking licences revoked (cancelled) earlier.

New banks continued to join the deposit insurance system in 2007: seven banks that had applied for permission to expand the range of their operations were granted the licence to take household deposits.

Insured events occurred in 15 banks-members of the deposit insurance system in 2007: 13 of them had their banking licences revoked and two banks had their licences cancelled as they decided to liquidate themselves voluntarily. In all the insured events connected with the revocation of licences the Bank of Russia-appointed provisional administrations sent registers of obligations to depositors to the Deposit Insurance Agency within the 7-day period established by the Federal Law on Insurance of Household Deposits in Russian Banks and this

allowed the Agency to start making insurance payments to depositors on time.

Pursuant to Article 48 of the Federal Law on Insurance of Household Deposits in Russian Banks, the Bank of Russia Banking Supervision Committee in 2007 prohibited seven banks-members of the deposit insurance system from taking household deposits and opening personal accounts because of their failure to comply with the deposit insurance system requirements.

In compliance with the Federal Law on Insurance of Household Deposits in Russian Banks and agreements signed in 2007, the Bank of Russia and the Deposit Insurance Agency coordinated their activities and shared information on issues relating to the deposit insurance system, such as the participation of banks in this system, the payment of insurance premiums and compensation for deposits, inspections of the participating banks by the Bank of Russia and the sanctions used against them.

A law was passed in 2007 that increased the maximum insurance compensation for household bank deposits to 400,000 rubles and increased commensurately Bank of Russia payments to depositors of bankrupt banks that are not members of the deposit insurance system.

II.3.6. CENTRAL CATALOGUE OF CREDIT HISTORIES

The Central Catalogue of Credit Histories (CCCH) was set up in 2005 under the Federal Law on Credit Histories. It compiles, stores and reports upon request from credit history makers and users in what credit bureau which credit history is kept. Requests are processed automatically round the clock seven days a week.

Twenty-one credit bureaus from among those put on the state register of credit bureaus were connected to the automated Central Catalogue of Credit Histories in early 2007 and by the end of the year the number of credit bureaus linked up to the system had reached 27.

As of the beginning of 2007, the CCCH accumulated and made available to credit history makers and users information on more than 14 million credit history titles, which increased to 20 million titles in May, and to over 35 million

titles by the end of the year, a growth of 150% compared to 2006. The credit history titles of private individuals accounted for more than 99.6% of total credit history titles as of January 1, 2008. Credit histories are compiled with regard to residents registered in all regions of the country and there is no high concentration of credit history titles in any one region: 10 regions account for 35% and 20 regions for less than 60% of the titles kept in the CCCH.

During 2007 the CCCH received and processed over 275,000 requests from credit history makers and users, an increase of 50% on 2006. These included more than 215,000 requests for information on credit bureaus where credit histories were kept and 60,000 requests connected with the compiling, changing and cancellation of credit history maker codes.

II.4. THE RUSSIAN PAYMENT SYSTEM

II.4.1. THE STATE OF THE RUSSIAN PAYMENT SYSTEM

The main feature of the development of the Russian payment system in 2007 was increased accessibility of payment services provided by the banking system¹. The number of banking institutions that provide payment services² increased by 10.2% over the year and reached 41,000. The number of additional offices of credit institutions and branches of credit institutions rose particularly fast as banks sought to provide payment and other banking services at minimum cost. Over the year, the number of additional offices of credit institutions and branches of credit institutions grew by 26.5% to nearly 19,000.

Payment services have become more accessible due to an increase in the number of accounts that can be used in effecting payments. As of January 1, 2007, credit institutions serviced 369.1 million household transaction³ accounts and transaction accounts of corporate entities other than credit institutions, whereas by January 1, 2008, the number of such accounts had increased by 14.2% and reached 421.7 million. At the end of

2007, there were on average three transaction bank accounts per person (as against 2.6 accounts in 2006).

Due to advanced technology, more and more bank customers use online banking services. As payment services are now well within the reach of consumers, they have improved in quality and become less costly and more affordable. The number of accounts that individual customers can manage by cellphone increased by 120% and reached 1.3 million in 2007. Internet banking was also expanding fast: the number of accounts that bank customers could manage through the Internet increased by 48.2% to 3.3 million.

Rapid economic growth was accompanied by the expansion of demand for payment services. The number of non-cash payments effected by the Russian banking system in rubles increased by 46.8% over the year and their value grew by 67.3%. The Russian banking system effected 9.9 million payment transactions to the amount of 3.0 trillion rubles a day on average.

¹ The banking system is the central element of the national payment system. Apart from the Bank of Russia and credit institutions, Russia's Federal Postal Service and other economic agents also provide payment services.

² Bank of Russia institutions, credit institutions and their branches, additional offices, operations offices, cash and credit offices and cash operations departments outside cash settlement centres.

³ Transaction accounts are accounts of households and corporate entities which can be used to effect payments.

The private payment systems in 2007 effected 6.5 million payments to the amount of 1.2 trillion rubles a day on average. Payments effected through credit institutions' correspondent accounts opened in other credit institutions or their branches accounted for 5.3% of the total number and 12.3% of the total value of all payments in the private payment systems. Settlements between the divisions of one credit institution accounted for 23.8% of the total number and 34.0% of the total value of payments in the private payment systems. Most of the payments effected in the private payment systems are payments within one division of a credit institution or a branch of a credit institution. In 2007, they accounted for 70.9% of the total number and 53.7% of the total value of all payments effected through the private payment systems in rubles.

Settlements on the securities market were effected by non-bank credit institutions, such as the MICEX Clearing House and RTS Clearing House. Compared with 2006, the value of settlements effected by the MICEX Clearing House for government securities market, corporate securities market and forward (standard) contracts market commitments, calculated on a net basis, increased by 33.8% in 2007.

Payment orders were the most common instrument of non-cash payments in the Russian banking system in 2007, just as in the previous years. A total of 1.1 billion transactions to the amount of 510.9 trillion rubles were conducted last year using payment orders. Over the year these payments increased by 10.8% in number and by 45.4% in value. Payment requests and collection orders increased significantly in 2007. The number of payments effected using these instruments grew 1.9 times to 80.5 million, while their value increased 2.5 times to 6.6 trillion rubles. Cheques and letters of credit made up a small part of payments effected in 2007.

Cash continued to predominate as a payment instrument in retail payments. However, non-cash retail payments increasingly gained acceptance on the market. Money transfers increased by an estimated 60—80% in 2007 as the number of migrant workers continued to grow: the num-

ber of money transfers made by credit institutions at the instruction of private individuals without opening a bank account reached 721 million and their value stood at 2,149.9 billion rubles. Along with money transfers made through credit institutions (bank transfers), an increased number of money remittances were effected through non-bank institutions, such as Russia's Federal Postal Service, whose services were in particularly high demand in the regions where there were not enough banks.

The bank card market continued to expand at a steady pace. Over the year the number of bank cards increased by 38.4% and reached 103.5 million. Such rapid growth was largely due to the implementation of the so-called pay-roll projects, when companies pay wages to their employees by transferring them to their bank cards. In addition, the past few years have seen continuous growth in the number of credit cards as a result of the expansion of consumer lending: in 2007 the number of credit cards grew by 58.0% and reached 8.9 million. The expansion of bank card operations is also due to the changes in payment techniques connected with the expansion of the range of banking services that are accessed by using the computer systems installed in credit institutions: repayment of bank loans and interest on them, card-to-card transfers, the payment of mobile phone fees, rent and utility charges, and so forth.

The new advanced methods of effecting non-cash retail payments on household bank accounts by orders sent to credit institutions through the Internet or by mobile phone continued to gain ever wider acceptance in 2007. The value of such payments in 2007 stood at 285.2 billion rubles (9,261,100 transactions) and 1.4 billion rubles (2,466,400 transactions), respectively. At the same time, more and more Internet and mobile phone payments are effected by Internet providers and mobile phone operators and organisations other than credit institutions. The payment services they offer quickly became popular with households and began to rival with the services provided by credit institutions, because they take little time to order and are easily accessible and cheap.

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

The Bank of Russia payment system effected 833.9 million payments to the amount of 445.8 trillion rubles in 2007. These payments accounted for 59.7% of the total value of payments effected by the Russian payment system (as against 59.9% in 2006).

The number of payments made through the Bank of Russia payment system in 2007 increased by 19.8% year on year and their value grew by 66.8%. Most of the increase was due to payments effected by credit institutions and their branches. It is the result of high demand for the services provided by the Bank of Russia payment system as a low-risk and high-quality interbank money transfer system, the expansion of the customer base of credit institutions and their branches and the rise in the business activity of economic agents.

The Bank of Russia payment system accounted for 59.6% of the total number and 71.9% of the total value of interbank payments made in Russia in 2007¹.

Payments effected by credit institutions and their branches in 2007 accounted for 83.7% of total payments made through the Bank of Russia payment system and 80.3% of their value (as against 82.0% and 84.6% in 2006).

The average daily number of payments rose by 17.9% over the year to 3.3 million, while the average amount of payments increased by 40.0% year on year and reached 534,600 rubles (as against 383,900 rubles in 2006). The value of payments effected through the Bank of Russia payment system relative to Russia's GDP grew from 10.0 in 2006 to 13.5 in 2007.

The participants in the Bank of Russia payment system as of January 1, 2008, were 1,136 credit institutions (as against 1,189 credit institutions as of January 1, 2007) and 2,285 branches

of credit institutions (as against 2,062 as of January 1, 2007) and they had 3,421 correspondent accounts (sub-accounts) opened for them (a growth of 5.0% during the year under review).

The number of customers other than credit institutions serviced by the Bank of Russia, which accounted for 16.2% of the number and 8.7% of the value of payments effected through the Bank of Russia payment system in 2007, decreased over the year under review from 36,401 to 29,324, or by 19.4% (as against 18.7% in 2006). As in the previous years, the reduction in the number of these customers was due to the implementation of Article 215.1 of the Budget Code of the Russian Federation, which regulates the transfer of the cash execution of the federal, regional and municipal budgets to the Federal Treasury.

The Bank of Russia continued to optimise the network of its cash settlement centres. In line with the decisions taken by its Board of Directors and in response to proposals from its regional branches, the Bank of Russia closed 141 cash settlement centres that failed to meet Bank of Russia criteria. As a result, the network of Bank of Russia settlement divisions² contracted by 15.3% compared to 2006 and comprised 782 units.

The overwhelming majority of payments in the Bank of Russia payment system (99.7%) were made electronically.

The increase in the number of Bank of Russia customer credit institutions and their branches that participated in the exchange of electronic documents with the Bank of Russia to 97.0% of the total as of January 1, 2008 (as against 96.4% as of January 1, 2007), was due to the development of electronic technology. As a result, the share of payments transmitted to the Bank of Russia payment system through communication

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 the correspondent accounts of credit institutions opened in other credit institutions and payments between the divisions of one credit institution.

² Main cash settlement centres, cash settlement centres, operations departments and sections.

channels increased to 97.8% of total payments as against 97.7% in 2006.

The average monthly accessibility ratio of the Bank of Russia payment system, a major efficiency performance indicator for this system, in 2007 ranged between 99.02% and 99.89% as regards the receipt by the Bank of Russia of electronic settlement documents from its customers, and between 99.95% and 100% as regards the receipt of paper documents.

Average settlement times for all settlement techniques used were 0.64 days on the intraregional level and 1.01 days on the interregional level. The reduction in average settlement times became possible due to the reduction in average times for settlements made electronically.

In compliance with federal law, the Bank of Russia conducted all budget operations free of charge. The ratio between the operations conducted by the Bank of Russia free and for pay in 2007 remained virtually unchanged at 52.1% and 47.9% (as against 53.7% and 46.3% in 2006).

The Bank of Russia made great efforts to improve the methodologies and the provision of information relating to the payment systems in line with the action plan drawn up for the implementation of the *Guidelines for the Single State Monetary Policy in 2007* and the Banking Sector Development Strategy.

For this purpose, it drafted a set of documents that would allow it to regulate and monitor private payment systems. It continued to upgrade the regulation of cash and non-cash settlements.

The Bank of Russia attaches great importance to measures aimed at improving information analysis related to payment and settlement systems and making its activities in this field more transparent.

For this purpose, it launched a specialised publication *Payment and Settlement Systems*, which is designed to summarise and promote best international and national practice. The two issues that came out in 2007 and dealt with the key as-

pects of the development of the national payment systems were posted on the Bank of Russia website and thus became available to a wide range of people.

To implement the Banking Sector Development Strategy, which envisages the development of a real time gross settlement system by the Bank of Russia, the Bank of Russia carried out measures that would ensure the implementation of this task within the established time frame.

It carried out work to create a regulatory framework that would preclude legal risk and involve Bank of Russia institutions and credit institutions and their branches in the Banking Electronic Speed Payment (BESP) system. The Bank of Russia drafted rules and regulations for this system, describing its designation, and established the procedure for effecting payments and settlements in the BESP system by its members and for managing participation in the system and the conditions of keeping the BESP directory. It also elaborated the BESP operation rules and the procedure for monitoring the system.

In July 2007, the system was put into operation and in December BESP participants began to effect payments through it. In 2007, BESP system participants were 98 Bank of Russia institutions, including 47 main cash settlement centres, 44 cash settlement centres, the Bank of Russia First Operations Department (OPERU-1), the operations department, and five divisions of the Bank of Russia Moscow branch as special settling participants and 17 credit institutions and branches of credit institutions. The BESP system allowed the Bank of Russia to continue the transition to a centralised Bank of Russia payment system.

To inform potential participants about the Bank of Russia customers that have been accepted into the BESP system and the rules and regulations on the system and the amendments made to them, the Bank of Russia has created a BESP system section on its website.

II.4.3. BANK OF RUSSIA PAYMENT SYSTEM INFRASTRUCTURE DEVELOPMENT

In the period under review the Bank of Russia completed the transfer of payment data processing from 74 IT departments of its regional branches to two new high-performance IT centres, called Collective Data Processing Centres (CDPC). Each CDPC processes data from 37 Bank of Russia regional branches. The CDPC have a mutual data backup facility and a single system for the delivery of payment messages.

The establishment of the CDPC, a centralised telecommunications infrastructure for them and the necessary engineering equipment and automated facilities for their operation allowed the Bank of Russia to create the Collective Data Processing System (CDPS). To enhance the reliability of this system, the Bank of Russia in 2007 carried out measures to raise the level of mutual data backup of the CDPC and their telecommunications facilities and data exchange channels and increase the throughput of the single telecommu-

nications banking network. It continued to build a centralised CDPS control system.

To upgrade the CDPS, the Bank of Russia Board of Directors decided to transfer the processing of payment data for Moscow and the Moscow Region to a separate CDPC, and work to establish it began in the second half of 2007.

In the period under review, the Bank of Russia carried out measures to modernise the electronic settlement system. Specifically, it continued to upgrade the architecture of the Standard Computer Workstations of the Operations Accounting System RABIS-2 and RABIS-NP for the purpose of their further standardisation and the transfer of all regional branches to a single settlement system. The Bank of Russia has completed the transfer of its Standard Computer Workstations of the Operations Accounting System to uniform electronic banking message formats for exchange with credit institutions and other Bank of Russia customers.

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

In 2007, the Bank of Russia continued to perform the functions assigned to it by the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism (hereinafter referred to as Federal Law No. 115-FZ).

To provide methodological support to credit institutions in meeting the requirements of the anti-money laundering/terrorist financing (AML/FT) laws, the Bank of Russia in 2007 issued recommendations on how banks should service their customers who access their bank accounts electronically, including Internet banking, and explained the specific procedure for providing banking services to non-resident corporate clients who are not Russian taxpayers.

To fulfil its supervisory functions, in 2007 in the course of conducting inspections of 751 credit institutions and/or their branches the Bank of Russia verified their compliance with AML/FT laws.

The most typical shortcomings discovered in the course of the inspections were non-compliance with the following requirements of Federal Law No. 115-FZ and Bank of Russia regulations: identifying customers and beneficiaries and documenting and reporting to the authorised agency within the established time period information on

operations with money and other property subject to mandatory control.

Taking into consideration all the violations disclosed in the course of inspections, including non-compliance with the requirements of Federal Law No. 115-FZ, the Bank of Russia took the following actions against credit institutions: preventive measures — making the shortcomings discovered in the work of a credit institution known to its management (392 cases); forced measures — ordering credit institutions to take remedial action (344 cases); fines were imposed in 252 cases; 41 credit institutions were restricted in or prohibited from conducting certain banking operations; and 44 credit institutions had their licences revoked.

According to the schedule of mutual assessments of the Financial Action Task Force (FATF), a FATF mission visited Russia from September 24 to October 1 and from November 11 to 25, 2007, within the framework of the third round of the mutual assessment of the Russian AML/FT system. Experts of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), and the Eurasian Group on combatting money laundering and financing of terrorism (EAG) took part in the FATF missions.

II.6. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

The amendments to Federal Law No. 173-FZ, drafted with the participation of the Bank of Russia and designed to settle the procedure for conducting certain types of foreign exchange operations by residents came into force in 2007.

To ensure equal competitive conditions for the Russian carriers in international traffic, Federal Law No. 267-FZ, dated December 30, 2006, 'On Amending the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control,' which came into effect on December 31, 2006, finalised the procedure for conducting foreign exchange operations connected with settlements, including cash settlements, for the servicing of aircraft and river and sea-going vessels, including the payment of air navigation, airport, port and other compulsory duties connected with their operation and also under agreements on the transportation of passengers and cargoes by private individuals for their personal needs.

In addition, the Law established cases in which foreign currency earnings of resident transport companies may not be repatriated to their accounts in the authorised banks and may be used in netting counterclaims on obligations to non-residents who provide services to such residents abroad or as payment to cover the expenses that resident transport companies may incur outside Russia.

Federal Law No. 127-FZ, dated July 5, 2007, 'On Amending the Federal Law on Foreign Exchange Regulation and Foreign Exchange Con-

trol,' granted resident individuals the right to transfer without any restrictions foreign currency from their accounts in the authorised banks to the accounts opened in authorised banks or banks outside Russia by other resident individuals who are their spouses or next of kin.

Federal Law No. 242-FZ, dated October 30, 2007, 'On Amending Article 12 of the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control,' lifted the requirement to report the movement of funds in accounts (deposits) in banks outside Russia by individuals, diplomatic missions, consular offices and other official representatives of the Russian Federation outside the Russian Federation and also by permanent representatives of the Russian Federation in interstate or intergovernmental organisations.

Pursuant to Russian Federation Government Resolution No. 80, dated February 7, 2007, 'On the Procedure for Presenting Documents and Information Necessary for the Performance of Exercising its Functions by Foreign Exchange Control Bodies and Agents to the Foreign Exchange Control Body Authorised by the Government of the Russian Federation,' and to fulfil the powers granted to it by Sections 9 and 10 of Article 23 of Federal Law No. 173-FZ, the Bank of Russia issued Regulation No. 308-P, dated July 20, 2007, 'On the Procedure for Transferring Information by Authorised Banks about Violations of Foreign Exchange Laws of the Russian Federation and Regulations of Foreign Exchange Regulation Authorities by Persons Conducting Foreign Ex-

change Operations' (hereinafter referred to as Bank of Russia Regulation No. 308-P).

Bank of Russia Regulation No. 308-P established requirements for the transmission procedure and format of electronic reports the authorised banks or their branches must send to Bank of Russia regional branches that supervise them concerning violations of the foreign exchange control laws of the Russian Federation and regulations of the foreign exchange regulation authorities, committed by their clients and detected in the course of implementing their functions of foreign exchange control agents. To ensure the subsequent transfer of this information to the foreign exchange control authority that has the power to use sanctions against persons who commit such violations, the Bank of Russia and the Federal Financial and Budget Supervision Service on August 15, 2007, signed an agreement on cooperation in the field of information on issues related to foreign exchange control.

In addition, to ensure the adequate use by foreign exchange control authorities of corrective measures for violations of federal foreign exchange control laws and regulations of the foreign exchange regulation authorities, the Bank of Russia issued Ordinance No. 1950-U, dated December 10, 2007, 'On Forms of Accounting for Foreign Exchange Operations Conducted by Residents Other than Credit Institutions and Currency Exchanges,' which listed the documents that represent the forms of accounting for foreign exchange operations conducted by the residents indicated above.

Thus, in 2007 Russia had virtually completed the creation of the regulatory framework for the effective operation of the foreign exchange control system in Russia.

To alleviate the administrative burden on the authorised banks and their clients and simplify some foreign exchange control procedures, the Bank of Russia issued Ordinance No. 1869-U, dated July 20, 2007, 'On Amending Bank of Russia Instruction No. 117-I, Dated June 15, 2004, on the Procedure for Presenting Documents and Information by Residents and Non-residents to the Authorised Banks in Conducting Foreign Ex-

change Operations and the Procedure for Accounting for Foreign Exchange Operations and Filling in Transaction Passports,' lifted the requirement to re-draft the transaction passports opened earlier in case of a change in the name of the authorised bank unconnected with its reorganisation or a change in the name of the authorised bank in connection with its reorganisation in the form of transformation (change of legal status).

The continued rise in the real effective rate of the ruble against foreign currencies in 2007 was accompanied by significant changes on the domestic forex market. The de-dollarisation of the Russian economy accelerated and the weakening of the dollar on international markets further strengthened public preference for the cash euro.

In 2007, the authorised banks brought in \$12.8 billion in foreign exchange, just 1.3% more than in 2006. The share of the US dollar in total foreign exchange brought into this country contracted from 46.7% in 2006 to 29.6% in 2007. The amount of foreign currency taken out of Russia by the authorised banks increased by 60% year on year and reached \$20.6 billion. As in 2006, the US dollar accounted for about 98% of the total amount of foreign currency taken out of this country.

As a result, the foreign currency inflow-outflow balance stood at -\$7.8 billion in 2007 as against -\$0.1 billion in 2006.

The acceleration of the de-dollarisation process was also confirmed by the dynamics of net household demand for foreign currency (the difference between the amount of foreign currency sold to individuals and withdrawn from their foreign currency accounts and the amount of foreign currency bought from individuals and placed on their accounts). Net demand in 2007 stood at -\$4.4 billion as against \$2.4 billion in 2006. For the first time since observations began in 1996 household supply exceeded demand on the domestic forex market in 2007. The situation with the US dollar was different from the situation with the euro. Net demand for cash dollars stood at -\$12.4 billion, whereas net demand for cash euros reached \$7.9 billion.

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

To implement Article 215.1 of the Budget Code of the Russian Federation, the Bank of Russia and its regional branches assisted Federal Treasury bodies in switching over to cash execution of regional and municipal budgets, coordinated their activities and shared information with Federal Treasury bodies in this area, and examined the budget accounts Bank of Russia institutions and credit institutions opened for budget-financed organisations and financial authorities.

As a result, the total number of Bank of Russia customers other than credit institutions declined by 7,100 and as of January 1, 2008, stood at 29,300, of which the number of Federal Treasury bodies fell by 200 to 1,000 and the regional and local budget-executing bodies — by 800 to 2,200, respectively.

The total number of accounts opened in Bank of Russia institutions for enterprises other than credit institutions in 2007 decreased by 3,300 to about 80,000. At the same time, the number of accounts opened for Federal Treasury bodies increased over the year by 4,000 to 37,000, as Federal Treasury bodies opened accounts to record cash payments and earnings from profit-making activities received by enterprises financed from the local budgets.

As the Federal Treasury continued to centralise budget accounts at the level of regional

Federal Treasury divisions, the ratio between accounts opened in the Bank of Russia main cash settlement centres and cash settlement centres changed. As of January 1, 2008, Bank of Russia customers other than credit institutions had 53.0% of total accounts opened for them in the Bank of Russia main cash settlement centres and 47.0% in the Bank of Russia cash settlement centres, whereas a year earlier the ratio was 46.0% to 54.0%, respectively. The number and volume of operations conducted by Federal Treasury bodies through the Bank of Russia payment system increased by 25.6% and 17.1% over the year, respectively, and stood at 152.4 million operations and 41.0 trillion rubles.

In 2007, the Bank of Russia continued to upgrade regulations on the servicing of budget accounts by Bank of Russia institutions and, in cases stipulated by the law, by credit institutions, on the management of some federal budget revenues by the Bank of Russia, on the procedure for making declaration payments by individuals, on the procedure for opening and maintaining the accounts of election commissions in connection with parliamentary and presidential elections and on the tightening of control over the correctness and timeliness of reports and information presented to the Federal Treasury and the Ministry of Finance.

By January 1, 2008, all Russian regions and municipalities had switched over to cash execu-

tion of budgets by Federal Treasury bodies, which had 84 regional budget accounts and 23,100 local budget accounts opened for them in rubles with Bank of Russia institutions and credit institutions.

To implement Federal Law No. 67-FZ, dated June 12, 2002, 'On Major Guarantees of the Electoral Rights and the Right to Participate in Referenda of the Citizens of the Russian Federation,' the Bank of Russia in 2007 opened accounts for regional and municipal election commissions. As of January 1, 2008, the election commissions had 1,625 accounts opened for them.

All Federal Treasury departments that have accounts in Bank of Russia institutions and participate in electronic settlements in compliance with Bank of Russia regulations as of January 1, 2008, exchanged electronic documents with Bank of Russia institutions. To improve the manage-

ment of federal budget funds kept in the single account, the Bank of Russia helped the Federal Treasury and its regional divisions to prepare for participation in the banking electronic speed payment system.

To ensure the implementation of the provisions of the Budget Code of the Russian Federation in the context of the creation of a Reserve Fund and a National Welfare Fund, the Bank of Russia drafted in collaboration with the Ministry of Finance and the Federal Treasury the necessary regulations and bank account agreements for the accounts opened with the Bank of Russia to record these funds.

The Bank of Russia drafted agreements on cooperation with Federal Treasury regional divisions in managing certain kinds of budget revenues, a reporting form and a forecast for Bank of Russia-managed federal budget revenues.

II.8. CASH CIRCULATION MANAGEMENT

The effective organisation of cash in circulation and cash flow control remain priorities of the Bank of Russia. In 2007, the Bank of Russia took measures to ensure the stability of the national currency and uninterrupted provision of the payment turnover with banknotes and coins.

In the period under review, the Russian economy needed more cash than before due to growth in the production of goods and services, cash income, retail trade turnover, the consumer price index and exchange rate dynamics.

As of January 1, 2008, there were 4,124.3 billion rubles of Bank of Russia notes and coins in circulation, of which 4,103.8 billion rubles were in banknotes (6.7 billion sheets) and 20.5 billion rubles in coins (35.2 billion pieces¹), including coins made of precious metals. In the total amount of cash, banknotes accounted for 99.5% and coins — 0.5%, and in the total number of banknotes and coins, banknotes accounted for 16.0% and coins — for 84.0%.

According to balance sheet data, the number of Bank of Russia notes and coins, including coins made of precious metals, in 2007 increased by 1,057.9 billion rubles, or 34.5%, of which the number of notes rose by 1,054.0 billion rubles (600 million sheets) and coins — by 3.9 billion rubles (5.0 billion pieces).

The biggest growth in the amount of cash, which, according to balance sheet data, stood at 475.1 billion rubles, was registered, as before, in December due to the early payment of wages and salaries, pensions and allowances that were due on January 1 to 8, 2008.

As for the note structure of cash in circulation, the share of 5,000-ruble notes increased almost 4.5 times in the period under review and as of January 1, 2008, stood at 21%. Meanwhile, the share of 1,000-ruble notes in 2007 went down from 69.5% to 60.2%, 500-ruble notes — from 21.0% to 15.1%, 100-ruble notes — from 3.5% to 2.7% and 50-ruble notes — from 1.0% to 0.7%. The share of small-denomination banknotes (10 rubles and 5 rubles) remained unchanged from the previous year at 0.3%.

The Bank of Russia monitored cash turnover and studied its structure and analysed the note structure of cash in circulation and in Bank of Russia reserves and made sure that it matched the needs of payment turnover.

As Bank of Russia reserves were replenished on time and in necessary quantities, banknotes and coins were accumulated in amounts that fully met the needs of the economic agents and population in cash. There were no delays in cash shipments by Bank of Russia institutions through the fault of the Bank of Russia in the period under review.

¹ Coins shown in pieces do not include coins made of precious metals.

CASH IN CIRCULATION IN 2007 (billion rubles)

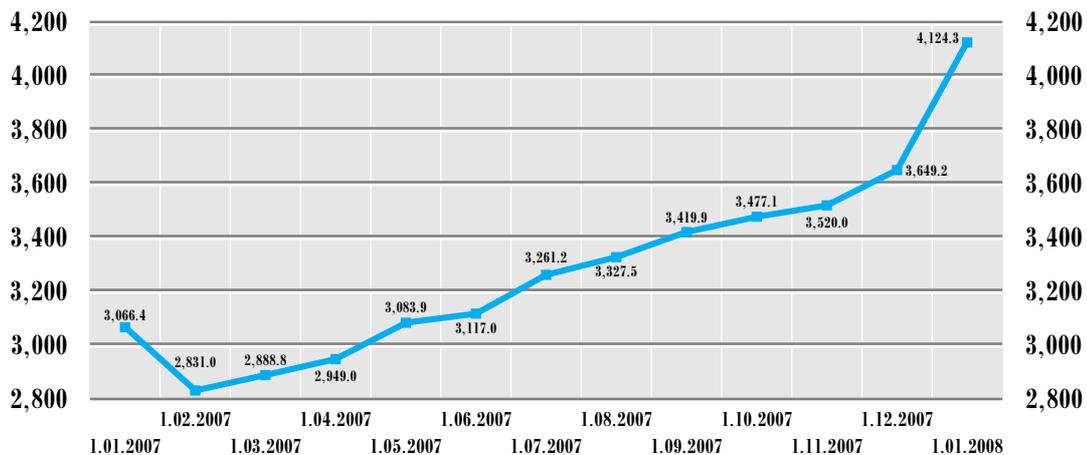


Chart 49

In 2007, the Bank of Russia took steps to upgrade its regulatory documents relating to cash issue operations, cash storing, transporting and collecting, and organising cash circulation.

As of January 1, 2008, Bank of Russia institutions provided cash services to 7,037 credit institutions and their divisions and 129,568 enterprises other than credit institutions. The number of customers serviced by Bank of Russia institutions decreased in 2007 as the Bank of Russia optimised the network of its institutions that provide cash services and transferred their clients to credit institutions to receive cash services.

In 2007, the Bank of Russia continued to equip its regional branches with new technical facilities to process, store and move cash, replacing obsolete and worn-out equipment.

DETECTION OF COUNTERFEIT BANK OF RUSSIA NOTES AND COINS IN 2002—2007 (pieces)

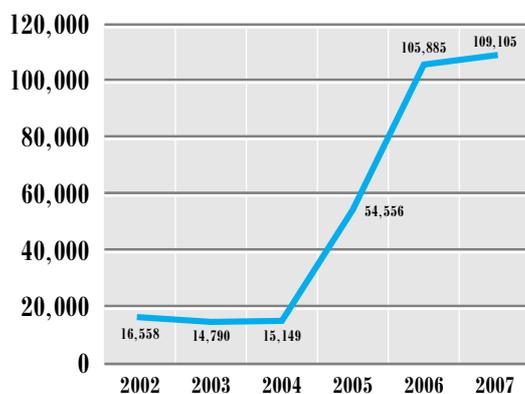


Chart 50

To improve the note processing technique, in 2007 the Bank of Russia put into operation on the basis of new counting and sorting equipment a number of computer-based systems that automatically and continuously count banknotes. These systems allowed the Bank of Russia to almost double labour productivity in cash processing.

Acting on the instruction by the Russian President to make banking services accessible to the public and improve the general financial literacy, the Bank of Russia in 2007 organised and conducted a large-scale campaign to explain to the public the signs of solvency and the rules for exchanging damaged Bank of Russia notes and coins.

In the period under review, Bank of Russia institutions conducted 1.4 million expert examinations of Bank of Russia notes and coins, including 640,000 examinations of suspect notes and coins and 760,000 control examinations of the correctness of the exchange of notes and coins. According to data received from Bank of Russia regional branches, 109,105 counterfeit Bank of Russia notes and coins were detected, withdrawn from circulation and passed on to the Interior Ministry bodies in 2007.

Most of the counterfeit Bank of Russia notes and coins handed over to the Interior Ministry bodies (100,635) were 1,000-ruble notes. There were 3,862 counterfeit 500-ruble notes and 3,144 counterfeit 100-ruble notes. Counterfeit 50-ruble and 10-ruble notes totalled 1,007. There

**DETECTION OF COUNTERFEIT BANK OF RUSSIA NOTES AND COINS
BY FEDERAL DISTRICT IN 2007 (pieces)**

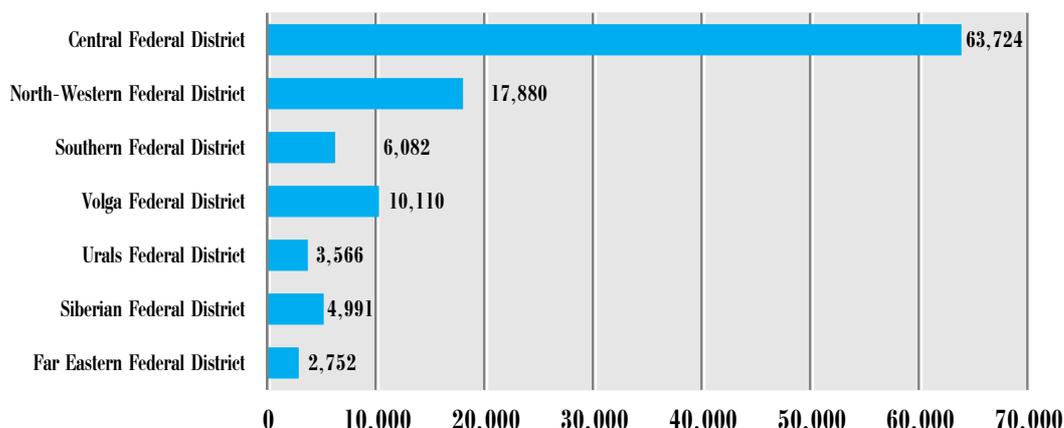


Chart 51

were 15 counterfeit 5,000-ruble notes. Two notes were forged by altering out-of-use notes. As for counterfeit coins, there were 439 forged 5-ruble coins and one 2-ruble coin.

In 2007, as in 2004—2006, most of the counterfeit notes and coins were detected in the Central, North-Western and Volga Federal Districts.

Counterfeit Bank of Russia notes and coins detected in credit institutions accounted for 57.7% of total forgeries detected. The remaining 42.3% of counterfeit notes and coins were detected in Bank of Russia institutions.

In 2007, Bank of Russia institutions and credit institutions detected and handed over to the Interior Ministry bodies 9,112 counterfeit foreign banknotes.

The Bank of Russia in 2007 issued 47 types of commemorative coins, of which seven are made

of gold, 31 — silver and nine — of a non-ferrous metal, and continued to issue the investment gold coin George the Victor.

**DETECTION OF COUNTERFEIT
FOREIGN BANKNOTES IN 2002—2007
(pieces)**

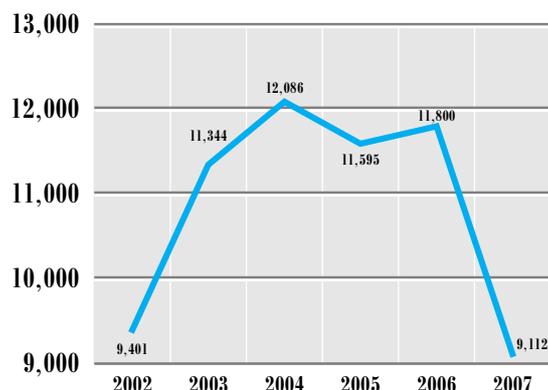


Chart 52

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

In 2007, the Bank of Russia carried out measures to upgrade accounting rules and practices, encourage the use of international accounting and financial reporting standards and improve the quality of information compiled in accounting and reporting in the Russian banking system.

Having conducted a comparative analysis of the completeness of the use of international principles and standards in the accounting regulations in the Russian banking system, the Bank of Russia replaced the cash method of profit and loss accounting by the accrual method and made some alterations in the procedure for evaluating and accounting for securities at fair value, which require reflecting profit and loss from their revaluation, depending on the class of securities, in profit or loss and capital accounts.

These fundamental changes required a revision of the Chart of Accounts and changes and amendments in the principles and qualitative characteristics of accounting in the Russian banking system. In 2007, the Bank of Russia issued Accounting Rules for Credit Institutions, made changes in the effective Bank of Russia Accounting Rules and revised and amended some of its regulations on accounting.

It issued methodological recommendations and instructions on how credit institutions and the Bank of Russia should account for repo transac-

tions with securities in accordance with their economic interpretation as credit operations.

The Bank of Russia made changes to the accounting rules for credit institutions after having discussed them with the banking community.

Having introduced these changes and analysed its correspondence with credit institutions, the Bank of Russia picked out the most typical questions and regularly posted answers to them on its website.

To standardise the forms of documents used by it, in 2007 the Bank of Russia compiled and approved a catalogue of document forms to be used in accounting for operations conducted by the Bank of Russia with financial and other assets.

In the course of developing a real time gross settlement system, the Bank of Russia worked out and approved a procedure for accounting by Bank of Russia divisions for the payments effected through the Bank of Russia BESS system.

The Bank of Russia continues to harmonise the Russian accounting practices with the international accounting principles in accordance with a plan that provides for making changes to some rules and regulations, such as the procedure for accounting intangible assets, derivatives, loss from asset depreciation and real estate transactions.

In 2007, the Bank of Russia continued to implement the TACIS project for conversion of

the banking sector to International Financial Reporting Standards (IFRS) and the use of principles of international accounting standards for compiling IFRS statements in the banking sector. Within the framework of this project, the Bank of Russia carried out the following measures aimed at harmonising Russian practices with international standards:

- analysed the provisions of the federal laws concerning the authority of the Bank of Russia to establish IFRS accounting and financial reporting rules for credit institutions;
- implemented IFRS training programmes for Bank of Russia specialists, employees of credit institutions, independent auditors, accounting instructors and researchers of higher education establishments;
- studied the experience of using IFRS in European Union member countries;
- held a conference for credit institutions and Bank of Russia specialists on the procedure for applying IFRS 7 and Regulation 302-P by credit institutions.

To help credit institutions which compile financial statements according to IFRS, the Bank of Russia prepared and presented to banking associations, credit institutions and audit firms for discussion a draft of the new Methodological Recommendations on the Procedure for Compiling and Presenting Financial Statements by Credit

Institutions, which comply with the effective international financial reporting standards and their interpretation and are compulsory for credit institutions with regard to full-year periods from January 1, 2007.

Bank of Russia financial statements for 2006 were compiled according to IFRS and confirmed by an external auditor. To improve financial reporting, the Bank of Russia amended its Regulation No. 278, dated October 27, 2005, 'On the Compiling of Bank of Russia Financial Statements According to IFRS,' revised and approved the Bank of Russia Group's accounting policy for the purpose of compiling financial statements according to IFRS for 2007 and the subsequent years. The Regulation and accounting policy take into account the amendments to the effective standards and the new standard and interpretation requirements that came into effect on January 1, 2007.

During 2007 the Bank of Russia received from the International Accounting Standards Board (IASB) and studied the drafts of new IFRS and the changes made to the IFRS adopted earlier and made its comments on them. It maintained contact with the London-based IASB to ascertain the specific use of the effective IFRS by central (national) banks, including the procedure for accounting for securities and precious metal reserves and their revaluation.

II.10. INTERNATIONAL COOPERATION

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

In 2007, the Bank of Russia took part in more than 120 meetings of international financial and economic organisations.

It participated in **IMF** and **World Bank** meetings, which discussed, among other things, the world economic outlook, ways to eliminate global imbalances, reform of the Bretton-Woods institutions and measures to improve international aid to low-income countries and to prevent crises. The Bank of Russia took part in the annual consultations under Article IV of the IMF Articles of Agreement and the joint IMF-World Bank mission for the Financial Sector Assessment Programme (FSAP). At the FSAP meetings participants discussed the Bank of Russia monetary policy in the context of the situation on the domestic and international financial markets and the changed level of liquidity of Russian credit institutions, the development of the interbank loan market and the role the Bank of Russia had to play in this process, as well as ways of upgrading the instruments of monetary regulation. The Bank of Russia in 2007 continued consultations with the IMF mission on issues relating to Russia's transition to inflation targeting.

In compliance with the IMF Special Data Dissemination Standard (SDDS), the Bank of Russia ensured that data on the external and financial sector were presented to the National Coordinator, the Ministry of Finance, for further posting on the National Summary Data Page. In compliance with the recommendations of the SDDS manual for aligned countries and users, approved by the IMF in 2007, the Bank of Russia began to quarterly update metadata in the categories of data disseminated according to the SDDS.

The Bank of Russia provided monetary statistics for the IMF publication called *International Financial Statistics*, and in September 2007 the IMF began to publish in the quarterly supplement Russia's monetary statistics in an enlarged format according to the IMF Monetary and Financial Statistics Manual issued in 2000.

To comply with international statistical standards, the Bank of Russia in 2007 started to publish the quarterly Financial Sector Review, which assesses the performance of the banking system, insurance companies and non-governmental pension funds. To fulfil the task of creating aggregate financial flows in the Russian economy, the

Bank of Russia in 2007 received an IMF technical mission on the expansion of the coverage of the financial sector of the economy for the compiling of the Survey of Other Financial Organisations.

In 2007, the IMF and the World Bank assessed compliance of banking regulation and supervision in Russia with the Basel Committee's Core Principles for Effective Banking Supervision within the framework of the 2003 FSAP Data Update. The parties discussed the key issues of banking regulation and supervision and measures taken with regard to the 2003 FSAP. Having considered the problem of banking sector stability, which includes the use of the stress testing method, IMF and World Bank experts prepared a draft report Assessment of Compliance with the Basel Core Principles for Effective Banking Supervision (Russia, October 2007), which is to be finally agreed with the Bank of Russia 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** and the **European Bank for Reconstruction and Development**.

The Bank of Russia participated in central bankers' meetings at the **Bank for International Settlements (BIS)**, which discussed central bank statistics, the role played by central banks in managing sovereign wealth funds, measures to regulate volatile capital flows, currency interventions, risk management and the activities of the Basel Committee on Banking Supervision.

In 2007, cooperation between the Bank of Russia and the BIS was aimed at expanding the range of indicators presented to the BIS Databank, notably, organising regular presentation to the BIS Databank of data on indicators published by the Bank of Russia as reference material for the bulletin *Russian Payment Systems* (Red Book) and updating more frequently the BIS Databank information fund (twice a week) regarding Bank of Russia daily updated indicators.

On the initiative of the Irving Fisher Committee and under the aegis of the BIS, the Bank of Russia in 2007 took part in a poll of central banks conducted for the purpose of compiling a survey of the methods and principles of making statistical observations by central banks to compile sta-

tistical data. Bank of Russia specialists participated in the meeting of the Statistics Institute, which discussed a wide range of statistical problems of interest for central banks.

The Bank of Russia also took part in BIS studies within the framework of an informal information exchange system on central bank governance, especially in the context of monetary policy issues.

It participated in the work of the Basel Committee working groups (the International Liaison Group and its sub-group on capital) and its regional group (Banking Supervision Group for Central and Eastern Europe).

In 2007, the Bank of Russia took part in seminars conducted by the BIS Financial Stability Institute and the Basel Committee on Banking Supervision on the implementation of the *International Convergence of Capital Measurement and Capital Standards. A Revised Framework (Basel II)*, on risk management, corporate governance and internal controls.

The Bank of Russia participated in the meetings of the **International Investment Bank** and the **International Bank for Economic Cooperation**, which discussed ways to reform these banks. It also took part in international consultations on Russia's entry into the **Asian Development Bank** and the **Inter-American Development Bank** and participated in drafting proposals for the development of cooperation with member countries of the **Islamic Conference Organisation** in the field of banking.

The Bank of Russia participated in three meetings of the **Group of Eight** finance ministers and central bank governors, who discussed, among other things, bond market development in emerging market countries, multilateral trade negotiations, the activities of sovereign wealth funds, effective finance management in African countries, energy security and combatting climate change, and money laundering and terrorist financing. The Bank of Russia had prepared materials for a report on the bond market situation in Russia at the Group of Eight high-level seminar on Bond Market Development in Emerging Market Economies.

Within the framework of the **Group of 20**, the Bank of Russia took part in the meeting of finance ministers and central bankers in Cape

Town and two meetings of their deputies, one in Pretoria and the other in Durban, which adopted a new reform programme for the G-20 member countries and reiterated their obligation to continue working towards the reform of the IMF and the World Bank. The meetings also supported participation on a voluntary basis in the Extractive Industries Transparency Initiative and expressed their interest in exchanging experience in managing sovereign wealth funds. In the course of preparations for these meetings, Bank of Russia representatives were involved in the work of several G-20 seminars: Reform of the Bretton-Woods Institutions; Commodity Market Cycles and Financial Stability; and Fiscal Policy. In collaboration with the Ministry of Finance, the Bank of Russia prepared materials at the requests of the G-20 History Study Group.

Taking into consideration that Russia was nominated chairman of the **Asia-Pacific Economic Cooperation (APEC)** Forum for 2012, the Bank of Russia intensified its contacts with Forum participants. Its representatives took part in all the major events of the annual APEC Finance Ministers' Process, including the meeting of deputy finance ministers and central bank governors, the meeting of APEC finance ministers, the meetings of senior financial officials and the first forum of representatives of the APEC countries' public and private sectors on bond market development and seminars on financial sector reform, risk management in commercial banks and the development of the pension and insurance annuity markets in APEC countries. The Bank of Russia made its contribution to the drafting of Russia's reports for the APEC on private capital market development and integration and fiscal transparency and stability of the APEC member countries.

The Council of the **Organisation for Economic Cooperation and Development (OECD)** in May 2007 passed a decision to begin negotiations with Russia on OECD membership. While this decision was being prepared, a group of Russian experts, including Bank of Russia representatives, held consultations with the heads of the OECD's major committees. During the year under review, the Bank of Russia had its represen-

tatives attending meetings of the OECD committee on financial markets, which discussed the consequences of the mortgage crisis on the world financial market, the activities of hedge funds and the international principles of regulating financial markets. The Bank of Russia sent to the OECD data required by the list of indicators established for non-aligned countries for publication in the OECD statistical bulletin *Main Economic Indicators*.

Within the framework of cooperation with the **European Union**, the Bank of Russia and the Ministry of Finance, the Ministry of Economic Development and Trade and the Federal Financial Markets Service signed a Memorandum on the Russia-EU Dialogue on Financial and Macroeconomic Policy. The Dialogue Leaders discussed at their meeting liquidity management models and key issues of banking regulation and supervision in Russia and the EU countries.

The Bank of Russia continued to maintain ties with the **Black Sea Economic Cooperation Organisation** by participating in its working group on banking and finance, which in 2007 focused on the search for new forms of cooperation between member countries in banking and finance and sharing expertise in financial sector development.

The 21st session of the **Foreign Investment Advisory Council in Russia (FIAC)** was held in Moscow in 2007 with the participation of the Bank of Russia. Within its framework, the working group on banking sector and financial market development in Russia held a meeting at the Bank of Russia, at which Russian and foreign participants discussed Russian banking sector stability, the sharing of information between credit institutions-members of banking groups and bank holding companies, derivatives regulation, pension reform and ways to upgrade collateral legislation and accelerate the adoption of laws that have already been drafted in this field, Internet banking and other issues. After the meeting, its participants sent their recommendations to the FIAC. In 2007, the Bank of Russia took part in five other meetings of the working group, which discussed the above questions in detail.

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

In 2007, the Bank of Russia continued to broaden cooperation with foreign countries and their central (national) banks.

One of its priorities was to actively participate in the **Interbank Currency Council of the Central Bank of the Russian Federation and the National Bank of the Republic of Belarus (ICC)**. In 2007, the ICC focused on ways to further harmonise and standardise the legal and regulatory frameworks of the central banks of the two countries and arrange cooperation between their internal divisions. At its meeting, the ICC discussed, among other things, economic development problems, the implementation of the monetary policy guidelines of the two countries, the dynamics of international reserves and foreign currency liquidity, the establishment of common procedures for conducting banking operations, accounting and reporting in the banking systems of the two countries according to International Financial Reporting Standards.

On May 26, 2007, the Bank of Russia and the National Bank of Belarus signed a Supplementary Agreement to the Correspondent Account Agreement to create conditions for the practical use of the SWIFT system in conducting operations in Russian rubles through the correspondent account opened for the National Bank of Belarus with the Bank of Russia.

The Bank of Russia cooperated closely with the integration bodies of the Eurasian Economic Community (EurAsEC) and was actively involved in the work of the **EurAsEC Council of Central (National) Bank Governors** (the Council held two meetings in 2007). The main objective of this work was to carry out measures envisaged by the Concept of Monetary Cooperation between EurAsEC Member States.

Specifically, the parties signed an Agreement on information cooperation and sharing experience in combatting counterfeiting; approved the Programme of international mobile exhibitions of effective national currencies in the EurAsEC member countries for 2007—2012 and an Inter-

national Programme for the issue and sale of EurAsEC collection coins made of precious metals in 2008—2012.

Progress has been made in implementing the agreement on cooperation in organising an integrated currency market of the EurAsEC member states for the purpose of ensuring that banks incorporated in the EurAsEC countries have access to the Russian forex market on the same legal terms and conditions as are granted to the Russian commercial banks.

The parties analysed measures aimed at upgrading and liberalising the financial and currency markets of the EurAsEC member countries, taking into consideration their national economic peculiarities. They approved recommendations for the development of the structure of financial and currency markets of the EurAsEC states.

Progress has been made in cooperation in training personnel of the EurAsEC central (national) banks. The parties approved a programme of advanced training of EurAsEC central (national) bank personnel for 2008 and decided to hold an annual international banking conference on security 'Building a Comprehensive Security System in the Field of Credit and Finance.'

The Bank of Russia took part in the work of the **CIS Interstate Monetary Committee**, which focused on the implementation of the concept of cooperation and coordination of efforts by the CIS member states in the monetary field, which aims at upgrading the settlements procedure in foreign trade, analysing the level of development of the currency markets, creating a mechanism to determine mutual exchange rates of the national currencies, facilitating mutual access by CIS banks to the national currency markets and liberalising foreign exchange regulation and control.

In 2007, the Bank of Russia continued to assist the development of the **Interstate Bank**, established by 10 CIS countries. At its meetings held in 2007, the Interstate Bank Board discussed ways of turning the bank into a CIS investment institution in the interests of economic integra-

tion of the member states and approved the Memorandum of Credit Activities of the Interstate Bank and a package of documents on holding an open tender to select the audit firm to conduct the compulsory annual auditing of the Interstate Bank.

The Bank of Russia continued to cooperate with the CIS central (national) banks in sharing information, training specialists and organising banking supervision.

The **intergovernmental commissions** formed by Russia with Austria, Argentina, Venezuela, Vietnam, India, China, Kazakhstan, Uzbekistan, South Africa and some other countries carried through a lot of work in 2007.

Regular meetings were held by Bank of Russia specialised structures for interbank cooperation with Vietnam, China, India, Uzbekistan and Kazakhstan.

Representatives of the central and commercial banks of Russia and India held a seminar on monetary and foreign exchange policy and international settlements. The Bank of Russia and the National Bank of Austria conducted a seminar on credit risk mitigation and consolidated supervision.

The fourth joint high-level Bank of Russia-Eurosystem seminar was held to discuss monetary policy issues and the importance of EU expansion for Russia.

The Banks/Financial Services Sub-group of the Russian-German Working Group on Strate-

gic Cooperation in the Economy and Finance held two meetings on issues relating to services market development and regulation.

The Bank of Russia held consultations with the Bank of Spain, and a Russian-Spanish meeting of bank representatives was held under the aegis of the two banks to discuss prospects for bilateral trade and economic cooperation and the role banks can play in promoting this cooperation.

The Bank of Russia held consultations with the Central Bank of Venezuela on issues relating to interbank cooperation and banking supervision and signed a Memorandum of Understanding with the Superintendence of Banks and Other Financial Institutions of Venezuela.

The Bank of Russia also signed Memoranda of Understanding on banking supervision with the Central Bank of Montenegro and the Central Bank of Cyprus, a Memorandum with the Financial Supervisory Authority of Finland and a supplement to it on cooperation in supervising the Sampo Banking group and its subsidiary ZAO Danske Bank, a closed-end joint-stock company, in Russia.

Meetings with representatives of the banking (financial) supervisory authorities of Germany, China, Britain, the Netherlands, Finland, Austria, Hungary and Estonia were held at the Bank of Russia.

In 2007, the Bank of Russia signed a Memorandum of Understanding and Cooperation with the Central Bank of Nicaragua.

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

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

As of the beginning of 2008, the Bank of Russia structure comprised the head office, 79 regional branches, 782 settlement network divisions, the First Operations Department, the Interregional Security Centre, the Central Depository, field institutions, four IT divisions and auxiliary divisions.

In 2007, the Bank of Russia continued to improve its structure and reduce the number of divisions within it — work it has been doing for the past few years.

Staff reduction measures affected, above all, the staff of the regional branches and main cash settlement centres. As a result, by the end of 2007 the number of employees of these Bank of Russia divisions had decreased by 2,390.

In the course of optimising its settlement network, which the Bank of Russia has been doing since 2003, it cut its staff by 2,006 in 2007. At the end of the year the number of cash settlement centres stood at 699 as against 1,008 at the beginning of the implementation of the measures to shut them down.

The Bank of Russia continued to improve the structure of its Central Depository and as a result, its staff was cut by 486, or 8.6%.

As a result of the optimisation of the staff of its auxiliary divisions, the Bank of Russia reduced it by 162.

The downsizing measures carried out in 2007 allowed the Bank of Russia to relocate personnel (11.9% of redundancies) and thus put in operation the BESP system and improve the staffing of the IT and supervision divisions.

Overall, in 2007 the Bank of Russia cut its staff by 4,443, or 5.7%, to 72,942.

NUMBER OF BANK OF RUSSIA EMPLOYEES BY DIVISION AS OF JANUARY 1, 2008 (%)

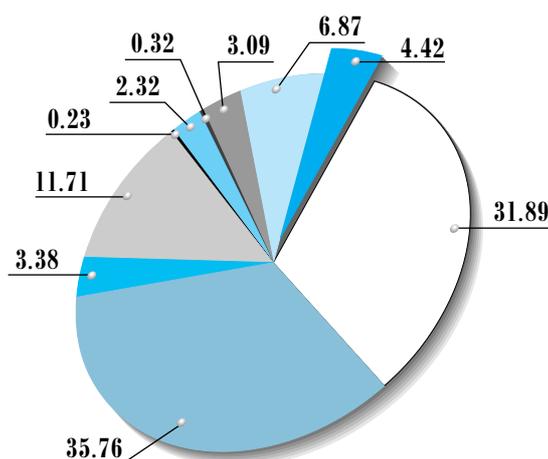


Chart 53

- Head Office
- Central Depository
- Field institutions
- First Operations Department
- IT divisions
- Training centres
- Social amenities divisions
- Divisions providing logistic 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

II.11.2. STAFFING AND PERSONNEL TRAINING

The highest priorities for the Bank of Russia in managing human resources in 2007 were to optimise the structure and number of staff, dismiss workers and employees of the liquidated cash settlement centres in compliance with the requirements of labour legislation, improve the system of bonuses and non-pecuniary incentives, develop methodologies of effectively assessing and rewarding employee performance, raising the level of expertise and managerial competence of specialists and executives and upgrading the programmes for training employees for executive positions.

As of January 1, 2008, the number of Bank of Russia executive and specialist positions decreased by 3.4% and 94.5% of them were filled. More than half of Bank of Russia employees are aged between 30 and 50 (62.2%) and have worked in the Bank of Russia system for three to 15 years (58.4%).

For the first time in eight years the trend has been reversed towards the reduction of the share of executives and specialists under 30 (it has expanded by 0.1% year on year) and the expansion of the share of executives and specialists of retirement age (it has contracted by 0.8% year on year), due to an increase in the social benefits guaranteed to individual categories of employees. At the same time, the share of employees who have worked in the Bank of Russia system for more than 15 years has increased by 3.7% to 33.6%.

The past few years have seen a trend towards growth in the number of Bank of Russia executives and specialists with a higher education: 973 Bank of Russia employees graduated from institutions of higher learning and 2,875 employees continued their education in 2007.

Bank of Russia regional branches made an effort to select and train employees for top managerial positions: the share of people promoted to these positions from this group of employees has expanded by 3.4% to 74.5%.

Personnel assessment was more actively practiced in the period under review. It was conducted in 74 regional branches and involved 86.6% of executives and specialists whose efficiency, quali-

fication and managerial competence were evaluated, and more than 40,000 executive decisions were taken on assessment results.

The structural reforms conducted in the Bank of Russia set higher qualification requirements for personnel. Of special importance in this sense is the task of creating organisational and managerial conditions that would make personnel more content and better motivated for efficient performance, capable of integrating knowledge from different fields and quickly adapting themselves to the changing conditions and more stringent requirements.

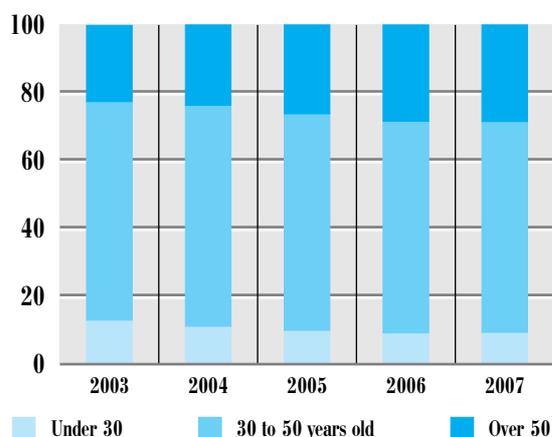
Continuous professional advancement of Bank of Russia employees was a major element of the personnel policy in the Bank of Russia in 2007. It is based on the intracorporate system of supplementary job training. More than 27,000 Bank of Russia employees have received advanced training in various forms at more than 2,000 courses and seminars organised within the Bank of Russia system.

Bank of Russia specialists attended 155 seminars on various aspects of banking, 75 brief advanced training courses and more than 60 training sessions on management. About 250 training sessions and seminars were devoted to advanced information technology and improving computer skills.

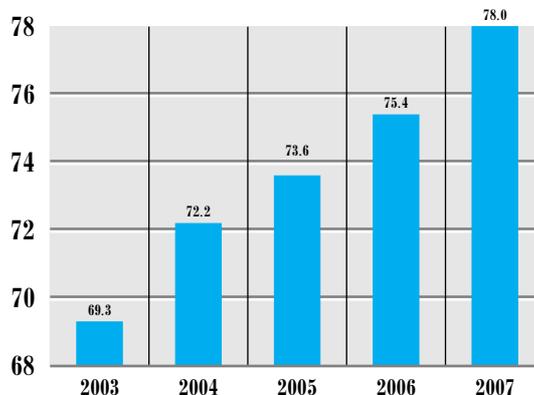
To meet the needs of its personnel in supplementary education and advanced training, the Bank of Russia signed contracts with institutions of higher learning and certified training centres in compliance with Bank of Russia Regulation No. 292-P, dated August 17, 2006, 'On the Procedure for Selecting Counterparties when Concluding Agreements by the Central Bank of the Russian Federation (Bank of Russia)'. In 2007, the Bank of Russia entered into over 100 agreements for the provision of centralised training services for more than 15,000 of its employees.

It continued to actively use the scientific and educational potential of Russian institutions of higher learning and advanced foreign expertise in implementing a series of large-scale educational projects.

AGE STRUCTURE OF BANK OF RUSSIA EXECUTIVES AND SPECIALISTS (%)



RATIO OF EXECUTIVES AND SPECIALISTS WITH HIGHER EDUCATION (as % of total executives and specialists)



Charts 54, 55

Since 2003, 953 Bank of Russia supervisors have taken job retraining courses and advanced training at the Russian Government Academy of National Economy, the State University Higher School of Economics and the Russian Government Financial Academy (some of them received an MBA). Of these, 176 supervisors received this training in 2007. By the end of 2007, almost one in seven graduates of these programmes received an MBA (147 people).

In 2007, the Bank of Russia continued to provide training to executives of its regional branches and employees placed on the list for promotion to these positions under the job retraining programme Top Manager of a Bank (with elements of online training) and by the end of the year the total number of graduates reached 79.

The Bank of Russia continued to implement its long-term programme for an in-depth study by its employees of IFRS. In 2007, the first stage of the 2007—2008 programme was completed. It covered 350 Bank of Russia employees, of whom 76% worked at Bank of Russia regional branches.

The Bank of Russia educational establishments — banking schools (colleges) — make a significant contribution to raising the qualification level of Bank of Russia employees. 92.5% of their teaching staff are top-notch specialists and 9.2% are holders of university degrees.

Bank of Russia banking schools (colleges) in Kazan, Moscow, Omsk, Orel, St Petersburg and Khabarovsk conducted over 400 courses and

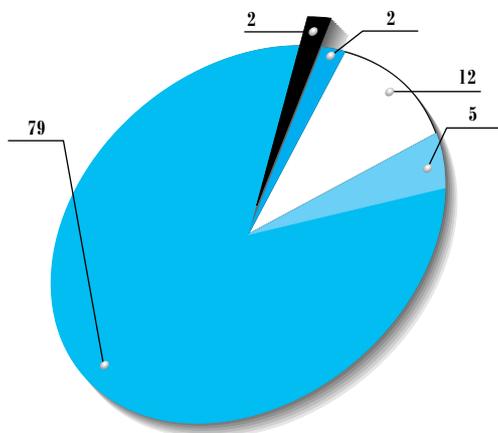
seminars in 2007, or 23% of total courses and seminars organised under the supplementary job training programmes, which accounted for 29% of all Bank of Russia executives and specialists trained under these programmes.

To improve professional competence of its personnel, the Bank of Russia actively cooperated with the Bundesbank, Banque de France and Bank of England, the Luxembourg-based Financial Technology Transfer Agency and the International Monetary Fund, whose experts took part in more than 80% of all international training courses and seminars. In all, over 800 Bank of Russia employees were involved in 176 international training courses and seminars and 30% of them were sent to study abroad in 2007.

In 2007, the Bank of Russia continued to provide training and job retraining for specialists of its regional branches in combatting money laundering and terrorist financing. Fifteen courses and seminars that involved nearly 500 executives and specialists of Bank of Russia regional branches were held in 2007 under the Bank of Russia Personnel Job Training Programme with the participation of experts from the Bank of Russia, the Interior Ministry and the Federal Financial Monitoring Service (Rosfinmonitoring).

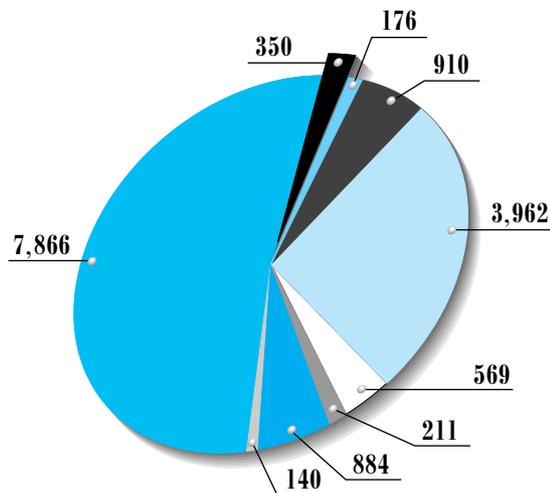
In 2007, the Bank of Russia launched the instructional component of a TACIS project — banking sector conversion to International Financial Reporting Standards (IFRS), which is projected for 2006—2009. Seventeen courses and seminars that involved 337 employees of the ac-

**CENTRALISED TRAINING
OF BANK OF RUSSIA PERSONNEL
IN 2007 (as % of total trainees)**



- International courses and seminars
- Information technology
- Foreign language studies
- IFRS
- Supplementary job training programmes

**SUBJECTS OF BANK OF RUSSIA
PERSONNEL ADVANCED TRAINING
AND RETRAINING BY CONTRACT IN 2007
(number of trainees)**



- Information technology
- Security and protection of information
- Job retraining, MBA (supervisors)
- IFRS programmes
- Supplementary job training (under agreements with banking schools)
- Maintenance and operation of cash processing equipment
- Managerial training
- Head Office staff training in major areas of the banking business
- Other subjects

Charts 56, 57

counting and reporting and supervision departments were held within the framework of this project.

In addition, the Bank of Russia organised in its regional branches and training centres the instruction of more than 600 specialists of credit institutions and university lecturers.

It continued to promote professional contacts with the EurAsEC central (national) banks under the Agreement on Cooperation in Personnel Training for the EurAsEC Central (National) Banks, signed in Minsk on March 12, 2004. About 100

Bank of Russia employees took part in seminars and internships in Russia and the CIS countries.

II.11.3. BANK OF RUSSIA INFORMATION AND TELECOMMUNICATIONS SYSTEM DEVELOPMENT

The Bank of Russia information and telecommunications system (ITS) is the basic infrastructure that ensures information supply for all Bank of Russia activities. The Bank of Russia in 2007 continued to upgrade it.

Specifically, it continued to develop a Single Information System for Banking Sector Regulation and Development, put into operation its Moscow segment and began to create a corporate data bank.

To create conditions for the pooling of electronic information resources and provide online access to corporate data and various supplements, the Bank of Russia updated its Corporate Intranet Portal, creating its regional segments in 14 Bank of Russia branches. The number of Bank of Russia Corporate Intranet Portal users reached almost 16,000 in the period under review.

To improve the performance of the Central Catalogue of Credit Histories, the Bank of Russia upgraded the software of this automated data processing system.

It put into operation Version 2.0 of the Automated Cash Issue and Valuables Accounting System, which guarantees a high degree of informa-

tion security and reliability at the level of collective data processing centres as well as Bank of Russia regional branches.

To enhance the effectiveness of monitoring and control of the ITS resources and services, the Bank of Russia upgraded its Integrated Telecommunications and Information Resources Management System and improved the performance of the control system for the unified electronic settlements transport sub-system.

It continued to expand and modernise the Single Banking Telecommunications Network and its elements, the Bank of Russia Satellite Communications Control System and the Single Mobile Radio Communications System.

In the course of implementing the electronic mail service modernisation programme, the Bank of Russia installed segments of its Unified Catalogue System in 29 of its regional branches.

It constantly made efforts to standardise the systemic and applied software used in the Bank of Russia, expand and modernise the local IT networks and structured cable systems and develop and update the infrastructure of the Bank of Russia ITS.

II.11.4. BANK OF RUSSIA ACTIVITIES AIMED AT UPGRADING BANKING LEGISLATION. MANAGING SUITS AND CLAIMS AT BANK OF RUSSIA INSTITUTIONS

BANK OF RUSSIA ACTIVITIES AIMED AT UPGRADING BANKING LEGISLATION

In 2007, Russia passed a number of important laws aimed directly at improving legislation on banking activities and activities relating to banking.

Federal Law No. 82-FZ, dated May 17, 2007, 'On the Development Bank,' established the Bank for Development and External Economic Activities (Vneshekonombank), a government-owned financial development institution and corporation.

Vneshekonombank is the reorganised Bank for External Economic Activities of the USSR and the new law defines the legal status and purposes and describes the reorganisation and liquidation procedures of the new bank.

The passing of this law required amendments to other federal laws and resulted in the adoption of **Federal Law No. 83-FZ, dated May 17, 2007, 'On Amending Certain Laws of the Russian Federation in Connection with the Passage of the Federal Law on the Development Bank.'** Specifically, amendments were made to the Federal Law on Banks and Banking Activities, which granted Vneshekonombank the right to conduct banking operations in compliance with the Federal Law on the Development Bank, and the Bank of Russia — the right to establish specific accounting rules for Vneshekonombank.

Federal Law No. 248-FZ, dated November 2, 2007, 'On Amending Article 29 of the Federal Law on Banks and Banking Activities,' stipulated that a bank cannot unilaterally change the term of the bank deposit agreement that stipulates that the depositor should be paid the deposit back upon the expiry of a specified term or at the onset of the circumstances described in the agreement, or reduce the interest rate or increase or establish commission for operations, except in cases stipulated by the federal law.

The amendments made by **Federal Law No. 325-FZ, dated December 4, 2007, 'On Amending Article 36 of the Federal Law on Banks and Banking Activities,'** stipulated that a newly registered bank or a bank registered less than two years ago may be licensed to take household deposits (1) if the authorised capital of the newly registered bank or equity capital of the operating bank is no less than the ruble equivalent of 100 million euros and (2) if the bank complies with the Bank of Russia requirement to disclose information about the persons who exert, directly or indirectly, material influence on the decisions taken by the bank's management.

Article 26 of the Federal Law on Banks and Banking Activities was amended twice in 2007.

Federal Law No. 214-FZ, dated July 24, 2007, 'On Amending Certain Laws of the Russian Federation in Connection with the Adoption of the Federal Law on Amending the Code of Criminal Procedure of the Russian Federation and the Federal Law on the Prosecutor's Office of the Russian Federation,' amended it to stipulate that statements of operations and accounts of corporate entities and unincorporated entrepreneurs and statements of household accounts and deposits should be presented by the credit institution to the investigating authorities in the cases they are investigating with the approval of the chief investigator rather than the prosecutor, as was the case before the law was amended.

In addition, Article 27 of the Federal Law on Banks and Banking Activities was amended to stipulate that money and other valuables in corporate and household accounts and deposits or in the safe-keeping of a credit institution can only be arrested by decision of an investigating authority if there is a court ruling to this effect.

The second time Article 26 of the Federal Law on Banks and Banking Activities was amended in connection with the passage of **Federal Law**

No. 225-FZ, dated October 2, 2007, ‘On Amending Certain Laws of the Russian Federation,’ which, in turn, was passed in connection with the adoption of a new version of the Federal Law on Court Enforcement Action.

This law extended the list of persons whom credit institutions should issue statements of operations and accounts of corporate entities and unincorporated entrepreneurs and statements of household accounts and deposits.

The new version of **Federal Law No. 229-FZ, dated October 2, 2007, ‘On Court Enforcement Action,’** has resolved the problems that banks faced when fulfilling the writs of execution.

Thanks to **Federal Law No. 34-FZ, dated March 13, 2007, ‘On Amending Article 11 of the Federal Law on Insurance of Household Deposits in Russian Banks and Article 6 of the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System,’** the aggregate insurance indemnity on household bank accounts in 2007 was raised from 190,000 rubles to 400,000 rubles. The increase applies to deposits both in banks that participate in the compulsory deposit insurance system and in banks that do not participate in this system.

Consumer lending is important for the development of the banking services market and the economy as a whole. This segment of the banking services market has been growing very fast lately and this calls for upgrading the relevant legal acts. Several laws have been drafted in this area but only one of them was passed in 2007. It is **Federal Law No. 234-FZ, dated October 25, 2007, ‘On Amending the Russian Federation Law on the Protection of Consumer Rights and Part 2 of the Civil Code of the Russian Federation’.**

The amendments stipulate, among other things, that information on goods (work or services) should contain the price of the goods (work or services) in rubles and the conditions of their purchase (payment) and in case of extending a loan, the amount of the loan, the total value of the loan the consumer has to pay and the loan payment schedule.

Federal Law No. 51-FZ, dated April 12, 2007, ‘On Amending Article 7 of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the

Financing of Terrorism,’ established the new duty of the Bank of Russia to agree with the Federal Financial Monitoring Service (Rosfinmonitoring) recommendations for credit institutions on the procedure for developing internal control rules and establishing qualification requirements for executives responsible for the observance of the internal control rules and programmes; as well as requirements for personnel training and instruction, customer and beneficiary identification and the procedure for presenting information to the authorised agency by credit institutions.

To harmonise its federal legislation with international anti-corruption obligations and upgrade the legal mechanism for combatting money laundering and terrorist financing, Russia passed **Federal Law No. 275-FZ, dated November 28, 2007, ‘On Amending Article 5 and Article 7 of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism.** Specifically, Article 7 was amended to include clause 3.1, which set the requirements for non-cash settlements and money transfers made without opening an account in Russia and from Russia to be accompanied at all stages by information about payers and their account number (if they have one) by including this information in the settlement document or otherwise.

Federal Law No. 127-FZ, dated July 5, 2007, ‘On Amending the Federal Law on Foreign Exchange Regulation and Foreign Exchange Control,’ extended the list of permitted foreign exchange transactions between residents. Resident individuals can now transfer funds from their accounts opened in authorised banks to the accounts of other resident individuals who are their spouses or close relations (relatives in direct ascending and descending order (parents and children and grandparents and grandchildren), brothers and sisters and half-brothers and half-sisters (who have a common father or a common mother) and the adoptive parents and adopted children), opened in authorised banks or banks outside Russia.

In addition, this Federal Law added to the documents involved in foreign exchange operations and the opening and maintaining of accounts, indicated in Part 4 of Article 23, the docu-

ments confirming that the individuals are spouses or close relatives, including documents issued by registration authorities (marriage certificate or birth certificate) and effective court rulings establishing family or kin relations, adoption and fatherhood, passport entries on children and the spouse and other documents established by Russian legislation.

In 2007, the Bank of Russia took an active part in the drafting of federal laws and concepts of draft federal laws.

Bank of Russia legislative activity in 2007 looked as follows.

In the period from January 1 to December 31, 2007, it issued 193 regulatory documents: three instructions, 15 regulations and 175 ordinances.

Of the 193 regulatory documents issued by the Bank of Russia, 91 (two instructions, 12 regulations and 77 ordinances) have been registered by the Ministry of Justice.

In addition, in the period under review the Bank of Russia sent 228 letters to its regional branches.

MANAGING SUITS AND CLAIMS AT BANK OF RUSSIA INSTITUTIONS

A total of 549 property claims and suits to the amount of 54.91 million rubles were filed against Bank of Russia regional branches in 2007, of which 123 claims and suits to the amount of 833,730 rubles have been satisfied. These figures show that most of the claims and suits were legally untenable.

Sixty-five suits that arose from labour disputes were filed against the Bank of Russia in 2007.

In four cases credit institutions challenged in court Bank of Russia sanctions against them but none of the claims has been satisfied.

At the same time, Bank of Russia regional branches filed claims and suits against credit institutions in the course of supervising them. They filed 649 claims to the amount of 28.17 million rubles and 60 suits to the amount of 132.69 million rubles, of which 700 claims and suits to the amount of 107.12 million rubles had been satisfied by the end of the period under review.

II.11.5. BANK OF RUSSIA INTERNAL AUDIT

The Bank of Russia Chief Auditor's Service conducted its activities in line with the plans approved in accordance with the established procedure. In 2007, it inspected 2,066 Bank of Russia divisions, of which 416 were audited in the course of comprehensive inspections and 1,650 in the course of thematic inspections.

In 2007, the Bank of Russia Chief Auditor's Service focused on the verification of the implementation by Bank of Russia divisions of the functions assigned to them and the assessment of the adequacy of the internal control systems of the audited divisions to the scale and nature of their work.

It regularly verified Bank of Russia compliance with the requirements set by the Core Principles of Managing Bank of Russia Foreign Exchange Reserves, Investment Directives for Bank of Russia Transaction and Investment Foreign Exchange Reserve Portfolios and other Bank of Russia regulations for operations with foreign exchange assets. The Bank of Russia Chief Auditor's Service also verified compliance with the established requirements for operations with precious metals and the implementation of the functions assigned to the Bank of Russia in the field of banking regulation and supervision.

In 2007, the Bank of Russia Chief Auditor's Service approved methodological recommendations for examination of the internal control of operations conducted with valuables using the television surveillance system; the implementation of intraregional electronic payments; the observance of labour laws; the security facilities; the property management; the insurance of transport vehicles, drivers and passengers; the collective data processing centres; the IT capital expense budget; the refinancing operations and the rec-

reation and health centres. It updated recommendations for the verification of the budget of expenditures on the maintenance of Bank of Russia divisions and on the construction and repair of buildings and facilities and the handling of problem credit institutions and credit institutions that had their banking licences revoked.

The internal audit procedures covered all the main areas of Bank of Russia activity and guaranteed Bank of Russia management independent information on the implementation by Bank of Russia divisions of the functions assigned to them for taking managerial decisions. The results of the internal audit lead to the conclusion that the activities of the Bank of Russia conformed in all their material aspects to federal legislation and Bank of Russia standards and regulations, while the internal control system was on the whole adequate to the risks assumed.

Audits and inspections conducted in 2007 revealed shortcomings in various areas of activity of Bank of Russia divisions: cash issue, access and security precautions and procedures, technical strength of cash units, spending budget allocations, construction, capital repair and maintenance, personnel management, information technology and security and supervision of credit institutions.

The examination of audit and inspection results led to sanctions against executives responsible for violations and shortcomings detected, and the severity of these sanctions depended on the gravity of the violations and shortcomings.

Pursuant to Article 13 and Article 95 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the National Banking Board in November 2007 heard the report by the Bank of Russia Chief Auditor.

II.11.6. 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 2007 participated in the capital of the Savings Bank (Sberbank), an open joint-stock company, and the capital of the following resident organisations that support the activities of the Bank of Russia: the Moscow Interbank Currency Exchange (MICEX), a closed-end joint-stock company, the St Petersburg Currency Exchange (SPCEX), a closed-end joint-stock company, and the National Depository Centre (NDC), a non-profit partnership. The Bank of Russia managed and controlled these resident organisations through its representatives in their management and control bodies, which enabled it to influence decisions aimed at implementing the monetary policy and improving the financial market infrastructure.

The Bank of Russia stakeholding in Sberbank's authorised capital went down from 60.57% to 57.58% in 2007 as the Bank of Russia acquired fewer Sberbank ordinary shares of an additional issue than was necessary to keep its stake unchanged. The decision on the acquisition by the Bank of Russia of 892,601 Sberbank ordinary shares in compliance with the requirements of Article 8 and Article 13 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) was taken by the National Banking Board and approved by the Government of the Russian Federation. The change in the Bank of Russia stake in the authorised capital of Sberbank has not affected the number of government representatives in the Bank of Russia quota in Sberbank's Supervisory Board.

The decision on the additional issue and the subsequent dilution of shares, taken by Sberbank's Supervisory Board, allowed Sberbank to maintain its capital adequacy at a level that corresponded to the expansion of its active operations and to increase the liquidity of its shares.

As a result, Sberbank's authorised capital grew to 67.76 billion rubles.

Sberbank's activities in 2007 were regulated by decisions of its Supervisory Board, which took into consideration the economy's needs to extend loans to households and enterprises. To improve the quality of the services it provided to its corporate customers, who had business ties with CIS countries, Sberbank's Supervisory Board in 2007 took the decision to acquire the Ukraine-based NRB Bank, a closed-end joint-stock company.

The dividends paid to the Bank of Russia in 2007 from the profit made by Sberbank in 2006 totalled 4.6 billion rubles, an increase of 50% on the dividends received for 2005. According to preliminary data, Sberbank's profit for 2007 increased by 40% year on year and reached 160.2 billion rubles.

Its stakeholdings in the capital of MICEX, SPCEX and the NDC in 2007 enabled the Bank of Russia to control operations on the domestic forex market and federal government debt market and use the exchange infrastructure to conduct monetary policy operations.

The Bank of Russia stake in the capital of MICEX expanded from 28.76% to 29.79% in 2007 as a result of a reduction of MICEX authorised capital due to the redemption of 4,000 MICEX ordinary shares owned by the exchange.

In 2007, the Bank of Russia was paid 50.1 million rubles as dividends from MICEX profit for 2006.

The Bank of Russia stake in the capital of SPCEX in 2007 remained unchanged from 2006 at 8.9%. The SPCEX Board in 2007 continued to provide traders with more opportunities to conduct transactions with various financial instruments within its own trading system and in collaboration with the MICEX trading system. The aggregate turnover of SPCEX trade in foreign currency, securities and PIF units in 2007 increased 2.3 times to 11.1 trillion rubles. In 2007,

by decision of the shareholders' meeting the entire net profit of 79.9 million rubles received by SPCEX for 2006 went to the exchange's funds.

The Bank of Russia stake in the authorised capital of the NDC in 2007 remained unchanged from 2006 at 49%. In 2007, the NDC in collaboration with MICEX and the MICEX Clearing House helped the Bank of Russia conduct over-the-counter repo operations with corporate eurobonds. The NDC accepted for servicing 73 issues of corporate eurobonds of top foreign issuers, which were recorded in the NDC account in Clearstream Banking and included issues on the Bank of Russia Lombard List. The total value of securities in the custody accounts opened in the NDC increased by 31.0% in 2007. The NDC Board of Directors in 2007 was taking steps to transform the partnership into a joint-stock company and evaluate its property. The signing by

the Russian President in 2007 of the Federal Law on Amending Article 7 and Article 11 of the Federal Law on Securities Market created conditions for the transformation of clearing depositaries from non-profit partnerships into joint-stock companies and provided the necessary legislative basis for the conversion of the NDC into a 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 in 2007 also participated in the capital and activities of international organisations, such as the Basel-based Bank for International Settlements (0.59% of authorised capital), the Moscow-based Interstate Bank (50.0% of authorised capital) and the Belgium-based Society for Worldwide Interbank Financial Telecommunications, or S.W.I.F.T. (0.006% of authorised capital).



**BANK OF RUSSIA ANNUAL
FINANCIAL STATEMENTS
AS OF JANUARY 1, 2008**



INTRODUCTION

The annual financial statements reflect the operations conducted by the Bank of Russia to fulfil its principal purposes and functions stipulated by Federal Law No. 86-FZ, dated July 10, 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'.

The annual financial statements as of January 1, 2008, presented below (hereinafter referred to as the financial statements) comprise:

- the Annual Balance Sheet;
- the Profit and Loss Account;
- 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 Companies Constituting Bank of Russia Property;
- the Statement of Bank of Russia Personnel Costs;
- the Statement of Capital Investment Budget Performance.

The principal objectives of the Bank of Russia are:

- to protect the ruble and ensure its stability;

- to upgrade and strengthen the Russian banking system;
- to ensure the effective and uninterrupted functioning of the payment system.

In 2007, the Bank of Russia implemented the managed floating exchange rate policy, which was aimed at cushioning the sharp exchange rate fluctuations caused by the liquidity crisis and the depreciation of the US dollar on the world market, bearing in mind the need to control inflation.

The Russian banking sector in 2007 continued to demonstrate favourable development trends and rapid growth in assets, while the Bank of Russia continued to upgrade the legal framework of banking regulation with the objective of harmonising it with internationally accepted practices and improve risk assessment policies in banking.

The Bank of Russia continued to upgrade its payment system to ensure its effective and uninterrupted functioning amid the use of the collective payment information processing systems. In December 2007, payments began to be effected through the Bank of Russia real time gross settlement system, or BESP.

ANNUAL BALANCE SHEET AS OF JANUARY 1, 2008

(million rubles)

	Note	2007	2006
ASSETS			
1. Precious metals	3	346,523	64,303
2. Funds placed with non-residents and securities issued by non-residents	4	11,511,619	7,744,466
3. Loans and deposits	5	37,109	7,514
4. Securities, of which:	6	441,948	279,789
4.1. Russian government securities		352,772	272,614
5. Other assets, of which:	7	99,482	107,795
5.1. Fixed assets		62,617	60,659
5.2. Profit tax advance payments		113	63
Total assets		12,436,681	8,203,867
LIABILITIES			
1. Cash in circulation	8	4,124,302	3,066,355
2. Funds in accounts with Bank of Russia, of which:	9	7,608,963	4,787,552
2.1. Russian government funds		5,119,493	3,317,090
2.2. Funds of resident credit institutions		1,298,842	959,115
3. Float	10	20,847	31,014
4. Other liabilities	11	195,953	195,593
5. Capital, of which:		462,051	84,156
5.1. Authorised capital		3,000	3,000
5.2. Reserves and funds		459,051	81,156
6. Reporting year profit	12	24,565	39,197
Total liabilities		12,436,681	8,203,867

Bank of Russia Chairman

S.M. Ignatiev

Bank of Russia Chief Accountant

L.I. Gudenko

May 13, 2008

PROFIT AND LOSS ACCOUNT

		<i>(million rubles)</i>	
	Note	2007	2006
INCOME			
Interest income	13	392,588	200,643
Income from securities trading	14	104,067	57,722
Income from operations with precious metals	15	357	6,314
Income from stakeholdings in credit and other institutions		4,653	3,005
Net income from recovery of provisions	21	—	1,357
Other income	16	3,259	4,137
Total income		504,924	273,178
EXPENSES			
Interest expenses	17	174,967	39,090
Expenses on securities trading	18	37,040	16,724
Cash turnover management expenses	19	13,579	9,273
Expenses on operations with precious metals	20	1,351	104
Net expenses on provisions	21	2,570	—
Expenses on negative revaluation of foreign currency	22	165,740	88,624
Other operating expenses	23	40,292	42,732
Personnel costs	24	44,820	37,434
Total expenses		480,359	233,981
Financial result: profit	12	24,565	39,197

CAPITAL, FUNDS AND PROFIT ALLOCATION

(million rubles)

	Authorised capital	Reserves	Accrued precious metal revaluation	Social fund	Growth in property value due to revaluation	Other funds	Total capital	Profit for the year
Balance as of January 1, 2007, before taxation and allocation of profit for 2006	3,000	69,376	—	3,720	7,965	95	84,156	39,197
Taxes and duties paid from Bank of Russia profit for 2006								(70)
Allocation of profit for 2006		18,780		783			19,563	(19,563)
Transferred to federal budget								(19,564)
Balance as of January 1, 2007, after taxation and allocation of profit for 2006 in 2007	3,000	88,156	—	4,503	7,965	95	103,719	—
Full-year profit								24,565
Transferred to funds			359,731			3	359,734	
Used from funds			—	(1,386)		(16)	(1,402)	—
Balance as of January 1, 2008, before taxation and allocation of profit for 2007	3,000	88,156	359,731	3,117	7,965	82	462,051	24,565
Taxes and duties paid in advance in 2007 from Bank of Russia profit								(113)
Taxes and duties paid in 2008 as a result of full settlement from Bank of Russia profit for 2007								(2)
Profit for 2007 after tax and duty payments effected under the Tax Code of the Russian Federation								24,450
— to be transferred to federal budget								(12,225)
— to be allocated to funds		11,736		489			12,225	(12,225)
Total after taxation and allocation of profit for 2007 in 2008	3,000	99,892	359,731	3,606	7,965	82	474,276	—



Starting from January 1, 2007, precious metals and unallocated metal accounts and deposits in non-resident credit institutions are accounted for at discount price and revalued in conformity with Bank of Russia standards and regulations. The Bank of Russia calculates discount prices on the basis of current fixed prices of precious metals on the London Metal Exchange reduced by the discount equalling the average cost of delivery of each precious metal to the international market. These costs are the expenses involved in the customs clearing, transportation and insurance of precious metals. The fixed prices of precious metals, denominated in the US dollar, are recalculated into rubles at the official dollar/ruble exchange rate effective as of the day following the day the discount prices were fixed. The unrealised differences that arise from the revaluation of the precious metal balances due to the change in the discount prices of precious metals are recorded to the balance sheet account *Accrued revaluation of precious metals* as part of capital and as of January 1, 2008, they amounted to 359,731 million rubles (Notes 1(c) and 3).

Taxes and duties paid after the final settlement for the reporting tax period from profit for 2007, the transfer to the federal budget and allocation of actual profit for 2007 that remained after the payment of taxes and duties under the Tax Code of the Russian Federation and 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 shown in Bank of Russia accounting records in 2008 (Note 27, Statement of Profit and its Allocation).

NOTES TO ANNUAL FINANCIAL STATEMENTS AS OF JANUARY 1, 2008

I. ACCOUNTING AND FINANCIAL REPORTING PRINCIPLES

The Bank of Russia accounting and financial reporting practices conform to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), Federal Law on Accounting, Bank of Russia Regulation No. 66-P, dated January 1, 2006, 'On Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia) (hereinafter referred to as Regulation No. 66-P) and other Bank of Russia regulations issued in pursuance of these federal laws.

(a) Accounting principles

Accounting is based on the principle of recording balance sheet items at their initial cost at the time assets are acquired or circumstances arise. 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 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 and other institutions in 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 that would include the financial statements of credit and other institutions 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 ruble (hereinafter referred to as the ruble), in millions of rubles, abbreviated as Rbs m.

Data in the Table *Capital, funds and profit allocation* and the Statement of the Bank of Russia Reserves and Funds have been adjusted for the purpose of compiling Bank of Russia annual financial statements that would take into account the events that have occurred after the reporting date, including the payment in 2008 of taxes and duties as a result of the final settlement from Bank of Russia profit for 2007; 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 27, Statement of Profit and its Allocation).

Figures in brackets denote negative values.

(c) Precious metals

Precious metals are accounted for at the discount price and revalued as the discount prices of precious metals are set in conformity with Bank of Russia standards and regulations. The Bank of Russia calculates discount prices on the basis of current fixed prices of precious metals on the London Metal Exchange reduced by the discount equalling the average cost of delivery of each precious metal to the international market. These costs are the expenses involved in the customs clearing, transportation and insurance of precious metals. The fixed prices of precious metals, denominated in the US dollar, are recalculated into rubles at the official dollar/ruble exchange rate effective as of the day following the day the discount prices were fixed.

The unrealised differences that arise from the revaluation of the precious metal balances due to the change in the discount 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.

Should the negative unrealised difference exceed the positive unrealised difference in the result for the year, the excess is compensated for from the unrealised differences accumulated earlier and recorded in the balance sheet account *Accrued revaluation of precious metals* as part of capital. If there is no balance in the balance sheet account *Accrued revaluation of precious metals* or it is not enough, the negative unrealised differences are fully (or in the amount of the excess of the credit balance of the balance sheet account *Accrued revaluation of precious metals*) recorded to the Bank of Russia operating expenses for the corresponding reporting year by a 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 discount price of the precious metal, are calculated separately for each operation. The realised difference is the difference between the actual value of the deal and the value based on the discount price of the corresponding precious metal. The realised differences in operations with precious metals are determined as of the date of the transfer of title for the precious metal as a result of the transaction. Positive realised differences are accounted for as income from operations with precious metals, whereas negative realised differences are recorded to expenses on operations with precious metals.

Precious metals placed on deposits or unallocated metal accounts in non-resident credit institutions are accounted for at the discount price and recorded to *Funds placed with non-residents and securities issued by non-residents*.

Bank of Russia claims and obligations in respect to the delivery of precious metals under forward contracts are recorded in off-balance sheet accounts from the transaction date to the settlement date and revalued daily at the discount price.

(d) Foreign currency assets and liabilities

Foreign currency assets and liabilities are accounted for in rubles at the official rates of exchange of the ruble 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 rubles at the official exchange rates as of the date income is received or expenses are incurred.

Unrealised exchange rate differences that arise due to the revaluation of the 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.

Should the accrued negative unrealised exchange rate differences exceed the accrued positive unrealised exchange rate differences during the year, the excess is compensated for from previously accrued net positive exchange rate differences accounted for as *Accrued exchange rate differences* as part of capital. If there is no balance in the balance sheet account *Accrued exchange rate differences* or the balance is not enough, the negative unrealised exchange rate differences are fully (or in the amount of the excess of the credit balance of the balance sheet account *Accrued exchange rate differences*) recorded to Bank of Russia expenses for the corresponding reporting year by a decision of the Bank of Russia Board of Directors.

Realised exchange rate differences that arise in foreign exchange transactions conducted at a rate that differs from the official exchange rates are calculated separately for each transaction and recorded to 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 exchange purchase and sale forward contracts are recorded in off-balance sheet accounts from the transaction date to the settlement date and revalued at the official exchange rates.

The official exchange rates used in recalculating foreign currency assets and liabilities on December 31, 2007, stood at 24.5462 rubles to the US dollar (in 2006, 26.3311 rubles to the US dollar) and 35.9332 rubles to the euro (in 2006, 34.6965 rubles to the euro).

(e) Securities

The Bank of Russia accounts for investments in Russian government securities using the following accounting principles:

- the ruble-denominated government securities in the trading book are revalued at close of trades if their market prices are quoted, or accounted for at their acquisition price if their market prices are not quoted (the trading book is defined in Note 6 to these financial statements) net of depreciation provisions;
- the ruble-denominated government securities in the investment portfolio are accounted for at their acquisition (restructuring) price (the investment portfolio is defined in Note 6 to these financial statements);
- Russian government internal and external foreign currency-denominated loan bonds in the investment portfolio are accounted for at acquisition price, while bonds in the trading book are revalued at close of trades.

Repo transactions with government securities conducted with residents are accounted for in the Bank of Russia balance sheet as securities purchase and sale operations. Government securities acquired in repos with residents are accounted for in the Bank of Russia balance sheet at acquisition price during the repo transaction period and written off from the Bank of Russia balance sheet when resold. Bank of Russia claims for the delivery of money in the reverse part of repos and obligations to sell government securities in the reverse part of repos with residents are recorded in off-balance sheet accounts from the transaction date to the execution date.

Debt obligations of other issuers, acquired in repo transactions with residents, are accounted for according to the same procedure as government securities acquired in repo transactions.

In addition, the following accounting principles are used in respect to other securities:

- foreign issuers' securities are accounted for at acquisition price;
- foreign issuers' securities received by the Bank of Russia in repo transactions with non-residents are recorded in off-balance sheet accounts as securities received as collateral for repo transactions. The delivery of funds in repo transactions with non-residents is accounted for in the Bank of Russia balance sheet as placements made against the collateral of securities. Income from placements in repo transactions is recorded to interest income;
- foreign issuers' securities transferred by the Bank of Russia as collateral in repo transactions with non-residents continue to be accounted for as part of foreign issuers' securities in the Bank of Russia balance sheet. The raising of funds in repo transactions with non-residents is accounted for in the Bank of Russia balance sheet as operations to raise funds against the collateral of securities. In addition, securities transferred by the Bank of Russia as collateral in repo transactions with non-residents are recorded in off-balance sheet accounts as securities transferred by the Bank of Russia as collateral. Expenses involved in raising funds in repo transactions are recorded to interest expenses;
- income and expenses from the sale and redemption of foreign issuers' securities are accounted for as part of income and expenses relating to securities trading;
- credit institutions' promissory notes are accounted for at acquisition price net of the provisions made for them.

(f) Bank of Russia bonds

Bank of Russia bonds (OBR) are accounted for at their nominal value. The difference between the nominal value and actual selling (redemption) price of Bank of Russia bonds is accounted as deferred income or expenses relating to securities in *Other liabilities* or *Other assets*. When bonds are

bought out and redeemed, deferred income and expenses are netted and the result is recorded to Bank of Russia income or expense accounts.

(g) Investment

Bank of Russia investments in the authorised capital of credit and other institutions in and outside Russia are accounted for at acquisition price.

(h) Loans to credit institutions

Loans to credit institutions are recorded to the principal debt net of depreciation provisions.

(i) Bank of Russia loss provisions

To cover risk (loss) when conducting operations under the applicable laws of the Russian Federation, the Bank of Russia makes provisions for possible losses on loans extended to credit institutions, for the depreciation of investments in securities and for other active operations it conducts. Bank of Russia asset risks for which provisions are made are assessed by determining the probability of a failure by the Bank of Russia to recover the funds invested in assets and the amount of Bank of Russia probable losses according to the provisioning procedure approved by the National Banking Board. Bank of Russia provisions are created by a decision of the Bank of Russia Board of Directors and recorded to Bank of Russia expenses. When the amount of provisions is reduced due to repayment of loans, deposits, promissory notes and other debt and disposal of other assets, as well as the improvement of the quality of assets and the reduction of the risk of possible losses on Bank of Russia assets, the corresponding part of the provisions is recovered to Bank of Russia income.

Provisions for operations conducted with resident credit institutions and other resident borrowers in rubles are made by the Bank of Russia when these operations create the risk of possible losses (credit risk) due to non-fulfilment (inadequate fulfilment) by borrowers of their obligations on Bank of Russia loans in accordance with the terms and conditions of the agreement or other relevant documents that confirm the extension of Bank of Russia loans, other Bank of Russia ruble-denominated claims, non-payment of a promissory note and (or) non-fulfilment of obligations by a person whose due fulfilment of obligations is guaranteed by the obligation (contingent obligations) assumed by the Bank of Russia.

Provisions for government securities trading are made gradually, through the end of 2007, when the risk of possible losses from the depreciation of securities arises, and may reach up to 20% of the estimated value that represents the excess of the balance sheet value of the bonds over their possible selling price.

Provisions for foreign exchange transactions are created by the Bank of Russia when there is a risk of possible losses from these transactions due to 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 duly fulfilment of 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 outside the compulsory deposit insurance system are made to the amount of the funds transferred by the Bank of Russia to the agent bank to effect Bank of Russia compensation payments and also to the amount of the bankrupt bank's debt 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 assets for which provisions are made are accounted for in the balance sheet net of the amount of the provisions made.

(j) Fixed assets

Fixed assets are accounted for at residual value, i.e., at acquisition price inclusive of revaluation and exclusive of accrued depreciation.

Bank of Russia fixed assets have been revalued in compliance with Russian Government resolutions. The latest revaluation was made as of January 1, 1997.

Fixed assets acquired and put into operation before January 1, 2002, are depreciated at the official rates of depreciation set by USSR Council of Ministers Resolution No. 1072, dated October 22, 1990, 'On Standard Rates of Depreciation Charges for the Complete Restoration of Fixed Assets of the National Economy of the USSR':

	%
Buildings and other facilities	1.0—15
Equipment (including computers, furniture, transport vehicles, etc.)	2—20

Fixed assets put into operation from January 1, 2002, are depreciated at the 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' (taking into consideration the amendments made by Bank of Russia Order No. OD-945, dated December 25, 2007), issued pursuant to Russian Federation Government Resolutions No. 1, dated January 1, 2002, 'On the Classification of Fixed Assets Included in Depreciation Groups' (revised by Russian Federation Government Resolutions No. 415 of July 9, 2003, No. 476 of August 8, 2003, and No. 697 of November 16, 2006).

	%
Buildings and other facilities	1.1—14
Equipment (including computers, furniture, transport vehicles, etc.)	2—67

(k) Cash in circulation

The Bank of Russia is the sole issuer of cash and organiser of cash circulation. The banknotes and coins put into circulation are accounted for in the balance sheet at 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' funds in correspondent accounts, credit institutions' required reserves deposited with the Bank of Russia, credit institutions' deposit accounts with the Bank of Russia and regional and local government budget funds and government extra-budgetary funds. Funds in accounts with the Bank of Russia are accounted for in the balance sheet at nominal value.

(m) Float

As of the end of the year float includes the balances of funds connected with the completion of settlement operations with electronic and letter of advice settlement accounts, and the balances of funds resulting from operations between Bank of Russia institutions connected with the transfer of payments of Bank of Russia institutions and the customers they serve. Float is accounted for in the balance sheet at nominal 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 an authorised capital of 3 billion rubles;

— 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 the 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, 2008.

(o) Reporting year profit

Reporting year profit, accounted for in the Bank of Russia balance sheet, is the financial result of the Bank of Russia performance during the reporting year.

After the Bank of Russia Annual Financial Statements are approved by the Board of Directors, the Bank of Russia transfers to the federal budget 50% of its actual full-year profit that remains 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 its Board of Directors to various reserves and funds (Note 27, 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 a cash basis, i.e., after income has been actually received and expenses have been actually incurred.

(q) Financial result

The financial result, i.e., profit or loss, is the difference between total income received and total expenses incurred in core and non-core operations conducted by the Bank of Russia during the reporting year.

(r) Taxation of the Bank of Russia

The Bank of Russia pays taxes and duties under the Tax Code of the Russian Federation. The Bank of Russia has worked out and approved an accounting policy for the purposes of taxation, which formulates the tax accounting principles and methods and the rules and procedures for the creation of the tax base for the calculation of taxes and duties paid by the Bank of Russia.

(s) Transfer of profit to the Federal Budget

Under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), after the approval by the Bank of Russia Board of Directors of the Bank of Russia Annual Financial Statements, the Bank of Russia transfers to the federal budget 50% of its actual full-year profit remaining after the payment of taxes and duties under the Tax Code of the Russian Federation.

2. IMPACT OF ECONOMIC CONDITIONS ON BANK OF RUSSIA FINANCIAL STATEMENTS

The internal and external economic factors and the general economic policy pursued in 2007 affected the nature and scale of operations the Bank of Russia conducted when fulfilling the functions assigned to it. This was reflected in the Bank of Russia's consolidated annual balance sheet and financial performance.

As foreign trade conditions continued to improve in 2007, Russia registered a large trade and current account surplus. In addition, the capital and financial account increased significantly in the first half of the year under review due to massive capital inflow. In that situation, the steps taken by the Bank of Russia to maintain the managed floating exchange rate largely determined money supply dynamics.

To mitigate the adverse impact of excessive growth in money supply, caused by currency interventions, on inflation in the economy, the Bank of Russia and the Russian Government absorbed excess liquidity, mostly through the Stabilisation Fund, as was the case in the previous three years. The

budget surplus and the expansion of the Stabilisation Fund led to a growth in funds in government accounts with the Bank of Russia. Bank deposits with the Bank of Russia also grew significantly and their share in Bank of Russia balance sheet liabilities increased by more than 50% over the year.

Instability on global financial markets made it increasingly difficult for Russian banks and corporations to borrow abroad and this led to massive net capital outflow from the private sector in August and September 2007 and, consequently, the scaling down of Bank of Russia interventions on the domestic forex market in that period.

Over the year, Bank of Russia funds placed with non-residents and invested in foreign securities increased significantly and their share in Bank of Russia balance sheet assets contracted slightly.

As the borrowing conditions on foreign markets deteriorated, banking sector demand for Bank of Russia refinancing rose sharply. In that situation, the Bank of Russia jointly with the Government carried out a series of measures that ensured the rapid refinancing of banks, improved the refinancing system and encouraged credit institutions to improve the management of their liquidity. In August-December 2007, the Bank of Russia considerably increased the amount of liquidity it provided to banks, purchased OBR on the secondary market and bought from credit institutions government securities to increase its own portfolio. These operations led to an increase in the balances of funds accounted for as *Federal government debt obligations* in the Bank of Russia balance sheet.

In November 2007, the Bank of Russia broadened the range of refinancing instruments as it began to conduct fixed-rate overnight and 7-day repo operations and extend fixed-rate overnight Lombard loans. In addition, to increase the refinancing of banks, it lowered the international issuer (issue) rating requirements for the bonds on the Lombard List and added to it securities issued by non-resident corporations. It also cut interest rates on some of its operations, increased the adjustment ratios used in calculating the value of securities accepted as collateral for Bank of Russia loans and reduced the discounts on securities used in repo transactions with the Bank of Russia. This led to a significant growth in Bank of Russia credit claims on credit institutions.

The balances of credit institutions' correspondent accounts with the Bank of Russia increased in 2007, although their share in Bank of Russia balance sheet liabilities went down year on year.

During the year under review credit institutions received additional funds as the Bank of Russia temporarily lowered by one percentage point the required reserve ratios and, at the same time, raised the required reserve averaging ratio. This measure offset, to some extent, the rise in the required reserve ratios made in the middle of 2007 to contain inflation, and did not change significantly this item of the Bank of Russia balance sheet.

The continued growth in household money income and further de-dollarisation stimulated demand for cash rubles and led to growth in balances of *Cash in circulation* in the Bank of Russia balance sheet in 2007. At the same time, the share of cash in Bank of Russia balance sheet liabilities contracted year on year.

The Bank of Russia financial result for 2007 was largely affected by the continued rapid growth in gold and foreign exchange reserves, the further appreciation of the ruble and the banking sector liquidity regulation measures implemented by the Bank of Russia as part of the monetary policy. In this situation, growth in income from the placement of gold and foreign exchange reserves was accompanied by a significant increase in the unrealised negative exchange rate differences from the revaluation of Bank of Russia foreign currency assets and liabilities, which were completely recovered by Bank of Russia expenses due to the lack of accrued exchange rate differences. These factors and the increased expenses involved in the use of the monetary regulation instruments by the Bank of Russia caused Bank of Russia profit to decrease as compared with the previous year.

3. PRECIOUS METALS

	<i>(million rubles)</i>	
	2007	2006
Precious metals	346,523	64,303
Total	346,523	64,303

The increase under this item is largely due to the revaluation of precious metals at discount prices after January 1, 2007, and the purchase of gold from Russian credit institutions under general agreements.

4. FUNDS PLACED WITH NON-RESIDENTS AND SECURITIES ISSUED BY NON-RESIDENTS

	<i>(million rubles)</i>	
	2007	2006
Foreign securities	6,684,818	2,823,900
Balances in correspondent accounts and deposits placed with non-resident banks	2,887,937	2,813,502
Funds placed with non-residents under repo transactions	1,938,864	2,107,064
Total	11,511,619	7,744,466

Foreign securities are mostly US treasuries and government debt obligations of Germany, France, Britain, Sweden, Belgium, the Netherlands, Austria, Spain, Finland and Ireland, securities of extra-budgetary funds and federal government agencies of these countries and international financial organisations and covered securities of German credit institutions. Growth under this item was due to an increase in investments in foreign securities, caused by the expansion of foreign exchange reserves.

As of January 1, 2008, 37.03% of the total of *Foreign securities* (35.65% in 2006) were Bank of Russia investments in securities of the US mortgage agencies Federal Home Loan Banks, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation to the amount of 2,475,194 million rubles (1,006,731 million rubles in 2006), of which 83.94% had a maturity period of less than one year as of the reporting date. These agencies have the highest long-term AAA credit rating and their coupon bonds the Bank of Russia had in its portfolio as of the reporting date also had the highest AAA rating.

The increase in *Balances in correspondent accounts and deposits placed with non-resident banks* is largely due to growth in gold and foreign exchange reserves.

The decrease in *Funds placed with non-residents under repo transactions* is due to the reduction in total funds provided by the Bank of Russia through opened securities purchase transactions with an obligation to resell.

As of January 1, 2008, *Funds placed with non-residents under repo transactions* included 173,960 million rubles (78,481 million rubles in 2006) in balances of Bank of Russia placements with non-residents, as a result of which the Bank of Russia received from the latter foreign securities as collateral for these repo operations and at the same time raised funds from the same non-residents on the same terms and transferred to them other foreign securities from its portfolio as collateral for

the funds raised. The nominal value of the foreign securities transferred by the Bank of Russia to non-residents in these repo transactions stood at 167,369 million rubles as of January 1, 2008 (78,345 million rubles in 2006) and it is accounted for in off-balance sheet accounts for securities transferred as collateral for the loans taken (Note 25), while the corresponding balances of funds raised from non-residents through these repo transactions are accounted for as *Non-resident bank funds raised through repo transactions* (Note 9). Average non-resident debt to the Bank of Russia and Bank of Russia debt to non-residents in these repo transactions in 2007 stood at 220,898 million rubles (256,839 million rubles in 2006). This debt has been calculated as the sum of the products of the funds received in each transaction multiplied by the duration of the transaction in calendar days during the reporting year and divided by the number of calendar days in the reporting year. The part of the carry-over transactions conducted in the reporting year was also included in the calculations. In 2007, the Bank of Russia placed (raised) funds through these repo transactions totalling 4,040,954 million rubles (3,836,766 million rubles in 2006). Income received by the Bank of Russia from placements made with non-residents through these repo transactions totalled 10,918 million rubles in 2007 (12,611 million rubles in 2006) and they were recorded to *Interest income from foreign currency loans and deposits* (Note 13). Bank of Russia expenses involved in raising funds from non-residents through these repo transactions amounted to 10,401 million rubles in 2007 (12,391 million rubles in 2006) and they were accounted for as *Interest expenses on funds raised on international markets against the collateral of foreign currency-denominated securities* (Note 17).

5. LOANS AND DEPOSITS

	<i>(million rubles)</i>	
	2007	2006
Loans extended to resident banks (in rubles)	34,031	624
Loans and deposits with resident banks (in foreign currency)	442	14,271
Other	3,596	3,687
Provisions	(960)	(11,068)
Total	37,109	7,514

Growth in *Loans extended to resident banks (in rubles)* is due to a significant rise in banking sector demand for Bank of Russia Lombard loans and, beginning from October 2007, for loans secured by promissory notes, rights of claim under corporate loan agreements or bank guarantees, on which debt stood at 32,535 million rubles as of January 1, 2008.

The decrease in *Loans and deposits in resident banks (in foreign currency)* is due to the settlement or partial repayment by credit institutions of their debt to the Bank of Russia and the change in the official rate of the ruble against foreign currencies. A provision of 442 million rubles (10,322 million rubles in 2006) was created for this debt owed by credit institutions.

Provisions totalling 518 million rubles (746 million rubles in 2006) have been created for debt on loans extended to resident banks (in rubles), other loans and deposits.

6. SECURITIES

	<i>(million rubles)</i>	
	2007	2006
Russian government debt obligations		
Federal loan bonds (OFZ),	241,440	191,905
of which:		
— trading book	235,595	44,363
— bonds acquired under repo transactions	5,845	26,001
— investment portfolio	—	121,541
Russian government internal and external foreign currency-denominated loan bonds,	124,069	80,709
of which:		
— investment portfolio	67,673	79,706
— trading book	50,874	1,003
— bonds acquired under repo transactions	5,522	—
Provisions	(12,737)	—
Subtotal	352,772	272,614
Shares issued by credit and other institutions (Bank of Russia stakeholdings)	85,370	5,997
Other issuers' debt obligations	3,806	1,178
Bank promissory notes acquired by the Bank of Russia	27	27
Provisions	(27)	(27)
Total	441,948	279,789

Securities in the Bank of Russia trading book are securities which the Bank of Russia intends to trade on the securities market.

Securities in the Bank of Russia investment portfolio are securities which the Bank of Russia intends to keep for an indefinite period of time.

Federal loan bonds (OFZ)

The Bank of Russia OFZ portfolio is the result of the 2003—2005 restructuring of government securities under the federal budget laws for the corresponding financial year and OFZ purchase and sale on the domestic securities market. The characteristics of the securities received as a result of the restructuring comply with the requirements of federal laws and the agreements between the Finance Ministry and the Bank of Russia.

As of January 1, 2008, the OFZ portfolio consists of the trading book and the securities acquired with an obligation to resell (repo transactions).

In 2007, the Bank of Russia transferred to the trading book from the investment portfolio OFZ bonds with a coupon income of 0% to 1.566%, a maturity from 2019 to 2029 and a total balance sheet value of 121,541 million rubles, for their subsequent exchange for Finance Ministry marketable securities and for trading on the open market.

The Table below shows the structure of the OFZ trading book by coupon income and maturity as of January 1, 2008.

<i>(million rubles)</i>		
OFZ type	2007	2006
0% coupon-income debt depreciation OFZ		
due in 2019—2028	154,099	24,335
1.566% coupon-income debt depreciation OFZ		
due in 2029	23,873	—
7.25% coupon-income debt depreciation OFZ		
due in 2018	19,798	19,851
6.90% coupon-income debt depreciation OFZ		
due in 2036	15,460	—
9% coupon-income debt depreciation OFZ		
due in 2012—2021	15,089	—
8% coupon-income debt depreciation OFZ		
due in 2016	4,278	—
6.1% premanent coupon-income OFZ		
due in 2012	2,998	177
Total	235,595	44,363

The change in the balance sheet value of OFZ in the trading book is due to the transfer of government securities from the investment portfolio to the trading book, the purchase of OFZ with a coupon income of 6.1% to 9% p.a. and due in the period from 2012 to 2036, the sale of OFZ on the securities market and the revaluation of the trading book at market price. A provision will be made for unlisted bonds in the trading book if their balance sheet value exceeds their possible selling price.

As of January 1, 2008, the trading book comprised OFZ bonds due from 2012 to 2036. Most of them (65%) mature in 2019—2028 and have 0% coupon income.

As of January 1, 2007, the trading book comprised OFZ bonds due from 2012 to 2025 and most of them (62%) are due in 2019—2025 and have 0% coupon income.

As of January 1, 2008, the balance sheet value of OFZ bonds acquired by the Bank of Russia through repo transactions with residents with an obligation to resell stood at 5,845 million rubles. These bonds are securities due in the period from 2008 to 2021 and have a coupon income of 0% to 9% p.a.

As of January 1, 2007, the balance sheet value of OFZ acquired by the Bank of Russia through repo transactions with an obligation to resell stood at 26,001 million rubles. These bonds were securities due in 2008—2036 and with a coupon income of 0% to 10% p.a.

Bank of Russia claims for the delivery of funds in the reverse part of repo transactions with residents and obligations to sell OFZ bonds in the reverse part of repo transactions with residents are recorded in off-balance sheet accounts and shown in Note 25.

Russian government internal and external foreign currency-denominated loan bonds

Russian government external foreign currency-denominated loan bonds (Russian eurobonds) are US dollar-denominated government securities issued by the Finance Ministry and traded on the international market. They mature in the period from 2010 to 2030 and have a coupon income of 7.5% to 12.75% p.a.

Russian government internal foreign currency-denominated loan bonds are US dollar-denominated government securities issued by the Finance Ministry, due in the period from 2008 to 2011 with a coupon income of 3% p.a.

The change in the balance sheet value of *Russian government internal and external foreign currency-denominated loan bonds* is due to purchase by the Bank of Russia of Russian eurobonds for its trading book, the redemption of the 1999 government foreign currency loan bonds (OGVZ), and the redemption of Russian eurobonds in the investment portfolio and the US dollar depreciation against the ruble.

As of January 1, 2008, the balance sheet value of Russian eurobonds acquired by the Bank of Russia under repo transactions with an obligation to resell stood at 5,522 million rubles. These bonds mature in 2030 and have a coupon income of 7.5% p.a.

Bank of Russia claims for the delivery of funds in the reverse part of repo transactions with residents and obligations to sell Russian eurobonds in the reverse part of repo transactions with residents are recorded in off-balance sheet accounts and shown in Note 25.

Provisions

For some OFZ issues transferred from the investment portfolio to the trading book provision was made by the Bank of Russia of 12,737 million rubles (no such provision was made in 2006). It accounts for 20% of the excess of the balance sheet value of the bonds over their possible selling price in accordance with the Bank of Russia provisioning procedure (Note 21).

Shares issued by credit and other institutions (Bank of Russia stakeholdings)

The structure of Bank of Russia investments in shares of credit and other institutions is shown below.

Company name	2007		2006	
	Investment amount (at acquisition price)	% share in authorised capital (at par)	Investment amount (at acquisition price)	% share in authorised capital (at par)
Sberbank	84,004	57.58	4,563	60.57
Bank for International Settlements, Basel	1,062	0.59	1,130	0.59
Moscow Interbank Currency Exchange	300	29.79	300	28.76
St Petersburg Currency Exchange	3	8.90	3	8.90
Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.), Belgium	0.579	0.006	0.559	0.006
Total	85,370	—	5,997	—

The increase in *Shares issued by credit and other institutions* (Bank of Russia stakeholdings) is due to the acquisition by the Bank of Russia of 892,601 Sberbank ordinary shares in the course of the placement of an additional issue by Sberbank in 2007 for the purpose of augmenting its capital to a level that would match the rate of expansion of its active operations. It should be noted, however, that as the Bank of Russia did not purchase enough shares to keep its stakeholding in Sberbank unchanged, the Bank of Russia stake in Sberbank's authorised capital contracted from 60.57% to 57.58% in the year under review.

The expansion of the Bank of Russia stake in the authorised capital of MICEX was due to a reduction of the exchange capital as a result of the redemption of the shares owned by MICEX. At the same time, the Bank of Russia investment in the authorised capital of the exchange remained unchanged.

Debt obligations of other issuers

As of January 1, 2008, through repo transactions with residents with an obligation to resell the Bank of Russia acquired securities issued by regional governments and other Russian issuers and by the European Bank for Reconstruction and Development, with a total balance sheet value of 3,806 million rubles, a maturity from 2008 to 2017 and coupon income of 0% to 13.80% p.a.

As of January 1, 2007, through repo transactions with residents with an obligation to resell the Bank of Russia acquired securities issued by regional governments and other Russian issuers with a total balance sheet value of 1,178 million rubles, a maturity from 2008 to 2015 and coupon income of 8.22% to 11% p.a.

Bank of Russia claims for the delivery of funds in the reverse part of repo transactions with residents and obligations to sell debt securities of other issuers in the reverse part of repo transactions with residents are recorded in off-balance sheet accounts and shown in Note 25.

Provisions for bank promissory notes acquired by the Bank of Russia

This item shows the provisions of 27 million rubles made for promissory notes of credit institutions acquired by the Bank of Russia in 2001 under the terms and conditions of the amicable settlement (the amount is unchanged from 2006).

7. OTHER ASSETS

	<i>(million rubles)</i>	
	2007	2006
Fixed assets (at residual value)		
Buildings and other facilities	33,144	31,640
Equipment (including computers, IT and data processing systems, furniture, transport vehicles, etc.)	29,473	29,019
Subtotal fixed assets	62,617	60,659
Bank of Russia interest claims	19,148	29,521
Till cash	5,838	4,409
Incomplete construction projects	5,270	5,135
Deferred expenses on securities	2,564	3,604
Settlements with CIS and Baltic banks	1,446	1,446
Bank of Russia funds transferred to agent banks for payments to depositors of bankrupt banks	863	855
Settlements with suppliers, contractors and buyers	573	886
Profit tax advance payments	113	63
Bank of Russia correspondent accounts	19	208
Other	3,749	3,793
Provisions	(2,718)	(2,784)
Subtotal other assets	36,865	47,136
Total	99,482	107,795

The table below shows the movement of fixed assets:

	<i>(million rubles)</i>	
	2007	2006
Fixed asset value net of accrued depreciation		
Balance as of January 1	96,937	88,525
Receipt	10,743	9,456
Retirement	(1,913)	(1,044)
Balance as of end of year	105,767	96,937
Accrued depreciation		
Balance as of January 1	36,278	29,104
Depreciation deductions due to expenses (Note 23)	8,491	8,071
Depreciation deductions due to other sources	1	3
Accrued depreciation for retired fixed assets	(1,620)	(900)
Balance as of end of year	43,150	36,278
Fixed asset residual value as of end of year	62,617	60,659

Fixed assets structure and value net of accrued depreciation:

	<i>(million rubles)</i>	
	2007	2006
Buildings and other facilities	37,926	35,895
Computers, office equipment and furniture	32,721	29,053
Equipment	14,866	13,887
IT and data processing systems	14,841	13,363
Transport vehicles	2,476	2,229
Intangible assets	1,322	1,056
Other	1,615	1,454
Total	105,767	96,937

The increase in *Buildings and other facilities* is largely due to the reconstruction and construction of Bank of Russia office buildings.

The increase in *Computers, office equipment and furniture* is due to the purchase of information technology and systems and devices designed to automate the storage and processing of data in the Bank of Russia payment, accounting and information analysis systems, facilities designed to protect banking information and security facilities and modernisation of Bank of Russia operations support systems.

The increase in *Equipment* is due to the purchase of equipment to develop and upgrade fail-proof electric power supply systems and mechanise cash processing, cash machines and other equipment.

The increase in *IT and data processing systems* is largely due to the purchase of telecommunications and network equipment and modernisation and installation of additional IT systems to replace obsolete equipment.

The increase in *Transport vehicles* is mostly due to the purchase of special-purpose transport vehicles to carry cash.

The increase in *Intangible assets* is due to the purchase of software products with Bank of Russia exclusive title.

The increase in *Other* is primarily due to the purchase of production equipment and household goods.

The decrease in *Bank of Russia interest claims* is largely due to the acceleration of maturity of Bank of Russia deposits.

The increase in the balance of incomplete construction is mainly due to the development and upgrading of information analysis systems and banking information protection and security systems.

Deferred expenses on securities reflect deferred expenses, which are the difference between the nominal value and the actual selling price of OBR.

Provisions were made for:

- debt under the 1992—1993 agreements with CIS and Baltic states in the amount of 1,446 million rubles (unchanged from 2006);
- funds transferred to agent banks to effect compensation payments to depositors of bankrupt banks in the amount of 863 million rubles (855 million rubles in 2006);
- other assets in the amount of 409 million rubles (483 million rubles in 2006).

8. CASH IN CIRCULATION

Growth in cash in circulation is due to the expansion of cash turnover.

9. FUNDS IN ACCOUNTS WITH THE BANK OF RUSSIA

	<i>(million rubles)</i>	
	2007	2006
Federal government funds,	5,119,493	3,317,090
of which:		
— Stabilisation Fund	3,849,111	2,346,922
Credit institutions' funds in correspondent accounts	806,954	639,953
Regional and local budget funds	324,166	211,649
Deposits taken by the Bank of Russia from credit institutions	270,268	98,091
Required reserves deposited with the Bank of Russia	221,620	221,071
Non-resident bank funds raised through repo transactions	173,960	78,481
Other	692,502	221,217
Total	7,608,963	4,787,552

Significant growth in the balance of *Federal government funds* is due to the increase in federal budget revenue, including the expansion of the Stabilisation Fund. Russian Government Resolution No. 229, dated April 21, 2006, 'On the Procedure for Managing the Stabilisation Fund of the Russian Federation,' stipulates that the Ministry of Finance manages the Stabilisation Fund by using money from the Fund to acquire US dollars, euros and British pounds and placing them in accounts opened with the Bank of Russia, and acquiring foreign government debt obligations (Note 17).

Deposits taken by the Bank of Russia from credit institutions include the balances of funds raised from resident credit institutions in rubles. The increase in these funds is due to the expansion of banking sector deposit operations and the raising of Bank of Russia deposit interest rates.

Non-resident bank funds raised through repo transactions are the balances of Bank of Russia operations conducted to raise funds from non-residents against the collateral of foreign securities in the Bank of Russia portfolio while simultaneously placing funds with the same non-residents on the same terms against the collateral of other foreign securities received from them. The corresponding funds placed by the Bank of Russia with non-residents in these transactions are included in *Funds placed with non-residents under repo transactions* and as of January 1, 2008, they amounted to 173,960 million rubles (78,481 million rubles in 2006) (Note 4). The nominal value of these securities stood at 167,369 million rubles (78,345 million rubles in 2006) and it is recorded in off-balance sheet accounts that record securities transferred as collateral for loans (Note 25). Average non-resident debt to the Bank of Russia and average Bank of Russia debt to non-residents relating to these repos in 2007 stood at 220,898 million rubles (256,839 million rubles in 2006). This average debt is calculated as the sum of the products of the funds received in each transaction multiplied by the duration of the transaction in calendar days during the reporting year divided by the number of calendar days in the reporting year. The parts of the carry-over transactions that occurred in the reporting year were also included in the calculation. The amount of the funds raised (placed) through these repo transactions in 2007 totalled 4,040,954 million rubles (3,836,766 million rubles in 2006). Bank of Russia expenses on raising funds from non-residents through these repo transactions amounted to 10,401 million rubles (12,391 million rubles in 2006) and they were included in *Interest expenses on funds raised against the collateral of foreign currency-denominated securities* (Note 17). The corresponding income received by the Bank of Russia from placements made with non-residents through these repo transactions amounted to 10,918 million rubles in 2007 (12,611 million rubles in 2006) and they were included in *Interest income from foreign currency loans and deposits* (Note 13).

The increase in the balance of *Non-resident bank funds raised through repo transactions* is due to growth in funds raised by the Bank of Russia in open securities sales with an obligation to repurchase.

Other include the balances of accounts of government extra-budgetary funds and other Bank of Russia customers. Their growth is mainly due to the increased balances in the accounts of federal government-owned non-profit organisations, such as the Russian Nanotechnology Corporation and the Municipal Services Reform Fund, and the accounts of the Pension Fund, the Social Insurance Fund and regional compulsory medical insurance funds.

Pursuant to Article 23 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia conducts operations with federal budget funds, government extra-budgetary funds and regional and local budget funds without charging commission.

10. FLOAT

The decrease in *Float* was due to a reduction in the value of interregional electronic payments, which had been completed by the Bank of Russia in the first working days of January 2008.

11. OTHER LIABILITIES

	<i>(million rubles)</i>	
	2007	2006
Bank of Russia bonds	102,941	103,734
Supplementary pension provisions for Bank of Russia employees	62,125	51,660
Deferred income from lending operations	19,172	29,551
Deferred income from securities	8,611	8,670
Other	3,104	1,978
Total	195,953	195,593

The balance of *Bank of Russia bonds* (OBR) is the nominal value of OBR placed by the Bank of Russia on the domestic securities market.

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, which take into account the fact that Bank of Russia employees are not covered by the guarantees which civil servants are entitled to and that these are the internationally accepted practices of central banks. The amount of funds allocated for supplementary pension payments to Bank of Russia employees is determined on the basis of the actuarial evaluation conducted by a certified actuary. As of January 1, 2008, the Bank of Russia increased the funds intended for supplementary pension payments by 7,038 million rubles from the provision made for obligations to participants in the Bank of Russia Pension Plan in 2007 and recorded to Bank of Russia expenses (Note 21), and an additional amount of 3,740 million rubles recorded to Bank of Russia expenses (Note 23).

Deferred income from lending operations is mostly interest the Bank of Russia is to receive for its placements with non-residents, which is not yet due as of the reporting date. The decrease in *Deferred income from lending operations* is mostly due to the acceleration of maturity of the deposits placed by the Bank of Russia. Bank of Russia interest claims are recorded as *Other assets* (Note 7).

Deferred income from securities mostly comprises deferred income from government securities and the Finance Ministry's other debts restructured under the 1999—2001 federal budget laws and further restructured under the 2003—2005 federal budget laws.

Other mostly reflects the funds deposited by credit institutions to receive cash and accrued interest on the sale of securities to non-resident banks with an obligation to repurchase.

12. REPORTING YEAR PROFIT

Reporting year profit is a balance sheet item that shows the Bank of Russia's financial result for 2007.

The allocation of actual profit for the reporting year that remains after taxes and duties have been paid under the Tax Code of the Russian Federation and transfers to the federal budget have been made under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), is shown in the Bank of Russia accounting records in 2008 (Note 27 and the Statement of Profit and its Allocation).

- The main factors that affected the Bank of Russia financial result in 2007 are as follows:
- the increase in interest income, mostly due to growth in gold and foreign exchange reserves (Note 13);
 - the increase in income from securities trading, which is also due to growth in gold and foreign exchange reserves and connected with the revaluation of government securities in the trading book and purchase and sale of securities (Note 14);
 - Bank of Russia interest expenses recorded to the balances of the Stabilisation Fund foreign currency accounts (Note 17);
 - Bank of Russia expenses on reimbursement of the negative unrealised exchange rate differences from the revaluation of Bank of Russia foreign currency assets and liabilities by decision of the Bank of Russia Board of Directors, caused mostly by the fall of the official exchange rate of the dollar against the ruble in 2007 (Note 22).

13. INTEREST INCOME

	<i>(million rubles)</i>	
	2007	2006
Interest income from foreign currency loans and deposits	262,318	147,734
Interest income from securities	127,869	52,728
Interest income from ruble loans extended to credit institutions	343	31
Other	2,058	150
Total	392,588	200,643

Interest income from foreign currency loans and deposits mostly reflects interest received from Bank of Russia placements with non-resident banks, including interest received from placing funds through repo transactions with foreign securities, which amounted to 124,044 million rubles (69,614 million rubles in 2006). This item also includes interest income received by the Bank of Russia from placements made with non-residents through repo transactions, in which the Bank of Russia received from non-residents foreign securities as collateral for its placements and simultaneously raised funds from the same non-residents on the same terms and transferred to them other foreign securities from its portfolio as collateral for the funds raised (Notes 4, 9 and 17). In 2007, this income totalled 10,918 million rubles (12,611 million rubles in 2006). This item also comprises interest income from precious metal deposits to the amount of 774 million rubles (356 million rubles in 2006).

Interest income from securities includes interest received from foreign issuers' debt obligations acquired in the course of managing foreign exchange reserves, federal government debt obligations and debt obligations of other issuers acquired through repo transactions with residents.

The increase in interest income from foreign currency loans and deposits and securities is due to a growth in Bank of Russia gold and foreign exchange reserves (Note 4).

The increase in *interest income from ruble loans extended to credit institutions* is due to a growth in Bank of Russia loans to the banking sector in the reporting year, including loans covered by promissory notes, claims under loan agreements with enterprises and bank guarantees.

Other mostly includes interest income from accounts opened with non-resident banks.

14. INCOME FROM SECURITIES TRADING

	<i>(million rubles)</i>	
	2007	2006
Income from operations with foreign securities	62,938	48,455
Income from operations with Russian debt obligations	41,129	9,267
Total	104,067	57,722

Income from operations with foreign securities comprises income received from the sale and redemption of foreign securities.

Income from operations with Russian debt obligations includes income from the sale of federal loan bonds by the Bank of Russia on the domestic securities market and the positive revaluation of government securities in the trading book due to the increase in their market value, and also income from repo transactions with Russian securities and sums previously accounted for as deferred income and now recorded to income. The increase in income recorded under this item is mainly due to the revaluation of government securities in the Bank of Russia trading book.

15. INCOME FROM OPERATIONS WITH PRECIOUS METALS

	<i>(million rubles)</i>	
	2007	2006
Income from operations with precious metals	357	6,314
Total	357	6,314

Income from operations with precious metals includes income from the purchase and sale of precious metals on the domestic and foreign markets. The decrease in income recorded under this item was due to the contraction of the difference between the selling price and discount price of precious metals as of the transaction date, which resulted from the fact that on January 1, 2007, the Bank of Russia began to revalue the precious metal balances at discount prices and record the revaluation results to capital accounts (Statement of Bank of Russia reserves and funds, Table *Capital, funds and profit allocation*).

16. OTHER INCOME

	<i>(million rubles)</i>	
	2007	2006
Payment for settlement services provided by the Bank of Russia	1,764	1,403
Income from sale of coins made of precious metals	482	1,891
Income of past years discovered in reporting year	138	181
Fines and penalties received	26	27
Reimbursement of telegraph and other expenses by customers	11	11
Other	838	624
Total	3,259	4,137

Income from sale of coins made of precious metals reflects income from the sale on the domestic and international market of Russian coins made of precious metals. The decrease under this item was due to an increase in the price of precious metals delivered to the mints as feedstock on commission for the production of coins and, consequently, contained in the coins produced, because on January 1, 2007, the Bank of Russia began to revalue the precious metal balances at discount prices and record the revaluation results to capital accounts (Statement of Bank of Russia reserves and funds, Table *Capital, funds and profit allocation*).

17. INTEREST EXPENSES

	<i>(million rubles)</i>	
	2007	2006
Interest expenses on Stabilisation Fund balances	151,893	22,988
Interest expenses on deposits taken from banks on domestic market	12,615	3,464
Interest expenses on funds raised on international markets against the collateral of foreign currency-denominated securities	10,403	12,391
Other	56	247
Total	174,967	39,090

Interest expenses on the Stabilisation Fund are due to the payment by the Bank of Russia of interest accrued on the balances of the Stabilisation Fund foreign currency accounts. Russian Federation Government Resolution No. 229, dated April 21, 2006, 'On the Procedure for Managing the Stabilisation Fund of the Russian Federation,' stipulated that the Ministry of Finance should manage the Stabilisation Fund by using money from the Fund to acquire foreign exchange in US dollars, euros and British pounds and place it in accounts opened with the Bank of Russia, and by acquiring foreign government debt obligations (Note 9).

The increase in *Interest expenses on Stabilisation Fund balances* is due to a growth in balances of Stabilisation Fund accounts and an increase in the market value of securities included in indices used for calculation of interest expenses on the Stabilisation Fund.

The increase in interest expenses on deposits taken from credit institutions is due to the expansion of deposit operations and the rise in the Bank of Russia deposit interest rates on the domestic market, including auction deposit interest rates.

Interest expenses on funds raised on international markets against the collateral of foreign currency-denominated securities are interest paid by the Bank of Russia for raising non-resident funds through transactions in which the Bank of Russia transferred foreign securities from its portfolio to non-residents as collateral for the funds raised, and simultaneously placed funds with the same non-residents on the same terms, and received from them other foreign securities as collateral for the funds placed (Note 9). The decrease under this item is due to the reduction of interest rates on the US money market and the contraction of the average annual volume of operations.

18. EXPENSES ON SECURITIES TRADING

	<i>(million rubles)</i>	
	2007	2006
Expenses on operations with Russian debt obligations	21,802	11,970
Expenses on operations with foreign securities	15,238	4,754
Total	37,040	16,724

Expenses on operations with Russian debt obligations include expenses involved in the sale of federal loan bonds (OFZ) by the Bank of Russia on the domestic securities market and the negative revaluation of government securities in the trading book connected with the fall in their market value, and also expenses involved in OBR placements (sales) with an obligation to repurchase on the basis of the Bank of Russia irrevocable public offer and placements (sales) without the obligation to repurchase, which totalled 19,557 million rubles in 2007 (10,770 million rubles in 2006).

Expenses on operations with foreign securities comprise Bank of Russia expenses involved in the sale of foreign securities and the redemption of securities by foreign issuers. The increase under this item is due to the expansion of foreign exchange reserve operations.

19. CASH TURNOVER MANAGEMENT EXPENSES

This balance sheet item includes expenses involved in the manufacture and destruction of banknotes and coins, their protection against counterfeiting and the purchase and delivery of packaging materials and accessories necessary for the processing of cash.

Growth under this item is due to the growth in the production of banknotes and coins and the rise in the cost of their production.

20. EXPENSES ON OPERATIONS WITH PRECIOUS METALS

	<i>(million rubles)</i>	
	2007	2006
Expenses on operations with precious metals	1,351	104
Total	1,351	104

This item includes the expenses on transportation, insurance and customs clearance of precious metals taken out of Russia and the realised differences that arose from buying (selling) precious metals on the domestic and foreign markets at prices higher (lower) than the Bank of Russia discount prices.

The increase under this item is due to the rise in the price of precious metals resulting from the fact that on January 1, 2007, the Bank of Russia began to revalue the precious metal balances at discount prices and record the revaluation results to capital accounts (Statement of Bank of Russia reserves and funds, Table *Capital, funds and profit allocation*).

21. NET EXPENSES ON PROVISIONS/INCOME FROM THE RECOVERY OF PROVISIONS

	<i>(million rubles)</i>	
	2007	2006
Increase in provisions for securities	12,737	—
Increase in provisions for foreign exchange operations	(10,103)	(1,926)
Decrease in provisions for promissory notes acquired from credit institutions and for credit institutions' debt on other operations	(74)	(79)
Increase in provisions for Bank of Russia compensation payments to depositors of bankrupt banks	13	363
Decrease (increase) in provisions for other active operations	(3)	285
Total	2,570	(1,357)

The increase in provisions for securities is due to the creation of provisions for individual federal loan bond issues in the Bank of Russia trading book. The provision was created according to the Bank of Russia provisioning procedure at 20% of the excess of the balance sheet value of the bonds over their possible selling price (Note 6).

In 2007, the Bank of Russia made a provision of 7,038 million rubles (no such provision was made in 2006) to secure its pension obligations as of December 31, 2007, according to the indicative forecast made by a certified actuary as part of the actuarial valuation report for 2006. In line with the decision of its Board of Directors, the Bank of Russia used the provision to increase its supplementary pension fund (Note 11). For the purposes of these financial statements, provision expenses have been adjusted for this sum and shown in Note 23 *Other operating expenses*.

The decrease in provisions the Bank of Russia created earlier for foreign exchange operations is due to the settlement or partial repayment of debt to the Bank of Russia owed by credit institutions and the change in the official exchange rate of the ruble against foreign currencies.

The decrease in provisions for promissory notes acquired from credit institutions and for credit institutions' debt on other operations is due to the repayment of debt to the Bank of Russia by credit institutions under the promissory note assignment agreements.

Provisions for Bank of Russia compensation payments to depositors of bankrupt banks were made pursuant to the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System, Bank of Russia provisioning regulations and Bank of Russia Board of Directors' decisions.

22. EXPENSES ON NEGATIVE REVALUATION OF FOREIGN CURRENCY

	<i>(million rubles)</i>	
	2007	2006
Expenses on negative revaluation of foreign currency	165,740	88,624
Total	165,740	88,624

The accrued negative unrealised exchange rate differences in 2007 aggregated 165,740 million rubles and by decision of the Bank of Russia Board of Directors they were reimbursed and recorded to Bank of Russia expenses.

In 2006, the negative unrealised exchange rate differences aggregated 214,414 million rubles and they were reimbursed at the expense of the previously accrued exchange rate differences of 125,790 million rubles recorded to *Capital*, while the remaining 88,624 million rubles were recorded to Bank of Russia expenses.

23. OTHER OPERATING EXPENSES

	<i>(million rubles)</i>	
	2007	2006
Expenses on replenishment of supplementary pension funds	10,778	16,588
Depreciation deductions (Note 7)	8,491	8,071
Security expenses	2,891	2,679
Expenses on IT maintenance	2,869	2,490
Repair expenses	2,663	2,528
Expenses on delivery of bank documents and valuables	2,116	1,888
Expenses on maintenance of buildings	1,674	1,502
Taxes and duties paid	1,432	1,354
Postage, telegraph and telephone expenses and expenses on renting communication lines and channels	1,065	1,111
Net realised exchange rate differences	704	52
Expenses on foreign exchange operations	191	91
Other	5,418	4,378
Total	40,292	42,732

Additional funds were allocated to supplementary pension funds for Bank of Russia employees on the basis of the actuarial valuation report on the Bank of Russia pension obligations as of December 31, 2007, and pension expenses for 2007, made by an outside certified actuary. As of January 1, 2008, the Bank of Russia added to its supplementary pension funds a provision of 7,038 million rubles made in 2007 from Bank of Russia expenses to secure its obligations to the participants in the Bank of Russia Pension Plan and 3,740 million rubles in Bank of Russia expenses (Notes 11 and 21). For the purposes of these financial statements, the expenses on the provision for the Bank of Russia

pension obligations as of December 31, 2007, according to the indicative forecast made by a certified actuary as part of the actuarial valuation report for 2006, are shown in this Note as *Expenses on replenishment of supplementary pension funds*.

Net realised exchange rate differences mainly reflect the expenses involved in the purchase and sale of foreign currency by the Bank of Russia through transactions conducted on the domestic market as part of the monetary policy. Net negative realised exchange rate differences resulted from exchange rate fluctuations on world financial markets.

24. PERSONNEL COSTS

For explanation, see the Statement of Bank of Russia Personnel Costs.

25. OFF-BALANCE SHEET CLAIMS AND OBLIGATIONS ACCOUNTS

Claims and obligations on forward operations recorded in off-balance sheet accounts comprise:

	<i>(million rubles)</i>			
	2007		2006	
	Claims	Obligations	Claims	Obligations
Claims for delivery of foreign currency in spot transactions	13,489	—	—	—
Obligations to deliver foreign currency in spot transactions	—	(13,434)	—	—
Claims for delivery of foreign currency	8,472	—	18,372	—
Obligations to deliver foreign currency	—	(5,690)	—	(15,325)
Obligations to deliver precious metals	—	(2,546)	—	(3,025)
Claims for delivery of securities	—	—	103,074	—
Obligations to deliver ruble funds	—	—	—	(104,234)
Claims for delivery of funds in reverse part of repo transactions	15,227	—	27,716	—
Obligations to sell securities in reverse part of repo transactions	—	(15,622)	—	(28,414)
Unrealised exchange rate differences	104	—	1,836	—
Total	37,292	(37,292)	150,998	(150,998)

The increase in *Claims for delivery of foreign currency in spot transactions* and *Obligations to deliver foreign currency in spot transactions* is due to the conclusion of conversion spot transactions on the international financial market.

The decrease in *Claims for delivery of foreign currency*, *Obligations to deliver foreign currency* and *Obligations to deliver precious metals* is due to the reduction in the volume of conversion forward transactions on the international financial market and precious metal forward transactions (options).

The decrease in *Claims for delivery of securities* and *Obligations to deliver ruble funds* is due to a reduction in OBR sales with an obligation to repurchase and the absence of OBR placements with an obligation to repurchase at the end of the reporting year.

The decrease in *Claims for delivery of funds in reverse part of repo transactions* and *Obligations to sell securities in reverse part of repo transactions* is due to the reduction in repo transaction volumes (the purchase of Russian and other debt instruments with an obligation to resell) on the domestic securities market at the end of the year.

Other claims and obligations recorded in off-balance sheet accounts comprise:

	2007	2006
Securities accepted as collateral for loans extended	1,907,531	2,091,168
Securities transferred as collateral for loans received	171,085	78,345
Guarantees and sureties received by the Bank of Russia	25,441	7,686
Open credit lines	319	319
Unused credit lines	—	1

Securities accepted as collateral for the loans extended are mostly foreign securities received by the Bank of Russia through repo transactions with non-residents and recorded in off-balance sheet accounts at their nominal value. The corresponding funds placed with non-residents in repo transactions are shown in Note 4. The decrease is due to a reduction in the overall volume of foreign securities received by the Bank of Russia in open securities purchase transactions with an obligation to resell conducted on international financial markets.

Securities transferred as collateral for loans received are foreign securities transferred by the Bank of Russia in repo transactions with non-residents and recorded in off-balance sheet accounts at their nominal value.

Guarantees and sureties received by the Bank of Russia are the surety agreements accepted as security for the loans extended.

At the request of the supervisory authorities of the United Kingdom and Singapore, the Bank of Russia in 2005 confirmed for three years the validity of the letters of comfort (guarantees) issued to them earlier in respect to the London-based Moscow Narodny Bank (VTB Bank Europe).

26. EFFECT OF GLOBAL FINANCIAL MARKET TURMOIL ON BANK OF RUSSIA MANAGEMENT OF FOREIGN EXCHANGE RESERVES

The US mortgage market turmoil in 2007 increased the credit risks involved in the management of foreign exchange reserves by the Bank of Russia. To control the credit risks involved in investing foreign exchange reserves and bearing in mind the evolving situation, the Bank of Russia took the following measures:

- lowered credit limits for Bank of Russia counterparties in operations on foreign markets;
- reduced the number of Bank of Russia counterparties in deposit operations on foreign markets;
- reduced maximum deposit maturity periods;
- reduced the maximum share of deposits in Bank of Russia reserves;
- reduced investments in securities of individual US federal mortgage agencies;
- shortened the list of US federal mortgage securities that may be included in reserves to a specified term to redemption.

Consequently, during the reporting year the Bank of Russia took steps to reduce to a minimum the adverse impact of world capital market instability on the value of its foreign exchange reserves and keep them safe, liquid and profitable.

27. POST-ACCOUNTING DATE EVENTS

The taxes and duties paid from profit for 2007 upon the final settlement for the accounting tax period, the transfer to the federal budget and allocation of the actual profit for 2007 that remained after the payment of taxes and duties under the Tax Code of the Russian Federation, and the transfers to the federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) are recorded in the Bank of Russia accounting records in 2008.

Taxes and duties paid from Bank of Russia profit for 2007 on March 27, 2008, upon the final settlement totalled 2 million rubles (Statement of Profit and its Allocation, Table *Capital, funds and profit allocation*).

Pursuant to Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia transferred 12,225 million rubles to the federal budget (Statement of Profit and its Allocation, Table *Capital, funds and profit allocation*).

From the profit retained by the Bank of Russia, the Bank of Russia Board of Directors decided to transfer 11,736 million rubles to the Reserve Fund and 489 million rubles to the Social Fund (Statement of Profit and its Allocation, Statement of Bank of Russia Reserves and Funds, Table *Capital, funds and profit allocation*).

The amendments made to Regulation No. 66-P, approved by the Bank of Russia Board of Directors and endorsed by the National Banking Board, which came into force on January 1, 2008, changed the Bank of Russia accounting policy in respect to the evaluation of and accounting for securities and accounting for income and expenses.

Due to the evaluation by the Bank of Russia of some OFZ issues in its trading book at current (fair) value, 12,737 million rubles of provisions were recovered to income on March 31, 2008. These securities were classified as available for sale and the year-end result of their positive revaluation is to be recorded to Bank of Russia capital, whereas the result of their negative revaluation is to be recorded to Bank of Russia expenses.

In compliance with Russian Government resolutions, the Bank of Russia executed bank account agreements with the Federal Treasury, whereby the Bank of Russia opened foreign currency accounts for the Reserve Fund and the National Welfare Fund, to which the balances of the Stabilisation Fund accounts were transferred on January 30, 2008. The Stabilisation Fund accounts were closed on February 4, 2008.

STATEMENT OF PROFIT AND ITS ALLOCATION

	<i>(million rubles)</i>	
	2007	2006
1. Actual profit for the year	24,565	39,197
2. Taxes and duties paid from Bank of Russia profit under the Tax Code of the Russian Federation, total:	115	70
of which:		
— as advance payments in the reporting year	113	63
— upon the final settlement for the reporting year*	2	7
3. Profit after payment of taxes and duties under the Tax Code of the Russian Federation	24,450	39,127
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)*	12,225	19,564
5. Retained profit, total*	12,225	19,563
of which:		
— transferred to Reserve Fund	11,736	18,780
— transferred to Social Fund	489	783

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 the expenses involved in the fulfilment by the Bank of Russia of the functions assigned to it by Article 4 of the same law.

The Bank of Russia financial result for 2007 was mostly due to the continued rapid expansion of gold and foreign exchange reserves, the further strengthening of the ruble and the banking sector liquidity regulation operations conducted by the Bank of Russia as part of the monetary policy. In this situation, growth in income from gold and foreign exchange reserve placements was accompanied by a significant increase in the negative unrealised exchange rate differences from the revaluation of Bank of Russia foreign currency assets and liabilities, which were reimbursed entirely from Bank of Russia expenses due to the lack of accrued exchange rate differences. These factors and the increased expenses involved in operations conducted by the Bank of Russia using the instruments of monetary regulation, caused the reduction of Bank of Russia profit for the year as compared with Bank of Russia profit for the previous reporting year.

Bank of Russia profit for the year is allocated in line with the procedure established by Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), which stipulates that after the Bank of Russia annual financial statements are approved by the Bank of Russia Board of Directors, the Bank of Russia transfers to the federal budget 50% of its actual profit for the year that remains after the payment of taxes and duties under the Tax Code of the Russian Federation. Bank of Russia retained profit is transferred by its Board of Directors to various reserves and funds.

* Taxes and duties paid from reporting year profit under the Tax Code of the Russian Federation upon the final settlement for the accounting tax period and the allocation of actual profit for the year that remains after the payment of taxes and duties under the Tax Code of the Russian Federation are accounted for in the Bank of Russia balance sheet in the current year (Note 27 Post-accounting date events).

STATEMENT OF BANK OF RUSSIA RESERVES AND FUNDS

(million rubles)

	Reserve fund	Social fund	Accrued precious metal revaluation	Growth in property value after revaluation	Other funds	Total
Balance as of beginning of the reporting year inclusive of funds received due to allocation of profit for the year preceding the reporting year	88,156	4,503	—	7,965	95	100,719
Transferred to funds from other sources			359,731		3	359,734
Reserves and funds used		(1,386)			(16)	(1,402)
Balance as of beginning of the year following the reporting year	88,156	3,117	359,731	7,965	82	459,051
Transferred from reporting year profit*	11,736	489	—	—	—	12,225
Total inclusive of funds received due to allocation of reporting year profit	99,892	3,606	359,731	7,965	82	471,276

Pursuant to Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), after the approval of its annual financial statements by the Board of Directors the Bank of Russia transfers to reserves and various funds profit that remains at its disposal after the payment of taxes and duties under the Tax Code of the Russian Federation. The procedure for allocating 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 Procedure for Creating and Using the Bank of Russia Reserve Fund, the Bank of Russia forms the reserve fund with the objective of ensuring stability for the implementation of the functions assigned to it by law. The reserve fund is formed from Bank of Russia profit. By decision of the Bank of Russia Board of Directors, the Bank of Russia may also transfer to the reserve fund money from other funds and reserves that are part of Bank of Russia equity capital.

In line with the procedure for allocating profit retained by the Bank of Russia and the decision of the Bank of Russia Board of Directors, 11,736 million rubles were allocated to the reserve fund from Bank of Russia retained profit for 2007 (18,780 million rubles in 2006).

The 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, goes mainly to make one-off payments to Bank of Russia employees to meet their social needs.

The procedure for creating and spending the social fund is established by the Bank of Russia Regulation on the Creation and Use of the Social Fund of the Central Bank of the Russian Federation.

* The allocation of actual profit for the year retained after the payment of taxes and duties under the Tax Code of the Russian Federation and the transfers to the federal budget under Article 26 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) are recorded in the Bank of Russia accounting records in the current year (Note 27 Post-accounting date events).

In line with the procedure for allocating Bank of Russia retained profit and the decision of the Bank of Russia Board of Directors, 489 million rubles, or 4% of Bank of Russia retained profit for 2007, were transferred to the social fund in 2007 (783 million rubles in 2006).

According to the decision of the Bank of Russia Board of Directors, starting from January 1, 2007, precious metals are accounted for at discount price and revalued as the discount prices of precious metals are set. The excess of the positive unrealised differences over the negative unrealised differences in 2007 created an accrued precious metal revaluation of 359,731 million rubles, which was recorded to the balance sheet account *Accrued precious metal revaluation* as part of Bank of Russia capital.

The fixed asset revaluation fund is the increase in the value of property due to the revaluation of fixed assets conducted in compliance with the Russian Government resolution in 1992, 1994, 1995, 1996 and 1998.

**STATEMENT OF BANK OF RUSSIA MANAGEMENT OF SECURITIES
AND STAKEHOLDINGS IN THE CAPITAL OF COMPANIES
CONSTITUTING BANK OF RUSSIA PROPERTY**

BANK OF RUSSIA INVESTMENTS IN DEBT OBLIGATIONS AND PROMISSORY NOTES

	<i>(million rubles)</i>	
	2007	2006
Foreign issuers' foreign currency debt obligations, of which:		
USA and Canada debt obligations	3,634,160	1,550,267
— denominated in US dollars	3,630,562	1,546,769
— denominated in euros	3,598	3,498
EU debt obligations	2,970,215	1,242,092
— denominated in US dollars	63,552	30,237
— denominated in euros	2,344,150	826,088
— denominated in British pounds	562,513	385,767
Debt obligations issued by international organisations	80,443	31,541
— denominated in US dollars	30,679	9,603
— denominated in euros	49,764	21,938
Subtotal	6,684,818	2,823,900
Russian debt obligations and foreign debt obligations issued in Russia, of which:		
Federal government debt obligations	365,509	272,614
— denominated in rubles	241,440	191,905
— denominated in US dollars	124,069	80,709
Other Russian debt obligations	2,345	1,178
— denominated in rubles	2,345	1,178
Foreign debt obligations issued in Russia	1,461	—
— denominated in rubles	1,461	—
Credit institutions' promissory notes	27	27
Subtotal	369,342	273,819
Total	7,054,160	3,097,719

Foreign securities are mostly US treasuries and government debt obligations issued by Germany, France, Britain, Sweden, Belgium, the Netherlands, Austria, Spain, Finland and Ireland, 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 securities as a result of the expansion of foreign exchange reserves.

In 2007, the Bank of Russia continued to actively use market instruments of monetary regulation. Depending on the monetary situation on the domestic market, it either sterilised excess liquidity or supplied liquidity to credit institutions, using for this purpose government securities, Bank of Russia bonds and debt obligations of other issuers on the securities market. Specifically, the Bank of Russia

- bought government bonds for its trading book;
- sold government bonds from its trading book without an obligation to repurchase;
- bought securities with an obligation to resell for a term of 1 day and 7 days (repo operations);
- bought and sold Bank of Russia bonds placed with an obligation to repurchase by Bank of Russia public irrevocable offer and placed without an obligation to repurchase.

Federal government debt obligations denominated in rubles are represented by federal loan bonds (OFZ).

The Russian government debt obligations denominated in US dollars are the internal and external foreign currency loan bonds.

The principal factor of growth in the balance recorded under this item is the purchase of Russian government external foreign currency loan bonds on the domestic securities market and through repo transactions with residents with an obligation to resell.

Debt obligations recorded as *Other Russian debt obligations* are ruble-denominated bonds issued by regional governments and other Russian issuers and acquired by the Bank of Russia through repo transactions with residents with an obligation to resell.

Foreign debt obligations issued in Russia are bonds issued by the European Bank for Reconstruction and Development and acquired by the Bank of Russia through repo transactions with residents with an obligation to resell.

**BANK OF RUSSIA INVESTMENTS IN THE AUTHORISED CAPITAL
OF BANKS AND OTHER ORGANISATIONS**

(million rubles)

Title	2007		2006	
	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		4,866	
Sberbank	84,004	57.58	4,563	60.57
Moscow Interbank Currency Exchange (MICEX)	300	29.79	300	28.76
St Petersburg Currency Exchange (SPCEX)	3	8.90	3	8.90
Investments in non-resident shares, of which:	1,063		1,131	
Bank for International Settlements, Basel	1,062	0.59	1,130	0.59
Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T), Belgium	0.579	0.006	0.559	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 reduction of the Bank of Russia stake in the authorised capital of Sberbank is due to the acquisition by the Bank of Russia of Sberbank ordinary shares of an additional issue in the amount that was not enough to keep the Bank of Russia stake in Sberbank unchanged.

The expansion of the Bank of Russia stake in the authorised capital of MICEX is due to a reduction in the capital of the exchange as a result of the redemption of shares owned by MICEX.

STATEMENT OF BANK OF RUSSIA PERSONNEL COSTS

(million rubles)

Items of expenditure	2006	2007
Remuneration	35,437	29,732
Salary and other benefit accruals	5,835	5,344
Other benefits	3,548	2,358
Total Bank of Russia personnel costs	44,820	37,434

Bank of Russia personnel costs in 2007 increased by 7,386 million rubles, or 19.7% year on year; of this, remuneration increased by 5,705 million rubles, or 19.2%, salary accruals — by 491 million rubles, or 9.2%, and other employee benefits — by 1,190 million rubles, or 50.5%.

Remuneration expenses comprise: wages and salaries, seniority bonuses, hardship bonus payments to employees working in the Extreme North and similar regions under the applicable legislation, other bonus payments established by Bank of Russia regulations, annual paid leaves and study leaves, monthly bonus payments, year-end bonus payments and other benefits.

Other benefits provided to Bank of Russia employees under the applicable legislation are as follows: holiday and one-off emergency allowances, compensation of holiday travel expenses to employees working in the Extreme North and similar regions and non-working members of their families; compensation of travel expenses to employees working in the Extreme North and similar regions and members of their families moving 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 after 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 decreased by 4,443, or 5.7%, in 2007 and as of January 1, 2008, it stood at 72,942. The staff cutback is chiefly due to the implementation of measures to optimise the Bank of Russia structure, including the closure of 140 cash settlement centres.

The average monthly income of a Bank of Russia employee in 2007 was 44,441 rubles (35,459 rubles in 2006).

The average unified social tax rate was 16.3% in 2007 (17.8% in 2006). Deductions to the Social Insurance Fund for compulsory social insurance against employment injury and occupational disease were made at the established rate of 0.2%.

STATEMENT OF CAPITAL INVESTMENT BUDGET PERFORMANCE

(million rubles)

Capital investment	Approved for 2007	Actual amount in 2007	Actual amount in 2006
Capital investment	13,982	10,632	10,416
Capital investment in fixed assets, of which:	11,981	10,301	10,048
— capital investment in information technology	5,922	5,187	4,708
— capital investment in construction (reconstruction) and maintenance of Bank of Russia facilities (except cash turnover management)	3,293	2,990	3,314
— capital investment relating to cash turnover management	1,645	1,056	1,015
— capital investment relating to security and protection of Bank of Russia facilities	1,121	1,068	1,011
Capital investment in intangible assets	416	331	368
Centralised capital investment reserve	1,585	—	—
Other capital expenses	519	385	594
Total capital expenses	14,501	11,017	11,010

Capital investment in information technology and construction (reconstruction) and maintenance of Bank of Russia facilities account for the largest part of Bank of Russia capital investment (48.8% and 28.1%, respectively). Capital investment related to cash turnover management and capital investment related to security and the protection of Bank of Russia facilities account for 10.0% each, and capital investment in intangible assets — for 3.1%.

Capital investment in information technology in 2007 increased by 479 million rubles, or 10.2%, year on year and went to finance the maintenance of accounting operations systems; the transfer of Bank of Russia regional branches to the collective data processing system; the upgrading of collective data processing centres; the development of the automated banking electronic speed payment system; security and information safety; the replacement of obsolete computer and office equipment and the maintenance and modernisation of the Bank of Russia technical infrastructure.

Capital investment in construction (reconstruction) and maintenance of Bank of Russia facilities, excluding cash turnover management, comprises expenditures on the construction (reconstruction) of office buildings and other structures and the purchase of large-size appliances, equipment, furniture and transport vehicles. Compared to 2006, these expenses decreased by 324 million rubles, or 9.8%.

In 2007, the Bank of Russia financed 119 construction (reconstruction) projects, of which 24 projects were continued from the previous years, 47 were launched anew and 48 were in the blueprint stage.

Large-size appliances, equipment and furniture were purchased to fit out capital repair projects, replace expired-date equipment, appliances and furniture and install air conditioning and fire extinguishing systems in the offices equipped with information and telecommunications systems.

Capital investment related to cash turnover management in 2007 increased by 41 million rubles, or 4.0%, and comprised expenses on the construction and reconstruction of money vaults and cash centres (10 projects in all, of which four were continued from the previous years, two were launched from scratch and four were in the blueprint stage), the replacement of obsolete banknote counting and sorting machines, the purchase of facilities and equipment to automate cash operations and equip valuables vaults with standard demountable equipment and special-purpose transport vehicles, and the construction of special-purpose railway cars to carry reserves.

Capital investment related to security and the protection of Bank of Russia facilities increased by 57 million rubles, or 5.6%, in 2007 year on year, and went to replace expired-date fire alarm devices and to develop new security and surveillance systems.

Capital investment in intangible assets decreased by 37 million rubles, or 10.1%, in 2007, as compared to 2006, and was used to buy and develop new software products for IT systems and to provide security and safety of information that constitutes the intellectual property of the Bank of Russia.

Other capital expenses account for expenses to purchase software products (and the rights to use them) unrelated to intangible assets to support Bank of Russia activities and licences, certificates and permits with terms longer than one year.



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AUDITOR'S REPORT

on the Bank of Russia Annual Financial Statements as of January 1, 2008

To the Management of the Central Bank of the Russian Federation:

1. We have audited the attached Annual Financial Statements of the Central Bank of the Russian Federation (hereinafter referred to as the Bank of Russia) for the period from January 1, 2007, through December 31, 2007. Pursuant to Article 25 of Federal Law No. 86-FZ, dated July 10, 2002, 'On the Central Bank of the Russian Federation (Bank of Russia),' the Bank of Russia Annual Financial Statements denote: the annual balance sheet, 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 companies constituting Bank of Russia property, the statement of Bank of Russia personnel costs and the statement of capital investment budget performance (hereinafter all these statements are referred to as the Annual Financial Statements). The Annual Financial Statements have been prepared by Bank of Russia management on the basis of the accounting reports compiled in compliance with the requirements of Russian Federation legislation and Bank of Russia regulations. The Annual Financial Statements prepared on this basis differ significantly from the financial statements compiled according to International Financial Reporting Standards, especially in respect to the evaluation of assets and capital and recognition of liabilities.
2. Responsibility for compiling and presenting the Annual Financial Statements is borne by Bank of Russia management. Our duty is to express our opinion, based on the audit we have conducted, regarding the credibility of these Annual Financial Statements in all material respects and compliance of the accounting procedure with the requirements of Russian Federation legislation and Bank of Russia regulations in all material respects for the purposes of compiling the Annual Financial Statements.

The company is an authorised user of PricewaterhouseCoopers name and trademark.



3. We have conducted this audit in compliance with:

- the Federal Law on Auditing;
- the Federal Law on the Central Bank of the Russian Federation (Bank of Russia);
- the Federal Audit Rules (Standards);
- Bank of Russia regulations;
- international audit standards.

We planned and conducted our audit in compliance with the requirements of Russian legislation so as to be able to state with a fair degree of certainty that the Annual Financial Statements do not contain any material distortions. Pursuant to Russian legislation, our audit has been conducted on a selective basis and included an examination by testing proof that confirmed the numerical indicators and disclosure of information in the Annual Financial Statements about business activities of the Bank of Russia, an assessment of compliance with the accounting principles and rules used in preparing the Annual Financial Statements, an examination of the major estimated indicators received by Bank of Russia management in the course of compiling the Annual Financial Statements, and also an assessment of the general presentation of the Annual Financial Statements. We believe that allowing for the limitation placed on the scope of our work, described in paragraph 4 below, the audit we have conducted in compliance with the requirements of Russian Federation legislation gives us sufficient reason to express our opinion regarding the credibility of the Annual Financial Statements in all material respects and the compliance of the accounting procedure with the requirements of Russian Federation legislation and Bank of Russia regulations in all material respects for the purposes of compiling the Annual Financial Statements.

4. The scope of our work and the auditor's report were limited in respect to some balance sheet accounts and operations and profit and loss account, access to which was restricted by the provisions of Russian Federation Law No. 5485-1, dated July 21, 1993, 'On State Secrecy' (with subsequent amendments). Under Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the credibility of data cited below, which are included in the balance sheet and profit and loss account as part of the Bank of Russia Annual Financial Statements as of January 1, 2008, was confirmed by the Audit Chamber of the Russian Federation in its Statement of April 29, 2008, on the Results of the Examination of the Accounts and Operations of the Central Bank of the Russian Federation for 2007 Covered by Russian Federation Law No. 5485-1, Dated July 21, 1993, 'On State Secrecy'.

These accounts and operations within the Bank of Russia Annual Financial Statements as of January 1, 2008, comprise:

- assets totalling 88,920 million rubles;
- liabilities totalling 1,307 million rubles;
- income totalling 668 million rubles;
- expenses totalling 15,564 million rubles; and
- precious metal revaluation (positive differences) totalling 71,978 million rubles.



5. We believe that, leaving aside any adjustments that might have been necessary if there were no limitations to the scope of our work indicated above in paragraph 4 of this auditor's report, these Bank of Russia Annual Financial Statements as of January 1, 2008, reflect truly and fairly in all material respects the financial situation of the Bank of Russia as of January 1, 2008, and the financial results of its activity for the period from January 1, 2007, through December 31, 2007, pursuant to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Federal Law on Accounting and Regulation No. 66-P, dated January 1, 2006, on Accounting Rules of the Central Bank of the Russian Federation (Bank of Russia).

May 13, 2008

Director of Closed Joint-Stock Company
PricewaterhouseCoopers Audit

Y.V. Filippova

Auditor
(Certificate of Competence No. K 008368
issued on November 12, 2003, for an indefinite term)

T.A. Klyuchkina



THE AUDIT CHAMBER OF THE RUSSIAN FEDERATION

119992, Moscow, GSP-2, Zubovskaya St 2 Tel: 986-05-09, fax: 986-09-52

April 29, 2008

No. 06-83/06-03

S.M. Ignatiev,

Chairman,
Central Bank of the
Russian Federation

STATEMENT

on the Results of the Examination of the Accounts and Operations of the Central Bank of the Russian Federation for 2007 Covered by the Russian Federation State Secrecy Law

The Audit Chamber of the Russian Federation has examined the accounts and operations of the Central Bank of the Russian Federation for 2007 covered by the Russian Federation State Secrecy Law in line with the work schedule of the Audit Chamber of the Russian Federation for 2008 and pursuant to Article 25 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

Responsibility for compiling and presenting the annual financial statements and accounting reports is borne by the management of the Central Bank of the Russian Federation. The duty of the Audit Chamber of the Russian Federation is to draw up a statement upon the examination of the accounts and operations of the Central Bank of the Russian Federation covered by the Russian Federation State Secrecy Law on the credibility in all material respects of these statements and the compliance of the accounting procedure with Russian Federation legislation on the basis of this examination.

Responsibility for including information in the category of data covered by the Russian Federation State Secrecy Law and for dividing the authority of the Audit Chamber of the Russian Federation and the Bank of Russia Auditor of the Bank of Russia Annual Financial Statements for 2007 is borne by the management of the Central Bank of the Russian Federation.

The Audit Chamber of the Russian Federation conducted the examination of accounts and operations of the Central Bank of the Russian Federation for 2007 covered by the Russian Federation State Secrecy Law so as to become sufficiently convinced that the Bank of Russia consolidated annual balance sheet (in respect to sub-accounts and off-balance sheet accounts) as of January 1, 2008, consolidated profit and loss account for 2007 and statements that are part of the Bank of Russia Annual

Financial Statements for 2007 (in respect to the data that falls within the Audit Chamber competence) do not contain any significant errors and duly reflect in all material respects Bank of Russia assets and liabilities as of January 1, 2008, Bank of Russia income and expenses for 2007 in compliance with the Bank of Russia accounting policy.

Having examined the accounts and operations of the Central Bank of the Russian Federation for 2007 covered by the Russian Federation State Secrecy Law, the Audit Chamber of the Russian Federation confirms (in respect to the data that falls within its competence) the following:

the Bank of Russia annual balance sheet as of January 1, 2008 (balance sheet assets totalling 88,920 million rubles and balance sheet liabilities totalling 1,307 million rubles), profit and loss accounts for 2007 (income totalling 668 million rubles and expenses totalling 15,564 million rubles) and other statements included in the Bank of Russia Annual Financial Statements for 2007;

the precious metal revaluation (positive differences) for the reporting year totalling 71,978 million rubles as of January 1, 2008;

the consolidated annual balance sheet as of January 1, 2008 (in respect to sub-accounts and off-balance sheet accounts) and consolidated profit and loss account for 2007;

information on total Bank of Russia notes and coins of the 1997 issue (with the exception of coins containing precious metals and issued to mark anniversaries and other occasions) which should be in circulation as of January 1, 2008.

According to the accounting data of the Central Bank of the Russian Federation, a total of 4,124,236.3 million rubles of Bank of Russia notes and coins of the 1997 issue should be in circulation as of January 1, 2008 (with the exception of coins containing precious metals and issued to mark anniversaries and other occasions).

In the period from January 1, 2007, through December 31, 2007, the Bank of Russia put into circulation banknotes and coins (with the exception of coins containing precious metals and issued to mark anniversaries and other occasions) totalling 5,513,563.8 million rubles' worth and withdrew from circulation Bank of Russia notes and coins (with the exception of coins containing precious metals and issued to mark anniversaries and other occasions) totalling 4,455,638.3 million rubles' worth.

Consequently, in the period under review the amount of Bank of Russia notes and coins (with the exception of coins containing precious metals and issued to mark anniversaries and other occasions) in circulation increased by 1,057,925.5 million rubles.

This Statement of the Audit Chamber of the Russian Federation on the results of the examination of accounts and operations of the Central Bank of the Russian Federation for 2007 covered by the Russian Federation State Secrecy Law has been approved by the Collegium of the Audit Chamber of the Russian Federation (Protocol No. 17K (594) of April 25, 2008).

Auditor of the Audit Chamber
of the Russian Federation

V.P. Goreglyad

ADDENDA

IV

IV.1. PRINCIPAL MEASURES TAKEN BY THE BANK OF RUSSIA TO IMPLEMENT THE SINGLE STATE MONETARY POLICY IN 2007

MONETARY POLICY INSTRUMENTS AND MEASURES

REQUIRED RESERVES. For the purpose of improving the legal basis for regulating the required reserves and in connection with the Bank of Russia decisions to change the reserve requirements for credit institutions, the Bank of Russia issued the following documents:

- Ordinance No. 1826-U, dated May 14, 2007, 'On Setting Bank of Russia Required Reserve Ratios (Reserve Requirements)';
- Ordinance No. 1827-U, dated May 14, 2007, 'On Amending Bank of Russia Regulation No. 255-P, Dated March 29, 2004, on the Required Reserves of Credit Institutions';
- Ordinance No. 1891-U, dated October 10, 2007, 'On Setting Bank of Russia Required Reserve Ratios (Reserve Requirements)';
- Ordinance No. 1951-U, dated December 17, 2007, 'On Amending Bank of Russia Regulation No. 255-P, Dated March 29, 2004, on the Required Reserves of Credit Institutions'.

INTEREST RATES. As of the beginning of 2007, the Bank of Russia refinancing rate on overnight loans was 11.0% p.a. The Bank of Russia Board of Directors cut this rate to 10.5% p.a. effective from January 29, 2007, and to 10.0% p.a. effective from June 19, 2007 (Bank of Russia Ordinance No. 1788-U, dated January 26, 2007, and Ordinance No. 1839-U, dated June 18, 2007).

The Bank of Russia Board of Directors set the following maximum *deposit auction* cut-off rates:

- 9.0% p.a. on 4-week deposits;
- 10.0% p.a. on 3-month deposits.

The minimum 2-week *Lombard loan auction* cut-off rate was set at 7% p.a.

The minimum *repo auction* cut-off rates were set at:

- 6.0% p.a. for 1 day;
- 6.5% p.a. for 1 week;
- 9.0% p.a. for 3 months.

To expand the refinancing of the banking system, on November 28, 2007, the Bank of Russia began to extend 1-day Lombard loans at a fixed interest rate of 8.0% p.a. and to conduct repo transactions at the following fixed interest rates:

- 8.0% p.a. for 1 day;
- 7.0% p.a. for 1 week.

To contain growth in money supply, especially high in the first half of 2007, by more actively using liquidity absorption instruments, the Bank of Russia raised *fixed deposit interest rates* on operations conducted with credit institutions on standard terms (on April 2 and August 14, 2007). During the year these rates on deposits taken for one business day (tom-next and spot-next deposits) and demand deposits were raised from 2.25% to 2.75% p.a. and 1-week and spot-week deposits from 2.75% to 3.25% p.a. The average weighted interest rates on 4-week and 3-month deposit operations conducted by the Bank of Russia by auction also increased as compared with 2006.

To narrow the range of fluctuations in short-term market rates, on October 11, 2007, the Bank of Russia cut the interest rates on 7-day Lombard loans and currency swaps from 10% to 8% p.a.

REFINANCING OF CREDIT INSTITUTIONS. To upgrade the refinancing procedures and give credit institutions broader opportunities to receive liquidity, the Bank of Russia in 2007 drafted and enforced the following regulatory documents:

- Regulation No. 312-P, dated November 12, 2007, ‘On the Procedure for Extending Asset-Backed Loans to Credit Institutions by the Bank of Russia’;
- Ordinance No. 1904-U, dated November 12, 2007, ‘On Bank of Russia Requirements for the Accounting Indicators and Other Data on Companies Due on Promissory Notes (Loan Agreements) Provided by Credit Institutions as Security for Bank of Russia Loans’;
- Ordinance No. 1882-U, dated August 31, 2007, and Ordinance No. 1892-U, dated October 10, 2007, ‘On Amending Bank of Russia Ordinance No. 1601-U, Dated August 5, 2005, on the Terms and Conditions for Extending by the Bank of Russia to Credit Institutions Loans against the Collateral of Promissory Notes, Rights of Claim under Corporate Loan Agreements and Bank Guarantees’;
- Ordinance No. 1883-U, dated August 31, 2007, and Ordinance No. 1897-U, dated November 2, 2007, ‘On Amending Bank of Russia Ordinance No. 1482-U, Dated July 28, 2004, on the Securities Included in the Bank of Russia Lombard List’;
- Bank of Russia Orders No. OD-48, dated January 29, 2007, No. OD-275, dated April 12, 2007, No. OD-392, dated May 30, 2007, No. OD-535, dated July 25, 2007, No. OD-619, dated August 24, 2007, No. OD-712, dated October 5, 2007, and No. OD-935, dated December 21, 2007, ‘On the Bank of Russia Adjustment Ratios’;
- Bank of Russia Letters No. 8-T, dated January 29, 2007, No. 49-T, dated April 12, 2007, No. 80-T, dated June 8, 2007, No. 131-T, dated August 22, 2007, No. 145-T, dated September 13, 2007, No. 159-T, dated October 1, 2007, No. 175-T, dated November 13, 2007, and No. 185-T, dated November 29, 2007, ‘On Placing Securities on the Bank of Russia Lombard List’;
- Bank of Russia Letter No. 109-T, dated July 18, 2007, ‘On the Removal of Securities from the Bank of Russia Lombard List’;

- Bank of Russia Order No. OD-963, dated December 29, 2007, ‘On the Approval of the Form of Agreement on Over-the-Counter Repo Operations on the Domestic Over-the-Counter Market of the Russian Federation’, and Bank of Russia Order No. OD-962, dated December 29, 2007, ‘On the Bank of Russia Repo Operations with Credit Institutions on the Domestic Over-the-Counter Market’.

DEPOSIT OPERATIONS. To improve the regulation of the deposit operations it conducted with resident credit institutions in rubles, the Bank of Russia issued the following documents:

- Ordinance No. 1813-U, dated March 30, 2007, ‘On Setting Fixed Interest Rates on Deposit Operations’;
- Ordinance No. 1870-U, dated July 23, 2007, ‘On Amending Bank of Russia Regulation No. 203-P, Dated November 5, 2002, on the Procedure for Conducting Deposit Operations with Credit Institutions in Rubles by the Central Bank of the Russian Federation’;
- Ordinance No. 1875-U, dated August 13, 2007, ‘On Setting Fixed Interest Rates on Deposit Operations’;
- Letter No. 100-T, dated July 6, 2007, ‘On Appointing Bank of Russia Regional Branches and Organised Securities Market Clearing Centres as Assignees’;
- Letter No. 101-T, dated July 6, 2007, ‘On Securing Deposit Transactions Conducted through the MICEX Electronic Trading System in Connection with the Change in the Composition of the Organised Securities Market Clearing Centre Assignees’;
- Letter No. 05-13-4/2875, dated July 6, 2007, ‘On the Form of the Supplementary Agreement to the Agreement on the Fulfilment by the Organised Securities Market Clearing Centre of the Functions of the Assignee for Settlements in Deposit Transactions Concluded through the MICEX Electronic Trading System’;
- Letter No. 121-T, dated August 8, 2007, ‘On the Form of the Supplementary Agreement to the General Deposit Agreement’;
- Letter No. 122-T, dated August 8, 2007, ‘On Bringing the Effective General Deposit Agreements and General Agreements in Compliance

with Bank of Russia Regulation No. 203-P, Dated November 5, 2002, as Amended’.

IMPROVING FINANCIAL MARKET PERFORMANCE.

In the course of enhancing the effectiveness of the Russian financial market infrastructure and upgrading financial market instruments, the Bank of Russia participated in the drafting of federal laws ‘On Exchanges and Organised Trading’, ‘On Clearing Practices’, ‘On the Peculiarities of Securing the Fulfilment of Financial Obligations’, ‘On the Central Depository’ and ‘On Amendments to the Federal Law on the Securities Market’.

In collaboration with other government agencies the Bank of Russia took an active part in upgrading the legal regulation of the Russian financial market. As a result, in 2007 Article 1062 of the Civil Code of the Russian Federation was amended to extend court protection to transactions with the financial derivatives; the terms ‘sophisticated investor’ and ‘unsophisticated investor’ were introduced into Russian law and the specific features of the regulation of securities placement and trading among sophisticated investors, including information disclosure, were established.

RELATIONS WITH THE FEDERAL BUDGET AND GOVERNMENT NON-BUDGETARY FUNDS

To implement Federal Law No. 63-FZ, dated April 26, 2007, ‘On Amending the Budget Code of the Russian Federation in Respect to the Regulation of the Budget Process and Bringing Certain Laws of the Russian Federation in Compliance with the Budget Law of the Russian Federation’, and pursuant to the 2007 Federal Budget Law, in 2007 the Bank of Russia issued:

- Ordinance No. 1900-U, dated November 7, 2007, ‘On the Peculiarities of the Maintenance of the Federal Treasury Accounts in the Event of the Transfer of the Right to the Cash Execution of Regional and Municipal Budgets to Regional Executive Power Structures’;
- Letter No. 188-T, dated November 30, 2007, ‘On the Conditions Included in the Supplementary Agreements to the Bank Account Agreements Executed by the Bank of Russia with Regional Federal Treasury Departments in the Event of a Transfer to the Financial Authority of the Right to the Cash Execution of the Budget of the Region and the Budgets of the Municipalities within this Region’;
- Letter No. 189-T, dated December 3, 2007, ‘On Agreements on the Exchange of Electronic Messages in the Course of Effecting Settlements through the Bank of Russia Settlement Network in Case of Operations Conducted by the Regional Executive Power Body with the

Federal Treasury Accounts to Record Regional and Local Budget Funds’;

- Letters No. 08-22-2/1589, dated April 20, 2007, and No. 08-22-2/3109, dated June 23, 2007, which require Bank of Russia regional branches to present data on the state of the regional and local budget accounts opened in Bank of Russia institutions and credit institutions. The results of the study have been reported to the Ministry of Finance and the Federal Treasury;
- Ordinance No. 1829-U, dated May 18, 2007, ‘On Presenting Information about Accounts Opened for Federal Agencies, Financial Authorities and Recipients of Budget Funds in Bank of Russia Institutions and Credit Institutions and for Regional Federal Treasury Bodies’;
- Letter No. 19-T, dated February 20, 2007, on opening accounts for regional financial authorities in Bank of Russia institutions to record the funds budget-financed institutions receive on a temporary basis;
- Russian Federation Ministry of Finance and Bank of Russia Regulation No. 115n, No. 314-P, dated November 26, 2007, ‘On the Procedure for Completing Operations with 2007 Federal Budget Accounts Opened in Bank of Russia Settlement Divisions and Credit Institutions and their Branches’.

In addition, the Bank of Russia approved the following documents issued by the Finance Ministry in connection with the establishment of the

Reserve Fund and the National Welfare Fund and the closure of the Stabilisation Fund:

- Finance Ministry Order No. 5, dated January 16, 2008, 'On the Approval of the List of Foreign Government Agencies Whose Debt Obligations the Reserve Fund Can Invest In';
- Finance Ministry Order No. 5n, dated January 15, 2008, 'On the Approval of the Procedure for Calculating and Entering to Accounts Interest on the Funds Placed on Reserve Fund Accounts';
- Finance Ministry Order No. 22, dated January 24, 2008, 'On the Approval of the List of Foreign Government Agencies Whose Debt Obligations the National Welfare Fund Can Invest In';
- Finance Ministry Order No. 12n, dated January 24, 2008, 'On the Approval of the Procedure for Calculating and Entering to Accounts Interest on the Funds Placed on National Welfare Fund Accounts'.

In connection with the coming into force of Federal Law No. 269-FZ, dated December 30, 2006, 'On the Simplified Personal Income Declaration Procedure,' the Bank of Russia jointly with the Finance Ministry and the Federal Treasury sent to the establishments accountable to them Letter Nos. 03-04-08/01/7, 42-7.1-15/5.2-69 and 20-T, dated February 20, 2007, 'On the Procedure for Implementing Certain Provisions of Federal Law No. 269-FZ, Dated December 30, 2006, on the Simplified Personal Income Declaration Procedure,' which clarified the procedure for effecting income declaration payments by individuals.

To regulate the management of some types of budget revenues by the Bank of Russia, it issued the following documents:

- Ordinance No. 1851-U, dated July 3, 2007, 'On Amending Bank of Russia Regulation No. 300-P, Dated December 25, 2006, on the Procedure for Managing Certain Types of Budget Revenues by the Bank of Russia';
- Letter No. 129-T, dated August 17, 2007, on the procedure for filling in the Manager's Notice to specify the type and source of certain budget revenues managed by the Bank of Russia;
- Letter No. 61-T, dated May 3, 2007, 'On Implementing Measures to Identify Unidentified Budget Revenues';

- Letter No. 68-T, dated May 10, 2007, on sending to the Federal Treasury regional departments Bank of Russia Regulation No. 300-P, dated December 25, 2006, and Bank of Russia Order No. OD-122, dated March 21, 2006, as amended;
- Joint Federal Treasury and Bank of Russia Letter Nos. 42-7.1-15/5.2-73 and 21-T, dated February 22, 2007, which provided the Federal Treasury regional departments and Bank of Russia regional branches with a sample agreement on cooperation between the Federal Treasury regional departments and the Bank of Russia, designed to facilitate the management of certain types of budget revenues by the Bank of Russia;
- Letter No. 17-T, dated February 16, 2007, 'On Cooperation with the Federal Treasury in Managing Budget Revenues';
- Directive No. R-566, dated July 13, 2007, 'On Forecasting Certain Types of Federal Budget Revenues Managed by the Central Bank of the Russian Federation';
- Ordinance No. 1845-U, dated June 27, 2007, 'On Amending Bank of Russia Ordinance No. 1398-U, Dated March 22, 2004, on the List, Forms, Rules and Procedure for Compiling and Presenting Statements by Bank of Russia Divisions to the Central Bank of the Russian Federation', which introduced reporting form 0409930 *Report on federal budget revenues managed by the Bank of Russia*, effective from July 1, 2007. Beginning from August 1, 2007, this reporting form is sent monthly to the Audit Chamber of the Russian Federation and quarterly to the Federal Treasury.

To implement Federal Law No. 67-FZ, dated June 12, 2002, 'On the Main Guarantees of the Electoral Rights and the Right of Russian Federation Citizens to Participate in a Referendum' (as amended), the Bank of Russia approved the following regulations issued by the Central Election Commission of the Russian Federation:

- the procedure for opening, maintaining and closing special election accounts for the purpose of creating the election funds of political parties and their regional branches in the course of conducting campaigns to elect depu-

ties to the State Duma of the Federal Assembly of the Russian Federation, approved by Central Election Commission Resolution No. 4/25-5, dated April 18, 2007;

- the procedure for opening, maintaining and closing special election accounts for the purpose of creating the election funds of candidates in the course of conducting campaigns to elect the President of the Russian Federation, approved by Central Election Commission Resolution No. 6/52-5, dated May 3, 2007;
- the instruction on the procedure for opening and maintaining accounts and for accounting for and transferring funds allocated from the federal budget of the Central Election Commission to other election commissions or referendum commissions, approved by Central Election Commission Resolution No. 26/196-5, dated August 21, 2007.

The regulations issued by the Central Election Commission have been sent to Bank of Russia regional branches.

Bank of Russia Letter No. 154-T, dated September 28, 2007, instructed Bank of Russia regional branches to open accounts for the election commissions in line with the established procedure to ensure that they conduct operations with the federal budget funds allocated to them for the preparation and holding of the elections of deputies to the State Duma of the Federal Assembly of the Russian Federation of the fifth convocation and the President of the Russian Federation, and dispatch specialists upon request from regional election commissions to work as

members of the audit services attached to the corresponding commissions.

Pursuant to the Federal Law on the 2007 Budget of the Federal Compulsory Medical Insurance Fund and Russian Federation Government resolutions on the improvement of medical services provided to the public, the Bank of Russia sent the following instructions to its regional branches:

- Letter No. 43-T, dated April 5, 2007, 'On Accounting for the Subsidies and Funds Provided from the Federal Compulsory Medical Insurance Fund to its Regional Branches and Healthcare Institutions for the Supplementary Medical Examination of the Population and the Provision of First Aid Services';
- Letter No. 83-T, dated June 15, 2007, 'On Accounting for the Transfers from the Federal Compulsory Medical Insurance Fund to Healthcare Institutions for the Implementation of the Government Assignment to Provide Supplementary Medical Aid in 2007';
- Letter No. 153-T, dated September 28, 2007, 'On Accounting for the Transfers Made from the Federal Budget in 2007 to the Regional Branches of the Federal Compulsory Medical Insurance Fund for the Medical Examination of Orphaned Children and Children Left without Parental Care at In-patient Clinics and Boarding Schools';
- Letter No. 08-22-2/2579, dated June 21, 2007, 'On Accounting for Funds Transferred in 2007 to Finance the Implementation of the Pilot Healthcare Improvement Project in the Constituent Territories of the Russian Federation'.

FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

Exercising the powers given to it by Federal Law No. 173-FZ, dated December 10, 2003, 'On Foreign Exchange Regulation and Foreign Exchange Control,' the Bank of Russia in 2007 continued to ensure that the authorised banks properly control the foreign exchange operations conducted by their customers.

To this end, the Bank of Russia issued the following regulatory documents:

- Ordinance No. 1868-U, dated July 20, 2007, 'On the Presentation to the Authorised Banks by Resident Individuals of Documents Relating to the Conduct of Individual Foreign Exchange Operations', which contained an exhaustive list of documents that confirm kin relations between people conducting foreign exchange operations related to foreign currency transfers by resident individuals from

their accounts in the authorised banks to the accounts of other resident individuals, spouses or close relatives, opened in authorised banks or banks outside Russia;

- Ordinance No. 1869-U, dated July 20, 2007, ‘On Amending Bank of Russia Instruction No. 117-I, Dated June 15, 2004, on the Procedure for Presenting Documents and Information by Residents and Non-residents to Authorised Banks when Conducting Foreign Exchange Operations and the Procedure for Accounting for Foreign Exchange Operations and Filling in Operation IDs by Authorised Banks’ which cancelled the requirement to renew operation IDs opened earlier with an authorised bank in case of a change in the name of the authorised bank unrelated to its reorganisation and a change in the name of the authorised bank connected with its reorganisation in the form of transformation (change in the organisational structure and legal status of the bank);
- Regulation No. 308-P, dated July 20, 2007, ‘On the Procedure for Passing on Information by the Authorised Banks on Violations of Federal Foreign Exchange Legislation and Foreign Exchange Regulation Authorities’ Rules and Procedures by Individuals Conducting Foreign Exchange Operations’ which set the procedure for transmitting electronic messages to the foreign exchange control authority and established the formats of these messages transmitted by authorised banks in the course of per-

forming their functions of foreign control agents regarding the violations by their customers of federal foreign exchange laws and foreign exchange regulation authorities’ rules and procedures;

- Ordinance No. 1950-U, dated December 10, 2007, ‘On the Accounting Procedure for the Foreign Exchange Operations Conducted by Residents Other Than Credit Institutions and Currency Exchanges’ which listed documents that constitute foreign exchange operation accounting forms for residents other than credit institutions and currency exchanges.

To provide methodological assistance to its regional branches in preparing and conducting inspections of authorised banks, the Bank of Russia issued Letter No. 67-T, dated May 10, 2007, ‘On Methodological Recommendations on Inspections Conducted for the Purpose of Verifying Compliance by Authorised Banks and their Branches with the Procedure for Opening, Closing and Managing Exchange Offices and the Procedure for Conducting Individual Banking Operations and other Transactions with Private Individuals Involving Foreign Currency and the Russian Federation Currency and Cheques, Including Travellers’ Cheques, Whose Nominal Value is Expressed in Foreign Currency’. This document also contains recommendations on the verification of compliance of foreign currency and cheque operations with the laws on the prevention of money laundering and terrorist financing, especially in respect to customer identification.

IV.2. PRINCIPAL MEASURES TO UPGRADE BANKING REGULATION AND SUPERVISION IN 2007

The Bank of Russia implemented principal measures to upgrade banking regulation and supervision in 2007 in line with the Guidelines for the Single State Monetary Policy in 2007, the Action Plan for the Russian Federation Medium-term Social and Economic Development Programme (2006—2008) in the field of banking, the Prioritised Action Plan for the Implementation of the Russian Banking Sector Development Strategy until 2008 and the Russian Federation Government Lawmaking Plan until 2008.

The prime objective of the Bank of Russia actions aimed at upgrading banking regulation and supervision was to encourage substantive risk-based policies. For this purpose, the Bank of Russia took steps to further improve the regulatory framework of decision-making relating to the state registration of credit institutions, the licensing of banking activities, the evaluation of banking risk management and control, off-site supervision, inspection, financial rehabilitation and liquidation of credit institutions and the prevention of money laundering and terrorist financing.

LICENSING OF THE ACTIVITIES OF CREDIT INSTITUTIONS

In 2007, the Bank of Russia continued to optimise the procedure for registering credit institutions and licensing banking activities. It amended its Instruction No. 109-I, dated January 14, 2004, 'On the Bank of Russia Decision-Making Procedure Relating to the State Registration of Credit Institutions and Licensing of Banking Operations' (hereinafter referred to as Bank of Russia Instruction No. 109-I) to achieve the following objectives.

To encourage the expansion of banking services and make them more accessible to the public and businesses in all regions and to expand the retail banking networks of credit institutions and their branches, the Bank of Russia allowed credit institutions to open a new kind of internal division, the operations office. It also provided for the possibility of changing the status of a branch of a credit institution for that of an internal division in the course of optimising the regional network. In this case, the branch of a credit institution converted into its internal division may keep its branch correspondent sub-account for up to 180 calendar days from the moment the credit institution notified the Bank of Russia regional branch about the conversion. At the request of

credit institutions, in late 2007 the Bank of Russia extended this time period to 360 calendar days (Bank of Russia Ordinances No. 1794-U, dated February 21, 2007, and No. 1933-U, dated November 27, 2007).

To facilitate the capitalisation of credit institutions, the Bank of Russia by its Instruction No. 109-I extended the list of non-pecuniary properties that may be contributed to a credit institution's authorised capital by adding ATMs and terminals used by credit institutions in conducting cash operations. It also specified the list of documents a credit institution is required to submit to a Bank of Russia regional branch when selling additional shares to a wide range of acquirers. At the same time, the Bank of Russia set up a procedure for obtaining permission from bank managers for making public their full names and job titles in the *Bank of Russia Bulletin* and on the Bank of Russia official website. It removed the requirement for holding a joint shareholders' meeting of the credit institutions that are to be merged into a joint-stock company due to the removal of this requirement from the Federal Law on Joint-Stock Companies (Bank of Russia Ordinance No. 1828-U, dated May 14, 2007).

Bank of Russia Instruction No. 130-I, dated February 21, 2007, 'On the Procedure for Obtaining Bank of Russia Preliminary Consent to the Acquisition and (or) Receipt in Trust of Shares (Stakes) in a Credit Institution' (hereinafter referred to as Instruction No. 130-I) simplified the procedure for obtaining Bank of Russia preliminary consent to the acquisition and (or) receipt in trust by a person or group of persons of more than 20% of shares (stakes) in a credit institution. Specifically, Instruction No. 130-I set a limit on the amount of shares (stakes) acquired in a credit institution which, if exceeded, requires preliminary consent of the Bank of Russia; specified the cases in which Bank of Russia preliminary consent is considered received, and spelled out the specific procedure for obtaining Bank of Russia preliminary consent when shares in a credit institution are acquired in trades organised by a stock exchange or another trade organiser on the securities market or by auction when the price of the shares is established as a result of public offering.

In connection with the changes made in Article 61 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Article 11 of the Federal Law on Banks and Banking Activities, the Bank of Russia issued Ordinance No. 1810-U, dated March 28, 2007, 'On Amending Bank of Russia Instruction No. 128-I, Dated March 10, 2006, on the Rules of Issue and Registration of Securities by Credit Institutions in the Russian Federation' which set the requirement that the Bank of Russia should be notified about the acquisition and (or) receipt in trust by a person or group of persons of more than 1% of shares in a credit institution (Bank of Russia Ordinance No. 1828-U, dated May 14, 2007, made similar changes to Bank of Russia Instruction No. 109-I). In addition, the Bank of Russia specified the time period during which a credit institution may place additional shares and securities convertible into shares with individuals who have no pre-emptive right, and established the procedure for presenting for state registration a report on the results of the securities issue (additional issue) and abstracts of share purchasers' personal accounts confirming the receipt of investors' funds in rubles and (or) foreign currency.

Bank of Russia Regulation No. 307-P, dated July 20, 2007, 'On the Procedure for Recording and Presenting Data on Persons Affiliated with Credit Institutions' issued in connection with the coming into force of the Federal Law on the Protection of Competition to replace Bank of Russia Regulation No. 227-P, dated May 14, 2003, 'On the Procedure for Keeping and Providing Information on Persons Affiliated with Credit Institutions' settled problems involved in the application of the new procedures for creating groups of persons for the purpose of defining a group of persons to which a credit institution belongs and drawing up a list of persons affiliated with a credit institution.

Bank of Russia Ordinance No. 1790-U, dated January 26, 2007, 'On Invalidating Certain Provisions of Bank of Russia Regulation No. 437, Dated April 23, 1997, 'On the Specifics of the Registration of Credit Institutions with Foreign Investments and on the Procedure for Obtaining Bank of Russia Preliminary Permission to Increase the Authorised Capital of a Registered Credit Institution by Non-resident Funds' issued in connection with amendments made to Article 18 of the Federal Law on Banks and Banking Activities, lifted the requirement to obtain Bank of Russia preliminary permission to increase the authorised capital of a credit institution by non-resident funds and cancelled the provision that stipulated that the minimum authorised capital of a new subsidiary opened by a foreign bank should be determined by Bank of Russia regulations. Thus, the Bank of Russia established equal conditions for the acquisition of shares (stakes) in a credit institution by residents and non-residents for the purpose of increasing its authorised capital.

To speed up the process of putting into operation of new internal divisions of credit institutions, the Bank of Russia issued Ordinance No. 1863-U, dated July 11, 2007, 'On Amending Bank of Russia Regulation No. 271-P, Dated June 9, 2005, on Consideration of the Documents Submitted to a Bank of Russia Regional Branch for Taking a Decision on the State Registration of Credit Institutions, Issuing Banking Licences and Compiling Databases on Credit Institutions and their Divisions' which repealed the provisions that required the examination of vaults and cash depart-

ments of internal divisions for the purpose of verifying their compliance with the Bank of Russia requirements when Bank of Russia regional branches took decisions on the opening of new or relocation of existing internal divisions. Bank of Russia Ordinance No. 1754-U, dated December 11, 2006, 'On Amending Bank of Russia Instruction No. 109-I, Dated January 14, 2004, on the Bank of Russia Decision-making Procedure Relating to the State Registration of Credit Institutions and Licensing of Banking Operations' which came into force on January 1, 2007, made this examination a part of ongoing supervision conducted after the internal division has already become operational.

Bank of Russia Ordinance No. 1807-U, dated March 27, 2007, 'On the Bank of Russia Decision-making Procedure in Respect to State Registration of Changes Made to the Founding Documents of a Bank and the Issue of Banking Licences in Connection with the Receipt of the Bank's Request to Change its Status to That of a Non-bank Credit Institution' established the procedure for changing a bank's status to that of a non-bank credit institution in case of the bank's voluntary decision to do so and also in compliance with the requirements of Article 20 of the Federal Law on Banks and Banking Activities. The Ordinance also stipulated that the change of a bank's status to that of a non-bank credit institution is only possible if the bank is not liable to the revocation of the banking licence (for the purpose of imple-

menting bankruptcy-prevention measures) and if there is no evidence that the bank will not be able to observe the prudential standards after its status has been changed.

Bank of Russia Ordinance No. 1818-U, dated April 23, 2007, 'On Amending Bank of Russia Regulation No. 230-P, Dated June 4, 2003, on the Reorganisation of Credit Institutions in the Form of Merger and Acquisition' removed the requirement for credit institutions that had been established as joint-stock companies and were now being merged, to hold a joint shareholders' meeting. It also stipulated that the merger or acquisition agreement and the protocol of the shareholders' meeting of each credit institution being reorganised should contain provisions (decisions) required by the Federal Law on Joint-Stock Companies and the Federal Law on Limited Liability Companies.

In connection with the coming into effect on January 1, 2008, of Federal Law No. 231-FZ, dated December 18, 2006, 'On Putting into Effect Part Four of the Civil Code of the Russian Federation' which required changing Article 7 and Article 10 of the Federal Law on Banks and Banking Activities for the purpose of specifying the contents of the full and abridged title of a credit institution, the Bank of Russia amended 19 ordinances (Bank of Russia Ordinances Nos. 1919-U—1930-U, dated November 26, 2007, and Nos. 1932-U—1938-U, dated November 27, 2007).

MEASURES TO UPGRADE THE METHODOLOGIES OF ASSESSING, MANAGING AND SUPERVISING BANKING RISKS

To implement the provisions of Federal Law No. 247-FZ, dated December 29, 2006, 'On Amending Article 50.36 and Article 50.39 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and Article 72 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), the Bank of Russia issued Ordinance No. 1793-U, dated February 20, 2007, 'On Amending Bank of Russia Regulation No. 215-P, Dated February 10, 2003, on the Methodology for Determining the

Equity Capital of a Credit Institution', which specified and expanded the range of subordinated instruments included in the equity capital calculation. These amendments comply with international banking and supervisory practices and facilitate the capitalisation of the Russian banking sector.

To upgrade the methodology for calculating the required ratios by credit institutions and to improve supervision of their observance, the Bank of Russia in 2007 introduced the following changes:

- for the purpose of upgrading the required equity capital adequacy ratio (N1):
 - Bank of Russia Ordinance No. 1838-U, dated June 14, 2007, ‘On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on Banks’ Required Ratios’ classified credit institutions’ investments in federal government debt obligations as risk-free assets (Asset Group 1);
 - Bank of Russia Ordinance No. 1905-U, dated November 13, 2007, ‘On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on Banks’ Required Ratios’ stipulated that a reduced risk ratio of 20% should be applied to loan claims secured by the collateral of Bank of Russia bonds (Asset Group 3);
 - Bank of Russia Ordinance No. 1831-U, dated June 1, 2007, ‘On Amending Bank of Russia Instruction No. 112-I, Dated March 31, 2004, on the Required Ratios for Credit Institutions Issuing Mortgage-Backed Bonds’ established for credit institutions issuing mortgage-backed bonds the same equity capital adequacy ratio (N1) as for banks (previously it was 14%):
 - 10% for banks with an equity capital of no less than the ruble equivalent of 5 million euros;
 - 11% for banks with an equity capital of less than the ruble equivalent of 5 million euros.

This change became possible due to the amendment made to Federal Law No. 152-FZ, dated November 11, 2003, ‘On Mortgage Securities’ which stipulated that if the issuer of mortgage-backed bonds is declared insolvent (bankrupt), mortgage should be excluded from its property that constitutes bankruptcy assets. This amendment solved the problem of providing additional protection to investors and precluded the use of an indirect means of protecting investors such as tightening the financial soundness requirements for banks that issue mortgage-backed securities.
- for the purpose of upgrading the methods of evaluating and controlling bank liquidity (instant liquidity ratio N2 and current liquidity ratio N3) and determining maximum risk per borrower or group of related borrowers (N6 ratio):
 - Bank of Russia Ordinance No. 1838-U, dated June 14, 2007, ‘On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on Banks’ Required Ratios’ specified the assets that are classified as highly liquid and liquid and added to these assets the debt obligations of the World Bank Group (International Bank for Reconstruction and Development and International Finance Corporation) and the European Bank for Reconstruction and Development, securities on the Bank of Russia Lombard List and loans in the portfolio of homogeneous loans with a reserve of no more than 20%;
 - Bank of Russia Ordinance No. 1905-U, dated November 13, 2007, ‘On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on Banks’ Required Ratios’ removed from the obligations included in the calculation of instant and current liquidity ratios bank obligations to the Bank of Russia and (or) counterparty banks secured by the collateral of highly liquid and liquid securities, and specified the policies on including repo transactions with highly liquid and liquid securities in the calculation of the liquidity ratios. This Ordinance also stipulated that the N6 ratio should not be calculated for credit institutions that are members of a banking group that incorporates the creditor bank.

In connection with the introduction of a new accounting procedure by Bank of Russia Regulation No. 302-P, dated March 26, 2007, ‘On the Accounting Rules in the Credit Institutions Incorporated in the Russian Federation’ (hereinafter referred to as Regulation No. 302-P), including the introduction from January 1, 2008, of the accrual method of income and expense accounting, the Bank of Russia made the following amendments to its documents regulating credit, market and currency risks and to the calculation of the equity capital of credit institutions:

 - Bank of Russia Regulation No. 313-P, dated November 14, 2007, ‘On the Procedure for Calculating Market Risk by Credit Institutions’ established in connection with the introduction of the new accounting rules for se-

- curities and forward transactions, the procedure for calculating market risk in respect to the financial instruments that have a current (fair) value, financial instruments denominated in a foreign currency and (or) a precious metal and forward transactions (futures contracts);
- Bank of Russia Ordinance No. 1837-U, dated June 14, 2007, 'On Amending Bank of Russia Resolution No. 283-P, Dated March 20, 2006, on the Loss Provisioning Procedure for Credit Institutions' set up the procedure for making loss provisions for claims on interest income from loans, which the bank considers definite. In addition, it specified the provisioning procedure for forward transactions, whereby no loss provisions are made for the forward transactions concluded on organised trading floors or for over-the-counter forward transactions in which counterparties effect/receive intermediate payments (variation margin);
 - Bank of Russia Ordinance No. 1832-U, dated June 1, 2007, 'On Amending Bank of Russia Instruction No. 124-I, Dated July 15, 2005, on Setting Limits on Open Currency Positions, the Methodology for Calculating them and the Specifics of Supervision over Compliance with them by Credit Institutions' specified the procedure for calculating the open currency positions in regard to ruble positions, which depend on foreign currency exchange rate fluctuations and changes in the discount prices of precious metals. In addition, it clarified the procedure for calculating currency risk in respect to the off-balance sheet instruments when the pledge accepted as collateral for the funds placed is included in the calculation of the open currency positions;
 - Bank of Russia Ordinance No. 1940-U, dated November 28, 2007, 'On Amending Bank of Russia Regulation No. 215-P, Dated February 10, 2003, on the Methodology for Determining the Equity Capital of Credit Institutions' reinstated the principle of including in the equity capital calculation the results of the revaluation of securities, which was used before Bank of Russia Regulation No. 302-P came into effect. Specifically, the positive results of the revaluation of securities at their current (fair) value, included in the sum total of the sources of capital, and the negative ones, which reduce the sum total of the sources of capital, are taken account of in calculating equity capital only inasmuch as they are the result of the application of intrabank methodologies that use average weighted prices in securities trading on the organised securities market.

OFF-SITE SUPERVISION

To improve supervision, encourage credit institutions to evaluate their condition in substance rather than form and implement risk-based supervision, the Bank of Russia issued Regulation No. 310-P, dated September 7, 2007, 'On the Curators of Credit Institutions' which set up the procedure for appointing employees of Bank of Russia regional branches as curators of credit institutions and established their duties, powers and responsibility and personal and professional requirements to them.

Due to the changes in the accounting rules in credit institutions (Bank of Russia Regulation No. 302-P) and in reporting forms and the procedure for compiling and presenting them to the

Bank of Russia (Bank of Russia Ordinance No. 1881-U, dated August 31, 2007, 'On Amending Bank of Russia Ordinance No. 1376-U, Dated January 16, 2004, on the List, Forms and Procedure for Compiling and Presenting Reporting Forms to the Central Bank of the Russian Federation by Credit Institutions') the Bank of Russia specified:

- the procedure for compiling consolidated statements, including the core principles of compiling consolidated statements and their structure, the methods of consolidating statements and the procedure for including data reported by individual group members in the consolidated statements, the account-

ing policy principles of a group in respect to compiling consolidated statements, and the requirements for the presentation and content of explanatory notes to consolidated statements (Bank of Russia Ordinance No. 1858-U, dated July 9, 2007, 'On Amending Bank of Russia Regulation No. 191-P, Dated July 30, 2002, on Consolidated Statements');

- the procedure for recording indicators on non-credit institutions-group members and calculating individual consolidated statement indicators for the group as a whole and for its members, both credit and non-credit institutions (Bank of Russia Ordinance No. 1859-U, dated July 9, 2007, 'On Amending Bank of Russia Regulation No. 246-P, Dated January 5, 2004, on the Procedure for Compiling Consolidated Statements by the Parent Credit Institution within a Banking/Consolidated Group');
- the procedure for calculating the financial result of a bank, used in calculating group profitability assessment indicators and the procedure for calculating individual group indicators, including the income structure, expense structure, net interest margin and net credit spread indicators (Bank of Russia Ordinance No. 1861-U, dated July 10, 2007, 'On Amending Bank of Russia Ordinance No. 1379-U, Dated January 16, 2004, on the Assessment of Financial Soundness of a Bank for the Purpose of Ascertainning its Adequacy for Participation in the Deposit Insurance System');

To optimise the procedure for compiling statements by credit institutions, the Bank of Russia issued Letter No. 192-T, dated December 4, 2007, 'On the Application of Individual Provisions of Bank of Russia Instruction No. 63, Dated July 2, 1997, on the Procedure for Conducting Trust Banking Operations and Accounting for these Operations by Credit Institutions in the Russian Federation,' which repealed the requirement for credit institutions to present to the Bank

of Russia information about the trust manager credit institution.

To provide methodological aid to its regional branches, the Bank of Russia issued the following documents:

- Letter No. 166-T, dated October 19, 2007, 'On the Methodology for Determining Costs (Losses) Connected with Business Development' which specified the structure of a bank's expenses that may be related to costs (losses) connected with business development and may not be taken account of in compiling the indicator 'financial performance of a bank' according to clause 5.2.1. of Bank of Russia Ordinance No. 1379-U, dated January 16, 2004, 'On the Assessment of Financial Soundness of a Bank for the Purpose of Ascertainning its Adequacy for Participation in the Deposit Insurance System';
- Letter No. 147-T, dated September 14, 2007, 'On Handling Individual Appeals (Complaints)';
- Letter No. 156-T, dated October 1, 2007, 'On the Application of Bank of Russia Regulation No. 254-P, Dated March 26, 2004, and Federal Anti-Monopoly Service and Bank of Russia Joint Letter No. IA7235/No.77-T, Dated May 26, 2005' which set out the principles of using sanctions against credit institutions for failure to disclose the effective interest rate and suggested the methodology for analysing credit institutions' activities on the consumer loan market;
- Letter No. 228-T, dated December 29, 2007, 'On Consumer Lending' (on the application of Part 1 and paragraph four of Part 2 of Article 10 of the Russian Federation Consumer Protection Law);
- Letter No. 11-T, dated February 7, 2007, 'On the List of Questions for the Assessment of Corporate Governance by Credit Institutions';
- Letter No. 173-T, dated November 2, 2007, 'On the Basel Committee Recommendations on "Compliance and Compliance Function in Banks".'

MEASURES TO UPGRADE INSPECTION

To improve the procedure for organising and conducting inspections, the Bank of Russia issued the following documents in 2007:

- Ordinance No. 1814-U, dated March 30, 2007, ‘On Amending Bank of Russia Instruction No. 105-I, Dated August 25, 2003, on the Procedure for Conducting Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation’;
 - Ordinance No. 1815-U, dated March 30, 2007, ‘On Amending Bank of Russia Instruction No. 108-I, Dated December 1, 2003, on Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)’;
 - Ordinance No. 1819-U, dated April 24, 2007, ‘On Amending Bank of Russia Instruction No. 108-I, Dated December 1, 2003, on Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)’;
 - Ordinance No. 1820-U, dated April 24, 2007, ‘On Amending Bank of Russia Ordinance No. 1542-U, Dated January 13, 2005, ‘On the Specifics of Conducting Inspections of Banks with the Participation of Deposit Insurance Agency Employees’.
- To enhance the effectiveness of inspections, the Bank of Russia sent out the following documents to its regional branches:
- Official Clarification No. 33-OR, dated December 7, 2007, ‘On the Application of Certain Clauses of Bank of Russia Instruction No. 105-I, Dated August 25, 2003, on the Procedure for Conducting Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation’;
 - Letter No. 26-T, dated March 23, 2007, ‘On Methodological Recommendations on Conducting Inspections of the Banking Risk Management System in a Credit Institution or a Branch of a Credit Institution’;

- Letter No. 77-T, dated June 1, 2007, ‘On Methodological Recommendations on Organising and Conducting Inspections of Credibility of Accounting and Statements of a Credit Institution or a Branch of a Credit Institution’;
- Letter No. 86-T, dated June 27, 2007, ‘The Recommended Sample Structure and Contents of a Report of Inspections of a Credit Institution or a Branch of a Credit Institution’;
- Letter No. 199-T, dated December 10, 2007, ‘On Methodological Recommendations on Inspections Conducted to Verify Compliance with the Required Reserve Ratios by Credit Institutions’.

To improve the procedure for drafting, registering and presenting organisational and executive documents compiled in the course of organising and conducting inspections of credit institutions and their branches, the Bank of Russia issued:

- Letter No. 116-T, dated August 3, 2007, ‘On the Registration of Documents Relating to the Organisation and Conduct of Inspections of Credit Institutions and their Branches’;
- Letter No. 177-T, dated November 14, 2007, ‘On Recommendations on Compiling and Presenting Electronic Documents (and their Copies) Drawn up in the Course of Organising and Conducting Inspections of Credit Institutions and their Branches’;
- Administrative Department and Main Inspectorate Joint Letter No. 10-1/2640, dated June 18, 2007, ‘On the Registration of Documents on Inspections of Credit Institutions in the Automated Record Keeping and Document Turnover System of Regional Branches’;
- Main Inspectorate Letter No. 25-3-7/1934, dated November 19, 2007, ‘On the Cancellation of Bank of Russia Documents Regulating the Compilation and Presentation of Electronic Documents (and their Copies) Drawn up in the Course of Organising and Conducting Inspections of Credit Institutions and their Branches’.

FINANCIAL REHABILITATION AND LIQUIDATION OF CREDIT INSTITUTIONS

Bank of Russia Regulation No. 301-P, dated January 16, 2007, 'On the Procedure for Compiling and Presenting the Interim Liquidation Balance Sheet and Liquidation Balance Sheet of a Credit Institution Being Liquidated and Agreeing them with the Bank of Russia Regional Branch,' which replaced Bank of Russia Regulation No. 125-P, dated October 4, 2000, 'On the Procedure for Compiling the Interim Liquidation Balance Sheet and Liquidation Balance Sheet of a Credit Institution and Agreeing them with Bank of Russia Regional Branches' set up the procedure for monitoring the liquidation of a credit institution, including the reporting of individual indicators that characterise the liquidation process.

Bank of Russia Regulation No. 306-P, dated July 3, 2007, 'On Bank of Russia Inspections of Receivers and Liquidators of Credit Institutions' issued to replace Bank of Russia Regulation No. 132-P, dated January 17, 2001, 'On Bank of Russia Inspections of Receivers and Liquidators of Bankrupt Credit Institutions' established the grounds and procedure for appointing and conducting inspections of receivers (liquidators) of credit institutions and described the measures that may be taken as a result of the inspections.

The issue of Bank of Russia Regulation No. 302-P required amending Bank of Russia Regulation No. 279-P, dated November 9, 2005, 'On the Provisional Administration of a Credit Institution', Bank of Russia Regulation No. 301-P, dated January 16, 2007, 'On the Procedure for Compiling and Presenting the Interim Liquidation Balance Sheet and Liquidation Balance Sheet of a Credit Institution Being Liquidated and Agreeing them with the Bank of Russia Regional Branch', Bank of Russia Ordinance No. 1594-U, dated July 14, 2005, 'On the List, Forms and Procedure for Compiling and Presenting Statements by Credit Institutions Being Liquidated to the Central Bank of the Russian Federation' and Bank of Russia Ordinance No. 1260-U, dated March 24, 2003, 'On the Procedure for Matching the Authorised Capital of a Credit Institution with its Equity Capital' which excluded from the Chart of Accounts cer-

tain financial performance accounts, changed the titles of some balance sheet accounts and closed a number of balance sheet accounts (Bank of Russia Ordinances Nos. 1854-U—1856-U, dated July 5, 2007, and No. 1867-U, dated July 20, 2007). Bank of Russia Ordinance No. 1867-U also stipulated that the amounts by which the authorised capital of a credit institution is reduced may be used to cover the previous year's loss or the uncovered loss approved by the annual shareholders' meeting or to increase the current year's income.

Bank of Russia Ordinance No. 1853-U, dated July 5, 2007, 'On the Specifics of Conducting Settlement Operations by a Credit Institution after the Revocation of the Banking Licence and on the Accounts Used by the Receiver (Liquidator and Liquidation Commission)' set up the procedure for implementing the provisions of the laws on the liquidation of credit institutions in respect to the use of accounts by receivers, liquidators and liquidation commissions and by the Deposit Insurance Agency in the course of fulfilling its functions of receiver.

Bank of Russia Ordinance No. 1874-U, dated August 13, 2007, 'On Dealing with Credit Institutions that Had their Banking Licences Revoked (Cancelled) by Bank of Russia Regional Branches and Settlement Divisions' set up the procedure for cooperation between Bank of Russia divisions and credit institutions being liquidated, including the liquidation commissions, liquidators, receivers and Deposit Insurance Agency representatives implementing liquidation procedures in credit institutions.

Bank of Russia Ordinance No. 1899-U, dated November 6, 2007, 'On Amending Bank of Russia Regulation No. 265-P, Dated December 14, 2004, on the Accreditation of Arbitration Managers at the Bank of Russia as the Receivers of Bankrupt Credit Institutions' drafted in compliance with the requirements of the Federal Personal Data Law, stipulated that the arbitration managers who have applied for Bank of Russia accreditation as receivers of bankrupt credit institutions must give permission to the Bank of Russia to process, publish in the *Bank of Russia Bulletin* and post on the Bank of Russia official website their personal data.

MAINTAINING THE CENTRAL CATALOGUE OF CREDIT HISTORIES

In Bank of Russia Ordinance No. 1821-U, dated April 25, 2007, 'On the Procedure for Filing Requests and Receiving Information from the Central Catalogue of Credit Histories by a Credit History Maker through a Post Office', the Bank of Russia and the Ministry of Information Technology and Communications of the Russian Federation established the procedure for filing requests and receiving information from the Central Catalogue of Credit Histories (CCCH) by credit history makers about the credit bureau where their credit histories are kept through a post office (telegraph office) without using the credit history maker's code.

Bank of Russia Ordinance No. 1860-U, dated July 9, 2007, 'On Keeping the Credit Bureaus'

Databases in the Central Catalogue of Credit Histories' set up the procedure for receiving credit histories by the CCCH from trade organisers and credit bureaus, the rules on temporary storage in the CCCH databases of liquidated and reorganised credit bureaus and credit bureaus struck off the state register under Part 10 of Article 15 of the Federal Law on Credit Histories, the procedure for passing on information from credit histories kept in the CCCH to individuals in compliance with the federal law, the procedure for transferring (retiring) credit histories to the organiser of trades (tender) for subsequent transfer to the credit bureau that has won the trades (tender), and the procedure for cancelling credit histories upon the expiry of their term of storage in the CCCH.

PREVENTING MONEY LAUNDERING AND TERRORIST FINANCING

In 2007, the Bank of Russia continued to carry out the tasks and fulfil the functions assigned 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). It paid special attention to the elaboration of recommendations aimed at enhancing the effectiveness of credit institutions' efforts to prevent money laundering and terrorist financing and recommendations for regional branches of the Bank of Russia on the inspection of credit institutions in this area, and the use of information received from the Federal Financial Monitoring Service (Rosfinmonitoring) for supervisory purposes.

Specifically, the Bank of Russia issued the following documents:

- Letter No. 1-T, dated January 10, 2007, 'On Recommended Methodologies for Conducting Inspections of Credit Institutions' Activities Aimed at Detecting, Recording and Presenting to the Authorised Agency Information on Cash Operations Subject to Mandatory Con-

— Letter No. 44-T, dated April 5, 2007, 'On the Inspection of the Identification by Credit Institutions of Customers Served Using Electronic Banking Technology' which describes how Bank of Russia regional branches should establish facts of use of electronic banking, including Internet banking, by credit institutions in servicing their customers and how they should assess identification of customers under Federal Law No. 115-FZ;

- Letter No. 51-T, dated April 12, 2007, 'On the Use of Information Received from Rosfinmonitoring' which contains recommendations on the procedure for the use for supervisory purposes by regional branches of the Bank of Russia of the information they receive from Rosfinmonitoring on the observance by credit institutions of the requirements of Federal Law No. 115-FZ;

- Letter No. 69-T, dated May 11, 2007, ‘On the Statement by the Wolfsberg Group and the Clearing House Association LLC’ which contains information on the joint statement by these two institutions on payment message standards designed to make cross-border electronic transfers by financial institutions more transparent;
- Letter No. 74-T, dated May 18, 2007, ‘On Suspect Operations Conducted through Correspondent Accounts of OAO RK Amanbank’ which contains recommendations for Bank of Russia regional branches on the supervision of credit institutions that have established correspondent relations with this non-resident bank;
- Letter No. 79-T, dated June 6, 2007, ‘On Transferring Information to Rosfinmonitoring’ which contains recommendations for Bank of Russia regional branches on the procedure for transferring to Rosfinmonitoring information and documents it needs to fulfil its functions;
- Letter No. 155-T, dated September 28, 2007, ‘On Invalid Passports’ which informs Bank of Russia regional branches and credit institutions that they can use information about invalid passports, posted by the Federal Migration Service on its official website, for the purposes of customer identification;
- Letter No. 170-T, dated October 30, 2007, ‘On the Specific Procedure for Accepting for Banking Servicing Non-resident Corporate Entities that Are not Russian Taxpayers’ which gives recommendations to credit institutions on how they should open and maintain bank accounts for such customers;
- Letter No. 182-T, dated November 26, 2007, ‘On Invalid Passports’ which deals with the procedure for using information posted on the official site of the Federal Migration Service.

UPGRADING THE LEGISLATIVE FRAMEWORK OF OPERATION OF CREDIT INSTITUTIONS AND BANKING REGULATION AND SUPERVISION AUTHORITIES

In 2007, the Bank of Russia took part in drafting the following federal laws that came into effect last year:

- Federal Law No. 248-FZ, dated November 2, 2007, ‘On Amending Article 29 of the Federal Law on Banks and Banking Activities’ which added a new clause to Article 29 of the Law, stipulating that a bank cannot unilaterally reduce the term of a deposit agreement with an individual before the expiry of its term, or cut the interest rate set in the agreement, or charge or increase the commission for transactions, except for the cases established by the federal law;
- Federal Law No. 325-FZ, dated December 4, 2007, ‘On Amending Article 36 of the Federal Law on Banks and Banking Activities’ which stipulated that a newly registered bank or a bank registered less than two years ago may be licensed to take household deposits on two conditions: 1) the authorised capital of a newly registered bank or the equity capital of an operating bank is no less than the ruble equivalent of 100 million euros and 2) the bank complies with the Bank of Russia requirement to disclose information about individuals who exert directly or indirectly material influence on the decisions taken by its management;
- Federal Law No. 82-FZ, dated May 17, 2007, ‘On the Development Bank’ and Federal Law No. 83-FZ, dated May 17, 2007, ‘On Amending Certain Laws of the Russian Federation in Connection with the Adoption of the Federal Law on the Development Bank’ which amended the Federal Law on Banks and Banking Activities, giving the Development Bank the right to conduct banking operations under the Federal Law on the Development Bank and stipulating that the Bank of Russia establishes specific accounting rules for the Development Bank;
- Federal Law No. 214-FZ, dated July 24, 2007, ‘On Amending Certain Laws of the Russian Federation in Connection with the

Adoption of the Federal Law on Amending the Code of Criminal Procedure and the Federal Law on the Prosecutor's Office' which amended Article 26 of the Federal Law on Banks and Banking Activities, stipulating that a credit institution submits statements of operations and accounts of corporate entities, unincorporated entrepreneurs and individuals to the investigating authorities on the cases they are investigating with the consent of the head of the investigation department rather than the prosecutor, as was the case before the amendments were made. In addition, the amendments to Article 27 of the Federal Law on Banks and Banking Activities stipulated that money and other valuables of corporate entities and individuals in accounts, on deposits and in safekeeping in a credit institution may be arrested by a court of law, an arbitration court, a judge or the investigating authority by a court ruling;

- Article 26 of the Federal Law on Banks and Banking Activities was amended for the second time in 2007 in connection with the adoption of Federal Law No. 225-FZ, dated October 2, 2007, 'On Amending Certain Laws of the Russian Federation', which, in turn, was passed in connection with the adoption of the new version of the Federal Law on Court Enforcement Action. This law extended the list of persons and organisations to which a credit institution should give statements of operations and accounts of corporate entities, unincorporated entrepreneurs and individuals by adding to it court action and other enforcement authorities in cases established by the laws that regulate their activities.

In 2007, the Bank of Russia took part in drafting federal laws relating to various spheres of activity of credit institutions:

- the Law on Consumer Lending, drafted by a group of State Duma deputies;
- the Law on Consumer Loans, drafted by the Finance Ministry;
- the Law on Amending Part 2 of the Civil Code of the Russian Federation and the Federal Law on Banks and Banking Activities (concerning the early return of a deposit to a depositor by a bank);
- the Law on Amending Article 13.1 of the Federal Law on Banks and Banking Activities

(concerning the settlement of relations between a commercial enterprise other than a credit institution and a person who provides services or carries out work for which a fee is charged under federal legislation (e-mail services, housing and utility services);

- the Law on Amending the Federal Law on Insolvency (Bankruptcy) of Credit Institutions (concerning the legal regulation of the securitisation of credit institutions' assets, framework agreements on the derivatives market and investments in the general bank management funds);
- the Law on Amending the Federal Law on Joint-stock Companies and the Federal Law on Limited Liability Companies, which changed the procedure for merging joint-stock companies and limited liability companies;
- the Law on Amending the Civil Code of the Russian Federation, the Federal Law on Limited Liability Companies and the Federal Law on Joint-stock Companies, which revised the requirement that a share or stake in the authorised capital of a limited liability company should have a nominal value;
- the Law on Amending the Federal Law on the Securities Market, which settled some problems relating to the regulation of securities management;
- the Law on Amending the Code of Administrative Offences of the Russian Federation, which increased administrative responsibility for the violation of federal laws on joint-stock companies, limited liability companies, the securities market and investment funds, especially the Federal Law on the Securities Market, as it specified and described in detail the signs of price manipulation on the securities market;
- the Law on Amending Article 59 of Part One of the Tax Code of the Russian Federation, which made it possible to write off bad debt that resulted from the write-offs of funds from taxpayers' settlement accounts to tax payments and which were not transferred to the budget because of the lack of funds in the correspondent accounts of the banks that were liquidated when the decision to recognise the debt as bad was taken;
- the Law on Amending Article 76 of Part One of the Tax Code of the Russian Federation,

- which specified the procedures for suspending operations with bank accounts of corporations and unincorporated entrepreneurs;
- the Law on Amending the Federal Law on Insolvency (Bankruptcy), which changed the ranking of creditors;
 - the Law on Education Loans;
 - the Law on Building Societies;
 - the Law on Amending the Civil Code of the Russian Federation and some other federal laws, drafted to eliminate discrepancies in these laws;
 - the Law on Amending Article 339 of the Civil Code of the Russian Federation, which specified the procedure for registering motor vehicle mortgage agreements;
 - the Law on Amending the Federal Law on Banks and Banking Activities, which simplified the procedure for reorganising credit institutions, making them more transparent and protecting the interests of the reorganised credit institutions and their creditors;
 - the Law on Amending the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), which legitimised the processing of personal data of bank managers and other persons by the Bank of Russia;
 - the Law on Amending the Federal Law on Banks and Banking Activities, which made some changes to the qualification requirements for the managers of non-bank credit institutions;
 - the Law on Amending the Federal Law on Banks and Banking Activities, which increased five-fold the minimum authorised capital requirement for a newly registered non-bank settlement credit institutions to 2.5 million euros;
 - the Law on Amending the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), which specified the requirements for the executives and members of the board of directors (supervisory board) of credit institutions, granting to the Bank of Russia the right to establish criteria of their business reputation;
 - the Law on Amending the Federal Law on Joint-stock Companies, which specified the procedure for disclosing information about the ownership structure of joint-stock companies;
 - the Law on Amending Certain Federal Laws, which revised, among other things, the restrictions on the issue of bonds by credit institutions;
 - the Law on Amending the Federal Law on the Securities Market, which set the requirements for the nominee holders of securities to disclose to the Bank of Russia and credit institutions information about the persons in whose interest they are holding these securities;
 - the Law on Amending Article 25 and Article 27 of the Federal Law on the Securities Market, which is designed to simplify the issue of securities and provides for the implementation of additional measures to facilitate the capitalisation of credit institutions and create favourable conditions for the public offering of shares by credit institutions;
 - the Law on Amending the Federal Law on Insolvency (Bankruptcy) and the Federal Law on Insolvency (Bankruptcy) of Credit Institutions, which improved the procedure for disputing debtors' transactions in the course of bankruptcy proceedings and initiating vicarious liability proceedings against persons who have or had the right to give binding instructions to the debtor.
- The Bank of Russia also examined the following draft concepts and terms of reference for draft federal laws:
- the Law on Amending the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), which increased the role and responsibility of the board of directors (supervisory board) of a credit institution and granted to the Bank of Russia the right to assess corporate governance in credit institutions;
 - the Law on Amending the Civil Code of the Russian Federation, the Federal Law on Joint-stock Companies and Other Federal Laws, which specified the procedure for regulating the structure and powers of the management of joint-stock companies;
 - the draft development concept for Rosselkhozbank for the period until 2015;
 - the Law on Microfinance Enterprises.

IV.3. STATISTICAL TABLES

List of Tables

1. Key macroeconomic indicators	184
2. Consumer prices by group of goods and services	184
3. Consumer price inflation structure	185
4. Gross value added structure by economic activity in basic prices	185
5. Structure of GDP calculated by income consumption method in current market prices	186
6. GDP consumption elements in comparable prices	186
7. GDP formation structure by source of income	186
8. Balance of household money income and expenses in Russia	187
9. Differentiation of population by income	188
10. Major financial performance indicators of large and medium-sized enterprises in 2007	189
11. Payments for produce shipped (work performed and services provided) by major taxpayers and industrial monopolies	190
12. Russia's merchandise trade	191
13. Commodity structure of Russian exports	192
14. Commodity structure of Russian imports	193
15. Russia's exports to major trading partners	194
16. Russia's imports from major trading partners	196
17. Russia's foreign trade in services by group of countries in 2006—2007	198
18. Structure of Bank of Russia customers other than credit institutions and number of accounts opened for them	199
19. Russia's domestic government debt structure as of January 1, 2008 (at par)	199
20. Finance Ministry debt to the Bank of Russia as of January 1, 2008	200
21. Volume (turnover) of resident operations with non-residents to buy and sell Russian government outstanding foreign currency debt obligations on secondary market in 2007 (at market prices)	200
22. Institutionalised financial intermediaries	201
23. Russian government outstanding foreign currency-denominated loan bonds (as of January 1, 2008)	201
24. Russia's balance of payments for 2007 (analytical presentation)	202
25. Private sector net capital inflow (outflow) (according to balance of payments data)	205

26. Cross-border operations by residents and non-residents	206
27. Cross-border remittances via money transfer systems and Russia's Postal Service	207
28. Functional structure of foreign investment in Russia in 2007	208
29. Functional structure of Russian resident investment in foreign assets (except reserves) in 2007	208
30. Russian banking sector international investment position (as of January 1, 2007, and January 1, 2008)	209
31. Russian banking sector foreign assets and liabilities on interbank operations by group of countries as of January 1, 2008	211
32. Russia's international reserves in 2007	212
33. Bank of Russia foreign exchange reserve portfolio asset yields in 2007	212
34. Key ruble exchange rate indicators in 2007	213
35. Russia's foreign debt in 2007	214
36. Russia's foreign debt in 2007 (analytical presentation)	216
37. Key economic development indicators of Russia's leading trading partners in 2005—2007	217
38. CIS countries' key monetary indicators in 2007	219
39. Money supply (national definition)	220
40. Average monthly rates of growth in money supply in 2007	220
41. M2 structure	220
42. Monetary base and its structure	221
43. Monetary survey	221
44. Credit institutions' analytical accounts	222
45. Corrective measures taken against credit institutions in 2007	223
46. Russian payment system key indicators	224
47. Bank of Russia payment system	226
48. Note structure of Bank of Russia banknotes in circulation	227
49. Structure of Bank of Russia coins in circulation	227
50. Bank of Russia stakeholdings in Russian and foreign credit institutions and other organisations	228

Table 1

KEY MACROECONOMIC INDICATORS
(in comparable prices, as % of previous year)

	2005	2006	2007
Gross domestic product	106.4	107.4	108.1
of which:			
agriculture, hunting and forestry	101.1	103.6	103.1
hydrocarbon production and mining	100.5	101.6	100.3
manufacturing	106.0	102.9	107.4
production and distribution of electric power, gas and water	101.2	104.7	98.1
construction	110.5	111.6	116.4
wholesale and retail trade, and other	109.4	114.6	112.9
transport and communications	106.2	109.6	107.7
GDP deflator index	119.2	115.7	113.5
Consumer price index (December on previous December)	110.9	109.0	111.9
Fixed capital investment	110.9	116.7	121.1
Retail trade turnover	112.8	114.1	115.9
Unemployment rate according to ILO methodology, as % of economically active population, annual average	7.6	7.2	6.1

Table 2

CONSUMER PRICES BY GROUP OF GOODS AND SERVICES
(growth, December as % of previous December)

	2005	2006	2007
Consumer prices, total	10.9	9.0	11.9
of which:			
food prices	9.6	8.7	15.6
of which:			
food prices exclusive of vegetable and fruit prices	9.1	8.5	14.9
vegetable and fruit prices	14.3	10.3	22.2
non-food prices	6.4	6.0	6.5
paid services provided to the public	21.0	13.9	13.3
Prices of goods and services included in calculation of core consumer price index (CCPI)	8.3	7.8	11.0

Note. Tables 1, 2 and 3 are based on Rosstat data as of May 6, 2008, and Bank of Russia calculations.
Tables 4 to 11 are based on Rosstat data as of May 6, 2008.

Table 3

CONSUMER PRICE INFLATION STRUCTURE

	2006		2007	
	growth in percentage points	% contribution to growth	growth in percentage points	% contribution to growth
Headline inflation (December on December)	9.0	100.0	11.9	100.0
Inflation growth due to:				
change in prices of goods and services included in CCPI calculation	6.1	67.1	8.7	72.8
change in prices of goods and services not included in CCPI calculation	3.0	32.9	3.2	27.2
of which:				
change in vegetable and fruit prices	0.4	4.6	0.9	7.2
change in administered service and fuel prices	2.6	28.3	2.4	20.1

Table 4

GROSS VALUE ADDED STRUCTURE BY ECONOMIC ACTIVITY IN BASIC PRICES (%)

	2005	2006	2007
Gross value added	100.0	100.0	100.0
of which:			
agriculture, hunting and forestry	5.1	4.7	4.4
hydrocarbon production and mining	11.0	10.9	10.1
manufacturing	18.6	17.8	18.5
production and distribution of electric power, gas and water	3.3	3.2	3.0
construction	5.3	5.2	5.7
wholesale and retail trade, and other	19.2	20.2	20.2
transportation and communications	10.1	9.7	9.2
other activities	27.4	28.3	28.9

Table 5

STRUCTURE OF GDP CALCULATED BY INCOME CONSUMPTION METHOD IN CURRENT MARKET PRICES (%)

	2005	2006	2007
GDP calculated by income consumption method	100.0	100.0	100.0
Expenditure on final consumption	66.2	65.7	66.5
of which:			
household sector	49.0	48.1	48.2
government sector	16.6	17.1	17.8
non-profit organisations providing services to households	0.6	0.6	0.5
Gross capital formation	20.1	21.4	24.7
of which:			
gross fixed capital formation (including net acquisition of valuables)	17.8	18.6	21.2
change in inventories	2.3	2.9	3.5
Net exports of goods and services	13.7	12.8	8.8

Table 6

GDP CONSUMPTION ELEMENTS IN COMPARABLE PRICES (as % of previous year)

	2005	2006	2007
Gross Domestic Product	106.4	107.4	108.1
of which:			
expenditure on final consumption	108.8	108.9	110.6
by household sector	111.8	111.2	112.8
by government sector	101.3	102.5	105.0
by non-profit organisations providing services to households	81.4	99.8	99.3
gross capital formation (including net acquisition of valuables)	109.5	118.3	122.6
net exports of goods and services	88.1	84.4	71.9

Table 7

GDP FORMATION STRUCTURE BY SOURCE OF INCOME (%)

	2005	2006	2007
Gross Domestic Product	100.0	100.0	100.0
of which:			
remuneration of hired workers (including unreported earnings)	43.8	44.1	45.6
net taxes on production and imports	19.6	20.0	18.9
gross profit and gross mixed incomes	36.6	35.9	35.5

Table 8

BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENSES IN RUSSIA (million rubles)

	2006	2007	2007 as % of 2006
Money income	17,289,937.8	21,223,532.3	122.8
Wages and salaries	11,236,996.8	14,939,973.5	133.0
% share	65.0	70.4	
Social allowances	2,080,397.9	2,317,789.7	111.4
% share	12.0	10.9	
Income from entrepreneurial activities	1,915,107.7	2,118,305.0	110.6
% share	11.1	10.0	
Income from property	1,720,654.6	1,423,131.3	82.7
% share	10.0	6.7	
Other income	336,780.8	424,332.8	126.0
% share	1.9	2.0	
Money expenses	13,740,495.7	17,453,425.8	127.0
— consumer expenses	11,927,464.9	14,792,389.9	124.0
— compulsory payments and contributions	1,813,030.8	2,661,035.9	146.8
Growth in savings and cash on hand, purchase of foreign currency	3,549,442.1	3,770,106.5	106.2
— savings*	1,785,556.9	1,908,768.9	106.9
of which:			
— deposits and securities	1,172,389.9	1,397,922.1	119.2
— foreign currency purchase	1,180,016.9	1,105,189.5	93.7
— cash on hand	583,868.3	756,148.1	129.5
For the record:			
% share of money income			
— consumer expenses	69.0	69.7	
— compulsory payments and contributions	10.5	12.5	
— savings	10.3	9.0	
of which:			
— deposits and securities	6.8	6.6	
— foreign currency purchase	6.8	5.2	
— cash on hand	3.4	3.6	
Disposable money income	15,765,041.5	19,029,259.8	120.7
% share of			
— consumer expenses	75.7	77.7	
— savings	11.3	10.0	
of which:			
— deposits and securities	7.4	7.3	
— foreign currency purchase	7.5	5.8	
— cash on hand	3.7	4.0	
— remittances	1.8	2.5	

* Savings include increase (decrease) in deposits, purchase of securities, change in accounts of self-employed entrepreneurs, change in debt on loans and purchase of real estate.

Table 9

DIFFERENTIATION OF POPULATION BY INCOME

	2005	2006	2007
Funds ratio, times*	14.9	16.0	16.8
Gini coefficient, units**	0.406	0.416	0.422

* 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.

** The Gini coefficient (income concentration index) shows the extent to which the actual distribution of household incomes 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 2007 (as % of 2006)

	Net financial result	Working assets			Payables		Receivables	
		total	of which:		total	of which overdue	total	of which overdue
			short-term financial investment	cash				
Total	117.7	135.0	146.5	121.7	138.4	101.4	140.5	85.3
Agriculture, hunting and forestry	172.1	130.3	144.2	147.8	109.1	70.4	133.1	95.7
Hydrocarbon production and mining	126.2	123.4	113.0	95.3	125.4	143.5	139.4	125.3
of which:								
fuel and energy production	128.7	122.5	112.6	91.5	128.8	149.0	141.8	128.4
Manufacturing	118.9	133.6	152.6	112.7	129.6	92.9	113.2	47.3
Production and distribution of electric power, gas and water	101.9	164.8	346.8	208.8	130.9	95.0	141.9	99.5
Construction	153.2	156.8	121.0	132.2	182.2	128.5	163.1	135.6
Wholesale and retail trade, and other	116.5	135.7	166.4	104.9	149.7	123.4	150.6	113.2
Transport and communications	166.1	123.3	195.0	135.3	119.7	86.4	156.4	98.4

Table 11

**PAYMENTS FOR PRODUCE SHIPPED (WORK PERFORMED AND SERVICES PROVIDED)
BY MAJOR TAXPAYERS AND INDUSTRIAL MONOPOLIES**

	2007		As % of 2006
	billion rubles	structure of payments, %	
Value of produce shipped	16,837.0		118.5
of which:			
paid-for produce	15,550.0	100.0	117.6
of which produce paid for with:			
money	15,366.0	98.8	122.0
promissory notes	18.3	0.1	8.6
transfer of rights of claim on pecuniary obligations	5.4	0.0	94.2
netting of claims	134.9	0.9	38.2
barter arrangements	4.2	0.0	44.3
other kinds of settlement	21.2	0.2	101.8

Table 12

RUSSIA'S MERCHANDISE TRADE
(according to balance of payments methodology)

	Billion US dollars							As % of previous year						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
All countries														
Turnover	155.6	168.3	212.0	280.6	369.2	467.8	578.9	103.8	108.1	126.0	132.4	131.6	126.7	123.7
Exports	101.9	107.3	135.9	183.2	243.8	303.6	355.5	97.0	105.3	126.7	134.8	133.1	124.5	117.1
Imports	53.8	61.0	76.1	97.4	125.4	164.3	223.4	119.8	113.4	124.8	128.0	128.8	131.0	136.0
Balance	48.1	46.3	59.9	85.8	118.4	139.3	132.0	80.0	96.3	129.2	143.4	137.9	117.7	94.8
Non-CIS countries														
Turnover	127.3	139.7	175.6	230.5	313.8	400.4	493.3	104.2	109.7	125.6	131.3	136.1	127.6	123.2
Exports	86.6	90.9	114.6	153.0	210.2	260.2	301.6	95.4	105.0	126.0	133.5	137.4	123.7	115.9
Imports	40.7	48.8	61.0	77.5	103.5	140.2	191.7	129.6	119.9	124.9	127.0	133.6	135.4	136.7
Balance	45.9	42.1	53.6	75.5	106.7	119.9	110.0	77.3	91.8	127.2	140.9	141.3	112.4	91.7
CIS countries														
Turnover	28.3	28.5	36.4	50.1	55.4	67.4	85.6	102.3	100.8	127.7	137.5	110.7	121.6	127.0
Exports	15.3	16.4	21.4	30.2	33.5	43.4	53.8	107.2	107.2	130.4	141.4	111.1	129.3	124.1
Imports	13.0	12.2	15.1	19.9	21.9	24.0	31.8	97.1	93.2	124.1	131.9	110.1	109.8	132.1
Balance	2.2	4.2	6.3	10.3	11.7	19.3	22.1	271.1	189.5	148.7	164.2	113.0	166.0	114.1

Note. Total exports for 2003 in Tables 12, 13 and 15 include the value of crude oil exported in 2003 and cleared by customs in January 2004.

Table 13

COMMODITY STRUCTURE OF RUSSIAN EXPORTS
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
Total	100	100	100	100	100	100	100	97	107	126	135	133	125	117
Mineral products,	54.7	55.2	57.6	57.8	64.8	65.9	64.8	98	108	132	136	149	127	115
of which:														
— fuel and energy products	54.1	54.6	57.0	57.2	64.0	65.4	64.1	99	108	132	135	149	127	115
of which:														
— oil	25.0	27.3	29.5	32.5	34.6	34.0	34.5	99	116	136	149	141	123	119
— natural gas	17.8	14.9	14.9	12.0	13.0	14.5	12.7	107	89	126	109	144	140	102
Metals, metal products	14.7	14.1	13.8	16.7	14.0	13.7	14.1	84	103	123	164	111	122	121
Chemicals, rubber	10.4	9.4	8.9	7.7	5.6	5.6	5.9	115	96	119	117	96	117	124
Machinery, equipment, transport vehicles	7.5	6.9	6.8	6.6	5.9	5.8	5.5	101	99	124	131	120	129	113
Timber and pulp-and-paper products	4.4	4.6	4.2	3.9	3.4	3.2	3.5	99	111	114	126	118	115	129
Foodstuffs, agricultural raw materials (except textiles)	1.9	2.6	2.5	1.8	1.9	1.8	2.6	117	148	122	96	137	122	165
Gemstones, precious metals and articles made of them	4.1	4.5	3.9	3.5	2.8	2.6	1.9	83	116	109	122	107	114	88
Textiles, textile products, footwear	0.8	0.8	0.7	0.6	0.4	0.3	0.3	98	111	107	118	86	100	96
Leather, furs and articles made of them	0.2	0.3	0.2	0.2	0.1	0.1	0.1	85	117	124	107	93	111	91
Other goods	1.3	1.6	1.4	1.2	1.1	1.0	1.3	87	129	117	113	117	125	140
For the record:														
Total exports, billion US dollars (Source: Federal Customs Service)	100.0	106.7	134.5	181.7	241.5	301.2	352.6							

Table 14

COMMODITY STRUCTURE OF RUSSIAN IMPORTS
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
Total	100	100	100	100	100	100	100	124	110	124	132	131	140	145
Machinery, equipment, transport vehicles	34.0	36.3	37.4	41.1	44.0	47.7	51.0	134	118	128	145	140	151	155
Foodstuffs and agricultural raw materials (except textiles)	22.0	22.5	21.0	18.3	17.7	15.7	13.8	125	113	116	115	126	124	128
Chemicals, rubber	18.2	16.7	16.8	15.8	16.5	15.8	13.8	126	101	124	124	136	134	126
Metals, metal products	7.2	6.3	7.2	7.7	7.5	7.5	7.9	110	97	141	141	127	140	153
Textiles, textile products, footwear	5.5	5.3	4.8	4.3	3.7	4.0	4.3	115	106	114	118	111	152	157
Timber and pulp-and-paper products	4.0	4.2	4.2	3.8	3.3	2.9	2.7	130	114	125	119	114	121	134
Mineral products,	4.1	3.7	3.8	4.0	3.1	2.4	2.3	80	101	125	142	99	109	142
of which:														
— fuel and energy products	2.5	2.2	2.3	2.2	1.6	1.4	1.2	71	100	129	126	97	115	133
Leather, fur and articles made of them	0.5	0.4	0.4	0.3	0.3	0.3	0.3	175	94	110	109	112	157	160
Gemstones, precious metals and articles made of them	0.1	0.1	0.1	0.2	0.3	0.2	0.3	35	143	173	252	150	119	173
Other goods	4.4	4.5	4.3	4.5	3.6	3.5	3.6	134	111	122	130	114	131	148
For the record:														
Total imports, billion US dollars (Source: Federal Customs Service)	41.9	46.2	57.3	75.6	98.7	137.8	199.7							

Table 15

RUSSIA'S EXPORTS TO MAJOR TRADING PARTNERS
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
Total	100	100	100	100	100	100	100	97	107	126	135	133	125	117
of which:														
CIS countries	14.6	14.7	15.3	16.2	13.5	14.0	14.9	106	107	131	143	111	130	124
of which:														
EurAsEC countries	8.3	8.0	8.3	9.0	7.1	8.0	9.2	—	102	132	146	106	139	134
Other countries	6.3	6.7	7.0	7.2	6.4	6.0	5.7	—	114	130	140	117	119	111
Non-CIS countries	85.4	85.3	84.7	83.8	86.5	86.0	85.1	96	106	125	133	138	124	116
of which:														
EU countries	36.7	35.4	35.3	46.0	55.3	56.6	55.8	100	103	126	176	160	128	115
APEC countries	15.1	15.3	14.4	14.8	12.4	11.8	12.0	97	108	119	139	111	119	119
Other countries	33.6	34.6	35.0	23.0	18.8	17.6	17.3	91	110	128	88	110	116	115
For the record:														
OECD countries	58.7	57.6	56.6	58.3	64.6	66.6	65.6	96	105	124	139	147	128	115

Note. In Tables 15—17 and 31, from May 2004 the EU is represented by 25 member states and from January 2007 — by 27 member states; EurAsEC includes the Republic of Uzbekistan since 2006.

	Structure, %							Growth rates as % of previous year						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
Major trading partners														
The Netherlands	4.7	7.0	6.6	8.4	10.2	11.9	12.1	108	158	119	173	161	146	119
Italy	7.4	7.0	6.5	6.7	7.9	8.3	7.8	102	101	117	139	158	132	110
Germany	9.2	7.6	7.8	7.3	8.2	8.1	7.5	100	88	130	127	148	124	107
Turkey	3.2	3.2	3.6	4.1	4.5	4.7	5.2	105	103	145	153	146	132	128
Belarus	5.3	5.5	5.6	6.2	4.2	4.3	4.9	96	110	129	148	90	129	131
Ukraine	5.3	5.5	5.7	5.9	5.1	5.0	4.6	105	111	130	141	115	121	109
China	5.6	6.4	6.2	5.6	5.4	5.2	4.5	107	122	122	122	129	121	101
Switzerland	2.3	5.0	4.3	4.2	4.5	4.0	4.0	60	232	109	132	140	113	117
Poland	4.2	3.5	3.4	3.1	3.6	3.8	3.8	94	89	124	123	151	133	116
Kazakhstan	2.8	2.3	2.4	2.6	2.7	3.0	3.4	124	86	137	142	140	137	133
UK	4.3	3.6	3.7	3.1	3.5	3.5	3.1	92	89	130	114	149	123	106
Finland	3.1	2.8	3.2	3.2	3.2	3.1	3.0	100	94	148	134	131	120	117
France	2.3	2.5	2.6	2.4	2.5	2.5	2.5	118	118	132	126	138	125	113
USA	4.2	3.7	3.1	3.6	2.6	2.9	2.3	90	95	106	157	96	137	93
Japan	2.4	1.7	1.8	1.9	1.5	1.5	2.1	88	74	135	140	110	120	165
South Korea	1.1	1.2	1.0	1.1	1.0	0.9	1.7	114	115	104	148	120	116	225
For the record:														
Total exports, billion US dollars (Source: Federal Customs Service)	100.0	106.7	134.5	181.7	241.5	301.2	352.6							

Table 16

RUSSIA'S IMPORTS FROM MAJOR TRADING PARTNERS
(according to customs statistical methodology)

	Structure, %							Growth rates as % of previous year						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
Total	100	100	100	100	100	100	100	124	110	124	132	131	140	145
of which:														
CIS countries	26.7	22.0	22.9	23.5	19.2	16.2	14.9	97	91	129	135	107	118	133
of which:														
EurAsEC countries	14.7	13.2	13.1	13.4	9.3	8.9	7.7	—	98	124	135	90	134	125
Other countries	12.0	8.8	9.8	10.1	9.9	7.3	7.2	—	81	137	135	130	103	143
Non-CIS countries	73.3	78.0	77.1	76.5	80.8	83.8	85.1	138	117	123	131	138	145	147
of which:														
EU countries	36.9	39.7	38.7	43.0	44.2	44.0	43.7	138	119	121	146	134	139	144
APEC countries	18.5	19.1	19.8	21.5	25.6	28.5	31.8	142	113	129	144	155	156	162
Other countries	17.9	19.2	18.6	12.0	11.0	11.3	9.6	132	119	120	85	118	144	123
For the record:														
OECD countries	56.7	59.5	58.7	59.0	61.3	62.6	61.9	136	116	123	132	136	142	143

End

	Structure, %							Growth rates as % of previous year						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
Major trading partners														
Germany	13.9	14.3	14.1	14.0	13.4	13.4	13.3	149	114	123	130	126	139	144
China	3.9	5.2	5.8	6.3	7.4	9.4	12.2	174	146	138	143	153	178	189
Ukraine	9.2	7.0	7.7	8.1	7.9	6.7	6.7	105	84	137	137	128	118	144
Japan	2.1	2.1	3.3	5.2	5.9	5.6	6.4	152	113	192	209	148	134	163
USA	7.8	6.5	5.2	4.2	4.6	4.6	4.7	121	92	99	108	143	140	147
Belarus	9.5	8.6	8.5	8.6	5.8	5.0	4.4	107	101	122	133	88	120	130
South Korea	1.7	2.0	2.3	2.7	4.1	4.9	4.4	202	128	143	152	198	169	130
Italy	4.1	4.8	4.2	4.2	4.5	4.2	4.3	141	130	108	133	138	130	149
France	3.7	4.1	4.1	4.1	3.7	4.3	3.9	130	123	124	131	120	160	132
UK	2.4	2.4	2.5	2.7	2.8	2.7	2.8	117	112	129	143	135	132	154
Finland	3.1	3.3	3.2	3.1	3.1	2.9	2.5	134	118	122	126	133	129	126
Poland	2.3	2.8	3.0	3.1	2.8	2.5	2.3	134	135	132	135	119	124	136
Kazakhstan	4.8	4.2	4.3	4.6	3.3	2.8	2.3	92	96	127	139	94	119	120
Turkey	1.2	1.6	1.6	1.6	1.8	2.0	2.1	149	140	127	133	141	159	152
The Netherlands	2.0	2.3	2.2	1.8	2.0	1.9	1.9	114	125	119	109	141	138	144
Switzerland	0.9	0.9	0.9	0.9	0.9	0.9	0.9	144	107	127	122	135	148	135
For the record:														
Total imports, billion US dollars (Source: Federal Customs Service)	41.9	46.2	57.3	75.6	98.7	137.8	199.7							

Table 17

RUSSIA'S FOREIGN TRADE IN SERVICES BY GROUP OF COUNTRIES IN 2006—2007 (million US dollars)

	Turnover			Exports			Imports			Balance		
	2006	2007	rate of growth, %	2006	2007	rate of growth, %	2006	2007	rate of growth, %	2006	2007	rate of growth, %
Total	75,941	98,529	130	31,102	39,347	127	44,839	59,182	132	—13,737	—19,834	144
of which:												
CIS countries	11,194	14,388	129	5,953	8,110	136	5,240	6,278	120	713	1,832	by 2.6 times
of which:												
EurAsEC countries	4,190	6,312	151	2,592	4,212	162	1,598	2,099	131	994	2,113	by 2.1 times
Other countries	5,136	6,097	119	2,391	2,794	117	2,745	3,302	120	—353	—508	144
Services not allocated by country	1,867	1,980	106	970	1,103	114	897	876	98	72	227	by 3.2 times
Non-CIS countries	64,748	84,141	130	25,149	31,237	124	39,599	52,904	134	—14,450	—21,667	150
of which:												
EU countries	30,732	41,650	136	11,969	15,824	132	18,762	25,827	138	—6,793	—10,003	147
APEC countries	10,305	12,477	121	5,367	6,325	118	4,938	6,152	125	429	172	40
Other countries	16,187	20,349	126	5,844	7,106	122	10,343	13,243	128	—4,499	—6,136	136
Services not allocated by country	7,525	9,664	128	1,969	1,982	101	5,556	7,682	138	—3,588	—5,699	159
For the record:												
OECD countries	41,757	53,793	129	16,791	20,718	123	24,966	33,075	132	—8,174	—12,357	151

Table 18

STRUCTURE OF BANK OF RUSSIA CUSTOMERS OTHER THAN CREDIT INSTITUTIONS AND NUMBER OF ACCOUNTS OPENED FOR THEM (thousand)

	Number of customers			Number of accounts		
	as of 1.01.2007	as of 1.01.2008	change over 2007	as of 1.01.2007	as of 1.01.2008	change over 2007
Total	36.4	29.3	—7.1	83.2	79.9	—3.3
Federal Treasury	1.2	1.0	—0.2	33.0	37.1	4.1
Regional and local budget executing bodies	3.0	2.2	—0.8	5.9	6.0	0.1
Organisations financed from budgets of all levels	27.0	20.5	—6.5	35.6	28.5	—7.1
Government extra-budgetary funds	2.1	1.8	—0.3	4.4	3.4	—1.0
Other organisations	3.1	3.8	0.7	4.3	4.9	0.6

Table 19

RUSSIA'S DOMESTIC GOVERNMENT DEBT STRUCTURE AS OF JANUARY 1, 2008 (at par, billion rubles)

Debt instruments	Total within domestic government debt	Of these, traded on organised securities market
Debt depreciation federal loan bonds (OFZ-AD)	807.6	707.6
Permanent coupon-income federal loan bonds (OFZ-PD)	288.4	288.4
Fixed coupon-income federal loan bonds (OFZ-FD)	51.4	51.4
Other debt accounted for as part of domestic government debt	153.7	—
Total	1,301.1	1,047.4

Table 20

FINANCE MINISTRY DEBT TO THE BANK OF RUSSIA AS OF JANUARY 1, 2008 (million rubles)*

	At balance-sheet value
Russian government debt obligations	364,191
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	235,439
— other debt obligations	117,584
— acquired through repos	11,168

* Net of accrued coupon income.

Table 21

**VOLUME (TURNOVER) OF RESIDENT OPERATIONS WITH NON-RESIDENTS TO BUY AND SELL
RUSSIAN GOVERNMENT OUTSTANDING FOREIGN CURRENCY DEBT OBLIGATIONS ON SECONDARY MARKET IN 2007
(at market prices, billion US dollars)**

	Q1	Q2	Q3	Q4	2007
Eurobonds placed by open subscription	0.95	1.39	1.34	0.62	4.30
Eurobonds issued in the course of restructuring GKO	0.48	0.98	0.38	0.31	2.14
Eurobonds issued in the course of restructuring debt to London Club of commercial bank creditors	7.40	10.93	7.47	14.03	39.83
OVGZ and OGVZ bonds of 1999 issue	0.45	1.60	0.17	0.87	3.09

Table 22

INSTITUTIONALISED FINANCIAL INTERMEDIARIES

	1.01.2008	For the record: 1.01.2007
Credit institutions		
Operating credit institutions, total	1,136	1,189
of which:		
— banks	1,092	1,143
— non-bank credit institutions	44	46
Operating credit institutions with foreign stakes in authorised capital	202	153
Branches of credit institutions operating in Russia	3,455	3,281
Representative offices of operating Russian credit institutions	804	699
Insurance companies*		
Registered insurance companies	857	918
Unit investment funds**		
Unit investment funds, total	1,024	641
of which:		
— open-end	479	305
— interval	101	89
— closed-end	444	247
Non-governmental pension funds***		
Operating non-governmental pension funds	252	289

* Source: Federal Insurance Supervision Service.

** Source: News agency Cbonds.ru.

*** Source: Federal Financial Markets Service.

Table 23

RUSSIAN GOVERNMENT OUTSTANDING FOREIGN CURRENCY-DENOMINATED LOAN BONDS AS OF JANUARY 1, 2008

Date of issue	Maturity	Currency	Volume in circulation at par, million US dollars	Coupon interest rate, % p.a.
Eurobonds placed by open subscription				
24.06.1998	26.06.2028	US dollar (USD)	2,500	12.75
Eurobonds issued in the course of restructuring GKO bonds				
24.07.1998	24.07.2018	US dollar (USD)	3,466	11
Eurobonds issued in the second restructuring of debt to London Club of commercial bank creditors (2 issues)				
31.03.2000	31.03.2010	US dollar (USD)	1,640	8.25
31.03.2000	29.03.2030	US dollar (USD)	21,006	7.5
Domestic government foreign currency-denominated loan bonds (OVGVZ V and VII tranches)				
14.05.1993	14.05.2008	US dollar (USD)	2,837	3
14.05.1996	14.05.2011	US dollar (USD)	1,750	3

Table 24

RUSSIA'S BALANCE OF PAYMENTS FOR 2007 (analytical presentation, million US dollars)

	Q1	Q2	Q3	Q4	2007	For the record: 2006
Current account	22,936	14,912	15,425	25,036	78,309	94,367
Balance of trade	28,981	31,082	31,360	40,621	132,043	139,269
<i>Exports</i>	<i>71,753</i>	<i>83,836</i>	<i>89,688</i>	<i>110,188</i>	<i>355,465</i>	<i>303,550</i>
crude oil	23,382	28,965	31,523	37,632	121,503	102,283
petroleum products	9,959	11,900	14,050	16,318	52,228	44,672
natural gas	10,542	9,850	9,874	14,571	44,837	43,806
other	27,869	33,120	34,242	41,666	136,897	112,789
<i>Imports</i>	<i>-42,772</i>	<i>-52,753</i>	<i>-58,329</i>	<i>-69,567</i>	<i>-223,421</i>	<i>-164,281</i>
Balance of services	-3,221	-4,583	-6,282	-5,748	-19,834	-13,737
<i>Exports</i>	<i>7,668</i>	<i>9,340</i>	<i>10,882</i>	<i>11,457</i>	<i>39,347</i>	<i>31,102</i>
transport services	2,618	2,771	2,980	3,461	11,829	10,081
travel	1,513	2,509	3,258	2,327	9,607	7,628
other services	3,537	4,060	4,645	5,669	17,911	13,393
<i>Imports</i>	<i>-10,889</i>	<i>-13,923</i>	<i>-17,164</i>	<i>-17,205</i>	<i>-59,182</i>	<i>-44,839</i>
transport services	-1,731	-2,261	-2,503	-2,853	-9,348	-6,722
travel	-3,999	-5,305	-7,730	-5,223	-22,258	-18,235
other services	-5,159	-6,356	-6,931	-9,129	-27,576	-19,882
Wage balance	-1,040	-1,696	-2,573	-2,574	-7,884	-4,391
Balance of investment income	-1,397	-9,655	-5,868	-5,588	-22,509	-25,237
Income receivable	10,285	9,930	11,767	12,817	44,798	27,858
Income payable	-11,682	-19,585	-17,635	-18,405	-67,307	-53,095
<i>Federal government</i>	<i>219</i>	<i>-358</i>	<i>-515</i>	<i>-429</i>	<i>-1,083</i>	<i>-2,304</i>
Income receivable	832	272	92	187	1,383	1,407
Income payable	-614	-630	-607	-616	-2,467	-3,710
<i>Regional and local governments (income payable)</i>	<i>-11</i>	<i>-11</i>	<i>-10</i>	<i>-73</i>	<i>-105</i>	<i>-122</i>
<i>Monetary authorities</i>	<i>3,282</i>	<i>4,212</i>	<i>4,721</i>	<i>4,968</i>	<i>17,183</i>	<i>10,254</i>
Income receivable	3,282	4,212	4,721	4,968	17,183	10,694
Income payable	0	0	0	0	0	-440

Cont.

	Q1	Q2	Q3	Q4	2007	For the record: 2006
<i>Banks</i>	—871	—1,227	—1,623	—1,427	—5,147	—1,714
Income receivable	940	1,081	1,052	1,643	4,716	2,918
Income payable	—1,810	—2,307	—2,676	—3,069	—9,863	—4,631
<i>Other sectors</i>	—4,016	—12,271	—8,442	—8,627	—33,356	—31,352
Income receivable	5,231	4,366	5,901	6,019	21,517	12,840
Income payable	—9,247	—16,637	—14,343	—14,646	—54,873	—44,191
Balance of current transfers	—386	—236	—1,211	—1,674	—3,506	—1,537
Capital and financial account	14,161	47,637	—1,699	24,161	84,259	5,630
Capital account (capital transfers)	—875	155	89	—9,593	—10,224	191
Financial account (except reserves)	15,036	47,482	—1,788	33,754	94,483	5,440
Liabilities (+ signifies increase, — signifies decrease)	41,718	67,690	37,749	52,416	199,573	70,509
<i>Federal government</i>	—1,571	—2,346	—1,559	—1,945	—7,421	—28,056
Portfolio investments	—810	—1,824	—1,004	—225	—3,863	—995
issuance	2	0	0	0	2	1,048
redemption	—986	—2,170	—1,104	—343	—4,603	—3,699
principal	—402	—1,872	—335	—228	—2,837	—2,021
coupons	—584	—298	—769	—115	—1,766	—1,677
reinvestment of income	475	485	481	467	1,907	1,866
secondary market	—300	—139	—381	—349	—1,169	—211
Loans	—806	—537	—581	—880	—2,804	—23,888
utilisation	67	64	63	184	378	678
redemption	—896	—601	—644	—1,860	—4,000	—26,487
restructuring	22	0	0	796	818	1,921
Overdue debt	—12	11	23	—785	—763	—3,208
accumulation	13	19	23	14	69	169
repayment/restructuring	—25	—8	0	—799	—833	—3,376
Other liabilities	57	4	3	—55	9	35
<i>Regional and local governments</i>	19	—73	—4	—74	—133	163
<i>Monetary authorities</i>	81	75	175	550	882	—7,331

End

	Q1	Q2	Q3	Q4	2007	For the record: 2006
<i>Banks</i>	14,925	23,090	17,022	15,828	70,865	51,154
Direct investments	1,726	1,911	1,986	1,740	7,363	2,510
Loans and deposits	7,723	14,284	13,949	15,002	50,959	47,603
Other liabilities	5,477	6,895	1,086	—915	12,543	1,041
<i>Other sectors</i>	28,264	46,944	22,115	38,057	135,380	54,578
Direct investments	16,039	7,704	7,428	13,942	45,112	29,877
Portfolio investments	—4,903	6,456	—3,552	4,560	2,561	8,249
Loans	17,217	32,927	18,351	19,705	88,201	16,840
Other liabilities	—88	—143	—112	—150	—494	—388
Assets, except reserves (+ signifies decrease, — signifies increase)	—26,682	—20,209	—39,537	—18,662	—105,090	—65,069
<i>Federal government</i>	—666	—642	405	8,156	7,253	—1,460
Loans	185	260	136	—2,174	—1,594	—4,006
Overdue debt	—834	—397	—71	10,081	8,779	3,012
Other assets	—17	—505	340	249	68	—466
<i>Monetary authorities</i>	—78	64	—419	—34	—467	7,640
<i>Banks</i>	—14,873	13,824	—20,542	—3,422	—25,012	—23,638
Direct investments	—116	—96	—110	—366	—687	—257
Loans and deposits	—14,621	15,691	—20,614	—2,259	—21,803	—22,953
Other assets	—136	—1,770	182	—797	—2,522	—428
<i>Other sectors</i>	—11,065	—33,456	—18,982	—23,362	—86,864	—47,610
Direct and portfolio investments	—6,616	—22,494	—9,717	—8,651	—47,477	—23,508
Foreign currency cash	2,100	4,168	4,989	4,458	15,715	10,232
Commercial loans and advance payments	3,058	—3,003	—810	—1,157	—1,912	—626
Debt on commodity deliveries under intergovernmental agreements	—373	—536	766	—375	—517	75
Delayed proceeds from exports and delayed delivery of goods and services paid for with money transferred under import contracts, transfers on fictitious operations with securities	—6,190	—7,488	—9,082	—7,593	—30,353	—19,945
Other assets	—3,044	—4,102	—5,128	—10,045	—22,319	—13,839
Net errors and omissions	—4,174	2,999	—5,830	—6,636	—13,640	7,468
Change in foreign exchange reserves (+ signifies decrease, — signifies increase)	—32,923	—65,548	—7,896	—42,561	—148,928	—107,466

Note. Other sectors are non-financial corporations, financial corporations, except credit institutions, non-profit organisations providing services to households, and households.

Table 25

PRIVATE SECTOR NET CAPITAL INFLOW (OUTFLOW)
(according to balance of payments data, billion US dollars)

	Private sector net capital inflow (outflow), total	Banking sector net capital inflow (outflow)	of which:		Other sector net capital inflow (outflow)	of which:		
			foreign assets	foreign liabilities		foreign assets*	foreign liabilities	Balance of payments net errors and omissions**
2001	—15.0	1.3	—1.4	2.7	—16.2	—10.0	3.7	—10.0
2002	—8.1	2.5	—1.1	3.6	—10.6	—18.5	14.3	—6.5
2003	—1.9	10.3	—1.0	11.3	—12.2	—24.6	22.1	—9.7
2004	—8.9	3.5	—3.6	7.1	—12.4	—37.7	31.7	—6.4
2005	0.1	5.9	—13.4	19.2	—5.8	—49.9	52.4	—8.3
2006	41.9	27.5	—23.6	51.2	14.4	—47.7	54.6	7.5
2006 Q1	—5.6	—3.0	—9.7	6.7	—2.6	—13.0	13.3	—2.9
2006 Q2	20.6	9.9	0.6	9.3	10.7	—3.5	14.8	—0.6
2006 Q3	12.4	8.8	—3.0	11.8	3.7	—15.3	14.2	4.8
2006 Q4	14.5	11.9	—11.5	23.4	2.6	—15.9	12.3	6.2
2007	81.2	45.9	—25.0	70.9	35.4	—86.3	135.4	—13.6
2007 Q1	13.5	0.1	—14.9	14.9	13.4	—10.7	28.3	—4.2
2007 Q2	53.9	36.9	13.8	23.1	17.0	—32.9	46.9	3.0
2007 Q3	—7.0	—3.5	—20.5	17.0	—3.5	—19.7	22.1	—5.8
2007 Q4 (estimate)	20.8	12.4	—3.4	15.8	8.4	—23.0	38.1	—6.6

* Excluding debt on commodity deliveries under intergovernmental agreements.

** Net errors and omissions fully applies to other sector operations. This means that accounting for financial operations conducted by these sectors is the most difficult part of compiling the balance of payments.

Note. “—” signifies capital outflow, “+” signifies capital inflow.

Table 26

CROSS-BORDER OPERATIONS BY RESIDENTS AND NON-RESIDENTS*

	Q1	Q2	Q3	Q4	2006	Q1	Q2	Q3	Q4	2007
Total, million US dollars										
Individual transfers from Russia	3,290	4,278	5,204	5,986	18,759	5,946	5,844	8,733	9,284	29,807
to non-CIS countries	2,441	2,911	3,223	3,915	12,491	4,522	3,765	5,729	6,117	20,133
to CIS countries	849	1,367	1,981	2,071	6,268	1,424	2,079	3,005	3,167	9,675
Receipts by individuals in Russia	1,458	1,863	1,941	2,280	7,542	2,294	2,613	2,711	2,613	10,231
from non-CIS countries	1,251	1,575	1,619	1,884	6,330	1,947	2,176	2,164	2,088	8,376
from CIS countries	206	288	322	396	1,212	347	437	547	525	1,856
Balance**	—1,833	—2,415	—3,263	—3,706	—11,217	—3,652	—3,231	—6,022	—6,672	—19,576
non-CIS countries	—1,190	—1,336	—1,603	—2,032	—6,161	—2,575	—1,588	—3,564	—4,029	—11,757
CIS countries	—643	—1,079	—1,659	—1,675	—5,056	—1,077	—1,642	—2,458	—2,642	—7,819
Average operation value, US dollars										
Individual transfers from Russia	1,414	1,402	1,422	1,590	1,465	1,908	1,431	1,779	1,795	1,725
to non-CIS countries	8,169	8,097	7,922	8,388	8,153	11,175	8,010	11,119	9,872	10,019
to CIS countries	419	508	609	628	556	525	575	684	696	634
Receipts by individuals in Russia	1,690	2,062	2,269	2,334	2,096	2,501	2,399	2,933	2,377	2,539
from non-CIS countries	2,448	2,833	3,056	3,250	2,908	3,601	3,103	3,971	3,308	3,463
from CIS countries	588	829	988	997	853	922	1,126	1,442	1,121	1,151

* Cross-border non-cash transfers (receipts) by resident and non-resident individuals with and without opening accounts in credit institutions, including remittances through money transfer systems and the Russian Postal Service.

** Negative balance signifies an excess of total money transfers from Russia over total receipts in Russia.

Table 27

CROSS-BORDER REMITTANCES VIA MONEY TRANSFER SYSTEMS* AND RUSSIA'S POSTAL SERVICE

	Q1	Q2	Q3	Q4	2006	Q1	Q2	Q3	Q4	2007
Total, million US dollars										
Remittances from Russia	815	1,290	1,911	1,988	6,005	1,372	2,005	2,939	3,127	9,444
to non-CIS countries	106	128	188	201	622	172	182	230	285	868
to CIS countries	709	1,162	1,723	1,788	5,382	1,201	1,824	2,709	2,842	8,575
Remittances to Russia	271	331	340	362	1,304	342	400	451	489	1,681
from non-CIS countries	165	192	193	196	746	180	202	210	220	813
from CIS countries	106	139	147	167	559	162	197	241	268	868
Balance**	-544	-959	-1,572	-1,626	-4,700	-1,030	-1,606	-2,488	-2,639	-7,763
non-CIS countries	59	64	5	-5	123	8	21	-20	-65	-55
CIS countries	-603	-1,023	-1,577	-1,621	-4,824	-1,039	-1,626	-2,469	-2,574	-7,707
Average remittance value, US dollars										
Remittances from Russia	417	494	600	613	546	512	561	674	687	623
to non-CIS countries	1,191	1,198	1,466	1,460	1,349	1,315	1,304	1,448	1,512	1,407
to CIS countries	380	464	563	575	511	471	531	644	652	589
Remittances to Russia	411	484	533	492	480	488	562	661	603	579
from non-CIS countries	497	533	578	537	536	519	580	638	597	583
from CIS countries	323	430	485	449	422	458	545	682	607	575

* Anelik, BLIZKO, Contact, InterExpress, Migom, MoneyGram, PrivatMoney, Travelex, UNISream, Western Union, AziyaExpress, ALLUR, Bystraya Pochta, Gula Sprint, Zolotaya Korona and LIDER.

** Negative balance means the excess of total remittances from Russia over total remittances to Russia.

Table 28

FUNCTIONAL STRUCTURE OF FOREIGN INVESTMENT IN RUSSIA IN 2007
(billion US dollars)*

Type of investment	Q1	Q2	Q3	Q4	2007	For the record**	
						2007	2006
Direct	17.8	9.6	9.4	15.7	52.5	52.5	32.4
Portfolio	-0.7	11.6	-3.2	5.0	12.7	12.7	8.1
Financial derivatives	-0.3	-0.4	-0.7	-1.0	-2.4	-2.4	-1.3
Other	24.9	46.9	32.2	32.7	136.8	137.6	31.9
Total	41.7	67.7	37.7	52.4	199.6	200.4	71.1

* 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 29

FUNCTIONAL STRUCTURE OF RUSSIAN RESIDENT INVESTMENT IN FOREIGN ASSETS (EXCEPT RESERVES) IN 2007
(billion US dollars)*

Type of investment	Q1	Q2	Q3	Q4	2007	For the record**	
						2007	2006
Direct	6.3	21.5	9.2	8.7	45.7	45.7	23.2
Portfolio	0.9	2.8	0.2	3.2	7.0	7.0	-6.2
Financial derivatives	-0.3	-0.3	-0.8	-1.4	-2.8	-2.8	-1.2
Other	19.8	-3.7	31.0	8.1	55.2	64.9	49.4
Total	26.7	20.2	39.5	18.7	105.1	114.8	65.1

* 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 30

RUSSIAN BANKING SECTOR INTERNATIONAL INVESTMENT POSITION
(as of January 1, 2007, and January 1, 2008, million US dollars)

	Balance as of 1.01.2007	Changes due to operations	Changes due to revaluation	Other changes	Total changes	Balance as of 1.01.2008
	1	2	3	4	5	6
Assets	65,351	25,012	6,415	-78	31,349	96,701
Direct investments abroad	1,570	687	255	20	963	2,533
Stakeholding in capital and reinvested income	1,213	684	249	17	950	2,163
Other capital	357	3	7	3	13	370
Portfolio investments	7,645	4,509	758	-57	5,210	12,855
Stakeholding in capital	271	1,782	22	-22	1,782	2,053
Debt securities	7,374	2,727	736	-35	3,427	10,802
long-term	6,374	3,533	486	-9	4,010	10,384
short-term	1,000	-806	250	-26	-583	417
Financial derivatives	222	-2,762	3,931	0	1,169	1,391
Other investments	55,914	22,578	1,470	-41	24,008	79,921
Foreign currency cash and deposits	32,294	10,419	785	-36	11,169	43,463
Till foreign currency	3,037	-214	80	-8	-141	2,896
Current accounts and deposits	29,257	10,633	705	-27	11,310	40,567
long-term	3,271	4,960	141	0	5,101	8,372
short-term	25,986	5,672	564	-27	6,209	32,195
Loans	22,422	11,170	613	-4	11,780	34,202
long-term	8,120	8,183	185	0	8,368	16,488
short-term	14,302	2,988	428	-4	3,412	17,714
Overdue debt	43	-9	1	0	-8	36
Other assets	1,155	997	71	-1	1,066	2,221
long-term	107	282	4	0	286	392
short-term	1,048	715	67	-1	781	1,828

End

	Balance as of 1.01.2007	Changes due to operations	Changes due to revaluation	Other changes	Total changes	Balance as of 1.01.2008
	1	2	3	4	5	6
Liabilities	123,927	70,865	11,519	4,473	86,857	210,784
Direct investments in Russia	9,127	7,363	765	63	8,191	17,319
Stakeholding in capital and reinvested income	8,718	6,499	719	176	7,393	16,111
Other capital	409	864	46	—113	798	1,207
Portfolio investments	17,171	14,164	4,560	—10	18,714	35,885
Stakeholding in capital	13,870	12,395	4,472	—531	16,335	30,205
Debt securities	3,301	1,769	89	521	2,379	5,680
long-term	1,773	888	32	523	1,443	3,216
short-term	1,528	881	56	—2	935	2,463
Financial derivatives	178	—2,430	3,064	0	634	811
Other investments	97,451	51,768	3,131	4,420	59,318	156,769
Current accounts and deposits	27,793	11,564	1,318	—21	12,861	40,653
long-term	9,041	6,158	557	—15	6,700	15,741
short-term	18,752	5,405	761	—6	6,160	24,913
Loans	67,757	39,395	1,634	4,451	45,480	113,236
long-term	50,199	33,495	1,227	4,463	39,185	89,384
short-term	17,558	5,900	407	—12	6,295	23,853
Overdue debt	7	—4	1	0	—4	4
Other liabilities	1,894	814	178	—11	982	2,876
long-term	267	204	8	—1	210	478
short-term	1,627	610	171	—9	771	2,398
Net international investment position	—58,575	—45,853	—5,105	—4,551	—55,508	—114,084

Notes.

1. “+” in columns 2, 3, 4 and 5 denotes net growth in assets and liabilities, “—” denotes their net decrease. This contingent use of the sign differs from its use in balance of payments statistics.

2. This table presents data compiled by credit institutions and Vneshekonombank.

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 3.1

RUSSIAN BANKING SECTOR FOREIGN ASSETS AND LIABILITIES ON INTERBANK OPERATIONS BY GROUP OF COUNTRIES AS OF JANUARY 1, 2008 (million US dollars)

	Foreign assets			Foreign liabilities			Balance of foreign assets and liabilities
	short-term	long-term	total	short-term	long-term	total	
Total	41,577.7	11,208.9	52,786.6	29,054.7	69,053.5	98,108.2	—45,321.6
of which:							
CIS countries	1,112.0	819.1	1,931.1	1,660.2	468.2	2,128.4	—197.3
of which:							
EurAsEC countries	349.9	205.8	555.7	1,144.8	368.2	1,513.1	—957.4
Other countries	762.1	613.3	1,375.5	515.4	100.0	615.4	760.1
Non-CIS countries	40,353.6	10,389.8	50,743.4	27,186.3	68,543.7	95,730.0	—44,986.7
of which:							
EU countries	27,322.0	10,342.8	37,664.9	24,368.7	61,721.4	86,090.1	—48,425.3
APEC countries	8,173.4	2.7	8,176.1	1,007.4	5,785.0	6,792.4	1,383.7
Other countries	4,858.2	44.2	4,902.4	1,810.2	1,037.3	2,847.5	2,054.9
International financial organisations	112.1	0.0	112.1	208.1	41.6	249.7	—137.6
For the record:							
OECD countries	37,359.2	10,003.7	47,362.8	24,321.1	62,556.9	86,878.0	—39,515.1

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 IN 2007 (billion US dollars)

	Balance as of												
	2007											2008	
	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.01
Reserves (including Finance Ministry assets)	303.7	303.9	314.5	338.8	369.1	403.2	405.8	416.2	416	425.4	447	463.5	476.4
Foreign currency assets	295.6	295.6	305.9	330.3	360.4	394.7	397.4	407.5	407.1	415.3	436	452.2	464.4
Monetary gold	8.2	8.3	8.7	8.5	8.7	8.5	8.4	8.7	8.9	10.1	11.0	11.4	12.0

Table 33

BANK OF RUSSIA FOREIGN EXCHANGE RESERVE PORTFOLIO ASSET YIELDS IN 2007 (% p.a.)

		US dollar-denominated assets	Euro-denominated assets	Pound sterling-denominated assets	Japanese yen-denominated assets
Transaction portfolio	actual portfolio	5.21	4.11	5.88	0.68
	standard portfolio	4.96	4.02	5.74	0.64
Investment portfolio	actual portfolio	8.18	3.21	7.69	
	standard portfolio	8.55	3.42	7.85	
Total	actual portfolio	6.29	3.81	7.04	0.68

Table 34

KEY RUBLE EXCHANGE RATE INDICATORS IN 2007

	January	February	March	April	May	June	July	August	September	October	November	December
US dollar/ruble nominal rate as of end of period, rubles per dollar	26.53	26.16	26.01	25.69	25.9	25.82	25.6	25.65	24.95	24.72	24.35	24.55
US dollar/ruble average nominal rate over period, rubles per dollar	26.47	26.34	26.11	25.84	25.82	25.93	25.56	25.63	25.34	24.89	24.47	24.57
US dollar/ruble average nominal rate since start of year, rubles per dollar	26.47	26.4	26.31	26.19	26.11	26.08	26.01	25.96	25.89	25.79	25.67	25.57
Euro/ruble nominal rate as of end of period, rubles per euro	34.39	34.52	34.69	35.07	34.82	34.72	34.93	35.01	35.35	35.59	36.04	35.93
Euro/ruble average nominal rate over period, rubles per euro	34.47	34.41	34.57	34.89	34.91	34.77	35.01	34.88	35.16	35.4	35.9	35.8
Euro/ruble average nominal rate since start of year, rubles per euro	34.47	34.44	34.48	34.58	34.65	34.67	34.72	34.74	34.78	34.85	34.94	35.01
Growth as % of December 2006*												
Ruble/US dollar nominal rate index	-0.7	-0.2	0.7	1.7	1.8	1.4	2.9	2.6	3.7	5.6	7.4	7.0
Ruble/euro nominal rate index	0.8	1.0	0.5	-0.4	-0.5	-0.1	-0.8	-0.4	-1.2	-1.9	-3.2	-3.0
Index of nominal effective rate of the ruble against foreign currencies	0.2	0.5	0.4	-0.1	-0.4	-0.2	-0.3	-0.2	-0.5	-0.7	-1.1	-1.0
Ruble/US dollar real rate index	0.7	1.8	2.3	3.3	3.4	3.8	6.3	6.3	8.1	11.5	14.1	15.0
Ruble/euro real rate index	2.6	3.5	3.1	2.3	2.7	4.1	4.3	4.7	4.5	5.1	4.5	5.8
Index of real effective rate of the ruble against foreign currencies	1.7	2.6	2.7	2.4	2.4	3.3	3.9	3.9	3.8	4.5	4.4	5.1
Growth as % of previous period*												
Ruble/US dollar nominal rate index	-0.7	0.5	0.9	1.0	0.1	-0.4	1.4	-0.3	1.1	1.8	1.7	-0.4
Ruble/euro nominal rate index	0.8	0.2	-0.5	-0.9	-0.1	0.4	-0.7	0.4	-0.8	-0.7	-1.4	0.3
Index of nominal effective rate of the ruble against foreign currencies	0.2	0.3	-0.1	-0.5	-0.3	0.1	-0.1	0.1	-0.3	-0.2	-0.4	0.1
Ruble/US dollar real rate index	0.7	1.1	0.5	1.0	0.1	0.4	2.4	0.0	1.7	3.2	2.3	0.8
Ruble/euro real rate index	2.6	0.9	-0.4	-0.8	0.4	1.4	0.2	0.4	-0.3	0.7	-0.6	1.2
Index of real effective rate of the ruble against foreign currencies	1.7	0.9	0.1	-0.3	0.0	0.9	0.6	0.0	-0.1	0.6	0.0	0.7

* "+" signifies appreciation of the Russian ruble against foreign currencies, "-" signifies its depreciation.

Table 35

RUSSIA'S FOREIGN DEBT IN 2007 (billion US dollars)

	1.01.2007	1.04.2007	1.07.2007	1.10.2007	1.01.2008
Total	310.6	348.0	391.9	431.0	459.6
Government	44.7	43.4	40.8	39.7	37.4
Federal government	43.2	41.9	39.3	38.1	35.8
<i>New Russian debt</i>	<i>33.8</i>	<i>33.0</i>	<i>30.8</i>	<i>29.9</i>	<i>28.7</i>
loans from international financial organisations	5.4	5.3	5.1	5.0	5.0
<i>IBRD</i>	<i>4.8</i>	<i>4.6</i>	<i>4.5</i>	<i>4.4</i>	<i>4.3</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 loans	2.6	2.4	2.3	2.2	1.7
foreign currency-denominated securities	25.0	24.2	22.3	21.9	21.3
<i>eurobonds placed by open subscription and issued in the course of restructuring GKO</i>	<i>4.7</i>	<i>4.7</i>	<i>2.7</i>	<i>2.7</i>	<i>2.8</i>
<i>eurobonds issued in the course of restructuring debt to London Club of commercial bank creditors</i>	<i>19.3</i>	<i>18.6</i>	<i>18.5</i>	<i>18.2</i>	<i>17.6</i>
<i>6th and 7th tranches of OGVZ bonds and OGVZ bonds issued in 1999</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>0.9</i>
ruble-denominated securities (OFZ)	0.5	0.7	0.7	0.4	0.3
other debt	0.3	0.4	0.4	0.4	0.3
<i>Soviet-era debt</i>	<i>9.4</i>	<i>8.9</i>	<i>8.5</i>	<i>8.2</i>	<i>7.1</i>
loans from members of Paris Club of creditor nations	0.6	0.1	0.1	0.0	0.0
debt to former Soviet-bloc countries	1.9	1.9	1.9	1.6	1.5
debt owed to other official creditors	3.3	3.3	3.0	3.0	2.2
3 rd , 4 th and 5 th tranches of OGVZ bonds	2.1	2.0	1.9	2.0	2.0
other debt	1.6	1.6	1.6	1.6	1.3
Regional and local governments	1.5	1.5	1.5	1.6	1.5
loans	1.0	1.0	1.1	1.1	1.1
ruble-denominated securities	0.5	0.5	0.4	0.4	0.4

End

	1.01.2007	1.04.2007	1.07.2007	1.10.2007	1.01.2008
Monetary authorities	3.9	8.8	8.2	12.8	9.0
loans*	3.0	7.7	7.0	11.5	7.1
cash rubles and deposits	0.9	1.0	1.1	1.3	1.9
Banks (without stakeholding in capital)	101.2	110.9	131.0	147.7	163.7
debt obligations to direct investors	0.4	0.5	0.7	0.9	1.2
loans	67.8	74.4	88.6	98.7	113.2
current accounts and deposits	27.8	29.3	33.8	39.2	40.7
debt securities	3.3	4.1	4.9	5.4	5.7
other debt	1.9	2.7	3.0	3.5	2.9
Other sectors (without stakeholding in capital)	160.7	185.0	212.0	230.8	249.6
debt obligations to direct investors	21.1	28.6	24.4	24.9	24.2
loans**	117.4	134.4	163.0	182.9	203.3
debt securities***	19.0	18.5	17.9	17.4	17.1
debt on finance leasing	2.8	3.1	3.3	3.6	4.1
other debt	0.4	0.4	3.3	2.0	0.9

* Repo transactions.

** From January 1, 2007, include debt on repo operations.

*** These include the market price of preference shares owned by non-residents. Preference shares are classified as a foreign debt component due to the issuer's obligation to pay dividends on them, although the issuer does not assume the obligation to repurchase them at market price.

Note. These include foreign debt denominated in national and foreign currency. Government securities are accounted for as part of debt owed to non-residents and evaluated at their nominal value.

Table 36

RUSSIA'S FOREIGN DEBT IN 2007 (analytical presentation, billion US dollars)

	1.01.2007	1.04.2007	1.07.2007	1.10.2007	1.01.2008
Russia's foreign debt	310.6	348.0	391.9	431.0	459.6
Short-term obligations	56.7	67.5	86.2	100.7	105.3
Long-term obligations	253.8	280.5	305.6	330.3	354.4
General government foreign debt*	135.4	152.4	173.1	186.2	187.1
Short-term obligations	15.7	19.9	17.7	26.0	22.1
Long-term obligations	119.7	132.5	155.4	160.2	164.9
Government	44.7	43.4	40.8	39.7	37.4
Short-term obligations	2.4	2.5	2.5	2.6	1.7
Long-term obligations	42.3	40.9	38.3	37.1	35.7
Monetary authorities	3.9	8.8	8.2	12.8	9.0
Short-term obligations	3.9	8.8	8.2	12.8	9.0
Banks	41.4	46.2	54.2	59.2	65.5
Short-term obligations	9.4	8.7	6.3	10.0	11.4
Long-term obligations	32.0	37.6	47.9	49.2	54.1
Other sectors	45.4	54.1	70.0	74.6	75.1
Short-term obligations	0.0	0.0	0.7	0.7	0.0
Long-term obligations	45.4	54.1	69.3	73.9	75.1
Private sector foreign debt*	175.1	195.6	218.8	244.7	272.6
Short-term obligations	41.0	47.6	68.5	74.6	83.1
Long-term obligations	134.1	148.0	150.2	170.1	189.4
Banks	59.8	64.6	76.8	88.5	98.1
Short-term obligations	30.1	30.8	36.0	40.0	42.3
Long-term obligations	29.7	33.9	40.8	48.6	55.9
Other sectors	115.3	130.9	142.0	156.2	174.4
Short-term obligations	10.9	16.8	32.5	34.6	40.9
Long-term obligations	104.4	114.1	109.4	121.5	133.6

* General government foreign debt covers foreign debt of the government, monetary authorities and banks and non-financial organisations in which the government and monetary authorities hold, directly or indirectly, 50% or more of shares or control otherwise. Debt obligations of other residents to non-residents, which do not fit into this definition, are classified as private sector foreign debt.

Note. Including foreign debt denominated in national and foreign currency.

Table 37

KEY ECONOMIC DEVELOPMENT INDICATORS OF RUSSIA'S LEADING TRADING PARTNERS IN 2005—2007*

	Real GDP, growth as % of previous year			Consumer prices, growth in December of reporting year as % of previous December**			Current account balance, as % of GDP***			International reserves, billion US dollars****		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
USA	3.1	2.9	2.2	3.4	2.5	4.1	-6.1	-6.2	-5.3	54.1	54.9	59.5
European Union (27 countries)*****	1.9	3.1	2.9	2.3	2.2	3.2	-0.2	-0.8	-0.7	395.5	431.9	500.3
Eurozone (13 countries)*****	1.6	2.8	2.6	2.2	1.9	3.1	0.1	-0.2	0.1	184.7	197.0	215.3
Belgium	2.0	2.9	2.7	2.8	2.1	3.1	2.6	2.7	3.2	8.2	8.8	10.4
Germany	0.8	2.9	2.5	2.1	1.4	3.1	4.6	5.0	5.6	45.1	41.7	44.3
Italy	0.6	1.8	1.5	2.1	2.1	2.8	-1.6	-2.6	-2.2	25.5	25.7	28.4
Spain	3.6	3.9	3.8	3.7	2.7	4.3	-7.4	-8.6	-10.1	9.7	10.8	11.5
The Netherlands	1.5	3.0	3.5	2.0	1.7	1.6	7.2	8.3	6.6	9.0	10.8	10.3
Finland	2.8	4.9	4.4	1.1	1.2	1.9	3.6	4.6	4.6	10.5	6.5	7.1
France	1.7	2.0	1.9	1.8	1.7	2.8	-0.9	-1.3	-1.3	27.8	42.7	45.7
United Kingdom	1.8	2.9	3.0	1.9	3.0	2.1	-2.5	-3.9	-4.9	38.5	40.7	49.0
Hungary	4.1	3.9	1.3	3.3	6.5	7.4	-6.8	-6.5	-5.6	18.6	21.5	24.0
Lithuania	7.9	7.7	8.8	3.0	4.5	8.1	-7.1	-10.8	-13.0	3.7	5.7	7.6
Poland	3.6	6.2	6.5	0.7	1.4	4.0	-1.6	-3.2	-3.7	40.9	46.4	63.0
Slovakia	6.6	8.5	10.4	3.7	4.2	3.4	-8.5	-7.1	-5.3	14.9	12.6	18.2
Czech Republic	6.4	6.4	6.5	2.2	1.7	5.4	-1.6	-3.1	-2.5	29.3	31.2	34.6
Sweden	3.3	4.1	2.6	0.9	1.6	3.5	6.8	8.5	8.3	22.1	24.8	27.0
Estonia	10.2	11.2	7.1	3.6	5.1	9.6	-10.0	-15.5	-16.0	1.9	2.8	3.3
Bulgaria	6.2	6.3	6.2	6.5	6.5	12.5	-12.0	-15.6	-21.4	8.0	10.9	16.5
Romania	4.2	7.9	6.0	8.6	4.9	6.6	-8.9	-10.4	-13.9	19.9	28.1	37.2

End

	Real GDP, growth as % of previous year			Consumer prices, growth in December of reporting year as % of previous December**			Current account balance, as % of GDP***			International reserves, billion US dollars****		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
Switzerland	2.4	3.2	3.1	1.0	0.6	2.0	13.5	15.1	17.2	36.3	38.1	44.5
Turkey	8.4	6.9	4.5	7.7	9.7	8.4	−4.7	−6.1	−5.7	50.6	60.9	73.4
Belarus	9.4	10.0	8.2	8.0	6.6	12.1	1.4	−4.1	−6.6	1.1	1.2	2.8
Ukraine	2.7	7.3	7.3	10.3	11.6	16.6	2.9	−1.5	−4.2	19.0	21.8	31.8
Kazakhstan	9.7	10.7	8.5	7.5	8.4	18.8	−1.8	−2.2	−6.6	6.1	17.8	15.5
Japan	1.9	2.4	2.1	−0.4	0.3	0.7	3.6	3.9	4.9	834.3	879.7	952.8
China	10.4	11.1	11.4	1.6	2.8	6.5	7.2	9.4	11.1	821.5	1,068.5	1,530.3
South Korea	4.2	5.1	5.0	2.6	2.1	3.6	1.9	0.6	0.6	210.3	238.9	262.2
India	9.1	9.7	9.2	5.6	6.9	5.5	−1.3	−1.1	−1.8	131.9	170.7	267.0
Israel	5.3	5.2	5.3	2.4	−0.1	3.4	3.3	6.0	3.1	28.1	29.2	28.5
Brazil	3.2	3.8	5.4	5.7	3.1	4.5	1.6	1.3	0.3	53.2	85.2	179.4

* According to official sources of statistical information of corresponding countries, EUROSTAT agency and the IMF as of April 10, 2008.

** For the EU, UK, eurozone, Germany, France and Italy: harmonised consumer price indices calculated in accordance with the EU Commission's general recommendations in respect to the consumer goods basket and methods of determining unit weights of goods and services and calculating averages.

*** "+" denotes a surplus, "−" denotes a deficit.

**** As of end of year; including monetary authorities' foreign currency assets and SDRs and reserve position in the IMF (each country's reserve share and credit position in the IMF). For EU: estimates based on IMF data (sum total of international reserves of EU member states). For eurozone, as determined by the European system of central banks.

***** Austria, Belgium, Bulgaria, 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.

***** Austria, Belgium, Germany, Greece, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal, Slovenia, Finland and France.

Table 38

CIS COUNTRIES' KEY MONETARY INDICATORS IN 2007*

	Azerbaijan	Armenia	Belarus	Georgia	Kazakhstan	Kyrgyzstan	Moldova	Russia	Tajikistan	Ukraine
Official central (national) bank rate (refinance rate), as of end of year, %:										
2006	9.5	4.75	10	—	9	3.15	14.5	11	12	8.5
2007	13	5.75	10	—	11	8.79	16	10	15	8
Official central (national) bank exchange rate (units of national currency) as of end of year against US dollar:										
2006	0.8714	363.50	2,140	1.7135	127.00	38.1238	12.9050	26.3311	3.4265	5.05
2007	0.8453	304.22	2,150	1.5916	120.30	35.4988	11.3192	24.5462	3.4649	5.05
against Russian ruble:										
2006	0.0331	13.80	81,13	0.0650	4.82	1.4452	0.4894	—	0.13013	0.19179
2007	0.0346	12.40	87,61	0.0649	4.92	1.4466	0.4619	—	0.14116	0.20574
Money supply in national currency (rate of growth by beginning of year, %)	105.9	63.9	29.2	54.3	25.7	44.2	47.3	47.5	39.3	50.8
Number of registered commercial banks:										
2006	44	21	32	17	33**	21	15	1,293	15	193
2007	46	22	31	19	35**	22	16	1,243	15	198

* According to data compiled by CIS national (central) banks.

** Source for number of commercial banks in Kazakhstan is the Agency for Regulation and Supervision of the Financial Market and Financial Institutions of the Republic of Kazakhstan.

Table 39

MONEY SUPPLY (national definition, billion rubles)

	1.01.2007	1.04.2007	1.07.2007	1.10.2007	1.01.2008
Money supply (M2), total	8,995.8	9,412.6	10,857.7	11,494.0	13,272.1
— cash in circulation (M0)*	2,785.2	2,741.2	3,027.5	3,220.9	3,702.2
— non-cash funds	6,210.6	6,671.4	7,830.2	8,273.2	9,569.9

* Cash in circulation outside the banking system.

Table 40

AVERAGE MONTHLY RATES OF GROWTH IN MONEY SUPPLY IN 2007 (%)

	Q1	Q2	Q3	Q4	Full-year
Money supply (M2), total	1.5	4.9	1.9	4.9	3.3
— cash in circulation (M0)*	—0.5	3.4	2.1	4.8	2.4
— non-cash funds	2.4	5.5	1.9	5.0	3.7

* Cash in circulation outside the banking system.

Table 41

M2 STRUCTURE

	As of 1.01.2007		As of 1.01.2008		Growth index
	billion rubles	%	billion rubles	%	
Money supply (M2), total	8,995.8	100.0	13,272.1	100.0	1.48
Of which:					
— cash in circulation (M0)*	2,785.2	31.0	3,702.2	27.9	1.33
— non-cash funds	6,210.6	69.0	9,569.9	72.1	1.54
of which:					
— non-financial enterprise sector funds	2,980.3	33.1	5,005.0	37.7	1.68
— household deposits	3,230.3	35.9	4,564.9	34.4	1.41

* Cash in circulation outside the banking system.

Table 42

MONETARY BASE AND ITS STRUCTURE

	As of 1.01.2007		As of 1.01.2008		Growth index
	billion rubles	%	billion rubles	%	
Monetary base (broad definition)	4,122.4	100.0	5,513.3	100.0	1.34
of which:					
— cash in circulation, including balances in credit institutions' cash departments*	3,062.1	74.3	4,118.6	74.7	1.35
— credit institutions' correspondent accounts with the Bank of Russia**	638.1	15.5	802.2	14.6	1.26
— required reserves***	221.1	5.4	221.6	4.0	1.00
— credit institutions' deposits with the Bank of Russia	98.1	2.4	270.3	4.9	2.76
— Bank of Russia bonds held by credit institutions****	103.1	2.5	100.7	1.8	0.98
— foreign exchange operation reserves deposited with the Bank of Russia	0.0	0.0	—	—	—

* Excluding cash in Bank of Russia institutions' cash departments.

** Ruble-denominated accounts, including cash balances on organised securities market.

*** For ruble and foreign currency funds raised by credit institutions to accounts.

**** At market value.

Table 43

MONETARY SURVEY (million rubles)

	1.01.2007	1.01.2008	Change over 2007
Net foreign assets of monetary authorities and credit institutions	6,905,294.30	9,911,983.90	3,006,689.60
Domestic claims	5,727,663.80	8,224,306.20	2,496,642.40
Net claims on government	—2,965,958.80	—4,757,674.50	—1,791,715.70
Claims on non-financial public-sector enterprises	221,452.20	288,713.40	67,261.20
Claims on non-financial private-sector enterprises and households	8,247,654.00	12,450,865.20	4,203,211.20
Claims on other financial institutions	224,516.40	242,402.10	17,885.70
Money supply (according to monetary survey methodology)	10,146,732.10	14,628,018.90	4,481,286.80
Money	5,598,406.70	7,974,264.90	2,375,858.20
Quasi-money	4,548,325.40	6,653,754.10	2,105,428.70
Temporarily inaccessible deposits	22,016.60	41,050.80	19,034.20
Money market instruments	723,577.40	710,604.70	—12,972.70
Capital account	1,774,354.70	3,343,242.90	1,568,888.20
Other (balance)	—33,722.70	—586,627.30	—552,904.60

Table 44

CREDIT INSTITUTIONS' ANALYTICAL ACCOUNTS (million rubles)

	1.01.2007	1.01.2008	Change over 2007
Reserves	1,339,565.10	1,817,635.40	478,070.30
Foreign assets	1,643,177.90	2,290,409.10	647,231.20
Claims on government	771,773.90	859,732.70	87,958.80
of which:			
— claims on regional and local governments	195,332.40	243,695.70	48,363.30
Claims on non-financial public-sector enterprises	221,431.50	288,704.40	67,272.90
Claims on non-financial private-sector enterprises and households	8,245,019.10	12,447,998.90	4,202,979.80
Claims on other financial institutions	224,516.40	242,402.10	17,885.70
Demand deposits	2,754,351.20	3,825,876.10	1,071,524.90
Time, savings and foreign currency deposits	4,548,317.80	6,653,748.60	2,105,430.80
of which:			
— foreign currency deposits	1,155,414.40	1,366,128.10	210,713.70
Temporarily inaccessible deposits	22,016.60	41,050.80	19,034.20
Money market instruments	723,577.40	710,604.70	—12,972.70
Foreign liabilities	2,745,543.90	4,089,470.70	1,343,926.80
Government deposits	296,848.60	300,620.20	3,771.60
of which:			
— regional and local government deposits	264,101.50	279,939.50	15,838.00
Debt obligations to monetary authorities	44,408.00	50,694.70	6,286.70
Capital accounts	1,690,198.50	2,881,192.30	1,190,993.80
Other (balance)	—379,778.00	—606,375.50	—226,597.50

Table 45

CORRECTIVE MEASURES TAKEN AGAINST CREDIT INSTITUTIONS IN 2007

No.	Description of measures	Number of banks
Preventive measures		
1	Written notification of the management and/or board of directors (supervisory board) of a credit institution about shortcomings in its work and recommended remedial action	1,109
2	Calling a meeting	464
3	Other (recommendations to draw up a plan of remedial actions, tighten control over reporting, make a realistic assessment of credit risk, avoid misstatements in reports, etc.)	149
Forced measures		
4	Fines*	448
	of which:	
4.1	For non-compliance with reserve requirements	97
4.2	For breaches of federal laws and Bank of Russia regulations issued in pursuance of these laws and for non-reporting, underreporting or false reporting	390
5	Imposing restrictions on individual banking operations conducted by credit institutions, such as:	75
5.1	Taking household savings on deposit	12
5.2	Effecting settlements on behalf of corporate entities to transfer funds to budgets of all levels and government extra-budgetary funds	36
6	Prohibiting credit institutions from conducting individual banking operations*, such as:	63
6.1	Taking household savings on deposit	18
6.2	Opening household bank accounts, including unallocated demand and time metal accounts	17
6.3	Other	61
	For the record:	
	Prohibition to take household funds on deposit and open personal accounts imposed in respect to a credit institution pursuant to Article 48 of Federal Law No. 177-FZ, dated December 23, 2003	7
7	Prescriptions*	698
	of which:	
7.1	Prescription to comply with Bank of Russia required ratios	14
7.2	Prescription to replace management	5
8	Prohibiting credit institutions from opening branches	54
9	Appointing provisional administrations to manage a credit institution without revoking its licence	—
10	Revoking banking licence	49

* The number of credit institutions in points 4 and 6 differs from the number of credit institutions in the respective sub-points because several corrective measures have been used against banks.

As of January 1, 2008, the restriction on settlements on behalf of legal entities, such as the transfer of funds to budgets of all levels and government extra-budgetary funds was in effect with regard to one credit institution.

As of January 1, 2008, none of the operating credit institutions had a backlog of non-executed settlement documents on payments to budgets of all levels.

Table 46

RUSSIAN PAYMENT SYSTEM KEY INDICATORS

	2006	2007
Institutional structure of Bank of Russia payment system*		
Number of payment system participants:	5,393	5,373
— Bank of Russia institutions	923	782
— credit institutions	1,189	1,136
of which:		
— non-bank settlement credit institutions	43	42
— branches of credit institutions	3,281	3,455
For the record:		
Number of additional offices of credit institutions and branches of credit institutions	15,007	18,979
Other internal divisions of credit institutions or branches of credit institutions**	16,881	16,729
Total number of accounts opened by payment system participants for customers***, million	369.1	421.7
of which:		
— household accounts	363.8	415.9
— corporate accounts	5.3	5.8
Payments effected by individual payment systems		
Number of payments, thousand		
of which:		
— payments effected by Bank of Russia payment system	696,259.5	833,867.6
— payments effected by interbank private payment systems	57,139.5	83,652.0
— payments effected by intrabank payment systems between divisions of one bank	266,613.4	386,750.8
Value of payments, billion rubles		
of which:		
— payments effected by Bank of Russia payment system	267,308.0	445,753.2
— payments effected by interbank private payment systems	18,707.2	35,057.4
— payments effected by intrabank payment systems between divisions of one bank	56,488.7	102,153.8
Non-cash payment instruments in Bank of Russia payment system		
Number of payments effected using various instruments of payment, thousand		
of which:		
— payment orders	1,006,182.9	1,114,584.5
— payment requests and collection orders	43,371.6	80,506.8
— letters of credit	372.8	29.1
— cheques	624.8	263.5
— other instruments of payment	457,075.8	792,841.2
Value of payments effected using various instruments of payment, billion rubles		
of which:		
— payment orders	351,279.9	510,874.7
— payment requests and collection orders	2,644.0	6,630.3
— letters of credit	101.7	138.4
— cheques	87.6	57.6
— other instruments of payment	8,449.8	4,859.2

End

	2006	2007
Non-cash payments in Bank of Russia payment system by technology used		
Number of payments (thousand) effected		
— electronically	1,294,772.7	1,718,440.8
— on paper	377,848.8	737,227.6
Value of payments (billion rubles) effected		
— electronically	404,634.6	691,061.3
— on paper	41,376.3	55,014.9
Payment card market key indicators		
Number of payment cards issued by Russian credit institutions*, thousand	74,762.2	103,496.6
of which:		
— credit cards, thousand	5,659.6	8,944.3
Total number of operations conducted in Russia using payment cards****, thousand	1,198,520.0	1,624,697.2
of which:		
— operations conducted using credit cards issued by Russian credit institutions, thousand	17,833.0	32,231.4
Total value of operations conducted in Russia using payment cards****, billion rubles	4,396.7	6,449.7
of which:		
— operations conducted using credit cards issued by Russian credit institutions, thousand	88.3	133.7

* As of end of year.

** Operations offices, cash and credit offices, cash departments outside cash settlement centres.

*** Accounts which can be used to effect payments.

**** Payment cards issued by Russian credit institutions and payment cards issued outside Russia.

Table 47

BANK OF RUSSIA PAYMENT SYSTEM

	2006	2007
Number of customers served*,	39,652	32,745
of which:		
— credit institutions	1,189	1,136
— branches of credit institutions	2,062	2,285
— customers other than credit institutions	36,401	29,324
Number of payments effected, thousand	696,259.5	833,867.6
of which:		
— by credit institutions and their branches	570,949.4	697,944.2
— by customers other than credit institutions	124,479.2	135,062.6
— by Bank of Russia divisions	830.9	860.9
Value of payments effected, billion rubles	267,308.0	445,753.2
of which:		
— by credit institutions and their branches	225,944.8	358,178.2
— by customers other than credit institutions	34,338.7	38,660.9
— by Bank of Russia divisions	7,024.4	48,914.1
Number of electronic payments, thousand	692,679.5	831,019.7
Value of electronic payments, billion rubles	266,234.1	444,622.2
Number of Bank of Russia institutions participating in intraregional electronic settlements*	892	757
Number of Bank of Russia institutions participating in interregional electronic settlements*	892	757
Total number of customers exchanging electronic documents*	3,651	3,809
of which:		
— credit institutions and their branches	3,257	3,324
— customers other than credit institutions	394	485
Number of payments received through communication channels, thousand**	690,986.9	812,872.4
Number of payments effected on paper, thousand	3,579.9	2,847.9
Value of payments effected on paper, billion rubles	1,073.9	1,131.0

* As of end of year.

** Based on the reporting form compiled according to a methodology different from the methodology for calculating other Bank of Russia payment system indicators.

Table 48

NOTE STRUCTURE OF BANK OF RUSSIA BANKNOTES IN CIRCULATION

Denomination, rubles	Total in circulation, million rubles		As % of 1.01.2007	% share	
	as of 1.01.2007	as of 1.01.2008		as of 1.01.2007	as of 1.01.2008
5,000	143,203.1	859,776.9	600.4	4.7	21.0
1,000	2,117,774.5	2,471,069.2	116.7	69.5	60.2
500	641,023.7	619,066.7	96.6	21.0	15.1
100	108,105.7	112,369.3	103.9	3.5	2.7
50	30,004.4	30,430.0	101.4	1.0	0.7
10	9,661.9	11,038.3	114.2	0.3	0.3
5	37.6	36.8	97.9	0.0	0.0
Total balance sheet number of banknotes of 1997 issue	3,049,810.9	4,103,787.2	134.6	100.0	100.0

Table 49

STRUCTURE OF BANK OF RUSSIA COINS IN CIRCULATION*

Denomination	Total in circulation, million rubles		As % of 1.01.2007	% share	
	as of 1.01.2007	as of 1.01.2008		as of 1.01.2007	as of 1.01.2008
1 kopeck	59.3	64.7	109.1	0.4	0.3
5 kopecks	215.6	241.7	112.1	1.3	1.2
10 kopecks	1,157.8	1,357.2	117.2	7.0	6.7
50 kopecks	1,318.7	1,594.6	120.9	8.0	7.8
1 ruble	3,248.0	3,966.8	122.1	19.7	19.4
2 rubles	2,403.0	2,985.6	124.2	14.5	14.6
5 rubles	5,476.2	6,753.1	123.3	33.2	33.0
10 rubles	2,621.3	3,485.3	133.0	15.9	17.0
Total balance sheet number of coins of 1997 issue	16,499.9	20,449.0	123.9	100.0	100.0

* Excluding coins made of precious metals.

Table 50

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 1.01.2008	
		as of 1.01.2008	as of 1.01.2007	in authorised capital	in voting capital
Sberbank, Moscow*	thousand rubles	39,019,407	36,341,604	57.58	60.25
Moscow Interbank Currency Exchange (MICEX), Moscow	thousand rubles	331,940	331,940	29.79	29.79
St Petersburg Currency Exchange (SPCEX), St Petersburg	thousand rubles	302	302	8.90	8.90
National Depository Centre, Moscow	thousand rubles	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	0.006	—
Interstate Bank, Moscow	thousand rubles	10,000	10,000	50.00	50.00

* The nominal value of Bank of Russia shares in Sberbank has increased (according to the decision by the Sberbank shareholders' meeting to place an additional share issue) as a result of the purchase of 892,601 ordinary shares of the additional issue.

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