THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Banking Supervision Report 2010

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Foreword

Dear readers,

In 2010, the Russian economy gradually returned to a positive growth path and worked hard to overcome the aftermath of the global crisis. This also had a favourable impact on banks' activities. Lending to the economy picked up and the quality of the loan portfolio stabilised and gradually improved from the third quarter onward. This was an important factor, which contributed to a significant increase in profitability of banking. The profits that the banks earned in 2010 proved to be the highest in the last decade and helped offset the losses incurred during the crisis.

The banks completely normalised their current liquidity and, amidst the overall economic recovery, this factor allowed for the gradual exit from the anti-crisis measures. As the regulatory environment returned to its pre-crisis mode, credit institutions built up their base of funds. They primarily did so by leveraging household savings, with the banking sector maintaining its credibility, partly due to the efficient functioning of the deposit insurance system. In the meantime, banking risks, including those associated with the aftermath of the crisis, still remain significant. The Report examines this matter in detail.

The amount of “bad” debt in bank portfolios remains fairly large. Another pressing problem is non-core assets.

The Report discusses ways of improving banking regulation and promoting risk-based banking supervision. When addressing substantive approaches to credit institutions and their assessment, supervision in 2010 focused on asset quality and risk concentration. These included owner risk concentration, and risks resulting from credit institutions raising costly funds, especially household deposits.

Given the focus on the systemic sustainability of the banking sector, the Report considers, at much length, analysis of systemic risks, including the results of stress tests.

The Report looks at the prospects for Russia's system of banking regulation and supervision based on legal requirements and the objectives set forth in the Russian Banking Sector Development Strategy until 2015, which has been approved by the Russian Government and the Bank of Russia.

Sergey M. Ignatiev,
Bank of Russia Chairman

The State of the Russian Banking Sector

I

I.1. General Economic Conditions

I.1.1. Macroeconomics

In 2010, the Russian economy was recovering from the global financial and economic crisis. Due to the fact that the economic recovery lacked stability in 2010, the Bank of Russia's monetary policy aimed to support and expand aggregate demand while maintaining its strategic focus on lowering inflation.

The key factors driving growth in production were the increased exports of goods and services and higher levels of investment and consumption. Employment growth resumed. The inflation rate remained at its 2009 level.

2010 witnessed price growth in most of the global commodity markets, and market conditions improved markedly for Russian exporters. This positively influenced the terms of trade between the Russian Federation and other countries.

After it dropped by more than one-third in 2009, the average annual price of Urals oil increased by 30% on the world market (to $78.2 per barrel). Energy prices climbed by 22% on average, while non-energy-related prices grew by 11%.

The trade surplus increased by one third and the current account surplus rose by almost 50%.

The real effective rouble exchange rate was up 6.9% in December 2010 year on year (it had dropped by 3.9% year on year as of December 2009). The rouble's value against the US dollar gained by 4.0% in real terms (it lost 0.4% in 2009). When measured against the euro, the rouble appreciated by 14.5% in real terms (it depreciated by 6.5% in 2009).

These exchange rate movements contributed to a further contraction in foreign cash outside banks. It dropped by $14.8 billion in 2010 as against $4.3 billion in 2009. The net outflow of private capital decreased by one third: from $56.1 billion in 2009 to $35.3 billion in 2010. This was mainly a result of the banks raising capital, in contrast to a year earlier, when their foreign liabilities were falling. Russia's international reserves increased by $39.9 billion in 2010, to $479.4 billion (as of January 1, 2011).

Russia's foreign debt began to grow again in 2010, largely because of the increased debt of the banks, and reached $488.7 billion on January 1, 2011. In the meantime, the debt burden on the country's economy[1] fell from 37.9% of GDP in early 2010 to 33.1% of GDP in early 2011. This burden ratio is not critical, when measured according to internationally-recognised criteria.

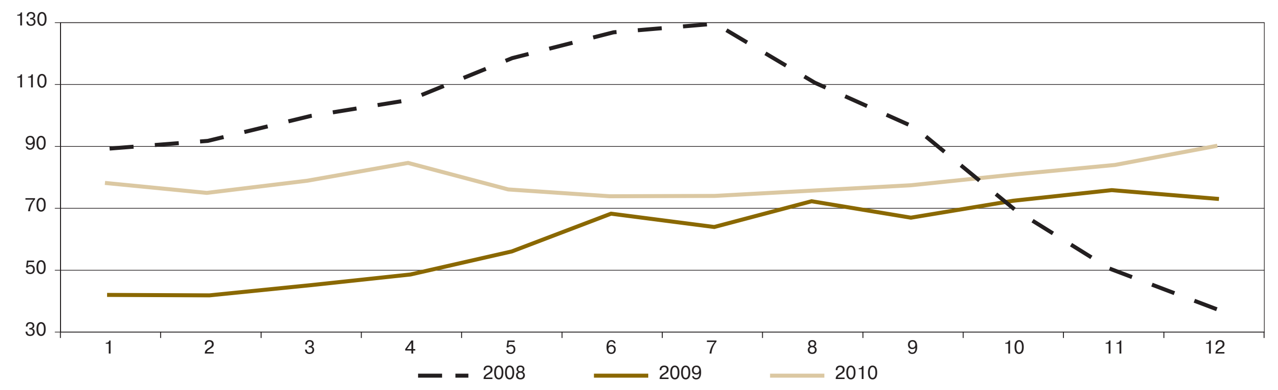
Russia's GDP grew by 4.0% in 2010 (compared with a 7.8% decrease in 2009).

In 2010, employment increased by 0.6% as against a drop of 2.2% in 2009. Unemployment in the reporting year dropped by 10.9% to 7.5% of the economically active population from 8.4% in 2009.

Gross fixed capital formed in 2010 was up 6.1% (it was down 14.4% in 2009). The key factors that drove up investment activity were the improved financial position of organisations and wider access to credit resources.

Wage and pension growth in 2010 contributed to a 4.1% increase in household real disposable income. With the situation in the labour market improving and with consumer lending picking up, the growth of incomes

World prices of Urals oil (US$/barrel) CHART 1.1



[1] Foreign debt to GDP.

positively influenced consumer spending on goods and services. In 2010, final consumption by households expanded by 3.0% as against a 4.8% decrease in 2009.

Public propensity for consumption increased slightly in 2010 to 69.9%. Although organised savings represented a smaller percentage of the household money income use in the second half of 2010, they were up for the year as a whole 0.4% on 2009 and amounted to 14.5%, 7.8% of which consisted of deposits and securities (4.5% in 2009). Household demand for foreign currency rose in the second half of 2010. However, for the year as a whole, spending on purchases of foreign currency was down 1.8 percentage points on 2009 and amounted to 3.7%.

The rate of inflation moved in different directions on the consumer market in 2010. In the first half of the year, it experienced a downward trend, as demand slowly recovered and the rouble appreciated. From August onward, however, consumer prices were affected by developments in agriculture, where production fell as a result of a drought. The growth of farm producer prices occurred wholly between August and December 2010, totalling 23.6% for the year as a whole. Food prices on the consumer market grew by 12.9% in 2010 as against 6.1% in 2009. Fruit and vegetable prices soared by 45.6%, posting the highest rise recorded since 1999 (they fell by 1.7% in 2009). The 2010 inflation rate settled at 8.8%, mirroring its 2009 figure.

Industrial producer prices rose by 16.7% in 2010 as against 13.9% in 2009. The higher growth rate was due to prices growing faster in the manufacturing sector: 16.9% in 2010 as against 5.9% in 2009.

Producer prices in the hydrocarbon extraction sector rose by 16.1% in 2010, as compared with 61.0% in 2009. In 2010, price growth in the production and distribution of electricity, gas and water totalled 13.8%, a decrease of 4.5 percentage points from 2009.

I.1.2. The non-financial sector of the economy[2]

In 2010, the development of the non-financial sector of the economy allowed it to overcome the crisis-related difficulties that had hindered it in the second half of 2008 and in 2009.

The economic environment and the economic situation of enterprises substantially improved in 2010, as compared with 2009.

With mounting orders on foreign and domestic markets, the non-financial sector increased the production of key products and services in many areas of economic activity. Production growth in industry and in a number of other types of economic activity of the non-financial sector encouraged the growth of transportation. Freight turnover was up 6.9% in 2010 (it was down 10.0% in 2009). Industrial production grew by 8.2%, with the manufacturing sector accounting for most of the growth.

In the meantime, weather abnormalities led to a significant drop in farm production. In 2010, agricultural production fell by 11.9% as compared with 2009 (when it increased by 1.4%). Construction also fell short of its 2009 level.

There was a positive change in investment in 2010 as compared with the year before. According to statistical data, fixed capital investment grew by 106%, whereas in crisis-affected 2009 investment fell to 83.8% of the previous year's level.

Larger and smaller enterprises (in terms of assets) were engaged in different investment activities. Enterprises with assets worth more than one billion roubles focused on income-bearing investments[3] in tangible assets and long-term financial investments, and invested less in fixed assets. Enterprises with assets from 100 million roubles to one billion roubles expanded their long-term financial investments in fixed assets. Enterprises with assets worth less than 100 million roubles were engaged in limited investment operations; they increased their fixed assets while cutting down on other types of investment assets.

The overall financial performance of the non-financial sector was characterized by a considerable increase in the share of profit-making enterprises and organisations, the proportion of which exceeded two-thirds in 2010.

In 2010, several key factors contributed to the financial soundness of enterprises. These included improvements in production and in demand, which resulted in the improved structure of the enterprises' assets (including working ones) in terms of liquidity. They also included investment activity growth, the increased backing of short-term liabilities with working assets (including highly liquid ones), higher earnings, liabilities fully covered by earnings and the profitability of most enterprises.

Still, the financial position of enterprises varied depending on the size of their assets. The largest enterprises (with assets worth more than one billion roubles) enjoyed the best conditions (which tended to improve). The financial position of the remaining enterprises barely changed, and in some cases worsened, due to a marked funding deficit.

I.1.3. Payment system

In 2010, the functionality of Russia's payment system continued to broaden and the efficiency of payments to increase, which resulted from infrastructural upgrades and improved legal support. This helped the Russian market for payment services develop in a sustainable manner.

[2] Analysis is based on the results of Bank of Russia's monitoring of non-financial enterprises.
[3] Some property, buildings, facilities, equipment and other physical assets that an organisation provides for temporary use (temporary possession and use) for a fee to earn income.

As of January 1, 2011, the banking system had 42,900 providers of payment services[4], representing an increase of 1.3% in 2010. There were 30.2 banking institutions and internal Bank of Russia's establishments for every 100,000 people (29.9 institutions as of January 1, 2010).

In 2010, the Russian payment system processed 4.9 billion payments[5] for a total of 433.3 trillion roubles, the bulk of which consisted of payments in Russian roubles (98.7% of the total number and 88.4% of the value). On average, 19.7 million payments worth 1.7 trillion roubles, were carried out daily. The average payment stood at 88,500 roubles as against 131,400 roubles in 2009. There were 28.7% more payments made in roubles and foreign currency in 2010 than in 2009. However, the payment volume fell by 13.3%, which was due to a significant (2.4-fold) decrease in foreign-currency payments.

In the total number and value of the payments in roubles and foreign currency that were made by customers (other than credit institutions) of credit institutions and the Bank of Russia in 2010, credit transfers represented 54.3% and 97.6%, card payments 22.3% and 0.5%, bank order payments 20.5% and 1.5%, and direct debit payments 2.8% and 0.4% respectively. As in previous years, payments with cheques were hardly ever used. They represented less than 1,000th of one percent of the total number and value of payments effected in 2010.

Many credit transfers were made by payment order: these accounted for 49.2% of the total number and 99.0% of the total value (59.0% and 99.4% respectively in 2009). Remittances made by individuals without opening bank accounts increased from 41.0% to 50.8% of the total number and from 0.5% to 0.8% of the total value. This was due to strong growth rates (both in number and in value) as compared with 2009 (1.6 times and 1.3 times respectively). Letter of credit payments represented a fraction of the total: less than 0.01% of the total number and 0.1% of the total value. On the other hand, that signalled appreciable growth as compared with 2009 (it represented a more than three-fold increase, both in terms of number and in terms of value).

In 2010, 93.4% of the total number and 75.8% of the total value of remittances made by individuals without opening bank accounts were effected outside money transfer systems. Local remittances within the Russian Federation prevailed (98.3% in terms of number and 96.0% in terms of value). More than one-third of transactions handled through money transfer systems were cross-border remittances from the Russian Federation (35.4% in terms of number and 42.8% in terms of value).

Direct debit payments dropped in value by 38.2% year on year. Meanwhile, the value of payments made by collection orders fell by 2.5 times and the value of payments effected by payment requests fell by 1.4 times. The number of direct debit payments remained virtually the same as in 2009.

The payment card market continued to make headway in 2010. As of January 1, 2011, credit institutions had issued 144.4 million payment cards, representing an increase of 14.6% during the year. The number and value of payment transactions executed with these cards both in the Russian Federation and elsewhere were up 27.4% and 30.9% respectively over 2009, totalling 3.2 billion transactions worth 13.2 trillion roubles. Payment cards were still used most often for cash withdrawals: 65.6% and 84.0% of the total number and value respectively (70.9% and 87.2% in 2009). Meanwhile, payment cards have increasingly been used for non-cash transactions in the past few years. These transactions increased in terms of number from 29.1% in 2009 to 34.4% in 2010 and in terms of value from 12.8% to 16.0%. A vast majority of non-cash card transactions consisted of payments for goods and services (including customs payments): 95.7% of the number and 82.8% of the volume (96.6% and 85.6% in 2009). Other transactions accounted for 4.3% and 17.2% (3.4% and 14.4% in 2009).

As in previous years, payment card non-cash transactions in 2010 grew at a higher rate than cash withdrawals: 50.8% as against 17.8% in terms of number and 63.7% as against 26.1% in terms of value. This was largely due to a significant increase in customs payments (3.2-fold in number and 1.8-fold in value) and in payment card transfers of funds from one bank account to another (1.9-fold and 2.0-fold respectively). To a large extent, this was facilitated by the dynamic growth of the payment card infrastructure. During the year, the number of devices (ATMs, electronic terminals and imprinters) used to process payments for goods and services increased by 14.1% to 574,500 units as of January 1, 2011.

In 2010, cash continued to play a dominant role in household payments. The cash desks of Bank of Russia's establishments and credit institutions (hereinafter referred to as the banks' cash desks) received 9.1 trillion roubles from the sale of consumer goods (up 14.8% on 2009), 2.9 trillion roubles from paid services (up 24.4%), and 300 billion roubles from real estate transactions (up 32.2%). The aggregate share of these payments in the total cash receipts handled by the banks' cash desks amounted to 48.0% (47.6% in 2009). Cash receipts from the sale of foreign currency to individuals decreased by 24.9% to 1.2 trillion roubles.

2010 saw further growth of cash received by payment agents and banking payment agents from individuals as payment for goods (work or services), including housing and utilities payments. These amounts almost tripled year on year to 298.9 billion roubles.

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[4] Bank of Russia's establishments, credit institutions and their branches, additional offices, operations and cash and credit offices, and external cash desks.

[5] Including payments in roubles and foreign currency made from the customer accounts of the Bank of Russia and credit institutions (individuals and legal entities other than credit institutions), including payments effected with payment cards; remittances made by individuals without opening bank accounts; and own payments made by credit institutions.

As in previous years, the Bank of Russia payment system remained systemically important for the payment system of the Russian Federation. Payments made through the Bank of Russia payment system represented 14.7% of the GDP, this ratio being a key performance indicator of the payment system.

As in the previous year, payments made by credit institutions (branches) in 2010 accounted for most of the total number and value of payments effected through the Bank of Russia payment system. There were 881 million such payments made for an amount totalling 514.3 trillion roubles (775.7 million payments to the amount of 454.5 trillion roubles in 2009). These payments by credit institutions (branches) represented 83.2% of the total number and 78.7% of the total value of payments processed through the Bank of Russia payment system.

The BESP system[6] continued to evolve into a full-scale mechanism, effecting large and urgent payments by credit institutions used for settlements on the interbank market, settlements with infrastructural organisations of financial markets, and payments by the Federal Treasury and its regional offices. In 2010, the Bank of Russia used BESP to make its own payments on the local government securities market and during the single trading session of interbank currency exchanges.

In 2010, BESP processed 205,100 payments, triple the number processed in 2009. The value of the 2010 BESP payments totalled 127.3 trillion roubles as against 106.6 trillion roubles in 2009.

Payments in excess of one million roubles represented 87.8% of the total number of BESP payments. As efforts were made to implement the Plan of Action to create an international financial centre in the Russian Federation (which was approved by Government Decree No. 911-r on July 11, 2009), BESP in 2010 covered all credit institutions (branches) that met the Bank of Russia's membership requirements, to which end the system's regulatory framework was improved. As of January 1, 2011, there were 3,343 BESP participants, of which 621 were direct participants and 2,430 were associate settlement participants, including the Federal Treasury and its regional offices.

I.1.4. Banking sector macroeconomic performance

In 2010, most of the key indicators that described the banking sector's role in the economy grew more slowly, relative to GDP, due to the faster growth of nominal GDP. The ratio of banking sector assets to GDP dropped from 75.9% to 75.2% during the year. The ratio of banking sector capital to GDP measured 10.5%, down 1.4 percentage points.

In 2010, the principal source of funds for credit institutions was household deposits: their share of GDP increased by 2.5 percentage points to 22.8% during the year (the deposits represented 29% of the banking sector liabilities as of January 1, 2011, as against 25.4% as of January 1, 2010). The ratio of deposits and other funds raised from corporate entities to GDP fell by 0.7 percentage points to 13.4% during the year.

In 2010, as in the previous year, loans prevailed in the structure of banking sector assets. The total loans[7] to GDP ratio dropped by 1.9 percentage points to 49.3%, while their share of the total banking sector assets decreased by 1.9 percentage points to 65.5%. The ratio of loans to non-financial organisations and individuals to GDP fell by 1.1 percentage points to 40.4%. Equity portfolios grew rapidly, but their share of GDP remained insignificant (1.6%).

[6] A system of banking electronic speed payments.

[7] Loans, deposits and other funds extended to resident non-financial organisations, non-resident corporate entities (excluding banks), the financial sector, non-resident banks, public fiscal authorities and extra-budgetary funds, and resident and non-resident individuals.

I.2. Institutional Aspects of Banking Sector Development

I.2.1. Quantitative characteristics

In 2010, the number of operating credit institutions decreased by 46 to 1,012 (*see Chart 1.2*). During the year, 28 credit institutions had their licences revoked (cancelled); 19 credit institutions were struck off the State Register following post-merger reorganisations; and one new credit institution received a banking licence. The trend of recent years, therefore, continued in 2010, i.e. the number of credit institutions[8] dropped in all federal districts.

As they expanded their presence on the regional banking markets in 2010, large multi-branch banks pursued policies to cut costs by streamlining their regional units. The number of branches of operating credit institutions (excluding OAO Sberbank of Russia[9]) fell from 2,538 to 2,352 (a drop of 7.3%). Sberbank, too, continued to optimize its branch network, reducing it in 2010 by 71 branches (11.0%).

As the number of branches was cut in 2010, more additional and operations offices opened. During the year, the total number of internal divisions[10] of credit institutions increased by 884 to 38,431 as of January 1, 2011. As a result, the number of the banks' internal divisions in the Russian Federation increased from 26.5 to 27.1 per 100,000 people.

I.2.2. Regional banking

In 2010, the number of credit institutions fell off in most Russian regions: regional banks[11] saw their number dwindle from 523 to 487. In 2010, the asset growth rates of regional banks (11.2%) were below those of the banking sector as a whole (14.9%). As a result, the share of regional banks in the total assets of the banking sector fell from 14.1% to 13.7% during the year.

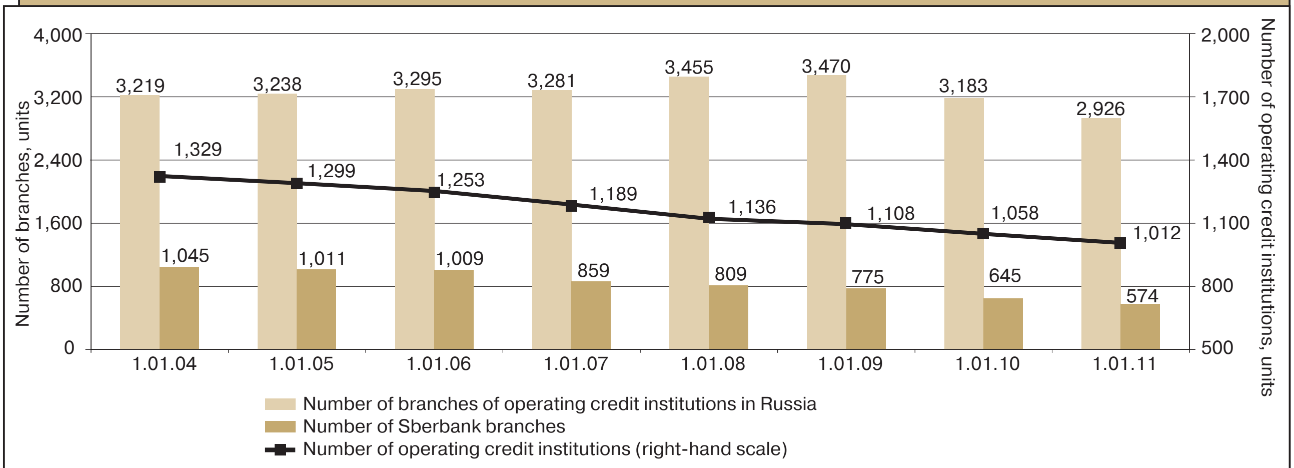
Regional banks' capital increased by 3.7%, or 21.3 billion roubles during the year (the banking sector capital grew by 2.4% or 111.7 billion roubles). Accordingly, regional banks' capital as a share of the banking sector total capital rose from 12.6% as of January 1, 2010, to 12.8% as of January 1, 2011.

With banking services recovering against the background of enterprises restoring their finances in most economic sectors and households becoming more solvent, regional banks were able in 2010 to triple their profits (as compared with 2009) to 54.6 billion roubles.

As of January 1, 2011, profit-making regional banks represented 90.8% of all regional banks (as against 90.3% as of January 1, 2010) and 95.2% of the regional banks' assets (as against 88.6% as of January 1, 2010).

Number of credit institutions and their branches

Chart 1.2



[8] The number of credit institutions dropped by 195 in 2006-2009.
[9] Hereinafter referred to as Sberbank.
[10] Additional, operations, and cash and credit offices, external cash desks and mobile banking vehicles of credit institutions (branches). Unlike the "Number of banking institutions" indicator *(see Section I.1.3 Payment system)*, calculations of the number of internal divisions exclude Bank of Russia's establishments and the head offices and branches of credit institutions.
[11] Regional banks are understood as banks registered outside Moscow and the Moscow Region.

The scarcity of banking services, however, remains an acute problem in many regions. The aggregate index of the density of banking services in regions had a minimum value in the North-Caucasian Federal District in 2010[12]. It improved somewhat in the Siberian and Far Eastern Federal Districts. The lowest levels of the density of banking services among the regions of the Russian Federation were recorded in the Republic of Daghestan, Ingushetia, Sakhalin Region and Chukchee Autonomous Area *(see Tables 7.1 and 7.2 of Statistical Appendix).*

The density of banking services was the highest in the Central Federal District (especially Moscow) followed by the North-Western Federal District (where Saint Petersburg ranks highly in terms of banking services density) and by the Volga Federal District.

I.2.3. Banking services concentration

In 2010, the share of top 200 credit institutions in terms of assets in banking sector total assets remained virtually the same: it equalled 93.7% at the beginning of the year and 93.9% at the end of the year. At the same time, the combined share of the five largest banks fell slightly (from 47.9% as of January 1, 2010, to 47.7% as of January 1, 2011).

The capital of the top 200 credit institutions in terms of capital accounted for 92.7% of banking sector total capital as of January 1, 2011 (92.9% as of January 1, 2010), with the five largest banks accounting for 48.8% (52.2%).

In 2010, the number of credit institutions with capital worth over 180 million roubles increased from 776[13] to 778 (accounting for almost 77% of all operating credit institutions). These credit institutions represented 99.5% of banking sector total positive capital as of January 1, 2011, as against 99.4% as of January 1, 2010 (*see Chart 1.3*).

Quantitative estimates that are commonly used internationally indicate that the concentration of assets in the Russian banking sector remained low in 2010 (changes in the Herfindahl-Hirschman Index (hereinafter referred to as the HHI) are shown in *Chart 1.4*). This was due, among other factors, to a significant number of small credit institutions.

The asset concentration index equalled 0.091 as of January 1, 2011 (it had varied between 0.08 and 0.09 in the preceding three years), which corresponds to a low level. The concentration of loans to non-financial organisations remained modest (despite the HHI falling from 0.135 to 0.125 in 2010).

In 2010, household deposit concentration also fell off (from 0.251 to 0.236), although it still remained quite high. It declined because all credit institutions, including small banks, had heavily raised deposits by offering particularly high deposit rates (which caught the eye of the supervisory authorities - *see Sections III.3 and IV.1*).

In 2010, capital concentration dropped from 0.105 to 0.090. One reason for it was a marked increase in the capital of small regional banks.

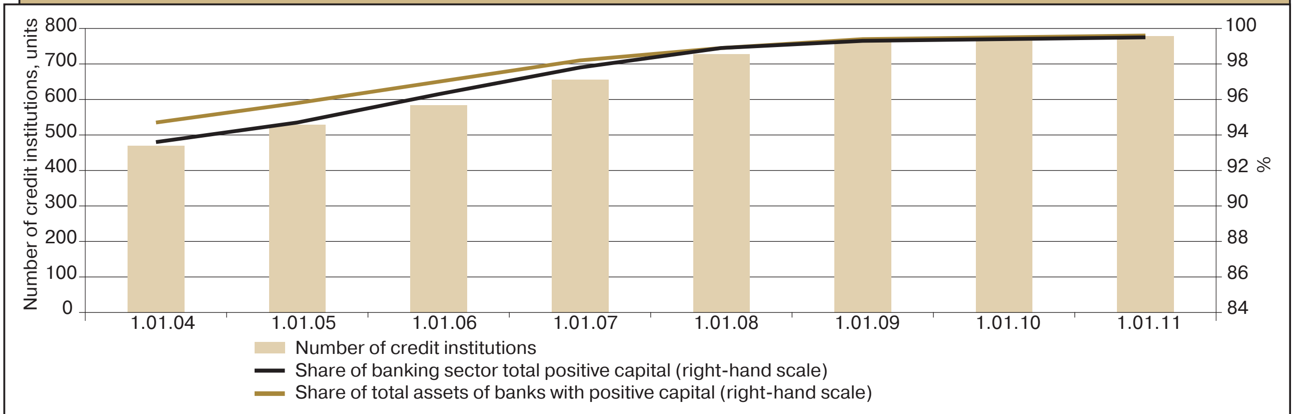
In 2010, strong differences remained among the regions in terms of their banking service concentration levels *(see Chart 1.5)*. Asset concentration was modest in most of the federal districts (with the HHI measuring from 0.10 to 0.18).

I.2.4. Interaction between the banking sector and other segments of the financial market

The foreign exchange market. The situation remained broadly stable on the domestic foreign exchange market in the reporting year. The rouble continued to appreciate in the first months of 2010; this was driven by funds flowing into the current account amidst favourable external economic conditions. The rouble remained

Number of banks with capital in excess of 180 million roubles and their share of banking sector total capital

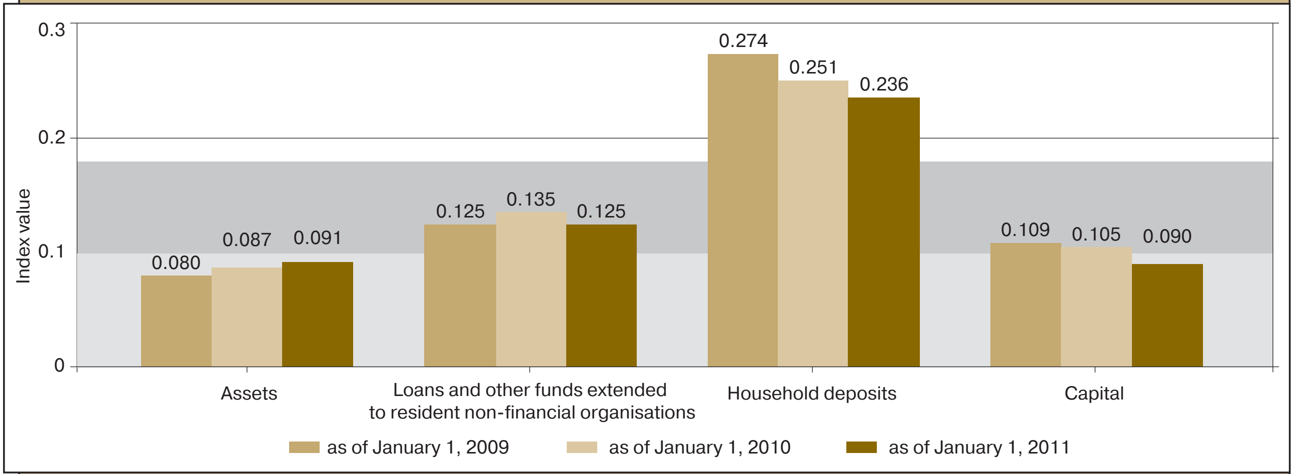
CHART 1.3



[12] Since North Caucasus was established as a federal district in 2010, the imputed aggregate index of the density of banking services in regions is given for it as of January 1, 2010, if the data are considered compatible.
[13] Including the credit institutions managed by the State Corporation "Deposit Insurance Agency".

Russian banking sector concentration indices (HHI)

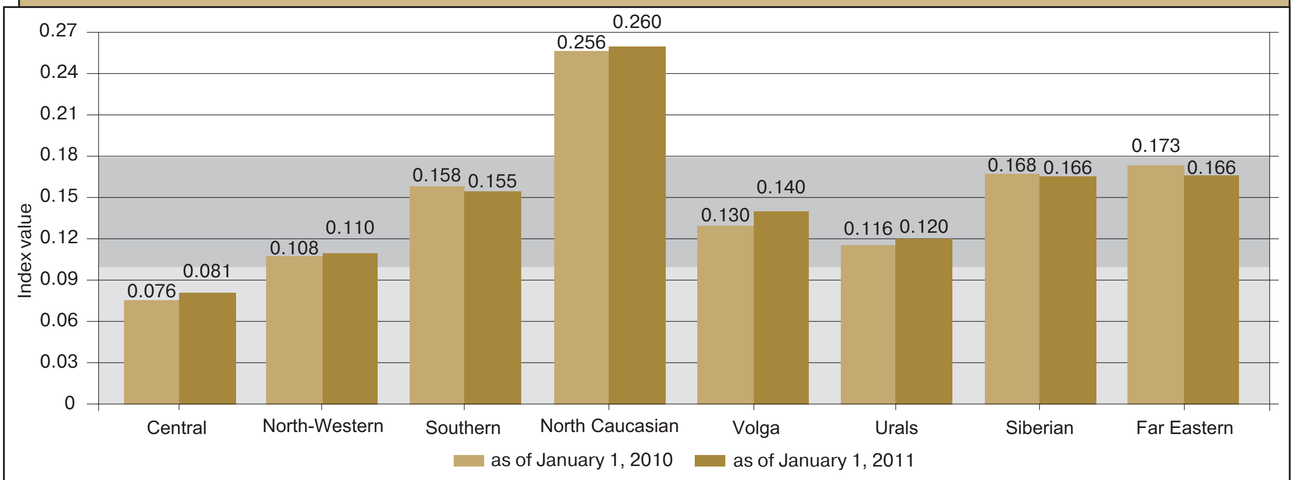
CHART 1.4



The Herfindahl-Hirschman Index is calculated as the sum of squared unit weights of credit institutions in the total volume of the banking sector.
It shows the degree of the indicator's concentration on a scale of values ranging from 0 to 1.
A value of less than 0.10 corresponds to a low level of concentration;
from 0.10 to 0.18 indicates an average level of concentration; and more than 0.18 represents a high level of concentration.

Asset concentration (HHI) by federal district

CHART 1.5



The Herfindahl-Hirschman Index is calculated as the sum of squared weights of total assets of divisions (the head office and/or branches located in the federal district) for each credit institution in the total assets of all divisions of the credit institutions located in the federal district.

relatively stable in the summer months but tended to weaken in September through November of 2010. Domestic market demand for foreign currency outweighed the supply during that period, against the background of a seasonal drop in current account receipts, and with net capital outflows to build up foreign assets and make payments to service the external debt of the Russian corporate sector.

In 2010, the Bank of Russia continued to transform its exchange rate policy mechanisms to increase its exchange rate flexibility. The Bank of Russia intervened much less on the domestic foreign exchange market than it had done in 2009.

In 2010, the official US dollar/rouble rate appreciated by 0.5% to 30.3505 roubles to the dollar while the official euro/rouble rate depreciated by 6.8% to 40.4876 roubles to the euro (as of January 1, 2011).

Exchange trading somewhat slackened (both in rouble/dollar and in rouble/euro transactions) in 2010 year on year. The aggregate exchange trade turnover in rouble/dollar transactions fell by 7.7% to $2.3 trillion and in rouble/euro transactions by 36.4% to 0.25 trillion euros. The drop in trading activity was chiefly due to fewer currency swaps between the rouble and the dollar and euro as banking liquidity surpluses persisted.

The total average daily foreign exchange turnover in interbank exchange and over-the-counter spot transactions increased by 8.0% year on year to $59.3 billion in 2010. In the meantime, the average daily market turnover of the rouble against all currencies increased by 6.0%

year on year to $ 40.2 billion in 2010. Relative to the dollar and euro, it climbed by 10.0% to $56.2 billion and by 7.2% to $19.5 billion respectively.

2010 saw an increase in forward conversion transactions on the domestic foreign exchange market. For the year as a whole, the average daily turnover of currencies in interbank forward conversion operations increased by 21.2% to $2.1 billion and their share of total interbank foreign exchange market transactions rose from 3.1% to 3.5%.

The government securities market. There was more activity on the government securities market in 2010 (as compared with 2009) as the situation on the domestic financial markets normalized and the banking sector's liquidity improved. The average daily turnover of the secondary OFZ market (in its core mode of exchange trading at market value, excluding technical trades) averaged 2.0 billion roubles in 2010 as compared with 1.2 billion roubles in 2009.

As the Bank of Russia lowered the interest rates on its transactions and the banking sector increased its liquidity, market yields on government bonds dropped in the first months of 2010. By the start of the second quarter, the effective OFZ market portfolio indicator calculated by the Bank of Russia had fallen to 7.3%-7.4% (as against 8.6%-8.7% in late 2009) where it remained, for the most part, until the end of 2010. In 2010, the coupon-free yield curve dropped in all maturity segments by an average of 120 basis points, with the steepest decline occurring in OFZ issues with a maturity of up to one year (by 160 basis points).

Growth of trading on the government securities market was bolstered by a robust placement of government papers, which were issued to cover the state budget deficit. In 2010, the Ministry of Finance held 55 auctions to issue and reissue OFZs, raising 565.8 billion roubles. Furthermore, in June and December 2010, additional government securities were sold directly on the secondary market to a total of 162.8 billion roubles.

The nominal value of outstanding OFZ issues increased by 584.4 billion roubles to 2,054.2 billion roubles in 2010. The portfolio duration steadily declined starting in May 2010, to 3.7 years at the end of December as compared with 4.3 years in late 2009.

Despite the increased activity on the government security market, its liquidity remained quite low. The average daily turnover ratio of the secondary market operating in its key mode of exchange trading at par value hardly changed in 2010 as compared with the year before: 0.12% as against 0.11%. In 2010, a significant portion of OFZ issues remained in the portfolios of passive investors pursuing the 'buy-and-hold' strategy. In the meantime, non-residents came to represent a visibly higher share of the OFZ market: 2.8% at the end of 2010 as compared with 1.7% a year earlier.

The corporate securities market. In 2010, Russian credit institutions were still inclined to buy corporate bonds, as these were relatively highly liquid and could be used to secure Bank of Russia refinancing and interbank repos. At the same time, credit institutions remained very reluctant to invest in stocks because equity securities were higher risk investments.

In 2010, the Russian *stock market* continued to recover from the crisis but its basic quantitative indicators changed more moderately than in 2009. The number of IPOs on the primary market remained the same, while their aggregate value fell. There was a major slowdown in growth of stock prices and trade turnovers on the secondary market.

In 2010, the MICEX index and RTS index gained 23.2% and 22.5% respectively year on year (these indices increased by 121.1% and 128.6% in 2009). The MICEX stock market capitalization rose by 29.8% to 29.0 trillion roubles. The total turnover of secondary trade in Russian stocks on Russia's three leading exchanges (the MICEX Stock Exchange, RTS, and the St Petersburg Stock Exchange) increased by 5% year on year to 16.8 trillion roubles in 2010 (it grew by 25% in 2009). The share of credit institutions' stocks in the total secondary trading turnover on these stock exchanges slightly dropped, to 42%.

In 2010, the domestic *corporate bond* market also continued to recover in terms of quantity. As in 2009, the bulk of corporate bond offerings on the primary market in 2010 came from first- and second-"tier" issuers. 191 new corporate bond issues were placed on the MICEX Stock Exchange with a total par value of 854.7 billion roubles (154 new issues with a total par value of 908.3 billion roubles in 2009). Banks stepped up their role as issuers. In 2010, credit institutions accounted for about 25% of the par value of the corporate bonds offered on the MICEX (about 11% in 2009).

Most of new issues were placed by dependable borrowers. In the reporting year, the portfolio value of outstanding corporate bonds traded on the domestic market increased by 18% to reach 2,979.7 billion roubles at par by late December of 2010.

The MICEX Stock Exchange continued to handle most corporate bond trading. Secondary trade turnover of corporate bonds on the MICEX Stock Exchange increased 80% in 2010 to 4.5 trillion roubles. Credit institutions' bonds represented 21% of the MICEX secondary-trade turnover in corporate bonds (24% in 2009).

Secondary-market yields on corporate bonds dropped during most of 2010. Average corporate bond yields[14] on the secondary market fell from 19.0% p.a. in 2009 to 8.3% p.a. in 2010.

Non-bank financial institutions. The number of insurance companies[15] decreased by 7.8% in January through September 2010 (to 647 as of October 1, 2010) but their total authorised capital rose by 3.0% to 152.7 billion roubles, which was due, inter alia, to mergers and acquisitions on the insurance market, and to the authorised capital increases of major insurers. According

[14] According to Bank of Moscow data on a group of corporate bond issuers.
[15] According to data provided by the Federal Insurance Supervision Service.

to data reported by 629 insurers, insurance premiums grew to 779.4 billion roubles and indemnities increased to 558.2 billion roubles as of October 1, 2010, up 7.2% and 4.3% respectively on October 1, 2009. Life insurance chalked up the highest growth rate of premiums in January through September 2010 year on year (40.4%), while property insurance showed the lowest growth rate (1.2%). What contributed to insurance market growth in 2010 was that there were more life insurance and collateral insurance policies issued to borrowers as banks stepped up lending to non-financial organisations and households.

In 2010, the number of unit investment funds (PIFs)[16] increased by 10.4% to 1,444. PIFs' total net assets climbed by 24.3% to reach 457.2 billion[17] roubles, largely due to real estate funds and rental funds. Most of the PIFs showed positive returns, with the highest returns reported by interval share PIFs (38.1% p.a.). Preliminary data indicate that the total net inflow of shareholder funds to PIFs amounted to 31.3 billion roubles in 2010, with closed-end funds taking the credit for it. In the reporting year, Russian banks placed more non-performing assets in trusts and in PIFs to improve bank reports and streamline provisions for possible loan losses. At the same time, due to the fairly low confidence shown by households and to the inadequate means of individual trust management to work with smaller investors, such collective investment institutions were unable to compete with credit institutions for funds from individuals.

In January through September 2010, the number of non-government pension funds (NPFs)[18] dropped by 4.8% to 157. Meanwhile, the total property owned by NPFs increased by 16.1% to 862.0 billion roubles (17.1% in the same period of 2009), while pension reserves grew by 8.4% to 612.0 billion roubles (11.9%). In January through September 2010, pension accruals rose by 90.4% to 146.9 billion roubles (by 101.8% in the same period of 2009). There were more NPF contributors to mandatory pension insurance (7.5 million as of October 1, 2010) than contributors to non-government pension providers (6.8 million).

[16] According to data provided by Cbonds.ru. news agency.
[17] Here and below, excluding PIFs for qualified investors.
[18] According to data provided by the Federal Service for Financial Markets.

I.3. Banking Operations

I.3.1. Dynamics and structure of borrowed funds

In 2010, the Russian banking sector recovered, step by step, from the effects of the global financial crisis, while the Government and the Bank of Russia phased out their anti-crisis programs. In early 2010, loans, deposits and other funds borrowed by credit institutions from the Bank of Russia amounted to 1.4 trillion roubles and represented 4.8% of banking sector liabilities. By the end of the year, they had fallen to 0.3 trillion roubles, or just 1.0% of banking sector liabilities (*see Chart 1.6*). The role of funds raised from the Bank of Russia in the resource base of credit institutions became comparable with that which it had played prior to the crisis.

In 2010, the banks expanded their funds largely by borrowing from their customers. This development was based, first of all, on the growth of household deposits, which had run up to 9,818.0 billion roubles by the end of 2010. The annual deposit growth rate measured 31.2% (26.7% in 2009 and 24.5% on average in 2007-08).

These high rates remained, although interest rates on deposits lowered visibly during the year. In 2010, this source increased its contribution to total banking sector liabilities from 25.4% to 29.0%. The growth was fuelled exclusively by rouble-denominated deposits, while foreign currency deposits, by contrast, contracted. As a result, the share of rouble-denominated deposits grew from 73.6% to 80.7% of total deposits.

In the context of growing competition, most notably in deposit interest rates, Sberbank's share of the household deposit market dropped from 49.4% to 47.9%.

In 2010, the number of deposits with maturities exceeding one year increased by 33.2% and their share of the banking sector total household deposits grew from 63.7% to 64.7%.

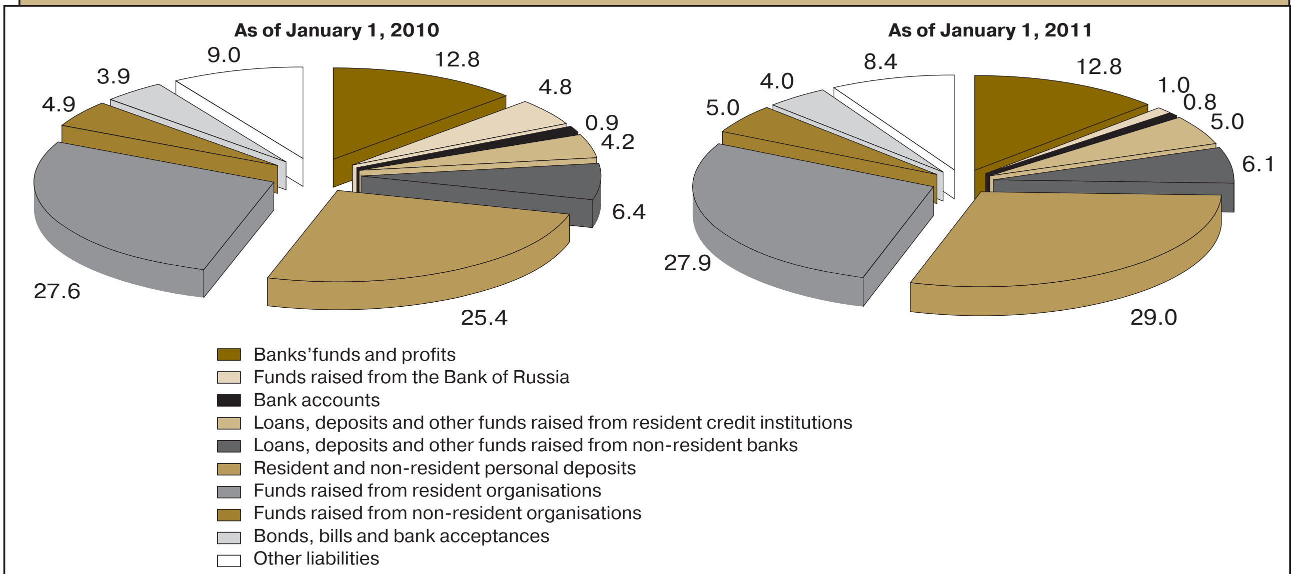
State-controlled banks (especially Sberbank), continued to dominate the household deposit market: they accounted for 57.4% of total deposits as of January 1, 2011 (57.0% in 2009).

Large private banks retained a significant share of the deposit market (up from 24.9% to 25.3%). Foreign-controlled banks and small and medium-sized banks lost some of their shares (from 12.0% to 11.5% and from 6.2% to 5.8% respectively).

All groups of banks relied more on deposits as a source of funds. In 2010, deposits represented the largest share of liabilities in small and medium-sized regional banks (40.1% as against 37.8% as of January 1, 2010). Household deposits accounted for 36.4% of the liabilities of state-controlled banks (33.1% as of January 1, 2010), 24.0% of large private banks (19.7%), 23.8% of small and medium-sized banks based in Moscow and the Moscow Region (19.1%), and 18.6% of foreign-controlled banks (16.7%).

Structure of banking sector liabilities (%)

CHART 1.6



Another growing source of funds was those that were raised from organisations[19]. These increased by 16.4% in 2010 (8.9% in 2009) to 11,126.9 billion roubles. As a share of banking sector liabilities, they grew from 32.5% to 32.9% (*see Chart 1.7*). Deposits and other funds borrowed from corporate entities (other than credit institutions) rose by 10.4% in 2010 to 6,035.6 billion roubles (10.5% in 2009) but their share of banking sector liabilities fell from 18.6% to 17.9%. When placing funds to deposits, corporate entities preferred longer-term investments. For example, deposits with maturities in excess of one year increased by 19.4%: they accounted for 49.9% of total corporate deposits at the end of 2010 (46.2% as of January 1, 2010).

State-controlled banks demonstrated the highest growth in terms of deposits and other funds raised from corporate entities other than credit institutions (32.4%), followed by small and medium-sized regional banks (7.9 %). In large private banks, these funds contracted by 3.9% during the year.

As of January 1, 2011, state-controlled banks and large private banks had the most significant market share of deposits and other funds borrowed from corporate entities (40.1% and 38.1% respectively) Foreign-controlled banks represented 19% of the market and small and medium-sized regional banks (including those based in Moscow and the Moscow Region) represented just about 3.0%. Unlike the deposit market, state-controlled banks and large private banks had roughly equal shares of this market, which means that it is a highly competitive market where interest rates are an important factor but not the only one.

Deposits and other funds borrowed from corporate entities (other than credit institutions) represented substantial shares of the liabilities of large private banks (22.3%) and foreign-controlled banks (18.9%).

In 2010, growth in the balances of organisations' settlement and other accounts climbed substantially. They increased by 25.6% to 4,845.1 billion roubles (9.6% in 2009) and their share of liabilities grew from 13.1% to 14.3%.

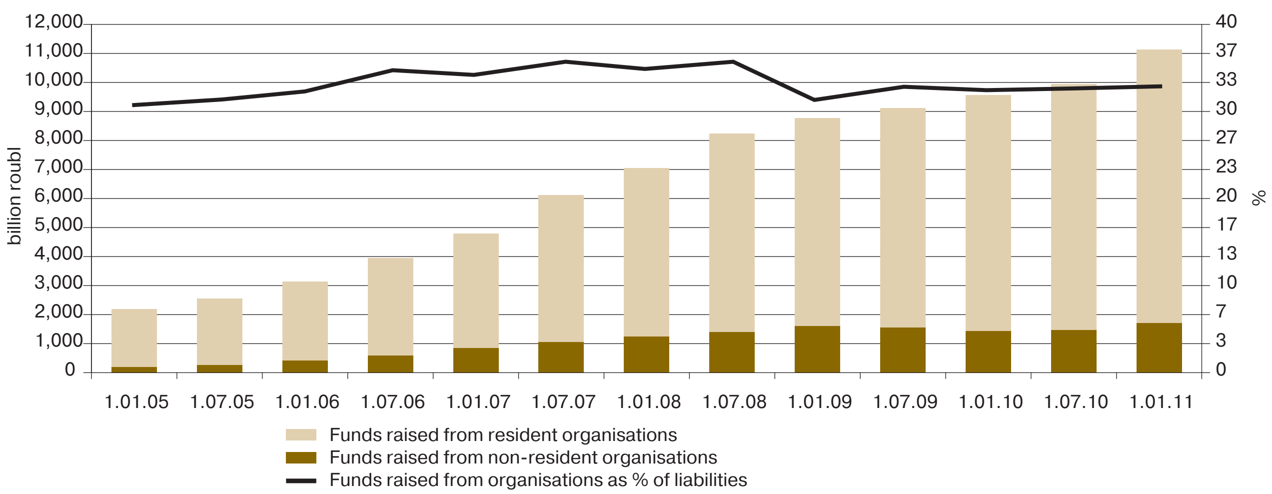
Non-resident organisations (excluding banks) only accounted for a small share of banking sector liabilities, which hardly changed in 2010 (4.9% as of January 1, 2010 and 5.0% as of January 1, 2011). Bonds (issued mostly in roubles) (1.6%) and bills (2.4%) had not yet become a significant source of funds for the banks.

Interbank loans[20] increased by 20.5% in 2010 (they decreased by 14.3% in 2009) to 3,754.9 billion roubles, which resulted in their share of banking sector liabilities growing from 10.6% as of January 1, 2010 to 11.1% as of January 1, 2011. In 2010, the balances of funds raised on the domestic interbank market rose by 37.5%, and their share of liabilities grew from 4.2 to 5.0%.

Foreign investors held a generally positive view of risk exposure in the Russian economy as well as its financial market, which contributed to the picking up of external borrowing by banks. Outstanding loans received from non-resident banks grew by 9.3% in 2010 (after falling by 29.4% in 2009). Nevertheless, the importance of this source of funds for the banks continued to dwindle: it accounted for 6.1% of banking sector liabilities as of January 1, 2011 as against 6.4% the year before. It should be noted that the bulk of funding (over 40%) was provided by non-resident banks for periods in excess of one year.

As before, foreign-controlled credit institutions raised funds from non-resident banks in a most

Raising funds from organisations (other than credit institutions) CHART 1.7



[19] Other than credit institutions.
[20] Loans, deposits and other funds raised on the interbank market (including precious metals).

active way (this source represented 16.1% of their liabilities); this includes funds they raised from their parent banks. For state-controlled banks this figure was 4.2%, and for large private banks it was 4.1%. Small and medium-sized banks hardly raised any funds on international markets.

I.3.2. Asset dynamics and structure

As the macroeconomic situation stabilized, credit institutions gradually moved away from conservative policies. This resulted in the growth of banking sector assets, which increased by 14.9% to 33,804.6 billion roubles in 2010 (compared to just 5.0% in 2009). The assets to GDP ratio fell from 75.9% to 75.2% during the year.

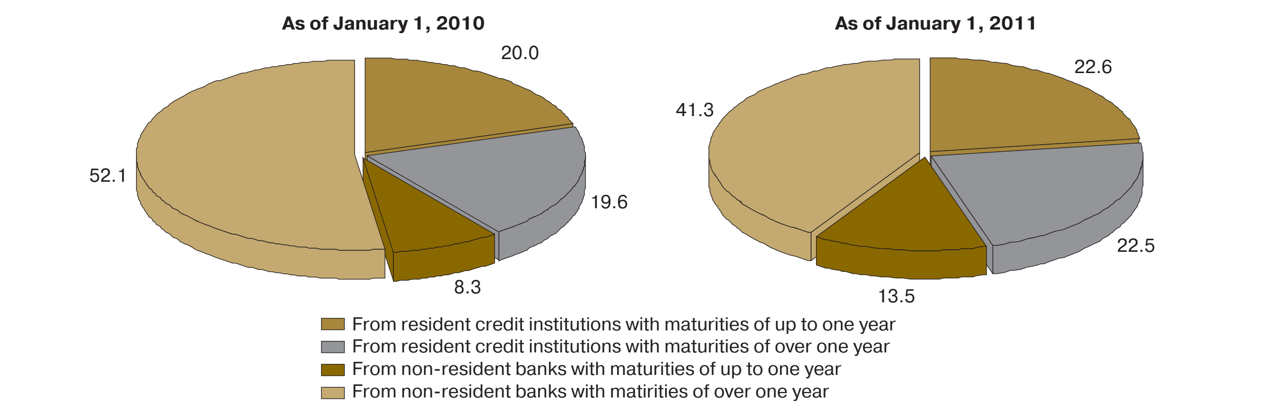
State-controlled banks and large private banks accounted for most of banking sector total assets as of January 1, 2011 (45.8% and 30.5% respectively). Foreign-controlled banks accounted for 18.0% of banking sector assets. Small and medium-sized regional banks accounted for only 2.7%, with small and medium-sized banks based in Moscow and the Moscow Region representing 2.6% of banking sector assets.

Throughout most of 2010, the banking sector assets grew at a moderate pace (at an average of 1.2% per month) but the growth rate accelerated in November (2.9% in November and December) (*See Chart 1.9*).

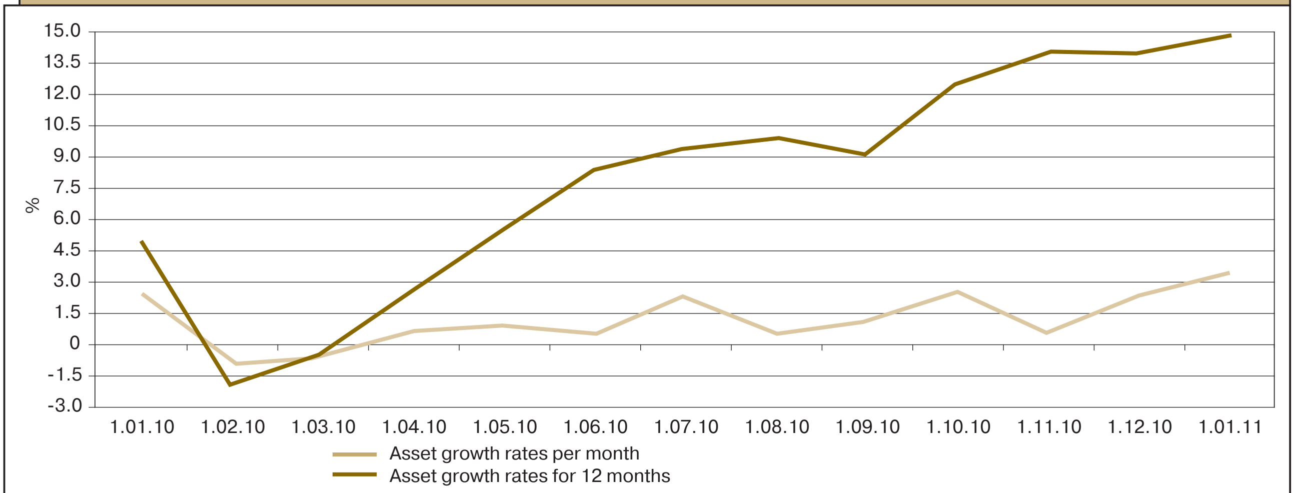
The gap between credit supply and demand narrowed in 2010, also as a result of the banks reviewing economic risks and accordingly lowering the risk premium component in the cost of lending. In the second half of the year, against the backdrop of interest rates on loans (especially to prime borrowers) lending to the non-financial sector appeared to pick up.

The overall economic recovery helped restore the solvency of businesses and individuals, as well as the demand for bank loans. In this context, there was an increase both in household and corporate lending in 2010. The total amount of loans extended to the two categories of borrowers increased by 12.6% to 18,147.7 billion roubles during the year. Still, their share of banking sector assets fell from 54.8% to 53.7% (the changes in the asset structure are shown in *Chart 1.10*), which was due to

Loans, deposits and other funds raised on interbank market, by maturity (as % of total value) *CHART 1.8*

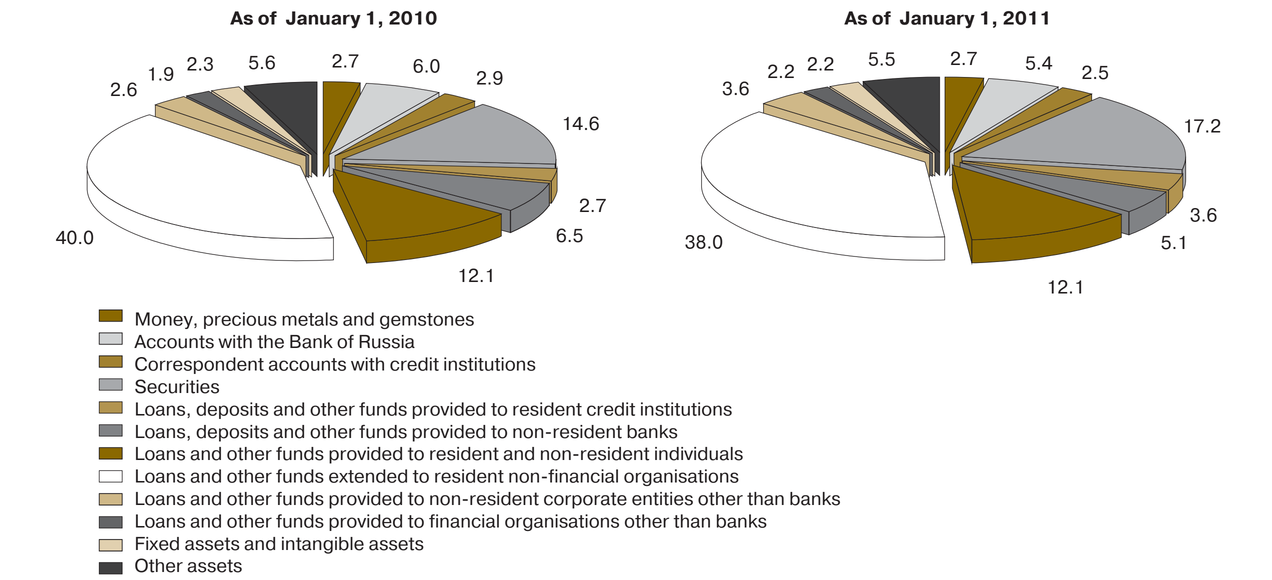


Asset growth rates *CHART 1.9*



Banking sector asset structure (%)

CHART 1.10



the higher growth of items other than loans, especially securities portfolios.

In 2010, state-controlled banks and foreign-controlled banks increased their share of total loans extended to non-financial organisations and individuals. However, this increase was insignificant, and no major reshuffle occurred in the lending market positions of the banks (*see Table 1.1*).

Loans to non-financial organisations continued to prevail in the banks' loan portfolios. In 2010, they rose by 12.1% to 14,062.9 billion roubles (as compared with an increase of just 0.3% in 2009). The growth of corporate lending was also influenced by a technical factor, namely: credit institutions refinanced the loans that had been granted to the largest Russian companies by the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" as part of the anti-crisis measures. In addition to refinancing, the increase in loans to non-financial organisations was partly driven by the restructuring by banks of loans they had issued earlier (relending and prolongation). Excluding all these operations, the corporate loan portfolio is estimated to have increased by 8.2% in 2010.

In 2010, loans to non-financial organisations, as a share of bank assets, dropped from 42.6% to 41.6%. The bulk of loans (74.0%) were provided in roubles (72.7% as of January 1, 2010).

In 2010, long-term loans (with maturities in excess of one year) as a share of all loans granted to non-financial organisations grew from 66.7% to 67.4%. Of these, loans maturing in more than three years increased from 36.1% to 38.5%.

State-controlled banks and large private banks played the most important role in meeting the demand of non-financial organisations for long-term loans. These two groups of banks jointly represented 83.3% of such bank loans as of January 1, 2011 (82.7% as of January 1, 2010).

Broken down by industry, loans to retailers and wholesalers accounted for the largest share of these loans (22.4% as of January 1, 2011) followed by loans to the manufacturing sector (20.9%). In the meantime, the fastest lending growth rates occurred in transport

Loans to non-financial organisations and households by group of banks as % of banking sector total

TABLE 1.1

	1.01.10	1.01.11
State-controlled banks	49.0	49.3
Foreign-controlled banks	17.1	17.5
Large private banks	29.3	28.7
Small and medium-sized banks based in Moscow and the Moscow Region	2.1	2.1
Small and medium-sized regional banks	2.6	2.4

and communications (up 23.2% in 2010; down 23.3% in 2009) and in the generation and distribution of electricity, gas and water (up 20.8% as against 24.2% in 2009).

In 2010, following the crisis-induced contraction, household[21] loans chalked up positive performance: they increased by 14.3% to 4,084.8 billion roubles after a drop of 11.0% in 2009. Households continued to prefer rouble-denominated loans, which represented 91.2% of total loans issued in 2010.

For 2010 as a whole, household loans as a share of total banking sector loans (18.4%) and of total banking sector assets (12.1%) remained virtually unchanged.

State-controlled banks dominated the household lending market with 46.4% of total loans granted to households, followed by foreign-controlled banks (25.7%) and large private banks (23.0 %).

In terms of household loans as a share of the banks' loan portfolios as of January 1, 2011, small and medium-sized regional banks stood at 24.8%, and foreign-controlled banks at 25.4%. State-controlled banks accounted for 17.8%, while small and medium-sized banks based in Moscow and the Moscow Region represented 17.5%, and large private banks accounted for 14.7%.

Outstanding mortgage housing loans increased by 11.6% to 1,127.8 billion roubles in 2010 (following a decrease of 5.5% in 2009). These loans represented 27.6% of household outstanding loans as of January 1, 2011 (28.3% as of January 1, 2010).

In the first half of 2010, asset growth was mostly backed by securities portfolios. The trend had emerged when the stock market was stable and the banks opted to invest in assets that were more liquid than loans. From the second half on, the growth rates of securities portfolios slowed down as the banks showed renewed interest in lending to the non-financial sector of the economy.

During the year, the securities portfolio increased by 35.3% to 5,829.0 billion roubles (82.2% in 2009) while its share of banking sector assets grew from 14.6% to 17.2%.

Despite a slight decrease (from 78.4% as of January 1, 2010 to 75.8% as of January 1, 2011), debt obligations continued to dominate the securities portfolio. They increased by 30.8% to 4,419.9 billion roubles in 2010 (92.0% in 2009). Given the lessons learned during the crisis, credit institutions adopted more cautious securities portfolio strategies, with a focus on highly reliable bonds. About a half (47%) of the annual growth of banking sector securities portfolios was linked to government obligations and those of the Bank of Russia.

State-controlled banks and large private banks were the largest debt holders as of January 1, 2011, accounting respectively for 50.6% and 29.9% of the debt acquired by the banking sector.

Equity securities amounted to 12.2% of the securities portfolio as of January 1, 2011 as against 9.6% as of January 1, 2010); they grew 70% to 710.9 billion roubles in 2010 (110% in 2009).

In 2010, a number of changes occurred in the distribution of equity holdings portfolios by group of banks. The share of large private banks in these portfolios dropped significantly: from 72.2% to 63.7%. In contrast to that, state-controlled banks substantially expanded their share: from 15.2% as of January 1, 2010 to 24.4% as of January 1, 2011.

In 2010, discounted bills as a share of the securities portfolio increased from 5.4% to 5.7%, while slightly growing from 0.8% to 1.0% of banking sector assets. Russian banks' bills represented 82.6% of the discounted bill portfolio (76.9% as of January 1, 2010), increasing as they did by 50% to 272.7 billion roubles in 2010. Portfolios of bills issued by other Russian organisations grew by 3.0%, but their share of the discounted bill portfolio fell from 22.0 to 16.1%.

Claims on interbank loans rose by 7.2% in 2010 (9.0% in 2009) to 2,921.1 billion roubles while their share of banking sector assets dropped from 9.3% to 8.6%. In 2010, loans to resident banks increased by 50%, and their share of assets grew from 2.7 to 3.6%. By contrast, loans to non-resident banks dropped by 11.0% and their share of banking sector assets decreased from 6.5% to 5.1%.

With the mounting attractiveness of rouble-denominated investments, foreign-currency assets slipped as a share of banking sector total assets from 27.6% as of January 1, 2010 to 24.1% as of January 1, 2011.

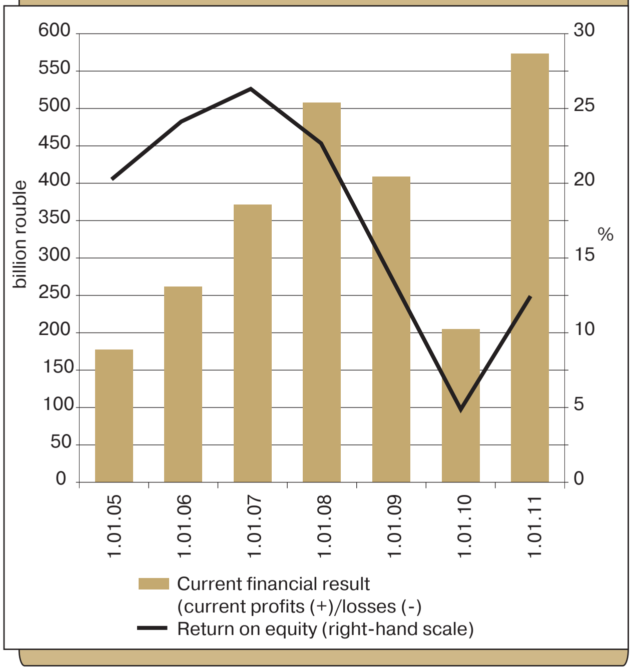
[21] Excluding individual unincorporated entrepreneurs. Pursuant to Part 1 of Article 23 of the Civil Code of the Russian Federation, these loans are not included in household loans.

I.4. The Financial Performance of Credit Institutions

I.4.1. Financial results

In 2010, operating credit institutions settled back into a profit growth trajectory. Their profits reached 573.4 billion roubles as January 1, 2011 (*see Chart 1.11*) and 1,739.5 billion roubles if the financial results of earlier years are included (205.1 billion roubles and 1,333.5 billion roubles respectively in 2009). The banking sector earned a larger profit in the reporting year than in 2009 (180%) and in the pre-crisis period (up 12.9% on 2007).

Banking sector financial results — *CHART 1.11*



In 2010, the share of profit-making credit institutions rose from 88.7% to 92.0%, and, accordingly, the share of loss-making credit institutions dropped from 11.3% to 8.0% (from 120 to 81). The losses of operating credit institutions amounted to 21.7 billion roubles in 2010 (79.8 billion roubles in 2009).

The banks' contributions to the aggregate financial result were broadly proportionate to their share of banking sector assets. The greatest impact on the financial result was wielded by state-controlled banks (57.2%); foreign-controlled banks (20.6%), and large private banks (17.7%). The banking sector financial bottom line was positively influenced by the performance of banks that implemented bankruptcy prevention programs: their losses contracted from 29.7 billion roubles to 0.1 billion roubles during the year.

Credit institutions' return on assets equalled 1.9% and return on equity totalled 12.5%, far more than in 2009 (0.7% and 4.9% respectively)[22]. But they proved no match for the pre-crisis levels (above 20% on equity and 3% on assets).

In 2010, return on assets fell at 539 banks (53.3% of operating credit institutions), and return on equity dropped at 501 banks (49.5%).

Analysis of drivers that determined return on equity shows that its 2010 growth was influenced by a substantial growth in profit margin. At the same time, financial leverage and return on bank assets were slightly down on 2009.

	Capital multiplier (financial leverage)		*Profit margin*		*Return on assets ratio*		*Return on equity*
	Assets* / Capital*	x	Financial result / Gross net income**	x	Gross net income** / Assets*	=	Financial result / Capital
2009	6.746		0.097		0.074		0.049
2010	6.666		0.303		0.062		0.125

* Average for the period.
** Gross net income (financial result drivers) is a sum of net interest income, net income from securities trading and revaluation, net income from operations with foreign exchange and foreign currency valuables, including exchange rate differences, net commission income and other net income (before the deduction of provisions net of recovered ones and maintenance expenses). It is calculated on the basis of data reported by credit institutions (Form 0409102).

[22] Annualised - calculated as the ratio of the financial result for the last 12 months before the reporting date to the chronological averages of assets and equity over the same period.

In 2010, profitability improved in all groups of banks, especially state-controlled and foreign-controlled banks. The level of profitability in these groups of banks was above the average for the banking sector.

	Return on assets, %		Return on equity, %	
	2009	2010	2009	2010
State-controlled banks	0.7	2.4	4.3	14.8
Foreign-controlled banks	1.1	2.1	8.3	14.5
Large private banks	0.4	1.1	3.2	8.4
Small and medium-sized banks based in Moscow and the Moscow Region	1.2	1.4	5.2	6.7
Small and medium-sized regional banks	1.1	1.5	6.2	9.8

I.4.2. Financial result structure

Among the financial performance drivers[23] (*see Chart 1.12*), profit growth in 2010 was primarily due to the recovery of a part of provisions.

As the banks eased their policies for assessing credit risk, additional net provisions (net of recovered ones) dropped by almost 4.5 times to 817.0 billion roubles and amounted to 17.8% of profit-eroding factors in 2010 as against 55.1% in 2009.

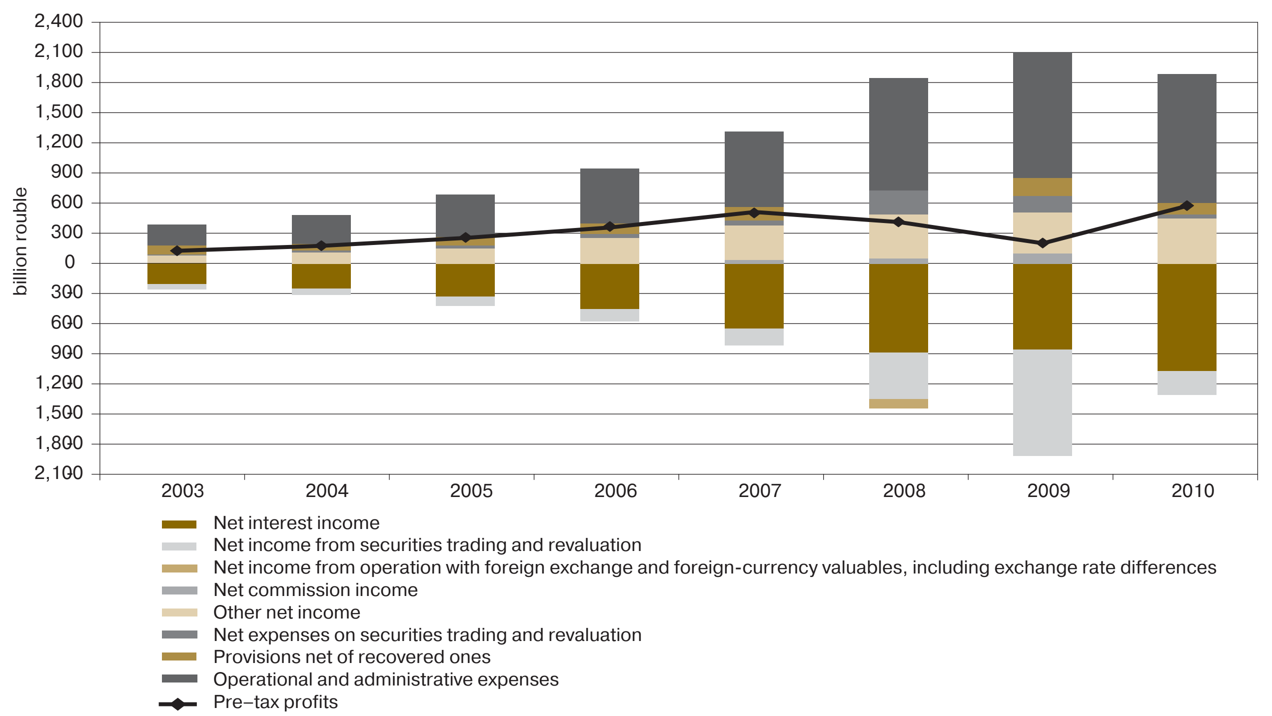
In 2010, net interest income was the most important contributor to profit growth, gaining visibly more weight among profit drivers (68.2% in 2010 as against 59.5% in 2009). In absolute terms, the increase equalled 35.6 billion roubles, or 2.8% (as compared with 12.3% in 2009).

In 2010, net interest income growth was held back by the decrease in net interest income on loans (by 29.2 billion roubles) due to falling interest margins on the banks' loans and deposits. Interest margins contracted under the impact of the lowering lending rates because (among other things) the banks were reassessing risks in the economy and deposits were growing at a faster pace than the banks' loan portfolios. The falling share of net interest income on loans in total net interest income was offset by the growth of net interest income on debt obligations. In 2010, the latter increased by 68.5 billion roubles to reach 18.4% of the banks' total net interest income as of January 1, 2011 as against 13.5% as of January 1, 2010.

Net interest income prevailed among profit drivers in all groups of banks, and contributed the most in the state-controlled banks (74.2%). In 2010, practically all groups of banks were able to increase their net interest income as a share of their total income and

Banking sector profit drivers

CHART 1.12



[23] The banking sector financial performance drivers are analyzed on data contained in the Profit and Loss Statement of Credit Institutions (Form 0409102).

only small and medium-sized regional banks saw it drop as a share of their income.

The share of net commission income was 23.8% in 2010 (19.7% in 2009). Net commission income grew by 8.5%, or three times the growth rate of net interest income.

Net commission income was the most important profit driver for small and medium-sized regional banks (36.4%). It ranged between 22% and 25% among the other groups of banks.

Net income from securities trading and revaluation fell as a share of the banks' total income in 2010. It accounted for 5.6% of profit drivers (8.5% in 2009). This was due to a slowdown of growth in credit institutions' securities portfolios and to a significant reduction of the positive revaluation of debt obligations in the second half of 2010.

Net income from securities trading and revaluation as a share of total income dropped among all groups of banks in 2010. It contributed the most to profit drivers among large private banks (11.3%) and varied from 2.6% to 4.3% among the other groups of banks.

Net income from operations with foreign exchange and foreign-currency valuables, inc luding exchange-rate differences, returned to its pre-crisis level, while its contribution to the banking sector profit drivers fell to 2.4% as of January 1, 2011, compared to 7.5% as of January 1, 2010.

This source as a share of bank income prevailed among foreign-controlled banks and small and medium-sized banks based in Moscow and the Moscow Region (8.2% and 8.0% of profit drivers respectively). The contribution of income from foreign exchange operations to financial results changed most significantly among large private banks (from 6.9% to 1.2% in 2010) and among state-controlled banks. These incurred losses from these operations amounting to 0.4% of profit eroding factors.

In 2010, the credit institutions' operational and administrative expenses increased by 25.2%, or from 44.9% to 81.5% of profit eroding factors, which corresponds to the pre-crisis level.

Credit institutions' operational and administrative expenses grew as a share of profit eroding factors in 2010 among all groups of banks. This type of expenses increased the most among government-controlled banks (from 32.8% to 77.1%) and foreign-controlled banks (from 53.8% to 86.4%).

II

Banking Sector Risks

II.1. Credit Risk

II.1.1. Loan portfolio quality

2010 saw an emerging trend toward improved loan portfolio quality in the banking sector, although credit risk remained relatively high. Overdue debt as a share of total loans dropped from 5.1% to 4.7% in 2010. Loans, deposits and other funds grew by 11.6%, while overdue debt increased by 2.1% in 2010 to 1,035.9 billion roubles as of January 1, 2011. In the fourth quarter of 2010, it fell by 7.0% (after growing by 9.7% in the first three quarters of the reporting year). This compared favourably with 2009, when overdue debt rose 2.4-fold.

The 2010 overdue debt dynamics moved in opposite directions in different groups of banks. As a share of total loans, it dropped among foreign-controlled banks (from 6.3% to 5.6%), among large private banks (from 6.0% to 3.7%), and among small and medium-sized banks based in Moscow and the Moscow Region (from 3.8% to 3.2%). Meanwhile, it grew among state-controlled banks (from 4.2% to 4.9%) and among small and medium-sized regional banks (from 4.2% to 4.4%).

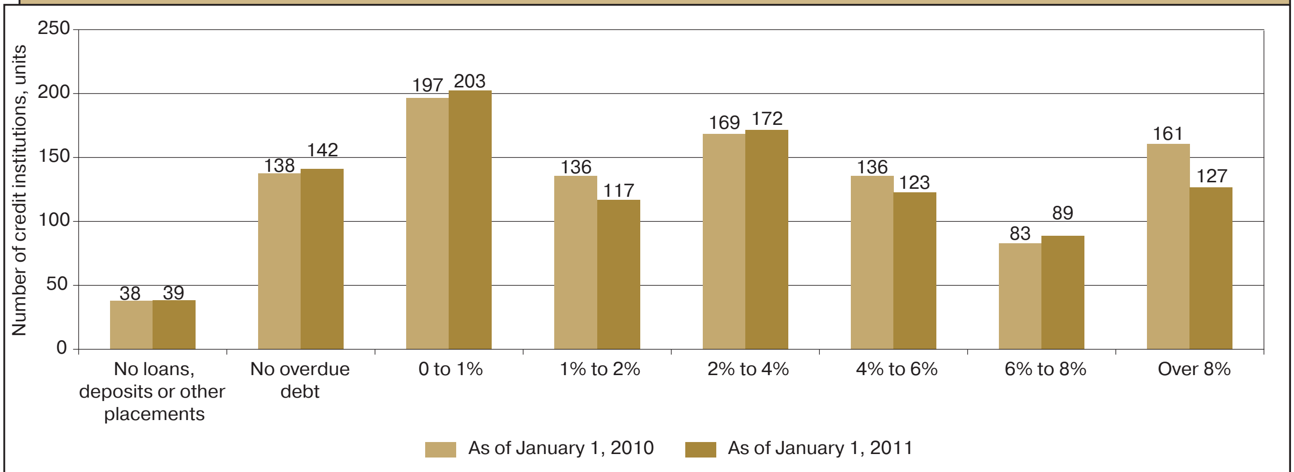
The distribution of credit institutions by the share of overdue debt in their loan portfolios did not change much during the year (*see Chart 2.1*). Most credit institutions with delinquent loans had overdue debts ranging from 2% to 6%. As a share of banking sector assets, these credit institutions represented 67.0% as of January 1, 2011 (compared to 62.8% as of January 1, 2010). Credit institutions with overdue debt higher than 6%, as a share of banking sector assets, dropped from 20.9% to 15.1%.

The credit risk exposure of Russian banks continued to depend primarily on the quality of their loans to non-financial organisations, which accounted for 63.5% of total bank loans as of January 1, 2011. In 2010, overdue debt on loans extended to this category of borrowers fell by 2.5% while lending increased by 12.1%. As a result, overdue debt as a share of loans to non-financial organisations dropped from 6.1% to 5.3% during the year. For rouble-denominated loans, it fell from 6.8% as of January 1, 2010 to 6.1% as of January 1, 2011, and for loans denominated in foreign currencies, it decreased from 4.2% to 2.9%.

In terms of borrower businesses, overdue debt was the highest in 2010 on loans granted to wholesalers and retailers, as well as agriculture, hunting, forestry, and construction (*see Chart 2.2*).

Restructured loans to corporate entities[24] increased by 14.5% during the year to 1,563.2 billion roubles (or 29.4% of the total portfolio of large loans). Restructured large loans as a share of banking sector total assets did not change in 2010 and amounted to 4.6%. The proportion of restructured loans that were overdue by more than 90 days decreased from 3.7% to 2.3% during the year. Loans that were restructured by way of extending the principal repayment period accounted for 50.1% of total restructured loans as of January 1, 2011 (53.4% as of January 1, 2010).

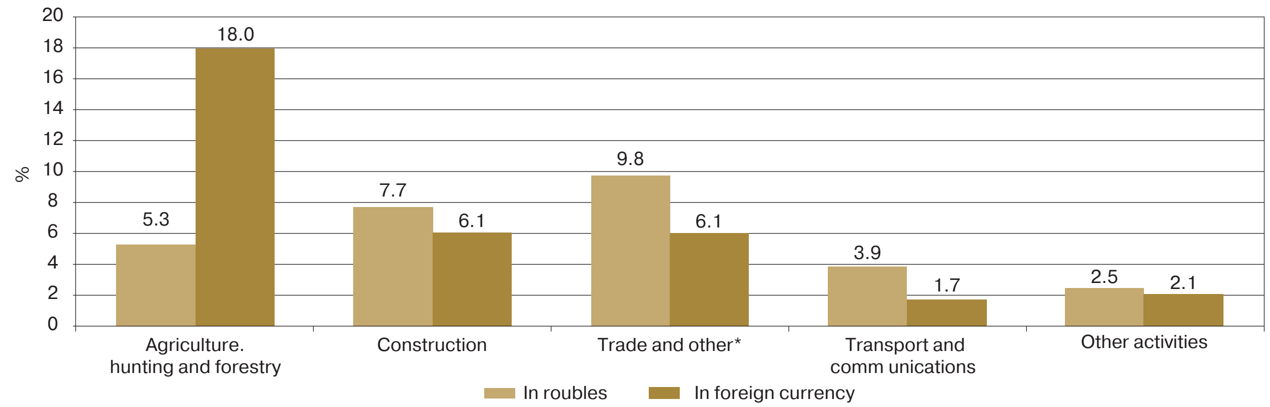
Credit institutions by share of overdue debt in their loan portfolios — *CHART 2.1*



[24] According to Form 0409117 "Large Loan Data" reports filed by credit institutions with data on a reporter's 30 largest loans extended to corporate entities other than credit institutions, including individual unincorporated entrepreneurs.

Overdue debt as % of loans by activity category as of January 1, 2011

CHART 2.2



** Wholesale and retail trade, and repairs of cars, motorcycles, household appliances and personal goods.*

Overdue loans to households grew by 16.2% and the value of the loans increased by 14.3% in 2010. Accordingly, overdue debt on these loans rose from 6.8% to 6.9% during the year. Overdue debt on rouble loans to households dropped from 6.6% as of January 1, 2010 to 6.4% as of January 1, 2011. Meanwhile, with the volume of personal foreign currency loans falling, overdue debt on these loans increased from 8.3% to 12.2% in 2010.

As of January 1, 2011, 87.7% of household loans and other claims on individuals were grouped in portfolios of homogeneous loans (as compared with 87.6% as of January 1, 2010). In 2010, loan portfolios with overdue debt of more than 90 days as a share of household total loans grouped into homogeneous loan portfolios fell from 9.0% to 7.7%, including car loans (from 9.5% to 9.3%), and mortgage housing loans (from 4.6% to 3.9%), and other consumer loans (from 12.3% to 9.9%).

According to credit institutions' statements, standard loans as a share of banking sector total loans amounted to 37.5%, problem loans accounted for 2.6%, and loss loans stood at 5.7% as of January 1, 2011 (*see Chart 2.3*). The situation improved on 2009 (the respective percentages as of January 1, 2010 were 35.2%, 3.1% and 6.5%). Fourteen credit institutions undergoing bankruptcy prevention procedures as of January 1, 2011, differed from the banking sector averages: their loss loans accounted for 11.6%, while overdue loans granted to non-financial organisations totalled 8.1%, and overdue loans to households stood at 12.6% as of January 1, 2011.

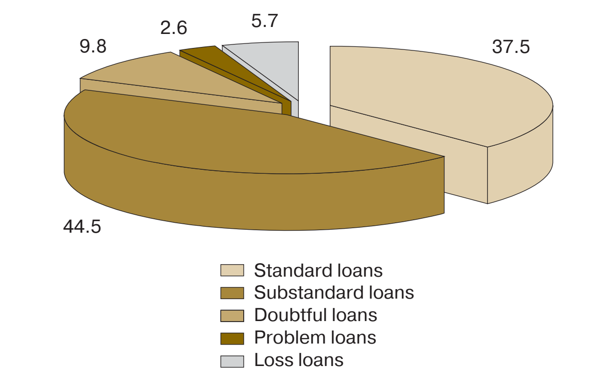
In 2010, the number of credit institutions whose loan portfolios consisted by more than half of standard loans grew from 235 to 243, while these banks increased from 19.0% as of January 1, 2010, to 25.6% as of January 1, 2011, as a share of banking sector total assets.

Foreign-controlled banks had the highest proportion of problem and loss loans in their loan portfolios (9.3% compared to 10.7% as of January 1, 2010).

Banks undergoing bankruptcy prevention procedures yielded a broadly positive impact on the banking sector performance. In 2010, these banks significantly reduced their overdue, problem and loss loans and were thus able to release loan loss provisions.

Quality of banking sector loan portfolio as of January 1, 2011 (%)

CHART 2.3



Growth of banking sector selected indicators in 2010 (billion roubles)

	Banks undergoing bankruptcy prevention procedures	Banking sector
Overdue loans to non-financial organisations	–67.1	–19.2
Overdue loans to households	–1.3	39.3
Problem and loss loans	–73.0	–59.3
Provisions	–81.3	98.4

Loan loss provisions (LLP) remained high in 2010. Total loan loss provisions made as of January 1, 2011 represented 8.5% of actual loans, including 44.8% of problem loans[25] and 89.5% of loss loans[26] (9.1%, 43.0% and 84.3% respectively as of January 1, 2010).

On virtually all reporting dates, most banks were fully compliant with the minimum provision requirements[27] for LLPs on a solo basis. As of January 1, 2011, 944 banks had created LLPs of no less than 100% of the estimated collateral-adjusted value, and represented 98.5% of banking sector assets (994 banks and 98.5% respectively a year earlier)[28].

II.1.2. Credit risk concentration. Shareholder and insider credit risks

According to credit institutions' reports, in 2010 credit risk concentration did not change much overall from 2009.

During the reporting year, 130 credit institutions violated the required ratio 'maximum exposure per borrower or group of related borrowers' (N6) (213 in 2009) and 11 credit institutions violated 'large credit exposure' (N7) (thirteen in 2009).

As of January 1, 2011, the ratio 'maximum value of loans, guarantees and sureties provided by a credit institution (banking group) to its members (shareholders)' (N9.1) was calculated by 370 credit institutions, or 36.6% of the total (389 credit institutions, or 36.8% as of January 1, 2010). As in 2009, six credit institutions violated the ratio. There were a total of 454 violations in 2010 as compared with 38 the year before. Ten credit institutions breached the N10.1 ratio 'total insider risk' (16 in 2009).

In addition to evaluating prudent compliance, the supervisory efforts in the reporting year included analysis of the actual concentration of bank owner business risks. Seventy-four credit institutions were found to have assumed too much owner-related risk (more than 50% of capital) as of January 1, 2011. Claims on owners were larger than capital in 38 credit institutions; this sum was double the capital and more in eleven credit institutions.

Substantive approaches were implemented to make owners and managers more accountable for the way they ran their business. In the reporting year, evaluations of risk management system (PU4), internal controls (PU5), and strategic risk management (PU6) tended to improve[29] (*See Table 2.1*).

Follow-up measures, including meetings to inform credit institutions' owners of the views held by the Bank of Russia, helped the bank owners implement initiatives to reduce their concentration of risk.

TABLE 2.1

Changes in number of banks with negative management quality in 2010

Reporting date	Number of banks rated as "doubtful" or "unsatisfactory"				
	Quality management evaluation*	Risk management system (PU4)**	Internal controls (PU5)**	Risk management system or internal controls (PU4 or PU5)**	Strategic risk management (PU6)**
January 1, 2010	95	69	38	90	129
April 1, 2010	97	78	40	93	128
July 1, 2010	104	86	33	33	119
October 1, 2010	99	80	31	31	119
January 1, 2011	95	70	31	31	109

* Pursuant to Bank of Russia Ordinance No. 2005-U of April 30, 2008, "On Assessing Banks' Economic Positions", the quality of bank management is assessed as "doubtful" if one of the measures - PU4 or PU5 - is rated as "doubtful" or if PU6 is rated as "unsatisfactory"; and it is assessed as "unsatisfactory" if both PU4 and PU5 are rated as "doubtful" or if at least one of these measures is rated as "unsatisfactory".

** For reference, the number of banks rated as "doubtful" or "unsatisfactory" under any measure(s).

[25] Taking into account collateral and an estimated provision for problem loans, which ranges from 51% to 100% of the principal, depending on the degree of loan impairment.

[26] Taking collateral into account.

[27] Minimum provisions are created as collateral-adjusted calculated provisions, pursuant to Bank of Russia Regulation No. 254-P, dated March 26, 2004, "On the Procedure for Making by Credit Institutions Provisions for Possible Losses on Loans, Loan and Similar Debts".

[28] According to credit institutions' reports, Form 0409115, Section 1.

[29] Calculated pursuant to Bank of Russia Ordinance No. 2005-U of April 30, 2008, "On Assessing Banks' Economic Positions".

II.1.3. Risks associated with the financial standing of borrowing enterprises[30]

The financial standing of borrowing enterprises (hereinafter referred to as enterprises) in the non-financial sector was satisfactory in 2010, having improved on the same period of the previous year. The better financial situation was due to more favourable economic conditions and business climate in the reporting year than in 2009.

In this context, enterprises significantly intensified their production and sales, and to a lesser extent, investment activity. As a result their assets, including investment ones, increased and the growth rate of working assets accelerated. Net assets grew. Capital structure[31] remained balanced in terms of mobilisation and investment. Overall, enterprises had enough investment resources[32] to generate investment assets[33]. In 2010, capital contributed more to working assets.

The total liabilities of enterprises increased, mainly with respect to long-term liabilities, but the debt burden on capital remained moderate. Construction businesses alone had high debt loads.

In 2010, both payables and receivables continued to grow. Although the growth of overdue receivables slowed down, they did not change much.

Enterprises reported better financial results - sales proceeds and pre-tax profits rose. More than 75% of all borrowing enterprises earned profits. Nevertheless, the bulk of enterprises were short of funds to support their operations in 2010. This had a negative impact on their solvency, despite their satisfactory liabilities coverage ratio.

[30] Analysis is based on performance evaluations of non-financial borrowing enterprises monitored by the Bank of Russia.
[31] Balance sheet total.
[32] Sum total of capital and long-term liabilities of enterprises.
[33] Non-working assets.

II.2. Market Risk

II.2.1. General characteristics of market risk

In the reporting year, a trend seen in 2009 continued: the number of credit institutions calculating their exposure to market risk[34] fell from 656 to 641. However, with the composition of banks having changed, their share of banking sector assets rose significantly: from 62.8% to 90.9% in 2010.

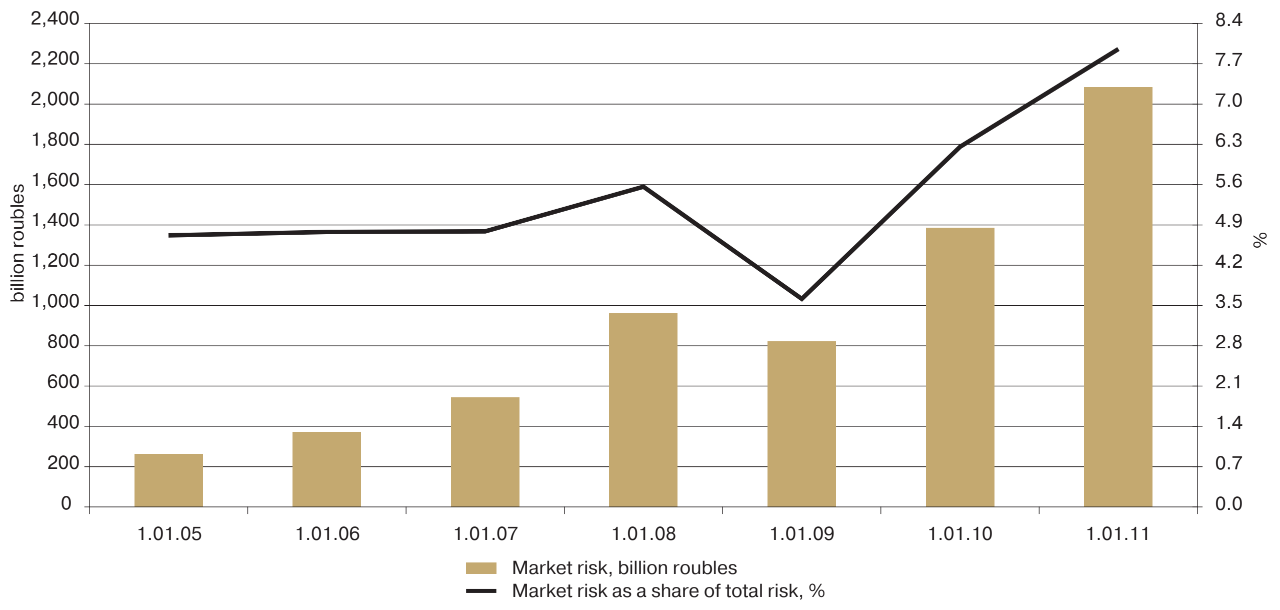
As of January 1, 2011, 437 banks representing 75.5% of banking sector assets factored in foreign exchange risk while estimating capital adequacy (492 banks, or 49.0% as of January 1, 2010), 235 banks with 71.1% of banking sector assets took into account equity position risk (217 banks, or 43.9% as of January 1, 2010), and 380 banks with 84.1% of banking sector assets factored in interest rate risk (332 banks, or 54.1% as of January 1, 2010). There were relatively few banks (124) whose activities were important for all segments of the financial market and which, accordingly, must take all three types of market risk into consideration (118 banks as of January 1, 2010). Nevertheless, they represented a significant share of banking sector assets: 63.4% as of January 1, 2011 (37.1% as of January 1, 2010).

In 2010, banking sector market risk increased by 50.2% to 2,081.9 billion roubles, as a result of more investments[35] in debt and equity securities assessed at fair value through profit or loss[36] and available for sale[37]. In 2010, the trading portfolio rose by 28.5%, largely due to the portfolios of debt and equity securities that were available for sale, which increased by 39.3%.

Market risk as a share of banking sector total risk[38] remained insignificant at 8.0% as of January 1, 2011 (up 1.7 percentage points during the year) (*see Chart 2.4*).

Market risk and its share of total banking sector risk

CHART 2.4



[34] Since August 1, 2010, market risk has been calculated using the formula MR = 10*(IR + ER) + FR in accordance with Bank of Russia Ordinance No. 2321-U of November 3, 2009, "On Amendments to Bank of Russia Regulation No. 313-P, Dated November 14, 2007, on the Procedure for Calculating Market Risk by Credit Institutions", which entered into force on July 1, 2010 (on the reporting dates in the first half of 2010: MR = 12.5*(IR+ ER) + CR).
[35] Allowing for revaluation.
[36] Hereinafter assessed at fair value.
[37] Investments in securities assessed at fair value and available for sale are hereinafter referred to as a trading portfolio. Market risk is not measured for all trading portfolios (accounts 502 and 507), but only for the financial instruments that have current (fair) value, which credit institutions determine on their own under the applicable accounting rules established by Bank of Russia Regulation No. 302-P, dated March 26, 2007, "On the Accounting Rules at Credit Institutions Located in the Russian Federation".
[38] Risk-weighted assets used to calculate the capital adequacy ratio of the banking sector in accordance with Bank of Russia Instruction No. 110, dated January 16, 2004, "On Banks' Required Ratios".

The ratio of market risk to the capital of banks that calculated market risk dropped by 1 percentage point to 48.6% as of January 1, 2011.

Historically, ***interest rate risk*** has represented the largest share of market risk (75.6% as of January 1, 2011), which reflects the structure of the trading portfolio (debt obligations accounted for 84.7% as of January 1, 2011). In 2010, the share of ***equity position risk*** rose due to higher equity holdings in the *trading portfolio*, against the backdrop of the generally positive performance of Russian stock indices (*see Table 2.2*).

The futures market also fared well in 2010 and achieved particularly high business growth in the RTS index and securities futures[39]. According to bank statements, claims related to the forward delivery of securities[40] rose by 70% in 2010 (to 137.7 billion roubles as of January 1, 2011), and liabilities increased almost 3.3-fold (to 296.0 billion roubles as of January 1, 2011). In relation to bank capital, the net position for the forward delivery of securities was negative in 2010 and equalled -3.3% as of January 1, 2011 (it was also negative, at -0.2%, as of January 1, 2010).

In 2010, the importance of foreign exchange risk did not change much. Despite high volatility, the domestic foreign exchange market as a whole was characterised by the rouble appreciating against the euro and slightly depreciating against the US dollar during the year (*see Chart 2.5*). The foreign exchange component of balance sheet positions continued to lose its weight (*see Chart 2.6*). For example, foreign currency assets represented 24.1% of banking sector assets as of January 1, 2011 compared to 27.6% as of January 1, 2010, and foreign currency liabilities 22.7% as compared with 25.3%. The positive difference between foreign currency assets and liabilities dropped from 2.4 to 1.3 percentage points.

In 2010, unlike the previous year, the rouble equivalent of the net forward currency position[41] in US dollars and euros (the aggregate short position[42]) and the ag-

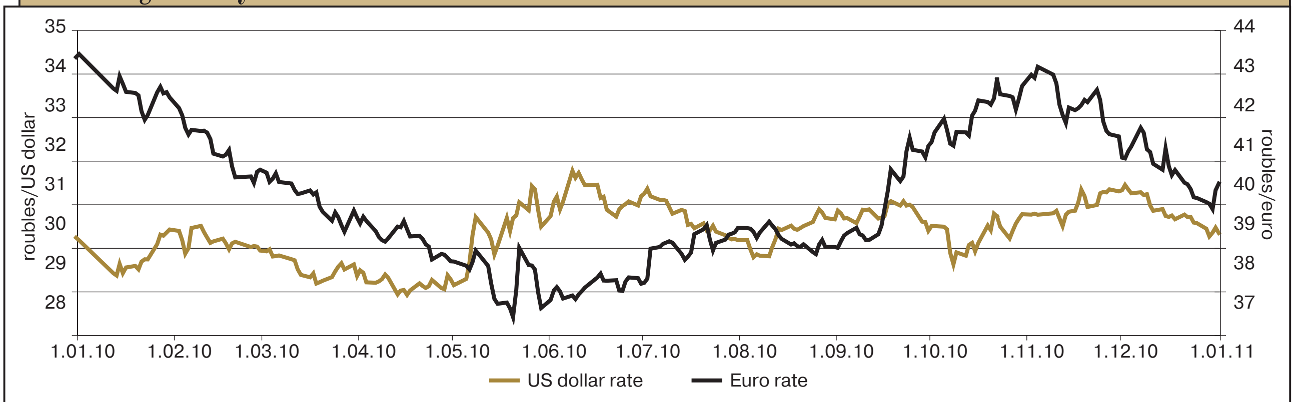
Banking sector market risk structure

TABLE 2.2

Type of risk	1.01.10		1.01.11		
	billion roubles	share of market risk, %	billion roubles	growth rate in 2010, %	share of market risk, %
Market risk (MR), total Of which:	1,385.8	100.0	2,081.9	50.2	100.0
interest rate risk (IR)	1,046.0	75.5	1,574.6	50.5	75.6
equity position risk (ER)	242.3	17.5	370.5	53.0	17.8
foreign exchange risk (FR)	97.6	7.0	136.7	40.1	6.6

Euro/rouble and US dollar/rouble exchange rate dynamics

CHART 2.5



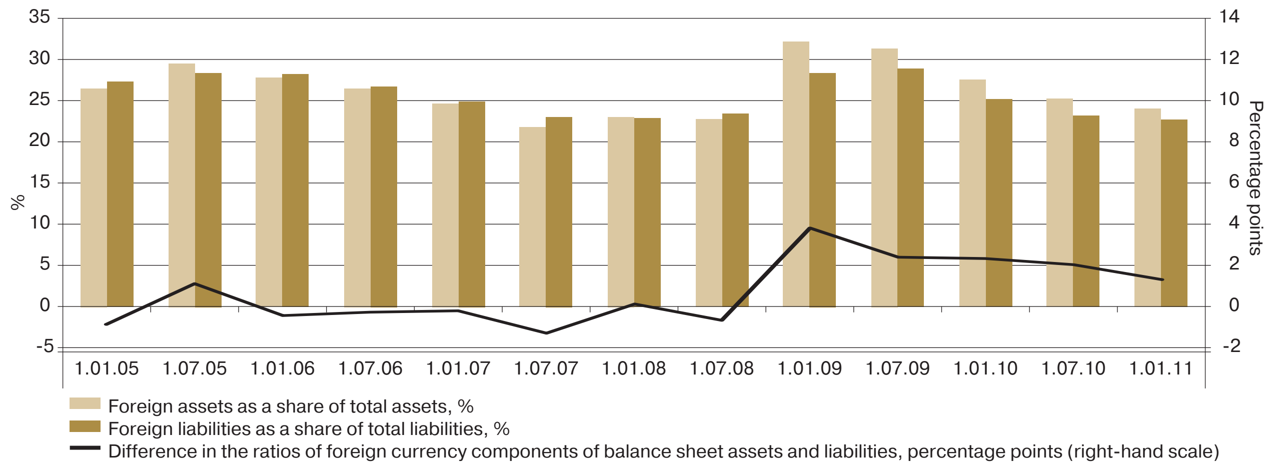
[39] Stock-market futures instruments whose underlying asset is securities and stock indices are concentrated on the RTS FORTS and MICEX futures market.
[40] Forward transactions in Section D of the Chart of Accounts.
[41] Net forward and option positions in foreign currencies are calculated according to Form 0409634 “Statement of Open Currency Positions” for all credit institutions presenting this form, in rouble terms, at the Bank of Russia official rate as of the corresponding dates.
[42] In 2010, the net short forward position in US dollars grew, while the net long forward position in euros dropped.

gregate balance sheet and off-balance sheet[43] positions in foreign currencies increased in absolute terms (*see Tables 2.3 and 2.4*).

In 2010, thirteen credit institutions exceeded required limits set on open foreign currency positions (in any currency and precious metal) at least once in 2010 (as compared with 31 credit institutions in 2009). The share of these banks in the assets of banks licensed to conduct foreign currency operations increased from 1.9% as of January 1, 2010, to 2.5% as of January 1, 2011.

Foreign currency assets and liabilities in total banking sector assets and liabilities

CHART 2.6



Net foreign currency forward position

TABLE 2.3

	Foreign currency	Net foreign currency forward position, billion currency units	Net forward position in foreign currency, billion roubles
31.12.09	US dollar	–25.6	–775.3
	Euro	13.1	567.9
31.12.10	US dollar	–29.9	–910.2
	Euro	13.0	523.0

For reference: as of the beginning of 2011, 930 banks reported their net forward positions in US dollars, and 925 banks did so in euros (961 banks and 952 banks respectively as of the beginning of 2010).

Banking sector foreign currency claims and liabilities on and off-balance sheet

TABLE 2.4

	1.01.10	1.01.11	Growth in 2010
Balance sheet positions			
Claims, billion roubles	8,128.8	8,143.6	14.7
Liabilities, billion roubles	7,436.5	7,690.0	253.5
Net balance sheet position, billion roubles	692.4	453.6	–238.7
Off-balance sheet positions			
Claims, billion roubles	3,070.2	3,485.7	415.5
Liabilities, billion roubles	3,128.1	3,396.1	268.0
Net off-balance sheet position, billion roubles	–57.9	89.6	147.5

[43] Forward transactions in Section D of the Chart of Accounts.

II.2.2. The assessment of banking sector vulnerability to interest rate risk

To estimate the banking sector's vulnerability to interest rate risk involved in the aggregate debt securities *trading portfolio*, a sensitivity analysis was performed for banks' financial standing using stress testing. It was assumed that under the impact of a parallel upward shift of the yield curve of debt instruments in the banks' portfolios,[44] the debt securities trading portfolio would depreciate. Since market rate movements impact the prices of government debt obligations and corporate bonds differently, the bank portfolio was split into two categories: federal government and Bank of Russia debt obligations and other bonds. Portfolio duration, effective portfolio yields and historical interest rate movements were factored in the calculations[45]. The dependence of prices on interest rates was analysed separately for 2009 and 2010.

The impact of interest rate risk relating to these debt obligation portfolios on the financial state of the Russian banking sector was analysed, based on data reported by credit institutions that had such securities in their portfolios. The analysis split the credit institutions in two groups, depending on whether they were required to calculate interest rate risk to be included in capital adequacy calculations and held portfolios of such securities[46] (the groups of banks' characteristics are described *in Table 2.5*). It should be noted that as of January 1, 2011, the assets and capital in the first sample of banks (which jointly hold 94.2% of the banking sector debt securities trading portfolio) represented 84.0% and 83.9% of banking sector totals, exceeding the respective values of these indicators as of January 1, 2010.

Sensitivity analyses of the credit institutions in each sample show that in both groups (those that calculate interest rate risk and those that do not), sensitivity to interest rate risk dropped in 2010, despite the growth of their debt portfolios. As of early 2011, potential losses in the first sample could have amounted to 9.8% of capital as against 10.1% as of January 1, 2010, and in the second sample losses could have been 5.3% as against 6.6% of capital as of January 1, 2010. The key reason was a significant reduction in the duration of the OFZ and Bank of Russia bond portfolios. Still, in 2010 as a whole, the banking sector vulnerability to potential interest rate movements can be described as significant.

II.2.3. The assessment of banking sector vulnerability to equity position risk

To estimate the Russian banking sector's vulnerability to equity position risk, stress tests were used to project the potential negative consequences of a fall in Russian stock indices. It was assumed that stock indices would drop by 50%[47].

To determine the impact of equity position risk on the capitalisation of the Russian banking sector, the Bank of Russia analysed data reported by credit institutions that held equities in their trading portfolios. As in the analysis of interest rate risk, two groups[48] of credit institutions were studied based on the requirement to calculate equity position risk for capital adequacy calculations and on whether these financial instruments were held in their assets (the groups of banks characteristics are described *in Table 2.6*).

Analysis shows that the group of credit institutions that *calculated equity position risk* has, as a whole, become more sensitive to this type of risk (part of the reason being the increase in such portfolios). Should stock indices fall by 50%, potential losses would have amounted to 9.9% of capital as of early 2011 (9.4% as of January 1, 2010).

Characteristics of banks sampled for analysis of sensitivity to interest rate risk

TABLE 2.5

	Number of banks in the sample		Share of analysed debt portfolios, %		Share of banking sector assets, %		Share of banking sector capital, %	
	1.01.10	1.01.11	1.01.10	1.01.11	1.01.10	1.01.11	1.01.10	1.01.11
Sample 1	329	372	60.8	94.2	54.1	84.0	51.6	83.9
Sample 2	164	154	39.2	5.8	41.2	12.3	42.6	11.2

[44] Potential increase in the yields of federal government and Bank of Russia debt obligations by 300 basis points, and Russian corporate bonds by 900 basis points.
[45] The data are available on the Bank of Russia and Cbonds.ru sites.
[46] The first group included banks that were required to calculate interest rate risk and, accordingly, factor market risk in capital adequacy calculations, and the second group included credit institutions that did not estimate interest rate risk but held such portfolios. Pursuant to Bank of Russia Regulation No.313-P, dated November 14, 2007, "On the Procedure for Calculating Market Risk by Credit Institutions", interest rate risk and equity position risk are also calculated if the total current (fair) value of financial instruments is equal to or exceeds 5% of the credit institution's balance sheet assets on the calculation date. Here and below, Sample 2 includes banks that do not estimate interest rate risk or equity position risk but do hold such portfolios.
[47] It was assumed that a 50% fall in stock indices would lead to a similar drop in the value of stocks in trading books.
[48] The first group was comprised of banks that were required to calculate equity position risk and, therefore, included it in capital adequacy calculations; the other group was comprised of credit institutions that did not calculate equity position risk but did hold such portfolios.

TABLE 2.6

Characteristics of banks sampled for analysis of sensitivity to equity position risk

	Number of banks in the sample		Share of equities portfolios, %		Share of banking sector assets, %		Share of banking sector capital, %	
	1.01.10	1.01.11	1.01.10	1.01.11	1.01.10	1.01.11	1.01.10	1.01.11
Sample 1	214	234	86.6	92.8	43.8	71.1	41.2	70.6
Sample 2	291	268	13.4	7.2	48.4	22.2	48.9	20.6

The group of credit institutions that had portfolios of the equities under review, but did *not calculate equity position risk*, became more sensitive to equity position risk as well. Should an adverse development occur, potential losses might amount to 2.6% of capital as of early 2011 (1.2% as of January 1, 2010).

In general, the sensitivity analysis shows that the banking sector's vulnerability to equity position risk is quite important in the first group of credit institutions and relatively small in the second group. The banking sector's overall vulnerability to interest rate risk is much higher than its sensitivity to equity position risk because bonds represent an overwhelming proportion of the banks' securities portfolios.

II.2.4. The assessment of banking sector vulnerability to foreign exchange risk

To assess the vulnerability of the Russian banking sector to foreign exchange risk, stress tests were conducted to analyse sensitivity both to the appreciation and depreciation of the rouble against the US dollar and the euro.

In the event of ***appreciation***, it was assumed that the nominal exchange rates of the rouble against the US dollar and the euro would ***increase*** by 20%. To estimate the impact of foreign exchange risk on the Russian banking sector financial situation, the Bank of Russia analysed data reported by credit institutions that were required to calculate foreign exchange risk[49] and had net long open positions[50] in US dollars and euros (the characteristics of banks are described in *Table 2.7*). Banks with net long open positions in either currency (US dollars or euros, with some banks having long positions in both currencies) were analysed.

In 2010, fewer banks had long open currency positions in at least one of the stated currencies. Their share of banking sector assets and capital dropped visibly, too.

Analysis shows that the rouble appreciating against the US dollar and the euro by 20% would not lead to significant losses for the credit institutions concerned: should the scenario materialise, the banks' potential losses would not, just as a year before, reach a level higher than 0.7% of their capital as of December 31, 2010.

When analysing the Russian banking sector's sensitivity to foreign exchange risk in the event that the ***rouble depreciated*** against the US dollar and the euro, it was assumed that the nominal exchange rate of the rouble against the US dollar and euro ***devalued*** by 20%. To determine the impact of foreign exchange risk on the financial state of the Russian banking sector, statements filed by credit institutions that were required to calculate foreign exchange risk and held net short open positions in US dollars and euros were analysed.

The number of banks with short currency positions in at least one of the aforementioned currencies did not change during 2010, while their share of banking sector

TABLE 2.7

Characteristics of banks with a long currency position analysed for sensitivity to foreign exchange risk

	Number of banks		Share of banking sector assets, %		Share of banking sector capital, %	
	31.12.09	31.12.10	31.12.09	31.12.10	31.12.09	31.12.10
Credit institutions with long positions in US dollars or euros (at least in one of the currencies)	375	287	24.4	17.9	21.6	17.3

[49] Foreign exchange risk is built into market risk if total open currency positions in individual foreign currencies and individual precious metals as a percentage of the credit institution's capital is equal to or exceeds 2% as of the date of market risk calculation.

[50] When preparing the Form 0409364 Statement on Open Currency Positions, the net positions include balance sheet assets and liabilities and off-balance sheet claims and liabilities specified by Bank of Russia Instruction No. 124-I of July 15, 2005, "On Setting Limits on Open Currency Positions, the Methods of Calculation and the Specifics of Supervising Their Compliance by Credit Institutions".

Characteristics of banks with a short currency position analysed for sensitivity to foreign exchange risk

TABLE 2.8

	Number of banks		Share of banking sector assets, %		Share of banking sector capital, %	
	31.12.09	31.12.10	31.12.09	31.12.10	31.12.09	31.12.10
Credit institutions with short positions in US dollars or euros (at least in one of the currencies)	310	310	38.8	68.5	38.7	68.2

assets and capital increased 1.8-fold (the credit institutions with net short open positions in US dollars and euros are described in *Table 2.8*).

Analysis shows that the banking sector's vulnerability to a 20% depreciation of the rouble against the US dollar and the euro also remained broadly comparable to its 2009 level, i.e. quite low. Should the scenario materialise, potential losses for the appropriate group of banks might equal 0.4% of their capital as of December 31, 2010.

II.3. Liquidity Risk

II.3.1. General characteristics of liquidity risk

Gradual resolution of the effects of the global crisis and the financial normalisation in 2010 influenced favourably banking sector liquidity. Credit institutions did not urgently need to maintain significant amounts of highly liquid assets: the average amount[51] of the most liquid assets[52] as a share of the average value of banking sector total assets stood at 8.0% in 2010, as compared with 10.9% in 2009 (changes in the key components of liquid assets are shown in *Chart 2.7*).

The most liquid assets as a share of total assets grew slightly in 2010 year on year only among small and medium-sized regional banks (from 19.8% to 20.7%).

The highest share was still recorded among small and medium-sized banks based in Moscow and the Moscow Region (21.6% in 2010, compared to 23.4% in 2009).

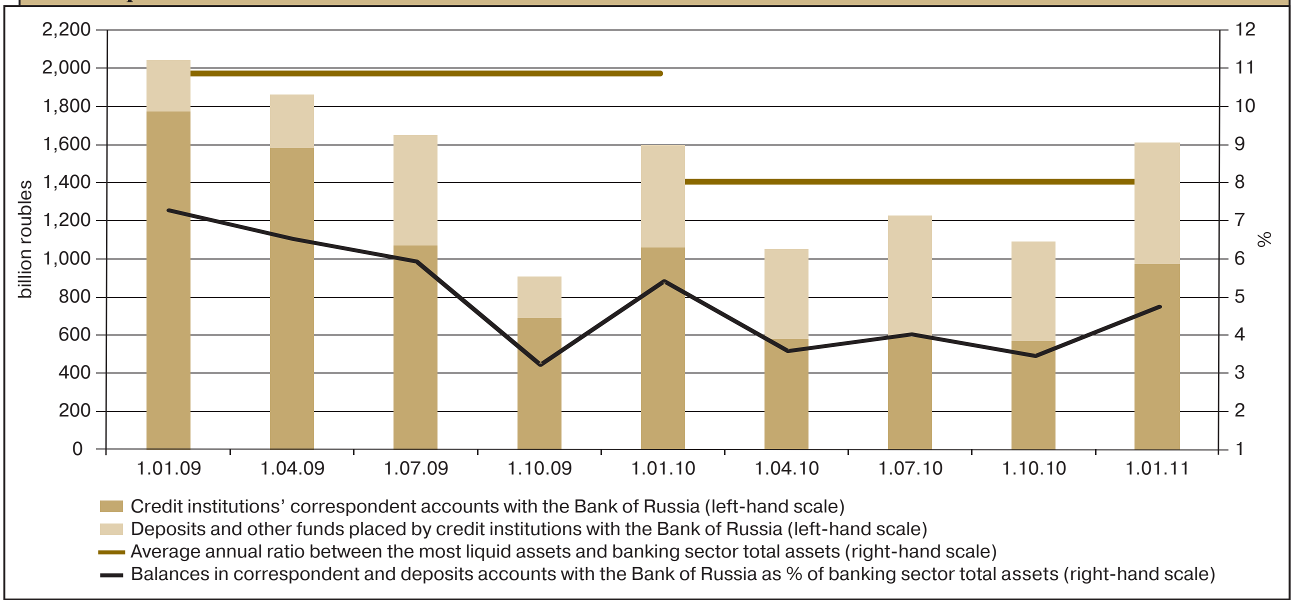
State-controlled banks continued to hold the smallest amount of the most liquid assets (4.9% as of January 1, 2011, as against 8.4% as of January 1, 2010).

The sustainable liquidity situation was confirmed by the fact that banks borrowed less from the Bank of Russia. Unsecured loans, which had soared almost to 2 trillion roubles in February 2009, were almost fully repaid by the end of 2010. Overall, as was noted, loans, deposits and other funds borrowed by credit institutions from the Bank of Russia, dropped substantially in 2010 *(see I.3.1 Dynamics and structure of borrowed funds).*

II.3.2. Compliance with required liquidity ratios

Due to a decrease of balances in credit institutions' correspondent accounts with the Bank of Russia, the actual average annual ratio of instant liquidity (N2) across the banking sector declined in 2010 from 72.9% to 70.1%, although it remained well above the regulatory minimum of 15% established for credit institutions. Amid the growth in portfolios of government securities

Balances in credit institutions' correspondent and deposit accounts with Bank of Russia *CHART 2.7*



[51] Here and below, average liquid assets and total assets of the banking sector were calculated as chronological averages for the corresponding period.
[52] Cash, precious metals and gemstones, nostro correspondent account balances, and balances in correspondent and deposit accounts with the Bank of Russia.

Measures taken by the Bank of Russia to maintain banking sector liquidity

With the liquidity situation stabilising in the banking sector and with the interbank lending market recovering in 2010, the Bank of Russia dramatically cut its refinancing of credit institutions and their demand for Bank of Russia operations to absorb liquidity dropped significantly. The Bank of Russia operations to supply liquidity totalled 2.8 trillion roubles in 2010, or nearly seventeen times less than the 2009 level, while its operations to absorb liquidity doubled on 2009 to 36.1 trillion roubles. As a result, the Bank of Russia's net credit to the banking sector dropped from -0.1 trillion roubles to -1.6 trillion roubles in 2010.

The tool that was used most often to absorb bank liquidity in 2010 was Bank of Russia deposit transactions, which doubled during the year to 35.3 trillion roubles.

In this context, throughout 2010 the Bank of Russia was gradually winding up its liquidity support for the banking sector, which it had offered when the global financial and economic crisis was at its highest. It suspended the transactions supplying liquidity for six months or longer. In March 2010, it cancelled the concessional regime, whereby credit institutions were able to average their required reserves in correspondent accounts, regardless of the classification groups they had been assigned to when their economic situation was assessed. On January 1, 2011, the Bank of Russia discontinued compensating part of credit institutions' losses (costs) from interbank transactions in accordance with the law. In addition, on January 1, 2011, it excluded the liabilities of systemically important organisations without international ratings that meet Bank of Russia requirements from the Bank of Russia Lombard List and Bank of Russia List (which is used to grant loans secured by non-market assets).

In 2010, the Bank of Russia also continued streamlining the system of instruments used to supply and absorb liquidity in the banking sector. To standardise auction refinancing terms and conditions, the Bank of Russia reduced the terms of Lombard loans from 14 to 7 days. On January 1, 2011, the Bank of Russia suspended deposit auctions for three months. In addition, to build up the capacity of credit institutions to manage liquidity, the Bank of Russia resumed conducting overnight deposit transactions on fixed terms in April 2010.

Unsecured loans granted to credit institutions totalled 0.1 trillion roubles in 2010, as compared with 3.4 trillion roubles in 2009. In November 2010, the banking sector unsecured loans fell to zero, and on January 1, 2011, the Bank of Russia suspended such transactions.

The market instrument that the Bank of Russia most often used to provide liquidity was repo operations, the value of which (at an auction rate and at a fixed rate) totalled 2.0 trillion roubles in 2010 as against 30.1 trillion roubles in 2009. The credit institutions' average debt on this instrument fell from 221.1 billion roubles in 2009 to 21.0 billion roubles in 2010. However, given the stability on the money market, in the first half of 2010 the Bank of Russia suspended repo operations for six and twelve months.

Bank of Russia bonds (OBRs) remained a major market instrument used to sterilise bank liquidity. In 2010, outstanding OBRs doubled to 593.2 billion roubles, with a peak reached in September equalling 1,001.5 trillion roubles. In the fourth quarter of 2010, the Bank of Russia began to issue three-month OBRs (once every two months) to strengthen the impact of its transactions on money market short-term rates.

As an additional tool to manage bank liquidity, the Bank of Russia also sold government securities from its own portfolio (without a repurchase obligation) for a total of 23.9 billion roubles.

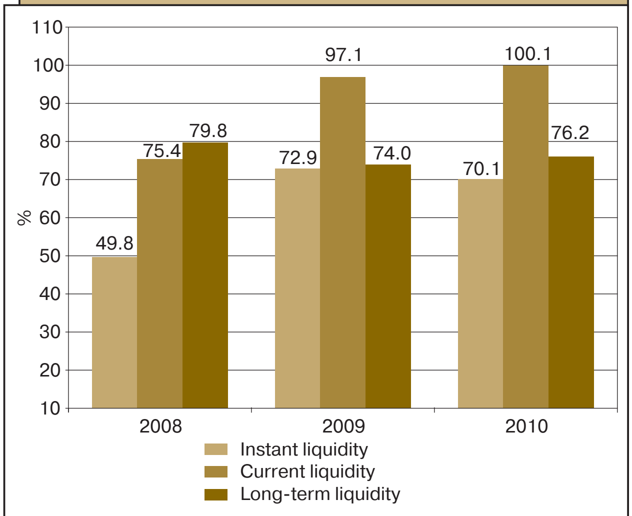
and Bank of Russia bonds, the average annual ratio of current liquidity (N3) rose from 97.1% in 2009 to 100.1% in 2010 (*see Chart 2.8*), exceeding by almost twice the minimum permissible ratio of 50%.

The average long-term liquidity ratio[53] grew slightly in 2010, from 74.0% in 2009 to 76.2% due to a higher growth rate of the average volume of long-term (over one year) lending (8.0%), compared to that of the banking sector liabilities maturing in over one year (2.4%)[54].

In the year under review, some credit institutions occasionally failed to comply with required liquidity ratios. Among those credit institutions that were active as of January 1, 2011, thirteen breached the instant liquidity (N2) ratio on some dates in 2010 (compared to eleven in 2009), and seventeen failed to meet the current liquidity (N3) ratio (as against 29 in 2009). Seven were in breach of the long-term liquidity (N4) ratio (twelve in 2009).

In 2010, only two credit institutions found themselves in breach of the N2 ratio more than twice. Four credit institutions failed to meet the N3 ratio and two failed to meet the N4 ratio on more than two occasions.

Banking sector liquidity ratios (annual chronological averages) CHART 2.8



II.3.3. The structure of credit institutions' assets and liabilities

The dynamics of values characterising the maturity structure of assets and liabilities[55] in 2010 reflected positive trends in the economy and the financial sector, including the gradual recovery in lending.

As a result, there was a lengthening in the banks' asset durations, with the share of assets maturing in excess of one year in total assets assigned to Quality Category 1[56] rising from 18.0% as of January 1, 2010 to 27.3% as of January 1, 2011. The change in the share of liabilities with residual maturity of more than one year in total liabilities was less significant in 2010 (from 23.0% to 24.5%).

On the contrary, the ratio of short-term assets (maturing in less than one month) decreased from 59.9% to 48.5%, whereas the share of short-term liabilities remained virtually unchanged at 42.0%. As a result, the liquid coverage deficit (LCD)[57] rose from 6.0% as of January 1, 2010 to 21.1% as of January 1, 2011, indicating a return to the pre-crisis level (22.2% as of January 1, 2008).

Customer deposits to loans (coverage ratio[58])

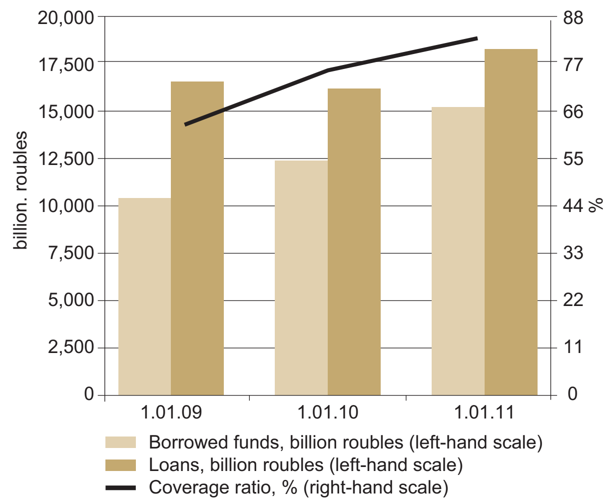
At the end of 2010, customer deposits[59] covered 83.3% of customer loans[60] compared to 76.4%, as of January 1, 2010 *(see Chart 2.9).* This change was directly caused by the growth rate of deposits placed by customers (22.7%) exceeding that of loans extended to customers (12.6%).

The coverage ratio calculated by the medium- and long-term component (one-year-plus maturity)[61] also grew from 62.0% as of January 1, 2010 to 69.9% as of January 1, 2011. The growth rate of loans with maturities exceeding one year was below the growth rate of deposits with the same maturity (13.0% as against 27.6% respectively).

As of January 1, 2011, the highest coverage ratio (96.3%) was still observed in the group of small and medium-sized regional banks.

[53] In accordance with Bank of Russia Instruction No. 110-I of January 16, 2004, "On Banks' Required Ratios", the maximum permissible ratio is set at 120%.
[54] The calculation is based on components of the calculation of long-term liquidity (N4) ratio.
[55] Analysis of assets and liabilities of credit institutions by maturity was performed on the basis of data on the distribution of assets and liabilities by maturity (compiled in Form 0409125).
[56] Pursuant to Bank of Russia Regulation No. 254-P, dated March 26, 2004, "On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loan and Similar Debts" and Bank of Russia Regulation No. 283-P, dated March 20, 2006, "On the Loss Provision Procedure for Credit Institutions".
[57] The liquid coverage deficit (LCD) is calculated as the ratio of the excess of demand liabilities and liabilities with maturities of up to 30 days over the value of (liquid) assets of the same maturities to the total value of these liabilities.
[58] The coverage ratio is calculated as the ratio of customer deposits to customer loans. The increase in the ratio indicates an improved balance between loans to customers and their sources of funding for the same maturity.
[59] Customer deposits include those accepted by credit institutions from corporate entities and individuals (except resident banks and financial institutions), as well as other funds raised from these categories of resident and non-resident creditors, excluding balances in the current and settlement accounts of these customers.
[60] Loans include credit extended by credit institutions to corporate entities and individuals (except resident banks and financial institutions), as well as other funds extended to these categories of resident and non-resident debtors.
[61] Calculated as the ratio of customer deposits with maturities in excess of one year to loans extended with the same maturity. An increase in the ratio can be interpreted as an improvement in the balance between medium- and long-term loans and their sources of funding that have the same maturity.

Loans to major sources of banking sector financing CHART 2.9



The coverage ratio was the lowest (68.5%) among foreign-controlled banks.

As of January 1, 2011, the highest coverage ratio (103.4%) calculated by for the medium- and long-term component (one-year-plus maturity) was also observed among small and medium-sized regional banks, whereas the lowest coverage ratio (47.5%) was registered among foreign-controlled banks.

In 2010, the number of credit institutions with coverage ratios well below the banking sector average decreased. As of January 1, 2011, coverage ratios that were half as high as the banking sector average were registered in 252 credit institutions, which accounted for 5.7% of banking sector total assets (as of January 1, 2010, 293 credit institutions accounting for 5.8% of total assets). 162 credit institutions, which accounted for 2.6% of total assets (as against 181 credit institutions with 2.8% of total assets as of January 1, 2010) had coverage ratios four times as low as that of the banking sector as a whole as of January 1, 2011.

II.3.4. Dependence on interbank market and interest rate dynamics

Due to a favourable liquidity situation on the money market in 2010, the dynamics of interbank actual credit rates (MIACR) were even and predictable. The MIACR for overnight rouble loans stayed between 2.1% and 5.4% p.a. *(see Chart 2.10).* The repeated reduction by the Bank of Russia of interest rates on its operations became an additional factor in the decrease of interbank interest rates.

The dependence of credit institutions on the interbank market (IMDR)[62] was insignificant in 2010, despite a slight increase (3.1% as of January 1, 2011 compared to 1.7% as of January 1, 2010).

The biggest share of banking sector total assets (79.5% as of January 1, 2011) belonged to the group of credit institutions with an IMDR of up to 8%. Compared to January 1, 2010, this group's share decreased by 2.5 percentage points. The shares of credit institutions with other IMDR levels grew slightly *(see Chart 2.11.).*

The biggest level of dependence on the interbank market is traditionally seen in the group of foreign-controlled banks (11.7% as of January 1, 2011). This level grew in 2010 (it was 6.6% as of January 1, 2010).

Small and medium-sized regional banks were still net lenders on the interbank market in 2010.

For information on interbank market dynamics *see also I.3.1 Dynamics and structure of borrowed funds.*

II.3.5. Debt to non-residents

In 2010, the total debt of the Russian banking sector to non-residents[63] was 3,967.9 billion roubles, up 13.3% over the year. At the same time, the net debt of non-residents[64] to the Russian banking sector decreased from 665.1 billion roubles as of January 1, 2010 to 561.4 billion roubles as of January 1, 2011.

Foreign-controlled banks remain the only credit institutions that are dependent on external borrowing. Their level of dependence on non-residents, i.e. net debt to liabilities, was 7.8% as of January 1, 2011, as against 5.4% as of January 1, 2010.

Analysis of the distribution of banks by level of debt to non-residents showed that the average ratio in the banking sector as of January 1, 2011 was 11.7% of total liabilities. Out of the 115 credit institutions that were in excess of this level, 62 were controlled by non-residents *(see Chart 2.12)*.

On the interbank market between January and April 2010, the Russian banking sector remained a net lender with respect to transactions with non-residents. However, the situation reversed in May 2010, and the year ended with the Russian banking sector as a net borrower with respect to foreign markets. The total net debt to non-residents as of January 1, 2011 was 346.9 billion roubles (as of January1, 2010, the banking sec-

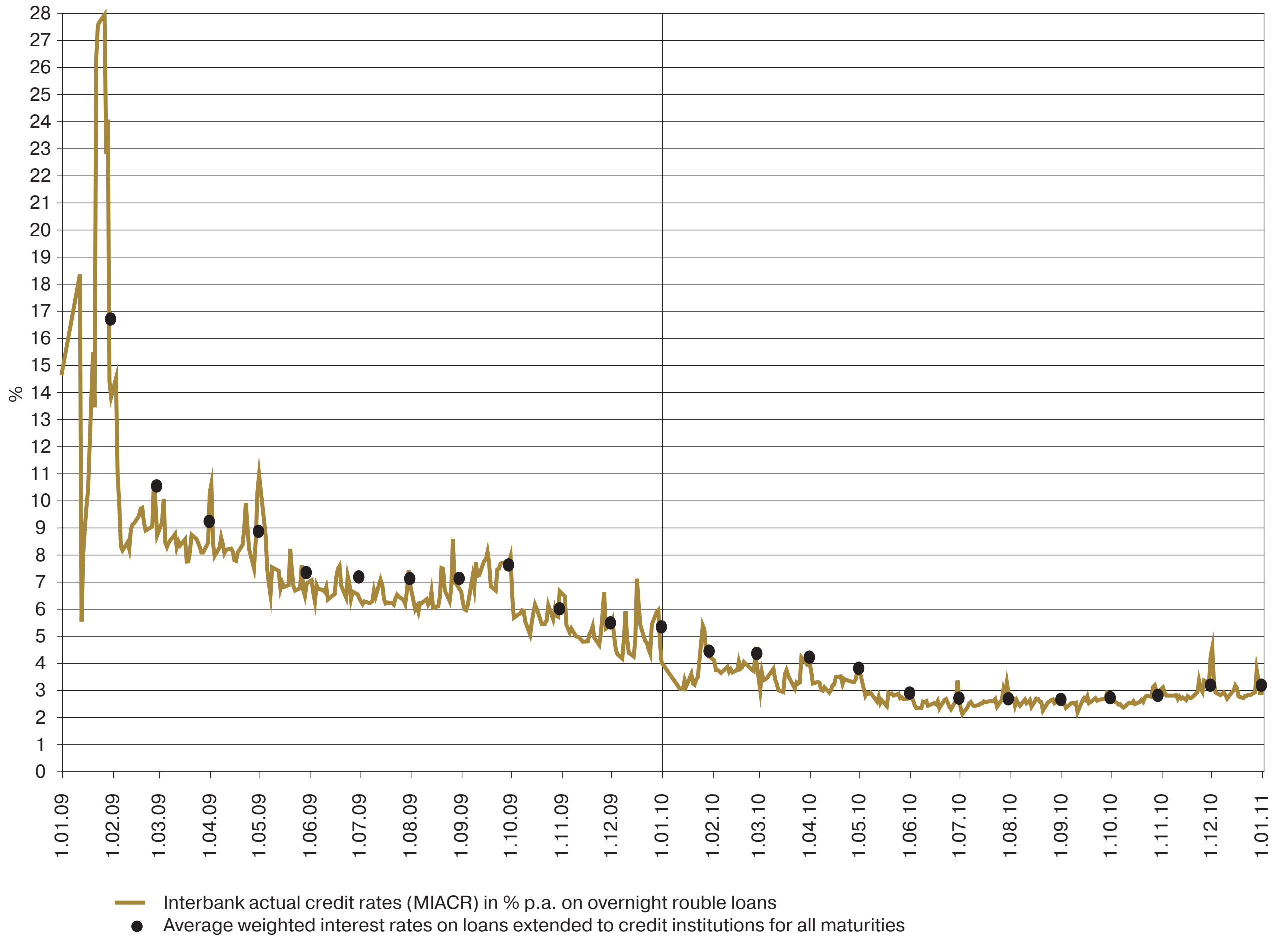
[62] The interbank market dependence ratio (IMDR) is calculated as the percentage ratio of the difference between the interbank loans taken and interbank loans placed (deposits) to the funds raised (net of accrued interest). The higher the ratio, the more the credit institution is dependent on the interbank market. The methodology of calculating the IMDR approximates the one used for calculating the PL5 ratio. The latter is described in Bank of Russia Ordinance No. 2005-U of April 30, 2008, "On the Assessment of the Economic Situation of Banks", which defines its threshold values at 8%, 18% and 27%.

[63] Correspondent accounts and other accounts held by non-resident credit institutions, loans received, deposits, funds in accounts of other non-resident individuals and corporate entities.

[64] The balance of debt to non-residents and funds deposited with them, including correspondent accounts with credit institutions, loans, deposits and other fund placements.

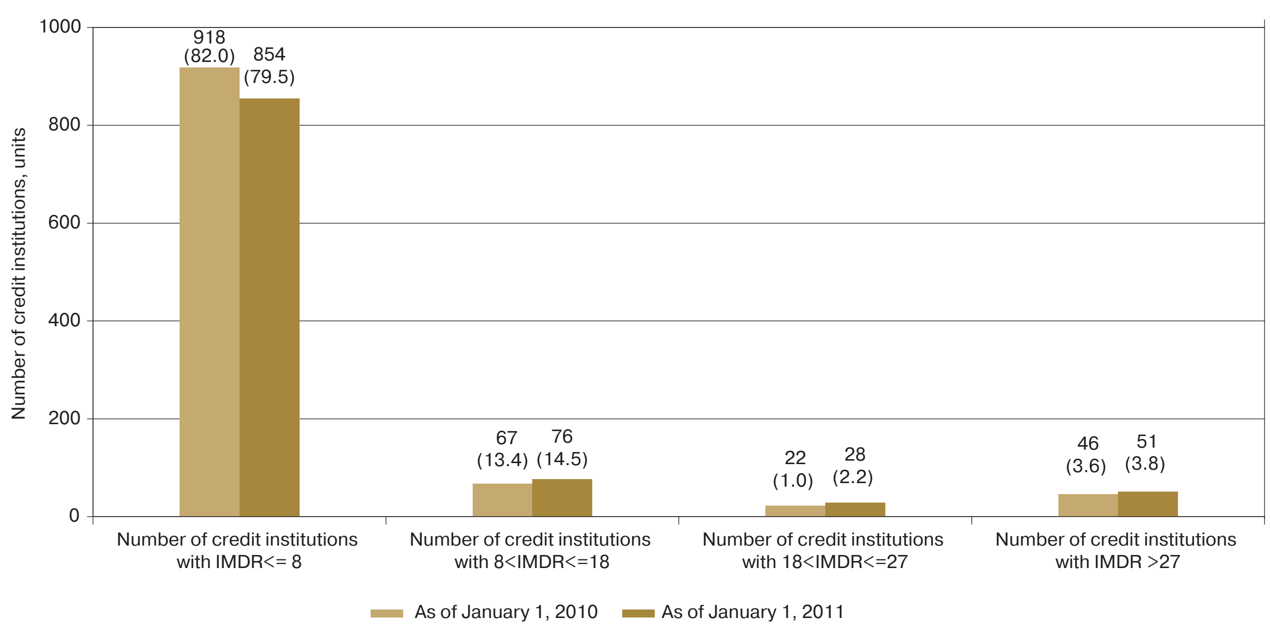
Rouble interbank credit rate (MIACR)

CHART 2.10



Credit institutions in terms of interbank market dependence ratio (IMDR)

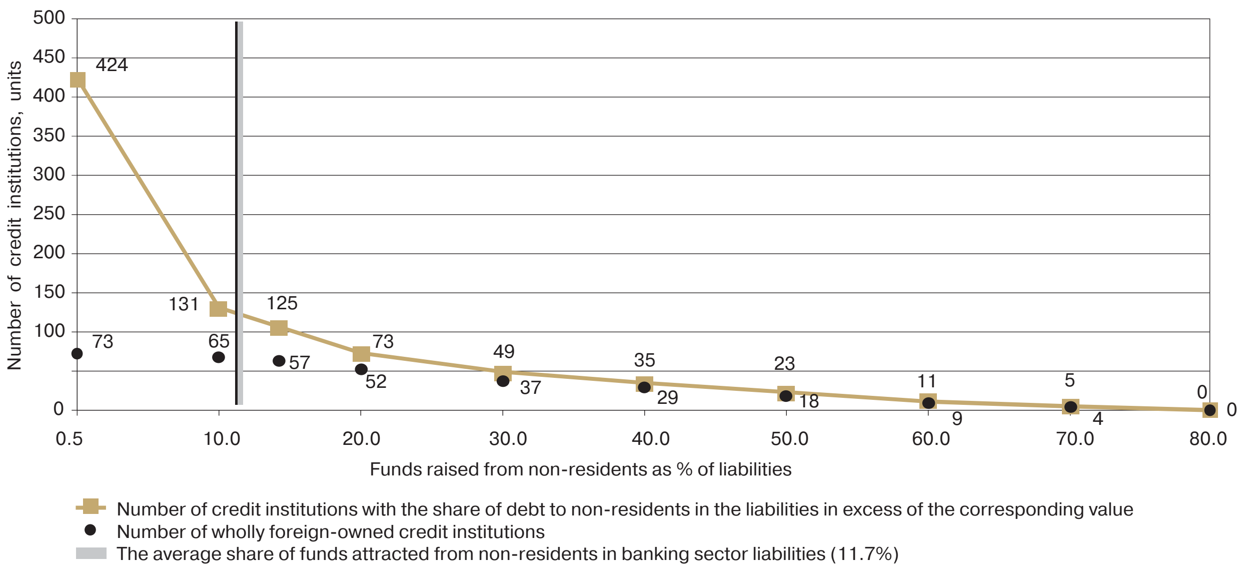
CHART 2.11



Figures in brackets denote % share of credit institutions in banking sector assets.

Banking sector debt to non-residents as of January 1, 2011

CHART 2.12



tor had net claims on non-residents totalling 39.8 billion roubles).

Correspondingly, the share of loans received from non-resident banks in the total of loans received on the interbank market decreased by 5.6 percentage points, to 54.8%, whereas the share of loans extended to non-resident banks in the total of loans extended on the interbank market decreased by 12.0 percentage points, to 58.6%.

As of January 1, 2011, 172 credit institutions, which accounted for 87.2% of banking sector total assets, had loans received from non-resident banks (as of January 1, 2010, there were 167 such credit institutions with 86.4% of banking sector total assets respectively). The high concentration of loans persists, with six credit institutions (of which five are in the top 20 in terms of assets), accounting for half of the interbank loans received from abroad.

As of January 1, 2011, 242 credit institutions with 90.0% of banking sector total assets had extended loans to non-resident banks (as against 227 credit institutions with 89.4% of total assets as of January 1, 2010). Just as was the case with foreign borrowing, the placement of funds on the international market was characterised by a high degree of concentration, with three credit institutions from the top 20 (in terms of assets) accounting for half of total interbank loans. Thus, interbank transactions with non-residents were traditionally concentrated in Russia's largest credit institutions.

II.4. Capital Adequacy

II.4.1. Banking sector capital dynamics and structure

The own funds (capital) of operating credit institutions grew 2.4% in 2010, reaching 4,732.3 billion roubles by January 1, 2011. During the year, the ratio of banking sector capital to GDP decreased from 11.9% as of January 1, 2010, to 10.6% as of January 1, 2011, as did the ratio of capital to banking sector assets — from 15.7% to 14.0% respectively *(see Chart 2.13)*. The rate of capital growth in 2010 slowed down significantly compared to the previous year (2.4% as against 21.2%).

The structure of capital growth drivers changed. Profits and funds created from them became the main drivers of capital growth (by 301.7 billion roubles, or 62.9% of the total sources of capital growth[65]). Growth in authorised capital and share premiums totalled 115.0 billion roubles (24% of total growth drivers), which is substantially less than in 2009, when the capital dynamics were largely determined by the government bank support program, which formed a part of the anti-crisis package.

In contrast to 2009, in 2010 the repayment of subordinated loans included into capital became a factor of its decrease, which reduced the total sources of its growth by 220.8 billion roubles, or 46%[66]. Growth in credit institutions' portfolios of shares of resident dependent corporate entities and credit institutions became another factor that brought about the decrease. This factor reduced the total growth drivers by 143.9 billion roubles, or by 30%.

The significance of capital growth factors differed by group of credit institutions.

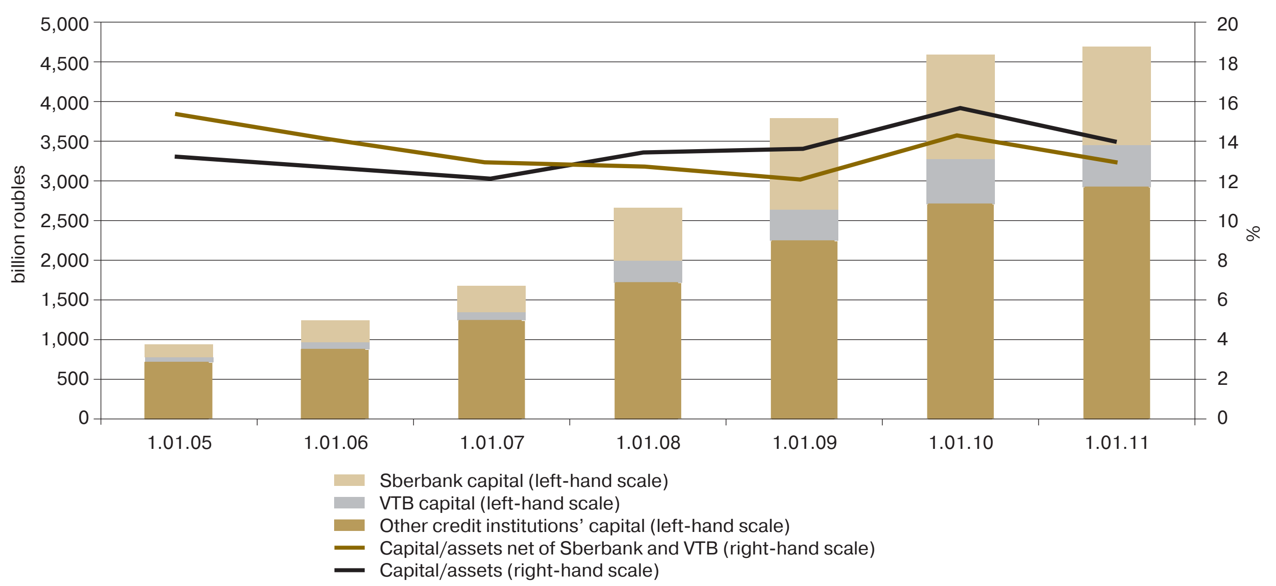
Among foreign-controlled banks, growth in authorised capital and share premiums (50.9% of total growth drivers), along with profit capitalisation (28.9%) were the main factors affecting capital growth.

The capitalisation of large private banks increased, largely due to the reduction of losses at banks that underwent bankruptcy prevention measures (54.5%) and growth in share premiums (29.2%).

Among small and medium-sized banks based in Moscow and the Moscow Region, capital expanded due to a reduction of losses at loss-making banks (32.2%), growth in subordinated loans (17.3%), and profits and funds created from them (14.4%).

State-controlled banks, as well as small and medium-sized regional banks, saw their capital decrease.

Banking sector capital CHART 2.13



[65] Hereinafter referred to as total growth drivers.
[66] In general, across the banking sector, net of Sberbank and VTB, subordinated loans were a capital growth factor.

The said factors caused the following changes in the structure of banking sector capital in 2010. The share of profits and funds created from them increased noticeably: from 31.5% to 37.1% *(see Chart 2.14)*. The share of authorised capital and share premiums rose from 45.7% to 47.0%, whereas the share of subordinated loans fell from 29.7% to 24.3%.

In 2010, a reduction of capital by a total of 185.9 billion roubles was registered at 161 credit institutions (63.7 billion roubles at 163 banks in 2009). The biggest capital reduction was registered in a number of state-controlled banks *(see Table 2.9).*

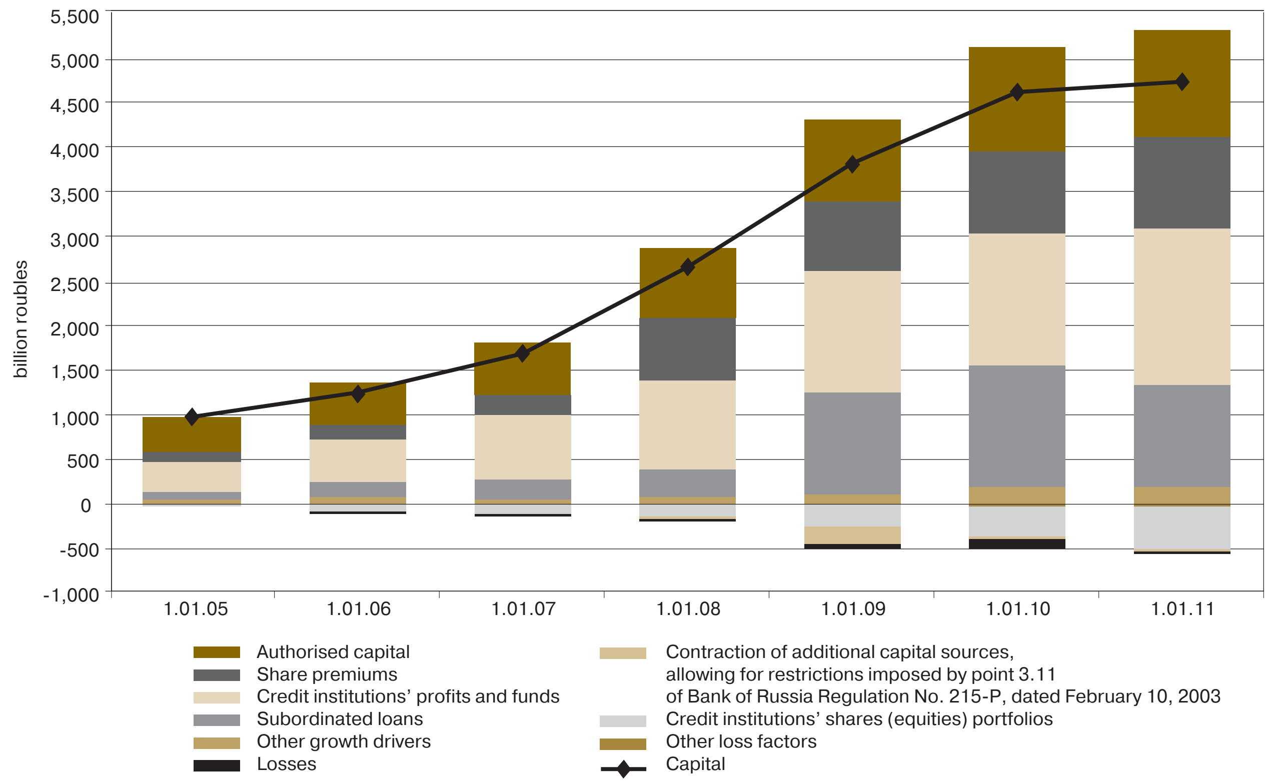
II.4.2. Risk-weighted assets

The ratio of risk-weighted balance sheet assets of credit institutions to total balance sheet assets in 2010 decreased slightly (from 60.6% to 59.6%, *see Chart 2.15*). At the same time, the structure of risk-weighted balance sheet assets changed considerably *(see Table 2.10)*.

The change in the structure was largely caused by the change (starting with the data as of August 1, 2010) of the indicator calculation methodology, which resulted in a large part of assets, previously referred to the 3rd and 5th groups, being transferred to the 2nd and 4th

Banking sector total capital structure

CHART 2.14

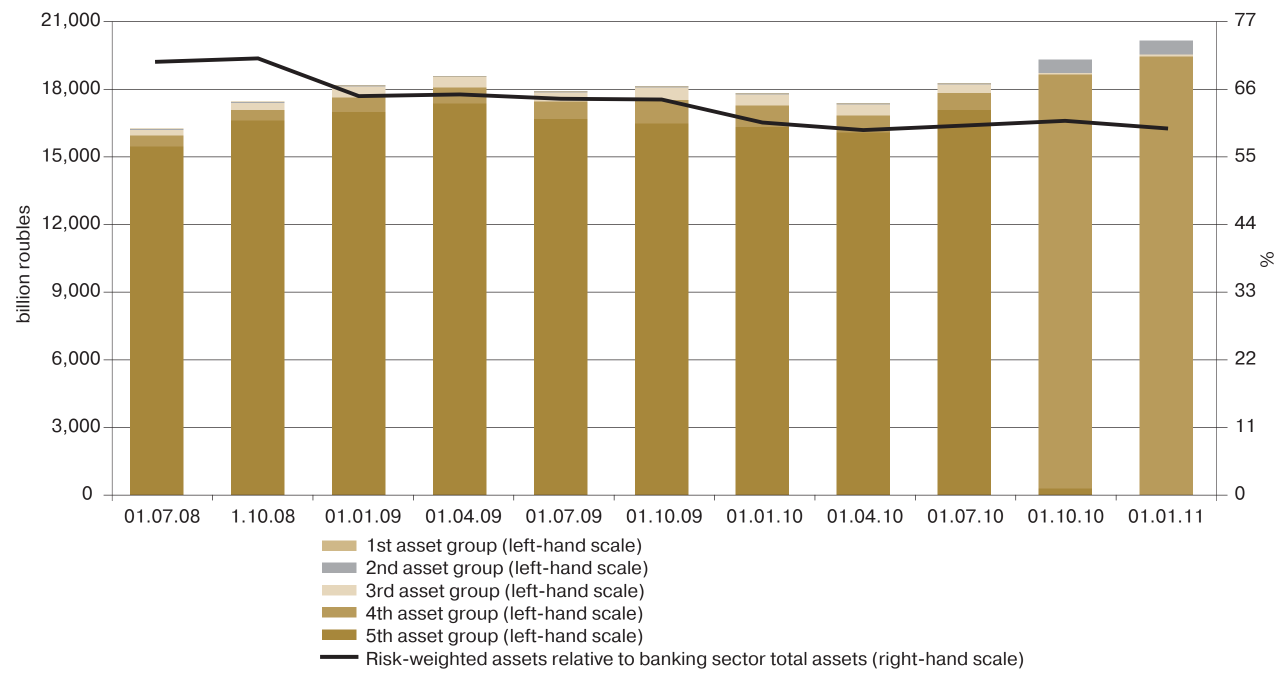


Capital reduction by bank groups

TABLE 2.9

Group name	Number of credit institutions	Capital reduction, billion roubles	Capital as of January 1, 2011	
			% of group	% of banking sector
State-controlled banks	6	115.6	86.7	41.0
Foreign-controlled banks	24	29.4	23.0	4.4
Large private banks	25	35.9	39.9	10.8
Small and medium-sized banks based in Moscow and the Moscow Region	44	3.3	15.7	0.5
Small and medium-sized regional banks	52	1.5	14.9	0.4
Non-bank credit institutions	10	0.2	4.0	0.0
Total	161	185.9		57.1

Risk-weighted balance sheet assets *CHART 2.15*



The calculation methodology was changed starting with the data as of August 1, 2010 due to the entry into force of Bank of Russia Ordinance No. 2324-U of November 3, 2009.

Structure of risk-weighted balance sheet assets (%) *TABLE 2.10*

	1.01.10	1.01.11
1st asset group	0.09	0.00
2nd asset group	0.20	3.04
3rd asset group	2.78	0.43
4th asset group	5.32	96.47
5th asset group	91.60	0.07

groups[67]. This transformation also provided for a change in the weighting of the corresponding groups and was implemented in order to bring the Russian regulation system in line with Basel II.

In 2010, the volume of risk-weighted assets increased by 18.1% (as against a reduction of 2.4% in 2009). The reversal of the trend was mostly caused by the recovery of lending and growth in bank securities portfolios. The structure of risk-weighted assets underwent certain changes during the year: namely, the share of credit risk of assets recorded in the balance sheet accounts decreased from 80.5% as of January 1, 2010, to 77.1% as of January 1, 2011; the share of credit risk of contingent credit liabilities fell from 9.3% to 6.7%. The share of market risk increased from 6.3% as of January 1, 2010, to 8.0% as of January 1, 2011; the share of related parties risk rose from 3.5% to 3.8%.

Credit risk dominated the structure of risk-weighted assets in all bank groups. At the same time, the largest share of credit risk of assets recorded in the balance sheet accounts was registered among small and medium-sized regional banks (80.2%) as well as among state-controlled banks (79.2%); the smallest share was registered among small and medium-sized banks based in Moscow and the Moscow Region (73.5%).

As of January 1, 2011, the largest (10.7%) share of market risk was registered among small and medium-sized banks based in Moscow and the Moscow Region, whereas the smallest share was observed among small and medium-sized regional banks (5.0%).

II.4.3. Credit institutions' capital adequacy

The capital adequacy ratio across the banking sector decreased from 20.9% as of January 1, 2010, to 18.1% as of January 1, 2011 *(see Chart 2.16)*, which was largely caused by the slowdown of the capital growth rate amid the considerable growth of risk-weighted assets.

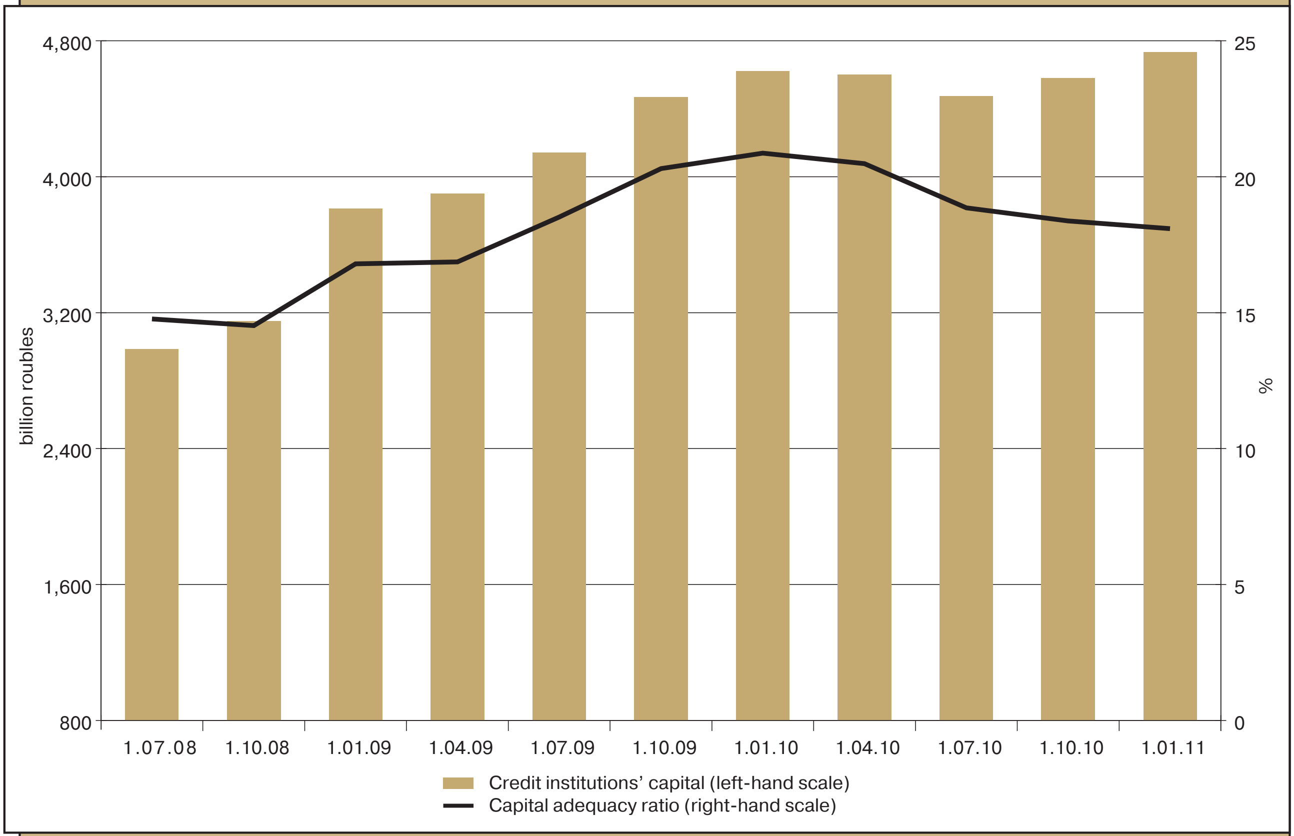
The capital adequacy ratio declined during the year in all groups of credit institutions. The five banks with the biggest assets saw their capital adequacy ratio decrease from 22.4% to 18.4% in 2010.

The lowest capital adequacy ratio was registered among banks that ranked between 6 and 20 in terms

[67] Bank of Russia Ordinance No. 2324-U of November 3, 2009, "On Amendments to Bank of Russia Instruction No. 110-I, Dated January 16, 2004 on Banks' Required Ratios".

Capital adequacy ratio

CHART 2.16



of assets (15.1% as of January 1, 2011, as against 16.6% as of January 1, 2010). These were generally large private domestic banks *(see Tables 2.11 and 2.12).*

In 2010, the number of banks with a capital adequacy ratio of less than 12% grew from 20 as of January 1, 2010, to 52 as of January 1, 2011 (including 51 banks with capital of over 180 million roubles, for which the capital adequacy ratio is 10%). The share of these banks in banking sector total assets increased from 3.5% to 6.4%.

As of January 1, 2011, 86 credit institutions (57 as of January 1, 2010) had their capital adequacy ratios ranging between 12% and 14%. Their share of banking sector total assets rose in 2010 by 15.0 percentage points to 20.4% as of January 1, 2011.

About 86% of operating credit institutions maintained their capital adequacy ratios at more than 14% (91.9% as of January 1, 2010). The share of credit institutions with capital adequacy ratios of between 14% and 28% in banking sector total assets fell from 83.2% to 68.3% *(See Charts 2.17 and 2.18).*

Capital adequacy (N1) ratio by group of credit institutions (%)

TABLE 2.11

	1.01.10	1.01.11
State-controlled banks	22.8	18.6
Foreign-controlled banks	19.6	19.5
Large private banks	17.8	15.5
Small and medium-sized banks based in Moscow and the Moscow Region	31.1	26.8
Small and medium-sized regional banks	24.2	20.7
Non-bank credit institutions	103.8	67.8

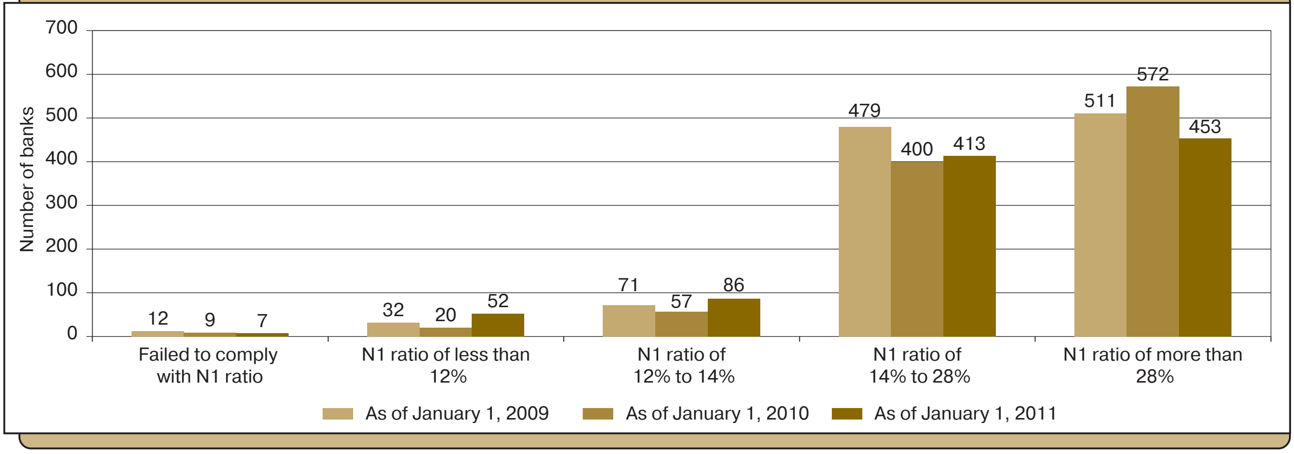
Capital adequacy (N1) ratio by group of credit institutions arranged by asset (%)

TABLE 2.12

Credit institutions arranged by asset (in descending order)	1.01.10	1.01.11
Top 5	22.4	18.4
6th to 20th	16.6	15,1
21st to 50th	17.3	17.1
51st to 200th	21.8	19.7
201st to 1000th	29.1	25.6
1001st down	130.2	100.3
Banking sector	20.9	18.1

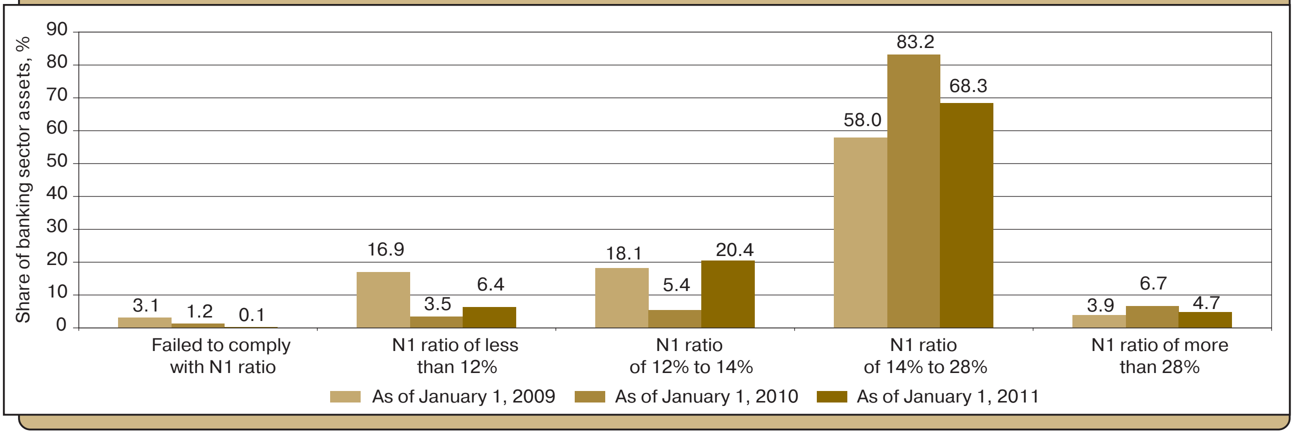
Credit institutions grouped by capital adequacy ratio (by number)

CHART 2.17



Credit institutions grouped by capital adequacy ratio (by share of banking sector total assets)

CHART 2.18



The capital adequacy ratio (N1) was breached by twenty three credit institutions in 2010[68] (sixteen in 2009). Six out of these twenty three institutions had their licences revoked, and eight are undergoing bankruptcy prevention measures. The number of current violations of the N1 ratio decreased from 1,597 in 2009 to 1,182 in 2010, whereas the number of non-compliant banks grew from thirteen to seventeen[68].

[68] Among credit institutions active as of January 1, 2011.

II.5. Bank Management Quality

In 2010, amid the post-crisis economic revival and improvement of the market situation, it became a pressing task for banks to gradually return from a crisis management mode to traditional management procedures. At the same time, a trend emerged whereby credit institutions began to accept new risks. This increased the importance of efficient corporate management, which was aimed at achieving a reasonable compromise between the demand of executive bodies of credit institutions to quickly achieve high operating results on one hand, and the need to take account of the lessons of the latest crisis on the other.

Problems involving the executive decisions made by the bank's owners and management, who determine credit and investment policies and manage liquidity, are still relevant. Many credit institutions need to further improve their mechanisms of detecting, evaluating, and informing the management and owners about the actual levels of risk being accepted[69]. As part of the efforts to improve these risk management systems, there was an increase in the number of credit institutions that started implementing risk-based pricing systems for raised funds and bank products. The automation of banking operations and implementation of electronic customer service systems have been done quickly. This has helped boost the financial performance of credit institutions.

A number of credit institutions demonstrated their commitment to the implementation of advanced international corporate governance practices. In particular, they followed the methodological recommendations of the Bank of Russia to perform an assessment of their corporate governance and to develop plans to improve it. These include steps to improve strategic planning procedures, and to formalise the measures for determining the maximum permissible total risk level (risk appetite), taking account of the profitability required by bank owners and the required capital adequacy level.

Analysis of data from a poll of the largest credit institutions on the degree of their implementation of the Financial Stability Board's Principles for Sound Compensation Practices has shown that there is still room for further improvements. At the same time, separate provisions of the principles and standards have been more or less implemented by almost all the largest credit institutions. For example, most of the credit institutions mentioned stipulate in their internal documents the possibility of reducing or cancelling bonuses if the financial performance of the institution is negative or if the institution achieves negative results in certain areas of its activities.

[69] The dynamics of evaluations of risk management system is presented in Section II.1.2 *(see Table 2.1).*

II.6. Macroprudential Analysis of the Banking Sector

The Bank of Russia widely uses stress testing for analysing and assessing the banking sector stability. Its use helps evaluate changes in the structure of banking risks, reveals the credit institutions that are most exposed to certain risk, and determines the potentially necessary capitalisation of the banking sector if the given stress conditions materialise.

In accordance with international practices, the assessment of capital losses by operating credit institutions includes the impact that the three main types of risk — credit, market and liquidity — have on each bank's balance sheet.

The end results of stress tests are assessments of the possible losses of the banking sector, the capital adequacy level after the stress impacts, as well as the deficit of capital necessary for compliance with prudential standards that can afflict certain credit institutions if stress scenarios materialise.

The Bank of Russia is committed to improve its stress tests by analysing international experience and subjecting the results to back-testing. On the basis of such analysis, a new stress scenario was designed that takes into consideration the lessons of the previous crises to the largest extent. The new scenario is supposed to be the best fit to meet the main requirements of a stress test — the exclusiveness and plausibility of a scenario's conditions. The new scenario is sufficiently harsh and provides for a whole series of simultaneous negative events affecting banks. At the same time, due to the continuing strengthening of the Russian economy, as well as the reasonably favourable situation on the Russian export markets, the probability of the proposed stress scenario occurring within the coming year appears to be very low.

The stress scenario is mainly characterised by an increase in the share of "bad"[70] loans in the credit institution's loan portfolio when a credit risk materialises. The increase is calculated on the basis of historical data (since July 1, 1998) on the volatility of the share of bad loans at each credit institution.

The assessment of the liquidity risk implies an outflow of personal deposits (between 10% and 20%); the same outflow is expected from settlement, current and other accounts of corporate entities. The outflow of corporate deposits is expected to fall within a range of between 5% and 10%. Interbank loans from non-residents are also expected to recede by 30%. Banks will then cover the possible liquidity deficit by selling assets at a discount, depending on the asset liquidity level. Access to the interbank market will probably be very limited in stress conditions, which makes it impossible to raise the funds necessary to cover the deficit. An urgent sale of highly liquid assets during a crisis supposes a discount of 5%; a 20% discount for liquid assets and 60% for low liquid assets.

As part of market risk assessment according to the stress scenario conditions, the rouble is devaluated by 20%. In addition to this, there is a depreciation of debt secuirities portfolios and equities portfolios.

When calculating the depreciation of debt instruments, a parallel shift of the yield curve by 300 basis points for the federal loan bond portfolio and the Bank of Russia bond portfolio and by 900 basis points for the corporate bond portfolio were considered as stress factors, taking account of the distribution of the monthly yield changes since the pre-crisis period. Stress factors for each category of securities were determined depending on their actual dynamics during the latest crisis (the maximum yield growth rate was close to the actual maximum monthly yield growth rate across the debt market during the crisis). The evaluation of equity position risk is based on a 30% depreciation of equities portfolios assessed at fair value through profit or loss, as well as securities available for sale.

Additionally, a stress test was performed with respect to the possibility of a crisis on the interbank market ("the domino effect"), as well as the rouble revaluation.

The quantitative characteristics of the aforementioned negative shifts are calculated individually for each credit institution on the basis of their financial statements.

The stress test of the Russian banking sector was carried out on the basis of the reporting data of credit institutions active as of January 1, 2011 and produced the following results.

If the stress scenario materialises, the losses can total 5.2% of GDP, or 50.7% of credit institutions' capital. If all of the aforementioned types of risk materialise, the N1 ratio will not exceed 10% at 321 banks, which account for 50.8% of banking sector assets; the N1 ratio will not exceed 2% at 134 of them (11.6% of banking sector assets).

The calculations made using the data as of January 1, 2011, confirm that credit risk remains the most important for the Russian banking sector, with losses likely to make up as much as 24.2% of banking sector

[70] For the purpose of the stress test, "bad loans" mean loans of the IV and V quality categories, in accordance with the classification set by Bank of Russia Regulation No. 254-P, dated March 26, 2004, "On Procedure of Making Provisions by Credit Institutions for Possible Losses on Loans, Loan and Similar Debts".

capital. The stress can increase the share of bad loans in the banking sector corporate loan portfolio from 9.3% to 14.9%, and that in the personal loan portfolio from 10.2% to 13.6%.

If liquidity risk materialises, the losses of the banking sector can stand at 13.8% of their capital.

The extent of potential losses from the materialisation of market risk as of January 1, 2011 was 12.7% of capital. In the total losses from this type of risk, interest rate risk had the largest share, at 64.4%, equity position risk accounted for 34.6%, and foreign exchange risk made up just 1.0%.

The resilience of the banking sector was also assessed against the crisis on the interbank market ("the domino effect")[71]. According to data as of January 1, 2011, in the event of a domino effect on the interbank market, banks' losses can reach 25.4% of banking sector capital (2.6% of GDP). In this case, the N1 ratio will not exceed 10% at 300 credit institutions, which account for 21.3% of banking sector assets; and it will not exceed 2% at 126 of these (5.8% of assets).

An additional assessment of foreign exchange risk showed that the rouble's appreciation could result in losses of 0.11% of banking sector capital. Insignificant losses, both in the event of the rouble's depreciation or appreciation, demonstrate the sufficiently balanced structure of assets and liabilities of Russian credit institutions in terms of currency.

[71] Banks whose total losses from all types of risk, except the interbank market crisis, would exceed 25% of their capital were taken as banks that would initiate suspension of payments on interbank loans. Later, funds (interbank loans, deposits and balances in nostro accounts) of these banks, which are regarded as financially unstable in this model, are considered additional losses of their counterparty banks. Then, other banks are also included in the calculation of losses by the chain of interbank links.

III

Banking Regulation and Supervision in Russia

III.1. Upgrading the Legal and Regulatory Framework for Banking Activities in Line with International Standards

In 2010, the Bank of Russia continued its efforts to improve the legal framework for banking activities.

III.1.1. Upgrading the legal framework for credit institutions

The year 2010 saw the adoption of the following federal laws, which were drafted with the involvement of the Bank of Russia:

– Federal Law No. 375-FZ of December 23, 2010, “On Amending Article 1 of the Federal Law on Suspending Some Provisions of Article 48 of the Federal Law on the Insurance of Household Deposits with Russian Banks”, which extends until July 1, 2011 the suspension of the Bank of Russia duty toprohibit banks that participate in the deposit insurance system from taking household deposits and opening personal accounts in the event of the banks’ failure to comply with the established capital, asset, profitability and liquidity requirements, and required ratios;

– Federal Law No. 11-FZ of February 15, 2010, “On Amending Article 29 of the Federal Law on Banks and Banking Activities” with respect to the bank’s unilateral amendment of the terms and conditions of the credit agreement signed with an individual;

– Federal Law No. 148-FZ of July 1, 2010, “On Amending Articles 13.1 and 29 of the Federal Law on Banks and Banking Activities”, which pertains to credit institutions’ obligation to advise customers of fees charged for ATM cash withdrawals;

– Federal Law No. 181-FZ of July 23, 2010, “On Amending Article 11.1 of the Federal Law on Banks and Banking Activities”, which softens the restrictions on credit institutions’ managers combining jobs;

– Federal Law No. 224-FZ of July 27, 2010, “On Preventing the Unauthorised Use of Insider Information and Market Manipulation and Amending Some Russian Laws;

– Federal Law No. 151-FZ of July 2, 2010, “On Micro-Financing Activities and Micro-Financing Organisations”;

– Federal Laws No. 7-FZ and 8-FZ of February 7, 2011, “On Clearing and Clearing Activities” and “On Amending Some Russian Laws Following Adoption of the Federal Law on Clearing and Clearing Activities”.

III.1.2. The state registration of credit institutions and the licensing of banking operations

Under the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and the Federal Law on Banks and Banking Activities, and to improve the regulatory framework for credit institution registration and licensing, the Bank of Russia issued Instruction No. 135-I, dated April 2, 2010, “On the Bank of Russia’s Decision-Making Procedure Regarding the State Registration of Credit Institutions and the Licensing of Banking Operations” (hereinafter referred to as Instruction No. 135-I). This is a new version of Bank of Russia Instruction No. 109-I, dated January 14, 2004, “On the Bank of Russia’s Decision-Making Procedure Regarding the State Registration of Credit Institutions and Licensing of Banking Operations”. The Instruction also includes additional provisions:

– related to the termination of exchange office operations and the exclusion of exchange offices from the list of credit institution (branch) internal structural units;

– detailing control over the legitimacy of payment for credit institution shares (stakes) in inspecting the sources of funds used to pay for the shares (stakes), the financial position of purchasers and the adequacy of funds (net assets) available to them to purchase the shares (stakes) of the credit institution. An on-site inspection of the credit institution is needed where its authorised capital is increased by more than 20%, and where there is reason to believe that the established requirements applicable to payments made for shares (stakes) were violated. To ensure the optimal operation of Bank of Russia regional branches, the necessity of performing an on-site inspection could be waived where:

- at least 75% of the authorised capital increase is paid for by international development banks and federal and local governments;
- the credit institution has capital of at least 180 million roubles, and a significant influence on the credit institution’s shareholders (members) who own at least 75% of the authorised capital increase will be exerted, directly or indirectly, by entities with a high long-term credit rating (sustainable financial position).

Due to the decision to terminate exchange offices’ operations and exclude exchange offices from the list of credit institution (branch) internal structural units, the Bank of Russia issued Ordinance No. 2423-U of April 2, 2010, "On Changing the Status of Exchange Offices as Credit Institution (Branch) Structural Units, Closing Exchange Offices, and Optimising Internal Structural Unit Operations". The Ordinance provides a procedure so that the status of exchange offices within the credit institution (branch) structure may be changed and exchange offices may be closed.

The Bank of Russia issued Ordinance No. 2466-U of June 9, 2010, "On Amending Bank of Russia Regulation No. 230-P, Dated June 4, 2003, on Credit Institution Mergers and Acquisitions". The Ordinance simplifies the procedure for the temporary keeping of the reorganised credit institution correspondent account (branch correspondent sub-account) following reorganisation. Under this Ordinance, the Bank of Russia head office delegated the decision-making function for the temporary keeping of the reorganised credit institution correspondent account (branch correspondent sub-account) to its regional branches, with an option to extend this period (which was not available before).

Federal Law No. 28-FZ of February 28, 2009, "On Amending the Federal Law on Banks and Banking Activities" provides for a broader range of circumstances in which the Bank of Russia is obliged to revoke a banking licence. In particular, the Bank of Russia is obliged to revoke the licence of banks where the capital level is below the required minimum and which have failed to apply to the Bank of Russia to change their status to that of a non-bank credit institution. As in this case, it is possible that bank managers are not directly responsible for the loss of the licence. The Bank of Russia issued Ordinance No. 2482-U of July 20, 2010, "On Amending Bank of Russia Regulation No. 271-P, Dated June 9, 2005 on Considering Documents to Be Provided to Bank of Russia Regional Branches for Registering and Licensing Banks and Maintaining Databases on Banks and Their Branches" to specify circumstances for the reporting of relevant details to the bank manager database. The Ordinance provides for an option to forego reporting bank managers' details to the database if they proceeded as required by federal laws and the Bank of Russia regulations to protect the interest of creditors and depositors. Their efforts include the provision of adequate assets to make settlements with creditors in full and as reflected in financial statements.

Due to the adoption of Federal Law No. 164 FZ of July 17, 2009, "On Amending the Federal Law on Protecting Competition and Some Russian Laws", which amended the definition of a group of persons given in Part 1, Article 9 of the Federal Law on Protecting Competition, the Bank of Russia issued Ordinance No. 2435-U of April 27, 2010, "On Amending Bank of Russia Regulation No. 307-P, Dated July 20, 2007, on the Procedure for Accounting and Reporting on Credit Institutions' Affiliates". The Ordinance specifies and ensures the compliance of the definitions of criteria that categorise individuals and corporate entities as a credit institution's affiliated parties with Russian legislation, due to their association with a group of entities of which the credit institution is a member.

In accordance with the provisions of Federal Law No. 227-FZ of July 27, 2010, "On Amending Some Russian Laws Following the Adoption of the Federal Law on Organising the Provision of Public and Municipal Services", amendments to the Federal Law on the State Registration of Corporate Entities and Individual Unincorporated Entrepreneurs took effect from January 1, 2011. These amendments allowed applicants to submit documents to the Federal Tax Service in electronic form. Moreover, Federal Law No. 227-FZ has not abolished the current application procedure, which is based on paper documents (to be mailed or delivered to the authorised registration authority by hand). The applicant can choose to provide either paper or electronic documents.

To implement Federal Law No. 227-FZ and align the regulatory framework with this law, the Bank of Russia issued the following documents:

– Ordinance No. 2529-U of December 3, 2010, "On Amending Bank of Russia Ordinance No. 1292-U of June 19, 2003, on the Procedure for a Non-Bank Credit Institution to Apply to the Bank of Russia for a Bank Status";
– Ordinance No. 2530-U of December 3, 2010, "On Amending Bank of Russia Ordinance No. 1807-U of March 27, 2007, on the Procedure for the Registration by Bank of Russia of Amendments to a Bank's Incorporation Documents and Licensing Following the Bank's Application for a Change of its Status to That of a Non-Bank Credit Institution";
– Ordinance No. 2531-U of December 3, 2010, "On Amending Bank of Russia Instruction No. 135-I, Dated April 2, 2010, on the Procedure for the State Registration and Licensing of Credit Institutions by the Bank of Russia".

The period and procedure for credit institutions filing applications to the Bank of Russia (or regional branch thereof) for state registration (in electronic or paper form), and the procedure for considering these documents are outlined in Bank of Russia Letter No. 169-T, dated December 20, 2010, "On Federal Law No. 227-FZ of July 27, 2010".

Since reorganisation notices for corporate entities should be published in printed media designed for information on the state registration of corporate entities, as required by federal legislation ("State Registration Bulletin"), it is not necessary to publish credit institution reorganisation notices in the "Bank of Russia Bulletin". In this regard, the Bank of Russia issued Ordinance No. 2389-U of January 29, 2010, "On Voiding Ordinance No. 1487-U of August 11, 2004, on Publishing Credit Institution Reorganisation or Authorised Capital Decrease Notices in the Bank of Russia Bulletin, and Ordinance No. 2433-U of April 27, 2010, on Amending Point 5 of Ordinance No. 1260-U of March 24, 2003, on the Procedure for Matching the Authorised Capital of Credit Institutions with their Capital".

Due to amendments made to applicable legislation, the Bank of Russia issued Ordinance No. 2540-U of December 15, 2010, "On Amending Ordinance No. 1186-U of August 14, 2002, on Contributions to the Authorised Capital of Credit Institutions at the Expense of Budgets of All Levels, State Extra-budgetary Funds, Free Funds and Other Property Managed by Public Authorities and Local Governments" (hereinafter referred to as Ordinance No. 1186-U"). The Ordinance was issued due to the need to ensure that its specific provisions aligned with:

– Federal Law No. 246-FZ of December 29, 2006, "On Amending Articles 11 and 18 of the Federal Law on Banks and Banking Activities and Article 61 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)". The amendments stipulated that the threshold for reporting to the Bank of Russia on bank share (stake) purchases was lowered from 5% to 1%;
– Russian Government Order No. 947-r of June 28, 2008, to shut down the Russian Federal Property Fund, a specialised agency under the Russian Government;
– the elimination of Federal Law No. 126-FZ of September 25, 1997, "On the Financial Principles of Local Governance in the Russian Federation".

III.1.3. Credit institution regulation. Methodological issues of financial risks and on-going supervision

Methodological issues of financial risks and on-going supervision

The Bank of Russia is taking consistent steps to apply Basel II[72] in the Russian banking sector as the internationally recognised standard for the assessment of capital adequacy, including adjustments made for the development of internal bank risk management systems, the organisation of supervisory processes, and the disclosure of information by banks. This work is phased to ensure the consistent implementation of various options available for the regulatory assessment of capital adequacy, ranging from simple (based on regulatory values) to more complex (based on internal bank risk assessments).

Amendments to the Bank of Russia regulations that are applicable to the procedure for the calculation of required ratios and operational risk became effective on July 1, 2010. They implement a simplified standardised approach to the assessment of credit risk and a basic indicator approach to the calculation of operational risk under Basel II (amendments made by Bank of Russia Ordinance No. 2324-U of November 3, 2009, "On Amending Instruction No. 110-I, Dated January 16, 2004, on Banks' Required Ratios and Regulation No. 346-P, Dated November 3, 2009, on the Procedure for the Calculation of Operational Risk").

The Bank of Russia amended its regulations on country risk scores to be used in its prudential regulation system, as part of the implementation of a simplified standardised approach of Basel II, particularly:

– Ordinance No. 2321-U of November 3, 2009, "On Amending Bank of Russia Regulation No. 313-P, Dated November 14, 2007, on the Procedure for the Calculation of Market Risk by Credit Institutions";
– Ordinance No. 2322-U of November 3, 2009, "On Amending Regulation No. 283-P, Dated March 20, 2006, on the Procedure for Making by Credit Institutions Loss Provisions";
– Ordinance No. 2323-U of November 3, 2009, "On Amending Regulation No. 254-P, Dated March 26, 2004, on the Procedure for Making by Credit Institutions Provisions for Possible Losses on Loans, Loan and Similar Debts".

In 2010, the Bank of Russia drafted consultative documents to identify possible areas, deadlines and stages for the implementation of Basel II IRB-approach in the Russian banking sector, and details of policies (including regulatory amendments) to promote a more comprehensive implementation of Basel II. The documents were made available for comments to the banking community and banking specialists at large.

For the regulation of approaches to use supervisory measures against credit institutions, the Bank of Russia issued Ordinance No. 2387-U of January 26, 2010, "On the Cooperation of Bank of Russia Regional Branches to Use Supervisory Measures against Credit Institutions with Head Offices and Structural Units Located in Different Regions of the Russian Federation".

Recognising the increasing effect of risks related to the use of advanced information technologies by banks, the Bank of Russia issued Letter No. 141-T, dated October 26, 2010, "On the Approaches for Appointing and Cooperating with IT Providers for Remote Banking Services".

Household deposit insurance

To improve the relevant regulatory framework, the Bank of Russia issued Regulation No. 353-P, dated January 8, 2010, "On the Procedure for Drafting and Considering Applications to Recognise Banks that are not Eligible for Participation in the Deposit Insurance System and/or Enforcing Prohibitions to Accept Household Deposits and Open Personal Accounts". This regulation provides for:

– circumstances in which a Bank of Russia regional branch must apply to the Chairman of the Bank of Russia Banking Supervision Committee to recognise a bank as non-eligible for participation in the deposit insurance system and enforce prohibition;
– circumstances in which a regional branch must consider an application to enforce prohibition and send an application to enforce prohibition, or explain in writing why the regional branch decided not to apply for prohibition to the Chairman of the Banking Supervision Committee;
– circumstances in which a regional branch, based on the provisions of Federal Law No. 175-FZ of Octo-

[72] "International Convergence of Capital Measurement and Capital Standards. A Revised Framework. Comprehensive Version", Basel Committee on Banking Supervision, Basel, June 2006.

ber 27, 2008, "On Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011", should not deliver an application to recognise a bank as non-eligible for participation in the deposit insurance system and/or enforce prohibition (hereinafter referred to as the application), while the Chairman of the Bank of Russia Banking Supervision Committee may suspend or terminate the consideration of the regional branch's application;
– requirements with respect to the contents of the regional branch's application and consideration procedure, as well as deadlines applicable to the regional branch's application;
– procedure and timeframes for the Bank of Russia Banking Supervision Committee's findings (following an application to recognise a bank as non-eligible for participation in the deposit insurance system and/or enforce prohibition) to be provided to the relevant bank, the Bank of Russia regional branches, specific structural units at the Bank of Russia head office, and the State Corporation "Deposit Insurance Agency".

Financial rehabilitation and liquidation of credit institutions

To implement Federal Law No. 175-FZ of October 27, 2008, "On Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011", the Bank of Russia issued Ordinance No. 2505-U of October 4, 2010, "On Amending Point 2.10 of Ordinance No. 2106-U of October 29, 2008, on the Procedure for the Bank of Russia's Decision to Propose to the Deposit Insurance Agency to Participate in the Prevention of a Bank's Bankruptcy and Approve a Plan for the Deposit Insurance Agency's Participation in the Prevention of the Bank's Bankruptcy" (hereinafter referred to as Ordinance No. 2505-U). This Ordinance sets a deadline for the consideration of amendments to the approved plan whereby the Deposit Insurance Agency (DIA) acts to prevent the bankruptcy of a bank, and a timeframe for the Bank of Russia Banking Supervision Committee to accept or reject the incoming amendments. In addition, Ordinance No. 2505-U provides for the Bank of Russia Board's approval of amendments that would facilitate the use of the Bank of Russia funds (which has been agreed upon by the Banking Supervision Committee), and also for possible extension of the approval procedure, if so required, in view of the schedule of meetings of the Bank of Russia Banking Supervision Committee and Board of Directors.

To improve and bring the regulatory framework in compliance with applicable legislation, the Bank of Russia issued Ordinance No. 2522-U of November 16, 2010, "On Amending Bank of Russia Regulation No. 279-P, Dated November 9, 2005, on the Provisional Administration of Credit institutions" (hereinafter referred to as Ordinance No. 2522-U), which specifies the approach to reviewing banks by the provisional administration to identify indications of insolvency and deliberate and (or) fraudulent bankruptcy. In view of amendments to Federal Law No. 127-FZ of October 26, 2002, "On Insolvency (Bankruptcy)" (hereinafter referred to as Federal Law No. 127-FZ) made by Federal Law No. 73-FZ of April 28, 2009, "On Amending Some Russian Laws", Ordinance No. 2522-U established a maximum period for the provisional administration to analyse the transactions performed by the bank, with the intention of petitioning an arbitration court to void these transactions, and detailed the procedure for recognising creditor claims with respect to the transaction voided on the basis of Point 2 of Article 61.2, and Point 3 of Article 61.3 of Federal Law No. 127-FZ. To perform functions provided for by the Federal Law "On the Insolvency (Bankruptcy) of Credit Institutions", Ordinance No. 2522-U provides for measures to be taken by the provisional administration to reduce the current liabilities of a credit institution with a revoked licence, and also for the right of the provisional administration's head to decide on the closure of the bank's internal structural units, where such a decision is within the competence of its executive bodies according to the bank's by-law.

Ordinance No. 2474-U of July 2, 2010, "On Amending Bank of Russia Regulation No. 301-P, Dated January 16, 2007, on the Procedure for the Compiling and Presentation of the Intermediate Liquidation Balance Sheet and Liquidation Balance Sheet of a Credit Institution to Be Liquidated, and Their Approval by a Bank of Russia Regional branch" was issued to make the current wording of the document compliant with new requirements of federal legislation. It was designed to improve approaches to the compiling of the intermediate liquidation balance sheet and liquidation balance sheet of credit institutions, enhance the efficiency of control over liquidation procedures, and reflect the enforcement practices of Regulation No. 301-P, dated January 16, 2007.

Bank of Russia Ordinance No. 2395-U of February 8, 2010, "On the List of Data and Documents Required for the State Registration of a Credit Institution Undergoing Liquidation and the Procedure for Their Provision to the Bank of Russia" is a new version of Ordinance No. 1241-U of January 21, 2003. It reflects enforcement practices and amendments to the federal law, which envisage the provision of information on required and additional pension contributions.

Bank of Russia Ordinance No. 2408-U of March 9, 2010, "On Amending Point 3.2 of Bank of Russia Regulation No. 265-P, Dated December 14, 2004, on the Accreditation of Arbitration Managers with the Bank of Russia as Receivers of Bankrupt Credit Institutions" and Ordinance No. 2409-U of March 9, 2010, "On Amending the Annex to Ordinance No. 1528-U of December 14, 2004, on the Rules of Procedure for the Accreditation of Arbitration Managers with the Bank of Russia as Receivers of Bankrupt Credit Institutions" were issued due to the adoption of Federal Law No. 323-FZ of December 17, 2009, "On Amending Articles 20.6 and 20.7 of the Federal Law on Insolvency (Bankruptcy) and Article 4 of the Federal Law on Amending the Federal Law on Insolvency (Bankruptcy)", which changed the effective date of Article 20 of Federal Law No. 127-FZ from January 1, 2010, to January 1, 2011. The law regards and defines an arbitration manager as a private practitioner, and waives the requirement for the registration of the arbitration manager as an individual unincorporated entrepreneur.

The Central Catalogue of Credit Histories

To improve the regulatory framework applicable to relationships between the Central Catalogue of Credit Histories (CCCH), credit history bureaus, and credit history makers (users), the Bank of Russia adopted:

Ordinance No. 2407-U of March 1, 2010, "On Amending Ordinance No. 2214-U of April 14, 2009, on the Procedure for Sending Inquiries by Credit History Makers and Credit History Users to the Central Catalogue of Credit Histories and Receiving Information from it via a Notary". This Ordinance provides for the following changes:

– the introduction of an optimised automated inquiry process, which makes it possible for credit history makers (users) to send not only single inquiries to the CCCH but also packages with several inquiries in one electronic message;
– the requirement to specify not only the address but also the phone number of a credit history bureau in CCCH responses to the inquiries of credit history makers (users);
– a specified procedure for credit history titles to be referred to the CCCH and inquiries on the storage location of credit histories of individual unincorporated entrepreneurs;

Ordinance No. 2434-U of April 27, 2010, "On Amending Ordinance No. 1821-U of April 25, 2007, on the Procedure for Inquiries Being Sent by Credit History Makers to the Central Catalogue of Credit Histories and Information Being Received from it via Post Offices" which provides for:

– a broader range of information contained in CCCH responses to inquiries of credit history makers, with the addition of the phone number of credit history bureaus;
– a specified procedure for details in the telegram to be identified with those in the title of the maker's credit history, with due regard to the international telegraph code specified in Annex 8 to the Requirements of Telegraph Services Covering the Acceptance, Transmission, Processing, Storage and Delivery of Telegrams, approved by IT and Communications Ministry Order No. 108 of September 11, 2007;
– a specified procedure for credit history titles to be referred to the CCCH, and inquiries on the storage location of credit histories of individual unincorporated entrepreneurs.

To ensure compliance with the requirements of the Federal Law "On Personal Data", the Bank of Russia adopted Ordinance No. 2526-U of November 23, 2010, "On Amending Ordinance No. 1610-U of August 31, 2005, on the Procedure for Inquiries Being Sent by Credit History Makers and Credit History Users to the Central Catalogue of Credit Histories and Information Being Received from it via the Bank of Russia Website". These provisions make sure that no personal details will be disclosed in CCCH responses to inquiries sent by credit history makers (users) via the Bank of Russia website, in compliance with the Federal Law "On Credit Histories".

The on-site inspection of credit institutions

In 2010, the Bank of Russia continued its efforts to improve the regulatory and methodological framework for its on-site inspections.

It issued the following regulations as part of its c*ore (current) activities*:

1. Bank of Russia Ordinances:

No. 2495-U of September 3, 2010, "On Amending 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";

No. 2494-U of September 3, 2010, "On Amending Instruction No. 108-I, Dated December 1, 2003, on the Organisation of Inspections by the Central Bank of the Russian Federation (Bank of Russia)";

No. 2554-U of December 29, 2010, "On Amending 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";

No. 2555-U of December 29, 2010, "On Amending Instruction No. 108-I, Dated December 1, 2003, on the Organisation of Inspections by the Central Bank of the Russian Federation (Bank of Russia)".

These regulations resulted from a need to comply with changes in federal laws and Bank of Russia regulations and improve the inspection process. They included the introduction of uniform approaches to the organisation of on-site inspections of specific aspects of credit institution operations (compliance with required reserve ratios, foreign cash/cheque operations and accounting, and control over compliance with the rules applicable to cash operations). They also established a procedure to be followed by Bank of Russia authorised representatives during an inspection, should they identify information indicating an administrative violation made by the credit institution or its officers in the realm of anti-money laundering and counter-terrorism financing, which would entail an administrative liability in accordance with Parts 1-4 of Article 15.27 of the Code of Administrative Offences of the Russian Federation;

2. Bank of Russia Letter No. 160-T, dated December 3, 2010, "On Clarifying Questions that Arise from Bank of Russia Regional Branches during the Organisation and Performance of On-site Inspections of Credit Institutions and their Branches", which explains recurrent questions asked by the Bank of Russia regional branches;

3. Joint letters of the Main Inspectorate of Credit Institutions and the Banking Regulation and Supervision Department, issued to improve the efficiency of coordination of the off-site supervision and on-site inspection divisions of the Bank of Russia regional branches, and

also improve approaches to the presentation of inspection findings[73];

4. Main Inspectorate of Credit Institutions letters, drafted to improve approaches to the presentation of credit institutions' (branches') inspection findings[74].

As part of *an experiment to centralise inspection activities* in the North-Western Federal District (hereinafter referred to as the experiment), the following were issued:

1. The Joint Letter of the Main Inspectorate of Credit Institutions and the Bank of Russia Banking Regulation and Supervision Department "Guidelines for the More Efficient Coordination of the Bank of Russia Regional Branches in the North-Western Federal District and Inspectorate No. 3, Including its Structural Units, in Drafting Assignments for the On-site Inspections of Credit Institutions and their Branches". It was developed to improve the approaches to the drafting of inspection assignments;

2. The Main Inspectorate of Credit Institutions directives to specify the monitoring and inspection procedure, and the procedure for internal control over the organisation of inspection activities in the course of the experiment[75].

3. To exercise control over the operations of the banks which received government support, the Main Inspectorate of Credit Institutions issued a directive and a letter. They were developed to improve the efficiency of the organisation and performance of the inspections of the credit institutions which had entered into an agreement with the Bank of Russia on the partial compensation of expenses (losses) involved in operations on the interbank market[76].

To engage in *the phased centralisation of inspection activities* (hereinafter referred to as the phased centralisation), the Bank of Russia issued:

1. Ordinances:

No. 2493-U of September 3, 2010, "On the Phased Centralisation of Bank of Russia On-site Inspections", which sets the regulatory framework for the organisation of Bank of Russia inspection activities in the course of its phased centralisation;

No. 2563-U of December 30, 2010, "On Compiling and Presenting Form 0409037 Bank (Branch) Inspection Reports in the Course of the Phased Centralisation of Bank of Russia Inspection Activities", which establishes a timeframe for the compiling and presentation of Form 0409037 Bank/Branch Inspection Reports;

2. Directives:

"On the Phased Centralisation of Bank of Russia Inspection Activities"; this specifies the functions and coordination of the Bank of Russia inspection divisions, as well as their support;

"On Drafting Expenditure Budgets to Maintain Participating Interregional Inspectorates and their Inspections, and on Financing the Operations of Participating Interregional Inspectorates and their Inspections in Accordance with Expenditure Budgets"; this specifies the cost budgeting process to be used to maintain and finance the interregional inspectorates participating in the phased centralisation;

3. The Bank of Russia Letter "On Inspection Divisions of Bank of Russia Regional Branches", which provides for the need to seek the approval of the First Deputy Chairman of the Bank of Russia that supervises the Main Inspectorate of Credit Institutions to change the payroll, staffing and working conditions of inspection division employees (including the transfer, relocation, amendment and termination of employment agreements);

4. Main Inspectorate of Credit Institutions directives regulating the operations of phased centralisation participants[77];

5. The Letter "On Documentary Communication with the Bank of Russia Main Inspectorate of Credit Institutions in the Process of the Phased Centralisation of Inspection Activities", drafted with the involvement of the Main Inspectorate of Credit Institutions, which provides guidance on documentary communication between divisions of the Main Inspectorate of Credit Institutions and Bank of Russia regional branches, and on the use of the Automated Document and Business Flow System at the Bank of Russia regional branch.

[73] "On Analysing the Availability, Quality and Compliance of Internal Bank Regulations"; "On Supervisory Information on Borrowers Reflected in Bank (Branch) Inspection Reports"; "Guidelines for Improving the Bank of Russia Inspection Performance".

[74] "On the Formalisation of Document Copies"; "On Specifics of Reporting the Results of Inspecting the Loans, Loan and Similar Debts of a Credit Institution and its Branch".

[75] "On Improving the Inspection Monitoring Process by Inspectorate No. 3 of the Bank of Russia Main Inspectorate of Credit Institutions"; "On Improving Inspection Monitoring Process, and Internal Control over the Organisation of On-site Inspections".

[76] The Main Inspectorate of Credit Institutions Directive "On Control over Organisation and Performance of On-site Inspections of the Banks which Entered into an Agreement with the Bank of Russia on the Partial Compensation of Expenses (Losses) Involved in Operations on the Interbank Market"; the Main Inspectorate of Credit Institutions Letter "On Informing about the Course and Findings of On-site inspections of the Banks which Entered into an Agreement with the Bank of Russia on the Partial Compensation of Expenses (Losses) Involved in Operations on the Interbank Market".

[77] "On Model Interregional Inspectorate Regulation of the Bank of Russia Main Inspectorate of Credit Institutions and Model Regulation on an Interregional Inspectorate's Inspection of the Bank of Russia Main Inspectorate of Credit Institutions", which sets a procedure for the development, coordination and approval of regulations on Main Inspectorate of Credit Institutions interregional inspectorates and their inspections;

"On Drafting Rules of Procedure for Cooperation between Bank of Russia Regional Branches and Interregional Inspectorates of the Main Inspectorate of Credit Institutions in the Course of the Phased Centralisation of Inspection Activities", which contains model rules of procedure for cooperation between a Bank of Russia regional branch and a interregional inspectorate of the Main Inspectorate of Credit Institutions in the course of the phased centralisation of Bank of Russia inspection activities;

"On Completion in the First Year of Phased Centralisation of Bank (Branch) On-site Inspections Started by Participating Regional Branch Inspection Divisions in the Previous Year", which sets a procedure for completion of inspections started by inspection divisions of Bank of Russia regional branches in the year preceding the start of phased centralisation;

"On the Monitoring Procedure for Organising and Conducting On-site Inspections, and Exercising Internal Control over the Phased Centralisation of InspectionActivities", which sets an inspection monitoring and internal control procedure;

"On the Procedure for Compiling and Presenting Form 0409037 Bank (Branch) Inspection Reports in the Course of the Phased Centralisation of the Bank of Russia Inspection Activities", which sets the rules for Main Inspectorate of Credit Institutions structural divisions to compile and present Form 0409037 reports.

III.2. The State Registration of Credit Institutions and the Licensing of Banking Operations

In 2010, the total number of registered credit institutions fell from 1,178 to 1,146. Year on year, the number of operating credit institutions with banking licences also fell from 1,058 (1,007 banks and 51 non-bank credit institutions) to 1,012 (955 banks and 57 non-bank credit institutions).

In the reporting year, two new credit institutions were registered, including one bank with foreign capital and one non-bank credit institution (in 2009, seven credit institutions were registered: five banks, three of them with foreign capital, and two non-bank credit institutions).

Year on year, the number of reorganised credit institutions increased:

- nineteen banks merged with other credit institutions (twelve banks in 2009);
- seven credit institutions changed their form of incorporation from that of a limited liability company to that of a joint-stock company (the same as in 2009).

In 2010, seven banks changed their bank status to that of a settlement non-bank credit institution as a result of their failure to comply with the minimum capital requirements established by Article 11.2 of the Federal Law on Banks and Banking Activities (in 2009, two banks changed their status to that of a settlement non-bank credit institution).

In 2010, 32 credit institutions, or 3.2% of the total number of operating credit institutions, as against 23 credit institutions in 2009, expanded their operations by obtaining additional licences (with one bank receiving several types of licences), of which:

- three banks received general banking licences, two of them as a result of a re-organisation in the form of merger;
- fourteen banks received licences to take precious metals on deposit and place precious metals, of which two banks were issued licences to replace available permits to conduct operations and trade in precious metals;
- six deposit insurance system member banks licensed to conduct banking operations in roubles (without the right to receive household funds as deposits) and take household deposits in roubles were licensed to perform the corresponding transactions in foreign currencies;
- seven banks were licensed to take household deposits in roubles and foreign currencies, including one bank that was licensed to conduct banking operations in roubles and foreign currencies (without the right to take household deposits);
- one non-bank credit institution was licensed to conduct a broader range of banking operations in roubles and foreign currencies than that envisaged by the previous licence;
- one non-bank credit institution was licensed to perform a broader range of banking operations in roubles for settlement non-bank credit institutions than envisaged by the previous licence.

As of January 1, 2011:

- 819 credit institutions, or 80.9% of total number of operating credit institutions, were licensed to take household deposits (849, or 80.2% of the total, as of January 1, 2010);
- 677 credit institutions, or 66.9% of the total, were licensed to conduct banking operations in roubles and foreign currencies (701, or 66.3% of the total, as of January 1, 2010);
- 283 banks, or 28% of the total, held general banking licences (291, or 27.5% of the total, as of January 1, 2010);
- 208 credit institutions, or 20.6% of the total, had the right to conduct operations with precious metals, based on the licence to take precious metals on deposit and place precious metals (203, or 19.2% of the total, as of January 1, 2010).

In 2010, the total authorised capital of operating credit institutions contracted from 1,244.4 billion roubles to 1,186.2 billion roubles, or by 58.2 billion roubles (4.7%).

The reporting year witnessed an increase in the amount of foreign capital in the Russian banking system, with the non-resident share in the total authorised capital of operating credit institutions growing from 305.2 billion roubles to 333.3 billion roubles, or by 9.2% in 2010 (in 2009, this figure rose from 251.1 billion roubles to 305.2 billion roubles, or by 21.6%). The non-resident share of banking sector total authorised capital grew from 24.5% to 28.1% (in 2009, it declined from 28.5% to 24.5%). While the number of operating credit institutions with foreign interest fell from 226 to 220 (in 2009, the number rose from 221 to 226), the number of credit institutions with non-resident controlling interest grew from 108 to 111 (in 2009, the number increased from 102 to 108), with foreign investment into the authorised capital of operating credit institutions up 28.1 billion roubles (in 2009, the increase totalled 54.1 billion roubles).

Credit institutions with foreign investment are located in 35 regions, including 143, or 65% of the total number, in Moscow and the Moscow Region, and thirteen (6%) in Saint Petersburg.

In the reporting year, the number of branches of operating credit institutions declined by 8.1% to 2,926 as of January 1, 2011 (3,183 a year earlier). As of

January 1, 2011, a total of 574 Sberbank branches were operational across the country, representing a fall of 71 during the year.

In 2010, the total number of internal divisions of credit institutions grew by 884 to 38,431 as of January 1, 2011 (37,547 as of January 1, 2010). At the same time, the number of additional offices increased from 21,641 to 22,001, while the number of cash and credit offices grew from 1,252 to 1,389, the number of operations offices rose from 2,109 to 2,994 and the number of mobile banking vehicles was up from 84 to 87. The total number of external cash desks fell from 12,461 to 11,960.

As a result, the availability of banking services grew from 26.5 points of sale (POS) per 100,000 people as of the end of 2009 to 30 POS as of the end of 2010.

In 2010, the Bank of Russia registered 237 issues of securities by credit institutions (in 2009, it registered 309 securities issues). The par value of registered securities issues fell from 656.0 billion roubles in 2009 to 228.2 billion roubles in 2010.

In the reporting period, a total of 202 share issues worth 110.3 billion roubles were registered. Of this figure, authorised capital increases accounted for 106.0 billion roubles, 1.3 billion roubles were spent on the transformation of credit institutions, and the dilution and par value decrease of shares accounted for 3.0 billion roubles. Of 258 share issues worth 454.0 billion roubles registered in 2009, these amounts were 414.2 billion roubles, 6.7 billion roubles and 31.3 billion roubles respectively.

In 2010, 177 share issue reports for a total of 99.6 billion roubles were registered in connection with the completion of share placements, including 136 reports to the amount of 85.3 billion roubles related to share issues registered in the reporting period. Of 235 share issue reports registered in 2009 for a total amount of 380.9 billion roubles, 184 reports worth 372.5 billion roubles were related to issues registered in 2009.

In 2010, the par value of registered bond issues was 117.9 billion roubles, a decrease of 84.1 billion roubles on the 2009 figure. The number of registered bond issues fell from 51 in 2009 to 35 in 2010. The par value of registered reports and placement notices of bond issues floated in 2010 grew to 93.3 billion roubles from 86.1 billion roubles in 2009.

Meanwhile, bond issues placed (with the par value of 40.7 billion roubles) accounted for 45.7% of bond issues registered in 2010 (in 2009, 27.5% and 45.1 billion roubles respectively).

In the reporting period, the number and the par value of issues cancelled due to a failure to place any securities, and violations of federal laws committed during the course of flotation decreased. In 2009, a total of 84 issues were cancelled, including 35 share issues worth 19.2 billion roubles and 49 bond issues worth 251.2 billion roubles. In 2010, a total of 60 securities issues were cancelled, including 36 share issues worth 12.8 billion roubles and 24 bond issues worth 104.0 billion roubles.

III.3. Off-site Supervision and Supervisory Response

In 2010, the Bank of Russia focused on risk-based approaches when improving banking supervision of credit institutions. These included the early identification of negative trends in bank operations and the application of a timely supervisory response to problems that were being identified. Higher importance was attached to the transparency of banks and cooperation of their managers and owners.

As part of these efforts, a special focus was on banks from the so-called 'second line' of supervision (systemically important credit institutions). Supervision was exercised using every tool envisaged by applicable legislation. With regards to internationally active banks, contacts with international supervisors were promoted. The intensification of supervisory procedures allowed the Bank of Russia to raise awareness of the situation at banks, including systemically important ones, and enhance the efficiency of supervisory response.

During the course of supervision, the Bank of Russia attached more attention to the financial analysis of banks using a consolidated approach to the assessment of their activities. Operations involving member banks of banking groups and non-resident banks were studied in detail, and the economic nature of these transactions was analysed as necessary.

When the Bank of Russia identified transactions that were conducted to hide a bank's real risk exposure, it took steps to discover the bank's risk profile and exposure. To ensure the adequate recording of assets and liabilities in financial statements, preventive supervisory measures and, as necessary, enforcements were used.

The Bank of Russia was attentive to bank liquidity, and conducted studies of the economic feasibility of raising corporate deposits at higher interest rates. The information that was obtained was used to assess the future liquidity position and the quality of risk management at credit institutions.

In the reporting year, the level of exposure to bank owner business risks was studied[78]. The information available from the Bank of Russia regional branches suggests that some banks are highly exposed, including those which are systemically important. In the wake of these studies, the supervisory process included measures to reduce the exposure to owner business risks within a reasonable amount of time. These efforts generally yield good results.

The Bank of Russia also monitored the securities transactions of banks, particularly because of the discovery of fraudulent securities and the securities portfolios of economically doubtful issuers. As it identified these in banks' balance sheet reports, it responded with corrective supervisory measures. Where fraudulent securities accounted for a large proportion of assets and adequate reserves resulted in the actual loss of capital, the Bank of Russia revoked a banking licence.

To assess real foreign exchange risk and identify any indications of "constructed" hedging transactions, the Bank of Russia performed analysis of off-balance sheet claims and liabilities. The regional branches assessed the nature of transactions used by banks with a net balance sheet position that was considerably in excess of 10% of capital to manage inherent foreign exchange risks. Analysis of data obtained allowed the Bank of Russia to identify some situations with banks adjusting a net foreign exchange position on their books via forward transactions. These were entered with companies that were directly or indirectly related to bank owners or managers, which also prompted an additional assessment of the foreign exchange risks of these banks. The results of these efforts were taken into account to improve the supervision of foreign exchange risks. Approaches to developing a system for the regulation of foreign exchange risks at banks were discussed.

To protect the interests of depositors and creditors, additional supervision was exercised with respect to banks with high deposit growth rates that offered interest rates that significantly exceeded those of the market. For this purpose, the maximum interest rates on rouble deposits offered by ten credit institutions which raised the largest amount of personal deposits were monitored on a regular basis (every ten days), and findings were published on the Bank of Russia website.

For some banks, household deposits are the main source of funds; these maintain an aggressive policy to build up a stock of such deposits because they suffer from liquidity problems, including those resulting from poor asset quality. In this situation, raising personal deposits will hide the real state of things, allowing banks to meet their current obligations. However, the strategic threat to the sustainability of these banks will continue to grow.

For this reason, the Bank of Russia developed quantitative parameters of changes to household deposits raised by banks which trigger analysis (to be performed by regional branches) of the economic feasibility of the policies pursued by the banks to raise funds at the expense of such deposits. The Bank of Russia determined approaches to analysis of interest rate policies, includ-

[78] Bank of Russia Letter No. 04-15-6/1550, dated April 5, 2010, "On Efforts to Assess Owner-Related Banking Risks".

ing asset quality assessment, and supervisory responses (Bank of Russia Letter No. 116-T, dated August 12, 2010, “On Assessing the Risks of Banks Which Actively Raise Deposits”). Supervisory action, including restrictions on the value of the interest rate, was taken against those banks which extensively used such ‘pyramids’ to build up their businesses. These efforts allowed the Bank of Russia to suspend or arrest the growth of deposits at these banks by lowering interest rates and compelling the banks’ owners to focus their attention on asset quality.

In 2010, as in the previous years, the Bank of Russia largely applied preventive measures, which for the most part included written advice to management (served to 994 banks). The regional branches held meetings on various issues with 510 banks. Enforcement activity in the form of requests to remove violations was applied to 616 banks, 280 banks were penalised, 76 banks had restrictions applied to their operations, 42 banks were prohibited from conducting specific operations, and 31 banks were prohibited from opening branches.

In 2010, the Bank of Russia’s banking regulation methodology was further improved, and incorporated some international approaches.

As part of efforts to improve the transparency of the banking sector, the Bank of Russia advised banks to disclose the details of their capital and compliance with required ratios on the Bank of Russia website[79]. As of January 1, 2011, a total of 930 banks (92% of operating credit institutions) gave their consent to disclose information, in line with these recommendations.

Efforts were continued to compel disclosure via Form 0409101 Turnover Balance Sheet of Credit Institution Accounts, and Form 0409102 Profit and Loss Account of a Credit Institution[80]. As of January 1, 2011, a total of 980 banks (97% of operating credit institutions) gave their consent to disclose these data.

The Bank of Russia continued to publish its monthly Banking Sector Review and its more recurrent version (express issue) on the Internet. For quicker availability of information, the findings of the monitoring of a number of the banking sector core indicators (Sberbank excluded) are published on a regular basis on the Bank of Russia website starting from November 2010.

In 2010, the Bank of Russia cooperated with agencies, regulators and supervisors of financial markets under inter-agency agreements and arrangements that were reached with the Ministry of Finance, Federal Financial Market Service, Federal Insurance Supervision Service, Federal Anti-Monopoly Service, Federal Tax Service, Federal Customs Service, etc.

[79] In accordance with Bank of Russia Letter No. 72-T, dated May 25, 2010, “On Form 0409134 and 0409135 Disclosures by Credit Institutions”.

[80] In accordance with Bank of Russia Letter No. 165-T, dated December 21, 2006, “On the Disclosure of Information by Credit Institutions”.

III.4. The On-site Inspection of Credit Institutions

In 2010, the Bank of Russia conducted on-site inspections on the basis of the Summary Plan of Comprehensive and Thematic Inspections of Credit Institutions and their Branches for 2010 (hereinafter referred to as the Summary Plan).

In 2010, a total of 1,079 inspections were performed, including inspections of 753 credit institutions (71% of total credit institutions operating as of January 1, 2010) and 326 branches (29% of total inspections). These included 34 inspections of Sberbank branches *(see Chart 3.1).*

Of all inspections, 869 were carried out under the Summary Plan (81% of the total), including 768 thematic inspections (88% of all scheduled inspections) *(see Chart 3.2).* The Bank of Russia conducted 210 unscheduled inspections (19% of the total), including 208 thematic inspections (99% of all unscheduled inspections).

Following 286 applications by federal executive authorities (law enforcement and control agencies), 23 inspections were performed. As necessary, experts with the Main Inspectorate of Credit Institutions consulted employees of the said agencies.

As part of the supporting operations of the deposit insurance system, ensuring the protection of the rights and legitimate interests of bank depositors in accordance with the provisions of Article 32 of the Federal Law on the Insurance of Household Deposits with Russian Banks, 90 on-site inspections of those mentioned above were performed with the involvement of DIA employees.

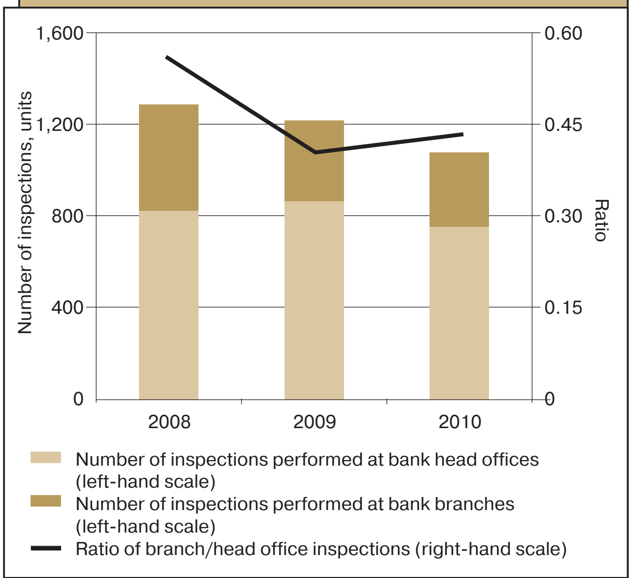
In 2010, the trend towards a lower inspection per credit institution ratio continued *(see Chart 3.3)*, with thematic inspections performed for the most part (976 inspections, or 90% of the total) *(see Chart 3.4).* A special focus of the inspections was on systemically important banks.

During the course of inspections, inspection divisions primarily focused on identifying the main types of risk assumed by banks, first of all credit risk. This was analysed on the basis of assessing the financial position of borrowers and guarantors, identifying the final beneficiaries of the disbursed funds, studying sources of loan repayment, and revealing the facts related to the transferring of problem loans to third parties while actually maintaining the credit exposure.

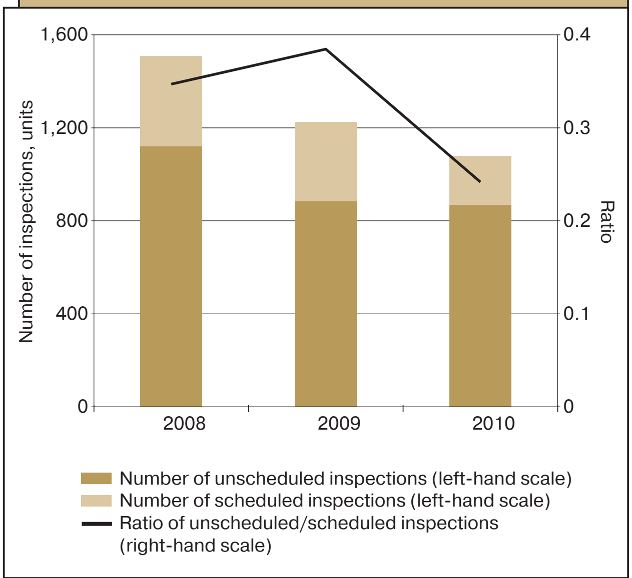
Considerable attention was paid to assessing bank exposures to real owners and their affiliates, including exposures to their businesses. Moreover, assessment was made not only on the basis of legal relationships, but also on the actual ownership of the bank by individuals.

The practice of performing simultaneous inspections of member banks of legally recognised banking groups and bank holding companies, and those associated with a particular group on the basis of internationally acknowledged approaches (informal groups) continued. Such inspections allowed inspectors to identify transactions between member banks and their customers, which had been undertaken to hide the real financial standing of the banks.

Inspections of branches and head offices *CHART 3.1*



Scheduled and unscheduled inspections *CHART 3.2*



For a more in-depth study of the risk profiles of banks, inspections of their branches were performed simultaneously with those of head offices, which resulted in a further reduction of individual inspections of bank branches. A decision to inspect a bank branch was taken on the basis of the branch's share of the regional banking services market, and the total value of the bank transactions, risk concentration, the materiality of violations (shortcomings) identified by off-site supervision of the branch, and information on transactions being performed to the detriment of the legitimate interests of creditors and depositors.

On-site inspections performed in 2010 identified 14,841 violations committed by credit institutions and their branches, with the bulk of violations associated with credit transactions (4,385). A large number of violations were still associated with a failure to comply with federal laws and Bank of Russia regulations aimed at countering money laundering and the financing of terrorism (2,935 violations).

Specific violations were associated with arrangements for cash operations (909), non-compliance with Russian foreign exchange laws and regulations adopted by foreign exchange regulation and control authorities (914), and accounting (880). In 1,347 cases, the violations identified by inspectors allowed them to conclude that the accounting and reporting of the bank in question were unreliable.

The practice of exercising on-going quality control during Bank of Russia inspections was introduced, which allowed inspectors to shift the focus from the identification of shortcomings and violations to preventive responses and the immediate rectification of problematic situations at banks.

The core focus of on-going control is the monitoring of the organisation and performance of inspections to analyse the current findings received from working groups. This allows inspectors to promptly inform supervisory divisions on identified negative aspects which considerably affect the financial standing of banks, develop a consolidated and weighted position on the assessment of exposures, and monitor the compliance of banks with corrective action in the course of inspections.

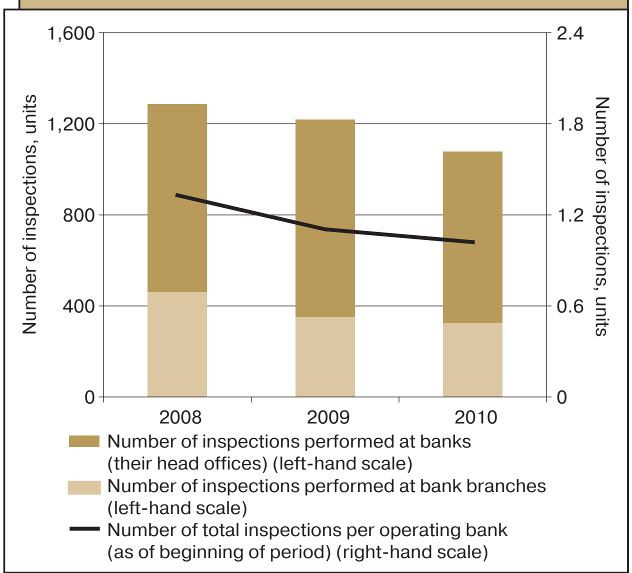
In 2010, the head office of the Main Inspectorate of Credit Institutions monitored 228 inspections at 160 systemically important banks, 18 inspections of banks which received government support, and 16 inspections of banks that were subject to specific control by the Bank of Russia management (due to information on doubtful transfer transactions performed by their customers, including cash transfers by resident customers to the resident accounts with foreign banks).

Due to the introduction of elements of internal quality control during inspections, the Bank of Russia performed express analyses of the findings and statements by inspectors-general on inspection results, and, as necessary, an extended analysis of the quality of inspection deliverables, including those conducted in the process of preparing for the hearing of reports by Bank of Russia regional branches.

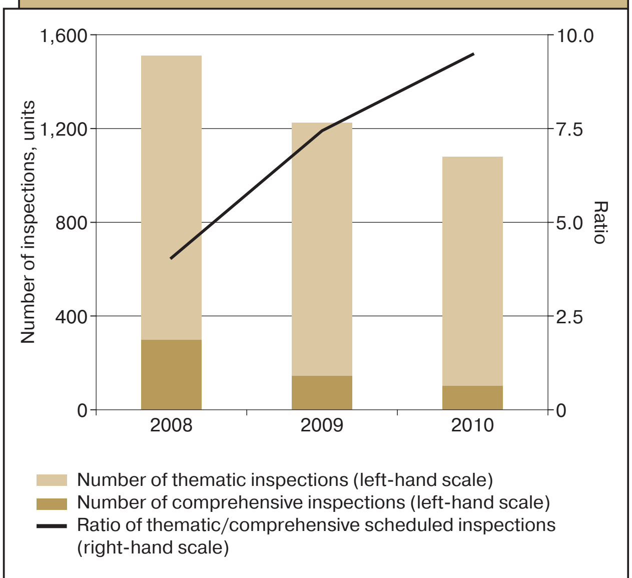
The interregional inspectorates of the Main Inspectorate of Credit Institutions analysed documents resulting from 532 inspections. Following their findings, 142 statements by inspectors-general on inspection results were sent to Bank of Russia inspection divisions.

To improve the quality of inspection work at regional branches, the Bank of Russia organised hearings of reports presented by Tula and Kirov regional branches, and the national banks of the Republics of Altai, Bashkortostan, Komi, Khakassia, Mordovia, and North Ossetia – Alaniya on off-site supervision and inspection. These included the discussion of issues which related to the organisation and performance of bank/branch inspections, the presentation of findings, the quality of performed inspections, and cooperation between off-site supervision and on-site inspection divisions. The discussions resulted in recommendations to improve the efficiency of inspections and implement the Bank of Russia regulations and guidelines in the field.

Inspection per credit institution ratio CHART 3.3



Thematic and comprehensive inspections CHART 3.4



III.5. The Financial Rehabilitation and Liquidation of Credit Institutions

During 2010, as part of the implementation of Federal Law No. 175-FZ of October 27, 2008, “On Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011” (hereinafter referred to as Federal Law No. 175-FZ), the Bank of Russia, jointly with the State Corporation “Deposit Insurance Agency” (DIA), took efforts to prevent the bankruptcy of fourteen banks.

The Bank of Russia and the DIA expected their activity at three banks (according to the DIA participation plan) to be completed within the reporting year: one bank was merged with an investor, another with another bank undergoing rehabilitation, and one bank completed the financial rehabilitation in full and resumed normal operation. As of January 1, 2011, the remaining eleven banks continued to implement the measures envisaged by the DIA participation plan for the prevention of bankruptcy, of which two banks were under general supervision.

In 2010, the Bank of Russia did not propose that the DIA participate in bankruptcy prevention measures at any new banks.

During 2010, in accordance with the approved bankruptcy prevention plans, the Bank of Russia issued orders to entrust the DIA with provisional administration functions at two banks which were early terminated on the basis of the DIA request.

Pursuant to the DIA participation plans for bankruptcy prevention approved by the Bank of Russia, it was decided that the authorised capital of two banks be reduced to one rouble due to their negative capital. At a later stage, these banks floated additional shares, purchased by new investors, which allowed them to restore their capital and ensure their normal operation.

Financial rehabilitation under Federal Law No. 175-FZ is financed at the expense of the Russian Government’s property contribution to the DIA or Bank of Russia loans to the DIA, which have a maximum maturity of 5 years. In 2010, the Bank of Russia distributed a total of 2.7 billion roubles in such loans, with repayments of 63.4 billion roubles. As of January 1, 2011, the DIA debt on the Bank of Russia loans provided under Federal Law No. 175-FZ was 106.2 billion roubles.

All key aspects of the DIA participation plans for bankruptcy prevention that were approved by the Bank of Russia are disclosed by the Bank of Russia and the DIA in publicly available printed media.

In the period from the approval date of the DIA participation plan to the implementation date of the plan (the completion of bankruptcy prevention measures), the DIA reported every month to the Bank of Russia and its regional branches on the progress of the measures envisaged by the plan, including the form and amount of funds provided to banks. The Bank of Russia reviewed the DIA reports for compliance with the schedule for implementing bankruptcy prevention measures and identifying the likelihood that the approved plan could not be completed within the set timeframe.

In addition, as of January 1, 2011, bankruptcy prevention measures financed by the Government with the involvement of other investors were still being implemented at three banks. At these banks, the rehabilitation decisions were made before the effective date of Federal Law No. 175-FZ (in October, 2010, one of the banks in rehabilitation was merged with an investor).

In 2010, 83 banks were identified as subject to the bankruptcy prevention measures envisaged by Article 4 of Federal Law No. 40-FZ of February 25, 1999, “On Bankruptcy (Insolvency) of Credit institutions” (hereinafter referred to as Federal Law No. 40-FZ).

Of these, five credit institutions operated under a financial rehabilitation plan. Two of these were successful in improving their financial situation and completing financial rehabilitation in the year under review, while two were still in the process of implementing financial rehabilitation and one lost its banking licence; twelve banks implemented the measures envisaged by the DIA participation plan for the prevention of bankruptcy in accordance with Federal Law No. 175-FZ; 43 banks overcame the indications which had given rise to preventive intervention.

As of January 1, 2011, eleven banks were identified as subject to bankruptcy (insolvency) prevention measures.

In the reporting year, the Bank of Russia monitored the activities of 49 provisional administrations of credit institutions. Under Federal Law No. 40-FZ, 27 provisional administrations were appointed and 21 were terminated, including four following decisions of the arbitration court on the enforced liquidation and appointment of a liquidator, and seventeen following the arbitration court’s decision on insolvency and the appointment of a receiver. In accordance with Point 2 of Article 19 of Federal Law No. 40-FZ, DIA employees were appointed as members of 22 provisional administrations.

As of January 1, 2011, eighteen provisional administrations worked in banks, which were appointed as the result of the revocation of licences from these banks.

In 2010, as part of the implementation of Federal Law No. 177-FZ of December 23, 2003, “On the Insurance of Household Deposits with Russian Banks” (hereinafter referred to as Federal Law No. 177-FZ), the Bank of Russia supervised the compliance by banks with the requirements for participation in the deposit insurance system.

As of January 1, 2011, 909 banks (925 as of January 1, 2010) were members of the compulsory deposit insurance system, including 77 whose banking licences had been previously revoked (cancelled).

In 2010, seven banks joined the deposit insurance system, while 23 were expelled (of which seventeen were excluded as a result of reorganisation, five due to liquidation, and one in connection with the termination of its right to take personal deposits following a licence replacement).

Throughout 2010, insured events occurred at sixteen member banks of the deposit insurance system (of which fifteen lost their banking licences, while one bank had its licence cancelled due to a voluntary liquidation). For all insured events related to the revocation of licences, provisional administrations appointed by the Bank of Russia sent depositor obligation registers to the DIA within the 7-day period established by Federal Law No. 177-FZ, which allowed the DIA to start insurance payments in a timely manner (within three business days of when depositors filed the required documents with the DIA but not earlier than fourteen days after the date of the insured event).

In 2010, in accordance with Article 48 of Federal Law No. 177-FZ, the Bank of Russia Banking Supervision Committee prohibited three banks from taking household deposits and opening personal accounts as a result of a failure to comply with the requirements for participation in the deposit insurance system (in one case for a failure to comply for three months with a group of indicators related to quality assessment of management, transactions and risks; in two other cases for a failure to comply for two months with a group of indicators related to the assessment of assets, capital or the quality of management, transactions and risks, with indications of a threat to the interests of creditors and depositors being identified at the same time in the banks' operations). Following this, two banks lost their banking licences.

In 2010, in accordance with the provisions of Federal Law No. 177-FZ and outstanding agreements, the Bank of Russia maintained cooperation, operational coordination and an information exchange with the DIA. This covered the operation of the deposit insurance system, participation of banks, payment of insurance contributions, payment of compensation to depositors, Bank of Russia inspections of member banks, the application of corrective action, and also other issues related to the work of the deposit insurance system.

In 2010, in accordance with Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Article 20 of the Federal Law on Banks and Banking Activities, the Bank of Russia revoked banking licences from 27 banks (as against 44 in 2009). In addition, one bank (three in 2009) had its licence revoked as a result of a voluntary liquidation by its shareholders (members). More than half of the banks (sixteen) that lost their licences in 2010 were registered in Moscow and the Moscow Region.

In 2010, banking licences were generally revoked for a failure to comply with federal banking laws and Bank of Russia regulations, taking into account the measures envisaged by the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). These included 22 banks, or 81.5% of the revoked licences, as compared with 34 banks, or 77.3%, in 2009. Moreover, the number of banks that had their licences revoked for a failure to meet creditors' pecuniary obligations, and (or) make compulsory payments considerably contracted, from 24 banks in 2009 (54.5%) to nine banks (33.3%). There was a noticeable fall in the share of banks that had their licences revoked for recurrent (within one year) violations of provisions of Articles 6 and 7 (except Point 3 of Article 7) of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing, to three banks, or 11.1%, as against ten banks, or 22.7%, in 2009. In the reporting year, the share of banks that had their licences revoked due to unreliable reporting also declined, to eight banks, or 29.6% (seventeen banks, or 38.6%, in 2009). The share of banks that had their licences revoked as a result of capital loss contracted almost twofold, to seven banks, or 25.9% (thirteen banks, or 29.5%, in 2009).

In 2010, the Bank of Russia revoked licences from six banks due to their failure to reach the minimum capital level (90 million roubles as of January 1, 2010) and apply to the Bank of Russia to change their status to that of a non-bank credit institution. Two of these banks also revealed other indications that prompted the revocation of their licences.

In 2010, the Bank of Russia took decisions on the state registration of eleven credit institutions in connection with their liquidation. Of these, six were liquidated on the basis of an arbitration court ruling for the completion of receivership, two as a result of a court-enforced liquidation without any signs of bankruptcy, and three on the basis of a voluntary liquidation by their shareholders (members).

In 2010, the authorised registrar reported to the Bank of Russia that, based on the Bank of Russia relevant resolutions, entries on state liquidation following the revocation (cancellation) of a banking licence were made to the single state register of corporate entities with respect to fifteen banks.

As of January 1, 2011, 132 banks were subject to liquidation as a result of the revocation (cancellation) of a banking licence, while the Bank of Russia did not receive any evidence from the registrar of their deregistration following liquidation. These included 117 banks involved in ongoing liquidation (as of the reporting date, relevant court rulings were not made with respect to the remaining fifteen banks following the revocation of their banking licences).

A majority of liquidated banks (102) had been declared insolvent (bankrupt), and receivership procedures had started (in 2010, 21 banks were reported bankrupt, of which three were subject to enforced liquidation on the basis of previous arbitration court rulings). The arbitration courts took the decision to liquidate twelve banks (of these, five banks in 2010, of which one was to have been liquidated previously by shareholders on a voluntary basis). In addition, three banks were being liquidated on a voluntary basis as resolved by their shareholders (in 2010, shareholders did not pass any voluntary liquidation resolutions).

At most of the banks liquidated as of January 1, 2011 (106), the relevant procedures were performed by a corporate liquidator, the DIA, appointed pursuant to Point 2 of Article 50.11 of Federal Law No. 40-FZ. With respect to 96 of these banks, the DIA performed the functions of a receiver and with respect to ten, that of a liquidator.

In 2010, arbitration courts approved the DIA as a liquidator with respect to five banks (including one bank where the DIA was appointed a liquidator after the completion of a voluntary liquidation procedure and the termination of the liquidation commission's activities) and as a receiver with respect to nineteen banks (including three banks where the DIA was appointed a receiver upon completion of liquidation procedures on the basis of court rulings for enforced liquidation).

As of January 1, 2011, the DIA was approved as a receiver (liquidator) with respect to 249 banks, including 143 of those liquidated by the DIA were taken off the state register of corporate entities[81].

During 2010, the Bank of Russia conducted eighteen inspections of receivers (liquidators) of banks. In fifteen cases, the inspections were focused on the operations of the DIA and in three cases on those of individual receivers.

Pursuant to Federal Law No. 40-FZ and Bank of Russia Regulation No. 306-P, dated July 3, 2007, "On the Inspection of the Receivers and Liquidators of Credit Institutions by the Bank of Russia", the Bank of Russia served a receiver an order to eliminate the identified violations, while in two cases the Bank of Russia communicated its findings to the arbitration courts, which examined the bankruptcy cases of banks where the operations of the receivers were subject to inspection. In two cases, the inspection results were made known to self-regulating organisations, which the individual receivers were members of. In addition, in eleven cases, letters of recommendation based on the findings were served to receivers.

In 2010, sixteen receivers were accredited with the Bank of Russia, and 23 receivers had their accreditations extended.

In addition, two receivers were denied accreditation and one receiver did not have his accreditation extended for failing to comply with accreditation requirements.

As of January 1, 2011, 39 receivers were accredited with the Bank of Russia.

In 2010, the Bank of Russia Board of Directors did not pass resolutions to make the payments provided for by Federal Law No. 96-FZ of July 29, 2004, "On Bank of Russia Compensation Payments for Household Deposits with Bankrupt Banks Uncovered by the Deposit Insurance System".

As of January 1, 2011, the Bank of Russia had passed resolutions to pay compensation to 40,308 depositors for an amount totalling 1,264.7 million roubles, with 36,172 depositors (89.7% of the eligible depositors) receiving a total of 1,231.2 million roubles (97.36% of the total amount allocated for Bank of Russia payments).

As of January 1, 2011, Bank of Russia claims on the banks whose depositors received its payments were met by receivers to the amount of 424.6 million roubles, or 34.5% of total Bank of Russia claims (including 43.5 million roubles received by the Bank of Russia for the satisfaction of the above claims in 2010).

Of the total number of credit institutions whose depositors received Bank of Russia payments, the registrar struck off the state register of corporate entities twenty credit institutions following their liquidation.

[81] This information was prepared on the basis of details reported by the registrar to the Bank of Russia as of January 1, 2011.

III.6. Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing

In 2010, the Bank of Russia took further steps to perform the functions envisaged by the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing (hereinafter referred to as Federal Law No. 115-FZ).

To improve the national anti-money laundering and counter-terrorism financing (AML/CTF) system, the Bank of Russia focused on drafting amendments to the law to enhance the efficiency of existing anti-money laundering arrangements. Specifically, they would clarify concepts, provide banks with additional powers to minimise the risk of being involved in transactions that lack an obvious economic sense or legitimate purpose, and also establish the Bank of Russia powers to penalise banks and their executives for violating AML/CTF laws[82].

These efforts were highly appreciated by FATF[83] following a review of the first Progress Report on Russia with respect to the removal of constraints limiting the Russian AML/CTF system, as reflected in the Russian AML/CTF Law Mutual Assessment Report made after the third round of evaluation[84]. At a FATF plenary meeting in June 2010, where the Progress Report that had been prepared and advocated with the active involvement of the Bank of Russia staff was discussed, international experts expressed satisfaction with Russia's efforts to improve the AML/CTF system and noted that the information in the Progress Report suggested that the country's efforts had resulted in the system's higher overall efficiency. With regards to the banking sector's compliance with FATF guidelines, it was noted that stricter rules for proper customer identification and internal control had been put in place at financial institutions.

In view of the importance of the further development of the national AML/CTF system as a component of national security, the Bank of Russia was actively involved in the preparation of the Concept of the National Strategy for Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing until 2012[85] (hereinafter referred to as the Concept). In the new draft Concept, key elements such as the optimisation and broadening of the coverage of the national AML/CTF system were updated to reflect the evolution of international AML/CTF standards, improve the regulatory and legal framework, enhance the efficiency of supervision, and expand international cooperation.

In line with the principle of uniform law enforcement practices, the Bank of Russia summarised and categorised the questions asked by its regional branches and banks with regards to compliance with AML/CTF laws, and issued an informative letter to explain the most relevant issues relating to the implementation of Bank of Russia AML/CTF regulations and other rules.

Further effort to promote the methodological support of credit institutions' AML/CTF enforcement function was another priority area for the Bank of Russia in the reporting year along with the involvement in activities to improve the regulatory and legal framework and identify the priority areas of development of the national AML/CTF system.

Based on analysis of information received during the course of supervisory activities, the Bank of Russia issued a number of guidelines for banks which contained a description of features inherent in transactions requiring more attention due to a lack of an obvious economic sense or legitimate purpose (Bank of Russia Letters No. 83-T, dated June 11, 2010 and No. 129-T, dated September 16, 2010) and which were designed to provide assistance in identifying such transactions and taking steps to contain the resulting risk.

The Bank of Russia continued to attach importance to supervising banks' compliance with the requirements of the AML/CTF laws.

Given the need to ensure the transparency of the requirements its regional branches mandate banks to follow with regards to the approval of the banks' internal control rules, the Bank of Russia established standard approval procedures[86].

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[82] Federal Law No. 176-FZ of July 23, 2010, "On Amending the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing and the Code of Administrative Offences of the Russian Federation" (effective since January 24, 2011).

[83] Financial Action Task Force.

[84] The evaluation was jointly performed by FATF, MONEYVAL (Council of Europe Select Committee of Experts on Evaluation of Anti-Money Laundering Measures) and EAG (Eurasian Group on Combating Money Laundering and Terrorism Financing) in 2007. The Mutual Assessment Report on Russia was approved in 2008.

[85] The Concept of the National Strategy for Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing was originally approved by the Russian President on June 11, 2005 for the period until 2010.

[86] Bank of Russia Order No. OD-413 of August 27, 2010, "On Approval of Internal Control Rules Adopted by Credit Institutions for Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing".

Inspections of 907 banks and (or) their branches (72% of total scheduled and unscheduled inspections completed in 2010) included an evaluation of compliance with the AML/CTF laws. When violations were identified (including those of Federal Law No. 115-FZ and Bank of Russia AML/CTF regulations), corrective action was applied to banks. These included preventive measures – communicating the information on identified shortcomings to the bank management (302 cases), enforcement measures – requesting to remove the identified violations (151 cases), fines (104 cases), restrictions or prohibition of specific types of banking operations (87 cases), and licence revocations (three banks).

III.7. The Central Catalogue of Credit Histories

The year 2010 witnessed a considerable growth of consumer lending (by 14.3%), which largely compensated for a decline of this indicator in 2009, only to result in a major build-up of credit history titles. These were accumulated by the Central Catalogue of Credit Histories (CCCH), which has operated since 2005 under Federal Law No. 218-FZ of December 30, 2004, "On Credit Histories" (hereinafter referred to as the Federal Law).

Thus, during 2010, the number of credit history titles with the details of credit history bureaus which keep credit histories grew by 68.5% to reach 112.4 million, compared to just 20% in 2009. As of early 2011, credit history titles related to individuals accounted for 99.75% of total credit history makers, with those related to corporate entities accounting for 0.25%.

The aforementioned number of credit history titles corresponded to more than 53.7 million credit history makers (borrowers who consented to disclose this information to credit history bureaus).

The reporting year was characterised by a major growth of inquiries received from credit history users and makers, with a total of 1.6 million inquiries received by the CCCH in 2010 (an increase of 78% on previous year). This included 174,500 inquiries received from credit history makers (a rise of 68% as compared with last year). This fact suggests a growing interest of individuals in the details of their credit histories available from the CCCH and credit history bureaus.

The number of inquiries received from credit history users (banks) more than doubled as compared with last year, which is indicative of their desire to improve the procedures for analysis of borrowers' solvency and assess credit risks on the basis of the credit histories of borrowers.

The number of inquiries made by makers and users of credit histories via the Bank of Russia website grew by 74% year on year (an increase of 33% in 2009). Growth in this indicator suggests that credit history makers and users are increasingly interested in getting the information on credit history bureaus via the Internet, using a credit history maker code.

It is worth noting that the CCCH had relevant information on credit history bureaus in possession of credit histories of credit history makers to satisfy a vast majority of inquiries received from both users and makers. This indicates that the coverage of the population is high (borrowers of banks, including potential borrowers) in terms of the services provided by the CCCH and credit history bureaus, and that the credit histories of a vast majority of borrowers are available.

In 2010, another channel for communications with the CCCH became operational, which allows credit history makers to send inquiries to the CCCH from anywhere in Russia by referring to public notaries through the mediation of the Federal Notarial Chamber (838 inquiries during the second half of 2010).

In 2010, the CCCH transferred credit histories previously kept by the limited liability company Central Credit Bureau (which was going out of business) to an organiser of a tender for the free transfer of credit histories. The credit histories kept by the CCCH on a temporary basis since 2009 in accordance with the provisions of the Federal Law were later transferred by the organiser of the tender to the best bidder – the closed joint-stock company North-Western Credit History Bureau.

III.8. Co-operation with Russia's Banking Community

In 2010, the Bank of Russia and the Government of Saint-Petersburg, jointly with the Saint-Petersburg Foundation for the Support of International Banking Congresses organised the 19th International Banking Congress “Banks: Life after Crisis”. The event was held in Saint-Petersburg from May 26 to 29, 2010. During the plenary meetings and congress sections, the participants discussed the ways to overcome the aftermath of the global crisis and optimise the operation of the Russian banking sector in the post-crisis period. They also discussed modern world trends in the evolution of banking and financial systems, issues related to banking regulation and supervision, risk management, banking services for the real economy, and the application of new technologies in the banking business. One of the panels was dedicated to the activities of the Bank of Russia, which commemorated its 150th anniversary in 2010.

Bank of Russia specialists participated in the conferences, round table discussions and, working meetings organised by the Association of Russian Banks (ARB), the Association of Regional Banks of Russia (Association Russia), the Moscow Banking Union, the North-Western Banking Association, the Russian Union of Industrialists and Entrepreneurs, and the National Stock Market Association (NSMA). The events were dedicated to the aftermath of the global crisis and the sustainability of the banking system, the further development of the Russian financial sector, the role of banks in the post-crisis economy, and lending to small and medium-sized businesses in a modern environment. The participants also discussed topical problems of the national payment system and the Bank of Russia's role in its development, the establishment of the institution of the financial ombudsman, the management of problem assets and the use of closed-end unit funds by banks, etc.

III.9. Co-operation with International Financial Organisations and Foreign Central Banks

Co-operation with international economic and financial organisations

In 2010, the Bank of Russia continued its participation in the Basel Committee on Banking Supervision (BCBS) and its working groups and sub-groups by attending BCBS meetings held in March, July, September and November-December 2010. Bank of Russia representatives also took part in the activities of the following BCBS working groups: the Standards Implementation Group (on operational risk, validation, and development of standards monitoring procedures); the Policy Development Group (on risk management and modelling, liquidity, the definition of capital, securitisation and external ratings), the High-level Macro-prudential Supervision Working Group, and the Corporate Governance Group.

As part of the activities of the regional banking supervision group representing the countries of Central and Eastern Europe, the Bank of Russia participated in the group's annual conference, which was held in Macedonia in June 2010. The conference focused on the strengthening of the banking sector, financial stability and lessons learned from the financial crisis.

Efforts were taken to draft materials and information on banking supervision for the Financial Stability Board (FSB) (within the framework of the cross-border crisis management group) and G20.

In 2010, FSB experts assessed the Russian financial sector's compliance with regulatory and supervisory standards in the area of international cooperation and information exchange, with the findings to be published by the FSB in 2011.

As part of cooperation with the International Monetary Fund (IMF), the Bank of Russia participated in meetings with IMF experts within the framework of Article IV consultations (June and December 2010).

In addition, an IMF mission started implementing the Financial Sector Assessment Program for the Russian Federation (FSAP) (stability module), with completion scheduled for the first half of 2011.

Efforts were continued to update the information on a regular basis for the IMF electronic database on banking laws and regulations, which is published quarterly on the Bank of Russia website.

Cooperation was continued with the World Bank as part of the drafting of the Diagnostic Review of Consumer Protection and Financial Capability.

In 2010, the Bank of Russia, jointly with the Eurosystem (including the European Central Bank and the national (central) banks of European countries) continued to implement the EU-financed Program for Cooperation on Banking Supervision and Internal Audit for 2008-2011.

In 2010, in the course of the implementation of Basel II project, Eurosystem experts conducted 9 missions to the Bank of Russia, with workshops on the practical application of the provisions of Basel II Pillar 2 (March 2010, Moscow; October 2010, Saint-Petersburg) and the introduction of the Basel II IRB-approach in Russia (November 2010, Moscow). Meanwhile, Bank of Russia specialists visited the Bank of France as part of the working group on Basel II Pillar 1 (March 2010) and the Bank of Greece as part of the working group on Basel II Pillar 3 (June 2010). The following documents were drafted and published on the Bank of Russia website: a consultative paper on the prospects of applying the IRB-approach of Basel II Pillar 1 by Russian banks for supervisory purposes and relevant required measures (activity), an analytical paper on the compliance of project member banks' internal credit risk management approaches with minimum requirements of the IRB-approach of Basel II, and a document on the procedure for and approaches to the implementation of Basel II Pillar 2 in the Russian Federation - draft of Bank of Russia guidelines for internal capital adequacy assessment procedures.

The reporting year saw the completion of implementation of the Memorandum of Understanding between the Bank for International Settlements (BIS) and the Bank of Russia regarding the translation into Russian and the integration of instruction courses of the computer-based teaching program FSI Connect in 2008-2010 on banking regulation and supervision, which was developed by the BIS Financial Stability Institute. Currently, 53 FSI Connect courses are available to Russian language learners.

As part of its cooperation with the Organisation for Economic Cooperation and Development (OECD), the Bank of Russia drafted, throughout the year, information and analytical papers on the draft opinion of the OECD Secretariat to Russia's position with respect to specific OECD regulations. Other areas of cooperation included consumer rights protection in the financial services sector and the improvement of financial literacy.

Within the framework of cooperation with the Asia-Pacific Economic Cooperation Forum (APEC), the Bank of Russia compiled data on an APEC questionnaire with regard to the stabilisation of the financial system, the liberalisation of financial services, and the development of capital markets (April 2010).

As part of efforts to improve household financial literacy, the Bank of Russia participated in the proceedings of ChildFinance, an international organisation dedicated to making financial/banking services accessible to children, by its invitation.

Co-operation between the Bank of Russia and central (national) banks and foreign supervisors

The Bank of Russia attaches great importance to cooperation and information exchange with the banking supervisory authorities of other countries. By now, the Bank of Russia has concluded 32 cooperation agreements (memorandums of understanding) with foreign supervisors. In 2010, cooperation agreements (memorandums of understanding) were signed with the National Bank of Abkhazia, the supervisory authorities of Austria (its Federal Ministry of Finance, the Austrian Financial Market Authority and the Austrian National Bank), the Financial Supervisory Authority of Norway (with respect to supervision of SpareBank 1 Nord-Norge and its Russian subsidiary JSC North-Western 1 Alliance Bank), and the Banking Regulation and Supervision Agency of the Turkish Republic. An updated Memorandum of Understanding was signed with the Financial and Capital Markets Commission of the Republic of Latvia.

Efforts were taken to agree on draft cooperation agreements (memorandums of understanding) with banking supervisory authorities from 15 countries.

In 2010, the Bank of Russia held meetings on priority issues relating to banking regulation and supervision with supervisors from Austria, Hungary, and Germany.

In particular, a joint workshop and high-level meeting were held by the Bank of Russia, the Austrian National Bank and the Austrian Financial Market Authority (June 2010, the Austrian National Bank; October 2010, the Bank of Russia), to discuss trends affecting the evolution of financial markets in both countries, as well as regulatory and supervisory innovations, the impact of the crisis on the banking sector and the macro-economic situation in general, the lessons of the crisis, and issues relating to the financial stability and operations of Russian and Austrian banks with respective cross-border establishments in Austria and Russia.

A delegation of German supervisors headed by J. Sanio, President of the Federal Financial Supervisory Authority of Germany (BaFin), visited the Bank of Russia in October 2010 to discuss international approaches to banking supervision, regulation and risk management, micro- and macro-prudential approaches to regulation and supervision (Basel III), and cooperation between the Russian and German supervisory authorities. Members of the German delegation were briefed on the organisation of bank inspections at the Bank of Russia and also the Bank of Russia's efforts to rehabilitate and restructure bank activities.

To coordinate efforts in cross-border supervision of banking groups, the Bank of Russia cooperated with foreign supervisors within the framework of multi-lateral supervisory colleges. In 2010, Bank of Russia representatives participated in the activities of supervisory colleges for banking groups of Deutsche Bank (Germany), OTP Group (Hungary), VTB Bank Group (Austria) AG, the Bank of China (China), and the Bank of Cyprus (Cyprus).

In addition, a supervisory college for VTB Group was set up (June 2010, the Bank of Russia) with the involvement of supervisory representatives from the host countries of the group's subsidiaries (Austria, Armenia, Belarus, Germany, Cyprus, Ukraine, France).

The Banks/Financial Services sub-group operating under the auspices of the Russian-German Working Group on the Strategic Cooperation in the Field of Economics and Finance continued its work in 2010. The sub-group held meetings to discuss the current state of the banking sectors and the state and prospects of the insurance market in Germany and Russia (June 2010, Ulyanovsk, Russia), as well as micro-finance, financial literacy, and project financing in energy saving and power efficiency (December 2010, Munich, Germany).

In 2010, the Bank of Russia was actively involved in the drafting of analytical documents and reference information for meetings of the Council of the Central (National) Bank Governors of EurAsEc Member States. These included meetings that were held to discuss the banking system's performance in 2009, prospects for the banking sector's development in member states, and the harmonisation of legislation in member states (in line with the Basel Core Principles for Effective Banking Supervision and national strategies and plans of the parties), as well as the improvement of banking regulation and supervision.

III.10. Outlook for Banking Regulation and Supervision in Russia

In late 2010, the Bank of Russia completed the drafting of its Banking Sector Development Strategy until 2015, which sets the medium-term priorities for the Russian Government, Bank of Russia and banking community. The implementation plan of the strategy identifies major draft laws that must be adopted to achieve the set objectives.

III.10.1. The state registration of credit institutions and the licensing of banking operations

In 2011, the Bank of Russia will continue to work on federal draft laws which provide for:

- simplifying the process and lowering the cost of the floatation of securities issued by commercial banks, the reduction of the bank share (stake) purchase threshold for which prior Bank of Russia approval is necessary from 20% to 10%;
- obligating nominal holders to report to a credit institution on the credit institution's owners and shareholders of joint-stock companies, who have significant indirect (via third parties) influence on the decision-making process of the credit institution's management, including third parties through which material indirect influence on the credit institution management's decision-making process is exerted. Once passed into law, it will allow both the Bank of Russia and share issuing credit institution to receive the details of holders of the authorised capital of the latter;
- the procedure for the Bank of Russia to remove owners of 10% or more shares (stakes) from the management of a credit institution, once they cease to qualify according to the established requirements, by reason of their financial position and business reputation;
- specifying requirements to credit institution executives, allowing the Bank of Russia to establish criteria for their business reputation to prevent unscrupulous and incompetent persons from managing credit institutions, set higher requirements for bank managers and founders (members), and provide the Bank of Russia with more powers to monitor compliance with the established requirements;
- holding the management of businesses liable for their activities;
- defining the term "affiliated parties", and criteria for establishing an actual conflict of interest in transactions being conducted, including those with affiliated parties;
- introducing different regulatory environments for public and non-public companies, including with regards to the structure and membership procedure of management bodies, and the ability to redistribute competencies between management bodies;
- developing precious metal market tools and a legal definition of "a metal account" and "a precious metal deposit";
- introducing a new type of a bank deposit – an irrevocable bank deposit, including that of documented by a (savings) certificate of deposit;
- establishing requirements for the minimum amount of capital of professional securities market participants;
- introducing a definition of "e-money" and the arrangement of e-money settlements;
- regulating the relationships related to investments into shares (stakes) which constitute the authorised capital of infrastructure organisations, and other transactions which result in control gained over such companies;
- allowing a reorganisation option, implementable by way of a merger of legal entities of different incorporation forms;
- establishing in the banking law the option to process the personal details of (supervisory) board members, executives and employees of credit institutions, and the Bank of Russia right to process the personal details of credit institutions' customers.

In 2011, higher control over the reliability and completeness of significant influence disclosures by member banks of the deposit insurance system will be one of the Bank of Russia priorities, due to major changes in the bank ownership structure, including those related to the aftermath of the financial crisis.

In 2011, it is proposed to complete the drafting of the following Bank of Russia regulations:

- a new version of Bank of Russia Instruction No. 130-I, dated February 21, 2007, "On the Procedure for Bank of Russia Prior Approval of the Acquisition and/or Trust Management of Bank Shares (Stakes)". To minimise the administrative procedure related to the Bank of Russia prior approval envisaged by the Instruction, the efforts to improve the relevant procedure will be continued;
- a new version of Bank of Russia Regulation No. 230-P, dated June 4, 2003, "On Credit Institutions' Reorganisation in the Form of Mergers and Acquisitions";
- Bank of Russia Ordinance "On Amending Bank of Russia Instruction No. 135-I, Dated April 2, 2010, on Bank of Russia Decision-Making Relating to the State Registration of Credit Institutions and Licensing Banking Operations" with regards to:

the licensing of credit institutions other than those conducting transactions with cash and other valuables, and also with regards to the procedure for Bank of Russia regional branches sending positive and negative opinions to the Bank of Russia head office with respect to registration and licensing issues;

establishing criteria for a credit institution to be recognised as a credit institution with state shareholding, and for information on a credit institution with state shareholding to be automatically generated;

the registration and licensing of non-bank credit institutions that are authorised to make account-free cash transfers and other related banking operations;

– Bank of Russia Ordinance No. 271-P of June 9, 2005, "On the Examination of Documents to Be Submitted to Bank of Russia Regional Branches for Decision-Making on the State Registration of Credit Institutions, Licensing and Maintaining Credit Institution/Branch Databases" to specify the list of grounds to add the details of management and board members of a credit institution with a revoked licence or under provisional administration, or any person charged with subsidiary liability to the database;

– Bank of Russia Ordinance "On Amending Bank of Russia Ordinance No. 1186-U of August 14, 2002, on Contributions to the Authorised Capital of Credit Institutions at the Expense of Budgets of All Levels, State Extra-budgetary Funds, Available Cash and Other Property Managed by Public Authorities and Local Governments".

In 2011, the Bank of Russia plans to amend its Ordinance No. 1379-U of January 16, 2004, "On Assessing Bank Financial Soundness to Qualify for Participation in the Deposit Insurance System" to improve the procedure for member banks' disclosure of information on significant influences (direct or indirect) on the management's decision-making process to an unlimited number of persons, and to enhance control over compliance of member banks with the stated procedure.

III.10.2. Banking regulation

In 2011, the Bank of Russia will continue its efforts to improve the banking regulation system taking into account the lessons of the financial crisis and the implementation of the anti-crisis package. A special focus will be on the efforts to implement internationally recognised approaches to the assessment of financial risks.

The concept of motivated (professional, expert) judgment will be integrated into Russian legislation.

As part of the efforts to implement Basel II provisions and best international practices in Russian banking supervision, the Bank of Russia intends to achieve the following in 2011.

Further steps will be taken for establishing the legal environment for Basel II provisions, authorising the Bank of Russia to set risk management rules for credit institutions, require credit institutions to maintain the capital adequacy level, apply enforcement measures to credit institutions' managers and owners, and also hold management and (supervisory) board members liable for banking operations (including risk management), and require credit institutions and banking groups to disclose their exposures and risk management procedures to the public.

The Bank of Russia methodological guidelines for internal capital adequacy assessment procedures (ICAAP) will be brought to credit institutions' attention, and the Bank of Russia will recommend that the largest credit institutions start the process of developing and applying the ICCAP.

In addition, the Bank of Russia is starting to draft the regulatory framework to support the methodology of supervisory review process over the capital adequacy of credit institutions as part of Basel II Pillar 2. This includes the methodology for evaluating internal capital adequacy assessment procedures at credit institutions and its application in the process of assessing the financial soundness of credit institutions as part of the evaluation of their management quality.

Another pending problem is the need for improving market regulation. The crisis revealed the most risk-prone credit institutions' operations, such as knowingly lending (in a non-transparent fashion) to credit institutions' owners, including via offshore residents, and also transactions with financial instruments that were worst affected by market factors. To optimise related risk assessment procedures and capital adequacy requirements to cover risks, the Bank of Russia will continue the banking regulation efforts it started in 2010 and focus on creating additional incentives for credit institutions to limit their exposures to reasonable levels, and on establishing an additional "safety buffer" for credit institutions with higher exposures.

It is proposed to address the aforementioned objectives through the introduction of higher risk ratios on relevant types of assets when establishing capital adequacy requirements. This will result in higher requirements in terms of regulatory capital to cover the risks inherent in non-transparent transactions, transactions with non-transparent counterparties, and also operations with non-transparent economic results. Apart from various manifestations of non-transparency, the Bank of Russia intends to apply a higher risk ratio to assets which incur a higher risk due to their transaction profile, which will knowingly expose the credit institution to a higher than standard level of risk.

A higher capital charge (risk weight) will be also applied to some financial instruments to calculate total market risk for a more conservative assessment of risk; the rationale for this is the same that is applied in approaches to the assessment of credit risk.

In addition, the Bank of Russia intends to continue to refine proposed provision requirements for investments into the non-core assets of banks.

The Bank of Russia is contemplating the establishment of an efficient mechanism to regulate risks of lending to related parties. It can be implemented on the basis of the amendments envisaged by the proposed draft federal law on consolidated supervision[87]. This draft law contains the provisions required to regulate the risks that arise from relationships between credit institutions and their related parties.

Transactions that transfer assets to trust management and unit investment funds are becoming increasingly popular with credit institutions. Relevant regulatory requirements are being developed to assess risk exposure related to assets trust management and closed-end unit investment funds (with regard to the calculation of required ratios, possible loss provisions, and determination of capital adequacy).

Due to forthcoming amendments to the accounting procedure[88] of financial derivatives (FD)[89], the Bank of Russia envisages amending its corresponding regulations on the calculation of capital and possible loss provisions with respect to over-the-counter FD transactions.

Due to a document package (the so-called Basel III) published by the Basel Committee on Banking Supervision (BCBS) in December 2010 to improve banking regulation on the basis of lessons drawn from the financial crisis, the Bank of Russia is contemplating the implementation of these approaches in its regulations in several areas (within the period set by the BCBS). These include the drafting of regulations affecting credit institutions' reporting on the calculation of new liquidity ratios within the monitoring period, and in line with new requirements for the structure and adequacy of capital, as well as conducting a pilot survey of the new leverage ratio calculation within the monitoring period.

Due to work on the draft Federal Law "On the National Payment System"[90], the Bank of Russia will continue to draft a regulation applicable to non-bank credit institutions, which are authorised to make account-free cash transfers and related banking operations (e-money operators).

Due to a need to introduce the best internationally recognised approaches of consolidated supervision to Russia's supervisory practices and promote cooperation with foreign supervisors in this area, the Bank of Russia and Ministry of Finance are poised to actively advocate the draft Federal Law "On Amending the Federal Laws on Banks and Banking Activities and on the Central Bank of the Russian Federation (Bank of Russia)". This draft law is designed to specify the core provisions of consolidated supervision and disclosure requirements that affect credit institutions, banking groups and bank holding companies; it also allows the Bank of Russia to set the risk management system requirements at credit institutions and banking groups. It provides for a broader range of information to be exchanged between the parent organisations and member entities of banking groups (bank holding companies), as well as between authorities supervising these members, including cross-border groups and holding companies.

To improve the efficiency of supervision of systemically important banks, the Bank of Russia will continue work on the draft Federal Law "On Amending Articles 74 and 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)", allowing it to appoint its authorised representatives to credit institutions recognised as important for the banking system and the economy of the Russian Federation and/or its regions, depending on the amount of personal and (or) corporate deposits being raised.

Efforts to develop standard requirements with respect to the financial soundness of banks for supervisory and deposit insurance purposes will continue, in order that overlaps in soundness assessment systems are removed and the administrative burden on banks is reduced.

To harmonise banking audit regulations with international guidelines, the Bank of Russia will continue its involvement in the draft Federal Law "On Amending Some Russian Laws", which sets up a legal framework for the exchange of information between external auditors of financial institutions and supervisors, including the Bank of Russia.

In 2011, the Bank of Russia is considering the possibility of taking further efforts to implement the FSB's Principles for Sound Compensation Practices in the Russian banking sector, and also develop supervisory approaches to compensation practices at credit institutions.

In 2011, the Bank of Russia will be actively involved in implementing measures to make financial services, including loans, more accessible to households, as well as entrepreneurs.

Efforts will continue to draft a cooperation agreement between the Bank of Russia and the Federal Financial Market Service (FFMS). The draft agreement provides, among other things, for the organisational support of consolidated supervision over the operations of banking groups (bank holding companies) and also an exchange of information, including data reported by professional securities market participants. The Bank of Russia plans to continue work (jointly with the FFMS) to optimise the regulatory framework for combined activities (including those performed by credit institutions as professional securities market participants), as well as trust management issues.

[87] The draft Federal Law "On Amending the Federal Laws on Banks and Banking Activities and on the Central Bank of the Russian Federation (Bank of Russia)" specifying the core provisions of consolidated supervision and containing the requirements made of credit institutions, banking groups and bank holding companies to disclose their operations was submitted to the Russian Government for approval in the first quarter of 2011.

[88] It is envisaged to register FD in balance sheet accounts at current (fair) value, with a positive/negative revaluation to be recorded in revenue (expenditure) accounts of credit institutions.

[89] Forwards, swaps and options with the underlying assets in the form of a foreign currency and interest rate.

[90] The draft Federal Law "On the National Payment System" is being considered by the State Duma of the Russian Federal Assembly.

In 2011, the Bank of Russia will continue to draft amendments to the effective law with respect to its authority to apply banking information technology, remote banking services, and cooperation between banks and providers. The Bank of Russia will also continue its work drafting a new regulation to set up a procedure to store session data in remote settlement systems, operated by banks.

The Bank of Russia will be involved in work on draft laws designed to improve consumer protection in financial services, including work done as part of the efforts to improve the law on collateral and develop a consumer credit law.

III.10.3. Off-site supervision

Further efforts to enhance and improve the quality of banking supervisory practices will be conducted with an emphasis on:

– the timely identification and assessment of risks assumed by banks, ensuring the transparency of credit institutions' operations (primarily for ensuring an early warning of emerging problems, with an emphasis on avoiding formal supervisory practices and using professional judgment based on substantiated approaches to the assessment of various aspects of credit institutions' activities);
– the further development and improvement of the institution of bank curators;
– more responsive and consistent supervisory efforts, including through the establishment of a supervisory system that matches the risk profile of a given credit institution;
– regularly assessing the real concentration of risk exposure assumed by banks, identifying transactions designed to hide operational problems;
– analysis and quality assessment of risk management systems at credit institutions;
– improving the assessment quality of bank risk exposure to transactions with enterprises and organisations, including insurance and financial companies, on the basis of close cooperation with other supervisory authorities and the monitoring of the exchange of information. To improve the transparency and a confirmation of the reliability of borrower information that is available to the supervisor, the Bank of Russia plans to continue cooperation with the Federal Tax Service with respect to the development of the procedure for the confirmation of reports that customers and founders (members) of credit institutions provide to tax authorities, banks and the Bank of Russia;
– cross-border supervision. To improve the transparency of the cross-border transactions of resident and non-resident credit institutions, the Bank of Russia will develop arrangements for cooperation with foreign supervisors. The Bank of Russia intends to continue the practice of establishing supervisory colleges with the participation of foreign supervisors for international banking groups headed by Russian banks. The Bank of Russia is also considering participation in international banking colleges set up by the supervisory authorities of other countries;
– improving the skills and professional knowledge of off-site supervision staff, the Bank of Russia will continue to provide its regional supervisory staff with study tours of the head office to exchange knowledge and gain experience in analysing bank operations and assessing risk exposures, and hold practical sessions on the basis of case studies.

Efforts will continue to improve macro-prudential analysis based on the financial stability indicators estimated and published jointly with the IMF, and stress testing of the Russian banking sector on the basis of the assessment of systemic risks. The Bank of Russia will actively use the approaches recommended by international organisations. In particular, stress tests will be based on a model describing the interrelationships between the macroeconomic indicators of the national economy and the key indicators of the banking sector. Stress test scenarios will be adjusted by the Bank of Russia in view of analysis of best international practices.

III.10.4. On-site inspection

Following the positive outcome of the experiment to centralise its inspection activities[91], the Bank of Russia Board of Directors decided to embark on, and approved the schedule of, a ***phased centralisation of inspection activities***[92].

The year 2011 will become the first year of the principally new organisation of the Bank of Russia inspection process. Three out of eight interregional inspectorates of the North-Western, Siberian and Far Eastern Federal Districts, which include the inspection divisions of relevant regions, will be involved at the first stage. Thus, 39% of Russia's constituent entities will adopt a centralised approach to inspection work[93], with 26 regional inspectorates to be set up within the structure of interregional inspectorates[94].

These measures are primarily designed to improve the quality of inspection work (with special emphasis on inspection results), including through efficient cooperation of off-site and on-site supervision, which will create an environment to take inspection activities to a new level of quality. New principles will be implemented to improve inspection quality, enhance control over outcomes,

[91] The experiment was held in the North-Western Federal District in 2009–2010.
[92] Pursuant to the Bank of Russia Board Resolution of April 8, 2010.
[93] 31 out of 79 constituent entities became participants at the first stage of centralisation.
[94] In the Republic of Tyva, Chita and Magadan Regions, Jewish Autonomous Region, and Chukchee Autonomous Area, the inspection function is performed by the relevant interregional inspectorates.

ensure a prompt response to identified violations, and upgrade the methodological, information and analytical support of inspectors.

In 2011, it is envisaged to ***abolish inspection plans by Bank of Russia regional branches***, which focused on inspecting the performance and accounting for cash currency and cheque transactions, the compliance of banks with required ratios, and control of the observance of cash transaction and cash handling procedures[95]. These issues will be covered by the Summary Plan and addressed, like other issues, on the basis of unified approaches to organisation and the performance of inspections.

In 2011, the Bank of Russia inspection work will focus on obtaining objective evidence of the financial standing (economic situation) of credit institutions, establishing risk profiles and core areas of risk concentration, identifying 'window dressing' transactions that are designed to obfuscate the real quality of assets, and the formal compliance of regulatory requirements. Transactions that generate core risks will be studied on a fairly detailed basis to include the assessment of the business of the parties involved, the legitimacy of transactions, and their correct and timely recognition in credit institutions' financial statements.

The Bank of Russia will take steps to improve cooperation with tax, customs and law enforcement authorities to obtain ***more complete and reliable information*** on banks' customers, borrowers and owners, including a confirmation of the reliability of reports of borrowers and founders (members) of credit institutions.

To institute an ***ongoing supervisory process***, the Bank of Russia will continue its day-to-day management of inspection activities, and will focus on the monitoring of the organisation and performance of inspections.

With respect to credit institutions that are members of banking groups, including those controlled by the same group of owners, the Bank of Russia will ***monitor and coordinate simultaneously conducted inspections*** to promptly communicate the reliable (objective) and updated information on the economic situation (financial standing) of credit institutions that are members of banking groups (holding companies) to Bank of Russia supervisory divisions, and assess the risks related to their exposure to such groups (holding companies).

The Bank of Russia intends to continue the ***trial testing of an electronic inspection report***, with regards to the section "Inspection of quality of loans and similar debts, and the adequate provisioning and use of possible loan provisions", which will be implemented in the inspector workstation automation system.

In the course of ***inspections of IT technology*** and IT security compliance, the Bank of Russia will use the developments identified in the process chart and methodological guidelines for the inspection process and assessment of internal controls over IT application at credit institutions (their branches).

The Bank of Russia plans to continue the pilot operation of the Inspection sub-system of its Single Information Support System for Banking Sector Regulation and Development, and the efforts to upgrade the IT System of the Main Inspectorate of Credit Institutions.

III.10.5. Household deposit insurance

At present, the household deposit insurance compensation payment of 700,000 roubles is consistent with Russia's social and economic environment and the financial capabilities of the deposit insurance system. Throughout 2010, the insurance fund adequacy ratio (the ratio of the fund to the DIA's total insurance liability) was around 5%. This means the system was provisioned adequately, while the deposit insurance fund, which amounted to 110.9 billion roubles as of January 1, 2011, allowed it to make timely insurance payments to depositors.

To prevent the unwarranted receipt of insurance compensation from the deposit insurance fund by dishonest bank customers, the Bank of Russia, jointly with the DIA, will continue drafting work on amendments to Federal Law No. 177-FZ, to incorporate a provision preventing insurance payments from the fund on the basis of fraudulently filed bank liabilities to corporate entities, individual unincorporated entrepreneurs and households whose deposits are beyond the amount insurable under Federal Law No. 177-FZ.

To further strengthen confidence in the banking system, the Bank of Russia will continue to work on the draft Federal Law "On Amending Article 5 of the Federal Law on the Insurance of Household Deposits with Russian Banks" to extend the coverage of the individual deposit insurance system to the deposits (accounts) of individual unincorporated entrepreneurs and those opened by notaries, lawyers and other individuals with the purpose of conducting professional operations.

The Bank of Russia also plans to continue the work started in 2010 on the draft Federal Law "On Amending Some Russian Laws" (for legal definition of "a metal account", including for individuals), to set up an efficient regulatory mechanism of relationships arising from a precious metal bank account agreement, and to define the nature of legal relationships between the bank and a customer under this agreement.

To establish a sustainable credit base, expand bank opportunities for operations on the asset side of the balance sheet and enlarge their long-term funds, the Bank of Russia should continue involvement in the action plan to set up an international finance centre in Russia. It will do so by drafting Federal Law "On Amending Articles 837 and 844 of the Civil Code of the Russian Federation, Arti-

[95] In 2010, a total of 13,249 inspections were conducted under the plans by the Bank of Russia regional branches (outside the Summary Plan).

cles 2, 10, and 12 of the Federal Law on the Insurance of Household Deposits with Russian Banks, Article 36 of the Federal Law on Banks and Banking Activities, Article 3 of the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System". This provides for the use of such financial instrument as a registered savings (deposit) certificate, which cannot be exercised before the maturity date.

In addition, the Bank of Russia is currently taking efforts to standardise the approaches to the assessment of financial soundness within the framework of the deposit insurance system and also economic position of banks at the legislative level.

III.10.6. The financial rehabilitation of credit institutions

To permanently institutionalise the mechanism whereby banks in distress undergo financial rehabilitation with the help of direct government intervention into their operations, it will be necessary to adjust the law accordingly. Legal adjustments will also have to be made to finance the joint bankruptcy prevention measures of the Bank of Russia and the DIA, as currently practiced in Russia under Federal Law No. 175-FZ. Legal adjustments will allow the Bank of Russia and the DIA to engage in such activity on an ongoing basis and in a sustainable economic environment, rather than just for the period of the financial crisis.

For this reason, the Bank of Russia will continue to work on the draft Federal Law "On Amending the Federal Law on Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011", which also provides for the mechanism to be improved for the application of the most efficient bankruptcy prevention tools. The most relevant measure that could be used to improve this mechanism is to provide broader incentives for private investors to participate in bankruptcy prevention of credit institutions. They may do so once the Bank of Russia is authorised to introduce special guidelines pertaining to credit institutions which implement financial rehabilitation plans that are financed by private investors without the use of public funds.

To improve the existing bankruptcy prevention mechanism, the Bank of Russia is participating in the following legislative initiatives, jointly with other agencies concerned:

- imposing a liability on persons in control of the credit institution, subject to the DIA's bankruptcy prevention action, in the form of compensation of losses caused to the credit institution by their guilty actions (inability to act);
- authorising the DIA, in exercise of the bankruptcy prevention measures, to identify the circumstances which resulted in the credit institution's financial instability, contest the transactions presumed suspicious by reference to bankruptcy legislation;
- improving the provisions of Federal Law No. 175-FZ with regards to the transfer of assets and liabilities of the bank subject to bankruptcy prevention (legal definition of the repurchase arrangement);
- authorising the DIA to finance bankruptcy prevention measures at the expense of funds raised on the financial market, including by issuing bonds and other securities;
- amending the Federal Law on Banks and Banking Activities to ensure that information on banks' operations, including that on assets, liabilities and their movements, is stored on electronic carriers, and that a failure to guarantee the storage of this information on electronic carriers incurs a liability;
- drafting amendments to the bank bankruptcy law with respect to the procedure for transferring assets and liabilities from a credit institution that is being liquidated to an operating credit institution, in case the DIA exercises the function of the credit institution's receiver;
- providing for more ways to satisfy the creditor claims of the credit institution to be liquidated through the provision of compensation, and also by allowing an offset in the course of a receivership procedure, on the basis of priority and proportion to be observed in meeting creditor claims;
- adding a new element of crime to the Criminal Code of the Russian Federation to provide for criminal liability in case of fraud by financial institution employees (adding knowingly false details, as well as amendments that significantly distort the actual content of the documents, which establish, change or terminate civil rights and duties, and accounting and reporting documents, which reflect the business of financial institutions) where this misconduct was motivated by personal profit or interest, and caused significant damage to the rights and legitimate interests of individuals or legal entities, or social/public interests protected by law, or where this misconduct was committed one year before a financial institution is declared bankrupt.

III.10.7. Control over the liquidation of credit institutions

In 2011, the Bank of Russia will take further steps to improve credit institution liquidation procedures, including measures to protect creditors and the banking system (as much as possible) from the implications of the revocation of banking licences, and to reduce the risk of fraud by credit institution management and owners.

For this purpose, the Bank of Russia will continue to be involved in the drafting of the Federal Law "On Amending the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and Other Russian Laws to Improve Bankruptcy Procedures of Credit and Other Financial

Institutions, and Establish Stricter Liability for Misconduct Committed Prior to Bankruptcy".

The Bank of Russia wishes to bring about higher efficiency with respect to the civil liabilities, and more optimised procedures for the setting up, reorganisation and elimination of corporate entities, including credit institutions. It also supports improvements in the protection of creditors' rights and legitimate interests. For this purpose, the Bank of Russia will continue to be involved in discussions related to the drafting of federal laws, which amend the Civil Code of the Russian Federation and other laws.

The experience accumulated by the DIA and the Bank of Russia regional branches with respect to the performance and control over the liquidation process and its compliance with legal provisions suggests a need to amend Bank of Russia Ordinance No. 1594-U of July 14, 2005, "On the List, Forms and Procedure for Reporting by Credit Institutions to Be Liquidated to the Central Bank of the Russian Federation" (hereinafter referred to as Bank of Russia Ordinance No. 1594-U). It is proposed that the reporting forms approved by Ordinance No. 1594-U and submitted to the Bank of Russia by a receiver (liquidator, liquidation commission) be amended, primarily in connection with the recognition of cash receipts (including those advanced by the DIA) and expenditures incurred by the receiver (liquidator, liquidation commission), as well as the procedure for the recognition of funds collected from persons held liable, creditor claims on voided transactions, and the data on Bank of Russia claims, including those secured by pledge, related to loans and other placements.

III.10.8. Countering the legalisation (laundering) of criminally obtained incomes and terrorism financing

In order to enhance the AML/CTF-related efficiency of credit institutions in 2011, the Bank of Russia will take part in efforts to improve approaches to defining a list of transactions subject to mandatory control. It will use the arrangements of the risk-based approach to identify customers and beneficiaries. The Bank of Russia will also provide for a broader set of reasons for which banks can refuse to enter into a bank account (deposit) agreement and comply with a customer's instruction to conduct a transaction; it will give banks a right not to honour a bank account (deposit) agreement, and specify the powers of supervisory authorities to monitor whether the organisations which conduct transactions with cash and other property comply with the specific legal requirements to prevent money laundering and the financing of terrorism.

III.11. Bank of Russia Supervisors

The Bank of Russia supervisory divisions employ 4,339 executives and specialists, of whom 16% work at the head office and 84% work in the regional branches. A vast majority of specialists (97.3%) have a higher education, are aged between 30 and 50 (62.3%) and have worked in the banking system for more than three years (92.4%).

In 2010, a total of 1,512 Bank of Russia employees underwent training in banking supervision at 106 courses, including those proposed by the Bank of Russia Vocational Training Plan (50 training events).

The syllabus of Moscow's leading institutions of higher education commissioned by the Bank of Russia ensured the professional retraining of the supervisory division staff in "Provisional Administration Head – Bank Manager" (19 people), with training for "Bank Inspector – Bank Manager" is being offered, with completion scheduled in 2011 (25 people). Three groups (64 people) completed training under MBA programs (over 1,000 hours) in the reporting period.

As in the previous years, considerable attention was paid to the training of the supervisory staff with respect to International Financial Reporting Standards (IFRS). Starting from 2010, the Bank of Russia launched a new two-year training project on IFRS basic professional education programs, with nine training events held to deliver training to 121 employees, including four for the basic course (46 people) and five for the advanced course (75 people). In addition, two specialised courses on the IFRS practical application were held on the basis of separate agreements to deliver training to eighteen supervisory division employees.

Workshops on the practical application of Basel II Pillar 2 (March 2010, Moscow; October 2010, Saint-Petersburg) and on the introduction of Basel II IRB-approach in Russia (November 2010, Moscow) were held.

Supervisors participated in seminars held under agreements with universities and other organisations: the State University – Higher School of Economics (now the National Research University – Higher School of Economics) delivered four training events for 28 people, including a skills training course "Building a Borrower Credit Rating System: Basel II Perspective" and workshops on current interbank settlements, the use of e-money, international settlements and forex transactions at banks. Under an agreement with the Penza State University, four training events in "Implementing Bank of Russia IT Security Standards" were held for 175 supervisors. Under agreement with the Prognoz Learning Center, four workshops were held for bank inspectors, with training delivered to 86 people.

A total of seventeen thematic seminars on banking supervision, as proposed by the Training Plan, and three skills training courses were held for regional branches, with training delivered to 738 people. In addition, the Bank of Russia banking schools (colleges) held six training events on additional subjects, based on the requests of regional branches and programs agreed to with them, with training delivered to 101 people.

In the reporting year, a total of 50 training events were held in Russia and elsewhere as part of international cooperation, with the participation of 130 people.

Bank of Russia representatives were involved in training programs on credit and operational risk assessment and management, internal controls and anti-money laundering arranged by the US Federal Reserve, and in training events on banking regulation and supervision held by the Bundesbank.

In the reporting year, the Bank of Russia took further steps to deliver training and enhance the professional skills of the executives and specialists of regional branches in AML/CTF issues[96], with ten training events on AML/CTF held for over 430 people with involvement of the Bank of Russia head office staff, the Ministry of the Interior and the Federal Financial Monitoring Service.

In implementing cooperation agreements, the Bank of Russia staff held a workshop on AML/CTF[97] for specialists of the national (central) banks of member states of the Eurasian Economic Community (EurAsEC).

As part of cooperation with the integration agencies of EurAsEc and Council of National (Central) Bank Governors of the EurAsEc Member States, representatives from the Bank of Russia went on study tours to the National Bank of Belarus and National Bank of Armenia, and also took part in a workshop on analysis and assessment of the financial standing of banks held by the Bank of Russia for representatives of central (national) banks of the EurAsEc member states.

[96] This training was delivered under the Bank of Russia Vocational Training Plan.

[97] In accordance with the Vocational Training Plan for the staff of central (national) banks of member states approved by the Bank of Russia as part of cooperation with the EurAsEc member states.

IV

Annexes

IV.1. Monitoring Banking Sector Stability

The regular monitoring of liquidity risk, lending to households, capital adequacy and market risk is performed to identify negative trends in the banking sector at an early stage, and also groups of credit institutions and individual banks whose transactions make decisive contribution to these trends. In 2010, combined with the development of analytical tools, the Bank of Russia was able to achieve a more prompt assessment of the system stability.

In the first half of 2010, the Bank of Russia monitored credit institutions' loan loss provisions under its Ordinance No. 2156-U of December 23, 2008, "On the Specifics of the Assessment of Credit Risk on Loans, Loan and Similar Debts" effective until June 30, 2010 (*see II.1.1 Loan portfolio quality*).

The Bank of Russia regularly monitored:

- dynamics of total assets and loan portfolio, including those of banks, which accounted for the largest asset growth and decline, and all banks with a monthly asset change of more than 20%;
- the asset and liability structure of Russia's top 30 credit institutions;
- the asset and liability structure of the banks with the largest value of household deposits;
- the impact of stock market developments on the financial standing of credit institutions;
- the operations of the banks offering high interest rates on rouble interbank loans and deposits;
- large-value loans provided to companies in technical default on debt obligations tradable on the public market;
- the operations of the banks supported by Bank of Russia's funds;
- restructured and prolonged loans.

IV.2. Banking Sector Clustering

Bank clustering is used to analyse the stability of the banking sector as it allows to scrutinize the transactions and risks of various groups of credit institutions, assess the structure of different segments of the banking services market and potential for negative developments in these segments.

In this report, the following clustering methodology of the banking sector was used (with 2009 data being recalculated as necessary).

At the first stage, the following credit institutions were put into separate groups:

- non-bank credit institutions;
- banks, in which more than 50% of authorised capital is owned by the state (including by the Bank of Russia, Vnesheconombank and Deposit Insurance Agency), and also member banks of the banking groups formed by these banks;
- banks, in which more than 50% of authorised capital is owned by non-residents (including banks whose non-resident owners are controlled by residents of the Russian Federation).

At the second stage, the top 200 banks in terms of assets (except those included into the three groups indicated above) were identified as a group of large private banks.

The third stage covered all other banks not included into the four groups above. These are medium-sized and small banks, which are in their turn subdivided into two geographical groups, medium-sized and small banks based in Moscow and the Moscow Region, and medium-sized and small banks registered in other regions.

This resulted in six groups of banks being formed:

1. State-controlled banks;
2. Foreign-controlled banks;
3. Large private banks;
4. Small and medium-sized banks based in Moscow and the Moscow Region;
5. Small and medium-sized regional banks;
6. Non-bank credit institutions.

The results of the banking sector clustering exercise (*see Table 4.1*) suggest that, based on performance in 2010, state-controlled banks improved their position at the expense of the weakening of large private banks and foreign-controlled banks.

Indicators of credit institutions' groups*

TABLE 4.1

Group of credit institutions	No. of credit institutions		% share of total banking sector assets		% share of total banking sector capital	
	1.01.10	1.01.11	1.01.10	1.01.11	1.01.10	1.01.11
State-controlled banks	22	27	43.9	45.8	48.9	47.3
Foreign-controlled banks	106	108	18.3	18.0	16.9	19.1
Large private banks	136	131	32.1	30.5	27.4	26.9
Small and medium-sized banks based in Moscow and the Moscow Region	334	317	2.6	2.6	3.4	3.5
Small and medium-sized regional banks	409	372	2.8	2.7	3.1	2.9
Non-bank credit institutions	51	57	0.4	0.4	0.2	0.3
TOTAL	1,058	1,012	100	100	100	100

* The criteria for clustering credit institutions and the relevant indicators are used in this Report for analysis only.

IV.3. Improving the Central Catalogue of Credit Histories

In 2011, the Bank of Russia will take further efforts to improve the activities of the Central Catalogue of Credit Histories (CCCH) by upgrading the automated system, which supports the CCCH functionality, and bringing the relevant Bank of Russia regulations applicable to the CCCH and automated system in line with provisions of Federal Law No. 152-FZ of July 27, 2006, “On Personal Data” (hereinafter referred to as the Personal Data Law).

The Bank of Russia regulations applicable to the CCCH will be amended to protect communication channels between the CCCH, banks and the Federal Notarial Chamber, and to remove personal data from the information contained in CCCH responses to inquiries of credit history makers and users sent via unprotected communication channels (via post offices) in order to ensure compliance with the Personal Data Law provisions. It is also envisaged to upgrade on the same basis the CCCH automated system to ensure compliance with federal laws and Bank of Russia regulations.

In 2011, the CCCH will continue its involvement in drafting amendments to the federal law in regard to the creation of credit histories and dissemination of details contained in credit histories. Thus, for better efficiency of CCCH operations it is envisaged to amend Federal Law No. 218-FZ of December 30, 2004, “On Credit Histories”:

– to provide for a broader range of cases where credit histories can be cancelled and the relevant credit history titles can be removed from the CCCH database;
– to provide for possible cooperation between the CCCH and government bodies to adjust and complement the data contained in credit histories;
– to specify the effective period of the additional code of credit history makers;
– to specify the range of persons authorised to retrieve data from databases operated by liquidated (reorganised, deregistered) credit history bureaus.

In 2011, to set up a system for the exchange of credit histories between EurAsEc member countries, the CCCH is planning to continue cooperation with representatives of the EurAsEc banking community, financial market supervisors and central banks. In 2011, it is envisaged to hold a workshop to be organised by the Council of Central (National) Bank Governors of EurAsEc Member States to discuss the prospects of a system for the cross-border exchange of credit histories, the experience of the CCCH and credit registers operated by central (national) banks of EurAsEc member states, issues related to the development of a system of credit history bureaus, as well as the role of credit history bureaus for bank lending and credit risk assessment in EurAsEc member states.

IV.4. Statistical Appendix

Key macroeconomic indicators (in comparable prices, as % of previous year)

TABLE 1

	2003	2004	2005	2006	2007	2008	2009	2010
GDP*, billion roubles	13,208.2	17,027.2	21,609.8	26,917.2	33,247.5	41,276.8	38,786.4	44,939.2
GDP growth rate	107.3	107.2	106.4	108.2	108.5	105.2	92.2	104.0
Federal budget surplus (+) / deficit (–), as % of GDP	1.7	4.3	7.5	7.4	5.4	4.1	–6.0	–4.0
Industrial output index	108.9	108.0	105.1	106.3	106.8	100.6	90.7	108.2
Agricultural output	99.9	102.4	101.6	103.0	103.3	110.8	101.4	88.1
Retail trade turnover	108.8	113.3	112.8	114.1	116.1	113.5	95.1	104.4
Fixed capital investment	112.5	113.7	110.9	116.7	122.7	109.9	84.3	106.0
Household real disposable money income	115.0	110.4	112.4	113.5	112.1	102.3	102.1	104.1
Unemployment rate, as % of economically active population (average for period)	8.6	8.2	7.6	7.2	6.1	6.3	8.4	7.5
Consumer price index (December as % of previous December)	112.0	111.7	110.9	109.0	111.9	113.3	108.8	108.8
Average nominal US dollar/rouble rate over period	30.68	28.81	28.28	27.18	25.57	24.81	31.68	30.36

* In current prices.

Russian banking sector macroeconomic indicators

TABLE 2

	1.01.07	1.01.08	1.01.09	1.01.10	1.01.11
Banking sector assets (liabilities), billion roubles	13,963.5	20,125.1	28,022.3	29,430.0	33,804.6
as % of GDP	51.9	60.5	67.9	75.9	75.2
Banking sector capital, billion roubles	1,692.7	2,671.5	3,811.1	4,620.6	4,732.3
as % of GDP	6.3	8.0	9.2	11.9	10.5
as % of banking sector assets	12.1	13.3	13.6	15.7	14.0
Loans and other funds provided to non-financial organisations and households, including overdue debt, billion roubles	8,030.5	12,287.1	16,526.9	16,115.5	18,147.7
as % of GDP	29.8	37.0	40.0	41.5	40.4
as % of banking sector assets	57.5	61.1	59.0	54.8	53.7
Securities acquired by banks, billion roubles	1,745.4	2,250.6	2,365.2	4,309.4	5,829.0
as % of GDP	6.5	6.8	5.7	11.1	13.0
as % of banking sector assets	12.5	11.2	8.4	14.6	17.2
Household deposits, billion roubles	3,809.7	5,159.2	5,907.0	7,485.0	9,818.0
as % of GDP	14.2	15.5	14.3	19.3	21.8
as % of banking sector liabilities	27.3	25.6	21.1	25.4	29.0
as % of household income	22.0	24.2	23.4	26.3	
Funds raised from organisations*, billion roubles	4,790.3	7,053.1	8,774.6	9,557.2	11,126.9
as % of GDP	17.8	21.2	21.3	24.6	24.8
as % of banking sector liabilities	34.3	35.0	31.3	32.5	32.9

* Including deposits, government and other extra-budgetary funds of the Ministry funds of Finance, fiscal authorities, individual unincorporated entrepreneurs, customers in factoring and forfeiting operations, certificates of deposit, float, and funds written off from customer accounts but not passed through a credit institution’s correspondent account (net of funds raised from credit institutions).

Registration and licensing of credit institutions*

TABLE 3

	1.01.10	1.01.11
Registration of credit institutions		
1. Credit institutions[1] registered by the Bank of Russia or the registration authority, in line with decisions made by the Bank of Russia, total[2]	1,178	1,146
of which:		
– banks	1,124	1,084
– non-bank credit institutions	54	62
1.1. Registered wholly foreign-owned credit institutions	82	80
1.2. Credit institutions that have been registered by the Bank of Russia but have not yet paid authorised capital and have not received a licence (within the time period established by law)	1	2
of which:		
– banks	1	1
– non-bank credit institutions	0	1
Operating credit institutions		
2. Credit institutions licensed to conduct banking operations, total[3]	1,058	1,012
of which:		
– banks	1,007	955
– non-bank credit institutions	51	57
2.1. Credit institutions holding licences (permits):		
– to take household deposits	849	819
– to conduct operations in foreign currencies	701	677
– general licences	291	283
– to conduct operations with precious metals	203	208
2.2. Credit institutions with a foreign stake in authorised capital, total	226	220
of which:		
– wholly foreign-owned credit institutions	82	80
– credit institutions with a 50%-plus foreign stake	26	31
2.3. Credit institutions registered with the deposit insurance system[4]	859	832
3. Registered authorised capital of operating credit institutions, million roubles	1,244,364	1,186,179
4. Branches of operating credit institutions in Russia, total	3,183	2,926
of which:		
– Sberbank branches[5]	645	574
– branches of wholly foreign-owned credit institutions	241	203
5. Branches of operating credit institutions abroad, total[6]	5	6
6. Branches of non-resident banks in Russia	0	0
7. Representative offices of Russian operating credit institutions, total[7]	517	460
of which:		
– in Russia	475	416
– in non-CIS countries	29	32
– in CIS countries	13	12
8. Additional offices of credit institutions, total	21,641	22,001
of which:		
– Sberbank additional offices	10,061	10,251

** These include data based on information received from the registration authority as of the reporting date.*

END 3

	1.01.10	1.01.11
9. External cash desks of credit institutions, total	12,461	11,960
of which		
– Sberbank cash desks	8,962	8,521
10. Cash and credit offices of credit institutions, total	1,252	1,389
of which		
– Sberbank cash and credit offices	0	0
11. Operations offices of credit institutions (branches of credit institutions), total	2,109	2,994
of which		
– Sberbank cash and credit offices	7	9
12. Mobile banking vehicles of credit institutions (branches of credit institutions), total	84	87
of which		
– Sberbank cash and credit offices	82	83
Licence revocation and liquidation of corporate entities		
13. Credit institutions that had their banking licences revoked (cancelled) but have not been struck off the state register[8]	119	132
14. Liquidated credit institutions struck off the state register, total[9]	1,957	1,991
of which		
– liquidated due to licence revocation (cancellation)	1,540	1,555
– liquidated due to reorganisation	416	435
of which		
– by merger	2	2
– by acquisition	414	433
of which		
– by being transformed into other banks' branches	354	362
– by being merged with other banks (without setting up a branch)	60	71
– liquidated due to an infraction of law in respect of payment of authorised capital	1	1

[1] The term 'credit institution' in this Table denotes one of the following:

— a corporate entity registered by the Bank of Russia (prior to July 1, 2002) or registration authority and having the right to conduct banking operations;

— a corporate entity registered by the Bank of Russia (prior to July 1, 2002) or registration authority, which had but lost the right to conduct banking operations.

[2] Credit institutions that have the status of a corporate entity as of the reporting date, including credit institutions that have lost the right to conduct banking operations but have not yet been liquidated as corporate entities.

[3] Credit institutions registered by the Bank of Russia (prior to July 1, 2002) or registration authority and holding the right to conduct banking operations, and also non-bank credit institutions registered by other authorities and licensed by the Bank of Russia to conduct banking operations.

[4] Based on data provided to the Bank of Russia by the DIA as of the reporting date.

[5] Sberbank branches put on the state register of credit institutions and assigned a serial number. Before January 1, 1998, monthly data on credit institutions in this line indicated the total number of Sberbank establishments (34,426).

[6] Branches opened by Russian credit institutions abroad.

[7] Representative offices of Russian credit institutions abroad include the offices of whose opening abroad the Bank of Russia has been notified.

[8] Total credit institutions that had their banking licences revoked (cancelled) by the Bank of Russia, including liquidated credit institutions struck off the state register: 1,668 as of January 1, 2010, and 1,697 as of January 1, 2011.

[9] After July 1, 2002, the liquidated credit institution is struck off the state register as a corporate entity only after its liquidation has been registered by the registration authority.

Credit institutions by form of incorporation

TABLE 4

	1.01.10		1.01.11	
	number	% share	number	% share
Operating credit institutions licensed to conduct banking operations, total	**1,058**	**100.00**	**1,012**	**100.00**
of which:				
– joint-stock companies	699	66.07	671	66.30
– closed joint-stock companies	285	26.94	272	26.88
– open joint-stock companies	414	39.13	399	39.42
– additional liability companies	–	–	–	–
– limited liability companies	359	33.93	341	33.70

Number of credit institutions and their branches by region as of January 1, 2011

TABLE 5

	Number of credit institutions in region	Number of branches in region		
		total	credit institutions with head office in given region	credit institutions with head office in another region
1	2	3	4	5
Total for the Russian Federation	**1,012**	**2,926**	**494**	**2,432**
CENTRAL FEDERAL DISTRICT	**585**	**603**	**119**	**484**
Belgorod Region	5	25	1	24
Bryansk Region	1	24	0	24
Vladimir Region	3	23	0	23
Voronezh Region	2	54	0	54
Ivanovo Region	6	15	0	15
Kaluga Region	4	23	0	23
Kostroma Region	5	11	0	11
Kursk Region	2	18	0	18
Lipetsk Region	2	24	1	23
Moscow Region	11	83	4	79
Orel Region	2	19	2	17
Ryazan Region	4	18	0	18
Smolensk Region	4	19	6	13
Tambov Region	1	13	1	12
Tver Region	7	32	3	29
Tula Region	5	25	1	24
Yaroslavl Region	7	32	3	29
Moscow	514	145	20	125
Moscow Region (for reference)	*525*	*228*	*101*	*127*
NORTH-WESTERN FEDERAL DISTRICT	**71**	**367**	**25**	**342**
Republic of Karelia	1	19	2	17
Komi Republic	3	33	7	26
Arkhangelsk Region	2	31	0	31
of which: Nenets Autonomous Area	0	1	0	1
Vologda Region	9	20	6	14
Kaliningrad Region	4	33	1	32
Leningrad Region	4	28	0	28
Murmansk Region	4	23	0	23
Novgorod Region	2	14	1	13
Pskov Region	3	11	0	11
Saint Petersburg	39	155	8	147
SOUTHERN FEDERAL DISTRICT	**47**	**306**	**22**	**284**
Republic of Adygeya (Adygeya)	5	6	1	5
Republic of Kalmykia	2	3	0	3
Krasnodar Territory	14	105	2	103
Astrakhan Region	5	24	6	18
Volgograd Region	4	58	0	58
Rostov Region	17	110	13	97
NORTH-CAUCASIAN FEDERAL DISTRICT	**57**	**173**	**74**	**99**
Republic of Daghestan	31	76	59	17
Republic of Ingushetia	2	5	1	4
Kabardino-Balkaria Republic	6	13	4	9
Karachai-Cherkess Republic	5	4	0	4
Republic of North Ossetia — Alaniya	6	12	4	8
Chechen Republic	0	5	0	5
Stavropol Territory	7	58	6	52

END 5

	Number of credit institutions in region	Number of branches in region		
		total	credit institutions with head office in given region	credit institutions with head office in another region
1	2	3	4	5
VOLGA FEDERAL DISTRICT	**118**	**628**	**102**	**526**
Republic of Bashkortostan	11	53	0	53
Republic of Mari El	1	17	4	13
Republic of Mordovia	4	9	1	8
Republic of Tatarstan (Tatarstan)	26	96	56	40
Udmurt Republic	5	23	0	23
Chuvash Republic — Chuvashia	4	19	0	19
Perm Territory	5	64	0	64
Kirov Region	3	18	0	18
Nizhny Novgorod Region	14	92	5	87
Orenburg Region	9	39	3	36
Penza Region	2	26	0	26
Samara Region	20	84	13	71
Saratov Region	10	66	18	48
Ulyanovsk Region	4	22	2	20
URALS FEDERAL DISTRICT	**51**	**336**	**112**	**224**
Kurgan Region	4	14	0	14
Sverdlovsk Region	19	94	13	81
Tyumen Region	18	134	61	73
of which: Khanty-Mansi Autonomous Area — Yugra	10	37	11	26
Yamalo-Nenets Autonomous Area	2	25	2	23
Chelyabinsk Region	10	94	38	56
SIBERIAN FEDERAL DISTRICT	**56**	**366**	**28**	**338**
Republic of Altai	4	5	1	4
Republic of Buryatiya	1	16	3	13
Republic of Tyva	2	4	0	4
Republic of Khakassia	3	5	0	5
Altai Territory	7	48	8	40
Trans-Baikal Territory	0	15	0	15
Krasnoyarsk Territory	5	60	2	58
Irkutsk Region	8	43	4	39
Kemerovo Region	8	32	0	32
Novosibirsk Region	10	70	1	69
Omsk Region	6	42	0	42
Tomsk Region	2	26	9	17
FAR EASTERN FEDERAL DISTRICT	**27**	**147**	**12**	**135**
Republic of Sakha (Yakutia)	4	33	0	33
Kamchatka Territory	4	13	3	10
Primorsky Territory	8	34	5	29
Khabarovsk Territory	4	26	2	24
Amur Region	2	12	0	12
Magadan Region	0	9	0	9
Sakhalin Region	5	11	2	9
Jewish Autonomous Region	0	5	0	5
Chukchee Autonomous Area	0	4	0	4

Notes.

1. The number of credit institutions indicated for Saint Petersburg and the Leningrad region (column 2) and their branches (column 3) pertains to credit institutions and their branches registered by the Bank of Russia regional branch for Saint Petersburg and the Bank of Russia regional branch for the Leningrad Region respectively.

2. In line Moscow and the Moscow Region, figures in column 4 and 5 indicate the number of branches whose parent credit institution is located in the given region (Moscow and the Moscow Region) and in other regions.

TABLE 6

Credit institutions grouped by registered authorised capital as of January 1, 2011

	Up to 3m roubles	3m to 10m roubles	10m to 30m roubles	30m to 60m roubles	60m to 150m roubles	150m to 300m roubles	300m to 500m roubles	500m to 1bn roubles	1bn to 10bn roubles	10bn roubles and over	Total
1	2	3	4	5	6	7	8	9	10	11	12
The Russian Federation	**17**	**23**	**46**	**98**	**222**	**250**	**98**	**103**	**133**	**22**	**1,012**
CENTRAL FEDERAL DISTRICT	**4**	**11**	**26**	**48**	**99**	**153**	**58**	**69**	**98**	**19**	**585**
Belgorod Region	0	0	0	0	2	2	1	0	0	0	5
Bryansk Region	0	0	0	0	0	1	0	0	0	0	1
Vladimir Region	0	0	0	1	1	1	0	0	0	0	3
Voronezh Region	0	0	1	0	1	0	0	0	0	0	2
Ivanovo Region	0	0	0	2	2	2	0	0	0	0	6
Kaluga Region	0	0	0	1	2	1	0	0	0	0	4
Kostroma Region	0	0	1	0	0	2	1	0	1	0	5
Kursk Region	0	0	1	0	1	0	0	0	0	0	2
Lipetsk Region	0	0	0	0	0	1	0	1	0	0	2
Moscow Region	0	1	0	0	1	4	1	3	1	0	11
Orel Region	0	0	0	1	1	0	0	0	0	0	2
Ryazan Region	0	0	0	3	0	1	0	0	0	0	4
Smolensk Region	0	0	0	1	1	0	1	1	0	0	4
Tambov Region	0	0	0	0	1	0	0	0	0	0	1
Tver Region	0	0	0	4	3	0	0	0	0	0	7
Tula Region	0	0	1	1	1	2	0	0	0	0	5
Yaroslavl Region	0	0	1	3	1	0	1	1	0	0	7
Moscow	4	10	21	31	81	136	53	63	96	19	514
Moscow and Moscow Region (for reference)	*4*	*11*	*21*	*31*	*82*	*140*	*54*	*66*	*97*	*19*	*525*
NORTH-WESTERN FEDERAL DISTRICT	**3**	**3**	**4**	**15**	**15**	**12**	**2**	**9**	**8**	**0**	**71**
Republic of Karelia	0	0	0	0	1	0	0	0	0	0	1
Komi Republic	0	0	0	2	1	0	0	0	0	0	3
Arkhangelsk Region	0	0	1	1	0	0	0	0	0	0	2
of which: Nenets Autonomous Area	0	0	0	0	0	0	0	0	0	0	0
Vologda Region	0	0	1	1	3	2	0	2	0	0	9
Kaliningrad Region	0	0	0	0	1	1	0	0	2	0	4
Leningrad Region	0	0	1	1	0	1	0	1	0	0	4
Murmansk Region	1	0	0	0	1	1	0	1	0	0	4
Novgorod Region	0	1	0	0	0	1	0	0	0	0	2
Pskov Region	0	0	0	2	0	1	0	0	0	0	3
Saint Petersburg	2	2	1	8	8	5	2	5	6	0	39

CONT. 6

	Up to 3m roubles	3m to 10m roubles	10m to 30m roubles	30m to 60m roubles	60m to 150m roubles	150m to 300m roubles	300m to 500m roubles	500m to 1bn roubles	1bn to 10bn roubles	10bn roubles and over	Total
1	2	3	4	5	6	7	8	9	10	11	12
SOUTHERN FEDERAL DISTRICT	**1**	**2**	**3**	**5**	**15**	**15**	**3**	**2**	**1**	**0**	**47**
Republic of Adygeya (Adygeya)	0	0	2	1	2	0	0	0	0	0	5
Republic of Kalmykia	0	0	0	0	2	0	0	0	0	0	2
Krasnodar Territory	0	0	1	1	5	4	2	0	1	0	14
Astrakhan Region	1	2	0	0	1	1	0	0	0	0	5
Volgograd Region	0	0	0	1	0	3	0	0	0	0	4
Rostov Region	0	0	0	2	5	7	1	2	0	0	17
NORTH-CAUCASIAN FEDERAL DISTRICT	**4**	**1**	**2**	**4**	**33**	**9**	**4**	**0**	**0**	**0**	**57**
Republic of Daghestan	2	1	1	2	20	3	2	0	0	0	31
Republic of Ingushetia	0	0	0	0	2	0	0	0	0	0	2
Kabardino-Balkarian Republic	0	0	1	0	3	1	1	0	0	0	6
Karachai-Cherkess Republic	1	0	0	1	1	1	1	0	0	0	5
Republic of North Ossetia — Alaniya	0	0	0	0	3	3	0	0	0	0	6
Chechen Republic	0	0	0	0	0	0	0	0	0	0	0
Stavropol Territory	1	0	0	1	4	1	0	0	0	0	7
VOLGA FEDERAL DISTRICT	**1**	**2**	**2**	**6**	**24**	**36**	**19**	**10**	**16**	**2**	**118**
Republic of Bashkortostan	0	0	0	1	1	4	2	2	1	0	11
Republic of Mari El	0	0	1	0	0	0	0	0	0	0	1
Republic of Mordovia	0	0	0	0	0	3	1	0	0	0	4
Republic of Tatarstan (Tatarstan)	0	1	0	1	5	7	1	4	6	1	26
Udmurt Republic	0	1	0	0	0	3	1	0	0	0	5
Chuvash Republic — Chuvashia	0	0	0	1	1	1	1	0	0	0	4
Perm Territory	1	0	0	1	0	1	0	0	2	0	5
Kirov Region	0	0	0	1	0	0	1	1	0	0	3
Nizhny Novgorod Region	0	0	1	0	5	4	2	1	1	0	14
Orenburg Region	0	0	0	0	4	0	3	0	2	0	9
Penza Region	0	0	0	0	1	0	0	1	0	0	2
Samara Region	0	0	0	0	2	8	5	0	4	1	20
Saratov Region	0	0	0	1	3	4	2	0	0	0	10
Ulyanovsk Region	0	0	0	0	2	1	0	1	0	0	4

END 6

	Up to 3m roubles	3m to 10m roubles	10m to 30m roubles	30m to 60m roubles	60m to 150m roubles	150m to 300m roubles	300m to 500m roubles	500m to 1bn roubles	1bn to 10bn roubles	10bn roubles and over	Total
1	2	3	4	5	6	7	8	9	10	11	12
URALS FEDERAL DISTRICT	**2**	**1**	**3**	**8**	**9**	**11**	**3**	**5**	**8**	**1**	**51**
Kurgan Region	0	1	0	2	1	0	0	0	0	0	4
Sverdlovsk Region	1	0	0	2	5	4	1	1	5	0	19
Tyumen Region	1	0	2	2	2	5	1	1	3	1	18
of which: Khanty-Mansi Autonomous Area — Yugra	0	0	1	1	2	2	1	0	2	1	10
Yamalo-Nenets Autonomous Area	0	0	1	0	0	1	0	0	0	0	2
Chelyabinsk Region	0	0	1	2	1	2	1	3	0	0	10
SIBERIAN FEDERAL DISTRICT	**2**	**2**	**4**	**7**	**20**	**8**	**7**	**4**	**2**	**0**	**56**
Republic of Altai	0	0	1	0	2	0	1	0	0	0	4
Republic of Buryatiya	0	0	0	0	0	1	0	0	0	0	1
Republic of Tyva	0	1	0	1	0	0	0	0	0	0	2
Republic of Khakassia	0	0	0	0	1	2	0	0	0	0	3
Altai Territory	0	0	0	3	3	0	0	0	1	0	7
Trans-Baikal Territory	0	0	0	0	0	0	0	0	0	0	0
Krasnoyarsk Territory	0	0	1	0	1	1	2	0	0	0	5
Irkutsk Region	0	0	0	1	5	2	0	0	0	0	8
Kemerovo Region	0	0	1	2	2	1	1	1	0	0	8
Novosibirsk Region	2	0	1	0	3	0	1	2	1	0	10
Omsk Region	0	1	0	0	2	0	2	1	0	0	6
Tomsk Region	0	0	0	0	1	1	0	0	0	0	2
FAR EASTERN FEDERAL DISTRICT	**0**	**1**	**2**	**5**	**7**	**6**	**2**	**4**	**0**	**0**	**27**
Republic of Sakha (Yakutia)	0	0	0	2	0	1	0	1	0	0	4
Kamchatka Territory	0	0	1	2	0	0	1	0	0	0	4
Primorsky Territory	0	1	1	0	3	3	0	0	0	0	8
Khabarovsk Territory	0	0	0	0	3	0	0	1	0	0	4
Amur Region	0	0	0	0	0	0	0	2	0	0	2
Magadan Region	0	0	0	0	0	0	0	0	0	0	0
Sakhalin Region	0	0	0	1	1	2	1	0	0	0	5
Jewish Autonomous Region	0	0	0	0	0	0	0	0	0	0	0
Chukchee Autonomous Area	0	0	0	0	0	0	0	0	0	0	0

Density of banking services in Russian regions as of January 1, 2010

TABLE 7.1

	Number of credit institutions, branches, additional and operations offices	Assets, million roubles*	Loans and other funds extended to resident organisations and households, million roubles**	Household deposits, million roubles**	Gross Regional Product (GRP) in 2009, billion roubles	Population, thousands	Average monthly per capita income in 2009, roubles	Institutional density of banking services (by population)	Financial density of banking services (by asset)	Financial density of banking services (by volume of loans)	Savings index (per capita deposits to incomes)	Composite banking services density index by region
1	2	3	4	5	6	7	8	9	10	11	12	13
CENTRAL FEDERAL DISTRICT	**7,979**	**20,766,330**	**7,223,945**	**3,760,101**	**11,445**	**37,118**	**22,216**	**1.09**	**1.91**	**1.31**	**1.46**	**1.41**
For reference: CENTRAL FEDERAL DISTRICT without Moscow	*4,332*	*1,957,617*	*2,177,994*	*970,100*	*4,288*	*26,555*	*14,389*	*0.83*	*0.48*	*1.05*	*0.81*	*0.76*
Belgorod Region	214	155,015	218,208	51,405	304	1,530	14,117	0.71	0.53	1.48	0.76	0.81
Bryansk Region	129	40,850	43,127	26,715	126	1,292	11,404	0.51	0.34	0.71	0.58	0.52
Vladimir Region	234	73,666	72,426	50,006	188	1,430	10,944	0.83	0.41	0.80	1.02	0.73
Voronezh Region	311	235,095	149,674	91,620	303	2,262	11,728	0.70	0.82	1.02	1.11	0.90
Ivanovo Region	196	43,706	45,078	31,446	87	1,067	9,343	0.93	0.53	1.08	1.01	0.86
Kaluga Region	208	79,907	64,339	37,361	157	1,002	13,509	1.05	0.54	0.85	0.88	0.81
Kostroma Region	150	47,752	33,844	19,756	79	688	10,442	1.10	0.64	0.89	0.88	0.86
Kursk Region	195	81,225	90,852	29,134	161	1,149	12,634	0.86	0.53	1.16	0.64	0.76
Lipetsk Region	171	86,106	89,597	39,813	226	1,158	14,686	0.75	0.40	0.82	0.75	0.65
Moscow Region	1,127	657,380	854,977	331,470	1,531	6,753	20,754	0.85	0.45	1.16	0.76	0.76
Orel Region	128	31,122	65,740	21,628	90	813	10,660	0.80	0.36	1.52	0.80	0.77
Ryazan Region	182	69,708	72,636	35,747	153	1,151	12,044	0.80	0.48	0.98	0.82	0.75
Smolensk Region	155	55,326	55,016	29,431	125	966	12,919	0.81	0.46	0.91	0.75	0.71
Tambov Region	140	40,266	44,059	23,988	134	1,088	12,077	0.65	0.32	0.68	0.58	0.54
Tver Region	198	69,056	68,124	39,407	198	1,360	12,205	0.74	0.37	0.71	0.76	0.62
Tula Region	261	86,180	99,328	51,285	214	1,540	13,359	0.86	0.42	0.96	0.80	0.73
Yaroslavl Region	333	105,256	110,970	59,888	213	1,306	13,111	1.29	0.52	1.08	1.12	0.95
Moscow	3,647	18,808,712	5,045,951	2,790,002	7,158	10,563	41,891	1.75	2.76	1.46	2.02	1.94
NORTH-WESTERN FEDERAL DISTRICT	**3,235**	**2,285,290**	**1,676,571**	**848,296**	**3,406**	**13,437**	**17,446**	**1.22**	**0.70**	**1.02**	**1.16**	**1.00**
Republic of Karelia	151	37,952	40,005	19,455	106	684	13,490	1.12	0.38	0.78	0.67	0.69
Komi Republic	186	63,909	49,522	42,226	301	951	20,125	0.99	0.22	0.34	0.71	0.48
Arkhangelsk Region	222	77,585	101,382	45,489	323	1,254	17,219	0.90	0.25	0.65	0.67	0.56
Vologda Region	359	116,418	101,307	46,493	213	1,214	12,135	1.50	0.57	0.98	1.01	0.96
Kaliningrad Region	226	101,258	109,299	42,257	170	938	14,608	1.22	0.63	1.33	0.99	1.00
Leningrad Region	343	72,246	107,518	45,079	425	1,630	13,055	1.07	0.18	0.52	0.68	0.51
Murmansk Region	206	67,315	54,128	44,946	202	837	21,153	1.25	0.35	0.55	0.81	0.67
Novgorod Region	160	35,838	45,342	15,970	117	641	13,329	1.27	0.32	0.80	0.60	0.66
Pskov Region	144	27,261	26,553	14,028	75	689	11,339	1.06	0.38	0.74	0.57	0.64
Saint Petersburg	1,238	1,685,509	1,041,513	532,354	1,473	4,600	22,133	1.36	1.20	1.46	1.67	1.42

CONT. 7.1

	Number of credit institutions, branches, additional and operations offices	Assets, million roubles*	Loans and other funds extended to resident organisations and households, million roubles**	Household deposits, million roubles**	Gross Regional Product (GRP) in 2009, billion roubles	Population, thousands	Average monthly per capita income in 2009, roubles	Institutional density of banking services (by population)	Financial density of banking services (by asset)	Financial density of banking services (by volume of loans)	Savings index (per capita deposits to incomes)	Composite banking services density index by region
1	2	3	4	5	6	7	8	9	10	11	12	13
SOUTHERN FEDERAL DISTRICT	**3,043**	**1,209,878**	**914,134**	**409,085**	**1,989**	**22,968**	**12,994**	**0.67**	**0.64**	**0.95**	**0.44**	**0.65**
Republic of Adygeya (Adygeya)	87	13,784	15,805	5,946	41	443	10,468	1.00	0.35	0.79	0.41	0.58
Republic of Kalmykia	44	7,792	9,574	2,661	24	283	7,097	0.79	0.34	0.83	0.42	0.55
Krasnodar Territory	1,318	414,149	393,166	178,741	858	5,161	13,815	1.29	0.51	0.95	0.80	0.84
Astrakhan Region	166	49,834	42,661	26,440	132	1,007	13,023	0.84	0.40	0.67	0.64	0.61
Volgograd Region	373	129,005	138,959	72,282	377	2,590	12,593	0.73	0.36	0.76	0.71	0.61
Rostov Region	1,055	327,522	313,970	123,016	556	4,230	12,890	1.26	0.62	1.17	0.72	0.90
NORTH-CAUCASIAN FEDERAL DISTRICT	**1,028**	**267,793**	**234,409**	**113,067**	**795**	**9,255**	**9,956**	**0.56**	**0.35**	**0.61**	**0.39**	**0.47**
Republic of Daghestan	249	37,852	22,980	13,025	265	2,737	13,806	0.46	0.15	0.18	0.11	0.19
Republic of Ingushetia	20	5,682	4,727	2,042	19	517	6,400	0.20	0.32	0.52	0.20	0.28
Kabardino-Balkaria Republic	97	28,728	24,156	10,160	66	894	9,582	0.55	0.45	0.75	0.38	0.52
Karachai-Cherkess Republic	44	14,578	17,207	3,782	39	427	10,147	0.52	0.40	0.92	0.28	0.48
Republic of North Ossetia — Alaniya	74	22,885	18,107	11,889	65	701	10,096	0.54	0.37	0.58	0.54	0.50
Chechen Republic	15	15,722	13,018	1,980	64	1,268	—	0.06	0.26	0.42	—	—
Stavropol Territory	529	142,345	134,214	70,190	277	2,711	11,461	0.99	0.54	1.00	0.72	0.79
VOLGA FEDERAL DISTRICT	**5,222**	**2,707,676**	**2,293,845**	**981,952**	**4,920**	**30,109**	**13,867**	**0.88**	**0.58**	**0.96**	**0.75**	**0.78**
Republic of Bashkortostan	745	321,982	242,897	103,235	646	4,066	16,096	0.93	0.52	0.78	0.50	0.66
Republic of Mari El	84	31,768	31,846	12,620	69	698	9,210	0.61	0.49	0.96	0.63	0.65
Republic of Mordovia	158	59,589	57,183	18,115	93	827	9,736	0.97	0.67	1.27	0.72	0.88
Republic of Tatarstan (Tatarstan)	733	546,263	431,934	145,500	884	3,779	15,858	0.98	0.65	1.01	0.78	0.84
Udmurt Republic	262	102,960	105,625	40,520	229	1,526	11,011	0.87	0.47	0.95	0.77	0.74
Chuvash Republic — Chuvashia	160	71,964	90,352	28,312	139	1,278	9,405	0.63	0.54	1.34	0.75	0.77
Perm Territory	514	256,017	294,114	98,889	545	2,701	17,572	0.96	0.49	1.12	0.67	0.77
Kirov Region	225	74,983	68,670	35,371	145	1,391	10,928	0.82	0.54	0.98	0.74	0.76
Nizhny Novgorod Region	591	335,302	283,394	137,675	546	3,324	14,444	0.90	0.65	1.07	0.92	0.87
Orenburg Region	348	99,393	119,128	51,871	415	2,113	11,588	0.84	0.25	0.59	0.68	0.54
Penza Region	201	58,458	59,583	32,944	151	1,373	11,557	0.74	0.41	0.82	0.66	0.64
Samara Region	595	554,629	327,998	170,128	579	3,170	18,218	0.95	1.01	1.17	0.94	1.01
Saratov Region	354	134,134	114,783	74,613	327	2,565	10,333	0.70	0.43	0.73	0.90	0.67
Ulyanovsk Region	252	60,235	66,339	32,160	153	1,299	10,770	0.98	0.41	0.90	0.74	0.72

END 7.1

	Number of credit institutions, branches, additional and operations offices	Assets, million roubles*	Loans and other funds extended to resident organisations and households, million roubles**	Household deposits, million roubles**	Gross Regional Product (GRP) in 2009, billion roubles	Population, thousands	Average monthly per capita income in 2009, roubles	Institutional density of banking services (by population)	Financial density of banking services (by asset)	Financial density of banking services (by volume of loans)	Savings index (per capita deposits to incomes)	Composite banking services density index by region
1	2	3	4	5	6	7	8	9	10	11	12	13
URALS FEDERAL DISTRICT	**2,402**	**1,573,126**	**1,294,469**	**558,990**	**4,397**	**12,280**	**19,848**	**0.99**	**0.38**	**0.61**	**0.73**	**0.64**
Kurgan Region	119	29,852	36,014	14,389	108	948	12,690	0.64	0.29	0.69	0.38	0.47
Sverdlovsk Region	890	722,516	569,685	205,559	824	4,394	19,244	1.03	0.92	1.43	0.78	1.01
Tyumen Region	770	554,952	412,463	227,261	2,900	3,430	27,553	1.14	0.20	0.29	0.77	0.48
Chelyabinsk Region	623	265,807	276,307	111,781	565	3,508	15,044	0.90	0.49	1.01	0.68	0.74
SIBERIAN FEDERAL DISTRICT	**3,693**	**1,448,713**	**1,360,022**	**524,506**	**3,390**	**19,561**	**13,491**	**0.96**	**0.45**	**0.83**	**0.64**	**0.69**
Republic of Altai	45	12,835	20,561	2,421	20	211	10,813	1.08	0.68	2.14	0.34	0.86
Republic of Buryatiya	239	44,666	41,488	15,481	125	963	13,011	1.26	0.38	0.69	0.40	0.60
Republic of Tyva	45	8,042	9,125	2,374	27	317	9,738	0.72	0.31	0.70	0.25	0.44
Republic of Khakassia	140	21,413	27,563	9,086	84	539	11,531	1.32	0.27	0.68	0.47	0.58
Altai Territory	396	142,334	142,222	49,381	268	2,491	9,611	0.81	0.56	1.10	0.66	0.76
Trans-Baikal Territory	242	32,027	36,369	18,314	148	1,117	12,591	1.10	0.23	0.51	0.42	0.48
Krasnoyarsk Territory	646	214,707	228,443	84,853	749	2,894	16,570	1.13	0.30	0.63	0.57	0.59
Irkutsk Region	495	161,710	192,021	68,195	456	2,503	13,511	1.00	0.37	0.87	0.65	0.68
Kemerovo Region	410	166,787	225,725	82,995	512	2,821	13,470	0.74	0.34	0.91	0.70	0.63
Novosibirsk Region	535	448,098	247,434	101,156	424	2,650	15,059	1.02	1.11	1.21	0.81	1.03
Omsk Region	282	126,236	115,839	54,679	336	2,012	13,814	0.71	0.39	0.71	0.63	0.60
Tomsk Region	218	69,857	73,233	35,569	242	1,044	13,777	1.06	0.30	0.62	0.79	0.63
FAR EASTERN FEDERAL DISTRICT	**1,387**	**546,837**	**504,220**	**280,746**	**1,731**	**6,440**	**18,262**	**1.09**	**0.33**	**0.60**	**0.76**	**0.64**
Republic of Sakha (Yakutia)	188	65,094	180,016	30,500	330	949	21,279	1.00	0.21	1.13	0.48	0.58
Kamchatka Territory	95	32,666	24,040	19,962	96	342	22,581	1.41	0.36	0.52	0.83	0.68
Primorsky Territory	409	150,712	99,727	80,011	368	1,982	15,140	1.05	0.43	0.56	0.85	0.68
Khabarovsk Territory	293	159,565	115,055	77,569	275	1,400	19,071	1.06	0.61	0.87	0.93	0.85
Amur Region	181	58,603	38,752	23,663	152	861	12,752	1.07	0.41	0.53	0.69	0.63
Magadan Region	50	21,626	14,952	11,661	48	161	24,165	1.57	0.47	0.64	0.96	0.82
Sakhalin Region	120	47,349	24,419	30,315	392	511	27,577	1.19	0.13	0.13	0.69	0.34
Jewish Autonomous Region	32	4,393	5,671	3,032	25	185	13,062	0.88	0.18	0.46	0.40	0.41
Chukchee Autonomous Area	19	6,829	1,588	4,033	45	49	35,079	1.98	0.16	0.07	0.76	0.36
TOTAL for the Russian Federation	**27,989**	**30,537,850**	**15,501,616**	**7,476,744**	**32,073**	**141,915**	**16,857**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**

** Calculation is based on consolidated balance sheets of head offices and branches located in corresponding regions.*
*** Based on data reported in Form 0409302.*

Density of banking services in Russian regions as of January 1, 2011

TABLE 7.2

	Number of credit institutions, branches, additional and operations offices	Assets, million roubles*	Loans and other funds extended to resident organisations and households, million roubles**	Household deposits, million roubles**	Gross Regional Product (GRP) in 2010, billion roubles (estimate)	Population, thousands (estimate)	Average monthly per capita income in 2010, roubles (estimate)	Institutional density of banking services (by population)	Financial density of banking services (by asset)	Financial density of banking services (by volume of loans)	Savings index (per capita deposits to incomes	Composite banking services density index by region
1	2	3	4	5	6	7	8	9	10	11	12	13
CENTRAL FEDERAL DISTRICT	**8,361**	**23,601,898**	**7,884,032**	**4,889,051**	**13,125**	**37,085**	**24,818**	**1.11**	**1.92**	**1.29**	**1.44**	**1.41**
For reference: CENTRAL FEDERAL DISTRICT without Moscow	*4,623*	*2,267,919*	*2,462,687*	*1,270,052*	*4,917*	*26,457*	*16,079*	*0.86*	*0.49*	*1.07*	*0.81*	*0.78*
Belgorod Region	233	172,587	258,462	68,009	349	1,530	16,594	0.75	0.53	1.59	0.72	0.82
Bryansk Region	156	50,039	48,189	36,360	145	1,282	12,924	0.60	0.37	0.71	0.59	0.55
Vladimir Region	252	95,065	85,533	69,773	216	1,421	12,587	0.87	0.47	0.85	1.06	0.78
Voronezh Region	351	276,811	172,908	123,149	347	2,251	13,125	0.76	0.85	1.07	1.13	0.94
Ivanovo Region	203	55,763	53,971	42,283	99	1,059	10,649	0.94	0.60	1.16	1.02	0.90
Kaluga Region	227	79,669	78,981	49,237	180	997	15,324	1.12	0.47	0.94	0.87	0.81
Kostroma Region	142	57,339	37,055	27,192	90	684	12,191	1.02	0.68	0.88	0.88	0.86
Kursk Region	198	84,273	104,850	39,813	185	1,142	14,236	0.85	0.48	1.21	0.66	0.76
Lipetsk Region	200	99,984	107,815	57,796	260	1,152	15,976	0.85	0.41	0.89	0.85	0.72
Moscow Region	1,204	754,084	902,006	420,246	1,755	6,781	22,891	0.87	0.46	1.10	0.73	0.75
Orel Region	133	39,042	67,243	29,186	103	807	12,475	0.81	0.40	1.40	0.78	0.77
Ryazan Region	183	78,879	82,055	49,353	175	1,143	12,812	0.78	0.48	1.00	0.91	0.77
Smolensk Region	168	64,210	73,011	38,136	144	957	14,967	0.86	0.48	1.09	0.72	0.75
Tambov Region	156	47,272	60,589	32,390	153	1,079	13,665	0.71	0.33	0.85	0.59	0.59
Tver Region	204	79,261	74,227	52,101	227	1,348	13,755	0.74	0.37	0.70	0.76	0.62
Tula Region	267	114,986	131,153	66,408	245	1,525	15,504	0.86	0.50	1.15	0.76	0.78
Yaroslavl Region	346	118,655	124,638	68,620	244	1,300	13,868	1.30	0.52	1.09	1.03	0.93
Moscow	3,738	21,333,979	5,421,346	3,618,999	8,208	10,628	46,576	1.72	2.77	1.42	1.98	1.91
NORTH-WESTERN FEDERAL DISTRICT	**3,282**	**2,639,040**	**1,906,641**	**1,103,957**	**3,906**	**13,409**	**20,016**	**1.20**	**0.72**	**1.05**	**1.11**	**1.00**
Republic of Karelia	153	46,283	47,761	25,442	122	681	15,028	1.10	0.40	0.84	0.67	0.71
Komi Republic	188	82,141	53,412	54,863	346	943	21,827	0.98	0.25	0.33	0.72	0.49
Arkhangelsk Region	228	101,865	82,586	62,488	370	1,245	18,673	0.90	0.29	0.48	0.73	0.55
Vologda Region	359	122,670	109,806	58,168	244	1,209	13,290	1.46	0.54	0.96	0.98	0.93
Kaliningrad Region	236	108,385	127,464	55,402	195	938	15,956	1.23	0.59	1.40	1.00	1.01
Leningrad Region	346	79,510	152,587	56,747	488	1,625	14,748	1.04	0.17	0.67	0.64	0.53
Murmansk Region	214	77,606	58,130	55,678	231	830	23,437	1.26	0.36	0.54	0.77	0.66
Novgorod Region	162	44,433	51,123	20,966	135	635	14,955	1.25	0.35	0.81	0.60	0.68
Pskov Region	155	33,352	33,895	18,666	85	679	12,435	1.12	0.42	0.85	0.60	0.70
Saint Petersburg	1,241	1,942,796	1,189,878	695,537	1,690	4,624	26,435	1.32	1.23	1.51	1.54	1.39

CONT. 7.2

	Number of credit institutions, branches, additional and operations offices	Assets, million roubles*	Loans and other funds extended to resident organisations and households, million roubles**	Household deposits, million roubles**	Gross Regional Product (GRP) in 2010, billion roubles (estimate)	Population, thousands (estimate)	Average monthly per capita income in 2010, roubles (estimate)	Institutional density of banking services (by population)	Financial density of banking services (by asset)	Financial density of banking services (by volume of loans)	Savings index (per capita deposits to incomes	Composite banking services density index by region
1	2	3	4	5	6	7	8	9	10	11	12	13
SOUTHERN FEDERAL DISTRICT	**3,097**	**1,089,602**	**1,069,294**	**541,020**	**2,281**	**22,959**	**15,108**	**0.66**	**0.51**	**1.00**	**0.42**	**0.61**
Republic of Adygeya (Adygeya)	90	17,062	18,675	7,841	48	443	12,319	1.00	0.38	0.84	0.39	0.59
Republic of Kalmykia Republic of Kalmykia	46	6,600	11,085	3,772	27	283	7,888	0.80	0.26	0.87	0.46	0.53
Krasnodar Territory	1,345	502,109	485,617	235,533	983	5,179	16,747	1.27	0.54	1.06	0.74	0.86
Astrakhan Region	173	57,543	48,526	34,007	152	1,007	14,151	0.84	0.40	0.69	0.65	0.62
Volgograd Region	378	143,197	150,714	93,547	433	2,578	14,332	0.72	0.35	0.75	0.69	0.60
Rostov Region	1,065	363,090	354,678	166,322	638	4,214	14,574	1.24	0.61	1.19	0.73	0.90
NORTH-CAUCASIAN FEDERAL DISTRICT	**1,097**	**318,217**	**282,098**	**149,632**	**912**	**9,324**	**11,821**	**0.58**	**0.37**	**0.66**	**0.37**	**0.48**
Republic of Daghestan	266	49,518	34,436	18,800	304	2,763	16,404	0.47	0.17	0.24	0.11	0.22
Republic of Ingushetia	21	7,318	6,318	2,085	21	527	7,708	0.20	0.36	0.63	0.14	0.28
Kabardino-Balkaria Republic	98	33,188	33,321	13,939	76	895	11,004	0.54	0.46	0.94	0.38	0.55
Karachai-Cherkess Republic	45	18,009	23,260	6,158	44	426	11,621	0.52	0.43	1.13	0.34	0.54
Republic of North Ossetia — Alaniya	76	26,949	23,207	15,891	75	701	14,938	0.53	0.38	0.67	0.41	0.49
Chechen Republic	54	19,025	15,023	3,044	73	1,297	—	0.20	0.28	0.44	—	—
Stavropol Territory	537	164,211	146,533	89,715	318	2,713	13,102	0.97	0.55	0.99	0.68	0.77
VOLGA FEDERAL DISTRICT	**5,409**	**3,036,580**	**2,505,200**	**1,304,856**	**5,642**	**30,025**	**15,426**	**0.88**	**0.57**	**0.95**	**0.76**	**0.78**
Republic of Bashkortostan	771	354,103	296,228	137,147	740	4,070	17,925	0.93	0.51	0.86	0.51	0.67
Republic of Mari El	83	35,309	39,797	17,234	79	695	10,267	0.59	0.48	1.08	0.65	0.67
Republic of Mordovia	165	65,704	62,840	24,748	106	819	10,945	0.99	0.66	1.26	0.75	0.88
Republic of Tatarstan (Tatarstan)	752	611,623	476,158	197,087	1,014	3,782	17,937	0.97	0.64	1.01	0.79	0.84
Udmurt Republic	264	102,546	110,143	50,912	263	1,524	12,422	0.85	0.42	0.90	0.73	0.69
Chuvash Republic — Chuvashia	167	72,887	91,568	38,430	160	1,276	10,871	0.64	0.49	1.23	0.75	0.73
Perm Territory	535	262,519	292,148	126,035	624	2,695	18,342	0.97	0.45	1.00	0.69	0.74
Kirov Region	233	86,250	74,513	49,413	166	1,381	12,663	0.83	0.55	0.96	0.76	0.76
Nizhny Novgorod Region	613	400,845	339,668	181,783	626	3,304	15,966	0.91	0.68	1.16	0.93	0.91
Orenburg Region	362	113,495	126,180	68,007	475	2,109	13,118	0.84	0.25	0.57	0.67	0.53
Penza Region	216	67,314	68,414	44,512	173	1,365	12,797	0.78	0.41	0.85	0.69	0.66
Samara Region	620	630,990	315,091	222,209	664	3,164	19,707	0.96	1.01	1.02	0.96	0.99
Saratov Region	370	159,126	125,682	98,432	375	2,553	12,079	0.71	0.45	0.72	0.86	0.67
Ulyanovsk Region	258	73,867	86,768	48,907	175	1,289	12,136	0.98	0.45	1.06	0.85	0.79

END 7.2

	Number of credit institutions, branches, additional and operations offices	Assets, million roubles*	Loans and other funds extended to resident organisations and households, million roubles**	Household deposits, million roubles**	Gross Regional Product (GRP) in 2010, billion roubles (estimate)	Population, thousands (estimate)	Average monthly per capita income in 2010, roubles (estimate)	Institutional density of banking services (by population)	Financial density of banking services (by asset)	Financial density of banking services (by volume of loans)	Savings index (per capita deposits to incomes	Composite banking services density index by region
1	2	3	4	5	6	7	8	9	10	11	12	13
URALS FEDERAL DISTRICT	**2,488**	**1,802,759**	**1,430,525**	**730,745**	**5,042**	**12,302**	**21,350**	**0.99**	**0.38**	**0.61**	**0.75**	**0.64**
Kurgan Region	126	32,108	39,525	19,195	124	941	14,092	0.66	0.28	0.68	0.39	0.47
Sverdlovsk Region	906	824,789	605,458	271,746	945	4,394	21,110	1.01	0.93	1.37	0.79	1.01
Tyumen Region	811	643,979	455,810	293,779	3,325	3,460	28,075	1.15	0.21	0.29	0.82	0.49
Chelyabinsk Region	645	301,883	329,732	146,025	648	3,507	17,036	0.90	0.50	1.09	0.66	0.75
SIBERIAN FEDERAL DISTRICT	**3,773**	**1,638,183**	**1,557,463**	**707,385**	**3,888**	**19,557**	**14,601**	**0.95**	**0.45**	**0.86**	**0.67**	**0.70**
Republic of Altai	47	9,423	21,204	3,724	23	213	12,822	1.08	0.44	2.00	0.37	0.77
Republic of Buryatiya	240	51,513	51,490	22,102	143	965	14,336	1.22	0.38	0.77	0.43	0.63
Republic of Tyva	45	8,881	9,786	3,103	31	320	10,670	0.69	0.31	0.68	0.25	0.43
Republic of Khakassia	145	20,961	28,467	12,266	96	539	13,490	1.32	0.23	0.63	0.46	0.55
Altai Territory	397	162,634	171,703	70,301	307	2,481	10,678	0.78	0.56	1.20	0.72	0.79
Trans-Baikal Territory	262	42,899	46,289	25,122	170	1,115	14,038	1.15	0.27	0.58	0.43	0.53
Krasnoyarsk Territory	678	236,272	247,046	113,367	858	2,897	17,188	1.15	0.29	0.62	0.62	0.60
Irkutsk Region	501	194,549	213,650	92,559	522	2,499	14,594	0.98	0.40	0.88	0.69	0.70
Kemerovo Region	416	189,085	286,597	111,042	588	2,813	15,065	0.72	0.34	1.05	0.71	0.66
Novosibirsk Region	525	517,801	277,186	136,422	486	2,657	15,998	0.97	1.13	1.22	0.87	1.04
Omsk Region	295	129,070	123,591	70,881	386	2,008	14,647	0.72	0.36	0.69	0.65	0.58
Tomsk Region	222	75,096	80,455	46,496	278	1,049	14,886	1.04	0.29	0.62	0.81	0.62
FAR EASTERN FEDERAL DISTRICT	**1,424**	**707,529**	**529,010**	**377,209**	**1,985**	**6,412**	**20,677**	**1.09**	**0.38**	**0.57**	**0.77**	**0.65**
Republic of Sakha (Yakutia)	193	71,215	139,727	40,157	378	950	23,134	1.00	0.20	0.79	0.49	0.53
Kamchatka Territory	103	39,653	28,502	26,563	110	342	26,732	1.48	0.39	0.56	0.79	0.71
Primorsky Territory	414	194,830	129,516	109,483	422	1,971	17,472	1.03	0.49	0.66	0.86	0.73
Khabarovsk Territory	296	202,801	124,843	103,758	315	1,396	21,930	1.04	0.69	0.85	0.92	0.86
Amur Region	189	74,893	48,012	33,395	174	856	14,512	1.08	0.46	0.59	0.73	0.68
Magadan Region	50	54,298	19,414	15,502	55	159	26,409	1.54	1.05	0.75	1.00	1.05
Sakhalin Region	126	59,929	29,376	40,182	450	507	30,507	1.22	0.14	0.14	0.70	0.36
Jewish Autonomous Region	34	5,217	5,989	4,177	29	184	14,345	0.90	0.19	0.44	0.43	0.43
Chukchee Autonomous Area	19	4,694	3,631	3,992	52	48	35,602	1.95	0.10	0.15	0.63	0.36
TOTAL for the Russian Federation	**28,931**	**34,515,591**	**17,164,263**	**9,803,855**	**36,780**	**141,818**	**18,712**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**

** Calculation is based on consolidated balance sheets of head offices and branches located in corresponding regions.*
*** Based on data reported in Form 0409302.*

Categorised performance indicators on credit institutions with foreign interest relative to indicators on operating credit institutions (%)

TABLE 8

	1.01.07	1.01.08	1.01.09	1.01.10	1.01.11
Credit institutions with a 50%-plus foreign stake in authorised capital					
Assets	12.1	17.2	18.7	18.3	18.0
Capital	12.7	15.7	17.3	17.0	19.1
Correspondent accounts with non-resident banks	24.0	23.2	17.0	15.6	20.3
Loans and other placements with non-financial organisations	9.9	15.5	16.6	14.8	15.1
Loans and other funds provided to households	14.5	19.4	23.3	25.1	25.7
Loans, deposits and other funds provided to credit institutions	22.5	22.2	25.0	31.7	25.1
Household deposits	6.2	8.9	10.3	12.0	11.5
Funds raised from organisations*	13.1	17.8	18.8	18.5	17.6
Current-year profits (losses)	10.9	16.4	19.7	29.8	20.7
For reference:					
Number of credit institutions, units	65	86	102	108	111
of which: wholly foreign-owned credit institutions					
Assets	9.0	11.6	13.0	11.3	11.0
Capital	10.1	11.1	12.2	11.0	12.1
Correspondent accounts with non-resident banks	8.5	15.6	12.1	9.0	9.2
Loans and other placements with non-financial organisations	7.8	10.7	11.6	9.1	9.2
Loans and other funds provided to households	9.5	12.4	15.4	15.6	14.9
Loans, deposits and other funds provided to credit institutions	18.4	18.6	21.6	23.8	20.0
Household deposits	4.1	5.0	5.4	6.2	5.3
Funds raised from organisations*	8.9	10.9	12.6	11.1	11.0
Current-year profits (losses)	8 .2	10.7	14.8	27.4	15.1
For reference:					
Number of credit institutions, units	52	63	76	82	80

* These include deposits, government and other extra-budgetary funds, funds of the Ministry of Finance, fiscal authorities, individual unincorporated entrepreneurs, and customers in factoring and forfeiting operations, certificates of deposit, float, and funds written off from customer accounts but not passed through a credit institution's correspondent account (net of funds raised from credit institutions).

Credit institutions' assets grouped by investment (billion roubles)

TABLE 9

		1.01.10	1.04.10	1.07.10	1.10.10	1.01.11
1	Money, precious metals and gemstones, total	795.8	621.8	645.6	684.9	912.6
1.1	of which: money	747.0	584.9	607.1	640.6	862.4
2	Accounts with the Bank of Russia and authorised bodies of other countries, total	1,755.2	1,231.4	1,415.5	1,290.5	1,809.0
	of which:					
2.1	Credit institutions' correspondent accounts with the Bank of Russia	1,060.8	582.1	589.0	572.3	974.8
2.2	Credit institutions' required reserves transferred to the Bank of Russia	151.2	167.7	175.5	182.1	187.8
2.3	Deposits and other funds deposited with the Bank of Russia	535.3	469.6	637.0	519.4	633.2
3	Correspondent accounts with credit institutions, total	839.2	775.3	634.9	721.3	853.6
	of which:					
3.1	Correspondent accounts with correspondent credit institutions	171.7	129.1	128.9	130.6	164.3
3.2	Correspondent accounts with non-resident banks	667.6	646.3	506.0	590.7	689.3
4	Securities acquired by credit institutions, total	4,309.4	4,981.0	5,308.4	5,562.8	5,829.0
	of which:					
4.1	Debt obligations	3,379.1	3,885.6	4,082.5	4,190.7	4,419.9
4.2	Equities	411.8	493.2	573.2	674.8	710.9
4.3	Discounted bills	234.0	320.3	360.8	384.3	330.0
4.4	Shares of subsidiaries and affiliated joint-stock companies	284.5	281.9	291.8	313.0	368.2
5	Other stakes in authorised capital	72.6	111.7	113.7	117.0	132.1
6	Loans, total	19,878.4	19,757.2	20,395.6	21,357.5	22,166.7
	of which:					
6.1	Loans, deposits and other placements	19,847.1	19,726.6	20,365.9	21,331.1	22,140.2
	of which: overdue debt	1,014.7	1,041.9	1,104.1	1,113.7	1,035.9
	of which:					
6.1.1	Loans and other placements with non-financial organisations	12,541.7	12,424.0	13,032.3	13,629.4	14,062.9
	of which: overdue debt	762.5	770.9	817.5	818.4	743.4
6.1.2	Loans and other funds extended to individuals	3,573.8	3,536.3	3,672.4	3,871.6	4,084.8
	of which: overdue debt	243.0	261.2	274.7	288.6	282.3
6.1.3	Loans, deposits and other placements with credit institutions	2,725.9	2,779.5	2,709.4	2,859.5	2,921.1
	of which: overdue debt	1.9	1.7	5.1	1.1	4.6
7	Fixed and intangible assets and inventories	790.7	787.8	812.7	825.0	864.6
8	Disposition of profits	71.4	47.5	77.8	100.0	132.1
8.1	of which: profits tax	68.4	47.4	77.7	92.2	122.7
9	Other assets, total	917.4	970.5	1,012.6	1,062.8	1,105.0
	of which:					
9.1	Float	434.3	439.1	439.6	435.1	524.6
9.2	Debtors	125.8	134.8	144.8	173.1	154.5
9.3	Deferred expenses	74.4	76.3	73.7	76.0	77.9
Total assets		**29,430.0**	**29,284.2**	**30,416.7**	**31,721.7**	**33,804.6**

Credit institutions' liabilities grouped by source of funds (billion roubles)

TABLE 10

	Liabilities	1.01.10	1.04.10	1.07.10	1.10.10	1.01.11
1	Credit institutions' funds and profits, total	3,766.4	3,870.2	3,905.8	4,076.6	4,339.1
	of which:					
1.1	Funds,	2,432.8	2,511.3	2,492.8	2,542.4	2,599.6
1.2	Profits (losses), including previous-year financial results	1,333.5	1,358.9	1,413.0	1,534.2	1,739.5
	of which:					
1.2.1	Current-year profits (losses)	205.1	116.7	249.6	359.7	573.4
2	Loans, deposits and other funds received by credit institutions from the Bank of Russia	1,423.1	685.9	510.3	373.4	325.7
3	Credit Institutions' accounts, total	273.1	184.4	215.2	266.7	255.7
	of which:					
3.1	Correspondent credit institutions' correspondent accounts	168.0	125.8	128.7	130.7	154.4
3.2	Non-resident banks' correspondent accounts	97.1	53.1	77.4	115.3	93.9
4	Loans, deposits and other funds received from other credit institutions, total	3,117.3	3,097.6	3,237.7	3,461.8	3,754.9
5	Customer funds, total*	17,131.4	17,487.8	18,487.1	19,314.0	21,080.9
	of which:					
5.1	Budget funds in settlement accounts	20.4	37.2	31.5	34.2	32.7
5.2	Government and extra-budgetary funds in settlement accounts	13.7	21.2	19.4	19.6	12.0
5.3	Organisations' funds in settlement and other accounts	3,857.4	4,050.9	4,280.4	4,510.0	4,845.1
5.4	Customer float	209.7	232.0	239.3	257.4	220.6
5.5	Deposits and other funds raised by corporate entities other than credit institutions	5,466.6	5,275.1	5,396.4	5,518.2	6,035.6
5.6	Household deposits	7,485.0	7,797.7	8,435.3	8,879.3	9,818.0
5.7	Customer funds in factoring and forfeiting operations	10.1	8.1	8.2	10.4	15.7
6	Bonds	412.7	426.6	425.7	479.4	537.9
7	Bills and bank acceptances	748.6	808.4	809.0	838.8	797.3
8	Other liabilities, total	2,557.4	2,723.4	2,825.9	2,911.0	2,713.0
	of which:					
8.1	Provisions	2,050.6	2,144.2	2,241.2	2,311.1	2,192.0
8.2	Float	257.9	296.8	283.2	273.5	255.1
8.3	Creditors	45.2	45.2	71.4	68.7	44.7
8.4	Deferred income	4.9	4.3	4.5	4.7	5.5
8.5	Accrued interest and interest/coupon liabilities on securities	198.9	232.9	225.5	253.1	215.7
	of which:					
	Overdue interest	0.0	0.0	0.1	0.7	0.0
Total liabilities		**29,430.0**	**29,284.2**	**30,416.7**	**31,721.7**	**33,804.6**

* Including certificates of deposit and savings certificates.

TABLE 11

Major characteristics of banking sector lending operations (billion roubles)

	Roubles					Foreign currency					Total				
	1.01.10	1.04.10	1.07.10	1.10.10	1.01.11	1.01.10	1.04.10	1.07.10	1.10.10	1.01.11	1.01.10	1.04.10	1.07.10	1.10.10	1.01.11
1. Loans, deposits and other placements, total	**13,872.8**	**13,986.0**	**14,461.8**	**15,167.2**	**16,099.2**	**5,974.4**	**5,740.6**	**5,904.2**	**6,163.9**	**6,041.0**	**19,847.1**	**19,726.6**	**20,365.9**	**21,331.1**	**22,140.2**
of which:															
– overdue debt	835.1	871.6	921.3	942.9	886.2	179.6	170.2	182.8	170.8	149.7	1,014.7	1,041.9	1,104.1	1,113.7	1,035.9
1.1. Loans and other placements with resident non-financial organisations	**8,812.6**	**8,833.2**	**9,205.4**	**9,675.8**	**10,085.6**	**2,954.8**	**2,815.9**	**2,945.8**	**2,877.8**	**2,758.2**	**11,767.4**	**11,649.1**	**12,151.2**	**12,553.6**	**12,843.8**
including															
– overdue debt	599.0	620.1	671.9	682.8	635.5	123.0	124.4	128.3	120.9	98.6	722.0	744.5	800.2	803.7	734.1
of which:															
1.1.1. Loans and other funds to individual unincorporated entrepreneurs	269.7	268.3	282.8	296.5	315.2	6.4	6.4	6.8	6.8	6.3	276.2	274.7	289.6	303.3	321.4
of which:															
– overdue debt	21.9	24.5	26.6	27.9	28.1	0.3	0.3	0.4	0.4	0.5	22.2	24.8	27.0	28.4	28.6
1.2. Loans and other placements with non-resident corporate entities, other than banks	**308.1**	**311.4**	**311.2**	**258.3**	**319.1**	**466.3**	**463.6**	**569.9**	**817.5**	**900.0**	**774.3**	**775.0**	**881.1**	**1,075.8**	**1,219.1**
of which:															
– overdue debt	19.2	16.5	7.0	6.9	2.8	21.3	9.9	10.3	7.7	6.5	40.6	26.5	17.3	14.6	9.3

CONT. 11

	Roubles					Foreign currency					Total				
	1.01.10	1.04.10	1.07.10	1.10.10	1.01.11	1.01.10	1.04.10	1.07.10	1.10.10	1.01.11	1.01.10	1.04.10	1.07.10	1.10.10	1.01.11
1.3. Loans, deposits and other placements with financial sector	**827.5**	**949.4**	**1,004.5**	**1,132.8**	**1,280.7**	**313.0**	**286.5**	**345.1**	**392.1**	**395.9**	**1,140.5**	**1,235.8**	**1,349.6**	**1,524.9**	**1,676.7**
including															
– overdue debt	7.2	8.0	7.0	5.8	9.5	0.8	0.9	3.8	0.7	0.6	8.0	8.9	10.9	6.5	10.0
of which:															
1.3.1. Loans, deposits and other placements with resident credit institutions	562.2	673.8	740.1	843.3	911.6	240.9	217.2	262.7	282.4	298.1	803.0	891.0	1,002.7	1,125.7	1,209.7
of which:															
– overdue debt	0.9	0.9	0.9	0.9	4.4	0.1	0.1	3.2	0.0	0.0	0.9	0.9	4.2	0.9	4.4
1.3.2. Loans, deposits and other placements with resident financial organisations of different forms of ownership	265.3	275.6	264.4	289.5	369.2	72.1	69.2	82.4	109.7	97.8	337.5	344.8	346.8	399.2	467.0
of which:															
– overdue debt	6.4	7.1	6.1	4.9	5.1	0.7	0.8	0.6	0.7	0.6	7.1	7.9	6.7	5.6	5.6
1.4. Loans, deposits and other placements with non-resident banks	**208.5**	**208.6**	**156.8**	**141.9**	**190.2**	**1,714.4**	**1,679.8**	**1,549.9**	**1,591.9**	**1,521.2**	**1,922.9**	**1,888.4**	**1,706.7**	**1,733.8**	**1,711.4**
of which:															
– overdue debt	0.2	0.1	0.1	0.1	0.1	0.8	0.6	0.8	0.0	0.0	1.0	0.7	0.9	0.2	0.1

END 11

	Roubles					Foreign currency					Total				
	1.01.10	1.04.10	1.07.10	1.10.10	1.01.11	1.01.10	1.04.10	1.07.10	1.10.10	1.01.11	1.01.10	1.04.10	1.07.10	1.10.10	1.01.11
1.5. Loans and other funds placed with government fiscal authorities and extra-budgetary funds	**230.0**	**227.9**	**205.0**	**194.2**	**261.7**	**0.1**	**0.1**	**0.0**	**0.0**	**0.4**	**230.1**	**228.0**	**205.0**	**194.2**	**262.1**
of which:															
– overdue debt	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.0	0.0
1.6. Loans and other funds extended to resident individuals	**3,168.0**	**3,157.1**	**3,284.4**	**3,500.8**	**3,722.7**	**395.6**	**367.8**	**375.4**	**358.1**	**348.8**	**3,563.6**	**3,524.9**	**3,659.8**	**3,858.9**	**4,071.4**
of which:															
– overdue debt	209.3	226.7	235.1	247.0	238.2	33.5	34.1	39.2	41.1	43.6	242.8	260.8	274.3	288.1	281.7
1.7. Loans and other funds extended to non-resident individuals	**1.9**	**1.9**	**2.0**	**2.0**	**2.5**	**8.3**	**9.5**	**10.6**	**10.7**	**10.8**	**10.2**	**11.4**	**12.6**	**12.7**	**13.4**
of which:															
– overdue debt	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.2	0.4	0.5	0.5	0.6
For reference:															
Provisions for loans, deposits and other placements	1,820.6	1,894.3	1,970.6	2,027.1	1,904.2	0.0	0.0	0.0	0.0	0.0	1,820.6	1,894.3	1,970.6	2,027.1	1,904.2
Overdue interest on loans, deposits and other placements recorded in balance sheet accounts	42.3	44.8	48.7	49.8	39.7	9.0	8.5	9.9	9.3	6.3	51.3	53.2	58.6	59.2	46.0
Bank portfolios of resident bills	210.1	296.7	334.5	363.6	308.7	21.4	21.2	22.7	16.6	17.1	231.6	317.9	357.3	380.3	325.8
Bank portfolios of non-resident bills	0.7	0.7	1.7	2.3	2.4	1.7	1.7	1.8	1.8	1.8	2.5	2.4	3.5	4.0	4.2

TABLE 12

Quantitative and qualitative characteristics of supervisors of the Bank of Russia head office and regional branches (based on Form 1-K data as of January 1, 2011)

	Total number of job titles as of January 1, 2011	Total number of employees as of January 1, 2011 (excluding employed under fixed-term contract and part-timers)	of whom							
			age			educational status		duration of work in banking system		women
			under 30 years (born in 1981 and later)	50 years and more (born in 1961 and earlier)	of whom women aged 55 years and more and men aged 60 years and more	higher education	secondary vocational training	up to 3 years	15 years and more	
Head office										
Credit Institution Licensing and Financial Rehabilitation Department	145	141	17	37	18	138	3	7	66	107
Banking Regulation and Supervision Department	190	185	32	65	31	182	2	27	78	121
Main Inspectorate of Credit Institutions	278	262	35	67	33	255	7	17	121	169
Financial Monitoring and Foreign Exchange Control Department	111	106	16	27	14	102	1	8	42	63
Head office total	**724**	**694**	**100**	**196**	**96**	**677**	**13**	**59**	**307**	**460**
Regional branches										
Financial Monitoring and Foreign Exchange Control Division (Department, Section)	597.5	588	73	116	42	581	7	32	346	409
Division (Department) for Supervision of Credit Institutions	1,283	1,258	133	278	108	1,235	22	72	805	1,041
Division (Department, Section) for Inspection of Credit Institutions	661	657	97	157	59	652	3	40	379	339
Division (Department) for Licensing of Credit Institutions	354	348	44	83	30	342	6	17	213	295
Moscow branch divisions	794	794	223	134	73	733	48	110	289	587
Regional branches total	**3,689.5**	**3,645**	**570**	**768**	**312**	**3,543**	**86**	**271**	**2,032**	**2,671**
Bank of Russia total	**4,413.5**	**4,339**	**670**	**964**	**408**	**4,220**	**99**	**330**	**2,339**	**3,131**