

Registration of Credit Institutions and the Licensing of Banking Activities

The procedures for registering credit institutions and licensing banking operations, verifying the legitimacy of shareholding and payment of the authorised capital of credit institutions, controlling the acquisition of blocks of shares (stakes) in credit institutions (more than 1% of authorised capital) and assessing transparency of the ownership structure of banks participating in the deposit insurance system are regulated by the Federal Law “On the State Registration of Corporate Entities and Unincorporated Entrepreneurs,” the Federal Law “On the Central Bank of the Russian Federation (Bank of Russia),” the Federal Law “On Banks and Banking Activities,” the Federal Law “On Joint-Stock Companies,” the Federal Law “On Limited Liability Companies,” the Federal Law “On the Insurance of Household Deposits with Russian Banks,” the Federal Law “On the Use of Russian Government Securities for Increasing the Capitalisation of Banks,” Bank of Russia Instruction No. 135-I of April 2, 2010, “On the Procedure for the Bank of Russia to Take a Decision on the State Registration of Credit Institutions and on the Issue of Licences to Conduct Banking Operations,” Bank of Russia Instruction No. 128-I of March 10, 2006, “On the Rules of the Issue and Registration of Securities by Credit Institutions in the Russian Federation,” Bank of Russia Regulation No. 437 of April 23, 1997, “On the Specifics of Registration of Credit Institutions with Foreign Investments and the Procedure for Obtaining Bank of Russia Prior Permission to Increase the Authorised Capital of a Credit Institution by Using Non-Resident Funds,” Bank of Russia Regulation No. 153-P of September 21, 2001, “On the Specifics of Prudential Regulation of Non-Bank Credit Institutions Conducting Deposit and Lending Operations,” Bank of Russia Instruction No. 129-I of April 26, 2006, “On Banking Operations and Other Transactions by Non-Bank Settlement Credit Institutions, Required Ratios for Non-Bank Settlement Credit Institutions and the Specifics of Bank of Russia Supervision of their Compliance,” Bank of Russia Regulation No. 230-P of June 4, 2003, “On the Reorganisation of Credit Institutions by Merger and Acquisition,” Bank of Russia Instruction No. 130-I of February 21, 2007, “On the Procedure for Obtaining Bank of Russia Prior Permission to Acquire and (or) Receive in Trust Shares (Stakes) in a Credit Institution,” Bank of Russia Regulation No. 337-P of June 19, 2009, “On the Procedure and Criteria for Assessing the Financial Standing of Corporate Founders (Members) of a Credit Institution,” Bank of Russia Regulation No. 338-P of June 19, 2009, “On the Procedure and Criteria for Assessing the Financial Position of Individual Founders (Members) of a Credit Institution,” Bank of Russia Regulation No. 345-P of October 27, 2009, “On the Procedure for Disclosing Information on the Bank of Russia Website on Parties Exerting Material (Direct or Indirect) Influence on Decisions Taken by the Management Bodies of the Banks Participating in the System of the Insurance of Household Deposits with Russian Banks,” Bank of Russia Regulation No. 290-P of July 4, 2006, “On the Procedure for the Bank of Russia to Issue Permits to Credit Institutions Allowing for the Operation of Subsidiaries in a Foreign State,” Bank of Russia Ordinance No. 1186-U of August 14, 2002, “On the Payment of the Authorised Capital of Credit Institutions from Budgets of All Levels, Government Extra-Budgetary Funds, Free Funds and Other Properties Owned by Federal and Local Governments,” Bank of Russia Ordinance No. 513-U of March 19, 1999, “On the Procedure for Paying up the Authorised Capital of Credit Institutions in Foreign Currency and Making the Accounting of Corresponding Operations,” Bank of Russia Ordinance No. 1176-U of July 5, 2002, “On Business Plans of Credit Institutions,” Bank of Russia Ordinance No. 1292-U of June 19, 2003, “On the Procedure for a Non-Bank Credit Institution to Submit Documents to the Bank of Russia for the Latter to Take a Decision on Granting a Non-Bank Credit Institution the Status of a Bank,” Bank of Russia Ordinance No. 1807-U of March 27, 2007, “On the Procedure for the Bank of Russia to Take a Decision on the State Registration of Changes Made to Articles of a Bank and the Issue of a Banking Licence in Connection with the Receipt of the Bank’s Request to Change its Status to that of a Non-Bank Credit Institution,” Bank of Russia Ordinance No. 1379-U of January 16, 2004, “On

the Assessment of the Financial Soundness of a Bank for Ascertaining its Sufficiency for the Participation in the Deposit Insurance System,” and other Bank of Russia regulations.

Credit institutions are set up as economic entities in the form of banks or non-bank credit institutions.

A bank is a credit institution having the exclusive right to conduct all of the following banking operations: to take personal and corporate funds on deposit, to place these funds on its own behalf and at its own expense on a collectible and serviceable basis for a specified period of time and open and keep personal and corporate bank accounts.

A non-bank credit institution is:

1) a credit institution having the right to conduct exclusively banking operations stipulated in Point 3 and Point 4 (only with regard to corporate bank accounts for money transfers without opening bank accounts), and also in Point 5 (only with regard to money transfers without opening bank accounts) and Point 9 of Part 1 of Article 5 of the Federal Law “On Banks and Banking Activities;”

2) a credit institution having the right to conduct individual banking operations stipulated by the Federal Law “On Banks and Banking Activities.” The permissible combinations of banking operations for non-bank credit institutions are established by the Bank of Russia.

Banking operations that credit institutions may conduct under licence are listed in Part 1 of Article 5 of the Federal Law “On Banks and Banking Activities.”

The Bank of Russia takes decisions on issues relating to the state registration of credit institutions, for the purpose of control and supervision keeps the State Register of Credit Institutions, issues banking licences to credit institutions, registers credit institutions’ issues (additional issues) of securities, receives and analyses acquirers’ notifications of acquisition of more than 1% of shares (stakes) in credit institutions, assesses the financial situation of credit institutions’ founders, affiliated parties (in case they acquire shares (stakes) in credit institutions when the authorised capital of a credit institution is enlarged) and persons (groups of persons) intending to acquire more than 20% of shares (stakes) in credit institutions, gives prior permission to buy over 20% of shares (stakes) in credit institutions, verifies the legitimacy of shareholding and payment of the authorised capital of credit institutions, monitors compliance by banks participating in the deposit insurance system with requirements set for the participation in this system, prohibits banks that have failed to comply with the deposit insurance system requirements or posed a threat to the interests of creditors and depositors from taking personal funds on deposit or opening personal bank accounts and makes sure that credit institutions issuing securities submit to the Bank of Russia as a registration authority quarterly reports on securities and notify it about all material facts and that credit institutions properly draw up and submit to it in due time the lists of affiliated parties.

The requirements for the contents of a credit institution’s articles of association are established by Article 10 of the Federal Law “On Banks and Banking Activities.” The articles of association of a credit institution should contain its full and abbreviated business name in the Russian language, and also all other business names indicated in Article 7 of the Federal Law “On Banks and Banking Activities;” the form of incorporation; the address (location) of management bodies and separate divisions; the list of banking operations and transactions conducted under Article 5 of the Federal Law “On Banks and Banking Activities;” the size of authorised capital; the description of the structure of management, including executive bodies, and internal control bodies and the procedure for organising them and their powers; other

information required by federal laws for the articles of association of corporate entities having this form of incorporation.

A credit institution may be founded by corporate entities and (or) private individuals whose participation in a credit institution is not prohibited by applicable legislation.

The founders (members) of a credit institution should have their own funds to pay into the authorised capital of the credit institution (Article 11 of the Federal Law “On Banks and Banking Activities”).

Corporate founders should be registered in accordance with the procedure established by applicable legislation, be in business for at least three years, have a satisfactory financial standing and fulfil obligations to the federal, regional and local budgets during the past three years. The Bank of Russia verifies the legitimacy of shareholding in the authorised capital of a credit institution and sufficiency of the funds owned by an acquirer of shares (stakes) in a credit institution after the authorised capital has been paid up as part of the decision-making process relating to the state registration of an issue report (for credit institutions in the form of joint-stock companies) or the decision-making process relating to the issue of a banking licence to a newly-created credit institution or to the state registration of changes to the articles of association of an operating credit institution in connection with the increase of its authorised capital (for credit institutions in the form of limited liability companies).

Article 11 and Article 11.2 of the Federal Law “On Banks and Banking Activities” stipulate that:

- the minimum authorised capital of a newly-registered bank as of the day the request for the state registration and a banking licence was filed shall be 180 million rubles;
- the minimum authorised capital of a newly-registered non-bank credit institution requesting the licence to effect settlements on the instruction of corporate entities, including correspondent banks, as of the day the request for the state registration and a banking licence was filed shall be 90 million rubles;
- the minimum authorised capital of a newly-registered non-bank credit institution that does not request this licence as of the day it filed the request for state registration and a banking licence shall be 18 million rubles;
- the capital of a non-bank credit institution seeking to obtain the status of a bank as of the first day of the month during which the relevant request was filed with the Bank of Russia shall be no less than 180 million rubles;
- the minimum capital of a bank shall be 180 million rubles, except for the case stipulated in Part 4 of Article 11.2 of the Federal Law “On Banks and Banking Activities;”
- the minimum capital of a bank requesting a banking licence allowing it to conduct banking operations in rubles and foreign currency and take personal and corporate funds on deposit in rubles and foreign currency (a general licence) shall be no less than 900 million rubles as of the first day of the month during which the request for a general licence was filed with the Bank of Russia.

A bank that had the capital of less than 180 million rubles as of January 1, 2007, shall be allowed to continue operations provided that it does not allow its capital to decline below the level achieved on January 1, 2007.

The capital of a bank that meets the requirements set in Part 4 of Article 11.2 of the Federal Law “On Banks and Banking Activities” shall be no less than 90 million rubles from January 1, 2010.

The capital of a bank that meets the requirements set in Part 4 and Part 5 of Article 11.2 of the Federal Law “On Banks and Banking Activities” shall be no less than 180 million rubles from January 1, 2012.

Should a bank’s capital decrease as a result of a change made by the Bank of Russia in the capital calculation methodology, a bank that had the capital of 180 million rubles and more as of January 1, 2007, should reach the minimum level of capital stipulated by this article and calculated according to the Bank of Russia new methodology within 12 months, while a bank that had the capital of less than 180 million rubles as of January 1, 2007, should reach the highest of the two levels, the capital it had as of January 1, 2007, calculated according to the Bank of Russia new methodology, or the capital indicated in Part 5 and Part 6 of Article 11.2 of the Federal Law “On Banks and Banking Activities” as of the corresponding date.

A general licence is one of the necessary conditions for setting up a subsidiary in a foreign state, obtaining the status of a parent company in regard of an operating non-resident organisation (Article 35 of the Federal Law “On Banks and Banking Activities” and Bank of Russia Regulation No. 290-P of July 4, 2006) and setting up branches in a foreign state.

Shares (stakes) in the authorised capital of a credit institution may be paid up in rubles and foreign exchange or by a building (office) owned by an acquirer, a finished construction project (including projects comprising in-built or annexed structures), in which a credit institution may be sited, property owned by a founder of the credit institution in the form of automatic teller machines and point-of-sale terminals operating automatically and designed to accept cash from customers and safe keep it, and other non-monetary properties stipulated by the Bank of Russia (a list of such properties has not yet been drawn up). A credit institution may also use its property to augment its authorised capital according to the procedure established by law.

The Federal Law “On the Use of Russian Government Securities for Increasing the Capitalisation of Credit Institutions” stipulates that in the course of enhancing the capitalisation of a credit institution, its authorised capital (additional preference shares) may be paid up with federal loan bonds according to the procedure and on the terms and conditions established by this federal law.

In cases stipulated by federal laws, non-monetary property contributed as payment to the authorised capital of a credit institution is evaluated by an independent appraiser.

The part of authorised capital paid up by non-monetary property in the course of setting up a credit institution or increasing its authorised capital should not exceed 20% of its authorised capital (inclusive of the increase). If the shares in a credit institution are paid for at a higher price than their nominal value (if the contributions to a credit institution’s authorised capital are paid for at a price above the nominal value of the shares), the value of the non-monetary property allocated as payment for these shares (the value of these contributions to the authorised capital) should not exceed 20% of the stock flotation price (the value of contributions to the authorised capital).

To evaluate funds paid into the authorised capital of a credit institution, the Bank of Russia has set up a procedure and criteria for assessing the financial standing of its founders (members).

The financial standing of corporate founders (members) of a credit institution, except budget-financed organisations, is evaluated for ascertaining the sufficiency of the corporate entity’s readjusted net assets (own funds) for the acquisition of shares (stakes) in a credit

institution, including a newly-created institution, and ensuring that there are no grounds for refusing the corporate entity to acquire shares (stakes) in a credit institution because of the acquirer's unsatisfactory financial standing. The sufficiency of the corporate entity's own funds is established on the basis of the value of net assets readjusted in accordance with the procedure established by Bank of Russia Regulation No. 337-P of June 19, 2006. The value of the corporate entity's readjusted net assets (own funds) should not be smaller than the value of the shares acquired in a credit institution operating in the form of a joint-stock company or the value of the shares in a credit institution operating in the form of a limited liability company (additional liability company) or, when the acquisition by a corporate entity of more than 20% of shares (stakes) in a credit institution on the secondary market requires Bank of Russia prior permission, the value (a part of the value) of the credit institution's own funds (capital).

The financial standing of corporate entities is evaluated by analysing their financial soundness, solvency, working capital (business activity) efficiency, profitability and financial performance, taking into consideration the nature and scale of the corporate entity's business, sectoral and regional specifics and other factors of material importance for their performance.

The assessment of the financial standing is conducted in regard of founders of a newly-created credit institution, corporate entities requesting Bank of Russia prior permission for the acquisition solely or within a group of more than 20% of shares (stakes) in a credit institution, and affiliated parties acquiring shares (stakes) in a credit institution in the course of increasing its authorised capital. The financial standing assessment procedure and criteria set by Bank of Russia Regulation No. 337-P of June 19, 2006 may also be used upon request in regard of the following:

- a corporate entity holding (acquiring) more than 50% of voting shares or stakes of a corporate entity acquiring shares (stakes) in a credit institution or a corporate entity that is a member (shareholder) of a credit institution, if there are no other members (shareholders) holding (acquiring) more than 20% of voting shares or stakes in the authorised capital of these corporate entities;

- a corporate entity holding (acquiring) more than 50% of votes at a general shareholders' meeting in cases when the articles of association of the corporate entity acquiring shares (stakes) in a credit institution or the corporate entity that is a member of the credit institution establish a disproportional vote-counting procedure and there are no other members holding (acquiring) more than 20% of votes at a general shareholders' meeting of these corporate entities;

- a corporate entity holding (acquiring) more than 50% of voting shares or stakes in a corporate entity acquiring shares (stakes) in a credit institution or a corporate entity that is a member (shareholder) of a credit institution and all of their other members (shareholders), provided that each of them holds (acquires) more than 20% of voting shares or stakes in the authorised capital of these corporate entities;

- all members (shareholders), each of them holding (acquiring) more than 20% but no more than 50% of voting shares or stakes in the authorised capital of a corporate entity acquiring shares (stakes) in a credit institution or a corporate entity that is a member (shareholder) of a credit institution, if the total portion of voting shares or stakes in the authorised capital of these corporate entities exceeds 50%;

- a party (parties) who exerts (exert) indirect (through third parties) material influence on decisions taken by the credit institution's management bodies.

The financial position of private individuals is evaluated for ascertaining the sufficiency of their own funds (property) for the acquisition of shares (stakes) in a credit institution, including a credit institution in the course of its founding, ensuring that no shares (stakes) have been acquired with raised funds and making sure that there are no grounds for refusing the acquisition of shares (stakes) in a credit institution because of the acquirer's unsatisfactory

financial situation. The financial position of private individuals is considered satisfactory if their own funds (properties) suffice to acquire shares (stakes) in a credit institution and there are no other grounds established by federal legislation to recognise their financial position as unsatisfactory.

For the purposes of Bank of Russia Regulation No. 338-P of June 19, 2009, the funds (property) received by a private individual from sources in and outside the Russian Federation and indicated in Article 208 and Article 217 of the Tax Code of the Russian Federation and the funds (property) received by a private individual by other legal means and documented are recognised as incomes used by a private individual as the source of acquisition of shares (stakes) in a credit institution. Incomes received by a private individual by other legal means may include the excess of the current market value of real estate, confirmed by an independent appraiser's report, over this property's acquisition value indicated in the documents that confirm the legitimacy of this acquisition. Private individuals may also use their spouse's incomes from gainful employment and entrepreneurial activity, which under Article 34 of the Family Code are considered as the spouses' common property, and also declare property acquired in the course of marriage and registered as being owned by the other spouse as a source of this private individual's own funds (property) received by other legal means and confirmed by documents.

The sufficiency of a private individual's own funds (property) for the acquisition of shares (stakes) in a credit institution is evaluated on the basis of the Statement of Own Funds, confirmed by the sources of these funds, which include information on the private individual's incomes, expenses and obligations, and the Statement of Property, which includes information on the real estate, transport vehicles, funds in credit institutions and securities owned by the private individual.

A private individual's own funds (property) are considered sufficient for payment for shares (stakes) in a credit institution and a private individual's financial position is considered satisfactory if the value of acquired shares (stakes) in a credit institution or if, should the shares (stakes) be acquired on the secondary market, the value (or a part thereof) of the credit institution's own funds (capital) is smaller than (or equals) the smallest of the following two values:

- the monetary value of the declared unencumbered property owned by the private individual net of the current (outstanding and overdue) liabilities recorded in the Statement of Own Funds;
- the excess of incomes over expenses recorded in the Statement of Own Funds, confirmed by the sources of these funds.

The time period, the value and list of incomes (properties) included in the Statement are determined by private individuals themselves. The Statement should not include the property if the right to manage it is limited by federal laws or an agreement concluded by the private individual.

The financial position assessment criteria set by Bank of Russia Regulation No. 338-P of June 19, 2006 may be used if there is a relevant request in regard of:

- a private individual, the single member (shareholder) of a corporate entity acquiring shares (stakes) in a credit institution or a corporate entity that is a member (shareholder) of the credit institution;
- private individuals who jointly own the entire authorised capital of a corporate entity acquiring shares (stakes) in a credit institution or a corporate entity that is a member (shareholder) of the credit institution provided that all the said private individuals have filed the relevant request;

- private individuals who along with corporate entities are members (shareholders) of a corporate entity acquiring shares (stakes) in a credit institution or a corporate entity that is a member (shareholder) of the credit institution;

- a private individual (persons) who singly or jointly with a corporate entity (corporate entities) exerts (exert) indirectly (through third parties) material influence on decisions taken by the credit institution's management bodies.

The financial standing of an acquirer credit institution is evaluated on the basis of its reports available in a Bank of Russia regional branch. The acquirer credit institution is not required to submit any additional documents for the assessment of its financial standing.

The evaluation of the financial standing of an acquirer credit institution for ascertaining the sufficiency of its own funds is based on the credit institution capital ratio. The financial standing of an acquirer bank is evaluated in compliance with the Bank of Russia regulation setting the criteria for assessing the economic situation of banks and the financial standing of an acquirer non-bank credit institution in compliance with the Bank of Russia regulation setting the criteria for assessing the financial standing of credit institutions.

The financial standing of a non-resident bank is evaluated for ascertaining the sufficiency of its own funds on the basis of the capital ratio established by the home country supervisory authority. Analysis of the financial standing of a non-resident bank is based on bank financial (economic) situation assessment indicators established by the home country supervisory authority.

To verify the legitimacy of shareholding in the authorised capital of a credit institution, the federal, regional and municipal authorities should present to the Bank of Russia the federal, regional or municipal law on shareholding in the authorised capital of a credit institution, an extract from the federal, regional or municipal budget law confirming the allocation of funds to pay for the shares (stakes) in a credit institution, the articles of association and a copy of the payment document confirming the transfer of funds to pay up the authorised capital of the credit institution (the transfer of non-pecuniary funds to pay up authorised capital in cases stipulated by law).

The founders of a bank may not withdraw from the membership of the bank for three years after its registration.

The acquisition and (or) receipt in trust (hereinafter referred to as the acquisition) as a result of one or several transactions by one corporate entity or a private individual or a group of corporate entities and (or) private individuals connected by an agreement or a group of corporate entities subsidiary to or dependent on one another of more than 1% of shares (stakes) in a credit institution requires a notification of the Bank of Russia and more than 20% Bank of Russia prior permission.

The acquisition of shares (stakes) in a credit institution signifies their receipt for ownership (or in trust) by the founders (members) of a credit institution immediately and also the receipt of the right to manage shares (stakes) in a credit institution by enabling a person or a group of persons to exert directly or indirectly (through third parties) material influence on decisions taken by the credit institution's management bodies.

The notice of acquisition is sent to the Bank of Russia in the form shown in Annex 2 to Bank of Russia Instruction No. 135-I of April 2, 2010 in case of the acquisition of a stake, which, along with the shares (stakes) acquired in the credit institution earlier, will make up over 1% (but no more than 20%) of the authorised capital of the credit institution and also in

case of any subsequent acquisition of shares (stakes) in the same credit institution (except the case when as a result of the acquisition, the stake of the acquirer (a group of persons connected by an agreement) will exceed 20% of authorised capital).

The procedure for obtaining Bank of Russia prior permission to acquire more than 20% of shares (stakes) in a credit institution is established by Instruction No. 130-I of February 21, 2007.

Bank of Russia prior consent is required for the acquisition of a stake, which, along with the shares (stakes) acquired in the credit institution earlier, makes up more than 20% of the credit institution's authorised capital and also for any subsequent acquisition of shares (stakes) in the same credit institution. The procedure for issuing Bank of Russia prior permission is based on the number of shares (stakes) that will be acquired in a credit institution, that is, the acquired holding of shares (stakes) will be blocking, controlling, ensuring a qualified majority and full control. Therefore, the Bank of Russia's prior permission should be obtained if shares (stakes) are acquired in a credit institution in the following proportions:

- over 20% of shares but no more than 25% of shares (inclusive); over 25% of shares but no more than 50% of shares (inclusive); over 50% of shares but no more than 75% of shares (inclusive); over 75% of shares but less than 100% of shares; 100% of shares (if a credit institution is a joint-stock company);

- over 20% of stakes but no more than one-third of stakes (inclusive); over one-third of stakes but no more than 50% of stakes (inclusive); over 50% of stakes but no more than two-thirds of stakes (inclusive); over two-thirds of stakes but no less than 100% of stakes; 100% of stakes (if a credit institution is a limited liability company).

The following transactions, among other, may be categorised as the acquisition of shares (stakes) in a credit institution according to Instruction No. 130-I of February 21, 2007:

- the acquisition of shares (stakes) in a credit institution into the ownership of the acquirer shareholders (members) of the credit institution through one or several transactions, including:

- the receipt of shares as a result of conversion of securities into the shares of a credit institution,

- the fulfilment of obligations on options that may be converted into shares in a credit institution in accordance with the decision to issue them,

- the distribution of a stake owned by a credit institution operating in the form of a limited liability company among members of this credit institution,

- the acquisition of the right to own shares (stakes) in a credit institution by assignment as a result of the reorganisation of the credit institution's shareholders (members) in the form of acquisition, merger, separation or breakup;

- the transfer of shares (stakes) in a credit institution into the ownership and management of other parties (group of persons), including the acquisition of more than 50% of voting shares (stakes in authorised capital) in an economic entity (entities) that exerts (exert) material influence on decisions taken by the credit institution's management bodies;

- the inclusion of shares (stakes) in a credit institution in the authorised capital of corporate entities other than credit institutions.

When the structure of a group or a party (beneficiary) that exerts indirect material influence on the founders (members) of a credit institution is changed, Bank of Russia prior permission should be obtained for the acquisition by a (new) group of persons of more than 20% of shares (stakes) in a credit institution.

Bank of Russia prior permission is valid during one year from the date the decision to give it was taken.

To acquire shares (stakes) in a credit institution, an acquirer should file an application, enclosing the necessary documents indicated by Bank of Russia Instruction No. 130-I of February 21, 2007. To acquire shares (stakes) in a credit institution by a group of persons, the latter should indicate in its application the full composition of the group, including the final owner of the shareholder (member) of the credit institution, and the grounds for relating persons to the group, enclosing supporting documents (the description of relations and events (actions) that lead (or may lead) to the establishment of a group of persons or change in its composition).

The Bank of Russia may in the course of performing its supervisory functions request and receive information on the financial situation and business reputation of members (shareholders) of a credit institution if the latter acquire (receive in trust) more than 20% of shares (stakes) in the credit institution and establish the procedure and criteria for the assessment of the financial situation of acquirers of more than 20% of shares (stakes) in the credit institution. Acquirers of more than 20% of shares (stakes) in a credit institution should comply with the same requirements as founders of a credit institution.

Article 11 of the Federal Law “On Banks and Banking Activities” and Bank of Russia Instruction No. 130-I of February 21, 2007 set a 30-day deadline for consideration by the Bank of Russia of requests for prior permission to acquire (receive in trust) more than 20% of shares (stakes) in a credit institution. Within this time period the Bank of Russia should inform an applicant in writing on its decision to grant or refuse permission. The refusal must be reasoned.

The Bank of Russia may refuse to give permission to acquire more than 20% of shares (stakes) in a credit institution if it has established as a fact that acquirers have an unsatisfactory financial situation or violated anti-monopoly rules and in other cases stipulated by federal laws. It may refuse permission if the acquirer has been charged by a court of law with committing illegal actions in the course of bankruptcy or with deliberate and (or) fictitious bankruptcy.

The Bank of Russia may refuse to give permission to acquire more than 20% of shares (stakes) in a credit institution if the court of law previously found the acquirer guilty of causing damage to a credit institution when carrying out the duties of a member of the board of directors (supervisory board) of the credit institution, one-man executive body, its deputy manager and (or) member of the collegiate executive body (executive board or board of directors).

The management bodies of a credit institution are, in addition to a general meeting of its founders (members), the board of directors (supervisory board), one-man executive body and collegiate executive body.

A credit institution should notify the Bank of Russia in writing about the election (dismissal) of a member of the board of directors (supervisory board) within three days after the relevant decision was taken. When nominating candidates for the position of a member of the board of directors (supervisory board), the members (shareholders) of a credit institution should comply with the requirements and restrictions implicitly established by federal laws. One such requirement, for example, is the prohibition to elect to the board of directors (supervisory board) persons who have been convicted for economic crimes. The business reputation of the members of a credit institution’s board of directors (supervisory board) is assessed by the Bank of Russia bearing in mind the provisions of Point 4 of Part 1 of Article 16 of the Federal Law “On Banks and Banking Activities.”

A credit institution should notify the Bank of Russia in writing about all projected appointments for positions of the chief executive officer, deputy chief executives, members of the collegiate executive body (hereinafter referred to as the chief executive officer) of the credit institution, chief accountant and deputy chief accountants of the credit institution, and chief executive officer, deputy chief executives, chief accountant and deputy chief accountants of a credit institution's branch. The Bank of Russia should give permission to these appointments or explain in writing the reasons for the refusal to give such permission within a month from the receipt of the notification.

Candidates for positions of the members of the board of directors (supervisory board), chief executive officer, chief accountant and deputy chief accountants of a credit institution and chief executive officer, deputy chief executives, chief accountant and deputy chief accountants of a credit institution's branch should meet fitness and propriety requirements established by federal laws and Bank of Russia regulations issued in pursuance of these laws.

Candidates for positions of the one-man executive body and his deputies, members of the collegiate executive body, chief accountant and deputy chief accountants of a credit institution and chief executive officer, deputy chief executive officers, chief accountant and deputy chief accountants of a credit institution's branch are considered unfit to take these positions in the following cases:

- if they do not have a university degree in law or economics or experience of managing a department or another division of a credit institution involved in conducting banking operations at least for one year or two years if they have a university degree in other fields of learning;

- if they have been convicted for economic crimes;

- if they have committed within the year preceding the submission of documents to the Bank of Russia an administrative offence in the field of commerce or finance, established by the ruling of the body authorised to consider administrative offences;

- if during the two years preceding the submission to the Bank of Russia of the documents for the state registration of a credit institution they had their labour agreement (contract) terminated by management for committing actions when handling money or other commodity values that caused the management to lose trust in them;

- if during the three years preceding the submission to the Bank of Russia of the documents for the state registration of a credit institution, the credit institution in which each of the said candidates held an executive position was ordered to replace him according to the procedure established by the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia);"

- if business reputation of the said candidates does not meet the requirements established by federal laws and Bank of Russia regulations issued in pursuance of these laws;

- if there are other grounds established by federal laws.

The chief executive officer of a credit institution, the chief accountant of a credit institution and chief executive officer of its branch have no right to concurrently take positions in other credit institutions or insurance companies, participate professionally on the securities market or work in leasing organisations or organisations affiliated with the credit institution in which its chief executive officer, chief accountant and chief executive officer of its branch work.

In addition, restrictions are placed on the following persons:

- persons in charge of the organisations professionally participating on the securities market (Point 1 of Article 10.1 of the Federal Law "On the Securities Market");

-persons in charge of the credit institutions' structural divisions engaged in clearing operations (Point 2 of Article 6 of the Federal Law "On Clearing and Clearing Activities," intended to come into force on January 1, 2012).

The procedure for applying the requirements of the securities market law to chief executive officers and members of the boards of directors (supervisory boards) of credit institutions professionally participating on the securities market is set by Bank of Russia Ordinance No. 1492-U of June 20, 2004, "On the Application of the Requirements of Federal Securities Market Legislation to Chief Executive Officers and Members of the Boards of Directors of Credit Institutions Professionally Participating on the Securities Market."

For the Bank of Russia to take the decision on the state registration of a credit institution, its founders should present to the Bank of Russia documents indicated in Article 14 of the Federal Law "On Banks and Banking Activities."

The procedure for the state registration of a credit institution and the issuing of a banking licence is set by Article 15 of the Federal Law "On Banks and Banking Activities" and by the Federal Law "On the State Registration of Corporate Entities and Unincorporated Entrepreneurs."

The grounds for refusing a credit institution the state registration and a banking licence are established by Article 16 of the Federal Law "On Banks and Banking Activities."

The specifics of the state registration of a credit institution with foreign investments are established by Article 17 and Article 18 of the Federal Law "On Banks and Banking Activities" and Bank of Russia Regulation No. 437 of April 23, 1997, issued in pursuance of this Law.

Credit institutions may be granted the following kinds of licences:

- the licence to conduct banking operations in rubles (exclusive of the right to take personal funds on deposit);
- the licence to conduct banking operations in rubles and foreign currency (exclusive of the right to take personal funds on deposit);
- the licence to take personal funds on deposit in rubles;
- the licence to take personal funds on deposit in rubles and foreign currency;
- the licence to conduct banking operations in rubles (exclusive of the right to take personal funds on deposit, conduct operations for the collection of cash, bills, payment and accounting documents or provide cash services to private individuals and corporate entities);
- the licence to conduct banking operations in rubles and foreign currency (exclusive of the right to take personal funds on deposit, conduct operations for the collection of cash, bills, payment and accounting documents or provide cash services to private individuals and corporate entities);
- a general licence may be granted to a bank that has the licences to conduct all banking operations in rubles and foreign currency and complies with the requirements established by the Federal Law "On Banks and Banking Activities." A bank does not necessarily have to hold the licence to conduct banking operations with precious metals to receive a general licence;
- the licence to take on deposit and place precious metals;
- the licence to conduct banking operations in rubles or in rubles and foreign currency for settlement non-bank credit institutions;
- the licence to conduct banking operations in rubles or in rubles and foreign currency for non-bank credit institutions conducting deposit and lending operations;
- the licence to conduct money transfers without opening a bank account and other related banking operations for newly registered non-bank credit institutions.

As a general rule, the licence to take personal deposits is granted to banks if at least two years have passed since the state registration date.

The licence to take personal funds on deposit may be granted to a newly-registered bank or a bank registered less than two years ago if:

1) the authorised capital of a newly-registered bank or the capital of an operating bank is no less than 3.6 billion rubles;

2) the bank complies with the Bank of Russia requirement to disclose to an unlimited number of people information on the persons who exert material (direct or indirect) influence on the decisions taken by the bank's management bodies. Banks holding the licence to take personal deposits in rubles, the licence to take personal deposits in rubles and foreign currency and a general licence should comply with deposit insurance system requirements set by Article 44 of the Federal Law "On the Insurance of Household Deposits with Russian Banks," including ownership structure transparency requirements.

The ownership structure may be recognised as transparent if:

- a credit institution discloses information without violating legislation, that is, complies, allowing for the specifics of its form of incorporation, with the requirements of laws establishing the content, time period and forms of information it should provide to the Bank of Russia and interested parties on persons (groups of persons) who own shares (stakes) in the credit institution and other persons (groups of persons) on which information should be presented under federal laws and Bank of Russia regulations, while violations detected have no material effect on the identification of the bank's shareholders (stakeholders) and other persons (groups of persons);

- at least the Bank of Russia has access to information on the persons (groups of persons) who exert directly or indirectly (through third parties) material influence on decisions taken by the credit institution's management bodies;

- the influence exerted by residents of offshore zones on decisions taken by the credit institution's management bodies is immaterial (less than 40% of the authorised capital is owned by or controlled through residents of offshore zones).

This principle of evaluating transparency of ownership structure is laid down in Bank of Russia Ordinance No. 1379-U of January 16, 2004 and it is applicable to the assessment of ownership structure as one of the elements of assessment of governance quality, operations and risk management of a bank within the framework of financial soundness requirements set for a credit institution.

In addition, pursuant to Point (c) of Part 21 of Article 1 of Federal Law No. 270-FZ of December 22, 2008, "On Amending the Federal Law on the Insurance of Household Deposits with Russian Banks and Other Federal Laws," the deposit insurance system member banks will be required from December 26, 2009, to comply with the Bank of Russia procedure for disclosing information to an unlimited number of people on persons who exert material (direct or indirect) influence on decisions taken by their management bodies. Bank of Russia Ordinance No. 1379-U of January 16, 2004 sets the procedure requiring the Russian deposit insurance system member banks to publicly disclose information on persons who exert material (direct or indirect) influence on decisions taken by their management bodies by way of posting this information on their websites or on the Bank of Russia website. This Ordinance also defines the content of information, which the banks are required to disclose on their websites or on the Bank of Russia website on private individuals and corporate entities that exert material (direct or indirect) influence on decisions taken by their management bodies. For private individuals this information should contain their full name, citizenship and the place of

their residence (the name of a city or a populated area) and for corporate entities - their full business name and abbreviated business name (if any), location (postal address), the main state registration number and the date of their state registration as corporate entities. Bank of Russia Regulation No. 345-P of October 27, 2009 sets the form and the procedure for banks to submit information to the Bank of Russia on persons who exert (direct or indirect) influence on their activities for its disclosure on the Bank of Russia website in the case when the banks choose this method of information disclosure. Bank of Russia Regulation No. 345-P of October 27, 2009 stipulates the disclosure by a bank of the above information, with the disclosure of grounds allowing the bank's shareholders (members) holding over 1% of votes in the total number of the bank's voting shares (stakes) to exert material (direct or indirect) influence on the bank's activities (including information on the ownership structure and the final owners of corporate entities that are shareholders (members) of the bank).

Banks may be found unfit to participate in the deposit insurance system in accordance with rules set by Article 48 of the Federal Law "On the Insurance of Household Deposits with Russian Banks."

A bank found unfit to participate in the deposit insurance system may request the reinstatement of its right to handle personal deposits no sooner than two years after the date its right to handle personal deposit was terminated.

Credit institutions may operate as securities market professionals if they have the corresponding licence issued by the federal securities market authority.

Credit institutions may be reorganised in accordance with the Civil Code of the Russian Federation, the Federal Law "On Banks and Banking Activities," the Federal Law "On Joint-Stock Companies," the Federal Law "On Limited Liability Companies" and the Federal Law "On Insolvency (Bankruptcy) of Credit Institutions," Bank of Russia Instruction No. 135-I of April 2, 2010, and Bank of Russia Regulation No. 230-P of June 4, 2003, and the founding documents of the credit institutions being reorganised.

One of the documents presented to the Bank of Russia when credit institutions are set up or when they expand a range of their operations by obtaining additional licences or being reorganised (excluding the reorganisation in the form of merger or acquisition) is a business plan. The procedure for compiling business plans by credit institutions is set by Bank of Russia Ordinance No. 1176-U of July 5, 2002.

Banking groups and bank holding companies may be set up in Russia.

A banking group is an association of credit institutions, not a corporate entity itself, in which one (parent) credit institution exerts directly or indirectly (through a third party) material influence on decisions taken by the management bodies of another credit institution (other credit institutions).

A bank holding company is an association of corporate entities, not a corporate entity itself, comprising a credit institution (credit institutions), in which a corporate entity other than a credit institution (a parent organisation of the bank holding company) can exert directly or indirectly (through a third party) material influence on decisions taken by the management bodies of the credit institution (credit institutions).

A parent credit institution of a banking group and a parent organisation of a bank holding company should notify the Bank of Russia on the establishment of a banking group and a bank holding company in accordance with the procedure set by the Bank of Russia.

The Bank of Russia collects reports on credit institutions' affiliated parties in accordance with its Regulation No. 307-P of July 20, 2007, "On the Procedure for Making the Accounting of and Providing Information on Affiliated Parties of Credit Institutions." Pursuant to applicable legislation, Regulation No. 307-P of July 20, 2007 defines distinguishing features of the affiliation of private individuals and corporate entities with a credit institution, one of them being the membership of a private individual or corporate entity in the group of entities to which the credit institution belongs. The criteria of relating parties to the group of entities with which the credit institution is affiliated are set out in Bank of Russia Regulation No. 307-P of July 20, 2007 pursuant to Article 9 of Federal Law No. 135-FZ, dated July 26, 2006, "On the Protection of Competition." A credit institution is required to make a list of affiliated parties and present it to the Bank of Russia regional branch supervising this credit institution in 0409051 Reporting Form "A List of Affiliated Parties" and 0409052 Reporting Form "A List of Affiliated Parties Belonging to the Group of Entities to which a Credit Institution Belongs," established by Annex 1 to Bank of Russia Ordinance No. 2332-U of November 12, 2009, "On the List, Forms and Procedure for Compiling and Presenting Credit Institution Reporting Forms to the Central Bank of the Russian Federation."

The principal requirements for the establishment of branches and representative offices of credit institutions and internal divisions of credit institutions (branches) are set in Article 22 of the Federal Law "On Banks and Banking Activities."

A credit institution holding a general licence may establish branches in a foreign state with Bank of Russia permission and representative offices there after notification of the Bank of Russia, in compliance with the procedure and the requirements set by the Federal Law "On Banks and Banking Activities" and Bank of Russia Instruction No. 135-I of April 2, 2010.

With Bank of Russia permission and in compliance with the requirements set by federal laws and Bank of Russia Regulation No. 290-P of July 4, 2006, a credit institution may have subsidiaries in foreign states. The procedure set by this Regulation applies to the receipt of permits to set up a subsidiary in a foreign state and the acquiring of the status of a parent company in regard to an operating non-resident organisation, in which the credit institution will be able to influence the decisions taken by this organisation's management bodies owing to the holding of controlling interest in the authorised capital or under the terms of an agreement or otherwise.