

BANKING SUPERVISION REPORT 2007



Printed by Novosti Press

Print-run: 400 copies

The online version of this Report is available on the Bank of Russia official website at www.cbr.ru

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Contents

Foreword	5
I. The State of the Russian Banking Sector	7
I.1. General Economic Conditions	8
I.1.1. Macroeconomics	8
I.1.2. The non-financial sector of the economy	9
I.1.3. Payment system	10
I.1.4. Banking sector macroeconomic performance indicators	11
I.2. Institutional Aspects of Banking Sector Development	13
I.2.1. Banking sector quantitative characteristics	13
I.2.2. Regional banking	13
I.2.3. Concentration of banking activity	14
I.2.4. Interaction between banking sector and other financial market segments	14
I.3. Banking Operations	18
I.3.1. The dynamics and structure of borrowed funds	18
I.3.2. Asset dynamics and structure	20
I.4. Financial Performance of Credit Institutions	24
I.4.1. Financial results	24
I.4.2. Income and expense structure	25
II. Banking Sector Risks	27
II.1. Credit Risk	28
II.1.1. Loan portfolio quality	28
II.1.2. Credit risk concentration	29
II.1.3. Shareholder and insider credit risks	30
II.1.4. Finances of corporate borrowers as a factor of credit risk	30
II.2. Market Risk	31
II.2.1. General characteristics of market risk	31
II.2.2. Evaluation of banking sector vulnerability to interest rate risk (trading book)	32
II.2.3. Evaluation of banking sector vulnerability to equity position risk	33
II.2.4. Evaluation of banking sector vulnerability to foreign exchange risk	33
II.3. Liquidity Risk	35
II.3.1. General characteristics of liquidity risk	35
II.3.2. Compliance with required liquidity ratios	37
II.3.3. Structure of bank assets and liabilities	38
II.3.4. Dependence on interbank market	39
II.3.5. Interbank market rates	41
II.4. Capital Adequacy	42
II.4.1. Banking sector capital dynamics and structure	42
II.4.2. Risk-weighted assets	43
II.4.3. Bank capital adequacy	44
II.5. Bank Management Quality	46
II.6. Stress Testing the Banking Sector	47
III. Banking Regulation and Supervision in Russia	49
III.1. Upgrading the Legal and Regulatory Framework for Banking Activities in Line with International Standards	50
III.1.1. Upgrading the legal framework for credit institutions	50
III.1.2. Licensing credit institutions	50
III.1.3. Regulation of credit institutions and supervision methodology	52
III.1.4. Upgrading the legal and regulatory framework for the financial rehabilitation and liquidation of credit institutions	54
III.1.5. Upgrading the regulatory framework for inspections	55

III.2. State Registration of Credit Institutions and Licensing of Banking Operations, Including Mergers and Acquisitions	58
III.3. Off-site Supervision	60
III.4. On-site Inspection of Credit Institutions	62
III.5. Supervisory Response	65
III.6. Financial Rehabilitation and Liquidation of Credit Institutions	66
III.7. Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorist Financing	68
III.8. Central Catalogue of Credit Histories	70
III.9. Co-operation with Russia's Banking Community	71
III.10. Co-operation with International Financial Institutions, Foreign Central Banks and Supervisors	72
III.11. Outlook for Banking Regulation and Supervision in Russia	74
III.11.1. State registration of credit institutions and bank licensing	74
III.11.2. Banking regulation and off-site supervision	76
III.11.3. On-site inspection	78
III.11.4. Financial rehabilitation and liquidation of credit institutions	78
III.11.5. Countering the legalisation (laundering) of criminally obtained incomes and terrorist financing	79
III.11.6. Insurance of household deposits with Russian banks	80
III.12. Bank of Russia Supervisors	81
IV. Addendum	83
IV.1. Monitoring Banking Sector Stability	84
IV.1.1. Systemic risk identification and regular monitoring	84
IV.2. Banking Sector Clustering	86
IV.3. Upgrading the Central Catalogue of Credit Histories	87
IV.4. Statistical Appendix	88
1. Key macroeconomic indicators in 2003—2007	88
2. Russian banking sector macroeconomic indicators	88
3. Registration and licensing of credit institutions	89
4. Credit institutions by institutional structure and form of incorporation	90
5. Number of credit institutions and their branches by region as of January 1, 2008	91
6. Credit institutions grouped by registered authorised capital as of January 1, 2008	93
7.1. Density of banking services in Russian regions as of January 1, 2007	95
7.2. Density of banking services in Russian regions as of January 1, 2008	98
8. Categorised performance indicators on credit institutions with foreign interest in their authorized capital relative to indicators on operating credit institutions	101
9. Credit institutions' assets grouped by investment	102
10. Credit institutions' liabilities grouped by source of funds	103
11. Major characteristics of banking sector lending operations	104
12. Quantitative and qualitative characteristics of supervisors of the Bank of Russia head office and regional branches (based on 1-K Form data as of January 1, 2008)	105

Foreword

Dear readers,

The Bank of Russia presents the Banking Supervision Report for 2007. The year was not an easy one for the Russian financial market. As the favourable trends of previous years continued, the first half of the year saw two of the largest IPOs in Russia's history, one by Sberbank, and the other by VTB; meanwhile, banking sector liabilities increased rapidly as Russian banks borrowed abroad heavily under favourable terms and conditions. In the second half of the year, the banking sector met with instability, and a liquidity shortfall on international financial markets.

The losses incurred by the world's largest financial institutions due to investments in US subprime mortgage instruments led to a worldwide reassessment of risks. As a result, investors scaled down operations with emerging markets, and this had an impact on the Russian banking services market. As the cost of external borrowing soared, it became unaffordable for many banks. The trend towards a contraction of margins became a major factor in the decline in profitability of the banking business.

Nevertheless, the Russian banking sector demonstrated impressive results last year. Credit provided to the economy increased more rapidly than in 2006, and the key banking sector indicators relative to GDP improved significantly. Consequently, as banks continued to strengthen their positions as financial intermediaries in 2007, rapid economic growth was maintained in Russia.

Continued stability in the Russian banking sector despite the world financial market crisis was a result of concerted action from the Russian Government and the Bank of Russia, which reacted swiftly to the situation by increasing the liquidity supply.

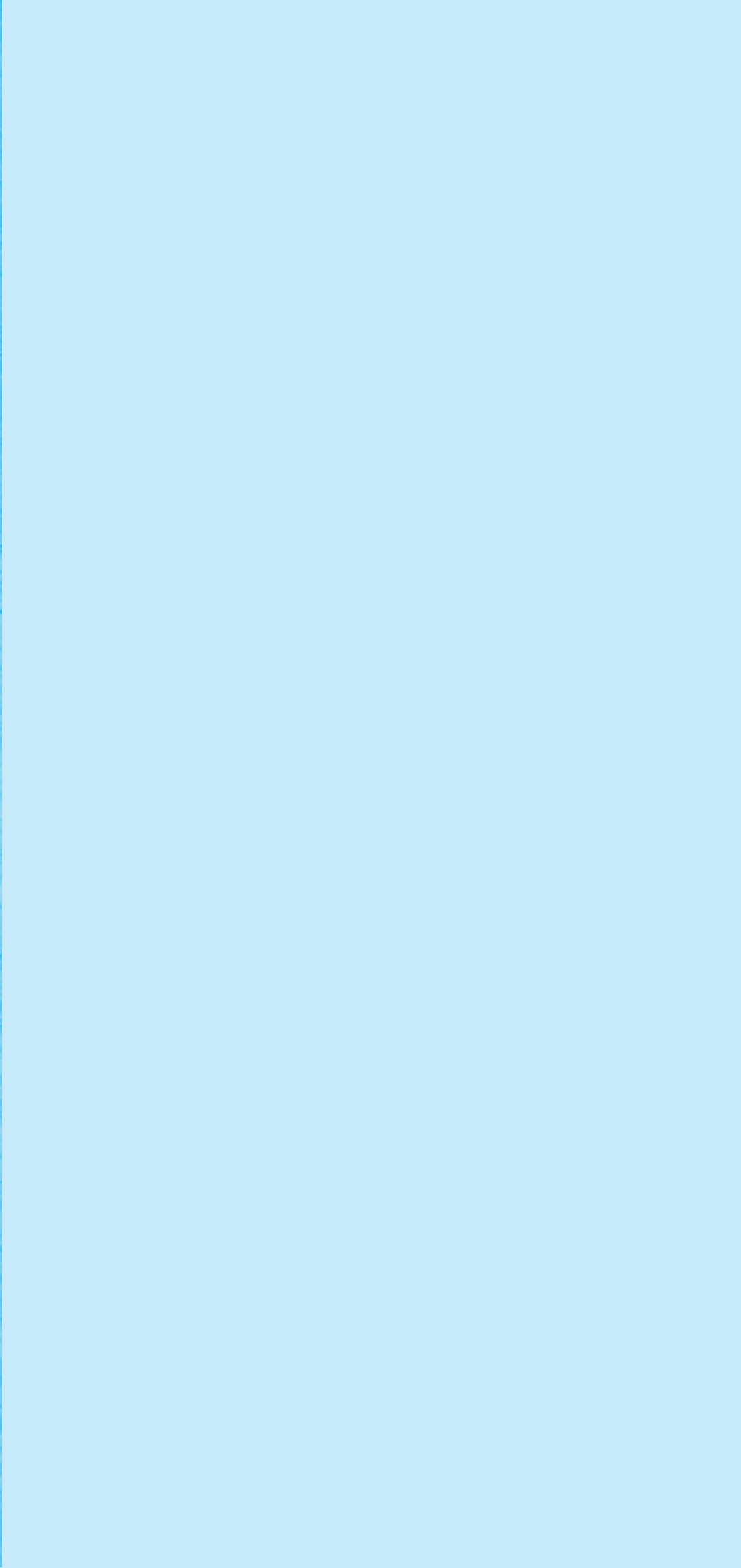
Another important trend in 2007 was the further intensification of competition on the Russian banking services market, stimulated by greater foreign capital shareholding and the expansion of regional branch networks of the top Russian banks.

At the same time, international experience has shown that rapid growth in the banking business, including lending, is accompanied by an accumulation of banking risks. Instability on international financial markets made banks and supervisors everywhere increasingly aware of the need to ensure effective risk control. The altered external conditions for banking in Russia forced banks to revise their strategies used during the credit expansion, and to take more conservative approaches.

The Bank of Russia keeps constant track of development trends in the banking sector, so in this Report it addresses what it considers to be the most important problems relating to the activities of credit institutions and banking regulation, and offers solutions.

As well as analysis, the Report provides up-to-date information on the implementation in Russia of internationally recognized (both risk-based and substantive) approaches to banking regulation and supervision.

Sergey M. Ignatiev,
Bank of Russia Chairman



The State of the Russian Banking Sector



I.1. General Economic Conditions

I.1.1. Macroeconomics

During 2007, Russia's economy demonstrated accelerated year-on-year growth in virtually all economic activity categories, in particular construction, communications and wholesale and retail trade. Household real money income and fixed capital investment rose rapidly, and the country's federal budget retained a surplus.

Rapid growth in aggregate demand in 2007, stimulated among other factors by substantial foreign capital inflow amid limited production capacity, created a positive output gap, and this significantly increased the risk of higher inflation. Consumer price inflation gained 2.9 percentage points year on year, to reach 11.9% (December against December). Core inflation ran at 11.0% against 7.8% in 2006. Rapid price growth was due largely to domestic food price acceleration, due in turn to global food price rises. Non-food prices in 2007 also grew faster than in 2006. The slowing of growth in the prices of paid services provided to households contributed towards curbing inflation.

GDP grew 8.1% in 2007 year on year (against 7.4% in 2006). Industrial output increased 6.3%, as it did in 2006. The manufacturing sector made the biggest contribution to industrial production growth.

Production growth was sustained by the significant expansion of consumer and investor demand. The principal driver of growth in output of goods and services in 2007 was household demand, accompanied by rapid growth in consumer credit. High rates of growth in salaries and increased social benefits contributed to growth in household real money income. Household final consumption expenditure increased 12.8% in 2007 against 11.2% in 2006.

The financial standing of Russian enterprises continued to improve in 2007. According to Federal State Statistics Service's preliminary data, corporate sector profits (net financial result) in 2007 (excluding crop-growing, livestock-breeding, mixed agricultural enterprises, small businesses, banks, insurance companies and budget-financed organisations) reached 5,726.3 billion rubles, an increase of 17.7% on 2006. The share of loss-making enterprises contracted by 6.3 percentage points to 23.4% of total enterprises. Unlike the situation in 2006, profit growth in the oil, gas and mining sector in 2007 was considerably higher than in the manufacturing sector.

The payments and settlements situation continued to improve. The share of non-payments in total receivables and payables contracted. As of the end of 2007, the share

of overdue receivables decreased by 5.2 percentage points year on year, and the share of overdue payables contracted by 2.9 percentage points.

Growth in profits created conditions enabling an expansion of investment in fixed assets, which grew 21.1% in 2007 against 16.7% in 2006. The largest investments went to transport and the hydrocarbon extraction sector.

The average annual price of Urals crude on world markets in 2007 climbed 14.1% year on year to \$69.5 per barrel. Prices of petroleum products, natural gas and other Russian exports also increased. The favourable price situation enjoyed by Russian exporters on world commodity markets, stronger demand for Russian products, and the significantly larger inflow of foreign capital to the private sector brought a substantial volume of foreign exchange into the country and contributed to the accumulation of foreign currency reserves. Russia's international reserves increased by a factor of almost 1.6 in 2007 to reach \$476.4 billion, ensuring medium-term financial stability for the country. In this respect Russia holds third place, after China and Japan.

Russia's foreign debt continued to decline in 2007 due to both scheduled payments and early repayments. However, although Russia had repaid all its debt to the Paris Club of Creditor Nations, the debt burden¹ increased slightly, due to higher private sector foreign debt.

The balance of payments situation remained stable in 2007, although the current account surplus decreased slightly year on year to \$78.3 billion. Net private capital inflow reached \$81.2 billion in 2007, a record level since observations began in 1992.

Household and corporate sector savings in foreign currency continued to decline, and the volume of foreign cash held by households decreased by \$15.7 billion in 2007.

Higher mortgage credit risk in 2007 damaged confidence in mortgage-related financial assets that appeared as a result of securitisation. Distrust of certain assets eventually became a global problem of declining trust in counterparties. In the second half of the year, this led to a supply shortage on the money markets of many countries, and forced central banks to take liquidity-boosting measures. Such steps were taken by the US Federal Reserve, the European Central Bank, and the monetary authorities of Canada, Britain, Japan, and others. Uncertainty over the scale and distribution of losses caused by the mortgage crisis increased volatility on world stock markets. The spreads between yields on securities with minimum credit risk and less secure assets widened. Also,

¹ Foreign debt relative to GDP.

risk reassessments by investors barred a large number of borrowers, including financial institutions and non-financial corporations in emerging markets, from the international capital market.

1.1.2. The non-financial sector of the economy

In 2007, the non-financial sector as a whole demonstrated accelerated growth in the production of goods and services in the main economic activity categories. The output index for the key economic activity categories stood at 108.7% in 2007 against 106.1% in 2006.

The results of regular monitoring of enterprises conducted by the Bank of Russia show² that the overall economic situation in the corporate sector in 2007 was better than in 2006. Assessments of the financial standing of enterprises also showed dramatic improvements. It should be noted that the improved economic performance of non-financial enterprises was stimulated by marked growth in the number of orders on global and domestic markets, and a rise in working assets, including money. In the first eight months of 2007, enterprises were more optimistic about credit conditions than in 2006, and were aware of reduced risks. However, after September 2007, these estimates became substantially worse than in the previous year.

Industrial production was the fastest-growing of the key economic activity categories in 2007. There was a marked change in development trends among various sectors of industrial production. The principal source of growth in industrial output in 2007 was the manufacturing sector, where the growth rate reached 107.9% against 102.9% in 2006. At the same time, growth in the oil, gas and mining sector stood at 100.3% against 101.6% a year earlier. The production and distribution of electricity, gas and water in 2007 declined by 0.3%, whereas in 2006 it grew by more than 5.0%.

Production of goods and services in the key economic activity categories such as agriculture and transport grew almost as fast as in 2006 (103.3% and 102.2% respectively).

Economic activity categories oriented towards household demand showed higher rates of growth than other categories. The communications sector, for instance, posted a 20.0% year-on-year increase in 2007, while retail trade turnover expanded 15.2% and paid services provided to households grew 7.1%.

Growth in business activity in many sectors of the economy, the expansion of household demand amid price growth on world goods and commodity markets, the high level of monopolization in the Russian economy, and ineffective regulation of natural and other monopolies, led to rapid growth in consumer and producer prices in the non-financial sector of the economy. Compared to December 2006, industrial producer prices rose 124.0% in December 2007.

At the same time, in certain areas of economic activity, prices in the production of goods and services grew considerably faster in 2007. The producer price index in the oil, gas and mining sector reached 152.3%, and in the hydrocarbon extraction sector it exceeded 158.0%. In the manufacturing sector, producer prices rose by an average of 17.9%, whereas in the production of food, drinks, and tobacco, prices gained 20.0%, in timber processing and output of wooden products 25.5%, in the production of petroleum products 42.2% and in coke production 88.0%.

In addition to the favourable dynamics of the domestic and international commodity and goods markets in 2007, growth in investment, which exceeded 121.0% compared to 113.7% in 2006, had a positive effect on the non-financial sector. As a result, gross capital formation increased 22.6% in 2007 to reach almost 25.0% of GDP (18.1% and 21.5% respectively in 2006).

The monitoring of non-financial enterprises by the Bank of Russia shows that they invested largely in order to maintain, expand and modernise production capacity. Over 48.0% of enterprises said they invested mostly in machinery and equipment. According to company estimates, the main sources of investment were profits (43.2% of those questioned), depreciation (almost 35.0%) and bank loans (nearly 24.0%).

The improvement of the economic situation in the non-financial sector is reflected in the financial results reported by companies. It is estimated that the net financial result (profits minus losses) in all economic activity categories in 2007 increased by almost 20%. Among the key economic activity categories, the net financial result increased the most in fishing and fish farming (by 210%), construction (153.2%), the manufacturing sector (118.9%), the oil, gas and mining sector (126.2%) and the production and distribution of electricity, gas and water (101.9%).

Bank of Russia monitoring results indicate that the improved financial standing of enterprises in 2007 was due to their increased capital, the adequacy of capital as an investment resource, growth in their own working assets, improvements in the structure of assets, including working assets, the establishment of a net cash inflow, sustained sales profitability, and the predominance of profit-making enterprises.

In the key economic activity categories, 84.2% of profit-making enterprises were registered in wholesale and retail trade, 82.2% in construction, 76.4% in the manufacturing sector, 69.8% in fishing and fish farming, 70.8% in the oil, gas and mining sector, and 55.1% in the production and distribution of electricity, gas and water.

According to Bank of Russia monitoring data, enterprises that differed in size of assets demonstrated corresponding differences in the dynamics of their financial standing in 2007. Financial standing improved largely at enterprises with assets in excess of 1 billion rubles, and between 100 million and 1 billion rubles. As for enterprises

² The Bank of Russia monitors over 14,000 non-financial enterprises in key economic activity categories and all regions of the Russian Federation.

with assets worth less than 100 million rubles, their financial standing deteriorated, mainly as a result of the inadequacy of capital as an investment resource, and the heavy debt burden on capital amid the strong need for borrowed funds.

Analysis of payments and settlements in the non-financial sector has revealed the following. Official statistics for December 2007 show that overdue payables in the key economic activity categories in the non-financial sector accounted for almost 90% of overdue payables in all economic activity categories. Specifically, in the manufacturing sector, overdue payables accounted for 30.6% of total overdue payables in the non-financial sector, in the oil, gas and mining sector they accounted for 20.0%, in the production and distribution of electricity, gas and water 17.5%, in wholesale and retail trade 14.0%, and in construction 11.4%.

Overdue debt on bank loans and other borrowings in Russia as a whole accounted for 0.6% of total bank loans as of the end of December 2007 (against 0.9% as of the end of November 2006). Enterprises in the manufacturing sector accounted for 33.7% of overdue debt on bank loans and other borrowings, in the oil, gas and mining sector 27.4%, in agriculture, hunting and forestry 12.8% and in transport and communications 9.4%.

I.1.3. Payment system

The Bank of Russia payment system retained its importance for financial stability in the country and the effective implementation of monetary policy, judging by the share of payments it effected: payments through the Bank of Russia system accounted for 59.7% of the total volume of payments through the Russian payment system (compared to 59.9% in 2006), and 34.0% of their number (41.7% in 2006).

In 2007, the Bank of Russia payment system effected 833.9 million payments totalling 445.8 trillion rubles.

The number of payments made through the Bank of Russia payment system in 2007 increased by 19.8%, and their value grew by 66.8%. Most of the increase came from payments effected by credit institutions and their branches. This was a result of high demand for services provided by the Bank of Russia payment system, as a low-risk and high-quality interbank money transfer system; the expansion of the customer base of credit institutions and their branches; and greater business activity among economic entities.

The Bank of Russia payment system accounted for 59.6% of the total number and 71.9% of the total volume of interbank payments effected in Russia in 2007³.

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

The large share of interbank payments carried out through the Bank of Russia payment system illustrates its importance for the national banking system. Thanks to intraday and overnight loans extended by the Bank of Russia for settlements, credit institutions and their branches effected payments totalling 13.6 trillion rubles through the Bank of Russia payment system during the year under review.

The average daily number of payments rose by 17.9% over the year to 3.3 million, while the average size of payment increased 40% year on year to reach 534,600 rubles (against 383,900 rubles in 2006). The ratio of the value of payments effected through the Bank of Russia payment system to Russia's GDP expanded from 10.0 in 2006 to 13.5 in 2007.

Among the participants in the Bank of Russia payment system as of January 1, 2008, were 1,136 credit institutions (1,189 credit institutions as of January 1, 2007) and 2,285 branches of credit institutions (2,062 a year earlier). A total of 3,421 correspondent accounts (sub-accounts) were opened for them (a rise of 105% during the year under review).

As in previous years, the overwhelming majority of payments in the Bank of Russia payment system were made electronically. The share of these payments reached 99.7% both in number and in volume (compared to 99.5% of the total number and 99.6% of the total volume of payments in 2006). Credit institutions and their branches accounted for 99.99% of the total number of settlement documents for the effectuation of payments accepted by the Bank of Russia for processing in a working day.

The increase in the number of Bank of Russia customer credit institutions and their branches participating in the exchange of electronic documents with the Bank of Russia to 97.0% of the total as of January 1, 2008 (against 96.4% as of January 1, 2007) was due to improvements in electronic technology. As a result, the share of the payments entering the Bank of Russia payment system through communication channels increased to 97.8% of total payments, against 97.7% in 2006.

In July 2007, the Bank of Russia launched the real-time gross settlement system (BESP), and in December BESP participants began to effect payments through this system. In 2007, the participants in the BESP system comprised 98 Bank of Russia establishments, including 47 main cash settlement centres; 44 cash settlement centres; the Bank of Russia First Operations Department (OPERU-1); the Operations Department along with five divisions of the Bank of Russia's Moscow Branch as special settlement participants; and 17 credit institutions and branches of credit institutions. The BESP system was a new step forward in building a centralised Bank of Russia payment system.

The sustained favourable economic dynamics in Russia are creating conditions conducive to a rapid and qual-

³ These include payments effected between credit institutions and their branches through the Bank of Russia payment system, payments made by settlement non-bank credit institutions, payments passed through the correspondent accounts of credit institutions opened with other credit institutions and payments between the divisions of one credit institution.

itative evolution of the payment system, accompanied by growth in demand for its services.

Banking system payment services have become more accessible. The number of establishments⁴ within the banking system providing payment services increased by 10.2% over the year to 41,081. The most significant growth (26.5%) was registered in the number of additional offices of credit institutions and their branches, which reached 18,979, as banks sought to cut their costs in providing banking services, including payment services. As a result, the number of banking institutions providing payment services increased from 261 per 1 million residents in 2006 to 289 in 2007.

The number of transaction accounts⁵ of households and corporate entities other than credit institutions rose by 14.2% over the year, and as of January 1, 2008, it stood at 421.7 million. By the end of 2007, there were on average three transaction accounts per person opened with credit institutions (compared to 2.6 accounts in 2006).

The number of non-cash payments effected in the national currency through the Russian banking system increased by 46.8% in 2007, and their volume (in 11 days it totals the equivalent of annual GDP) rose 67.3%. The Russian banking system conducted on average 9.9 million payment transactions per day in the national currency to the amount of 3.0 trillion rubles, while private payment systems effected a daily average of 6.5 million payments on average to the amount of 1.2 trillion rubles.

In the year under review, 5.3% of the total number and 12.3% of the total volume of all ruble payments in private payment systems were made through correspondent accounts opened by credit institutions with other credit institutions, or branches of credit institutions. Settlements between divisions of a single credit institution accounted for 23.8% of the total number and 34.0% of the total value of ruble payments in private payment systems. Most payments in private payment systems were made within a single division of a credit institution or branch of a credit institution, and accounted for 70.9% of the total number and 53.7% of the total volume of all ruble payments effected through private payment systems.

Settlements on the securities market were effected by non-bank credit institutions such as the MICEX Clearing House and RTS Clearing House. The volume of settlements effected by the MICEX Clearing House on net obligations in trading on the government securities market, corporate securities market and futures (standard) contracts market, increased 33.8% in 2007 year on year.

As in previous years, most payment instruments in non-cash settlements in the Russian banking system were payment orders. These increased 10.8% in terms of number to 1.1 billion transactions and 45.4% in value to 510.9 trillion rubles. There was significant growth over the

year in the number and value of payment requests and collection letters used (90% growth in number and 150% in volume). Cheques and letters of credit accounted for a negligible share of payment instruments.

Cash remained the most common payment instrument in retail payments. However, new means of non-cash retail payments on bank accounts, effected by orders to a credit institution via the Internet or mobile phones gained continually wider acceptance on the market. In 2007, the value of these payments reached 285.2 billion rubles (9,261,100 transactions) and 1.4 billion rubles (2,466,400 transactions) respectively. The number of individual accounts maintained via mobile phones increased by 120% year on year, while the number of accounts maintained by customers over the Internet rose 48.2%.

The bank card market continued its steady expansion. Over the year, the number of bank cards gained 38.4% to 103.5 million. This was largely a result of numerous 'wage projects' and growth (of 58.0% over the year) in the number of credit cards connected with consumer lending. As of January 1, 2008, the number of credit cards stood at 8.9 million.

A rise in worker migration led to sustained growth of the Russian money transfer market, which increased by an estimated annual rate of 60–80%. In 2007, the number of remittances made by credit institutions on the instructions of individual clients without opening a bank account, including those effected through money transfer systems, reached 721 million, and totalled 2,149.9 billion rubles in value. At the same time, the shortage of banking institutions in Russian regions led to greater use of non-bank institutions, such as the Russian Postal Service, for money transfers.

I.1.4. Banking sector macroeconomic performance indicators

Trends among major bank performance indicators show that 2007 was a relatively successful year: the banking sector demonstrated resistance to the external adversities of the second half of the year.

Significant improvements were seen among key indicators reflecting the role of the banking sector in the economy and its share of GDP. Banking sector assets relative to GDP increased by 9.1 percentage points to 61.4%. Banking sector capital to GDP edged up 1.8 points year on year, to 8.1%. Household deposits relative to GDP increased by 1.5 points to 15.6%. Credit to non-financial organisations and households relative to GDP expanded by 7.4 points to 37.3%.

As in the previous year, growth in banking sector assets was largely a result of greater lending. The ratio of bank loans to GDP increased by 8.1 percentage points to 43.2%, while the share of bank loans in banking sector total assets expanded from 67.2% to 70.5%. Lending to

⁴ Bank of Russia establishments, credit institutions and their branches, additional offices, operations offices, cash credit offices and cash departments.

⁵ A transaction account is an individual or corporate account that may be used to effect payments.

households saw the greatest increase, reaching 9.8% of GDP, of which housing mortgage loans accounted for 1.9% of GDP.

The principal source of funds for credit institutions in 2007 was resources raised from the corporate sector: relative to GDP, they gained 3.5 percentage points to

reach 20.5%, and their share in banking sector liabilities* expanded by 0.9 points to 33.4%.

The favourable dynamics of all key banking sector performance indicators amid their growth relative to GDP indicate that the banking sector's importance to the Russian economy continues to grow.

** Here and below "liabilities" stand for "bank funds and profits (capital items in the balance sheet) plus liabilities" or the right side of the accounting equation (total resources); this term is traditionally used in economic analysis in Russia along with "liabilities".*

I.2. Institutional Aspects of Banking Sector Development

I.2.1. Banking sector quantitative characteristics

The number of operating credit institutions fell from 1,189 to 1,136 in 2007 (see Chart 1.1). Fifty-four credit institutions had their banking licences revoked (cancelled), eight were struck off the State Register after merging with other credit institutions, and 10 credit institutions (with banking licences) came into operation.

The number of credit institutions had been in decline for the third consecutive year. In 2005–2007, their number dropped by 163.

The number of credit institutions decreased in the Southern, Volga, Ural and Central Federal Districts, including Moscow and the Moscow Region, where the number of credit institutions fell by 39 during the year. In the North-Western Federal District, the number of credit institutions rose by one, while in other federal districts it remained unchanged.

The branch networks of credit institutions continued to expand in the year under review. The number of branches of operating credit institutions, excluding Sberbank, increased from 2,422 to 2,646 during the year. Sberbank continued to optimise its branch network, and the number of its branches in 2007 fell by 50 (see also III.2).

As of January 1, 2008, as was the case a year earlier, in all federal districts except the Central Federal District, the number of branches of banks based in other regions exceeded the number of local credit institutions and their branches.

I.2.2. Regional banking

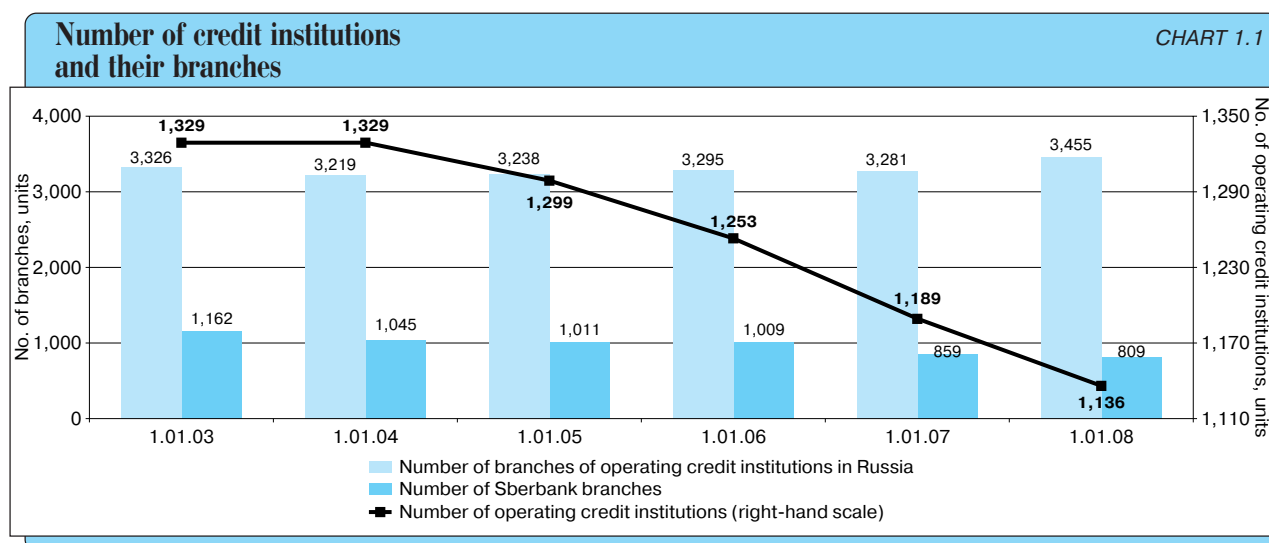
In 2007, the number of regional banks⁶ decreased from 582 as of January 1, 2007, to 568 as of January 1, 2008. However, regional bank assets in 2007 grew at a faster rate (49.0%) than banking sector total assets (which gained 44.1%). As a result, the share of regional banks in banking sector total assets climbed from 14.4% to 14.9% as of January 1, 2008.

The capital (own funds) of regional banks increased 45.6% in 2007 to 400.1 billion rubles, while the share of regional bank capital in banking sector total capital contracted from 16.2% as of January 1, 2007, to 15.0%.

The activity of regional banks continued to be profitable in 2007. They posted a profit of 75.3 billion rubles, an increase of 41.1% on 2006. As of January 1, 2008, profit-making regional banks accounted for 99.7% of total regional banks (against 99.3% as of January 1, 2007), while their share in regional bank assets remained unchanged at 99.9%.

As previously, the highest level of density of banking services in 2007 was registered in the Central Federal District, followed by the North-Western and Volga Federal Districts. It should be noted that Moscow, which has the highest density level, ensures the Central Federal District's leading position. St Petersburg, the Kaliningrad and Novosibirsk Regions, and the Republic of Altai are also well provided with banking services.

The density of banking services remains low in the Ural, Far Eastern, Siberian and Southern Federal Districts.



⁶ Banks registered outside Moscow and the Moscow Region.

The lowest density level was registered, as in the past, in the Republics of Ingushetia and Daghestan.

1.2.3. Concentration of banking activity

The share of the top 200 credit institutions in terms of assets in 2007 expanded from 90.6% to 91.6% of banking sector total assets, while the share of the top five banks remained virtually unchanged at 42.3% as of January 1, 2008 (the figure was 42.5% as of January 1, 2007).

The top 200 credit institutions in terms of capital accounted for 89.7% of banking sector total capital as of January 1, 2008 (against 87.4% as of January 1, 2007), while the top five banks accounted for 43.2% (against 35.9% as of January 1, 2007).

The number of credit institutions with capital in excess of the ruble equivalent of 5 million euros in 2007 increased from 676 to 726, or 7.4% (the total capital of this group of banks grew 59.1%), while their share in banking sector total capital expanded from 98.0% to 98.9% (see Chart 1.2).

The presence of a significant number of small credit institutions in the banking sector (36.1% of operating credit institutions had capital of less than the ruble equivalent of 5 million euros) caused low asset, credit, and capital concentration in the Russian banking sector. This has been confirmed by the dynamics of the internationally accepted Herfindahl-Hirschman Index (HHI)⁷ (see Chart 1.3). As of January 1, 2008, the asset concentration index was 0.078. In the previous two years, this figure declined from 0.092 to 0.079. Meanwhile, the concentration of lending to non-financial organisations increased from 0.115 to 0.123 over the year, remaining at a moderate level.

Only the household deposit market had a high concentration level, despite a sustained downward trend. As of January 1, 2008, the HHI in this segment of the market stood at 0.269 (against 0.403 four years earlier). The sig-

nificant decline of the HHI during the past few years has been largely a result of Sberbank's falling share of the household deposit market. The deposit insurance system has had a favourable effect on market competition.

Although the capital concentration level rose from 0.053 to 0.078 in 2007, it remains low. Its increase has been due to considerable growth in capital as a result of IPOs launched by two large Russian banks in the first half of 2007.

The HHI for assets in federal districts remained at a moderate level in 2007 (see Chart 1.4). The highest asset concentration was registered in the Southern Federal District, where the HHI in 2007 declined from 0.177 to 0.146. Low concentration levels were registered in the Central and Ural Federal Districts, where the HHI stood at 0.065 and 0.086 respectively as of January 1, 2008 (compared to 0.066 and 0.083 respectively as of January 1, 2007). In other federal districts, the HHI for assets declined during the year under review and remained at a moderate level.

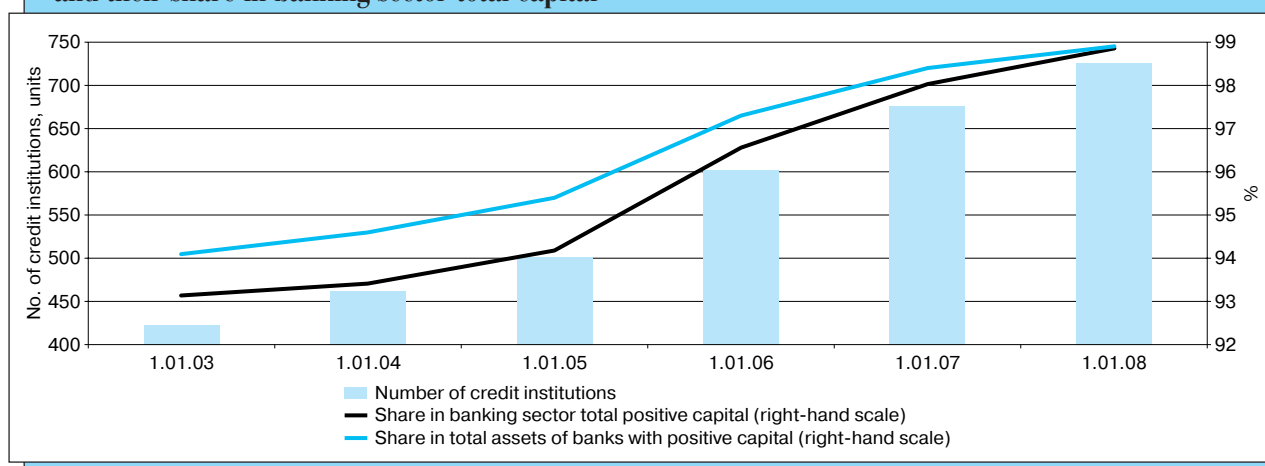
1.2.4. Interaction between banking sector and other financial market segments

The crisis on international financial markets in the second half of 2007 provoked an outflow of capital from emerging markets, which influenced the situation on the Russian financial market. Many of its growth indicators in 2007 demonstrated more moderate dynamics than in 2006.

Corporate securities market. The rise of major price indicators on the Russian **stock** market slowed down in 2007. The MICEX index gained 12%, and at the end of the year stood at 1,888.86 points, while the RTS index (see Chart 1.5) rose 19% to 2,290.51 points (in 2006, MICEX gained 68% and RTS 71%). The moderate growth of the Russian stock market price indices in 2007 slowed growth in market capitalisation as compared with

Number of banks with capital in excess of the ruble equivalent of €5m, and their share in banking sector total capital

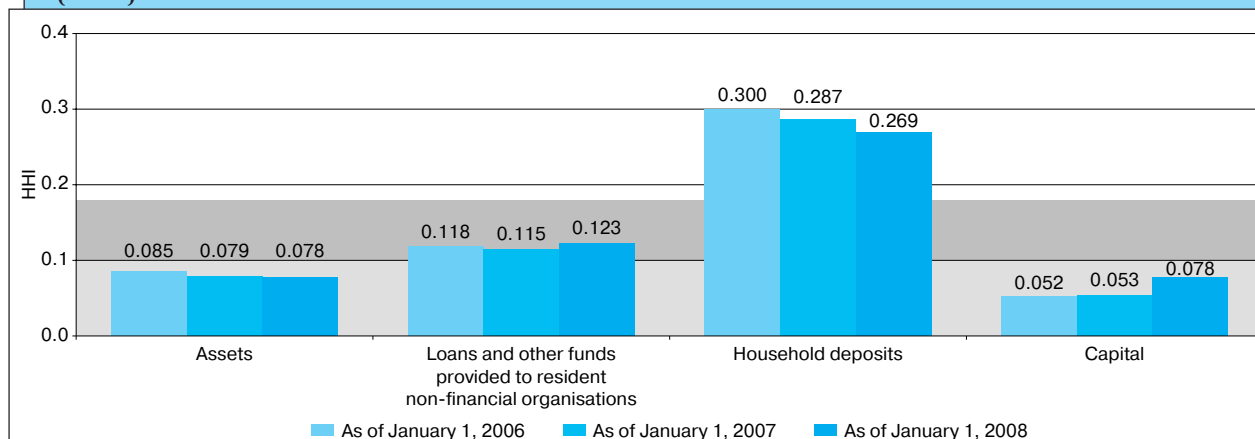
CHART 1.2



⁷ The Herfindahl-Hirschman Index is recommended by the Compilation Guide on Financial Soundness Indicators drafted by the IMF as a measure of concentration in the banking sector.

Russian banking sector concentration levels (HHI)

CHART 1.3



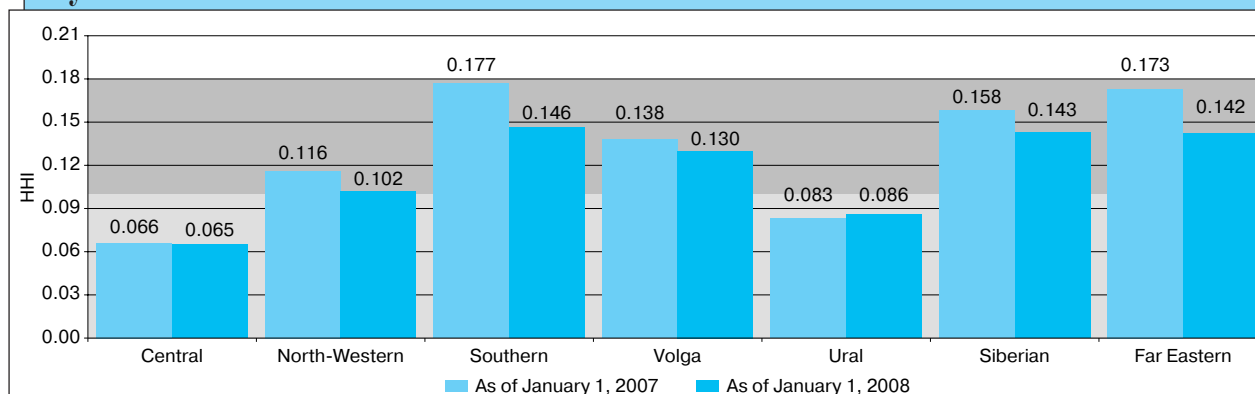
The Herfindahl-Hirschman Index is calculated as a sum of squared unit weights of credit institutions in the banking sector total volume.

It shows the extent of the indicator's concentration on a scale from 0 to 1.

The value 0 signifies the lowest concentration level, less than 0.10 is a low concentration level, 0.10 to 0.18 is a moderate concentration level, over 0.18 is a high concentration level.

Asset concentration (HHI) by federal district

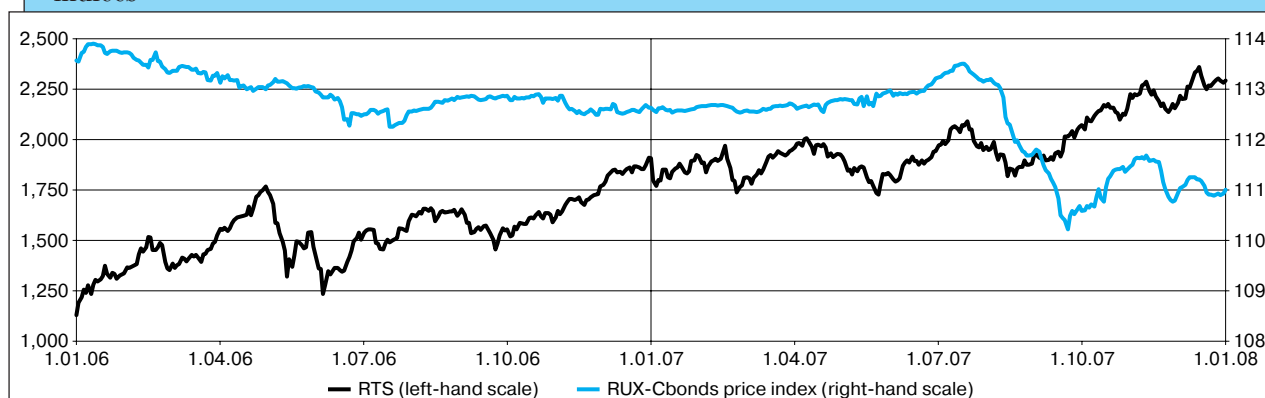
CHART 1.4



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

Stock market indices

CHART 1.5



2006. The capitalisation of the RTS increased 38% (against 190% in 2006) and at the end of 2007 stood at \$1,328.8 billion (32.6 trillion rubles).

The aggregate turnover of secondary trade in shares of Russian issuers on the three major Russian exchanges (the MICEX, St Petersburg and RTS stock exchanges) increased 20% in 2007 year on year, to reach 15.8 trillion rubles. The share of bank equities in the total volume of secondary stock trade on these exchanges more than doubled in 2007, reaching 13%. This was due to growth in the number of bank shares traded on the Russian stock market, and to growth in banking sector share trading.

The value of registered bank share issues decreased 13% in 2007 year on year, and stood at 201.7 billion rubles at par.

Although banks' investments in Russian equities increased 60% in 2007, the bank share in the structure of investment on the Russian stock market was less than 2%.

The issue of corporate **bonds** on the domestic market declined slightly in 2007. Ruble-denominated bonds with total nominal value of 456.0 billion rubles were placed on the MICEX (464.4 billion rubles in bonds were placed in 2006). Growth in the corporate bond portfolio slowed in 2007. The value of outstanding corporate bonds on the domestic market increased 39% year on year (in 2006, it grew 80%), and stood at 1,257.1 billion rubles at par⁸.

The value of registered bank bond issues increased 160% in 2007 year on year to reach 298.6 billion rubles at par.

The aggregate turnover of secondary trade in corporate bonds on the three major Russian trading floors, in terms of the volume of these transactions (the MICEX, RTS and SPBEX) increased 50% in 2007 year on year, reaching 2.7 trillion rubles. At the same time, the MICEX accounted for more than 99% of all corporate bond trades. The share of bank bonds in the overall turnover of secondary trade in corporate bonds on the three exchanges expanded to 19% in 2007 (against 12% in 2006).

Growth in bank investments in corporate bonds slowed in 2007. As a result, the banking sector's share of investors on the ruble corporate bond market (excluding repos) contracted from 50% in 2006 to 41% in 2007. Banks remained lead managers, financial consultants, paying agents and underwriters on the corporate bond market.

Government securities market. In 2007, the government securities market demonstrated growth in volume and higher activity among market players. Over the year, the nominal value of outstanding federal loan bonds (OFZ) on the market increased 19.6% to 1,047.4 billion rubles. The total volume of primary placements at Ministry of Finance auctions reached 252 billion rubles, against 190.7 billion rubles in 2006.

Turnover on the secondary OFZ market expanded 180% in 2007, totalling 1,501.1 billion rubles at market prices, against 536.4 billion rubles in 2006. The volume of transactions in the main system of trading increased

45.7% to 491.9 billion rubles, and the volume of off-board trades grew by 5.1 times to 1,009.1 billion rubles. Most of transactions on the secondary government bonds market were closed in September and October (765.0 billion rubles).

The gross yield index for government bonds calculated by the MICEX ranged between 6.42% and 6.65% for most of the year under review. It surged in September (to a record high of 6.93%) as a result of a sharp drop in demand on the OFZ market, caused by a shortage of ruble resources. However, by the end of the month, the OFZ gross yield index had recovered to 6.6% due to Bank of Russia purchases of OFZ bonds on the secondary market and stronger demand for government bonds from passive investors. As a result, in 2007, this index gained 6 basis points to reach 6.5%.

Despite larger market turnover, market liquidity remained low. Government bonds held limited appeal to investors due to their low yields, and the high concentration of bonds (more than 35% of total volume) in the portfolios of passive investors, such as Sberbank and the Pension Fund of the Russian Federation, which used the 'buy-and-hold' strategy. The non-resident share of the OFZ market remained a negligible 0.8% at the end of 2007.

Foreign exchange market. The situation on the domestic foreign exchange market for most of 2007 (in the 1st, 2nd and 4th quarters of the year), as in the previous year, was characterised by an excess of supply over demand amid a substantial inflow of foreign exchange from capital and foreign trade operations, conducted against a background of favourable prices on world energy markets. In August and September, however, the domestic foreign exchange market experienced a situation that was atypical of recent years. The liquidity squeeze on world financial markets, and the capital outflow from Russia and other emerging markets that followed the US mortgage crisis, in the mid-August provoked a steep rise in demand for foreign currency on the domestic market. Bank of Russia interventions offset the foreign currency shortage on the domestic market during that period. In late August and September, the supply of foreign currency matched demand on the domestic market, while in the 4th quarter supply began to outstrip demand again, as the private capital inflow resumed and the banking sector experienced a new liquidity shortage.

The exchange rate dynamics of the major world currencies against the ruble in 2007 were affected by exchange rate trends on the international market and policies pursued by the Bank of Russia. In 2007, the official rate of the US dollar against the ruble depreciated 6.8%, while the official euro rate appreciated 3.6%.

The expansion of export-import operations and substantial capital flows stimulated activity on the domestic foreign exchange market. As a result, the average daily turnover of interbank spot trades in all currency pairs increased 80% in 2007 year on year, from \$42 billion to \$74.7 billion.

⁸ According to news agency Cbonds.ru.

Ruble/dollar trades prevailed in the currency structure of the interbank spot market, but their share contracted significantly — from 64% in 2006 to 52%. The average daily currency turnover in interbank spot transactions with the US dollar grew 74% to \$70.6 billion, while the average daily turnover of similar trades with the euro increased 110% to \$24.1 billion. Turnover also grew in trades with the Japanese yen, the British pound and the Swiss franc.

There was a rise in traders' activity on exchanges in 2007. On the STS, aggregate ruble/dollar trade turnover expanded 53.8% year on year to reach \$1,445.6 billion. STS aggregate ruble/euro exchange trade turnover grew 140% to 30.2 billion euros.

As in 2006, spot transactions in 2007 accounted for most interbank foreign exchange market trades (about 97%). The average daily currency turnover of interbank forward trades in 2007 increased 58% to \$2.2 billion.

Non-bank financial organisations

Insurance companies⁹. The main reasons for the reduction in the number of insurance companies (by 6.6% to 857) in 2007 were the tightening of the legislative requirements for their capitalisation, and an increase in the number of mergers and acquisitions. The aggregate authorised capital of insurance companies increased 2.9% to 157.9 billion rubles, while the share of foreign funds in its structure more than doubled, and as of January 1, 2008, stood at 9.9%. As was the case a year earlier, the development of the insurance business accelerated overall. The value of insurance premiums increased 27.1% to 776.0 billion rubles, and indemnities by 36.6% to 481.9 billion rubles. Property and compulsory medical insurance continued to have a significant impact on the dynamics of aggregate insurance premiums. For the first

time in recent years, the value of life assurance premiums increased (by 42.0%), mainly due to the almost complete abolishment of tax-saving 'wage' schemes from this segment of the market.

Unit investment funds¹⁰. The number of unit investment funds (PIFs) grew by 383 to 1,024 in 2007, compared to an increase of 246 in 2006. However, the aggregate net assets (ANA) of PIFs, which reached 745.1 billion rubles as of January 1, 2008, increased by 2.5 percentage points less (77.2%) than a year earlier. The net flow of funds to PIFs, valued at 257.4 billion rubles in 2007, accounted for 73.9% of growth in ANA, but unlike in 2006, closed-end trusts accounted for almost all of this sum (95.1%). The share of open-end and interval funds in ANA contracted from 35.9% to 25.1%, while the net flow of funds to these trusts decreased by a factor of 3.7 to 12.7 billion rubles. For the first time in recent years, there was a fall (of 28%) in the ANA of interval funds, due to the transformation of some of them into open-end PIFs.

Non-government pension funds¹¹. There was a slowing of growth in non-government pension funds (NPF) in 2007. According to preliminary data, the aggregate volume of property owned by the 240 NPF that presented their reports equalled 602.8 billion rubles as of January 1, 2008, representing an increase of 17.1%, compared to a 49.5% rise in 2006. Pension reserves grew 16.7% to 472.9 billion rubles (in 2006, they increased 46.1%). One reason for the weaker NPF performance indicators was small growth in the number of their members — 5.2% in 2007. Pension savings increased 170% to 26.8 billion rubles as of January 1, 2008. The number of new contracts for the management of pension savings in 2007 was the highest (1.5 million) in the period since NPFs appeared in the compulsory pension insurance system.

⁹ According to data provided by the Federal Insurance Supervision Service (FISS).

¹⁰ According to data provided by Cbonds.ru. news agency.

¹¹ According to data provided by the Federal Financial Market Service.

I.3. Banking Operations

I.3.1. The dynamics and structure of borrowed funds

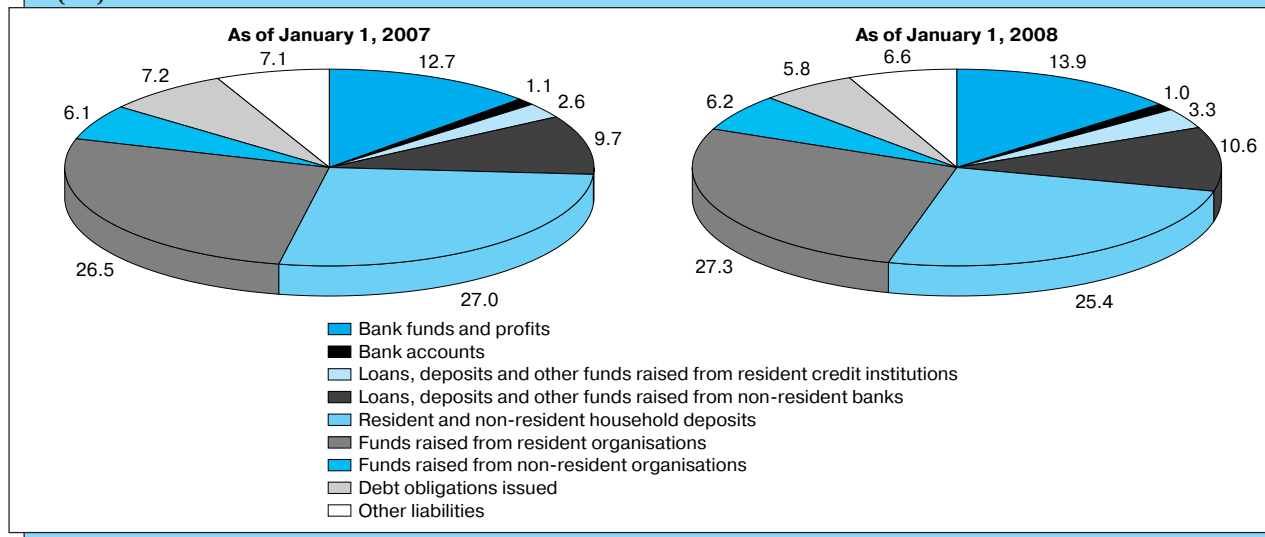
Despite crisis episodes on world financial markets, Russian credit institutions continued during 2007 to strengthen their resource base, a process accompanied by structural changes in banking sector liabilities* (see Chart 1.6).

The balances in customer accounts¹² increased 42.3% in 2007 to 12,053.1 billion rubles, but their share in banking sector liabilities contracted from 60.3% to 59.5%.

As the economic situation remained generally positive, the principal source of resource base growth among credit institutions in 2007, as in 2006, was funds raised from organisations¹³, which increased 48.1% (against

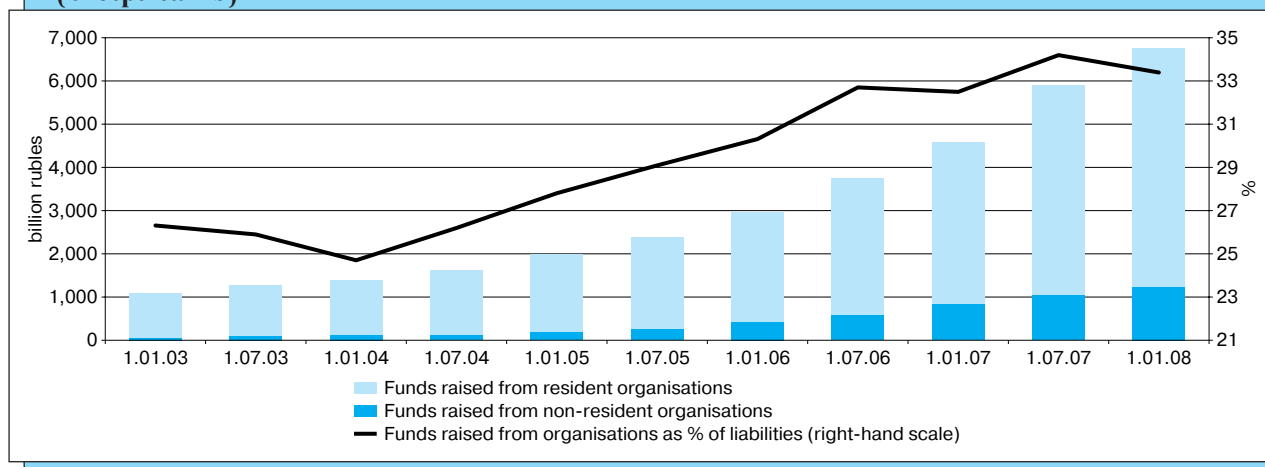
Structure of banking sector liabilities (%)

CHART 1.6



Raising funds from organisations (except banks)

CHART 1.7



* "Liabilities" stand for "bank funds and profits (capital items in the balance sheet) plus liabilities".

¹² The balances in organisations' accounts, including all-level budgetary and government and other extra-budgetary funds, household funds, float, factoring and forfeiting balances and funds written down from customer accounts but not entered in a credit institution's correspondent account.

¹³ Except resident credit institutions and non-resident banks.

54.8% in 2006). The share of these funds in banking sector total liabilities expanded from 32.5% to 33.4% (see *Chart 1.7*). Funds raised from enterprises accounted for 35.5% of overall growth in banking sector liabilities.

The balances in settlement and other accounts, i.e. short-term resources, accounted for slightly less than 47.0% of funds raised from organisations as of January 1, 2008. Over the year, they increased 34.3% and accounted for 15.7% of banking sector liabilities (against 16.8% as of January 1, 2007).

The balances in settlement and other accounts with small and medium-sized banks based in Moscow and the Moscow Region, as well as other regions, accounted for the largest share of funds raised from organisations (81.1% and 73.5% respectively). The reason for this is that the customer base of these banks consists mainly of small and medium-sized businesses. As of January 1, 2008, the share of the balances in settlement and other accounts in the liabilities of these groups of banks exceeded the banking sector average level of 15.7%, and stood at 36.3% and 25.6% respectively.

At the same time, the bulk of funds accumulated by the banking sector in settlement and other accounts were the funds of large private banks (41.4%) and state-controlled banks (28.3%).

Corporate deposits grew faster than other funds raised from organisations in 2007. They increased 67.5% against 64.8% in 2006, and their share in banking sector total liabilities expanded from 11.0% to 12.8%. Within this source of funds, deposits with maturities in excess of one year increased 90.2%, and as of January 1, 2008, accounted for 33.7% of total corporate deposits (against 29.7% as of January 1, 2007).

The strongest growth in corporate deposits was registered in banks with a government interest, and banks controlled by foreign capital. Corporate deposits with large private banks continue to increase, albeit at a slower rate. The main drivers of growth are the high level of customer confidence in large banks, and the wider range of services they provide.

Corporate deposits placed with these three groups of banks accounted for 95.5% of total corporate deposits taken by the banking sector (see *Table 1.1*).

Other funds raised by banks also continued to grow in 2007. Although their volume increased 58.8%, their share in banking sector liabilities remained small — 4.5% as of January 1, 2008 (4.1% as of January 1, 2007). Funds raised from non-resident corporate entities accounted for 95.0% of this item. In 2007, they increased 61.4% in volume, and most of these funds (92.3%) were obtained for terms in excess of one year.

Household deposits remain a major source of bank funds. However, growth in the volume of household deposits, which reached 5,136.8 billion rubles at the end of 2007, slowed from 37.7% in 2006 to 35.4%, and their share in banking sector total liabilities contracted from 27.0% to 25.4%. Nevertheless, household deposits remained the most steadily growing source of banking sector resources in 2007. They accounted for 22% of growth in banking sector liabilities. Growth in household deposits slowed slightly, as households showed a greater interest in alternative investments, such as PIFs, as well as Sberbank and VTB shares.

Depositors continued to show a preference for holding their savings in the national currency during 2007: ruble operations accounted for 97.0% of total growth in household deposits. Growth in ruble-denominated household deposits in 2007 stood at 41.3%, while foreign currency-denominated deposits¹⁴ grew 13.5% (in 2006, the figures were 51.9% and 2.4% respectively). As a result, the share of ruble deposits in total household deposits in 2007 expanded from 83.4% to 87.0%. This process is one manifestation of the de-dollarisation of the economy, which in 2007 was accompanied by a contraction of the foreign currency component of banking sector total liabilities, from 24.8% to 22.8%.

In 2007, household deposits with maturities in excess of one year increased 39.0% and their share in banking sector total household deposits expanded from 61.0% to 62.6%.

Competition on the household deposit market continued to intensify. While household deposits with credit institutions, excluding Sberbank, increased 40.7% in 2007, household deposits with Sberbank grew 30.8%. As a result, Sberbank's market share contracted from 53.3% to 51.4%, or by 1.9 percentage points (in 2006, it contracted by 1.1 percentage points).

Corporate deposits

TABLE 1.1

	Corporate deposits as % of bank liabilities		Corporate deposits as % of banking sector total corporate deposits	
	1.01.07	1.01.08	1.01.07	1.01.08
State-controlled banks	7.8	11.1	26.9	34.0
Banks controlled by foreign capital	17.3	15.9	19.1	21.4
Large private banks	13.1	14.5	49.0	40.1
Medium-sized and small banks based in Moscow and the Moscow Region	6.0	7.2	2.4	2.2
Regional medium-sized and small banks	7.2	7.6	2.7	2.2

¹⁴ In dollar terms.

Household deposits with state-controlled banks accounted for 37.1% of these banks' liabilities as of January 1, 2008 (against 42.5% as of January 1, 2007), and for 57.0% of total household deposits in the banking sector. Household deposits with state-controlled banks, excluding Sberbank, accounted for 10.9% of liabilities of this group of banks as of January 1, 2008, and 6.0% of banking sector total household deposits.

Household deposits with regional small and medium-sized banks accounted for 35.3% of these banks' liabilities, exceeding the banking sector average by 10 percentage points. The share of household deposits with small and medium-sized banks in Moscow and the Moscow Region in these banks' liabilities expanded from 13.7% to 15.5% in 2007.

In banks controlled by foreign capital, the share of household deposits in liabilities contracted from 14.0% to 13.2% in 2007.

Funds raised by credit institutions by the issuing of debt obligations increased to 1,176.1 billion rubles in volume, or 15.5% (against 35.9% in 2006), while their share in banking sector liabilities contracted from 7.2% in 2006 to 5.8%. The lower share of debt obligations in liabilities was due to slower growth in the value of promissory notes issued by banks (from 28.6% in 2006 to 4.0% in 2007). Promissory notes remain the predominant type of debt obligations issued by banks, although their share contracted from 77.6% in 2006 to 69.9% in 2007.

The value of bonds issued by banks increased 70%, and savings certificates 40%, but their share in banking sector liabilities remained small, at 1.5% (compared to 1.3% as of January 1, 2007).

Bank bond issue on the domestic financial market continues to be restrained by high costs, and the weaker situation on the debt market, caused by instability on world financial markets in the second half of 2007. The inclusion of bonds in the Bank of Russia Lombard list is a major stimulus for bond issuers.

Funds raised on the interbank market continued to play a major role in liabilities. In 2007, obligations on interbank loans grew 62.2% (against 59.3% in 2006), to reach 2,807.4 billion rubles. Their share in banking sector liabilities expanded from 12.3% to 13.9%.

Russian credit institutions continued to actively raise funds on the international interbank market: as of January 1, 2008, loans from non-resident banks accounted for 76.1% of total interbank loans received (see Chart 1.8). The volume of obligations on loans received from non-resident banks in 2007 increased 56.5% (against 74.1% in 2006). Nearly two-thirds of loans were raised on the international interbank market with maturities in excess of one year (69.5% as of January 1, 2008, and 64.3% as of January 1, 2007).

The opportunities for Russian banks to borrow from non-residents were affected by foreign investors' global reassessment of risks on emerging markets in the second half of 2007. This resulted in growth (of 150–200 basis points) in borrowing costs, accompanied by a low-

ering by foreign creditors of limits set for Russian counterparties, in particular medium-sized and small banks with either low credit ratings or no ratings.

Nevertheless, loans from non-resident banks are an attractive source of funds, being available at a price and volume unobtainable in Russia under market terms and conditions.

Therefore, the most active takers of interbank loans from non-residents were banks controlled by foreign capital (interbank loans accounted for 22.5% of these banks' liabilities), state-controlled banks (8.8% of liabilities), and large private banks (9.1% of liabilities).

These three groups of banks accounted for virtually the entire volume of loans obtained on the international interbank market.

Medium-sized and small banks, including those based in Moscow, raise virtually no funds on international markets. Loans obtained from non-resident banks accounted for 0.4% of liabilities among small and medium-sized banks based in Moscow and the Moscow Region, and 0.25% of regional banks' liabilities.

In the second half of 2007, growth in interbank loans obtained on the domestic market accelerated from 18.4% in the first half to 55.0%. Overall growth in these loans in 2007 (83.5%) far outstripped growth in loans taken on the international financial market (56.5%). However, the share of interbank loans obtained on the domestic market accounted for 3.3% of banking sector liabilities as of January 1, 2008, while the share of loans raised on international markets accounted for 10.6% (as of January 1, 2007, 2.6% and 9.7% respectively).

I.3.2. Asset dynamics and structure

In 2007, the Russian banking sector continued its dynamic development despite the crisis on world financial markets in the second half of the year. Banking sector total assets in 2007 increased 44.1%, as in 2006, reaching 20,241.1 billion rubles. This growth confirms the Russian banking sector's resistance to external negative influences. Banking sector total assets relative to GDP climbed from 52.2% as of January 1, 2007, to 61.4% as of January 1, 2008.

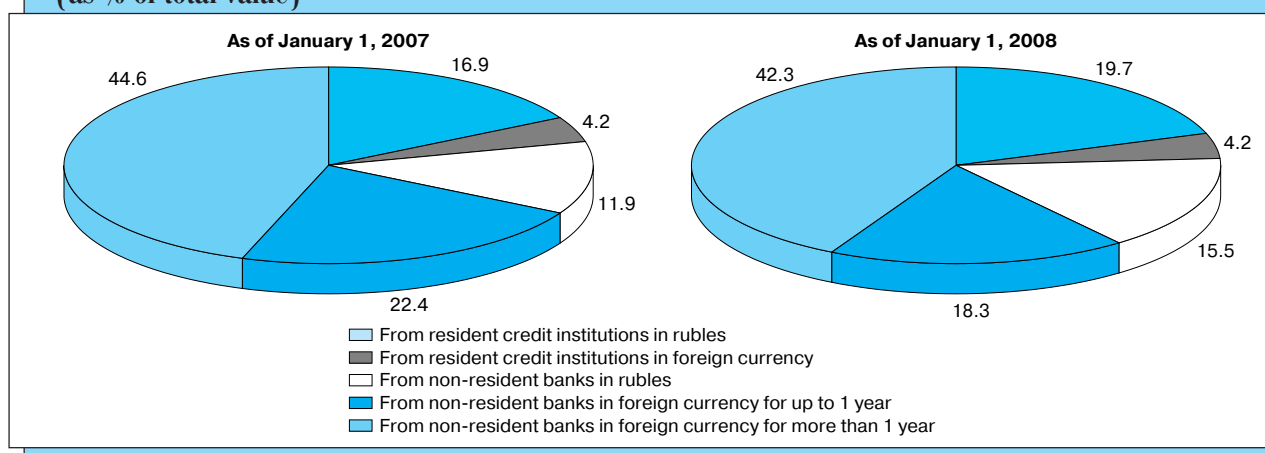
State-controlled and large private banks accounted for the majority of banking sector total assets (39.2% and 35.5% respectively). The medium-sized and small banks based in Moscow and the Moscow Region accounted for just 3.9% of banking sector assets, and regional medium-sized and small banks accounted for 3.7%.

The share of banks controlled by foreign capital expanded from 12.1% to 17.2% of banking sector assets.

It should be noted that growth in assets of large private banks weakened due to slower growth in credit to non-financial organisations and investments in debt obligations. Slower growth in banking opera-

Loans, deposits and other funds raised on international markets (as % of total value)

CHART 1.8



tions, which are the main sources of profits, may eventually have a negative effect on the financial performance of this group of credit institutions.

The asset growth of 69% was due to the expansion of credit to non-financial organisations and households. Total credit extended to this category of borrowers increased 53.0% in 2007 to 12,288.3 billion rubles, and its share in banking sector assets expanded from 57.2% to 60.7% (for changes in asset structure, see Chart 1.9). The structure of credit to non-financial organisations and households by group of banks altered in 2007 (see Table 1.2).

Credit extended to non-financial organisations continued to dominate the structure of the banking sector loan portfolio. In 2007, it increased 51.6% (against 39.6% in 2006) to reach 9,046.2 billion rubles, while its share in assets expanded from 42.5% to 44.7%. Seventy-four percent of operating credit institutions increased lending to non-financial organisations. Most of these loans (73.6%) were ruble-denominated. One factor behind the accelerated growth in credit to non-financial organisations was further improvements in their financial standing. Data released by credit institutions indicates that credit to non-financial organisations increased most rapidly in the construction sector (by 85.1%), agriculture, hunting and forestry (56.4%) and transport and communications (50.8%).

The share of long-term loans (with maturities exceeding one year) expanded from 45.9% in 2006 to 51.6% in 2007, of which with maturities exceeding three years from 18.6% to 23.9%. Growth in this type of credit continues

to outstrip overall growth in credit to non-financial organisations, a process testifying to the growing role played by the banking sector in maintaining investor activity in the economy.

State-controlled and large private banks play the leading role in meeting non-financial organisations' demand for long-term credit. The share of this group of banks in total loans with maturities exceeding one year in the banking sector as a whole stood at 80.8% as of January 1, 2008 (against 84.2% as of January 1, 2007).

Banks continued to actively increase lending to households, although growth in this type of credit slowed slightly — from 75.1% in 2006 to 57.0% in 2007. Loans to households as a share in total bank loans expanded from 21.9% to 22.7%, and in banking sector total assets from 14.7% to 16.0%. In 2007, the number of banks with a share of credit to households exceeding 20% rose from 295 to 324. Most of the loans extended to households (87.3%) were ruble-denominated.

State-controlled and large private banks dominate the household lending market, accounting respectively for 41.0% and 32.2% of the banking sector total household loans.

Foreign-controlled banks are actively expanding their presence on the retail market with their share in the household lending market increasing from 14.0% to 18.8% in 2007.

Loans to households made up the largest share of the loan portfolio of regional medium-sized and small banks (33.4% as of January 1, 2008), followed

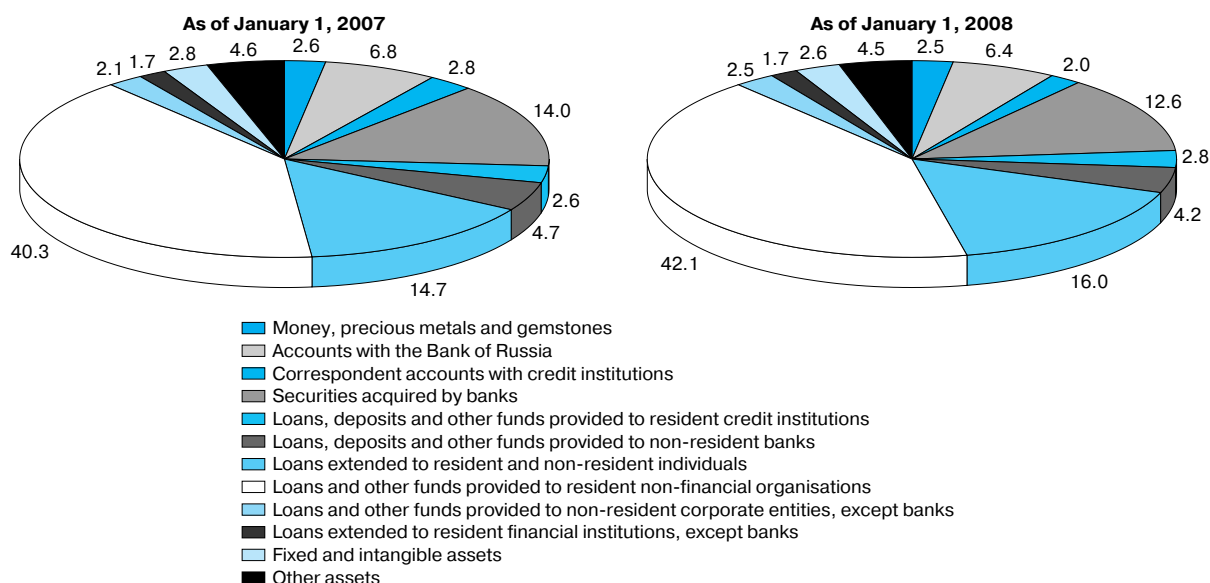
Loans to non-financial organisations and households by group of banks as % of banking sector total

TABLE 1.2

	1.01.07	1.01.08
State-controlled banks	42.5	44.0
Banks controlled by foreign capital	11.0	16.4
Large private banks	39.4	33.3
Medium-sized and small banks based in Moscow and Moscow Region	3.2	2.8
Regional medium-sized and small banks	3.9	3.5

Banking sector asset structure
(%)

CHART 1.9



by banks controlled by foreign capital (24.8%), state-controlled banks (22.1%), large private banks (22.0%), and medium-sized and small banks based in Moscow and the Moscow Region (16.2%).

Housing mortgage lending increased rapidly in 2007. Debt on this type of loans rose by a factor of 2.6. Despite significant growth in the share of housing mortgage loans in total loans to households¹⁵ (from 12.5% to 20.6%), their share in assets remained small (3.0% as of January 1, 2008). Most housing mortgage loans (73.0%) were ruble-denominated.

Most housing mortgage loans were extended in 2007 by state-controlled banks (41.1%) and large private banks (37.5%). However, the share of housing mortgage loans in the assets of these groups of banks was small (about 3.2% as of January 1, 2008).

As of January 1, 2008, only four banks had a more than 50% share of housing mortgage loans among their assets, these banks being specialised in extending this type of loans to households.

Credit institutions became slightly more active on the securities market in 2007. Securities portfolios held by banks increased 30.2% (against 27.4% in 2006), and as of January 1, 2008, aggregated 2,554.7 billion rubles, while their share in banking sector assets contracted from 14.0% to 12.6%. Most of the growth in securities portfolios was registered during the first half of 2007 (39.0%). In the third quarter, banks' securities portfolios fell by 10.7%, largely due to a reduction in debt portfolios prompted by the need to create a 'liquidity cushion'.

State-controlled and large private banks were the largest holders of debt obligations by the beginning of 2008. They owned respectively 40.8% and 34.1% of total debt obligations acquired by the banking sector.

The share of equities in the securities portfolios of credit institutions expanded slightly in 2007 (from 19.9% to 24.6%), due to the reduced share of debt obligations and discounted promissory notes (see Chart 1.10).

Stock market fluctuations had no negative impact on investments in equities. These investments increased 61.0% in 2007 (against 33.5% in 2006); the volume of these investments reached 629.6 billion rubles, while their share in banking sector total assets expanded from 2.8% to 3.1%.

The portfolio of promissory notes discounted by banks increased 9.5% in 2007 amid a reduction in their share of banking sector assets from 1.6% to 1.2%. Russian banks' promissory notes accounted for 79.1% of the discounted promissory notes portfolio (72.9% as of January 1, 2007), and their volume increased 18.9% in 2007 to 198.7 billion rubles. The volume of promissory notes issued by other Russian organisations fell by 14.0%, and their share in total discounted promissory notes contracted from 25.4% to 19.9%.

As previously, medium-sized and small banks based in Moscow and the Moscow Region were the most active buyers of promissory notes, although the share of discounted promissory notes in their assets contracted from 8.5% as of January 1, 2007, to 6.9% as of January 1, 2008.

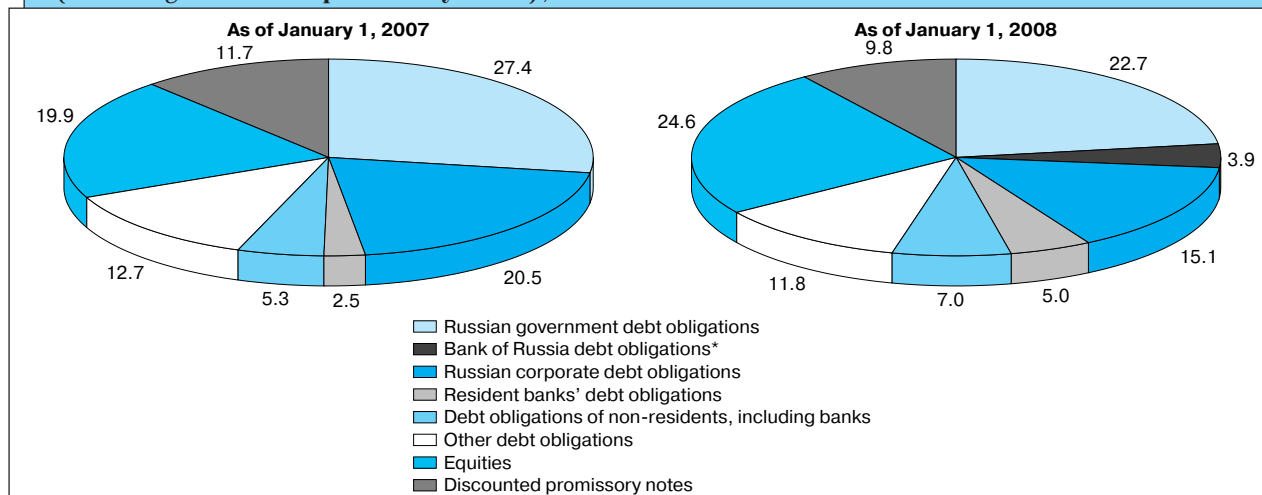
The biggest growth was registered in the majority interest portfolio (shares of associates and subsidiaries) (by 78.0%). Growth in their trading books to derive current income was slower at 41.8%. The volume of the investment portfolio rose 9.1%.

Claims on interbank loans in the banking sector as a whole increased 36.9% in volume in 2007 (against 55.0% in 2006) to reach 1,418.1 billion rubles, while their share in banking sector assets contracted from 7.4% to 7.0%.

¹⁵ Household loans are loans extended to resident individuals of the Russian Federation, excluding self-employed entrepreneurs.

Securities portfolios held by credit institutions
(including discounted promissory notes), %

CHART 1.10



* Pursuant to Bank of Russia Ordinance No. 1757-U, dated December 11, 2006, Bank of Russia debt obligations have been recorded separately in the chart of accounts since February 1, 2007.

Unlike in 2006, the most rapid growth in 2007 was registered in funds placed on the domestic interbank market, which gained 52.6% (against 17.4% in 2006), while their share in banking sector assets expanded from 2.6% to 2.8%.

At the same time, growth in funds placed with non-resident banks slowed significantly in 2007 (from 88.9% in 2006 to 28.2%). The share of claims on non-resident banks in 2007 contracted from 4.7% to 4.2% of banking sector assets. The share of loans with maturities exceed-

ing one year increased from 19.7% to 29.7% of total loans extended to non-resident banks in 2007.

Slower growth in credit to non-resident banks was registered in 2007 in virtually all groups of Russian banks. Banks that continued to place funds with non-resident banks were generally state-controlled, or large private banks. Loans extended by these groups of banks to non-resident borrowers totalled 665.0 billion rubles, or 78.1% of total credit extended by Russian banks to non-resident banks.

I.4. Financial Performance of Credit Institutions

I.4.1. Financial results

Profits made by operating credit institutions in 2007 amounted to 508.0 billion rubles (see Chart 1.11), and factoring in the financial results of previous years, reached 627.0 billion rubles (in 2006, 371.5 billion and 444.7 billion rubles respectively).

Banking sector profits grew 36.7% in 2007 (against 41.8% in 2006).

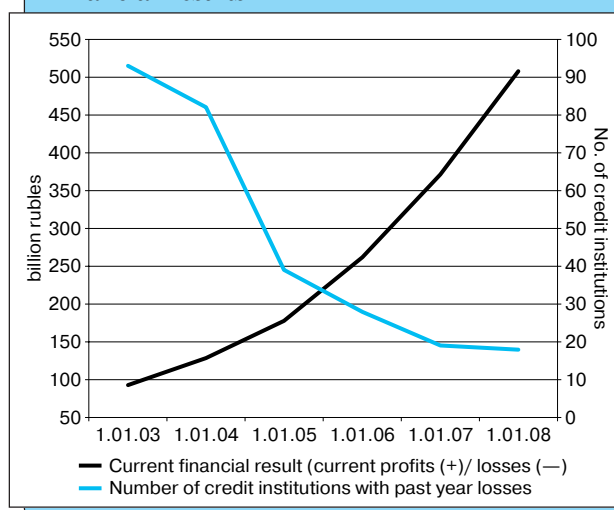
The share of profit-making credit institutions expanded from 98.4% to 98.9% of total credit institutions, while the number of loss-making credit institutions fell from 18 to 11 (from 1.5% to 1.0% of total credit institutions). In 2007, credit institutions incurred total losses of 900 million rubles (against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

The distribution of the various groups of banks in terms of their contributions to the aggregate financial result corresponds on the whole to their share in banking sector assets. The largest contribution to the financial result came from state-controlled banks, accounting for 40.3% (their share in banking sector assets was 39.2%), large private banks, accounting for 36.3% (35.5% of banking sector assets) and foreign-controlled banks, making up 16.3% (17.2% of banking sector assets).

The return on banking sector assets in 2007 stood at 3.0%, and the return on equity* was 22.7% (in 2006, the figures were 3.2% and 26.3% respectively)¹⁶. Over the year, 646 banks, making up 56.9% of total operating credit institutions, improved their return on assets, and 697 banks, or 61.4% of the total, improved their return on

Banking sector financial results

CHART 1.11



equity. Slower growth in profits and profitability of credit institutions was, to some extent, a result of overcoming the liquidity shortage in the banking sector in August-November 2007.

In addition, analysis of the factors behind the lower return on equity in 2007 shows that it was due to reduced financial leverage (capital multiplier). Profit margins and the return on assets changed slightly on 2006, which may indicate efficiency among banks in 2007. Financial leverage decreased, as capital grew faster than banking sector assets, largely due to Sberbank and VTB Bank IPOs.

Capital multiplier (financial leverage)		Profit margin		Rate of return on assets		Return on equity	
Assets**		Financial result		Net income		Financial result	
Capital**		Net income		Assets**		Capital**	
2006	8.1116	0.4049		0.0799		0.2624	
2007	7.5395	0.4044		0.0744		0.2268	

In 2007, banks controlled by foreign capital demonstrated the strongest profitability indicators. State-controlled and large private banks had profitability indicators close to banking sector averages. Regional

medium-sized and small banks continued to far outstrip medium-sized and small banks based in Moscow and the Moscow Region in terms of profitability. The latter remain the least profitable group of banks.

* To calculate this indicator regulatory capital, i.e. own funds are used.

** Average for period.

¹⁶ The return on assets is calculated as the ratio of the full-year financial result before tax to bank assets, while the return on equity is calculated as the ratio of the full-year financial result before tax to capital. Assets and capital have been calculated as the annual (chronological) averages for the period under review.

	Return on assets, %		Return on equity, %	
	2006	2007	2006	2007
State-controlled banks	3.5	3.2	33.1	22.8
Banks controlled by foreign capital	3.0	3.1	23.5	25.0
Large private banks	3.3	2.9	26.3	24.2
Medium-sized and small banks based in Moscow and the Moscow Region	2.1	2.4	9.8	11.9
Regional medium-sized and small banks	2.9	3.0	17.9	18.7

1.4.2. Income and expense structure

Income from foreign exchange transactions accounted for the largest share of gross income among operating credit institutions (36.9% in 2007 against 39.3% in 2006). However, the share of net income (income net of expense) from foreign exchange transactions remains small as a share of banking sector net current income.

The recovery of sums from fund and reserve accounts continued to account for a large share (26.3%) of gross income in 2007. The share of interest income expanded from 14.2% as of January 1, 2007 to 15.4% as of January 1, 2008, and the share of income from securities trading increased from 7.6% to 8.1% respectively.

Although their share contracted from 41.1% to 38.6% during the year, expenses incurred in foreign exchange transactions, and deductions to funds and reserves (the share of these expenses contracted from 31.0% in 2006 to 30.0%), played a leading role in the structure of gross expenses in 2007. The share of expenses incurred in securities trading expanded from 5.4% to 6.2% over the year, while the share of interest expenses on raised funds increased from 6.5% to 7.6%. The share of administrative expenses increased slightly, from 4.5% in 2006 to 4.7% in 2007.

Banking sector net current income¹⁷ is an important analytical indicator. In 2007, it amounted to 1,255.9 billion rubles, an increase of 36.9% on a year earlier. Its structure (see Chart 1.12) was largely determined by continued growth in credit investments. There was no significant change in the net current income structure from 2006 in terms of the banking sector as a whole, or among individual groups of credit institutions.

The main component of banking sector net current income was net interest income, which accounted for 60.1% of net income in 2007 (against 59.9% in 2006).

Net interest income prevails in overall net current income in all groups of banks, while its share is the largest (about 70.0%) in state-controlled banks.

The second most important element of net income is net commission income. Its share has not altered significantly. The figure was 27.6% in 2006 and 27.3% in 2007. However, growth in commission income slowed, becoming comparable with growth in net interest income (in

2006, net commission income grew almost twice as fast as interest income).

The share of net commission income by group of banks ranges from 23.4% to 37.3%.

The share of income from securities trading and revaluation contracted from 11.3% in 2006 to 10.1% in 2007, largely because in the third quarter of 2007, banks restructured their assets, reducing financial investments in order to maintain growth in credit, the principal source of income from banking operations.

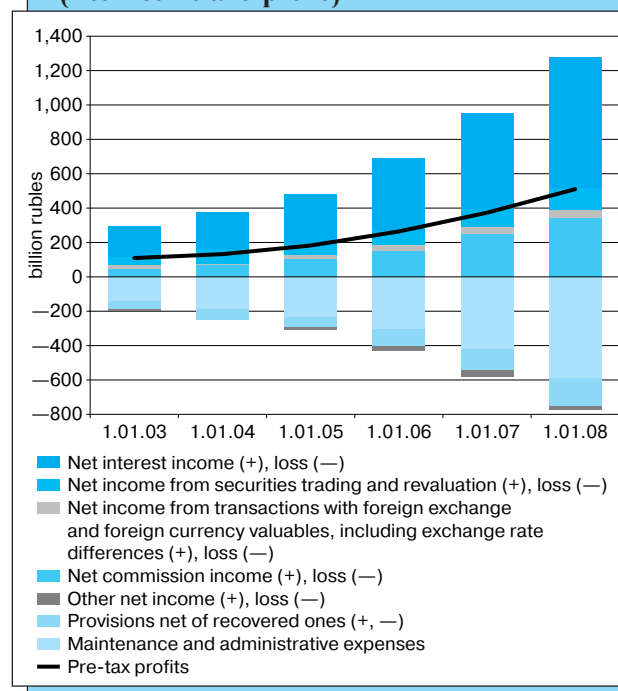
The share of net income from securities trading and revaluation does not exceed 14.5% of net current income in any group of banks.

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

Maintenance and administrative expenses of credit institutions increased 41.2% in 2007 (against 37.5% in

Structure of banking sector current financial result (net income and profit)

CHART 1.12



¹⁷ Financial result before making (recovering) provisions and without taking account of maintenance and administrative expenses. Calculated in accordance with the Profit and Loss Statement of Credit Institutions (0409102 Form code).

2006), and their share in net current income expanded to 46.8% (against 45.4% in 2006). This growth was partially a result of banking business expansion.

Medium-sized and small banks based in Moscow and the Moscow Region, and regional medium-sized and small banks, had the largest share of maintenance and administrative expenses (about 60.0%).

Provisions made by credit institutions (net of those recovered) increased 23.9% in 2007 to 160.1 billion rubles. At the same time, the share of net income allocated to provisions contracted from 14.1% to 12.7%, as provisions (net of those recovered) grew slower than net current income. The ratio of pre-tax profit to net income remained unchanged from the previous year at 40.4% (at the end of 2006, it stood at 40.5%).

It should be noted that the ratio of provisions to net income decreased in 2007 in large private banks

(from 20.0% to 15.8%), medium-sized and small banks based in Moscow and the Moscow Region (from 16.7% to 9.5%), and regional medium-sized and small banks (from 12.2% to 11.6%).

Analysis of the banking sector's key financial performance indicators in 2007 shows that the Russian banking system remains relatively stable. However, the number of credit institutions without shortcomings in their work fell from 194 to 148 in 2007, while the number of credit institutions with few shortcomings rose from 932 to 946. Overall, the share of financially sound credit institutions expanded from 94.7% to 96.3% of total credit institutions in 2007. Accordingly, the share of problem banks contracted over the year from 5.2% as of January 1, 2007 to 3.5%. It is significant that financially sound credit institutions in 2007 continued to account for the largest share of banking sector total assets — 99.6%.

Banking Sector Risks

II

II.1. Credit Risk

II.1.1. Loan portfolio quality

The level of credit risk facing Russian banks remains moderate on the whole, according to their reported data. The share of overdue debt in total credit extended by banks in 2007 remained unchanged from the previous year's level of 1.3%. While credit and other placements grew 51.1%, overdue loans increased 52.0%, and as of January 1, 2008, reached 184.1 billion rubles. The main reason for rising banking sector credit risk was that overdue loans to households grew faster (by 90%) than these loans, which climbed 60%. However, in 2007 overdue loans grew more slowly than in 2006.

The share of overdue loans in the loan portfolio only expanded in large private banks (from 1.4% to 1.6%). Large private banks and medium-sized and small banks based in Moscow and the Moscow Region had the largest share of overdue loans in total loans (1.6% each).

The level of overdue loans of the overwhelming majority of credit institutions with overdue debt in their loan portfolios did not rise above 4.0% (see Chart 2.1). The number of these credit institutions increased from 743 as of January 1, 2007, to 769 as of January 1, 2008, and their share in banking sector assets expanded from 92.0% to 92.7%. The number of credit institutions with overdue debt comprising no more than 1.0% of their loan portfolios rose from 441 to 468, and the number of credit institutions with an overdue debt ratio of 1% to 4% remained virtually unchanged (302 credit institutions as of January 1, 2007, and 301 credit institutions as of January 1, 2008).

The number of credit institutions with overdue loans of more than 8.0% in their loan portfolios fell from 45

to 27 in 2007, and their share in banking sector assets stood at 1.6% as of January 1, 2008. In most cases, loan loss provisions and collateral covered overdue loans.

The level of Russian banking sector credit risk continues to be determined primarily by the quality of loans to non-financial organisations, which accounted for 63.4% of total loans as of January 1, 2008. The share of overdue debt on loans to the non-financial organisations contracted from 1.1% as of the beginning of 2007, to 0.9% as of January 1, 2008. Among ruble loans, this figure decreased from 1.3% as of January 1, 2007, to 1.1% as of January 1, 2008, while for foreign currency loans, it declined from 0.6% to 0.5%.

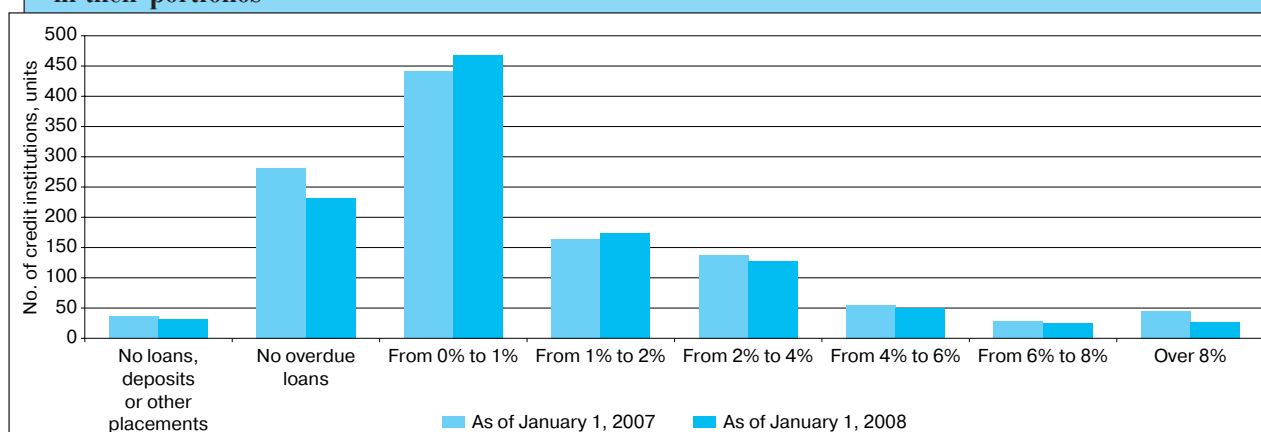
Broken down by activity category (see Chart 2.2), the overdue debt ratios were the highest: in wholesale and retail trade, car, motorcycle, household appliances and personal goods repair companies (1.4% against 1.6% as of the end of 2006); manufacturing enterprises (1.2% down from 1.7%) and oil, gas and mining enterprises (0.8% against 0.9%).

The share of overdue debt in total loans to households expanded from 2.6% to 3.1% in 2007. The share of overdue debt on ruble loans increased from 2.9% as of January 1, 2007, to 3.4% as of January 1, 2008, while the share of overdue debt on foreign currency loans expanded from 1.2% to 1.4% during the period.

As of January 1, 2008, homogeneous loan portfolios held 82% of loans to households. Meanwhile, the share of portfolios with overdue debt in total loans to households in homogeneous loan portfolios stood at 16.4%, of which consumer loans comprised 14.1%, housing mortgage loans 17.2%, and car loans 23.2%.

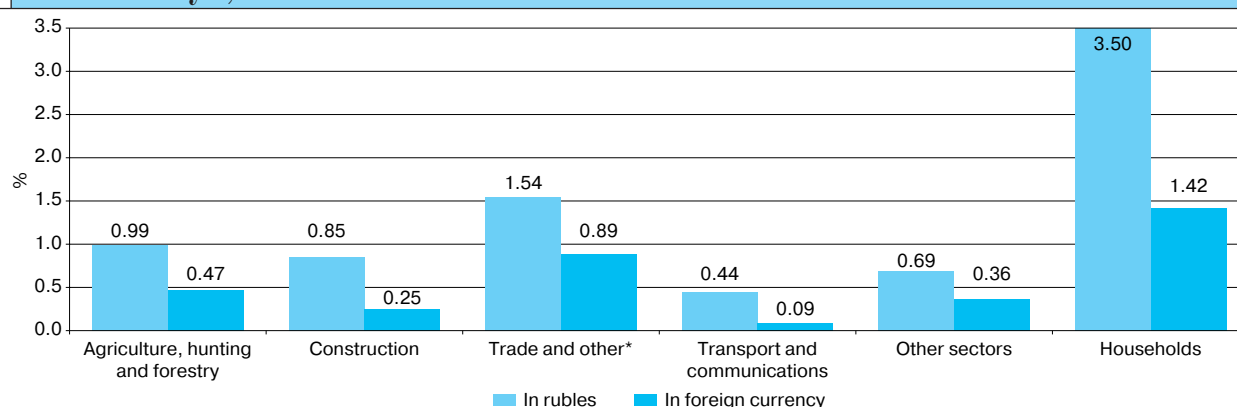
Credit institutions by share of overdue loans in their portfolios

CHART 2.1



**Overdue debt as % of loans by activity category
as of January 1, 2008**

CHART 2.2



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

The share of standard loans stood at 53.2% of banking sector total loan portfolio as of January 1, 2008, problem loans 1.0%, and bad loans 1.2% (the respective percentages as of January 1, 2007, were 51.6%, 1.2% and 1.5%). This is considerably lower than the level of credit risk that can provoke a bad debt crisis¹⁸ (see Chart 2.3).

State-controlled banks had the largest share of standard loans as of January 1, 2008 (58.7%); problem and bad loans accounted for respective 0.8% and 1.3% of total loans extended. The largest shares of problem and bad loans were typically in the portfolios of medium-sized and small banks based in Moscow and the Moscow Region (2.3% and 1.6% of total loans respectively).

The number of credit institutions in which standard loans accounted for more than half of their portfolios decreased from 459 to 437 in 2007. The share of these banks contracted from 62.9% as of January 1, 2007, to 42.1% as of January 1, 2008, due to the withdrawal of a large bank from this group. Excluding this bank, the share of credit institutions with more than 50% of standard loans in their portfolios stood at 36.9% as of January 1, 2007.

In all groups of banks, more than a third of banks had over 50% of standard loans.

Throughout 2007, credit institutions maintained a high ratio of loan loss provisions. On virtually all reporting dates, loan loss provisions of the overwhelming majority of banks met the required minimum¹⁹. As of January 1, 2008, 1,070 banks had loan loss provisions of at least 100% of imputed provisions adjusted for collateral, and their share in banking sector assets stood at 99.2% (a total of 1,118 banks, which had accounted for 98.8% of banking sector assets a year earlier).

Total loan loss provisions made as of January 1, 2008, accounted for 3.4% of actual loans, 35.1% of problem loans, and 86.9% of bad loans (a year earlier the respective figures were 4.1%, 37.1% and 82.9%).

II.1.2. Credit risk concentration

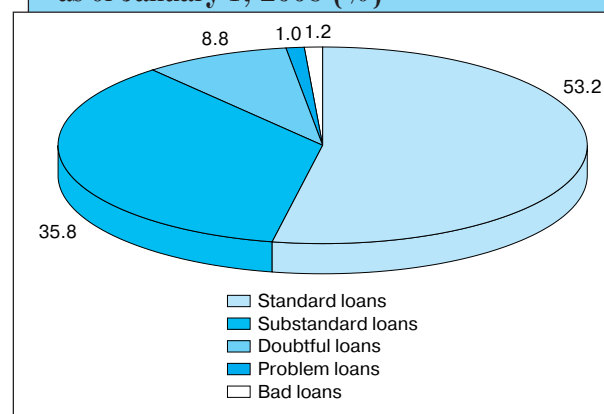
According to reported data, the number of credit institutions that violated the N6 ratio (maximum risk per borrower or a group of related borrowers) in 2007 fell from 309 to 250.

Five credit institutions (four in 2006) violated the N7 ratio (large credit exposures exceeding 5% of a bank's capital)²⁰ during the year.

Banking sector large credit risks (risk-weighted large credit exposures net of provisions) increased 39.0% in 2007, to reach 5,661.6 billion rubles, while total loans

**Quality of banking sector
loan portfolio
as of January 1, 2008 (%)**

CHART 2.3



¹⁸ According to international banking supervision practice, credit risk is considered high if non-performing loans exceed 10% of the aggregate loan portfolio.

¹⁹ Starting from reports as of September 1, 2004, 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', requires banks to determine the minimum provision by adjusting the imputed provision for collateral.

²⁰ Under Article 65 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), a large credit risk is a sum of loans, guarantees and sureties given to a customer in excess of 5% of the bank's capital.

grew 51.1%. The share of large loans in banking sector assets contracted from 29.0% to 28.0% over the year.

Medium-sized and small banks based in Moscow and the Moscow Region had the largest share of large credit risks in their assets (44.6%), while state-controlled banks had the smallest (20.0%).

II.1.3. Shareholder and insider credit risks

As of January 1, 2008, 487 credit institutions (492 as of January 1, 2007) calculated the N9.1 ratio (maximum value of loans, guarantees and sureties given by a credit institution (banking group) to its members (shareholders)). Six credit institutions in 2007 (compared to five in 2006) violated this ratio's threshold value of 50%.

The N10.1 ratio, which sets a limit on total loans extended by a credit institution to its insiders, and on guarantees and sureties issued to them, was calculated by 940 credit institutions as of January 1, 2008 (928 credit institutions as of January 1, 2007). Four credit institutions failed to comply with this ratio in 2007 (11 in 2006).

II.1.4. Finances of corporate borrowers as a factor of credit risk

The overall financial standing of borrower enterprises in all economic activity categories that were monitored by the Bank of Russia in 2007 were better than in 2006. However, companies with a satisfactory financial standing are largely industrial and communications enterprises, while enterprises in other economic activity categories experienced financial difficulties.

The total capital (balance sheet totals) of enterprises monitored by the Bank of Russia in 2007 increased significantly, and had a well-balanced structure in terms of borrowing and lending. These companies had sufficient investment resources (the sum of net worth and long-term liabilities) to create investment assets.

The self-financing ratio of enterprises (the share of net assets in the balance sheet total), which reflects the net worth-to-assets ratio, was relatively high (see Table 2.1). In 2007, however, it contracted slightly and by the end of the year stood at 64.0%. The debt-to-net worth ratio increased, but remained moderate in 2007, despite growth in net worth (0.56 rubles as of the year-end).

The raising of long-term funds, including bank loans, enabled enterprises to use their own funds to increase investment assets and to finance current operations. The value of net working capital rose 32.1% in 2007. However, floating capital contracted from 43.1% to 42.7%.

Overdue receivables increased in 2007, but overall growth in receivables was due largely to current debt (normal receivables). As a result, the share of overdue receivables contracted from 10.7% to 8.1%. At the same time, the short-term net debtor position²¹ of enterprises in settlements increased by a factor of 1.76.

Growth in earnings from the sale of goods, works and services slowed significantly. In 2007, they increased 18.1% year on year, compared to growth of 28.6% in 2006. In 2007, enterprises registered a net cash inflow, with cash expanding 40.7%.

Despite growth in cash, enterprises had more difficulty in meeting their short-term liabilities. As of the end of 2007, they could only repay 2.7% of their short-term liabilities from cash assets, compared to 7.2% at the beginning of the year. The coverage of enterprise short-term liabilities by working assets (net of overdue receivables) increased from 142.8% to 192.2% in 2007.

Growth in corporate pre-tax profits slowed: in 2007, it grew 18.8% year on year, whereas in 2006 it increased 64.6%.

The enterprise return on assets in 2007, calculated in terms of pre-tax profits, stood at 13.2% against 13.5% in 2006, and the return on equity increased from 19.6% in 2006 to 20.0%.

Indicators characterising corporate borrowers' finances (%)

TABLE 2.1

Indicator	2007	
	Start of year	End of year
Self-financing ratio*	68.5	64.0
Debt to net worth**	0.46	0.56
Liabilities to banks in total corporate liabilities	33.4	35.6
Cash to current liabilities	7.2	2.7
Current liquidity ratio	142.8	192.2
Return on assets***	13.2	
Return on equity***	20.0	

* Net worth to assets.

** Liabilities to net worth.

*** Over period since start of year.

²¹ The excess of receivables over payables.

II.2. Market Risk

II.2.1. General characteristics of market risk

The number of credit institutions that calculate market risk²² decreased from 747 to 727 in 2007. However, as the structure of banks required to calculate market risk for the purpose of including it in capital adequacy ratio changed, their share in banking sector assets expanded significantly over the year (from 67.4% to 93.6%).

Foreign exchange risk was taken account of when calculating capital adequacy by 573 banks as of January 1, 2008, making up 60.0% of banking sector assets (compared to 617 banks, which accounted for 61.6% of banking sector assets, as of January 1, 2007). In comparison, equity position risk was calculated by 193 banks accounting for 65.9% of banking sector assets, and interest rate risk was calculated by 327 banks accounting for 76.0% of banking sector assets. The number of banks that are important to all segments of the financial market, and consequently must include the three types of risk in their calculations, was relatively small — 114 (115 as of January 1, 2007). These banks accounted for 36.3% of banking sector assets as of January 1, 2008 (against 33.4% as of January 1, 2007).

As a result of continued growth in banks' trading securities portfolios (the balance-sheet trading book increased 41.8% in 2007), the expansion of bank operations on the futures market, and the changed structure of banks that calculate market risk, banking sector market risk rose 76.3% in the period under review, to reach 959.0 billion rubles as of January 1, 2008. The ratio of market risk to capital of market risk-calculating banks decreased from 45.1% to 38.7%. Meanwhile, the share of market risk in banking sector total risk was less than 6.0% as of January 1, 2008 (see Chart 2.4).

As the trading book consisted largely of debt obligations as of the beginning of 2008, which exceeded the value in equities by 8.7 times and increased 45.6% in 2007, **interest rate risk** accounted for the largest share of market risk (62.8% as of January 1, 2008), while **equity position risk** accounted for 27.9% (42.9% and 45.2% respectively as of the beginning of 2007).

The expansion of bank operations on futures markets affected the dynamics of these risks: claims for the delivery of securities under forward contracts²³ increased 40%

in volume in 2007, while the volume of liabilities decreased 7.6%. Relative to banking sector capital, the net forward position became positive, and stood at 2.3% as of January 1, 2008 (as of January 1, 2007, it was negative at 0.2%).

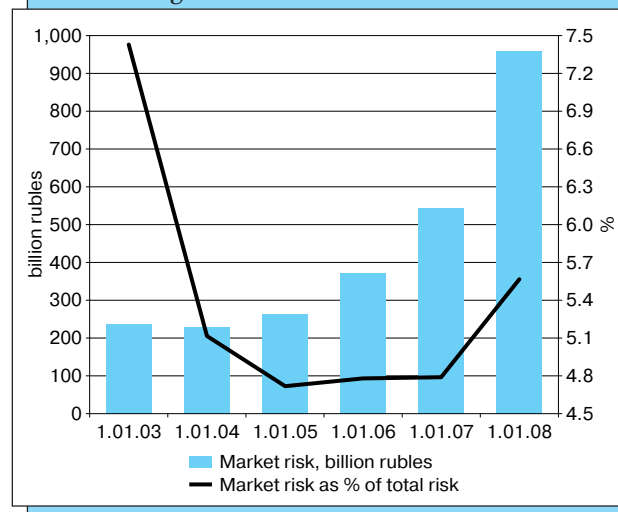
Foreign exchange risk remained the least significant type of risk: its share in market risk contracted in 2007 from 11.9% to 9.3%, although in absolute terms it grew 38.4%.

As regards balance sheet positions in foreign currency, the ruble's appreciation against the dollar on the domestic foreign exchange market (see Chart 2.5) was accompanied by a contraction of the foreign currency component (see Chart 2.6). Foreign currency assets accounted for 22.9% of assets as of January 1, 2008, and foreign currency liabilities (total resources)* accounted for 22.8% of liabilities (total resources) (the figures were 24.6% and 24.8% respectively as of the beginning of 2007). The difference between the ratios of the foreign currency components of assets and liabilities (total resources) was 0.1 percentage points.

At the same time, banking sector exposure to foreign exchange risk increased as a result of currency forward contracts. The US dollar net forward position²⁴ was short at the end of 2007, and stood at the ruble equivalent of 145.9 billion (at the end of 2006, it was long, and stood at

Market risk and its share in banking sector total risk

CHART 2.4



²² In compliance with the requirements of Bank of Russia Regulation No. 89-P, dated September 24, 1999, 'On the Procedure for Calculating Market Risk by Credit Institutions'.

²³ Forward contracts recorded in Section G of the Chart of Accounts.

* "Total resources" stand for "bank funds and profits (capital items in the balance sheet) plus liabilities".

²⁴ Net forward positions in foreign currencies are calculated on the basis of data in 0409634 Form 'Statement of Open Currency Positions' for all credit institutions that submit this form in the ruble equivalent at the Bank of Russia's official exchange rates as of corresponding dates.

US dollar exchange rate
dynamics

CHART 2.5

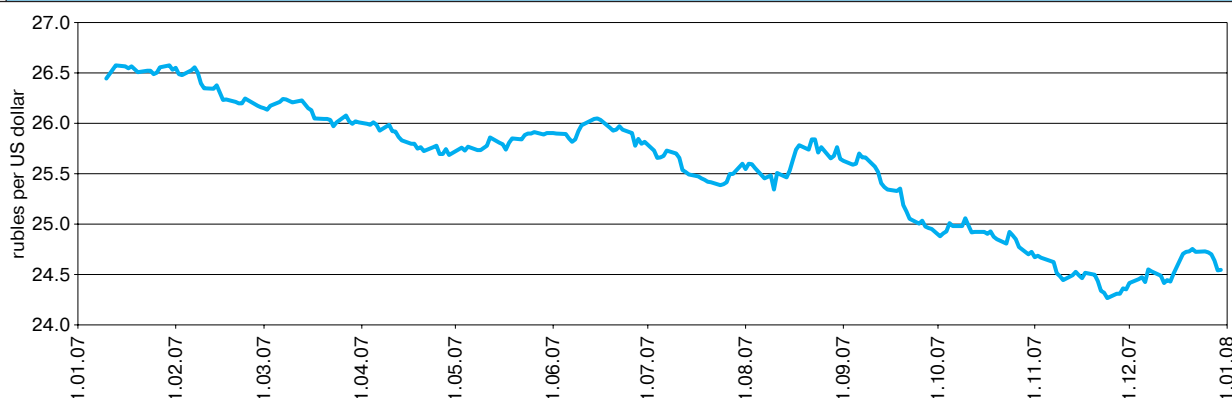
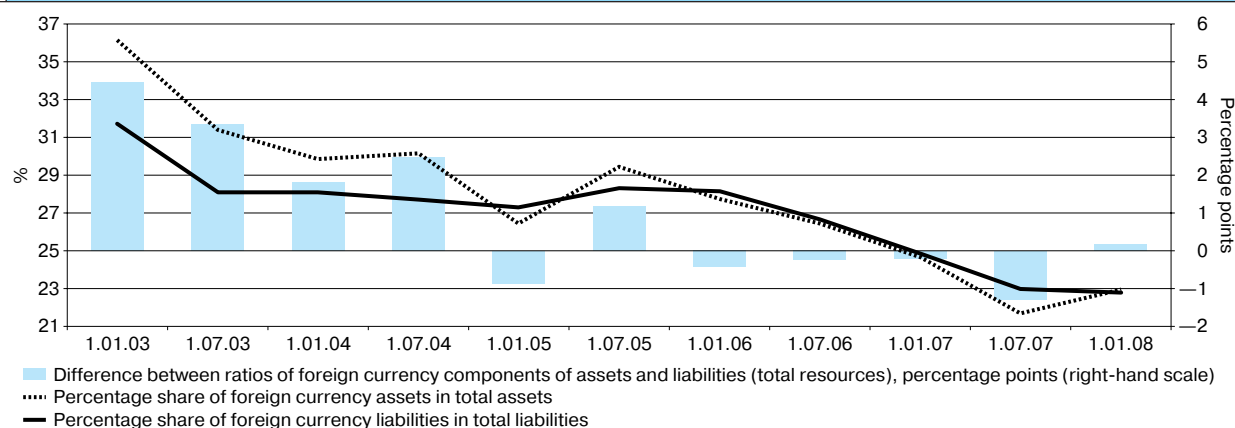
Foreign currency assets and liabilities
in banking sector total assets and liabilities (%)

CHART 2.6



24.8 billion rubles). The euro net long forward position as of the end of 2007 stood at the ruble equivalent of 106.3 billion, twice the corresponding long position a year earlier (51.8 billion rubles).

Overall, off-balance sheet currency claims and liabilities²⁵ in 2007 increased 56.9% and 97.3% respectively. The ratio between off-balance sheet and balance sheet currency positions also rose: at the start of 2007, the ratio between off-balance sheet claims and balance sheet assets stood at 67.7%, while as of January 1, 2008, it rose to 79.2%. The ratio between off-balance sheet liabilities and balance sheet currency liabilities (total resources) followed similar dynamics: in the period under review, it increased from 52.2% to 77.9%.

Twenty-one credit institutions violated at least one of open currency position limits (in any currency or precious metal) during 2007 (this compares with 30 credit institutions that were operational as of January 1, 2007). The share of these banks in the assets of all banks with a currency licence contracted from 16.0% as of January 1, 2007, to 11.5% as of January 1, 2008.

II.2.2. Evaluation of banking sector vulnerability to interest rate risk (trading book)

To determine banking sector vulnerability to interest rate risk on the trading book, the Bank of Russia analysed, by means of stress-testing, banking sector sensitivity to growth in interest rates. It was assumed that growth in yields on corporate debt obligations would cause them to fall in value by 20%.

To determine the effect of trading-book interest rate risk on the financial state of the Russian banking sector, the Bank of Russia analysed data reported by credit institutions that had in their trading books listed obligations of resident organisations, including banks. For the purposes of this analysis, credit institutions were divided into two groups. Group 1 comprised banks that were required to calculate interest rate risk and, consequently, include market risk in the capital adequacy calculation. Group 2 comprised credit institutions that did not calculate interest rate risk²⁶. Characteristics of the two groups of banks

²⁵ Forward contracts recorded in Section D of the Chart of Accounts.

²⁶ Bank of Russia Regulation No. 89-P, dated September 24, 1999, 'On the Procedure for Calculating Market Risk by Credit Institutions', requires interest rate and equity position risks to be calculated when the balance sheet total of the trading book equals or

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

TABLE 2.2

	No. of banks in sample		% share of resident debt obligations held by banks		% share in banking sector assets		% share in banking sector capital	
	1.01.07	1.01.08	1.01.07	1.01.08	1.01.07	1.01.08	1.01.07	1.01.08
Sample 1	219	212	58.4	87.1	41.9	70.9	42.7	70.1
Sample 2	90	104	41.6	12.9	40.9	12.4	34.5	11.7

are shown in *Table 2.2*. It should be noted that as a result of the altered composition of the groups, the first sample of banks, which account for 87.1% of banking sector trading book of resident debt obligations, makes up the majority of banking sector assets and capital (over 70% as of January 1, 2008).

Analysis of sensitivity of credit institutions that are **required to calculate interest rate risk** shows that in 2007, this group of banks as a whole became less sensitive to this type of risk: as of the beginning of 2008, their potential losses could have accounted for 3.6% of capital against 5.3% as of the beginning of 2007.

As for credit institutions that have positions in listed obligations of resident enterprises but **do not calculate interest rate risk**, their sensitivity to this type of risk in 2007 also decreased: under a baseline scenario, losses could have amounted to 3.2% of capital as of January 1, 2008, against 4.6% as of the beginning of 2007.

This sensitivity analysis shows that banking sector vulnerability to growth in interest rates in both groups of banks is comparable, and by and large relatively low.

II.2.3. Evaluation of banking sector vulnerability to equity position risk

To determine the financial stability of the Russian banking sector against equity position risk by means of stress-testing, the Bank of Russia evaluated the possible negative consequences of a fall of the stock indices of the leading Russian exchanges. A 20% drop was taken as a trigger factor²⁷.

To determine the effect of equity position risk on the capitalisation of the Russian banking sector, the Bank of Russia analysed data reported by credit institutions holding listed equities of resident enterprises, including banks, in their trading books. As was the case in the analysis of interest rate risk, these credit institutions were divided into two groups. Group 1 comprised banks that were required

to calculate equity position risk, and consequently, included it in their capital adequacy calculation. Group 2 consisted of credit institutions that did not calculate equity position risk. The characteristics of both groups are shown in *Table 2.3*.

As was the case with interest rate risk, the share of the first sample of banks in banking sector assets and capital changed significantly during the year, but the share of these banks in equities held by the banking sector in the trading books did not change substantially.

Analysis shows that sensitivity to equity position risk in the group of banks that **calculate equity position risk** saw a general decrease: given a stock indices fall of 20% as of January 1, 2008, potential losses would have amounted to 1.4% of capital (against 3.2% as of January 1, 2007).

As for credit institutions that have listed equities in their trading books but **do not calculate equity position risk**, their sensitivity to equity position risk increased slightly: under a bad-case scenario, their potential losses could have reached 0.7% of capital as of the beginning of 2008 (0.2% as of the beginning of 2007).

Overall, this sensitivity analysis shows that banking sector vulnerability to equity position risk was relatively low in both groups of banks.

II.2.4. Evaluation of banking sector vulnerability to foreign exchange risk

To evaluate banking sector vulnerability to foreign exchange risk, the Bank of Russia analysed, by means of stress-testing, sensitivity to such factors as the ruble's appreciation against, separately, the US dollar and the euro. The trigger event in this case was a one-time 20% rise in the nominal exchange rate of the ruble against the US dollar and the euro. To determine the effect of foreign exchange risk on the financial state of the Russian banking sector, the Bank of Russia analysed data reported by credit institutions obliged to calculate foreign exchange

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

TABLE 2.3

	No. of banks in sample		% share of resident equities held by banks		% share in banking sector assets		% share in banking sector capital	
	1.01.07	1.01.08	1.01.07	1.01.08	1.01.07	1.01.08	1.01.07	1.01.08
Sample 1	180	183	93.6	92.5	35.9	65.2	38.4	64.4
Sample 2	170	143	6.4	7.5	40.8	11.3	34.8	10.8

exceeds 5% of the credit institution's balance sheet assets as of the reporting date. The balance sheet total of the trading book is calculated as the sum of the balance sheet values of financial instruments that have market value and were acquired by the credit institution for subsequent resale, including repos.

²⁷ It was assumed that a 20% fall in stock indices would lead to the same decrease in the value of shares in trading books.

risk²⁸ that have net long open positions in the US dollar and the euro.

Characteristics of credit institutions with net long open positions in US dollars and euros are shown in *Table 2.4*. It should be noted that the number of banks in both samples declined, while the proportion of credit institutions with net long positions in the euro fell by half in banking sector assets and liabilities.

Analysis has shown that by the end of 2007, the long open positions in US dollars in the first sample of banks had increased 20% as compared with December 31, 2006 (to \$636.0 million), and their share in long open positions in all currencies and precious metals²⁹ stood at 58.6% on average as of December 29, 2007, against 66.9% as of December 31, 2006. Long open positions in the euro in the second sample of banks contracted by 20% (to €189.6 million as of December 29, 2007), and their share

in long open positions in all currencies and precious metals³⁰ averaged 54.4% as of December 29, 2007, against 45.8% as of December 31, 2006.

Analysis shows that a sharp one-time 20% appreciation of the ruble against both the US dollar and the euro would not incur significant losses: most banks would not lose more than 2% of their capital.

Banking sector vulnerability to a hypothetical abrupt rise of the ruble against the US dollar is declining, and is now negligible. If this scenario materialised, banks in the sample discussed would lose 0.5% of their capital as of December 29, 2007, against 0.7% as of December 31, 2006. Banking sector vulnerability to a possible sharp appreciation of the ruble against the euro is also low. In the event of a shock factor, banks in this sample would collectively lose 0.4% of capital as of December 29, 2007 (0.4% as of December 31, 2006).

Characteristics of banks sampled for analysis of sensitivity to foreign exchange risk

TABLE 2.4

	No. of banks		% share in banking sector assets		% share in banking sector capital	
	as of end of 2006	as of end of 2007	as of end of 2006	as of end of 2007	as of end of 2006	as of end of 2007
Credit institutions with long positions in US dollars	346	277	24.9	22.4	23.7	21.4
Credit institutions with long positions in euros	312	226	21.2	10.8	23.9	11.6

²⁸ Foreign exchange risk is taken into account in calculating market risk when as of the reporting date the percentage ratio of aggregate open currency position to capital equals or exceeds 2%.

²⁹ In ruble terms.

³⁰ In ruble terms.

II.3. Liquidity Risk

II.3.1. General characteristics of liquidity risk

The level of banking sector liquidity remained high on average in 2007. The value of the most liquid banking sector assets (cash, precious metals and gemstones, the balances of correspondent nostro accounts, and correspondent and deposit accounts with the Bank of Russia)³¹ reached 1,477.9 billion rubles, an increase of 50% on 2006 (977.3 billion rubles). Their ratio to the average value of total assets stood at 8.8% against 8.5% in 2006.

All groups of banks registered growth in the average value of their most liquid assets in 2007. However, only large private banks recorded an increase in the ratio of the value of these assets to the average value of assets (10.2% in 2007 against 8.3% in 2006). The most significant reduction in this ratio was registered by medium-sized and small banks based in Moscow and the Moscow Region (from 21.7% in 2006 to 19.2% in 2007).

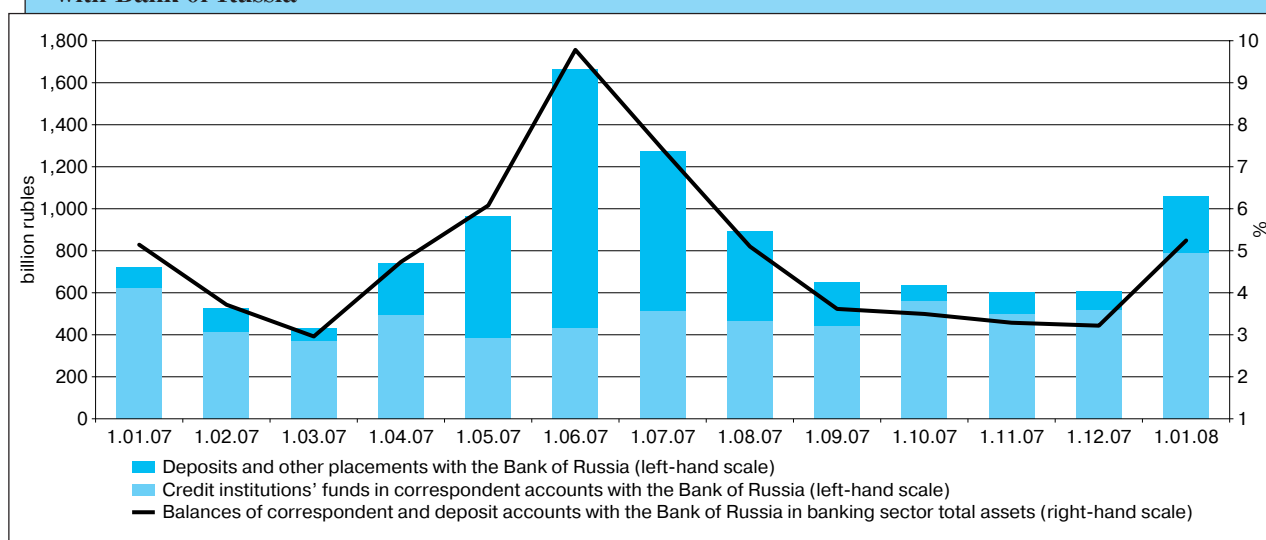
As a result of abrupt changes in the movement of private capital flows, there were several periods with varying liquidity dynamics in 2007 (see Chart 2.7).

In the first half of 2007, the money market had a fairly high level of excess ruble liquidity. The inflow of funds from capital and foreign trade operations reached record highs, and the Bank of Russia purchased substantial volumes of foreign currency on the domestic market. To stabilize the situation on the money market, the Bank of Russia actively used mechanisms to absorb excess banking sector liquidity, conducting deposit operations and op-

erations with the Bank's own bonds (OBR). The Russian Government's Stabilisation Fund played a major role in absorbing liquidity during this period. Bank deposits with the Bank of Russia reached a record high of 1,229.6 billion rubles as of June 1, 2007. As a result, the average value of the most liquid banking sector assets reached 1,832.8 billion rubles in the second quarter of 2007, double the average for the same period in 2006 (relative to the average value of total assets, it stood at 11.1% against 8.5%). In the second half of the year, the turmoil on world financial markets provoked an outflow of capital from Russia, and made it more difficult for Russian banks to borrow abroad. This led to a sharp drop in banking sector liquidity, and a corresponding rise in interbank market rates. In the third and fourth quarters of 2007, the average value of the most liquid assets decreased both in absolute terms, and relative to the average value of total assets (to 1,447.6 billion and 1,400.7 billion rubles, or 8.2% and 7.4% of total assets respectively). The situation on the money market was aggravated by the fact that in August and September the Bank of Russia did not use the traditional channel of liquidity supply as operations on the foreign exchange market, and this created a need to expand banking sector refinancing by means of interest rate instruments. To satisfy their demand for rubles, credit institutions used repos, intraday and overnight loans, Lombard loans and currency swaps with the Bank of Russia, sold the Bank of Russia OBRs and government securities without repos, and conducted certain other operations (see Box 1).

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

CHART 2.7



³¹ Here and below, average liquidity values were calculated as chronological averages for the corresponding period.

Bank of Russia actions aimed at maintaining banking sector liquidity

BOX 1

To maintain banking sector liquidity, the Bank of Russia implemented the following measures in August—December 2007:

- significantly extended the Bank of Russia Lombard List;
- raised the correction factors (reduced discounts) used to calculate the price of securities accepted as collateral for Bank of Russia loans to credit institutions;
- temporarily lowered required reserves for bank obligations;
- raised the averaging ratio for the calculation of the average value of required reserves;
- cut interest rates on some Bank of Russia operations and add to the existing refinancing instruments new mechanisms to supply liquidity to the banking sector.

In 2007, the Bank of Russia included in **its Lombard List** 97 new bond issues of Russian regions and corporate entities, and 24 issues of debt securities issued by foreign corporate entities.

Specifically, in August 2007, the Bank of Russia lowered the minimum requirements for the international bond issuer rating from BB to B+ under Standard & Poor's and Fitch Ratings classification, and from Ba2 to B1 under Moody's Investors Service classification. This made it possible to include in the Bank of Russia Lombard List by the end of 2007 more than 50 new securities issues, and increase the volume of potential security for refinancing operations by about 140 billion rubles. As a result, the share of corporate bonds in securities used by credit institutions as collateral for Bank of Russia loans expanded from 7.5% as of August 1, 2007, to 16.6% as of January 1, 2008.

At the same time, the Bank of Russia lowered requirements for the international ratings of organisations whose obligations were accepted as collateral for Bank of Russia loans, and of credit institutions whose sureties were accepted as collateral for Bank of Russia loans, by two notches (to B+ under Standard & Poor's or Fitch Ratings classification, or B1 under Moody's Investors Service classification). This measure made it possible to double the number of organisations whose obligations were acceptable as collateral for Bank of Russia loans.

The raising of **Bank of Russia correction factors** helped boost banking sector liquidity in 2007. These ratios were raised from 0.98 to 0.99 for Bank of Russia bonds (OBR); from 0.95 to 0.98 for federal loan bonds (OFZ) and bonds issued by the European Bank for Reconstruction and Development; from 0.9 to 0.95 for Russia's eurobonds; from 0.9 to 0.95 for bonds issued by the Moscow Government; from 0.8 to 0.9 for bonds issued by Russian regional governments with an international rating of at least BB/Ba2; from 0.75 to 0.88 for bonds issued by resident corporate entities with an international rating of at least BB/Ba2; and from 0.8 to 0.9 for bonds issued by the Housing Mortgage Lending Agency.

To address the problem of the significant reduction in banking sector liquidity, on October 11, 2007, the Bank of Russia lowered for three months required reserves for bank obligations to individuals in rubles from 4.0% to 3.0%, and for obligations to non-resident banks in rubles and foreign currency and other bank obligations in rubles and foreign currency from 4.5% to 3.5%. At the same time, it allowed banks to make an unscheduled adjustment of required reserves in the period from October 11 to 15, 2007. On November 1, 2007, the Bank of Russia raised from 0.3 to 0.4 the averaging ratio for the calculation of the average value of required reserves.

On October 11, 2007, the Bank of Russia cut from 10% to 8% p.a. the fixed interest rate set for seven-day Lombard loans (where two Lombard auctions have been declared invalid) and for currency swap transactions.

To make refinancing operations more accessible for banks, the Bank of Russia began in 2007 to conduct Lombard loan transactions (at a fixed interest rate and through auction), using the Electronic Trade System of the Moscow Interbank Currency Exchange, in which one working position enables a credit institution to participate in Bank of Russia credit and deposit operations and repos.

On October 9, 2007, the Bank of Russia began to conduct lending operations against promissory notes, receivables under corporate loan agreements, and bank sureties.

On November 28, 2007, the Bank of Russia introduced new instruments designed to provide liquidity to credit institutions, such as the Bank of Russia Lombard overnight loan extended at a fixed interest rate (8% p.a.), and overnight and 1-week repos at the fixed interest rates of 8% and 7% p.a. respectively.

The Bank of Russia regulation in support of the new procedure for extending Bank of Russia loans to credit institutions against the collateral of non-market assets (promissory notes and receivables under loan agreements) entered into force on December 28, 2007. According to this document, the Bank of Russia may extend to credit institutions intraday and overnight loans, and loans at a fixed rate of 9.25% p.a., for maturities of up to 30 calendar days. The new refinancing mechanism is intended for financially sound banks that have claims on loans extended to enterprises in the real economy.

END

Repos were the principal **market instrument of refinancing** in the banking sector in 2007 (see Chart 2.8). The total volume of funds provided through repos at auctions almost quadrupled in 2007, to reach 7,730.7 billion rubles. Late in November, fixed-rate repo operations began to be conducted in addition to repo auctions. In August–November, the Bank of Russia used, as additional instruments to provide liquidity to the banking sector when demand for rubles soared, **currency swaps** and operations with government and Bank of Russia bonds (OBR). The total volume of ruble liquidity provided through Bank of Russia currency swaps amounted to 194.8 billion rubles. The rise in demand for these operations was partly due to the aforementioned reduction of the interest rate applicable to them in October 2007.

Bank of Russia repos and currency swap operations

CHART 2.8



Budgetary and macroeconomic factors also helped Russian banks to cope with the periods of greatest instability on the international financial markets (see I. 1. *General Economic Conditions*).

As a result, in the fourth quarter of 2007 the average value of the most liquid assets was 13.8% higher than in the first quarter, but relative to the average value of total assets, it was by 1.1 percentage points lower.

Volatility on international financial markets demonstrated the need for bankers and regulators, in this country and abroad, to take a more conservative approach to the management and evaluation of risks assumed by banks.

II.3.2. Compliance with required liquidity ratios

Credit institutions occasionally failed to comply with required liquidity ratios in 2007. Of total credit institutions in operation as of January 1, 2008, 45 credit institutions violated the instant liquidity (N2) ratio in 2007 (56 credit institutions in 2006), 72 violated the current liquidity (N3) ratio (83 credit institutions in 2006) and 12 violated the long-term liquidity (N4) ratio (12 credit institutions in 2006).

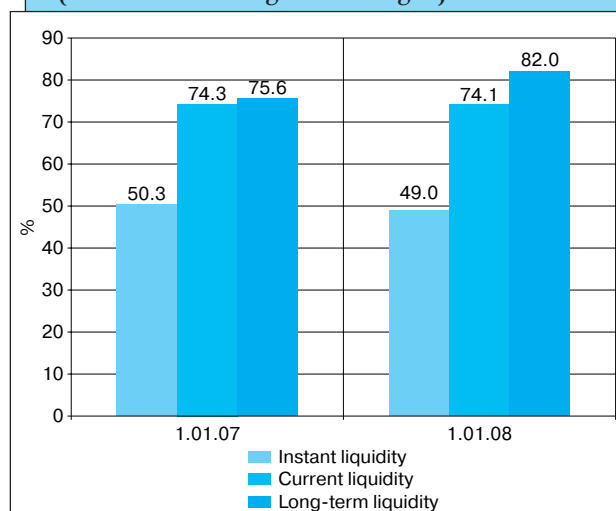
Average annual banking sector liquidity indicators decreased slightly in 2007, as compared with the previous year. Instant liquidity contracted from 50.3% in 2006 to 49.0% in 2007, and current liquidity from 74.3% to 74.1

respectively (see Chart 2.9). However, these levels far surpassed those established by the Bank of Russia — 15% for the N2 ratio and 50% for the N3 ratio.

The lowest instant liquidity ratio (42.7% on average) was registered in 2007 in the group of large private banks. The group of medium-sized and small regional banks had a lower instant liquidity ratio (44.6%) than the banking sector average.

Banking sector liquidity ratios (annual chronological averages)

CHART 2.9



The lowest average annual current liquidity ratio was registered in the group of medium-sized and small regional banks (71.6%). Foreign-controlled banks had a lower current liquidity ratio (71.9%) than the banking sector average.

The average long-term liquidity ratio³² increased in 2007 (from 75.6% as of January 1, 2007, to 82.0% as of January 1, 2008). This was because long-term lending volumes (loans with maturities of more than one year) expanded faster (by 71.9%) than banking sector liabilities with maturities exceeding one year (56.3%) and banking sector capitalisation (57.8%)³³.

II.3.3. Structure of bank assets and liabilities

Maturity structure of bank assets and liabilities³⁴

There was a slight lengthening of banking sector assets and liabilities in 2007. Assets with maturities in excess of one year as a share of total quality category 1 assets³⁵ stood at 19.2% as of January 1, 2008, against 19.0% as of January 1, 2007. The share of liabilities with

maturities of more than one year expanded from 21.7% to 22.3% of banking sector total liabilities.

The share of short-term assets (with maturity of less than one month) contracted from 50.6% to 48.0% in 2007, while the share of short-term liabilities remained virtually unchanged at 42.7% as of January 1, 2008 (42.9% as of January 1, 2007). At the same time, the liquid coverage deficit³⁶ increased to 22.2%, exceeding the level registered as of January 1, 2007 (18.2%).

Customer deposits to total loans (coverage ratio)³⁷

The coverage ratio³⁸ decreased slightly in 2007. As of January 1, 2008, customer deposits³⁹ covered 67.8% of loans⁴⁰ extended to these customers. This represents a fall from the figures of 71.3% registered as of January 1, 2007, and 70.2% registered as of January 1, 2006 (see Chart 2.10). The change is attributable to the fact that loans grew faster than deposits (by 53.0% against 45.0%).

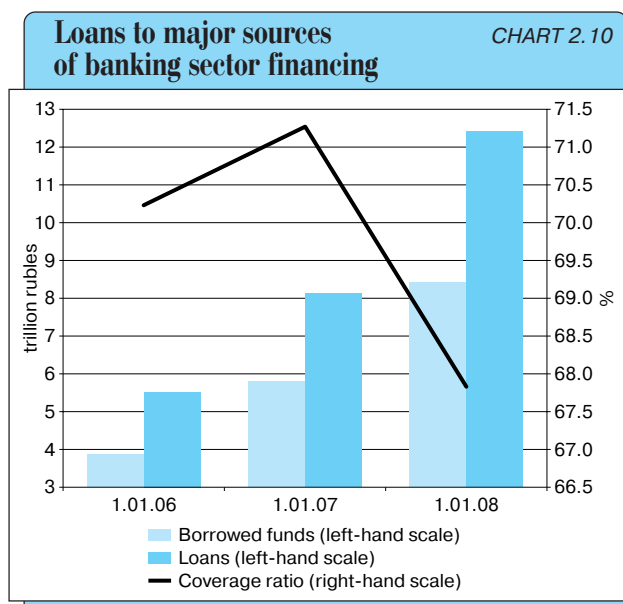
Seventy credit institutions had no corporate and (or) household deposits among their sources of funding, but their share in banking sector total assets stood at a negligible 0.8%.

The coverage ratio, based on the medium- and long-term component (more than one year) also contracted (from 74.8% as of January 1, 2007, to 65.3% as of January 1, 2008). The difference between the rates of growth in the medium- and long-term components of loans and customer deposits is greater than that between their totals (70% against 48% respectively).

State-controlled and medium-sized and small regional banks had the highest coverage ratio as of January 1, 2008 (73.5%). The lowest coverage ratio (53.5%) was registered in the medium-sized and small banks based in Moscow and the Moscow Region.

The highest coverage ratio, based on the medium and long-term component (more than one year), was registered in the group of state-controlled banks (74.9%), while the lowest (38.5%) was in the group of banks controlled by foreign capital.

At the same time, the number of credit institutions with a considerably lower coverage ratio than the bank-



³² Bank of Russia Instruction No. 110-I, dated January 16, 2004, 'On Banks Required Ratios' set the maximum long-term liquidity ratio at 120%.

³³ Analysis is based on components of the long-term liquidity (N4) ratio calculation.

³⁴ Analysis of bank assets and liabilities by maturity is based on data on the distribution of assets and liabilities by term (0409125 Form).

³⁵ 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' and Bank of Russia Regulation No. 283-P, dated March 20, 2006, 'On the Provision Procedure for Credit Institutions'.

³⁶ The liquid coverage deficit is calculated as the ratio of the excess of demand obligations and obligations with a maturity of up to 30 days over the value of (liquid) assets with the same maturity to the total value of these obligations.

³⁷ Calculation of this indicator is recommended by the IMF ('Customer deposits to total (non-interbank) loans') for financial soundness analysis in the 'Compilation Guide on Financial Soundness Indicators'. This indicator makes it possible to evaluate banking sector liquidity, as it compares the most 'traditional' and stable sources of resources with their principal investments. A contraction of the coverage ratio indicates that the fulfilment of obligations by credit institutions is becoming increasingly dependent on their ability to quickly access the money or stock market, and consequently, that liquidity risk has increased.

³⁸ The coverage ratio is calculated as the ratio of customer deposits to loans extended to these customers.

³⁹ Customer deposits include deposits taken by credit institutions from corporate entities and households (excluding banks and resident financial institutions), and other funds raised from these categories of resident and non-resident creditors, excluding the balances of current and settlement accounts of these customers.

⁴⁰ Loans include loans extended by credit institutions to corporate entities and households (excluding banks and resident financial institutions) and other funds provided to these categories of resident and non-resident debtors.

ing sector average declined significantly. As of January 1, 2008, 308 credit institutions had a coverage ratio that was half the banking sector average, and these accounted for 6.0% of banking sector total assets (371 credit institutions that accounted for 9.1% of banking sector total assets as of January 1, 2007). Coverage ratios one quarter the banking sector average were registered in 196 credit institutions, which accounted for 3.5% of banking sector total assets as of January 1, 2008 (this compares with 225 credit institutions and 3.7% of banking sector assets as of January 1, 2007).

II.3.4. Dependence on interbank market

The interbank credit market plays a major role from the standpoint of liquidity management. Analysis of liquidity risk has shown that the dependence of credit institutions on the interbank market (interbank market dependence ratio, or IMDR)⁴¹ increased somewhat in 2007 (from 5.9% to 8.3%).

Despite a contraction of 10.7 percentage points, credit institutions with an IMDR of no more than 8% accounted for the largest share of banking sector total assets (57.9%) (see Chart 2.11). At the same time, the share of credit institutions with an IMDR of between 8% and 18% expanded from 15.7% to 29.0% of banking sector total assets. The share of credit institutions with an IMDR of more than 27% also increased (from 2.9% to 8.7%).

The highest IMDR (21.7% as of January 1, 2008) was registered in the group of banks with a foreign interest (15.9% as of January 1, 2007). This is attributable to their active involvement with their parent structures in intra-group banking operations. At the same time, the share of banks with an IMDR in excess of 27% accounted for 45.3% of assets in this

group of banks, representing an increase of 160% during 2007.

Medium-sized and small banks based in Moscow and the Moscow Region and other Russian regions demonstrated a low level of dependence on the interbank market (from the standpoint of covering liquidity shortages). They placed more funds on this market than they raised from it (these two groups of banks had a negative IMDR: —4.7% and —1.7% respectively). Meanwhile, as of January 1, 2008, the share of the banks with an IMDR of over 27% in the assets of these two groups of banks stood at 2.7% and 1.7% respectively.

The significant influence exerted by non-resident banks is a typical feature of the Russian interbank credit market. Over the past few years, Russian banks have invariably raised more funds from the international interbank market (2,136.1 billion rubles as of January 1, 2008, and 1,364.8 billion rubles a year earlier) than they placed on it (851.5 billion and 664.4 billion rubles respectively).

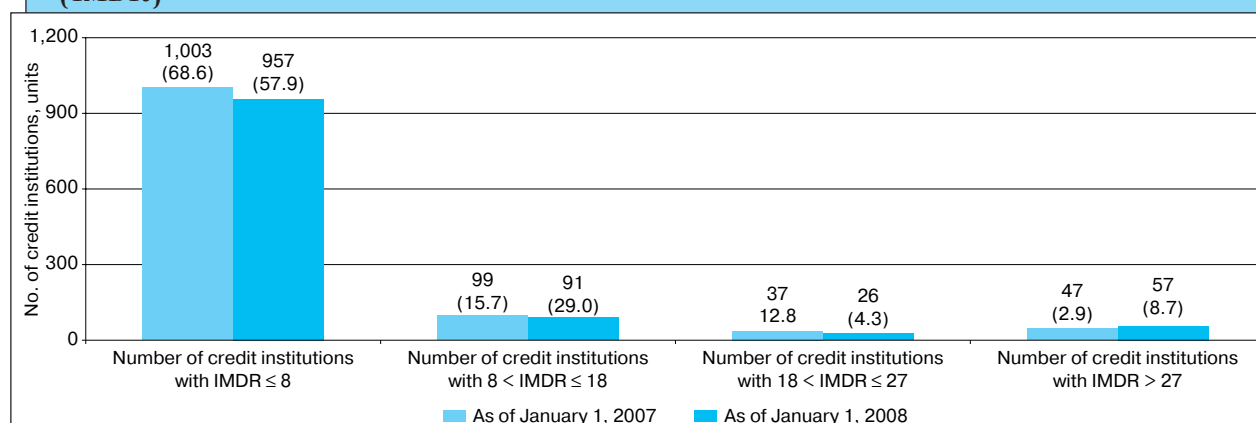
Notably, the share of loans received from non-resident banks in 2007 contracted by 2.8 percentage points to 76.1% of total interbank loans received, while the share of loans extended to non-resident banks shrank by 4.1 percentage points to 60.0% of total interbank loans.

The ratio of the excess of interbank loans received from non-resident banks to loans extended to these banks expanded somewhat in 2007 (from 5.0% to 6.3% of Russian banking sector liabilities*).

As of January 1, 2008, 180 credit institutions obtained loans from non-resident banks (174 as of January 1, 2007). These banks accounted for 86.5% of banking sector total assets (against 83.7% as of January 1, 2007). It should be noted that seven credit institutions among the top 20 banks in terms of assets accounted for half of to-

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

CHART 2.11



Figures in brackets denote % share of banking sector assets.

⁴¹ Dependence of credit institutions on the interbank market is calculated as the percentage ratio of interbank loans (deposits) taken and placed to funds raised. The higher the ratio, the greater the credit institution's dependence on the interbank market. The methodology of calculating this ratio is similar to that of calculating the PL5 ratio, described in Bank of Russia Ordinance No. 1379-U, dated January 16, 2004, 'On the Assessment of a Bank's Financial Soundness of for the Purpose of Establishing its Sufficiency for Participation in the Deposit Insurance System', which sets its threshold values at 8% to 27% and higher.

* "Liabilities" stand for "bank funds and profits (capital items in the balance sheet) plus liabilities".

tal interbank loans obtained from non-residents (the figure was unchanged from the beginning of 2007).

As of January 1, 2008, 237 credit institutions extended loans to non-resident banks; these institutions accounted for 87.3% of banking sector total assets (213 credit institutions as of January 1, 2007, accounting for 85.6% of banking sector assets). Five credit institutions

(six a year earlier) among the top 20 banks in terms of assets accounted for half of total interbank loans placed on the international banking market.

At the same time, it is important from the standpoint of banking sector liquidity and stability to determine the total value of Russian banking sector debt to non-residents (*see Box 2*).

Characteristics of debt to non-residents

BOX 2

The Russian banking sector total debt to non-residents⁴² increased 50% in 2007 to reach 3,504.2 billion rubles. At the same time, net debt to non-residents⁴³ was almost half that amount — 1,820.8 billion rubles as of January 1, 2008. Relative to banking sector liabilities, net debt expanded from 7.9% to 9.0% during the year.

Banks controlled by foreign capital are particularly dependent on the outside world (the ratio of dependency on non-residents, i.e. the ratio of net debt to liabilities, stood at 23.6% as of January 1, 2008, against 18.9% as of January 1, 2007). As foreign-controlled banks have wider opportunities to raise funds on international financial markets, the growth in this ratio is attributable to a considerable increase (of 110%) in debt owed by this group of banks to non-residents.

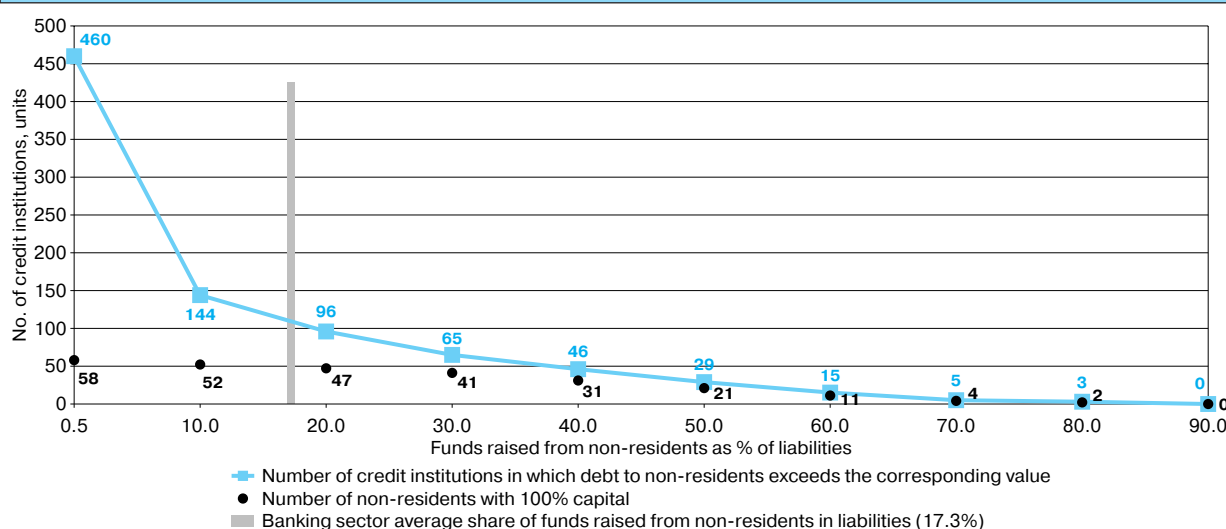
The level of dependency of state-controlled banks on non-residents declined in 2007 from 6.4% to 5.4%, despite a 50% rise in funds raised from non-residents, which climbed to 1,012.6 billion rubles. The ratio of dependency on non-residents in this group of banks, excluding Sberbank, decreased from 16.3% to 13.6% in 2007.

A negative ratio of net debt to liabilities (the excess of funds placed with non-residents over funds raised from non-residents) was registered in the group of medium-sized and small banks based in Moscow and the Moscow Region (—1.4%). Medium-sized and small regional banks registered a low ratio (0.4%).

Analysis of the distribution of banks in terms of debt to non-residents relative to liabilities has shown that the banking sector average of 17.3%, registered as of January 1, 2008, was moderate compared to other emerging markets. Only 106 credit institutions, 48 of them controlled by non-residents, exceeded this level (*see Chart 2.12*).

Banking sector debt to non-residents as of January 1, 2008

CHART 2.12



⁴² Correspondent and other accounts of non-resident credit institutions, loans received, deposits and funds in non-resident individual and corporate accounts.

⁴³ The balance of debt to non-residents and funds placed with them, including correspondent accounts with credit institutions, loans, deposits and other placements.

II.3.5. Interbank market rates

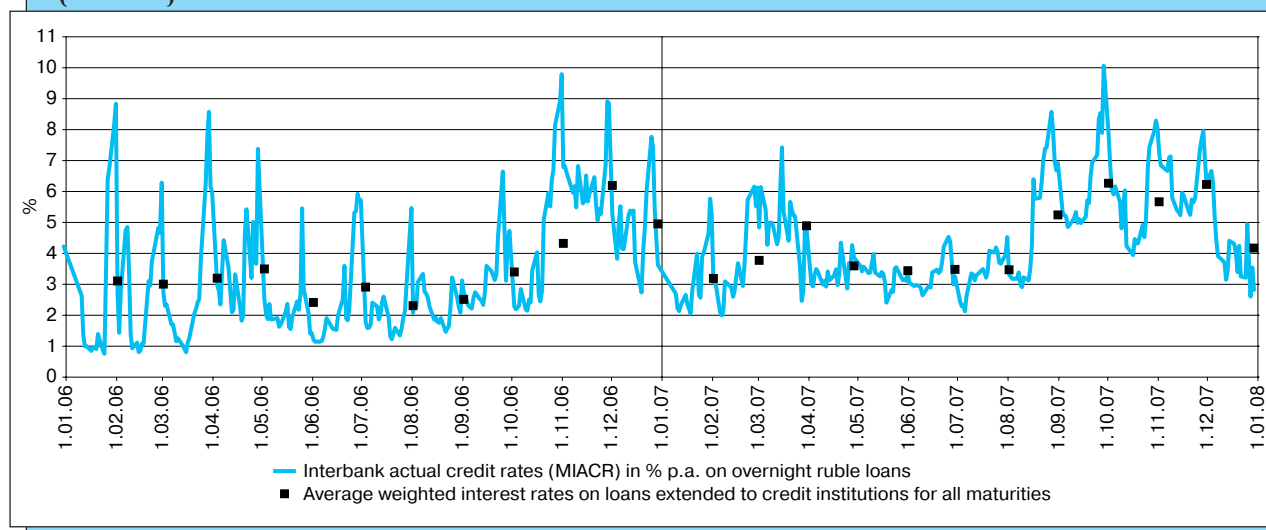
The MIACR on overnight interbank ruble loans (the rate that most accurately reflects the current value of ruble resources on the interbank market) in 2007 was higher than in 2006, due to instability on international finan-

cial markets in the second half of 2007. Interest rates also surged on the ruble interbank market in 2007, when taxes were paid to the budget on all levels (see Chart 2.13).

The annual average weighted interest rate on interbank ruble loans with all maturities in 2007 increased by 1.0 percentage points year on year, and stood at 4.7%.

Ruble interbank credit rate (MIACR)

CHART 2.13



II.4. Capital Adequacy

II.4.1. Banking sector capital dynamics and structure

The capital of operating credit institutions totalled 2,671.5 billion rubles as of January 1, 2008. In 2007, capital grew faster than in 2006 (by 57.8%, compared to 36.3%). As a result, the ratio of banking sector capital to GDP expanded from 6.3% as of January 1, 2007, to 8.1% as of January 1, 2008. The ratio of banking sector capital to assets also increased (to 13.2%). In the preceding four years, this ratio had contracted from 14.6% to 12.1% (see *Chart 2.14*).

The principal sources of banking sector capitalisation in 2007 were paid-up authorised capital and share premiums. These increased by 645.9 billion rubles (62.0% of total capital growth⁴⁴). It should be noted that growth in authorised capital and share premiums of Sberbank and VTB Bank, which was largely a result of their IPOs, accounted for two-thirds of growth in authorised capital and share premiums of the entire banking sector. Without factoring in these two banks, the ratio of banking sector capital to assets would have contracted from 13.1% as of January 1, 2007, to 12.8% as of January 1, 2008.

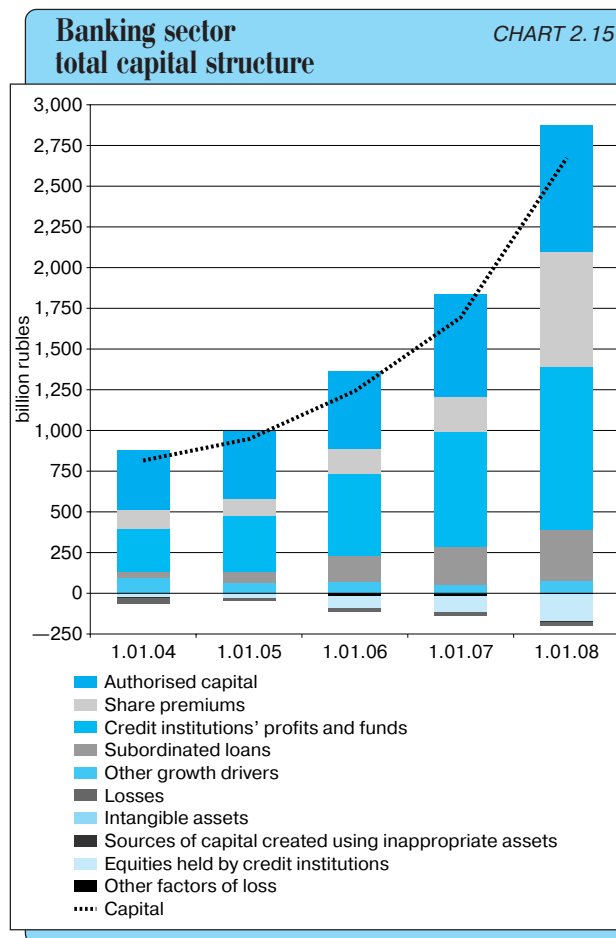
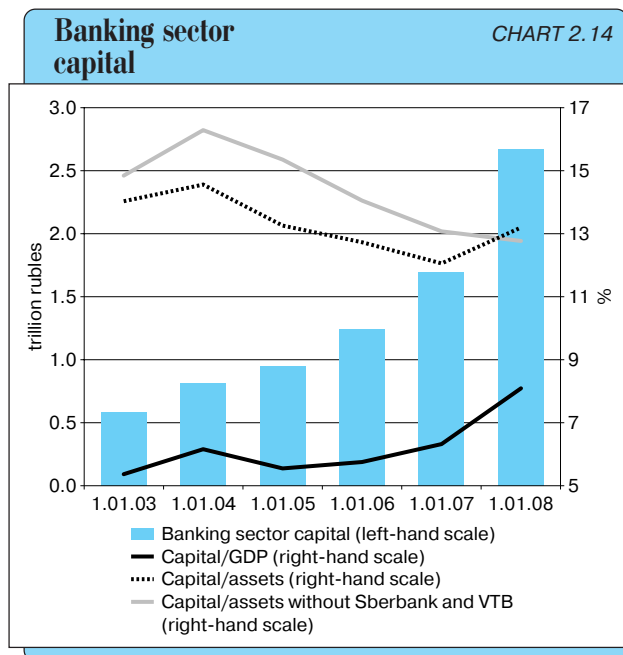
Profits were the second most important driver of growth in banking sector capital. Growth in profits, and funds created from profits, reached 294.9 billion rubles, or 28.3% of total capital growth.

The third most important driver of growth in capital in 2007 was, as before, the raising of subordinated loans, which increased by 76.8 billion rubles, or 7.4% of total capital growth.

The share of authorised capital and share premiums in banking sector total capital expanded from 49.1% to 55.3% in 2007. The share of profits, and funds created from profits contracted during the year from 41.9% to 37.6%, while the share of subordinated loans shrank from 13.8% to 11.6% (see *Chart 2.15*).

Capital growth drivers differ in importance in the various groups of credit institutions.

In the group of state-controlled banks, for example, capital growth was due mainly to authorised capital and share premiums, as well as the capitalisation of profits and funds created from profits (78.0% and 19.9% of total capital growth). Due to Sberbank and VTB Bank, which belong to this group, authorised capital and share premiums increased by 459.3 bil-



⁴⁴ From here on, the shares of capital growth factors are calculated as their totals, i.e. without taking account of capital deductions.

lion rubles in 2007. This accounted for most of the growth (71.1%) of banking sector capital.

In the group of banks controlled by foreign capital, the main capital growth drivers were the expansion of authorised capital and share premiums (46.6%), profit capitalisation (33.8%) and subordinated loans (18.2%).

Growth in the capital of medium-sized and small banks based in Moscow and the Moscow Region was due largely to authorised capital and share premiums (51.4%) and profit capitalisation (33.8%). The same drivers of growth were typical of medium-sized and small banks in other regions: 48.4% and 40.8% respectively.

The capitalisation of large private banks was due largely to growth in profits and funds created from profits (45.6% of total growth). Other drivers behind capital growth in this group of banks were authorised capital and share premiums (32.7%) and subordinated loans (17.1%).

Forty-one credit institutions registered a decrease in capital by an aggregate of 3.7 billion rubles in 2007 (135 banks registered a decrease in capital totalling 2.8 billion rubles in 2006). These credit institutions accounted for 1.1% of banking sector capital as of January 1, 2008 (3.8% as of January 1, 2007).

Most banks that registered a capital loss in 2007 were in the group of medium-sized and small banks based in Moscow and the Moscow Region (18) and medium-sized and small banks in other regions (10). The loss of capital among these banks was 800 million and 900 million rubles respectively, while their share in the capital of their respective groups stood at 5.9% and 4.5%, and they accounted for 0.3% and 0.2% of banking sector total capital.

A loss of capital was also registered by three credit institutions in the group of large private banks. As of January 1, 2008, these three banks accounted for 0.4% of banking sector total capital.

As was the case a year earlier, there were no credit institutions with negative capital as of January 1, 2008.

II.4.2. Risk-weighted assets

The ratio of risk-weighted balance sheet assets of credit institutions to total balance sheet assets climbed from 64.6% to 66.3% in 2007 (see Chart 2.16).

At the same time, the structure of risk-weighted assets remained virtually unchanged from 2006. Group 1, 2 and 3 assets accounted for 2.0% of assets, and Group 4 and 5 assets accounted for 98.0% as of January 1, 2008 (2.7% and 97.3% respectively as of January 1, 2007).

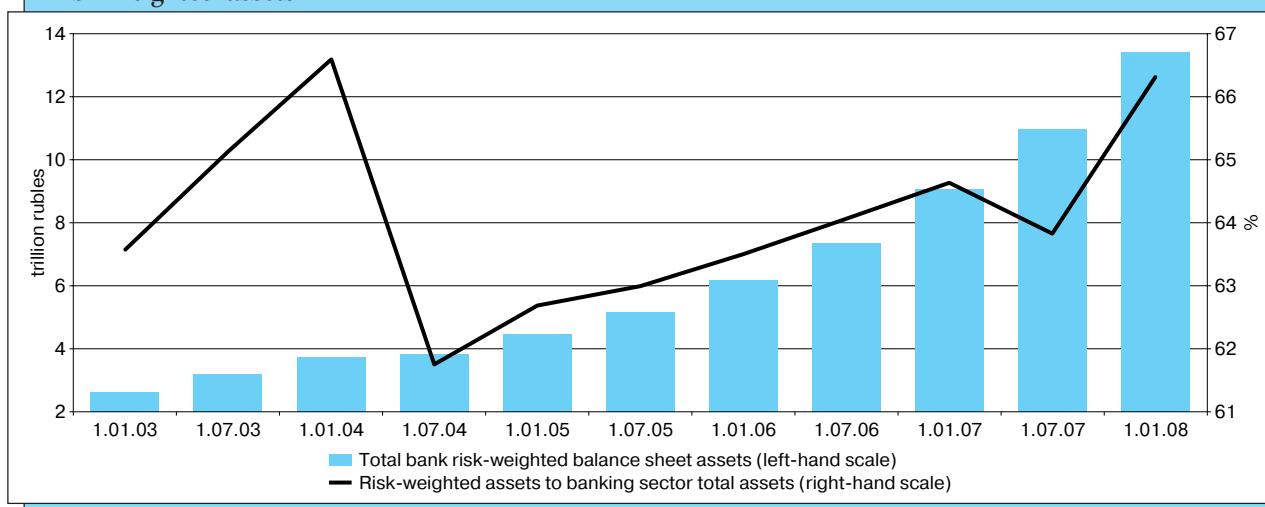
Aggregate risk increased 51.7% in 2007, due largely to the increased risk on balance sheet assets⁴⁵, which accounted for 80.7% of growth.

The aggregate risk structure remained virtually unchanged, with credit risk continuing to predominate. In terms of balance sheet assets, credit risk accounted for 77.9% of aggregate risk as of January 1, 2008 (against 79.9% as of January 1, 2007); credit risk on contingent credit liabilities accounted for 10.0% (against 9.8% a year earlier), and credit risk on forward transactions accounted for 0.9% (against 0.5%); its share of market risk stood at 5.6% (against 4.8%).

Credit risk dominated the aggregate risk structure of all groups of banks. The largest share of credit risk on balance sheet assets was registered in medium-sized and small regional banks (86.6%) and state-controlled banks (81.2%). Banks controlled by foreign capital had the smallest ratio of credit risk on their balance sheet assets (74.0%). The highest ratio of market risk as of January 1, 2008, was registered in the group of medium-sized and small banks based in Moscow and the Moscow Region (7.5%), and the lowest ratio was in the group of regional medium-sized and small banks (3.0%).

Credit institutions' risk-weighted assets

CHART 2.16



⁴⁵ Taking into account credit institutions' credit risk on claims on the counterparty with regard to the reverse (forward) part of transactions, which arose as a result of the acquisition of financial assets with the simultaneous assumption of obligations for their reverse alienation and claims on related persons.

II.4.3. Bank capital adequacy

Unlike the situation in the previous six years, 2007 saw the banking sector capital adequacy ratio increase from 14.9% to 15.5%, as banking sector total capital grew faster than assets, due to IPOs launched by two leading Russian banks in the first half of the year (see Chart 2.17).

Over the year, banking sector risk-weighted assets increased 51.7%, and capital 57.8%.

At the same time, the capital adequacy ratio declined over the year in all groups of credit institutions, except for state-controlled banks. It should be noted that medium-sized and small banks had an ample 'margin of safety' in regard to this ratio (see Table 2.5).

The capital adequacy ratio grew largely due to the top five banks in terms of assets (primarily Sberbank and

VTB Bank), in which this ratio rose from 12.5% to 14.9%. The other top-50 banks registered a fall in their capital adequacy ratio (see Table 2.6).

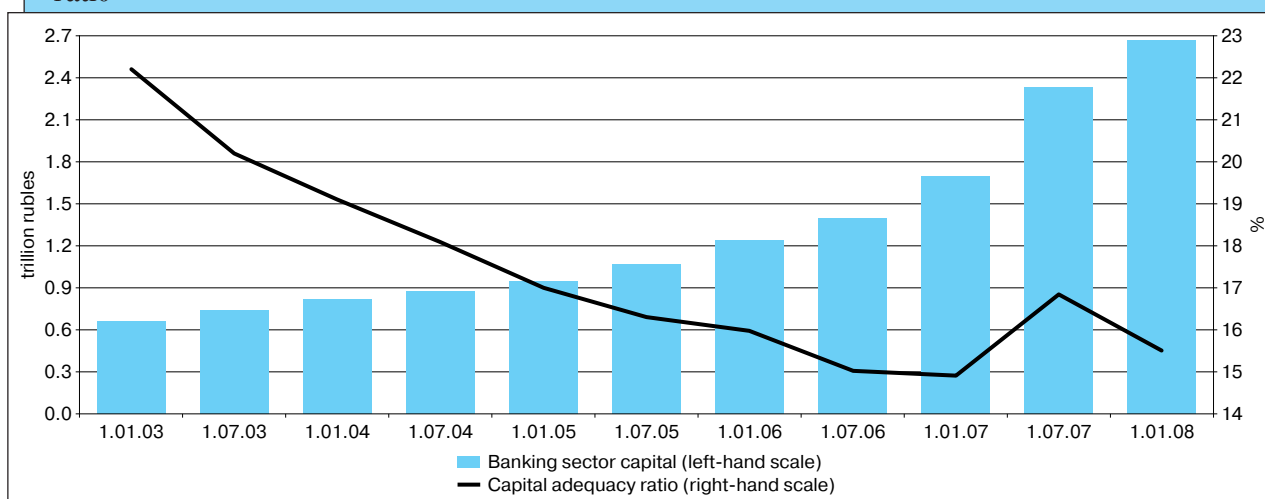
Twelve credit institutions violated the capital adequacy (N1) ratio in 2007 (11 in 2006). The number of violations decreased from 65 in 2006 to 47 in 2007.

The number of banks with a capital adequacy ratio of no more than 12% fell from 113 as of January 1, 2007, to 97 as of January 1, 2008, and their share in banking sector total assets contracted by a factor of 1.9 (from 44.8% to 24.2%).

As of January 1, 2008, 126 credit institutions (134 as of January 1, 2007) had a capital adequacy ratio of between 12% and 14%, and their share in banking sector total assets contracted by 5.2 percentage points to 17.6%.

Capital adequacy ratio

CHART 2.17



Capital adequacy (N1) ratio by group of credit institution

TABLE 2.5

	1.01.07	1.01.08
State-controlled banks	12.7	15.6
Banks controlled by foreign capital	15.9	14.1
Large private banks	14.8	14.5
Medium-sized and small banks based in Moscow and Moscow Region	29.3	28.1
Regional medium-sized and small banks	21.0	19.9
Non-bank credit institutions	100.9	117.3

Capital adequacy (N1) ratio by group of credit institution arranged by assets

TABLE 2.6

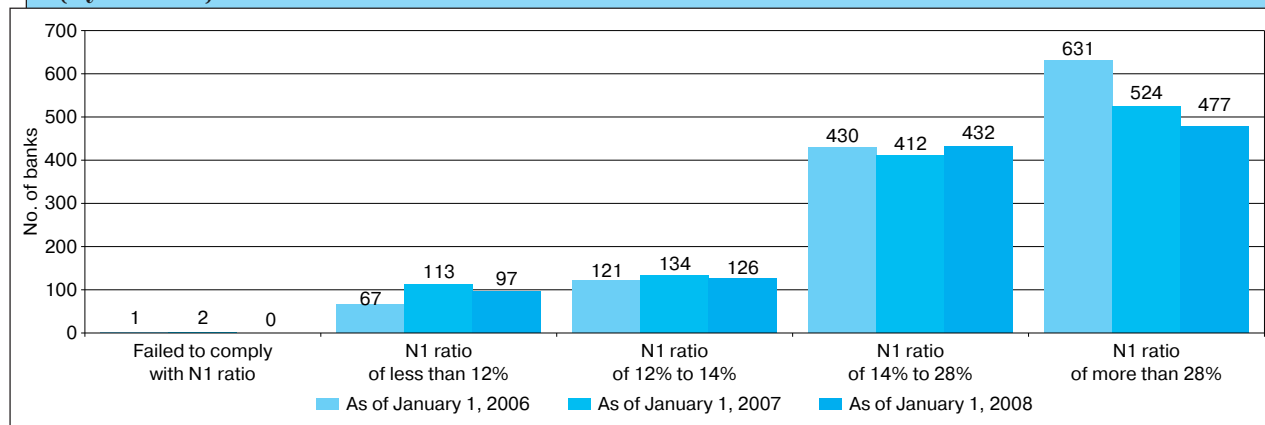
Credit institutions arranged by assets (in decreasing order)	1.01.07	1.01.08
Top five	12.5	14.9
Sixth to 20 th	13.5	13.1
21 st to 50 th	15.7	14.2
51 st to 200 th	17.1	17.4
201 st to 1,000 th	25.7	24.6
1,000 th downwards	59.6	60.3
Banking sector	14.9	15.5

As previously, nearly 80% of operating credit institutions had a capital adequacy ratio of more than 14%. Meanwhile, the share of credit institutions with a capital adequacy ratio of between 14% and 28%

expanded by a factor of 2.3 in 2007 (from 23.8% to 53.6% of banking sector total assets), as this group included Sberbank and VTB Bank (see *Charts 2.18 and 2.19*).

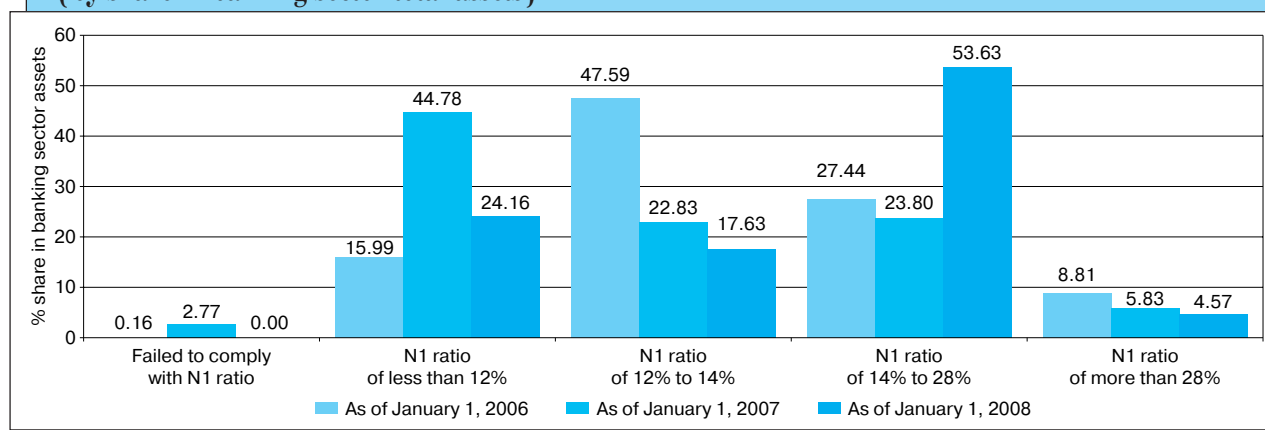
Credit institutions grouped by capital adequacy ratio (by number)

CHART 2.18



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

CHART 2.19



II.5. Bank Management Quality

A reduction in excess funds on the markets, their rising cost, higher risks, the slower return on consumer credit, and the stock market's increased price volatility made it particularly important to improve the quality of bank management. In view of this, the Bank of Russia issued a number of methodological documents. In particular, to improve corporate governance, compliance risk management and internal controls, it issued Letter No. 11-T, dated February 7, 2007, 'On the List of Issues for the Evaluation of Corporate Governance by Credit Institutions', Letter No. 173-T, dated November 2, 2007, 'On Recommendations by the Basel Committee on Banking Supervision', which deals with compliance and the compliance function in banks, and Letter of Information No. 1, dated June 20, 2007, 'On Certain Issues Relating to the Completion by Credit Institutions of 0409639 Reporting Form 'Statement of Internal Controls in a Credit Institution''.

As for improvements to corporate governance, note should be made of the appointment in certain credit institutions of independent directors, the improved work of boards of directors (supervisory boards), self-evaluation by credit institutions of corporate governance, and the drawing up of plans to upgrade corporate governance pursuant to Bank of Russia Letter No. 11-T, dated February 7, 2007.

Credit institutions have become more transparent. As of January 1, 2008, over 84% of total operating credit institutions disclosed information about their activities on

the Bank of Russia website (72% as of January 1, 2007). As of the beginning of 2008, 698 credit institutions (more than 61% of total operating credit institutions) agreed to disclose information pursuant to Bank of Russia Letter No. 165-T, dated December 21, 2006, 'On Disclosure of Information by Credit Institutions' (i.e. they agreed to disclose all data reported in 0409101 (balance sheet) and 0409102 Profit and Loss account forms). Many credit institutions disclose information on their own websites.

Measures taken to improve the quality of bank management helped most credit institutions comply with the required ratios set by the Bank of Russia and achieve strong financial results in 2007.

However, there are still certain unresolved issues in corporate governance.

Specifically, integrated risk management systems were developed mainly in large credit institutions, while in many credit institutions risk management was fragmentary. In some credit institutions, the board of directors (supervisory board) was excessively involved in running day-to-day operations, and there was no clear separation of powers and duties between executive bodies. To improve the situation in this regard, Russian lawmakers are currently drafting, in collaboration with the Bank of Russia, amendments to legislation to increase the role and raise the responsibility of the board of directors (supervisory board) in a bank, and to give the Bank of Russia powers to evaluate corporate governance in credit institutions.

II.6. Stress Testing the Banking Sector

To determine the soundness of credit institutions against shocks, the Bank of Russia stress tested the banking sector on the basis of data reported by credit institutions as of January 1, 2007, and January 1, 2008. It considered relatively tough stress scenarios, in which banks were simultaneously subjected to a series of adverse impacts. However, the possibility of stress scenarios materializing in the coming year is considered extremely unlikely, as economic growth continues, government finances improve, and the situation on commodity markets remains positive for Russian exporters.

The stress-test results as of January 1, 2008, show that in a baseline scenario credit institutions could incur aggregate losses of 56.1% of their capital, or 4.5% of GDP (56.2% of capital, or 3.5% of GDP as of January 1, 2007); in the worst-case scenario capital loss could reach 60.1%, or 4.9% of GDP (58.1% and 3.7% as of January 1, 2007). The higher potential losses in the stress test as of January 1, 2008, as compared with the situation a year earlier, were caused by several factors: increased risk on loans to non-financial organisations and households (potential losses rose by 53.4% and 77.6% respectively, in line with the expansion of loan portfolios) and significantly higher liquidity risk (the risk of an outflow of raised funds). In a baseline scenario, losses increased 56.8% in 2007 and in the worst-case scenario losses grew 110%.

The calculations confirmed once again that credit risk remains the most important risk for the Russian banking sector. The stress test has shown that potential losses may be as high as 51.0% of capital (51.9% as of the beginning of 2007).

In credit risk, the risk of lending to non-financial organisations accounts for more than 91% of potential losses. Losses in this type of risk can exceed 50% of capital in a number of banks, which account for about 53% of banking sector assets and capital.

Potential losses on household loans calculated over the course of the stress test seem to be small so far. The share of credit institutions whose losses may exceed 50% could be about 2% of banking sector total assets and capital.

At the same time, it should be noted that the rapid growth in the risk of lending to households in recent years may lead to an accumulation of credit risks, and as the trend towards slower growth in consumer credit continues, the real scale of this risk could become apparent as early as 2008.

The effect of liquidity risk on banking sector stability increased significantly in 2007. In a baseline scenario, capital loss from the materialisation of this risk has not altered from the previous year's level of 4.4%, while in the worst-case scenario it increased from 6.3% to 8.4%.

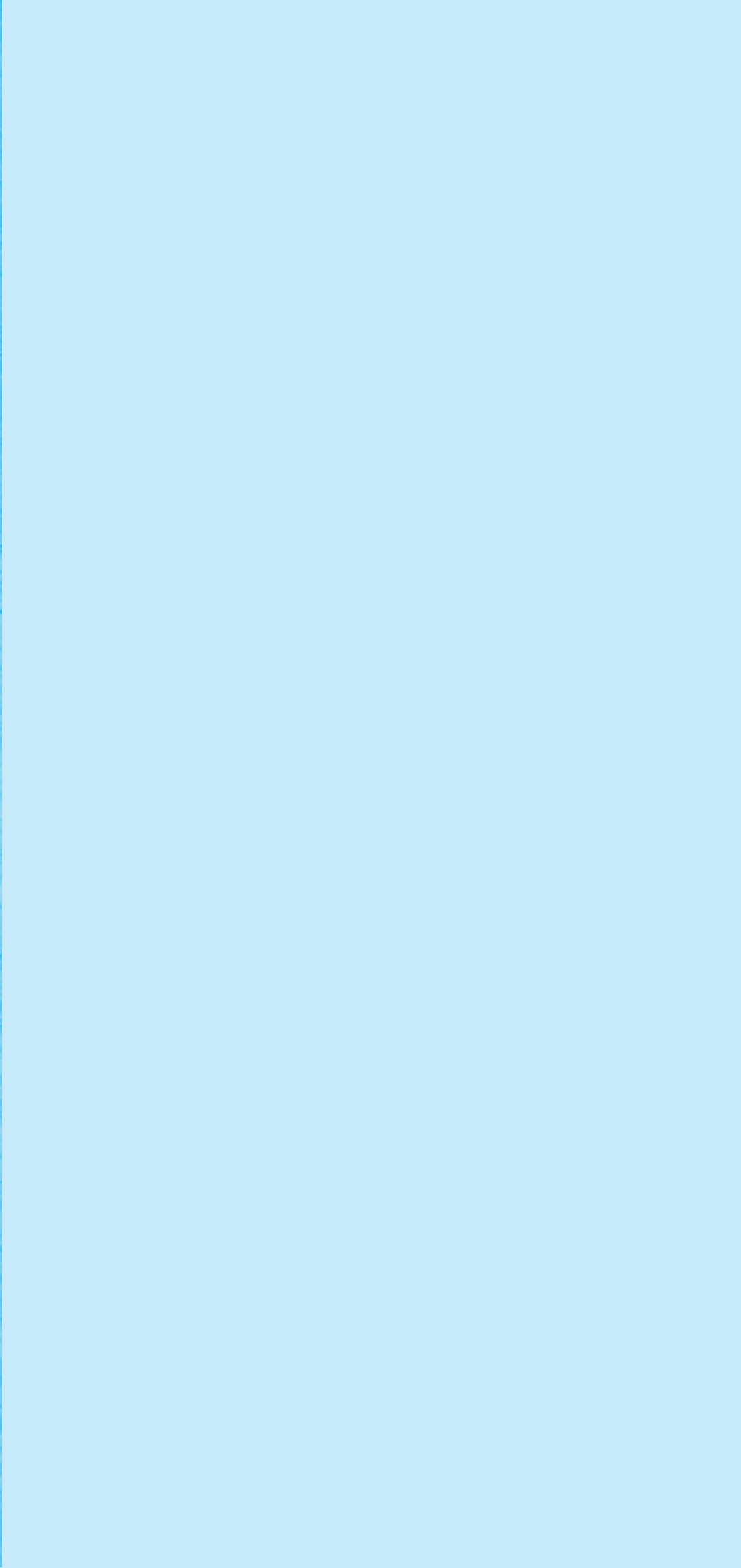
In the second half of 2007, the Russian banking sector experienced the real impact of several stress factors, such as growth in interest rates, and the reduction of limits on international financial markets, and the increase in demand for liquidity and interest rates on the domestic interbank market. Stress-testing conducted on the basis of data reported by banks as of July 1, 2007, and October 1, 2007, revealed growth during that period of potential losses among credit institutions, particularly as a result of the materialisation of liquidity risk.

The absolute value of potential losses connected with liquidity risk only increased during the quarter by factors of 1.6 and 2.1 respectively. The main reason for greater losses from liquidity risk in the baseline scenario is the possible rise of the base MIACR, and as a consequence, the rising cost of interbank borrowing on the domestic market necessary to fill the liquidity gap. Nevertheless, despite growth in potential losses from liquidity risk in the event of a real crisis on international financial markets, banking sector capital is large enough to absorb the losses calculated by stress-testing.

Potential losses of credit institutions from market risk are not yet dangerous from the standpoint of systemic stability of the banking sector: they account for 0.4% of GDP (4.5% of capital). It should be noted, however, that the interest rate risk has grown significantly (by 20.5% in 2007), and that its share of total losses from market risk stood at 64.6% as of January 1, 2008.

If a crisis were to break out on the interbank market (the so-called 'domino effect' has been calculated separately), banks' losses could reach 23% of banking sector capital (1.9% of GDP). Credit institutions whose losses could exceed 50% of capital account for about 14% of banking sector total assets and capital.

Overall, stress test results have shown that integral losses can exceed half of capital of a large number of credit institutions: in the baseline scenario their share is 59% of banking sector assets (60% as of January 1, 2007) and in the worst-case scenario 61% (unchanged from January 1, 2007).



Banking Regulation and Supervision in Russia



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

The Bank of Russia in 2007 continued to upgrade the legal framework for banking in line with the Russian Banking Sector Development Strategy until 2008. It issued a number of regulations designed to improve banking regulation and supervision, including state registration of credit institutions, licensing of banking operations, management of off-site supervision, on-site inspection, financial rehabilitation and liquidation of credit institutions, and countering money laundering and terrorist financing.

III.1.1. Upgrading the regulatory framework for credit institutions

The Bank of Russia took part in the drafting of the following federal laws that came into force in 2007.

Federal Law No. 248-FZ, dated November 2, 2007, 'On Amending Article 29 of the Federal Law on Banks and Banking Activities'. A new section was added to Article 29, stipulating that if a bank deposit agreement has been concluded with an individual, under the condition that the deposit is returned to the individual on the expiry of the term or if circumstances established by the agreement arise, the bank may not unilaterally cut short this term, reduce the interest rate, or increase or set a commission fee for transactions, except in cases stipulated by the federal law.

Federal Law No. 82-FZ, dated May 17, 2007, 'On the Development Bank' and Federal Law No. 83-FZ, dated May 17, 2007, 'On Amending Certain Laws of the Russian Federation in Connection with the Passing of the Federal Law on the Development Bank'. Specifically, the Federal Law on Banks and Banking Activities was amended to establish the right of the development bank to conduct banking operations on the basis of the Federal Law on the Development Bank, while stipulating that the Bank of Russia set specific accounting rules for the development bank.

Federal Law No. 214-FZ, dated July 24, 2007, 'On Amending Certain Laws of the Russian Federation in Connection with the Passing of the Federal Law on Amending the Code of Criminal Procedure of the Russian Federation and the Federal Law on the Prosecutor's Office of the Russian Federation'. Article 26 of the Federal Law on Banks and Banking Activities was amended to stipulate that a credit institution must submit reports on operations and accounts of corporate entities and unincorporated individual entrepreneurs, as well as statements on household accounts and deposits, to investigators with the permission of the head of the investigation authority rather than the prosecutor, as was the procedure before the amendment was introduced. In addition, Article 27 of the

Federal Law on Banks and Banking Activities was amended in respect of the procedure for arresting funds or other valuables held by corporate entities and private individuals in deposit or other accounts, or in escrow with a credit institution. According to the amended version of the law, this property may be seized on orders from a court of law, arbitration court, or judge, and also on the decision of the investigating authority if there is a court order to this effect.

Article 26 of the Federal Law on Banks and Banking Activities was amended in 2007 for the second time due to the passage of Federal Law No. 225-FZ, dated October 2, 2007, 'On Amending Certain Laws of the Russian Federation', which, in turn, was passed due to the passage of a new version of the Federal Law on Enforcement. This law extended the list of authorities to which credit institutions submit reports on operations and accounts of corporate entities, and on unincorporated entrepreneurs, as well as statements of household accounts and deposits. Such statements are now also issued to law enforcement and other authorities in the cases stipulated by the laws regulating their activities.

Drafted with the participation of the Bank of Russia, Federal Law No. 34-FZ, dated March 13, 2007, 'On Amending Article 11 of the Federal Law on Household Deposit Insurance with Russian Banks and Article 6 of the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Deposit Insurance System', increased the level of insurance compensation for household deposits to 400,000 rubles, and simultaneously introduced a commensurate increase in Bank of Russia payments to bankrupt banks uncovered by the deposit insurance system.

III.1.2. Licensing credit institutions

The State Duma received for consideration in 2007 a number of amendments, drafted with the participation of the Bank of Russia, to Article 22 of the Federal Law on Banks and Banking Activities. The purpose of these amendments was to aid the expansion of the range of banking services provided to banks' customers outside their banks, through the opening of internal divisions. The draft amendments aim to make banking services more accessible to the public, increase the number of banks in medium-sized and small towns and villages and enable credit institutions to expand and improve their organisational structures, respond flexibly to changes in household demand for specific banking services, and bring them as close as possible to consumers. Federal Law No. 20-FZ, dated March 3, 2008, 'On Amending Article

22 of the Federal Law on Banks and Banking Activities', came into force on March 17, 2008.

Federal Law No. 325-FZ, dated December 4, 2007, 'On Amending Article 36 of the Federal Law on Banks and Banking Activities', which came into force on March 8, 2008, made it possible for newly registered banks, and banks registered less than two years ago, to take household deposits on the following conditions:

- the authorised capital of a new bank (the capital of an operating bank) must be no less than the ruble equivalent of 100 million euros;
- the bank complies with the Bank of Russia requirement to disclose, without limits on the range of people, information on persons who directly or indirectly exert material influence on decisions taken by the bank's management.

In the period under review, the State Duma received for approval a draft federal law, prepared with the Bank of Russia's participation, 'On Amending the Federal Law on Banks and Banking Activities', designed to upgrade banking merger, acquisition and reorganisation procedures. The document aims to simplify and reduce the expense of bank reorganisation procedures, ensure that reorganised credit institutions remain liquid and solvent, and create additional safeguards for their creditors.

The Bank of Russia continued in 2007 to optimise the registration of credit institutions and licensing of their operations. It amended its Instruction No. 109-I, dated January 14, 2004, 'On the Bank of Russia Decision-Making Procedure in Respect of the State Registration of Credit Institutions and Licensing Banking Operations' (hereinafter referred to as Bank of Russia Instruction No. 109-I).

To create additional conditions for the expansion of banking services to all regions of the country, and encourage credit institutions to expand their retail banking networks, the Bank of Russia granted to credit institutions and their branches the right to open new internal divisions such as operations offices. It also provided for the possibility of changing the status of a branch of a credit institution to that of an internal division in cases where the credit institution seeks to optimise its regional network. However, such a credit institution may temporarily retain the correspondent sub-account of the branch converted into an internal division for up to 90 calendar days from the moment it notifies Bank of Russia regional branches on the conversion. At the end of 2007, in response to credit institutions' requests, the Bank of Russia extended this period to 360 calendar days (Bank of Russia Ordinance No. 1794-U, dated February 21, 2007, and Ordinance No. 1933-U, dated November 27, 2007).

Bank of Russia Ordinance No. 1828-U, dated May 14, 2007, extended the list of non-monetary assets that may be contributed as payment to the authorised capital of a credit institution (taking into account ATM and terminals used by credit institutions in conducting cash operations), and specified the list of documents a credit institution must submit to a Bank of Russia regional branch when selling additional shares to a wide range of buyers.

Bank of Russia Instruction No. 130-I, dated February 21, 2007, 'On the Procedure for Obtaining Prior Permission from the Bank of Russia for the Acquisition and (or) Receipt in Trust of Shares (Stakes) in a Credit Institution', altered this procedure with regard to the acquisition and (or) receipt in trust by an individual, or a group of persons, of more than 20% of shares (stakes) in a credit institution. The changes aim, above all, to simplify the procedure for obtaining such permission. Specifically, the Instruction sets thresholds for the value of shares (stakes) acquired, which can be only exceeded with prior permission from the Bank of Russia. The document also describes cases in which Bank of Russia permission is considered granted, and specifies the procedure for obtaining prior permission from the Bank of Russia when shares in a credit institution are acquired through trading conducted by a stock exchange or another organiser of securities trading (sale by auction), and when the price of shares is set on the basis of a public offering.

In line with changes made to Article 61 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Article 11 of the Federal Law on Banks and Banking Activities, Bank of Russia Ordinance No. 1810-U, dated March 28, 2007, 'On Amending Bank of Russia Instruction No. 128-I, Dated March 10, 2006, on the Rules of Issuance and Registration of Securities by Credit Institutions in the Russian Federation', set the requirement that a person or group of persons who acquire or receive in trust more than 1% of shares in a credit institution must notify the Bank of Russia. Similar changes were made to Bank of Russia Instruction No. 109-I (Bank of Russia Ordinance No. 1828-U, dated May 14, 2007). In addition, the Bank of Russia specified a time period after which a credit institution may place additional shares and securities convertible into shares with persons who have no priority right, and set the procedure for submitting for state registration a securities issue report (additional securities issue report) and statements of share buyers' personal accounts, confirming the entry of funds transferred by investors in the Russian and (or) foreign currency.

Bank of Russia Regulation No. 307-P, dated July 20, 2007, 'On the Procedure for Recording and Presenting Information on Credit Institutions' Related Persons', drafted in connection with the entering into force of the Federal Law on the Protection of Competition, to replace Bank of Russia Regulation No. 227-P, dated May 14, 2003, 'On the Procedure for Recording and Presenting Information on Credit Institutions' Related Persons', settled issues relating to the application of the new conditions for the creation of a group of persons, in order to specify a group of persons owning a credit institution, and to compile a list of related persons.

Bank of Russia Ordinance No. 1790-U, dated January 26, 2007, 'On Recognising as Partially Invalid Bank of Russia Regulation No. 437 of April 23, 1997, on the Specifics of the Registration of Credit Institutions with Foreign Investments, and on the Procedure for Obtaining Prior Permission from the Bank of Russia to Increase the Authorised Capital of a Registered Credit Institution us-

ing Non-Resident Funds', drafted pursuant to the Federal Law on Amending Articles 11 and 18 of the Federal Law on Banks and Banking Activities, lifted the requirement for the Bank of Russia to consider statements of intent to increase the authorised capital of a credit institution using non-resident funds and to alienate shares (stocks) in favour of non-residents, and cancelled the provisions establishing the procedure for obtaining prior permission from the Bank of Russia to increase the authorised capital of a registered credit institution using non-resident funds.

To accelerate the start of work of credit institutions' internal divisions, the Bank of Russia issued Ordinance No. 1863-U, dated July 11, 2007, 'On Amending Bank of Russia Regulation No. 271-P, Dated June 9, 2005, on the Examination of Documents Submitted to a Bank of Russia Regional Branch for Decision-Making on the State Registration of Credit Institutions, Issuing Banking Licences and Maintaining Databases on Credit Institutions and their Divisions', which cancelled requirements to check offices of internal divisions to ensure their readiness for operations with valuables before the credit institutions opened new internal divisions or changed their address. Bank of Russia Ordinance No. 1754-U, dated December 11, 2006, 'On Amending Bank of Russia Instruction No. 109-I, Dated January 14, 2004, on the Bank of Russia Decision-Making Procedure in Respect of the State Registration of Credit Institutions and Licensing Banking Operations', which came into effect on January 1, 2007, made such checks a part of on-going supervision conducted after internal divisions have already become operational.

Bank of Russia Ordinance No. 1807-U, dated March 27, 2007, 'On the Bank of Russia Decision-Making Procedure in Respect of the State Registration of Changes Made to the Founding Documents of a Bank, and Licensing Banking Operations in Response to a Bank's Request to Change its Status to that of a Non-Bank Credit Institution', established the procedure for changing the status of a bank to the status of a non-bank credit institution on a voluntary basis, or in compliance with paragraph 2 of Article 20 of the Federal Law on Banks and Banking Activities. The document also stipulates that a bank may change its status to that of a non-bank credit institution where there are no grounds to revoke its banking licence (in order to carry out bankruptcy-prevention measures) and evidence of its inability to comply with prudential rules after its status has been altered.

Bank of Russia Ordinance No. 1818-U, dated April 23, 2007, 'On Amending Bank of Russia Regulation No. 230-P, Dated June 4, 2003, on the Reorganisation of Credit Institutions by Merger or Acquisition', lifted the requirement to hold a joint general meeting of shareholders of credit institutions reorganised through mergers or acquisitions. It also stipulated that a merger or acquisition agreement, and a protocol of the shareholders' meeting of each of the two credit institutions being reorganised must include provisions (decisions) provided for by the Federal Law on Joint-Stock Companies and the Federal Law on Limited Liability Companies respectively.

In connection with the entering into force on January 1, 2008, of Federal Law No. 231-FZ, dated December 18, 2006, 'On Bringing into Force Section 4 of the Civil Code of the Russian Federation', which required amending Articles 7 and 10 of the Federal Law on Banks and Banking Activities, for the purpose of specifying the full and abridged title of a credit institution, the Bank of Russia made amendments to 19 regulations (Bank of Russia Ordinances No. 1919-U, dated November 26, 2007, No. 1930-U, dated November 26, 2007, No. 1932-U, dated November 27, 2007, and No. 1938-U, dated November 27, 2007).

III.1.3. Regulation of credit institutions and supervision methodology

To improve supervision, replace formal procedures by the substantive evaluation of the situation in a credit institution and implement risk-based supervision, the Bank of Russia issued Regulation No. 310-P, dated September 7, 2007, 'On the Curators of Credit Institutions' (hereinafter referred to as Bank of Russia Regulation No. 310-P), which established the procedure for appointing employees of Bank of Russia regional branches as curators (relationship officers) of credit institutions, defined their duties, powers and responsibilities, and set the fitness and propriety requirements for them. While giving curators broad opportunities to perform their functions effectively, Bank of Russia Ordinance No. 310-P increased the personal responsibility of supervisors appointed as curators in terms of the quality and timeliness of their assessments and proposals relating to the performance of credit institutions. The document also provides for the periodic rotation of curators, and collective discussions of their assessments and recommendations.

The Bank of Russia made amendments to some of its regulations, with the aim of increasing the capitalisation of the banking sector. To implement the standards set by Federal Law No. 247-FZ, dated December 29, 2006, 'On Amending Articles 50.36 and 50.39 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions', and Article 72 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia issued Ordinance No. 1793-U, dated February 20, 2007, 'On Amending Bank of Russia Regulation No. 215-P, Dated February 10, 2003, 'On the Methodology for Determining Credit Institutions' Capital', which specified and extended the list of subordinated instruments included in capital calculation. These amendments correspond to international banking and supervisory practices, and aid growth in the capitalisation of the Russian banking sector.

To improve the methodology for the calculation by credit institutions of required ratios, and supervision of their observance, the Bank of Russia introduced in 2007 the following changes:

- for the purpose of upgrading the capital adequacy (N1) ratio:
 - investments made by a credit institution in federal government debt obligations were classified as risk-

free assets (Group 1 assets) (Bank of Russia Ordinance No. 1838-U, dated June 14, 2007, 'On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, 'On Banks' Required Ratios');

- a lower risk weight of 20% is applied to credit claims secured by Bank of Russia bonds (Group 3 assets) (Bank of Russia Ordinance No. 1905-U, dated November 13, 2007, 'On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, 'On Banks' Required Ratios');
- for credit institutions issuing mortgage-backed bonds, the approach to calculating the capital adequacy (N1) ratio, which previously stood at 14%, was made similar to that taken to the N1 ratio for banks (Bank of Russia Ordinance No. 1831-U, dated June 1, 2007, 'On Amending Bank of Russia Instruction No. 112-I, Dated March 31, 2004, 'On the Required Ratios for Credit Institutions Issuing Mortgage-Backed Bonds'. Specifically, the ratio was set at 10% for banks with capital of no less than the equivalent of 5 million euros, and 11% for banks with capital of less than the equivalent of 5 million euros.

This change was made possible by an amendment to Federal Law No. 152-FZ, dated November 11, 2003, 'On Mortgage Securities', which stipulated that should an institution that issues mortgage-backed bonds be declared insolvent (bankrupt), the mortgage shall be excluded from the institution's property constituting bankruptcy assets. This change solved the problem of additional protection for the acquirers of mortgage securities, and rendered unnecessary the use of an indirect means of protection, such as tightening the financial soundness requirements for mortgage security issuing banks.

- for the purpose of improving methods of evaluating the liquidity of credit institutions and monitoring it (instant (N2) and current (N3) liquidity ratios), and to determine the ratio of maximum risk per borrower or group of related borrowers (N6):
- the Bank of Russia revised the list of highly liquid and liquid assets, including in it debt obligations of the World Bank Group (the International Bank for Reconstruction and Development and International Finance Corporation) and the European Bank for Reconstruction and Development, securities on the Bank of Russia Lombard List, and loans grouped in portfolios of homogeneous loans with provisions of no more than 20% (Bank of Russia Ordinance No. 1838-U, dated June 14, 2007, 'On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on Banks' Required Ratios');
- bank obligations to the Bank of Russia and/or to counterparty banks, secured by highly liquid and liquid securities, were excluded from obligations involved in the calculation of instant and current liquidity ratios. The Bank of Russia also revised the principles for including repo operations with highly liquid and liquid securities in the liquidity ratio calculation, and stipulated that the N6 ratio should not be calculated by the credit institution members of banking

groups of which the creditor bank is a part (Bank of Russia Ordinance No. 1905-U, dated November 13, 2007, 'On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on Banks' Required Ratios').

To simplify procedures for extending loans to medium-sized and small businesses, the Bank of Russia issued Ordinance No. 1960-U, dated December 28, 2007, 'On Amending Point 6.3 of Bank of Russia Regulation No. 254-P, Dated March 26, 2006, on the Procedure for Making by Credit Institutions Provisions for Possible Losses, Loan and Similar Debts' (hereinafter referred to as Bank of Russia Regulation No. 254-P), which added to Quality Category 2 Security sureties of funds to support free enterprise, and funds to encourage lending to medium-sized and small businesses set up by regional governments.

In connection with the introduction of a new accounting procedure (Bank of Russia Regulation No. 302-P, dated March 26, 2007, 'On Accounting Rules in Credit Institutions Domiciled in the Russian Federation' (hereinafter referred to as Bank of Russia Regulation No. 302-P), including the introduction as of January 1, 2008, of the accrual method of income and expense accounting, the Bank of Russia made necessary changes to regulation of credit, market and foreign exchange risks, and to the calculation of credit institutions' capital:

- in connection with the introduction of new principles of accounting for securities and forward transactions, the Bank of Russia set up a procedure for calculating market risk for financial instruments with a current (fair) value, financial instruments denominated in foreign currency and (or) precious metals, and forward transactions (futures contracts) (Bank of Russia Regulation No. 313-P, dated November 14, 2007, 'On the Procedure for Calculating Market Risk by Credit Institutions');
- the Bank of Russia established the provisioning procedure for claims for interest income in respect of credit claims acknowledged by the bank as being defined. In addition, the Bank of Russia lifted the requirement to make provisions for futures contracts concluded on organised trading floors, and over-the-counter futures contracts which provide for the payment (receipt) of intermediate income (the variation margin) by the counterparties (Bank of Russia Ordinance No. 1837-U, dated June 14, 2007, 'On Amending Bank of Russia Regulation No. 283-P, Dated March 20, 2006, on the Loss Provision Procedure for Credit Institutions' (hereinafter referred to as Bank of Russia Regulation No. 283-P));
- in connection with the establishment of the requirement to revalue ruble positions dependent on changes in exchange rates, or the book price of precious metals, the Bank of Russia revised the procedure for calculating open currency positions with regard to these positions. In addition, it amended the procedure for calculating foreign exchange risk for off-balance sheet instruments, establishing a requirement

to include collateral accepted as security for funds placed in the calculation of open currency positions (Bank of Russia Ordinance No. 1832-U, dated June 1, 2007, 'On Amending Bank of Russia Instruction No. 124-I, Dated July 15, 2005, on Setting Limits on Open Currency Positions, the Methodology for Calculating them, and the Specifics of Supervision of their Observance by Credit Institutions');

- as regards capital calculation, the Bank of Russia left essentially intact the principle of including in capital calculation the results of the revaluation of securities that existed before the entering into force of Bank of Russia Resolution No. 302-P. Specifically, both the positive (included in capital sources) and negative (diminishing the sum of capital sources) results of the revaluation of securities at their current (fair) value are taken into account when calculating capital, only insofar as they result from the application of intra-bank methodologies that use average weighted prices in securities trading on the organised securities market (Bank of Russia Ordinance No. 1940-U, dated November 28, 2007, 'On Amending Bank of Russia Regulation No. 215-P, Dated February 10, 2003, on the Methodology for Determining Credit Institutions' Capital').

Guided by international supervisory practice with respect to the evaluation of the quality of banking risk management, based on the assessment of the effectiveness of internal strategies, policies and procedures for managing and monitoring all major types of risk, the Bank of Russia issued letters of information on advanced international practice in managing interest rate and liquidity risks.

The Bank of Russia took steps in 2007 to further upgrade consolidated reporting. Specifically:

- it revised the procedure for compiling consolidated reports, including the basic principles of compiling consolidated reports, their structure, consolidation methods and the procedure for including data reported by the members of a group in the consolidated report; it set out principles for the accounting policy of a group with respect to compiling consolidated reports, and the requirements for the presentation and content of explanatory notes to consolidated reports (Bank of Russia Ordinance No. 1858-U, dated July 9, 2007, 'On Amending Bank of Russia Regulation No. 191-P, Dated July 30, 2002, on Consolidated Reporting');
- the Bank of Russia revised the procedure for recording indicators for members of a group that are non-credit institutions, the calculation of individual indicators for the whole group, and disaggregated group members (credit and non-credit institutions), including capital sources, mutual transactions of group members, and the share of minority shareholders (members). It also set the procedure for recording in consolidated reports data reported by non-resident members of a group, and financial results of the retirement of group members (Bank of Russia Ordinance No. 1859-U, dated July 9, 2007, 'On Amend-

ing Bank of Russia Regulation No. 246-P, Dated January 5, 2004, on the Procedure for Compiling Consolidated Reports by the Parent Credit Institution of a Banking/Consolidated Group');

- the Bank of Russia revised and specified the procedure for calculating the financial result of a bank, used in the group of profitability assessment indicators, and the procedure for calculating individual indicators for this group, including the expense and income structure, net interest margin, and net spread from credit operations (Bank of Russia Ordinance No. 1861-U, dated July 10, 2007, 'On Amending Bank of Russia Ordinance No. 1379-U, Dated January 16, 2004, on the Evaluation of a Bank's Financial Soundness for the Purpose of Establishing its Adequacy for Participation in the Deposit Insurance System').

The Bank of Russia continued in 2007 to optimise and upgrade accounting and reporting forms used for supervisory purposes (prudential reporting).

Specifically, it changed the content of 0409115 Form 'Information on the Quality of a Credit Institution's Assets' (formerly 'Information on the Quality of Loans, Loan and Similar Debts) and 0409155 Form 'Information on Financial Instruments Recorded in Below-Line Balance Accounts' (formerly 'Information on Provisions'). The new version of 0409115 Form is designed to encourage a credit institution to provide information on the quality of all its assets evaluated pursuant to Bank of Russia Regulations No. 254-P and 283-P by counterparty and asset type. 0409155 Form aims to encourage a credit institution to disclose information on all contingent credit liabilities and forward transactions (deliverable and non-deliverable) by instrument, and provisions made for them. This information will allow the Bank of Russia to assess the credit risk involved in these transactions.

As part of its efforts to provide methodological assistance, the Bank of Russia issued recommendations for its regional branches (Bank of Russia Letter No. 166-T, dated October 19, 2007, 'On the Methodology for Determining Costs (Losses) Resulting from Business Development'), which specified the structure of costs accounted for by a bank as costs (losses) involved in business development. According to sub-point 5.2.1 of Bank of Russia Ordinance No. 1379-U, dated January 16, 2004, 'On the Evaluation of a Bank's Financial Soundness for the Purpose of Establishing its Adequacy for Participation in the Deposit Insurance System', these costs (losses) may not be taken into account when compiling the 'financial result of a bank' indicator. The Bank of Russia set a procedure for examining banks' petitions on this matter and preparing a corresponding petition to the Bank of Russia Banking Supervision Committee.

III.1.4. Upgrading the legal and regulatory framework for the financial rehabilitation and liquidation of credit institutions

In line with the entering into force of the Federal Law on Amending Article 11 of the Federal Law on Insurance

of Household Deposits with Russian Banks, and Article 6 of the Federal Law on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System, the Bank of Russia issued Ordinance No. 1811-U, dated March 29, 2007, 'On Amending Bank of Russia Ordinance No. 1517-U, Dated November 17, 2004, on Bank of Russia Payments on Household Deposits with Bankrupt Banks Uncovered by the Compulsory Deposit Insurance System, and on the Procedure for Co-operation between Agent Banks and the Bank of Russia', which raised the maximum size of a Bank of Russia payment to 400,000 rubles, and altered the procedure for calculating Bank of Russia payments on household deposits with bankrupt banks uncovered by the compulsory deposit insurance system.

Bank of Russia Regulation No. 301-P, dated January 16, 2007, 'On the Procedure for Compiling and Presenting the Interim Liquidation Balance Sheet and Liquidation Balance Sheet of a Credit Institution Being Liquidated, and their Approval by a Bank of Russia Regional Branch', which replaced Bank of Russia Regulation No. 125-P, dated October 4, 2000, 'On the Procedure for Compiling the Interim Liquidation Balance Sheet and Liquidation Balance Sheet of a Credit Institution, and their Approval by Bank of Russia Regional Branches', set the procedure for monitoring the liquidation of a credit institution, including the reporting of individual indicators that characterise the liquidation process.

Bank of Russia Regulation No. 306-P, dated July 3, 2007, 'On Inspecting Receivers and Liquidators of Credit Institutions by the Bank of Russia', which replaced Bank of Russia Regulation No. 132-P, dated January 17, 2001, 'On Inspecting Receivers of Bankrupt Credit Institutions and Liquidators by the Bank of Russia', established the grounds and procedure for appointing and conducting inspections of receivers (liquidators) of credit institutions, and outlined measures to be taken with regard to inspection results.

In connection with the issuance of Regulation No. 302-P, the Bank of Russia made amendments to its Regulation No. 279-P, dated November 9, 2005, 'On the Provisional Administration of a Credit Institution', Regulation No. 301-P, dated January 16, 2007, 'On the Procedure for Compiling and Presenting the Interim Liquidation Balance Sheet and Liquidation Balance Sheet of a Credit Institution Being Liquidated, and their Approval by a Bank of Russia Regional Branch', Ordinance No. 1594-U, dated July 14, 2005, 'On the List, Forms and Procedure for Compiling and Presenting to the Central Bank of the Russian Federation Reports by Credit Institutions Being Liquidated', and Ordinance No. 1260-U, dated March 24, 2003, 'On the Procedure for Matching Authorised Capital with a Credit Institution's Capital'. These amendments excluded from the chart of accounts a number of accounts used to record financial results, altered titles of certain balance sheet accounts, and closed certain balance sheet accounts (Bank of Russia Ordinances No. 1854-U, dated July 5, 2007, No. 1856-U, dated July 5, 2007, and No. 1867-U, dated July 20, 2007).

Bank of Russia Ordinance No. 1867-U, dated July 20, 2007, 'On Amending Bank of Russia Ordinance No. 1260-U, Dated March 24, 2003, on the Procedure for Matching Authorised Capital with a Credit Institution's Capital', established the ratio by which the authorised capital of a credit institution could be reduced in order to redeem the previous year's loss, and the uncovered loss approved by the annual shareholders' (members') meeting, and in order to augment the current year's income.

Bank of Russia Ordinance No. 1853-U, dated July 5, 2007, 'On the Specifics of Settlement Operations Conducted by a Credit Institution after the Revocation of its Banking Licence and on the Accounts Used by the Receiver (Liquidator or Liquidation Commission)', set out a mechanism for implementing legal standards in the liquidation of credit institutions, including the use of the accounts of the state-run Deposit Insurance Agency, which carries out liquidation procedures in credit institutions. The document also set out the procedure for opening and closing foreign currency accounts during the course of liquidating a credit institution, and using and closing correspondent accounts (sub-accounts) of the credit institution (branch) undergoing liquidation in the divisions of the Bank of Russia settlement network, and correspondent accounts in correspondent credit institutions.

Bank of Russia Ordinance No. 1874-U, dated August 13, 2007, 'On the Treatment by Bank of Russia Regional Branches and Settlement Divisions of Credit Institutions That Have Had Their Banking Licences Revoked (Cancelled)', established the procedure for co-operation between Bank of Russia structural units and credit institutions being liquidated, including the liquidation commissions, liquidators, receivers and the Deposit Insurance Agency, which implement the liquidation procedures in credit institutions.

Bank of Russia Ordinance No. 1899-U, dated November 6, 2007, 'On Amending Bank of Russia Regulation No. 265-P, Dated December 14, 2004, on the Accreditation with the Bank of Russia of Arbitration Managers as Receivers of Bankrupt Credit Institutions', which was drafted to ensure compliance with the requirements of the Federal Law on Personal Data, stipulated that arbitration managers who apply to the Bank of Russia for accreditation as receivers of bankrupt credit institutions agree to the Bank of Russia publishing their personal data in the Bank of Russia Bulletin and posting the data on the Bank of Russia official website.

III. 1.5. Upgrading the regulatory framework for inspections

The Bank of Russia continued in 2007 to upgrade the regulatory and methodological framework for inspections in compliance with Guidelines for the Single State Monetary Policy in 2007, and the Bank of Russia Action Plan for the implementation of the Russian Banking Sector Development Strategy until 2008. For this purpose, it has made necessary changes and amendments to applicable regulations on inspections.

Some of these changes were aimed at preventing a possible conflict of interest in the course of conducting inspections. Specifically, the Bank of Russia prohibited its authorised representatives who held shares (stakes) in, and (or) were members of the management of the inspected credit institution, from participating in inspections (Bank of Russia Ordinance No. 1819-U, dated April 24, 2007, 'On Amending Bank of Russia Instruction No. 108-I, Dated December 1, 2003, on Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)'. The employees of the Deposit Insurance Agency were required to disclose the ownership of shares (stakes) in the inspected bank, or their membership in the management of the inspected bank (Bank of Russia Ordinance No. 1820-U, dated April 24, 2007, 'On Amending Bank of Russia Ordinance No. 1542-U, Dated January 13, 2005, on the Specifics of Conducting Inspections of Banks with the Participation of Deposit Insurance Agency Employees').

The Bank of Russia set up the procedures for, and defined, the powers of inspectors in appointing, recording and conducting inspections of operations offices opened outside the premises of a credit institution or its branch (Bank of Russia Ordinance No. 1814-U, dated March 30, 2007, 'On Amending Bank of Russia Instruction No. 105-I, Dated August 25, 2003, on the Procedure for Conducting Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation' and Bank of Russia Ordinance No. 1815-U, dated March 30, 2007, 'On Amending Bank of Russia Instruction No. 108-I, Dated December 1, 2003, on Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)').

In response to queries from Bank of Russia regional branches, the Bank of Russia clarified:

- the procedure for calculating the regularity of inspections of credit institutions (at least once in 18 months) and the principles of determining the divisions of a credit institution inspected during the course of inspecting the credit institution with the established regularity;
- the procedure for the prior notification of a credit institution or its branch of the inspection, if the inspection of the credit institution or its branch is conducted with the sole purpose of ascertaining compliance with the requirements of the federal law on countering money laundering and terrorist financing, and if this subject is included in the inspection assignment, along with other subjects (Bank of Russia Official Clarification No. 33-OR, dated December 7, 2007, 'On the Application of Certain Provisions of Bank of Russia Instruction No. 105-I, Dated August 25, 2003, on the Procedure for Conducting Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation').

To improve the effectiveness of inspections, the Bank of Russia issued the Guide for Bank of Russia Authorised Representatives Conducting Inspections of Credit Insti-

tutions and their Branches, which presented in systematised form the necessary regulatory and methodological documents for conducting inspections.

To improve the procedure for drafting organisation and authorisation documents during inspections, and to tighten control over the organisation and conducting of inspections, the Bank of Russia set out in 2007 recommendations for its regional branches on how they should register documents relating to the organisation and conducting of inspections, and also on preparing and presenting the documents drawn up in the course of organising and conducting inspections, and their electronic copies (Bank of Russia Letter No. 116-T, dated August 3, 2007, 'On the Registration of Documents Connected with the Organisation and Conducting of Inspections of Credit Institutions and their Branches' and Bank of Russia Letter No. 177-T, dated July 14, 2007, 'On Recommendations for Preparing and Presenting in Electronic Form of Documents and their Copies Drawn up in the Course of Organising and Conducting Inspections of Credit Institutions and their Branches').

To promote risk-based supervision, enhance the effectiveness of inspections of credit institutions and their branches conducted by the Bank of Russia's authorised representatives, and standardise approaches to the registration of inspection results, the Bank of Russia worked out the following methodological recommendations:

- explaining the procedure for inspecting the risk management system and its individual components (the management of individual banking risks). Guided by the principles set out in its Ordinance No. 1379-U, dated January 16, 2004, 'On the Evaluation of a Bank's Financial Soundness for the Purpose of Establishing its Adequacy for Participation in the Deposit Insurance System', the Bank of Russia recommended the score-and-weight method for evaluating the risk management system of a credit institution. It also provided for the possibility of using supervisory information received in the course of inspections for the calculation of the risk management system indicator (Bank of Russia Letter No. 26-T, dated March 23, 2007, 'On Methodological Recommendations for the Inspection of a Banking Risk Management System in a Credit Institution or its Branch');
- explaining the procedure for detecting during the course of an inspection of a credit institution or its branch the causes of distortions and errors in accounts and reports that led to distortions in accounting, statistical and financial statements, and the presentation to the Bank of Russia, by a credit institution or its branch, of misinformation on the financial standing (financial soundness) and property status of the credit institution; the procedure for summarising supervisory information necessary for evaluation of reliability of accounting and reporting of the credit institution and its branch, on the basis of information received in the course of inspection, using where necessary the calculations and professional judgments of the working group; the procedure for eval-

uating the material effect of errors and violations of accounting and reporting rules on the reliability of accounting and reporting of the credit institution and its branch (Bank of Russia Letter No. 77-T, dated July 1, 2007, 'On Methodological Recommendations for Organising and Conducting an Inspection of the Reliability of Accounting (Reporting) by a Credit Institution or its Branch');

- establishing the procedure for recording the results of an inspection of a credit institution or its branch in the inspection report, for the purpose of standardising approaches to drawing up inspection reports, and ensuring that these reports contain full and reliable supervisory information, and that the conclusions and professional judgements made by the working groups in the course of an on-site inspection of a credit institution, or its individual businesses, are just and sound. The Bank

of Russia described in detail approaches to recording in inspection reports cases of misreporting, violations, and shortcomings, indicating the extent of their materiality, and specified the procedure for recording in the inspection report the results of inspections of individual aspects of the credit institution's activity, and an evaluation of the credit institution's overall situation (Bank of Russia Letter No. 86-T, dated June 27, 2007, 'On Methodological Recommendations for the Model Structure and Content of a Report on an Inspection of a Credit Institution or its Branch');

- clarifying the procedure for inspecting compliance by credit institutions with required reserve ratios (Bank of Russia Letter No. 199-T, dated December 10, 2007, 'On Methodological Recommendations for Inspection of Compliance by Credit Institutions with Required Reserve Ratios').

III.2. State Registration of Credit Institutions and Licensing of Banking Operations, Including Mergers and Acquisitions

In 2007, the Bank of Russia continued to register new credit institutions, license banking operations, evaluate the financial standing of the founders (members) of credit institutions, create conditions conducive to the consolidation of banking sector capital, and take measures to ensure that credit institutions maintained the necessary level of transparency in their ownership structure.

During the year under review, the Bank of Russia registered 12 new credit institutions (eight banks and four non-bank credit institutions), as compared with seven credit institutions in 2006.

The reorganisation of credit institutions continued in 2007:

- eight credit institutions merged with other credit institutions (the same number as in 2006);
- seven credit institutions changed their form of incorporation from a limited liability company to a joint-stock company (six credit institutions in 2006).

Over the year, 41 credit institutions, or 3.6% of total operating credit institutions, expanded the range of their operations by obtaining additional licences; some of these received two licences (48 credit institutions, representing 4.0% in 2006). Six banks were granted the right to take household funds on deposit, of which four banks received this right for the first time, and two received it after filing a request upon the expiry of the two-year period after they ceased to take household deposits.

The total number of registered credit institutions decreased from 1,345 to 1,296, representing 3.6% in 2007 (against 4.5% in 2006, when the total number of registered credit institutions fell from 1,409 to 1,345). The number of credit institutions licensed to conduct banking operations dropped from 1,189 to 1,136.

As of January 1, 2008, of the total number of operating credit institutions:

- 906 credit institutions, or 79.8%, are licensed to take household funds on deposit (921 credit institutions, or 77.5%, as of January 1, 2007);
- 754 credit institutions, or 66.4%, are licensed to conduct banking operations in both rubles and foreign currency (against 803 credit institutions, or 67.5%, as of January 1, 2007);
- 300 credit institutions, or 26.4%, have a general licence to conduct banking operations (against 287 credit institutions, or 24.1%, as of January 1, 2007);
- 199 credit institutions, or 17.5%, may conduct operations with precious metals on the basis of licences to deposit and place precious metals, or permits to conduct operations with precious metals (against 192 credit institutions, representing 16.2%, as of January 1, 2007).

As a result of measures taken by the shareholders and members of credit institutions to strengthen their capital base, banking sector total authorised capital increased from 566.5 billion rubles to 731.7 billion rubles in 2007, i.e. by 165.2 billion rubles, or 29.2%. (In 2006, banking sector total authorised capital expanded from 444.4 billion to 566.5 billion rubles, or by 122.1 billion rubles, representing 27.5%).

Foreign capital increased its presence in the Russian banking sector during 2007. Over the year, non-resident capital in banking sector total authorised capital expanded from 90,092.8 million rubles to 183,506.3 million rubles, or by 103.7% (in 2006, it increased from 49,554.5 million to 90,092.8 million rubles, or by 81.8%). The non-resident share in banking sector total authorised capital expanded from 15.90% to 25.08% (in 2006, it rose from 11.15% to 15.90%). While the number of credit institutions with a foreign interest rose from 153 to 202 (in 2006, from 136 to 153), the number of credit institutions with a non-resident stake of more than 50% increased from 65 to 86 (in 2006, from 52 to 65), and total foreign investment in the authorised capital of operating credit institutions increased by 93.4 billion rubles (in 2006, it grew by 40.5 billion rubles). Credit institutions with a foreign interest are located in 40 Russian regions; 124, or 61.4%, of these are based in Moscow and the Moscow Region, and 16 are in St Petersburg.

While the total number of credit institutions declined in 2007, their branch networks continued to expand. The number of branches of operating credit institutions increased by 5.3% and stood at 3,455 as of January 1, 2008, against 3,281 as of January 1, 2007 (809 of them are Sberbank branches). The total number of the internal divisions of credit institutions and their branches rose by 3,871, or 12.1%, and as of January 1, 2008, stood at 35,759. However, the total number of cash departments decreased, from 15,885 to 14,689. Credit institutions and their branches opened many new internal divisions, authorised by Bank of Russia regulations, such as operations offices and mobile cash points. As of January 1, 2008, there were 497 operations offices and 51 mobile cash points. The ratio of bank internal divisions per 100,000 people increased from 22 in 2006 to 25 at the end of 2007.

The tendency towards growth in securities-issuing activity of credit institutions on the primary market has continued in the year under review. Compared to 2006, the nominal value of registered securities issues by credit institutions increased by 50%, from 344.7 billion rubles to 500.3 billion rubles, while the number of securities issues rose 14.3%.

However, the value of share issues registered in 2007 totalled 201.7 billion rubles, or 40.3% of total registered securities issues, which represents a decrease of 27 percentage points from 2006. The value of share issues connected with expansion of authorised capital also declined (by 28.0%) in 2007. Compared to 2006, this indicator fell from 176.4 billion rubles to 126.9 billion rubles. However, the total value of shares issued during the course of creating and reorganising credit institutions increased from 1.7 billion rubles in 2006 to 6.2 billion rubles. The value of the registered share issues launched for the purpose of dilution, consolidation and conversion grew from 53.7 billion rubles in 2006 to 68.6 billion rubles in 2007. Indicators representing the purpose structure of share issues of credit institutions in 2007 are close to those registered in 2006. The ratio of share issues registered for the purpose of augmenting authorised capital in the total number of share issues registered in 2007 stood at 92.6% (against 94.2% in 2006). The proportion of share issues registered in the course of creating and reorganising credit institutions stood at 4.7%, compared to 2.9% in 2006. The proportion of share issues registered for the

purpose of dilution and conversion stood at 2.7% in 2007 against 2.9% in 2006.

The results of major IPOs by Sberbank and VTB Bank were registered during the year under review. According to the securities issue report, Sberbank placed 2,586,948 ordinary registered uncertified stocks to a total of 230.2 billion rubles at offered price. VTB Bank placed 1,513,026,109,019 ordinary registered uncertified stocks to a total of 206.29 billion rubles at offered price at the Bank of Russia exchange rate as of the date of the securities issue report's approval. As a result, the placement of Sberbank and VTB Bank stocks accounted for 44.6% of growth in banking sector total capital in 2007.

The value of bond issues registered in 2007 stood at 298.6 billion rubles, or 59.7% of the total nominal value of registered issues of securities. This represents an increase on the previous year of 27.0%, which testifies to the interest credit institutions are showing in raising funds by issuing bonds. However, due to the market situation, 33.3% of the total volume of bond issues registered in 2007 were placed, in a value of 99.5 billion rubles.

III.3. Off-site Supervision

Throughout 2007, the Bank of Russia paid special attention in its off-site supervision to further developing the principles of risk-based supervision, including the evaluation of credit institutions' activities and the implementation of supervisory decisions, taking into consideration, first and foremost, the content and realistic assessment of banking risk in terms of its effect on the financial soundness of credit institutions. Along with the formal evaluation criteria, the Bank of Russia began to more actively use substantive approaches based on sound and comprehensive analysis of credit institutions' performance. It focused increasingly on evaluating the quality of governance and risk management, and internal controls.

The Bank of Russia conducted last year monthly monitoring of banks participating in the deposit insurance system (an element of the early warning system) to ensure their compliance with the requirements of Federal Law No. 177-FZ, dated December 23, 2003, on Household Deposit Insurance with Russian Banks. In cases where banks failed to comply with deposit insurance system requirements, the Bank of Russia examined the causes of this, and oversaw measures taken by the banks to ensure compliance.

In view of the situation on international financial markets in the second half of 2007, the Bank of Russia increased its focus on the liquidity situation in credit institutions, and ensured that they had adequate liquidity risk management systems. It kept a particularly close watch on banks that depended heavily on interbank market borrowings and foreign investment. In October 2007, the Bank of Russia conveyed to its regional branches information on advanced methods of organising effective liquidity risk management and control in credit institutions.

In view of the rapidly growing consumer credit market, the Bank of Russia paid close attention to risks facing credit institutions in this area. Consumer lending was regulated by the passing of new laws, and amendments to Bank of Russia rules and regulations. For this purpose, the Bank of Russia closely co-operated with government bodies.

Recognizing that a number of banks had a sustained upward tendency in overdue debt on consumer credit, the Bank of Russia tightened control over banks' pooling of homogeneous loans extended to households, and the making of provisions for possible losses on these loans. Specifically, it ensured that banks complied with Bank of Russia Regulation No. 254-P, allowing credit institutions to include in their homogeneous-loan portfolios loans extended to households only in cases where the borrower has been informed of the effective interest rate.

The Bank of Russia paid special attention to individuals' reports and complaints against banks with respect to consumer lending. Where necessary, such reports and complaints were examined during the course of inspections of banks. In certain cases, the Bank of Russia arranged meetings between dissatisfied customers and representatives of banks against which the complaints were directed. As a result of such meetings, many conflicts between borrowers and banks have been settled. However, in many cases banks encounter problems in retrieving their money from individual borrowers who have not carefully studied the credit agreement, or who have miscalculated their creditworthiness. Consequently, the Bank of Russia planned a series of events to promote financial literacy among the general public.

In 2007, the Bank of Russia continued to detect cases in which credit institutions used inappropriate assets to inflate their capital. Twelve credit institutions have been found guilty of this, and the Bank of Russia will continue to work with them to rectify the situation. In response to requests from five credit institutions, it withdrew its earlier orders to readjust capital, and ceased action against two credit institutions under Ordinance No. 1656-U, dated February 6, 2006, after they liquidated (covered) the risks they had assumed as a result of using inappropriate assets to build up their capital.

During the year under review, the Bank of Russia implemented consolidated supervision of banking (consolidated) groups, analysing on a regular basis consolidated reports presented by parent credit institutions, and other information available to the Bank of Russia, including inspection results. It paid special attention to evaluating the completeness of determining the consolidation perimeter, the correctness of compiling reports, and the timeliness of their presentation to the Bank of Russia, the financial standing of the group, and the observance of prudential rules. The most common infraction was the late presentation to the Bank of Russia of consolidated reports by the parent credit institutions of the (banking) consolidated groups.

In the fourth quarter of 2007, the Bank of Russia organised meetings of its regional branches, to discuss issues relating to risk-based supervision.

During the year under review, it upgraded the principles for co-ordinating the activities of Bank of Russia regional branches, to ensure effective supervision of credit institutions whose branches located in other regions account for a substantial share of their operations, analysed off-site supervision in its regional branches, and provided practical assistance in organising supervision.

In 2007, the Bank of Russia continued to improve its methods for regular monitoring of banking risk as a major element of risk-based supervision. Specifically, it developed methods for monitoring market risk and credit institutions' capital adequacy. As a result, the current banking risk monitoring system comprises five sub-systems: banking sector liquidity monitoring, non-financial organisation credit monitoring, household credit monitoring, capital adequacy monitoring, and market risk monitoring. Regular monitoring is conducted to forestall negative trends in the banking sector, and to this end, to detect banks whose operations provoke these trends.

To help supervisors fulfil their duties in compliance with Bank of Russia Letter No. 40-T, dated March 17, 2006, from the standpoint of information analysis, the Bank of Russia is using in its practice the results of monitoring non-financial enterprises. It is important to note that co-operation between enterprise monitoring services and the supervisors of the Bank of Russia regional branches who inspect credit institutions is implemented, as a rule, during preparations for inspections.

While inspecting credit institutions, the enterprise monitoring services of Bank of Russia regional branches provide consultative and information analysis assistance to Bank of Russia inspectors.

Experience has shown that the best results are achieved when specialists with the enterprise monitoring services are enlisted to prepare information analysis materials needed for supervision, to analyse the methodologies of evaluating the financial standing of non-financial enterprises, approved by the internal documents of credit institutions, and to clarify assessments of the conditions and results of their production and financial performance.

Overall, in 2007, Bank of Russia supervisors filed 1,300 requests for analytical materials compiled on the basis of enterprise monitoring results. The activities of more than 3,000 non-financial enterprises were analysed.

When supervising credit institutions, the Bank of Russia took into consideration the results of analysis of their reports for 2006, compiled according to International Financial Reporting Standards (IFRS). Whenever serious discrepancies were identified between the major bank performance indicators compiled according to IFRS and Russian Accounting Standards, Bank of Russia analysts examined their causes, and when necessary, recommended that credit institutions revise assessments of their assets and liabilities in future.

In 2007, the Bank of Russia continued to survey credit institutions' Internet banking services, to detect potential sources of risk involved in online banking.

III.4. On-site Inspection of Credit Institutions

The activities of the Bank of Russia Main Inspectorate for Credit Institutions are aimed at fulfilling Bank of Russia functions in banking regulation and supervision, namely detecting through inspections violations of applicable legislation and Bank of Russia rules and regulations by credit institutions, identifying problems in credit institutions at the earliest possible stage, and providing supervisors with reliable information on the real level of risk assumed by credit institutions.

Most inspections of credit institutions and their branches in 2007 were conducted according to a schedule. Inspection targets were set in the Guidelines for the Single State Monetary Policy in 2007, the Bank of Russia Action Plan for the Russian Banking Sector Development Strategy until 2008, and the Summary Plan of Comprehensive and Thematic Inspections of Credit Institutions and their Branches for 2007.

Inspections of credit institutions and their branches focused on banking operations involving high levels of risk: lending, including lending to households, internal control procedures designed to prevent money laundering and terrorist financing, and bank liquidity. Inspection assignments included questions that enabled inspectors to evaluate actual risk levels in these areas of banking activities, and consequently, to assess the financial soundness of credit institutions and their branches.

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

Of the total number of these inspections, 393 (22.6%) were comprehensive, and 1,349 (77.4%) were thematic (see Chart 3.1). At the same time, 97 comprehensive inspections and 520 thematic inspections were conducted in branches of credit institutions (87 of these, all thematic, were conducted in Sberbank branches).

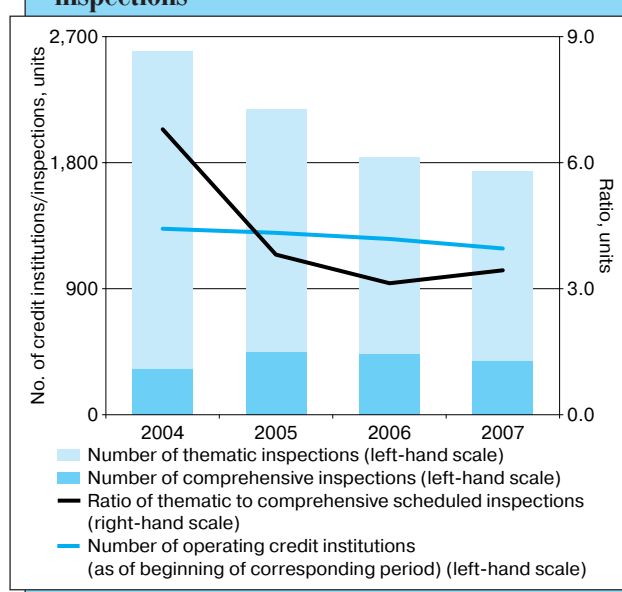
The Bank of Russia inspected 866 credit institutions (72.8% of the total as of January 1, 2007) and 609 branches of credit institutions (18.6% of the total as of January 1, 2007), including 84 Sberbank branches (9.8% of total Sberbank branches in operation as of January 1, 2007) (See Chart 3.2).

The trend towards a reduction in the number of inspections per credit institution, which began several years ago, continued in the year under review. This was reflected in the decrease in the total number of inspections, and the change in the ratio between scheduled and unscheduled inspections in favour of the former (see Chart 3.3). In line with the Summary Plan of Comprehensive and Thematic Inspections of Credit Institutions and their Branches for 2007, the Bank of Russia conducted 1,322 inspections (76% of total inspections), of which 726 inspections were conducted in credit institutions, 511 in the branches of credit institutions, and 85 in Sberbank branches. In 2007, the Bank of Russia conducted 173 scheduled inter-regional inspections of credit institutions and their branches.

Pursuant to Article 32 of the Federal Law on Household Deposit Insurance with Russian Banks, the Bank of

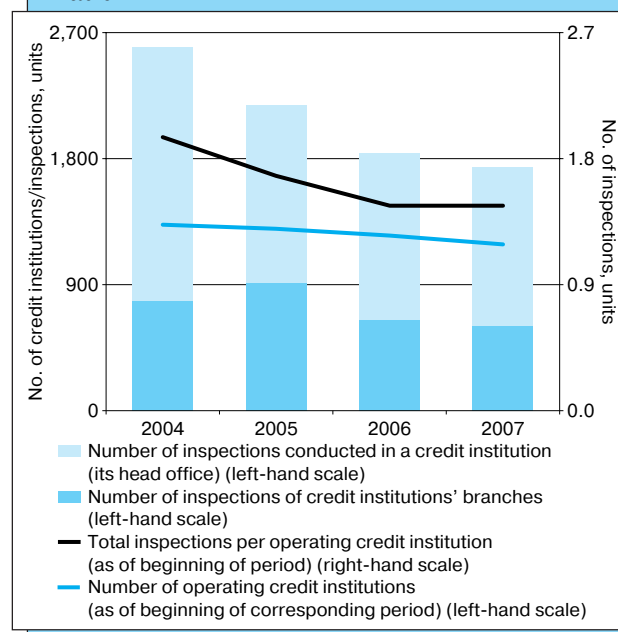
Thematic and comprehensive inspections

CHART 3.1



Inspection per credit institution ratio

CHART 3.2



Russia conducted, with the participation of the Deposit Insurance Agency, 131 scheduled inspections of banks participating in the deposit insurance system (14.2% of the total number of banks participating in this system as of January 1, 2007).

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

109 unscheduled inspections, representing 26% of their total number, were conducted on the decision of the Bank of Russia's management. During these inspections, inspectors inquired as to how credit institutions were complying with the requirements of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism, and Bank of Russia regulations on cash and currency exchange operations, paying particular attention to the detection and prevention of suspicious operations.

Most of the unscheduled inspections (311, or 74% of the total) were conducted on the decision of Bank of Russia regional branches. In virtually all cases (307 out of 311), inspections were conducted after credit institutions increased their authorised capital by more than 20% of their previously registered capital, and in response to credit institutions' requests for permission to expand the range of their operations. Four inspections were conducted in connection with the implementation of bankruptcy-prevention measures.

Inspections conducted in 2007 revealed 17,969 violations in the activities of credit institutions and their branches.

The largest share of these violations related to failure to comply with the requirements of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism (4,376 violations, or 24.4% of the total). A significant

share of violations related to the conducting of credit operations (3,469, or 19.3%), bookkeeping (1,698, or 9.4%), and accounting and reporting reliability (1,425, or 7.9%). There were 1,244 violations of cash operations rules (7.0% of the total), and 1,024 violations of currency legislation (5.7%). Compared to 2006, the number and structure of violations remained substantially unchanged.

The Bank of Russia Main Inspectorate for Credit Institutions continually carried out measures in 2007 to improve the quality of inspections, placing special emphasis on the need to enhance the effectiveness and quality of preparations for inspections, improve inspection methodologies, and tighten control over the quality of inspection reports. In preparing inspections, special attention was paid to co-operation with off-site supervisors, and functional interaction between the heads of the working groups with the curators of credit institutions.

The Bank of Russia continued to improve information support for and methodology of pre-inspection analysis, using among other things up-to-date software products. For this purpose, it prepared proposals for the implementation within the Bank Financial Assessment System of the CALIPSO-inspector package of analysis tables.

To improve the quality of inspections, and optimise and rationalise inspectors' work, the Bank of Russia began to develop and introduce flow charts of bank inspections, representing the algorithm of an inspector's actions from analysis of a credit institution's statements to the compiling of an inspection report. Priority was given to flow charts on the most topical issues, such as converting large sums of money into cash, taking funds out of the country, and evaluating credit and consumer credit risks.

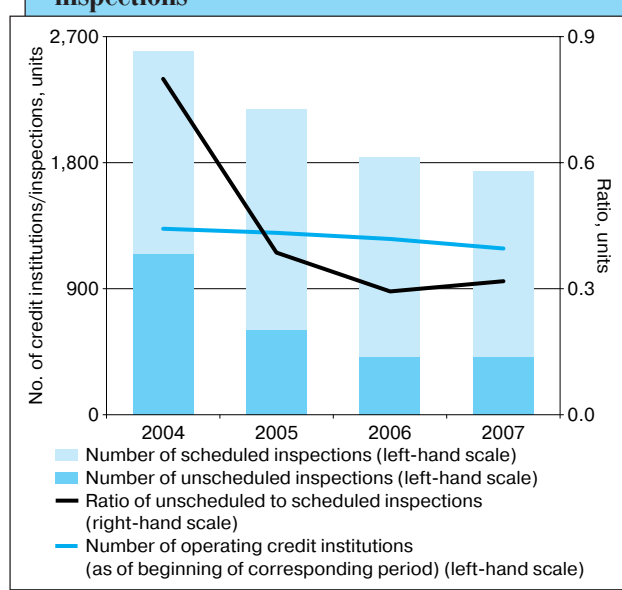
To formulate requirements for the amount of information on these issues, the Bank of Russia tested the practice of creating a standard assignment format for various fields of activity of credit institutions and their branches, ensuring additional conditions for improving the quality of inspections. This approach proved successful in inspections of major consumer credit market operators.

The Bank of Russia paid great attention to improving the quality of inspection reports. For this purpose, it continued the practice of holding hearings of reports delivered by its regional branches. In the course of these hearings in 2007, the Bank of Russia analysed 56 reports on inspections conducted by eight Bank of Russia regional branches located in the Central Federal District, North-Western Federal District, Southern Federal District, Ural Federal District, and Siberian Federal District. After the reports were analysed, the Bank of Russia presented 39 expert statements to the management of the Main Inspectorate for Credit Institutions.

In the year under review, the Bank of Russia continued to take steps to raise the role of the inter-regional inspectorates of the Bank of Russia Main Inspectorate for Credit Institutions. Emphasis was placed on co-ordination of efforts of inspection divisions of Bank of Russia regional branches, and the provision of methodolog-

Scheduled and unscheduled inspections

CHART 3.3



ical assistance to them. To arrange closer co-operation between inter-regional inspectorates and inspection divisions of Bank of Russia's regional branches, the Bank of Russia began to appoint in 2007 inspection co-ordinators. In collaboration with inter-regional inspectorates, the Bank of Russia tested flow charts designed to help scrutinise operations conducted by credit institutions and their branches involving funds outflow and large cash withdrawals.

Specialists at inter-regional inspectorates took part in 81 inspections. They analysed 948 inspection reports,

and on 200 of them they sent their comments to regional branches.

In 2007, the Bank of Russia continued to co-ordinate efforts to organise and implement supervision of credit institutions, and branches of credit institutions located in the Chechen Republic. It examined documents on the opening of 11 internal divisions of credit institutions in the Chechen Republic, and conducted on-site inspections of cash and other offices of credit institutions' divisions, to verify their compliance with applicable rules and regulations.

III.5. Supervisory Response

As a banking regulation and supervision authority, the Bank of Russia continually verifies compliance by credit institutions and banking groups with banking legislation and Bank of Russia rules and regulations. Whenever shortcomings and violations are identified in credit institutions, the Bank of Russia, guided by Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and its own rules and regulations, and taking into consideration the nature of violations committed, their causes, and the overall financial standing of the credit institution, decides whether to take supervisory decisions and if it is so, what these decisions should be.

In responding to shortcomings in the work of credit institutions, the Bank of Russia ensures that its supervisory decisions are timely, commensurate with the violations committed, and consistent. After such decisions are taken, the Bank of Russia ensures that they are fulfilled.

In 2007, pre-emptive measures remained the most common supervisory decisions, in most cases, letters to bank managers, informing them of shortcomings detected, and recommending means of eliminating them (the number of such letters — over 1,000 — remained unchanged from 2006).

Shortcomings and violations detected in credit institutions, and necessary measures to rectify them, were promptly discussed with the managers and owners of the credit institutions concerned. As a result, the number of forced correctional measures taken against credit institutions has declined. The number of bans placed on certain types of banking operations fell in 2007 by more than half compared with 2006, and there were considerably fewer cases in which credit institutions were prohibited from opening branches.

The Bank of Russia took steps to increase the transparency of its supervisory decisions in respect to credit institutions. Specifically, it recommended that its regional branches hold meetings with credit institutions to discuss inspection results, violations detected during inspections, and measures they planned to take against credit institutions.

To improve the effectiveness of supervisory response, the Bank of Russia urged its regional branches to inform as soon as possible on any negative trends in credit institutions that, in the opinion of the regional branches, threaten to have serious consequences for their customers and depositors.

III.6. Financial Rehabilitation and Liquidation of Credit Institutions

The Bank of Russia continued in 2007 to improve supervision of credit institutions with the aim of detecting at an early stage negative trends in their businesses, preventing these from developing, and responding appropriately and in a timely fashion to potential problems. Guided by federal laws and its own rules and regulations, the Bank of Russia implemented a set of comprehensive measures to protect the rights and interests of creditors and depositors of credit institutions.

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

In the year under review, the Bank of Russia monitored the activities of 62 provisional administrations of credit institutions. It appointed 50 provisional administrations to run credit institutions, and dismissed 53 provisional administrations, 41 of them in connection with the arbitration court's decision to launch compulsory liquidation and appoint a liquidator, and 12 in connection with the arbitration court's decision to declare a credit institution insolvent (bankrupt) and appoint a receiver. Representatives of the Deposit Insurance Agency participated in 41 provisional administrations of credit institutions during 2007.

Pursuant to the Federal Law on Insurance of Household Deposits with Russian Banks, the Bank of Russia verified in 2007 compliance by banks with the deposit insurance system's requirements. Acting in compliance with Article 48 of this Federal Law, the Bank of Russia Banking Supervision Committee prohibited seven banks that were participating in the deposit insurance system from taking household deposits and opening household bank accounts.

During the year under review, insured events occurred in 15 banks participating in the deposit insurance system (13 of them had their banking licences revoked, and two had their licences cancelled on agreeing to voluntary liquidation). In all of insured events connected with the revocation of banking licences, the registers of bank obligations to depositors were sent by the provisional administrators appointed by the Bank of Russia to the Deposit Insurance Agency within the seven-day period established by the federal law, and this allowed the Agency to start paying insurance indemnities to depositors on schedule.

Pursuant to the Federal Law on Insurance of Household Deposits with Russian Banks and the agreements signed, the Bank of Russia co-operated, co-ordinated activities, and shared information with the Deposit Insur-

ance Agency in 2007 on matters relating to the deposit insurance system, the participation of banks in this system, the payment of insurance premiums by them, the payment of indemnities, the inspection by the Bank of Russia of participating banks, the application of sanctions against them, and other issues connected with the operations of the deposit insurance system.

Pursuant to Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Articles 20 and 23 of the Federal Law on Banks and Banking Activities, the Bank of Russia issued orders to revoke (cancel) banking licences of 54 credit institutions. Of these, five credit institutions had their licences cancelled on the decision of their shareholders (members). Most of the licences (43) were revoked (cancelled) at credit institutions registered in Moscow and the Moscow Region.

Forty-four banks (51 in 2006) had their licences revoked in 2007 for repeated violations, within one year, of the provisions of Articles 6 and 7 (excluding point 3 of Article 7) of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism. Two credit institutions (the same number as in 2006) had their licences revoked when they failed to meet their monetary obligations to creditors and (or) effect compulsory payments.

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

In the year under review, the Bank of Russia received from the registration authorities certificates on the state registration of the liquidation of 53 credit institutions following the revocation (cancellation) of their licences.

As of January 1, 2008, 157 credit institutions that had their licences revoked (cancelled), but on which the Bank of Russia had not received liquidation registration certificates, were slated for liquidation. Liquidation procedures were underway in 150 of these, and as for the remaining seven credit institutions, by the reporting date no court decisions had been taken on them after the revocation of their licences. Most credit institutions undergoing liquidation (78) have been declared bankrupt, and bankruptcy proceedings have been initiated in them (23 of them were declared bankrupt and bankruptcy proceedings were initiated in them in 2007); 64 credit institutions were to be closed on court decisions (43 credit institutions in

2007); eight credit institutions are being liquidated on a voluntary basis on the decision of their founders (members) (of these, five credit institutions are being liquidated on decisions taken by their founders (members) in 2007).

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

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

In 2007, the Bank of Russia conducted 14 inspections of receivers (liquidators), of which nine were inspections of the Deposit Insurance Agency. After the examination, receivers (liquidators) were ordered to take remedial action. Inspections of the Deposit Insurance Agency, as the receiver (liquidator) of credit institutions, did not reveal any significant misdeeds that might harm the legitimate rights and interests of the creditors of liquidated credit institutions.

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

As of January 1, 2008, the Bank of Russia's claims on liquidated credit institutions were met in the amount of 309.03 million rubles (of which 30.89 million rubles were paid in 2007). This accounts for 27.15% of the total volume of claims passed to the Bank of Russia as a result of Bank of Russia compensation payments.

III.7. Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorist Financing

In 2007, the Bank of Russia continued to fulfil its duties established by Federal Law No. 115-FZ, dated August 7, 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (hereinafter referred to as Federal Law No. 115-FZ).

In the year under review, the Bank of Russia, building upon experience gained in enforcing anti-money laundering/terrorist financing (AML/FT) laws, and seeking to harmonise them with international standards, actively participated in drafting a number of new laws, including one to enable credit institutions to unilaterally refuse to implement bank account (deposit) agreements under certain circumstances; a law specifying the list of operations subject to mandatory control, and a law that would require persons serviced by organisations that conduct operations with money and other property to provide information and documents to these organisations.

To provide methodological support to credit institutions to facilitate their compliance with the requirements of AML/FT laws, the Bank of Russia issued in 2007 a number of recommendations on how banks should service their customers who access their bank accounts electronically (online), including via Internet banking⁴⁶, and explained the specific procedure for providing banking services to non-resident corporate clients who are not Russian taxpayers⁴⁷.

In 2007, the Bank of Russia took great lengths to ensure effective supervision by its regional branches of the observance of anti-money laundering laws by credit institutions. For this purpose, it issued recommendations on how Bank of Russia's regional branches should use, for off-site supervision and pre-inspection analysis, information on credit institutions' compliance with Federal Law No. 115-FZ, received from the Federal Financial Monitoring Service (hereinafter referred to as Rosfinmonitoring)⁴⁸ and recommendations on the procedure for examining cash operations subject to mandatory control⁴⁹ and identifying customers and persons authorised to keep bank accounts with credit institutions electronically (online)⁵⁰.

To ensure uniformity of law enforcement practice, the Bank of Russia issued in 2007 two letters of information

clarifying the most controversial aspects of the use of Bank of Russia AML/FT rules and regulations.

A key task for the Bank of Russia in the field of AML/FT supervision in 2007, was that of evaluating the effectiveness of the internal controls in credit institutions. These evaluations focused on quality and completeness of the identification of customers and beneficiaries, and on AML/FT measures taken by credit institutions to ensure they are systemic, and that their internal control rules meet the specific nature of operations.

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

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

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

Analysis of co-operation between credit institutions and Rosfinmonitoring shows that the banking community has stepped up its activity in AML/FT. In 2007, Rosfinmonitoring received from credit institutions 1.4 times more electronic reports on operations subject to mandatory control and suspect operations than in 2006 (8.3 million against 6.1 million). At the same time, the share of

⁴⁶ Bank of Russia Letter No. 60-T, dated April 27, 2007, 'On the Specifics of the Servicing by Credit Institutions of Customers who Access their Bank Accounts Electronically (Including Internet Banking)'.

⁴⁷ Bank of Russia Letter No. 170-T, dated October 30, 2007, 'On the Specific Procedure for Providing Banking Services to Non-Resident Corporate Clients Who Are not Russian Taxpayers'.

⁴⁸ Bank of Russia Letter No. 51-T, dated April 12, 2007, 'On the Use of Information Received from Rosfinmonitoring'.

⁴⁹ Bank of Russia Letter No. 1-T, dated January 10, 2007, 'On Methodological Recommendations for Conducting Inspections of Credit Institutions for the Purpose of Establishing how They Detect, Record and Report to the Authorised Agency Cash Operations Subject to Mandatory Control'.

⁵⁰ Bank of Russia Letter No. 44-T, dated April 5, 2007, 'On the Inspection of the Identification by Credit Institutions of Clients Serviced Using Electronic Banking (Including Internet Banking)'.

electronic reports discarded by Rosfinmonitoring, due to their being improperly compiled, contracted to just 0.54% of the total, compared to 1.34% in 2006. This favourable trend is a result of the use by credit institutions of special software systems controlling the quality of electronic reports, and improvements to personnel training in credit institutions.

In 2007, the Bank of Russia worked actively to provide training, including advanced training, in AML/FT to specialists with its regional branches. In line with the Bank of Russia Personnel Training Plan, 15 seminars were held for executives and specialists of Bank of Russia regional branches, with the participation of specialists from the

Bank of Russia, Interior Ministry and Rosfinmonitoring, involving a total of around 500 people.

As part of preparations for the 2007 visit by a mission of the Financial Action Task Force (FATF), which was to study and evaluate the Russian AML/FT system, the Bank of Russia carried out a large volume of work, including compiling answers to the FATF Questionnaire for the Mutual Assessment of the Anti-Money Laundering/Terrorist Financing System, which contained about 400 questions relating to the banking sector, and the provision of methodological support to Bank of Russia regional branches and credit institutions in preparation for the FATF mission.

III.8. Central Catalogue of Credit Histories

Under the Federal Law on Credit Histories, the Central Catalogue of Credit Histories (CCCH) gives, on request from credit history makers and users, information on which credit bureaux hold the credit history of the credit history maker. Requests are processed automatically, round the clock, seven days a week. The automated CCCH gives a response within minutes after a request is made by a credit history maker or user.

Six credit bureaux were linked up to the CCCH in 2007, and the total number of credit bureaux linked to the CCCH reached 27.

As of the end of 2006, the CCCH kept, and was able to provide on request, information on more than 14 million credit history titles. In 2007, the CCCH received around 21 million titles, and by the end of the year the number of credit history titles had reached 35 million, an increase of 150% on 2006. Of these, the titles of individual credit histories account for more than 99.6%.

During the year under review, the CCCH received and processed over 275,000 requests from credit history makers and users, representing an increase of 50% on 2006. These included more than 215,000 requests for information on bureaux where credit histories were kept and 60,000 requests to give, change and cancel credit history maker codes.

To further implement the Federal Law on Credit Histories, the Bank of Russia issued the following regulations:

- Ordinance No. 1821-U, dated April 25, 2007, 'On the Procedure for Filing Requests to and Receiving Information by a Credit History Maker from the Central Catalogue of Credit Histories through Post Offices', which set out the procedure for filing requests to the CCCH and receiving information by a credit history maker on credit bureaux where the credit history maker's credit history is held, via post offices (electronic communications offices). The application of this document will make it possible to use yet another channel for obtaining information from the CCCH;
- Ordinance No. 1860-U, dated July 9, 2007, 'On Keeping Credit History Databases in the Central Catalogue of Credit Histories', which established the procedure for accepting credit histories by the CCCH from trade organisers and credit bureaux, the rules for temporary storage in the CCCH of databases of liquidated credit bureaux (reorganised credit bureaux and credit bureaux struck off the state register pursuant to part 10 of Article 15 of the Federal Law), and the procedure for providing information from credit histories kept in the CCCH to individuals under federal laws.

III.9. Co-operation with Russia's Banking Community

The Bank of Russia continued to actively co-operate with the Russian banking community in consultations on means of upgrading the legal framework for banking regulation and supervision. In addition, it issued clarifications on the application of its rules and regulations, in response to requests received from the Association of Russian Banks (ARB) and the Association "Russia".

In 2007, the Bank of Russia created an Extranet Portal for co-operation with credit institutions on the basis of the electronic co-operation system in the Bank of Russia's Moscow branch. As of the start of 2008, all credit institutions based in Moscow and the Moscow Region and about 170 regional credit institutions were linked up to the Bank of Russia Extranet Portal.

During 2007, Bank of Russia representatives took part in seminars, conferences, roundtable and working

meetings, and congresses organised by the ARB, the Association "Russia", the RTS Stock Exchange, the National Partnership of Microfinancial Market Participants, and the Russian Microfinancial Centre, which discussed current issues in the banking business.

In 2007, the Bank of Russia considered and gave its overall approval to a draft federal law elaborated by the ARB and the National Partnership of Microfinancial Market Participants, which expanded the range of persons permitted to manage non-bank deposit and credit institutions, by including people with experience in managing microfinancial institutions, such as consumer credit co-operatives, small business funds, etc. The draft law is designed to create wider opportunities for the creation of organisations providing microfinancial services to households and small businesses.

III.10. Co-operation with International Financial Institutions, Foreign Central Banks and Supervisors

Co-operation with International Economic and Financial Institutions

In May and September 2007, the Bank of Russia actively participated in the work of the joint **International Monetary Fund (IMF) — World Bank** mission under the Financial Sector Assessment Programme (FSAP), which included discussions on key issues in banking regulation and supervision and measures taken following the results of the 2003 FSAP; it also included an evaluation of the banking regulation and supervision system's compliance with the 2006 version of the Basel Committee's Core Principles for Effective Banking Supervision, and an assessment of the financial stability of the Russian banking sector, using various methods including stress testing. It should be noted that the stress test was conducted at the level of the banking sector (top down), as well as individually by a number of leading banks that agreed to participate in the project (bottom up), using IMF-recommended methodology.

Using the results of assessments of the Russian banking sector's financial stability, experts with the IMF-World Bank mission compiled the draft report 'The Assessment of Compliance with the Basel Core Principles for Effective Banking Supervision, Russia, October 2007', which is to be published in 2008.

To participate in the IMF database on banking sector legislation and regulation in various countries, the Bank of Russia compiled, and posted on its website, quarterly information on the current state of banking regulation and supervision in Russia.

It discussed, defined, and redefined the terms and conditions of the Memorandum of Understanding with the **Bank for International Settlements** on translation into Russian, and integration of, the Russian-language version of the computer-based teaching programme FSI Connect in the field of banking supervision.

Bank of Russia representatives participated in 2007 in activities (attending meetings, drafting proposals and comments on documents, and providing information) of working groups of the **Basel Committee on Banking Supervision** (Core Principles Liaison Group and Capital Task Force) and its **regional group** (Banking Supervision Group for Central and Eastern Europe), of which the Bank of Russia is a member.

Within the framework of the Banks/Financial Services Sub-group of the Russian-German Working Group on the Strategy of Economic and Financial Co-operation, the Bank of Russia and its German counterparts held two meetings on the development and regulation of the services markets.

In 2007, Bank of Russia representatives took part in seminars organised by the Bank for International Set-

tlements Financial Stability Institute and the Basel Committee, on the implementation of the Basel Committee's document *International Convergence of Capital Measurement and Capital Standards: a Revised Framework (Basel II)*, and also on risk management, corporate governance and internal controls.

The Bank of Russia held consultations in 2007 with experts of the **European Central Bank (ECB)** to formulate the main principles and determine the volume of work to be done within the framework of Banking Supervision (Basel II) project, financed by the European Union.

Within the **Eurasian Economic Community (EurAsEc)**, Bank of Russia representatives participated in preparing materials for, and took part in the work of, the 17th meeting (held in Dushanbe on June 7 and 8, 2007) and the 18th meeting (held in Almaty on October 10 and 11, 2007) of the Council of the Governors of EurAsEc Central (National) Banks, which addressed banking sector development, banking supervision strengthening, and the practice of introducing corporate governance and credit and foreign exchange risk analysis. A seminar on enterprise monitoring was held for EurAsEc central (national) bank specialists in St Petersburg from May 22 to 24, 2007.

During interaction with the **Asia-Pacific Economic Co-operation (APEC)**, the Bank of Russia participated in compiling materials on private capital market development, including the issue of giving credit institutions wider powers to meet demand for banking services and expand their capability for taking household deposits, improving the deposit insurance system, stimulating investment in the banking sector by placing shares, enhancing corporate governance in banks, and increasing the transparency of banks.

Co-operation between Bank of Russia and Central (National) Banks and Foreign Supervisors

The Bank of Russia participated in 2007 in compiling materials for, and took part in, meetings of the **Interbank Currency Council of the Central Bank of the Russian Federation** and the **National Bank of the Republic of Belarus**, which discussed, among other things, regulation and supervision.

To improve supervision, including supervision on a consolidated basis, the Bank of Russia works with foreign banking (financial) supervisors. This work includes the drafting and signing of co-operation agreements (memorandums of understanding).

To date, the Bank of Russia has signed 22 bilateral co-operation agreements (memorandums of understanding), of which memorandums of understanding with the Financial Supervisory Authority of Finland, the Central

Bank of Montenegro, the Administration for the Supervision of Banks and Other Financial Institutions of Venezuela, and the Central Bank of Cyprus (replacing the 1998 Memorandum of Understanding) were signed in 2007. The Bank of Russia posts information on co-operation agreements (memorandums of understanding) and their texts on its official website at www.cbr.ru. The Bank of Russia worked with a number of foreign central (national) banks and banking (financial) supervisors on the wording of memorandums of understanding.

The Bank of Russia holds meetings with the banking (financial) supervisors of the home countries of banks that have subsidiaries in Russia, and countries in which Russian banks have a commercial presence. In 2007, for example, the Bank of Russia organised meetings with banking (financial) supervisors of Germany, China, Britain, the Netherlands, Finland, Austria, Hungary, Estonia and Slovakia.

Bank of Russia specialists took part in seminars, forums and conferences on banking (financial) supervision organised by international financial institutions and foreign central banks, and banking supervisors.

In 2007, the Bank of Russia actively participated in the **Consultative Council for Foreign Investments in Russia** (CCFI). Specifically, it took part in meetings of the CCFI working group on banking sector and financial market development in Russia, meetings of the CCFI Standing Committee, and the 20th CCFI session, held in October 2007, which discussed, among other issues, the stability of the Russian banking sector, the sharing of information between credit institutions that are members of

banking groups and bank holding companies, and their parent companies, the regulation of financial derivative transactions, and Internet banking.

In co-operating with the CCFI, the Bank of Russia prepared materials for the 21st CCFI session, including proposals to widen the powers of the Bank of Russia to enable it to reject proposals for appointing bank managers in cases of non-compliance with fitness and propriety requirements, and to grant prior permission for the acquisition of large stakes in credit institutions, as well as proposals for improving bank merger procedures and giving the Bank of Russia greater opportunities to influence these processes.

The Bank of Russia and the St Petersburg administration organised and held the **16th International Banking Congress** (IBC-2007), which took place in St Petersburg from June 6 to 9, and discussed the topic 'Banks: Capitalisation, Soundness and Competitiveness'.

Representatives of Russian and foreign business and political circles, international institutions, foreign central (national) banks and supervisors, and the banking community took part in the Congress.

At the plenary meetings and in the work of sections, Congress participants discussed the state of the banking system and its capitalisation, financial soundness and competitiveness of banks, the development of banking risk management systems, transparency in banking, and world trends in the development of the banking business and regulation.

After discussions, the Congress set out recommendations for the banking sector's development in Russia.

III.11. Outlook for Banking Regulation and Supervision in Russia

The implementation of measures envisaged by the Russian Banking Sector Development Strategy until 2008 and the Medium-Term Programme for the Social and Economic Development of the Russian Federation (2006–2008) are expected to facilitate further development of the Russian banking sector. These measures aim to increase banking sector stability, and bolster confidence of investors, creditors and depositors in the Russian banking system, while better protecting their interests and enhancing the effectiveness of the deposit insurance system.

Therefore, the principal objectives of the Bank of Russia are to further improve the legal framework for banking, enhance the effectiveness of banking regulation and supervision, and to make Russian credit institutions more competitive.

III.11.1. State Registration of Credit Institutions and Bank Licensing

To achieve these objectives, the Bank of Russia will continue to optimise conditions for banking business consolidation and investment in the capital of Russian banks, ensure that their ownership structure becomes more transparent, lift administrative barriers, create favourable conditions for credit institutions to access open securities markets, and develop microfinancial regulation with the participation of non-bank credit institutions.

If the Bank of Russia proposal for amending Article 11 of the Federal Law on Banks and Banking Activities is accepted, and the minimum authorised capital of a newly registered non-bank settlement credit institution is increased fivefold (from 500,000 euros to 2.5 million euros), non-bank credit institutions licensed to effect settlements on the instructions of corporate entities will become more financially sound, and will have sufficient capital to cover the risks they assume, provided that such institutions have enough assets to manage liquidity.

To improve reorganisation procedures, the Bank of Russia will participate in discussing amendments to the draft law on amending the Federal Law on Banks and Banking Activities, for the purpose of simplifying these procedures and making them less costly, ensuring that a wide range of people are informed about them, and increasing the transparency of the reorganised credit institution.

To simplify IPO procedures, the Bank of Russia will continue to take part in the drafting of a federal law to amend the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), and the Federal Law on the Securities Market. Specifically, the proposed amend-

ments allow credit institutions in the form of an open-end joint-stock company with authorised capital of more than 5 million euros to notify the registration authority on the results of a share issue (or the issue of other securities) rather than present a report on them. This will save time for share-issuing credit institutions. Amendments that were drafted with the participation of the Bank of Russia, incorporating its proposals, are to be made to the Federal Law on Banks and Banking Activities, and the Federal Code of Administrative Offences, to prevent the misuse of simplified share issue procedures for fictitious capitalisation.

To encourage improvements in the quality of governance in credit institutions and to make their ownership structure more transparent, the Bank of Russia will continue to participate in drafting federal laws aimed at ensuring that credit institutions are run by professional and reliable managers and competent members of boards of directors, tightening requirements on the owners of credit institutions, and helping to identify the real owners of credit institutions. Specifically, the proposed amendments to the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) establish more stringent requirements for members of boards of directors (supervisory boards), and managers and owners of large interests in credit institutions, and give the Bank of Russia greater powers to control compliance with these requirements.

The Bank of Russia is to draft a federal law that will establish criteria for the identification of the real owners of credit institutions, and the procedure for disclosing information on real owners. In addition, the projected amendments to the Federal Law on Joint-Stock Companies and the Federal Law on Limited Liability Companies will require that all related persons in business companies provide information about themselves to these companies, and establish their accountability for failure to do so.

To create a legal framework for the activities of microfinancial institutions in terms of expanding the range of persons deemed fit to manage non-bank credit institutions, amendments are being drafted to Article 14 of the Federal Law on Banks and Banking Activities, which will stipulate that experience of managing a microfinancial institution should be taken into account when approving candidates for executive positions in non-bank credit institutions. This provision will facilitate the expansion of the network of banking services provided to households, and to medium-sized and small businesses.

The Bank of Russia has drafted an amendment to the Federal Law on the Securities Market, which requires that

a nominal shareholder inform a credit institution on a quarterly basis about the owner and the number of shares held in the credit institution of which he is a nominal shareholder (if more than 1% of the authorised capital of the credit institution is in nominal holding). If this amendment becomes law, the Bank of Russia and share-issuing credit institutions will receive timely information on shareholders, and more effectively control the quality of capital and transparency of ownership structure of credit institutions.

Legislators are expected to continue their efforts to make the Bank of Russia legally able to process personal data on the managers of credit institutions and on other persons. If the corresponding amendments are approved, the Bank of Russia will be able to use the personal data it receives to fulfil its duties, in particular for the purpose of preventing situations where banking sector stability is under threat due to the appearance in the management of credit institutions of trustless individuals.

The drafting of amendments to Article 22 of the Federal Law on Banks and Banking Activities, which are aimed at regulating the accreditation of representative offices of foreign credit institutions in Russia, will improve state regulation of the accreditation of representative offices of foreign organisations amid growth in foreign investments in the Russian economy.

The Bank of Russia will also continue to upgrade and improve its own rules and regulations. Specifically, it will draft the following documents:

- the Ordinance on the Procedure for Making an Entry on the Licence to Take Household Deposits in Rubles, the Licence to Take Household Deposits in Rubles and Foreign Currency, and the General Licence in Connection with the Termination of the Right of a Bank to Take Deposits in the Event of the Bank of Russia Ruling that the Bank Is Unfit for Participation in the Deposit Insurance System. This is a new version of Bank of Russia Ordinance No. 1477-U, dated July 16, 2004, 'On the Procedure for Declaring Invalid the Licence of a Bank to Take Household Deposits in Rubles, the Licence to Take Household Deposits in Rubles and Foreign Currency, or the General Licence in the Event of the Bank's Refusal to Participate in the Deposit Insurance System, or if the Bank is Unfit for Participation in the Deposit Insurance System', and its aim is to improve the regulation of Bank of Russia actions when a bank is declared unfit for participation in the deposit insurance system;
- the Ordinance 'On Amending Bank of Russia Instruction No. 109-I, Dated January 14, 2004, on the Procedure for the Taking of a Decision by the Bank of Russia on the State Registration of Credit Institutions, and the Issue of Licences to Conduct Banking Operations', aimed at improving the regulatory framework for state registration of credit institutions. Specifically, the draft provides for the regulation of issues relating to the establishment by a credit institution of representative offices in a foreign state, and sets the procedure for entering information on them in the founding documents of the credit institution, and the pro-

cedure for dismissing managers of a credit institution (candidates for managerial positions) in the event of the discovery of facts which, becoming known in the course of agreeing the appointment, would justify a negative decision by a Bank of Russia regional branch;

- the Ordinance 'On Amending Bank of Russia Ordinance No. 1548-U, Dated February 7, 2005, on the Procedure for Opening (Closing) and Managing the Mobile Cash Point of a Bank', which expands the range of operations conducted by mobile cash points, by including in it operations to open and close household accounts;
- the Ordinance 'On Amending Bank of Russia Regulation No. 290-P, Dated July 4, 2006, 'On the Procedure for Issuing Bank of Russia Permits to Credit Institutions to Open Subsidiaries in Foreign States', which includes in the package of documents that credit institutions are obliged to present to the Bank of Russia to obtain permission to open foreign-based subsidiaries, consent in writing by the managers of the subsidiary to have their personal data, contained in the project feasibility report, verified;
- new versions of Bank of Russia Instruction No. 130-I, dated February 21, 2007, 'On the Procedure for Obtaining Bank of Russia Prior Permission for the Acquisition and (or) Receipt in Trust of Shares (Stakes) in a Credit Institution', Bank of Russia Regulation No. 218-P, dated March 19, 2003, 'On the Procedure and Criteria for Evaluating the Financial Position of Corporate Founders (Members) of Credit Institutions' and Bank of Russia Regulation No. 268-P, dated April 19, 2005, 'On the Procedure and Criteria for Evaluating the Financial Position of Individual Founders (Members) of Credit Institutions'.

While on the whole leaving the tried-and-tested system of criteria intact, the Bank of Russia intends to make a number of substantive changes in the following areas:

- determining specifics on the evaluation of the financial position of individual investors of credit institutions, arising from the category of their economic activity and accounting requirements, namely specifics on unit and joint-stock investment funds, insurance companies, and non-government pension funds;
- establishing specifics on the evaluation of the financial standing of investors who indirectly own shares (stakes) in credit institutions, which would require need to be compared, in order to assess the investors' ability to buy shares (stakes) in a credit institution, investor capital with capital (or a part thereof) of the credit institution;
- introducing a number of additional criteria for evaluating the financial standing of investors, for the purpose of harmonising national evaluation standards with international supervisory practice;
- shortening the list of documents by excluding from it those that are insufficiently effective for substantive assessment of the financial standing of investors seeking to obtain prior permission from the Bank of

Russia to acquire more than 20% of shares in a credit institution.

III.11.2. Banking Regulation and Off-site Supervision

Risk-based supervision

Bank of Russia Ordinance No. 2005-U, dated April 30, 2008, 'On the Evaluation of the Economic Situation of Banks', (hereinafter referred to as Ordinance No. 2005-U), comes into force in 2008. Establishing the methodology for evaluating a bank's performance, this document is designed to ensure uniformity of the Bank of Russia's principles for assessing banks during supervision, and principles for evaluating banks in terms of their readiness to enter the deposit insurance system. Ordinance No. 2005-U is to replace the current Bank of Russia Ordinance No. 766-U, dated March 31, 2000, 'On the Criteria for Determining the Financial Standing of Credit Institutions' (hereinafter referred to as Bank of Russia Ordinance No. 766-U). It should be noted, however, that the Bank of Russia will continue to evaluate the financial standing of non-bank credit institutions in compliance with its Ordinance No. 766-U.

Like Bank of Russia Ordinance No. 766-U, Bank of Russia Ordinance No. 2005-U classifies all banks on the basis of their economic situation. At the same time, Ordinance No. 2005-U introduces certain new 'organisational' elements in the bank evaluation procedure:

- it no longer divides banks into 'financially sound' and 'problem' categories;
- the number of the bank classification groups has increased from four to five;
- classification groups no longer have titles;
- the regularity of bank classification has been changed from monthly to quarterly, while the situation continues to be monitored on a permanent basis (for example capital, assets, profitability and liquidity indicators are monitored on a monthly basis);
- the amended document stipulates that the classification group assigned to the bank, and information on shortcomings that were taken into consideration when assigning the classification, must be made known to the chief executive officer of the bank. Ordinance No. 2005-U recommends that the chief executive officer make this information known to the bank's collegiate executive body and members of its board of directors (supervisory board).

Ordinance No. 2005-U is based on the principles set out in Federal Law No. 177-FZ, dated December 23, 2003, 'On Insurance of Household Deposits with Russian Banks', and Bank of Russia Ordinance No. 1379-U, dated January 16, 2004, 'On Evaluation of a Bank's Financial Soundness with the Purpose of Establishing its Readiness for Participation in the Deposit Insurance System' (hereinafter referred to as Bank of Russia Ordinance No. 1379-U).

In line with Ordinance No. 2005-U, the evaluation of banks' economic situation is based on assessing capital,

assets, profitability, liquidity, management quality and ownership structure transparency, their compliance with required ratios, as well as taking into account supervisory response. The assessment of capital, assets, profitability, liquidity, management quality, and ownership structure transparency is based on principles (including threshold indicators) determined in Bank of Russia Ordinance No. 1379-U.

Unlike Bank of Russia Ordinance No. 1379-U, Ordinance No. 2005-U included a number of new provisions, such as:

- the use of capital and profitability projections when evaluating capital and profitability indicators in order to take into account the trends towards change in these indicators when assigning them a score;
- the evaluation of ownership structure transparency in a credit institution is treated as a separate evaluation component;
- the list of bank management quality assessment indicators has been complemented by a new indicator reflecting the quality of strategic risk management;
- the lists of questions used to evaluate systems for risk management and internal controls have been revised and complemented by new quality characteristics that make it possible to assess the quality of internal documents and procedures in banks.

To provide methodological support to credit institutions in improving their internal controls, the Bank of Russia plans to include in its regulation establishing internal control rules in credit institutions recommendations on the content of contingency planning.

Bank of Russia regulation implementing Basel II principles

In line with the Bank of Russia Basel II implementation plans, drawn up with consideration for the results of work carried out by the Bank of Russia working group formed to implement Basel II recommendations, the Bank of Russia intends to complete in 2008 the drafting of amendments to its Instruction on Banks' Required Ratios and its Regulation on the Procedure for Calculating Operational Risk, which in December 2007 were posted on the Bank of Russia website for consideration by the banking community.

Through these projects, the Bank of Russia plans to implement the simplest approaches to risk assessment, such as: a simplified standardised approach to credit risk evaluation (without using the lower risk weights for mortgage, retail loans and loans to small and medium-sized businesses) and the basic indicator approach for evaluating operational risk.

The Bank of Russia also plans to draft a regulation aimed at assisting the implementation of Pillar II (Supervisory Review Process) of the Basel II.

As for the further implementation of Basel II principles, including the use of advanced measurement approaches based on banks' internal risk models, the Bank of Russia plans to carry out this work with consideration for the European supervisory practice of introducing Basel

II principles within the framework of the TACIS Project. The implementation of this project will begin in 2008, and will last for about 30 months.

Upgrading liquidity risk regulation policies

Plans to change approaches to liquidity risk regulation, which are formulated in the Bank of Russia's Instruction on Banks' Required Ratios, have been drawn up with consideration for Basel Committee recommendations and EU/TACIS project experts, and are aimed at introducing the so-called cash flow concept in the liquidity risk regulation system. Specifically, these plans set the following objectives:

- to replace the currently applicable instant liquidity (N2) ratio with the short-term liquidity ratio. The methodology for calculating the short-term liquidity ratio calls for a fundamentally new approach to liquidity risk control, based on comparing the inflow and outflow of funds generated during the reporting period from assets/liabilities with all maturities (the cash flow concept). In contrast, the currently applicable Bank of Russia Instruction on Banks' Required Ratios requires that banks maintain certain ratios between assets and liabilities with a fixed maturity (for the instant liquidity ratio — one calendar day);
- to use in calculating the liquidity ratios (N2, N3 and N4) of the so-called behavioural adjustments, which are elements of estimated individual components characterising the liquidity situation, based on accumulated statistical data on the minimum balance of customer accounts with a bank. This method is implemented in Bank of Russia Ordinance No. 1991-U, dated March 31, 2008, 'On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on Banks' Required Ratios', which came into force on April 30, 2008.
- to broaden the range of liquid assets (by including in them equity securities issued by Russian issuers).

Improving credit risk assessment policies

The Bank of Russia plans to extend provisioning procedures for loans extended to households and aggregated in portfolios of homogeneous loans, established by the Bank of Russia Ordinance to amend Bank of Russia Regulation No. 254-P, to loans extended to small businesses, for which provisions are made on the portfolio basis.

To encourage the use of professional judgement in supervision of credit institutions, when evaluating loans, the Bank of Russia drafted amendments to point 9.5 of Bank of Russia Regulation No. 254-P, which set up procedures that would enable Bank of Russia regional branches to order credit institutions to raise to the required level of provisions on loans within one quality category, and allow them to take supervisory decisions with regard to credit institutions.

To resolve problems arising during the evaluation of loans when the borrower presents false or dubious reports, the Bank of Russia intends to set a requirement to classify loans as Quality Category 3 loans and make a

provision for them of at least 50% of the size of the debt, if it has been established that the borrower presented to the credit institution data that differed from that presented by another user, and that the data and reports were used by the credit institution to evaluate the financial position of the borrower, and determine the quality category of the loan and amount of the provision.

To implement the federal laws on consumer lending and optimise its conditions, the Bank of Russia plans to issue regulations and recommendations to provide additional guarantees of the rights and legitimate interests of borrowers, or consumers of banking services. The Bank of Russia will step up its activities in 2008 within the limits of its competence to promote financial literacy among the population in banking services, especially consumer lending.

Improving consolidated supervision

The Bank of Russia plans in 2008 to complete, in collaboration with the Finance Ministry, the drafting of amendments to the Federal Law on Banks and Banking Activities, and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), to refine upon the main provisions on consolidated supervision, and requirements for credit institutions, banking groups and bank holding companies to disclose information about their activities. When completed, the draft amendments will be submitted to the Government of the Russian Federation and the State Duma for approval.

In addition, the Bank of Russia will continue to improve the regulatory framework for consolidated supervision, and harmonise it with international practice, in particular the recommendations of the Basel Committee and policies set out in International Financial Reporting Standards.

Upgrading reporting used in supervision

The Bank of Russia plans in 2008 to revise 0409125 reporting form 'Information on Assets and Liabilities by Maturity', to make it more consistent with international approaches to liquidity risk analysis. It also plans to offer new reporting forms, such as 'Information on Securities Acquired by a Credit Institution', which will include data on the current (fair) price of investments in securities of the top 20 securities issuers, 'Credit Risk Concentration Data' and 'Data on Large Credit exposures'. The current 0409118 Form 'Data on Large Loans', will be annulled, as it fails to ensure the provision of full information on significant credit risk concentrations by group of clients, by sector, and in terms of other credit risk factors.

In addition, the Bank of Russia is drafting a reporting form 'Information on Interest Rate Risk', which will give a general idea on the extent to which a credit institution's income, and consequently capital, are vulnerable to interest rate fluctuations.

Providing information support for banking sector regulation and development

To ensure the effective provision of information to the various Bank of Russia structural units, ensure that the

decisions they take are timely and sound, and optimise the procedure for sharing information between them in the collection, consolidation and analysis of bank reports, and other information on credit institutions, the Bank of Russia will continue in 2008 to develop the single information system for banking sector regulation and development.

This system will allow the Bank of Russia to provide its supervisors with information on a systemic basis. Specifically, it will fulfil the following tasks:

- solve in a fundamentally new way the problem of collecting and processing data on credit institutions, and thus make this information more rapidly accessible;
- prevent duplication of information at various levels, and thus cut software maintenance costs;
- integrate all information resources necessary for supervisors (considering that these are produced using single hardware and software solutions);
- create a methodological system 'core' that would identify all algorithms of system indicators (a catalogue of banking statistical indicators).

Optimising the form and practical use of enterprise monitoring results

In the first half of 2008, the Bank of Russia plans to put into operation the Single Registration Database for Non-financial Organisations that Are Borrowers, Founders (Members), Related Persons and Depositors of Credit Institutions (the system, based on bank reports, is known by its Russian abbreviation, RIBO).

In the course of regular monitoring of non-financial organisations and using other sources of information, the Bank of Russia is creating a dossier of non-financial enterprises that will allow it to collect, store, process and use for supervision information on these enterprises, their activities and performance.

Enhancing the effectiveness of information co-operation with government agencies responsible for financial sector stability, and exercising control and supervision in the field of economics and finance

Work is underway to update the agreement between the Bank of Russia and the Federal Tax Service on the sharing of information on a wide range of issues within the competence of the two agencies. The revision will make co-operation between the two agencies more effective, and help the Bank of Russia to improve supervision of credit institutions. The projected changes in the agreement include a provision that will enable the exchange of information between regional branches of the Federal Tax Service and the Bank of Russia. This expansion of powers of regional branches of the two agencies will enable them to receive more information to evaluate the financial positions of individual bank borrowers and customers, and the transparency of the ownership structure of credit institutions and to identify ties between founders (members) of credit institutions.

III.11.3. On-site Inspection

To receive information on a credit institution's standing in the course of inspecting it, the Bank of Russia in 2008 will pay particular attention to the following:

- the evaluation of credit risk management, including credit risk management in consumer lending, the quality of the internal regulatory documents of credit institutions, and consequently their compliance with Bank of Russia regulations;
- the adequacy and effectiveness of methodologies for classifying corporate and individual borrowers in terms of their financial standing and solvency;
- the evaluation of market risk management;
- the examination of operations with securities, including promissory notes and corporate bonds;
- the observance by credit institutions of federal laws and Bank of Russia regulations against money laundering and terrorist financing.

The Bank of Russia will devote particular attention to detecting suspicious operations used by certain credit institutions to make large, economically unjustified cash withdrawals, and to take funds out of the country. It will continue to prepare summarised reports on so-called regulating schemes used by credit institutions.

The Bank of Russia will continue to improve the rules and regulations for inspections along the following lines:

- improving rules and regulations for the organisation and conduct of inspections of credit institutions and their branches, including the procedure for conducting and co-ordinating interregional inspections, policies on the formation of working groups for the purpose of precluding conflicts of interest, and ensuring the independence of Bank of Russia authorised representatives in conducting inspections; determining the specifics of organising and conducting inspections of credit institutions and their branches by audit companies on the instructions of the Bank of Russia's Board of Directors;
- improving inspection methodologies, including the methodology for examining the quality of corporate governance, internal control and consumer lending practices of credit institutions and their branches.

To improve the quality of inspections, the Bank of Russia plans to issue flow charts for the examination of the main activities of banks, including securities trading.

III.11.4. Financial Rehabilitation and Liquidation of Credit Institutions

The Bank of Russia will continue in 2008 to take action to enhance the effectiveness of bankruptcy-prevention procedures, prevent the use of credit institutions in unlawful commercial operations, improve the legal procedures for liquidating credit institutions that have had their banking licences revoked, creating an effective mechanism to sell the assets of liquidated credit institutions, make liquidation procedures more transparent, and

meet as fully as possible the claims of creditors of liquidated credit institutions.

The Bank of Russia will participate in the drafting of amendments to the following laws:

- the Federal Law on Insolvency (Bankruptcy), and the Federal Law on Insolvency (Bankruptcy) of Credit Institutions, to revise the provisions on contesting debt- or transactions when implementing bankruptcy procedures and taking vicarious liability action against persons who hold or have held the power to issue binding instructions to the debtor, and to introduce liquidation netting;
- the Civil Code of the Russian Federation, the Federal Law on Joint-Stock Companies, the Federal Law on Limited Liability Companies, the Federal Law on Production Co-operatives, the Federal Law on Non-Profit Organisations, and the Federal Law on the State Registration of Corporate Entities and Unincorporated Entrepreneurs, in respect of the liquidation of corporate entities.

To upgrade its regulatory framework, the Bank of Russia will continue to draft amendments to its Regulation No. 279-P, dated November 9, 2005, 'On the Provisional Administration of a Credit Institution'. These amendments:

- revise the procedure for determining the value of property (assets) and liabilities of a credit institution in the course of the compilation of the credit institution's reports by the provisional administration;
- regulate the actions of the provisional administration in the event of failure or refusal to transfer to the provisional administration property owned by the credit institution, and in the event that the property of the credit institution cannot be recovered from third parties due to the impossibility of establishing their whereabouts;
- specify the procedure and time period for retaining the stamps (seals) accepted by Bank of Russia regional branches from provisional administrations;
- state the need to report the date on which the provisional administration's budget of expenditure was delivered to the Bank of Russia regional branch for approval;
- set out the procedure and time periods for making and maintaining backup copies of electronic databases of a credit institution;
- specify the procedure for passing by the provisional administration information indicated in points 3 and 7 of Article 22.1 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions for publication in the Bank of Russia Bulletin;
- set time periods for posting, in locations accessible to viewers and on the credit institution's website (if it has one), information on the revocation of a banking licence of the credit institution and the appointment of a provisional administration, information explaining to creditors the provisions of federal laws regulating their actions after the revocation of the licence of the credit institution, and information on the pro-

cedure for receiving compensation and the size of compensation for deposits under the Federal Law on Insurance of Household Deposits with Russian Banks.

To improve the accreditation of receivers of bankrupt credit institutions, the Bank of Russia is to make amendments to its 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', which will allow the Bank of Russia, if it has the necessary documents submitted to it by the arbitration manager, to use them when considering the issue of granting accreditation to the arbitration manager as the receiver of a bankrupt credit institution, without requiring to re-submit these documents.

Experience gained by Bank of Russia regional branches and the Deposit Insurance Agency in dealing with reports of liquidated credit institutions prompted the need to change the reporting forms that the Bank of Russia received from the receiver (liquidator or liquidation commission) in the course of liquidation procedures. The changes the Bank of Russia will make in its Ordinance No. 1594-U, dated July 14, 2005, 'On the List, Forms and Procedure for Compiling and Presenting to the Central Bank of the Russian Federation Reports by Liquidated Credit Institutions', will make the reporting forms, completed by liquidated credit institutions, more informative and will increase the effectiveness of the Bank of Russia's control over the liquidation process.

III.11.5. Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorist Financing

To ensure that credit institutions work more effectively to counter money laundering and terrorist financing, the Bank of Russia plans in 2008 to take steps to further improve the regulatory framework and methodologies used by credit institutions in this area.

Specifically, it will continue to participate in drafting laws aimed at

- granting credit institutions the right to unilaterally refuse (without resorting to court proceedings) to implement a bank account (deposit) agreement, if they have grounds to suspect that it may be used for money laundering and terrorist financing;
- revising the list of operations subject to mandatory control, notably payments effected under financial leasing agreements or in real estate and cash transactions;
- setting a requirement for private individuals, and corporate entities serviced by organisations that conduct transactions with money or other property, to present to these organisations, on request, information and documents needed to fulfil their duties under Federal Law No. 115-FZ.

To implement Federal Law No. 51-FZ, dated April 12, 2007, 'On Amending Article 7 of the Federal Law on Countering of the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism', the Bank

of Russia will complete the harmonisation of its rules and regulations with Rosfinmonitoring.

Measures are to be taken in 2008 to improve the effectiveness of the sharing of information between the Bank of Russia and Rosfinmonitoring for the purpose of improving supervision of credit institutions' compliance with federal laws on anti-money laundering and terrorist financing.

III.11.6. Insurance of Household Deposits with Russian Banks

Improving the deposit insurance system will be a high priority for the Bank of Russia in 2008.

The Bank of Russia will continue to work on draft amendments to the Federal Law on Insurance of Household Deposits with Russian Banks and other federal laws. These amendments were passed in their first reading in the State Duma and are designed

- to more accurately formulate the criteria for exercising by the Bank of Russia supervision of compliance by banks with the deposit insurance system's requirements;
- to specify procedures to ensure the payment of insurance indemnities, and the functions and powers of the Deposit Insurance Agency, especially as a liquidator of banks participating in the deposit insurance system.

The amendments also specify requirements for the participation in the deposit insurance system, with which banks must comply on a permanent basis. According to the amendments, depending on indicators on which a

bank does not comply with the deposit insurance system's requirements, and the time period during which the bank fails to comply with these requirements, the Bank of Russia has the right or obligation to prohibit the bank from taking household deposits. At the same time, with respect to certain indicators, the period during which a bank may fail to comply with these requirements without being necessarily forbidden to take household deposits has been extended from three to six months. The amendments also specify the circumstances under which the financial soundness of a bank is considered insufficient, if these circumstances persist for a specified period of time.

Taking into consideration experience from applying the Federal Law on Insurance of Household Deposits with Russian Banks, the authors of the draft amendments describe more precisely the procedure for effecting payments as compensation for deposits, and for compiling the register of bank obligations to depositors, and indicate which deposits must be insured. They also provide for the need to determine the moment from which the two-year period a bank has to wait to reapply for admission to the deposit insurance system must be calculated.

At the same time, the amendments specify rules governing the procedure for reimbursement by banks of funds entered to an individual deposit (account) opened with a deposit insurance system member bank, after the Bank of Russia has prohibited it from receiving funds from households. At the depositor's request, these funds may be transferred, according to the procedure established by the Bank of Russia, to the depositor's account opened with another deposit insurance system member bank.

III.12. Bank of Russia Supervisors

As of January 1, 2008, the Bank of Russia supervisory divisions employed staff of 4,239 executives and specialists, of whom 12.8% worked in the head office and 87.2% in regional branches. Most of the employees have a specialised higher education (96.4%), are aged between 30 and 50 (64.2%), and have worked in the banking system for more than three years (91.9%).

In 2007, the Bank of Russia continued to implement a number of large-scale supervisor-retraining programmes, such as the commercial bank curator — bank manager programme, the commercial bank inspector — bank manager programme, the provisional administrator — bank manager programme, and the Master of Business Administration (MBA) programme. As before, these programmes were implemented in collaboration with leading national institutions of higher education, such as the Russian Government's Economic Academy, the State University Higher School of Economics, and the Russian Government's Financial Academy.

Since the launch of the project (from 2003 to 2007), 950 bank supervisors have undergone vocational retraining, 176 of them in 2007. More than 91% of the total number of those that underwent training are executives and specialists working in Bank of Russia regional branches.

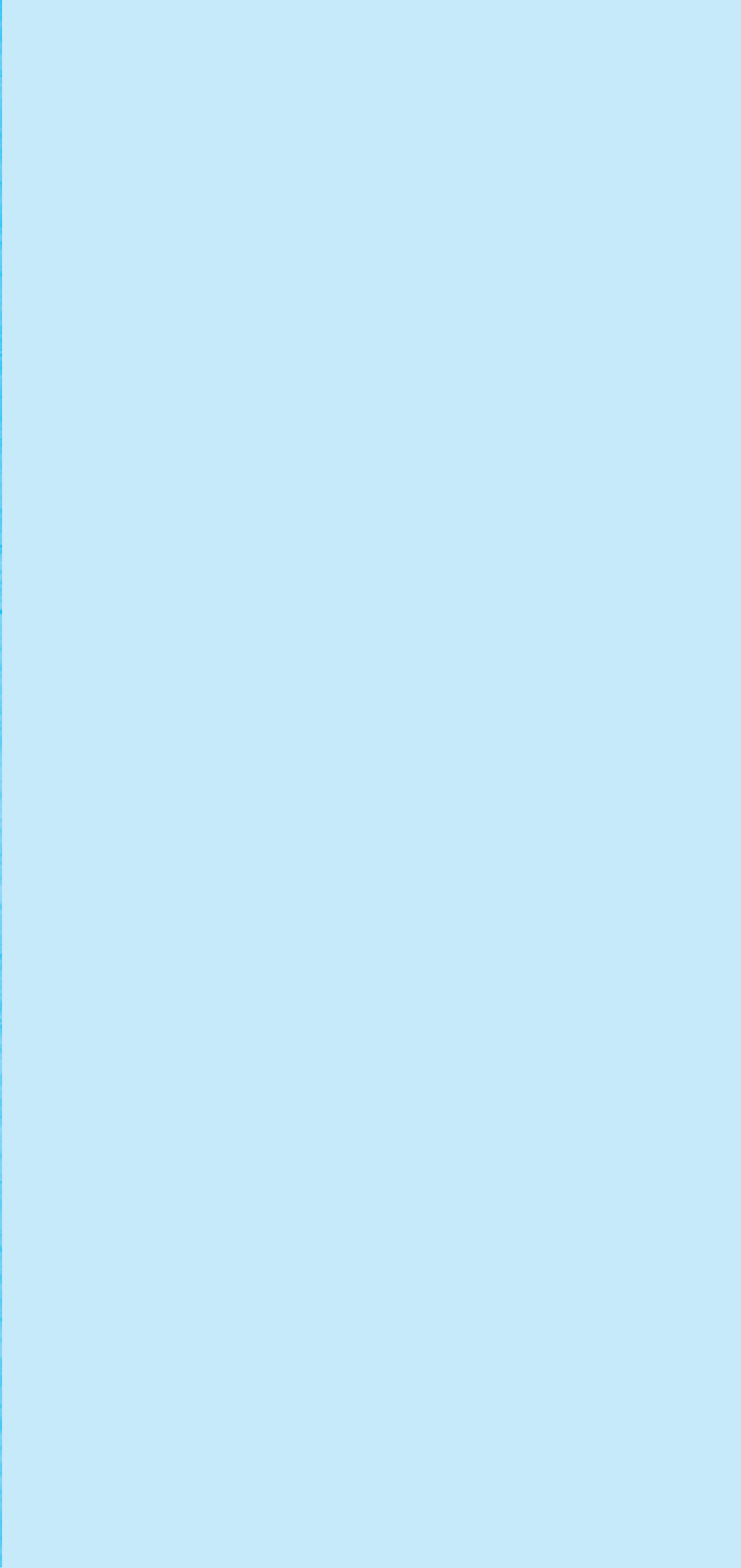
The overwhelming majority of them received the maximum score in their graduation papers.

Those who achieve the best results in the basic vocational retraining programmes are recommended for an additional 1,000-hours-plus MBA course, and receive an offer to defend a BA thesis. Eighty-four Bank of Russia employees received MBA degrees in 2007.

About 40% of employees who underwent vocational retraining have received promotions and over 10% of those have been appointed to executive positions.

More than 100 Bank of Russia supervising executives and supervisors have received advanced training at Bank of Russia instruction centres.

In addition to providing retraining and advanced training, the Bank of Russia continues to carry out programmes designed to instil social competence and personal efficiency in curators and inspectors. This training is conducted by specialists with the Bank of Russia Personnel Department and visiting instructors, who train their students to develop skills for confident behaviour, partnership style in co-operation, the ability to make public presentations, persuade partners, and demonstrate confidence and willingness to co-operate. Bank of Russia supervisors will continue this area of training in 2008.



Addendum

IV

IV.1. Monitoring Banking Sector Stability

Pursuant to Federal Law No. 86-FZ, dated July 10, 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', and in line with the Russian Banking Sector Development Strategy until 2008, the Bank of Russia pays particular attention to the development and improvement of financial stability assessment instruments. It is currently testing the banking sector's financial stability monitoring system, consisting of the following three interrelated modules: regular risk monitoring, stress testing, and financial soundness indicator analysis.

IV.1.1. Systemic risk identification and regular monitoring

The Bank of Russia Banking Regulation and Supervision Department continued in 2008 to upgrade methodologies for regular monitoring of banking risks, which covered the following sub-systems:

- monitoring the risk of lending to non-financial organisations;
- monitoring the risk of lending to households;
- liquidity monitoring;
- market risk monitoring;
- capital adequacy monitoring.

Regular monitoring implies the use of indicators that are the most sensitive to risk accumulation, and determining their threshold values, which if exceeded, may indicate the development of undesirable situations in the banking sector and in credit institutions. In 2007, the Bank of Russia monitored and analysed reports by all operating banks. For the purposes of this analysis, the banks were divided into the following groups: Moscow banks, regional banks, and banks controlled by foreign capital.

'Material risk zones' are detected within each of the monitoring sub-systems mentioned above, using certain elements of stress testing, and banks susceptible to the most significant systemic risks are identified. The results of this analysis are taken into account by supervisors when dealing with credit institutions.

Monitoring the risk of lending to non-financial organisations

Credit risk monitoring is based on the calculation of the *modified capital adequacy ratio* ($N1_{mod}$), which is determined using the value of capital, reduced by provisions. When the modified capital adequacy ratio is calculated, it is assumed that:

- losses on bad loans equal overdue debt on these loans;

- bank capital is reduced by these losses (overdue debt net of provisions on loans and similar claims).

The reduced value of capital is used in calculating the modified capital adequacy ratio.

To identify banks in which bad debt may lead to a reduction in capital adequacy to dangerously low levels (11.0% or lower for banks with capital of more than 5 million euros in ruble terms, and 12.0% or lower for banks with capital of less than 5 million euros in ruble terms), the dynamics of the modified capital adequacy ratio ($N1_{mod}$) is analysed. The reduction in the $N1_{mod}$ ratio to the level indicated above is considered a 'risk zone'⁵¹ sign. The 'risk zone' is divided into an '*increased risk zone*,' '*high risk zone*' and '*moderate risk zone*'.

It is assumed that the '*increased risk zone*' comprises banks that have a modified capital adequacy ratio that does not exceed 10.0% (11.0%), depending on the capital level indicated above, that the '*high risk zone*' comprises banks with a modified capital adequacy ratio of more than 10.0% (11.0%) but no more than 10.5% (11.5%), and that the '*moderate risk zone*' comprises banks with a modified capital adequacy ratio of over 10.5% (11.5%), but no more than 11.0% (12.0%).

In addition, risk monitors pay attention to banks that operate outside the risk zones described above, but according to their reports, have overdue debt that by far exceeds the banking sector average.

The risk of lending to non-financial organisations is monitored on a quarterly basis.

Monitoring the risk of lending to households

The *modified capital adequacy ratio* is also calculated when monitoring the risk of lending to households. It is determined on the basis of the actual value of overdue debt on loans extended to households, according to the same methodology as that used to calculate this ratio when monitoring the risk of lending to non-financial organisations.

It is assumed that banks with a modified capital adequacy ratio of no more than 11.0% (banks with capital of more than 5 million euros in ruble terms) or 12.0% (banks with capital of less than 5 million euros in ruble terms) operate in the 'risk zone' if the following conditions apply simultaneously: the ratio of loans to households to assets is greater than 10.0%, while the ratio of overdue debt on loans to households to capital is more than 5.0%. The 'risk zone' is divided into an '*increased risk zone*,' '*high risk zone*' and '*moderate risk zone*'.

⁵¹ Banks with a low initial capital adequacy level (if the difference between the actual values of $N1$ and $N1_{mod}$ as of the latest reporting date was no more than 0.2 percentage points) are excluded from their number.

The 'increased risk zone' is considered to comprise banks that have a modified capital adequacy ratio that does not exceed 10.0% (11.0%), depending on the capital level indicated above, the 'high risk zone' comprises banks with a modified capital adequacy ratio of more than 10.0% (11.0%) but no more than 10.5% (11.5%), and the 'moderate risk zone' comprises banks with a modified capital adequacy ratio of more than 10.5% (11.5%) but no more than 11.0% (12.0%), provided that the two conditions outlined above apply simultaneously.

Attention is also paid to banks that operate outside the risk zones described above, but have, according to their reports, both a considerable amount of the corresponding loans, and overdue debt that by far exceeds the banking sector average, and banks that have overdue debt that is considerably lower than the average.

The risk of lending to households is monitored on a quarterly basis.

Liquidity monitoring

Liquidity is monitored daily (ongoing monitoring) and monthly.

Ongoing monitoring is conducted in respect of the following indicators:

- interbank actual rates (MIACR) on overnight loans and loans with maturities of 2—7 days and 8—30 days;
- correspondent accounts and banks' deposits with the Bank of Russia;
- reverse repos and Bank of Russia bond (OBR) operations as a percentage of assets.

The threshold values of indicators are determined on the basis of their average value and volatility (standard deviation) over the retrospective period.

The identification of banks in the 'material risk zone' in *monthly liquidity monitoring* is based on analysis of the dynamics of funds raised by the banks, the dynamics of credit turnovers in the correspondent account with the Bank of Russia, and the level of liquid assets. If at least two of the three indicators described above are below the set thresholds, the bank is considered to be in the 'material risk zone'.

The instant liquidity (N2) ratio and current liquidity (N3) ratio are used as additional indicators. Monitors also analyse data on the share of the top five creditors and depositors of the bank in its total liabilities, and information on payment documents that were not settled during the reporting month.

Market risk monitoring

Market risk is monitored for credit institutions that fall under the provisions of Bank of Russia Regulation No. 89-P, dated September 24, 1999, 'On the Procedure for Calculating Market Risk by Credit Institutions' (currently, Bank of Russia Regulation No. 313-P, dated November 14, 2007, 'On the Procedure for Calculating Market Risk by Credit Institutions').

The following indicators are evaluated on the basis of market risk and capital data reported by credit institutions:

- the ratio of possible losses on equity position risk to capital;
- the ratio of possible losses on interest rate risk to capital;
- the ratio of possible losses on foreign exchange risk to capital;
- total possible losses on market risk to capital.

Possible losses on the corresponding type of market risk is represented as the modified value of equity position, interest rate or foreign exchange risk, calculated according to the regulation on market risk calculation by credit institutions mentioned above.

The 'material risk zone' is determined in two stages. In the first stage, banks are identified that have significant total possible losses on market risks or a weak diversification of market risks (high sensitivity to one kind of risk).

In the second stage, monitors calculate for the identified banks the modified capital adequacy ratio, based on the assumption that possible losses are fully registered as a reduction in the bank's capital. An indicator for the 'material risk zone' is a modified N1 ratio of less than 10.5% (for banks with capital of no less than 5 million euros) or 11.5% (for banks with capital of less than 5 million euros).

Market risk is monitored on a monthly basis.

Capital adequacy monitoring

Capital adequacy monitoring is based on the identification of banks that have a low capital adequacy ratio, and demonstrate a sustained tendency towards a reduction in this ratio, and the return on assets and equity.

Banks are assigned to the 'increased risk,' 'high risk' or 'moderate risk' groups when capital adequacy monitoring is conducted.

Banks that have had a negative slope ratio in the N1 linear trend in the past 12 months and in the past four months, a linear trend in the return on assets and equity in the past four quarters, and an N1 ratio that does not exceed the threshold level as of the reporting date (10.5% for banks with capital of more than 5 million euros and 11.5% for banks with capital of less than 5 million euros) are included in the 'increased risk group'.

Banks that have had a negative slope ratio in the N1 linear trend in the past 12 months and in the past four months, a linear trend in the return on assets and capital in the past four quarters, and an N1 ratio that does not exceed the established threshold level as of the reporting date (12.0% for banks with capital of more than 5 million euros and 13.0% for banks with capital of less than 5 million euros) are assigned to the 'high risk group'.

Banks that have had a negative slope ratio in the N1 linear trend in the past 12 months and in the past four months, and an N1 ratio that does not exceed the threshold level as of the reporting date (12.0% for banks with capital of more than 5 million euros and 13.0% for banks with capital of less than 5 million euros) are included in the 'moderate risk group'.

Capital adequacy is monitored on a monthly basis.

IV.2. Banking Sector Clustering

To analyse in depth the systemic aspects of banking sector development, and banking operations and risks during the course of preparing this Report, the Bank of Russia carried out a clustering of the banking sector, grouping banks with similar characteristics in terms of property, volume of operations, and regionality. The study of such clusters enables the identification of specific trends and factors that generate processes in the banking sector that are obscured in analysis of average values.

The clustering methodology used in compiling this Report is described below.

In the **first stage**, the following groups of credit institutions were separated:

- non-bank credit organisations;
- banks in which more than 50% of authorised capital is owned by the state (government agencies, federal and regional government-controlled unitary enterprises, the Federal Property Fund and the Bank of Russia);
- banks with a non-resident stake of more than 50% in their authorised capital, including banks whose non-resident owners are controlled by residents.

In the **second stage**, banks from among the top 200 banks in terms of assets were analysed, excluding banks that had been included in the three groups listed above. Banks in this group have been classed as 'large private banks'.

In the **third stage**, all other banks not included in the four groups listed above are considered. These are medium-sized and small banks, which, in turn, are divided into two groups by geographical location: medium-sized

and small banks based in Moscow and the Moscow Region, and medium-sized and small banks located in other regions.

As a result, there are six groups of credit institutions:

1. state-controlled banks;
2. banks controlled by foreign capital;
3. large private banks;
4. medium-sized and small banks based in Moscow and the Moscow Region;
5. small and medium-sized regional banks; and
6. non-bank credit institutions.

The results of banking sector clustering (see *Table 4.1*) show that the group of state-controlled banks strengthened their positions in 2007 (despite the decline in number, the share of these banks in banking sector total assets expanded from 37.8% to 39.2%, and their share in banking sector total capital increased from 32.4% to 40.8%). Banks controlled by foreign capital grew in influence in 2007 (as of January 1, 2008, their share in banking sector assets expanded from 12.1% to 17.2%, and their share in banking sector capital increased from 12.7% to 15.7%).

The share of large private banks contracted from 41.0% to 35.5% of banking sector total assets, and from 42.3% to 33.5% of banking sector total capital.

Although medium-sized and small banks based in Moscow and the Moscow Region, and medium-sized and small regional banks represent the largest group of banks, their already modest share of banking sector assets and capital contracted in 2007 from 8.6% to 7.7% of assets, and from 12.4% to 9.8% of capital.

Indicators of credit institutions' groups*

TABLE 4.1

Group of credit institutions	No. of credit institutions		% share in banking sector total assets		% share in banking sector total capital	
	1.01.07	1.01.08	1.01.07	1.01.08	1.01.07	1.01.08
State-controlled banks	31	24	37.8	39.2	32.4	40.8
Foreign-controlled banks	64	85	12.1	17.2	12.7	15.7
Large private banks	152	147	41.0	35.5	42.3	33.5
Medium-sized and small banks based in Moscow and the Moscow Region	422	382	4.5	3.9	7.0	5.6
Medium-sized and small regional banks	474	454	4.1	3.7	5.4	4.3
Non-bank credit organisations	46	44	0.6	0.5	0.2	0.1
TOTAL	1,189	1,136	100	100	100	100

* The criteria for grouping credit institutions, and the corresponding group indicators, are used in this Report for analysis only.

IV.3. Upgrading the Central Catalogue of Credit Histories

The credit market's growth in 2008, and the corresponding increase in credit institutions' use of credit reports, are expected to cause an expansion of the database of the Central Catalogue of Credit Histories (CCCH). Demand for information from credit bureaux and the CCCH will therefore increase among credit history makers and users. The principal task at this stage in the development of the credit history system will be to improve the quality of information accumulated in the CCCH. Taking into consideration experience gained in implementing Federal Law No. 218-FZ, dated December 31, 2004, 'On Credit Histories', and the practice of credit institutions' use of credit histories, an active debate on amendments to this law can be expected.

To facilitate the filing of requests to the CCCH by credit history makers and users, the Bank of Russia will

continue to co-ordinate with the federal government and the Federal Notary's Office its draft ordinance 'On the Requesting and Receiving of Information from the Central Catalogue of Credit Histories by a Credit History Maker or User by Passing an Application via a Notary'.

The Bank of Russia will formulate recommendations on means of improving co-operation between credit institutions and credit bureaux, and credit history makers and users, and reducing the number of errors in the information contained in credit history titles.

The Bank of Russia also intends to continue to develop the automated CCCH system to make it more convenient for credit institutions to use, and to improve the procedure for controlling its operations.

IV.4. Statistical Appendix

**Key macroeconomic indicators
in 2003—2007**

TABLE 1

Indicator	2003	2004	2005	2006	2007
GDP (in market prices), billion rubles	13,243.2	17,048.1	21,625.4	26,879.8	32,987.4
as % of previous year	107.3	107.2	106.4	107.4	108.1
Federal budget surplus, as % of GDP	1.7	4.3	7.5	7.4	5.4
Industrial output, as % of previous year	108.9	108.0	105.1	106.3	106.3
Agricultural output, as % of previous year	101.3	103.0	102.3	103.6	103.3
Retail trade turnover, as % of previous year	108.8	113.3	112.8	114.1	115.9
Fixed capital investment, as % of previous year	112.5	113.7	110.9	116.7	121.1
Household real disposable income, as % of previous year	115.0	110.4	112.4	113.5	110.7
Unemployment rate, as % of economically active population (average for period)	8.6	8.2	7.6	7.2	6.1
Consumer price index (December as % of previous December)	112.0	111.7	110.9	109.0	111.9
Average nominal rate of the US dollar against the ruble for period, rubles to the dollar	30.68	28.81	28.28	27.18	25.57

**Russian banking sector
macroeconomic indicators**

TABLE 2

Indicator	1.01.03	1.01.04	1.01.05	1.01.06	1.01.07	1.01.08
Banking sector assets (liabilities), billion rubles	4,145.3	5,600.7	7,136.9	9,750.3	14,045.6	20,241.1
as % of GDP	38.3	42.3	41.9	45.1	52.2	61.4
Banking sector capital, billion rubles	581.3	814.9	946.6	1,241.8	1,692.7	2,671.5
as % of GDP	5.4	6.2	5.6	5.7	6.3	8.1
as % of banking sector assets	14.0	14.6	13.3	12.7	12.1	13.2
Loans and other funds provided to non-financial organisations and households, including overdue debt, billion rubles	1,796.2	2,684.7	3,887.6	5,454.0	8,031.4	12,288.3
as % of GDP	16.6	20.3	22.8	25.2	29.9	37.3
as % of banking sector assets	43.3	47.9	54.5	55.9	57.2	60.7
Securities acquired by banks, billion rubles	779.9	1,002.2	1,086.9	1,539.4	1,961.4	2,554.7
as % of GDP	7.2	7.6	6.4	7.1	7.3	7.7
as % of banking sector assets	18.8	17.9	15.2	15.8	14.0	12.6
Household deposits, billion rubles	1,029.7	1,517.8	1,977.2	2,754.6	3,793.5	5,136.8
as % of GDP	9.5	11.5	11.6	12.7	14.1	15.6
as % of banking sector liabilities	24.8	27.1	27.7	28.3	27.0	25.4
as % of household income	15.1	17.1	18.0	19.9	22.0	24.3
Funds raised from organisations*, billion rubles	1,091.4	1,384.8	1,986.1	2,953.1	4,570.9	6,769.1
as % of GDP	10.1	10.5	11.6	13.7	17.0	20.5
as % of banking sector liabilities	26.3	24.7	27.8	30.3	32.5	33.4

* Including deposits, government extra-budgetary funds, funds of the Finance Ministry, fiscal bodies and customers in factoring and forfeiting operations, float, and funds written down from customer accounts but not passed through a credit institution's correspondent account (excluding funds raised from credit institutions).

**Registration and licensing
of credit institutions***

TABLE 3

	1.01.07	1.01.08
Registration of credit institutions		
1. No. of credit institutions ¹ registered by the Bank of Russia or by a Registration Authority pursuant to the Bank of Russia's decision, total ²	1,345	1,296
of which:		
— banks	1,293	1,243
— non-bank credit institutions	52	53
1.1. No. of registered wholly foreign-owned credit institutions	52	63
1.2. Credit institutions that have been registered by the Bank of Russia but have not yet paid up authorised capital and have not received a licence (within the time period established by law)	1	3
of which:		
— banks	1	2
— non-bank credit institutions	0	1
2. Non-bank credit institutions registered by other bodies before July 1, 2002	0	0
Operating credit institutions		
3. Credit institutions licensed to conduct banking operations, total ³	1,189	1,136
of which:		
— banks	1,143	1,092
— non-bank credit institutions	46	44
3.1. Credit institutions holding licences (permits):		
— to take household deposits	921	906
— to conduct operations in foreign currency	803	754
— general licences	287	300
— to conduct operations with precious metals		
— permits	4	4
— licences ⁴	188	195
3.2. Credit institutions with foreign stakes in their authorised capital, total	153	202
of which:		
— wholly foreign-owned credit institutions	52	63
— credit institutions with a 50%-plus foreign stake	13	23
3.3. Credit institutions registered with the deposit insurance system	924	909
4. Registered authorised capital of operating credit institutions, million rubles	566,513	731,736
5. Branches of operating credit institutions in Russia, total	3,281	3,455
of which:		
— Sberbank branches ⁵	859	809
— branches of wholly foreign-owned credit institutions	90	169
6. Branches of operating credit institutions abroad, total ⁶	2	3
7. Branches of non-resident banks in Russia	0	0
8. Representative offices of Russian operating credit institutions, total ⁷	699	804
of which:		
— in Russia	657	757
— in non-CIS countries	29	33
— in CIS countries	13	14
9. Additional offices of credit institutions, total	15,007	18,979
of which:		
— Sberbank additional offices	7,282	8,623
10. Cash departments, total	15,885	14,689
of which:		
— Sberbank cash departments	11,983	10,839
11. Cash and credit offices, total	996	1,543
of which:		
— Sberbank cash and credit offices	0	0
12. Operations offices of credit institutions (branches of credit institutions)	0	497
of which:		
— Sberbank operations offices	0	0
13. Mobile cash points of credit institutions (branches of credit institutions)	0	51
of which:		
— Sberbank mobile cash points	0	50

* These include data based on information received from the Registration Authority as of the reporting date.

END

	1.01.07	1.01.08
Licence revocation and liquidation of corporate entities		
14. Credit institutions that had their banking licences revoked (cancelled) but have not been struck off the State Register ⁸	155	157
15. Liquidated credit institutions struck off the State Register, total ⁹	1,758	1,819
of which:		
— liquidated due to licence revocation (cancellation)	1,366	1,419
— liquidated due to reorganization	391	399
of which:		
— by merger	2	2
— by acquisition	389	397
of which:		
— by being transformed into branches of other banks	341	344
— by being merged with other banks (without setting up a branch)	48	53
— liquidated due to legal infractions relating to 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), which held but lost the right to conduct banking operations;
- a corporate entity registered by other bodies (before the Federal Law on Banks and Banking Activities came into force) and having a Bank of Russia licence 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 bodies and licensed by the Bank of Russia to conduct banking operations.

⁴ Issued since December 1996 pursuant to Bank of Russia Letter No. 367, dated December 3, 1996.

⁵ Sberbank branches put on the State Register of Credit Institutions and assigned serial numbers.

⁶ Branches opened by Russian credit institutions abroad.

⁷ Representative offices of Russian credit institutions abroad, including 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: 1,532 as of January 1, 2007; 1,585 as of January 1, 2008.

⁹ After July 1, 2002, a 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 institutional structure and form of incorporation

TABLE 4

Title	1.01.07		1.01.08	
	Number	% share	Number	% share
Operating credit institutions licensed to conduct banking operations, total	1,189	100.00	1,136	100.00
of which:				
— joint-stock companies	772	64.93	744	65.49
— close-end joint-stock companies	319	26.83	307	27.02
— open-end joint-stock companies	453	38.10	437	38.47
— unit trusts	417	35.07	392	34.51
— additional liability companies	—	—	—	—
— limited liability companies	417	35.07	392	34.51

**Number of credit institutions and their branches by region
as of January 1, 2008**

TABLE 5

	No. of credit institutions in region	No. of branches in region		
		total	credit institution with head office in this region	credit institution with head office in another region
1	2	3	4	5
Russian Federation	1,136	3,455	720	2,735
Central Federal District	632	758	184	574
Belgorod Region	6	34	5	29
Bryansk Region	1	30	2	28
Vladimir Region	2	30	0	30
Voronezh Region	4	54	1	53
Ivanovo Region	5	21	1	20
Kaluga Region	5	29	2	27
Kostroma Region	4	17	0	17
Kursk Region	2	21	0	21
Lipetsk Region	2	24	1	23
Orel Region	2	24	3	21
Ryazan Region	4	26	0	26
Smolensk Region	4	29	5	24
Tambov Region	2	20	3	17
Tver Region	7	40	3	37
Tula Region	6	34	1	33
Yaroslavl Region	8	42	4	38
<i>Moscow Region (for the record)</i>	<i>568</i>	<i>283</i>	<i>153</i>	<i>130</i>
Moscow	555	156	30	126
Moscow Region	13	127	9	118
North-Western Federal District	81	431	53	378
Republic of Karelia	1	23	2	21
Komi Republic	3	40	7	33
Arkhangelsk Region	3	34	0	34
of which: Nenets Autonomous Area	0	2	0	2
Vologda Region	9	29	9	20
Kaliningrad Region	11	39	4	35
Leningrad Region	4	46	4	42
Murmansk Region	4	26	1	25
Novgorod Region	2	18	1	17
Pskov Region	3	15	0	15
St Petersburg	41	161	25	136
Southern Federal District	118	485	116	369
Republic of Adygeya	5	6	1	5
Republic of Daghestan	33	72	58	14
Republic of Ingushetia	2	5	1	4
Kabardino-Balkaria Republic	6	13	3	10
Republic of Kalmykia	2	4	0	4
Karachai-Cherkess Republic	5	4	0	4
Republic of North Ossetia — Alania	6	16	7	9
Chechen Republic	0	1	0	1
Krasnodar Territory	18	107	18	89
Stavropol Territory	9	62	8	54
Astrakhan Region	5	29	6	23
Volgograd Region	5	66	1	65
Rostov Region	22	100	13	87

END

	No. of credit institutions in region	No. of branches in region		
		total	credit institution with head office in this region	credit institution with head office in another region
1	2	3	4	5
Volga Federal District	134	746	143	603
Republic of Bashkortostan	11	60	0	60
Republic of Mari El	1	23	4	19
Republic of Mordovia	4	15	6	9
Republic of Tatarstan	26	102	56	46
Udmurt Republic	8	31	0	31
Chuvash Republic	5	27	0	27
Perm Territory	8	72	3	69
Kirov Region	3	29	0	29
Nizhny Novgorod Region	18	106	32	74
Orenburg Region	9	52	4	48
Penza Region	2	31	0	31
Samara Region	22	93	15	78
Saratov Region	13	74	20	54
Ulyanovsk Region	4	31	3	28
Ural Federal District	63	397	136	261
Kurgan Region	5	23	0	23
Sverdlovsk Region	25	99	17	82
Tyumen Region	22	158	78	80
of which: Khanty-Mansi Autonomous Area — Yugra	12	50	15	35
Yamalo-Nenets Autonomous Area	4	29	2	27
Chelyabinsk Region	1	117	41	76
Siberian Federal District	68	436	49	387
Republic of Altai	5	4	1	3
Republic of Buryatiya	1	23	3	20
Republic of Tyva	2	4	0	4
Republic of Khakassia	3	9	1	8
Altai Territory	8	56	13	43
Krasnoyarsk Territory	5	73	11	62
Irkutsk Region	9	55	5	50
of which: Ust-Orda Autonomous Area	0	1	0	1
Kemerovo Region	8	45	0	45
Novosibirsk Region	14	61	1	60
Omsk Region	7	46	0	46
Tomsk Region	4	36	10	26
Chita Region	2	24	4	20
of which: Agin-Buryat Autonomous Area	0	2	0	2
Far Eastern Federal District	40	202	39	163
Republic of Sakha (Yakutia)	6	47	9	38
Kamchatka Territory	7	16	5	11
Primorsky Territory	9	45	12	33
Khabarovsk Territory	5	33	4	29
Amur Region	5	16	0	16
Magadan Region	2	14	5	9
Sakhalin Region	6	18	4	14
Jewish Autonomous Region	0	6	0	6
Chukchee Autonomous Area	0	7	0	7

Credit institutions grouped by registered authorised capital
as of January 1, 2008

TABLE 6

	Up to 3m rubles	3m to 10m rubles	10m to 30m rubles	30m to 60m rubles	60m to 150m rubles	150m to 300m rubles	300m rubles and over	Total
1	2	3	4	5	6	7	8	9
Russian Federation	37	61	120	161	207	248	302	1,136
Central Federal District	10	23	44	80	104	156	215	632
Belgorod Region	0	1	0	0	2	3	0	6
Bryansk Region	0	0	0	1	0	0	0	1
Vladimir Region	0	0	0	0	1	1	0	2
Voronezh Region	0	0	0	1	2	0	1	4
Ivanovo Region	0	1	0	0	4	0	0	5
Kaluga Region	0	0	0	0	3	1	1	5
Kostroma Region	0	0	1	1	1	0	1	4
Kursk Region	0	0	1	0	1	0	0	2
Lipetsk Region	0	0	0	0	0	1	1	2
Orel Region	0	0	0	1	1	0	0	2
Ryazan Region	0	1	0	2	0	1	0	4
Smolensk Region	0	2	0	0	0	1	1	4
Tambov Region	0	0	0	1	1	0	0	2
Tver Region	2	1	1	1	1	0	1	7
Tula Region	0	1	1	2	2	0	0	6
Yaroslavl Region	0	0	1	4	0	3	0	8
<i>Moscow region (for the record)</i>	<i>8</i>	<i>16</i>	<i>39</i>	<i>66</i>	<i>85</i>	<i>145</i>	<i>209</i>	<i>568</i>
Moscow	8	15	39	64	84	141	204	555
Moscow Region	0	1	0	2	1	4	5	13
North-Western Federal District	5	5	14	14	15	12	16	81
Republic of Karelia	0	0	0	0	1	0	0	1
Komi Republic	0	0	1	1	1	0	0	3
Arkhangelsk Region	0	1	0	1	0	1	0	3
of which: Nenets Autonomous Area	0	0	0	0	0	0	0	0
Vologda Region	0	0	5	1	2	0	1	9
Kaliningrad Region	0	0	1	2	4	2	2	11
Leningrad Region	0	1	2	0	0	1	0	4
Murmansk Region	1	0	1	0	0	1	1	4
Novgorod Region	0	1	0	0	0	1	0	2
Pskov Region	0	0	1	1	1	0	0	3
St Petersburg	4	2	3	8	6	6	12	41
Southern Federal District	13	22	25	13	23	16	6	118
Republic of Adygeya	1	2	2	0	0	0	0	5
Republic of Daghestan	8	8	9	3	4	0	1	33
Republic of Ingushetia	0	2	0	0	0	0	0	2
Kabardino-Balkaria Republic	1	0	3	0	0	2	0	6
Republic of Kalmykia	0	0	0	0	2	0	0	2
Karachai-Cherkess Republic	1	0	2	0	1	0	1	5
Republic of North Ossetia — Alania	0	1	2	0	2	1	0	6
Chechen Republic	0	0	0	0	0	0	0	0
Krasnodar Territory	0	2	5	2	6	2	1	18
Stavropol Territory	1	4	1	2	1	0	0	9
Astrakhan Region	0	3	0	0	0	2	0	5
Volgograd Region	0	0	0	2	1	2	0	5
Rostov Region	1	0	1	4	6	7	3	22

END

	Up to 3m rubles	3m to 10m rubles	10m to 30m rubles	30m to 60m rubles	60m to 150m rubles	150m to 300m rubles	300m rubles and over	Total
1	2	3	4	5	6	7	8	9
Volga Federal District	5	2	10	17	28	36	36	134
Republic of Bashkortostan	0	0	1	0	1	7	2	11
Republic of Mari El	0	0	1	0	0	0	0	1
Republic of Mordovia	0	0	0	0	1	3	0	4
Republic of Tatarstan (Tatarstan)	1	0	0	3	5	5	12	26
Udmurt Republic	0	1	1	1	0	3	2	8
Chuvash Republic	1	0	0	1	2	1	0	5
Perm Territory	1	0	1	1	1	1	3	8
Kirov Region	0	0	1	0	0	0	2	3
Nizhny Novgorod Region	1	0	1	4	5	3	4	18
Orenburg Region	0	0	1	2	2	1	3	9
Penza Region	0	0	0	0	1	0	1	2
Samara Region	1	0	2	1	4	8	6	22
Saratov Region	0	1	0	2	5	4	1	13
Ulyanovsk Region	0	0	1	2	1	0	0	4
Ural Federal District	1	2	8	9	11	12	20	63
Kurgan Region	0	1	1	2	1	0	0	5
Sverdlovsk Region	1	1	2	3	4	6	8	25
Tyumen Region	0	0	4	2	4	4	8	22
of which: Khanty-Mansi Autonomous Area — Yugra	0	0	1	2	1	3	5	12
Yamalo-Nenets Autonomous Area	0	0	2	0	0	1	1	4
Chelyabinsk Region	0	0	1	2	2	2	4	11
Siberian Federal District	2	4	13	16	17	10	6	68
Republic of Altai	0	0	3	1	1	0	0	5
Republic of Buryatiya	0	0	0	0	0	1	0	1
Republic of Tyva	0	1	0	1	0	0	0	2
Republic of Khakassia	0	0	0	1	1	1	0	3
Altai Territory	0	1	2	1	2	1	1	8
Krasnoyarsk Territory	0	0	0	0	2	3	0	5
Irkutsk Region	0	0	1	4	3	1	0	9
of which: Ust-Orda Autonomous Area	0	0	0	0	0	0	0	0
Kemerovo Region	0	0	1	2	3	0	2	8
Novosibirsk Region	2	1	3	2	3	2	1	14
Omsk Region	0	1	1	2	1	0	2	7
Tomsk Region	0	0	1	1	1	1	0	4
Chita Region	0	0	1	1	0	0	0	2
of which: Aginsky-Buryatsky Autonomous Area	0	0	0	0	0	0	0	0
Far Eastern Federal District	1	3	6	12	9	6	3	40
Republic of Sakha (Yakutia)	0	1	0	3	0	1	1	6
Kamchatka Territory	0	0	4	2	1	0	0	7
Primorsky Territory	1	1	1	1	3	2	0	9
Khabarovsk Territory	0	0	1	3	0	0	1	5
Amur Region	0	1	0	1	1	1	1	5
Magadan Region	0	0	0	1	0	1	0	2
Sakhalin Region	0	0	0	1	4	1	0	6
Jewish Autonomous Region	0	0	0	0	0	0	0	0
Chukchee Autonomous Area	0	0	0	0	0	0	0	0

**Density of banking services in Russian regions
as of January 1, 2007**

TABLE 7.1

Region	No. of credit institutions, branches and additional offices	Net assets, million rubles	Loans to resident institutions and households, million rubles*	Household deposits, million rubles	Gross regional product for 2006, billion rubles (estimate)	Population, thousand	Average monthly per capita money income in 2006, rubles	Institutional density of banking services (by population)	Financial density of banking services (by assets)	Financial density of banking services (by value of loans)	Savings index (per capita deposits to income)	Composite banking services density index by region
1	2	3	4	5	6	7	8	9	10	11	12	13
Central Federal District	5,906	9,775,446	3,711,630	1,857,630	7,850	37,218	13,833	1.16	1.90	1.34	1.34	1.41
<i>For the record: Central Federal District without Moscow</i>	2,670	931,029	1,152,496	487,086	2,704	26,775	7,379	0.73	0.52	1.21	0.92	0.81
Belgorod Region	134	72,452	139,980	27,262	181	1,514	6,749	0.65	0.61	2.19	0.99	0.96
Bryansk Region	82	24,799	27,310	14,783	82	1,318	6,033	0.45	0.46	0.94	0.69	0.61
Vladimir Region	144	37,573	39,827	24,816	112	1,460	5,034	0.72	0.51	1.01	1.26	0.83
Voronezh Region	164	80,161	66,456	42,130	163	2,295	6,814	0.52	0.75	1.15	1.00	0.82
Ivanovo Region	97	22,318	19,593	14,166	52	1,088	4,310	0.65	0.65	1.06	1.12	0.84
Kaluga Region	116	38,541	27,854	18,688	85	1,009	6,888	0.84	0.69	0.93	1.00	0.86
Kostroma Region	80	16,448	17,680	9,783	53	702	5,594	0.83	0.47	0.95	0.93	0.77
Kursk Region	135	49,409	51,803	15,379	100	1,171	6,499	0.84	0.75	1.46	0.75	0.91
Lipetsk Region	92	50,795	56,399	19,077	188	1,174	7,634	0.57	0.41	0.85	0.79	0.63
Moscow Region	767	290,989	439,136	166,126	938	6,646	10,437	0.84	0.47	1.33	0.89	0.83
Orel Region	87	18,208	30,093	11,127	62	827	5,591	0.77	0.44	1.37	0.90	0.80
Ryazan Region	106	34,404	33,882	18,729	103	1,172	5,796	0.66	0.51	0.93	1.03	0.75
Smolensk Region	102	30,458	31,548	15,175	79	994	6,424	0.75	0.59	1.13	0.89	0.81
Tambov Region	96	22,024	27,643	12,566	78	1,117	6,499	0.63	0.43	1.00	0.64	0.64
Tver Region	124	34,207	30,350	18,216	126	1,391	7,048	0.65	0.42	0.69	0.69	0.60
Tula Region	189	53,314	45,614	26,428	143	1,581	6,156	0.87	0.57	0.90	1.01	0.82
Yaroslavl Region	155	54,926	67,327	32,635	156	1,320	7,839	0.86	0.53	1.22	1.17	0.90
Moscow	3,236	8,444,417	2,559,133	1,370,544	5,146	10,443	30,382	2.26	2.62	1.41	1.61	1.91
North-Western Federal District	2,223	1,083,529	802,471	424,703	2,168	13,550	10,685	1.20	0.76	1.05	1.09	1.01
Republic of Karelia	114	18,495	23,582	11,382	86	693	8,200	1.20	0.33	0.77	0.74	0.69
Komi Republic	120	36,624	35,771	23,588	212	975	12,903	0.90	0.26	0.48	0.70	0.53
Arkhangelsk Region	125	43,863	52,640	22,446	206	1,280	9,267	0.71	0.32	0.72	0.70	0.59
Vologda Region	142	61,251	62,787	26,965	208	1,228	8,303	0.84	0.45	0.86	0.99	0.75
Kaliningrad Region	162	50,079	49,598	23,288	100	937	8,552	1.26	0.76	1.41	1.08	1.10
Leningrad Region	260	36,613	58,413	24,409	265	1,638	8,147	1.16	0.21	0.62	0.68	0.57
Murmansk Region	158	35,766	33,096	24,518	156	857	12,038	1.35	0.35	0.60	0.89	0.71
Novgorod Region	129	15,010	18,212	8,221	73	658	6,911	1.43	0.31	0.71	0.67	0.68
Pskov Region	119	12,020	10,940	7,687	49	713	6,218	1.22	0.37	0.63	0.64	0.65
St Petersburg	894	773,810	457,430	252,198	812	4,571	13,960	1.43	1.45	1.60	1.47	1.49

CONT.

1	2	3	4	5	6	7	8	9	10	11	12	13
Southern Federal District	2,863	544,349	548,926	257,655	1,611	22,777	6,480	0.92	0.51	0.97	0.65	0.74
Republic of Adygeya	58	5,117	6,562	3,089	21	441	4,519	0.96	0.37	0.89	0.58	0.65
Republic of Daghestan	194	13,168	7,834	4,261	118	2,659	7,167	0.53	0.17	0.19	0.08	0.19
Republic of Ingushetia	7	1,654	1,107	562	9	493	2,996	0.10	0.29	0.37	0.14	0.20
Kabardino-Balkaria Republic	73	10,742	9,529	4,861	42	891	4,989	0.60	0.39	0.65	0.41	0.50
Republic of Kalmykia	39	3,845	6,433	1,063	12	287	3,324	0.99	0.48	1.48	0.41	0.73
Karachai-Cherkess Republic	45	6,167	15,442	2,053	23	429	5,667	0.77	0.41	1.93	0.32	0.66
Republic of North Ossetia — Alania	60	11,418	10,157	6,244	43	701	6,347	0.62	0.41	0.67	0.52	0.55
Chechen Republic	1	3,771	3,108	331	29	1,184	—	0.01	0.20	0.30	0.00	0.00
Krasnodar Territory	930	176,876	180,706	91,755	466	5,101	6,994	1.33	0.58	1.10	0.96	0.95
Stavropol Territory	448	69,220	68,459	36,427	179	2,701	6,372	1.21	0.59	1.09	0.79	0.88
Astrakhan Region	94	23,971	23,421	13,790	85	994	7,033	0.69	0.43	0.78	0.73	0.64
Volgograd Region	202	63,752	63,505	35,193	249	2,620	8,146	0.56	0.39	0.72	0.61	0.56
Rostov Region	712	154,647	152,662	58,027	336	4,276	7,380	1.22	0.70	1.29	0.68	0.93
Volga Federal District	3,190	1,325,685	1,159,904	520,961	3,519	30,346	7,728	0.77	0.57	0.93	0.83	0.76
Republic of Bashkortostan	480	150,253	130,177	54,987	506	4,051	8,674	0.87	0.45	0.73	0.58	0.64
Republic of Mari El	59	13,962	10,795	5,975	43	707	4,639	0.61	0.50	0.72	0.68	0.62
Republic of Mordovia	113	23,547	22,101	8,918	57	848	4,511	0.97	0.63	1.10	0.87	0.88
Republic of Tatarstan	446	266,819	208,386	77,708	606	3,761	9,247	0.87	0.67	0.98	0.83	0.83
Udmurt Republic	165	66,280	61,896	21,277	163	1,538	5,928	0.78	0.62	1.08	0.87	0.82
Chuvash Republic	98	33,370	36,197	14,364	92	1,286	5,247	0.56	0.55	1.12	0.79	0.72
Perm Territory	287	127,187	134,273	52,365	393	2,731	10,609	0.77	0.49	0.97	0.67	0.70
Kirov Region	130	35,398	33,945	17,563	96	1,427	5,573	0.67	0.56	1.00	0.82	0.74
Nizhny Novgorod Region	380	161,325	150,210	74,733	381	3,381	7,678	0.82	0.65	1.12	1.07	0.89
Orenburg Region	214	64,051	62,199	27,253	300	2,126	6,127	0.74	0.33	0.59	0.78	0.58
Penza Region	113	27,240	25,892	17,180	91	1,396	5,401	0.59	0.46	0.81	0.85	0.66
Samara Region	352	252,272	188,286	93,274	490	3,179	11,121	0.81	0.78	1.09	0.98	0.91
Saratov Region	231	73,867	61,583	40,359	201	2,595	5,860	0.65	0.56	0.87	0.99	0.75
Ulyanovsk Region	122	30,115	33,964	15,005	101	1,322	5,760	0.67	0.45	0.95	0.73	0.68
Ural Federal District	1,758	850,187	643,872	304,947	3,773	12,231	11,803	1.05	0.34	0.48	0.79	0.61
Kurgan Region	90	16,578	18,131	7,571	66	969	6,299	0.68	0.38	0.77	0.46	0.55
Sverdlovsk Region	675	327,387	269,848	106,756	655	4,400	10,866	1.12	0.76	1.17	0.83	0.95
Tyumen Region	547	365,629	219,779	132,814	2,609	3,345	18,090	1.19	0.21	0.24	0.81	0.47
Chelyabinsk Region	446	140,593	136,114	57,805	442	3,516	8,511	0.93	0.48	0.87	0.72	0.73

END												
1	2	3	4	5	6	7	8	9	10	11	12	13
Siberian Federal District	2,457	775,509	754,465	282,641	2,391	19,590	8,049	0.92	0.49	0.89	0.67	0.72
Republic of Altai	25	4,096	12,434	1,149	11	205	5,418	0.89	0.56	3.16	0.38	0.88
Republic of Buryatiya	191	24,975	28,273	7,704	91	960	6,739	1.45	0.42	0.89	0.44	0.70
Republic of Tyva	28	3,325	3,348	1,117	15	309	4,736	0.66	0.34	0.64	0.28	0.45
Republic of Khakassia	67	12,811	28,272	4,829	51	537	6,014	0.91	0.38	1.57	0.56	0.74
Altai Territory	279	77,539	73,799	25,800	168	2,523	6,114	0.81	0.70	1.25	0.62	0.81
Krasnoyarsk Territory	346	115,562	117,082	48,879	586	2,894	9,076	0.87	0.30	0.57	0.69	0.57
Irkutsk Region	425	87,529	93,274	39,417	323	2,514	8,640	1.23	0.41	0.82	0.67	0.73
Kemerovo Region	235	113,024	126,414	44,726	337	2,826	9,299	0.61	0.51	1.06	0.63	0.68
Novosibirsk Region	331	188,897	131,360	48,450	287	2,641	7,709	0.92	1.00	1.30	0.89	1.01
Omsk Region	177	82,234	72,816	30,903	248	2,026	8,718	0.64	0.51	0.83	0.65	0.65
Tomsk Region	138	44,977	42,576	19,444	187	1,033	9,707	0.98	0.37	0.65	0.72	0.64
Chita Region	215	20,542	24,818	10,223	88	1,122	6,838	1.40	0.36	0.80	0.49	0.67
Far Eastern Federal District	1,080	274,386	240,527	144,738	981	6,509	10,411	1.21	0.43	0.70	0.80	0.73
Republic of Sakha (Yakutia)	140	35,078	41,344	17,840	206	950	12,532	1.08	0.26	0.57	0.56	0.55
Kamchatka Territory	79	16,248	12,429	10,634	54	347	11,592	1.66	0.46	0.66	0.98	0.84
Primorsky Territory	326	71,417	53,890	38,285	209	2,006	8,604	1.19	0.52	0.73	0.83	0.78
Khabarovsk Territory	217	75,350	77,850	39,558	196	1,406	11,500	1.13	0.59	1.13	0.91	0.91
Amur Region	157	28,193	24,563	10,692	91	875	6,968	1.31	0.47	0.76	0.65	0.74
Magadan Region	44	12,983	9,428	6,339	30	169	12,569	1.91	0.66	0.90	1.11	1.06
Sakhalin Region	81	28,660	14,821	17,391	163	521	15,451	1.13	0.27	0.26	0.80	0.50
Jewish Autonomous Region	18	2,665	2,707	1,657	18	186	7,346	0.71	0.23	0.43	0.45	0.42
Chukchee Autonomous Area	18	3,792	3,494	2,341	15	51	15,568	2.60	0.39	0.68	1.11	0.94
Total*	19,477	14,629,091	7,861,796	3,793,274	22,292	142,221	9,925	1.00	1.00	1.00	1.00	1.00

* Based on reports compiled by credit institutions in 0409302 Form, which takes into consideration the borrower's residence.

**Density of banking services in Russian regions
as of January 1, 2008**

TABLE 7.2

Region	No. of credit institutions, branches and additional offices	Net assets, million rubles	Loans to resident institutions and households, million rubles	Household deposits, million rubles	Gross regional product for 2007, billion rubles (estimate)	Population, thousand	Average monthly per capita money income in 2007, rubles	Institutional density of banking services (by population)	Financial density of banking services (by assets)	Financial density of banking services (by value of loans)	Savings index (per capita deposits to income)	Composite banking services density index by region
1	2	3	4	5	6	7	8	9	10	11	12	13
Central Federal District	6,793	14,258,550	5,610,369	2,566,911	9,633	37,145	15,556	1.10	1.88	1.33	1.41	1.41
<i>For the record: Central Federal District without Moscow</i>	<i>3,281</i>	<i>1,376,224</i>	<i>1,686,725</i>	<i>658,657</i>	<i>3,318</i>	<i>26,679</i>	<i>9,187</i>	<i>0.74</i>	<i>0.53</i>	<i>1.16</i>	<i>0.86</i>	<i>0.79</i>
Belgorod Region	163	110,751	200,156	36,182	222	1,519	8,846	0.65	0.63	2.06	0.86	0.92
Bryansk Region	99	36,726	38,365	18,866	101	1,309	7,138	0.46	0.46	0.87	0.64	0.59
Vladimir Region	173	57,256	62,849	32,976	137	1,450	6,281	0.72	0.53	1.05	1.15	0.82
Voronezh Region	237	131,900	101,286	56,071	200	2,279	8,352	0.63	0.84	1.16	0.94	0.87
Ivanovo Region	138	31,484	34,822	20,102	64	1,080	5,202	0.77	0.62	1.24	1.14	0.91
Kaluga Region	148	60,933	45,263	25,614	104	1,005	8,705	0.89	0.74	0.99	0.93	0.88
Kostroma Region	118	32,927	27,563	13,797	65	697	6,885	1.02	0.64	0.97	0.91	0.87
Kursk Region	155	58,596	63,254	20,043	123	1,163	8,098	0.80	0.60	1.17	0.68	0.79
Lipetsk Region	116	67,225	77,093	25,194	230	1,169	9,136	0.60	0.37	0.77	0.75	0.60
Moscow Region	901	430,971	651,302	231,172	1,152	6,666	13,315	0.81	0.48	1.29	0.83	0.80
Orel Region	99	25,200	44,490	14,584	77	822	6,831	0.73	0.42	1.33	0.83	0.76
Ryazan Region	135	52,935	53,229	24,399	127	1,165	7,342	0.70	0.53	0.96	0.91	0.75
Smolensk Region	116	45,910	43,726	19,967	97	984	7,678	0.71	0.60	1.03	0.84	0.78
Tambov Region	106	27,928	36,058	16,105	96	1,107	7,955	0.58	0.37	0.86	0.58	0.57
Tver Region	154	52,062	50,089	24,904	154	1,380	7,913	0.67	0.43	0.74	0.73	0.63
Tula Region	213	72,507	73,652	34,918	176	1,567	7,773	0.82	0.52	0.96	0.91	0.78
Yaroslavl Region	210	80,912	83,528	43,764	192	1,316	9,511	0.96	0.54	0.99	1.11	0.87
Moscow	3,512	12,882,326	3,923,644	1,908,254	6,315	10,466	31,793	2.02	2.59	1.42	1.82	1.92
North-Western Federal District	2,609	1,674,622	1,201,360	583,874	2,661	13,504	12,293	1.16	0.80	1.03	1.12	1.02
Republic of Karelia	121	29,096	34,242	14,331	106	691	9,522	1.06	0.35	0.74	0.69	0.66
Komi Republic	139	50,692	49,197	30,133	260	969	15,018	0.86	0.25	0.43	0.66	0.50
Arkhangelsk Region	163	58,846	65,958	29,583	253	1,272	10,384	0.77	0.30	0.60	0.71	0.56
Vologda Region	199	92,083	84,814	33,683	255	1,223	9,657	0.98	0.46	0.76	0.91	0.75
Kaliningrad Region	193	80,877	80,177	30,271	123	937	10,386	1.24	0.84	1.50	0.99	1.11
Leningrad Region	285	48,180	87,711	32,530	326	1,634	9,943	1.05	0.19	0.62	0.64	0.53
Murmansk Region	171	50,685	46,276	30,598	192	851	14,033	1.21	0.34	0.55	0.82	0.65
Novgorod Region	137	22,507	25,331	10,592	90	653	8,735	1.26	0.32	0.64	0.59	0.63
Pskov Region	129	19,348	18,438	10,258	61	706	7,371	1.10	0.41	0.70	0.63	0.66
St Petersburg	1,072	1,222,308	709,216	361,895	996	4,568	15,548	1.41	1.56	1.63	1.62	1.55

CONT.

1	2	3	4	5	6	7	8	9	10	11	12	13
Southern Federal District	3,543	844,933	807,180	347,029	1,977	22,823	7,740	0.94	0.54	0.93	0.62	0.74
Republic of Adygeya	77	7,600	11,007	4,114	26	441	5,293	1.05	0.38	0.98	0.56	0.68
Republic of Daghestan	214	19,893	12,529	6,999	145	2,684	7,950	0.48	0.17	0.20	0.11	0.20
Republic of Ingushetia	19	2,804	2,889	953	11	499	3,549	0.23	0.34	0.63	0.17	0.30
Kabardino-Balkaria Republic	79	17,334	14,526	6,639	51	891	6,078	0.53	0.43	0.65	0.39	0.49
Republic of Kalmykia	45	5,242	8,184	1,507	15	286	4,119	0.95	0.44	1.24	0.41	0.68
Karachai-Cherkess Republic	46	7,675	9,813	2,545	28	427	6,493	0.65	0.35	0.81	0.29	0.48
Republic of North Ossetia — Alania	64	16,461	14,737	8,066	53	702	7,505	0.55	0.40	0.64	0.49	0.51
Chechen Republic	1	16,619	5,800	550	36	1,207	0	0.01	0.59	0.37	0.00	0.00
Krasnodar Territory	1,163	278,437	265,987	124,793	572	5,120	8,805	1.37	0.62	1.06	0.88	0.94
Stavropol Territory	485	100,641	96,112	47,632	219	2,705	7,752	1.08	0.58	1.00	0.72	0.82
Astrakhan Region	136	33,899	33,154	17,258	104	995	8,228	0.82	0.41	0.73	0.67	0.64
Volgograd Region	288	99,277	104,280	45,834	306	2,610	9,400	0.66	0.41	0.78	0.60	0.60
Rostov Region	926	239,052	228,161	80,141	412	4,256	8,882	1.31	0.74	1.27	0.68	0.95
Volga Federal District	4,159	1,964,627	1,799,451	685,152	4,319	30,249	9,204	0.83	0.58	0.95	0.78	0.77
Republic of Bashkortostan	648	175,516	190,878	74,602	621	4,052	10,439	0.96	0.36	0.70	0.56	0.61
Republic of Mari El	70	23,870	21,596	8,273	52	704	5,533	0.60	0.58	0.95	0.68	0.69
Republic of Mordovia	134	36,801	34,960	11,610	70	841	5,488	0.96	0.67	1.15	0.80	0.88
Republic of Tatarstan	560	397,695	332,600	100,607	743	3,762	11,092	0.90	0.68	1.02	0.77	0.83
Udmurt Republic	199	98,028	89,589	27,517	200	1,533	6,957	0.78	0.62	1.02	0.82	0.80
Chuvash Republic	113	53,371	58,846	19,316	113	1,283	5,971	0.53	0.60	1.19	0.80	0.74
Perm Territory	377	202,797	209,905	71,264	483	2,719	12,282	0.84	0.53	0.99	0.68	0.74
Kirov Region	168	52,238	57,317	23,633	118	1,414	6,693	0.72	0.56	1.11	0.80	0.77
Nizhny Novgorod Region	480	261,512	244,027	97,408	467	3,362	9,318	0.86	0.71	1.19	0.99	0.92
Orenburg Region	284	86,736	88,788	37,211	368	2,120	7,306	0.81	0.30	0.55	0.76	0.57
Penza Region	165	44,375	44,505	22,264	112	1,389	6,699	0.72	0.50	0.91	0.76	0.71
Samara Region	466	375,543	279,533	119,191	602	3,173	13,026	0.88	0.79	1.06	0.92	0.91
Saratov Region	299	111,491	98,769	51,776	246	2,584	6,835	0.70	0.58	0.92	0.93	0.77
Ulyanovsk Region	196	44,654	48,136	20,482	124	1,313	7,293	0.90	0.46	0.89	0.68	0.71
Ural Federal District	2,129	1,167,419	1,032,755	401,982	4,630	12,236	13,997	1.05	0.32	0.51	0.75	0.60
Kurgan Region	106	25,068	28,155	9,931	82	961	7,954	0.66	0.39	0.79	0.41	0.54
Sverdlovsk Region	814	507,540	424,227	146,884	804	4,395	13,290	1.12	0.80	1.21	0.80	0.96
Tyumen Region	664	411,897	343,564	166,889	3,202	3,370	20,827	1.19	0.16	0.25	0.76	0.44
Chelyabinsk Region	545	222,915	236,809	78,279	543	3,510	9,979	0.94	0.52	1.00	0.71	0.77

END												
1	2	3	4	5	6	7	8	9	10	11	12	13
Siberian Federal District	3,080	1,207,511	1,161,437	362,020	2,934	19,554	9,548	0.95	0.52	0.91	0.62	0.73
Republic of Altai	32	8,687	22,540	1,585	14	207	6,437	0.93	0.81	3.77	0.38	1.02
Republic of Buryatiya	223	36,020	37,147	10,522	111	960	8,261	1.40	0.41	0.76	0.42	0.66
Republic of Tyva	36	5,846	5,965	1,429	18	311	5,409	0.70	0.41	0.75	0.27	0.49
Republic of Khakassia	79	17,943	25,779	6,178	63	537	7,549	0.89	0.36	0.94	0.48	0.62
Altai Territory	340	118,107	109,762	34,039	206	2,509	7,024	0.82	0.73	1.22	0.61	0.82
Krasnoyarsk Territory	448	177,192	197,701	60,501	719	2,890	10,493	0.93	0.31	0.63	0.63	0.58
Irkutsk Region	477	134,930	147,337	48,827	397	2,508	9,829	1.15	0.43	0.85	0.63	0.72
Kemerovo Region	323	164,496	187,750	58,073	414	2,824	11,086	0.69	0.51	1.04	0.59	0.68
Novosibirsk Region	441	312,857	215,473	64,099	352	2,636	9,905	1.01	1.13	1.40	0.78	1.06
Omsk Region	231	125,031	113,857	39,746	304	2,018	10,577	0.69	0.52	0.86	0.59	0.65
Tomsk Region	162	71,870	64,309	23,904	229	1,035	11,043	0.94	0.40	0.64	0.67	0.63
Chita Region	288	34,533	33,816	13,117	108	1,119	7,971	1.55	0.41	0.72	0.47	0.68
Far Eastern Federal District	1,257	403,063	348,688	189,418	1,204	6,487	12,137	1.17	0.43	0.66	0.77	0.71
Republic of Sakha (Yakutia)	162	64,236	72,708	21,946	253	950	14,213	1.03	0.32	0.66	0.52	0.58
Kamchatka Territory	89	22,501	16,052	13,583	66	346	13,811	1.55	0.43	0.56	0.90	0.76
Primorsky Territory	368	102,840	83,990	50,803	256	1,997	9,949	1.11	0.51	0.75	0.82	0.77
Khabarovsk Territory	270	112,809	102,248	52,058	241	1,404	13,308	1.16	0.60	0.97	0.89	0.88
Amur Region	181	40,226	34,835	14,636	112	870	8,478	1.25	0.46	0.71	0.63	0.71
Magadan Region	46	15,372	11,593	7,891	37	166	14,593	1.67	0.53	0.72	1.04	0.90
Sakhalin Region	102	37,381	20,050	23,468	200	519	18,847	1.18	0.24	0.23	0.76	0.47
Jewish Autonomous Region	21	3,722	4,188	2,128	22	186	8,238	0.68	0.22	0.44	0.44	0.41
Chukchee Autonomous Area	18	3,976	3,023	2,906	18	50	15,889	2.16	0.28	0.38	1.16	0.72
Total	23,570	21,520,724	11,961,239	5,136,387	27,358	141,998	11,519	1.00	1.00	1.00	1.00	1.00

Categorised performance indicators on credit institutions with foreign interest in their authorised capital relative to indicators on operating credit institutions (%)

TABLE 8

	1.01.03	1.01.04	1.01.05	1.01.06	1.01.07	1.01.08
Credit institutions with a 50%-plus foreign stake						
Assets	8.1	7.4	7.6	8.3	12.1	17.2
Capital	7.1	6.6	7.8	9.3	12.7	15.7
Correspondent accounts with non-resident banks	22.9	19.7	14.0	10.5	23.1	23.2
Loans and other placements with non-financial organisations, including non-resident corporate entities	7.1	6.1	6.2	7.4	10.0	15.6
Loans, deposits and other placements with banks	25.9	22.0	15.8	17.1	22.5	22.2
of which household deposits	2.3	2.3	3.0	3.4	6.2	8.9
Funds raised from organisations*	10.4	9.3	9.4	9.6	13.3	17.7
Of which: wholly foreign owned credit institutions						
Assets	5.6	5.6	5.9	8.0	9.0	11.5
Capital	5.4	5.4	6.3	9.0	10.1	11.1
Correspondent accounts with non-resident banks	19.2	16.8	7.7	9.9	8.2	15.6
Loans and other funds placed with non-financial organisation, including non-resident corporate entities	5.5	4.6	4.6	7.3	7.9	10.8
Loans, deposits and other placements with banks	16.3	17.0	11.4	16.8	18.4	18.6
of which household deposits	1.5	1.5	2.4	3.3	4.1	5.0
Funds raised from organisations*	5.5	5.7	6.6	9.4	8.9	10.8

* These include deposits, government and other extra-budgetary funds, funds of the Finance Ministry, fiscal authorities and customers in factoring and forfeiting operations, float, and funds written down 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 type of investment
(billion rubles)

TABLE 9

Assets		1.01.07	1.04.07	1.07.07	1.10.07	1.01.08
1	Money, precious metals and gemstones, total	368.5	284.5	306.1	343.7	501.7
1.1	of which: money	356.7	276.0	295.9	328.4	487.1
2	Accounts with the Bank of Russia and authorised bodies of other countries, total	955.6	961.6	1,532.9	965.4	1,294.7
	of which:					
2.1	credit institutions' correspondent accounts with the Bank of Russia	624.5	492.7	516.7	565.1	791.2
2.2	credit institutions' required reserves transferred to the Bank of Russia	220.9	209.4	244.7	318.7	221.6
2.3	Deposits with the Bank of Russia	98.1	245.8	758.6	72.2	270.3
3	Correspondent accounts with credit institutions, total	398.2	480.4	315.1	308.3	413.3
	of which:					
3.1	correspondent accounts with correspondent credit institutions	175.1	119.4	127.4	80.5	105.6
3.2	correspondent accounts with non-resident banks	223.1	361.0	187.7	227.9	307.7
4	Securities acquired by banks, total	1,961.4	2,404.4	2,725.9	2,434.7	2,554.7
	of which:					
4.1	debt obligations	1,341.2	1,627.3	1,824.0	1,549.9	1,674.0
	of which:					
4.1.1	Russian government debt obligations	537.2	585.6	615.6	559.8	580.3
4.2	stocks and shares	391.0	531.8	645.1	645.3	629.6
	of which:					
4.2.1	controlling shareholdings	79.8	104.3	116.6	119.0	141.9
4.3	discounted promissory notes	229.2	245.3	256.7	239.5	251.1
5	Other shareholdings in authorised capital	18.8	19.7	20.3	22.2	25.2
6	Loans, total	9,440.5	10,437.5	11,217.2	12,908.0	14,260.1
	of which:					
6.1	loans, deposits and other placements	9,438.9	10,436.1	11,217.1	12,907.8	14,259.9
	of which overdue debt	121.1	137.8	159.5	177.1	184.1
	of which:					
6.1.1	loans and other placements with non-financial organisations	5,966.2	6,466.8	7,138.5	8,102.8	9,046.2
	of which overdue debt	66.8	71.0	73.9	79.3	81.9
6.1.2	loans, deposits and other placements with banks	1,035.6	1,345.9	1,117.1	1,449.6	1,418.1
	of which overdue debt	0.2	0.3	5.3	0.4	0.2
6.2	financing of government programmes and capital investment on a repayable basis	1.6	1.4	0.2	0.2	0.2
7	Fixed and intangible assets and inventories	409.9	453.5	478.6	506.2	540.0
8	Disposition of profits	90.9	111.9	62.1	81.7	122.7
9	Other assets, total	401.8	445.4	543.9	661.1	528.7
	of which:					
9.1	float	154.7	170.2	249.5	340.7	197.4
9.2	debtors	66.9	81.1	92.5	93.9	95.1
9.3	deferred expenses	150.4	163.1	171.3	186.9	196.5
Total assets		14,045.6	15,599.0	17,202.0	18,231.3	20,241.1

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

TABLE 10

Liabilities		1.01.07	1.04.07	1.07.07	1.10.07	1.01.08
1	Bank funds and profits, total	1,783.0	2,171.6	2,416.4	2,602.7	2,809.2
	of which:					
1.1	bank funds	1,338.3	1,621.6	2,040.1	2,139.4	2,182.2
1.2	profits (losses), including financial results of previous years	444.7	550.0	376.3	463.2	627.0
	of which:					
1.2.1	reporting year's profits (losses)	371.5	117.3	221.0	343.5	508.0
2	Loans, deposits and other funds received by credit institutions from the Bank of Russia	13.8	13.6	13.0	2.5	34.0
3	Bank accounts, total	156.6	128.1	157.6	169.4	208.3
	of which:					
3.1	correspondent credit institutions' correspondent accounts	94.8	66.2	82.8	67.3	124.5
3.2	non-resident banks' correspondent accounts	14.1	14.4	15.5	14.7	18.4
4	Loans, deposits and other funds received from other banks, total	1,730.5	1,877.4	2,103.9	2,301.5	2,807.4
	of which:					
4.1	overdue debt	0.0	0.0	0.0	0.2	0.0
5	Customers' funds, total	8,467.3	9,415.1	10,352.1	10,935.2	12,053.1
	of which					
5.1	budget funds in settlement accounts	14.6	21.6	21.8	22.0	20.2
5.2	government extra-budgetary funds in settlement accounts	28.0	33.6	28.9	32.0	25.0
5.3	corporate funds in settlement and other accounts	2,361.2	2,872.3	3,102.5	3,185.4	3,170.1
5.4	customer float	57.4	108.5	112.9	131.6	70.6
5.5	corporate deposits	1,543.5	1,612.4	1,817.3	1,996.1	2,584.7
5.6	funds in household accounts	3,881.8	4,101.3	4,450.0	4,735.5	5,263.8
	of which:					
5.6.1	household deposits	3,793.5	4,010.4	4,348.1	4,622.0	5,136.8
5.7	other borrowed funds	570.2	655.9	808.1	821.1	905.3
5.8	customer funds in factoring and forfeiting operations	10.4	9.4	10.6	11.5	13.5
5.9	funds written down from customer accounts but not entered in a credit institution's correspondent account	0.2	0.0	0.0	0.0	0.0
6	Debt obligations issued, total	1,018.1	1,002.4	1,007.6	973.7	1,176.1
	of which:					
6.1	bonds	168.3	197.0	229.6	235.2	290.2
6.2	certificates of deposit	33.1	31.5	31.8	34.1	30.0
6.3	savings certificates	16.2	17.3	18.6	20.1	22.4
6.4	promissory notes and bank acceptances	790.5	745.2	717.6	674.7	822.2
7	Other liabilities, total	876.2	990.8	1,151.4	1,246.3	1,153.0
	of which:					
7.1	reserves	452.4	492.4	525.0	570.4	586.3
7.2	float	265.2	318.4	378.5	458.7	338.5
7.3	creditors	21.6	24.5	82.0	25.2	33.0
7.4	fixed and intangible asset depreciation	75.0	84.0	90.4	98.3	105.2
7.5	deferred income	20.9	22.4	22.8	28.0	27.3
Total liabilities		14,045.6	15,599.0	17,202.0	18,231.3	20,241.1

Major characteristics of banking sector lending operations
(billion rubles)

TABLE 11

Indicators	Rubles					Foreign exchange					Total				
	1.01.07	1.04.07	1.07.07	1.10.07	1.01.08	1.01.07	1.04.07	1.07.07	1.10.07	1.01.08	1.01.07	1.04.07	1.07.07	1.10.07	1.01.08
1. Loans, deposits and other placements, total	6,720.3	7,376.2	8,263.9	9,345.6	10,466.8	2,718.6	3,059.9	2,953.2	3,562.2	3,793.2	9,438.9	10,436.1	11,217.1	12,907.8	14,259.9
of which overdue debt	107.1	123.0	139.1	160.9	167.1	14.0	14.8	20.4	16.2	17.0	121.1	137.8	159.5	177.1	184.1
1.1. Loans and other placements with resident non-financial organisations	4,259.1	4,713.5	5,292.3	5,957.9	6,576.6	1,405.3	1,445.1	1,540.0	1,771.1	1,953.9	5,664.4	6,158.7	6,832.3	7,729.0	8,530.5
of which overdue debt	56.3	60.4	63.4	68.7	70.8	9.8	9.5	9.5	9.2	10.5	66.1	70.0	73.0	77.9	81.2
1.2. Loans and other placements with non-resident corporate entities, except banks	39.3	38.3	54.7	64.6	85.8	262.5	269.9	251.5	309.2	429.9	301.8	308.2	306.2	373.8	515.7
of which overdue debt	0.3	0.3	0.3	0.3	0.0	0.4	0.7	0.7	1.1	0.7	0.7	1.0	1.0	1.4	0.7
1.3. Loans, deposits and other placements with the financial sector	420.6	498.0	483.2	497.9	627.6	100.8	106.5	130.4	126.3	155.6	521.4	604.5	613.6	624.2	783.2
including: overdue debt	0.3	0.3	0.2	0.3	0.4	0.0	0.1	0.1	0.2	0.0	0.3	0.3	0.3	0.5	0.5
of which:															
1.3.1. loans, deposits and other placements with resident credit institutions	293.4	353.6	332.1	350.5	450.3	77.8	82.0	101.9	94.7	116.3	371.2	435.6	434.1	445.2	566.6
of which overdue debt	0.1	0.2	0.2	0.2	0.2	0.0	0.0	0.1	0.2	0.0	0.2	0.3	0.2	0.4	0.2
1.3.2. loans, deposits and other placements with resident financial institutions with various forms of ownerships	127.2	144.4	151.0	147.4	177.3	23.0	24.6	28.4	31.6	39.3	150.2	169.0	179.5	179.0	216.6
of which overdue debt	0.11	0.07	0.08	0.10	0.23	0.02	0.03	0.01	0.01	0.00	0.14	0.10	0.09	0.10	0.23
1.4. Loans, deposits and other placements with non-resident banks	64.6	43.9	59.3	94.3	64.0	599.8	866.5	623.7	910.0	787.5	664.4	910.4	683.0	1,004.4	851.5
of which overdue debt	0.00	0.00	0.00	0.00	0.00	0.03	0.02	5.05	0.02	0.02	0.04	0.02	5.05	0.02	0.02
1.5. Loans and other funds placed with government financial agencies and extra-budgetary funds	93.1	89.4	81.5	86.7	119.5	0.9	0.9	0.8	0.8	0.3	94.0	90.3	82.3	87.5	119.7
of which overdue debt	0.01	0.01	0.04	0.11	1.01	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.04	0.11	1.01
1.6. Loans to resident individuals	1,754.1	1,903.5	2,190.3	2,511.8	2,828.6	305.5	329.5	362.3	390.4	406.1	2,059.5	2,233.0	2,552.6	2,902.1	3,234.6
of which overdue debt	50.3	62.0	75.1	91.5	94.8	3.5	4.1	4.8	5.4	5.8	53.7	66.1	79.9	96.9	100.6
1.7. Loans to non-resident individuals	0.6	0.8	0.9	1.2	1.5	5.0	5.4	5.7	6.3	6.0	5.7	6.2	6.6	7.5	7.5
of which overdue debt	0.01	0.01	0.01	0.01	0.01	0.22	0.23	0.25	0.26	0.10	0.23	0.24	0.25	0.27	0.11
For the record:															
Overdue interest on loans, deposits and other placements recorded in balance sheet accounts	0.75	0.84	0.82	0.80	0.40	0.01	0.02	0.03	0.03	0.02	0.76	0.86	0.85	0.83	0.41
Credit institutions' investments in resident promissory notes	224.1	239.7	252.0	235.5	247.4	3.9	4.4	3.4	2.4	2.5	228.0	244.1	255.4	237.9	249.9
Credit institutions' investments in non-resident promissory notes	0.0	0.0	0.1	0.0	0.0	1.3	1.2	1.2	1.6	1.2	1.3	1.2	1.4	1.6	1.2

**Quantitative and qualitative characteristics of supervisors of the Bank of Russia head office and regional branches
(based on 1-K Form data as of January 1, 2008)**

TABLE 12

Bank of Russia division	Total number of jobs as of January 1, 2008	Total number of employees as of January 1, 2008 (excluding part-timers)	of whom							
			age			education		duration of work in banking system		women
			under 30 years (born in 1978 and later)	50 years and over (born in 1957 and earlier)	of whom women aged 55 years and over and men aged 60 years and over	higher	secondary vocational	up to 3 years	15 years or more	
Head office										
Banking Regulation and Supervision Department	182	159	22	52	18	155	2	25	50	113
Credit Institution Licensing and Financial Rehabilitation Department	148	132	21	26	11	126	5	15	40	102
Financial Monitoring and Foreign Exchange Control Department	110	104	18	23	12	101	1	16	16	61
Main Inspectorate for Credit Institutions	160	147	33	32	12	146	1	36	20	86
Head office total	600	542	94	133	53	528	9	92	126	362
Regional branches										
Credit Institution Supervision Division (Section)	1,197	1,162	129	216	60	1,135	26	48	510	982
Credit Institution Inspection Division (Section)	969.5	941	132	190	44	927	13	59	269	518
Financial Monitoring and Foreign Exchange Control Division (Department, Section)	616	602	93	88	21	590	10	43	186	410
Credit Institution Licensing Division (Section)	314	306	40	58	17	300	6	16	113	265
Moscow branch divisions	707	686	231	114	46	605	66	86	124	498
Main Divisions/National Banks total	3,803.5	3,697	625	666	188	3,557	121	252	1,202	2,673
Bank of Russia total	4,403.5	4,239	719	799	241	4,085	130	344	1,328	3,035

Notes

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OF THE RUSSIAN FEDERATION**



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