

BANKING SUPERVISION REPORT 2008



Printed by Novosti Press

Circulation: 400 copies

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

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Foreword

Dear readers,

The year 2008 was one of the most difficult in the recent history of the Russian banking sector. In the first half of the year, the sector as a whole demonstrated fairly rapid growth in its key performance indicators, despite the turmoil on global financial markets. In September, however, the Russian financial market faced a crisis of confidence as a result of the worsening global crisis, increased outflow of capital from emerging markets, and lower export prices. The Russian stock market, like those of other countries, experienced a large-scale fall in prices, some credit institutions ran into liquidity problems and had difficulty in fulfilling their current obligations, and tensions on the interbank market escalated. Depositors' concerns led to a significant outflow of household deposits.

Together, these developments created a serious threat to banking sector stability in Russia. If the crisis had deteriorated, bank depositors and clients would have panicked, the payment system would have begun to seriously malfunction, and the problems would have turned into a systemic social and economic crisis.

The Russian Government and the Bank of Russia took a series of urgent and large-scale measures aimed at stabilising the banking sector, and above all, boosting liquidity. The largest banks received subordinated loans from the Government to shore up their capital base, and the Bank of Russia introduced a new liquidity infusion instrument in the form of unsecured loans. The Finance Ministry and state corporations placed substantial funds with banks.

In October 2008, Russian legislators passed Federal Law No. 175-FZ, 'On Additional Measures to Strengthen Banking Sector Stability up to December 31, 2011,' which granted to the Deposit Insurance Agency (DIA), at the proposal of the Bank of Russia, the right to carry out bankruptcy prevention measures with respect to credit institutions covered by the deposit insurance system, and regulated the rehabilitation of problem banks. Significant government funds were allocated to enable the DIA to perform these functions.

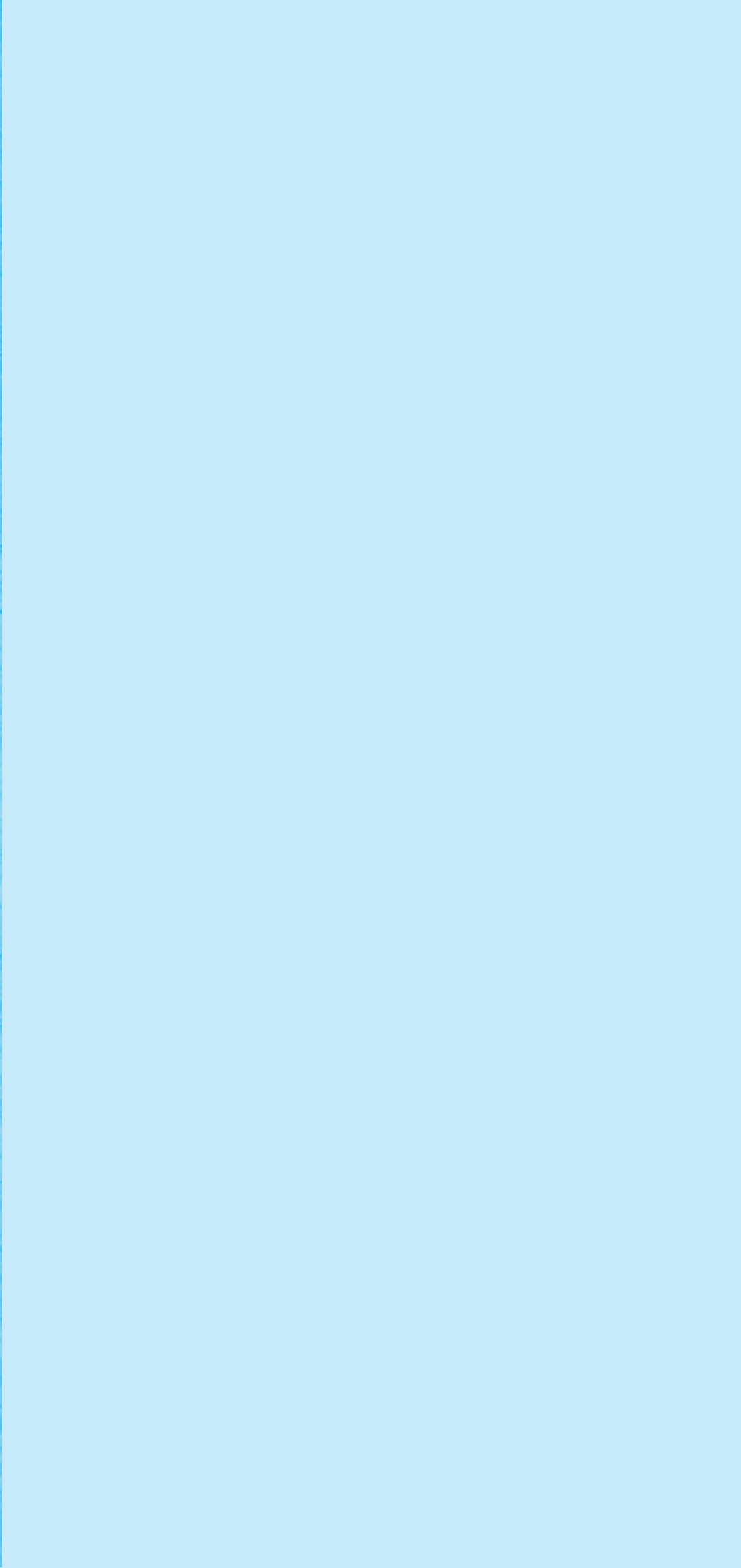
As a result, the banking sector successfully overcame the most severe phase of the crisis and fulfilled its principal functions, ensuring the uninterrupted settlements in the economy, including settlements with state budgets at all levels. Banks managed to maintain depositor confidence, and in December they compensated for most of the deposit outflow. However, the full-year rates of growth in banking sector indicators slowed significantly year on year.

The acute phase of the banking sector crisis has largely passed, but the decline in business activity is compelling banks to reassess the risks they assumed, especially on loans to the non-financial sector. The need to make provisions and raise additional capital amid the worsening economic situation and financial standing of enterprises will be a vital element of banking sector activities in the medium term. Given this situation, the problem of banking sector stability has become one of the main priorities of the Bank of Russia, particularly in the course of banking regulation and banking supervision.

This Report analyses the performance of the banking sector and its main risks. It also focuses on the problem of banking sector stability, and banking regulation and supervision.

I hope that this Report will prove useful to interested readers.

Sergey M. Ignatiev,
Bank of Russia Chairman



The State of the Russian Banking Sector



I.1. General Economic Conditions

I.1.1. Macroeconomics

In the second half of 2008, the Russian economy saw its external conditions deteriorate significantly. The decline in global demand and oil prices affected the dynamics of Russian foreign trade operations and capital flows. By the end of the year, the development of negative trends had led to lower incomes, domestic demand and a downturn in the key sectors of the economy. The rise in unemployment accelerated. As the crisis deepened, GDP growth started to slow. However, thanks to the economy's strong performance in the first half of the year, the full-year indicators were characterised by growth in production of goods and services, fixed capital investment, and real income, although this growth was slower than in the previous year.

Despite its sharp deterioration in the second half of the year, the price situation on world commodity markets was on the whole good for Russian exporters, and the terms of Russia's trade with other countries improved. Growth in the terms of trade index accelerated from 1.03 to 1.18.

The average annual price of Urals crude on the world market increased 35% in 2008 year on year, to reach \$93.9 per barrel. In the fourth quarter of the year, commodity exports and imports began to decline, which led to a significant contraction of the trade and current account surpluses. In 2008, the current account surplus rose by a factor of 1.3 year on year.

Last year saw growth in household and corporate foreign currency cash savings. Foreign currency cash outside banks increased by \$24.8 billion. Net private capital outflow stood at \$132.8 billion, in contrast to 2007, when there was a net private capital inflow of \$83.1 billion.

Russia's international reserves, which reached their highpoint early in August 2008, began to decline (in August–December 2008, they contracted by \$169.5 billion). On January 1, 2009, international reserves decreased 10.8% from the beginning of 2008, and stood at \$427.1 billion.

The Russian Government's foreign debt contracted in 2008, whereas the private sector's foreign debt continued to grow. The debt burden on the country's economy¹ decreased.

The fall in oil prices and capital outflow created conditions conducive to the weakening of the ruble. Devaluation expectations increased. These factors were behind rapid price growth, and by the end of 2008 consumer inflation had exceeded the annual target. Nevertheless, the gradual weakening of the factors that stimulated inflation

(slower growth of global food prices and money supply, and the contraction of demand) began to restrain price rise.

Consumer inflation in 2008 quickened by 1.4 percentage points year on year, to 13.3% (December on December). Core inflation accelerated from 11.0% to 13.6%. Food, non-food and service prices in 2008 grew faster than in 2007.

GDP increased 5.6% in the year under review as against 8.1% in 2007. The most rapid rates of growth were registered in construction, agriculture and retail trade. Industrial output increased 2.1% in 2008 as against 6.3% in the previous year.

The fall in export revenue and the tightening of lending conditions on Russian and foreign markets in the second half of the year were reflected in the dynamics of domestic demand. Real disposable money income increased 2.7% in 2008 as against 12.1% in 2007. Growth in household final consumption spending in the year under review slowed from 13.6% to 11.5%. The public propensity for organised savings decreased in 2008.

The financial standing of Russian enterprises continued to improve in the first half of 2008, but in September–December profits declined and losses increased as the global economic crisis began to weigh on the Russian economy. The favourable net financial result in the economy² contracted 30.8% from 2007 to 3,984 billion rubles. Returns on the sale of goods, products and services fell from 12.5% in 2007 to 12.3%. The share of loss-making enterprises expanded by 1.8 percentage points to 25.2% of total enterprises.

The deteriorating financial standing of enterprises had no significant effect on payments and settlements in the economy as a whole. Although growth in non-payments accelerated in August–December 2008, the share of overdue payables contracted from 7.8% at the end of December 2007 to 7.4% of total debt at the end of 2008; the share of overdue receivables shrank from 8.0% to 7.6%, and non-payments on bank loans from 0.7% to 0.5%.

Gross capital formation in 2008 expanded 13.3% (in 2007, it increased 21.1%). The largest fixed capital investments were made in transport and communications, and the hydrocarbon extraction sector.

I.1.2. The non-financial sector of the economy

The tendency towards economic growth characterised the development of the non-financial sector of the

¹ Foreign debt to GDP. Nominal GDP grew faster than Russia's foreign debt.

² Net of small businesses, banks, insurance companies and budget-financed organisations.

economy in the first three quarters of 2008. In the fourth quarter, amid the global economic crisis the production of major goods and services sharply declined, and investment activities significantly decreased.

As a result, the nature of economic processes in 2008 changed for the first time since 1999, as the tendency towards decline in demand and production in many key economic activities developed.

The output index for the basic economic activities in 2008 registered 104.5% as against 108.0% in 2007. Growth in transport freight turnover slowed from 102.4% in 2007 to 100.6%, retail trade turnover from 116.1% to 113.0%, and communications from 119.1% to 112.8%. Growth only accelerated in agricultural production (from 103.4% in 2007 to 110.8% in 2008).

The negative change of trends in the non-financial sector's development in the second half of 2008 was reflected in the monitoring of non-financial enterprises conducted by the Bank of Russia. According to estimates made by non-financial enterprises involved in monitoring, a decline in production began in August 2008 in some economic activity categories. Information received from enterprises showed that the situation concerning orders on the domestic and foreign markets and capacity utilisation began to deteriorate. Risks involved in economic activity increased, and the terms of lending to non-financial enterprises changed for the worse.

The 2008 fourth-quarter results reflected the tendency towards a further deterioration of the non-financial sector's situation. According to monitoring data, there was an increase in the adverse effect on non-financial enterprise production resulting from the contraction in demand and the shortage of funds to finance current activities.

The investment situation deteriorated significantly. Fixed capital investment in 2008 increased 9.1% year on year, whereas in 2007 it grew 21.1%. The most dramatic decline in investment activity was registered in the metals sector. Under these conditions, according to enterprises' estimates, the capacity utilisation ratio in the fourth quarter of 2008 stood at 69.8%, a decrease of 3.9 percentage points from the third quarter.

The fall in demand in many economic activity categories led to a significant decline in certain producer prices. Industrial producer prices, for example, slipped 7.0% in 2008 (in 2007, they gained 25.1%). Agricultural producer price growth slowed from 130.2% to 102.5%, and growth in construction material prices declined from 117.4% to 116.9%. Freight service prices in 2008 rose 141.4% as against 106.8% in 2007.

Inflation accelerated amid slower growth in real wages (109.7% in 2008 as against 117.2% in 2007) and the significant deterioration of the employment situation: as compared with the previous year, the total number of unemployed³ increased 4.3%, whereas in 2007 it fell 13.3%.

³ Annual average.

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

The net financial result of the non-financial sector of the economy, based on official statistics for January–November 2008, shows that in the period under review the consequences of the crisis, which affected both financial and production activities at the end of 2008, had not yet fully manifested themselves. Nevertheless, the escalation of negative trends became clear. In the mining sector, for example, the net financial result increased 20.1%, whereas losses grew 69.4% in the period under review; in the manufacturing sector, the respective percentages stood at 8.7% and 120.0%. In the production and distribution of electricity, gas, and water, the net financial result decreased 18.4% in January–November 2008 as compared with the same period a year earlier, while losses increased by a factor of 2.1. In construction, the respective figures were 31.9% and 2.1, and in wholesale and retail trade, and other commercial activity categories, 30.0% and 7.2 respectively.

No marked changes were registered in the period under review in the share of profit-making and loss-making enterprises in the non-financial sector of the economy. As before, most of the profit-making enterprises were in wholesale and retail trade, construction and the manufacturing sector. However, there was a significant rise in the number of loss-making enterprises in the metal ore mining industry.

Overall, as the monitoring results show, the financial standing of enterprises deteriorated in 2008, as the debt burden on their capital increased, growth in funds slowed, the level of self-financing decreased, large and medium-sized enterprises lacked sufficient capital for investment, and both payables and receivables rose.

According to enterprises' estimates, while there was a strong need for borrowing, interest rates on bank loans remained high. There was a fairly wide gap between interest rates for non-financial enterprises with differing volumes of assets. In late 2008, non-financial enterprises with assets of up to 100 million rubles paid on average 16.8% interest on ruble-denominated bank loans (as against 15.2% in early 2008), enterprises with assets from 100 million rubles to 1 billion rubles paid 15.8% interest (as against 13.3%) and enterprises with assets of over 1 billion rubles paid 14.6% (as against 11.8%).

I.1.3. Payment system

The Russian payment system in 2008 retained favourable trends as it became increasingly efficient.

The number of banking institutions⁴ providing payment services rose over the year by 5.4% to 43,300 as of January 1, 2009. Their growth per million residents from 289 as of January 1, 2008, to 305 as of January 1, 2009, shows that the banking system has made payment services more accessible.

The number of transaction accounts opened with credit institutions by corporate entities other than credit

institutions and private individuals increased 11% in 2008, to reach 467.8 million. Most of these were personal accounts, while corporate accounts made up not more than 2%. At the end of 2008, there were on average 3.3 transaction accounts per individual (compared to 3.0 accounts in the previous year).

The number of accounts accessible online increased 40.2%, and on January 1, 2009, accounted for 31.0% of total accounts on which payments were effected in the year under review (this compares with 25.3% as of January 1, 2008).

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

During the year, private payment systems passed 1.8 billion payments in the amount of 366.1 trillion rubles, of which payments within a single division of a credit institution accounted for 71.4% in number and 46.9% in volume, inter-branch payments made up 23.4% and 36.9% respectively and settlements through credit institutions' correspondent accounts opened with other credit institutions accounted for 5.2% and 16.2% respectively.

Non-bank credit institutions, such as the MICEX Clearing House and the RTS Clearing House, handled most of the settlements on the securities market. The volume of transactions with the accounts of participants in the largest clearing centre on the organised securities market, the MICEX Clearing House, expanded 36.5% in 2008 year on year to reach 168.6 trillion rubles.

Settlements effected using payment orders remained the most common form of non-cash settlements in 2008, accounting for 55.0% of total payments, and 96.9% of the total volume of payments. Collection letters, payment requests, letters of credit and cheques gained wider acceptance. The number of payments effected using these payment instruments rose 30.3%. However, their share of the total volume of payments remained negligible.

Retail payments remained cash dominated. Transactions connected with payment for consumer goods (33.9%), payment for services (9.3%), purchase of foreign currency (8.3%) and real estate purchases (1.7%) accounted for more than a half of the total volume of cash paid to the cash departments of Bank of Russia divisions and credit institutions.

Money transfers made at the request of private individuals without opening a bank account were the most dynamic segment of the retail banking services market in 2008. Credit institutions' clients carried out 813.5 million money transfers in the amount of 2.6 trillion rubles. Com-

pared to 2007, this represents an increase of 12.8% in number, and 20.8% in volume.

Owing to changes in banking laws,⁵ credit institutions can now arrange agent relations with commercial organisations, and transfer individuals' funds without opening a bank account as a means of paying for electricity, housing and public utilities. In 2008, these transfers amounted to nearly 80 billion rubles.

The payment card market has been actively developing. In 2008, the number of bank cards issued by credit institutions rose 15.2% to 119.2 million. A total of 2.1 billion transactions in the amount of 9.1 trillion rubles were conducted in Russia in 2008. Although cardholders still use their cards mainly to withdraw cash, payment cards continued to gain wider acceptance as an instrument of non-cash payments in 2008. This was a result of rapid growth (by 45.6%) in the number of devices used to pay for goods and services with cards,⁶ as well as the expansion of banking services such as charity payments, 'card-to-card' transfers, etc. (9.2 million operations of this kind in the amount of 126.2 billion rubles were conducted in 2008).

The use of online banking is expanding. Non-cash retail payments by individuals, made from bank accounts on requests and passed to credit institutions using the Internet or mobile phones, demonstrated the most rapid rates of growth. The number of such payments rose 70.6% in 2008 to 20.0 million, and their volume climbed 65.3% to 474.1 billion rubles.

I.1.4. Banking sector macroeconomic performance

Most of the key indicators characterising the role of the banking sector relative to GDP continued to rise in 2008. Banking sector assets to GDP gained 6.7 percentage points to 67.5%. Banking sector capital to GDP edged up 1.1 percentage points to 9.2% of GDP. Credit to non-financial enterprises and households grew by 2.7 percentage points to 39.8%.

At the same time, household deposits relative to GDP contracted by 1.4 percentage points to 14.2%.

Growth in banking sector assets in 2008, as during the previous year, was largely due to the expansion of credit. Total loans to GDP increased by 4.8 percentage points to 47.9%, and their share of total banking sector assets expanded fractionally to reach 70.9%. Loans to households grew particularly fast, standing at 9.7% of GDP.

Funds raised from organisations were the principal source of resources for credit institutions in 2008: as of January 1, 2009, they were equivalent to 21.1% of GDP, and their share of banking sector liabilities* stood at 31.3%.

⁵ Article 13.1 of Federal Law No. 395-1, dated December 2, 1990 (with amendments effective as of February 28, 2009) 'On Banks and Banking Activities.'

⁶ ATM, point-of-sale terminals and imprinters.

* Here and below "liabilities" stand for "banks funds and profits (capital items in the balance sheet) plus liabilities" or the right side of the accounting equation (total resources); this item 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 1,136 to 1,108 in 2008 (see Chart 1.1). Thirty-six credit institutions had their banking licences withdrawn (revoked), five credit institutions were struck off the State Register after they merged with other credit institutions, and 13 credit institutions (with banking licences) came into operation.

It can therefore be said that the number of operating credit institutions continued to decline in 2008 (in 2006–2008, the number of credit institutions decreased by 145). The tendency towards a reduction in the number of operating credit institutions is present in all federal districts.

Credit institutions continued to expand their branch networks in 2008. The number of branches of operating credit institutions (excluding Sberbank) increased from 2,646 to 2,695. Sberbank continued to optimise its branch network, and in 2008 closed 34 branches.

The tendency towards growth in the number of internal divisions of credit institutions, such as additional offices and operations offices, continued in 2008. The total number of credit institutions' internal divisions increased by 2,326 over the year, and reached 38,085 as of January 1, 2009 (27 per 100,000 people as against 25 as of January 1, 2008).

As of January 1, 2009, 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, as was the case in the previous year.

I.2.2. Regional banking⁷

The number of regional banks declined from 568 to 552 in 2008. The rate of growth of their assets (19.5%) was twice as slow as that of total banking sector assets (39.2%). As a result, these banks' share of total banking sector assets contracted from 14.9% as of January 1, 2008, to 12.8% as of January 1, 2009.

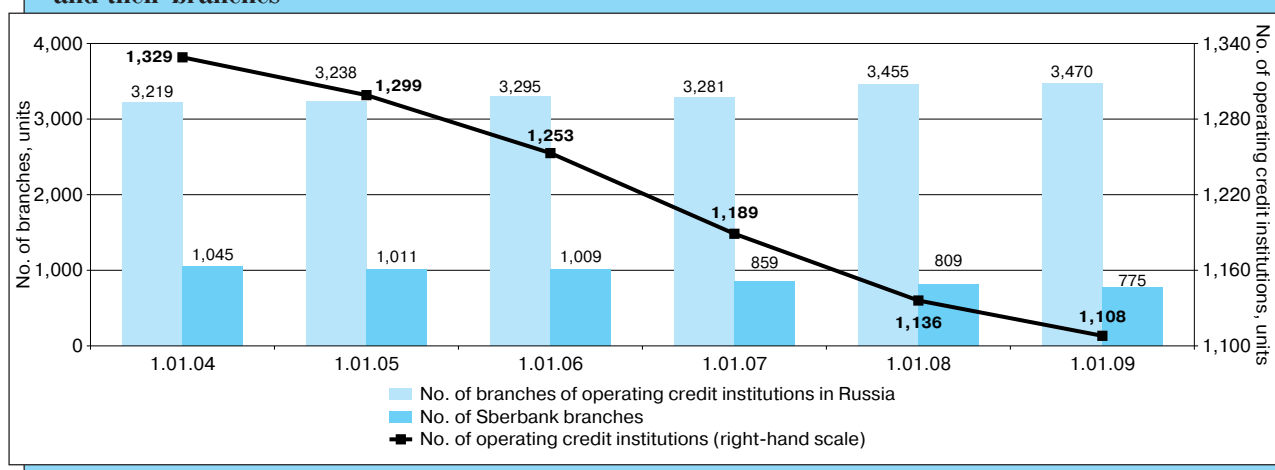
The capital of regional banks edged up 21.0% in 2008 to 484.0 billion rubles, but their capital as a share of total banking sector capital contracted from 15.0% as of January 1, 2008 to 12.7%.

In 2008, as in previous years, regional banks were profit-making: their profits amounted to 56.7 billion rubles, which, however, represents a decrease of 24.7% from 2007. As of January 1, 2009, the number of profit-making regional banks as a share of total operating regional banks contracted from 99.7% as of January 1, 2008 to 97.5%, and from 99.9% to 91.8% in regional banks' assets.

As before, the highest level of density of banking services in 2008 was registered in the Central Federal District, in particular Moscow and the Moscow Region, which was followed by the North-Western, Volga and Southern Federal Districts. There is a high level of density of banking services in St Petersburg and the Kaliningrad and Novosibirsk Regions.

Number of credit institutions and their branches

CHART 1.1



⁷ Regional banks are banks registered outside Moscow and the Moscow Region.

The lowest level of density of banking services was registered, as before, in the Siberian, Far Eastern and Urals Federal Districts. The lowest density level was registered, as in the past, in the Republics of Ingushetia and Dagestan.

I.2.3. Banking services concentration

In 2008, the share of the top 200 credit institutions in terms of asset volume expanded from 91.6% to 93.9% of total banking sector assets, and the share of the top five banks was 46.2% as of January 1, 2009 as against 42.3% as of January 1, 2008.

The largest 200 credit institutions in terms of capital accounted for 91.7% of total banking sector capital as of January 1, 2009 as against 89.7% as of January 1, 2008), of which the top five banks made up 49.3% as against 43.2% in the previous year.

The number of credit institutions with capital in excess of 5 million euros decreased from 726 to 704, while their share of total banking sector capital expanded from 98.9% to 99.1% (see Chart 1.2). The number of credit institutions with capital of less than 5 million euros fell from 410 as of the beginning of 2008 to 404.

Due to a large number of small credit institutions in the banking sector (credit institutions with capital of less than 5 million euros), the level of asset, credit and capital concentration in the Russian banking sector was low. Chart 1.3 shows the dynamics of the Herfindahl-Hirschman Index (HHI). As of January 1, 2009, the asset concentration index registered 0.080 (in the previous three years, it had declined from 0.085 to 0.077). The concentration of loans to non-financial organisations remains medium: in 2008, it rose from 0.123 to 0.125.

Only the personal deposit market had a high concentration level, despite the persistent tendency to decline. As of January 1, 2009, the HHI in this segment of the market registered 0.274 (this compares with 0.366 four years earlier), whereas as of January 1, 2008, it stood at 0.270. The significant reduction of this index in the past few years, except the year under review, is mainly a re-

sult of the contraction of Sberbank's share of the personal deposit market. In 2008, however, Sberbank expanded its share of this market. The deposit insurance system has a favourable effect on competition on the household deposit market.

The capital concentration level in 2008 changed from low (as of January 1, 2008, the HHI stood at 0.078) to medium (as of January 1, 2009, the HHI registered 0.109). This growth is due to the significant expansion of capital in several of the largest banks that have received subordinated loans.

Regional differences in the concentration levels on the banking services market remained significant in 2008 (See Chart 1.4).

The highest bank asset concentration level in 2008 was registered in the Southern Federal District, where the HHI rose from 0.149 to 0.159 (medium concentration).

Asset concentration levels rose in all federal districts, except the North-Western Federal District, where the HHI fell from 0.101 to 0.095 (low concentration).

The asset concentration level in the Central and North-Western Federal Districts is considered low. The other federal districts have a medium asset concentration level. The lowest asset concentration level in 2008 was registered in the Central Federal District.

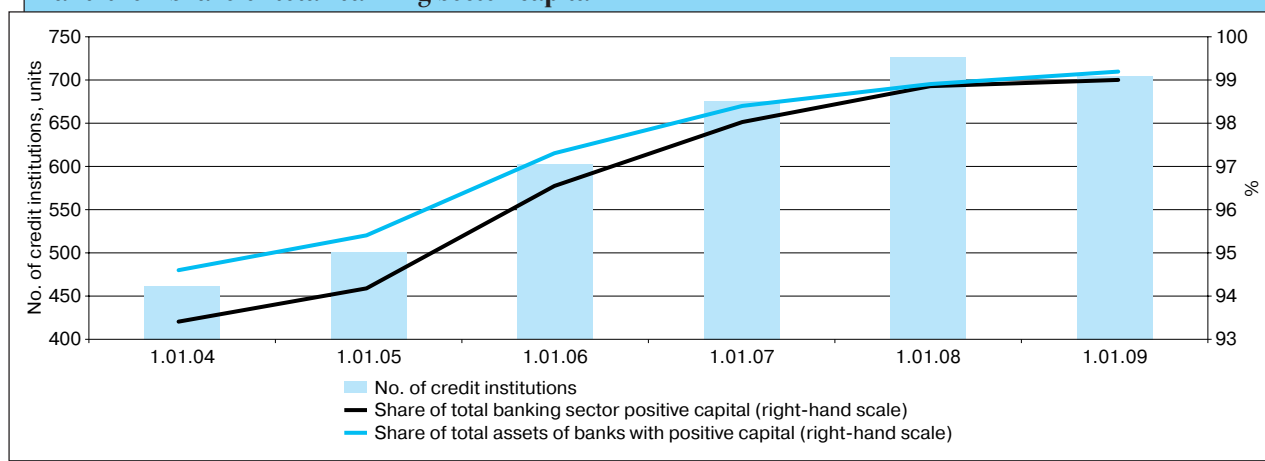
I.2.4. Interaction between banking sector and other financial market segments

The worsening of the global financial crisis in 2008 adversely impacted the Russian financial market. As a result of capital outflow, many indicators characterising the situation on this market demonstrated negative dynamics.

Corporate securities market. Tension had been building up on the Russian stock market since the beginning of 2008. In January and February, share prices fell, in April and May they rose sharply, and August–November brought a landslide fall in their prices. The share price downturn slowed significantly from November owing to measures taken by the Government to stabilise the situa-

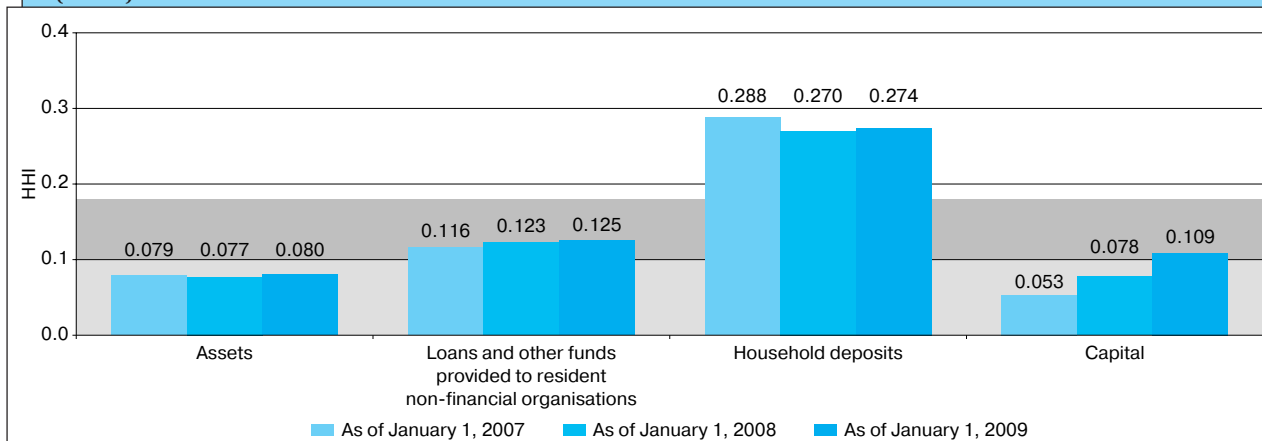
Number of banks with capital in excess of the ruble equivalent of €5m, and their share of total banking sector capital

CHART 1.2



Russian banking sector concentration levels (HHI)

CHART 1.3



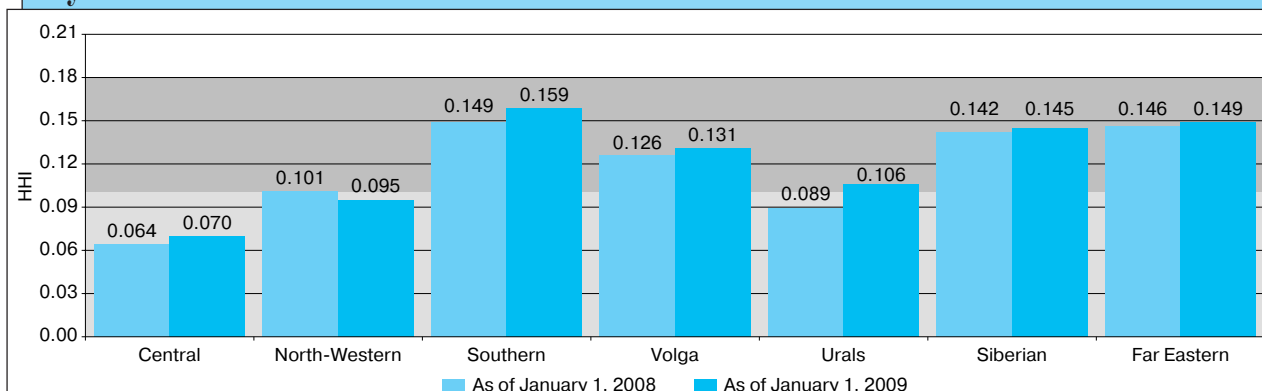
The Herfindahl-Hirschman Index is calculated as the sum of squared unit weights of credit institutions in total banking sector volume.

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

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

Asset concentration (HHI) by federal district

CHART 1.4



The Herfindahl-Hirschman Index is calculated as the 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 total assets of all divisions of credit institutions located in the federal district.

tion on the Russian stock market. During 2008, the MICEX index lost 67.2% and the RTS index 72.4%. The capitalisation of the RTS stock market decreased by a factor of 3.5 as compared with the end of 2007, and at the end of 2008 it stood at \$375.0 billion (11.0 trillion rubles).

The aggregate turnover of secondary trade in shares of Russian issuers on Russia's three leading exchanges (MICEX Stock Exchange, St Petersburg Stock Exchange and the RTS) contracted 19% in 2008 year on year, to 12.8 trillion rubles. The share of credit institutions' equities of total secondary trade turnover on these trading floors expanded from 13% in 2007 to 19% in 2008.

The volume of corporate bonds traded on the domestic market continued to grow in the period under review. The volume of ruble-denominated bonds placed on the MICEX Stock Exchange increased 17.4% year on year to 535.2 billion rubles at par value. As of the end of 2008,

the volume of outstanding ruble-denominated corporate bonds expanded 44% year on year to 1,812.3 billion rubles at par value.

In the second half of 2008, companies faced difficulties in raising funds to refinance their debts. Some corporate borrowers that did not fall into the class of prime borrowers failed to service their bond loans on schedule. Seventy-five technical defaults were registered from May to December, of which 39 became issuer defaults.

Almost the entire volume of corporate bond secondary trade turnover was concentrated on the MICEX Stock Exchange (2.6 trillion rubles, down 3.1% on 2007). The share of banks' bonds in MICEX corporate bond secondary trade turnover expanded from 19% in 2007 to almost 30%.

The yields on the most liquid corporate bonds on the secondary market increased rapidly from August to De-

ember, and at the end of the year reached 21.9% p.a. (the highest level since July 2003, when this indicator was first calculated).

Government securities market. In the year under review, the government securities market saw traders' activity slump, despite the greater volume of outstanding papers. Aggregate secondary market turnover in 2008 contracted 37.9% to 932.6 billion rubles as against 1,501.1 billion rubles in 2007. The volume of transactions in the main system of trading shrank 39.4% to 298.2 billion rubles, and the volume of off-board trades contracted 37.1% to 634.4 billion rubles. The main reason for the decline in demand from OFZ market participants was the shortage of liquidity that formed in the second half of the year.

During the year, the nominal value of outstanding government bond issues increased from 1,047.4 billion rubles to 1,144.0 billion rubles, while portfolio duration decreased by 141 days to 1,964 days.

Compared to the previous year, the yield dynamics of government bonds changed dramatically in 2008, one reason for this change being the rise in Bank of Russia interest rates. Gross yields on Russian Government bonds grew consistently, while the dynamics of this figure was characterised by highly increased volatility amid low market liquidity. During the year, the MICEX gross yield index rose by 2.6 percentage points to 9.1%.

The overall market liquidity remained low. Average daily ratio of secondary market turnover in the main system of trading declined to 0.11% in nominal terms as against 0.19% in the previous year.

In 2008, the structure of OFZ holders continued to be dominated by passive investors whose strategy was to 'buy and hold'. The non-resident share of the OFZ market remained negligible (0.4% as of the end of 2008).

Foreign exchange market. Contrasting trends affected the state of the domestic foreign exchange market in 2008. From January to July, the situation on this market was affected by favourable terms of foreign trade and net private capital inflow, as a result of which the ruble had a tendency to appreciate. In August, however, when the situation on global financial and commodity markets began to change for the worse and investors started to divest their Russian assets, the demand for foreign exchange rose sharply on the domestic market.

As the current account surplus contracted significantly, the Bank of Russia began in November to steadily widen the range of fluctuations in the value of the euro-dollar basket in order to make its exchange rate policy more flexible. This led to the ruble's devaluation against the major world currencies.

In 2008, the official dollar/ruble rate gained 19.7%, and as of January 1, 2009, stood at 29.3916 rubles to the dollar. The official euro/ruble rate rose 15.3% to 41.4275 rubles to the euro.

The growth in volume of foreign trade in the first half of the year, and the intensification of cross-border operations with capital and financial instruments caused domestic foreign exchange market turnovers to grow. The average daily currency turnover in interbank spot trades in 2008 increased 26.3% year on year, from \$74.7 billion to \$94.3 billion.

Ruble/dollar transactions dominated in the currency structure of the interbank spot market, accounting for 59.0% of this market's turnover. The average daily volume of ruble/dollar trade in 2008 grew 43.5% year on year to reach \$55.7 billion. Overall, the daily volume of ruble trade against all currencies expanded 42.4% to \$58.0 billion; the volume of ruble trade against the dollar gained 25.8% to \$89.9 billion and against the euro rose 48.4% to \$36.1 billion. The share of dollar and euro transactions in total interbank spot market turnover in 2008 remained unchanged from 2007, while the share of ruble trade increased from 27.0% to 31.0% along with the contraction of the trade share in other currencies.

There was a rise in exchange market participants' activity in 2008. During the year, STS aggregate ruble/dollar exchange trade turnover expanded 66.6% year on year to reach \$2,408.3 billion; ruble/euro trade turnover grew by a factor of 6.3 to 191.7 billion euros.

The volume of forward conversion transactions on the domestic foreign exchange market increased in the year under review, but their share was just 4% of the total volume of interbank currency market. Overall in 2008, the average daily turnover of interbank derivatives trade rose to \$3.8 billion, compared to \$2.2 billion in 2007.

Non-bank financial institutions

Insurance companies.⁸ The number of insurance companies declined 8.3% to 786 in 2008, and their total authorised capital contracted 3.7% to 152.0 billion rubles. The volume of insurance premiums increased 21.9% to 946.2 billion rubles as of January 1, 2009, while the volume of insurance indemnities grew 29.2% to 622.7 billion rubles. Compulsory medical insurance demonstrated the most rapid increase in premiums (34.5%). The worst dynamics were registered in life assurance (the volume of premiums decreased 17.8%). One reason for this was the technical specifics of the process of dividing insurance organisations into specialisations.

Unit investment funds.⁹ The number of unit investment funds, or PIFs, increased 10.7% to 1,134 in 2008. Their total net assets (TNA) decreased for the first time in several years, by 6.6% to 695.9 billion rubles. Of all fund categories, only property PIFs and high-risk venture investment PIFs made a profit (91.0% and 4.6% respectively). The total net inflow of shareholder funds in 2008 fell by a factor of 7.4 as compared with 2007 to 34.8 billion rubles, and was largely ensured by property PIFs (42.0 billion rubles).

⁸ According to data provided by the Federal Insurance Supervision Service.

⁹ According to data provided by Cbonds.ru news agency.

Non-government pension funds.¹⁰ From January to September 2008, the number of non-government pension funds (NPFs) declined by nine to 243. According to data provided by 218 NPFs, the aggregate volume of their own property expanded 7.5% to 647.9 billion rubles as against 9.3% in the same period of 2007, and pension

reserves were up 7.2% to 506.7 billion rubles as against 9.4% a year earlier. Accumulated pension funds increased 49.2% as against 156.4% in January—September 2007. The number of agreements signed by NPFs to manage pension funds reached 2.0 million as of October 1, 2008 as against 1.5 million as of October 1, 2007.

¹⁰ According to data provided by the Federal Financial Market Service.

I.3. Banking Operations¹¹

I.3.1. The dynamics and structure of borrowed funds

The expansion of traditional sources of banks' funding slowed in 2008 due to the global economic crisis, and the structure of banking sector liabilities altered significantly (see Chart 1.5).

The balances in customer accounts¹² in 2008 increased 20.4% to 14,748.5 billion rubles, but their share of banking sector liabilities contracted from 60.9% to 52.6%.

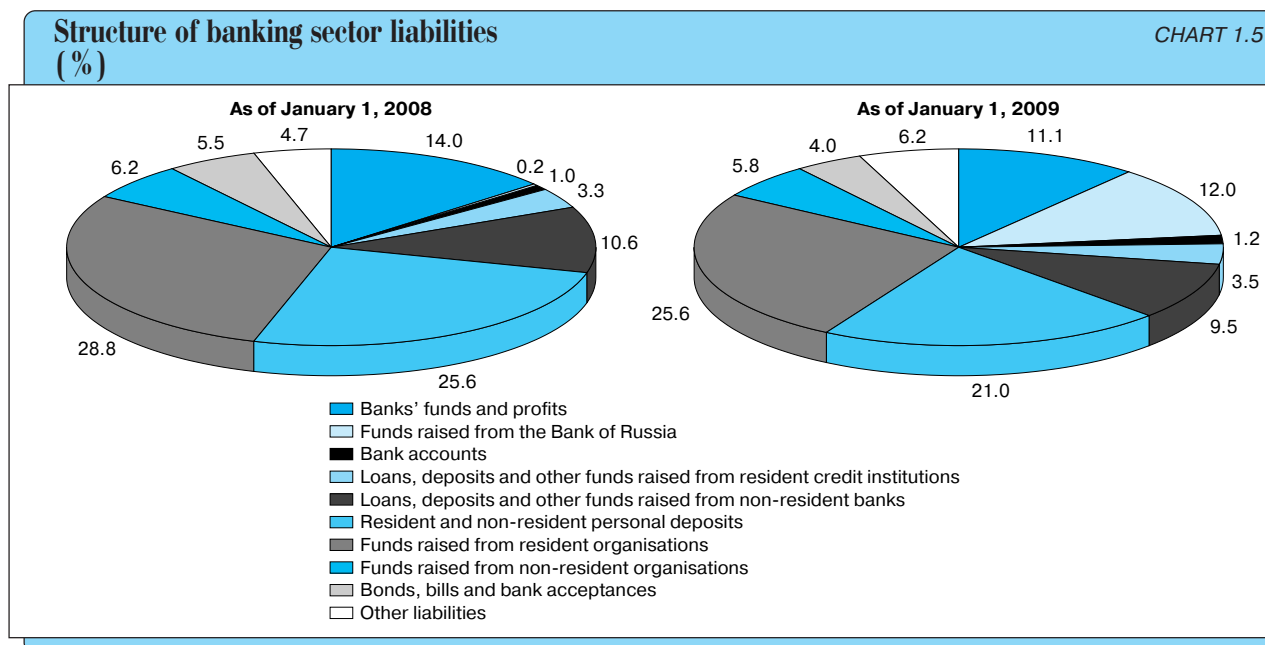
From September onwards, the resource base of credit institutions was largely maintained by Bank of Russia funds, federal budget funds, and state corporations' funds deposited with commercial banks. By January 1, 2009, the volume of loans, deposits and other funds raised by credit institutions from the Bank of Russia had reached 3.4 trillion rubles, accounting for 12.0% of banking sector liabilities (34.0 billion rubles, or 0.2% of liabilities, as of January 1, 2008). These measures made it possible to mitigate the consequences of the outflow of customer funds from bank accounts and deposits, and

avoid disruptions in banking sector payments, including settlements with budgets of all levels.

Total funds raised from organisations, excluding banks, increased 24.4% in 2008 (as against 47.2% in 2007) to reach 8,774.6 billion rubles, while their share of banking sector liabilities contracted from 35.0% to 31.3% (see Chart 1.6). Funds raised from organisations accounted for 21.8% of total growth in banking sector liabilities. At the same time, deposits and other funds raised from corporate entities¹³ (other than credit institutions) in 2008 increased 40.5% as against 64.0% in 2007, while their share of total banking sector liabilities remained virtually unchanged at 17.6% as of January 1, 2009.

Deposits with maturities in excess of one year grew 48.1%, and as of January 1, 2009, accounted for 51.4% of total corporate deposits (as against 48.7% as of January 1, 2008).

The structure of deposits and other funds raised from corporate entities (except credit institutions) by different groups of credit institutions remained unchanged in 2008 (see Table 1.1).



¹¹ Here and below the algorithms used to calculate indicators as of February 1, 2008, take into account the changes made in the accounting rules (Bank of Russia Regulation No. 302-P, dated March 26, 2007) and reporting forms of credit institutions (Bank of Russia Ordinance No. 1376-U, dated January 16, 2004).

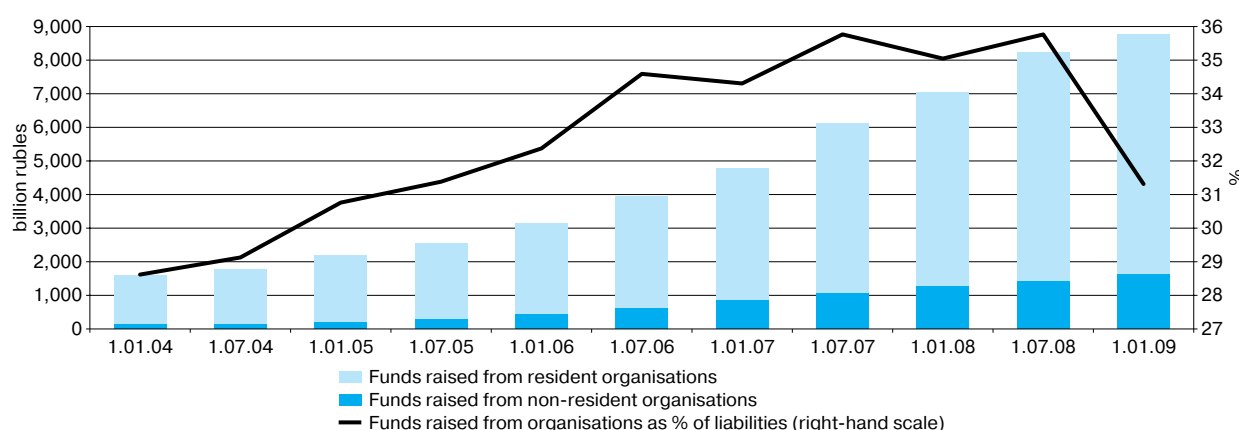
A number of amendments were also made to bring indicators closer to international financial reporting standards and systematise statistical indicators published by the Bank of Russia (for details see IV.3 Statistical Appendix).

¹² The balances in organisations' accounts, including all-level budgetary and government 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. There were no funds in Finance Ministry deposits as of January 1, 2008, and January 1, 2009.

¹³ Including certificates of deposit, which were previously accounted for as Debt obligations issued, and other funds raised from corporate entities.

Raising funds from organisations (except banks)

CHART 1.6



Corporate deposits

TABLE 1.1

	Deposits and other funds raised from corporate entities (except credit institutions) as % of liabilities of corresponding group of banks		% share of corresponding group of banks in total deposits and other funds raised from corporate entities (except credit institutions)	
	1.01.08	1.01.09	1.01.08	1.01.09
State-controlled banks	14.5	14.3	32.4	32.8
Banks controlled by foreign capital	20.4	19.3	20.1	20.5
Large private banks	21.5	22.4	43.7	43.9
Medium-sized and small banks based in Moscow and the Moscow Region	8.1	8.6	1.8	1.3
Regional medium-sized and small banks	8.5	9.3	1.8	1.5
Non-bank credit institutions	2.8	1.0	0.1	0.04

Slower economic growth in the second half of 2008 and the decline in earnings of non-financial organisations prompted corporate clients to withdraw funds from their bank accounts in the final few months of the year. In 2008, growth in the balances of corporate settlement and other accounts decreased from the 2007 level of 34.7% to 8.9%, and their share of liabilities contracted from 16.1% to 12.6%.

The share of corporate funds in settlement and other accounts in liabilities contracted in all groups of credit institutions in 2008. The most significant decline was registered by medium-sized and small banks based in Moscow and the Moscow Region (from 37.2% to 32.5%) and large private banks (from 18.7% to 14.1%).

The share of funds of non-resident organisations' (except banks) of banking sector liabilities was small, and during 2008 it contracted from 6.2% to 5.8%.

Large private banks and foreign banks' subsidiaries were particularly dependent on external borrowing.

The global economic crisis and the erosion of public confidence in banks, caused by devaluation expectations and financial problems experienced by some credit institutions, had a negative effect on personal deposit dynamics, including savings certificates, which

were previously accounted for as "Debt obligations issued." As a result, in September 2008, the volume of household deposits with banks decreased significantly. Due to the crisis, the dynamics of ruble-denominated deposits and foreign currency deposits were contrasting in the fourth quarter of the year: the volume of ruble deposits declined, while the volume of foreign currency deposits increased. In October, for example, the volume of ruble deposits lost 8.8%, while that of foreign currency deposits gained 11.1% in ruble terms and 5.7% in dollar terms.

A large portion of the funds withdrawn by individuals from ruble-denominated deposits were converted into foreign currency (the unfavourable balance of foreign currency sale/purchase rose from \$3.4 billion in October to \$8.9 billion in November) or transferred to foreign currency-denominated deposits. November saw the outflow of deposits slow down. The volume of ruble deposits declined 4.1% (by 186.9 billion rubles).

As a whole, the annual growth of household deposits, which by the end of 2008 had reached 5,907.0 billion rubles, slowed significantly (from 35.4% in 2007 to 14.5%) and their share of total banking sector liabilities contracted from 25.6% to 21.1%.

The volume of household foreign currency-denominated deposits doubled, while that of ruble deposits shrank 3.6%. The share of foreign currency deposits of total deposits expanded from 12.9% as of January 1, 2008, to 26.7% as of January 1, 2009 (in 2005–2007, annual growth in household foreign currency-denominated deposits was considerably slower than that of ruble deposits).

As some credit institutions faced financial problems and the financial situation as a whole deteriorated in the fourth quarter of 2008, a portion of deposits flowed from private banks to banks partly controlled by the state, and as a result Sberbank's share of the household sector deposit market expanded during 2008 from 51.6% to 51.9%, although in August it stood at 49.8%.

Deposits with maturities in excess of one year increased 19.5% in 2008, and their share of total household deposits accumulated by the banking sector expanded from 62.4% to 65.2%.

State-controlled banks account for 59.0% of total household deposits taken by the banking sector, and as of January 1, 2009, their share of liabilities stood at 30.7% (down from 37.6% as of January 1, 2008). Sberbank excluded, the respective percentages were 7.2% and 9.5% as of January 1, 2009.

As of January 1, 2009, household deposits accounted for 14.6% of liabilities of large private banks (down from 18.8% as of January 1, 2008).

In 2008, household deposits stood at 34.1% of liabilities of regional small and medium-sized banks, and 17.2% of liabilities of small and medium-sized banks based in Moscow and the Moscow Region (as of January 1, 2008, the respective percentages were 35.6% and 15.6%).

In foreign-controlled banks, the share of household deposits contracted during the year from 13.3% to 11.6% of liabilities.

The volume of funds raised by credit institutions through bond issues expanded 29.3% in 2008 (as against 72.4% in 2007) to reach 375.3 billion rubles. In September,

however, the volume of these funds began to contract (from September to December it decreased 1.7%) and their share of banking sector liabilities shrank from 1.4% to 1.3% during the year. The volume of bills issued by credit institutions contracted by 8.0%, and their share of banking sector liabilities decreased from 4.1% to 2.7%.

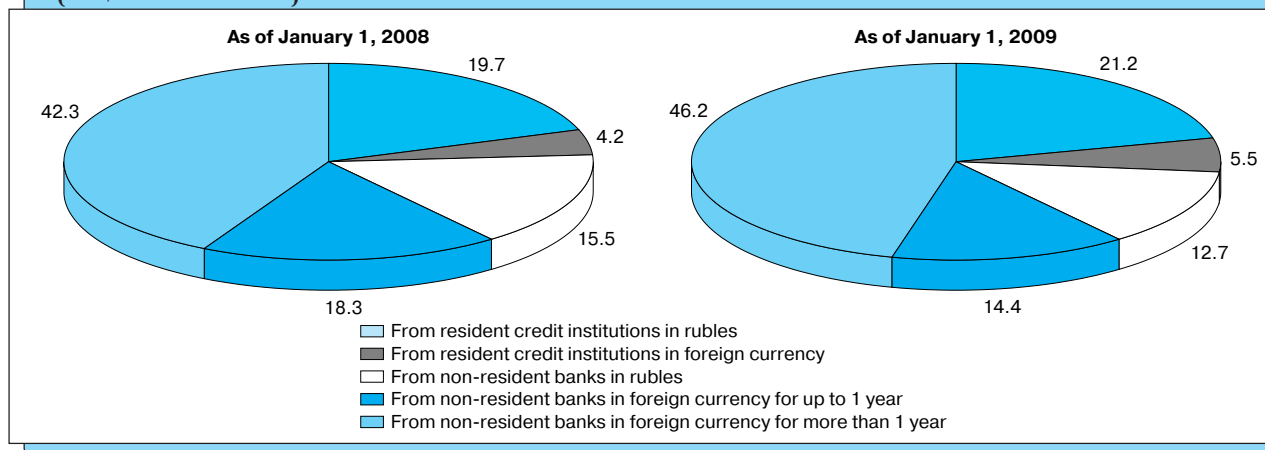
Funds raised on the interbank market, which felt the influence of the global financial crisis in 2008, continued to play a significant role in banking sector liabilities. The second half of the year saw interest rates rise, but the overall growth trend in interbank loans¹⁴ persisted: they increased 29.6% (as against 62.2% in 2007) to 3,639.6 billion rubles (the interbank loans' share of banking sector liabilities contracted from 13.9% as of January 1, 2008, to 13.0% as of January 1, 2009). At the same time, the balances of funds raised on the domestic interbank market increased 44.8% during the year, and their share of total interbank loans expanded from 23.9% to 26.7% (see Chart 1.7). Banks that had concluded agreements with the Bank of Russia guaranteeing them compensation for a part of their losses (expenses) involved in interbank market transactions played a major role in stimulating activity on the domestic interbank market from October to December.

The volume of obligations on loans taken from non-resident banks grew 24.9% in 2008 as against 56.5% in 2007. As of January 1, 2009, this source of funds accounted for 9.5% of banking sector liabilities as against 10.6% as of January 1, 2008. It should be noted that foreign-controlled credit institutions, which are subsidiaries of non-resident banks, tend to account for a large share (44.8%) of loans raised from non-resident banks. A large share of loans raised on the international interbank market have maturities in excess of one year (77.6% as of January 1, 2009, as against 69.5% as of January 1, 2008).

The volume of net borrowing by Russian credit institutions from non-resident banks contracted from 1,284.6 billion rubles as of January 1, 2008, to 843.1 billion rubles as of January 1, 2009, a decrease of 34.4%. Net borrowing from non-resident banks as a share of to-

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

CHART 1.7



¹⁴ Loans, deposits and other funds raised on the interbank market, including precious metals.

tal banking sector liabilities contracted from 6.4% as of January 1, 2008, to 3.0% as of January 1, 2009.

Foreign-controlled banks were particularly active in raising funds from non-resident banks (these funds accounted for 22.8% of liabilities of this group of banks). In large private banks, this share was 7.5%, and in state-controlled banks, it was 6.6%.

Medium-sized and small banks, including those based in Moscow, almost never raise funds on international markets. As of January 1, 2009, the share of loans obtained from non-resident banks accounted for 0.4% of liabilities of medium-sized and small banks based in Moscow and the Moscow Region, and 0.25% of liabilities of regional medium-sized and small banks.

1.3.2. Asset dynamics and structure

In the first half of 2008, the Russian banking sector continued to demonstrate dynamic growth, but in the second half, the global financial crisis brought about a sharp slowdown in banking sector development.

Overall, total banking sector assets grew 39.2% in 2008 to 28,022.3 billion rubles (in 2007, they increased

44.1%). Relative to GDP, they climbed from 60.8% as of January 1, 2008, to 67.5% as of January 1, 2009.¹⁵

State-controlled banks and large private banks held the majority of total banking sector assets as of January 1, 2009 (40.6% and 34.6% respectively). Foreign-controlled banks accounted for 18.7% of total banking sector assets. Medium-sized and small banks based in Moscow and the Moscow Region accounted for 2.7%, and regional medium-sized and small banks 2.8% of total banking sector assets.

Credit to non-financial organisations and households accounted for 53.7% of growth in assets. The total volume of loans extended to this category of borrowers increased 34.5% in 2008 to reach 16,526.9 billion rubles, but their share of banking sector assets contracted from 61.1% to 59.0% (*changes in asset structure are shown in Chart 1.8*).

The structure of credit to non-financial organisations and households by group of credit institution changed negligibly in 2008 (*see Table 1.2*). At the same time, there was a trend towards growth in the share of state and foreign-controlled banks of the total credit volume.

Loans extended to non-financial organisations continued to make up the largest share of the banking sector

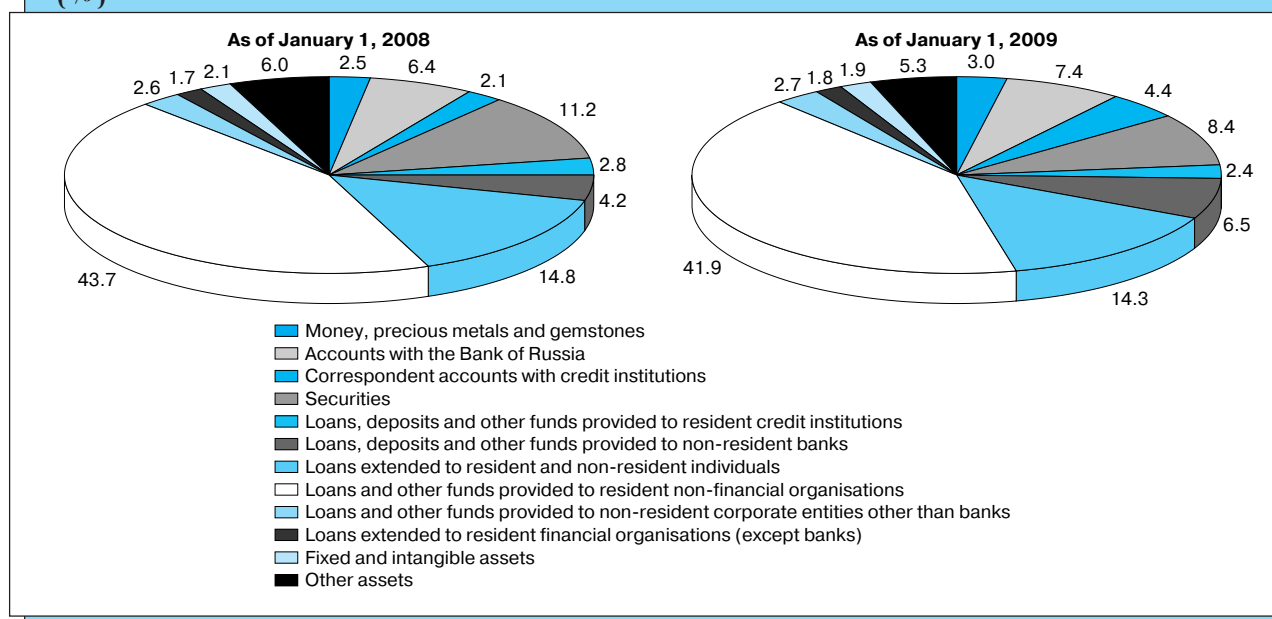
Loans to non-financial organisations and households by group of banks as % of banking sector total

TABLE 1.2

	1.01.08	1.01.09
State-controlled banks	44.0	45.8
Banks controlled by foreign capital	16.4	18.2
Large private banks	33.3	30.9
Medium-sized and small banks based in Moscow and Moscow Region	2.8	2.2
Regional medium-sized and small banks	3.5	2.9

Banking sector asset structure (%)

CHART 1.8



¹⁵ The ruble devaluation at the end of 2008, which was reflected, among other things, in the revaluation of foreign currency assets, played a role in the dynamics of this indicator.

loan portfolio. In 2008, they increased 34.3% (as against 51.5% in 2007) to reach 12,509.7 billion rubles, but their share of assets contracted from 46.3% to 44.6%. Most of these loans (71.1%) were extended in rubles (74.3% as of January 1, 2008).

Long-term loans (with maturities in excess of one year) accounted for 57.1% of total credit in 2008 as against 51.8% in 2007; loans with maturities in excess of three years accounted for 27.5%, as against 23.7% a year earlier.

State-controlled banks and large private banks supply most of the demand for loans with maturities in excess of one year. Their aggregate share in total credit with maturities in excess of one year stood at 79.6% as of January 1, 2009, as against 80.5% as of January 1, 2008.

The deterioration of the general economic situation and the transition by banks to more conservative methods of risk evaluation led to slower growth in retail credit. Total loans extended to households¹⁶ increased 35.2% in 2008 as against 57.8% in 2007. The share of these loans of total banking sector credit contracted from 20.8% to 20.2%, and of total banking sector assets from 14.8% to 14.3%. Most of the loans extended to households (88.1%) were denominated in rubles.

State-controlled banks and large private banks dominate in terms of loan volume to households. They account respectively for 41.3% and 29.9% of total banking sector credit to households.

Foreign-controlled banks are expanding their presence on the retail banking services market. In 2008, their share of this market increased from 19.4% to 23.3%.

Regional medium-sized and small banks and foreign-controlled banks stand out in terms of the share of household loans in their credit portfolio (as of January 1, 2009, their respective shares stood at 28.5% and 24.4%). In other groups of banks, loans to households do not exceed 20% of total loans.

Housing mortgage lending grew rapidly in 2008, although its growth eased significantly during the crisis (in the first half of the year, average monthly growth stood at 5.1%, and in the second half 3.2%; in the fourth quarter the figure was 0.7%). Overall, housing mortgage loan debt increased 60% in 2008. Although the share of housing mortgage loans of total loans to households¹⁷ expanded significantly (from 20.6% to 24.9%), they still account for a small share of assets (3.6% as of January 1, 2009). The majority of mortgage loans (78.0%) were extended in rubles.

The credit crunch is one of the most negative consequences of the financial crisis, and is at the same time a factor exacerbating the crisis. The main reasons for the sharp slowdown of credit growth are the deterioration of the financial standing of borrowers, banks' reluctance to

assume additional risks, and the emergence in the fourth quarter of the year of alternative sources of income for banks, such as investment in foreign exchange.

The share of foreign currency assets of total banking sector assets amid the weakening of the ruble (which occurred mainly in the fourth quarter of 2008) expanded from 23.1% as of January 1, 2008 to 32.3% as of January 1, 2009. Total foreign currency claims of the banking sector increased from 8,320.3 billion rubles as of January 1, 2008, to 12,493.8 billion rubles as of January 1, 2009. This growth was largely due to an increase in claims on balance sheet positions from 4,642.5 billion rubles to 9,040.6 billion rubles during the period.

Securities portfolios held by banks (excluding repos) increased 5.1% in 2008 (as against 28.9% in 2007) to reach 2,365.2 billion rubles, while their share of banking sector assets contracted from 11.2% to 8.4%.

Slower growth in securities portfolios was due to their 8.8% contraction in August–October. This trend was the result of a sharp fall in securities prices during the crisis, and the subsequent sale by banks of a portion of their securities portfolio in a bid to shore up liquidity, as well as rapid growth in the negative revaluation.

Investments in debt obligations continued to prevail in the securities portfolio, accounting for 68.5% as of January 1, 2008, and 74.4% as of January 1, 2009. The volume of these investments in 2008 increased 14.2% (in 2007, it rose 23.2%) to reach 1,760.3 billion rubles. The share of discounted promissory notes in the securities portfolio contracted from 11.2% to 8.4% in 2008, while their share of total banking sector assets decreased from 1.2% to 0.7%. Russian bank notes accounted for 50.2% of the discounted bill portfolio (79.2% as of January 1, 2008), and their value decreased 49.6% to 100.2 billion rubles in 2008. Investments in other Russian bills increased 84.4% and their share of total discounted bills expanded from 20.4% to 47.3%.

State-controlled banks and large private banks were the major holders of debt obligations, accounting for 37.6% and 42.7% respectively of the debt obligations acquired by the banking sector.

The share of equities in the securities portfolio contracted from 14.1% to 8.2%, and over the year their volume decreased 38.8% to 193.4 billion rubles (in 2007, it grew 70.9%).

The structure of investments in equities changed in 2008, as the share of large private banks expanded from 42.7% in 2007 to 70.4%. The share of state-controlled banks in investments in equities contracted over this period from 45.7% to 19.1%. This is because from March until the end of July, when the Russian stock market was demonstrating growth, large private banks increased investments in equities (from 135.1 billion rubles as of March 1, 2008, to 180.0 billion rubles as of July 1, 2008), while state-controlled

¹⁶ Excluding individual self-employed entrepreneurs. Taking into consideration the provisions of the Civil Code of the Russian Federation (paragraph 1 of Article 23), these loans are not included in total loans extended to households.

¹⁷ Loans to households denote loans extended to individual Russian Federation residents, excluding individual entrepreneurs.

banks reduced them (from 83.6 billion rubles to 65.1 billion rubles). The same situation arose in December 2008, when the stock market began to stabilise: large private banks increased investments in equities during that month from 116.4 billion rubles to 136.2 billion rubles, while state-controlled banks reduced these investments from 43.3 billion rubles to 37.0 billion rubles.

The volume of claims on interbank loans grew 76.4% in 2008 (as against 36.9% in 2007) to reach 2,501.2 billion rubles, while their share of banking sector assets ex-

panded from 7.0% to 8.9%. Loans placed with resident banks in 2008 increased 19.5%, while their share of assets contracted from 2.8% to 2.4%. Loans placed with non-resident banks increased 114.2% in volume during the period, and their share of assets expanded from 4.2% to 6.5%. This trend is largely due to the increase in banks' investments in foreign assets, and growth in loans extended by foreign-controlled banks to non-resident banks, mostly parent companies. The volume of these operations increased by \$3.2 billion, or 24.1% from September to December 2008.

I.4. Financial Performance of Credit Institutions

I.4.1. Financial results

Profits made by operating credit institutions during 2008 decreased 19.4% to 409.2 billion rubles (2007 saw growth of 36.7%) (see Chart 1.9). Taking into account the financial results of previous years, profits amounted to 1,319.8 billion rubles (compared to 508.0 billion rubles and 627.0 billion rubles in 2007 respectively).¹⁸

The share of profit-making credit institutions contracted from 98.9% to 94.8%, while the share of loss-making credit institutions increased from 1.0% to 5.1% (the number of loss-making credit institutions rose from 11 to 56). Losses of operating credit institutions reached 37.8 billion rubles in 2008 as against 0.9 billion rubles in 2007.

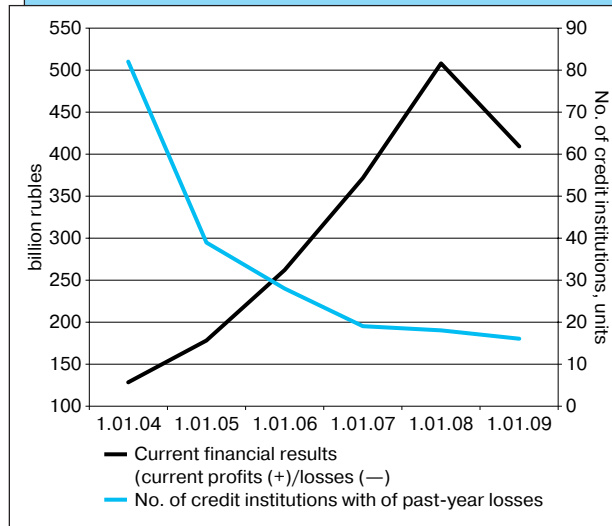
The distribution of individual groups of banks in terms of their contribution to the aggregate financial result corresponds on the whole to their share of banking sector assets. State-controlled banks made the largest contribution to the aggregate financial result (48.4%), the share of large private banks was 24.7%, and foreign-controlled banks accounted for 19.6%.

The rates of return among credit institutions declined sharply. The return on assets in 2008 fell from 3.0% in 2007 to 1.8%, and the return on equity was down from 22.7% to 13.3%.¹⁹ During the year, 755 banks, or 68.1% of the total, registered lower rates of return on assets, and 761 banks, or 68.7% of the total, recorded lower rates of return on equity.

Analysis of the factors instrumental to the drop in rates of return on equity in 2008 showed that it was

**Banking sector
financial results**

CHART 1.9



largely the result of a contraction of the profit margin (the rates of return on assets changed negligibly from 2007).

The reduction of the financial result (profits) of credit institutions in 2008, as compared with the previous year, resulted primarily from the increase in provisions (those created minus those recovered) and the negative revaluation of securities in September–December. The fall in banking sector profits was partly offset by income growth resulting from the revaluation of foreign currency funds.

	<i>Capital multiplier (financial leverage)</i>		<i>Profit margin</i>		<i>Rate of return on assets</i>		<i>Return on equity</i>
	Assets*	x	Financial result	x	Net income	=	Financial result
	Capital*		Net income		Assets*		Capital*
2007	7.4949		0.2454		0.1235		0.2271
2008	7.5113		0.1381		0.1286		0.1334

* Average for period.

¹⁸ This significant year-on-year growth in profits is linked to the introduction in 2008 of new accounting rules in credit institutions pursuant to Bank of Russia Regulation No. 302-P, dated March 26, 2007, 'On Accounting Rules in Credit Institutions Located in the Russian Federation.' Specifically, a large part of deferred income (expenses) was accounted for as 2008 profits due to the transition from the cash basis method to the accrual method of accounting. In addition, 2008 profits included funds transferred from the closed accounts of the special-purpose fund, accumulation fund and other funds.

¹⁹ Return on assets is calculated as the ratio of the full-year pre-tax financial result to bank assets, while return on equity is calculated as the ratio of the full-year pre-tax financial result to capital. Assets and capital have been calculated as the annual (chronological) averages for the period under review.

All groups of banks registered a decline in profitability in 2008. At the same time, state-controlled banks continued to register the highest rates of return. Foreign-controlled banks and medium-sized and small regional banks registered rates of return

close to the banking sector average, far surpassing medium-sized and small banks registered in Moscow and the Moscow Region. Large private banks registered the most significant decline in profitability.

	Return on assets, %		Return on equity, %	
	2007	2008	2007	2008
State-controlled banks	3.2	2.2	22.8	15.7
Banks controlled by foreign capital	3.1	1.8	25.0	14.6
Large private banks	2.9	1.3	24.2	10.6
Medium-sized and small banks based in Moscow and the Moscow Region	2.4	1.5	11.9	6.9
Regional medium-sized and small banks	3.0	2.1	18.7	13.1

1.4.2. Income and expense structure

Income from foreign exchange transactions dominated the structure of gross income of operating credit institutions in 2008, accounting for 62.3% as against 36.9% in 2007. The share of other components of the gross income structure contracted significantly.

The most significant contraction was registered in the share of sums recovered from fund and reserve accounts (12.8% as against 25.8% in 2007). The share of interest income decreased from 15.4% to 11.5%, the share of income from securities trading fell from 8.1% to 3.5%, and the share of commissions edged down from 4.5% to 2.9%.

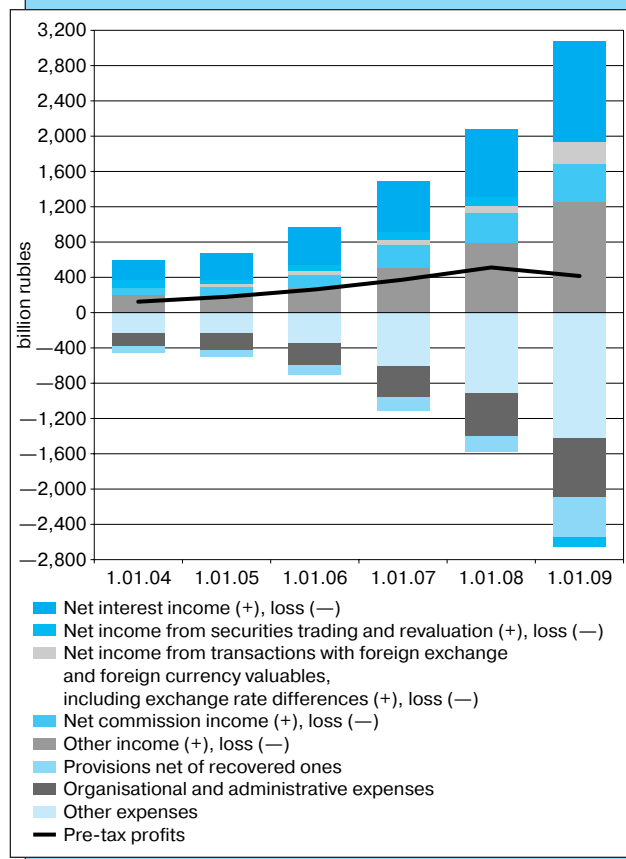
Expenses on foreign exchange transactions played the leading role in the structure of gross expenses in 2008, their share expanding from 38.6% to 62.3%. Deductions to funds and reserves accounted for 15.8% as against 29.4% in 2007. Expenses on interest payments on the funds raised contracted during the year from 7.6% to 5.7%, while the share of expenses incurred in securities trading decreased from 6.2% to 3.6%. The share of organisational and administrative expenses, including personnel costs, contracted from 6.1% to 3.9%, and the share of commission fees shrank from 0.5% to 0.4%.

Net current income of credit institutions²⁰ is an important indicator for the analysis of the processes in the banking sector. In 2008, it increased 43.1% year on year to 2,963.2 billion rubles. The structure of net current income changed compared to 2007, in the banking sector as a whole, and within groups of credit institutions (see Chart 1.10).

In contrast to previous years, in 2008 operating credit institutions incurred a net loss of 92.6 billion rubles, or

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

CHART 1.10



3.1% of total banking sector net income as of January 1, 2009, from securities trading and revaluation (in 2007, credit institutions received net income amounting to 6.2%

²⁰ The methodology for calculating net current income of credit institutions was changed in connection with the issue of Bank of Russia Regulation No. 302-P, dated March 26, 2007, 'On Accounting Rules in Credit Institutions Located in the Russian Federation' and taking into consideration international approaches to the calculation of this indicator. Net current income is the sum of net interest income, net income from securities trading and their revaluation, net income from foreign exchange transactions and operations with foreign currency valuables, including exchange rate differences, and net commission income and other income (prior to deduction of other expenses, including expenses on the creation (recovery) of provisions and organisational and administrative expenses). This has been calculated on the basis of data reported by credit institutions (0409102 Form code). The structure of net income for 2007 has been recalculated according to the new methodology for the purpose of data comparability.

of total net income). This loss was due to the net negative revaluation of securities resulting from the stock indices' decline in the second half of 2008.²¹

All groups of banks posted losses from securities trading and revaluation in 2008. These operations particularly affected the net income of medium-sized and small Moscow banks and large private banks. The losses of these two classes of banks accounted for 6.0% and 5.3% of their total net current income respectively.

Net interest income remains a major component of net income. In 2008, it accounted for 37.8% of net income as against 36.5% in 2007.

Net interest income forms a significant portion of total net current income in all groups of banks, but makes up a particularly large part of net current income of Moscow's medium-sized and small banks (57.7%).

The share of net commission income contracted from 16.6% in 2007 to 14.7% in 2008.

The share of net commission income differs between groups of banks. The share is lowest (at 11.7%) in state-controlled banks, and highest (32.7%) in medium-sized and small regional banks.

The share of net income from transactions with foreign exchange and currency valuables, including exchange rate differences, expanded from 2.4% in 2007 to 8.2% of net income in 2008, mainly due to operations conducted in the fourth quarter of the year.

This source of income is of particular significance for large private banks, and for medium-sized and small Moscow banks. Moreover, the share of income from foreign exchange transactions expanded significantly in these classes of banks in 2008: from 2.3% to 11.4%, and from 6.6% to 10.8% respectively. The role of income from foreign exchange transactions in net current income has changed considerably among banks controlled by the state. This accounted for 6.9% of net income of this group of banks in 2008, whereas in 2007 these banks registered a loss

of 0.1% of the group's net income from this type of transaction.

Organisational and administrative expenses increased 38.0% during the year (as against 40.9% in 2007), but their share of net current income contracted from 23.5% in 2007 to 22.6%.

The highest level of maintenance and administrative expenses was registered in medium-sized and small banks based in Moscow and the Moscow Region (47.9%) and regional medium-sized and small banks (43.9%).

The volume of provisions created by credit institutions (net of recovered ones) in 2008 rose by a factor of 2.9 to 456.1 billion rubles. At the same time, the ratio between provisions and net income was up from 7.7% to 15.4%, as credit risks increased and banks became more conservative in assessing their credit portfolios.

The ratio between provisions and net income grew in all groups of banks, especially in large private banks (from 8.4% to 22.4%). In other groups of banks, this ratio varied between 11.6% to 14.1%.

The ratio of pre-tax profit to net income decreased from 24.5% in 2007 to 13.8%.

Analysis of the banking sector's key economic indicators in 2008 shows that banking sector stability has on the whole been preserved, despite the rise in the number of problem banks. In the second half of 2008,²² the number of banks whose economic situation placed them into Classification Groups 1 and 2 decreased from 1,021 to 916, and their share of total operating banks contracted from 94.5% to 86.6%. The number of Group 3 banks rose from 44 to 88, raising their share from 4.1% to 8.3% of total operating banks; the number of Group 4 and Group 5 banks increased from 12 to 50, and their share expanded from 0.6% to 3.3%.²³ At the same time, assets of Group 1 and Group 2 banks as a share of total banking sector assets remained large in 2008 (94.5%). Group 3 banks accounted for 1.8% of banking sector assets, and Group 4 and Group 5 banks — for 3.0% (Note: non-bank credit institutions accounted for 0.7% of total assets).

²¹ To prevent the fixing of losses from the fall in the market value of securities, the Bank of Russia granted to credit institutions the right to make a one-off change in their discount policy in 2008, which enabled them to transfer securities from the trading book to the investment portfolio in cases where the bank intended to keep the paper in its portfolio (Bank of Russia Ordinance No. 2129-U, dated November 17, 2008, 'On the Reclassification of Securities by Valuation Categories'). In December, the reclassification of securities allowed credit institutions to reduce the negative revaluation of securities accounted for in the financial result.

²² New bank classification rules have been in effect since July 1, 2008, pursuant to Bank of Russia Ordinance No. 2005-U, dated April 30, 2008, 'On the Evaluation of the Economic Situation of Banks.' Non-bank credit institutions are classified in terms of their financial situation according to Bank of Russia Ordinance No. 766-U, dated March 31, 2000, 'On Criteria of the Financial Situation of Credit Institutions.'

²³ Three new banks as of July 1, 2008, and four new banks as of January 1, 2009, representing 0.4% of the total number of operating banks, have not been classified by their economic situation according to the rules on the classification of newly created banks (point 6.1 of Bank of Russia Ordinance No. 2005-U, dated April 30, 2008).

Banking Sector Risks

II

II.1. Credit Risk

II.1.1. Loan portfolio quality

Russian banks saw an increase in credit risk in 2008. As the financial situation of borrowers deteriorated and they found it increasingly difficult to service their credit, growth in overdue debt accelerated significantly compared to 2007. While loans, deposits and other placements rose 39.5%, overdue debt grew 129.2%, reaching 422.0 billion rubles as of January 1, 2009. The share of overdue debt of total loans extended in 2008 expanded from 1.3% to 2.1%. Overdue loans to non-financial organisations grew at the highest rate: during 2008, they increased by a factor of 3.1,²⁴ while the volume of these loans was up by a factor of 1.3.

All groups of banks registered an expansion of overdue debt in their credit portfolios in 2008. The share of overdue debt was the biggest in large private banks (2.8%) and medium-sized and small banks based in Moscow and the Moscow Region (2.6%). The highest rates of growth in overdue debt in 2008 were registered by foreign-controlled banks (155.1%) and state-controlled banks (135.9%).

The overdue debt of most credit institutions with overdue loans did not exceed 4% (see Chart 2.1). The number of these credit institutions declined from 769 as of January 1, 2008, to 672 as of January 1, 2009, and their share of banking sector assets stood at 84.6% as compared with 92.7% as of January 1, 2008. At the same time, the number of credit institutions with overdue loans totalling no more than 1% of their credit portfolio fell from 468 to 319, while the number of credit institutions with

overdue loans of between 1% and 4% rose from 301 to 353.

The number of credit institutions with overdue loans of more than 8% increased from 27 to 63, and their share of banking sector assets reached 2.2%.

The level of credit risk of Russian banks continues to be determined by the quality of loans to non-financial organisations, which as of January 1, 2009, accounted for 62.9% of total loans extended. The share of overdue loans to non-financial organisations rose from 0.9% at the beginning of 2008 to 2.1% as of January 1, 2009. Among ruble-denominated loans, the share increased from 1.1% to 2.4%, and for foreign currency loans, it expanded from 0.5% to 1.4%.

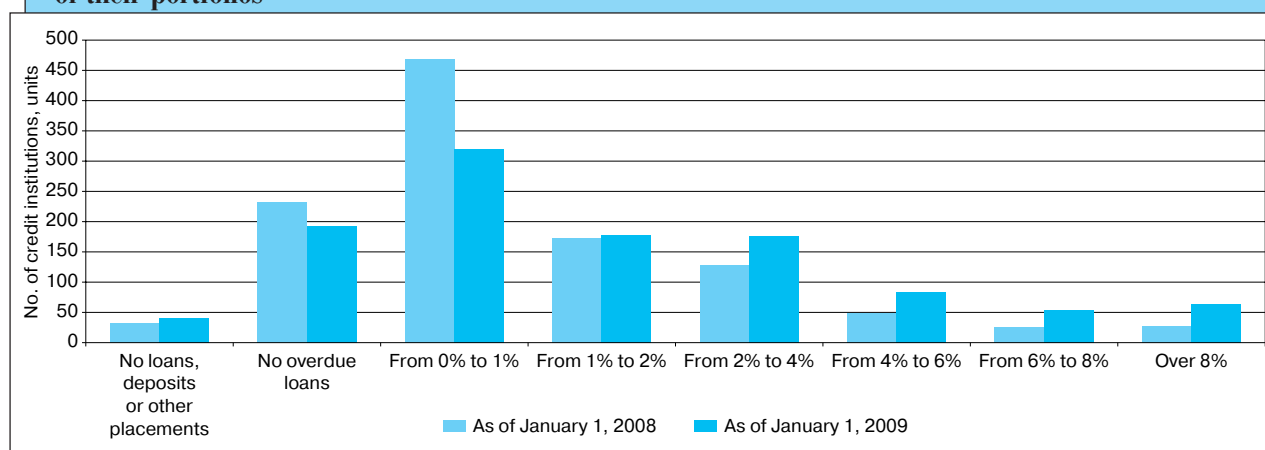
In terms of the economic activity categories of loan-taking organisations, the largest share of overdue debt in 2008 was among loans extended to organisations in wholesale and retail trade, agriculture, hunting and forestry, and construction (see Chart 2.2).

The share of overdue loans to households increased from 3.2% to 3.7% in 2008. At the same time, the share of overdue ruble loans to households expanded from 3.5% to 3.7%, and foreign currency loans from 1.4% to 3.6%.

As of January 1, 2009, homogeneous loan portfolios contained 91.8% of total loans to households (as against 89.5% as of January 1, 2008). At the same time, the share of loan portfolios with payments more than 90 days overdue²⁵ in total loans to households grouped into homogeneous loan portfolios increased from 4.2% to 4.4%, of which the share of overdue debt of con-

Credit institutions by share of overdue loans of their portfolios

CHART 2.1

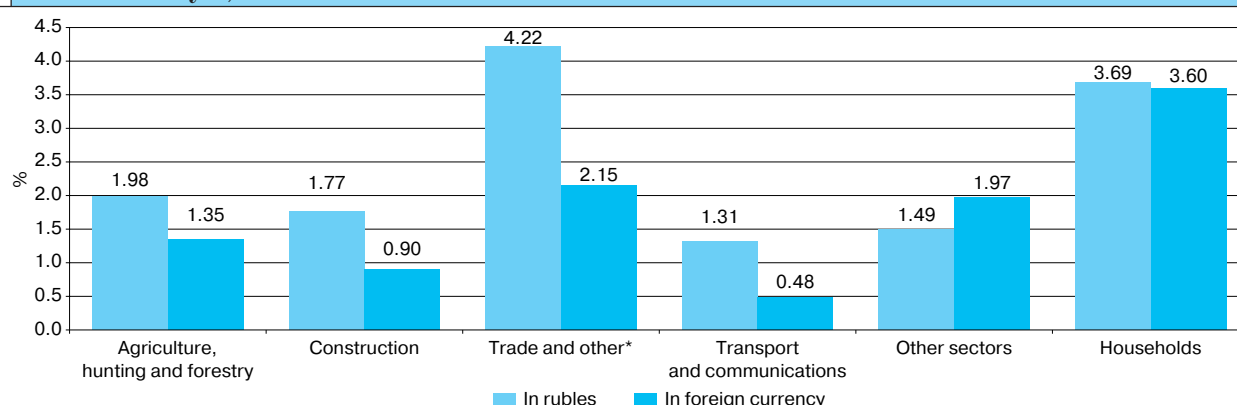


²⁴ These trends are more typical of the fourth quarter of 2008.

²⁵ By international standards, debt more than 90 days overdue is considered an indicator of 'bad' quality of loans.

**Overdue debt as % of loans by activity category
as of January 1, 2009**

CHART 2.2



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

sumer credit increased from 5.6% to 6.4%, car loans from 4.1% to 4.7%, and housing mortgage loans from 0.6% to 1.4%.

According to data reported by credit institutions,²⁶ the share of standard loans in total banking sector loans stood at 51.3% as of January 1, 2009, the share of problem loans at 1.8%, and the share of loss loans at 1.8% (the respective percentages as of January 1, 2008, were 53.2%, 1.0% and 1.2%). This is below the credit risk level typical of a crisis of bad debt²⁷ (see Chart 2.3). However, the dynamics of overdue loans amid slower growth in the loan portfolio may lead to a deterioration in the quality of the loan portfolio in 2009.²⁸

The largest share of standard loans as of January 1, 2009, was registered in state-controlled banks (57.5%), while problem and loss loans accounted for respective 1.6% and 1.9% of total loans they extended. The largest portion of problem and loss loans was registered in medium-sized and small banks based in Moscow and the Moscow Region (3.2% and 2.0% of total loans extended).

The number of credit institutions with more than 50% of standard loans in their loan portfolios declined in 2008 from 437 to 322 (the share of these banks of total banking sector assets remained virtually unchanged at 42.1% as of January 1, 2008, and at 42.6% as of January 1, 2009).

Higher credit risk in 2008 led to growth in loan loss provisions (LLP). As of January 1, 2009, LLP made up 4.5% of actual loans, covering 41.4% of problem loans²⁹

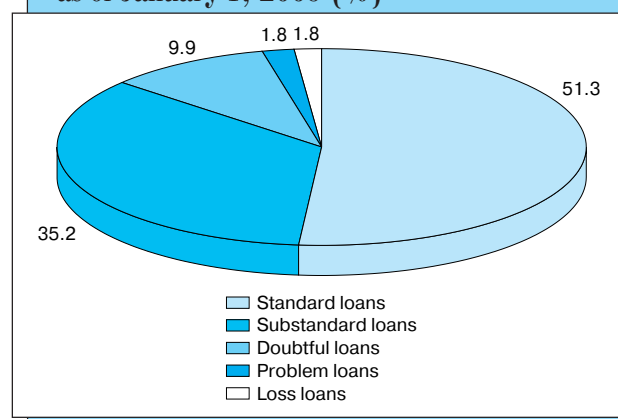
and 86.1% of loss loans³⁰ (the respective percentages as of January 1, 2008, were 3.4%, 35.1% and 86.9%).³¹

On virtually all reporting dates, the actual provisions made by most banks fully met the minimum required level.³² The number of banks that, as of January 1, 2009, had LLP of at least 100% of estimated LLP adjusted for the collateral factor, was 1,038, and they accounted for 98.0% of banking sector assets (1,070 banks and 99.2% a year earlier).

Banks that were subjected to financial rehabilitation measures had a significant effect on the dynamics of credit risk indicators for the banking sector as a whole.

**Quality of banking sector
loan portfolio
as of January 1, 2009 (%)**

CHART 2.3



²⁶ Data reported by credit institutions in accordance with section 1 of 0409115 Form.

²⁷ In international banking supervision practice, non-performing loans exceeding 10% of the overall loan portfolio indicate high credit risk.

²⁸ Indicators for the 20 credit institutions that underwent bankruptcy prevention treatment as of January 1, 2009, differ from the banking sector averages: the share of problem loans in these banks as of January 1, 2009, was 4.9%, loss loans totaled 2.3%, and overdue loans to non-financial organisations and households were 5.7% and 5.4% respectively.

²⁹ Taking into account the collateral factor and estimated provisions for problem loans, which comprises 51% to 100% of the principal amount of debt, depending on the extent of loan depreciation.

³⁰ Allowing for the collateral factor.

³¹ Calculated on the basis of data reported by credit institutions in accordance with section 1 of 0409115 Form.

³² 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 estimated provision for the collateral factor.

Banks that underwent financial rehabilitation as of January 1, 2009, accounted for the following percentages of growth in individual banking sector indicators from October to December 2008:

- 9.2% of overdue loans to non-financial organizations;
- 9.9% of overdue loans to households;
- 5.5% of problem and loss loans;
- 2.7% of LLP.

II.1.2. Credit risk concentration

The number of credit institutions that violated the N6 ratio (maximum risk per borrower or group of related borrowers) in 2008 fell from 250 to 209.

Nine credit institutions in 2008 violated the N7 ratio (large credit exposure)³³ (as against five credit institutions in 2007).

The volume of large credit exposures (credit risks) in the banking sector increased 29.1% in the period under review to reach 7,306.7 billion rubles, while the total credit volume grew 39.5%. As a result, the share of large-sum loans in banking sector assets contracted during the year from 28.1% to 26.1%.

The largest share of major credit risk in assets was registered in medium-sized and small banks based in Moscow and the Moscow Region (45.8%), and the smallest share was in state-controlled banks (18.4%).

II.1.3. Shareholder and insider credit risks

As of January 1, 2009, the N9.1 ratio (maximum value of loans, guarantees and sureties given by a credit institution (banking group) to its members (shareholders)) was calculated by 402 credit institutions (compared to 487 as of January 1, 2007). As in the previous year, six credit institutions in 2008 violated this ratio, which has a threshold value of 50%. Total violations during the year declined from 66 to 22.

The N10.1 ratio, which sets a limit on the total loans extended by a credit institution to its insiders, and also on guarantees and sureties issued to them, was calculated by 914 credit institutions as of January 1, 2009 as against 940 credit institutions as of January 1, 2008. Seven credit institutions failed to comply with this ratio in 2008 (four credit institutions violated it in 2007). One of these credit institutions committed more than 10 violations of this ratio during the year (compared to two credit institutions in 2007). In total, 35 violations of the N10.1 ratio were registered in 2008 (36 were registered in 2007).

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

The financial situation of loan-taking enterprises among the enterprises monitored by the Bank of Russia deteriorated slightly in 2008 as compared with 2007, but remained on the whole satisfactory.

At the end of 2008, only industrial producers enjoyed a satisfactory financial situation, while enterprises in other economic activity categories were undergoing severe problems. The financial situation of enterprises in the key economic activity categories, excluding wholesale trade and construction, also became worse in 2008 than in 2007.

The rates of growth in the main capital components, non-current and current assets, capital and corporate liabilities, in the period under review were slower than in 2007. However, 2008 saw a significant acceleration of growth in payables, reflecting enterprises' settlements with contractors. Growth in payables was due to the shortage of current assets, especially cash.

The negative dynamics of financial indicators were a result of the weakened economic situation and business environment in 2008 compared to 2007, and the tendency towards further deterioration.

The total capital³⁴ of enterprises monitored by the Bank of Russia increased in 2008, and its structure remained well-balanced in terms of borrowing and placement periods. On the whole, enterprises had sufficient investment resources³⁵ to create investment assets.³⁶ This situation applied to all major economic activity categories, except communications and construction, which lacked sufficient investment resources to create investment assets. This situation had arisen in the construction sector by the end of 2008.

The actual self-financing ratio of enterprises,³⁷ which reflects the extent to which enterprises are provided with capital, allowing for accumulated obligations, declined by 4.3 percentage points to 62.7% in 2008. The debt burden on capital of enterprises³⁸ increased, despite its 7.1% growth in 2008, but remained moderate (60 kopecks per ruble of capital, as against 49 kopecks as of the beginning of the year).

The raising of long-term resources, including bank loans, allowed enterprises to use their own funds both to ensure growth in investment assets, and to finance current activities. Own current assets increased 26.7% in 2008. At the same time, with current assets growing faster than capital, the share of current assets created by enterprises from their own funds in 2008 contracted from 42.8% to 41.9%.

³³ Under Article 65 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), a large credit exposure is the sum total of loans, guarantees and sureties granted to a single customer and exceeding 5% of the bank's capital.

³⁴ Balance sheet total.

³⁵ Sum total of equity capital and long-term obligations.

³⁶ Non-current assets.

³⁷ Net assets in enterprises' balance sheet total.

³⁸ Total obligations to capital.

Indicators characterising corporate borrowers' finances
(%)

TABLE 2.1

Indicator	2008	
	Start of year	End of year
Self-financing (balance sheet) ratio*	66.9	60.9
Debt burden on capital**	0.49	0.60
Liabilities to banks in total corporate liabilities	40.0	39.9
Absolute liquidity ratio	8.9	9.6
Current liquidity ratio	167.6	165.4
Return on assets***	5.3	
Return on equity***	8.2	

* Capital to assets.

** Liabilities to capital.

*** During period since start of year.

Receivables grew in 2008 less than in 2007. Overall, growth in receivables was largely attributable to the expansion in the share of debt that was not yet due (normal receivables), despite significant growth in overdue receivables in 2008. As a result, the share of overdue receivables contracted slightly in the period under review (from 8.7% to 8.5%). At the same time, with liabilities to suppliers growing faster than buyers' and contractors' current debt, the short-term net debtor position³⁹ of enterprises in settlements, which reflects the diversion of funds from production, increased 16.2%.

Earnings from the sale of goods, work and services in 2008 increased 24.7% year on year (growth in 2007 was 18.5%). In the year under review, enterprises registered a net inflow of funds: their volume expanded by 40.5%.

Owing to this growth, enterprises found themselves in a slightly better position to settle short-term liabilities. By the end of 2008, they were able to settle 9.6% of their short-term liabilities from their reserve funds, as compared with 8.9% at the beginning of the year. Enterprises' short-term liabilities were completely covered by current assets (excluding overdue receivables), but in 2008 this coverage ratio declined slightly, from 167.6% to 165.4%.

The financial result of enterprises before taxation was profits, although they contracted significantly in 2008 and were equal to just 52.7% of the previous year's profits (in 2007, they increased 17.9% year on year).

The return on assets of enterprises calculated on the basis of pre-tax profits, fell from 13.2% in 2007 to 5.3%. The return on equity was down from 18.0% to 8.2%.

³⁹ The excess of receivables over payables.

II.2. Market Risk

II.2.1. General characteristics of market risk

The number of credit institutions that calculated market risk⁴⁰ in 2008 increased from 727 to 741, while the share of banks required to calculate market risk in banking sector assets contracted slightly (from 93.6% to 93.1%) due to changes in the structure of these banks.

As of January 1, 2009, foreign exchange risk was factored in when calculating capital adequacy by 634 banks, which accounted for 82.9% of banking sector assets (this compares with 574 banks, accounting for 60.1% of banking sector assets, as of January 1, 2008). For comparison: equity position risk was calculated as of January 1, 2009, by 208 banks making up 40.9% of banking sector assets, and interest rate risk was calculated by 308 banks making up 52.7% of banking sector assets. The number of banks whose activities are significant for all segments of the financial market, and which, consequently, must calculate all three types of market risk, is relatively small (there were 135 such banks as of January 1, 2009, as against 114 as of January 1, 2008). They accounted for 34.9% of banking sector assets as of January 1, 2009, as against 36.4% as of January 1, 2008.

As a result of the reduction of banks' investment in debt and equity securities,⁴¹ evaluated at fair value through profits or losses and available for sale (from February⁴² to December 2008, investments in these securities decreased 6.8%, mainly at the expense of investment in debt and equity securities, evaluated at fair value through profits or losses, which declined 60.9%) and as a result of the scaling down of bank operations on forward markets, banking sector market risk in 2008 contracted 14.5% to 820.1 billion rubles. Market risk, relative to the capital of the banks that calculated market risk, contracted from 38.7% as of January 1, 2008, to 23.2% as of January 1, 2009. At the same time, the share of market risk of total banking sector risk remained small: as of January 1, 2009, it stood at about 3.6%, a decrease of 2 percentage points from January 1, 2008 (see Chart 2.4).

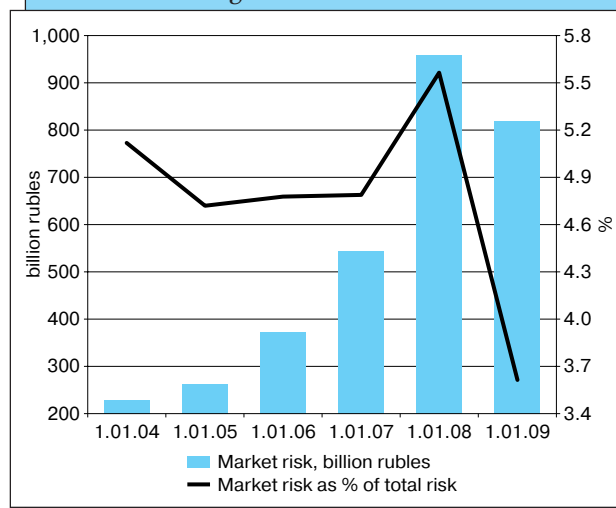
As financial investments evaluated at fair value through profits or losses and available for sale were mostly represented by debt obligations (89.1% of total investments of this type), **interest rate risk** accounted for the majority of market risk as of January 1, 2009. **Equity position risk** and **foreign exchange risk** had almost equal shares as of January 1, 2009, but it is notable that in 2008 the importance of equity position risk declined, while the importance of foreign exchange risk increased (see Table 2.2).

The scaling down of banks' activities on forward markets also had a significant effect on the dynamics of the risks under discussion: claims for the delivery of securities under forward contracts⁴³ declined by three quarters in 2008, and liabilities by almost half. Relative to the capital of banks, the net forward position was negative in 2008: -0.5% as of January 1, 2009 (it was positive at 2.3% as of January 1, 2008).

As the ruble devalued against the US dollar and the euro on the domestic foreign exchange market (see Chart 2.5), the foreign currency component of balance sheet positions increased in 2008 (see Chart 2.6). Foreign currency assets accounted for 32.3% of banking

Market risk and its share of total banking sector risk

CHART 2.4



⁴⁰ From February 1, 2008, market risk calculated according to the formula $MR = 12.5 * (IR + ER) + FR$, and its components, are determined in compliance with the requirements of Bank of Russia Regulation No. 313-P, dated November 14, 2007, 'On the Procedure for Calculating Market Risk by Credit Institutions,' which entered into force on January 1, 2008 (until February 1, 2008, market risk was calculated 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.')

⁴¹ Taking into account a revaluation.

⁴² As a result of changes in the accounting rules and reporting forms in credit institutions (Bank of Russia Ordinance No. 1376-U, dated January 16, 2004, 'On the List, Forms and Procedure for Compiling and Presenting to the Central Bank of the Russian Federation Reports by Credit Institutions'), the main types of securities portfolios have changed: from February 1, 2008, the securities portfolio is divided into the portfolio of securities evaluated at fair value through profits or losses and the portfolio of securities available for sale.

⁴³ Forward contracts recorded in Section D of the Chart of Accounts.

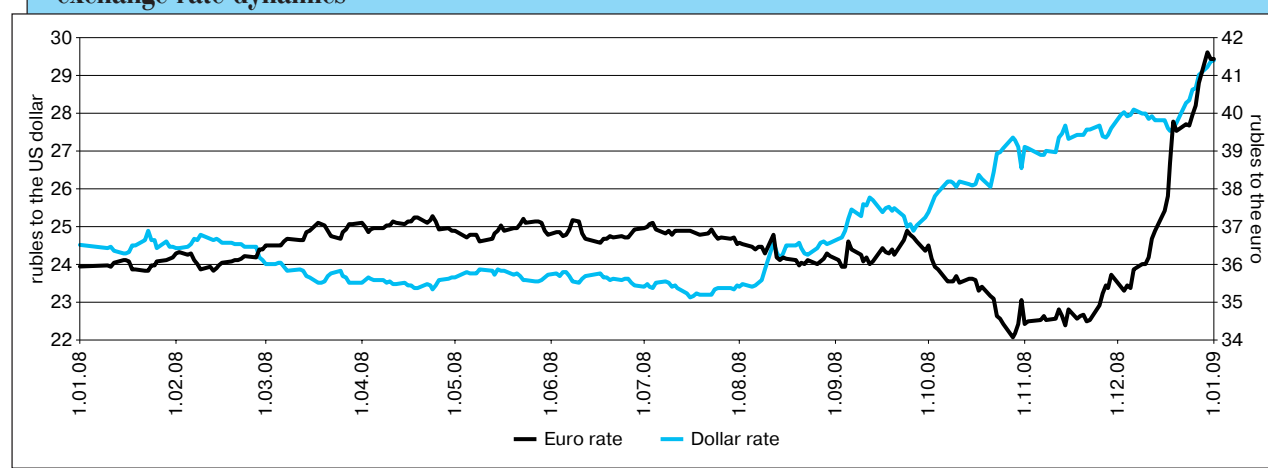
Banking sector market risk structure

TABLE 2.2

Type of risk	1.01.08		1.01.09		
	billion rubles	% share of market risk	billion rubles	% growth in 2008	% share of market risk
Market risk (MR), total of which:	959.0	100.0	820.1	—14.5	100.0
Interest rate risk (IR)	602.5	62.8	580.2	—3.7	70.7
Equity position risk (ER)	267.2	27.9	120.5	—54.9	14.7
Foreign exchange risk (FR)	89.3	9.3	119.4	33.8	14.6

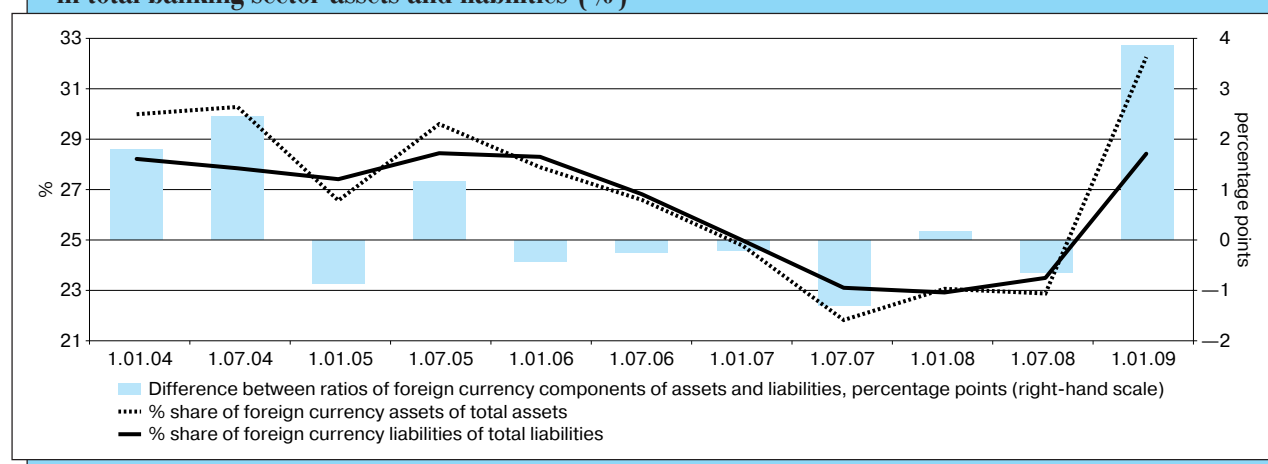
Dollar/ruble and euro/ruble exchange rate dynamics

CHART 2.5



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

CHART 2.6



sector assets as of January 1, 2009, and foreign currency liabilities accounted for 28.4% of banking sector liabilities. The positive difference between foreign currency assets and liabilities increased from 0.2 percentage points to 3.8 percentage points.

The net short forward position in US dollars⁴⁴ and the net long forward position in euros increased significantly (see Table 2.3).

Off-balance sheet claims in foreign currency⁴⁵ decreased in 2008 amid slight growth in liabilities (see Table 2.4).

Thirty credit institutions in operation as of January 1, 2009, exceeded limits on open currency positions (in any currency or precious metal) at least once in 2008 (compared to 21 credit institutions in operation as of January 1, 2008). These accounted for 8.3% of assets of banks with

⁴⁴ Net forward and option positions in foreign currencies are calculated on the basis of data reported in 0409634 Form 'Statement of Open Currency Positions' for all credit institutions that submit this form, in ruble terms, at the Bank of Russia official rates of exchange as of the relevant dates.

⁴⁵ Forward contracts recorded in Section D of the Chart of Accounts.

**Net forward
currency position**

TABLE 2.3

Date	Currency	Net forward currency position, billion currency units	Net forward currency position, billion rubles
29.12.2007	US dollar	—5.9	—145.9
	Euro	3.0	106.3
31.12.2008	US dollar	—35.8	—1,051.0
	Euro	9.8	407.7

Note: According to data as of the beginning of 2009, the number of banks that had reported their net forward position in US dollars was 1,001 and in euros 990 (compared to 1,020 and 1,009 respectively as of January 1, 2008).

**Foreign currency claims and liabilities
on off-balance sheet positions for banking sector**

TABLE 2.4

	1.01.08	1.01.09	Rate of growth in 2008, %
Balance-sheet positions			
Claims, billion rubles	4,642.5	9,040.6	94.7
Liabilities, billion rubles	4,612.3	7,963.2	72.7
Off-balance sheet positions			
Claims, billion rubles	3,677.8	3,453.2	—6.1
Liabilities, billion rubles	3,595.2	3,603.5	0.2

foreign currency licences as of January 1, 2009 as against 11.5% as of January 1, 2008.

**Evaluation of banking sector vulnerability
to market risk**

Under the effects of the global financial crisis, the Russian banking sector was strongly hit by market risk in all its major components in 2008. The devaluation of the ruble against the dollar and the euro, growth in borrowing costs including on the debt markets, and the fall in debt security and equity prices had a severe adverse effect on banking operations, and caused Russian banks to incur heavy losses in 2008. Despite the realisation of a large part of market risks, the Russian banking sector may be further tested for its vulnerability to market risks.

**II.2.2. Evaluation of banking sector
vulnerability to interest rate risk**

To assess the banking sector's vulnerability to interest rate risk for total investments in debt securities,⁴⁶ evaluated at fair value through profits or losses and available

for sale, sensitivity analysis was conducted with the use of stress testing. This analysis made it possible to evaluate the effect of potential growth in interest rates on the financial situation of the banking sector. It was assumed that the rise in yields on debt obligations in bank portfolios would cause their value to fall by 20%.

To analyse the effect of interest rate risk involved in investing in the aforementioned debt obligations on the situation in the Russian banking sector, the Bank of Russia analysed data reported by credit institutions that had investments in these securities. These credit institutions were divided into two groups: the first group comprised banks required to calculate interest rate risk, and consequently to include it in the capital adequacy calculation; the second comprised credit institutions that did not calculate interest rate risk⁴⁷ but did have such investments (*bank groups are characterised in Table 2.5*). It should be noted that as of January 1, 2009, assets and capital of the banks in the first sample, which accumulated 57.8% of banking sector investment in the debt obligations of the portfolios under consideration, accounted for respectively 52.7% and 46.6% of banking sector levels, representing a significant decline from February 1, 2008.

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

TABLE 2.5

	No. of sampled banks		% share of investments in analysed debt obligations		% share of banking sector assets		% share of banking sector capital	
	1.02.08	1.01.09	1.02.08	1.01.09	1.02.08	1.01.09	1.02.08	1.01.09
Sample 1	338	304	93.9	57.8	78.2	52.7	77.8	46.6
Sample 2	198	186	6.1	42.2	14.9	41.6	13.7	46.1

⁴⁶ Including non-resident debt securities and taking into account a revaluation.

⁴⁷ Under Bank of Russia Regulation No. 313-P, dated November 14, 2007, 'On the Procedure for Calculating Market Risk by Credit Institutions,' interest rate and equity position risks are also calculated when, as of the calculation date, the sum total of current (fair) values of financial instruments equals or exceeds 5% of the credit institution's balance sheet assets. Here and below, banks that do not calculate equity position and interest rate risks but do have the corresponding investments fall into Sample 2.

Analysis of the sensitivity of credit institutions **required to calculate interest rate risk** shows that sensitivity to interest rate risk within this group of banks decreased on the whole from February to December 2008. As of the beginning of 2009, potential losses could have totalled 10.3% of capital as against 14.1% as of February 1, 2008.

The sensitivity of credit institutions with investments in debt securities evaluated at fair value through profits or losses and available for sale, but which **do not calculate interest rate risk**, increased in the period under review. In the event of a negative development, losses as of the beginning of 2009 could have made up 7.6% of capital as against 5.2% as of February 1, 2008.

This sensitivity analysis has shown that the banking sector's vulnerability to growth in interest rates in 2008 as a whole can be considered significant.

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

To determine the Russian banking sector's financial resilience to equity position risk, the Bank of Russia evaluated through the use of stress testing the negative consequences of a further decline in global stock indices. A 30% fall in stock indices was taken to be a trigger factor.⁴⁸

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 with investments in equities,⁴⁹ evaluated at fair value in terms of profits or losses, and available for sale. As in the analysis of interest rate risk, credit institutions were divided into two groups: the first comprised banks required to calculate equity position risk, and consequently included it in the capital adequacy calculation; the second group comprised credit institutions that did not calculate equity position risk, but did have such investments (*bank group characteristics are shown in Table 2.6*). As in the case of interest rate risk, the structure and share of the first sample of banks changed significantly from February to December, both in banking sector assets and capital, and in banking sector investments in equities.

Analysis has shown that on the whole, sensitivity to equity position risk in the group of credit institutions that **calculated equity position risk** decreased slightly (one reason for this was the reduced value of the corresponding investments): in the event of a 30% fall in stock indices, potential losses could have totalled 3.4% of capital as against 4.3% as of February 1, 2008.

In the group of credit institutions that held investments in the equities under discussion but **did not calculate equity position risk**, sensitivity to equity position risk also decreased: in the event of a negative development, potential losses could have reached 0.6% of capital as of the beginning of 2009 as against 0.9% as of February 1, 2008.

Overall, sensitivity analysis has shown that the banking sector's vulnerability to equity position risk in both groups of credit institutions was relatively low — less than its sensitivity to interest rate risk.

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

To evaluate the Russian banking sector's vulnerability to foreign exchange risk, the Bank of Russia analysed, through stress testing, credit institutions' sensitivity to both the appreciation of the ruble against the US dollar and the euro, and its depreciation.

In the event of **appreciation**, a 20% **rise** in the nominal exchange rate of the ruble against the dollar and the euro was taken as a trigger factor. To determine the effect of foreign exchange risk on the financial situation of the Russian banking sector, the Bank of Russia analysed data reported by credit institutions that are required to calculate foreign exchange risk⁵⁰ and have net long open positions⁵¹ in US dollars and euros (*the characteristics of these banks are shown in Table 2.7*). It is important to note that the sample included banks with net long open position either in dollars or euros (some banks have long positions in both currencies).

In 2008, the number of banks with a long currency position in at least one of these currencies increased, and their weight in banking sector assets and liabilities expanded.

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

TABLE 2.6

	No. of sampled banks		% share of investments in equities		% share of banking sector assets		% share of banking sector capital	
	1.02.08	1.01.09	1.02.08	1.01.09	1.02.08	1.01.09	1.02.08	1.01.09
Sample 1	230	208	94.2	79.5	68.0	40.9	67.6	35.6
Sample 2	342	331	5.8	20.5	22.3	49.1	20.6	53.0

⁴⁸ It was assumed that a 30% drop in stock indices would cause a similar fall in the value of equities in the trading books.

⁴⁹ Including non-resident equities and allowing for revaluation.

⁵⁰ Foreign exchange risk is included in the market risk calculation if, as of the market risk calculation date, the percentage ratio of the sum total of open currency positions in individual currencies and precious metals to the credit institution's capital equals or exceeds 2%.

⁵¹ When open currency positions are reported in 0409364 Form, the calculation of net positions includes balance sheet assets and liabilities, and off-balance claims and liabilities, specified pursuant to 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 Supervising Compliance with them by Credit Institutions.'

Characteristics of banks analysed for sensitivity to foreign exchange risk

TABLE 2.7

	No. of banks		% share of banking sector assets		% share of banking sector capital	
	29.12.07	31.12.08	29.12.07	31.12.08	29.12.07	31.12.08
Credit institutions with long positions in dollars or in euros	370	454	26.9	69.5	26.3	71.1

Characteristics of banks analysed for sensitivity to foreign exchange risk

TABLE 2.8

	No. of banks		% share of banking sector assets		% share of banking sector capital	
	29.12.07	31.12.08	29.12.07	31.12.08	29.12.07	31.12.08
Credit institutions with short positions in dollars or euros	438	397	53.7	42.2	52.7	40.9

The share of long open positions in dollars and euros of banks for this sample in their long open positions in all currencies and precious metals⁵² contracted from 74.1% as of December 29, 2007, to 51.0% as of December 31, 2008. Analysis has shown that the ruble's appreciation against the dollar and euro by 20% will not cause substantial losses: if this scenario were to materialise, banks in the sample under review could lose 0.3% of their capital as of December 31, 2008, as against 0.6% as of December 29, 2007.

In analysing the Russian banking sector's sensitivity to foreign exchange risk in the event of the **ruble's devaluation** against the dollar and euro, the Bank of Russia selected as a trigger event a 20% **fall** in the exchange rate of the ruble against the dollar and euro. To determine the effect of foreign exchange risk on the financial situation of the Russian banking sector, the Bank of Russia analysed data reported by credit institutions that were

required to calculate foreign exchange risk and had net short open positions in dollars and euros.

In 2008, the number of banks with a short currency position in at least one of these two currencies, and their weight in banking sector assets and liabilities, decreased (*characteristics of credit institutions with net short open positions in dollars and euros are shown in Table 2.8*).

The share of these banks' short open positions in dollars and euros in their short open positions in all currencies and precious metals⁵³ expanded from 77.5% as of December 29, 2007, to 94.1% as of December 31, 2008. Analysis has shown that banking sector vulnerability to a hypothetical devaluation of the ruble by 20% against the dollar and euro decreased slightly, and is currently negligible: if this scenario were to materialise, the banks in the sample discussed might lose on the whole 0.7% of their capital as of December 31, 2008 as against 0.8% as of December 29, 2007.

⁵² In ruble terms.

⁵³ In ruble terms.

II.3. Liquidity Risk

II.3.1. General characteristics of liquidity risk

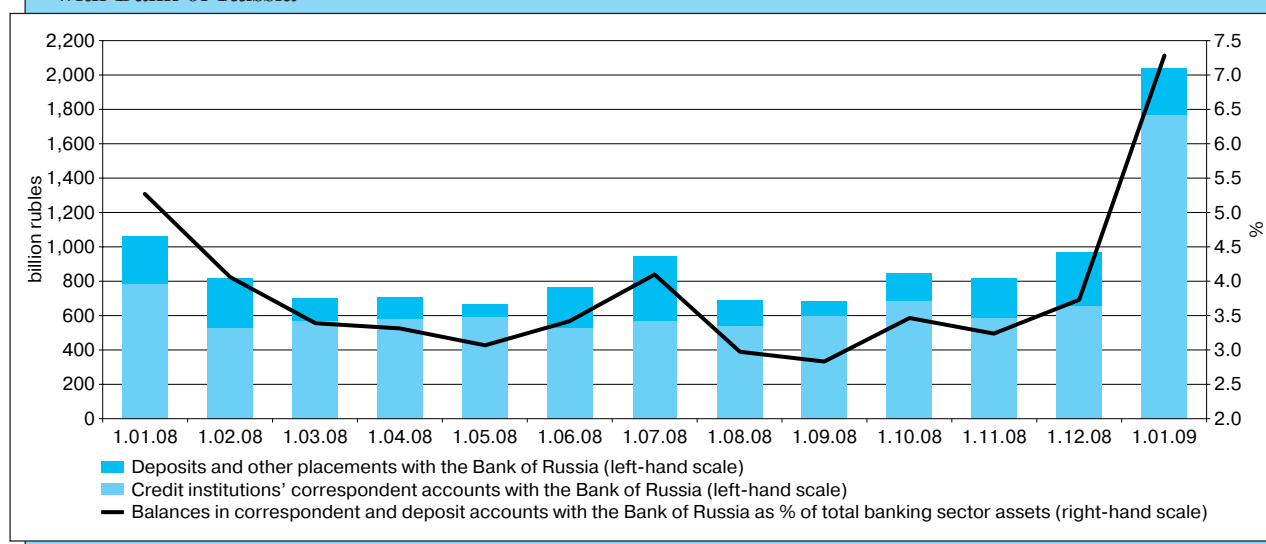
Against the background of the global financial crisis, liquidity risk became particularly high in March—May and in August—October 2008. The immediate cause was the outflow of foreign capital, and the greatly increased difficulty of external funding. Meanwhile, at the beginning of the year (January—March) there was an outflow of capital, which in April gave way to an inflow of capital, which continued until July. However, in August the outflow of capital increased dramatically. These factors combined with internal factors, in particular the loss of confidence of economic counterparties in financial intermediaries. As a result, the volume of interbank money market transactions contracted significantly, and there was a substantial outflow of corporate and household funds from banks. These developments, and the maturity mismatch of bank assets and liabilities, created severe financial problems for a number of banks, including systemically important ones. Some of these banks had to be financially rehabilitated.

Liquid assets (cash, precious metals and stones, balances of correspondent nostro accounts, and balances of correspondent and deposit accounts with the Bank of Russia) accounted on average during the period⁵⁴ for 6.8% of total banking sector assets in March—May 2008, and 7.2% in August—October. By the end of the year, the liquidity situation had stabilised owing to measures taken by the Russian Government and the Bank of Russia: the liquidity indicator under discussion reached 10.4% in November—December 2008 (see Box). However, in 2008, it was lower on average than in 2007: 7.9% as against 8.8% (*dynamics of the main components of liquid assets are shown in Chart 2.7*).

The most significant decline in the share of liquid assets of total assets, as a 2008 average as compared with the previous year, was registered in the group of large private banks (7.9% as against 10.3%). Medium-sized and small banks based in Moscow and the Moscow Region also recorded a contraction of this indicator (from 19.4% of average total assets in 2007 to 18.5% in 2008).

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

CHART 2.7



⁵⁴ Here and below, average liquidity indicators have been calculated as chronological averages for the relevant periods.

In the second half of 2008, as banking sector liquidity declined, the Bank of Russia focused its efforts on creating additional money supply by conducting operations to infuse liquidity into credit institutions.

To achieve this end, the Bank of Russia extended to one year the term of secured loans to credit institutions, and widened the range of assets that could be used as collateral for Bank of Russia loans.

Mention should be made of the Bank of Russia's decision to lower issuer rating requirements for bonds that could be put on the Bank of Russia Lombard List. As a result, the share of corporate bonds expanded significantly (from 17% as of January 1, 2008, to 25% as of January 1, 2009) in securities used by credit institutions as collateral for Bank of Russia loans.

The Bank of Russia also included in its Lombard List two new categories of securities: corporate shares of residents other than credit institutions, and exchange-traded bonds.

In addition, the Bank of Russia took a decision to enable credit institutions to refinance in the Bank of Russia their credit claims on agricultural, wholesale and retail trade organisations, state unitary enterprises, limited liability companies, and medium-sized and small businesses. On the one hand, this gave credit institutions broader opportunities for obtaining additional liquidity in the Bank of Russia, and on the other, it was a measure to indirectly support the corresponding organisations.

Measures taken by the Bank of Russia led to an increase in the number of credit institutions that were counterparties to the Bank of Russia, and which received secured loans from the Bank of Russia, and at the same time expanded the volumes of liquidity the Bank of Russia injected into credit institutions through these operations.

As of January 1, 2009, 423 credit institutions that were counterparties to the Bank of Russia received secured loans on the Bank of Russia Lombard List. This represents an increase of 29% on January 1, 2008.

The volume of secured Bank of Russia loans from the Bank of Russia Lombard List (intraday, overnight and Lombard loans) extended in 2008 increased 30% year on year to 17.8 trillion rubles, while the volume of loans secured by 'non-market' assets (bills and claims under credit agreements) grew by a factor of 13.6 to 445.5 billion rubles.

Bank of Russia repo operations served as a key refinancing instrument in 2008. Their volume during the year expanded from 7.7 trillion rubles in 2007 to 21.5 trillion rubles. To broaden the possibilities for using repo operations, in mid-February 2008, the Bank of Russia began to conduct over-the-counter repo operations against the collateral of non-resident corporate bonds guaranteed by Russian corporations. In addition, changes were made to the law at the end of the year to give the Bank of Russia the right to conduct repo deals with exchange-traded papers, such as shares and bonds, on the stock exchange.

In the second half of 2008, Bank of Russia operations to extend unsecured loans became yet another important refinancing instrument. From October 2008, when this instrument was introduced, a wide range of banks (over 140 credit institutions as of the end of 2008) received access to additional liquidity amid the severe liquidity shortage and lack of adequate security. The total volume of funds provided to the banking sector through these operations in 2008 amounted to 3.0 trillion rubles.

The Bank of Russia also used as an additional instrument to manage banking sector liquidity currency swap operations, operations with its own bonds, and the purchase and sale of government securities from its own portfolio without an obligation to repurchase.

Pursuant to Article 3 of Federal Law No. 173-FZ, dated October 13, 2008, 'On Additional Measures to Support the Financial System of the Russian Federation,' in November and December 2008, the Bank of Russia concluded with 11 credit institutions (that met criteria set by the Bank of Russia Board of Directors) agreements on compensation of a part of their losses (costs) that they might incur in transactions with other credit institutions on the interbank market (hereinafter referred to as the agreements).⁵⁵ At present, the range of borrowers of credit institutions — counterparties of the Bank of Russia on such agreements includes about 350 credit institutions. According to the procedure established by the agreements, the Bank of Russia places a compensation deposit with a credit institution, which can write off funds from this deposit in cases where the borrower credit institution has had its banking licence revoked. This arrangement is therefore designed to reduce the risks to which credit institutions are exposed on the interbank market, and thus facilitate the development of this market.

Pursuant to Article 10 of Federal Law No. 175-FZ, dated October 27, 2008, 'On Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011,' and the decisions of the Bank of Russia Board of Directors, in October 2008, the Bank of Russia began to extend loans for a term of three to five years to the Deposit Insurance Agency, a state corporation, to implement measures to prevent bankruptcy of individual credit institutions. By January 1, 2009, the Bank of Russia had extended to the agency 114.3 billion rubles in such loans with interest at 5.5% p.a.

⁵⁵ By April 1, 2009, the number of such credit institutions had reached 13.

In addition, in September–October 2008, according to decisions taken by the Bank of Russia Board of Directors, the Bank of Russia placed its deposits with credit institutions that rehabilitated several other credit institutions. As of January 1, 2009, Bank of Russia deposits with credit institutions totalled 166.9 billion rubles and \$2.5 billion. These measures enabled the Bank of Russia to quickly stabilise a number of credit institutions that experienced a shortage of liquidity and large withdrawals from deposits, and ensure continuity of payments, including settlements with customers and budget on all levels.

II.3.2. Compliance with required liquidity ratios

There were occasional instances throughout 2008 when certain credit institutions failed to comply with liquidity requirements. As of January 1, 2009, 61 credit institutions (45 in 2007) had occasionally violated the instant liquidity (N2) ratio, 76 credit institutions (72 in 2007) had violated the current liquidity (N3) ratio, and nine credit institutions (12 in 2007) had violated the long-term liquidity (N4) ratio.

In 2008, the instant liquidity (N2) ratio was violated more than 10 times by 15 credit institutions, the current liquidity (N3) ratio was violated more than 10 times by 13 credit institutions, and the long-term liquidity (N4) ratio was violated more than 10 times by three credit institutions.

Average annual banking sector liquidity ratios rose slightly in 2008 year on year:⁵⁶ the instant liquidity (N2)

ratio increased from 49.0% in 2007 to 49.8% in 2008, and the current liquidity (N3) ratio from 74.1% to 75.4% (see Chart 2.8).

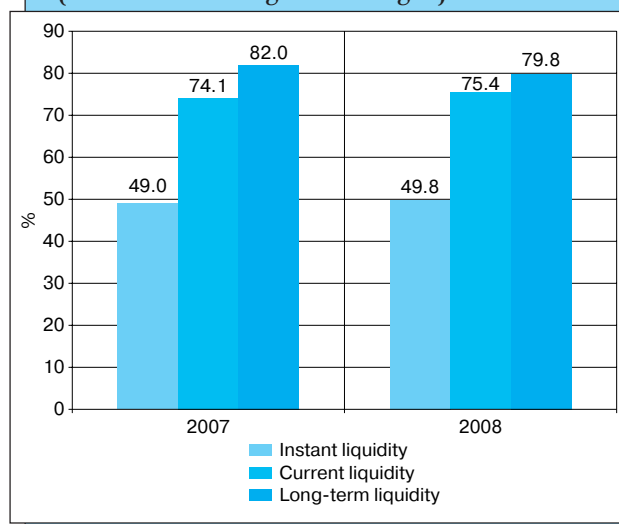
Only state-controlled banks registered a fall in liquidity ratios: N2 declined on average from 55.8% in 2007 to 48.8% in 2008, and N3 from 74.9% to 68.3%.

In 2008, the lowest average instant liquidity ratio (44.5%) was registered in the group of large private banks. The lowest average current liquidity ratio (68.3%) was registered among state-controlled banks.

The average long-term liquidity ratio⁵⁷ declined from 82.0% in 2007 to 79.8% in 2008, as credit institutions had greater need for long-term credit resources during the crisis: the increase (58.6%) in average long-term credit (with residual maturities in excess of one year) was slower than growth in the average volume of banking sector liabilities with the same terms (82.0%).⁵⁸

**Banking sector liquidity ratios
(annual chronological averages)**

CHART 2.8



II.3.3. Structure of credit institutions' assets and liabilities

Maturity structure of credit institutions' assets and liabilities⁵⁹

There was a slight increase in the tenor of banking sector liabilities in 2008 amid the decrease in the maturity of assets. The share of assets with residual maturities in excess of one year accounted for 18.7% of Quality Category 1 assets⁶⁰ as of January 1, 2009, as against 19.2% as of January 1, 2007. The share of liabilities with residual maturities of more than one year expanded during the year from 22.3% to 24.8% of total banking sector liabilities.

The share of short-term assets (assets due at call in less than one month) expanded during the year from 48.0% to 53.6%, while the share of short-term liabilities contracted slightly (from 42.7% as of January 1, 2008, to 40.1% as of January 1, 2009). At the same time, the liquid coverage deficit (LCD)⁶¹ had decreased significantly

⁵⁶ The calculation of the N2, N3 and N4 liquidity ratios was altered in 2008 as so-called 'behavioural adjustments' were introduced to evaluate the individual elements of banks' liquidity situation on the basis of accumulated statistical data on the minimum balance of bank customer accounts (see also III.1 Upgrading the Legal and Regulatory Framework for Banking Activities in Line with International Standards).

⁵⁷ Bank of Russia Instruction No. 110-I, dated January 16, 2004, 'On Banks' Required Ratios,' set the maximum long-term liquidity ratio at 120%.

⁵⁸ This analysis was based on components of the long-term liquidity (N4) ratio calculation.

⁵⁹ Analysis of credit institutions' assets and liabilities by maturity is based on data on call and redemption terms of assets and liabilities (in 0409125 Form).

⁶⁰ 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 Loss Provision Procedure for Credit Institutions.'

⁶¹ The liquid coverage deficit (LCD) is calculated as the ratio of the excess of demand liabilities and liabilities with maturities of up to 30 days over the value of Quality Category 1 assets with the same maturity to the total value of these liabilities.

by the end of 2008 (from 22.2% as of January 1, 2008, to 6.4% as of January 1, 2009).

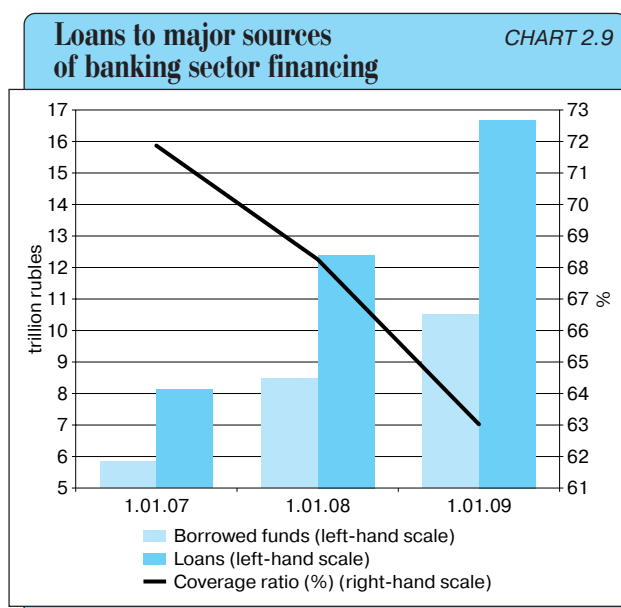
Customer deposits to loans (coverage ratio)

The coverage ratio⁶² contracted slightly in 2008. As of January 1, 2009, customer deposits⁶³ covered 63.0% of customer loans⁶⁴ as against 68.3% as of January 1, 2008 (see Chart 2.9). This change was due to the faster growth of loans relative to deposits (34.5% as against 24.1%), a process typical of the active credit expansion of the first half of 2008.

Seventy-five credit institutions had no corporate or household deposits in the sources of their resource base, but the share of these credit institutions in total banking sector assets was small (1.6% as of January 1, 2009).

The coverage ratio calculated by the medium- and long-term component (over one year) also declined, from 65.5% as of January 1, 2008, to 58.1% as of January 1, 2009. Credit with maturities in excess of one year grew considerably faster than deposits with the same terms (45.1% as against 28.7%).

The highest coverage ratio as of January 1, 2009, (70.1%) was registered in the group of regional medium-sized and small banks. The lowest coverage ratio (51.0%) was in the group of medium-sized and small banks based in Moscow and the Moscow Region.



The highest coverage ratios calculated by the medium- and long-term component (with a maturity in excess of one year) was also registered as of January 1, 2009, in the group of regional medium-sized and small banks (69.4%), and the lowest in the group of banks controlled by foreign capital (33.8%).

At the same time, there was a decline in the number of credit institutions with a coverage ratio significantly lower than the banking sector average. As of January 1, 2009, 290 credit institutions had a coverage ratio at half the banking sector average; these accounted for 6.7% of total banking sector assets (as compared with 308 credit institutions with a 5.8% share of total banking sector assets as of January 1, 2008). A coverage ratio four times smaller than the banking sector average was registered in 181 credit institutions, accounting for 2.7% of total banking sector assets as of January 1, 2009, while as of January 1, 2008, there were 195 credit institutions with coverage ratio of this level, accounting for 3.5% of total assets.

II.3.4. Discharge of obligations

There were occasional failures by credit institutions to fulfil their obligations to creditors and depositors in 2008. Twenty-three credit institutions that were in operation as of January 1, 2009, had unfulfilled obligations on at least one reporting date during the year; these accounted for 2.2% of total banking sector assets (compared to six credit institutions in 2007, which accounted for 1.1% of banking sector assets as of January 1, 2008). The maximum value of unfulfilled obligations was 6.6 billion rubles.

II.3.5. Dependence on interbank market

Owing to the low interbank money market activity in the fourth quarter of 2008 and capital outflow, credit institutions' dependence on the interbank market, or interbank market dependence ratio (IMDR),⁶⁵ decreased in 2008 by a factor of almost 1.8, from 8.4% to 4.8%.⁶⁶

Credit institutions with an IMDR of no more than 8% accounted for the largest portion of total banking sector assets (65.5% as of January 1, 2009). The share of this group of credit institutions expanded by 7.7 percentage points as compared with January 1, 2008 (see Chart 2.10). At the same time, there was a slight increase in the share of credit institutions with an IMDR from 18% to 27% inclusive (from 6.9% to 7.5% of total assets). The share of credit

⁶² The coverage ratio is calculated as the ratio of customer deposits to customer loans.

⁶³ Customer deposits include deposits taken by credit institutions from corporate entities and private individuals (except banks and resident financial institutions), and other funds raised from these categories of resident and non-resident creditors, except the balances of current and settlement accounts of these customers.

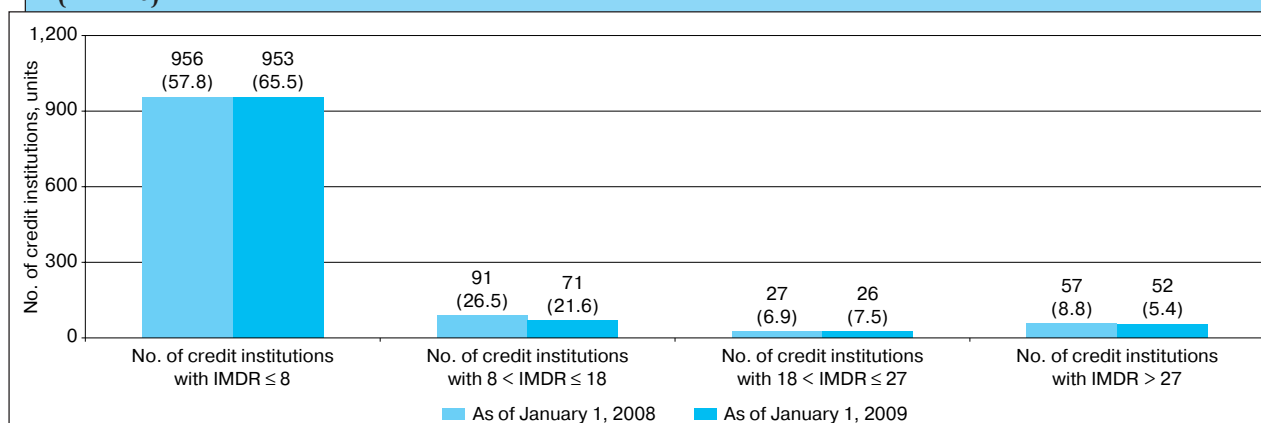
⁶⁴ Loans include credit extended by credit institutions to corporate entities and private individuals (except banks and resident financial institutions), and other funds provided to these categories of resident and non-resident debtors.

⁶⁵ The interbank market dependence ratio (IMDR) is calculated as the percentage ratio of the difference between interbank loans taken and interbank loans placed (deposits), to the funds raised. The higher the ratio, the more the credit institution is dependent on the interbank market. The methodology for calculating this ratio approximates that used to calculate the PL5 ratio, described in Bank of Russia Ordinance No. 2005-U, dated April 30, 2008, 'On the Assessment of the Economic Situation of Banks,' which sets its threshold values at 8%, 18% and 27%.

⁶⁶ Owing to changes made to accounting rules of credit institutions in 2008 by Bank of Russia Regulation No. 302-P, dated March 26, 2007, 'On the Accounting Rules of Credit Institutions Located in the Russian Federation,' accrued interest has not been included in the IMDR calculation for the purpose of comparability of data as of the two annual reporting dates.

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

CHART 2.10



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

institutions with an IMDR in excess of 27% contracted from 8.8% to 5.4%.

The highest IMDR as of January 1, 2009 (18.1%) was registered in the group of banks controlled by foreign capital (as of January 1, 2008 — 21.7%). This was due to their close ties with their parent banking institutions abroad.

The dependence on the interbank market of medium-sized and small banks based in Moscow and regions was on the whole low.

Non-resident banks continued to exert a significant influence on interbank lending in Russia. Russian banks have generally raised more funds from the international interbank market (2,667.4 billion rubles as of January 1, 2009, and 2,136.1 billion rubles as of January 1, 2008), than they have placed on it (1,824.3 billion rubles and 851.5 billion rubles respectively).

In 2008, the share of loans taken from non-resident banks among total received interbank loans contracted by 2.8 percentage points to 73.3%, while the share of

loans extended to non-resident banks expanded by 12.9 percentage points to 72.9%. The large share of interbank transactions with non-residents of total interbank loans testifies, among other things, to the inadequate development of the domestic interbank market.

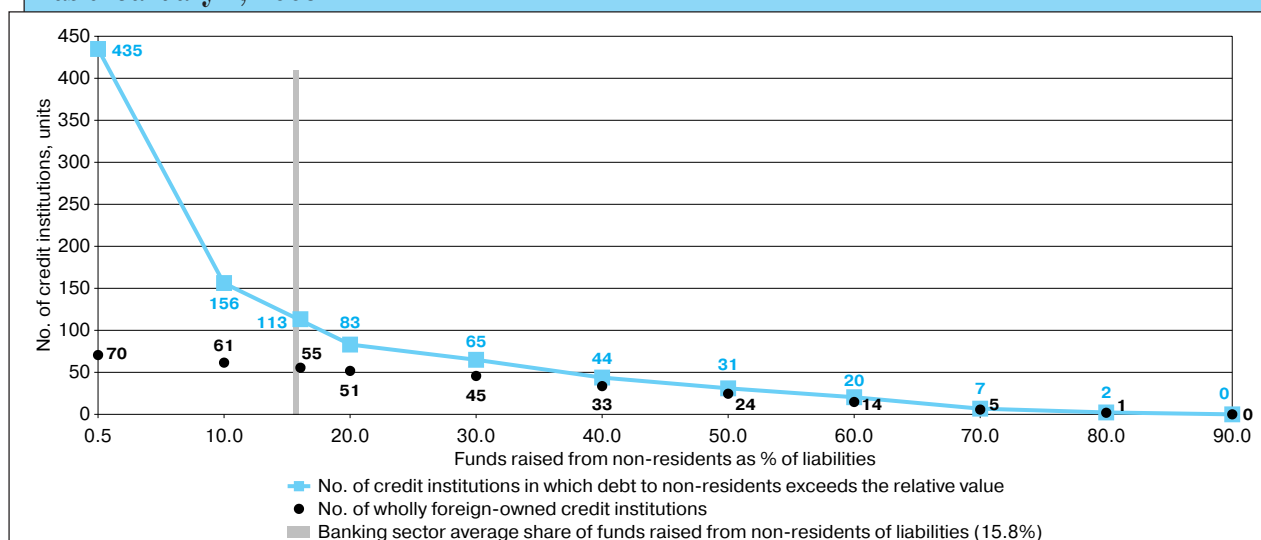
The ratio of the excess of interbank loans received from non-resident banks over loans extended to these banks to Russian banking sector liabilities declined from 6.4% to 3.0% in 2008.

As of January 1, 2009, 178 credit institutions had loans obtained from non-resident banks, and accounted for 88.3% of total banking sector assets (compared to 180 credit institutions and 86.5% of banking sector assets as of January 1, 2008). It should be noted that, as was the case a year earlier, one half of interbank loans were raised abroad by eight credit institutions of which six were among the top 20 banks in terms of assets.

As of January 1, 2009, 234 credit institutions extended loans to non-resident banks, and accounted for 89.8% of total banking sector assets (compared to 237 credit

Banking sector debt to non-residents as of January 1, 2009

CHART 2.11



institutions accounting for 87.3% of total assets as of January 1, 2008). Four credit institutions among the top 20 largest banks in terms of assets accounted for one half of the total volume of interbank loans placed on the international banking market.

These figures show that interbank operations with non-residents are concentrated in Russia's largest credit institutions.

At the same time, it is very important from the standpoint of assessing banking sector liquidity and stability to consider the total volume of the Russian banking sector's debt to non-residents.

II.3.6. Characteristics of debt to non-residents

The Russian banking sector's total debt to non-residents⁶⁷ in 2008 increased 30% year on year to reach 4,436.9 billion rubles. At the same time, net debt to non-residents⁶⁸ was more than eight times smaller — 546.1 billion rubles as of January 1, 2009. Relative to banking sector liabilities, it contracted significantly (from 7.6% to 1.9%).

Foreign-controlled banks are particularly dependent on external operations (the indicator of dependence on non-residents, the ratio of net debt to liabilities, was 15.2% as of January 1, 2009 as against 22.7% as of January 1, 2008). The reduction of this indicator was a result of significant growth (by 100%) of funds placed with non-residents in this group of banks.

As placements with non-residents increased by a factor of 2.1 (to 1,396.0 billion rubles), the level of

dependence of state-controlled banks on non-residents decreased from 4.4% to –1.2% in 2008. The level of dependence on non-residents in this group of banks, Sberbank excluded, fell from 11.3% to 1.4%.

The volume of funds placed with non-residents exceeded the volume of raised funds in all other groups of banks: large private banks (–0.1% as of January 1, 2009 as against 5.7% as of January 1, 2008), medium-sized and small banks based in Moscow and the Moscow Region (–6.3% as against –1.7% respectively) and regional medium-sized and small banks (–1.1% as against 0.3% respectively).

Analysis of the distribution of banks by debt to non-residents has shown that relative to liabilities, the banking sector average stood at 15.8% as of January 1, 2009.⁶⁹ This level was exceeded by 113 credit institutions, of which 55 were controlled by non-residents (see Chart 2.11).

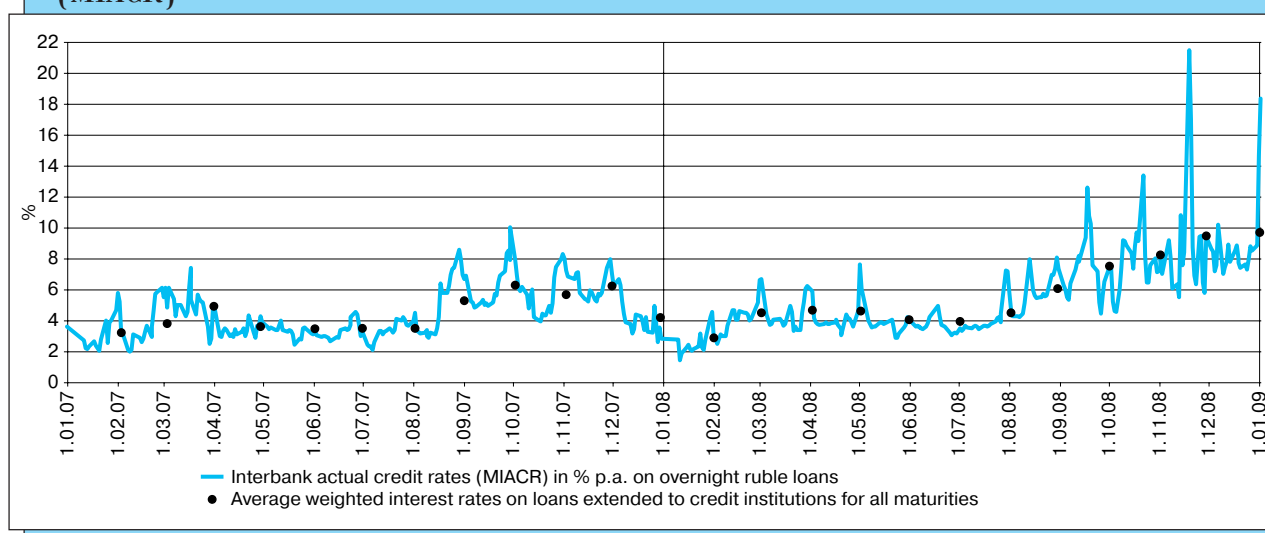
II.3.7. Interbank market rates

Overnight ruble MIACR, the rate that most accurately reflects the current value of ruble resources on the interbank market, was on the whole higher in 2008 than in 2007. It rose significantly at the end of the year. On November 17, 2008, overnight ruble MIACR reached a high-point of 21.54%. Interest rates on the ruble interbank market surged occasionally in 2008, when taxes were paid to the budget on all levels (see Chart 2.12).

The annual average weighted rate on ruble interbank loans extended for all terms in 2008 stood at 5.9%, up 1.2 percentage points on 2007.

Ruble interbank credit rate (MIACR)

CHART 2.12



⁶⁷ Correspondent and other accounts of non-resident credit institutions, loans received, deposits, and funds in non-resident corporate and personal accounts.

⁶⁸ The balance of debt to non-residents and funds placed with non-residents, including correspondent accounts in credit institutions, loans, deposits, and other placements.

⁶⁹ The Russian banking sector has a moderate level compared to other emerging markets.

II.4. Capital Adequacy

II.4.1. Banking sector capital dynamics and structure

The capital of operating credit institutions reached 3,811.1 billion rubles as of January 1, 2009. Capital growth slowed in 2008 as compared with 2007 (42.7% as against 57.8%). Growth in capital was largely due to the provision of subordinated loans to a few large banks at the end of the year. The ratio of banking sector capital to GDP increased over the year from 8.1% to 9.2%, and the ratio of capital to banking sector assets rose from 13.3% to 13.6% (see Chart 2.13).

Subordinated loans became the principal source of banking sector capitalisation in 2008. They grew by 856.6 billion rubles, and accounted for 59.0% of total capital growth.

Credit institutions' profits became the second most important driver of growth in banking sector capital. Profits and funds created from profits increased by 354.3 billion rubles, and accounted for 24.4% of total capital growth.

The third most important driver of growth in equity capital in 2008 was paid-up authorised capital and share premiums, which increased by 230.7 billion rubles and accounted for 15.9% of total capital growth.

The share of subordinated loans of total banking sector capital expanded from 11.6% to 30.6%. The share of profits and the funds created from profits contracted from 37.6% to 35.6%. The share of authorised capital and

share premiums shrank from 55.3% to 44.8%. The factors of capital contraction accounted for 13.3% of total capital (see Chart 2.14).

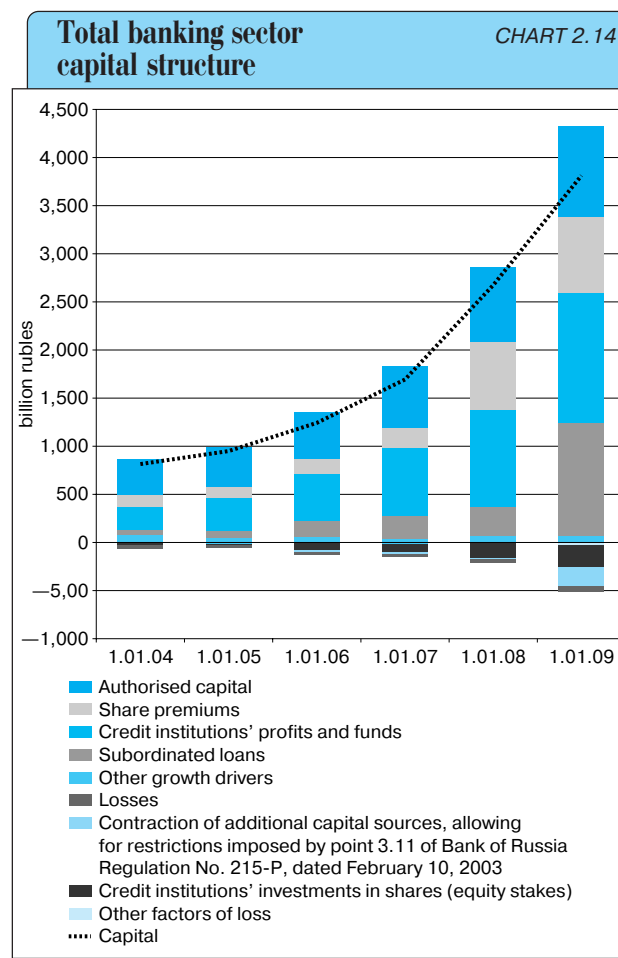
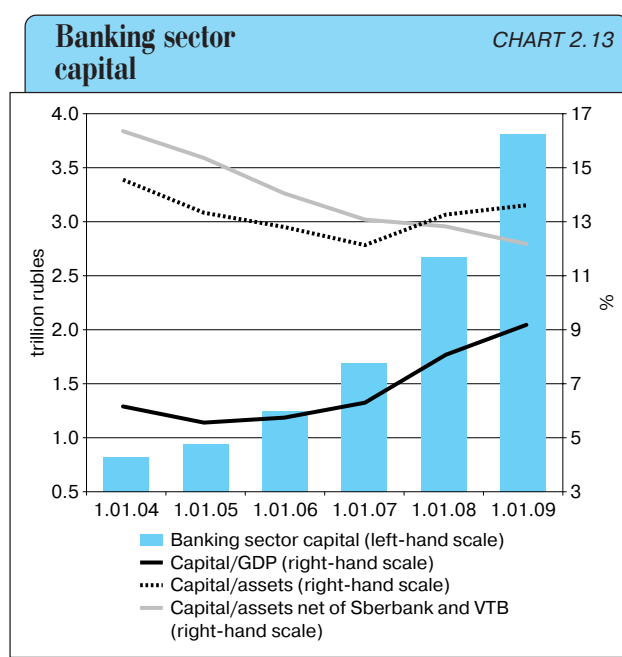
The importance of drivers of growth in capital differs by group of credit institutions.

In the group of banks controlled by the state, the increase in capital was largely due to subordinated loans, and to profits and the funds created from them (78.1% and 16.8% of total capital growth).

The capitalisation of large private banks increased mainly due to growth in profits and the funds created from them (44.3% of total capital growth) and subordinated loans (29.7%).

In the group of foreign-controlled banks, the major factors of capital growth were the increase in authorised capital and share premiums (48.1%), profit capitalisation (32.0%) and subordinated loans (17.8%).

In small and medium-sized banks based in Moscow and the Moscow Region, and medium-sized and



small banks in other regions, capital growth was primarily due to profit capitalisation (75.1% and 39.2% respectively).

A contraction of capital by a total of 47.6 billion rubles was registered in 119 credit institutions in 2008 (a capital contraction of 3.7 billion rubles was registered in 41 banks in 2007). These credit institutions accounted for 2.9% of banking sector capital as of January 1, 2009 as against 1.1% as of January 1, 2008.

Most banks that registered a contraction of capital in 2008 were medium-sized and small banks based in Moscow and the Moscow Region (46 banks) and in other regions (35 banks). The capital of these banks contracted by 4.8 billion rubles and 2.5 billion rubles respectively, accounting for 17.4% and 6.3% of the capital of this group of banks, and 0.7% and 0.2% of total banking sector capital.

The most significant capital contraction in absolute terms was registered in 16 credit institutions in the group of large private banks (by 39.3 billion rubles). As of January 1, 2009, these banks accounted for 1.4% of total banking sector capital.

II.4.2. Risk-weighted assets

The ratio of risk-weighted balance sheet assets of credit institutions to total balance sheet assets contracted from 66.7% to 64.9% in 2008 (see Chart 2.15).

At the same time, the structure of risk-weighted balance sheet assets remained virtually unchanged. As of January 1, 2009, the share of Group 1, 2 and 3 assets stood at 3.0%, and Group 4 and 5 assets at 97.0% (as of January 1, 2008, the shares were 2.0% and 98.0% respectively).

The reduction of the ratio of risk-weighted assets to total banking sector assets in the second half of 2008 was largely a result of the creation of a 'liquidity cushion' by

credit institutions, of which a part was denominated in foreign currency.

Growth in total risks (by 31.7%) in 2008 was chiefly due to increased credit risk on balance sheet assets⁷⁰ (their share of growth stood at 93.3%). The structure of total risks remained virtually unchanged, with credit risk dominating. Credit risk on balance sheet assets accounted for 80.1% of total risk (as against 77.9% a year earlier), credit risk on contingent credit liabilities accounted for 9.6% (as against 10.0%), credit risk on forward transactions for 1.0% (as against 0.9%) and market risk 3.6% (as against 5.6%).

Credit risk prevailed in the structure of total risks in all groups of banks. The largest share of credit risk on balance sheet assets was registered in regional medium-sized and small banks (85%) and state-controlled banks (82.9%), while the smallest was in foreign-controlled banks (75.1%). As of January 1, 2009, the largest share of market risk was registered in medium-sized and small banks based in Moscow and the Moscow Region (6.1%), and the smallest in state-controlled banks (2%).

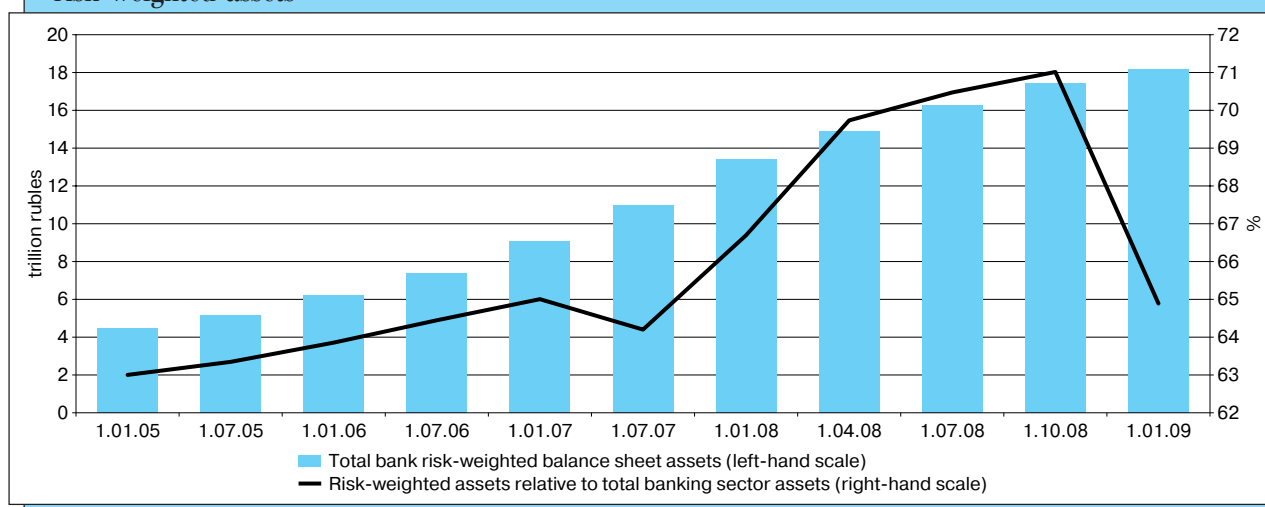
II.4.3. Credit institutions' capital adequacy

The banking sector capital adequacy ratio increased from 15.5% to 16.8% in 2008. The crisis adversely affected the dynamics of the banking sector capital adequacy ratio, which contracted from 15.5% as of January 1, 2008, to 14.5% as of October 1, 2008. Measures taken by the Government, in particular the provision of subordinated loans to several large banks at the end of the year reversed this trend (see Chart 2.16).

During the year, banking sector risk-weighted assets increased 31.7%, and banking sector capital expanded 42.7%.

Credit institutions' risk-weighted assets

CHART 2.15



⁷⁰ Taking into account credit institutions' credit risk on claims on counterparties with regard to the reverse (forward) part of the 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.

The capital adequacy ratio increased in all groups of credit institutions during the year, with the exception of large private banks and non-bank credit institutions (see Table 2.9).

The top five banks in terms of assets accounted for most of the increase in the capital adequacy ratio (from 14.9% to 17.6%) in 2008. The other 15 banks from the top 20 list saw this ratio decline (see Table 2.10).

The capital adequacy (N1) ratio was violated by 18 credit institutions in 2008 (as against 12 credit institutions in 2007). There was also a sharp rise in the number of violations: 196, compared to 47 in 2007.

The number of banks with a capital adequacy ratio of no more than 12% declined from 97 to 31, and their share

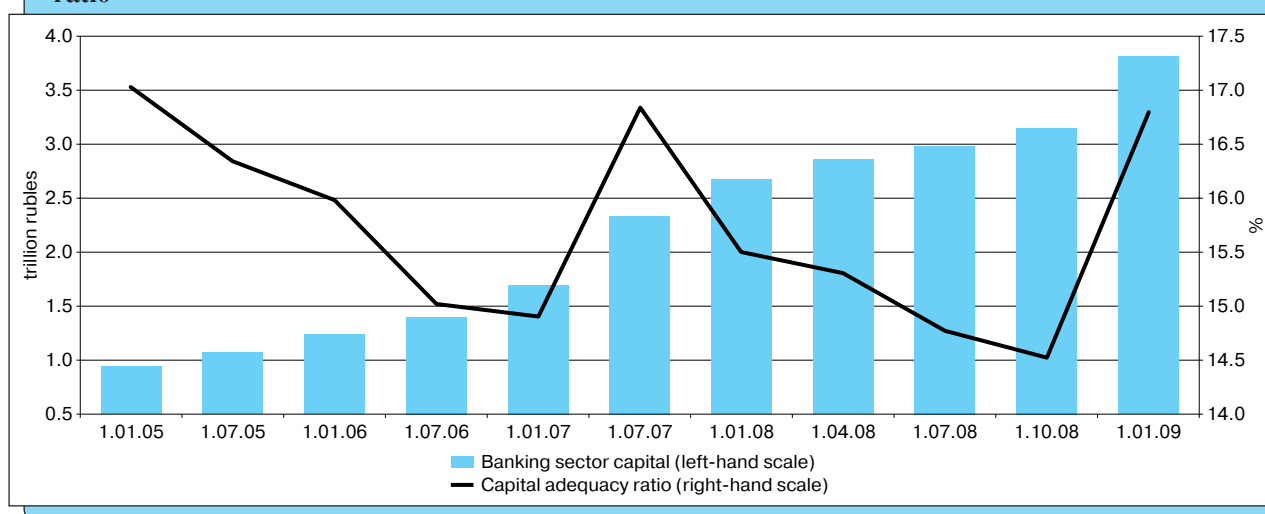
of total banking sector assets contracted by a factor of 1.5 (from 24.2% to 16.6%).

As of January 1, 2009, 70 credit institutions (as against 126 a year earlier) registered a capital adequacy ratio of between 12% and 14%. The share of this group of banks of total banking sector assets expanded by half a percentage point during the year, to reach 18.2%.

About 90% of operating credit institutions continue to maintain their capital adequacy ratio above 14%. The share of credit institutions with a capital adequacy ratio between 14% and 28% of total banking sector assets expanded during the year from 53.6% to 58.2% (see Chart 2.17 and Chart 2.18).

Capital adequacy ratio

CHART 2.16



Capital adequacy (N1) ratio by group of credit institutions

TABLE 2.9

	1.01.08	1.01.09
State-controlled banks	15.6	18.4
Banks controlled by foreign capital	14.1	15.5
Large private banks	14.5	14.0
Medium-sized and small banks based in Moscow	28.1	31.4
Regional medium-sized and small banks	19.9	21.9
Non-bank credit institutions	117.3	37.2

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

TABLE 2.10

Credit institutions arranged by assets (in descending order)	1.01.08	1.01.09
Top 5	14.9	17.6
6 th to 20 th	13.1	12.6
21 st to 50 th	14.2	14.4
51 st to 200 th	17.4	18.9
201 st to 1,000 th	24.6	27.3
1,000 th down	60.3	63.1
Banking sector	15.5	16.8

**Credit institutions grouped by capital adequacy ratio
(by number)**

CHART 2.17

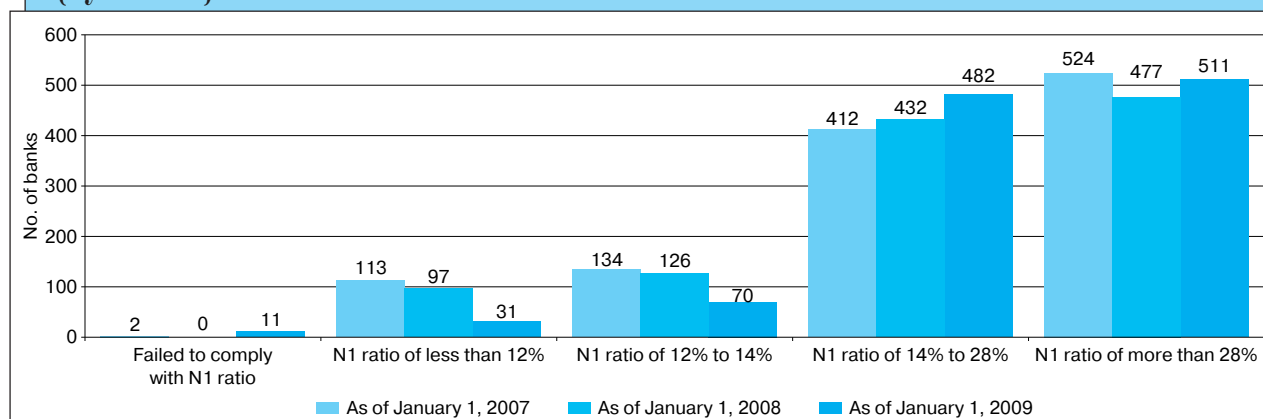
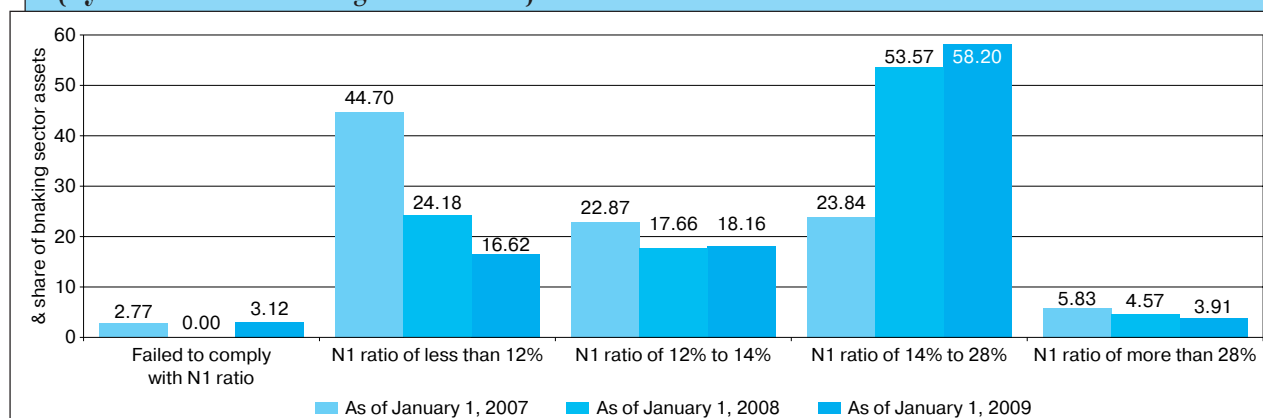

**Credit institutions grouped by capital adequacy ratio
(by share of total banking sector assets)**

CHART 2.18



II.5. Bank Management Quality

The global economic crisis has demonstrated to the full extent the importance for bank stability of effective strategic management and risk management. The future of banks amid instability on the banking services market and the decline in demand for many banking products will largely depend on a competent strategy and its successful implementation. As for risk management, the existing systems have allowed many banks to overcome the most severe phase of the crisis, while defects in risk management systems have been responsible for financial instability in many banks.

Credit institutions' success in maintaining an adequate level of management quality was largely due to the use by Bank of Russia's regional branches of a single methodology, developed late in 2007, for evaluating the quality of corporate governance, and also to evaluations of risk management in the course of assessing the economic situation of credit institutions.

At the same time, the results of corporate governance assessment conducted by Bank of Russia regional branches in 2008 have shown that the most severe problems faced by credit institutions, particularly small regional banks, were coordination of banking risk management, strategy development and implementation, and board efficiency.

It should be noted that credit institutions have become more transparent. As of January 1, 2009, over 86% of all credit institutions (an increase of 2.6 percentage points on 2007) disclosed information on their activities on the Bank of Russia's Internet site. As of the beginning of 2009, 729 credit institutions, or over 65% of the total, agreed to disclose information pursuant to Bank of Russia Letter No. 165-T, dated December 21, 2006, 'On Information Disclosure by Credit Institutions,' i.e., disclosed all data reported in 0409101 Form and 0409102 Form. Many credit institutions disclose information on their own websites.

II.6. Macprudential Analysis of Banking Sector

To assess banking sector resilience to systemic stress, the Bank of Russia regularly conducted *stress tests* in the period under review, to model the effect of hypothetical but possible events on the situation in the banking sector and on individual credit institutions.

Stress tests were conducted quarterly in 2008. The testers considered scenarios in which several negative events simultaneously impacted banks. Using generally accepted international practice, they evaluated banks' losses under the impact on each bank of three types of risk: credit risk, market risk and liquidity risk. A contraction of GDP caused by a fall in oil prices, among other things, was assumed to be a trigger of the stress situation. The scenarios suggested a significant increase in the share of bad loans,⁷¹ a devaluation of banks' liquid assets, a rise in market interest rates, a decline in stock indices, a devaluation of the national currency, and the runs on banks by creditors and depositors, which aggravated the situation. Additionally stress test was conducted to determine the possibility of a crisis breaking out on the interbank market (the so-called 'domino effect').

The crisis has shown that the set of stress factors selected for stress testing (a sharp fall in the prices of oil and other Russian exports, a decline in stock indices, a devaluation of the ruble, and an outflow of household deposits from banks) was entirely realistic, while the assessments of potential losses of the banking sector and the need for additional capital, made as a result of the stress tests conducted during the first three quarters of 2008, were by and large appropriate.

The stress testing methodologies used by the Bank of Russia will continue to be improved in 2009. On the whole, stress testing as an instrument used to analyse

banking risks, collect additional material for decision-making on banking sector capitalisation, evaluate changes in the structure of banking risks, and detect credit institutions that are particularly exposed to one risk or another, will be used by the Bank of Russia when assessing systemic risks in the course of banking supervision.⁷²

The Bank of Russia regards financial soundness indicators, or FSIs, as an important instrument for macroprudential analysis. These constitute a system of indicators calculated for the purpose of evaluating the current situation of various financial institutions (including banks and non-bank financial organisations) and their corporate counterparties, the household sector, the real estate market, and financial market liquidity. Recommendations for calculating FSI are given in the IMF Compilation Guide on Financial Soundness Indicators. FSIs are calculated by over 60 countries and published by the IMF for cross-country comparison. Consequently, FSIs may be used as financial sector stability indicators based on comparisons with countries with different levels of financial system development. IMF experts widely used FSIs within the framework of the Financial Sector Assessment Programme for the Russian Federation in 2007 and 2008.

The Bank of Russia participated in the IMF pilot project entitled *Co-ordinated Compilation Exercise on FSIs* in 2004—2007, and in 2008, it accepted the IMF's proposal to calculate FSIs on a regular basis and post them on the IMF website. For this purpose, in the period under review, the Bank of Russia carried out the necessary preparatory work. Specifically, it actualised the calculation algorithms, which was necessitated, among other things, by changes to Russian accounting and reporting principles.

⁷¹ Bad loans are Quality Category 4 and 5 loans, according to international standards.

⁷² Some international organisations, such as the IMF, use stress testing to evaluate losses under global financial crisis conditions, employing the toughest assumptions that reflect the possibility of a deepening of the crisis.

Banking Regulation and Supervision in Russia

III

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

The Bank of Russia continued in 2008 to improve banking legislation, including through implementation of the Strategy for Banking Sector Development until 2008.

The Bank of Russia issued regulations aimed at improving banking regulation and supervision, including the state registration of credit institutions, the licensing of banking activities, the management of off-site supervision, on-site inspections, the financial rehabilitation and liquidation of credit institutions, and countering of money laundering and terrorist financing.

III.1.1. Upgrading the legal framework for credit institutions

The following federal laws drafted with the participation of the Bank of Russia were passed in 2008:

- Federal Law No. 46-FZ, dated April 8, 2008, 'On Amending Article 30 of the Federal Law on Banks and Banking Activities' (with regards to the disclosure of information by credit institutions to individual borrowers);
- Federal Law No. 174-FZ, dated October 13, 2008, 'On Amending Article 11 of the Federal Law on Insurance of Household Deposits with Russian Banks and Certain Other Laws of the Russian Federation' (with regards to increasing insurance compensation for personal deposits);
- Federal Law No. 270-FZ, dated December 22, 2008, 'On Amending the Federal Law on Insurance of Household Deposits with Russian Banks' (with regards to the specification of criteria for Bank of Russia supervision of banks' compliance with the requirements for the participation in the deposit insurance system);
- Federal Law No. 306-FZ, dated December 30, 2008, 'On Amending Certain Laws of the Russian Federation in Connection with the Improvement of Foreclosure Procedure.'

The year 2008 saw the completion of a major stage of work on the legislative upgrading of procedures for mergers and acquisitions of credit institutions. Federal Law No. 315-FZ, dated December 30, 2008, 'On Amending the Federal Law on Banks and Banking Activities and Certain Other Laws of the Russian Federation,' lifted the requirement to notify creditors in writing of decisions on reorganisation (the alternative is to make this decision known by publishing it in printed media), and restricted creditors' right to demand an early termination or execution of obligations and compensation for losses from a credit institution that has decided to reorganise itself.

III.1.2. State registration of credit institutions and licensing of banking operations

In pursuance of Federal Law No. 315-FZ, dated December 30, 2008, 'On Amending the Federal Law on Banks and Banking Activities and Certain Other Laws of the Russian Federation,' and to simplify and reduce the expense of reorganisation procedures, the Bank of Russia amended its Regulation No. 230-P, dated June 4, 2003, 'On the Reorganisation of Credit Institutions through Mergers and Acquisitions,' and Instruction No. 109-I, dated January 14, 2004, 'On the Bank of Russia Decision-Making Procedure Relating to the State Registration of Credit Institutions and the Issue of Licences to Conduct Banking Operations' (Bank of Russia Ordinance No. 2162-U, dated December 30, 2008, and Ordinance No. 2164-U, dated December 30, 2008). The amendments provide, in particular, for:

- lifting the requirement for credit institutions to provide documents unrelated to monitoring of the compliance by the credit institutions being reorganised with the provisions of civil laws (including the law on joint-stock companies and limited liability companies);
- the significant reduction (by four times in case of a merger and by three times in case of an acquisition, i.e. to one month) of the time taken to examine documents presented for the state registration of a credit institution being created by a merger (changes to the founding documents of the acquiring credit institution) owing to the delivery of these documents directly to the Bank of Russia head office, bypassing a Bank of Russia regional branch;
- the possibility for credit institutions being reorganised to present documents or their drafts to the Bank of Russia head office before making an official application to the Bank of Russia head office for the drafting of a report on compliance with the requirements of federal legislation and Bank of Russia regulations. During this period, a credit institution may present to a Bank of Russia regional branch documents for the approval by the Bank of Russia of candidates for the position of new managers of credit institutions and their branches, and the inspection of new offices for operations with valuables, to ensure that they comply with Bank of Russia requirements. The implementation of this procedure will help eliminate shortcomings detected in the documents at an early stage, and prevent the reorganisation procedures being drawn out by supervision procedures. On the whole, the

amendment will considerably accelerate the examination of documents relating to reorganisation, and the Bank of Russia's decision-making process.

In connection with the entering into force on March 8, 2008, of Federal Law No. 325-FZ, dated December 4, 2007, 'On Amending Article 36 of the Federal Law on Banks and Banking Activities,' which allows a newly created bank, or a bank registered less than two years earlier, to take personal deposits, the Bank of Russia issued Ordinance No. 1977-U, dated February 5, 2008, 'On Amending Bank of Russia Instruction No. 109-I, Dated January 14, 2004, on the Procedure for the Taking of Decisions by the Bank of Russia on the State Registration of Credit Institutions and the Licensing of Banking Operations,' which entered into force on March 16, 2008. This Ordinance made amendments that set requirements to which a newly registered bank or a bank registered less than two years earlier must comply to obtain such permission:

- it must have authorised capital of no less than the ruble equivalent of 100 million euros;
- it must disclose to a non-restricted range of people information on the persons or groups that directly or indirectly exert material influence on decisions taken by the bank's management. The provision specifies that such persons or groups are established according to the procedure set by Annex 3 to Bank of Russia Ordinance No. 1379-U, dated January 16, 2004, 'On the Evaluation of Financial Soundness of a Bank for the Purpose of Declaring it Sufficient for Participation in the Deposit Insurance System;'
- it must publish information on these individuals in the Bank of Russia Bulletin and post it on the website of the bank (or one of the founders of the bank).

During 2008, the Bank of Russia carried out further measures to make banking services more accessible in rural areas, where the most common operations are the opening and keeping bank accounts, particularly personal deposits.

Bank of Russia Ordinance No. 2007-U, dated May 8, 2008, 'On Amending Bank of Russia Ordinance No. 1548-U, Dated February 7, 2005, on the Procedure for Opening (Closing) and Operating a Mobile Banking Vehicle of a Bank or a Branch,' allowed banks and their branches to authorise their mobile banking vehicles to conclude bank account and bank deposit agreements and perform the following actions:

- identify customers according to procedures established by federal legislation;
- accept documents required for opening (closing) bank accounts and deposits and carry out customer orders involving the funds on their accounts and deposits;
- verify the correctness of documents and completeness and reliability of information presented;
- fill out a card with a specimen signature and stamped seal;
- certify the testamentary disposition of rights to a customer's funds in compliance with federal legislation.

In connection with the entering into force of Bank of Russia Ordinance No. 2005-U, dated April 30, 2008, 'On the Evaluation of the Economic Situation of a Bank,' the Bank of Russia made amendments to its Instruction No. 109-I, dated January 14, 2004, by issuing Ordinance No. 2043, dated July 15, 2008, which specified the criteria which a bank founding a credit institution, or a bank requesting permission to expand the range of its operations by obtaining a banking licence, must meet in order to be assigned to Classification Group 1 or Classification Group 2 under Bank of Russia Ordinance No. 2005-U.

Bank of Russia Ordinance No. 2016-U, dated June 4, 2008, 'On Amending Points 3.1 and 3.3 of Bank of Russia Regulation No. 290-P, dated July 4, 2006, on the Procedure for Issuing Bank of Russia Permits to Credit Institutions to Have Subsidiaries in Foreign States,' stipulated that the documents to be submitted must contain the written consent of managers, a chief accountant, or candidates for these positions, and the founders of a subsidiary, for the processing by the Bank of Russia of their personal data. It also lifted the requirement to present a business plan of a credit institution as a supplement to a subsidiary feasibility report. These amendments were necessitated by the Federal Law on Personal Data, and were aimed at optimising the package of documents presented in compliance with the requirements of the aforementioned Regulation.

Bank of Russia Ordinance No. 2148-U, dated December 1, 2009, 'On the Possibility of the Temporary Functioning of the Correspondent Sub-account of a Credit Institution's Branch Converted into an Internal Division,' extended until July 1, 2009, the time period during which a Bank of Russia regional branch may take a decision on the temporary functioning of a correspondent sub-account of a credit institution's branch after it has been converted into an internal division. This amendment will create optimal conditions for the implementation by a credit institution of the necessary measures to expand regional sales networks and retain its customer base.

III.1.3. Regulation of credit institutions and supervision methodology

To support the banking sector amid the global financial crisis and to supervise credit institutions to ensure the prudent use of government funds, the Bank of Russia issued a package of regulations and letters.

1. To prevent the use of funds allocated as government support for the financial system in operations on the foreign exchange market, the Bank of Russia recommended that credit institutions maintain the average monthly balance of foreign currency assets at a level not greater than the actual average balance of foreign currency funds during the period from August 1 to October 25, 2008, and maintain the average net currency balance sheet position not greater than its actual average during the period from October 25 to November 25, 2008 (hereinafter referred to as the 'base periods'). It also recommended that credit institutions do not to create a long

currency balance sheet position if, in the base period, they had created a short currency balance sheet position (Bank of Russia Letter No. 01-13-1/5713, dated October 28, 2008, and Letter No. 01-15-3/7850, dated December 25, 2008).

For this purpose, the Bank of Russia developed methods for monitoring credit institutions' compliance with these recommendations, and reducing the limit on lending to credit institutions that had concluded general agreements with the Bank of Russia on obtaining from the latter unsecured loans pursuant to Bank of Russia Regulation No. 323-P, dated October 16, 2008, 'On Extending Bank of Russia Unsecured Loans to Credit Institutions' (hereinafter referred to as the general agreement), in cases where the credit institutions fail to follow Bank of Russia recommendations.

2. The Bank of Russia's monitoring of an open currency position required credit institutions that had concluded a general agreement with the Bank of Russia to present reports every 10 days (broken down into working days) compiled in 0409634 Form 'The Statement of Open Currency Positions' (Bank of Russia Letter No. 04-15-3/7393, dated December 11, 2008 and Letter No. 04-15-3/7851, dated December 25, 2008, 'On the Presentation of Reports by Credit Institutions').

3. To create more favourable conditions for lending to the real sector under the current conditions, the Bank of Russia issued a regulation⁷³ that granted to credit institutions the right not to downgrade the quality of loan service from the levels established by the Bank of Russia Regulation on the Procedure for Making by Credit Institutions Provisions for Possible Losses on Loans, Loan and Similar Debts in the following cases:

- if the period of overdue debt on the principal amount of a loan and (or) interest exceeds the period established by this Bank of Russia Regulation by 30 days;
- if the loan has been restructured (in case of a change of the currency in which the loan is denominated or of the term of redemption of the debt principal and (or) interest) since October 1, 2008;
- if the loan has been used from October 1, 2008, to repay the debt on a loan extended to the borrower earlier.

4. To avert the negative consequences of sanctions on the soundness of credit institutions during the global financial crisis, the Bank of Russia recommended that its regional branches do not to use repressive measures (fines, bans and restrictions on certain banking operations) for violations of prudential standards by credit institutions, if their financial situation and violations of prudential standards were caused by systemic factors and

do not threaten the interests of creditors and deposits, and banking sector stability. These recommendations were made known to the Bank of Russia regional branches in Bank of Russia Letter No. 160-T, dated December 9, 2008, 'On the Use of Repressive Measures.'

The Bank of Russia continued in 2008 to improve the bank regulation system, including through the use of international banking supervision practices.

To regulate liquidity risk, the Bank of Russia:

- set out an accounting procedure for the calculation of liquidity ratios for the minimum balances of customer accounts, based on the cash flow approach;⁷⁴
- extended a list of liquid assets by including in it equities of Russian issuers permitted to participate in trade on the organised trading floors (the MICEX and the RTS) on the condition that their influence on the MICEX and RTS indices exceeds 1%.⁷⁵

To tackle problems relating to inadequate loan classification and loan loss provisions, arising when a borrower presents reports and (or) information that differs from information that the borrower has presented to the government authorities and (or) published, and (or) from information stored in the credit bureau, the Bank of Russia established the requirement that such loans must be recognised as carrying significant credit risk, and classified as doubtful (Quality Category 3). These loans require the creation of the maximum provision established for this Quality Category (50%).⁷⁶

To upgrade supervision, the Bank of Russia, taking on board the recommendations of the Basel Committee on Banking Supervision and international practice aimed at encouraging risk-based supervision, comprehensive assessment of banks' activities, and a transition from formal evaluation procedures to substantive assessment, issued Ordinance No. 2005-U, dated April 30, 2008, 'On the Evaluation of Banks' Economic Situation (hereinafter referred to as Ordinance No. 2005-U). It described a methodology for evaluating banks that ensures a uniform approach to their activities in the course of Bank of Russia supervision, and to the standards used when banks are evaluated in respect to their compliance with requirements for the participation in the deposit insurance system.

Ordinance No. 2005-U stipulates that the economic situation of banks is evaluated on the basis of an assessment of their capital, assets, profitability, liquidity, management quality, including the risk management system, internal controls and strategic risk management, ownership structure transparency, compliance with required ratios, and the record of sanctions used against the bank. When capital and profitability indicators are evaluated,

⁷³ Bank of Russia Ordinance No. 2156-U, dated December 23, 2008, 'On the Specifics of Evaluating Credit Risk for Loans, Loan and Similar Debts,' entered into force on December 31, 2008, and will remain in effect until December 31, 2009.

⁷⁴ 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.'

⁷⁵ Bank of Russia Ordinance No. 2030-U, dated June 18, 2008, 'On Amending Annex 1 to Bank of Russia Instruction No. 110-I, Dated January 16, 2004, 'On Banks' Required Reserves.'

⁷⁶ Bank of Russia Ordinance No. 2028-U, dated June 16, 2008, 'On Amending 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.'

their projected levels are calculated for the next 12 months, and this makes it possible to detect problems within a bank at an early stage. The economic situation of banks is evaluated on a quarterly basis, while their financial indicators, such as capital, assets, profitability and liquidity, and required ratios are monitored on a monthly basis. The evaluation results are used as criteria for assigning a bank to one of the five classification groups. Information on the classification group to which the bank was assigned, and the shortcomings in its work that served as grounds for this classification, is made known to the bank's chief executive officer.

To protect consumer rights in the field of consumer lending, the Bank of Russia, pursuant to Federal Law No. 46-FZ, dated April 8, 2008, 'On Amending Article 30 of the Federal Law on Banks and Banking Activities,' issued Ordinance No. 2008-U, dated May 13, 2008, 'On the Procedure for Calculating and Making Known to an Individual Borrower the Full Cost of a Loan,' which set the procedure for calculating the full cost of credit in per annum percentages, using the effective interest rate formula, and required credit institutions to make known to each individual borrower in the text of a credit agreement the full cost of the loan obtained, indicate the number and size of borrower payments included in its calculation, comprising payments to third parties not indicated in the credit agreement (insurance companies and notary's offices) and excluded from the full cost of credit, including payments connected with the borrower's failure to comply with the terms and conditions of the credit agreement. Credit institutions must also make known to the individual borrower the full cost of credit, the number and size of payments included and not included in its calculation, and the number of payments to third parties not indicated in the credit agreement, before the agreement is concluded and before any changes are made to the terms and conditions of the credit agreement that alter the full cost of credit.

The Bank of Russia continued in 2008 to improve the principles of organising consolidated supervision of credit institutions and to harmonise them with international best practice. Specifically, the Bank of Russia:

- refined the draft federal law prepared jointly with the Ministry of Finance, 'On Amending the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)' for the purpose of specifying the main elements of consolidated supervision and the requirements for the disclosure of information by credit institutions, banking groups and bank holding companies to interested parties;
- upgraded the regulatory framework for consolidated supervision, drafting a new version of the Bank of Russia Regulation on Consolidated Reporting and Bank of Russia Ordinance 'On Amending Bank of Russia Regulation No. 191-P, Dated July 30, 2002, on Consolidated Reporting, and Bank of Russia Reg-

ulation 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 drafts are designed to improve the methodology for compiling consolidated reports, to harmonise it with international standards within the framework of the applicable versions of the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), and structuralize the requirements for consolidated reporting set in Regulation No. 191-P and Regulation No. 246-P.

To provide information and clarify methodologies relating to the use of advanced risk evaluation approaches in determining bank capital adequacy, the Bank of Russia issued a letter of information on the Internal Ratings-based (IRB) Approach to the Calculation of Minimum Regulatory Capital Necessary to Cover Credit Risk.⁷⁷

During 2008, the Bank of Russia continued to build a legal framework for its relations with external auditors of credit institutions in information sharing, and to bring these relations into compliance with recommended international standards. Bank of Russia proposals on this issue had been discussed with the banking and audit communities and received the overall approval of the Audit Consulting Board under the Ministry of Finance. Building upon them, the Bank of Russia wrote and in October 2008 sent to the Finance Ministry a draft concept and terms of reference for the drafting of a federal law to amend the Federal Law on Audit, the Federal Law on Banks and Banking Activities, and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), as well as a draft law on implementing these proposals.

In 2008, the Bank of Russia sent the following letters to its regional branches:

- Letter No. 41-T, dated April 14, 2008, 'On the Need to Improve the Efficiency of Operational Risk Management Systems,' which recommends that supervisors pay attention to operational risk management systems' consistency with the sources of risk and the level of risk assumed by a credit institution;
- Letter No. 52-T, dated May 5, 2008, 'On the Consumer Loan Borrower's Memo,' which recommended that Bank of Russia regional branches carry out additional work to ensure that credit institutions disclose all information to borrowers on the terms and conditions of consumer credit, including the posting of the Loan Borrower's Memo containing essential information helping the (potential) borrower to reach a decision on taking a consumer loan.

Household deposit insurance

To boost depositor confidence in the banking system and prevent a run on banks, Russia passed Federal Law No. 174-FZ, dated October 13, 2008, 'On Amending Article 11 of the Federal Law on Insurance of Household Deposits with Russian Banks and Certain Other Federal

⁷⁷ Banking Regulation and Supervision Department Letter No. 15-1-5/4383, dated September 4, 2008.

Laws,' which increased personal deposit insurance compensation to 700,000 rubles and provided for a commensurate increase in Bank of Russia payments to depositors of bankrupt banks uncovered by the deposit insurance system.

Federal Law No. 270-FZ, dated December 22, 2008, 'On Amending the Federal Law on Insurance of Household Deposits with Russian Banks and Certain Other Federal Laws' (hereinafter referred to as Federal Law No. 270-FZ), specified the criteria of Bank of Russia monitoring of banks' compliance with deposit insurance system requirements, the arrangements for ensuring the payment of insurance compensation, and the functions and powers of the Deposit Insurance Agency (DIA), including its functions and powers as the liquidator of banks participating in the deposit insurance system. Specifically, it extended from three to six months the period of a bank's non-compliance with certain deposit insurance system requirements, after which the Bank of Russia must prohibit the bank from taking personal loans and eventually revoke its licence to handle deposits. Federal Law No. 270-FZ also required that banks participating in the deposit insurance system disclose to an unrestricted number of people information on persons who directly or indirectly exert material influence on the decision-making of the bank's management. This requirement follows global banking supervision trends with respect to transparency and openness of banks (Federal Law No. 270-FZ entered into force on December 26, 2008).

To specify the grounds and procedure for preparing a petition to prohibit a bank that does not comply with deposit insurance system requirements from taking personal deposits and opening personal bank accounts, and the procedure for considering such a petition of a Bank of Russia regional branch by the Bank of Russia head office, the Bank of Russia issued Ordinance No. 2053-U, dated August 12, 2008, 'On Amending Bank of Russia Ordinance No. 1655-U, Dated February 5, 2006, on the Procedure for Considering Petitions to Prohibit Banks Recognised as Unfit to Participate in the Deposit Insurance System from Taking Personal Deposits and Opening Personal Accounts.'

Financial rehabilitation of credit institutions

To maintain banking sector stability and protect the legitimate interests of bank depositors and creditors, Federal Law No. 175-FZ, dated October 27, 2008, 'On Additional Measures to Strengthen Banking System Stability up to December 31, 2011,' was passed, granting to the Bank of Russia and the DIA the right to take measures to prevent the bankruptcy of banks participating in the deposit insurance system, and to evaluate the financial situation of a bank for the purpose of deciding whether the DIA should carry out bankruptcy prevention measures with regard to this bank. At the same time, the Bank of Russia was granted the right not to impose against

such banks sanctions provided for by Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), not to impose on a bank a ban on taking personal deposits, and not to revoke a banking licence. The Bank of Russia was also granted the right to take a decision to reduce the authorised capital of such a bank to the amount of its capital if the owners of the bank have not taken such a decision independently. The law also stipulated that the Bank of Russia may assign to the DIA, with the latter's consent, the functions of the provisional administration of a bank. In the course of fulfilling its functions as the provisional administration of a bank, the DIA may carry out a series of measures to transfer the bank's property and liabilities, or a part thereof, to an acquiring party. The law sets out the financial principles for implementing the measures stipulated by it. The Bank of Russia has issued 13 regulations in pursuance of Federal Law No. 175-FZ, dated October 27, 2008, 'On Additional Measures to Strengthen Stability of the Banking System up to December 31, 2011.'⁷⁸

Bank of Russia Ordinance No. 2106-U, dated October 29, 2008, 'On the Procedure for Inviting the Deposit Insurance Agency to Participate in Preventing a Bank's Bankruptcy and Agreeing (Approving) a Plan for the Agency's Participation in Preventing a Bank's Bankruptcy,' established the procedure for the taking of a decision by the Bank of Russia to make a proposal to the DIA to participate in preventing a bank's bankruptcy; the procedure for agreeing (approving) by the Bank of Russia a plan for the DIA's participation in preventing a bank's bankruptcy; the Bank of Russia's procedure for taking a decision on the impossibility of fulfilling the plan for the DIA's participation in preventing a bank's bankruptcy and (or) the DIA's performance of the functions of the provisional administration; the procedure for presenting the DIA's report to the Bank of Russia on progress in implementing measures envisaged by the DIA participation plan; and the Bank of Russia's procedure for considering this plan and the requirements on the content of this plan.

Bank of Russia Ordinance No. 2107-U, dated October 29, 2008, 'On the Evaluation of the Financial Situation of a Bank for the Purpose of Taking a Decision on whether the Deposit Insurance Agency Should Participate in Measures to Prevent its Bankruptcy,' established the procedure for taking a decision to evaluate the financial situation of a bank, including the duties the bank must fulfil in the course of evaluating its financial situation; the procedure for evaluating the financial situation of a bank; and the procedure for recording the results of evaluation of the financial situation of a bank.

Bank of Russia Ordinance No. 2108-U, dated October 29, 2008, 'On the Procedure for Taking a Decision by the Bank of Russia to reduce the Authorised Capital of a Bank to the Level of its Capital,' established the procedure for preparing a petition on taking a decision to reduce the authorised capital of a bank to the level of its

⁷⁸ Bank of Russia Regulation No. 325-P, dated October 29, 2008, Bank of Russia Ordinances Nos. 2106-U-2113-U, dated October 29, 2008, and Bank of Russian Ordinances Nos. 2114-U-2117-U, dated November 1, 2008.

capital; the procedure for cooperation between the divisions of the Bank of Russia head office and regional branches in drafting the petition; and the procedure for making the decision known to the bank and the Bank of Russia regional branches.

Bank of Russia Ordinance No. 2109-U, dated October 29, 2008, 'On Amending Bank of Russia Regulation No. 279-P, Dated November 9, 2005, on the Provisional Administration of a Credit Institution,' requires that provisional administrations, including those appointed by the Bank of Russia pursuant to the Federal Law on Insolvency (Bankruptcy) of Credit Institutions, carry out measures to change the authorised capital of a bank, stipulated by Article 7 of the Federal Law on Additional Measures to Strengthen Banking Sector Stability up to December 31, 2011, and provides provisional administrations, including those appointed by the Bank of Russia pursuant to the Federal Law on Insolvency (Bankruptcy) of Credit Institutions, with the possibility of adjusting provisions made by the bank in compliance with the requirements of Bank of Russia regulations. The Ordinance also sets up the procedure for the taking of decisions by the Bank of Russia to assign the functions of provisional administration to the DIA; the procedure for fulfilling the functions and powers of provisional administration by the DIA; the procedure for presenting reports to the Bank of Russia on the fulfilment of functions assigned to the provisional administration by federal legislation; and the procedure for terminating the activities of the provisional administration whose functions have been assigned to the DIA.

Bank of Russia Regulation No. 325-P, dated October 29, 2008, 'On the Specifics of the Issue (Additional Issue) and Registration of Bank Shares in the Course of Implementing Bankruptcy Prevention Measures by the Central Bank of the Russian Federation (Bank of Russia) and the Deposit Insurance Agency in Regard to a Bank Participating in the Deposit Insurance System,'

- established the procedure for determining which registration authority should register the issue (additional issue) of bank shares in the course of implementing bank bankruptcy prevention measures by the Bank of Russia and the DIA;
- described the specifics of a bank share issue in case of a reduction of the bank's authorised capital to the level of its capital, and in case of an expansion of the bank's authorised capital in the course of bank bankruptcy prevention measures implemented by the provisional administration; it also described the requirements for the set of share issue documents in case of a reduction of the bank's authorised capital to the level of its capital, and in case of an expansion of the bank's authorised capital;
- set the procedure and timeframe for the submission of share issue documents by the provisional administration;

- drew up a complete list of documents sent to a Bank of Russia regional branch for examination of the correctness of payment for the bank's shares.

Bank of Russia Ordinance No. 2110-U, dated October 29, 2008,⁷⁹ made the following changes to Bank of Russia Instruction No. 109-I, dated January 14, 2004:

- shortened the timeframe for the presentation to a Bank of Russia regional branch supervising a bank of documents for the state registration of changes to the bank's charter, and shortened the list of documents that must be presented;
- it established the minimum time (one working day) for the examination of documents by a Bank of Russia regional branch, for the taking of a decision on the state registration of changes made to the founding documents at the decision of the provisional administration, and for the sending of the corresponding package of documents to a Federal Tax Service (FTS) regional branch. The Ordinance also stipulated that documents received from the FTS regional branch must be made known to the bank on the day that the documents are received.

To strengthen the capital base of banks and enhance banking sector stability, the Bank of Russia took part in drafting the Federal Law 'On Amending the Federal Law on Banks and Banking Activities,' which provides for the further gradual raising of the minimum capital requirements for credit institutions (Federal Law No. 28-FZ, dated February 28, 2009, 'On Amending the Federal Law on Banks and Banking Activities,' entered into force on March 15, 2009).

On-site inspection of credit institutions

The Bank of Russia continued in 2008 to develop the regulatory and methodological framework for Bank of Russia inspection activities.

To improve the procedure for organising and conducting on-site inspections of credit institutions and their branches, the Bank of Russia issued the following regulatory documents in the period under review:

1. Bank of Russia Ordinance No. 2075-U, dated September 24, 2008, 'On Amending Bank of Russia Instruction No. 105-I, Dated August 25, 2003, on the Procedure for Conducting On-site Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation,' registered by the Ministry of Justice on October 8, 2008, under No. 12417,

- changed the periodicity of on-site inspections of credit institutions, including authorised banks and their branches, relating to their management, and the implementation and accounting of operations with foreign currency and cheques (the frequency of mandatory on-site inspections was reduced from 'at least once in 18 months' to 'at least once in 24 months');

⁷⁹ Bank of Russia Ordinance No. 2110-U, dated October 29, 2008, 'On Amending Bank of Russia Instruction No. 109-I, Dated January 14, 2004, on the Procedure for Taking the Decision by the Bank of Russia on the State Registration and Licensing of Credit Institutions.'

- specified approaches to determining the number of divisions of a credit institution in the course of inspecting it, on the basis of risk-based supervision;
- prohibited prior notification of a credit institution or its branch of an on-site inspection in case of an on-site inspection conducted exclusively for the purpose of verifying compliance with federal laws and Bank of Russia regulations on countering money laundering and terrorist financing.

2. Bank of Russia Ordinance No. 2076-U, dated September 24, 2008, 'On Amending Bank of Russia Instruction No. 108-I, Dated December 1, 2003, on the Organisation of Inspection Activities by the Central Bank of the Russian Federation (Bank of Russia),' which contained a package of interrelated regulations specifying the powers of an inspector general of the interregional inspectorate of the Main Inspectorate for Credit Institutions to coordinate interregional inspections.

To organise an experiment to centralise inspection activities in the North-Western Federal District, the Bank of Russia issued the following regulations:

- Bank of Russia Ordinance No. 2077-U, dated September 24, 2008, 'On Organising an Experiment to Centralise On-site Inspection by the Bank of Russia,' which allowed the Bank of Russia and the Main Inspectorate for Credit Institutions to issue documents containing the specifics of on-site inspections conducted by Bank of Russia regional branches and Inspectorate No. 3, located in the North-Western Federal District, and granted to the Inspector General of Inspectorate No. 3 the additional right to take decisions on conducting unscheduled regional on-site inspections;
- Bank of Russia Order No. R-1272, dated October 7, 2008, 'On Organising an Experiment to Centralise Inspection Activities by the Bank of Russia.'

To improve the methodologies and practice of organising and carrying out on-site inspections of credit institutions, the Bank of Russia issued the following documents in 2008:

- Letter No. 29-T, dated March 18, 2008, 'On the Use of Bank of Russia Methodological Recommendations in Organising and Conducting On-site Inspections of Credit Institutions and their Branches,' which explains the sufficiency of using Bank of Russia methodological recommendations in the course of conducting on-site inspections and for the purposes and assignment of these on-site inspections;
- Letter No. 54-T, dated May 8, 2008, 'On the Clarification of Questions from Bank of Russia Regional Branches that Arise in the Course of Organising and Conducting On-site Inspections of Credit Institutions and their Branches to Verify Their Compliance with Required Reserve Ratios,' which gives explanations of systemic issues relating to the organisation and conducting of on-site inspections to verify credit institutions' compliance with required reserve ratios;
- Letter No. 68-T, dated June 17, 2008, 'On the Clarification of Questions from Bank of Russia Regional Branches that Arise in the Course of Organising and

Conducting On-site Inspections of Credit Institutions and their Branches,' which gives explanations of systemic issues connected with the organisation and conducting of on-site inspections of credit institutions and their branches;

- Letter No. 158-T, dated December 8, 2008, 'On Tightening Control over the Reliability of Reports Compiled in 0409904 Form 'The Statement of Balances of Accounts of State and Local Authorities and State and Other Extra-budgetary Funds Opened with a Credit Institution or its Branch' in the Course of Inspecting Credit Institutions and their Branches,' which recommends that Bank of Russia regional branches include in the inspection assignment an examination of the correctness of compiling these reports by credit institutions and their branches, and contains recommendations on methods of conducting inspections;
- Letter No. 160-T, dated December 9, 2008, 'On the Use of Repressive Measures;'
- Letter No. 164-T, dated December 11, 2008, 'On Methodological Recommendations for Analysis of the Financial Situation of Credit Institutions and their Branches by Inspection Divisions in the Course of Preparing for an On-site Inspection;'
- Joint Letters of the Bank of Russia Main Inspectorate for Credit Institutions and the Banking Regulation and Supervision Department:

No. 25-3-6/254, dated February 18, 2008, 'On Improving the Methods of Organising and Conducting Preparations for an On-site Inspection;'

No. 25-3-2/965, dated May 26, 2008, 'On the Sampling Technique for the Purpose of Checking Portfolios of Homogeneous Loans,' which describes methods of determining the content and volume of a sample of personal loans, aggregated in the homogeneous loans portfolios (sub-portfolios);

No. 25-3-6/1467, dated August 15, 2008, 'On Improving Methods of Reporting the Results of the Examination of Loans, Loan and Similar Debts of a Credit Institution or its Branch,' which contains recommendations on the reduction of wasted labour in Bank of Russia inspection divisions in the course of recording the results of the inspection of loans, loan and similar debts;

No. 15-1-3-11/4316, dated September 1, 2008, 'On the Implementation of Bank of Russia Ordinance No. 2028-U, dated June 16, 2008, and Bank of Russia Letter No. 15-1-3-11/2036, dated April 23, 2008.'

Liquidation of credit institutions

In connection with the entering into force of Federal Law No. 174-FZ, dated October 13, 2008, 'On Amending Article 11 of the Federal Law on Insurance of Household Deposits with Russian Banks and Certain Other Laws of the Russian Federation,' which raised Bank of Russia compensation to 700,000 rubles, the Bank of Russia issued Ordinance No. 2091-U, dated October 14, 2008, 'On Amending Bank of Russia Ordinance No. 1517-U,

Dated November 17, 2004, on Bank of Russia Compensation Payments for Household Deposits with Bankrupt Banks Uncovered by the Deposit Insurance System and on the Procedure for Cooperation of Agent Banks with the Bank of Russia.'

During 2008, the Bank of Russia took part in drafting the Federal Law on Amending Certain Laws of the Russian Federation in Connection with Improving the Foreclosure Procedure,' which regulates the collateral sale procedure for the purpose of establishing this practice as the most effective means of securing the discharge of obligations (Federal Law No. 306-FZ, dated December 30, 2008, 'On Amending Certain Laws of the Russian Federation in Connection with the Upgrading of the Foreclosure Procedure,' entered into force on January 11, 2009).

In connection with the passage of Federal Law No. 303-FZ, dated December 1, 2007, 'On Invalidating Certain Provisions of Russian Federation Laws,' which repealed the requirement that the federal government must approve the list of credit institutions in which the receiver can open the debtor credit institution's foreign currency accounts and choose, for the placement of foreign currency funds, the bank that offers the best account service terms and conditions, the Bank of Russia issued Ordinance No. 2015-U, dated May 27, 2008, 'On Amending Bank of Russia Ordinance No. 1853-U, Dated July 5,

2007, on the Specifics of Conducting by a Credit Institution Settlement Operations after the Revocation of its Banking Licence and on the Accounts Used by the Receiver (Liquidator or Liquidation Commission).' This regulation removed from Bank of Russia Ordinance No. 1853-U, dated July 5, 2007, the requirement that the receiver (liquidator or liquidation commission) open or use foreign currency accounts only in the credit institutions on the list approved by the Government.

To improve the accreditation of receivers of bankrupt credit institutions by the Bank of Russia, and taking on board established practice, the Bank of Russia issued Ordinance No. 1994-U, dated April 16, 2008, 'On Amending Bank of Russia Regulation No. 265-P, Dated December 14, 2004, on the Accreditation of Arbitration Managers with the Bank of Russia as Receivers of Bankrupt Credit Institutions.'

To enhance the information value of reports compiled by credit institutions undergoing liquidation and improve efficiency of control over liquidation procedures, the Bank of Russia issued Ordinance No. 2011-U, dated May 16, 2008, 'On Amending Bank of Russia 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 of Credit Institutions Undergoing Liquidation.'

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

The trend during previous years towards decline in the total number of registered credit institutions continued in 2008. During the year, the total number of registered credit institutions decreased from 1,296 to 1,228, or by 5.2%, compared to 3.6% in 2007, when the number of credit institutions fell from 1,345 to 1,296. The number of operating credit institutions with banking licences declined from 1,136 (1,092 banks and 44 non-bank credit institutions) to 1,108 (1,058 banks and 50 non-bank credit institutions).

Thirteen new credit institutions were registered during the year under review: eight banks and five non-bank credit institutions as against twelve credit institutions registered in 2007 (eight banks and four non-bank credit institutions). Of the new banks registered in 2008, five are controlled by foreign capital.

The process of credit institutions' reorganisation continued in 2008. Five credit institutions were merged with other credit institutions (eight in 2007) and nine credit institutions changed their legal status from limited liability company to joint-stock company (seven credit institutions changed their status in this way in 2007).

Thirty-seven banks, or 3.3% of total operating credit institutions, expanded the range of their activities by obtaining additional licences (of these, 10 banks received several types of licences). Eight of these banks received a general licence and 10 licences to take on deposit and place precious metals; of these, three banks received these licences along with a general licence, and seven received licences to conduct operations with rubles and foreign currency without taking personal deposits, along with licences to take personal deposits in rubles and foreign currency; 13 banks obtained licences to take personal deposits in rubles and foreign currency; six banks that were members of the deposit insurance system and held licences to take personal deposits in rubles received licences to take personal deposits in foreign currency; and three banks had their licences replaced after the restrictions placed on some of their operations were lifted.

Of the total number of operating credit institutions as of January 1, 2009:

- 886 credit institutions, or 79.9%, held licences to take personal deposits (as against 906 credit institutions, or 79.8% of the total as of January 1, 2008);
- 736 credit institutions, or 66.4%, held licences to conduct banking operations in rubles and foreign currency (as against 754 credit institutions, or 66.4% as of January 1, 2008);
- 298 credit institutions, or 26.9%, held a general licence (as against 300 credit institutions, or 26.4% as of January 1, 2008);

- 203 credit institutions, or 18.3%, held licences to take on deposit and place precious metals or permits to conduct operations with precious metals (as against 199 credit institutions, or 17.5%, as of January 1, 2008).

Owing to measures taken by shareholders and members of credit institutions to strengthen their capital base, the total authorised capital of operating credit institutions increased from 731.7 billion rubles to 881.4 billion rubles, i.e. by 149.7 billion rubles, or 20.4%. In 2007, the total authorised capital of operating credit institutions expanded from 566.5 billion rubles to 731.7 billion rubles, i.e. by 165.2 billion rubles, or 29.2%.

The year under review saw an increase in foreign capital in the Russian banking system. The non-resident share of total authorised capital of operating credit institutions expanded from 183.5 billion rubles to 251.1 billion rubles, or by 36.8% (in 2007, it increased from 90.1 billion rubles to 183.5 billion rubles, or 103.7%). The non-resident share of total banking sector authorised capital grew from 25.1% to 28.5% (in 2007, it rose from 15.9% to 25.1%). Excluding the shareholding of non-residents who are significantly influenced by residents, the non-resident share of the total registered authorised capital of credit institutions expanded from 22.8% in 2007 to 26.2% in 2008.

While the number of credit institutions with foreign shareholding increased from 202 to 221 (from 153 to 202 in 2007), the number of credit institutions with a non-resident stake of over 50% rose from 86 to 102 (in 2007, it grew from 65 to 86). Foreign investment in the authorised capital of operating credit institutions increased by 67.6 billion rubles (as against 93.4 billion rubles in 2007).

Credit institutions with foreign stakes are located in 38 constituent territories of the Russian Federation, of which 129 credit institutions, or 58.4% of the total, are based in Moscow and the Moscow Region, and 15 are in St Petersburg.

The number of branches of credit institutions rose negligibly in 2008: as of January 1, 2009, there were 3,470 as against 3,455 as of January 1, 2008, an increase of 0.4%. Of the total number of branches of credit institutions in Russia, there were 775 Sberbank branches as of January 1, 2009, a decrease of 34 from a year earlier. The trend towards growth in the number of internal divisions of credit institutions, such as additional offices, operations offices and mobile banking vehicles, continued in 2008. At the same time, there was a decline in the number of external cash desks (from 14,689 to 13,871) and cash credit offices (from 1,543 to 1,445). The total number of internal divisions of credit institutions and their

branches rose by 2,389 to 38,148 as of January 1, 2009 as against 35,759 as of January 1, 2008.

The density of banking services in terms of the number of internal divisions per 100,000 residents increased from 25 to 27 in 2008.

In 2008, the Bank of Russia registered 274 share issues, of which 94.5% were placed to increase authorised capital, 3.7% in the course of creating and reorganising credit institutions, and 1.8% for the purpose of splitting, consolidation and conversion (the respective percentages in 2007 were 92.6%, 4.7% and 2.7%).

The total nominal value of registered share issues decreased in 2008 from 201.7 billion rubles to 174.5 billion rubles, largely owing to the contraction from 68.1 billion rubles to 0.1 billion rubles in the volume of share issues registered in the course of share splitting. The nominal value of share issues registered for the purpose of expanding authorised capital increased from 126.9 billion rubles to 168.9 billion rubles, or by 33.1%.

The nominal value of registered bond issues rose 15.3% in 2008 year on year, to reach 344.4 billion rubles. Of the nominal value of bonds issued in the period under review, 17.9%, or 61.7 billion rubles in bonds, were placed. This represents a decrease from the previous year's 33.3%, or 99.5 billion rubles in bond placements. In addition, the Federal Financial Markets Service registered in 2008 reports and received notices on the results of 30 placements of bonds worth 105.5 billion rubles, registered before January 1, 2008.

Forty-nine issues of securities to the sum of 84.7 billion rubles, including 21 issues of shares totalling 13.2 billion rubles and 28 issues of bonds totalling 71.5 billion rubles, were cancelled as no papers were placed. Due to the unfavourable situation on the financial market, these figures far surpass those registered in 2007, when 18 issues of securities to the sum of 7.7 billion rubles, including 15 issues of shares totalling 3.5 billion rubles and three issues of bonds totalling 4.2 billion rubles, were cancelled.

III.3. Off-site Supervision

The principal objective of off-site supervision in 2008 continued to be the implementation of risk-based principles aimed at detecting problems in credit institutions at early stages, encouraging dialogue with banks on their governance and risk management, and enhancing the efficiency and adequacy of supervisory response measures to adverse situations in credit institutions.

At the same time, the extremely favourable external and internal conditions and the sustained growth in the economy and banking sector for several years and most of 2008, along with the stable situation of banks, somewhat dulled the responses of the management of certain banks, and to some extent that of supervisors, to the risks assumed by the banks. This was one of the reasons for the formal approach to supervision of credit institutions in some cases.

The international financial crisis, which began to affect the Russian banking sector in September 2008, revealed certain latent defects in the operations of some credit institutions, and forced a significant stepping up of efforts, including supervisory measures, to analyse the profile and level of risks assumed by banks, and to accelerate and enhance the efficiency of supervisory response to adverse circumstances facing banks.

The supervisory authority also focused attention on systemically important banks that were key to banking sector stability at the federal or regional level. So-called 'second-line supervision' was organised at the Bank of Russia head office to improve the quality of supervision of these banks. The essence of the scheme is that head office staff has taken over part of the functions of immediate supervision of these banks in cooperation with the corresponding Bank of Russia regional branches, which continue to fulfil their supervisory functions. The 'second-line' supervision ensured the implementation of the so-called 'four-eye principle' of supervision of large banks, which accelerated and improved the quality of supervisory decisions taken in regard to these banks.

The appointment of curators to virtually all large banks and many medium-sized banks was a step forward in organising off-site supervision in 2008. The curators' main tasks are to form a clear judgement on the nature of the business and risk profile of supervised credit institutions, and to continually monitor their activities. Curators have significantly expanded their contacts with the owners, managers and employees of credit institutions, and hold working meetings and conferences to discuss the current situation, especially in high-risk areas of business. This practice ensures the implementation of one of the main principles set out in the Basel Committee's Core Principles for Effective Banking Supervision.

The transparency of banks for the supervisory authority is becoming increasingly important for supervision of credit institutions, particularly in view of shortcomings uncovered by the crisis. In addition to disclosing the actual ownership structure, banks must ensure the transparency of their business, borrowers, and customers, the adequacy of risk assessment and proper accounting and reporting of risks. This area of work will continue to top the list of priorities in the foreseeable future.

Credit risk continued to attract particular attention in 2008. In evaluating the level of credit risk, supervisors paid particular attention to ascertaining whether banks' borrowers were engaged in genuine activities involving material production or the provision of services, the manner in which they used the loans obtained (examining cash flows was one of means of establishing this), from which sources they raised funds to service and repay their loans, and the quality of their collateral.

It was also important for off-site supervision to determine the real (economic) concentration of credit risks, including those involved in bank lending to affiliated persons, and also the extension of 'technical' loans for the purpose of compiling fictitious reports on compliance with maximum credit risk requirements. In such cases, risk was assumed almost exclusively by related persons. Nevertheless, the fact that some credit institutions exceeded reasonable credit risk concentrations became obvious under the influence of the crisis, and this confirmed the appropriateness of amendments made to the Federal Law 'On the Central Bank of the Russian Federation,' envisaged by the Banking Sector Development Strategy, which created legal conditions for enhancing the efficiency of banking supervision of risks that arise in credit institutions' interrelations with related persons.

The situation on the international and Russian financial markets created a need to pay closer attention to the evaluation of credit institutions' current liquidity, and to the presence of an adequate liquidity risk management system. In September 2008, the Bank of Russia reinforced the bank liquidity monitoring system, which included the daily monitoring of the turnover of systemically important credit institutions and the balances of correspondent accounts opened with the Bank of Russia.

Supervisors also paid attention to the activities of multi-branch banks, especially those whose branches in other regions accounted for a large transaction volume. The Bank of Russia made its regional branches cooperate more closely with the head office in supervising such banks.

In the fourth quarter of the year, off-site supervision was additionally focused on credit institutions that received loans from the Bank of Russia according to stan-

dard refinancing procedures and uncollateralised loans extended under Bank of Russia Regulation No. 323-P, dated October 16, 2008, 'On the Extension of Unsecured Loans to Russian Credit Institutions by the Bank of Russia.' To prevent the use of government relief funds in speculative operations with foreign currency, the Bank of Russia issued Letter No. 161-T, dated December 10, 2008, 'On Monitoring Net Balance Sheet Foreign Currency Positions,' and Letter No. 01-15-3/7850, dated December 25, 2008, which recommended that credit institutions limit growth in foreign currency assets. Credit institutions that failed to follow these recommendations had their uncollateralised credit limits lowered.

In supervising credit institutions, supervisory bodies took into account analysis of their reports for 2007, compiled according to International Financial Reporting Standards (IFRS). When major discrepancies were detected between key bank performance indicators reported according to Russian accounting rules and according to IFRS, supervisors examined the reasons for these discrepancies, and whenever necessary, demanded that credit institutions reassess their assets and liabilities in the future.

During 2008, the Bank of Russia continued to improve the forms of reports used in supervision (prudential reporting). Specifically, new reporting forms were introduced that allowed supervisors to receive more detailed information on credit risk concentration and on credit institutions' securities trading.

In introducing new reporting forms, the Bank of Russia abolished as of October 1, 2008, 0409102 Form 'Profit and Loss Statement by Credit Institution' for branches of credit institutions, and as of January 1, 2009, 0409156 Form 'Information on Credit Institution Investment.'

The principal objective of off-site supervision in 2009, in view of the lessons learned from the crisis, will be the development of substantive, risk-based approaches to supervision of credit institutions. Transparency will remain a priority for supervisors, including the reliability of information on risk profile and levels, and the evaluation of risk management systems. These factors should be increasingly taken into consideration when evaluating the financial soundness (economic situation) of banks, and determining supervisory actions (supervisory regime, and where necessary, supervisory response).

III.4. On-site Inspection of Credit Institutions

In its activities in the field of on-site inspection in 2008, the Bank of Russia followed the Guidelines for the Single State Monetary Policy in 2008, the Bank of Russia Plan for the Implementation of the Russian Banking Sector Development Strategy until 2008, and the Summary Plan of Comprehensive and Thematic Inspections of Credit Institutions and their Branches for 2008.

Most on-site inspections of credit institutions and their branches were carried out according to a schedule and were aimed at detecting, at the earliest possible stage, violations of applicable legislation and Bank of Russia regulations, as well as risks and problems in the work of credit institutions.

Inspections focused on the financial soundness of credit institutions, the quality of their assets and management, the organisation and efficiency of internal controls, and compliance with legislation on countering money laundering and terrorist financing. To prevent credit institutions from conducting operations with 'mirror' and fictitious bills, the Bank of Russia carried out on-site inspections of credit institutions that are principal bill market operators. After the inspection results had been analysed, supervisory measures were taken, and inspectors met with the managers of credit institutions with a large share of suspect bills in their portfolios. Inspectors scrutinised the organisation of consumer lending in credit institutions and their branches. To ascertain the real situation with regard to consumer lending, they inspected 51 credit institutions that extended the largest volume of consumer loans.

When the crisis broke out in the economy, including in the banking sector, in the fourth quarter of 2008, inspectors shifted their emphasis to liquidity management, timeliness of payments, and assessments of the outlook for credit institutions.

Bank of Russia's authorised representatives conducted a total of 1,510 on-site inspections of credit institutions and their branches in 2008.

Of the total number of inspections conducted in credit institutions and their branches, 299, or 19.8%, were comprehensive, and 1,211, or 80.2%, were thematic (see Chart 3.1). Comprehensive inspections of credit institutions involved 67 inspections of their branches and 402 thematic inspections (44 of these were at Sberbank branches, where only thematic inspections were carried out).

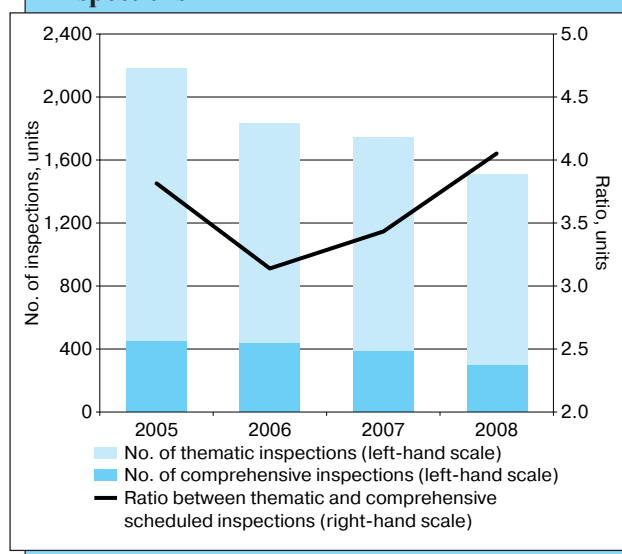
In total, inspections were conducted in 824 credit institutions during 2008 (72.5% of credit institutions in operation as of January 1, 2008) and 462 branches of credit institutions (13.4% of branches in operation as of January 1, 2008), including 44 Sberbank branches (5.4% of Sberbank branches in operation as of January 1, 2008) (see Chart 3.2).

In line with the Summary Plan of Comprehensive and Thematic Inspections of Credit Institutions and their Branches for 2008, the Bank of Russia conducted 1,121 inspections, or 74% of total inspections (see Chart 3.3).

Of these, 691 inspections were conducted in credit institutions, 41 in Sberbank branches, 385 in the branches of other credit institutions, and four in internal divisions

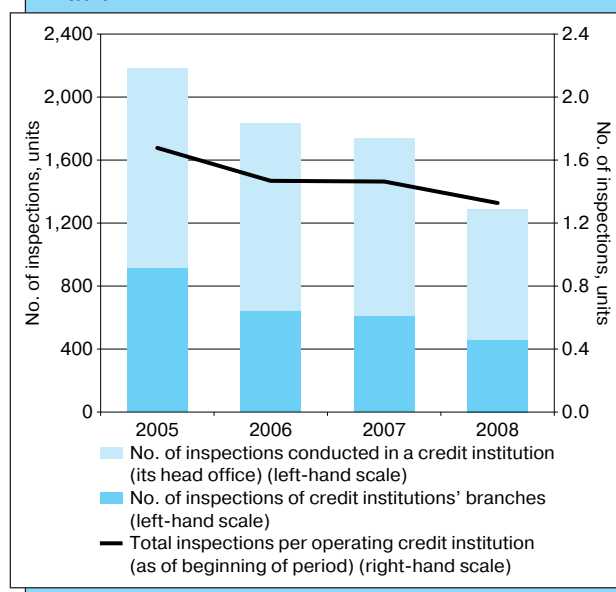
Thematic and comprehensive inspections

CHART 3.1



Inspection per credit institution ratio

CHART 3.2



of credit institutions. During 2008, the Bank of Russia conducted 205 scheduled interregional inspections of credit institutions and their branches.

Ninety-two scheduled inspections of banks participating in the deposit insurance system were conducted with the participation of the Deposit Insurance Agency (DIA) to ensure the functioning of the deposit insurance system and to guarantee protection of rights and legitimate interests of banks' depositors, in compliance with the requirements of Article 32 of the Federal Law on Insurance of Household Deposits with Russian Banks.

In 2008, the Bank of Russia's authorised representatives conducted 389 unscheduled inspections, or 26% of total inspections.

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

Most of the unscheduled inspections (291, or 74.8% of total unscheduled inspections) were conducted on the decision of the management of Bank of Russia's regional branches. Of these, 246 inspections were conducted when credit institutions increased their registered authorised capital by more than 20%, and 24 were conducted when credit institutions filed requests to expand the range of their operations; 17 inspections were carried out in connection with bankruptcy prevention measures; and four — to ensure that assets provided by banks as collateral for Bank of Russia loans met the criteria established by Bank of Russia Regulation No. 312-P, dated November 12, 2007, 'On the Procedure for the Extension of Asset-Backed Loans to Credit Institutions by the Bank of Russia.'

Inspections conducted in 2008 revealed 16,997 violations in the activities of credit institutions and their branches.

Most of the violations (4,651, or 27.4% of the total) were infringements of the law on countering money laundering and terrorist financing. As for other major violations, 3,794, or 22.3%, were related to lending operations, 1,569, or 9.2%, were violations of accounting rules, and 1,334, or 7.8%, were cases of false accounting and misreporting. There were 1,013 cases (6.0%) of violations of the procedure for conducting cash operations, and 862 cases (5.1%) of violations of foreign exchange legislation.

In the period under review, the Bank of Russia took continual efforts to improve the quality of on-site inspections, enhance the efficiency and quality of work preceding inspections, upgrade inspection methodologies, and tighten controls over the quality of inspection reports.

To improve the quality of on-site inspections, the Bank of Russia continually monitored the course and preliminary results of inspections, and developed bank inspection requirement cards to evaluate the quality of corporate loans, credit risk on third-person bills and consumer lending, and checks into active operations with securities.

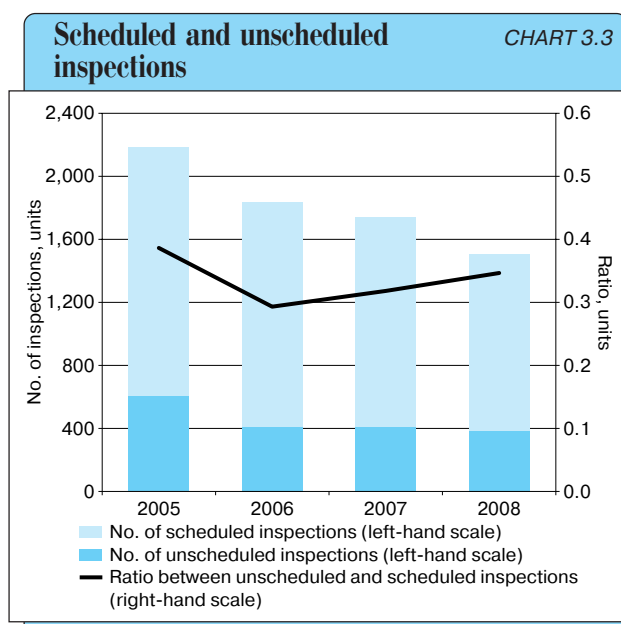
The Bank of Russia continued the practice of hearing reports by its regional branches on the quality of inspections, which allowed the Main Inspectorate for Credit Institutions during 2008 to analyse 54 inspection reports from eight Bank of Russia branches located in the Siberian Federal District, Southern Federal District, Far Eastern Federal District, Urals Federal District, and Volga Federal District. The results of the analysis, in the form of 49 reports on means of improving inspections, were sent to the Bank of Russia regional branches.

The interregional inspectorates of the Main Inspectorate for Credit Institutions played a more significant role during 2008 in planning, organising and improving the quality of on-site inspections. Specialists of the interregional inspectorates were directly involved in 47 inspections, and analysed about 900 inspection reports by Bank of Russia regional branches. With respect to 199 inspection reports, the interregional inspectorates sent their recommendations on means of improving inspections.

In line with a decision of the Board of Directors, the Bank of Russia has launched an experiment in the North-Western Federal District to centralise inspection activities in that region. This project is intended to radically change the organisational structure of inspections: the inspection divisions of regional branches in the federal district have been transformed into divisions of Inspectorate No. 3 of the Main Inspectorate for Credit Institutions, located in their respective territories.

The centralisation of inspection aims to improve the quality and enhance the efficiency of inspections, alleviate burden of inspection on credit institutions, make inspectors more independent, relocate inspection resources whenever necessary, share expertise, and improve cooperation between inspection and supervision divisions.

The Bank of Russia continued in 2008 to automate inspection activities for the purpose of improving the planning, conducting and further accounting of inspections of credit institutions and their branches, and in order to perform the centralisation experiment in the North-Western Federal District.



III.5. Supervisory Response

One of the principal objectives of the Bank of Russia as a banking regulatory and supervisory authority during the global financial crisis was to improve the supervision of credit institutions. This work was aimed, above all, at detecting shortcomings and violations in the banking sector, and preventing the ineffective use of funds allocated by the state to boost banking sector liquidity. The continual efforts of the Bank of Russia in ensuring that credit institutions and banking groups comply with banking laws and Bank of Russia regulations serve the purpose of preventing a systemic banking crisis.

Curatorship has been rapidly gaining acceptance pursuant to Bank of Russia Regulation No. 310-P, dated September 7, 2007, 'On the Curators of Credit Institutions.' Curators were appointed to all systemically important banks that needed to be closely watched by the supervisory authority, which made it possible to expedite supervisory responses.

The so-called 'second line of supervision' was established at the Bank of Russia head office in 2008, covering the largest credit institutions of federal and regional importance.

To tighten controls over the use of government relief funds allocated to the financial system, Federal Law No. 317-FZ, dated December 30, 2008, 'On Amending Article 46 and Article 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia),' instituted a body of Bank of Russia authorised representatives in credit institutions that received these funds. The Bank of Russia issued a number of regulations in pursuance of this law. Analysis of the information received by authorised representatives will make it possible to pay closer attention to the most significant risks assumed by credit institutions of federal and regional importance.

When certain banks attempted to derive additional profits from government funds, using them in speculative operations on the foreign exchange market, the Bank of Russia paid special attention to the monitoring of foreign currency assets and positions. It made its corresponding recommendations known to the credit institutions, and demanded that they expedite accounting on their open currency positions. The Bank of Russia takes into account the extent to which credit institutions follow these recommendations when it sets limits on the participation of credit institutions in the Bank of Russia's auctions of unsecured loans.

To tackle problems arising from the inadequate classification of loans and loss provisions in cases where it has been established that the borrower presented reports

and (or) information that differ from information the borrower had presented to government agencies and (or) published, and (or) differ from information available in credit bureaus, the Bank of Russia has set a requirement that such loans be qualified as involving significant credit risk and classified as doubtful (Quality Category 3), and that the maximum loss provision of 50% should be made for these loans.⁸⁰

Under Bank of Russia Order 'On Information Cooperation between Bank of Russia Regional Branches and the Banking Regulation and Supervision Department in Detecting Adverse Developments in Credit Institutions,' Bank of Russia regional branches established the corresponding rules and procedures. In addition, Bank of Russia Letter No. 147-T, dated November 26, 2008, extended the term of Bank of Russia Letter No. 176-T, dated November 13, 2007, 'On the Provision of Essential Information on the Soundness of Credit Institutions.'

These measures, and the establishment as of October 2008 of the procedure for presenting monthly reports on systemically important banks by Bank of Russia regional branches, are designed to keep the Bank of Russia's head office better informed, and to help it react as soon as possible to problems arising in credit institutions.

In supervisory responses, preventive measures continued to dominate in 2008, and their number increased slightly compared to 2007. The most common preventive measures were letters of information sent to bank management (such letters were sent to 1,071 banks), and meetings held by Bank of Russia regional branches with 509 banks.

The total number of punitive measures applied against banks in 2008 decreased by 8% year on year, while the number of banks that were prohibited from taking personal deposits in 2008 increased from 30 to 51, or by 70%.

The Bank of Russia attaches great importance to the transparency of individual credit institutions and the banking sector as a whole. In 2008, it issued a new Banking Supervision Report, and continued to publish a monthly online version of the Russian Banking Sector Review and its more frequently published companion piece, a hotline news bulletin.

As of January 1, 2009, more than 86% of total operating credit institutions disclosed information on their activities on the Bank of Russia website, and 729 credit institutions, or 65% of the total, had agreed to disclose all data they reported in 0409101 Form and 0409102 Form.

⁸⁰ Bank of Russia Ordinance No. 2028-U, dated June 16, 2008, 'On Amending 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.'

III.6. Financial Rehabilitation and Liquidation of Credit Institutions

Throughout 2008, the Bank of Russia continued to exercise its legislatively granted powers to oversee the implementation by credit institutions of bankruptcy prevention measures, took corrective action against credit institutions that violated federal laws and Bank of Russia regulations issued in pursuance of these laws, supervised credit institutions to ensure their compliance with deposit insurance system requirements, and monitored the liquidation of credit institutions.

The crisis on international financial markets in 2008 had an impact on the Russian banking sector.

During the period from January 1 to September 1, 2008, i.e. before the crisis set in, 32 credit institutions were liable for insolvency (bankruptcy) prevention measures. One of those recovered due to financial rehabilitation, 19 credit institutions took steps to remove this liability, six credit institutions subsequently had their banking licences revoked, and six credit institutions remained liable (four of these were less than two years in operation, had not eliminated their liability for bankruptcy prevention and bankruptcy prevention measures were not initiated against them).

After September 1, 2008, as the international financial market crisis escalated, 63 credit institutions became liable for bankruptcy prevention measures, of which 21 rectified the situation independently and one presented its rehabilitation plan to the Bank of Russia, which is currently being implemented.

At the same time, in September the Bank of Russia began to implement a package of measures aimed at safeguarding the solvency of systemically important banks that faced liquidity problems and lost capital. By October 28, 2008, the Bank of Russia had deposited 160 billion rubles and \$2.5 billion in organisations, which financially rehabilitated six problem banks (as of January 1, 2009). After October 29, the Bank of Russia, in collaboration with the DIA implemented bankruptcy prevention measures in 15 banks, pursuant to the Federal Law on Additional Measures to Strengthen Banking Sector Stability up to December 31, 2011, and under Bankruptcy Prevention Plans agreed with the Bank of Russia Banking Supervision Committee. Of the 15 plans that proposed the use of Bank of Russia funds, 10 were approved by the Bank of Russia Board of Directors. In accordance with these plans, the DIA received 114.3 billion rubles in unsecured loans at an interest rate of 5.5% p.a. for a term of 2.5 to 5 years.

Thus, the funds provided by the Bank of Russia and the DIA helped to rehabilitate 18 banks (these banks owed their creditors a total of 735.9 billion rubles, or 3.64% of total banking sector liabilities as of October 1, 2008) and enabled three banks to fulfil all their obligations to credi-

tors. Personal deposits in these 21 banks amounted to 203.5 billion rubles, or 3.46% of total household deposits as of October 1, 2008.

During 2008, the Bank of Russia oversaw 42 provisional administrations of credit institutions, which conducted their activities pursuant to the Federal Law on Insolvency (Bankruptcy) of Credit Institutions. Over the course of the year, it appointed 33 provisional administrations (19 of these were appointed after September 1), and terminated the activities of 26 provisional administrations. Thirteen provisional administrations were dismissed after the arbitration court ordered compulsory liquidation and the appointment of a liquidator, and 13 provisional administrations were disbanded after the arbitration court declared credit institutions insolvent (bankrupt) and appointed a receiver. DIA representatives worked in 29 provisional administrations in 2008. As of January 1, 2009, there were 16 provisional administrations appointed in connection with the revocation credit institutions' licenses. In four banks the Bank of Russia appointed the DIA to perform the functions of provisional administrations, and in three banks obligations to depositors and the equivalent value in property were transferred to financially sound banks (this process was completed in one bank in 2008, and this bank had its licence revoked). As of January 1, 2009, the DIA performed the functions of provisional administration in three banks (two of these later had their licences revoked).

Pursuant to the Federal Law on Insurance of Household Deposits with Russian Banks, the Bank of Russia supervised in 2008 banks to ensure that they met the deposit insurance system requirements.

As of January 1, 2009, 937 banks were participating in the compulsory deposit insurance system, of which certain banks had their banking licences previously revoked (cancelled).

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

Insured events occurred in 27 participant banks in 2008, of which 25 had their licences revoked, and two had their licences cancelled after they decided to close down. In all insured cases connected with licence revocation, the registers of obligations to depositors were sent to Bank of Russia-appointed DIA provisional administrations within the seven-day period established by the Federal Law on Insurance of Household Deposits with Russian Banks, and this allowed the DIA to begin to effect timely indemnity payments to depositors.

Pursuant to Article 48 of the Federal Law on Insurance of Household Deposits with Russian Banks, the Bank

of Russia Banking Supervision Committee prohibited in 2008 six banks participants in the deposit insurance system from taking personal deposits and opening personal accounts as they failed to comply with the deposit insurance system requirements.

In compliance with the Federal Law on Insurance of Household Deposits with Russian Banks and with agreements signed in 2008, the Bank of Russia and the DIA cooperated, coordinated their activities, and exchanged information on issues relating to: the functioning of the deposit insurance system; the participation of banks in the system and the payment of insurance premiums; deposit compensation payments; the inspection of participating banks by the Bank of Russia and the use of sanctions against them; and other issues relating to the deposit insurance system.

Under a law passed in 2008, personal deposit insurance compensation was increased to 700,000 rubles and Bank of Russia compensation to depositors of bankrupt banks uncovered by the deposit insurance system was raised proportionately.

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 during 2008 orders to revoke licences of 33 credit institutions, and three credit institutions had their licences cancelled on the decision of their shareholders (members). Most of the licences (25) were revoked of credit institutions registered in Moscow and the Moscow Region.

Up to September 2008, the Bank of Russia took constant measures to remove from the banking services market unviable credit institutions incapable of rectifying the situation at their own expense or at the expense of their owners. From January 1 to September 1, 2008, the Bank of Russia revoked the licences of 14 credit institutions, of which seven credit institutions had their licences withdrawn for repeated violations within a one-year period of Article 6 and Article 7 (excluding paragraph 3) of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorist Financing, and three credit institutions had their licences revoked for failing to meet creditors' money claims and (or) make mandatory payments.

From September 1, 2008, to January 1, 2009, the Bank of Russia revoked licences of 19 credit institutions, of which 18 had their licences revoked pursuant to paragraph 2 of Article 20 of the Federal Law on Banks and Banking Activities. Seventeen of these credit institutions had their licences revoked due to their inability to meet creditors' money claims and (or) make compulsory payments. Eleven credit institutions had their licences revoked for gross misreporting. These banks' liabilities to all creditors totalled 55.4 billion rubles, or 0.27% of total banking sector liabilities, as of October 1, 2008. Personal deposits with these banks totalled 19.2 billion rubles, or 0.33% of total personal deposits, while insurance indemnities paid out of the deposit insurance fund amounted to 13.5 billion rubles, or 16.7% of the fund as of October 1, 2008.

During 2008, four credit institutions disputed through court proceedings Bank of Russia orders to revoke their licences (in all cases the court declared the Bank of Russia decisions legitimate).

As of January 1, 2009, 117 credit institutions that had their licences revoked (cancelled) by the Bank of Russia were facing liquidation. Liquidation proceedings were conducted in 102 of these credit institutions, and for the remaining 15 credit institutions, no court decisions had been taken since the licence revocation as of the reporting date. Most of the credit institutions facing liquidation (60) were declared insolvent (bankrupt), and bankruptcy proceedings were initiated on them (these include 18 credit institutions that were declared bankrupt in 2008, of which five had received a court order to be liquidated). Thirty-four credit institutions were ordered to be liquidated by arbitration courts (these include 12 credit institutions ordered to be liquidated in 2008, of which two were subsequently declared bankrupt). In addition, eight credit institutions are being liquidated on the decision of their founders (members) (on three of these credit institutions the decisions to liquidate them were taken by their founders (members) in 2008).

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

The Bank of Russia registered during 2008 the liquidation of 70 credit institutions, of which 32 credit institutions were liquidated after arbitration courts completed arbitration proceedings, 34 credit institutions were liquidated on court decisions without any signs of bankruptcy, and four credit institutions were liquidated by their founders (members).

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

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

The Bank of Russia carried out 15 inspections of receivers (liquidators) in 2008, of which 13 were inspections of the DIA and two were inspections of individual receivers. Pursuant to the Federal Law on Bank of Russia Compensation Payments for Household Deposits with Bankrupt Banks Uncovered by the Deposit Insurance System, the Bank of Russia Board of Directors decided to pay 2 million rubles to five depositors of one credit institution. In addition, the Bank of Russia Board decided to pay an additional 900,000 rubles to 17 depositors of credit institutions for whom compensation payment decisions had been taken in previous years.

In total, as of January 1, 2009, the Bank of Russia had taken decisions to pay 40,042 depositors compensation totalling 1,213.7 million rubles; 35,909 depositors, or 89.7% of eligible depositors, received a total of 1,180.3 million rubles (97.2% of the total funds allocated for Bank of Russia compensation payments).

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

The Bank of Russia continued in 2008 to exercise the powers granted to it by Federal Law No. 115-FZ, dated August 7, 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorist Financing' (hereinafter referred to as Federal Law No. 115-FZ), paying special attention to the creation of conditions facilitating the implementation by credit institutions of the provisions of anti-money laundering and counter-terrorist financing (AML/CTF) legislation.

As part of these efforts, the Bank of Russia agreed with the Federal Financial Monitoring Service (Rosfinmonitoring) a set of regulations containing recommendations for the development of internal control rules, and establishing the procedure for setting qualification requirements on individuals responsible for the compliance with internal control rules and programmes, and also the requirements for the training and instruction of personnel and the identification of customers and beneficiaries.

To improve the procedure for the presentation of information by credit institutions to Rosfinmonitoring, the Bank of Russia issued Regulation No. 321-P, dated August 29, 2008, 'On the Procedure for Presentation by Credit Institutions to an Authorised Body Information Stipulated by the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorist Financing.'

To provide credit institutions with methodologies relating to the implementation of AML/CTF legislation, the Bank of Russia issued recommendations in 2008 for the detection by credit institutions of the following operations conducted by their clients:

- the effectuation of advance payments under import contracts in favour of non-residents registered in offshore zones;⁸¹
- the presentation of bills issued by large Russian banks, for payment by offshore companies that are not the primary holders of such bills;⁸²
- transfers by Russian organisations of large sums of money that are incommensurate with the real scale of their business to the accounts of these organisations opened with foreign banks;⁸³

- transfers under import contracts that provide for payment for goods after they have been brought to the Russian Federation, and involving the presentation by dishonest economic entities of fictitious freight customs declarations and other supporting documents to credit institutions.⁸⁴

To ensure effective supervision by its regional branches of the compliance by credit institutions with anti-money laundering laws, the Bank of Russia issued recommendations in 2008 on the procedure for making preparatory work for and conducting on-site inspections of credit institutions by Bank of Russia regional branches for the purpose of detecting, recording and reporting to the corresponding authority of bank account (deposit) operations subject to mandatory control.⁸⁵

To ensure consistency in applying laws and regulations, the Bank of Russia continued in 2008 to summarise and systematise questions sent by credit institutions and its regional branches concerning the fulfilment of requirements of anti-money laundering legislation. It issued three letters of information answering the most typical questions relating to the application of Bank of Russia AML/CTF regulations.

To perform its supervisory functions, the Bank of Russia monitored in 2008 compliance with AML/CTF legislation in the course of inspecting 637 credit institutions and (or) their branches.

The inspections revealed a number of shortcomings in implementing the provisions of Federal Law No. 115-FZ, and Bank of Russia regulations relating to customer identification, the detection and identification of beneficiaries, and the detection, registration and timely reporting of operations with money and other property subject to mandatory control.

As a result of the inspections, and judging by the total number of violations detected, including violations of Federal Law No. 115-FZ, the Bank of Russia took various corrective measures with respect to credit institutions. In 339 cases, it used preventive measures, such as informing the credit institutions' management of shortcoming discovered in their work. In 229 cases, the Bank of Russia

⁸¹ Bank of Russia Letter No. 24-T, dated March 13, 2008, 'On Improving the Efficiency of Efforts to Prevent Suspect Operations.'

⁸² Bank of Russia Letter No. 80-T, dated July 4, 2008, 'On Tightening Controls over Certain Bill Operations Conducted by Individuals and Legal Entities.'

⁸³ Bank of Russia Letter No. 111-T, dated September 3, 2008, 'On Improving the Efficiency of Efforts to Prevent Suspect Operations by Customers of Credit Institutions.'

⁸⁴ Bank of Russia Letter No. 137-T, dated November 1, 2008, 'On Improving the Efficiency of Efforts to Prevent Suspect Operations.'

⁸⁵ Bank of Russia Letter No. 91-T, dated July 25, 2008, 'On Methodological Recommendations on the Conduct of On-site Inspections of Credit Institutions for the Purpose of Detecting, Recording and Reporting to the Corresponding Authority of Bank Account (Deposit) Operations Subject to Mandatory Control.'

applied enforcement measures, such as ordering credit institutions to take remedial action; in 170 cases, it imposed fines; in 252 cases, credit institutions were prohibited from conducting certain kinds of banking operations; and seven credit institutions had their licences revoked.

The Bank of Russia took active efforts in 2008 to train and improve the professional level of specialists at the head office and regional branches in the field of AML/CTF. Fifteen courses involving over 400 executives and employees of Bank of Russia regional branches were conducted with the participation of specialists from the Bank of Russia, the Interior Ministry and Rosfinmonitoring during 2008, in line with the Bank of Russia vocational training programme.

In accordance with the Bank of Russia vocational training programme and within the framework of cooperation agreements with EurAsEc member countries,⁸⁶ Bank of Russia specialists gave lectures at a seminar on AML/CTF for specialists of the national (central) banks of EurAsEc member states.

The third round of the evaluation of Russia's compliance with international AML/CTF standards ended in 2008. It resulted in the Russian AML/CTF System Mutual Evaluation Report, which was approved at the FATF⁸⁷ plenary meeting in June and the MONEYVAL⁸⁸ and EAG⁸⁹ plenary meetings in July, and contained an FATF report on the Russian AML/CTF system as well as recommendations on ways to eliminate the shortcomings detected in the course of the evaluation.

Russia's AML/CTF system was given an overall positive assessment. It was rated at about 70% by international standards, putting Russia on the same level as the United States, Britain, Italy, Canada and Sweden.

International experts also noted the active role and efficiency of efforts made by the Bank of Russia in the field of AML/CTF. Specifically, they noted that the Russian banking sector was better regulated than other financial sectors in terms of compliance with AML/CTF legislation, and that supervision by the Bank of Russia was thorough, comprehensive and effective.

⁸⁶ Eurasian Economic Community.

⁸⁷ Financial Action Task Force.

⁸⁸ Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures.

⁸⁹ Eurasian Group on Combating Money Laundering and Terrorist Financing.

III.8. Central Catalogue of Credit Histories

From the day the Federal Law on Credit Histories entered into force until now, demand for information from the Central Catalogue of Credit Histories has been growing, on the part of both borrowers and credit history users. This is not only a result of the expansion of consumer lending in the first half of 2008 and earlier, but also because Russian credit institutions are constantly improving the way in which they deal with credit bureaus and handle credit histories, aiming to study more carefully their real and potential borrowers' creditworthiness.

The number of credit history titles in the Central Catalogue of Credit Histories increased by 21 million in 2008, to reach 55.5 million. Individual credit history titles make up more than 99.7%, and corporate ones less than 0.3%. This quantity of credit history titles corresponds to more than 35.5 million borrowers who have agreed to pass information to credit bureaus. The number of individual credit histories now accounts for about a half of the able-bodied population, and has become a major indicator of individuals' creditworthiness.

According to the Central Catalogue of Credit Histories, at the end of 2008, credit histories were compiled by people registered in all regions of the country. At the same time, the top 10 regions in terms of quantity of people with credit histories accounted for 35% of credit history titles, and 20 regions accounted for less than 60%. The largest number of credit history titles was registered in Moscow and the Moscow Region, the Republic of Bashkortostan, the Sverdlovsk Region, the Krasnodar Territory, the Chelyabinsk and Rostov Regions, the Republic of Tatarstan, St Petersburg, and the Samara and Nizhny Novgorod Regions.

The Central Catalogue of Credit Histories received in 2008 over 1.5 million requests from credit history users and makers on the credit bureaus where the credit history makers' credit histories were kept. More than 57% of the requests were granted.

Individual credit history makers are growing increasingly interested in their credit histories. It became a trend last year for credit history makers to send queries to the Central Catalogue of Credit Histories by post and in the overwhelming majority of cases enquirers got a positive reply.

III.9. Cooperation with Russia's Banking Community

The Bank of Russia organised and held the 17th International Banking Congress on 'Banks in the Financial Intermediation System: Present State of the Art and Prospects' in St Petersburg from May 27 to 30, 2008. Participants in the section plenary meetings and workshops discussed the following issues: the role of banks in financial intermediation, competition on the financial markets, the role of the banking sector in monetary transmission mechanisms, banking risk management, regulation and supervision amid globalisation and the integration of financial markets, and new banking products and techniques. The participants in the Congress included representatives of Russian and foreign business and political circles, international organisations, central (national) banks and supervisory authorities of foreign states, and bankers. After discussions, the Congress issued recommendations for the development of the banking sector in Russia.

During 2008, the Bank of Russia actively cooperated with the banking community and the public in seeking ways to improve the financial literacy of the population. Its representatives took part in working and coordinating groups on financial literacy and banking services, which were set up by members of the banking community, and government bodies (the State Duma of the Federal Assembly of the Russian Federation, the Ministry of Finance, and the Association of Regional Banks "Russia"). They also participated in roundtables, seminars and forums organised by international organisations such as the World Bank, the International Business Leaders Forum (IBLF), and Visa International, to share expertise and work out effective solutions for advancing the financial literacy of Russian citizens.

Bank of Russia representatives worked together with the Russian banking community at roundtables, working meetings, conferences, expert interviews and other events organised, for example, by the Association of Russian Banks (ARB), the Association "Russia", the Russian Union of Industrialists and Entrepreneurs (RUIE), the Na-

tional Stock Association (NSA), the National Managers' League (NML), the Investor Protection Association, the Russian Risk Management Society, and the National Financial Research Agency (NFRA), which discussed a wide range of issues: mortgage credit market development, the improvement of regulation of general bank management funds and the final legalisation of their status on the Russian financial market, risk management by Russian and CIS financial institutions, risk management innovation, best practice credit and market risk management, banking service market research, the expansion of loan brokerage and consumer lending, and upgrading the regulation of individual payments.

At the regional level, Bank of Russia representatives took part in a conference on 'Development Institutions and the Russian Banking Sector: Promoting Partnership between the Private Sector and the State,' held by the Association of Regional Banks with the participation of the Association of Credit Institutions of the Tyumen Region and the Tyumen Regional Duma, and with the support of the Banks and Banking Commission, the RUIE, and the Tyumen regional government. Bank of Russia representatives also participated in an annual bankers' meeting entitled 'Bank of Russia Regulation of Credit Institutions,' held by the Association of Russian Banks and the Bank of Russia, and the fifth conference on 'Banks. Developments. Standards. Quality,' held by the National Bank of the Republic of Bashkortostan in collaboration with the Association of Russian Banks and the Association of Regional Banks.

To maintain interactive contacts with the public, the Bank of Russia posts information on its official website, and participates in online conferences. The Bank of Russia official website carries video materials and publications on key issues related to banking. The Bank of Russia also posts on its website its draft regulations, to enable banks and their associations and unions to discuss them.

III.10. Cooperation with International Financial Institutions and Foreign Central Banks

Cooperation with international economic and financial institutions

In the first half of 2008, **International Monetary Fund (IMF)** and **World Bank** experts completed the evaluation of the compliance of banking regulation and supervision with the Core Principles for Effective Banking Supervision, conducted within the framework of the Financial Sector Assessment Programme for the Russian Federation. Compared to the previous evaluation, conducted in 2001—2003, the compliance situation has improved. In August 2008, the IMF Board of Governors discussed the report 'Russian Federation. Updated Financial Sector Stability Assessment,' drafted on the basis of the results of the Financial Sector Assessment Programme for the Russian Federation, and including the evaluation of the compliance of the Russian banking regulation and supervision system with the Core Principles.

In 2008, the Bank of Russia and the **European Central Bank (ECB)** drew up and agreed a cooperation plan for the implementation of the EU-financed Eurosystem-Bank of Russia Cooperation Programme on banking supervision and internal audit in 2008—2010. In line with this plan, ECB and Bank of Russia experts met with representatives of the Russian banking community to discuss minimum requirements on banks for the purpose of encouraging them to use the IRB approach.

The Bank of Russia signed in 2008 a memorandum of understanding with the Swiss-based **Bank for International Settlements (BIS)**, providing for the translation into Russian and the integration of the Russian-language version of the computer-based banking regulation and supervision teaching program FSI Connect, developed by the BIS Financial Stability Institute.

The Bank of Russia prepared in 2008 information analysis materials for Russia's entry to the **Organisation for Economic Cooperation and Development (OECD)**, including materials on banking sector openness for foreign investment, compliance of Russian banking laws with basic OECD principles and rules, and a questionnaire on the national financial system of the OECD Financial Markets Committee (January—September 2008). The Bank of Russia also examined current issues relating to quarterly information updates on its website to participate in the IMF database on banking sector legislation and regulation in various countries.

Bank of Russia specialists were involved in drafting materials for the European Committee on Crime Problems (CDPC) and the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), in respect to measures taken by the Bank of Russia to combat money laundering and terrorist

financing, and their compliance with Russian laws and international standards.

In February 2008, the Bank of Russia took part in a seminar on collateral security organised by the IMF Monetary and Capital Markets Department, and a seminar on consolidated supervision of banks organised by the World Bank.

During the year, Bank of Russia representatives participated in seminars conducted by the BIS Financial Stability Institute and **Basel Committee on Banking Supervision** on the implementation of the Core Principles for Effective Banking Supervision and International Convergence of Capital Measurement and Capital Standards: a Revised Framework (Basel II) and on the following topics: anti-crisis management, international accounting and audit rules for banks, core principles of supervision, liquidity risk, advanced approaches to operational risk measurement (current state and key issues), Basel II and Solvency II projects, advanced methods of risk management (with special emphasis on credit risk transfer) and core principles for effective banking supervision. The Bank of Russia was involved in formulating proposals and comments for draft documents, and provided information within the framework of the Basel Committee's working groups (Core Principles Liaison Group and Capital Task Force) and its regional group (Banking Supervision Group for Central and Eastern Europe).

Bank of Russia representatives took part in 2008 in a seminar organised by **Asia-Pacific Economic Cooperation (APEC)** and the Melbourne APEC Finance Centre on Basel II implementation, and a seminar given by the Polish Mortgage Credit Foundation within the framework of the 12th Central European Covered Bond Conference.

Bank of Russia specialists took part during 2008 in international seminars and conferences on banking regulation in Luxembourg, Vienna, Frankfurt am Main, Basel, and Toronto, and paid a fact-finding visit to Brussels to study Belgium's experience in handling credit histories and credit bureau regulation. The information received at these seminars was used to improve the Bank of Russia regulatory framework.

Bank of Russia cooperation with central (national) banks and foreign supervisors.

Participation in the Consultative Board on Foreign Investment in Russia

To improve supervision, including consolidated supervision, the Bank of Russia maintains cooperation with foreign banking and financial supervisors. This cooperation involves the conclusion of agreements on cooperation (memorandums of understanding) with foreign bank-

ing and financial supervisors. To date, the Bank of Russia has signed 28 bilateral agreements on cooperation (memorandums of understanding), including memorandums of understanding signed in 2008 with the Central Bank of Bahrain, the Hungarian Financial Supervisory Authority, the Central Bank of Egypt, the Financial Supervisory Agency of Kazakhstan, the Central Bank of Mongolia, the National Bank of Serbia, the National Bank of Ukraine, and the Estonian Financial Supervisory Authority. The Bank of Russia is jointly working on memorandums of understanding with the central (national) banks and banking (financial) supervisory authorities of several other countries. In the absence of an agreement or memorandum, cooperation with foreign supervisors is conducted on an unofficial basis pursuant to Article 51 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). The Bank of Russia holds meetings with representatives of the banking (financial) supervisory authorities of the home countries of banks that have subsidiaries in Russia and countries in which Russian credit institutions have subsidiaries, branches or representative offices. In 2008, the Bank of Russia organised meetings with supervisors from Austria, Bahrain, Italy, Mongolia, the Netherlands, and Estonia. Information on agreements of cooperation (memorandums of understanding) signed by the Bank of Russia and their texts are posted on the Bank of Russia website at www.cbr.ru.

The Russian-German Intergovernmental Working Group on the Strategy of Economic and Financial Cooperation continued its work within the framework of the Banks/Financial Services Sub-group. It held two meetings, organised by the German Finance Ministry, on cooperation in banking regulation and supervision amid the crisis, on the implementation of Pillar 3 of Basel II (International Convergence of Capital Measurement and Cap-

ital Standards: a Revised Framework), and on the organisation and operation of building societies.

In the year under review, Bank of Russia specialists were actively involved in the work of the **Consultative Council for Foreign Investment in Russia (CCFI)**. They took part in meetings of the CCFI working group on banking sector and financial market development in Russia, the meetings of the CCFI Standing Committee and the 22nd meeting of the CCFI held in October, which discussed banking sector stability, the sharing of information by credit institution members of banking groups and bank holding companies, as well as their parent banks, regulation of financial derivative transactions, the use of on-line techniques, and other issues. The Bank of Russia presented information on a quarterly basis on progress in implementing the CCFI working group's proposals and recommendations aimed at improving banking legislation.

The Bank of Russia continued in 2008 to implement a personnel training programme for the central (national) banks of member states of the **Eurasian Economic Community (EurAsEc)**. Specifically, Bank of Russia specialists took part in seminars and training courses on enterprise monitoring, deposit insurance system, methodological and practical aspects of risk-based (substantive) supervision, operational risk management and control, and supervisory responses to violations committed by credit institutions. Specialists from the National Bank of the Republic of Belarus, the National Bank of Tajikistan and the National Bank of Kyrgyzstan took a course of training on consolidated supervision in the Bank of Russia.

Bank of Russia specialists took part in seminars, forums and conferences on risk management and banking supervision organised by the Bank of France, Bank of Italy, Deutsche Bundesbank and Federal Reserve.

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

The principal objective for the further development of the banking sector is to play a greater role in the country's economy, while ensuring systemic stability and improving the quality of banking services. The attainment of this goal will require:

- upgrading banking laws;
- enhancing the efficiency of banking regulation and supervision;
- encouraging competition and ensuring transparency of credit institutions, banking groups and bank holding companies;
- bolstering market discipline in banking, and safeguarding a level playing field for all credit institutions, including state-controlled banks;
- tightening requirements on the quality of corporate governance in credit institutions, banking groups, and bank holding companies.

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

The Bank of Russia will continue in 2009 to upgrade legislation on the procedure for evaluating the business reputation of credit institution managers. Specifically, it will work on the draft federal law 'On Amending the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)' for the purpose of specifying fitness and propriety requirements for credit institution executives, and granting to the Bank of Russia the right to set criteria for their business reputation, with the goal of ensuring that credit institutions have a professional and reliable management. The draft law also tightens fitness and propriety requirements on managers of credit institutions and their branches, and candidates for these positions. In addition, to control the quality of management in credit institutions, the draft law grants to the Bank of Russia the right to request and receive from federal bodies of executive power and their regional structures, and from corporate entities, information on the business reputation of credit institution managers, and to maintain databases on managers and other employees of credit institutions whose actions have been instrumental in damaging the financial situation of a credit institution or in causing violations of federal laws and Bank of Russia regulations.

At the same time, the Bank of Russia plans to set more stringent requirements on the owners of credit institutions. Requirements are to be set not only on the financial position of the founders of a credit institution, and on persons who acquire large blocks of shares (stakes) in an operating credit institution, but also their business rep-

utation. If the financial position or business reputation of the founders (members) of a credit institution cease to comply with the Bank of Russia's requirements, the Bank of Russia will be able to remove them from the management of credit institutions.

In addition, to create a legal framework for the activities of microfinance institutions and to broaden the range of persons permitted to manage non-bank credit institutions, legislators will continue to work on a draft federal law to amend Article 14 of the Federal Law on Banks and Banking Activities, for the purpose of establishing a rule that experience of managing a microfinance institution can qualify a candidate for an executive position in a non-bank credit institution. This will make it possible to expand the network of banking services provided to the public and medium-sized and small businesses.

This year, the Bank of Russia will continue to work on a draft federal law to amend the Federal Securities Market Law, for the purpose of requiring a nominee shareholder to provide information to a credit institution on a quarterly basis on the owner of shares in the credit institution, and on the number of shares he/she holds in the interests of this owner, if the share of the nominee shareholder in the authorised capital of the credit institution exceeds 1%. The proposed amendment also requires that the nominee holder of more than 1% of shares in a joint stock company, who exerts indirectly (through third persons) a material influence on decisions taken by the credit institution's management, including the third persons through whom the material influence on the decisions taken by the credit institution's management is exerted, present information to the credit institution on these persons, indicating the number of shares they hold.

The Bank of Russia plans in 2009 to complete the drafting of an ordinance to amend 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 and Licensing of Credit Institutions' (hereinafter referred to as Instruction No. 109-I, dated January 14, 2004). The purposes of the amendments are as follows:

- to clarify details of the state registration of changes made to the charter of a credit institution and connected with the establishment (change of location or closure) of a representative office in a foreign state;
- to bring Bank of Russia Instruction No. 109-I, dated January 14, 2004, into compliance with the Federal Law on the Protection of Competition, namely to require that a credit institution present for state registration a document issued by the federal antitrust agency to confirm the agency's permission to create

a credit institution, conduct transactions with shares (stakes) in a credit institution, and to reorganise a credit institution by merger or acquisition (if such permission is required) or present copies of the notification of the federal antitrust agency by a credit institution, confirming the acceptance of the notification (if these transactions require subsequent notification of the antitrust agency rather than its prior permission);

- to specify the procedure for calculating the value of non-monetary property used as payment for shares (stakes) in a newly created or operating credit institution;
- to simplify the forms of notification on the purchase (receipt for trust management) of more than 1% of shares in a credit institution, and simultaneously make amendments aimed at increasing the transparency of the credit institution's ownership structure.

The Bank of Russia intends to complete in 2009 the drafting of new versions of its Instruction No. 130-I, dated February 21, 2007, 'On the Procedure for Obtaining Bank of Russia Prior Permission for the Acquisition and (or) Receipt for Trust Management of Shares (Stakes) in a Credit Institution,' Regulation No. 218-P, dated March 19, 2003, 'On the Procedure and Criteria for the Evaluation of the Financial Situation of the Corporate Founders (Members) of Credit Institutions,' and Regulation No. 268-P, dated April 19, 2005, 'On the Procedure and Criteria for the Evaluation of the Financial Position of Individual Founders (Members) of a Credit Institution.' While preserving virtually intact the existing system of criteria, confirmed by practice, the Bank of Russia considers it necessary to make the following substantive amendments:

- to clarify specifics in the evaluation of the financial situation of individual investors of credit institutions, depending on their economic activity category and accounting rules they use, in particular unit and joint-stock investment funds, insurance companies and non-government pension funds;
- to establish the specifics of evaluating the financial situation of investors who indirectly own shares (stakes) in credit institutions, in order to compare for the purpose of evaluating capital adequacy for the purchase of shares (stakes) in a credit institution the investor's capital with the capital (or a part thereof) of the credit institution;
- to set a number of additional criteria for the evaluation of the financial situation of investors for the purpose of harmonising evaluation standards with international supervisory practice;
- to cancel documents that are not used effectively enough for the substantive evaluation of the financial situation of investors and for the receipt of Bank of Russia prior permission for the acquisition of over 20% of shares (stakes) in a credit institution;
- to ease the rules regulating the process of obtaining Bank of Russia prior permission for the acquisition of over 20% of shares (stakes) in a credit institution.

III.11.2. Banking Regulation

The strategic objective for the development of the banking regulation system remains the introduction of internationally accepted standards and international expertise, taking into consideration the specifics of the organisation and functioning of the Russian financial services market, and the activities of credit institutions on this market. The Bank of Russia intends to continue to encourage substantive (risk-based) approaches based on the performance evaluation of credit institutions, including their assessment on a consolidated basis, and to choose a supervisory response based on the substance and realistic evaluation of banking risk.

To improve banking and supervisory methodologies, the Bank of Russia plans to continue work in the following areas in 2009:

- finalising a draft law that will specify the main principles of consolidated supervision and the requirements for the disclosure by credit institutions, banking groups, and bank holding companies of information on their activities to interested users, and submitting this document to the Russian Government for consideration. The passage of this law will harmonise applicable banking legislation with internationally accepted standards, including Basel Committee recommendations, and increase the financial soundness of each credit institution and the stability of the financial system as a whole;
- drafting documents that will regulate the compiling and presentation to the Bank of Russia of consolidated reports on banking (consolidated) groups and establish the methodology and procedure for exercising consolidated supervision of credit institutions;
- implementing in Bank of Russia regulations the provisions of Pillar 1 "Minimum Capital Requirements" of the Basel Committee's document "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" (Basel II);
- setting out approaches to the introduction to Russian banking practice of Pillar 2 of the Basel II "Supervisory Review Process;"
- upgrading the methodology for calculating credit institutions' capital. To create conditions conducive to additional capitalisation of the banking system, the Bank of Russia will continue to expand the range of sources of own funds included in the calculation of a credit institution's capital, through the use of a new kind of subordinated financial instruments — a subordinated loan provided under additional terms and conditions, known as innovative hybrid capital instruments. A corresponding agreement on the provision of a subordinated loan under additional terms and conditions sets the term to redemption at no less than 30 years, and provides for the possibility of participation in the absorption of the credit institution's losses, on the condition that this instrument may be included in the capital sources in an amount that does not exceed 15% of the sum of capital sources. At the

same time, the Bank of Russia intends to specify the procedure for including noncumulative preference shares in the calculation of capital sources. In addition, the Bank of Russia is considering the possibility of changing the procedure for including the securities' revaluation results in capital calculation;

- improving the methodology of calculating required ratios for credit institutions and control over their observance, notably the procedure for calculating capital adequacy and liquidity ratios. Specifically, the Bank of Russia is considering the possibility of lowering the risk ratio for individual mortgage loans, while raising capital coverage requirements for loans provided and (or) used by borrowers to buy securities. For the purpose of calculating liquidity ratios, securities and loans provided and (or) used by borrowers to buy securities are to be accepted as a part of liquid assets at a discount, depending on the quality of securities;
- upgrading the methodology for making loss provisions by credit institutions. The Bank of Russia is considering the possibility of extending a list of collateral accepted for the calculation of loan loss provisions, in particular by adding DIA offers to repurchase loans from credit institutions that acquired them pursuant to Federal Law No. 175-FZ. In addition, the Bank of Russia intends to relax the requirement for the evaluation of the financial situation of a third-person pledger (reducing it from good to medium);
- establishing the procedure through which Bank of Russia regional branches require credit institutions to increase loan (homogenous loan portfolio) loss provisions within a single loan quality category, and take supervisory action against credit institutions when a credit institution and the supervisory authority differ in their loan (homogeneous loan portfolio) depreciation valuations within a single loan quality category;
- building a system of cooperation between the Bank of Russia and external auditors of credit institutions, including the sharing of information on credit institutions. If external auditors notify the Bank of Russia on time about problems in credit institutions, the Bank of Russia will be able to take faster corrective action. If the Bank of Russia, in its turn, informs the auditors, they will perform their functions more effectively. To achieve this objective, the Bank of Russia has drafted amendments to the Federal Law on Audit, the Federal Law on Banks and Banking Activities, and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), which are designed, among other things, to make it a duty of audit organisations to inform the Bank of Russia of violations of federal laws and Bank of Russia regulations issued in pursuance of these laws, which give the auditors reason to believe that the reports they have audited are inaccurate or that a credit institution has failed to comply with Bank of Russia required ratios, or that a credit institution, banking group, or bank holding company

cannot continue to function. These efforts seek to maintain banking sector stability and the soundness of banks for the purpose of improving the protection of creditors' and depositors' interests.

To improve the quality of corporate governance, including enhancing the role and responsibility of members of boards of directors (supervisory boards), it is necessary to stipulate in banking legislation, taking into account the competences of this body, the requirements for the composition of the board of directors (supervisory board) of credit institutions and to establish the decision-making procedure for the board of directors (supervisory board). The Bank of Russia will continue to participate in amending legislation to introduce a body of independent directors.

The issue of creating general bank management funds by credit institutions needs to be resolved through legislation.

The Bank of Russia will continue to participate in upgrading legislation on the securitisation of financial assets.

In 2009, the Bank of Russia will continue to improve the methodologies of assessing the financial stability of the banking sector and individual credit institutions, including stress testing methodology.

III.11.3. On-site inspection

To receive meaningful supervisory information on the situation in credit institutions in 2009, the Bank of Russia will focus attention in the course of conducting on-site inspections on:

- evaluating the quality of credit institutions' assets, including loans and similar debts;
- assessing liquidity of credit institutions and the organisation and efficiency of liquidity management;
- compliance with the requirements of Bank of Russia documents regulating the procedure for extending Bank of Russia loans and the accounting of the receipt and redemption of Bank of Russia loans;
- control over the use by credit institutions of government funds allocated for the support of the financial system and for strengthening the real sector of the economy;
- settlement discipline and the timeliness of the effectuation of customer payments;
- the quality of documents compiled to record the results of on-site inspections of credit institutions.

To enhance the efficiency of its on-site inspections, the Bank of Russia keeps under close scrutiny systemically important credit institutions. Therefore, inspectors-general of interregional inspectorates have been granted the following powers:

- to coordinate on-site inspections of multi-branch credit institutions and credit institutions that are members of banking groups, including coordination for the purpose of providing methodological and consultative aid to working groups;
- to oversee the quality of the organisation and conduct of on-site inspections, including ongoing moni-

toring of inspections, and to promptly receive information on interim inspection results.

To detect factors that have a negative effect on the financial soundness of credit institutions and take timely corrective action, the Bank of Russia will conduct an express analysis of inspection materials, and inspectors-general of interregional inspectorates will prepare reports on inspection results, including where necessary the drafting of proposals for compiling an addendum to the memo on inspection results and (or) the use of corrective action.

Subsequent steps taken to improve inspection regulation will be as follows:

- improving the legal framework regulating the organisation and conduct of on-site inspections of credit institutions and their branches, including inspections conducted by audit companies on the instructions of the Bank of Russia Board of Directors;
- upgrading regulation to make mandatory and establish the periodicity and choice of the targets of inspection, with regard to compliance with reserve requirements and cash and cheque transaction and accounting rules;
- upgrading the methodologies for conducting on-site inspections, including inspections of consumer lending practices and corporate governance, and of internal controls in credit institutions.

To improve inspection activities, the Bank of Russia will conduct an experiment to centralise inspection in the North-Western Federal District. In analysing and summarising the results of the experiment, it will pay special attention to evaluating the efficiency of the organisation and quality of on-site inspections of credit institutions located in the North-Western Federal District.

III.11.4. Personal Bank Deposit Insurance

To build confidence in the banking system, the Bank of Russia will continue to work on draft amendments to Article 5 of Federal Law No. 177-FZ, dated December 23, 2003, 'On Insurance of Household Deposits with Russian Banks,' which provides for the insurance of bank accounts and deposits of unincorporated entrepreneurs.

In connection with the entering into force of Federal Law No. 270-FZ, dated December 22, 2008, 'On Amending Article 5 of the Federal Law on Insurance of Household Deposits with Russian Banks and Certain Other Federal Laws,' which establishes the grounds on which the Bank of Russia either can or must prohibit a credit institution from taking personal deposits or opening personal accounts, the Bank of Russia will issue the Ordinance 'On the Procedure for Prohibiting Credit Institutions Found Unfit for Participation in the Deposit Insurance System from Taking Personal Deposits and Opening Personal Accounts' and the Regulation 'On the Procedure for Preparing and Considering a Request to Declare a Bank Unfit for Participation in the Deposit Insurance System and Imposing a Ban on Taking Personal Deposits and Opening Personal Accounts.' These two regulatory doc-

uments will specify the procedure for imposing a ban on taking personal deposits and opening personal accounts by a bank on the grounds stipulated by Article 48 of the Federal Law on Insurance of Household Deposits with Russian Banks, when the Bank of Russia either can or must impose such a ban, and the procedure for making the ban known to the Deposit Insurance Agency and the bank on which the ban was imposed.

III.11.5. Financial Rehabilitation of Credit Institutions

The Bank of Russia will continue in 2009 to work on draft amendments to Article 11 of Federal Law No. 175-FZ, dated October 27, 2008, 'On Additional Measures to Strengthen the Stability of the Banking System until December 31, 2011.' These amendments give the Bank of Russia the right not to take measures stipulated by Article 74 of the Federal Law on the Central Bank of the Russian Federation, and not to prohibit certain systemically important banks to which funds had been allocated to prevent their bankruptcy (deposits placed with investor banks) before the above Federal Law entered into force, from taking personal deposits, and not to revoke their banking licences.

To upgrade the regulation of provisional administrations of credit institutions, the Bank of Russia will continue in 2009 to work on draft amendments to its Regulation No. 279-P, Dated November 9, 2005, 'On the Provisional Administration of a Credit Institution,' to regulate the activities of a provisional administration in cases where a credit institution evades or refuses to transfer property to the provisional administration, and in cases where the credit institution's property cannot be recovered from third parties because their whereabouts is unknown. The amendments also set the procedure and timeframe for the creation and storage of backup copies of credit institutions' electronic databases, the procedure for the sending by the provisional administration of information stipulated by paragraphs 3 and 7 of Article 22.1 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions to the Bank of Russia Bulletin, and the timeframe for the placing of information for creditors by the provisional administration in the credit institution's offices accessible to customers and posting it on the credit institution's website, if there is one. The amendments also specify the procedure for the examination of the credit institution by the provisional administration for the purpose of detecting signs of insolvency (bankruptcy).

III.11.6. Control over Liquidation of Credit Institutions

In 2009, the Bank of Russia will continue to draft amendments to federal legislation:

- to improve mechanisms aimed at reducing the risk of abuse by owners and managers of credit institutions in the period preceding bankruptcy, and during the bankruptcy of a credit institution, and to legalise a

broader range of grounds for voiding (using the consequences of voiding) suspect and preferential transactions conducted by a debtor (amendments in the Federal Law on Insolvency (Bankruptcy) of Credit Institutions and Federal Law on Insolvency (Bankruptcy);

- to establish regulations that will make it possible, when credit institutions are being liquidated, to use non-monetary settlements with creditors in the course of bankruptcy proceedings, to promptly transfer the insolvent debtor's property along with the debtor's obligations to an operating credit institution, and to use in settlements with creditors other methods of terminating obligations, established by federal civil laws (amendments to the Federal Law on Insolvency (Bankruptcy) of Credit Institutions);
- to upgrade legal relations pertaining to the insolvency (bankruptcy) of financial institutions and to regulate bankruptcy prevention measures taken in regard of financial institutions, detailing specifics of hearings of bankruptcy cases involving these corporate entities in arbitration courts, and the specifics of bankruptcy proceedings (amendments to the Federal Law 'On the Organisation of Insurance Business in the Russian Federation' and certain other federal laws).

Seeking to improve control over the liquidation of credit institutions, and bearing in mind common practice, the Bank of Russia plans to amend its 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 Undergoing Liquidation and their Approval by a Bank of Russia Regional Branch.' This regulation needs to be amended, as it is necessary to specify the procedure for the recording by receivers, liquidators, and liquidation commissions of certain indicators in the interim liquidation balance sheet, liquidation balance sheet, and annexes to them. Building on the practice of compiling interim liquidation balance sheets and liquidation balance sheets, the Bank of Russia intends to specify the accounting procedure for a credit institution's property denominated in foreign currency, and property that remains af-

ter creditors' claims have been met. The projected amendments in the annexes will specify the procedure for accounting in them for accumulated depreciation, receivables, and erroneously entered and other funds.

In connection with the entering into force of Federal Law No. 296-FZ, dated December 30, 2008, 'On Amending the Federal Law on Insolvency (Bankruptcy),' which stipulated that the activities of the receiver in a bankruptcy case cannot be regarded as entrepreneurial activities, the Bank of Russia intends to amend 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.'

III.11.7. Countering Legalisation (Laundering) of Criminally Obtained Incomes and Terrorist Financing

To enhance the efficiency of credit institutions in AML/CTF, the Bank of Russia intends in 2009 to take measures to further improve the AML/CTF regulation and methodologies.

The Bank of Russia will be actively involved in the implementation of the government-approved AML/CTF Action Plan, taking into consideration the recommendations contained in the FATF Report on Russia. The Bank of Russia will focus its efforts on:

- upgrading client and beneficiary identification mechanisms;
- granting to credit institutions the right to unilaterally (out of court) terminate bank account (deposit) agreements if they suspect that the account is used for money laundering or terrorist financing;
- specifying the requirements for money transfers to be accompanied by information on the payer;
- giving supervisors more powers to control credit institutions' compliance with AML/CTF laws.

To improve supervision of credit institutions' compliance with Russia's AML/CTF legislation, the Bank of Russia will be taking steps in 2009 to enhance the efficiency of information cooperation between the Bank of Russia and Rosfinmonitoring.

III.12. Bank of Russia Supervisors

The Bank of Russia supervisory divisions have a staff of 4,177 executives and specialists, of whom 13.6% work at the head office and 86.4% in regional branches. Most of the specialists have a higher education (96.7%), are aged between 30 and 50 years (63.9%), and have worked in the banking system for more than three years (91.7%).

In 2008, as in previous years, executives and specialists of the Bank of Russia supervisory divisions took advanced training and retraining courses (over 500 hours) arranged in collaboration with Moscow's leading institutions of higher education. Thirty-nine people completed in 2008 the commercial bank curator — bank manager programme, 21 — the commercial bank inspector — bank manager programme, and 20 completed the commercial bank provisional administrator — bank manager programme. Twenty-seven employees of the supervision divisions received an MBA after taking a 1,000-hour course of training. In addition, 12 specialists from the Bank of Russia Moscow

branch underwent a course of retraining at the Moscow Banking School.

Bank of Russia supervisors also regularly received advanced training (lasting at least 72 hours) and attended specialized seminars (1,273 people), and 137 executives and specialists took a course of training in the corresponding departments of the head office.

The Bank of Russia continues to implement the IFRS training project, which in 2008 involved over 900 people, mostly supervisors.

For the past four years, Bank of Russia supervisors have undergone training to improve their social competence and make better use of their personal resources. Training is provided by highly qualified specialists in managerial and psychological consulting, who work under paid contracts with the Bank of Russia. The purpose of this training is to develop skills in constructive cooperation and efficiency in a conflict environment, and to bolster participants' confidence and resilience. Four courses of training involving 46 supervisors were conducted in 2008.

Addendum

IV

IV.1. Monitoring Banking Sector Stability

Due to the financial market turmoil in 2008, the Bank of Russia began to pay more attention to the banking sector stability monitoring system, which includes current monitoring of individual banking risks, and stress testing (*the stress testing methodology used by the Bank of Russia is briefly described in this Report, in II.6 Macropprudential Analysis of Banking Sector*). Certain issues merited special attention in the situation of global turbulence. These included the monitoring of:

- the dynamics of total assets and a credit portfolio, including consumer lending;
- the effect of the stock market situation on the financial standing of credit institutions;
- bank loans to the real sector;
- interbank loans and deposits provided by banks that had concluded loss compensation agreements with the Bank of Russia;
- banks charging high interest on ruble-denominated interbank loans and deposits;
- large loans extended to companies that had technically defaulted.

To analyse banking sector stability, the Bank of Russia clustered credit institutions to be able to assess their transactions and risks on the basis of their business strategies, and evaluate the structure of various segments of the banking services market and the outlook for competition in these segments.

On the proposal of the IMF, the Bank of Russia conducted in 2008 preparations for the regular calculation of financial soundness indicators (FSI), with the objective of posting them on the IMF website.

Monitoring banking risks

Risk monitoring is conducted with the aim of preventing negative trends in the banking sector, and includes the identification of groups of credit institutions and individual banks whose transactions largely create these trends.

The Bank of Russia continued in 2008 to upgrade the methodologies of regularly monitoring banking risks, which include:

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

Owing to this monitoring system and the use of certain elements of stress testing, the Bank of Russia detected banks exposed to the most significant systemic risks, i.e. banks operating in the 'risk zone.'

The Bank of Russia sent to its regional branches inquiries on credit institutions in which monitoring revealed unfavourable trends, in order to further study the situation in these credit institutions and take corrective action, where necessary. In response to these inquiries, Bank of Russia regional branches analysed the financial situation of the said banks, and requested additional information from them for the comprehensive evaluation of risk, and also inquired as to the risk reduction measures they were taking. On the basis of analysis results, the Bank of Russia regional branches implemented measures to strengthen the financial soundness of the banks, improve the quality of their assets, and increase their capitalisation.

Monitoring risks of lending to non-financial organisations and private individuals

The Bank of Russia revised in 2008 its approach to monitoring the risks of lending to non-financial organisations and private individuals on the ground of the introduction of the new reporting 0409115 Form 'Information on the Quality of Assets of a Credit Institution'.⁹⁰

The monitoring of credit risk is still based on calculations of the adjusted capital adequacy ratio, determined on the basis of the value of capital reduced by potential losses that reflect the corresponding risks. The expansion of information in reporting 0409115 Form made it possible to use data on the value of non-performing loans in calculating the adjusted ratio.⁹¹

- the volume of losses from bad loans of non-financial organisations and individuals was assumed to be equal to the volume of non-performing loans to non-financial organisations or private individuals (Loan Quality Categories 4 and 5) net of loan loss provisions (adjusted for the value of collateral provided for the corresponding loans);
- the bank's capital was reduced by the value of these losses (Quality Category 4 and 5 non-performing loans) net of loan loss provisions (adjusted for the value of collateral provided for the corresponding loans);
- risk-weighted assets were also reduced by the value of the losses.

⁹⁰ Previously 'Information on the Quality of Loans, and Loan and Similar Debts.'

⁹¹ Before 2008, the adjusted capital adequacy ratio was calculated on the basis of data on overdue debt.

Reduced in this manner, the value of capital was used in calculating the adjusted capital adequacy ratio of banks. The contraction of this ratio to a certain level⁹² was considered an indicator of the 'risk zone.'

Risks of lending to non-financial organisations and private individuals was analysed for the banking sector as a whole on the basis of overdue debt ratio dynamics.

The monitoring results indicate that credit risk had increased by the end of 2008 in both corporate and retail lending. This trend was registered in all groups of credit institutions; both small banks and market leaders in Moscow and the regions found themselves in the 'risk zone.' At the same time, growth in overdue debt during the period was accompanied by a commensurate increase in loan loss provisions. As a result, there was no expansion of credit 'risk groups' in the period under review.

Liquidity monitoring

The Bank of Russia improved in 2008 the methodology of monthly liquidity monitoring, and specified the threshold values of indicators used. Monitoring was conducted on the basis of analysis of the dynamics of raised funds and average daily credit turnover in the correspondent account with the Bank of Russia (during the reporting month), and the level of liquid assets. Asset dynamics as well as the instant liquidity (N2) ratio and current liquidity (N3) ratio were used as additional indicators to determine banks in the 'risk zone.'

Market risk monitoring

In connection with the entering into force on January 1, 2008, of 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 specified the procedure for calculating potential losses from market risk, an indicator used in monthly monitoring.

Capital adequacy monitoring

Monthly capital adequacy monitoring was based on the detection of banks that had low capital adequacy ratios and rates of return on assets and capital, with a trend towards further decline.

In the course of monitoring capital adequacy, credit institutions were divided into extremely high, high, and moderate risk groups. The Bank of Russia revised in 2008 the criteria for dividing banks into these groups. It included in the high-risk group criteria the negative slope factor of the linear trend of N1 ratio over the past three months (four months in 2007) to ensure a more prompt response to negative capital adequacy ratio dynamics.

Banking sector clustering

In the course of conducting an in-depth analysis of the systemic aspects of banking sector development, banking operations, and risk, the Bank of Russia in compiling this Report conducted clustering of the banking sector, grouping banks with similar characteristics such as property, transaction volumes, and region. The study of these clusters allows analysts to identify specific developments and factors that create banking sector trends that are undetectable in the analysis of averaged indicators.

In compiling this Report, the Bank of Russia used the following clustering methodology.

In the first stage, it put the following credit institutions into separate group:

- non-bank credit institutions;
- banks in which more than 50% of authorised capital is owned by the state (bodies of executive power and federal and regional state unitary enterprises, the Russian Federal Property Fund, and the Bank of Russia), the Development Bank (VEB), and banks that are members of banking groups created by these banks;
- banks in which over 50% of authorised capital is owned by non-residents (including banks whose non-resident owners are controlled by residents).

In the second stage, the Bank of Russia examined banks among the top 200 in terms of assets, excluding banks that were not included in the three groups listed above. This group was labelled 'large private banks.'

In the third stage, the Bank of Russia examined all other banks not included in the four groups listed above. These are medium-sized and small banks, which have

Indicators of credit institutions' groups*

TABLE 4.1

Group of credit institutions	No. of credit institutions		% share of total banking sector assets		% share of total banking sector capital	
	1.01.08	1.01.09	1.01.08	1.01.09	1.01.08	1.01.09
State-controlled banks	24	18	39.2	40.6	40.8	47.2
Foreign-controlled banks	85	101	17.2	18.7	15.7	17.2
Large private banks	147	136	35.5	34.6	33.5	27.6
Medium-sized and small banks based in Moscow and the Moscow Region	382	360	3.9	2.7	5.6	4.3
Regional medium-sized and small banks	454	443	3.7	2.7	4.3	3.6
Non-bank credit institutions	44	50	0.5	0.7	0.1	0.1
TOTAL	1,136	1,108	100	100	100	100

* The criteria for grouping credit institutions and the corresponding group indicators are used in this Report for analysis only.

⁹² Less than 11.0% for banks with capital of over 5 million euros in ruble terms, and less than 12.0% for banks with capital of less than 5 million euros in ruble terms.

been divided into two geographical groups — medium-sized and small banks based in Moscow and the Moscow Region, and medium-sized and small banks registered in other regions.

As a result, the Bank of Russia established 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. regional medium-sized and small banks;
6. non-bank credit institutions.

The results of the banking sector clustering (see *Table 4.1*) show that state controlled banks strengthened their positions in 2008 (despite the fall in num-

bers, their share of total banking sector assets expanded from 39.2% to 40.6% and their share of total banking sector capital increased from 40.8% to 47.2%). Banks controlled by foreign capital built up their influence in 2008 (as of January 1, 2009, their share of banking sector assets expanded from 17.2% to 18.7% and their share of banking sector capital rose from 15.7% to 17.2%).

The share of large private banks contracted from 35.5% to 34.6% of total banking sector assets, and from 33.5% to 27.6% of total banking sector capital.

The most numerous groups of banks were regional medium-sized and small banks, and medium-sized and small banks based in Moscow and the Moscow Region. Their share of assets contracted from 7.7% to 5.3%, while their share of capital fell from 9.8% to 7.8%.

IV.2. Improving the Central Catalogue of Credit Histories

During 2009, the Bank of Russia will continue to enhance the efficiency of the Central Catalogue of Credit Histories (CCCH), placing priority on improving the procedure for searching for information in the CCCH database, and modernising the software for the receipt and processing of credit history makers' requests sent as telegrams. The introduction of these measures will help not only to expand the capabilities of the CCCH automated system, but also to increase the ratio of positive replies from the CCCH.

Plans are in place to expand the means of obtaining information from the CCCH by credit history makers and users. In addition to visiting the Bank of Russia website and filing a request to a credit institution or credit bureau or post office, credit history makers and users will be able in 2009 to contact the CCCH through notaries when the Bank of Russia issues a corresponding regulation.

Building on experience gained in operating the CCCH, the Bank of Russia will amend in 2009 its regulations on the CCCH, designed to improve the procedure for cooperation between the CCCH, credit bureaus, and credit history makers and users. The projected changes:

- will make it possible to file to the CCCH not only individual requests, as is currently the case, but also a

package of data, in which one electronic message can contain several inquiries by credit history makers and users;

- will set deadlines for notifying credit history makers and users of the CCCH's response to the request on the availability of a credit history filed to credit bureaus and credit institutions. This requirement will reduce the time taken to notify the applicants of the CCCH's response.

In 2009, the Bank of Russia plans to participate in drafting amendments to the Federal Law on Credit Histories, which will specify the validity period of the additional code of a credit history maker, make it possible to cancel credit history titles, amend the rules for searches of credit history makers in the CCCH database, and specify the range of persons entitled to receive information from the databases of liquidated (reorganised and struck off the state register) credit bureaus stored in the CCCH.

In addition, in 2009, the Bank of Russia will take part in meetings with representatives of the banking community, including EurAsEc central banks, to discuss the possibility of and procedure for cross-border exchange of information from credit histories between member states, for the purpose of minimising creditors' credit risk.

IV.3. Statistical Appendix

Since February 1, 2008, the algorithms used in the calculation of indicators have taken into account changes in credit institutions' accounting rules (Bank of Russia Regulation No. 302-P, dated March 26, 2007) and reporting forms (Bank of Russia Ordinance No. 1376-U, dated January 16, 2004).

A number of changes have also been made to harmonise indicators with international financial reporting standards, and create an orderly system of indicators published by the Bank of Russia, such as:

- fixed assets, intangible assets, and inventories, which are accounted for at their current (replacement) value less depreciation (previously depreciation was not subtracted). This has resulted in a decrease in the value of assets (liabilities);
- funds in the accounts of unincorporated entrepreneurs and loans extended to them, which are accounted for as corporate funds (loans); previously they were accounted for as individual funds (loans);
- certificates of deposit and savings certificates, which are accounted for as corporate and personal deposits; previously they were accounted for as debt obligations issued;
- the principles for balancing of certain accounts have been revised.

Certain indicators for previous reporting dates (before February 1, 2008) have been recalculated according to the principles described above.

**Key macroeconomic indicators
in 2004—2008**

TABLE 1

Indicator	2004	2005	2006	2007	2008
GDP, billion rubles	17,048.1	21,625.4	26,903.5	33,113.5	41,540.4
as % of previous year	107.2	106.4	107.7	108.1	105.6
Federal budget surplus, as % of GDP	4.3	7.5	7.4	5.4	4.1
Industrial output, as % of previous year	108.0	105.1	106.3	106.3	102.1
Agricultural output, as % of previous year	103.0	102.3	103.6	103.4	110.8
Retail trade turnover, as % of previous year	113.3	112.8	114.1	116.1	113.0
Fixed capital investment, as % of previous year	113.7	110.9	116.7	122.7	109.8
Household real disposable income, as % of previous year	110.4	112.4	113.5	112.1	102.7
Unemployment rate, as % of economically active population (average for period)	8.2	7.6	7.2	6.1	6.3
Consumer price index (December as % of previous December)	111.7	110.9	109.0	111.9	113.3
Average nominal US dollar/ruble rate over period	28.81	28.28	27.18	25.57	24.81

**Russian banking sector
macroeconomic indicators**

TABLE 2

Indicator	1.01.05	1.01.06	1.01.07	1.01.08	1.01.09
Banking sector assets (liabilities), billion rubles	7,100.6	9,696.2	13,963.5	20,125.1	28,022.3
as % of GDP	41.7	44.8	51.9	60.8	67.5
Banking sector capital, billion rubles	946.6	1,241.8	1,692.7	2,671.5	3,811.1
as % of GDP	5.6	5.7	6.3	8.1	9.2
as % of banking sector assets	13.3	12.8	12.1	13.3	13.6
Loans and other funds provided to non-financial organisations and individuals, including overdue debt, billion rubles	3,885.9	5,452.9	8,030.5	12,287.1	16,526.9
as % of GDP	22.8	25.2	29.8	37.1	39.8
as % of banking sector assets	54.7	56.2	57.5	61.1	59.0
Securities acquired by banks, billion rubles	1,038.8	1,400.1	1,745.4	2,250.6	2,365.2
as % of GDP	6.1	6.5	6.5	6.8	5.7
as % of banking sector assets	14.6	14.4	12.5	11.2	8.4
Personal deposits, billion rubles	1,980.8	2,761.2	3,809.7	5,159.2	5,907.0
as % of GDP	11.6	12.8	14.2	15.6	14.2
as % of banking sector liabilities	27.9	28.5	27.3	25.6	21.1
as % of household income	18.0	20.0	22.1	24.2	23.1
Funds raised from organisations*, billion rubles	2,184.1	3,138.9	4,790.3	7,053.1	8,774.6
as % of GDP	12.8	14.5	17.8	21.3	21.1
as % of banking sector liabilities	30.8	32.4	34.3	35.0	31.3

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

Registration and licensing
of credit institutions*

TABLE 3

	1.01.08	1.01.09
Registration of credit institutions		
1. No. of credit institutions ¹ registered by the Bank of Russia or the Registration Authority, in line with decisions made by the Bank of Russia, total ²	1,296	1,228
of which:		
— banks	1,243	1,172
— non-bank credit institutions	53	56
1.1. No. of registered wholly foreign-owned credit institutions	63	77
1.2. Credit institutions that have been registered by the Bank of Russia but have not yet paid authorised capital and have not received a licence (within the time period established by law)	3	3
of which:		
— banks	2	3
— non-bank credit institutions	1	0
Operating credit institutions		
2. Credit institutions licensed to conduct banking operations, total ³	1,136	1,108
of which:		
— banks	1,092	1,058
— non-bank credit institutions	44	50
2.1. Credit institutions holding licences (permits):		
— to take household deposits	906	886
— to conduct operations in foreign currency	754	736
— general licences	300	298
— to conduct operations with precious metals		
— permits	4	3
— licences ⁴	195	200
2.2. Credit institutions with foreign stakes in authorised capital, total	202	221
of which:		
— wholly foreign-owned credit institutions	63	76
— credit institutions with a 50%-plus foreign stake	23	26
2.3. Credit institutions registered with the deposit insurance system ⁵	909	893
3. Registered authorised capital of operating credit institutions, million rubles	731,736	881,350
4. Branches of operating credit institutions in Russia, total	3,455	3,470
of which:		
— Sberbank branches ⁶	809	775
— branches of wholly foreign-owned credit institutions	169	242
5. Branches of operating credit institutions abroad, total ⁷	3	5
6. Branches of non-resident banks in Russia	0	0
7. Representative offices of operating Russian credit institutions, total ⁸	804	721
of which:		
— in Russia	757	679
— in non-CIS countries	33	30
— in CIS countries	14	12
8. Additional offices of credit institutions, total	18,979	21,272
of which:		
— Sberbank additional offices	8,623	9,491
9. External cash desks of bank branches, total	14,689	13,871
of which:		
— Sberbank external cash desks	10,839	10,127
10. Cash and credit offices, total	1,543	1,445
of which:		
— Sberbank cash and credit offices	0	0
11. Operations offices of credit institutions (branches of credit institutions)	497	1,498
of which:		
— Sberbank operations offices	0	6
12. Mobile banking vehicles of credit institutions (branches of credit institutions)	51	62
of which:		
— Sberbank mobile banking vehicles	50	61

* These include data based on information received from the Registration Authority as of the reporting date.

END

	1.01.08	1.01.09
Licence revocation and liquidation of corporate entities		
13. Credit institutions that had their banking licences revoked (cancelled) but have not been struck off the State Register ⁹	157	117
14. Liquidated credit institutions struck off the State Register, total ¹⁰	1,819	1,900
of which:		
— liquidated due to licence revocation (cancellation)	1,419	1,495
— liquidated due to reorganisation	399	404
of which:		
— by merger	2	2
— by acquisition	397	402
of which:		
— by being transformed into other banks' branches	344	347
— by being merged with other banks (without setting up a branch)	53	55
— liquidated due to a legal infraction with respect 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 a Registration Authority and having the right to conduct banking operations;
- a corporate entity registered by the Bank of Russia (prior to July 1, 2002) or a Registration Authority, but which had lost the right to conduct banking operations;
- a corporate entity registered by other authorities (before the Federal Law on Banks and Banking Activities entered into force) and having a Bank of Russia licence to conduct banking operations.

² Credit institutions with 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 a Registration Authority and holding the right to conduct banking operations, and also non-bank credit institutions registered by other authorities and licensed by the Bank of Russia to conduct banking operations.

⁴ Issued since December 1996 pursuant to Bank of Russia Letter No. 367, dated December 3, 1996.

⁵ Based on data provided to the Bank of Russia by the Deposit Insurance Agency as of the reporting date.

⁶ Sberbank branches put on the State Register of Credit Institutions and assigned a serial number. Before January 1, 1998, monthly data on credit institutions in this line indicated the total number of Sberbank establishments (34,426).

⁷ Branches opened by Russian credit institutions abroad.

⁸ Representative offices of Russian credit institutions abroad include offices of whose opening abroad the Bank of Russia has been notified.

⁹ Total credit institutions that had their banking licences revoked (cancelled) by the Bank of Russia, including liquidated credit institutions struck off the State Register: 1,585 as of January 1, 2008, and 1,621 as of January 1, 2009.

¹⁰ Since 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	1.01.08		1.01.09	
	Number	% share	Number	% share
Operating credit institutions licensed to conduct banking operations, total	1,136	100.00	1,108	100.0
of which:				
— joint stock companies	744	65.49	726	62.52
— closed-end joint stock companies	307	27.02	296	26.71
— open-end joint stock companies	437	38.47	420	38.81
— unit trusts	392	34.51	382	34.48
— additional liability companies	—	—	—	—
— limited liability companies	392	34.51	382	34.48

**Number of credit institutions and their branches by region
as of January 1, 2009**

TABLE 5

Region	No. of credit institutions in region	No. of branches in region		
		total	credit institution with head office in given region	credit institution with head office in another region
1	2	3	4	5
Russian Federation	1,108	3,470	661	2,809
Central Federal District	621	761	177	584
Belgorod Region	6	33	5	28
Bryansk Region	1	30	2	28
Vladimir Region	2	30	0	30
Voronezh Region	5	58	1	57
Ivanovo Region	6	20	1	19
Kaluga Region	5	29	2	27
Kostroma Region	4	15	0	15
Kursk Region	2	22	0	22
Lipetsk Region	2	27	1	26
Orel Region	2	22	3	19
Ryazan Region	4	28	0	28
Smolensk Region	4	30	6	24
Tambov Region	1	20	3	17
Tver Region	8	36	3	33
Tula Region	5	36	1	35
Yaroslavl Region	8	42	4	38
<i>Moscow and Moscow Region (for the record)</i>	<i>556</i>	<i>283</i>	<i>145</i>	<i>138</i>
Moscow	543	166	32	134
Moscow Region	13	117	9	108
North-Western Federal District	79	407	32	375
Republic of Karelia	1	22	2	20
Komi Republic	3	41	7	34
Arkhangelsk Region	3	33	0	33
of which: Nenets Autonomous Area	0	1	0	1
Vologda Region	9	32	10	22
Kaliningrad Region	8	37	1	36
Leningrad Region	4	37	0	37
Murmansk Region	4	25	1	24
Novgorod Region	2	17	1	16
Pskov Region	3	13	0	13
St Petersburg	42	150	10	140
Southern Federal District	115	503	103	400
Republic of Adygeya	5	6	1	5
Republic of Daghestan	32	70	55	15
Republic of Ingushetia	2	4	1	3
Kabardino-Balkaria Republic	6	12	3	9
Republic of Kalmykia	2	4	0	4
Karachai-Cherkess Republic	5	4	0	4
Republic of North Ossetia — Alaniya	6	15	6	9
Chechen Republic	0	2	0	2
Krasnodar Territory	16	110	10	100
Stavropol Territory	8	62	7	55
Astrakhan Region	5	30	6	24
Volgograd Region	5	74	1	73
Rostov Region	23	110	13	97

END

Region	No. of credit institutions in region	No. of branches in region		
		total	credit institution with head office in given region	credit institution with head office in another region
1	2	3	4	5
Volga Federal District	131	774	143	631
Republic of Bashkortostan	11	67	0	67
Republic of Mari El	1	20	4	16
Republic of Mordovia	4	16	6	10
Republic of Tatarstan	26	95	56	39
Udmurt Republic	8	33	0	33
Chuvash Republic	5	26	0	26
Perm Territory	8	76	3	73
Kirov Region	3	29	0	29
Nizhny Novgorod Region	18	117	33	84
Orenburg Region	9	57	4	53
Penza Region	2	34	0	34
Samara Region	20	99	14	85
Saratov Region	12	73	20	53
Ulyanovsk Region	4	32	3	29
Urals Federal District	58	399	126	273
Kurgan Region	4	23	0	23
Sverdlovsk Region	24	106	15	91
Tyumen Region	19	151	71	80
of which:				
Khanty-Mansi Autonomous Area — Yurga	11	46	14	32
Yamalo-Nenets Autonomous Area	2	28	2	26
Chelyabinsk Region	11	119	40	79
Siberian Federal District	68	431	47	384
Republic of Altai	5	4	1	3
Republic of Buryatiya	1	21	3	18
Republic of Tyva	2	4	0	4
Republic of Khakassia	3	8	0	8
Altai Territory	8	56	13	43
Trans-Baikal Territory	2	23	4	19
Krasnoyarsk Territory	6	71	10	61
Irkutsk Region	9	53	5	48
Kemerovo Region	8	40	0	40
Novosibirsk Region	13	65	1	64
Omsk Region	7	49	0	49
Tomsk Region	4	37	10	27
Far Eastern Federal District	36	195	33	162
Republic of Sakha (Yakutia)	5	47	9	38
Kamchatka Territory	6	12	4	8
Primorsky Territory	8	45	9	36
Khabarovsk Territory	5	34	4	30
Amur Region	5	16	0	16
Magadan Region	2	14	5	9
Sakhalin Region	5	14	2	12
Jewish Autonomous Region	0	6	0	6
Chukchee Autonomous Area	0	7	0	7

The number of credit institutions indicated for St Petersburg and the Leningrad Region (column 2) and their branches (column 3) denotes credit institutions and their branches registered by the Bank of Russia regional branch for St Petersburg, and the Bank of Russia regional branch for the Leningrad Region respectively. In the line Moscow and the Moscow Region, the figures in columns 4 and 5 indicate the number of branches whose parent credit institution is located in the given region (Moscow and the Moscow Region) and in other regions.

Credit institutions grouped by registered authorised capital
as of January 1, 2009

TABLE 6

Region	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	31	51	99	140	194	254	339	1,108
Central Federal District	8	23	41	67	88	160	234	621
Belgorod Region	0	0	0	1	2	3	0	6
Bryansk Region	0	0	0	0	1	0	0	1
Vladimir Region	0	0	0	0	1	1	0	2
Voronezh Region	0	0	1	1	2	0	1	5
Ivanovo Region	0	2	0	0	3	1	0	6
Kaluga Region	0	0	0	0	3	1	1	5
Kostroma Region	0	0	1	0	1	1	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	0	0	3	0	1	0	4
Smolensk Region	0	1	0	0	1	1	1	4
Tambov Region	0	0	0	0	1	0	0	1
Tver Region	1	2	1	2	1	0	1	8
Tula Region	0	1	1	1	1	1	0	5
Yaroslavl Region	0	0	1	4	0	1	2	8
<i>Moscow and Moscow Region (for the record)</i>	7	17	35	54	69	148	226	556
Moscow	7	16	35	54	66	145	220	543
Moscow Region	0	1	0	0	3	3	6	13
North-Western Federal District	5	4	8	18	12	12	20	79
Republic of Karelia	0	0	0	0	1	0	0	1
Komi Republic	0	0	0	2	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	4	1	2	1	1	9
Kaliningrad Region	0	0	0	2	2	1	3	8
Leningrad Region	0	0	1	1	0	1	1	4
Murmansk Region	1	0	0	1	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	2	9	5	6	14	42
Southern Federal District	11	14	23	14	28	16	9	115
Republic of Adygeya	1	0	4	0	0	0	0	5
Republic of Daghestan	6	8	8	4	5	0	1	32
Republic of Ingushetia	0	1	1	0	0	0	0	2
Kabardino-Balkaria Republic	1	0	2	0	1	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 — Alaniya	0	0	1	1	3	1	0	6
Chechen Republic	0	0	0	0	0	0	0	0
Krasnodar Territory	0	0	2	3	7	2	2	16
Stavropol Territory	1	2	1	2	2	0	0	8
Astrakhan Region	0	3	0	0	0	2	0	5
Volgograd Region	0	0	0	1	1	3	0	5
Rostov Region	1	0	2	3	6	6	5	23

END

Region	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	4	2	7	12	27	38	41	131
Republic of Bashkortostan	0	0	1	0	0	7	3	11
Republic of Mari El	0	0	1	0	0	0	0	1
Republic of Mordovia	0	0	0	0	0	4	0	4
Republic of Tatarstan	0	1	0	3	4	6	12	26
Udmurt Republic	0	1	1	0	1	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	3	5	4	4	18
Orenburg Region	0	0	0	1	4	1	3	9
Penza Region	0	0	0	0	1	0	1	2
Samara Region	1	0	1	0	3	7	8	20
Saratov Region	0	0	0	2	4	3	3	12
Ulyanovsk Region	0	0	0	1	2	1	0	4
Urals Federal District	1	2	7	6	13	9	20	58
Kurgan Region	0	1	1	1	1	0	0	4
Sverdlovsk Region	1	1	2	3	4	4	9	24
Tyumen Region	0	0	3	1	6	3	6	19
of which:								
Khanty-Mansi Autonomous Area — Yugra	0	0	1	1	3	2	4	11
Yamalo-Nenets Autonomous Area	0	0	1	0	0	1	0	2
Chelyabinsk Region	0	0	1	1	2	2	5	11
Siberian Federal District	2	4	9	12	18	12	11	68
Republic of Altai	0	0	2	1	1	1	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	0	1	2	0	3
Altai Territory	0	1	1	2	2	0	2	8
Trans-Baikal Territory	0	0	0	1	0	1	0	2
Krasnoyarsk Territory	0	0	1	0	2	2	1	6
Irkutsk Region	0	0	1	2	4	2	0	9
Kemerovo Region	0	0	1	2	2	1	2	8
Novosibirsk Region	2	1	2	1	3	1	3	13
Omsk Region	0	1	0	2	2	0	2	7
Tomsk Region	0	0	1	0	1	1	1	4
Far Eastern Federal District	0	2	4	11	8	7	4	36
Republic of Sakha (Yakutia)	0	0	0	3	0	1	1	5
Kamchatka Territory	0	0	2	2	1	1	0	6
Primorsky Territory	0	1	1	1	2	3	0	8
Khabarovsk Territory	0	0	1	2	1	0	1	5
Amur Region	0	1	0	1	0	1	2	5
Magadan Region	0	0	0	1	0	1	0	2
Sakhalin Region	0	0	0	1	4	0	0	5
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, 2008**

TABLE 7.1

Region	No. of credit institutions, branches and additional offices	Net assets, million rubles	Loans to resident institutions and individuals, million rubles*	Personal deposits, million rubles	Gross Regional Product (GRP) for 2007, billion rubles	Population, thousands	Average monthly per capita income in 2007, rubles	Institutional density of banking services (by population)	Financial density of banking services (by assets)	Financial density of banking services (by volume of loans)	Savings index (per capita deposits to incomes)	Composite banking services density index by region
1	2	3	4	5	6	7	8	9	10	11	12	13
Central Federal District	6,952	14,199,327	5,610,369	2,559,036	9,662	37,151	16,337	1.10	1.88	1.33	1.41	1.41
<i>For the record: Central Federal District without Moscow</i>	<i>2,515</i>	<i>936,225</i>	<i>1,035,423</i>	<i>432,223</i>	<i>2,173</i>	<i>20,008</i>	<i>8,183</i>	<i>0.80</i>	<i>1.06</i>	<i>1.29</i>	<i>1.12</i>	<i>1.05</i>
Belgorod Region	171	110,034	200,156	36,330	223	1,519	9,325	0.66	0.63	2.06	0.86	0.93
Bryansk Region	102	36,366	38,365	19,002	101	1,308	7,487	0.46	0.46	0.87	0.65	0.59
Vladimir Region	184	56,593	62,849	33,723	138	1,449	6,714	0.75	0.53	1.05	1.16	0.83
Voronezh Region	250	130,496	101,286	56,236	201	2,280	8,725	0.65	0.83	1.16	0.95	0.88
Ivanovo Region	144	31,167	34,822	20,298	65	1,080	5,499	0.79	0.62	1.24	1.14	0.91
Kaluga Region	157	60,522	45,263	25,864	104	1,006	9,199	0.92	0.74	0.99	0.94	0.89
Kostroma Region	124	32,659	27,563	13,798	65	697	7,123	1.05	0.64	0.97	0.93	0.88
Kursk Region	158	58,133	63,254	20,111	124	1,162	8,501	0.80	0.60	1.17	0.68	0.79
Lipetsk Region	126	66,659	77,093	26,465	231	1,169	9,543	0.64	0.37	0.77	0.79	0.61
Moscow Region	913	426,988	651,302	246,504	1,155	6,673	13,902	0.81	0.47	1.29	0.89	0.81
Orel Region	104	24,868	44,490	14,723	77	822	7,099	0.75	0.41	1.33	0.84	0.77
Ryazan Region	157	52,346	53,229	24,858	127	1,165	7,698	0.80	0.53	0.96	0.93	0.78
Smolensk Region	123	45,435	43,726	20,065	98	983	7,997	0.74	0.60	1.03	0.85	0.79
Tambov Region	111	27,539	36,058	16,428	97	1,106	8,404	0.59	0.37	0.86	0.59	0.58
Tver Region	160	51,535	50,089	25,022	155	1,380	8,327	0.68	0.43	0.74	0.73	0.63
Tula Region	226	71,898	73,652	35,389	176	1,566	8,067	0.85	0.52	0.96	0.94	0.79
Yaroslavl Region	218	79,975	83,528	43,910	193	1,315	9,788	0.98	0.53	0.99	1.14	0.88
Moscow	3,524	12,836,114	3,923,644	1,880,309	6,334	10,470	33,468	1.99	2.60	1.42	1.80	1.90
North-Western Federal District	2,657	1,664,182	1,201,360	581,988	2,669	13,501	13,046	1.16	0.80	1.03	1.10	1.01
Republic of Karelia	125	28,778	34,242	14,361	106	691	9,882	1.07	0.35	0.74	0.70	0.66
Komi Republic	141	50,203	49,197	30,985	261	968	15,730	0.86	0.25	0.43	0.68	0.50
Arkhangelsk Region	165	58,308	65,958	29,609	254	1,272	10,864	0.77	0.29	0.60	0.72	0.56
Vologda Region	206	91,179	84,814	33,952	256	1,223	10,084	0.99	0.46	0.76	0.92	0.75
Kaliningrad Region	198	80,267	80,177	31,426	123	937	10,875	1.25	0.84	1.50	1.03	1.13
Leningrad Region	297	47,665	87,711	32,495	327	1,633	10,542	1.07	0.19	0.62	0.63	0.53
Murmansk Region	176	50,158	46,276	31,117	192	851	14,943	1.22	0.33	0.55	0.82	0.66
Novgorod Region	139	22,206	25,331	10,634	90	652	8,853	1.26	0.32	0.64	0.62	0.63
Pskov Region	134	19,066	18,438	10,282	61	705	7,648	1.12	0.40	0.70	0.64	0.67
St Petersburg	1,076	1,216,351	709,216	357,127	999	4,568	16,775	1.39	1.56	1.63	1.56	1.53

CONT.

1	2	3	4	5	6	7	8	9	10	11	12	13
Southern Federal District	3,586	837,199	807,180	353,833	1,983	22,835	8,156	0.93	0.54	0.93	0.64	0.74
Republic of Adygeya	78	7,502	11,007	4,136	26	441	5,622	1.04	0.37	0.98	0.56	0.68
Republic of Daghestan	214	19,721	12,529	7,240	146	2,688	8,329	0.47	0.17	0.20	0.11	0.20
Republic of Ingushetia	19	2,774	2,889	954	11	500	4,024	0.22	0.34	0.63	0.16	0.29
Kabardino-Balkaria Republic	79	17,194	14,526	8,300	51	891	6,409	0.52	0.43	0.65	0.48	0.52
Republic of Kalmykia	45	5,195	8,184	1,535	15	286	4,375	0.93	0.44	1.24	0.41	0.68
Karachai-Cherkess Republic	46	7,608	9,813	2,579	28	427	6,930	0.64	0.35	0.81	0.29	0.48
Republic of North Ossetia — Alaniya	64	16,349	14,737	8,141	53	702	8,181	0.54	0.40	0.64	0.47	0.51
Chechen Republic	1	16,597	5,800	550	36	1,209	0	0.00	0.59	0.37	0.00	0.00
Krasnodar Territory	1,173	276,315	265,987	126,626	573	5,122	9,293	1.35	0.62	1.06	0.89	0.94
Stavropol Territory	494	99,295	96,112	48,388	220	2,705	8,247	1.08	0.58	1.00	0.73	0.82
Astrakhan Region	139	33,457	33,154	17,389	104	1,001	8,659	0.82	0.41	0.73	0.67	0.64
Volgograd Region	294	98,243	104,280	46,956	307	2,609	9,625	0.66	0.41	0.78	0.63	0.60
Rostov Region	940	236,950	228,161	81,040	414	4,254	9,403	1.30	0.73	1.27	0.68	0.95
Volga Federal District	4,268	1,948,171	1,799,451	691,246	4,331	30,242	9,650	0.83	0.58	0.95	0.79	0.78
Republic of Bashkortostan	676	173,746	190,878	75,952	622	4,053	10,942	0.98	0.36	0.70	0.57	0.61
Republic of Mari El	71	23,709	21,596	8,260	52	703	5,803	0.60	0.58	0.95	0.68	0.69
Republic of Mordovia	139	36,456	34,960	11,780	70	840	5,789	0.98	0.67	1.15	0.81	0.88
Republic of Tatarstan	573	395,374	332,600	101,007	745	3,763	11,539	0.90	0.68	1.02	0.78	0.84
Udmurt Republic	205	97,336	89,589	28,192	201	1,533	7,427	0.79	0.62	1.02	0.83	0.80
Chuvash Republic	118	53,026	58,846	19,413	113	1,283	6,309	0.54	0.60	1.19	0.80	0.75
Perm Territory	384	200,893	209,905	71,049	484	2,718	12,853	0.83	0.53	0.99	0.68	0.74
Kirov Region	175	51,807	57,317	22,575	119	1,413	7,067	0.73	0.56	1.11	0.76	0.76
Nizhny Novgorod Region	484	259,199	244,027	98,744	469	3,360	9,747	0.85	0.71	1.19	1.01	0.92
Orenburg Region	288	85,814	88,788	38,199	369	2,119	7,700	0.80	0.30	0.55	0.78	0.57
Penza Region	173	43,733	44,505	22,425	112	1,388	7,090	0.74	0.50	0.91	0.76	0.71
Samara Region	470	372,389	279,533	121,935	603	3,173	13,640	0.87	0.79	1.06	0.94	0.91
Saratov Region	310	110,446	98,769	51,410	247	2,584	7,172	0.71	0.57	0.92	0.93	0.77
Ulyanovsk Region	202	44,244	48,136	20,304	125	1,312	7,618	0.91	0.45	0.89	0.68	0.71
Urals Federal District	2,157	1,156,520	1,032,755	406,145	4,644	12,240	14,823	1.04	0.32	0.51	0.75	0.60
Kurgan Region	110	24,704	28,155	10,083	82	960	8,216	0.68	0.39	0.79	0.43	0.55
Sverdlovsk Region	821	503,572	424,227	148,453	806	4,396	13,997	1.10	0.80	1.21	0.81	0.96
Tyumen Region	673	407,546	343,564	168,220	3,211	3,373	22,312	1.18	0.16	0.25	0.75	0.43
Chelyabinsk Region	553	220,698	236,809	79,388	545	3,511	10,469	0.93	0.52	1.00	0.72	0.77

END												
1	2	3	4	5	6	7	8	9	10	11	12	13
Siberian Federal District	3,159	1,196,402	1,161,437	368,823	2,942	19,553	10,037	0.95	0.52	0.91	0.63	0.73
Republic of Altai	34	8,618	22,540	1,596	14	207	6,887	0.97	0.81	3.77	0.37	1.02
Republic of Buryatiya	225	35,649	37,147	10,534	111	960	8,602	1.38	0.41	0.76	0.43	0.66
Republic of Tyva	36	5,825	5,965	1,434	18	312	5,808	0.68	0.41	0.75	0.26	0.48
Republic of Khakassia	86	17,840	25,779	6,186	63	537	7,837	0.94	0.36	0.94	0.49	0.63
Altai Territory	344	116,537	109,762	34,568	207	2,508	7,509	0.81	0.72	1.22	0.62	0.81
Trans-Baikal Territory	291	34,137	33,816	13,383	108	1,119	8,341	1.53	0.41	0.72	0.48	0.68
Krasnoyarsk Territory	469	175,403	197,701	61,353	721	2,890	11,205	0.96	0.31	0.63	0.63	0.59
Irkutsk Region	487	133,477	147,337	49,771	398	2,508	10,301	1.15	0.43	0.85	0.65	0.72
Kemerovo Region	336	163,276	187,750	58,921	415	2,824	11,519	0.70	0.50	1.04	0.61	0.69
Novosibirsk Region	446	310,353	215,473	65,627	353	2,636	10,334	1.00	1.13	1.40	0.81	1.06
Omsk Region	233	123,964	113,857	40,396	305	2,018	11,022	0.68	0.52	0.86	0.61	0.66
Tomsk Region	172	71,322	64,309	25,054	230	1,035	11,759	0.98	0.40	0.64	0.69	0.64
Far Eastern Federal District	1,288	399,113	348,688	190,570	1,207	6,486	12,857	1.17	0.42	0.66	0.77	0.71
Republic of Sakha (Yakutia)	163	63,700	72,708	21,988	253	951	15,135	1.01	0.32	0.66	0.51	0.58
Kamchatka Territory	95	22,249	16,052	13,880	66	346	14,390	1.62	0.43	0.56	0.93	0.78
Primorye Territory	375	101,856	83,990	51,093	257	1,996	10,514	1.11	0.51	0.75	0.81	0.77
Khabarovsk Territory	271	111,755	102,248	51,984	242	1,404	14,263	1.14	0.59	0.97	0.87	0.87
Amur Region	186	39,767	34,835	15,011	112	870	8,875	1.26	0.45	0.71	0.65	0.72
Magadan Region	46	15,133	11,593	7,954	37	166	15,481	1.64	0.53	0.72	1.04	0.90
Sakhalin Region	106	37,035	20,050	23,845	200	519	19,571	1.21	0.24	0.23	0.79	0.48
Jewish Autonomous Region	28	3,673	4,188	2,358	22	186	8,663	0.89	0.21	0.44	0.49	0.45
Chukchee Autonomous Area	18	3,944	3,023	2,458	18	50	19,386	2.11	0.28	0.38	0.84	0.66
Total	24,067	21,400,913	11,961,239	5,151,640	27,438	142,009	12,127	1.00	1.00	1.00	1.00	1.00

* Credit volume is calculated on the basis of data reported by credit institutions in 0409302 Form, which take into consideration a borrower's residence.

**Density of banking services in Russian regions
as of January 1, 2009**

TABLE 7.2

Region	No. of credit institutions, branches and additional offices	Net assets, million rubles	Loans to resident institutions and individuals, million rubles	Personal deposits, million rubles*	Gross Regional Product (GRP) for 2008, billion rubles	Population, thousands	Average monthly per capita income in 2008, rubles	Institutional density of banking services (by population)	Financial density of banking services (by assets)	Financial density of banking services (by volume of loans)	Savings index (per capita deposits to incomes)	Composite banking services density index by region
1	2	3	4	5	6	7	8	9	10	11	12	13
Central Federal District	7,701	20,835,579	7,346,226	2,989,728	12,094	37,111	18,487	1.08	1.96	1.31	1.50	1.43
<i>For the record: Central Federal District without Moscow</i>	3,052	1,211,620	1,317,179	498,336	2,720	19,895	10,503	0.84	1.06	1.22	1.08	1.04
Belgorod Region	203	141,441	221,818	44,034	279	1,525	12,116	0.69	0.58	1.71	0.82	0.86
Bryansk Region	123	43,714	46,243	21,072	126	1,300	9,825	0.49	0.39	0.79	0.57	0.54
Vladimir Region	224	69,263	77,928	37,665	172	1,440	9,158	0.81	0.46	0.97	0.98	0.77
Voronezh Region	308	200,476	142,105	68,358	252	2,268	9,561	0.70	0.91	1.22	1.08	0.96
Ivanovo Region	180	41,583	45,542	23,449	81	1,073	8,660	0.87	0.59	1.21	0.87	0.86
Kaluga Region	195	65,808	61,503	28,835	131	1,001	11,543	1.01	0.57	1.01	0.86	0.84
Kostroma Region	143	40,307	36,454	15,996	82	692	8,459	1.07	0.56	0.96	0.94	0.86
Kursk Region	194	77,743	86,653	23,050	155	1,155	10,800	0.87	0.57	1.21	0.64	0.79
Lipetsk Region	169	77,675	89,990	31,948	289	1,163	11,894	0.75	0.31	0.67	0.79	0.59
Moscow Region	1,022	537,565	983,812	286,751	1,446	6,707	18,809	0.79	0.42	1.47	0.78	0.79
Orel Region	121	31,064	56,241	16,631	96	817	8,827	0.77	0.37	1.26	0.79	0.73
Ryazan Region	178	69,620	74,056	27,566	159	1,158	10,590	0.80	0.50	1.00	0.77	0.75
Smolensk Region	152	58,548	59,083	22,963	122	974	11,356	0.81	0.55	1.04	0.71	0.76
Tambov Region	135	34,859	46,350	18,747	121	1,097	10,652	0.64	0.33	0.83	0.55	0.56
Tver Region	191	67,367	69,390	29,303	193	1,369	10,928	0.72	0.40	0.77	0.67	0.62
Tula Region	259	91,155	97,284	40,149	221	1,552	10,925	0.87	0.47	0.95	0.81	0.75
Yaroslavl Region	277	100,997	106,538	48,568	241	1,310	11,972	1.10	0.48	0.95	1.06	0.85
Moscow	3,627	19,086,394	5,045,642	2,204,642	7,928	10,509	33,397	1.79	2.74	1.37	2.16	1.95
North-Western Federal District	3,091	2,089,317	1,688,403	668,702	3,341	13,462	14,138	1.19	0.71	1.09	1.21	1.03
Republic of Karelia	147	39,166	43,735	15,938	133	687	10,894	1.11	0.34	0.71	0.73	0.66
Komi Republic	163	61,740	56,795	34,135	327	959	17,769	0.88	0.22	0.37	0.69	0.47
Arkhangelsk Region	200	69,618	78,589	34,601	318	1,262	13,736	0.82	0.25	0.53	0.69	0.52
Vologda Region	248	112,751	101,788	36,940	320	1,218	11,586	1.06	0.40	0.68	0.90	0.71
Kaliningrad Region	218	94,025	106,846	33,185	154	937	12,256	1.21	0.70	1.50	0.99	1.06
Leningrad Region	338	57,739	116,643	36,616	409	1,632	11,075	1.07	0.16	0.61	0.70	0.52
Murmansk Region	203	62,322	57,924	35,354	241	842	17,879	1.25	0.30	0.52	0.81	0.63
Novgorod Region	159	33,656	50,644	12,633	113	646	10,622	1.28	0.34	0.97	0.63	0.72
Pskov Region	153	27,110	27,066	11,380	76	696	9,837	1.14	0.41	0.77	0.57	0.67
St Petersburg	1,262	1,531,188	1,048,371	417,919	1,251	4,582	16,591	1.43	1.40	1.81	1.89	1.62

CONT.

1	2	3	4	5	6	7	8	9	10	11	12	13
Southern Federal District	3,993	1,128,306	1,120,520	404,046	2,482	22,897	10,024	0.90	0.52	0.97	0.60	0.72
Republic of Adygeya	85	11,123	14,861	4,769	32	442	7,874	1.00	0.39	0.99	0.47	0.65
Republic of Daghestan	227	28,774	18,520	9,526	182	2,712	10,769	0.43	0.18	0.22	0.11	0.21
Republic of Ingushetia	18	3,671	3,838	1,117	13	508	6,587	0.18	0.32	0.63	0.11	0.25
Kabardino-Balkaria Republic	91	21,465	19,742	8,989	64	892	8,390	0.53	0.38	0.66	0.41	0.48
Republic of Kalmykia	45	6,712	9,223	1,825	19	284	5,256	0.82	0.40	1.05	0.42	0.62
Karachai-Cherkess Republic	45	10,685	14,068	3,036	35	427	8,617	0.55	0.35	0.87	0.28	0.46
Republic of North Ossetia — Alaniya	70	17,632	17,281	9,218	66	702	9,671	0.52	0.30	0.56	0.47	0.45
Chechen Republic	29	15,876	12,854	2,054	45	1,238	0	0.12	0.40	0.61	0.00	0.00
Krasnodar Territory	1,281	369,183	371,041	137,388	718	5,142	11,764	1.29	0.59	1.11	0.78	0.90
Stavropol Territory	518	128,307	136,869	55,463	275	2,707	9,817	0.99	0.53	1.07	0.72	0.80
Astrakhan Region	160	43,364	41,055	20,421	130	1,002	10,633	0.83	0.38	0.68	0.66	0.61
Volgograd Region	361	132,144	146,851	55,670	384	2,599	10,566	0.72	0.39	0.82	0.70	0.63
Rostov Region	1,063	339,369	314,318	94,568	518	4,242	11,523	1.30	0.75	1.31	0.66	0.96
Volga Federal District	5,070	2,557,808	2,378,248	772,243	5,422	30,157	11,838	0.87	0.54	0.95	0.74	0.76
Republic of Bashkortostan	750	218,059	248,088	82,711	779	4,057	13,619	0.96	0.32	0.69	0.52	0.57
Republic of Mari El	81	29,697	28,805	9,409	66	700	7,760	0.60	0.52	0.95	0.59	0.65
Republic of Mordovia	152	49,158	50,347	14,550	87	833	7,844	0.95	0.64	1.24	0.77	0.87
Republic of Tatarstan	700	502,266	428,125	111,756	933	3,768	14,195	0.96	0.61	0.99	0.72	0.80
Udmurt Republic	277	115,247	114,838	31,015	251	1,529	8,797	0.94	0.52	0.99	0.79	0.79
Chuvash Republic	154	74,838	89,519	22,061	142	1,279	7,867	0.62	0.60	1.36	0.75	0.79
Perm Territory	447	269,079	275,400	80,902	606	2,709	15,247	0.86	0.51	0.98	0.67	0.73
Kirov Region	216	68,373	76,440	26,926	149	1,401	9,620	0.80	0.52	1.11	0.69	0.75
Nizhny Novgorod Region	560	341,558	312,860	106,781	587	3,341	12,519	0.87	0.66	1.15	0.88	0.87
Orenburg Region	348	111,297	131,740	41,695	462	2,111	9,814	0.86	0.27	0.61	0.69	0.56
Penza Region	202	56,572	60,924	25,205	140	1,380	9,354	0.76	0.46	0.94	0.67	0.68
Samara Region	591	521,386	360,732	136,035	755	3,171	14,985	0.97	0.79	1.03	0.98	0.94
Saratov Region	349	134,579	128,394	59,614	309	2,573	8,779	0.70	0.50	0.89	0.91	0.73
Ulyanovsk Region	243	65,699	72,034	23,583	156	1,305	9,528	0.97	0.48	0.99	0.65	0.74
Urals Federal District	2,382	1,487,365	1,436,108	439,401	5,813	12,255	18,322	1.01	0.29	0.53	0.67	0.57
Kurgan Region	114	29,773	36,858	11,020	102	953	10,597	0.62	0.33	0.78	0.37	0.49
Sverdlovsk Region	882	687,670	629,651	160,539	1,009	4,394	17,206	1.04	0.78	1.34	0.73	0.94
Tyumen Region	763	479,757	453,122	180,069	4,019	3,399	26,302	1.16	0.14	0.24	0.69	0.40
Chelyabinsk Region	623	290,165	316,477	87,773	682	3,509	14,088	0.92	0.49	1.00	0.61	0.72

END												
1	2	3	4	5	6	7	8	9	10	11	12	13
Siberian Federal District	3,716	1,555,163	1,466,363	410,098	3,683	19,545	12,391	0.99	0.48	0.86	0.58	0.70
Republic of Altai	44	11,700	21,765	1,815	17	209	10,281	1.09	0.78	2.73	0.29	0.90
Republic of Buryatiya	242	43,592	45,367	11,598	140	961	10,399	1.31	0.36	0.70	0.40	0.60
Republic of Tyva	45	7,426	8,070	1,638	23	314	7,248	0.74	0.37	0.76	0.25	0.48
Republic of Khakassia	120	21,202	28,795	7,002	79	538	9,578	1.16	0.31	0.79	0.47	0.60
Altai Territory	395	140,968	140,105	38,594	259	2,497	8,978	0.82	0.62	1.17	0.59	0.77
Trans-Baikal Territory	282	42,756	41,348	14,188	135	1,117	10,639	1.31	0.36	0.66	0.41	0.60
Krasnoyarsk Territory	622	227,621	239,744	67,191	903	2,890	14,872	1.12	0.29	0.57	0.54	0.56
Irkutsk Region	522	177,677	208,413	55,758	498	2,506	12,660	1.08	0.41	0.90	0.60	0.70
Kemerovo Region	409	204,686	249,519	66,448	520	2,822	14,176	0.75	0.45	1.03	0.57	0.67
Novosibirsk Region	540	451,766	271,822	75,452	442	2,640	12,865	1.06	1.16	1.33	0.76	1.06
Omsk Region	279	144,389	132,273	43,577	381	2,014	12,972	0.72	0.43	0.75	0.57	0.60
Tomsk Region	216	81,381	79,142	26,837	287	1,039	13,019	1.08	0.32	0.59	0.68	0.61
Far Eastern Federal District	1,393	483,939	501,276	213,000	1,511	6,461	14,905	1.12	0.36	0.71	0.76	0.69
Republic of Sakha (Yakutia)	173	63,975	148,247	23,917	317	950	17,339	0.95	0.23	1.01	0.50	0.57
Kamchatka Territory	96	26,772	23,695	15,888	83	344	18,056	1.45	0.37	0.62	0.88	0.73
Primorsky Territory	419	123,851	108,773	57,499	322	1,989	11,932	1.09	0.44	0.73	0.83	0.73
Khabarovsk Territory	298	150,569	129,811	58,900	302	1,402	15,691	1.10	0.57	0.93	0.92	0.85
Amur Region	196	53,381	43,188	17,498	141	864	11,278	1.18	0.43	0.66	0.61	0.67
Magadan Region	49	16,792	15,547	9,240	46	163	17,642	1.56	0.42	0.73	1.10	0.85
Sakhalin Region	110	39,333	24,330	24,042	251	514	23,432	1.11	0.18	0.21	0.68	0.41
Jewish Autonomous Region	33	4,720	5,432	2,709	28	185	10,454	0.92	0.20	0.43	0.48	0.44
Chukchee Autonomous Area	19	4,547	2,254	3,309	23	50	25,886	1.99	0.23	0.22	0.89	0.54
Total	27,346	30,137,478	15,937,144	5,897,218	34,346	141,888	14,278	1.00	1.00	1.00	1.00	1.00

* Credit volume is calculated on the basis of data reported by credit institutions in 0409302 Form, which take into consideration a borrower's residence.

Categorised performance indicators on credit institutions with foreign interest in their authorised capital relative to indicators on operating credit institutions (%)

TABLE 8

	1.01.05	1.01.06	1.01.07	1.01.08	1.01.09
Credit institutions with a 50%-plus foreign stake					
Assets	7.6	8.3	12.1	17.2	18.7
Capital	7.8	9.3	12.7	15.7	17.3
Correspondent accounts with non-resident banks	14.0	10.4	24.0	23.2	17.0
Loans and other placements with non-financial organisations	6.1	7.3	9.9	15.5	16.6
Loans, deposits and other placements with credit institutions	15.8	17.1	22.5	22.2	25.0
Household deposits	3.0	3.4	6.2	8.9	10.3
Funds raised from organisations*	9.2	9.4	13.1	17.8	18.8
Current-year profits (losses)	10.0	7.6	10.9	16.4	19.7
of which: wholly foreign-owned credit institutions					
Assets	5.9	8.1	9.0	11.6	13.0
Capital	6.3	9.0	10.1	11.1	12.2
Correspondent accounts with non-resident banks	7.6	9.8	8.5	15.6	12.1
Loans and other funds placed with non-financial organisations	4.6	7.2	7.8	10.7	11.6
Loans, deposits and other placements with credit institutions	11.4	16.8	18.4	18.6	21.6
Household deposits	2.4	3.3	4.1	5.0	5.4
Funds raised from organisations*	6.0	9.2	8.9	10.9	12.6
Current-year profits (losses)	8.0	7.3	8.2	10.7	14.8

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

**Credit institutions' assets grouped by investment
(billion rubles)**

TABLE 9

Assets		1.01.08	1.04.08	1.07.08	1.10.08	1.01.09
1	Money, precious metals and gemstones, total	501.7	412.9	450.8	488.9	829.3
1.1	Of which: cash	487.1	402.6	432.9	468.6	795.1
2	Accounts with the Bank of Russia and authorised bodies of other countries, total	1,294.7	1,056.8	1,318.0	1,013.9	2,078.7
	Of which:					
2.1	Credit institutions' correspondent accounts with the Bank of Russia	791.2	584.3	575.9	690.9	1,773.6
2.2	Credit institutions' required reserves transferred to the Bank of Russia	221.6	339.2	360.2	151.9	29.8
2.3	Deposits and other funds deposited with the Bank of Russia	270.3	122.7	369.3	160.5	267.2
3	Correspondent accounts with credit institutions, total	413.3	341.2	396.4	516.2	1,238.8
	Of which:					
3.1	Correspondent accounts with correspondent credit institutions	105.6	106.2	108.9	117.9	395.8
3.2	Correspondent accounts with non-resident banks	307.7	234.9	287.6	398.3	843.0
4	Securities acquired by credit institutions, total	2,250.6	2,252.5	2,347.5	2,195.0	2,365.2
	Of which:					
4.1	Debt obligations*	1,541.4	1,563.9	1,608.6	1,577.2	1,760.3
4.2	Equities*	316.3	285.5	290.9	209.3	193.4
4.3	Discounted bills	251.1	258.5	271.1	213.2	199.5
4.4	Shareholdings in subsidiaries and affiliated joint stock companies	141.9	144.6	176.9	195.2	212.0
4a	Reverse repos	304.1	—	—	—	—
5	Other shareholdings in authorised capital	25.2	26.7	28.7	31.8	45.1
6	Loans, total	14,288.6	16,110.9	17,366.4	19,078.6	19,941.0
	Of which					
6.1	Loans, deposits and other placements	14,258.8	16,072.4	17,320.3	19,029.2	19,884.8
	of which: overdue debt	184.1	209.4	231.8	276.2	422.0
	Of which:					
6.1.1	Loans and other placements with non-financial organisations	9,316.0	10,253.4	11,126.5	12,028.2	12,509.7
	of which: overdue debt	86.1	97.9	111.8	141.4	266.4
6.1.2	Loans extended to private individuals	2,971.1	3,198.6	3,589.8	4,017.6	4,017.2
	of which: overdue debt	96.5	110.5	119.3	131.4	148.6
6.1.3	Loans, deposits and other placements with credit institutions	1,418.1	1,921.7	1,801.7	2,170.3	2,501.2
	of which: overdue debt	0.2	0.6	0.4	1.9	1.3
7	Fixed and intangible assets and inventories	434.8	467.1	491.1	507.9	544.1
8	Disposition of profits	122.7	154.5	88.0	104.6	109.8
9	Other assets, total	489.6	500.8	571.8	635.5	870.4
	Of which:					
9.1	Float	171.9	242.1	283.7	321.4	520.3
9.2	Debtors	81.4	99.1	110.9	122.0	129.3
9.3	Deferred expenses	196.5	57.7	66.4	64.3	69.0
Total assets		20,125.1	21,323.4	23,058.7	24,572.3	28,022.3

* Reverse repos (shown separately under 4a have been excluded from data as of February 1, 2008, to ensure the correctness of the dynamic series.

**Credit institutions' liabilities grouped by source of funds
(billion rubles)****TABLE 10**

Liabilities		1.01.08	1.04.08	1.07.08	1.10.08	1.01.09
1	Credit institutions' funds and profits, total	2,809.2	2,946.1	2,981.4	3,112.6	3,109.2
	Of which:					
1.1	Funds	2,182.2	1,699.9	1,757.5	1,845.0	1,789.4
1.2	Profits (losses), including previous-year financial results	627.0	1,246.2	1,223.9	1,267.6	1,319.8
	Of which:					
1.2.1	Current-year profits (losses)	508.0	134.6	284.5	354.8	409.2
2	Loans, deposits and other funds received by credit institutions from the Bank of Russia	34.0	147.1	50.3	233.4	3,370.4
3	Credit institutions' accounts, total	194.4	179.1	199.5	214.1	346.0
	Of which:					
3.1	Correspondent credit institutions' correspondent accounts	124.5	102.3	107.9	113.2	252.4
3.2	Non-resident banks' correspondent accounts	18.4	15.1	21.6	35.6	77.7
4	Loans, deposits and other funds received from other credit institutions, total	2,807.4	2,999.2	3,321.5	3,623.0	3,639.6
5	Customer funds, total*	12,252.3	12,896.2	14,078.3	14,936.9	14,748.5
	Of which:					
5.1	Budget funds in settlement accounts	20.1	24.6	22.0	22.7	15.6
5.2	Government and extra-budgetary funds in settlement accounts	25.0	34.1	32.5	34.7	14.2
5.3	Corporate funds in settlement and other accounts	3,232.9	3,528.9	3,517.7	3,392.2	3,521.0
5.4	Customer float	262.0	334.1	374.0	364.0	281.5
5.5	Deposits and other funds raised by corporate entities other than credit institutions	3,520.0	3,611.7	4,306.5	5,175.4	4,945.4
5.6	Personal deposits	5,159.2	5,313.6	5,771.4	5,890.1	5,907.0
5.7	Customer funds in factoring and forfeiting operations	13.5	13.3	16.5	14.6	10.7
6	Bonds	290.2	311.1	362.3	378.9	375.3
7	Bills and bank acceptances	822.2	815.0	890.4	811.2	756.3
8	Other liabilities, total	915.3	1,029.6	1,175.1	1,262.2	1,677.0
	Of which:					
8.1	Provisions	586.3	630.4	687.8	753.9	1,022.7
8.2	Float	156.0	210.0	247.6	249.7	431.6
8.3	Creditors	27.6	43.7	88.5	74.8	33.9
8.4	Deferred income	27.3	1.7	2.5	3.4	4.7
8.5	Accrued interest and interest/coupon liabilities on securities	118.1	143.9	148.8	180.4	184.1
	Of which:					
	Overdue interest	0.0	0.0	0.0	0.1	0.0
Total liabilities		20,125.1	21,323.4	23,058.7	24,572.3	28,022.3

* Including certificates of deposit and savings certificates.

Major characteristics of banking sector lending operations (billion rubles)

TABLE 11

Indicators	Rubles					Foreign currency					Total				
	1.01.08	1.04.08	1.07.08	1.10.08	1.01.09	1.01.08	1.04.08	1.07.08	1.10.08	1.01.09	1.01.08	1.04.08	1.07.08	1.10.08	1.01.09
1. Loans, deposits and other placements, total	10,465.6	11,797.3	12,895.7	13,651.8	13,874.9	3,793.2	4,275.1	4,424.6	5,377.4	6,009.9	14,258.8	16,072.4	17,320.3	19,029.2	19,884.8
of which overdue debt	167.1	190.5	210.7	241.4	353.2	17.0	18.8	21.2	34.8	68.8	184.1	209.4	231.8	276.2	422.0
1.1. Loans and other placements with resident non-financial organisations	6,838.8	7,572.9	8,256.4	8,676.9	8,723.1	1,961.5	2,037.6	2,226.2	2,616.3	3,032.2	8,800.3	9,610.6	10,482.6	11,293.3	11,755.3
of which overdue debt	74.9	85.7	98.4	118.6	214.7	10.6	11.7	12.2	17.6	46.1	85.4	97.5	110.6	136.2	260.8
of which:															
1.1.1. Loans to unincorporated entrepreneurs	263.3	281.7	315.3	337.8	313.8	7.6	7.2	8.1	9.8	9.2	271.0	289.0	323.4	347.6	323.0
of which overdue debt	4.1	4.8	5.4	6.1	8.1	0.1	0.1	0.1	0.1	0.1	4.2	4.9	5.5	6.2	8.2
1.2. Loans and other placements with non-resident corporate entities, other than banks	85.8	149.0	117.9	138.4	176.3	429.9	493.8	526.0	596.6	578.2	515.7	642.8	644.0	735.0	754.4
of which overdue debt	0.0	0.0	0.0	0.0	0.5	0.7	0.4	1.1	5.2	5.1	0.7	0.4	1.2	5.2	5.6
1.3. Loans, deposits and other placements with financial sector	627.6	913.0	948.3	789.8	778.8	155.6	210.5	230.4	219.0	232.0	783.2	1,123.5	1,178.6	1,008.8	1,010.8
of which overdue debt	0.4	0.6	0.5	2.4	6.4	0.0	0.1	0.2	0.2	0.3	0.5	0.7	0.7	2.6	6.7
of which:															
1.3.1. loans, deposits and other placements with resident credit institutions	450.3	599.3	569.3	454.1	512.9	116.3	171.0	187.3	163.8	164.1	566.6	770.2	757.1	617.9	677.0
of which overdue debt	0.2	0.5	0.3	1.0	1.2	0.0	0.1	0.1	0.1	0.1	0.2	0.5	0.4	1.1	1.2
1.3.2. loans, deposits and other placements with resident financial organisations of different forms of ownership	177.3	313.8	378.4	335.8	265.9	39.3	39.5	43.1	55.2	67.9	216.6	353.3	421.5	391.0	333.8
of which overdue debt	0.2	0.2	0.2	1.4	5.3	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.3	1.5	5.5
1.4. Loans, deposits and other placements with non-resident banks	64.0	71.4	81.4	137.3	239.1	787.5	1,080.0	963.1	1,415.2	1,585.1	851.5	1,151.4	1,044.6	1,552.4	1,824.3
of which overdue debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.1	0.0	0.0	0.0	0.8	0.1
1.5. Loans and other funds placed with government fiscal authorities and extra-budgetary funds	119.5	119.1	104.1	109.9	156.5	0.3	0.3	0.2	0.2	0.2	119.7	119.4	104.4	110.1	156.7
of which overdue debt	1.0	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	1.0	0.2	0.0	0.0	0.2
1.6. Loans to resident individuals	2,565.2	2,800.0	3,178.6	3,563.7	3,534.3	398.4	390.6	402.1	443.7	471.5	2,963.6	3,190.6	3,580.7	4,007.5	4,005.8
of which overdue debt	90.7	103.9	111.7	120.3	131.4	5.7	6.5	7.5	10.9	17.0	96.4	110.4	119.1	131.2	148.3
1.7. Loans to non-resident individuals	1.5	1.6	1.8	2.5	2.9	6.0	6.5	7.2	7.6	8.5	7.5	8.0	9.0	10.1	11.4
of which overdue debt	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2
For the record															
Provisions for loans, deposits and other placements	531.7	558.6	610.9	669.4	898.5	0.0	0.0	0.0	0.0	0.0	531.7	558.6	610.9	669.4	898.5
Overdue interest on loans, deposits and other placements recorded in balance sheet accounts	0.4	3.7	5.5	7.2	12.9	0.0	0.6	0.8	1.1	2.6	0.4	4.3	6.3	8.3	15.5
Bank investments in resident bills	247.4	255.4	268.5	209.0	184.7	2.5	1.9	1.4	1.6	9.8	249.9	257.3	269.9	210.7	194.5
Bank investments in non-resident bills	0.0	0.0	0.0	1.3	0.4	1.2	1.1	1.2	1.3	4.6	1.2	1.1	1.2	2.6	5.0

**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, 2009)**

TABLE 12

Bank of Russia division	Total number of job titles as of January 1, 2009	Total number of employees as of January 1, 2009 (excluding employed under fixed-term contract and part-timers)	of whom							
			age			education status		duration of work in banking system		women
			under 30 years (born in 1979 and later)	50 years or more (born in 1958 and earlier)	of whom women aged 55 years or more and men aged 60 years or more	higher education	secondary vocational training	up to 3 years	15 years or more	
Head office										
Credit Institution Licensing and Financial Rehabilitation Department	148	142	23	31	15	137	4	19	48	108
Banking Regulation and Supervision Department	182	174	29	58	22	171	2	36	57	121
Main Inspectorate for Credit Institutions	160	150	29	35	15	147	3	27	31	91
Financial Monitoring and Foreign Exchange Control Department	110	102	15	24	13	99	1	11	20	60
Head office total	600	568	96	148	65	554	10	93	156	380
Regional branches										
Financial Monitoring and Foreign Exchange Control Division (Department, Section)	608	589	84	98	27	581	8	43	235	410
Credit Institution Supervision Division (Department, Section)	1,211	1,186	126	239	83	1,159	25	46	613	1,000
Credit Institution Inspection Division (Department, Section)	860	850	107	174	47	845	4	45	337	458
Credit Institution Licensing Division (Department, Section)	273	265	35	51	17	259	6	19	133	222
Moscow branch divisions	748	719	231	118	51	642	63	101	181	531
Regional branches total	3,700	3,609	583	680	225	3,486	106	254	1,499	2,621
Bank of Russia total	4,300	4,177	679	828	290	4,040	116	347	1,655	3,001



**THE CENTRAL BANK
OF THE RUSSIAN FEDERATION**



Banking Supervision Report 2008

