

BANKING SUPERVISION REPORT 2009



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 Russian banking sector continued to function in 2009 amid the global crisis and its aftermath, and this has had a significant impact on banks' activities and performance indicators. Nevertheless, the measures taken by the Russian Government and the Bank of Russia in 2009 ensured the stability of the banking sector. There were no serious problems with current liquidity of banks. At the same time, the problem of asset quality and the growth of bad debts in banks' portfolios throughout 2009 remained acute.

The crisis affected virtually every sector of the economy. Credit risks accumulated by banks in the years when the economy was booming had materialised, and a large portion of borrowers, both corporate and individual, found that their financial situation and debt service quality had deteriorated. The natural reaction of banks was to adopt a far more conservative approach to the extension of new loans and this, in turn, became a factor that contributed to credit stagnation and, to some extent, made it more difficult for the real sector to recover from the crisis.

Minimum growth in lending volumes and the need to significantly increase loss provisions, in connection with the deterioration of asset quality, led to a sharp fall in the profitability of the banking business. In that environment, the Bank of Russia implemented a countercyclical policy, including its regulatory aspect.

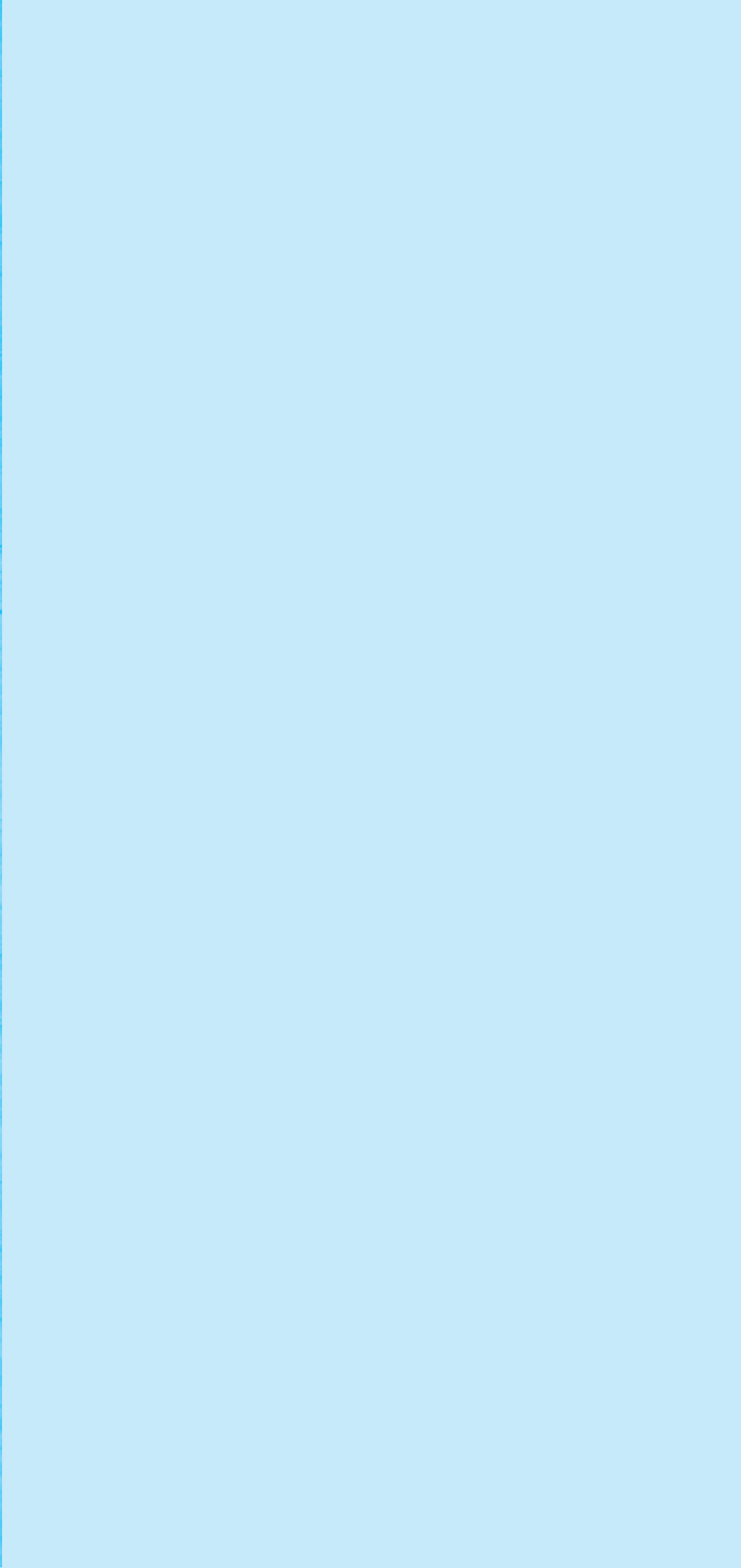
Generated by adversities external to the Russian banks and economy, the crisis nevertheless laid bare serious internal problems in some credit institutions. These included a lack of efficient corporate governance and risk management, high risk concentrations, poor transparency, and the use of manipulative schemes which allowed banks to avoid compliance with regulatory requirements, including credit and liquidity risk mitigation requirements. The banking community and the Bank of Russia should learn their lesson from the crisis and take action to significantly improve risk management and banking supervision.

Favourable trends have prevailed in the Russian economy since the middle of 2009. The situation has stopped deteriorating and signs of recovery have appeared in banking. These tendencies give reason for cautious optimism. The banking sector is gradually returning to its standard pattern of activity, which implies the use of standard regulatory procedures. For tactical reasons, the transition to the standard regulatory regime will be gradual, taking into consideration the after-effects of the crisis. As for the strategic objectives of banking regulation and supervision, they have arisen from the lessons of the crisis, and on the whole consist of assessing risks and bank management quality more conservatively.

Specifically, the Bank of Russia believes that the banks should learn from the negative experience of the crisis and analyse more thoroughly credit and other risks and the nature and dynamics of the banking business development. The Bank of Russia will undoubtedly take requirements for ensuring financial stability into consideration.

Banking sector development trends in the current difficult environment are continually being monitored and scrutinised by the Bank of Russia. It also considers the most important issues related to banking regulation and supervision, including ways of improving them. This Report pays special attention to the stability of banks and the banking sector.

Sergey M. Ignatiev,
Bank of Russia Chairman



The State of the Russian Banking Sector



I.1. General Economic Conditions

I.1.1. Macroeconomics

Amid the global crisis, the situation in the Russian economy remained difficult in 2009, especially in the first half of the year. Output declined in most of the economic activities as a result of the contraction of external and internal demand. Unemployment was on the rise. However, as the economic situation in the world stabilised, growth in global oil prices resumed and the Russian Government implemented a series of anti-crisis measures in the economy, the rate of decline in production slowed down significantly.

The price situation on world commodity markets deteriorated for the Russian exporters in 2009, and this had a negative effect on Russia's terms of trade. The 2009 terms of trade index was estimated at 0.67 (as against 1.16 a year earlier).

The average annual price of Urals crude on the world market fell in 2009 by more than a third year on year, to \$60.7 per barrel. There was a contraction in the exports and imports of goods and the trade surplus shrank. The current account surplus decreased 2.1 times.

Foreign cash outside banks decreased in 2009 by \$4.0 billion, whereas in 2008 it had increased by \$25.3 billion. Net private capital outflow declined 2.4 times to \$56.9 billion. Russia's international reserves grew by \$12.8 billion in 2009 and as of January 1, 2010, they totalled \$439 billion.

Russia's foreign debt contracted in 2009 for the first time since 2002, mostly due to a reduction in the banking sector's foreign debt. However, the debt burden on the country's economy¹ increased from 28.7% of GDP as of

the beginning of 2009 to 38.0% of GDP as of the beginning of 2010. Despite this growth, it was not critical by international standards.

GDP contracted 7.9% in 2009 year on year (in 2008, it grew 5.6%). The most significant decline in production was registered in the construction and manufacturing sectors. Industrial output fell 10.8%, whereas in 2008 it rose 2.1%, and fixed capital investment was down 16.2% (in 2008, it increased 9.9%).

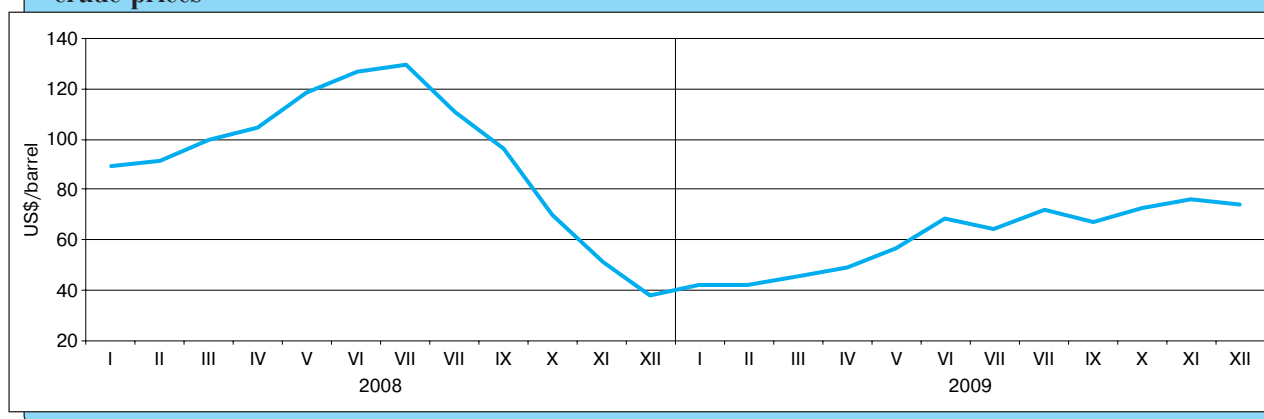
The number of employed in the economy declined in 2009 for the first time in six years. Although growth in the number of jobless had slowed down by the end of the year (to 12.3% in the fourth quarter), the full-year rate was 31.7%. The total number of unemployed rose to 8.4% of the economically active population in 2009 (from 6.4% in 2008).

Government support led to growth in household income. Real disposable money income increased 2.3% in 2009 as against 1.9% in 2008. Pensions were raised four times in 2009 and their real growth stood at 10.7%. At the same time, the difficult economic situation, growth in unemployment and a reduction in real wages led to a fall in consumer spending. Household consumer expenses on final consumption declined 7.7% in 2009 (in 2008, they rose 10.8%). The public propensity for organised savings (the ratio of organised savings to income) increased from 5.3% in 2008 to 14.5%.

Fixed capital investment in 2009, as in the previous year, was funded mainly by raised funds. Of these, 9.4% of fixed capital investments were financed by bank loans (according to reported statistical data), a decrease of 2.4 percentage points from 2008.

Urals
crude prices

CHART 1.1



¹ Foreign debt to GDP.

Russian organisations had a difficult financial situation in 2009. Although the economy's favourable net financial result² increased 9% year on year (in 2008, it contracted 30.8%), the number of loss-making organisations rose by 4.9 percentage points year on year, to 30.1%. Returns on the sale of goods, products and services³ fell from 12.3% in 2008 to 10.3%.

There was a slower growth in working assets in 2009 that resulted from a decline in the productive activity of organisations. Borrowing became more difficult to come by. The rate of growth in total debt on obligations slowed from 31.6% in 2008 to 15.6% in 2009. In that economic situation, organisations got some relief from the banks, which restructured a portion of their debt.

Induced by the global crisis, the economic recession was accompanied by a contraction in consumer demand, a major factor containing price growth on the consumer goods market. However, inflation remained high at the beginning of the year, due to the devaluation of the rouble. As the devaluation effect petered out, price growth slowed significantly in the second half of the year and, as a consequence, 2009 inflation fell to its lowest level since 1991.

Consumer price index was down 4.5 percentage points in 2009, as compared with 2008, and stood at 8.8% (December on December). Growth in food and service prices in 2009 was smaller than in 2008.

Industrial producer prices went up 13.9% in 2009 (December on December), whereas in 2008 they were down 7.0%. This growth was largely due to the resumption in February 2009 of growth in producer prices in the hydrocarbon extraction sector, which matched world oil price dynamics, by and large. Fuel and energy producer prices rose 61.0% in 2009, whereas in 2008 they declined 42.2%.

Producer prices in the manufacturing sector rose 5.9% in 2009, an increase of 4 percentage points on 2008 growth. The most significant increase was registered in petroleum products producer prices, which grew 28.9%, whereas in 2008 they declined 27.7%.

Price growth in the production and distribution of electricity, gas and water stood at 18.3% as against 18.0% in 2008. Prices for the production, transmission and distribution of electricity rose 17.6% as against 16.6% a year earlier.

I.1.2. The non-financial sector⁴ of the economy

The world economic crisis adversely impacted the non-financial sector in 2009.

Anti-crisis measures were taken in Russia and many other countries that were designed to halt the decline in production, stabilise the non-financial sector, boost the banking sector and implement social and economic aid programmes for the household sector.

These measures quickly produced the desired results: in the second half of 2009, the production decline slowed in many categories of economic activity.

However, with regards to the major economic activities in industrial production, a sharp fall was registered in the key manufacturing industries (by 16% year on year). The production of transport vehicles and equipment declined 38%, electrical, electronic and optical equipment almost 32%, machinery and equipment more than 28% and metal and metal products nearly 14%.

The production of electricity and thermal power fell by nearly 5%, and some kinds of minerals 1.2%. As a result of the crisis that hit the construction sector, the production of non-ore building materials decreased the most (by over 38%). The production of natural gas fell by a little over 12% and growth in oil production slowed from 3.1% in 2008 to 1.2% in 2009.

One factor affecting the decline in production was a sharp contraction of demand for goods and services produced on the domestic and foreign markets. At the beginning of 2009, non-financial enterprises registered a major fall in orders. This led to the general reduction of orders in the production sector and a corresponding decline in production capacity utilisation and the shipping of finished products to consumers, as well as a significant reduction in cash flow.

The crisis hit investment programmes in the Russian economy hardest, and this also had a negative effect on the non-financial sector of the economy. Fixed capital investment declined more than 16% in 2009, whereas in 2008 it increased almost 10%. The federal investment programme for 2009 provided for the construction of 1,413 projects, of which only 203 projects were completed in full (14.4%) and 46 projects in part. The fall in investments was largely the result of the significant contraction in final demand. The shortage of funds to finance investment was another negative factor.

It should be noted, however, that these negative developments occurred mostly at the beginning of 2009. In the subsequent months of the year, the results of the implementation of the anti-crisis programme became more and more apparent and the world economic situation somewhat stabilised. While in the first and second quarters of 2009, the output of goods and services in the key economic sectors decreased 12.3% and 14.3% respectively, in the third and fourth quarters, the decline in rates of production slowed to 9.2% and 9.4%. This was largely the result of a slower fall in demand for goods and services (which began in the first half of the year), a rise in the number of orders on the domestic and foreign markets and some improvement in the cash flow.

The significant deterioration of economic environment in 2009 led to the worsening of the financial standing of a large number of non-financial enterprises. In the first quarter of the year, the trend towards the reduction

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

³ Profits (losses) from sales to proceeds from the sale of goods, products, works and services.

⁴ Analysis is based on results of Bank of Russia's monitoring of non-financial enterprises.

of non-financial enterprises' earnings and all kinds of profits intensified for the first time since 2000, when observations were first made.

At the same time, the financial standing of enterprises differed considerably depending on their size: the largest enterprises, with assets in excess of one billion roubles, fared well by and large, while enterprises with assets of less than 100 million roubles faced serious problems.

As a result, the share of loss-making enterprises and organisations expanded significantly in the non-financial sector in 2009. In the mining sector, the share of loss-making enterprises reached almost 40% and in the manufacturing sector this figure was 32.7%, as against 25.8% in 2008. At the same time, 60% of coke producing enterprises and more than half of all enterprises in the metal-lurgy sector (30.3% in 2008) were loss-making. In the construction sector, the share of loss-making enterprises reached 27.6% as against 18.7% in 2008.

I.1.3. Payment system

In 2009, the Russian payment system complied with its stringent security and efficiency standards, by and large. At the same time, the macroeconomic situation, affected by the world financial and economic crisis, had some negative effects on the Russian payment services market.

In the course of the network optimisation of banking institutions providing payment services,⁵ their number was cut by 2.2% in 2009 and as of January 1, 2010, it stood at 42,400. The number of banking institutions per 1 million residents fell from 305 as of January 1, 2009 to 299.

As payment services became more accessible, the number of transaction accounts with credit institutions increased and more and more customers were able to access their accounts electronically. In 2009, the number of transaction accounts grew 8.0% to 505.0 million; of these, the number of electronically accessed accounts rose 20.2% to 46.7 million. At the end of 2009, there were 3.6 transaction accounts per capita (3.3 accounts in 2008).

As a result of the economic crisis, the number and value of payments effected through the Russian payment system⁶ in 2009 decreased year on year by 2.1% and 0.5% respectively, to 2.7 billion payments totalling 877.5 trillion roubles. The value of payments equivalent to full-year GDP turned over within 11 days (in 2008, within 12 days). The average daily number of transactions was 10.9 million and their value totalled 3.5 trillion roubles. The average payment stood at 322,200 roubles as against 317,100 roubles in 2008.

Payments made via the Bank of Russia payment system (942.9 million payments totalling 609.9 trillion roubles) accounted for almost 35% of total number and

69.5% of the total value of payments effected through the Russian payment system. Of these, credit institutions' payments accounted for 775.7 million payments, totalling 454.5 trillion roubles (they accounted for 89.9% of the number and 93.0% of the value of interbank payments in Russia).

During the year, private payment systems effected 1.8 billion payments totalling 267.7 trillion roubles (1.8 billion payments totalling 365.8 trillion roubles in 2008). Of these, 71.1% of the total number and 46.0% of the total value of payments were payments made within one division of a credit institution; inter-branch payments accounted for 24.0% and 41.3% respectively, and settlements across credit institutions' correspondent accounts opened with other credit institutions accounted for 4.9% and 12.7%. Of these, 952.1 million payments totalling 215.0 trillion roubles were made electronically (980.6 million payments totalling 303.1 trillion roubles in 2008). Their share of the total number and value of payments effected by the private payment systems changed little from the previous year: 53.5% and 80.3% as against 53.3% and 82.9% respectively. The number of payments made by private payment systems on paper stood at 828.8 million; they had a total value 52.7 trillion roubles (860.8 million payments with a total value of 62.7 trillion roubles in 2008).

Settlements on the securities market were mainly effected by non-bank credit institutions, such as the MICEX Clearing House and RTS Clearing House. Cash turnover across the accounts of settlement participants of the MICEX Clearing House in exchange transactions on the stock market increased in 2009 2.2% year on year, to 62.4 trillion roubles, whereas on the government securities market contracted 4.9% to 19.5 trillion roubles. Cash turnover across the accounts of settlement participants of the RTS Clearing House in transactions on the stock market fell 41.9% year on year, to 333 billion roubles.

Cash continued to dominate the retail payments market in 2009. More than half of the total amount of cash received by the cash departments of Bank of Russia establishments and credit institutions were proceeds from the sale of consumer goods and services (46.3%) and from foreign currency (7.1%). The total share of the retail payments rose from 51.5% to 53.4% year on year. There was significant growth in 2009 in receipts from commercial organisations other than credit institutions that were authorised to accept cash from individuals as payment for electronic communications, housing and public utilities. Compared to 2008, these payments increased 34.6% to 107.9 billion roubles. However, their share of total cash received by the cash departments of Bank of Russia establishments and credit institutions remained small, at 0.5% as against 0.3% in 2008.

Compared to 2008, cash transfers made by individuals without opening a bank account, which accounted for

⁵ Bank of Russia establishments, credit institutions and their branches, additional offices, operations and cash and credit offices and external cash desks.

⁶ Including payments from the accounts of Bank of Russia customers and credit institutions (individuals, credit institutions and corporate entities other than credit institutions) and own payments of Bank of Russia and credit institutions.

over 80% of the total number and almost 30% of the total value of household payments effected by credit institutions, increased 1.7% to 827.7 million transactions, while their value declined 9.9% to 2.3 trillion roubles as a result of the reduction of the average transaction value from 3,200 roubles to 2,800 roubles, a fall of 12.5%.

As it did a year earlier, online banking using mobile phones expanded rapidly in 2009. The number and value of household retail payments made across bank accounts by orders sent to credit institutions from mobile phones increased by 2.0 times and 2.9 times respectively, and reached 11.2 million transactions totalling 20.5 billion roubles (5.7 million transactions totalling 7.0 billion roubles in 2008). However, their share of the total number and value of household payments made in 2009 remained small at 9.7% and 0.3% respectively (3.7% and 0.1% in 2008).

The bank card market continued to develop and grow in 2009. As of January 1, 2010, the number of payment cards issued by credit institutions stood at 126.0 million, representing an increase of 5.7% during the year (2008 growth stood at 15.2%). The slowdown was largely due to the reduction of credit institutions' consumer credit programmes for the issue of credit and settlement (debit) cards with an overdraft, whose number declined 17.3% during the year. The number of settlement (debit) cards without an overdraft rose 7.7% in 2009.

The number and value of payment card transactions carried out in Russia in 2009 increased year on year by 18.1% and 8.2% respectively, to 2.5 billion transactions totalling 9.9 trillion roubles.⁷ Of these, cash withdrawals accounted for 71.6% of the number and 88.3% of the value of transactions, payments for goods and services accounted for 27.4% and 9.8%, and other transactions 1.0% and 1.9%. As was the case in the previous years, non-cash payments made using payment cards⁸ grew

much faster than cash withdrawal transactions in 2009: by 41.1% as against 11.0% in number and by 14.1% as against 7.4% in value. This is largely attributable to the use of new payment techniques, the expansion of the range of payment card banking services and the rapid development of the country's card processing infrastructure. During the year, the number of devices (ATM, point of sale terminals and imprinters) used to pay for goods and services increased 9.9% to 503,600.

I.1.4. Banking sector macroeconomic performance

Despite the crisis, most of the key indicators characterising the role of the banking sector in the economy rose in relation to GDP in 2009. This was largely the result of the nominal contraction of GDP. The ratio of banking sector assets to GDP increased by 7.7 percentage points year on year to reach 75.3%, and the ratio of banking sector capital to GDP rose by 2.6 percentage points to 11.8%.

Household deposits were the principal source of funding for credit institutions in 2009. The ratio of deposits to GDP increased by 4.9 percentage points to 19.2%, and the share of deposits in banking sector liabilities expanded from 21.1% in 2008 to 25.4%. The ratio of non-financial organisation deposits to GDP grew by two percentage points to 14.0%.

In 2009, as a year earlier, loans dominated the structure of banking sector assets. The total loans to GDP ratio increased by 2.8 percentage points to 50.8%. At the same time, their share in the total banking sector assets contracted by 3.5 percentage points to 67.4%. The ratio of credit to non-financial organisations and households to GDP rose by 1.4 percentage points to 41.3%. Equity portfolios increased at the most rapid rate, but their ratio to GDP remained negligible at about 1.0%.

⁷Including transactions carried out using payment cards issued by Russian credit institutions and payment cards issued outside Russia.

⁸Including payments for goods and services, customs payments, card-to-card transfers, payments to charities, etc.

I.2. Institutional Aspects of Banking Sector Development

I.2.1. Quantitative characteristics

The crisis had an adverse effect on all credit institutions. In 2009, the number of credit institutions fell from 1,108 to 1,058 (see Chart 1.2). Forty-seven credit institutions had their banking licences revoked (cancelled) in 2009, twelve credit institutions were struck off the State Register due to mergers and nine new credit institutions received banking licences and went into operation.

These figures show that the trend towards the reduction in the number of operating credit institutions continued in 2009 (in the period from 2006 to 2008, the number of credit institutions declined by 145) and this trend was registered in all federal districts.

In 2009, large banks with many branches implemented cost-cutting policies by reducing the number of their regional divisions. The number of branches of operating credit institutions, excluding Sberbank, fell from 2,695 to 2,538, a drop of 5.8%. As Sberbank continued to optimise its branch network, the number of its branches declined by 130, or 16.8%, in 2009.

While the number of branches decreased, the number of additional and operations offices increased in 2009. However, the total number of internal divisions⁹ of credit institutions fell by 601 to 37,547 as of January 1, 2010 (26.5 internal divisions per 100,000 people as against 27 internal divisions as of January 1, 2009).

As before, on January 1, 2010, the number of branches of banks based in other regions exceeded the number of local credit institutions and their branches in all federal districts except the Central Federal District.

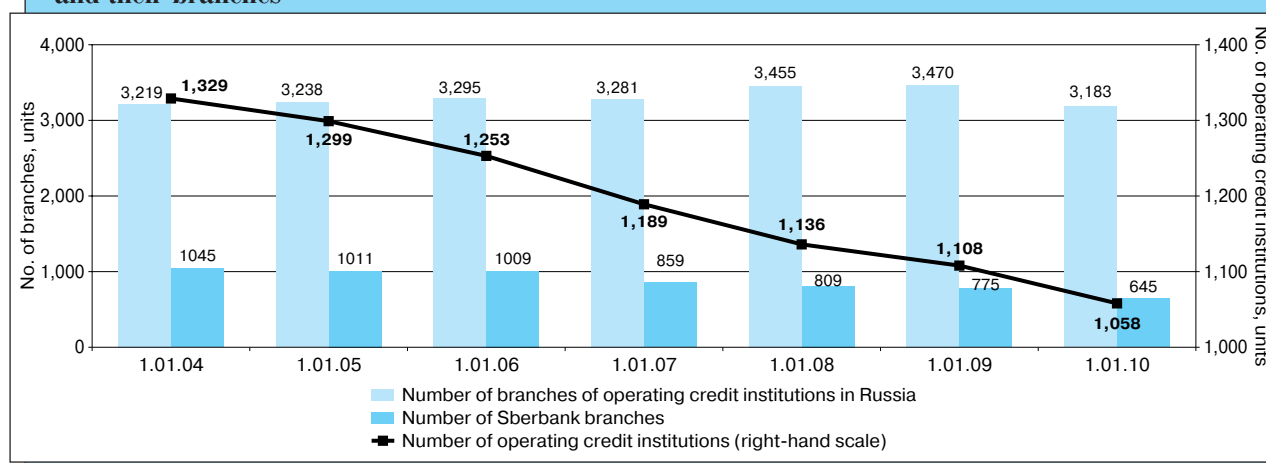
I.2.2. Regional banking

The number of operating credit institutions declined in most of the Russian regions in 2009: the number of regional banks¹⁰ fell from 552 to 523. At the same time, regional bank assets¹¹ grew in 2009 faster (by 15.9%) than total banking sector assets (5.0%). As a result, the share of regional banks in total banking sector assets expanded to 14.1% as of January 1, 2010 (against 12.8% as of January 1, 2009).

A large proportion of the regional banks managed to build up their capital. During the year, it increased by 99.7 billion roubles, or 20.6%. Like the banking sector as a whole, regional banks increased their capital, mainly due to authorised capital and share premiums. The second most important factor affecting growth in capital was the revaluation of property. In addition, growth in regional banks' capital was stimulated by the raising of minimum capital requirements (regional banks that as of the beginning of 2009, had total capital less than 90 million roubles, by January 1, 2010, increased their capital by 6.9 billion roubles). However, the share of regional banks

Number of credit institutions and their branches

CHART 1.2



⁹ Additional, operations and cash and credit offices, external cash desks and mobile banking vehicles of credit institutions and their branches.

¹⁰ Banks registered outside Moscow and the Moscow Region.

¹¹ Significant growth in regional bank assets is attributable to the merger of MDM Bank and URSA Bank in 2009. The new bank is registered in Novosibirsk and, therefore, categorised as a regional bank. The merger accounted for nearly 40% of total growth in regional bank assets.

in total banking sector capital changed slightly (12.6% as of January 1, 2010, against 12.7% as of January 1, 2009).

As the financial standing of enterprises deteriorated in most sectors of the economy, unemployment rose and household solvency decreased, the quality of banking sector assets deteriorated and regional banks' profits fell by 67.1% in 2009 year on year, to 18.7 billion roubles.

As of January 1, 2010, the share of profit-making banks in total operating regional banks contracted from 97.5% to 90.3%, and their share of regional banks' assets declined from 91.8% to 88.6%.

The scarcity of banking services remains a serious problem in quite a few regions. In 2009, the lowest level of density of banking services remained in the Urals Federal District. This indicator somewhat increased in the Southern and Far Eastern Federal Districts. The lowest levels of density of banking services among the regions of the Russian Federation were registered in the Republic of Daghestan, Republic of Ingushetia and the Sakhalin Region (for details, see Annex for Table 7.1).

The highest levels of density of banking services were, as before, in the Central Federal District (especially Moscow and the Moscow Region), and the North-Western and Volga Federal Districts. High density levels were registered in St Petersburg and the Novosibirsk and Kaliningrad Regions.

1.2.3. Banking services concentration

The share of the 200 largest credit institutions in terms of assets in total banking sector assets remained virtually unchanged in 2009: it was 93.9% as of the beginning of the year and 93.7% as of the end. At the same time, as of January 1, 2010, the share of the five largest banks was 47.9% as against 46.2% as of January 1, 2009.

The 200 largest credit institutions in terms of capital accounted for 92.9% of total banking sector capital as of

January 1, 2010, as against 91.8% as of January 1, 2009, of which the top five banks made up 52.2% as against 49.3%.

The number of credit institutions with capital more than 180 million roubles also increased, from 764 to 776, and these banks accounted for 99.4% of total banking sector capital as against 99.3% as of January 1, 2009 (see Chart 1.3).

Banking sector asset concentration remained low in 2009, as there were many small credit institutions. Chart 1.4 shows the dynamics of the Herfindahl-Hirschman Index (HHI).

The asset concentration index was 0.087 as of January 1, 2010 (in the previous three years, it had only risen from 0.079 to 0.080). The concentration of loans to non-financial organisations remained modest: in 2009, it increased from 0.125 to 0.135.

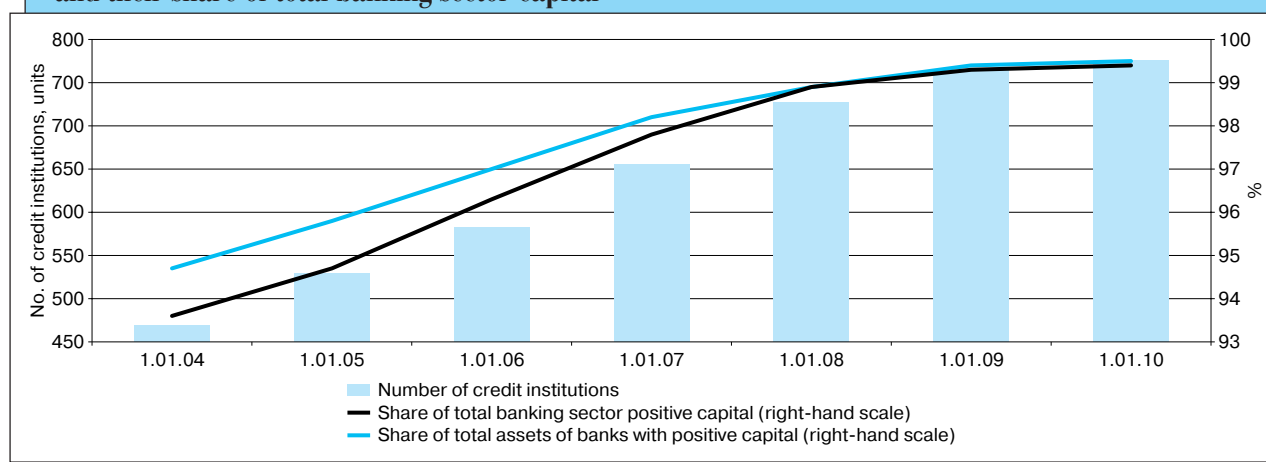
Although household deposit concentration remained high, it declined in 2009: the HHI fell from 0.274 as of January 1, 2009, to 0.251 as of January 1, 2010. One of the factors affecting the decline of this index was the aggressive interest rate policy pursued by some banks, which caused a proportion of funds to flow to these banks. At the same time, this phenomenon should not be regarded as entirely positive, because banks that pursue such policies accumulate interest rate risks.

In addition, the increase in the maximum amount of personal deposit insurance compensation¹² and the efficient operation of the deposit insurance system contributed to the reduction of concentration levels on the household deposit market.

Capital concentration declined slightly in 2009 and remained modest: the HHI registered 0.105 as of January 1, 2010, as against 0.109 as of the same date a year earlier. One reason for these dynamics was growth in the capital of small regional banks that resulted from the enforcement of new minimum capital requirements on January 1, 2010.¹³

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

CHART 1.3

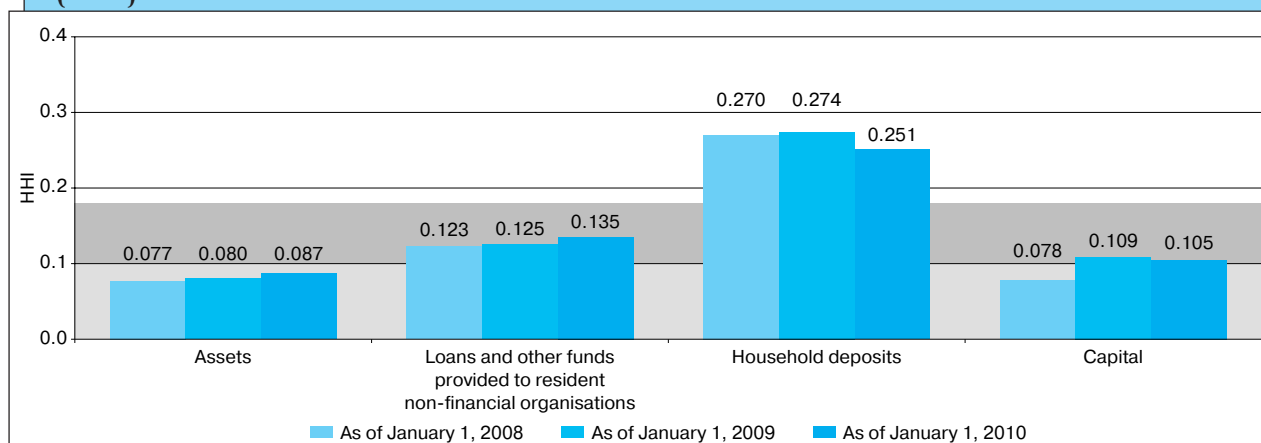


¹² The change in Federal Law No. 177 of December 23, 2003, 'On the Insurance of Household Deposits with Russian Banks,' was made by Federal Law No. 174-FZ of October 13, 2008.

¹³ Federal Law No. 28-FZ of February 28, 2009, 'On Amending the Federal Law on Banks and Banking Activities.'

Russian banking sector concentration indices (HHI)

CHART 1.4



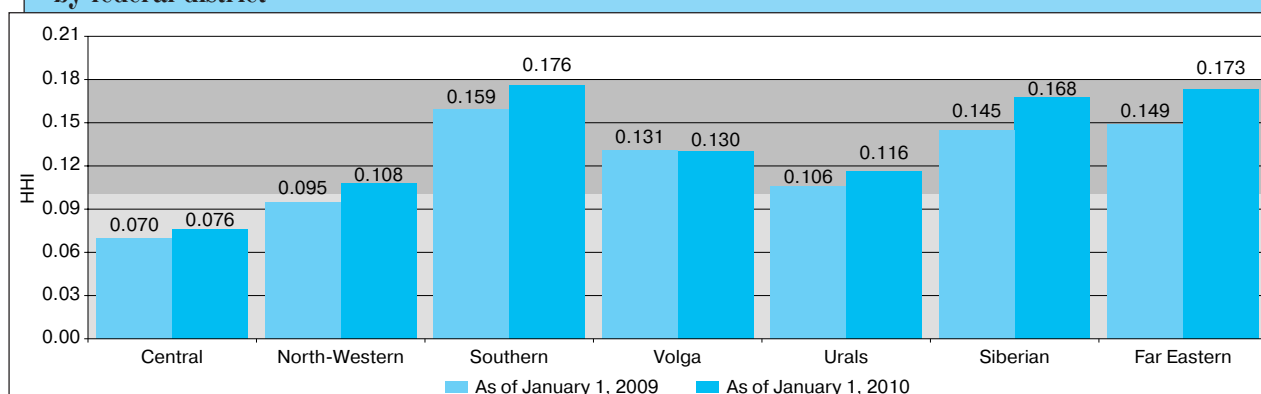
The Herfindahl-Hirschman Index is calculated as the sum of squared unit weights of credit institutions in total banking sector volume.

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 indicates a low concentration level, 0.10 to 0.18 indicates an average concentration level, over 0.18 indicates a high concentration level.

Asset concentration (HHI) by federal district

CHART 1.5



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 the credit institutions located in the federal district.

Significant differences in concentration levels on the banking services market remained between regions in 2009 (see Chart 1.5). At the same time, the average concentration level (the HHI ranging between 0.10 and 0.18) is registered in most of the federal districts.

The Southern, Far Eastern and Siberian Federal Districts continued to lead in terms of bank asset concentration in 2009.

Asset concentration levels rose in all federal districts except the Volga Federal District, where the HHI fell from 0.131 to 0.130.

The lowest asset concentration level was registered in 2009 in the Central Federal District (0.076 as of January 1, 2010, as against 0.070 as of January 1, 2009), the only federal district with a low asset concentration level.

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

The corporate securities market. Tension, caused by external and internal adversities, persisted on the Russian stock market early in 2009. In the last 10 days of January, the RTS index plunged to its lowest level since June 2008, when the turmoil on the domestic market began. Late in February, the dynamics of quantitative market indicators began to change for the better: share prices and trade turnover rose on the secondary market, and issuers' activity increased on the primary market. During 2009, the MICEX index and RTS index gained 121.1% and 128.6% year on year respectively. The RTS market capitalisation doubled, to reach \$763.5 billion (23.1 trillion

roubles). By the end of the year, however, Russian stock indices and funds raised by Russian companies by offering their own shares had, by far, not yet reached their pre-crisis levels.

In 2009, the total turnover of secondary trade in Russian stocks on the major Russian exchanges (MICEX Stock Exchange and RTS) increased 25% year on year, to 16.0 trillion roubles and the share of credit institutions' stocks in total secondary trading volume on these trading floors expanded by 2.4 times, to 45%.

Various segments of the corporate bond market recovered unevenly in 2009. As the share-issuing activity of prime issuers gradually increased, there was almost no demand for low-grade instruments. As such, companies had limited access to alternative sources of funds; this led to a sharp rise in the number of defaults on their issues (the number of defaults increased by more than seven times compared to 2008, reaching 285).

The value of corporate bonds placed on the MICEX Stock Exchange increased 70% year on year, mainly as a result of large issues, placed by issuers with a high credit rating, and reached 908 billion roubles at par. By the end of 2009, the total value of outstanding corporate bonds traded on the domestic market had risen 39% year on year and stood at 2,526 billion roubles at par.

In 2009, as in the previous years, the MICEX Stock Exchange accounted for the bulk of secondary trade in corporate bonds (2.5 trillion roubles, a decrease of 6.3% from 2008). Bank bonds accounted for 24% of secondary corporate bond trade turnover on the MICEX Stock Exchange as against nearly 30% in 2008.

The yields on the most liquid corporate bonds on the secondary market reached 24.8% p.a. in January, the highest level since this indicator was first calculated in July 2003. However, in February, it began to decline, and at the end of 2009, it stood at 11.4% p.a.

The government securities market. In the first half of 2009, activity on the government securities market was rather low, as this segment of the financial market continued to feel the consequences of a sharp contraction in liquidity. In the second half of the year, however, as the banking sector accumulated enough spare funds and the positive difference between the external and internal interest rates remained, market participants, including non-residents, grew more interested in these instruments. However, in 2009, secondary trade turnover shrank 26% to 687.9 billion roubles at market value.

Throughout the year, the market yields on government bonds declined as the banking sector liquidity situation stabilised and the Bank of Russia interest rates fell. The effective OFZ market portfolio indicator,¹⁴ calculated by the Bank of Russia, fell by half a percentage point to 8.6% p.a. in 2009. The coupon-free yield curve moved down in all maturity segments. The most significant decline in coupon-free yields (by more than 3.5 percentage points) was registered in the 2—3 year OFZ maturity segment, in which most of the trade was conducted.

In all, 42 OFZ auctions were held on the primary and secondary markets in 2009, most of which took place in the second half of the year. The total value of funds raised by the Ministry of Finance by placing OFZs amounted to 426.9 billion roubles, while principal and coupon payments totalled 174.4 billion roubles. During the year, the nominal value of outstanding OFZ bonds rose by 325.7 billion roubles to 1,469.7 billion roubles, while the portfolio duration decreased by 1.1 years to 4.3 years.

Overall, OFZ market liquidity was low. The average daily secondary market turnover on the exchange trading floor remained unchanged in nominal terms from the previous year at 0.1%. Passive investors, who adhered to the 'buy and hold' strategy, prevailed among OFZ holders in 2009. The non-resident share of the OFZ market expanded, but remained small at 1.7%, as of the end of 2009.

The largest holders of government debt obligations among banks as of January 1, 2010, were, as before, state-controlled credit institutions, which accounted for 57.5% of OFZs acquired by the banking sector. During the year, their OFZ portfolios increased by 2.8 times. Significant growth in government securities portfolios (by more than three times) was demonstrated by large private banks and banks with foreign interest, which accounted for respective 21.3% and 18.6% of OFZs acquired by the banking sector.

The largest holders of corporate securities in 2009 were large private banks and banks with government interest, which increased their portfolios by 2.3 times and 2.8 times. By January 1, 2010, corporate debt securities portfolios of large private banks had reached 318.7 billion roubles (as against 137.2 billion roubles a year earlier), and such portfolios of state banks had reached 310.4 billion roubles (as against 111.0 billion roubles as of January 1, 2009).

Large private banks and state-controlled banks remained the principal players on the equities market (for details, see 1.3.2 Asset dynamics and structure).

The foreign exchange market. Different trends affected the situation on the domestic foreign exchange market during 2009. Early in the year, the exchange rate dynamics continued to be affected by the world financial market crisis, which changed the fundamental rate-setting factors. Persistent rouble devaluation expectations, against the background of external economic adversities, caused demand for foreign currency to grow on the domestic foreign exchange market.

After the Bank of Russia had announced the completion of the readjustment of exchange rate policy parameters (on January 23, 2009) and market participants had altered their exchange rate expectations accordingly, in the second half of February the balance of the rate-setting factors changed on the domestic market. As the situation on world financial markets stabilised, global raw

¹⁴ The effective OFZ market portfolio indicator is the maturity- and volume-weighted average effective OFZ yield.

material prices resumed growth on world markets and the difference between interest rates on the domestic and foreign markets remained, investment in Russian assets became increasingly attractive. This created a trend towards the appreciation of the national currency.

In 2009, the official US dollar/rouble and euro/rouble rates appreciated 2.7% and 4.9% respectively and stood at 30.1851 roubles to the dollar and 43.4605 roubles to the euro (as of January 1, 2010). However, they remained far below the highs they had reached early in February 2009.

The contraction of foreign trade operations and cross-border capital flows and the scaling down of the Bank of Russia currency interventions (as compared with the previous year) caused domestic foreign exchange market turnovers to decline. The average daily foreign exchange turnover in interbank exchange and over-the-counter spot transactions in 2009 contracted 42% year on year, to \$54.9 billion. At the same time, the average daily market turnover of the rouble against all currencies in 2009 shrank 35% to \$38.0 billion. Similar US dollar and euro turnovers contracted 43% to \$51.1 billion and 39% to \$18.2 billion respectively.

There was a rise in exchange trade in the period under review: full-year rouble/dollar exchange trade turnover increased 1.3% to \$2,440.3 billion and rouble/euro turnover grew 105.0% to 393.1 billion euros. At the same time, there was an increase in exchange currency swap transactions, for which demand rose whenever capital ebbed away and liquidity contracted.

There was a contraction in the volume of forward conversion operations on the domestic foreign exchange market in 2009. During the year, the average daily turnover of currencies in interbank forward conversion operations fell from \$3.8 billion in 2008 to \$1.8 billion and the share of these in total interbank foreign exchange market transactions contracted from 4.0% to 3.2%.

The impact of bank operations with foreign exchange on the systemic stability of the banking sector was neutral, while the role of these transactions as a source of

income for Russian banks declined compared to the previous year (*for details, see 1.4 Financial Performance of Credit Institutions*).

Non-bank financial institutions

The number of insurance companies¹⁵ declined 10.7% to 702 as of January 1, 2010, and their total authorised capital contracted 2.5% to 148.3 billion roubles. According to data reported by 693 insurers, insurance premiums rose in 2009 2.4% year on year, to 977.5 billion roubles, while indemnities increased 17.0% to 734.5 billion roubles. As a result, the ratio of insurance indemnities to premiums grew by 9.3 percentage points to 75.1% as of January 1, 2010 — the worst record in years. Insurance contributions increased the most in compulsory medical insurance (by 16.9%) and the largest decrease (by 18.5%) was registered in life insurance.

The number of unit investment funds (PIFs)¹⁶ rose in 2009 15.3% to 1,307, of which PIFs for qualified investors grew 63.8% to 408.¹⁷ PIFs' total net assets increased 22.0% to 380.7 billion roubles.¹⁸ Most of the funds made profits, while PIFs specialising in stocks and shares were the most profitable. Open and interval share PIFs increased their share value by an average of 137.8% and 155.2% respectively. Total net inflow of shareholder funds to PIFs amounted to 18.1 billion roubles and was mostly ensured by property funds (17.3 billion roubles).

The number of non-government pension funds (NPFs)¹⁹ fell by 63 to 172 in January–September 2009. According to data reported by 167 NPFs, their total property increased 17.1% to 678.6 billion roubles (7.5% in the same period of 2008); pension reserves grew 11.9% to 518.0 billion roubles (as against 7.2% in the same period of 2008). Pension accruals increased 101.8% to 71.7 billion roubles in January–September 2009 (as against 49.2% in the same period of 2008). The Pension Fund of the Russian Federation (PFR) received in 2009 2.2 million applications from people who wished to switch from the PFR to NPFs, an increase of 1.6% on 2008.

¹⁵ According to data provided by the Federal Insurance Supervision Service.

¹⁶ According to data provided by Sbond.ru news agency.

¹⁷ According to data provided by the National Managers League.

¹⁸ Here and below, excluding PIFs for qualified investors.

¹⁹ According to data provided by the Federal Financial Market Service.

I.3. Banking Operations

I.3.1. Dynamics and structure of borrowed funds

The dynamics of the resource base in 2009 were largely determined by the change in the value of funds raised by credit institutions from the Bank of Russia. As of the beginning of the year, the value of loans, deposits and other raised funds stood at 3.4 trillion roubles, or 12.0% of banking sector liabilities. It was necessary to offset the consequences of the outflow of customer funds, and ensure the continuity of payments by the banking sector (including settlements with budgets of all levels) during the crisis. By the end of the year, the banking sector's need for anti-crisis liquidity instruments (especially unsecured Bank of Russia loans) had fallen sharply. The value of funds raised from the Bank of Russia had declined to 1.4 trillion roubles, or just 4.8% of banking sector liabilities, by the end of 2009 (see Chart 1.6).

Significant growth in the share of household deposits in total deposits was one of the more significant changes in the structure of the resource base.

The measures taken to maintain the financial stability of the banking sector²⁰ helped stabilise the situation on the household deposit market. Overall, annual growth in household deposits (including certificates of deposit)

which had reached 7,485.0 billion roubles by the end of 2009 stood at 26.7% as against 14.5% in 2008. The share of this source of funds in total banking sector liabilities expanded from 21.1% to 25.4%.

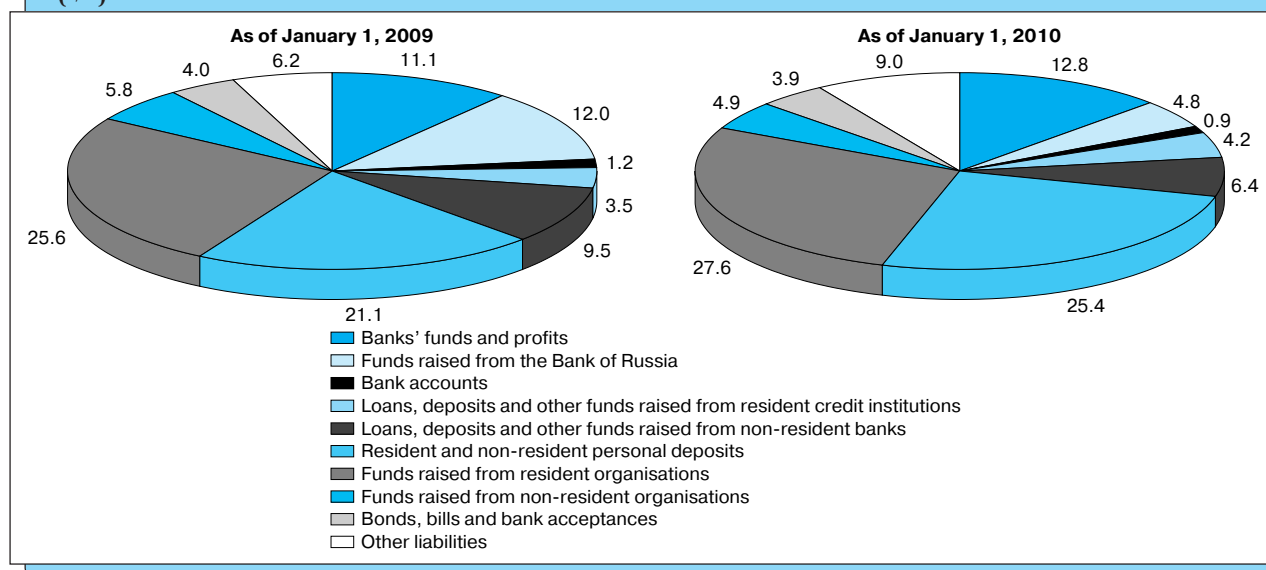
It should be noted that in the first half of the year, foreign currency deposits grew considerably faster than rouble deposits (21.1% as against 5.8%), mostly because the dollar and euro rallied against the rouble. In the second half of the year, especially in the fourth quarter, the situation changed the other way around: rouble deposits began to increase faster. By the end of the year, their annual growth stood at 27.2%, whereas foreign currency deposits increased 25.4%. During the year, the share of foreign currency deposits contracted slightly (from 26.7% to 26.4%).

As the situation in the banking sector stabilised and some credit institutions began to pursue an aggressive interest rate policy, household deposits grew rapidly in some banks, including regional ones, in 2009. Against this background, Sberbank's share of household deposits contracted in 2009 from 51.9% to 49.4% (as of September 1, 2008, before the crisis, it was 49.8%).

Household deposits with maturity of more than one year increased 24.0% in 2009, whereas their share of total household bank deposits contracted from 65.2% to 63.7%.

Structure of banking sector liabilities (%)

CHART 1.6



²⁰ These include measures taken pursuant to Federal Law No. 174-FZ of October 13, 2008, 'On Amending Article 11 of the Federal Law on the Insurance of Household Deposits with Russian Banks,' and some other federal laws (the increase in deposit insurance compensation to 700,000 roubles) and pursuant to Federal Law No. 175-FZ of October 27, 2008, 'On Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011' (the possibility for the Deposit Insurance Agency to participate in carrying out bankruptcy prevention measures in problem banks).

State-controlled banks, especially Sberbank, continued to hold commanding positions on the household deposit market. As of January 1, 2010, they accounted for 56.7% of the total value of household deposits (as against 59.0% a year earlier).

The share held by large private banks expanded from 23.9% to 25.2%, whereas the share held by small and medium-sized banks contracted from 6.8% to 6.2%.

In 2009, deposits in small and medium-sized regional banks accounted for the largest portion of their liabilities (37.7% as against 34.1% as of January 1, 2009). Household deposits accounted for 33.8% of the liabilities of the state-controlled banks (as against 30.7% as of January 1, 2009), 19.2% of the liabilities of large private banks (as against 14.6% as of January 1, 2009), 18.9% of the liabilities of small and medium-sized banks based in Moscow and the Moscow Region (as against 17.0% a year earlier) and 16.7% of the liabilities of foreign-controlled banks (as against 11.6% a year earlier).

Total funds raised from organisations²¹ increased 8.9% in 2009 (as against 24.4% in 2008) and reached 9,557.2 billion roubles. Their share of banking sector liabilities expanded from 31.3% to 32.5% (see Chart 1.7). Of these, the value of deposits and other funds raised from corporate entities other than credit institutions grew 10.5% in 2009 (as against 40.5% in 2008) and their share of total banking sector liabilities expanded from 17.6% to 18.6%. Deposits with maturities in excess of one year decreased 0.6% and accounted for 46.2% of total corporate deposits (as against 51.4% as of January 1, 2009).

The most significant growth in deposits and other funds raised from corporate entities, excluding credit institutions, was registered in the small and medium-sized banks based in Moscow and the Moscow Region (32.3%), followed by large private banks (11.7%) and state-controlled banks (10.7%).

As of January 1, 2010, the largest portion of deposits and other funds raised from corporate entities was held by large private banks (44.3%) and state-controlled banks (32.9%). Foreign-controlled banks accounted for 20% and small and medium-sized banks about 3%.

Deposits and other funds raised from corporate entities accounted for a large portion of the liabilities of large private banks (24.7%) and foreign-controlled banks (20.3%).

Growth in the balances of organisations' settlement and other accounts resumed in 2009 and compared to 2008, they increased 9.6% in value, while their share of liabilities expanded from 12.6% to 13.1%.

Already small, the share of non-resident organisations other than banks in banking sector liabilities contracted in 2009 from 5.8% to 4.9%.

Funds raised by credit institutions by issuing bonds rose 10.0% in 2009 (as against 29.3% in 2008) and reached 412.7 billion roubles, but their share of banking sector liabilities remained small (1.4% as against 1.3% a year earlier). The value of bills issued by credit institutions in 2009 remained virtually unchanged, but their share of liabilities contracted slightly (from 2.7% to 2.5%).

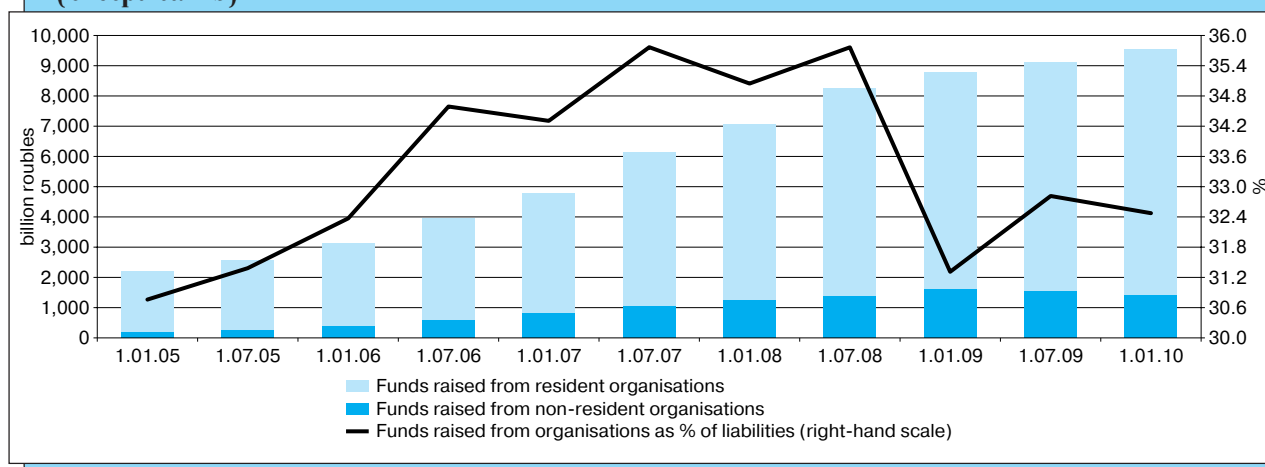
The value of interbank credit taken²² declined 14.3% in 2009 (29.6% growth was registered in 2008) and stood at 3,117.3 billion roubles. Its share of banking sector liabilities contracted from 13.0% as of January 1, 2009, to 10.6% as of January 1, 2010. The balances of funds raised on the domestic interbank market increased 27.0% in 2009 and their share of total interbank loans raised by credit institutions in 2009 expanded from 26.7% to 39.6% (see Chart 1.8).

For information on the interbank credit market, see also II.3.4 *Dependence on interbank market and interest rate dynamics*.

As Russian banks found it increasingly difficult to access international markets, the value of funds raised by credit

**Raising funds from organisations
(except banks)**

CHART 1.7

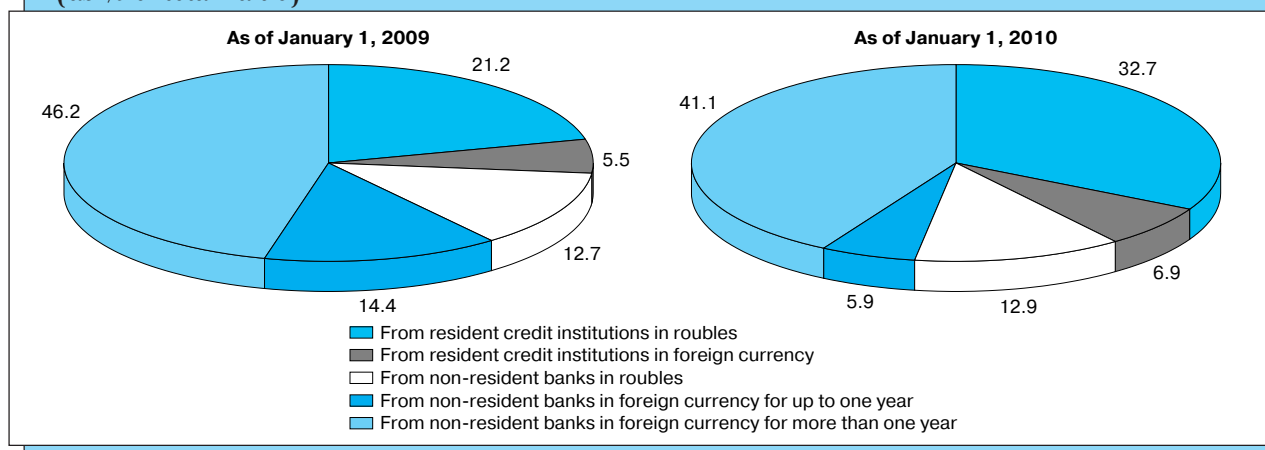


²¹ Other than banks.

²² Loans, deposits and other funds raised on the interbank market, including precious metals.

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

CHART 1.8



institutions from non-resident banks (including parent companies) fell sharply: outstanding loans contracted 29.4% in 2009, whereas in 2008 it rose 24.9%. As of January 1, 2010, this source of funds accounted for 6.4% of banking sector liabilities (9.5% as of January 1, 2009). At the same time, there was a significant increase (from 77.6% to 86.3%) in the share of long-term loans (with maturities in excess of one year) taken on the international interbank market.

Foreign-controlled banks remained particularly active in raising funds from non-resident banks (these funds accounted for 17.6% of liabilities of this group of banks, and their share of total borrowings stood at 50.2%). In large private banks, the former indicator was 3.9%, and in state-controlled banks, it was 4.3%. Medium-sized and small banks never raise funds on international markets.

1.3.2. Asset dynamics and structure

Banking sector asset dynamics were volatile in 2009 (see Chart 1.9). During the year, total banking sector assets grew by a lowly 5.0% to 29,430.0 billion roubles (in 2008, they increased 39.2%).

State-controlled banks and large private banks accounted for the largest share of total banking sector assets as of January 1, 2010 (42.6% and 33.3% respectively). The share of foreign-controlled banks

stood at 18.3%. Medium-sized and small banks based in Moscow and the Moscow Region accounted for 2.6% of banking sector assets, while medium-sized and small regional banks accounted for 2.8%.

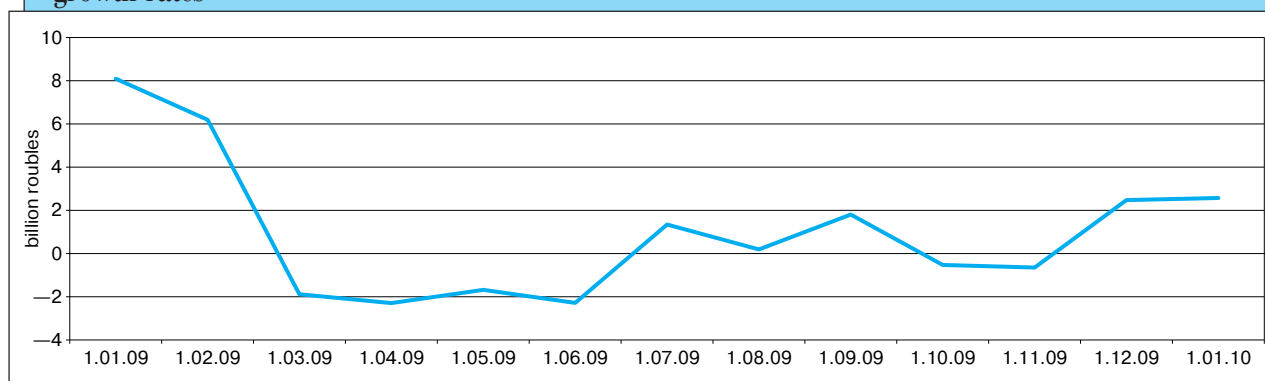
The realisation of credit risks, due to the deterioration of the general economic situation and the financial position of borrowers, led to a retail and corporate credit crunch in 2009. Total credit extended to non-financial organisations and households contracted 2.5% in 2009 to 16,115.5 billion roubles, and their share of banking sector assets declined from 59.0% to 54.8% (changes in asset structure are shown in Chart 1.10).

As the Russian Government and Bank of Russia implemented their anti-crisis programmes, state-controlled banks increased their share of total credit to non-financial organisations and households. However, the share of other groups of credit institutions declined (see Table 1.1).

Loans extended to non-financial organisations continue to make up the largest part of the banking sector credit portfolio. In 2009, they increased 0.3% (as against 34.3% in 2008) and reached 12,541.7 billion roubles; most of the increase was ensured by 'technical' growth (in January 2009) that resulted from a currency revaluation. The share of these loans contracted from 44.6% to 42.6% of the assets. As before, most of the loans to non-financial organisations (72.7%) were extended in roubles (71.1% in 2008).

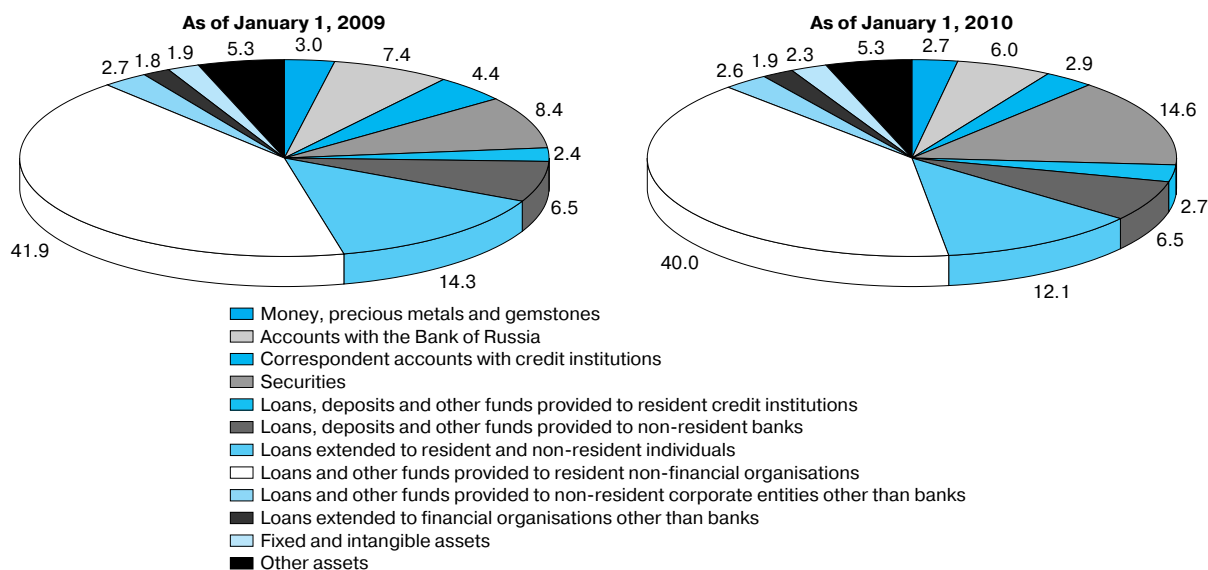
Monthly asset growth rates

CHART 1.9



Banking sector asset structure (%)

CHART 1.10



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

TABLE 1.1

	1.01.09	1.01.10
State-controlled banks	45.8	48.3
Banks controlled by foreign capital	18.2	17.1
Large private banks	30.9	29.9
Medium-sized and small banks based in Moscow and Moscow Region	2.2	2.1
Medium-sized and small regional banks	2.9	2.6

About half (49.5%) of all bank loans to non-financial organisations were extended by state-controlled banks, while 31.0% were supplied by large private banks. The aggregate share of these banks in total credit to non-financial organisations was 80.5% in 2009 as against 78.4% in 2008.

In total credit provided to non-financial organisations in 2009, the share of long-term loans (with maturities in excess of one year) expanded from 57.1% to 66.7%; of these, the share of loans with maturities in excess of three years increased from 27.5% to 36.1%. This is attributable, among other factors, to the restructuring (prolongation) of a portion of large-sum loans.

The leading role in supplying non-financial organisations' demand for credit with maturities in excess of one year is played by state-controlled banks and large private banks. The aggregate share of these banks in total credit with maturities in excess of one year was 82.6% as of January 1, 2010 (as against 79.5% as of January 1, 2009).

Growth in unemployment and the deteriorated solvency of individual borrowers led to the curtailment of retail lending. Total credit provided to households²³ con-

tracted 11.0% in 2009 (in 2008, it increased 35.2%). Household loans declined from 20.2% to 18.0% as a proportion of total banking sector credit in the period under review and their share of total banking sector assets contracted from 14.3% to 12.1%. Most loans to households (88.7%) were extended in roubles.

In terms of household lending volumes, state-controlled banks, large private banks and foreign-controlled banks top the list. Their respective shares of total banking sector credit to households stand at 44.0%, 26.1% and 25.1%.

Moreover, state-controlled and foreign-controlled banks are gradually expanding their presence on the retail banking services market, mostly at the expense of large private banks.

Medium-sized and small regional banks and foreign-controlled banks have the largest share of household loans in their credit portfolios (22.7% and 23.4% respectively as of January 1, 2010). In the state-controlled banks, these loans made up 17.4% of the credit portfolio, in the large private banks they represented 15.3%, and in the small and medium-sized banks based in Moscow and the Moscow Region this figure was 15.5%.

²³ Net of credit to individual unincorporated entrepreneurs. Pursuant to the provisions of the Civil Code of the Russian Federation (Part 1, Article 23), these loans are not included in credit extended to households.

Mortgage housing loans decreased 5.5% in 2009, although there was no absolute reduction in their value in the fourth quarter of the year. Despite the fact that the share of mortgage housing loans in household credit²⁴ expanded from 26.7% to 28.4%, their share of assets remained very small (3.4% as of January 1, 2010). Most of the mortgage housing loans (80.4%) were extended in roubles.

Securities portfolios increased by 1.8 times in 2009 (as against 5.1% in 2008) and totalled 4,309.4 billion roubles. Their share of banking sector assets expanded from 8.4% to 14.6%.

This growth resulted from the stock market picking up amid the exceedingly conservative approach taken by most banks to lending.

Debt obligations continued to dominate the securities portfolios and as of January 1, 2010, they accounted for 78.4% as against 74.4% as of January 1, 2009. In 2009, they almost doubled in value (in 2008, they grew 14.2%) and totalled 3,379.1 billion roubles. Most of them were federal government debt obligations (22.8% as against 13.7% as of January 1, 2009) and corporate bonds (22.5% as against 19.2%). The share of investment in the Bank of Russia debt obligations expanded significantly (from 0.7% to 8.4%).

The share of discounted bills in the securities portfolio in 2009 contracted from 8.4% to 5.4%, whereas their share of banking sector assets expanded slightly (from 0.7% to 0.8%). Russian banks' bills accounted for 76.9% of the discounted bill portfolio (50.2% as of January 1, 2009). During the year, the portfolios of these bills increased by 1.8 times to 180.0 billion roubles. Meanwhile,

the portfolios of bills issued by other Russian organisations declined 45.3% and their share contracted from 47.3% to 22.0% in total discounted bills.

State-controlled banks and large private banks were the biggest holders of debt obligations, accounting for 41.6% and 39.4% of total debt obligations acquired by the banking sector as of January 1, 2010.

The share of equities in the securities portfolio expanded from 8.2% to 9.6% in 2009. During the year, they more than doubled in value, and reached 411.8 billion roubles (in 2008, equities portfolios decreased 38.8%).

There were some changes in the structure of equity holdings portfolios by group of banks in 2009. The share of large private banks increased from 70.4% to 74.0%, whereas the share of state-controlled banks dwindled from 19.1% as of January 1, 2009, to 13.3% as of January 1, 2010.

Due to the crisis, the interbank credit market was not particularly active in 2009, especially in the first half of the year. Claims on loans increased 9.0% in 2009 (in 2008, they grew 76.4%) and reached 2,725.9 billion roubles, and their share of banking sector assets expanded from 8.9% to 9.3%. In 2009, the value of loans placed with resident banks increased 18.6% and their share of assets expanded from 2.4% to 2.7%. The share of loans placed with non-resident banks increased 5.4%, while their share of banking sector assets remained unchanged at 6.5%.

The share of foreign currency assets in total banking sector assets contracted to 27.6% as of January 1, 2010, on the rouble's rally in the second half of the year (as against 32.3% as of January 1, 2009).

²⁴ Household credit signifies loans extended to individual residents other than individual unincorporated entrepreneurs.

I.4. Financial Performance of Credit Institutions

I.4.1. Financial results

In 2009, operating credit institutions registered a 49.9% fall in profits (in 2008, profits declined 19.4% year on year), which totalled 205.1 billion roubles (*see Chart 1.11*) (in 2008, profits stood at 409.2 billion roubles).

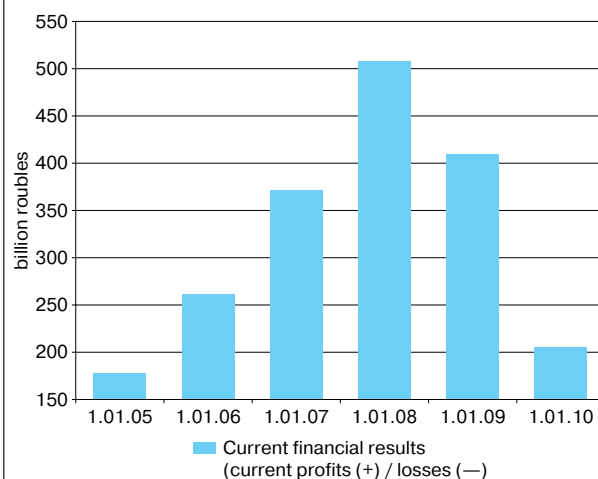
The share of profit-making credit institutions contracted from 94.8% to 88.7%, while the share of loss-making credit institutions increased from 5.1% to 11.3% (the number of loss-making credit institutions rose from 56 to 120). Losses of operating credit institutions reached 79.8 billion roubles in 2008 as against 37.8 billion roubles in 2009.

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 (45.1%), the share of foreign-controlled banks was 29.6%, and large private banks accounted for 15.4%. In addition, banks against which anti-bankrupt measures are being taken exert great influence on the banking sector financial result: their losses stood at 29.7 billion roubles as of January 1, 2010.

In 2009, credit institutions saw their rates of return on assets and equity fall sharply — to 0.7% and 4.9% re-

Banking sector
financial results

CHART 1.11



spectively (in 2008 figures were 1.8% and 13.3%).²⁵ During the year, a fall in rates of return on assets was registered by 699 banks, or 66.1% of operating credit institutions, and a fall in rates of return on equity was reported by 737 banks, or 69.7% respectively.

	Capital multiplier (financial leverage)		Profit margin		Rate of return on assets		Rate of return on equity
	Assets*		Financial result		Gross net income**		Financial result
	Capital*	x	Gross net income**	x	Assets*	=	Capital*
2008	7.5113		0.2207		0.0805		0.1334
2009	6.7457		0.0971		0.0744		0.0488

* Average for period.

** The methodology of calculating the profit margin and return on assets was revised in 2009 as follows: net current income has been replaced by gross net income. Gross net income (financial result growth factor) is the sum of net interest income, net income from securities trading and revaluation, net income from operations with foreign exchange and foreign currency values, including exchange rate differences, net commission income and other net income (before the deduction of provisions net of recovered ones and maintenance expenses). It is calculated on the basis of data reported by credit institutions (Form 0409102). For comparability of data, the profit margin and return on assets for 2008 have been recalculated using the new methodology.

²⁵ 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.

	Return on assets, %		Return on equity, %	
	2008	2009	2008	2009
State-controlled banks	2.2	0.8	15.7	4.6
Banks controlled by foreign capital	1.8	1.1	14.6	8.3
Large private banks	1.3	0.3	10.6	2.8
Medium-sized and small banks based in Moscow and Moscow Region	1.5	1.2	6.8	5.2
Medium-sized and small regional banks	2.1	1.2	13.1	6.5

The fall in the return on equity was due to a combination of all the three factors that determine it: financial leverage, profit margin and return on assets. Consequently, unlike the situation in the previous year, when the fall in return on equity was largely the result of financial leverage dynamics, induced by a slower growth in assets, 2009 return on equity also reflected the decline in profitability of the banking business.

All groups of banks registered a fall in profitability in 2009.

1.4.2. Income and expense structure

Income from foreign currency transactions dominated the structure of *gross income* of operating credit institutions, accounting for 72.0% of its total value as against 62.3% in 2008. The share of other components of gross income contracted significantly in 2009.

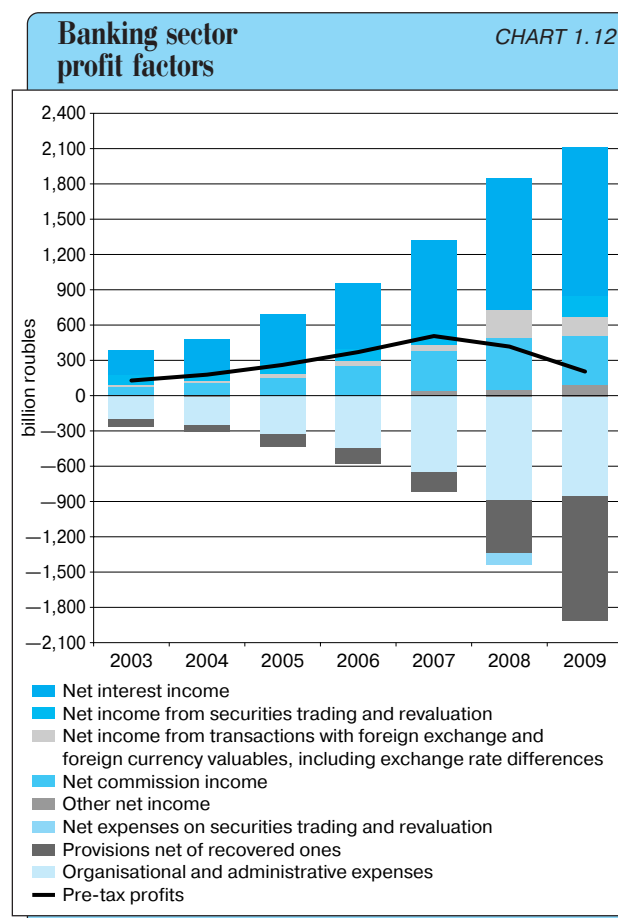
The most significant reduction in gross income was attributed to interest income (net of securities income) from funds provided to legal entities - its share went down from 8.4% as of January 1, 2009 to 6.0% as of January 1, 2010. The share of recovered provisions contracted in 2009 from 12.8% to 11.5%, the share of interest income from credit to households declined from 3.1% to 1.9%, the share of income from securities trading declined from 3.5% to 3.3% and the share of commission income decreased from 2.8% to 1.5%.

Expenses on foreign currency transactions dominated the structure of *gross expenses* (their share increased from 62.4% to 71.9% in 2009). The share of provisions made stood at 14.9% as of January 1, 2010, as against 15.8% as of January 1, 2009. The share of interest expenses on borrowed funds decreased from 5.7% to 4.5% during the year, the share of expenses on securities trading contracted from 3.6% to 2.2%, the share of organisational and administrative expenses (including staff expenses) went down from 3.9% to 2.0% and the share of commissions fell from 0.4% to 0.2%.

In the structure of the financial result factors (see Chart 1.12) the fall in profits in 2009 was largely due to significant growth in provision-related expenses. Provisions (net of recovered ones) made by credit institutions in 2009 more than doubled in value and reached 1,050.6 billion roubles, or 55.1% of the profit reduction factors (456.1 billion roubles and 31.8% in 2008).²⁶

Provisions rose in all groups of banks, but the biggest increase was registered by state-controlled banks (from 34.8% to 63.1% of profit reduction factors), large private banks (from 33.4% to 55.7%) and foreign-controlled banks (from 27.2% to 46.2%). In medium-sized and small regional banks and banks based in Moscow and the Moscow Region, this ratio averaged 22%.

Net interest income remains the most significant source of growth in profits. In 2009, it accounted for 59.5% of profit growth factors (as against 60.4% in 2008). At the same time, the structure of net interest income changed in 2009: while net interest income on loans increased 15%, net interest income on debt obligations grew by 2.4 times to reach 13.5% of total net interest income, as against 6.3% a year before.



²⁶ Analysis of banking sector financial result factors is based on data contained in the Credit Institution Profit and Loss Statement (Form 0409102).

Net interest income is the main income growth factor in all groups of banks. Its highest ratio (66.4%) was registered in the state-controlled banks. Moreover, in 2009, only this group of banks managed to build up net interest income in absolute and relative terms. Other groups of banks registered a contraction in the share of this kind of income.

The share of net commission income stood at 19.7% as against 23.5% in 2008.

Net commission income accounted for the largest portion of the profit growth factors (33.4%) in the medium-sized and small regional banks. In other groups of banks, it ranged from 17.5% to 20.9%.

Net income from securities trading and revaluation made a substantial contribution to financial results in 2009. Estimated at 180.1 billion roubles, or 8.5% of the profit growth factor in 2009, it represented a net loss of 92.6 billion roubles, or 6.4% of the profit reduction factors in 2008. Net income from these operations in 2009 resulted from the rise in stock indices and the attendant increase in credit institutions' securities portfolios.

The securities trading and revaluation brought in 2009 net income to all groups of banks. They had the most significant effect on the profits of large private banks, accounting for 13.9% of their profit growth factors (in 2008, this group of banks registered the biggest losses from such transactions).

Net income from operations with foreign exchange and foreign currency valuables, including exchange rate differences, remained in 2009 a major factor affecting the financial results of credit institutions, although its share

in the growth structure of banking sector profits contracted from 13.1% to 7.5%. Income from foreign exchange operations declined significantly in the first half of 2009, as the Bank of Russia recommended that credit institutions limit their open currency positions and net foreign assets (a factor of decline in investments in foreign exchange) and the rouble exchange rate became more volatile.

This source of profits is particularly important for the small and medium-sized banks based in Moscow and the Moscow Region, and accounts for 10.9% of their profit growth factors; this figure is 9.7% for foreign-controlled banks. In large private banks and state-controlled banks, the role played by income from foreign exchange operations in the financial result changed the most: its share in the structure of profit growth factors contracted in 2009 from 14.3% to 6.0% and from 13.7% to 7.3% respectively.

Expenses involved in the operation and maintenance of credit institutions fell 3.6% to 855.7 billion roubles in 2009. Their share in the structure of profit reduction factors contracted from 61.8% to 44.9%.

The highest ratio of expenses involved in the operation and maintenance of credit institutions in the structure of profit reduction factors was registered by the medium-sized and small regional banks and banks based in Moscow and the Moscow Region (77%). In other groups of banks, it contracted significantly. The lowest ratio of these expenses was registered by state-controlled banks (35.2%) and large private banks (44.3%).

Banking Sector Risks

II

II.1. Credit Risk

II.1.1. Loan portfolio quality

Some of the risks accumulated in the period of rapid economic growth and credit expansion materialised during the crisis. As credit stagnated (total loans, deposits and other placements declined 0.2% during the year), overdue debt increased 2.4-fold and reached 1,014.7 billion roubles as of January 1, 2010. Its share of total credit extended in 2009 expanded from 2.1% to 5.1%. At the same time, growth in overdue debt continually slowed down: in the fourth quarter of 2009, it was 5.5% as against 15.8% in the third quarter. In the second quarter, this figure totalled 29.2% as against 52.3% in the first.

The share of overdue debt in the loan portfolio expanded during the year in all groups of banks. It was the largest in the foreign-controlled banks (6.3%) and large private banks (6.0%). The rates of growth in overdue debt in 2009 were highest in banks controlled by foreign capital (179.8%) and the state (173.1%).

As for credit institutions that had overdue loans, the number of credit institutions in which overdue debt did not exceed 4% of the loan portfolio declined from 672 to 502 in 2009 (see Chart 2.1). These credit institutions accounted for 30.7% of banking sector assets as of January 1, 2010, as against 84.6% as of the same date a year earlier. At the same time, the number of credit institutions with an overdue debt ratio of more than 4% increased from 201 to 380. Their share of assets expanded from 12.3% to 67.6%. There were 161 credit institutions (14.1% of banking sector assets) with an overdue debt ratio in the loan portfolio that exceeded 8% as of January 1, 2010 (this compares with 63 banks accounting for 2.2% of banking sector assets as of January 1, 2009).

The level of credit risk Russian banks face is still determined, above all, by the quality of credit to non-financial organisations, which accounted for 63.2% of total credit extended as of January 1, 2010. Overdue loans extended to this category of borrowers increased 2.9-fold in 2009, while the value of loans provided to them remained virtually unchanged. As a result, the share of overdue debt on credit to non-financial organisations expanded to 6.1% as of January 1, 2010, as against 2.1% as of the beginning of 2009. In rouble loans, this ratio increased from 2.4% to 6.8% and in foreign currency loans, it expanded from 1.4% to 4.2%.

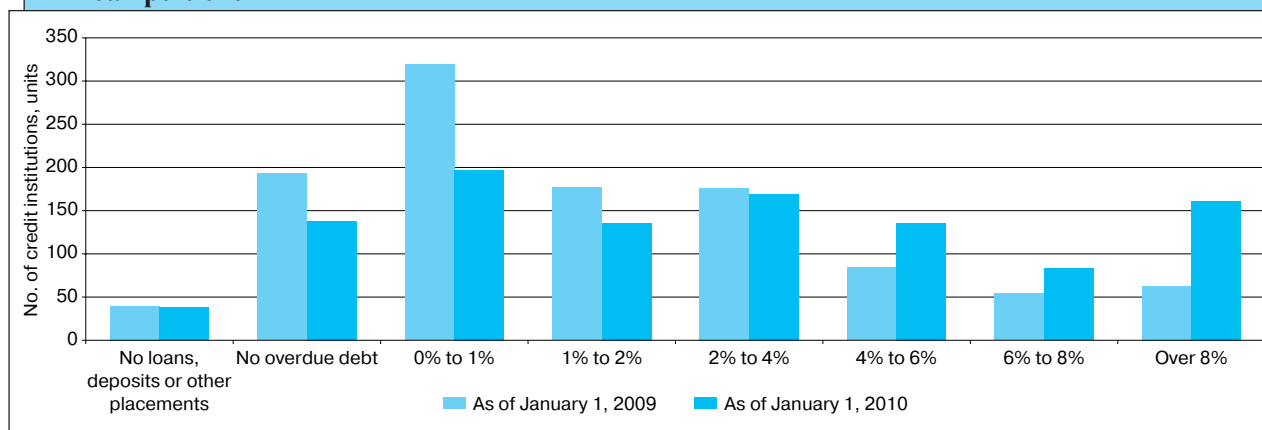
The enterprise activity categories which registered the highest overdue debt ratios included wholesale and retail trading establishments, construction companies and agricultural, hunting and forestry organisations (see Chart 2.2).

Overdue loans to households increased 1.6-fold in 2009, whereas the value of these loans declined 11.0%. As a result, the share of this kind of overdue debt expanded from 3.7% to 6.8%. The share of overdue debt on rouble loans to households rose from 3.7% to 6.6%; on foreign currency loans, the share increased from 3.6% to 8.3%.

As of January 1, 2010, 87.6% of loans extended to individuals, and other claims on individuals, were aggregated in homogeneous loan portfolios (88.3% as of January 1, 2009). At the same time, 2009 saw an expansion (from 4.4% to 9.0%) in the share of portfolios of loans overdue for more than 90 days in total household debt grouped in homogeneous loan portfolios. Of these, the share of overdue car loans grew from 4.7% to 9.5%, the share of mortgage housing loans rose from 1.4% to 4.6% and the share of other consumer loans increased from 6.4% to 12.3%.

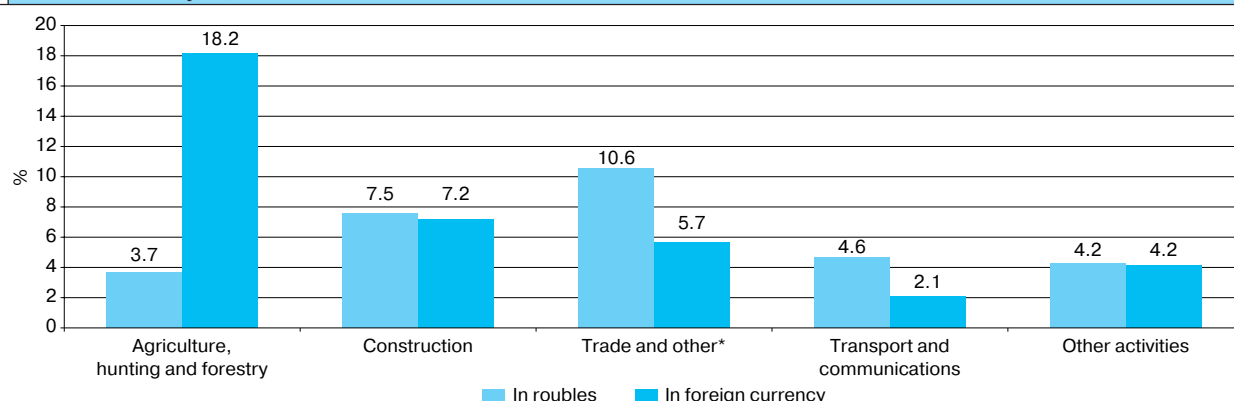
Credit institutions by share of overdue debt in loan portfolio

CHART 2.1



**Overdue debt as % of loans by activity category
as of January 1, 2010**

CHART 2.2



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

According to credit institutions' statements, the share of standard loans in total banking sector loans as of January 1, 2010, was 35.1%, while problem loans accounted for 3.1% and loss loans accounted for 6.5% (the respective percentages as of January 1, 2009, were 41.2%, 1.7% and 2.1%) (see Chart 2.3). In 18 credit institutions, with regards to which bankruptcy prevention measures were carried out as of January 1, 2010, the corresponding ratios differed from the banking sector averages: as of January 1, 2010, the share of problem loans in these banks stood at 6.1%, while loss loans totalled 21.4%; overdue loans to non-financial organisations reached 34.2% and overdue loans to households totalled 14.3%.

Banks subjected to bankruptcy prevention measures had a significant effect on the dynamics of banking sector credit risk indicators.

The share of banks subjected to bankruptcy prevention measures as of January 1, 2010 in the increase of individual banking sector indicators for 2009 was as follows:

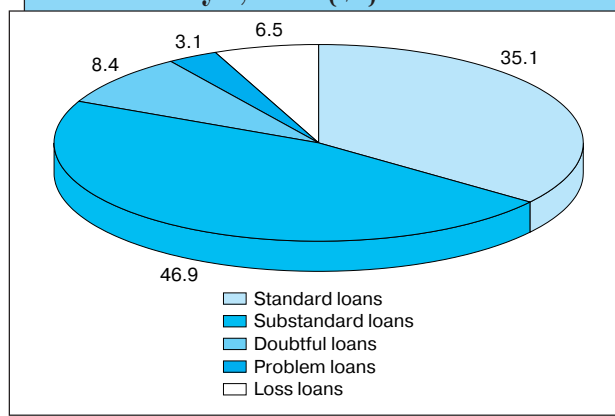
- 15.1% of overdue loans to non-financial organisations;
- 4.9% of overdue loans to households;
- 9.4% of problem and loss loans and;
- 10.2% of loan loss provisions.

The largest share of standard loans (40.4%) as of January 1, 2010, was registered in the foreign-controlled banks. At the same time, this group of banks had the highest ratio of problem and loss loans in their portfolio (10.7% as against 3.9% as of January 1, 2009). The quality of loan portfolios deteriorated significantly during the year in the state-controlled and large private banks. The share of problem and loss loans in these groups of banks expanded respectively from 3.1% to 9.4% and from 4.5% to 9.2% of total loans.

In 2009, the number of banks whose loan portfolios consisted by more than half of standard loans decreased

**Quality of banking sector
loan portfolio
as of January 1, 2010 (%)**

CHART 2.3



from 267 to 235 and the share of these banks in total banking sector assets contracted from 24.3% to 19.3%.

The realisation of credit risk in 2009 led to the build-up of loan loss provisions (LLP). Total loan loss provisions made as of January 1, 2010, accounted for 9.1% of actual loans, of which LLP for problem loans covered 43.0% of total problem loans²⁷ and provisions for loss loans stood at 84.3% of loss loans²⁸ (as of January 1, 2009, the respective ratios were 4.5%, 41.2% and 85.2%).

At the same time, the amount of LLP made by credit institutions in 2009 was affected by the Bank of Russia Ordinance No. 2156-U of December 23, 2008, 'On the Specifics of the Assessment of Credit Risk on Loans, Loan and Similar Debts,' which had a countercyclical orientation and allowed banks to categorise loans taking into account the outlook for the obligor's financial recovery. The approach introduced by the Ordinance enabled Russian credit institutions at the beginning of 2010 to "save" 10% on average, or about 220 billion roubles, on LLP.

On virtually all reporting dates for loans assessed for loan loss provisions on a solo basis, the actual provisions

²⁷ Allowing for the collateral factor. For reference: an estimated provision for problem loans ranges from 51% to 100% of the principal amount of debt, depending on the extent of loan depreciation.

²⁸ Allowing for the collateral factor.

matched the required ratio.²⁹ As of January 1, 2010, 994 banks had made an LLP of at least 100% of the estimated LLP adjusted for the collateral factor and they accounted for 98.5% of banking sector assets (a year earlier, there were 1,038 such banks and they accounted for 98.0% of banking sector assets).³⁰

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

Credit risk concentration levels in 2009 remained virtually unchanged from 2008, according to credit institutions' statements.

In the year under review, the required ratio, 'maximum risk per borrower or group of related borrowers' (N6), was violated by 213 credit institutions (as against 209 credit institutions in 2008) and 'large credit exposure' (N7) was violated by thirteen credit institutions (as against nine credit institutions in 2008).

As of January 1, 2010, another ratio, 'maximum value of loans, guarantees and sureties provided by a credit institution (banking group) to its members (shareholders)' (N9.1), was calculated by 389 credit institutions, or 36.8% of total operating credit institutions (as against 402 credit institutions, or 36.2%, as of January 1, 2009). As in the previous years, violations were committed by six credit institutions. The total number of violations in 2009 stood at 38, as against 22 a year earlier.

Sixteen credit institutions (as against seven in 2008) failed to meet the required ratio N10.1 'total insider risk.'

At the same time, taking into consideration the economic interrelationships between borrowers, the Bank of Russia believes that far more credit institutions flouted the required ratios. Many credit institutions had exceedingly high risk concentration levels in some economic activity categories, including construction. In some credit institutions, the risk levels involved in investment project lending reached 80% of the loan portfolio.

The assessment of bank owner business risk levels, made not only from the standpoint of legal or capital ties, but also taking into account the actual ownership by individuals of the bank and the corresponding business (organisations), also indicates that some credit institutions underestimate this kind of risk. High business owner risk concentration levels were typical of virtually every bank that experienced financial problems during the year under review.

As the Bank of Russia has not yet officially set requirements to limit risk concentrations with regard to credit transactions between related parties or economically related borrowers, some credit institutions understate risk concentration ratios, such as N6, N9.1 and N10.1. There-

fore, the Bank of Russia has drafted amendments to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), broadening criteria for the definition of the legal interrelationship between borrowers. This would set criteria for defining their economic interrelationship and establish requirements in order to regulate credit risk concentration for a related party.

II.1.3. The financial standing of enterprises³¹

The financial standing of borrowing enterprises, hereinafter referred to as 'enterprises,' remained satisfactory in 2009 and did not change much from 2008.

At the end of the year under review, mining, agricultural and communications enterprises fared better financially than other enterprises. Enterprises in the manufacturing sector, those dealing with the production and distribution of electricity, as well as gas and water, trade and transport enterprises did a little worse financially. The financial situation of construction and transport enterprises had improved significantly and their overall performance in 2009 was quite good.

The overall satisfactory financial standing of enterprises in 2009 was largely the result of the gradual improvement of the economic situation during the period under review, after its sharp deterioration as a result of the crisis in the fourth quarter of 2008. The economic situation gradually changed for the better throughout 2009.

The balance sheet total of enterprises increased in 2009, although its growth rate that year was a little slower than in 2008 (10.9% as against 14.5%). The rates of growth in circulating assets were also slower than in 2008. At the same time, the rates of growth in non-circulating assets and capital in 2009 were considerably higher than a year earlier. The 2009 situation was peculiar in that the value of enterprises' obligations had decreased.

Enterprises managed to retain a well-balanced capital structure in terms of mobilisation and investment. On the whole, they had enough investment resources³² to create investment assets.³³ The only exceptions were transport and communications enterprises.

Although enterprises had their own circulating assets, their growth slowed significantly in 2009. In 2008, they increased 26.7%, whereas in 2009 this figure was just 9.6%. Nevertheless, the share of circulating assets created from own assets expanded slightly in 2009 (from 43.3% to 44.5%).

Growth in enterprises' payables slowed significantly in 2009 year on year because of negative tendencies in production. Whereas in 2008 enterprises' payables rose 35.4%, in 2009 they grew just 11.5%.

²⁹ Under 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,' the minimum provision is determined by adjusting the estimated provision to account for the collateral factor.

³⁰ According to data reported by credit institutions in Form 0409115, Section 1.

³¹ Based on enterprise monitoring results.

³² Sum total of capital and long-term obligations.

³³ Non-circulating assets.

**Indicators characterising the financial standing
of borrowing enterprises (%)**

TABLE 2.1

Indicator	2009	
	Start of year	End of year
Absolute liquidity ratio*	10.0	9.5
Current liquidity ratio**	169.0	173.3
Return on assets***	8.6	
Return on equity***	13.5	

* Capital to assets.

** Liabilities to capital.

*** During period since start of year.

Receivables contracted 1.7% in 2009 (in 2008, they increased 26.8%). The year under review saw the contraction of their 'standard' portion³⁴ as well as overdue value. In 2008, there was growth in both components of receivables. The share of overdue debt in total receivables stood at 9.1% as of December 31, 2009.

Proceeds from the sale of goods, works and services accounted in 2009 for just 90.9% of their 2008 value. The shortage of receipts, including that which resulted from the fall in earnings, was one of the reasons why in 2009 enterprises registered a net outflow of cash. As a result, cash contracted 1.0%, causing the immediate capability of enterprises to meet short-term

liabilities to decrease slightly.³⁵ While early in 2009 enterprises could instantly settle 10.0% of their liabilities from their own funds, at the end of the year this ratio declined to 9.5%. At the same time, enterprises' short-term liabilities were completely covered by circulating assets (net of overdue receivables).³⁶ The circulating assets to short-term liabilities coverage ratio increased in 2009 to 173.3%.

In 2009, enterprises' pre-tax profits were 91.8% higher than in 2008. The rate of return of enterprises (based on pre-tax profits) rose to 8.6% as against 5.3% in 2008. The rate of return on equity increased accordingly (from 8.2% to 13.5%).

³⁴ Not yet due.³⁵ Absolute liquidity ratio.³⁶ Current liquidity ratio.

II.2. Market Risk

II.2.1. General characteristics of market risk

The number of credit institutions calculating market risk³⁷ declined in 2009 from 741 to 656.³⁸ The share of banks required to calculate market risk in banking sector assets contracted significantly in 2009 (from 93.1% to 62.8%), as a result of the change in the make-up of these banks.

As of January 1, 2010, foreign exchange risk was taken into account when calculating capital adequacy by 492 banks, which accounted for 49.0% of banking sector assets (as against 634 banks accounting for 82.9% of banking sector assets as of January 1, 2009).³⁹ Equity position risk was calculated by 217 banks, which accounted for 43.9% of banking sector assets (as against 208 banks accounting for 40.9% of banking sector assets a year earlier). Interest rate risk was calculated by 332 banks, which accounted for 54.1% of banking sector assets (as against 308 banks accounting for 52.7% of banking sector assets as of January 1, 2009). The number of banks whose activities are important for all segments of the financial market and which, consequently, must calculate all the three kinds of risk was relatively small — 118 as against 135 as of January 1, 2009. They accounted for 37.1% of banking sector assets as of January 1, 2010 (as against 34.9% as of January 1, 2009).

Banking sector market risk increased 69.0% in 2009 and reached 1,385.8 billion roubles as of January 1, 2010, as a result of the increase in credit institutions' investments⁴⁰ in debt and equity securities assessed at fair value through profits or losses⁴¹ and available for sale.⁴² The value of these investments doubled in 2009.

The share of market risk in total banking sector risks⁴³ remains small, although in 2009 it doubled and stood at 6.3% (see Chart 2.4). The ratio of market risk to the capital of banks calculating market risk more than doubled in 2009, and reached 49.6% (as against 23.2% a year earlier).

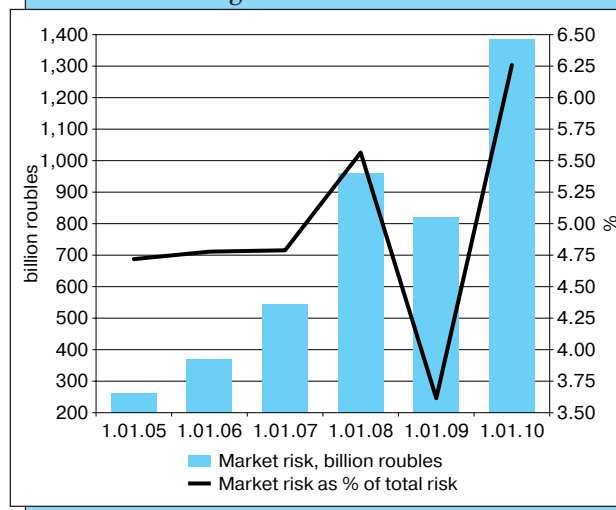
Interest rate risk had the biggest weight in the market risk structure as of January 1, 2010, owing to the fact that by the beginning of 2010, *trading portfolio* was mostly comprised of debt obligations, which accounted for 88.6% of this portfolio. The importance of **equity position risk** increased in 2009, owing to a significant growth in equity holdings in the *trading portfolio* due to the favourable dynamics of the Russian stock indices (see Table 2.2).

As banks increased their spot transactions on the securities market, forward transaction volumes also expanded: orders to deliver securities in forward transactions⁴⁴ increased 60% to reach 80.6 billion roubles in 2009, while liabilities grew almost 30% to 90.7 billion roubles. Relative to banking sector capital, the net position for the delivery of securities in forward deals was negative in 2009 (–0.2% as of January 1, 2010, as against –0.5% as of January 1, 2009).

The share of foreign exchange risk in total market risk contracted significantly in 2009. After the rouble's sharp depreciation in January 2009, the major trend on the cur-

Market risk and its share of total banking sector risk

CHART 2.4



³⁷ 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 came into force on January 1, 2008.

³⁸ Due to the fall in the number of credit institutions calculating foreign exchange risk.

³⁹ As foreign exchange risk decreased, the number of credit institutions calculating it declined.

⁴⁰ Allowing for revaluation.

⁴¹ Hereinafter, assessed at fair value.

⁴² Investments in securities assessed at fair value and available for sale are hereinafter referred to as trading portfolio. However, market risk is not assessed for all investments in securities available for sale (accounts 502 and 507) but only for the financial instruments that have a current (fair) value, which can only be estimated by credit institutions themselves under the applicable accounting rules (Bank of Russia Regulation No. 302-P, dated March 26, 2007, 'On the Accounting Rules in Credit Institutions Located in the Russian Federation').

⁴³ Risk-weighted assets for the calculation of the banking sector capital adequacy ratio determined by Bank of Russia Instruction No. 110-I, dated January 16, 2004, 'On Banks' Required Ratios.'

⁴⁴ Forward transactions in Section D of the Chart of Accounts.

**Banking sector
market risk structure**

TABLE 2.2

Type of risk	1.01.09		1.01.10		
	billion roubles	% share of market risk	billion roubles	% growth in 2009	% share of market risk
Market risk (MR), total: of which	820.1	100.0	1,385.8	69.0	100.0
Interest rate risk (IR)	580.2	70.7	1,046.0	80.3	75.5
Equity position risk (ER)	120.5	14.7	242.3	101.1	17.5
Foreign exchange risk (FR)	119.4	14.6	97.6	−18.3	7.0

**Euro/rouble and US dollar/rouble
exchange rate dynamics**

CHART 2.5

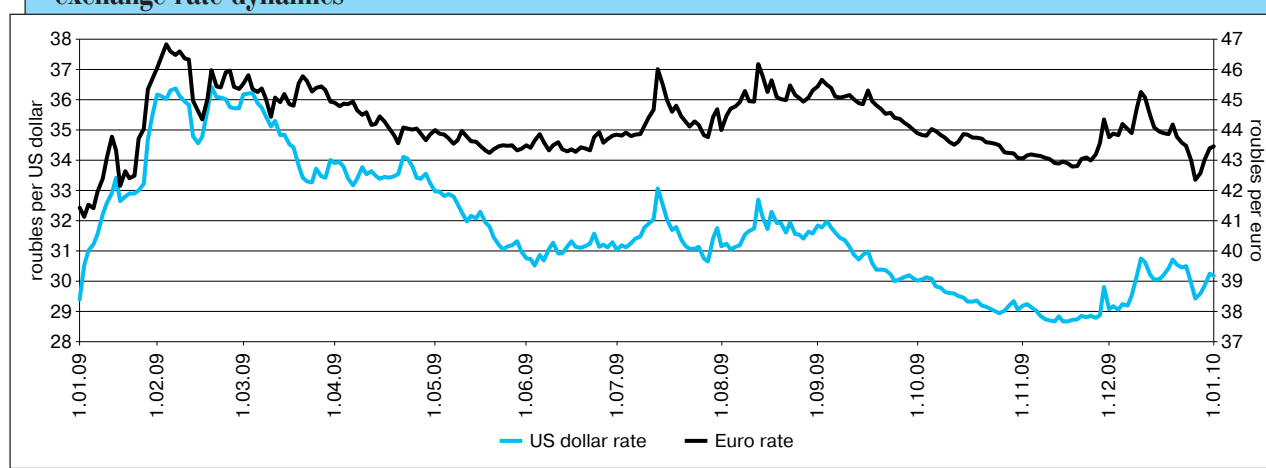
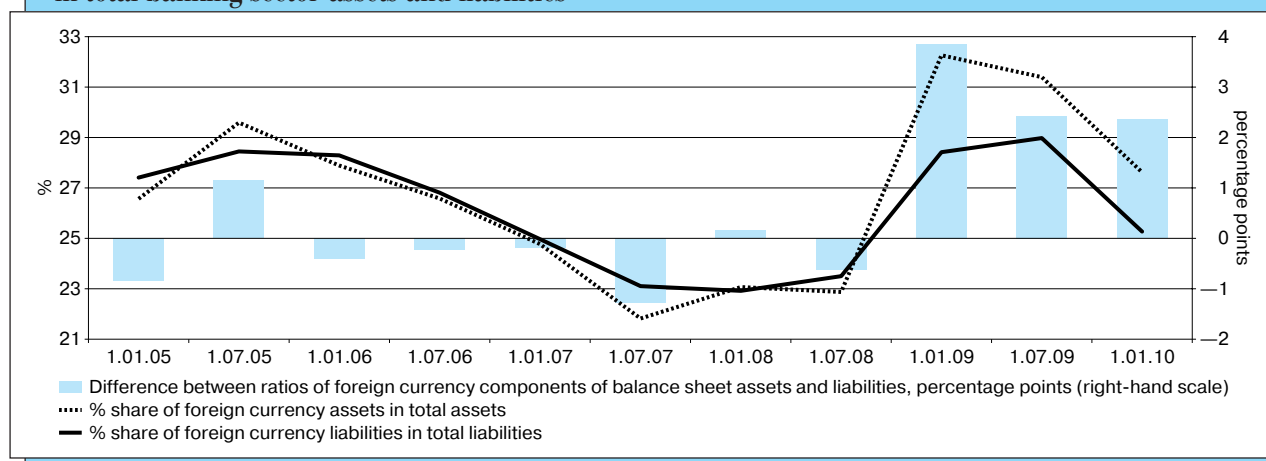
**Foreign currency assets and liabilities
in total banking sector assets and liabilities**

CHART 2.6



rency market during the remaining months of the year was (despite strong volatility) the rouble's appreciation against the US dollar and the euro (see Chart 2.5).

Under the circumstances, the foreign currency component of the balance sheet positions contracted (see Chart 2.6). The Bank of Russia's recommendations that credit institutions should not build up their long balance sheet foreign currency positions played a role in this contraction in the first half of the year. However, this role gradually declined over the same period. As a result, as

of January 1, 2010, foreign currency assets accounted for 27.6% of banking sector assets as against 32.3% as of January 1, 2009, and foreign currency liabilities accounted for 25.3% of banking sector liabilities as against 28.4% a year earlier. The positive difference between foreign currency assets and liabilities contracted from 3.8 to 2.4 percentage points.

As the foreign exchange market was highly volatile and the rouble appreciated against the two leading foreign currencies (the US dollar and the euro), the net for-

Net foreign currency forward position

TABLE 2.3

Date	Currency	Net foreign currency forward position, billion currency units	Net foreign currency forward position, billion roubles
31.12.08	US dollar	—35.8	—1,051.0
	Euro	9.8	407.7
31.12.09	US dollar	—25.6	—775.3
	Euro	13.1	567.9

For reference: according to data as of the beginning of 2010, the number of banks that had reported their net forward position in US dollars was 961; banks reporting their net forward position in euros totalled 952 (1,001 and 990 as of January 1, 2009 respectively).

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

TABLE 2.4

	1.01.09	1.01.10	Rate of growth in 2009, %
Balance sheet positions			
Claims, billion roubles	9,040.6	8,128.8	—10.1
Liabilities, billion roubles	7,963.2	7,436.5	—6.6
Net balance sheet position, billion roubles	1,077.4	692.4	—35.7
Off-balance sheet positions			
Claims, billion roubles	3,453.2	3,070.2	—11.1
Liabilities, billion roubles	3,603.5	3,128.1	—13.2
Net off-balance sheet position, billion roubles	—150.4	—57.9	—61.5

ward currency position in US dollars⁴⁵ and euros (the aggregate short position⁴⁶) (see Table 2.3), as well as the aggregate foreign currency balance sheet and off-balance sheet positions (see Table 2.4) tended to decrease. When opening off-balance sheet positions, some banks conduct operations with counterparties that are unable to meet their contractual obligations, thus demonstrating nominal compliance with the required ratios without hedging banking risks.

Thirty-one operating credit institutions as of January 1, 2010, exceeded required limits set on open foreign currency positions (in any currency or precious metal) at least once in 2009 (in 2008, 30 credit institutions that were in operation as of January 1, 2009 did so). The share of these banks in the assets of banks licensed to conduct operations in foreign currency contracted from 8.3% as of January 1, 2009, to 1.9% as of January 1, 2010.

II.2.2. Assessment of banking sector vulnerability to interest rate risk

To determine the banking sector's vulnerability to interest rate risk involved in aggregate debt securities *trading portfolio*,⁴⁷ the Bank of Russia analysed banks' financial sensitivity to interest rate risk using stress testing. It

was assumed that a growth in interest rates (notably, the rise in yields on debt instruments by 10 percentage points) would lead to a reduction of the value of banks' trading portfolio of debt obligations. Since the change in market rates has a different effect on the value of government debt obligations and corporate bonds, the analysed bank portfolio was divided into two parts: federal government and Bank of Russia debt obligations, and other bonds. In addition, to ensure comparability of data, the dependence of quoted prices on interest rates was analysed separately for 2008 and for 2009.

Analysis of the impact of interest rate risk involved in the aforementioned debt obligations portfolios on the financial condition of the Russian banking sector was based on data reported by credit institutions that had these securities in portfolios. At the same time, two groups of credit institutions were surveyed: one group was comprised of banks that were *required to calculate interest rate risk and, consequently, included market risk in their capital adequacy calculation*. The other consisted of *credit institutions that did not calculate interest rate risk*⁴⁸ but had such portfolios (for the characteristics of these two groups of banks, see Table 2.5).

Analysis of the sensitivity of both groups of banks (banks that calculate interest rate risk and banks that do

⁴⁵ Net forward and options positions in foreign currencies are calculated on the basis of data reported in Form 0409634, *Statement of Open Currency Positions*, by all credit institutions that submit this form, in rouble terms, at the Bank of Russia's official exchange rates as of the corresponding dates.

⁴⁶ In 2009, the net short forward position in US dollars decreased, while the net long forward position in euros increased.

⁴⁷ Including non-resident securities and allowing for revaluation.

⁴⁸ According to 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 calculated if the total current (fair) value of financial instruments equals or exceeds 5% of the credit institution's balance sheet assets on the date of calculation. Here and below, Sample 2 comprises banks that do not calculate equity position or interest rate risks but have the corresponding portfolios.

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

TABLE 2.5

	No. of banks in the sample		% share of analysed debt portfolios		% share of banking sector assets		% share of banking sector capital	
	1.01.09	1.01.10	1.01.09	1.01.10	1.01.09	1.01.10	1.01.09	1.01.10
Sample 1	304	329	57.8	60.8	52.7	54.1	46.6	51.6
Sample 2	186	164	42.2	39.2	41.5	41.2	45.8	42.6

not do so) shows that in 2009, sensitivity to interest rate risk increased. As of the beginning of 2010, potential losses in Sample 1 could be 18.2% of capital as against 10.0% as of January 1, 2009, and in Sample 2 it could be 28.4% of capital as against 11.3% a year earlier. Consequently, the banking sector's vulnerability to the overall change in interest rates in 2009 may be considered high.

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

To determine the Russian banking sector's financial resilience to equity position risk,⁴⁹ the Bank of Russia evaluated the possible negative consequences of a fall in stock indices using stress testing. A 50% drop in stock indices was assumed to be a trigger factor.⁵⁰

To determine the possible effect of equity position risk on the financial situation of the Russian banking sector, the Bank of Russia analysed data reported by credit institutions that had equities *in trading portfolios*.⁵¹ As was the case with the analysis of interest rate risk, credit institutions were divided into two groups. One group was comprised of banks that were *required to calculate equity position risk and, consequently, included equity position risk in their capital adequacy calculation*. The other was comprised of credit institutions that *did not calculate equity position risk* but had such portfolios (*for the characteristics of these two groups of banks, see Table 2.6*).

Analysis has shown that on the whole, the sensitivity to equity position risk of the credit institutions that *calculated equity position risk* increased slightly. One reason for this was growth in the corresponding portfolios. If the

stock indices fell 50% as of the beginning of 2010, potential losses would account for 9.4% of capital (as against 5.7% as of January 1, 2009).

As for the group of credit institutions that had portfolios of the equities under review but *did not calculate equity position risk*, their sensitivity to equity position risk also grew slightly: in the event of negative developments as of the beginning of 2010, their potential losses could account for 1.2% of the capital of this group of banks (as against 1.0% as of January 1, 2009).

Overall, the sensitivity analysis conducted by the Bank of Russia shows that the vulnerability of both groups of banks to equity position risk was relatively low and it was lower than sensitivity to interest rate risk. This may be attributable to the fact that the banking sector as a whole has debt securities portfolios larger than equities portfolios.

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

To assess the Russian banking sector's vulnerability to foreign exchange risk, the Bank of Russia used a stress test to analyse banks' sensitivity to the appreciation/depreciation of the rouble against the US dollar and the euro.

In the event of the **appreciation of the rouble**, a 20% **rise** in nominal rouble exchange rates against the US dollar and the euro was assumed to be an initial event. To determine the effect of foreign exchange risk on the financial situation of the banking sector, the Bank of Russia analysed data reported by credit institutions that were required to calculate foreign exchange risk⁵² and had net long open positions⁵³ in US dollars and euros (*for the char-*

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

TABLE 2.6

	No. of banks in the sample		% share of equities portfolios		% share of banking sector assets		% share of banking sector capital	
	1.01.09	1.01.10	1.01.09	1.01.10	1.01.09	1.01.10	1.01.09	1.01.10
Sample 1	208	214	79.5	86.6	40.9	43.8	35.6	41.2
Sample 2	331	291	20.5	13.4	49.1	48.4	53.0	48.9

⁴⁹ Using the classical measure of risk, the standard deviation (σ) for all general daily RTS indices (close indices) for the year (248—249 observations a year), one can conclude that the volatility of the Russian stock market in 2009 was approximately twice as low as it was in 2008 (the corresponding σ values stood at 301 as against 637, while the average values stood at 1,012 and 1,681 respectively).

⁵⁰ It was assumed that a 50% drop in stock indices would cause a similar fall in the value of shares in trading books.

⁵¹ Including non-resident equities, and allowing for revaluation.

⁵² Foreign exchange risk is included in the market risk calculation if the percentage ratio of total open currency positions in individual foreign currencies and individual precious metals will equal or exceed 2% of the credit institution's capital as of the date of market risk calculation.

⁵³ When open currency positions are reported in Form 0409364, the calculation of net positions includes balance sheet assets and liabilities and off-balance sheet claims and liabilities, determined in compliance with Bank of Russia Instruction No. 124-I of July 15, 2005, 'On Setting Limits on Open Currency Positions, the Methods of Calculation and the Specifics of Supervising Compliance.'

Characteristics of banks analysed for sensitivity to foreign exchange risk**TABLE 2.7**

	Number of banks		% share of banking sector assets		% share of banking sector capital	
	31.12.08	31.12.09	31.12.08	31.12.09	31.12.08	31.12.09
Credit institutions with long positions in US dollars and/or in euros	454	375	69.5	24.4	71.1	21.6

Characteristics of banks analysed for sensitivity to foreign exchange risk**TABLE 2.8**

	No. of banks		% share of banking sector assets		% share in banking sector capital	
	31.12.08	31.12.09	31.12.08	31.12.09	31.12.08	31.12.09
Credit institutions with short positions in US dollars or in euros	397	310	58.4	40.7	58.3	46.9

acteristics of these banks, see Table 2.7). It is important to note that banks that had a net open long position, either in US dollars or in euros (some banks have long positions in both currencies), were included in the sample.

In 2009, the number of banks with a long currency position in at least one of the two currencies declined and their share of banking sector capital contracted significantly.

The share of long open positions in dollars and euros for this sample of banks in their long open positions in all foreign currencies and precious metals⁵⁴ expanded from 51.0% as of December 31, 2008, to 72.2% as of December 31, 2009. Analysis has shown that the rouble's appreciation against the US dollar and the euro by 20% will not cause significant losses: if this scenario were realised, the losses of the banks in the sample under review as of December 31, 2009, would account for 0.7% of their capital as against 0.3% as of December 31, 2008.

Since there are doubts about the quality of off-balance sheet hedging currency positions (including short ones), probable losses may be larger. They may be much larger for low-quality banks which have off-balance sheet positions that are considerably high in value.

When analysing the Russian banking sector's sensitivity to foreign exchange risk in the event of the **rouble devaluation** against the US dollar and the euro, the Bank

of Russia assumed as the initial factor a 20% **depreciation** of the nominal rouble exchange rate against the US dollar and the euro. The effect of foreign exchange risk on the financial condition of the Russian banking sector was determined on the basis of data reported by credit institutions that were required to calculate foreign exchange risk and held net short open positions in US dollars and euros.

In 2009, the number of banks that had a short currency position in at least one of the two currencies declined, and their share of banking sector assets and capital contracted (*for the characteristics of credit institutions with net short open positions in US dollars and euros, see Table 2.8*).

The share of short open positions, in dollars and euros, of the banks in this sample in their short open positions in all currencies and precious metals⁵⁵ contracted from 94.1% as of December 31, 2008, to 93.1% as of December 31, 2009. Analysis has shown that the banking sector's sensitivity to a 20% devaluation of the rouble against the US dollar and the euro has also decreased slightly, and it is very low at the moment. In the event of the realisation of this scenario, the total losses of the banks in the sample under review as of December 31, 2009, could be 0.4% of their capital as against 0.7% as of December 31, 2008.

⁵⁴ In rouble terms.

⁵⁵ In rouble terms.

II.3. Liquidity Risk

II.3.1. General characteristics of liquidity risk

Notwithstanding the after-effects of the global crisis, the Bank of Russia maintained banking sector liquidity at a level that precluded any failures in the payment system in 2009.

The economic turnaround in the second half of 2009 and significant inflow of household deposits partially freed credit institutions from the necessity to use anti-crisis liquidity-boosting instruments (especially Bank of Russia unsecured loans), which had played a key part in ending the liquidity crisis in late 2008 and early 2009 (see Box).

As a result of the factors described above and the conservative attitude taken by banks towards the resumption of lending to enterprises and households, banking sector liquidity ratios increased in 2009. On average,⁵⁶ they were higher than they had been a year earlier. The ratio of the most liquid assets⁵⁷ to total banking sector assets was 10.9% in 2009 as against 7.9% in 2008 (*for the dynamics of major components of liquid assets, see Chart 2.7*).

All of the groups of banks under review demonstrated growth in the average proportion of the most liquid assets in total assets in 2009, as compared with 2008. The highest ratio was registered in the medium-sized and small banks based in Moscow and the

Moscow Region (23.2% in 2009 as against 18.3% in 2008).

II.3.2. Compliance with required liquidity ratios

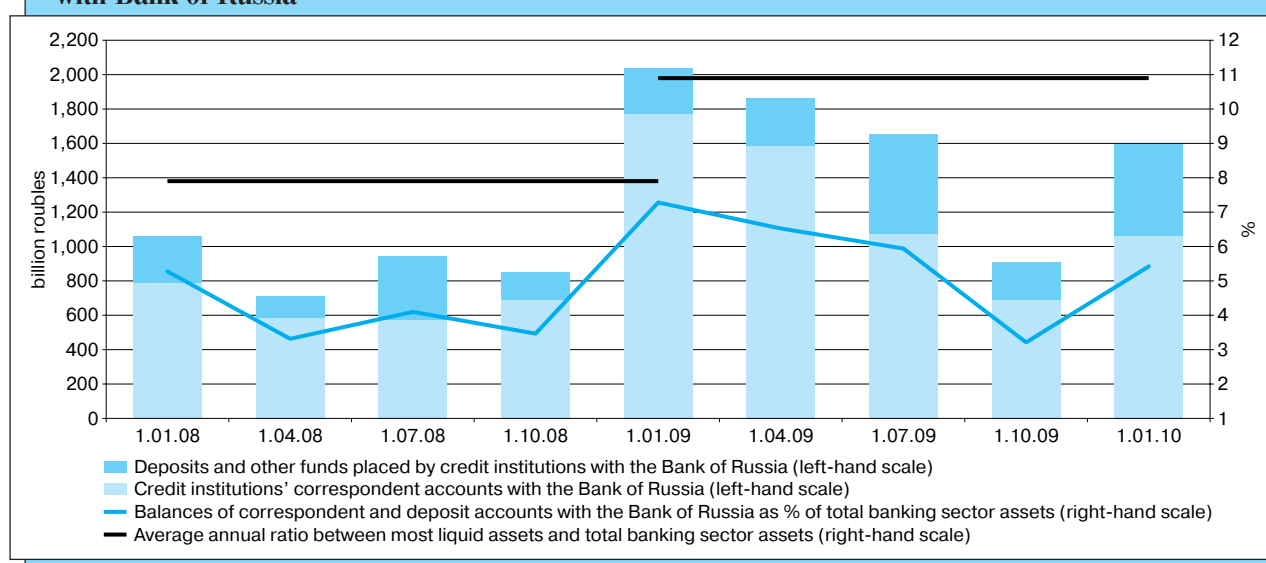
Some credit institutions occasionally failed to comply with liquidity ratio requirements in 2009. Of the credit institutions that were in operation as of January 1, 2010, 11 credit institutions violated instant liquidity (N2) ratio on some dates (61 credit institutions in 2008); 29 credit institutions violated current liquidity (N3) ratio (76 credit institutions in 2008); and twelve credit institutions violated long-term liquidity ratio (N4) (nine credit institutions in 2008).

Only two credit institutions violated instant liquidity (N2) ratio more than 10 times in 2009; ten credit institutions violated current liquidity (N3) ratio more than 10 times, and six credit institutions violated long-term liquidity (N4) ratio more than 10 times.

The actual average annual banking sector liquidity ratios in 2009 rose significantly year on year: instant liquidity (N2) ratio increased from 49.8% in 2008 to 72.9% and current liquidity (N3) ratio grew from 75.4% to 97.1% (*see Chart 2.8*). The increase is attributable, among other things, to the replacement of credit with banks' short-term trading portfolios.

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

CHART 2.7



⁵⁶ Here and below, average liquidity ratios were calculated as chronological averages for the corresponding period.

⁵⁷ Cash, precious metals and gemstones, balances of correspondent nostro accounts and balances of correspondent and deposit accounts with the Bank of Russia.

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

Early in 2009, when an acute shortage of liquidity hit the Russian market, the Bank of Russia carried out a series of measures designed to give credit institutions wider opportunities to obtain the liquidity they needed from the lender of last resort.

Bank of Russia unsecured loans became a major refinancing instrument in 2009. First extended in October 2008, they totalled 3.4 trillion roubles in 2009. In February 2009, banking sector debt on Bank of Russia unsecured loans reached its high of 1.92 trillion roubles, but by the end of the year, as the banking sector liquidity situation returned to normal, it decreased more than 10-fold, to 0.19 trillion roubles.

The Bank of Russia Lombard list was extended to include the following securities:

- stocks and bonds of the issuers on a list of systemically important organisations, which was approved by a government commission established to increase the stability of the Russian economy (hereinafter referred to as 'systemically important organisations'), whose securities issues are listed on at least one exchange operating in Russia, including securities issued by subsidiaries of the systemically important organisations;
- mortgage-backed bonds issued pursuant to the Federal Law on Mortgage Securities, provided that the issuer's obligations on these bonds are jointly guaranteed by the Housing Mortgage Lending Agency, an open joint-stock company.

As of January 1, 2010, 469 credit institutions were counterparties in Bank of Russia refinancing operations, which were conducted against the collateral of securities on the Bank of Russia Lombard list (46 credit institutions more than as of January 1, 2009). The value of Lombard loans extended at auctions and at fixed interest rates increased 50% in 2009 year on year, to 0.3 trillion roubles.

The Bank of Russia also broadened the range of assets that credit institutions could use to get Bank of Russia loans secured by non-market assets or credit institutions' guarantees. It did so by including credit institutions' guarantees, and by extending the list of organisations liable for bills and claims under credit agreements accepted as collateral for the aforementioned loans. It extended the list of organisations by including systemically important organisations and their subsidiaries. In addition, the Bank of Russia stipulated that bills and claims under contract agreements (in which the liable person is the federal government or municipality) and bills and claims under contract agreements of not only the first but also the second quality category (in which the liable person is a limited liability company or agricultural organisation) may be accepted as collateral for the loans. As a result, the value of loans secured by non-market assets increased 5.4-fold to 2.4 trillion roubles in 2009.

The Bank of Russia **extended the terms for which it provided liquidity** to credit institutions in some refinancing operations. In 2009, it extended the term of unsecured loans it provided to credit institutions to 12 months. The Bank of Russia also began to hold 6-month and 12-month Lombard loan auctions and extend loans secured by non-market assets or guarantees with maturities ranging from 181 days to 365 days. In addition, in the period under review, the Bank of Russia resumed holding 90-day repo auctions and began to hold 6- and 12-month auctions on a regular basis.

Bank of Russia repo operations remained a major market refinancing instrument. In 2009, the Bank of Russia began to conduct repo operations with shares on its Lombard list on the MICEX Stock Exchange. The total value of funds provided in repo operations amounted to 30.1 trillion roubles, an increase of 39.8% on 2008. Average debt on these operations at the close of the day stood at 220.2 billion roubles in 2009 as against 94.3 billion roubles in 2008.

The Bank of Russia used operations with Bank of Russia bonds (OBR), currency swap transactions and the sale and purchase of government securities from its own portfolio (without an obligation to resell/repurchase) as **additional banking sector liquidity regulation instruments**. Bank of Russia **currency swap transactions** with the US dollar and the euro totalled an equivalent of 0.54 trillion roubles in 2009 as against 1.91 trillion roubles in 2008.

Primary OBR placements increased in 2009 to 297.5 billion roubles; that is, more than three times the 2008 amount. Most of these operations were conducted in the fourth quarter of 2009, when banks' demand for OBR rose amid general growth in banking sector liquidity. The purchase and sale of government securities from its own portfolio (without an obligation to resell/repurchase) amounted to 16.0 billion roubles and 1.7 billion roubles respectively.

Operations to place temporarily free federal budget funds on deposit with commercial banks, which were conducted from April to December of the year under review, were an additional channel the Bank of Russia used to infuse liquidity into the banking sector. Overall, funds provided through these transactions totalled 0.69 trillion roubles in 2009 as against 1.79 trillion roubles in 2008.

In order to create more favourable conditions for the banking sector and help rehabilitated banks recover, the Bank of Russia **changed the reserve requirements procedure**. It gave credit institutions that calculate required reserves that they must deposit with the Bank of Russia the right to forgo certain obligations while making provisions. These included obligations to the Deposit Insurance Agency (DIA), a state corporation, and (or) obligations to investors other than credit institutions which arose in the course of financial aid provided under plans for the participation of the DIA in bankruptcy prevention pursuant to the Federal Law on Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011.

In addition, as a liquidity-boosting measure, the Bank of Russia allowed credit institutions until March 1, 2010, to average the required reserves, regardless of the classification categories assigned to them as a result of the assessment of their financial situation, in compliance with the Bank of Russia regulations.

In 2009, the Bank of Russia changed the time period for the averaging of the required reserves so that its conclusion did not coincide with the time when credit institutions needed liquidity most, to pay taxes to the budget and set new deadlines for the regulation of the required reserves.

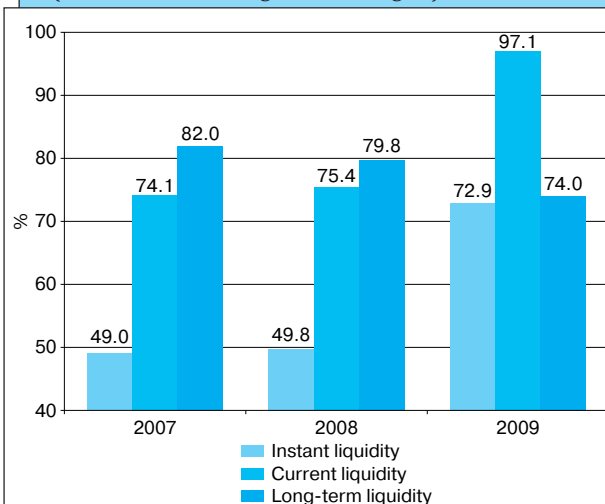
As part of the measures taken to enhance the stability of the national financial system, pursuant to Article 3 of Federal Law No. 173-FZ of October 13, 2008, 'On Additional Measures to Support the Financial System of the Russian Federation,' the Bank of Russia concluded agreements with banks on the compensation of part of the losses (costs) they incurred in transactions with other credit institutions in the period lasting from October 14, 2008, to December 31, 2009. The credit institutions with which the Bank of Russia concluded such agreements had to meet the established capital requirements and have a long-term credit rating. On February 9, 2009, the Bank of Russia Board of Directors made the decision to lower the capital requirement from 30 billion roubles to 20 billion roubles, and this move allowed it to conclude these agreements with a wider range of banks.

By the beginning of 2010, the Bank of Russia had concluded such agreements with 16 banks and Vneshekonombank, a state corporation. The number of borrower credit institutions with which transactions fell within the scope of these agreements reached 373. In 2009, banks conducted about 20,500 compensation transactions totalling 4.4 trillion roubles. During that period, 207 credit institutions received interbank loans under these agreements. Average daily debt on compensation deals in 2009 stood at about 37 billion roubles.

One 'insured' event was registered in 2009, when a credit institution failed to repay an interbank loan to its creditor bank. Under the agreement concluded with the creditor bank, the Bank of Russia deposited 14 million roubles with this bank to offset its losses from that deal on the interbank market. When the borrower credit institution repaid the overdue debt, the creditor bank returned the 'compensation' deposit to the Bank of Russia.

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

CHART 2.8



A rise in N2 and N3 was registered in all groups of banks, but the most significant increase was demonstrated by banks controlled by non-residents, in which N2 grew from 62.1% on average in 2008 to 103.5% in 2009. Similarly, N3 grew from 82.2% in 2008 to 112.1% in 2009.

The average long-term liquidity ratio⁵⁸ declined in 2009 slightly year on year, from 79.8% to 74.0%. Its decrease is attributable to the fact that the average long-term loans (with residual maturities in excess of one year) grew more slowly (by 22.6%) than the average banking sector liabilities with the same maturities (by 29.4%).⁵⁹

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

The dynamics of indicators characterising the *maturity*⁶⁰ structure of the banking sector assets in 2009, especially in the first half of the year, reflected the shorter

⁵⁸ Bank of Russia Instruction No. 110-I of January 16, 2004, 'On Banks' Required Ratios,' set the maximum long-term liquidity ratio at 120%.

⁵⁹ This analysis is based on components of the calculation of long-term liquidity (N4) ratio.

⁶⁰ Analysis of banking sector assets and liabilities by maturity is based on data on the distribution of assets and liabilities by maturity (compiled in Form 0409125).

planning horizons set by credit institutions amid the global crisis.

However, there was a moderate decrease in the maturity of assets and raised funds in 2009. The share of assets with residual maturities in excess of one year in total assets assigned to Quality Category 1⁶¹ contracted from 18.7% as of January 1, 2009, to 18.0% as of January 1, 2010. The share of liabilities with residual maturities of more than one year in total liabilities declined from 24.8% to 23.0%.

The share of short-term assets with residual maturity less than one month expanded in 2009 from 53.6% to 59.9%, while the share of short-term liabilities increased from 40.1% to 41.9%. Meanwhile, the liquid coverage deficit (LCD)⁶² contracted from 6.4% as of January 1, 2009, to 6.0% as of January 1, 2010.

Customer deposits to loans (coverage ratio)

The aforementioned policy, pursued by credit institutions with regards to the asset portfolio amid the global crisis, also led to an increase in the coverage ratio⁶³ in 2009. As of January 1, 2010, customer deposits⁶⁴ covered 76.4% of customer loans,⁶⁵ which represents a significant increase in the coverage ratio as of January 1, 2009 (63.0%) (see Chart 2.9). This change is the result of a slight fall (by 2.0%) in loans extended to customers

amid the continual growth in deposits (by 18.8%), caused, among other things, by an aggressive interest rate policy pursued by some credit institutions.

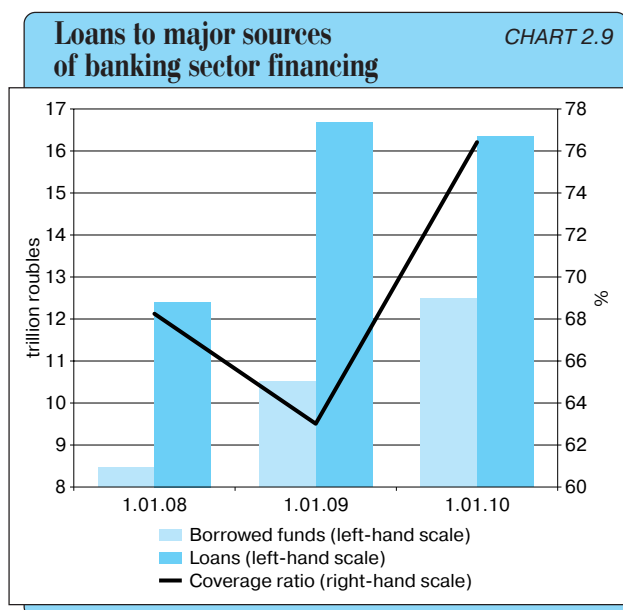
There were no corporate or household deposits in the resource base of 77 credit institutions, but the share of their assets in total banking sector assets was small (1.2% as of January 1, 2010).

The coverage ratio, calculated by the medium- and long-term component (1-year-plus maturity period),⁶⁶ also increased — from 58.1% as of January 1, 2009, to 62.0% as of January 1, 2010. This rise is attributable to the fact that loans with maturities in excess of one year grew more slowly than deposits with the same maturity (7.1% as against 14.2%).

On January 1, 2010, as a year earlier, the highest coverage ratio (89.6%) was registered in the group of medium-sized and small regional banks, which cut credit to customers by 11.6% in 2009. The lowest coverage ratio (66.1%) was registered in the medium-sized and small banks based in Moscow and the Moscow Region.

The highest coverage ratio calculated by the medium- and long-term component (one year-plus maturity period) as of January 1, 2010, was also registered in the group of medium-sized and small regional banks (91.4%), and the smallest was registered in the group of foreign-controlled banks (47.8%).

At the same time, the number of credit organisations with a considerably smaller coverage ratio than that of the banking sector as a whole remained unchanged. As of January 1, 2010, a coverage ratio twice as low as the banking sector's average was registered in 293 credit institutions, which accounted for 5.8% of total banking sector assets (290 credit institutions accounting for 6.7% of total banking sector assets as of January 1, 2009). A coverage ratio four times as low as that of the banking sector as a whole in 2009 (as in 2008), was registered in 181 credit institutions, which accounted for 2.8% of total banking sector assets.



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

Russian interbank market dynamics remained in 2009 under the spell of the crisis on international financial markets. However, there were problems on the inter-

⁶¹ Pursuant to Bank of Russia Regulation No. 254-P, dated March 26, 2004, 'On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loan and Similar Debts' (taking into consideration Bank of Russia Ordinance No. 2156-U of December 23, 2008) and Bank of Russia Regulation No. 283-P, dated March 20, 2006, 'On the Loss Provision Procedure for Credit Institutions.'

⁶² Liquid coverage deficit (LCD) is calculated as the ratio of the excess of demand liabilities and liabilities with maturities of up to 30 days over the value of (liquid) assets with similar maturities to the total value of these liabilities.

⁶³ Coverage ratio is calculated as the ratio of customer deposits to customer loans. The increase in this ratio signifies the improved balance between customer loans and the sources of funds provided to them with similar maturities.

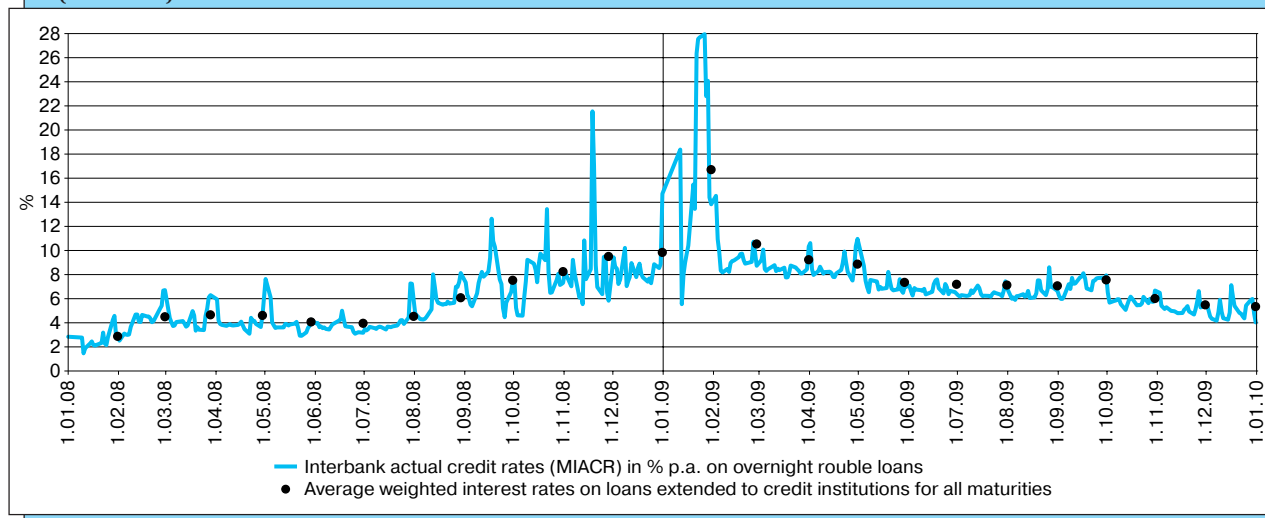
⁶⁴ Customer deposits include deposits taken by credit institutions from corporate entities and private individuals (except banks and resident financial institutions) and other funds raised from these categories of resident and non-resident creditors, excluding the balances of the current and settlement accounts of these customers.

⁶⁵ 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.

⁶⁶ Calculated as the ratio of customer deposits with a maturity in excess of one year to loans extended for the same maturity. The increase in this ratio signifies the improved balance between medium- and long-term loans and their funding sources with the same maturity.

Rouble interbank credit rate (MIACR)

CHART 2.10



bank market only in January 2009, when the actual overnight rouble MIACR reached 28% p.a. on the Moscow market.

The Bank of Russia's massive refinancing operations stimulated growth in rouble liquidity, and interbank market rates decreased and became less volatile. This was also largely the result of the stabilisation of the domestic foreign exchange market. In addition, credit should go to the Bank of Russia and the measures it took pursuant to Federal Law No. 173-FZ, 'On Additional Measures to Support the Financial System of the Russian Federation' (see *Box Measures taken by the Bank of Russia to maintain banking sector liquidity*). An additional factor affecting the decline in interbank market rates was the repeated reduction by the Bank of Russia of interest rates on its operations.

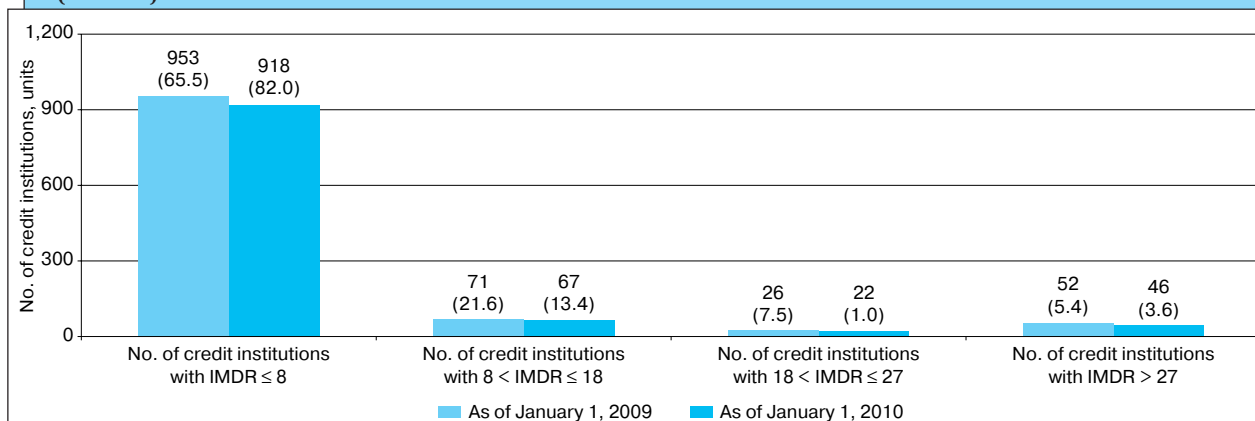
As a result, in February 2009, the situation stabilised and in May–September, the overnight rouble MIACR ranged from 6% to 8% p.a.; in the fourth quarter it varied from 4% to 7% p.a. However, the interbank rouble credit rate (annualised average weighted by all terms) rose in 2009 by 2.4 percentage points to 8.2%. Interest rates also surged on the rouble interbank market in 2009 in the periods of tax payments to all level budgets (see *Chart 2.10*).

As the liquidity situation in the banking sector stabilised and banks continued to pursue a conservative interbank credit policy, the dependence of credit institutions on the interbank market, measured by the interbank market dependence ratio (IMDR),⁶⁷ decreased by almost 2.8 times in 2009: from 4.8% to 1.7%.

Credit institutions with an IMDR of no more than 8.0% had the largest share of total banking sector assets

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

CHART 2.11



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

⁶⁷ The interbank market dependence ratio (IMDR) is calculated as the percentage ratio of the difference between the interbank loans taken and interbank loans placed (deposits) to the funds raised (net of accrued interest). The higher the ratio, the more the credit institution is dependent on the interbank market. The methodology of calculating this ratio approximates the one used to calculate the PL5 ratio, described in Bank of Russia Ordinance No. 2005-U of April 30, 2008, 'On the Assessment of the Economic Situation of Banks,' which sets its threshold values at 8%, 18% and 27% (the intervals corresponding to these threshold values characterise the liquidity situation as 'good', 'satisfactory,' 'doubtful' and 'unsatisfactory').

(82.0% as of January 1, 2010). Compared to January 1, 2009, the share of this group of banks expanded by 16.5 percentage points. The shares of credit institutions in other IMDR ranges contracted (*see Chart 2.11*).

The highest IMDR is usually registered in the group of banks with foreign interest (6.6% as of January 1, 2010). In 2009, however, this ratio declined significantly (as of January 1, 2009, it stood at 18.1%), as these banks became less active in their co-operation with their parent banks abroad.

In relation to the outside world, the Russian banking sector turned in 2009 from a net borrower into a net creditor. Net debt on interbank loans to non-resident banks, which stood at 843.1 billion roubles as of January 1, 2009, by the end of the year had become 39.8 billion roubles in net claims.

At the same time, the share of loans received from non-resident banks in total interbank loans taken in 2009 contracted by 12.9 percentage points to 60.4%, while the share of loans extended to non-resident banks in total interbank loans extended that year contracted by 2.4 percentage points to 70.5%.

As of January 1, 2010, 167 credit institutions, which had loans from non-resident banks, accounted for 86.4% of total banking sector assets (compared to 178 credit institutions accounting for 88.3% of banking sector assets as of January 1, 2009). Seven credit institutions, six of which were in the list of the top 20 credit institutions in terms of assets, accounted for half of total interbank loans taken abroad.

As of January 1, 2010, 227 credit institutions, accounting for 89.4% of banking sector assets, had loans

extended to non-resident banks (compared to 234 credit institutions accounting for 89.8% of banking sector assets as of January 1, 2009). Four credit institutions from among the top 20 largest credit institutions in terms of assets accounted for half of all interbank loans.

These figures show that, as before, interbank operations with non-resident banks were concentrated in the largest Russian credit institutions.

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

II.3.5. Debt to non-residents

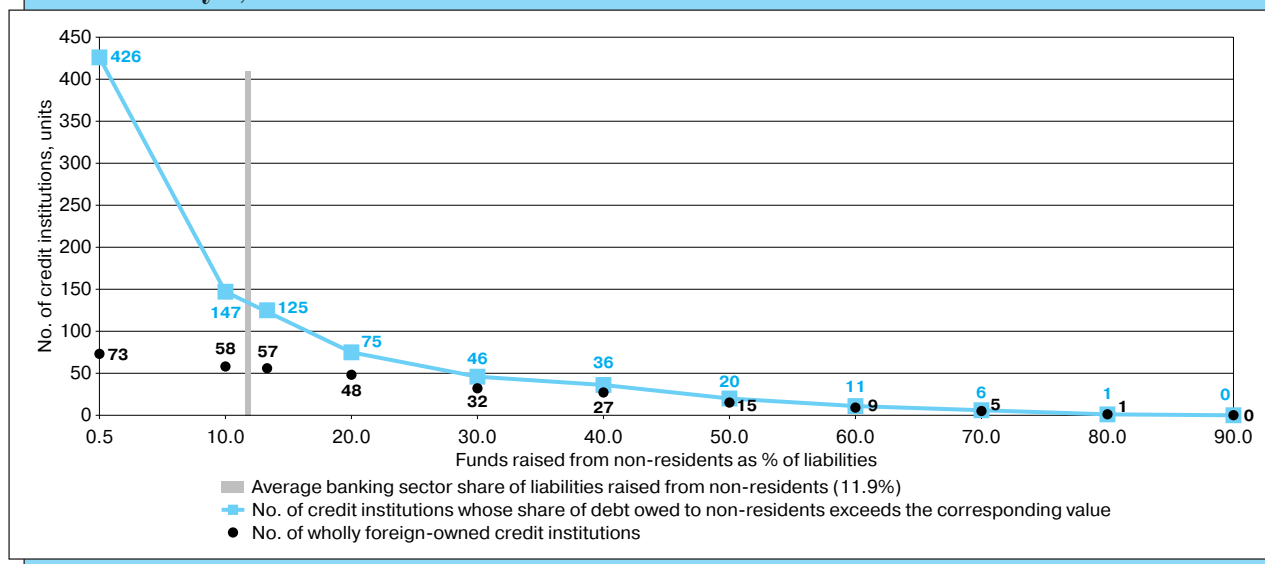
The Russian banking sector's total debt to non-residents⁶⁸ contracted in 2009 21.0% to 3,503.2 billion roubles. Meanwhile, 546.1 billion roubles of net debt to non-residents⁶⁹ as of January 1, 2009, had been replaced by 665.1 billion roubles in net claims as of January 1, 2010.

Foreign-controlled banks remain the only group of credit institutions dependent on external operations (the ratio of dependence on non-residents, that is, the ratio of net debt to liabilities, in these banks contracted in 2009 by 9.8 percentage points year on year, to 5.4%).

Analysis of the distribution of banks in terms of debt to non-residents has shown that the average ratio of this debt to liabilities stood at 11.9% as of January 1, 2010. This level was surpassed by 125 credit institutions, 57 of which were controlled by non-residents (*see Chart 2.12*).

**Banking sector debt to non-residents
as of January 1, 2010**

CHART 2.12



⁶⁸ Correspondent and other accounts of non-resident credit institutions, loans received, deposits and funds in accounts of other non-resident corporate entities and individuals.

⁶⁹ The balance of funds raised from (and placed with) non-residents.

II.4. Capital Adequacy

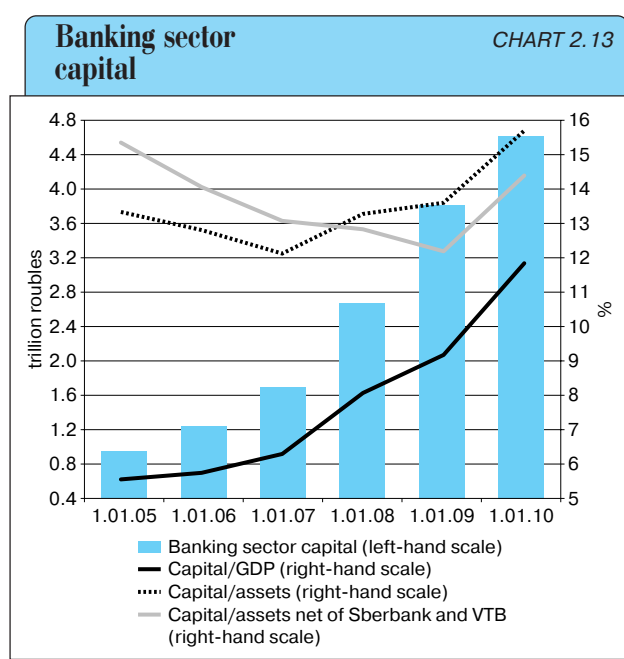
II.4.1. Banking sector capital dynamics and structure

The capital of operating credit institutions reached 4,620.6 billion roubles as of January 1, 2010. Capital growth rates slowed in 2009 by half year on year, from 42.7% to 21.2%. Capital growth was largely the result of the expansion of authorised capital by some credit institutions. Government support to the banking sector was another contributing factor.

The ratio of banking sector capital to GDP increased from 9.2% to 11.8% in 2009 and the ratio of capital to banking sector assets rose from 13.6% to 15.7% (see Chart 2.13).

Growth in authorised capital and share premiums were the principal source of banking sector capitalisation in 2009 (see Chart 2.14). Their aggregate share of capital growth reached 50.2% and their value increased by 403.6 billion roubles. Subordinated loans were not as important for banking sector capitalisation in 2009 as they were in 2008. The share of subordinated loans included in capital accounted for 25.3% of total capital growth, while the value of these loans increased by 203.7 billion roubles.

The effect of profits and funds created from them on banking sector capital declined significantly in the year under review, as compared with 2008. They accounted for 11.9% of capital growth, and increased by 96.0 billion roubles in 2009.



The importance of capital growth drivers differed by group of credit institutions.

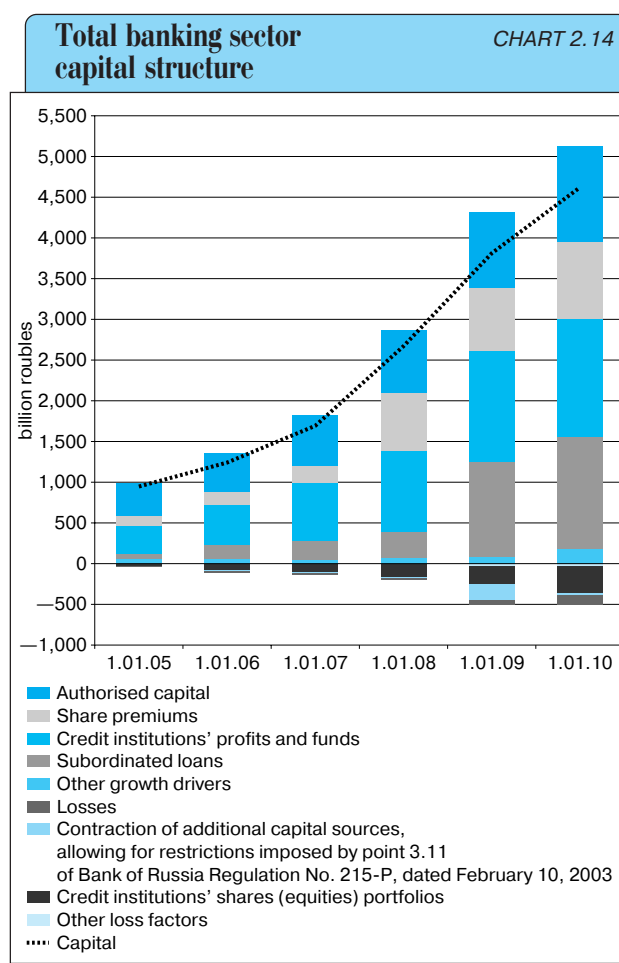
In state-controlled banks, capital growth was mostly due to authorised capital and share premium growth (82.4% of aggregate capital growth) and the increase in the value of assets due to revaluation (23.9% of aggregate capital growth).

The capitalisation of large private banks was chiefly due to subordinated loans (63.0%) and growth in authorised capital (39.0%).

The principal drivers of capital growth in foreign-controlled banks were profit capitalisation (51%), the expansion of authorised capital and share premiums (33.0%), and subordinated loans (12.8%).

Medium-sized and small regional banks increased their capital mostly as a result of growth in authorised capital and share premiums (54.1%) and property revaluation (21.2%).

The capital of medium-sized and small banks based in Moscow and the Moscow Region contract-



ed by 3.2%, mostly as a result of a significant reduction (by 7.2%) in the number of banks.

The share of authorised capital and share premiums in total banking sector capital expanded from 44.8% to 45.7% in the year under review, whereas the share of subordinated loans contracted slightly, from 30.6% to 29.7%. The share of profits and the funds created from them in total capital declined from 35.6% to 31.5%.

The number of credit institutions that allowed their capital to decline increased significantly in 2009. The capital of 163 credit institutions contracted by a total of 63.7 billion roubles in 2009 (in 2008, the capital of 119 credit institutions decreased by a total of 47.6 billion roubles). These credit institutions accounted for 8.8% of banking sector capital as of January 1, 2010, as against 2.9% as of January 1, 2009.

Most of the banks whose capital contracted in 2009 were medium-sized and small banks based in Moscow and the Moscow Region (59) and medium-sized and small banks based in other regions (50). These groups of banks let their capital contract by 4.5 billion roubles and 3.0 billion roubles respectively, and their respective shares in the capital of their groups were 19.8% and 15.3% and 0.7% and 0.5% of total banking sector capital.

A contraction in capital (by 35.8 billion roubles) was registered in 25 large private banks, which accounted for 3.2% of total banking sector capital as of January 1, 2010. Bankruptcy prevention measures were taken in relation to six banks in this group that allowed their capital to decline.

II.4.2. Risk-weighted assets

The ratio of risk-weighted balance sheet assets of credit institutions to total balance sheet assets contracted from 64.9% to 60.6% in 2009 (see Chart 2.15).

Meanwhile, the structure of risk-weighted balance sheet assets remained virtually unchanged. As of January 1, 2010, the share of Group 1, 2 and 3 assets stood at

3.1%. Risk-weighted Group 4 and 5 assets reached 96.9%, of which the share of Group 5 assets stood at 91.6% (the respective percentages as of January 1, 2009, were 3.0%, 97.0% and 93.5%).

The contraction of risk-weighted assets in total banking sector assets throughout 2009 was largely the result of the credit crunch and the liquidity cushion accumulated by banks.

The value of risk-weighted assets fell 2.4% in 2009 and their structure changed slightly: while the share of credit risk of assets recorded in balance sheet accounts (80.1% as of January 1, 2009, and 80.5% as of January 1, 2010), credit risk of contingent credit liabilities (9.3% and 9.6%) and credit risk of forward transactions (0.5% and 1.0%) remained virtually unchanged, the share of market risk increased from 3.6% to 6.3%. The share of related parties risk contracted from 5.7% to 3.5%.

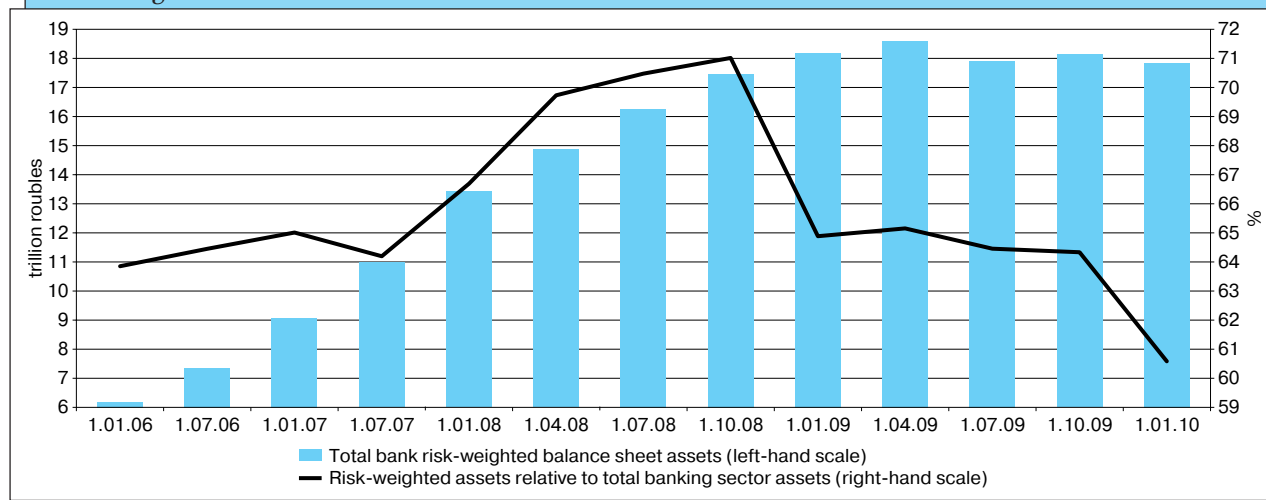
Credit risk dominated the structure of risk-weighted assets in all groups of banks. The highest share of credit risk of assets recorded in balance sheet accounts was registered in state-controlled banks (85.8%) and medium-sized and small regional banks (84.7%), while the smallest was recorded in large private banks (74.7%). The highest market risk ratio as of January 1, 2010 (10.8%) was registered in the group of medium-sized and small banks based in Moscow and the Moscow Region, and the lowest was registered in state-controlled banks (2.5%). Market risk increased the most in the group of large private banks.

II.4.3. Credit institutions' capital adequacy

The growth in the banking sector's capital allowed to increase the capital adequacy ratio from 16.8% as of January 1, 2009, to 20.9% as of January 1, 2010 (see Chart 2.16).

Credit institutions' risk-weighted assets

CHART 2.15



The capital adequacy ratio increased during the year in all groups of credit institutions, except medium-sized and small banks based in Moscow and the Moscow Region (see Table 2.9).

The top five banks (in terms of assets) registered the most significant increase in their capital adequacy ratios in 2009 (from 17.6% to 22.4%) (see Table 2.10).

The number of banks with a capital adequacy ratio of less than 12% fell from 31 as of January 1, 2009, to 20 as of January 1, 2010, and their share of total banking sector assets contracted 4.8-fold, from 16.6% to 3.5%.

As of January 1, 2010, 57 credit institutions (70 a year earlier) had a capital adequacy ratio between 12% and

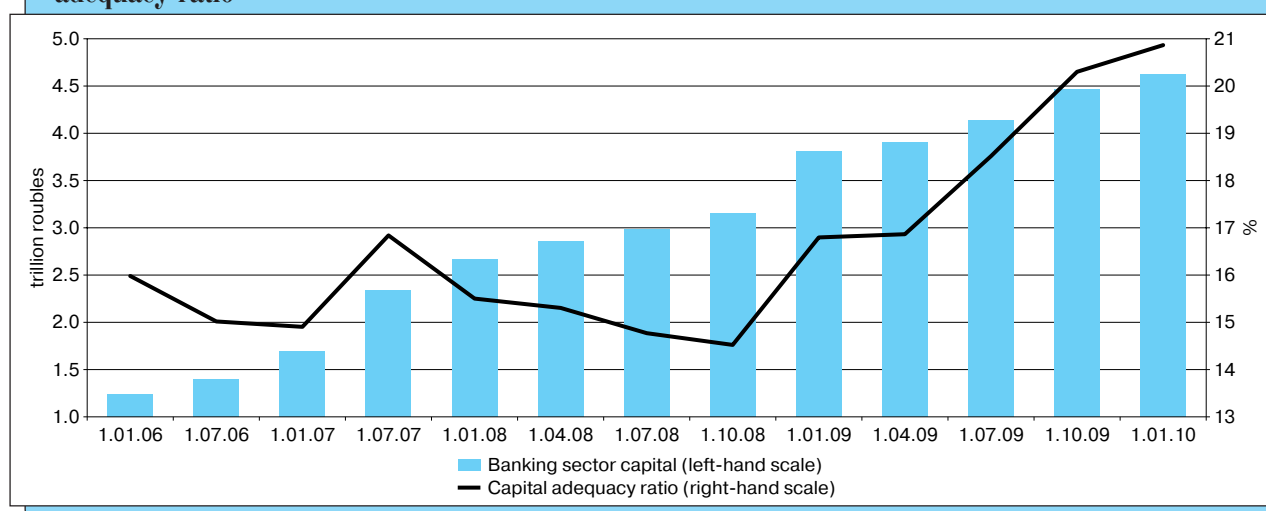
14%, and their share of total banking sector assets contracted by 12.7 percentage points to 5.4%.

About 92% of operating credit institutions maintained their capital adequacy ratios at more than 14% (89.6% of operating credit institutions as of January 1, 2009). The share of credit institutions with capital adequacy ratios ranging between 14% and 28% expanded during the year from 58.2% to 83.2% (see Chart 2.17 and Chart 2.18).

Sixteen credit institutions violated capital adequacy (N1) ratio in 2009 (18 in 2008). The number of current violations rose sharply: 1,597 violations were registered in 2009, mostly at banks subjected to bankruptcy pre-

Capital adequacy ratio

CHART 2.16



Capital adequacy (N1) ratio by group of credit institutions

TABLE 2.9

	1.01.09	1.01.10
State-controlled banks	18.4	22.7
Banks controlled by foreign capital	15.5	19.6
Large private banks	14.0	18.1
Medium-sized and small banks based in Moscow and Moscow Region	31.6	31.2
Medium-sized and small regional banks	21.9	24.1
Non-bank credit institutions	37.2	103.8

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

TABLE 2.10

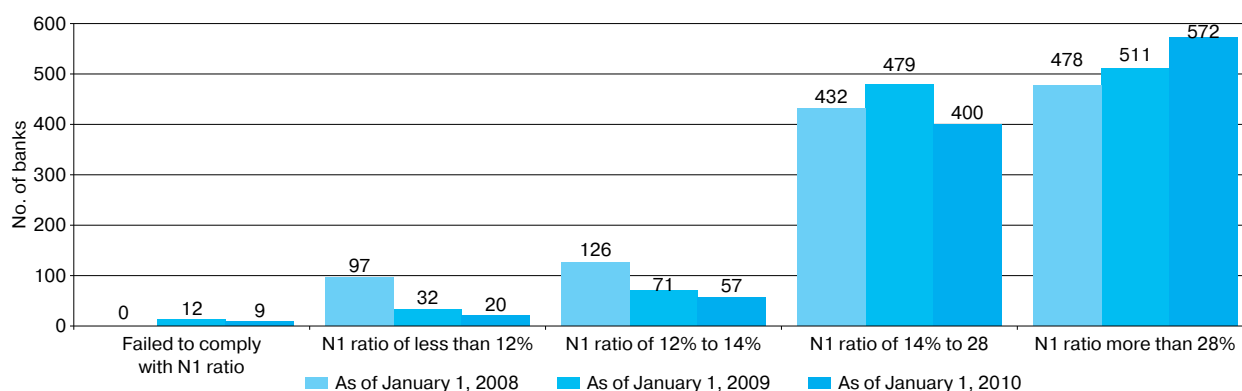
Credit institutions arranged by asset (in descending order)	1.01.09	1.01.10
Top 5	17.6	22.4
6 th to 20 th	12.6	16.6
21 st to 50 th	14.4	17.3
51 st to 200 th	18.9	21.8
201 st to 1,000 th	27.3	29.1
1,001 st down*	63.1	130.2
Banking sector	16.8	20.9

* As of January 1, 2010, the number of such credit institutions stood at 58, of which 25 were non-bank credit institutions.

vention measures (this compares to 196 violations in 2008). Of the sixteen credit institutions mentioned above, three have had their licences revoked and eight are undergoing bankruptcy prevention measures.

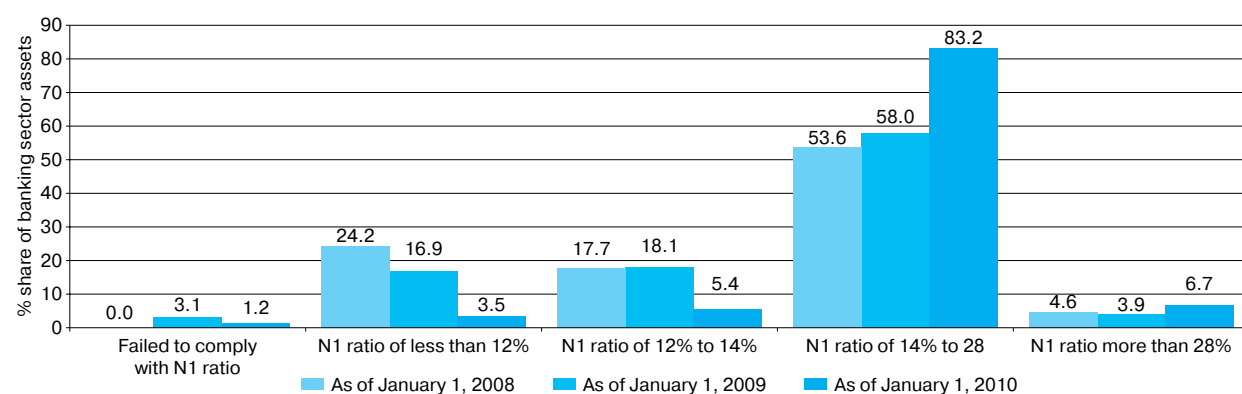
Credit institutions grouped by capital adequacy ratio (by number)

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 economic crisis has exacerbated corporate governance problems in the banking sector. For example, in some cases banks have failed to tackle in earnest key corporate governance problems such as risk management and the co-ordination of efforts in this area. Specifically, they have failed to ensure the full independence of the divisions (employees) responsible for the co-ordination of the management of all risks. One reason for this has been that the heads of the respective units have lacked the necessary powers and status. Another major drawback in bank risk management has been the lack of efficient control by their boards of directors (supervisory boards) over the decisions taken by senior management with regard to the level of risk assumed by banks.

Specifically, some credit institutions became financially unstable because their owners and management failed to formulate sensible credit, investment and liquidity management policies. This can be partially attributed to either the owners' and executives' excessive, unaffordable appetite for risk or the lack of an efficient mechanism to identify and assess the actual risks taken by credit institutions and inform their management about them. Other serious shortcomings in liquidity and interest rate risk management were the lack or inadequacy of the risk-based pricing systems for the funds raised by banks and banking products. It should be noted that some credit institutions had problems that resulted from low risk diversification (high risk concentration), including risks associated with investment projects; securities issuers; related parties; as well as sectors, sub-sectors and segments of the market (construction, wholesale and retail trade and stock market), including banks' excessive orientation to their owners' businesses. However, many credit institutions have learned their lessons from the crisis and charted ways to improve their corporate governance and risk management systems. Specifically, a survey of credit institutions conducted by the Bank of Russia in 2009 on issues relating to operational risk management has shown that credit institutions have not only diversified their means and ways of managing operational risk, but also improved their risk management systems in general (notably, they wrote down max-

imum permissible risk levels in their risk management strategies).

Taking into consideration the economic environment, the Bank of Russia regional branches paid special attention in 2009 to the assessment of the quality of bank management, in some cases assessing the quality of management in the course of evaluating the economic situation of credit institutions, and their compliance with the deposit insurance system's requirements.

Surveys of 'pilot' banks were made and thematic visits were paid to these banks in 2009 in line with the Eurosystem-Bank of Russia joint programme for the introduction of Basel II standards and practices. Having studied the results of this work, the Bank of Russia identified key areas where corporate governance in credit institutions needed to be upgraded, in order to be compatible with the IRB-approach and the internal capital adequacy assessment procedures (ICAAP) set by Basel II. This should help improve the quality of management in credit institutions in the future.

To improve the quality of management in credit institutions, the Bank of Russia plans to draft amendments to the laws and Bank of Russia regulations aimed at setting requirements that would enhance the efficiency of the boards of directors (supervisory boards) of credit institutions and increase their role and responsibility for decisions of crucial importance from the standpoint of the financial stability of credit institutions. Overall, these measures are expected to facilitate the improvement of corporate governance and risk management system requirements in credit institutions. Such requirements will be set, taking into account the approaches recommended by the Basel Committee's documents: *Core Principles for Effective Banking Supervision* and *Guidance on Corporate Governance for Banks*, as well as a Financial Stability Board document: *Principles for Sound Compensation Practices*. In addition, plans are afoot to amend banking laws to include provisions that would allow the Bank of Russia to make wider use of professional judgement in assessing risks taken by credit institutions. In addition, the provisions would set requirements for risk management and internal control systems and, consequently, mandate the assessment of their quality.

II.6. Macroprudential Analysis of Banking Sector

The 2009 crisis has made increasingly clear the importance of the macro-analysis of the situation in the banking sector, including the use of stress testing as a tool to assess its systemic stability. This tool also makes it possible to evaluate the required banking sector capitalisation parameters in the event of the realisation of given stress scenarios, and identify those credit institutions that are the most vulnerable to shocks.

In this situation, the Bank of Russia increased the frequency of banking sector stress tests, which in January—September 2009 were conducted virtually every month. As the economic situation improved and the banking sector stabilised in the second half of the year, the Bank of Russia returned to the practice of conducting stress tests on a quarterly basis.

Stress testing is the assessment of the possible effect on a credit institution's financial standing of a number of scenarios where risk factors change. These scenarios are possible in principle but exceptional, from the standpoint of probability. A stress test does not determine the probability of a stress event, nor is it a forecast of the most likely level of losses.

Capital losses were assessed according to internationally accepted standards by assuming the effect of three major types of risk (credit, market and liquidity risks) on the balance sheet of each bank.

Three scenarios were considered in the course of stress testing as of January 1, 2010: conservative, pessimistic and extreme.

The main difference between the scenarios lies in the magnitude of the shock that leads to the increase in the share of bad loans⁷⁰ in the credit institution's loan portfolio. This share (ratio) is expressed in the calculation by the number of standard deviations of the share of bad loans from the average, and is calculated on the basis of statistical data for a possibly long period (12 years in our case — from 1998 to 2009).

With regards to liquidity risk, in the conservative and pessimistic scenarios, it was assumed that credit institutions would retain access to the interbank credit market but that they would have to raise funds at higher interest rates. In the extreme scenario, where credit institutions had no access to the interbank credit market, they had to sell their assets at a pre-set discount. In addition, in the extreme scenario, the devaluation of equity portfolios in the equity position risk calculation was increased from 30% to 50%, and the rate of growth in the stress devaluation of the national currency in the foreign exchange risk calculation was raised from 15% to 30%.

Additionally, that is, outside the main stress scenarios, a stress test was conducted to evaluate the possibility of a crisis on the interbank market (a 'domino effect') and the appreciation of the national currency by 15%.

The quantitative characteristics of the aforementioned negative consequences were calculated separately for each credit institution on the basis of the data it reported, and subsequently aggregated for the banking sector as a whole.

The stress testing of the banking sector as of January 1, 2010, produced the following results. Total losses from the realisation of the conservative scenario was estimated at 35.6% of banking sector capital (4.2% of GDP), 46.4% of capital (5.4% of GDP) in pessimistic scenario and 58.6% of capital (6.8% of GDP) in the extreme scenario.

The distribution of credit institutions, in terms of the possible shortage of capital given the realisation of stress test scenarios, is shown in *Table 2.11*.

The calculations made as of January 1, 2010, showed that credit risk was the most important risk for the Russian banking sector in the pessimistic and extreme scenarios. Losses from the realisation of credit risk in these two scenarios range from 40% to 50% of total losses. In the conservative scenario, losses from credit risk were considerably less than from other

**Distribution of credit institutions
by possible shortage of capital**

TABLE 2.11

Loss-adjusted N1 ratio	Conservative scenario		Pessimistic scenario		Extreme scenario	
	number of banks	% share of banking sector assets	number of banks	% share of banking sector assets	number of banks	% share of banking sector assets
N1 ≤ 10%	155	17.6	207	34.7	285	69.2
of which: N1 ≤ 2%	39	2.4	78	3.2	132	11.8

⁷⁰ For stress testing purposes, bad loans are Quality Category 4 and 5 loans according to the classification established by Bank of Russia Regulation No. 254-P, dated March 26, 2004, 'On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loan and Similar Debts.'

risks — about 20% of total losses. This fact indicates that the risks put into the initial assumptions of the stress test for the conservative scenario were largely realised during the global crisis.

The stress test showed that the share of bad loans in the corporate loan portfolio of the banking sector as a whole could increase from 10.5% to 12.8% given the realisation of the conservative scenario, to 14.8% given the realisation of the pessimistic scenario, and to 17.7% if the extreme scenario transpired. In the household loan portfolio, the share of bad loans could expand from 11.0% to 11.3%, 12.0% or 13.7% in the event of the realisation of the corresponding scenarios. It should be noted that in some credit institutions, the share of bad loans under stress reached the estimated levels generated by the conservative scenario.

In the event of the realisation of liquidity risk, the banking sector's losses would be comparatively small relative to capital, which was connected with the increase in highly liquid assets on credit institutions' balance sheets. Stress-test results show that losses from this kind of risk could be 12.0% of capital in the conservative and pessimistic scenarios, and 12.2% in the extreme scenario.

Possible losses of credit institutions from market risk are not critical from the standpoint of the banking sector's systemic stability. At the same time, estimates showed that the possible effect of market risk on total losses had somewhat increased, as credit institutions intensified their activities on the stock market in the second half of 2009.

Possible losses from market risk as of January 1, 2010, were 16.3% of capital in the conservative and pessimistic scenarios, and 18.1% in the extreme scenario.

In total banking sector losses from the realisation of market risk (in the pessimistic scenario), interest rate risk accounted for the largest share (84.1%), equity position risk accounted for 15.5% and foreign exchange risk just 0.4%.

In a separate stress test, the Bank of Russia assessed the banking sector's stability against a hypothetical crisis on the interbank market (a so-called 'domino effect'). Banks whose total losses from all types of risk (*regardless of the conditions of the scenario under review*) exceeded 25% of capital were assumed to be the banks that initiated non-payments on interbank loans. Subsequently, other banks were included in the calculation along the chain of interbank ties.

According to data as of January 1, 2010, banks' losses in the event of such a 'domino effect' on the interbank credit market could reach 16.6% of banking sector capital (2.0% of GDP).

The additional foreign exchange risk estimation showed that in the event of the rouble's appreciation, possible losses relative to banking sector capital could stand at 0.24%, if the scenario's conditions were realised. On the whole, small losses from the realisation of foreign exchange risk in the event of the rouble's depreciation or appreciation indicate that the foreign currency assets of the Russian credit institutions are balanced well enough with respect to their foreign currency liabilities (judging by data reported by credit institutions).



Banking Regulation and Supervision in Russia

III

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

In 2009, the Bank of Russia continued to make efforts to improve legislation regulating banking activities.

It issued documents aimed at improving banking regulation and supervision, including those concerning the state registration of credit institutions, the licensing of banking activities, the organisation of off-site supervision, on-site inspection, the financial rehabilitation and liquidation of credit institutions, as well as anti-money laundering and terrorism financing.

III.1.1. Upgrading the legal framework for credit institutions

In 2009, the Bank of Russia took part in drafting the following federal laws:

- Federal Law No. 28-FZ of February 28, 2009, 'On Banks and Banking Activities,' for the purpose of raising minimum capital requirements;
- Federal Law No. 168-FZ of July 17, 2009, 'On Amending the Federal Law on Additional Measures to Support the Financial System of the Russian Federation,' for the purpose of extending the term of subordinated loans to credit institutions that received such loans from third parties;
- Federal Law No. 102-FZ of June 3, 2009, 'On the Report by the Government of the Russian Federation and Information by the Central Bank of the Russian Federation on the Implementation of Measures to Support the Financial Market, Banking System, Labour Market and Sectors of the Economy of the Russian Federation, Social Security and Other Social Policy Measures;'
- Federal Law No. 193-FZ of July 19, 2009, 'On Amending Article 11 of the Federal Law on Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011,' for the purpose of specifying Bank of Russia powers;
- Federal Law No. 279-FZ of November 25, 2009, 'On Amending Article 3 of the Federal Law on Additional Measures to Support the Financial System of the Russian Federation,' for the purpose of extending the term of the arrangement for compensation provided by the Bank of Russia for part of the losses (expenses) incurred by credit institutions in deals with other credit institutions that have had their banking licences revoked;
- Federal Law No. 361-FZ of December 27, 2009, 'On Amending the Federal Law on Additional Measures to Support the Financial System of the Russian Federation,' for the purpose of making it possible to extend the term of a foreign currency loan used to repay and (or) service loans received by organisations from foreign organisations before September 25, 2008;
- Federal Law No. 73-FZ of April 28, 2009, 'On Amending Some Laws of the Russian Federation' for the purpose of enhancing the efficiency of coercive measures used against debtors to make them fulfil their obligations to creditors;
- Federal Law No. 280-FZ of November 25, 2009, 'On Amending Article 4 of the Federal Law on Amending Article 11 of the Federal Law on the Insurance of Household Deposits with Russian Banks and Some Other Federal Laws' for the purpose of extending the Bank of Russia powers to set limits on interest rates in bank deposit agreements;
- Federal Law No. 190-FZ of July 18, 2009, 'On Credit Co-operation;'
- Federal Law No. 181-FZ of July 18, 2009, 'On the Use of Federal Government Securities for Increasing Capitalisation of Banks;'
- Federal Law No. 216-FZ of July 29, 2009, 'On Amending Article 178 of the Penal Code of the Russian Federation' for the purpose of regulating criminal responsibility for the violation of anti-monopoly laws;
- Federal Law No. 281-FZ of November 25, 2009, 'On Amending Part 1 and Part 2 of the Tax Code of the Russian Federation and Some Federal Laws' for the purpose of improving the legal regulation of the taxation of financial instruments used in forward transactions;
- Federal Law No. 103-FZ of June 3, 2009, 'On the Receipt of Payments from Individuals by Payment Agents' and Federal Law No. 121-FZ of June 3, 2009, 'On Amending Some Laws of the Russian Federation in Connection with the Passing of the Federal Law on the Receipt of Payments from Individuals by Payment Agents;'
- Federal Law No. 144-FZ of July 1, 2009, 'On Amending Article 20 of the Federal Law on the Housing and Communal Services Reform Assistance Fund and Article 65 of the Federal Law on the Placement of Orders to Deliver Goods, Carry out Works and Provide Services for the Government and Municipal Projects,' for the purpose of setting requirements for credit institutions with which organisations maintaining blocks of flats may open bank accounts;
- Federal Law No. 160-FZ of July 17, 2009, 'On Amending the Code of Administrative Offences of the Russian Federation and Some Other Federal Laws,' for the purpose of improving anti-monopoly regulation and encouraging competition;

- Federal Law No. 205-FZ of July 19, 2009, 'On Amending Some Laws of the Russian Federation,' for the purpose of improving the procedure for settling corporate disputes;
- Federal Law No. 212-FZ of July 24, 2009, 'On Insurance Contributions to the Pension Fund of the Russian Federation, Social Security Fund of the Russian Federation, Federal Compulsory Medical Insurance Fund and Regional Compulsory Medical Insurance Funds.'

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

To improve the control of the sources of funds allocated to create the authorised capital of credit institutions, and simplify the regulatory terms and conditions affecting the floating and trading shares of credit institutions, the Bank of Russia issued two regulations. These were Regulation No. 337-P, dated June 19, 2009, 'On the Procedure and Criteria for Assessing the Financial Situation of the Corporate Founders (Members) of a Credit Institution,' and Regulation No. 338-P, dated June 19, 2009, 'On the Procedure and Criteria for Assessing the Financial Situation of the Individual Founders (Members) of a Credit Institution'. These, while keeping intact the time-tested system of using certain criteria to assess the financial situation of the founders (members) of credit institutions and taking decisions with respect to the licensing and registration of credit institutions, introduced the following substantive changes:

- they reduced the amount of documents required of investors whose satisfactory financial situation is confirmed by a certain minimal long-term credit rating on foreign currency obligations assigned to them by international rating agencies or certain minimal credit ratings assigned by national rating agencies;
- they spelled out specifics with respect to the assessment of the financial situation of some types of investors of credit institutions, resulting from the nature of their economic activities and regulatory requirements for accounting reports. Such investors were unit and joint-stock investment funds, as well as insurance companies and non-government pension funds;
- they established specifics for the assessment of the financial situation of investors who indirectly owned shares (stakes) in credit institutions. They required the comparison, for the purposes of the assessment of the sufficiency of the investor's own funds for the purchase of shares (stakes) in a credit institution, of the investor's own funds with the credit institution's capital or a part thereof;
- they introduced a number of additional criteria for assessment of financial situation of investors to harmonise assessment standards with approaches used in international supervisory practices;
- they nullified a number of documents that are not used efficiently in practice to tackle the substantive tasks of assessing the financial situation of investors and obtain prior permission from the Bank of Russia to acquire more than 20% of the shares (stakes) in a credit institution.

To implement Federal Law No. 181-FZ of July 18, 2009, 'On the Use of Russian Government Securities for Increasing the Capitalisation of Banks,' the Bank of Russia issued the following documents:

- Regulation No. 347-P, dated November 12, 2009, 'On the Procedure for Paying up the Authorised Capital of Banks with Federal Loan Bonds and the Procedure for Issuing Preferred and Ordinary Shares Floated as Part of the Increasing Capitalisation Procedure' (hereinafter referred to as Regulation No. 347-P). This lifted restrictions on the payment of authorised capital by property, the maximum amount of property (non-cash) contributions to the authorised capital of a bank, and the ratio of the nominal value of the preferred share placements to the registered authorised capital of a credit institution. It also cancelled requirements to verify the correctness of the payment of the authorised capital of the bank participating in the capitalisation enhancement procedure;
- Ordinance No. 2333-U of November 12, 2009, 'On the Bank of Russia's Decision-Making Procedure Regarding the State Registration of Changes and Amendments Made to the Bank's Charter and on the Procedure for Obtaining the Bank of Russia Prior Permission by a Bank to Acquire Preferred Shares from the Federal Government as Part of the Increasing Capitalisation Procedure' (hereinafter referred to as Ordinance No. 2333-U). The time period of consideration for documents submitted to the Bank of Russia pursuant to Regulation No. 347-P and Ordinance No. 2333-U have been cut by half, compared to the ordinary procedure;
- Ordinance No. 2365-U of December 16, 2009, 'On the Bank of Russia's Procedure for Passing Information to the Federal Executive Body of Power, Authorised by the Government of the Russian Federation, about Bank Compliance with the Requirements of the Federal Law on Use of Federal Government Securities for Increasing the Capitalisation of Banks.' The document sets the procedure for informing the Ministry of Finance about a bank's compliance with the requirements of this law.

The changes in anti-monopoly legislation and the regulation by law of limited liability companies required the Bank of Russia to make amendments to some of its regulations. Specifically, Bank of Russia Ordinance No. 2277-U of August 14, 2009, hereinafter referred to as Ordinance No. 2277-U, brought Bank of Russia Instruction No. 109-I of January 14, 2004, 'On the Bank of Russia's Decision-Making Procedure Regarding the State Registration of Credit Institutions and the Licensing of Banking Operations,' in compliance with Federal Law No. 135-FZ of July 26, 2006, 'On the Protection of Competition' and the changes made in the legal regulation of limited liability companies by Federal Law No. 312-FZ of

December 30, 2008, 'On Amending Part 1 of the Civil Code of the Russian Federation and Some Federal Laws.' Specifically, Ordinance No. 2277-U stipulates that for the state registration, a credit institution should present a document from the federal anti-monopoly agency, confirming the latter's consent to the creation of a credit institution, the execution of transactions with shares (stakes) of a credit institution and the reorganisation of the institution via a merger or acquisition (if obtaining such permission is obligatory). It can also submit copies of the notification from a credit institution of the federal anti-monopoly agency and the document confirming the receipt of the notification (if these transactions require the subsequent notification of the federal anti-monopoly agency rather than its prior permission). The most important changes with regards to credit institutions operating as limited liability companies, connected with the changes in legal regulation, cancel the founding agreement, establish the requirement to conclude an agreement on the establishment of a credit institution when a credit institution is established (which is not a founding document), and revoke the requirement that a credit institution should indicate in its charter its members and the number and nominal value of the shares they own, and register with the government agency the corresponding changes in its charter.

To simplify the procedure for changing the status of a credit institution from a bank into a non-bank credit institution, including cases in which a bank is unable to meet the requirement to increase its capital step by step, the Bank of Russia issued Ordinance No. 2279-U of August 14, 2009, 'On Amending Bank of Russia Ordinance No. 1807-U of March 27, 2007, on the Bank of Russia's Decision-Making Procedure Regarding the State Registration of Changes Made in the Founding Documents of a Bank and the Licensing of Banking Operations in Connection with the Receipt from the Bank of a Request to Change its Status into the Status of a Non-bank Credit Institution.'

Bank of Russia Letter No. 180-T, dated December 25, 2009, 'On the Activities of Credit Institutions Changing their Status from that of a Bank into that of a Non-bank Credit Institution,' clarified issues concerning the fulfilment by a credit institution of its obligations pursuant to agreements it concluded as a bank before changing status, which it is forbidden to conclude as a non-bank credit institution.

Bank of Russia Ordinance No. 2325-U of November 5, 2009, 'On Amending Bank of Russia Ordinance No. 1176-U of July 5, 2002, on the Business Plans of Credit Institutions,' cancelled the requirement for a credit institution to submit its business plan to the Bank of Russia when changing its status from that of a bank into that of a non-bank credit institution and when being reorganised via merger or acquisition.

Bank of Russia Ordinance No. 2252-U of June 26, 2009, 'On the Possibility of the Temporary Functioning of a Correspondent Sub-account of a Credit Institution's Branch Transformed into an Internal Division,' lifted the temporary restrictions on the Bank of Russia regional

branches making decisions with regard to the possibility of the temporary functioning of a correspondent sub-account of a credit institution's branch that has been transformed into an internal division (previous Bank of Russia regional branches could only make these decisions before July 1, 2009).

Bank of Russia Letter No. 72-T, dated June 10, 2009, 'On Dealing with Banks in Connection with the Increasing Capital Requirements,' recommends that the Bank of Russia regional branches tighten control over banks which would have to increase their capitalisation in the next three years to comply with legal requirements. The Letter urges Bank of Russia regional branches to make an in-depth study of the increase in the banks' capital to preclude fictitious capital enhancement, asset diversion or the dishonest sale of the bank for the purpose of conducting dubious operations.

The Bank of Russia continued in 2009 to optimise procedures and reduce the time it takes to examine the relevant documents for facilitating the consolidation of capital in the banking sector. Specifically, Bank of Russia Ordinance No. 2190-U of February 24, 2009, 'On Amending Bank of Russia Regulation No. 252-P, dated February 24, 2004, on the Procedure for Divisions of the Bank of Russia Head Office Considering Documents Submitted for Decision-Making Regarding the State Registration of Credit Institutions and State Registration of Changes in the Founding Documents of Credit Institutions and the Licensing of Banking Operations:'

- changed the procedure for submitting documents for the state registration of a credit institution set up as a result of a merger or acquisition, and for the state registration of the relevant changes in the founding documents of the acquiring credit institution (the documents are sent directly to the Bank of Russia, bypassing its regional branch);
- shortened the list of documents required for the state registration of a credit institution set up as a result of a merger, and the state registration of changes in the founding documents of the acquiring credit institution by excluding from it documents unrelated to overseeing compliance with the provisions of civil law;
- significantly reduced (from 4 months to 1 month in case of a merger and from 3 months to 1 month in case of an acquisition) the time taken to consider documents relating to the state registration of a credit institution set up as a result of a merger and the state registration of the relevant changes in the founding documents of the acquiring credit institution;
- stipulated that in the course of preparatory procedures (for example, before the holding of general meetings of members of the reorganised credit institutions) that a credit institution may submit to the Bank of Russia head office its final or draft documents, for the Bank of Russia to pass a resolution regarding their compliance with the established requirements.

In addition, Bank of Russia Ordinance No. 2364-U of December 16, 2009, 'On Amending Bank of Russia Reg-

ulation No. 252-P, dated February 24, 2004, on the Procedure for Considering by the Bank of Russia Head Office Divisions of the Documents Presented for the State Registration of Credit Institutions, the State Registration of Changes in the Founding Documents of Credit Institutions and Licensing of Banking Operations,' cut the time the Bank of Russia takes to consider the approval of documents that would make changes in the charter of a bank, relating to its participation in a capitalisation enhancing procedure.

III.1.3. Credit institution regulation

Household deposit insurance

To implement the provisions of Federal Law No. 270-FZ of December 22, 2008, 'On Amending the Federal Law on the Insurance of Household Deposits with Russian Banks and Other Federal Laws,' which came into force on December 27, 2009, on the compliance by the banks participating in the deposit insurance system with the Bank of Russia procedure for public disclosure of information about the individuals who exert material (direct or indirect) influence on the decisions taken by their management, the Bank of Russia issued the following regulations:

- Ordinance No. 2312-U of October 27, 2009, 'On Amending Bank of Russia Ordinance No. 1379-U of January 16, 2004, on the Assessment of the Financial Situation of a Bank for Ascertaining its Sufficiency for the Participation in the Deposit Insurance System,' which came into effect on December 27, 2009, and stipulated that a bank is considered to be providing an unlimited access to information about individuals that exert material influence, if this information is posted in the Internet — on the bank's site, or on the official site of the Bank of Russia;
- Regulation No. 345-P, dated October 27, 2009, 'On the Procedure for Disclosing Information on the Bank of Russia's Official Website about Individuals that Exert Material (Direct or Indirect) Influence on the Decisions Taken by the Management of the Banks that Participate in the Deposit Insurance System in the Russian Federation,' which came into force on December 27, 2009, and established content guidelines for the information and the procedure for passing it to the Bank of Russia, so that the Bank of Russia may post it on its website, if the bank has opted for this means of disclosing information to the public.

To maintain the stability of the banking system, Federal Law No. 227-FZ of September 27, 2009, 'On Suspending Some Provisions of Article 48 of the Federal Law on the Insurance of Household Deposits with Russian Banks,' was drafted with the participation of the Bank of Russia, to temporarily suspend the duty of the Bank of Russia to prohibit banks that participate in the deposit insurance system from taking household deposits and opening personal accounts in the event of the banks' failure to comply with established capital, asset, profitability and liquidity requirements and required ratios. The im-

plementation of these provisions allowed the Bank of Russia to take a flexible approach to the use of sanctions against the banks participating in the deposit insurance system during the crisis. After the enforcement of this law, the Bank of Russia could not prohibit 49 banks participating in the deposit insurance system, which had failed to comply with the deposit insurance system profitability requirements for two or more consecutive quarterly dates, from taking household deposits and opening personal bank accounts as of January 1, 2010.

At the same time, taking into consideration the changes in federal legislation, the Bank of Russia issued Ordinance No. 2330 of November 11, 2009, 'On the Procedure for Prohibiting Banks from Taking Household Deposits and Opening Household Bank Accounts,' which established:

- the grounds requiring the Bank of Russia to impose a ban and the grounds allowing the Bank of Russia to impose the ban;
- the circumstances under which the Bank of Russia, taking into consideration the provisions of Federal Law No. 175-FZ of October 27, 2008, 'On Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011', does not impose the ban;
- the time period during which a bank, in the event of a ban imposed on it, has no right to take household deposits and open personal bank accounts and the procedure for handling additional funds entered in a household deposit account (or bank account) after the imposition of the ban;
- the duty of the bank on which the ban has been imposed to post information to the effect that it no longer has the right to take household deposits or open personal accounts and recommendations regarding the content of this information;
- the procedure for taking the decision to impose the ban by the Bank of Russia Banking Supervision Committee and the procedure for issuing the order to place the ban and its form, the time period for sending the order to the bank and the time period for notifying the DIA about the date on which the ban is imposed.

In addition, the Bank of Russia issued Ordinance No. 2199-U of March 17, 2009, 'On the Procedure for Making the Decision to Order a Bank to Create a Register of the Bank's Obligations to Depositors,' hereinafter referred to as Ordinance No. 2199-U, which systemised the Bank of Russia's practice of ordering banks participating in the deposit insurance system to create a register of obligations to depositors pursuant to Federal Law No. 177-FZ of December 23, 2003, 'On the Insurance of Household Deposits with Russian Banks' and Bank of Russia Ordinance No. 1417-U of April 1, 2004, 'On the Form of the Registration of a Bank's Obligations to Depositors,' on an on-going basis or in the course of organising and conducting scheduled and unscheduled on-site inspections. The principal objective of Ordinance No. 2199-U is to avoid unnecessarily bothering banks with

the task of creating a register of obligations to depositors and, at the same time, create conditions allowing the Bank of Russia to make banks do so whenever necessary.

In addition, the Bank of Russia issued Ordinance No. 2296-U of September 21, 2009, 'On the Procedure for Filing a Request by a Bank to Terminate its Right to Handle Deposits by the Order of the Bank of Russia, Issued in the Event of the Bank's Failure to Comply with Deposit Insurance System Requirements or Pursuant to Part 3⁴ of Article 48 of the Federal Law on the Insurance of Household Deposits with Russian Banks, and the Procedure for Invalidating the Bank of Russia Licence to Take Household Deposits in Roubles and Foreign Currency or a General Licence'. This set the deadlines and procedure for filing a bank's request to terminate its right to handle deposits and the procedure for invalidating the corresponding Bank of Russia licence and stipulated that the bank's right to handle deposits ends on the day the licence is invalidated.

Financial rehabilitation and liquidation of credit institutions

The Bank of Russia took part in drafting the following laws, aimed at boosting the capital base and improving the procedure for the financial rehabilitation of credit institutions, which came into force in 2009:

- Federal Law No. 193-FZ of July 19, 2009, 'On Amending Article 11 of the Federal Law on Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011,' which extended Part 3 of Article 3 of this Federal Law to cover the banks to which the Bank of Russia had applied, in the period lasting from September 15, 2008, to the day this Federal Law came into effect, measures similar to the bankruptcy prevention measures stipulated by Article 2 of this Federal Law. Pursuant to Federal Law No. 193-FZ of July 19, 2009, the Bank of Russia Banking Supervision Committee approved on August 26, 2009 its first plan of action to prevent the bankruptcy of a bank which it had decided to rehabilitate before the Federal Law on Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011, came into force;
- Federal Law No. 28-FZ of February 28, 2009, 'On Amending the Federal Law on Banks and Banking Activities,' which provided for the gradual raising of minimum capital requirements for credit institutions and amended Article 20 of the Federal Law on Banks and Banking Activities, which established the grounds for the revocation of banking licences.

To implement this Federal Law, the Bank of Russia issued Ordinance No. 2276-U of August 14, 2009, 'On the Procedure for Revoking Banking Licences in the Event of the Decrease of a Bank's Capital below the Level Established by the Federal Law on Banks and Banking Activities,' which came into force on January 1, 2010, and set the procedure for ascertaining whether there were grounds for a decision to revoke a bank's licence when its capital has declined below the level set by Article 11.2 of the Federal Law on Banks and Banking Activities.

In addition, the Bank of Russia issued Ordinance No. 2293-U of September 17, 2009, 'On the Procedure for Revoking a Banking Licence from a Credit Institution in the Event of the Material Misrepresentations of Reporting Data' (hereinafter referred to as Ordinance No. 2293-U), which came into force on November 22, 2009. Prepared to improve a Bank of Russia regulation issued earlier, the Ordinance stipulated that the use of the material misreporting of data as grounds for the revocation of a banking licence should be preceded by the demand that the bank rectify the faults discovered in its work. The document set clear-cut quantitative parameters for determining the material misreporting of data and extended a list of violations punishable by the revocation of banking licences on these grounds (17 credit institutions had their licences revoked for materially misreporting data).

Bank of Russia Ordinance No. 2275-U of August 12, 2009, amended Bank of Russia Ordinance No. 1332-U of October 3, 2003, 'On the Procedure for Filing a Petition by the Bank of Russia Regional Branches to Revoke a Banking Licence from a Credit Institution,' concerning the procedure for filing a petition by Bank of Russia regional branches to revoke a licence from a credit institution on the grounds established by points 5—8 of part 2 of Article 20 of the Federal Law on Banks and Banking Activities.

In 2009, the Bank of Russia participated in drafting Federal Law No. 73-FZ of April 28, 2009, 'On Amending Some Laws of the Russian Federation,' aimed at upgrading provisions on questioning an obligor's transactions within the bankruptcy procedure and on the vicarious liability of parties who had or have the powers to give compulsory instructions to the debtor.

The Bank of Russia issued in 2009 several documents designed to improve the regulation of control over the liquidation of credit institutions.

Bank of Russia Ordinance No. 2218-U of April 22, 2009, 'On the Procedure for Publishing in the *Bank of Russia Bulletin* the Announcements of the Decisions of the Arbitration Court, Declaring a Credit Institution Bankrupt and Beginning Bankruptcy Proceedings (on the Liquidation of the Credit Institution),' set the procedure for how Bank of Russia divisions were to consider announcements sent to the Bank of Russia by receivers (liquidators or liquidation commissions).

Bank of Russia Ordinance No. 2282-U of August 27, 2009, 'On Amending Point 2.1 of Bank of Russia Ordinance No. 1516-U of November 17, 2004, on the Procedure for the Competitive Selection of Agent Banks for Effecting Bank of Russia Payments on Household Deposits,' changed the participation requirements for the selection process as follows:

- the required minimum capital of agent banks was raised to 20 billion roubles;
- an additional requirement was established, stipulating that to be considered in the selection process, a bank should belong to the 1st or 2nd classification group established by Bank of Russia Ordinance No. 2005-U of April 30, 2008, 'On the Assessment of the Economic Situation of Banks.'

Bank of Russia Ordinance No. 2320-U of November 3, 2009, '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,' hereinafter referred to as Ordinance No. 2320-U, and Bank of Russia Ordinance No. 2354-U of December 3, 2009, 'On Amending Bank of Russia Ordinance No. 1528-U of December 14, 2004, on the Rules of Procedure of the Bank of Russia's Commission for the Accreditation of Bankruptcy Commissioners as Receivers of Bankrupt Credit Institutions,' hereinafter referred to as Ordinance No. 2354-U, were issued in connection with the passage of Federal Law No. 296-FZ of December 30, 2008, 'On Amending the Federal Insolvency (Bankruptcy) Law,' which changed the requirements set for bankruptcy commissioners by Article 20 of Federal Law No. 127-FZ of October 26, 2002, 'On Insolvency (Bankruptcy).' Ordinance No. 2320-U and Ordinance No. 2354-U shortened a list of documents required for the accreditation of arbitration commissioners with the Bank of Russia as receivers of bankrupt credit institutions, while Ordinance No. 2320-U invalidated Bank of Russia Regulation No. 146-P, dated August 7, 2001, 'On the Bank of Russia Arbitration Commissioner Appraisal and Certification Procedure.'

On-site inspection of credit institutions

The Bank of Russia continued in 2009 to make efforts to improve the regulation and methodology of on-site inspection.

It issued the following documents in the course of its *core (day-to-day) activities*:

1. Bank of Russia Ordinance No. 2196-U of March 6, 2009, 'On Amending Bank of Russia Instruction No. 105-I of August 25, 2003, on the Procedure for Conducting Inspections of Credit Institutions and their Branches by Authorised Representatives of the Central Bank of the Russian Federation,' and

Bank of Russia Ordinance No. 2197-U of March 6, 2009, 'On Amending Bank of Russia Instruction No. 108-I, of December 1, 2003, on the Organisation of Inspections by the Central Bank of the Russian Federation (Bank of Russia).'

The Bank of Russia issued these documents in connection with changes in the federal laws and Bank of Russia regulations and the need to improve Bank of Russia inspection practices. Specifically, the Bank of Russia issued these documents for organising a 'second line' of banking supervision and control of the safety of government aid and enhancing the role of inspectors-general of interregional inspectorates in co-ordinating on-site inspections and analysis of the quality of inspection materials.

2. Bank of Russia Ordinance No. 2266-U of July 30, 2009, 'On Amending Point 3.5 of Bank of Russia Ordinance No. 1542-U of January 13, 2005, on the Specifics of Bank On-site Inspections Conducted with the Participation of the DIA,' which expanded the requirements for information disclosure by DIA employees included in a working group for avoiding a conflict of interest.

3. Bank of Russia Letter No. 188-T, dated December 30, 2009, 'Methodological Recommendations for the On-site Inspection of a Credit Institution or its Branch with Regards to Consumer Credit,' which explains the procedure for the on-site inspection of a credit institution or its branch by Bank of Russia authorised representatives from the standpoint of organising consumer lending.

4. Bank of Russia Letter No. 175-T, dated December 22, 2009, 'On the Presentation of Reports on Bank Inspection Results,' which recommends, among other things, the monitoring of all inspections of credit institutions, and the regular provision of information to the heads of the working groups of off-site supervision divisions about the current results of these inspections.

5. Joint Letter of the Main Inspectorate of Credit Institutions and Banking Regulation and Supervision Department of the Bank of Russia No. 25-1-6/1669, dated September 3, 2009, 'On Co-operation in Organising Inspections,' issued for improving co-operation between the divisions of Bank of Russia regional branches in preparing proposals for the draft Summary Plan.

The following documents were issued as part of an *experiment to centralise inspection activities* in the North-Western Federal District:

1. Bank of Russia Ordinance No. 2204-U of March 24, 2009, 'On the Specifics of Compiling and Presenting Reports in Form 0409037 *Report on Inspections of Credit Institutions*,' and

Ordinance No. 2328-U of November 11, 2009, 'On the Specifics of Compiling and Presenting Reports in Form 0409038 *Information on the Inspection Activities of a Bank of Russia Regional Branch*.'

These two Bank of Russia regulations set a time-frame for the Bank of Russia regional branches in the North-Western Federal District and that of Inspectorate No. 3 to compile and present the reports indicated above, in the context of the experiment to centralise Bank of Russia inspection activities.

2. Directive of the No. 53, dated June 27, 2009, 'On the Procedure for Monitoring the Organisation, Conducting Inspections and the Internal Control of Inspections during the Experiment to Centralise Inspection Activities in the North-Western Federal District,' set the procedure for monitoring the organisation and conduction of inspections of credit institutions and their branches by Inspectorate No. 3, and the internal control of the organisation of inspections, in the course of conducting the experiment to centralise inspection activities in the North-Western Federal District.

As part of the measures taken to *supervise credit institutions that received government aid*, the Bank of Russia issued the following documents:

1. Letter No. 40-T, dated March 30, 2009, 'On the Letter Codes Used in Compiling Reports in Form 0409037 *Report on Inspections of Credit Institutions and their Branches*,' which contains recommendations on the letter codes used in compiling reports in Form 0409037 on the inspection of credit institutions. They were conducted for the purpose of controlling credit institutions' com-

pliance with federal laws and Bank of Russia regulations, including those that set the procedure for the Bank of Russia, federal agencies and (or) other organisations extending loans to credit institutions or depositing funds with credit institutions.

2. Bank of Russia Letter No. 04-25-4/219 and Letter No. 04-25-4/220, dated January 20, 2009, 'On Conducting Inspections of Credit Institutions,' which recommended (in connection with the measures taken by the Russian Government and the Bank of Russia to ensure the safety of government funds allocated to support the financial system and strengthen the real sector of the Russian economy) paying special attention, when organising and conducting inspections of credit institutions in 2009, to the activities of credit institutions that had received government aid.

3. Bank of Russia Letter No. 91-T, dated July 27, 2009, 'On Co-operation between the Heads and Members of the Working Groups with the Bank of Russia Authorised Representatives Appointed to Credit Institutions, Pursuant to Article 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)' (published in the *Bank of Russia Bulletin* No. 45 of July 30, 2009), which clarifies the corresponding co-operation procedure.

4. Letter No. 189-T, dated December 31, 2009, 'On Conducting Inspections of Credit Institutions that Have Concluded Agreements with the Bank of Russia on the Partial Compensation of Expenses (Losses) Involved in Operations on the Interbank Market,' which described approaches to the organisation of inspections, for the purpose of minimising credit risk taken by the Bank of Russia, on operations conducted on the interbank market by credit institutions that had concluded the aforementioned loss compensation agreements.

5. Bank of Russia Letter No. 190-T, dated December 31, 2009, 'On Streamlining the Compilation and Presentation of Electronic Documents and their Copies, Prepared in the Course of Inspecting Credit Institutions and their Branches,' which spells out the procedure for compiling and presenting electronic documents and their copies, prepared in the course of inspections of credit institutions and their branches. These include inspections conducted for the purpose of controlling the safety of funds allocated to credit institutions as part of measures taken in support of credit institutions, as part of more general measures taken to support the financial systems and strengthen the real sector of the economy.

6. Joint Letter of the Main Inspectorate of Credit Institutions and Banking Regulation and Supervision Department of the Bank of Russia No. 25-3-7/862, dated May 5, 2009, 'On the Provision of Information on Inspections of Credit Institutions and their Branches,' which contained recommendations on the organisation of information co-operation (on sending inquiries to the heads of the working groups by the inspectors-general of the Main

Inspectorate of Credit Institutions about inspections, including violations discovered in the work of credit institutions and their branches, and receiving relevant information from the heads of the working groups).

III.1.4. On-going supervisory methodologies

To tighten control over the use of funds allocated to support the Russian financial system during the global crisis, Federal Law No. 317-FZ of December 30, 2008, 'On Amending Article 46 and Article 76 of Federal Law No. 86-FZ of July 10, 2002, on the Central Bank of the Russian Federation (Bank of Russia),' hereinafter referred to as the Law, in 2009 created a body of Bank of Russia authorised representatives. The following documents were issued to elaborate upon this Law:

- Bank of Russia Ordinance No. 2182-U of February 9, 2009, 'On the Procedure for Appointing Bank of Russia Authorised Representatives, Fulfilling and Terminating their Duties' (endorsed by the Russian Government), which set requirements for Bank of Russia employees who could be appointed as authorised representatives, established the procedure for appointing them, as well as fulfilling and terminating their duties, including their participation on a non-voting basis in the meetings of credit institutions' executives, as well as bodies responsible for making decisions regarding lending and asset and liability management;
- Bank of Russia Ordinance No. 2181-U of February 9, 2009, 'On the Procedure for Presenting by Credit Institutions Information and Documents to Bank of Russia's Authorised Representatives,' which set the procedure for a credit institution to present to the Bank of Russia authorised representative information about its intention to strike deals, as stipulated by the Law, as well as other information defined by the Law that could be provided by a credit institution at the request of a Bank of Russia authorised representative.

To introduce the internationally accepted Pillar 1 of Basel II⁷¹ to its regulatory framework, the Bank of Russia issued Ordinance No. 2324-U of November 3, 2009, 'On Amending Bank of Russia Instruction No. 110-I, Dated January 16, 2004, on 'Banks' Required Ratios.' This set a procedure for implementing Basel II simplified standardised approach to credit risk assessment. At the same time, Bank of Russia Regulation No. 346-P, dated November 3, 2009, 'On the Procedure for Calculating Operational Risk,' established a procedure for measuring operational risk using Basel II basic indicator approach, for calculating capital adequacy (N1) ratio.

In view of the use of country ratings in the prudential regulation system (within the framework of Basel II simplified standardised approach), the Bank of Russia issued Ordinance No. 2321-U of November 3, 2009, 'On Amending Bank of Russia Regulation No. 313-P, Dated Novem-

⁷¹ 'International Convergence of Capital Measurement and Capital Standards. A Revised Framework. Comprehensive version,' Basel Committee on Banking Supervisions, June 2006.

ber 14, 2007, on the Procedure for Calculating Market Risk by Credit Institutions,' Ordinance No. 2322-U of November 3, 2009, 'On Amending Bank of Russia Regulation No. 283-P, Dated March 20, 2006, on the Loss Provision Procedure for Credit Institutions,' and Ordinance No. 2323-U of November 3, 2009, '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.' This made the necessary changes connected with the transition, within the framework of the capital adequacy calculation system, to country ratings, from an approach based on the categorisation of countries as 'a group of developed nations.'

The Bank of Russia specified procedures for assigning loans to overdue and restructured loans (Form 0409115 'Information on Credit Institution Asset Quality' and Form 0409117 'Data on Large-Value Loans') and this, along with the harmonisation of overdue loan information disclosure practice with the IFRS, implies a more conservative approach by the supervisory authority to the assessment and monitoring of overdue debt as well as more stringent credit risk control.

To promote a substantive approach to credit risk assessment with regards to the funds in banks' correspondent accounts with credit institutions, the Bank of Russia issued Ordinance No. 2185-U of February 12, 2009, 'On Amending Bank of Russia Instruction No. 110-I of January 16, 2004, on Banks' Required Ratios.' This set a procedure cancelling the Bank of Russia's requirement that the banks calculate maximum risk per borrower or group of related borrows (N6 ratio) with regards to the funds in their correspondent accounts with counterparty credit institutions (except the minimum funds banks are required to keep in these correspondent accounts under the corresponding agreements).

To adequately assess risks taken by credit institutions performing the functions of a central counterparty on the organised trading floors (that is, acting as a counterparty to the deals with settlement participants on the organised trading floor and as purchaser for each settlement participant instrument seller and seller for each settlement participant instrument purchaser) the Bank of Russia issued Ordinance No. 2195-U of March 6, 2009, 'On Amending Bank of Russia Instruction No. 110-I of January 16, 2004, on Banks' Required Ratios.' This set the procedure for including in the required ratio calculation transactions conducted on organised trading floors with the participation of a central counterparty.

Bank of Russia Ordinance No. 2254-U of June 26, 2009, and Ordinance No. 2205-U of March 27, 2009, 'On Amending Bank of Russia Instruction No. 110-I of January 16, 2004, on Banks' Required Ratios' established risk mitigation ratios. It did so to calculate capital adequacy (N1) ratio and N6 ratio (the maximum risk per borrower or group of related borrowers) for: mortgage-backed housing loans that meet certain terms and conditions, exposures on mortgage-backed loans to servicemen participating in the housing mortgage accrual system, and

exposures relating to natural monopolies. The amended documents stipulate that state corporations' stakes in the authorised capital of legal entities, passed under their control, is considered analogous to the government body's stake in the authorised capital of legal entities and may not serve as grounds for assigning these legal entities to a group of related borrowers.

To settle the problem of the additional capitalisation of the banking sector, the possible sources of Tier 1 capital (core capital) of a credit institution were expanded to include:

- a new kind of subordinated instruments, such as a subordinated loan with additional terms and conditions. The term of the loan is at least 30 years and the instrument also provides for the non-repayment and non-accrual of interest (coupon) income and loss coverage in the event of the implementation of bankruptcy prevention measures against a credit institution. An early repayment of this subordinated loan may take place no sooner than 10 years after it was extended, under the simultaneous condition that the interest rate may be raised if the early repayment does not take place (Bank of Russia Ordinance No. 2241-U of June 1, 2009, 'On Amending Bank of Russia Regulation No. 215-P, dated February 10, 2003, on the Methodology of Determining Credit Institutions' Capital');
- a part of the authorised capital of credit institutions in the form of a joint-stock company, created as a result of the issue and placement of preferred shares pursuant to the Federal Law on Using Russian Government Securities to Increase the Capitalisation of Banks (Bank of Russia Ordinance No. 2329-U of November 11, 2009, 'On Amending Bank of Russia Regulation No. 215-P, dated February 10, 2003, on the Methodology of Determining Credit Institutions' Capital').

To assess the risks taken by banks when having portfolios of shares of closed unit investment funds, the Bank of Russia issued Letter No. 106-T, dated September 4, 2009, 'On the Specifics of the Assessment of Risks Taken by Banks when Having Portfolios of Shares of Closed Unit Investment Funds.' This clarified approaches to the assessment of risks taken by banks participating in overdue (problem) debt management programmes (activities), while transferring the rights (claims) to overdue (problem) debt to the assets (property) of closed unit investment funds or acquiring and recording as securities of closed unit investment funds in the banks' balance sheets, in return for the transfer of rights (claims) to loans.

To reduce the effect of the profitability assessment on the general evaluation of the economic situation of banks during the global crisis and economic recession, the Bank of Russia issued Ordinance No. 2226-U of April 29, 2009, 'On the Specifics of the Assessment of the Economic Situation of Banks,' which imposed until January 1, 2011, a moratorium on the use of profitability assessment results when classifying banks in accordance with Bank of Russia Ordinance No. 2005 of April 30, 2008, "On

the Assessment of the Economic Situation of Banks,' and Letter No. 59-T, dated April 30, 2009, 'On the Specifics of the Assessment of the Economic Situation of Banks,' which explained the procedure for organising the work of the Bank of Russia regional branches during the moratorium.

In view of the changes in the accounting rules of credit institutions, and to harmonise the methodology used to assess the financial soundness of banks (for the purpose of ascertaining its sufficiency for their participation in the deposit insurance system with the approaches implemented in assessing the economic situation of the banks), the Bank of Russia issued Ordinance No. 2242-U of June 2, 2009, 'On Amending Point 5.2 of Bank of Russia Ordinance No. 1379-U of January 16, 2004, on the Assessment of the Financial Soundness of a Bank for the Purpose of Ascertaining its Sufficiency for the Participation in the Deposit Insurance System'. This spelled out the procedure for calculating the financial result of a bank and profitability assessment indicators.

To improve approaches to bank classification and in view of the changes made in the regulations on which Bank of Russia Ordinance No. 2005-U of April 30, 2008, 'On the Assessment of the Economic Situation of Banks,' is based, the Bank of Russia issued Ordinance No. 2267-U of August 5, 2009, 'On Amending Bank of Russia Ordinance No. 2005-U of April 30, 2008, on the Assessment of the Economic Situation of Banks'. This restricts the use of profitability assessment indicators in the assessment of the banks in the 3rd classification category. It also specifies the procedure for determining the financial result of a bank and the procedure and time allotted for sending information about the classification group (and shortcomings of the bank that served as the grounds for the classification) to the bank's one-man executive body, if a Bank of Russia regional branch has made the decision on the re-classification of the bank within a quarter.

To harmonise the amount and content of information disclosed by banks (banking groups) in line with IFRS, the Bank of Russia issued Ordinance No. 2172-U of January 20, 2009, 'On the Publication and Presentation of Information about the Activities of Credit Institutions and Banking (Consolidated) Groups' (hereinafter referred to as Ordinance No. 2172-U), which replaced Bank of Russia Ordinance No. 1270-U of April 14, 2003, 'On the Reports Published by Credit Institutions and Banking/Consolidated Groups.' In addition, credit institutions should publish cash flow statements. Ordinance No. 2172 also provides for the disclosure of an explanatory note in the published reporting forms, in case a credit institution or the parent credit institution of a banking group should decide to include one, and the differentiation of quarterly report publication times, depending on the availability or absence of an auditor's statement. In addition, pursuant to Article 8 of the Federal Law on Banks and Banking Activities, this Ordinance established the content of and set

the procedure for credit institutions and the parent credit institutions of banking (consolidated) groups presenting information about their activities, recommended them to inform customers about the full cost of a loan in their customer offices, and set deadlines for updating this information.

In 2009, the Bank of Russia issued Ordinance No. 2194-U of March 5, 2009, 'On Amending Bank of Russia Regulation No. 242-P, Dated December 16, 2003, on the Organisation of Internal Controls in Credit Institutions and Banking Groups,' which contained recommendations on ways to ensure the continuity of, and (or) restore the activities of credit institutions in the event of their disruption as a result of operational risk, including their structure and content, and on the organisation of an inspection (testing) of the plan of action aimed at ensuring this continuity and (or) restoring the activities of a credit institution in an emergency.

As part of the measures carried out to improve the quality of bank management, including the approaches to the organisation of risk management systems in credit institutions, the Bank of Russia issued Letter No. 105-T, dated September 3, 2009, 'On the Regulation of Compensation Practices in Credit Institutions.' This contained information on the latest international experiences in regulating the compensation practices in credit institutions and other financial organisations, and on the initiatives of authorities of some countries and national financial supervisors in regulating the compensation practices in financial organisations.

To regulate the activities of the banks that have changed their status and become non-bank credit institutions, the Bank of Russia issued Letter No. 178-T, dated December 24, 2009, 'On the Specifics of the Calculation of Required Ratios by Credit Institutions that Have Changed their Status to That of a Non-bank Credit Institution,' which specified the procedure for calculating required ratios by this category of credit institutions.

To prevent settlement non-bank credit institutions from conducting operations they are not aimed to conduct, the Bank of Russia issued Ordinance No. 2285-U of September 2, 2009, 'On Amending Bank of Russia Instruction No. 129-I of April 26, 2006, on Banking Operations and Other Transactions of Settlement Non-bank Credit Institutions, their Required Ratios and the Specifics of their Supervision by the Bank of Russia.' This established the procedure for setting at zero the maximum value of the bill obligations of settlement non-bank credit institutions (N16.2 ratio), putting into effect a prohibition of settlement non-bank credit institutions from issuing their own bills, and setting an additional condition to recognise loans extended to settlement participants to complete settlements from the liquidity support fund as Group 2 assets with a credit risk ratio of 10% (the terms of the loan should not exceed three calendar days).

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

The total number of registered and operating credit institutions continued to decline in 2009, as was the case in previous years. During the year, the total number of registered credit institutions fell by 4.1%, from 1,228 to 1,178. The number of operating credit institutions with banking licences also decreased year on year, from 1,108 (1,058 banks and 50 non-bank credit institutions) to 1,058 (1,007 banks and 51 non-bank credit institutions).

Seven new credit institutions were registered in the year under review: five banks, three of them with a foreign stake in capital, and two non-bank credit institutions (this compares with thirteen credit institutions in 2008: eight banks, five of them with a foreign stake in capital, and five non-bank credit institutions).

The re-organisation of credit institutions continued in 2009:

- twelve credit institutions merged with eight credit institutions (in 2008, five credit institutions merged with three credit institutions);
- seven credit institutions changed their form of incorporation from that of a limited liability company to that of a joint-stock company (nine credit institutions changed their form of incorporation in 2008).

Two banks changed their status and became settlement non-bank credit institutions during the year under review; of these one bank had its status changed as it failed to comply with the minimum capital requirements set by Article 11.2 of the Federal Law on Banks and Banking Activities (not a single non-bank credit institution became a bank and not a single bank became a non-bank credit institution in 2008).

Twenty-three credit institutions, or 2.2% of the total number of operating credit institutions expanded the range of their activities by obtaining additional licences (four banks obtained several different licences). Of these:

- four banks received general banking licences;
- ten banks received licences to take precious metals on deposit and place precious metals, of which one bank received this licence along with a licence to take household funds on deposit in roubles and in foreign currencies, one bank obtained this licence along with a licence to conduct banking operations in roubles and foreign currencies (without the right to take household deposits) and to take household deposits in roubles and foreign currencies, and one bank was issued a licence to replace its permit to conduct operations and trade in precious metals;
- two deposit insurance system member banks licensed to conduct banking operations with roubles (without the right to take household funds as deposits) and take household deposits in roubles received

licences to conduct the corresponding operations in foreign currencies;

- two banks were issued a licence to conduct banking operations in roubles and foreign currencies (without the right to take household deposits);
- seven banks were issued licences to take household deposits in roubles and foreign currencies, of which three banks received this licence for the first time, while one of them was also issued a licence to conduct banking operations in roubles and foreign currencies (without the right to take household deposits);
- one non-bank credit institution was issued a licence to conduct banking operations in roubles and foreign currencies for settlement non-bank credit institutions, which gave it permission to engage in many more banking operations than the previous licence.

As of January 1, 2010:

- 849 banks (not counting the deposit insurance system member banks that were prohibited from taking household deposits and opening household bank accounts pursuant to Article 48 of the Federal Law on the Insurance of Household Deposits with Russian Banks), or 80.2% of total operating credit institutions, had licences to take household deposits as against 886 banks, or 79.9% of the total, as of January 1, 2009;
- 701 credit institutions, or 66.3% of the total, had a licence to conduct banking operations in roubles and foreign currencies as against 736 credit institutions, or 66.4% of the total, as of January 1, 2009;
- 291 banks, or 27.5% of the total, held general licences as against 298 banks, or 26.9% of the total, as of January 1, 2009;
- 203 credit institutions, or 19.2% of the total, had the right to conduct operations with precious metals or were licensed to take precious metals on deposit and place precious metals or permits to conduct operations with precious metals; as of January 1, 2009, as many credit institutions had these licences (permits), accounting for 18.3% of the total.

In 2009, the total authorised capital of operating credit institutions increased from 881.4 billion roubles to 1,244.4 billion roubles, or by 363 billion roubles, or 41.2%, while their capital grew from 3,811.1 billion roubles as of January 1, 2009, to 4,620.6 billion roubles as of January 1, 2010, or by 809.5 billion roubles, or by 21.2%. A total of 227.9 billion roubles were paid into the authorised capital of state-controlled banks, including banks controlled by regional governments.

In the period lasting from April 1, 2009, to January 1, 2010 (since the enforcement of Federal Law No. 28-FZ of February 28, 2009, 'On Amending the Federal Law on

Banks and Banking Activities,' which provides for the step-by-step raising of minimum capital requirements for credit institutions), the number of banks with capital of less than 90 million roubles declined by 123, from 145 to 22. Of these:

- 86 banks increased their authorised capital by 5,407.2 million roubles; the capital of these banks grew by 6,761.2 million roubles (some banks not only increased their authorised capital, but also expanded significantly other sources of capital; bank owners in 31 regions scraped together enough funds to make investments);
- 29 banks increased their capital by 628.6 million roubles, raising funds from other sources (without increasing authorised capital);
- one bank merged with another bank, which has capital totalling over 90 million roubles;
- six banks had their banking licences revoked;
- one bank changed its status and became a non-bank credit institution.

The non-resident share of operating credit institutions' total authorised capital rose from 251.1 billion roubles to 305.2 billion roubles, or 21.6% in 2009 (in 2008, it grew from 183.5 billion roubles to 251.1 billion roubles, or 36.8%). The non-resident share of total banking sector authorised capital contracted from 28.5% to 24.5%, whereas in 2008 it expanded from 25.1% to 28.5%. While the number of operating credit institutions with foreign interest increased from 221 to 226 (in 2008, their number rose from 202 to 221), the number of credit institutions with non-resident controlling interest grew from 102 to 108 (in 2008, their number increased from 86 to 102). Meanwhile, foreign investments in the authorised capital of credit institutions rose by 54.1 billion roubles, as against 67.6 billion roubles in 2008.

Credit institutions with foreign investment are situated in 37 regions of the Russian Federation. Of the total number of credit institutions, 136, or 60.2%, are based in Moscow and the Moscow region, and 13 in St Petersburg.

There was a fall in the number of branches of operating credit institutions in the year under review. As of January 1, 2010, there were 3,183 branches of credit institutions as against 3,470 a year earlier, a decrease of 8.3%. Of the total number of branches of credit institutions, there were 645 Sberbank branches as of January 1, 2010, a decrease of 130 from January 1, 2009.

In 2009, the total number of internal divisions of credit institutions and their branches declined by 601 and as of January 1, 2010 stood at 37,547 as against 38,148 as of January 1, 2009. There was a rise in the number of additional offices, operations offices and mobile banking vehicles (from 21,272 to 21,641, from 1,498 to 2,109 and from 62 to 84 respectively), whereas the total number of external cash desks and cash and credit offices declined

(from 13,871 to 12,461 and from 1,445 to 1,252 respectively). The density of banking services in terms of internal divisions per 100,000 residents fell slightly, from 27 as of the end of 2008 to 26.5 as of the end of 2009.

In the period under review, the Bank of Russia registered 309 issues of securities by credit institutions: 258 share issues and 51 bond issues (in 2008, it registered 274 share issues and 75 bond issues).

The nominal value of the share issues registered in 2009 increased 2.6-fold year on year and reached 454 billion roubles. The change is largely the result of the registration of shares used to increase the authorised capital of credit institutions. The nominal value of these issues rose from 168.9 billion roubles in 2008 to 414.2 billion roubles in 2009. The nominal value of share issues connected with the founding of new credit institutions stood at 1.8 billion roubles, while those connected with the reorganisation of credit institutions reached 6.7 billion roubles (this compares with 1.3 billion roubles and 4.2 billion roubles in 2008 respectively). Compared to 2008, the number of share issues connected with the splitting, consolidation, the reduction of nominal value and conversion of shares increased 3.2-fold and totalled 31.3 billion roubles as against 0.1 billion roubles in 2008.

Of the share issues registered in the year under review, 184 share issue reports were registered in connection with the completion of share placements. The nominal value of the floated share issues totalled 372.5 billion roubles, or 82% of the nominal value of the share issues registered in 2009. This compares with 131.6 billion roubles, or 75%, in 2008, in which the number of registered share issue reports remained unchanged. In addition, 51 share issue reports from among the issues registered in 2008, worth 8.4 billion roubles, were registered in 2009.

The nominal value of the bond issues registered in 2009 declined from 344.4 billion roubles in 2008 to 202 billion roubles in 2009. Of the total bond issues registered in the period under review, 27% (with a value of 45.1 billion roubles) were placed. This represents 22.3% of the nominal value of bond issues registered in 2009 (61.7 billion roubles, or 17.9%, in 2008 respectively). Reports were registered and placement notices were received regarding 11 bond issues, worth 41 billion roubles, which were registered in 2008.

Eighty-four securities issues (35 share issues and 49 bond issues) were cancelled in 2009, as not a single security of those issues was placed or securities were issued in violation of federal laws. This represents a 70% increase over the number of securities issues cancelled in 2008 (21 share issues and 28 bond issues). It should be noted that 29 share issues (with a total value of 17.1 billion roubles) and 45 bond issues (with a total value of 234.5 billion roubles) that were cancelled in 2009 were registered in 2008.

III.3. Off-site Supervision and Supervisory Response

In 2009, the Bank of Russia continued to promote substantive approaches to the off-site supervision of credit institutions, which were aimed at identifying their actual risks. The global crisis laid bare the hitherto hidden risks in the activities of some credit institutions. The Bank of Russia significantly intensified its analysis of the levels and concentrations of risks taken by banks, and accelerated its response to unfavourable developments.

In the year under review, the off-site supervision of credit institutions was carried out, taking into account the lessons of the crisis and external environment. Therefore, the Bank of Russia closely scrutinised the extent of the transparency of banks and, whenever necessary, investigated the reasons of banks' large-scale transactions that seemed devoid of the economic point of view and created a real threat to the interests of creditors and depositors.

In 2009, as before, off-site supervisors focused on the analysis of the adequacy of credit risk assessments by banks. They examined virtually all stages of the lending process (including the financial situation of borrowers), ascertained whether they were really engaged in production or the provision of services, established the sources of funds raised by borrowers to service and repay their loans, and evaluated the adequacy of risk assessment, the completeness of loss provisioning and the reliability of their accounting and reporting.

In the year under review, special attention was paid to the analysis of the various aspects of banking risk. When measuring credit risk concentration levels, including the level of risk associated with real owners and affiliated parties, off-site supervisors were guided by the principles of a substantive (informal) approach.

In 2009, they paid closer attention to the amount of non-core and non-current assets, whose weight in credit institutions' balance sheets had increased significantly during the crisis. Therefore, the supervisors continued their close examination of the quality of corporate governance in banks. In addition, they closely watched the significantly increased volumes of operations conducted by banks with non-market securities, especially the shares of close-ended unit investment funds, to which banks had passed their bad assets in some cases.

Control of interest rates on household deposits was raised to a new level in 2009: in the period under review, the Bank of Russia began to monitor interest rates on deposits taken from individuals and denominated in the national currency on a 10-day basis, and quickly responded to any unjustified rise in bank interest rates. The results of the monitoring of the highest interest rates of the top 10 credit institution in terms of the value of rouble-

denominated household deposits were regularly posted on the Bank of Russia official website.

The supervisors paid special attention to large, systemically important credit institutions at the federal and regional levels. In this respect, they developed a 'second line' of banking supervision, which signifies that the large banks are supervised by both the Bank of Russia regional branches and head office. To make the 'second line' of supervision work, the Bank of Russia developed an information system designed to quickly provide information to Bank of Russia management, and the management and other executives of supervisory divisions, about the situation in credit institutions.

In 2009, the Bank of Russia head office and regional branches expanded contacts and day-to-day co-operation in supervising systemically important banks. This allowed them to expedite supervisory responses and make them more effective whenever risk levels in credit institutions changed or when banks launched operations requiring special attention. The Bank of Russia head office held in 2009 regular meetings with the managers and owners of banks that were faced with financial difficulties and management problems.

The placement of Bank of Russia's authorised representatives became a major step forward in expanding a range of tools used by bank supervisors to make credit institutions more transparent. As of the end of the year, the Bank of Russia had its authorised representatives in 42 banks. These authorised representatives supplied the Bank of Russia with additional information about banks that used government aid, including information about their financial standing and the quality of risk management. This information allowed supervisors to accelerate the decision-making process. In addition to studying how banks were using government aid, the Bank of Russia authorised representatives and supervisors collected and analysed information on bank asset quality, including credit portfolios, securities portfolios, the liquidity level and other aspects of banking, implementing risk-based approaches. The participation of the authorised representatives in the meetings of bank managers allowed them to better assess the decision-making system and procedures in credit institutions.

The Bank of Russia continued in 2009 to appoint curators to credit institutions in line with its Regulation No. 310-P, dated September 7, 2007, 'On the Curators of Credit Institutions.' As for international co-operation and the supervision of foreign credit institutions' subsidiaries, Bank of Russia supervisors continued to participate in the work of international supervisory colleges.

To get information about credit institutions' compliance with disclosure requirements, the Bank of Russia revised Form 0409809,⁷² which previously only contained information about credit institutions that had not published their reports. The new version of the form contains information about the title and circulation of the publication in which the reports are published, the publication date and the date of shareholders' (members') meetings for the purpose of verification of compliance with annual report publication times.

To implement the principles for effective banking supervision recommended by the Basel Committee on Banking Supervision to the fuller extent (including obtaining comprehensive information about the financial situation, profitability and risk taken by credit institutions), the Bank of Russia granted its regional branches the right to demand that troubled banks submit their reporting forms for supervisory purposes more often than once per month.

As of January 1, 2010, over 95% of total operating credit institutions disclosed information about their activities on the Bank of Russia official website, of which more than 87% of total operating credit institutions had agreed to make public their data about turnovers, balances of accounts and profits and losses.⁷³

To minimise the possibility of fraud committed via the Internet, the Bank of Russia regularly posts the website addresses of credit institutions on its official website in Form 0409070 Information about the Use of Internet by Credit Institutions.

Preventive measures continued to prevail in supervisory responses in 2009 and their number declined year on year, to 7,182, as of January 1, 2010. In most cases, it was information sent in writing to the managers of banks (1,031 banks received such information in 2009). The Bank of Russia regional branches held meetings with 514 banks.⁷⁴

⁷² Form 0409809 is entitled 'Information about the Publication of Reports by Credit Institutions and an Auditor's Statement on their Reliability.'

⁷³ Forms 0409101 and 0409102 pursuant to Bank of Russia Letter No. 165-T, dated December 21, 2006, 'On the Disclosure of Information by Credit Institutions.'

⁷⁴ For more information about supervisory measures taken against credit institutions in 2009, see the Bank of Russia Annual Report for 2009.

III.4. On-site Inspection of Credit Institutions

The Bank of Russia conducted on-site inspections in 2009 in accordance with the Guidelines for the Single State Monetary Policy in 2009 and for 2010 and 2011 and the Summary Plan of Comprehensive and Thematic Inspections of Credit Institutions and their Branches for 2009, hereinafter referred to as the Summary Plan, taking into consideration the situation in the economy and the banking sector.

Special attention was paid to on-site inspections aimed at assessing the financial (economic) situation of banks, including the evaluation of the quality of their assets and securities trading, as well as their settlement discipline and liquidity management. Inspectors focused on credit institutions that exerted material influence on the systemic stability of the banking sector (the so-called 'systemically important credit institutions') and credit institutions that had received government aid. At the same time, measures were taken to improve the quality of on-site inspections, tighten control of their results, prevent violations in the course of on-site inspections and upgrade inspection-related methodologies, information and analysis.

In 2009, the Bank of Russia carried out a total of 1,224 inspections, of which 866 inspections were conducted in credit institutions (78.2% of total operating credit institutions as of January 1, 2009) and 353 were conducted in the branches of credit institutions (28.8% of total inspections). Of these, 38 inspections were conducted in Sberbank branches, and five were carried out

in additional offices and external cash desks. The trend towards the reduction of the inspection per credit institution ratio continued (see Chart 3.1) and most inspections were thematic (1,079, or 88.2% of total inspections) (see Chart 3.2).

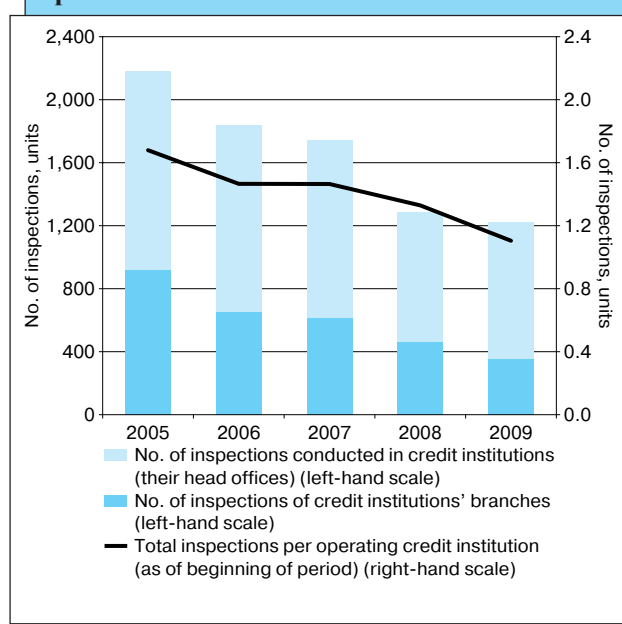
To ensure that the deposit insurance system runs smoothly and safeguards the rights and legitimate interests of bank depositors (pursuant to Article 32 of the Federal Law on the Insurance of Household Deposits with Russian Banks), 81 on-site inspections were conducted in collaboration with the DIA.

To analyse comprehensively the activities of credit institutions, the Bank of Russia, as a rule, inspected their branches in the course of inspecting credit institutions. This contributed to the reduction in the number of inspections of credit institutions' branches (see Chart 3.3). When the Bank of Russia made the decision to inspect a branch of a credit institution, it took into consideration its weight on the regional banking services market and the total value of the credit institution's operations, as well as risk concentration, the materiality of violations (shortcomings) identified in the course of the off-site supervision of the branch, and information indicating that it may conduct operations endangering the legitimate interests of creditors and depositors.

In accordance with the Summary Plan, the Bank of Russia carried out 884 inspections, representing 72.2% of the total number of inspections; these included 742 thematic inspections, which represented 83.9% of all scheduled inspections (see Chart 3.4).

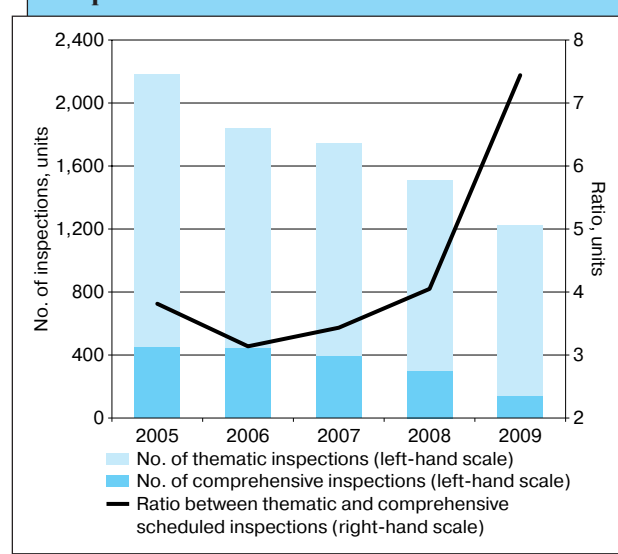
Inspection per credit institution ratio

CHART 3.1



Thematic and comprehensive inspections

CHART 3.2



The Bank of Russia conducted 340 *unscheduled inspections*, representing 27.8% of the total number of inspections; these included 337 thematic inspections, which represented 99.1% of all unscheduled inspections.

As per the decision of its management, the Bank of Russia conducted 83 inspections, representing 24.4% of all unscheduled inspections.

At behest of their management, the Bank of Russia regional branches conducted 257 inspections, or 75.6% of total unscheduled inspections, most of which (219 inspections, representing 64.4% of all unscheduled inspections) were carried out to verify the correctness of the payments made by the acquirers of shares (stakes) in credit institutions when their authorised capital increased by more than 20% of its previously registered level. Thirteen inspections were conducted in response to credit institutions' requests for licences to expand their range of activities, and twelve inspections were carried out when there were grounds for the implementation of bankruptcy prevention measures and after these grounds had been eliminated. Thirteen inspections were conducted to ensure the compliance of assets provided by banks as collateral for Bank of Russia loans with the criteria set by Bank of Russia Regulation No. 312-P, dated November 12, 2007, 'On the Procedure for Extending Bank of Russia Asset- or Guarantee-Backed Loans to Credit Institutions.'

Control was exercised in 2009 over the organisation and conduct of 89 inspections of *credit institutions that had received government aid*.

When these inspections were organised, all of the inspection assignments provided for the assessment of the compliance of transactions conducted by credit institutions with federal laws. In some cases, these assessments were made in response to information received from the law enforcement authorities. The inspection results contained information on the nature of operations conducted by the inspected credit institutions and the use

of the government aid they received; this information was passed on to law enforcement authorities and Bank of Russia supervisors.

In all, Bank of Russia inspectors considered 214 requests within the framework of *co-operation with law enforcement and control authorities*, and whenever necessary, experts with the Main Inspectorate of Credit Institutions consulted them.

In the course of inspections conducted in 2009, inspectors detected 16,422 violations committed by credit institutions and their branches. Most of these violations (3,979, or 24.2% of the total) consisted of non-compliance with federal legal requirements and Bank of Russia regulations on anti-money laundering and counter-terrorism financing (AML/CTF). In many cases, credit institutions committed violations in credit operations (3,714, or 22.6%), financial reporting (1,443, or 8.7%), settlement discipline (1,279, or 7.7%) and accounting (1,156, or 7.0%). Non-compliance with the requirements of foreign exchange laws was registered in 987 cases (6.0%) and non-compliance regarding cash operations was identified in 674 cases (4.1%).

To upgrade the organisation of inspections, the Bank of Russia launched *an experiment to centralise inspections* in the North-Western Federal District in 2009.

The experiment involves all Bank of Russia regional branches situated in this federal district and Inspectorate No. 3 of the Main Inspectorate of Credit Institutions.

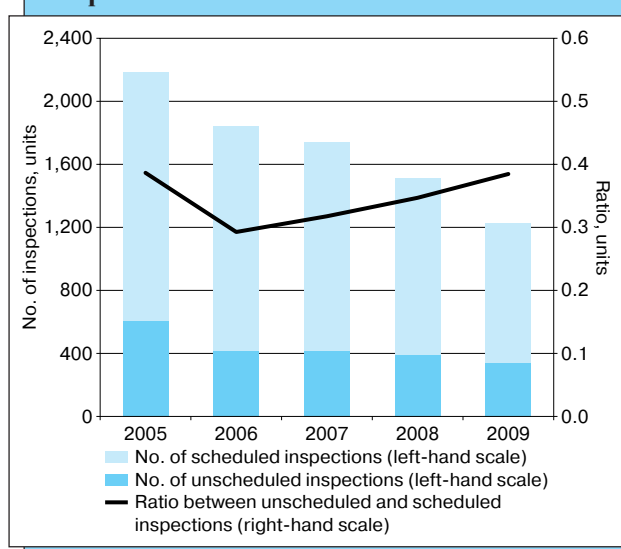
On the whole, its aim was to enhance the efficiency of inspections by ensuring the independence and objectivity of inspectors, more effective handling of inspection resources and co-operation between off-site and on-site supervisors, and more precise delimitation of their competences.

To this end:

- the Bank of Russia has changed the organisational status of the inspection divisions of its regional

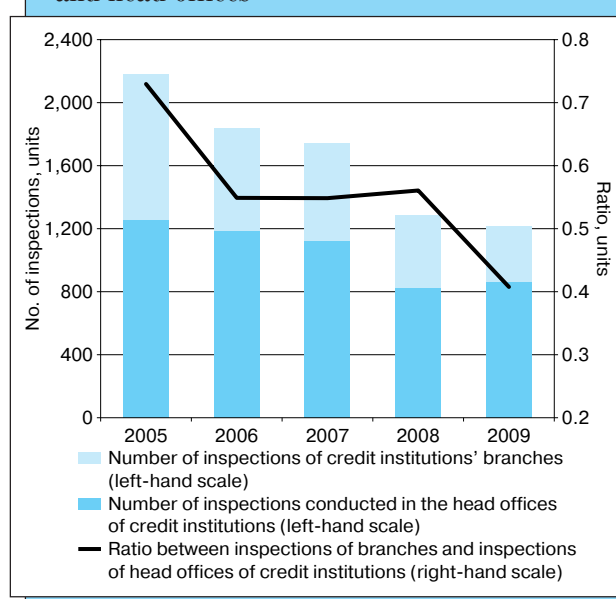
Scheduled and unscheduled inspections

CHART 3.3



Inspections of branches and head offices

CHART 3.4



branches in the North-Western Federal District, transforming them into the internal divisions of Inspectorate No. 3, situated in their respective territories;

- Inspectorate No. 3 has been allocated a portion of the functions and powers of the Bank of Russia regional branches in the North-Western Federal District and the head office of the Main Inspectorate, and the level of its responsibility for inspection results in the federal district has been raised;
- Inspectorate No. 3 has received all the material, technical, social, documentary, information and other resources necessary for its efficient operation.

In all, Inspectorate No. 3 and its internal divisions conducted 109 inspections in 2009, of which 83 inspections were conducted in line with the Summary Plan.

To prepare and conduct the experiment, the Bank of Russia and Main Inspectorate elaborated and issued in 2008–2009 about 40 regulations and administrative and organisational documents, regulating specific inspection activities in the North-Western Federal District.

The centralisation of inspections in the course of the experiment made it possible:

- to switch to the substantive planning of inspections, tighten requirements for the appropriateness of proposals drafted by the Bank of Russia's regional branches in the North-Western Federal District on conducting inspections, and better define the purposes of inspections. This helped the Bank of Russia draw up the Summary Plan from the standpoint of the inspections of credit institutions and their branches in the North-Western Federal District, and focus them more accurately on their specific problems, taking into account the profile and concentration of the risks that credit institutions take;
- to prepare risk-based assignments for inspections. The introduction in the course of the experiment of a risk-based approach to supervision (including the drawing up of a list of credit institutions, their branches and their activities that were to be inspected) became one factor that reduced the inspection per credit institution ratio (especially the number of inspections);
- to ensure that the Bank of Russia branches in the North-Western Federal District and the Bank of Russia head office promptly receive information about on-going inspection results before the inspection is completed, evaluate the quality of inspection results, and quickly detect and respond to situations in credit institutions requiring immediate interference by a regulator;
- to simplify procedures for enlisting inspectors to help conduct inspections in other regions. This allowed to enhance the efficiency of the redistribution (rotation) of inspectors and their mobility, temporarily employ

unoccupied inspectors from internal divisions in the other regions of the North-Western Federal District or Inspectorate No. 3, and form 'mixed' working groups for precluding a conflict of interest;

- to arrange an entirely new level of interrelations between the Bank of Russia branches in the North-Western Federal District and Inspectorate No. 3, in order to meet, to a greater extent, the needs of the off-site supervision divisions of the Bank of Russia head office and regional branches in the North-Western Federal District.

At the beginning of the experiment, the Bank of Russia tested and introduced procedures to monitor the organisation and conduct of inspections. This made it possible:

- to improve the quality and efficiency of the fulfilment of the tasks set by the Bank of Russia head office by the inspection divisions;
- to standardise approaches to inspection now that the quality of inspection is controlled by a single executive, the Inspector-General of Inspectorate No. 3;
- to improve the quality of inspection materials, reduce the number of criticisms of inspection reports, improve their structuring and ensure a more complete, detailed and substantiated presentation of meaningful supervisory information.

The encouraging results of monitoring in Inspectorate No. 3 made it possible, in the middle of 2009, to spread the experience gained to all interregional inspectorates of the Main Inspectorate for Credit Institutions.

On the whole, the testing of new inspection techniques in the course of both experiment and traditional (decentralized) inspection activities confirmed the advantage and great potential of the centralized inspection model.

In 2009, some *elements of internal controls* were introduced in the work of the Main Inspectorate of Credit Institutions. The idea was to minimise legal risk for the Bank of Russia, improve the quality of inspection reports and ensure that the Bank of Russia management is informed in time about preliminary inspection results. The principal elements of internal controls were the monitoring of current inspection results and analysis of credit institution inspection reports, including inspection material express analyses⁷⁵ and the statements by the inspectors-general of the Main Inspectorate of Credit Institutions on inspection results.⁷⁶

The Bank of Russia *monitored current inspection results* while implementing a special supervision regime with regards to systemically important credit institutions, in which it conducted 527 inspections (43.1% of total inspections), including 452 inspections (51.1% of total scheduled inspections), conducted in line with the Summary Plan.

⁷⁵ Inspection material express analyses contain information about the violations detected in the work of credit institutions and their (possible) effect on the assessment of the financial (economic) situation of credit institutions.

⁷⁶ Statements by the inspectors-general of the Main Inspectorate of Credit Institutions on inspection results contain assessments of the quality of inspection reports, including the working group's conclusions about the results of the consideration of questions examined by inspectors.

Monitoring is an element of the Bank of Russia's real-time inspection management. Its purpose is to ensure additional control in the course of organising and conducting inspections of credit institutions and enhance their efficiency. In the course of monitoring, information about current inspection results were analysed and made known to the supervisory divisions, which promptly pronounced their judgements about whether it was necessary or not to change the course of the inspection. They also decided whether it was necessary to make an additional examination of some aspects of the credit institution's activities and, in doing so, enlist the credit institution's managers and owners.

Monitoring also allowed the Bank of Russia to take preventive steps to rectify the situation in credit institutions and prevent adverse consequences. When credit institutions were monitored to make sure they were not conducting operations to conceal the real quality of their assets, including credit institutions within banking groups and parent and subsidiary (affiliated) structures, several simultaneously conducted inspections were co-ordinated.

The quality of credit institution inspection reports was assessed during the in-depth analysis of inspection results, in the completeness of the description of the inspected matters, and in the assessment of the risks taken by credit institutions and their financial (economic) situation. The interregional inspectorates of the Main Inspectorate of Credit Institutions analysed in 2009 the quality of 711 credit institution inspection reports, and 200 letters containing information about the shortcomings discovered in these reports were sent to the Bank of Russia regional branches.

To improve the performance of on-site inspectors, twelve Bank of Russia regional branches in the Central, North-Western, Southern, Volga, Urals and Far Eastern Federal Districts presented inspection performance reports. When these reports were heard, criticisms were voiced about how inspections were organised and carried out, and recommendations were made on ways to enhance the efficiency of inspections and apply in practice Bank of Russia rules and regulations.

The interregional inspectorates of the Main Inspectorate of Credit Institutions held nine meetings with the heads of the inspection divisions of the Central, Volga, Southern, Urals, Siberian and Far Eastern Federal Districts to discuss the practical aspects and specifics of inspection during the crisis. These included credit risk assessment and the evaluation of banks' performance with respect to the AML/CTF, and core approaches to preparing proposals for the draft version of the Summary Plan for 2010.

The Bank of Russia continued *to introduce flow charts in inspections*, which constitute the algorithm of the inspector's step-by-step activity during the course of inspecting individual aspects of credit institutions' work.

The practical application of flow charts helps improve the quality of inspections and the comparability of the inspection results of several credit institutions. The charts also reduce the elements of bias in inspectors' activity and optimise and rationalise their work. In 2009, flow charts were developed on credit institutions' active operations with securities and own bills, as well as operations to send funds out of the country.

Building upon information provided by the interregional inspectorates of the Main Inspectorate of Credit Institutions and the results of the random analysis of inspection materials, the Bank of Russia updated summarized information and made it known to the inspection divisions of its regional branches. This information concerned the specific schemes used by credit institutions to conceal violations of federal laws and Bank of Russia regulations.

As part of *analysis and information support for inspections* at the federal, interregional and regional levels, work was conducted in the following areas:

1. The development of inspection analysis tools:

- providing the interregional inspectorates of the Main Inspectorate of Credit Institutions and inspection divisions of the Bank of Russia's regional branches with materials based on the results of the analysis of the reports presented by credit institutions and branches of credit institutions located in the territories under their jurisdiction, to improve the quality of planning, organising and carrying out inspections;
- test runs of the Inspection sub-system of the modified system Analysis of the Financial Standing of a Bank, which will allow inspection divisions to use a single platform to get analytical information in the future;
- participating in the development of a prototype inspector workplace automation system, which is a tool designed to handle data from the automated banking systems. It will help automate the compilation of inspection materials, increase the labour productivity of working group members, and make the analysis of accounting data and other information about a credit institution in the course of inspections easier.

2. Automating current inspection work to improve the quality of planning and establishing the further accounting of inspections, including the support and management of the credit institution (branch) inspection database; and the provision to the Bank of Russia supervisory divisions of information about credit institution inspections and their results within the framework of the IT System of the Main Inspectorate of Credit Institutions.

3. Automating the assignments of Bank of Russia supervisors by developing a banking sector regulation and development system, a process during which the Main Inspectorate of Credit Institutions took part in the development of the functional sub-system Inspection within the Single Information Support System.

III.5. Financial Rehabilitation and Liquidation of Credit Institutions

The Bank of Russia continued in 2009 to implement measures it launched in September 2008 to ensure the solvency of the banks that had experienced financial problems as a result of the international financial crisis.

To implement Federal Law No. 175-FZ of October 27, 2008, 'On Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011', hereinafter referred to as Federal Law No. 175-FZ, the Bank of Russia, in collaboration with the DIA, carried out in 2009 measures to prevent the bankruptcy of 17 banks, including 14 banks where it began to undertake these measures in 2008.

In 2009, the DIA completed measures in two of these banks (begun in 2008), to transfer household deposits and the equivalent amount of property to financially sound banks. The DIA selected those financially sound banks for the acquisition of property and obligations of problem banks that presented the least expensive commercial proposals. As a result, the acquiring banks ensured the provision of services to all depositors in the points of presence of the problem banks, on the same terms and conditions as had existed in the problem banks. When the deposit transfer procedures were completed, the problem banks had their banking licences revoked.

Pursuant to Federal Law No. 175-FZ, the Bank of Russia and the DIA sent in 2009 proposals for the DIA participation in the prevention of the bankruptcy of three banks. The DIA plans for the participation in the prevention of bankruptcy of these three banks were agreed with the Bank of Russia Banking Supervision Committee (two of these plans, which envisaged the use of Bank of Russia funds, were approved by the Bank of Russia Board of Directors).

The Bank of Russia approved in 2009 detailed financial rehabilitation plans for eleven banks that were being rehabilitated with the participation of the DIA, and this made it possible to monitor the real business conducted by these banks and the rehabilitation of their financial soundness.

In five banks, the DIA bought out 83 billion roubles of temporarily non-performing problem assets, allowing the banks to improve their performance indicators, quickly reduce loan loss provisions and increase capital. The DIA will continue to work with the bought-out assets.

The financial rehabilitation of credit institutions, pursuant to Federal Law No. 175-FZ, is funded from the Russian Government's property contribution to the DIA, or by Bank of Russia loans extended to the DIA for a term of up to 5 years. In 2009, the Bank of Russia provided 73.3 billion roubles via these loans. In the period under review, the DIA repaid 20.7 billion roubles and as of Jan-

uary 1, 2010, its debt on the Bank of Russia loans extended pursuant to Federal Law No. 175-FZ totalled 166.9 billion roubles.

In December 2009, the DIA submitted to the Bank of Russia its first report on the completion of bankruptcy-prevention measures in ZAO Nizhegorodpromstroibank, a bank incorporated in the form of a closed joint-stock company. All the planned financial rehabilitation measures had been completed and produced the desired result: the bank stabilised its performance, demonstrated a sound trend towards growth and has no debt to the DIA. Since January 1, 2010, it has been supervised according to the normal procedure.

In line with credit institution bankruptcy prevention plans, the Bank of Russia ordered the DIA to perform the functions of a provisional administration in three banks in 2009. In all, the DIA fulfilled the functions of a provisional administration in six banks in 2009, of which two later had their banking licences revoked. In three of these banks, the functions of the provisional administration were terminated early at the request of the DIA, and in one bank the functions of the provisional administration were terminated when its term expired.

In line with the Bank of Russia-approved plans for the participation of the DIA in the prevention of bankruptcy of four credit institutions with a negative value of capital, the authorised capital of these banks was reduced to 1 rouble. Subsequently, these banks issued additional shares, which were bought up by new investors. This allowed the banks to restore their capital (including 8.7 billion roubles extended by the DIA) and completely return their businesses to normal.

As of January 1, 2010, bankruptcy-prevention measures implemented with the participation of the DIA pursuant to Federal Law No. 175-FZ continue to be carried out in 14 banks.

In addition, four banks continue to be rehabilitated with the participation of other investors using government funds, according to the decisions taken before the enforcement of Federal Law No. 175-FZ.

In 2009, a total of 112 credit institutions (95 credit institutions in 2008) situated in 29 regions of the Russian Federation warranted being subjected to insolvency (bankruptcy) prevention measures under Article 4 of the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions (hereinafter referred to as Federal Law No. 40-FZ). Four of them carried on their business within the framework of the financial rehabilitation plans drawn up pursuant to Federal Law No. 40-FZ. Sixteen of these credit institutions implemented bankruptcy-prevention measures with the participation of the DIA pursuant to Feder-

al Law No. 175-FZ. One of these banks is carrying out measures in line with a plan approved by the Bank of Russia Banking Supervision Committee, pursuant to Article 11 of Federal Law No. 175-FZ. Forty-eight of the banks rectified the faults that made them liable for financial rehabilitation in 2009; one credit institution did so in 2010. Five credit institutions, which had been in operation for less than two years after receiving banking licences and were liable for bankruptcy prevention under paragraph 7 of Article 4 of Federal Law No. 40-FZ were not ordered to match their capital with authorised capital, owing to the specific terms established by the aforementioned article. For one credit institution the time for ordering the financial rehabilitation had not yet come as of January 1, 2010. Thirty-four credit institutions had their banking licences revoked by the Bank of Russia. One credit institution had its banking licence revoked by the Bank of Russia in 2010. One credit institution requested permission to change its status to that of a non-bank credit institution.

As of January 1, 2010, 19 credit institutions were liable for the insolvency (bankruptcy) prevention measures.

In 2009, the Bank of Russia supervised 60 provisional administrations of credit institutions, which carried out their duties pursuant to Federal Law No. 40-FZ. In 2009, the Bank of Russia appointed 44 provisional administrations and disbanded 48 provisional administrations, of which three provisional administrations were dismissed in connection with the decision of the arbitration court to liquidate these credit institutions and appoint liquidators. Forty-five provisional administrations were dismissed in connection with the decision of the arbitration court to declare the credit institutions insolvent (bankrupt) and appoint receivers. Pursuant to point 2 of Article 19 of Federal Law No. 40-FZ, DIA representatives worked in 46 provisional administrations appointed by the Bank of Russia. As of January 1, 2010, there were 12 provisional administrations in credit institutions, which were appointed in connection with the revocation of licences from these credit institutions.

Pursuant to the Federal Law on the Insurance of Household Deposits with Russian Banks, the Bank of Russia supervised in 2009 banks to make sure that they comply with the deposit insurance system's requirements.

925 banks were members to the compulsory deposit insurance system as of January 1, 2010 (as against 937 banks as of January 1, 2009), including 66 banks that had had their banking licences revoked (cancelled) earlier.

In 2009, the deposit insurance system admitted seven banks and expelled 19 banks, of which 10 banks were struck off in connection with their reorganisation and nine in connection with their liquidation.

Insurance events occurred in 31 deposit insurance system member banks in 2009 (29 of them had their licences revoked, and two banks had their licences cancelled just as they decided to close). In all the insured events connected with licence revocation, the registers of obligations to depositors were sent by the Bank of Russia-appointed provisional administrations to the DIA within

the 7-day period established by the Federal Law on the Insurance of Household Deposits with Russian Banks. This enabled the DIA to begin payment of insurance premiums to depositors in due time (within three working days of the submission to the DIA of required documents by a depositor, but not earlier than 14 days from the onset of the insured event).

To implement the provisions of the Federal Law on the Insurance of Household Deposits with Russian Banks, the Bank of Russia supervised all member banks on a regular basis to make sure that they complied with the deposit insurance system's requirements. Pursuant to Article 48 of the Federal Law on the Insurance of Household Deposits with Russian Banks, the Bank of Russia Banking Supervision Committee prohibited in 2009 three member banks from taking household deposits and opening household bank accounts for failing to meet the deposit insurance system's requirements. The ban was imposed on one of these banks on account of its being subjected to forced measures for three consecutive months, and the other two banks were sanctioned for failing to comply with the profitability ratio requirements as of two quarterly dates.

Pursuant to the Federal Law on the Insurance of Household Deposits with Russian Banks and the agreements signed in 2009, the Bank of Russia and the DIA co-operated. They co-ordinated their activities and shared information relating to the deposit insurance system, the participation of member banks, the payment of insurance contributions and deposit compensation, the inspection of the deposit insurance member banks by the Bank of Russia, the use of sanctions and other measures against them, and other issues relating to the deposit insurance system.

Pursuant to Article 74 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia) and Articles 20 and 23 of the Federal Law on Banks and Banking Activities, the Bank of Russia ordered the revocation (cancellation) of licences from 47 credit institutions, of which three credit institutions had their licences cancelled by the decision of the credit institution's shareholders (36 credit institutions and three credit institutions in 2008 respectively). Most licences (29) were revoked (cancelled) from credit institutions registered in Moscow and the Moscow Region.

The number of banks stripped of their licences in connection with a failure to meet creditors' pecuniary obligations, and (or) make compulsory payments increased from 20 in 2008 to 24 in 2009. In addition, 17 credit institutions (as many as in 2008) had their licences revoked for significantly misreporting data, and 10 credit institutions (seven in 2008) lost their licences for failing repeatedly within one year to meet the requirements of point 3 of Article 7 of the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing.

The Bank of Russia's decisions to revoke licences from six credit institutions were challenged in court in 2009; in five cases the court upheld these decisions, and in one case the litigation has not yet been completed.

During the year under review, the Bank of Russia took decisions on the state registration of 44 credit institutions in connection with their liquidation. Of these, 21 credit institutions were liquidated by the decision of the arbitration court upon the completion of bankruptcy proceedings, 19 credit institutions were liquidated by court order without any signs of bankruptcy, and four credit institutions were closed by their founders.

Forty-five credit institutions were struck off the state register of corporate entities, owing to the revocation (cancellation) of their licences.

As of January 1, 2010, 119 credit institutions that had had their licences revoked (cancelled) but whose liquidation had not been confirmed by the registration authority were slated for liquidation. Of these, liquidation procedures were conducted in 109 credit institutions. As for the remaining 10 credit institutions, no relevant court decisions had been made after the revocation of their licences as of the reporting date. Bankruptcy proceedings against one of them had been suspended until the results of a financial examination, conducted by the Interior Ministry's Criminal Expert Analysis Centre, were received. With regards to yet another credit institution, the compulsory liquidation proceedings against it had been suspended until the coming into force of a Moscow Arbitration Court decision on the revocation of its banking licence.

Most of the liquidated credit institutions (90) had been declared insolvent (bankrupt) and bankruptcy proceeding had been initiated against them. Of these, 48 credit institutions were declared bankrupt in 2009. With regards to one of them, the arbitration court had pronounced its decision to liquidate it. The arbitration courts had taken the decision to liquidate 13 credit institutions (decisions to liquidate four credit institutions were taken in 2009; one of these credit institutions was subsequently declared bankrupt and another one was closed by its members). In addition, six credit institutions are being liquidated voluntarily by the decision of their members (of these, the decisions to close down three credit institutions were taken by their members in 2009).

In most of the credit institutions (96) liquidated as of January 1, 2010, proceedings were conducted by a corporate liquidator, the DIA, appointed by point 2 of Article 50.11 of the Federal Law on Insolvency (Bankruptcy) of Credit Institutions; in 85 of them the DIA performed the functions of a receiver and in 11 credit institutions it acted as a liquidator.

In 2009, arbitration courts approved the DIA as the liquidator of three credit institutions and the receiver of 45 credit institutions (in two of these, the DIA was approved by the receiver after liquidation proceedings had been conducted in them on the basis of the liquidation decisions of the arbitration courts).

In all, as of January 1, 2010, the DIA was approved as a receiver or liquidator in 228 credit institutions, of which 132 credit institutions liquidated by the DIA were taken off the state register.

In 2009, the Bank of Russia conducted 11 inspections of receivers and liquidators of credit institutions, of which two inspections were conducted by the Bank of Russia regional branches and nine inspections were conducted by the Bank of Russia Credit Institution Licensing and Financial Rehabilitation Department. In 10 cases, it is the DIA that was inspected and in one case an individual receiver was inspected.

Pursuant to point 5.1 of Bank of Russia Regulation No. 306-P, dated July 3, 2007, 'On the Inspection of the Receivers and Liquidators of Credit Institutions by the Bank of Russia,' hereinafter referred to as Regulation No. 306-P, the results of the inspection of the receiver were made known to a self-regulating receivers' organisation, which this individual was a member of.

Since the drawbacks discovered in the work of the DIA in the course of inspections in 2009 did not infringe upon the legitimate rights and interests of credit institutions' creditors, no prescriptions or other measures stipulated by the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions and Regulation No. 306-P were used against the receivers (liquidators). At the same time, three letters containing recommendations on the DIA's inspection results were sent.

Forty receivers were accredited with the Bank of Russia, and twenty-one receivers had their accreditations extended in 2009.

However, nine receivers were denied accreditation, one receiver did not have his accreditation extended for failing to meet accreditation requirements, and yet another receiver had his accreditation cancelled for violating the laws regulating credit institutions' liquidation procedure by acting in a way that harmed the rights and legitimate interests of creditors.

Sixty-one receivers were accredited with the Bank of Russia as of January 1, 2010.

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 passed in 2009 a decision to pay a total of 50,958,000 roubles to 265 depositors from four credit institutions.

In all, as of January 1, 2010, the Bank of Russia decided to pay to 40,308 depositors a total of 1,264,696,000 roubles. As of the date indicated above, 36,169 depositors (or 89.7% of the depositors entitled to these payments) received a total of 1,229,691,000 roubles (or 97.2% of the total amount of funds allocated for Bank of Russia payments of this kind).

Bank of Russia claims on the credit institutions whose depositors received Bank of Russia payments as of January 1, 2010, were met by receivers to the amount of 381,050,000, or 31% of total Bank of Russia claims that had passed to it as a result of the Bank of Russia's payments. Of the total number of credit institutions whose depositors received Bank of Russia payments as of January 1, 2010, 20 credit institutions were liquidated and struck off the state register by the registration authority.

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

In 2009, the Bank of Russia continued to fulfil duties established for it by Federal Law No. 115-FZ of August 7, 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing (with changes and additions) (hereinafter referred to as Federal Law No. 115-FZ) and took an active part in implementing a plan of action to upgrade Russia's anti-money laundering/counter-terrorism financing (AML/CTF) system. The plan was approved by the Russian Government on November 10, 2008 and was based on recommendations made by FATF⁷⁷ experts in their mutual assessment report on Russia at the third round of mutual assessments (hereinafter referred to as the Plan). With regards to the section of the Plan relating to the banking system, the Bank of Russia participated in drafting federal laws aimed, specifically, at improving customer and beneficiary identification procedures. These broadened the powers of credit institutions, allowing them to unilaterally (and without resorting to court action) refuse to fulfil a bank account (deposit) agreement with an individual or corporate entity, and required that they accompany money transfers with information about the payer.

The Bank of Russia harmonised its regulations with the requirements that money transfers should be accompanied by information about the payer, established by the federal laws regulating the receipt of individual payments by payment agents.⁷⁸

In view of the coming into force as of January 1, 2010, of a Bank of Russia regulation that establishes (for the purpose of enhancing the efficiency of the exchange of information) a new procedure for sending by credit institutions electronic messages to an authorised body about controllable operations,⁷⁹ the Bank of Russia carried out a lot of work to provide methodological aid to credit institutions. As a result, by March 2009, the number of messages returned by the authorised body because of errors had fallen to 0.3% and reached their 2008 level.

To ensure the uniformity of the Bank of Russia regulatory and law enforcement practices, the Bank of Russia summarised in 2009 and systematised questions asked by its regional branches and credit institutions about the implementation of the provisions of AML/CTF legislation. Specifically, it issued an informative letter explaining key

issues relating to the implementation of Bank of Russia AML/CTF regulations.

To improve supervision of compliance by credit institutions and their branches with the AML/CTF legislation, the Bank of Russia initiated amendments to the Agreement of May 17, 2004, on Information Co-operation between the Central Bank of the Russian Federation and Federal Financial Monitoring Service, conducted pursuant to the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing. As a result, since July 1, 2009, the Bank of Russia has been able to quickly inform its regional branches about compliance by all supervised credit institutions and their branches with the deadlines set by Federal Law No. 115-FZ for reporting operations subject to control to the authorised body. Previously, this information with regards to the branches of credit institutions that did not report data to the authorised body was not available to the Bank of Russia regional branches on location at such a branch. This reduced the efficiency of off-site supervision and pre-inspection preparations. In addition, the Bank of Russia issued methodological recommendations on how its regional branches should use this information in off-site supervision, during preparations for inspections and in the course of on-site inspections.⁸⁰

To perform its supervisory functions, the Bank of Russia inspected 911 credit institutions and/or their branches from the standpoint of their compliance with AML/CTF legislation in 2009.

Various measures were taken against credit institutions for violations of Federal Law No. 115-FZ and Bank of Russia AML/CTF regulations and procedures. In 287 cases, the Bank of Russia informed the management of credit institutions about the shortcomings discovered in their work; in 196 cases, the Bank of Russia forced the errant credit institutions to rectify the faults discovered in their work; in 122 cases, the Bank of Russia fined credit institutions; in 162 cases, credit institutions were prohibited from conducting some kinds of transactions, and in 10 cases, credit institutions had their licences revoked.

To advance the training of specialists in the head office and regional branches in the field of AML/CTF, eight

⁷⁷ Financial Action Task Force.

⁷⁸ Federal Law No. 103-FZ of June 3, 2009, 'On the Activities Relating to the Receipt of Individual Payments by Payment Agents,' and Federal Law No. 121-FZ of June 3, 2009, 'On Amending Some Federal Laws in Connection with the Passing of the Federal Law on the Activities Relating to the Receipt of Individual Payments by Payment Agents.'

⁷⁹ Bank of Russia Regulation No. 321-P, dated August 29, 2008, 'On the Procedure for Presenting Information by Credit Institutions to an Authorised Body Stipulated by the Federal Law on Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Terrorism Financing.'

⁸⁰ Bank of Russia Letter No. 144-T, dated November 16, 2009, 'On the Use of Information Received from the Federal Financial Monitoring Service (Rosfinmonitoring).'

seminars involving more than 360 people were held in 2009, in line with the Bank of Russia advanced personnel training plan for the managers and specialists of the relevant divisions of the Bank of Russia regional branches with the participation of employees of the Bank of Russia, Interior Ministry and Rosfinmonitoring.

In line with the EurAsEc⁸¹ central (national) bank personnel advanced training programmes, approved by the Bank of Russia within the framework of co-operation with the EurAsEc member countries, Bank of Russia special-

ists took part as lecturers in a seminar on AML/CTF for EurAsEc central (national) bank specialists.

Due to the active participation of the Bank of Russia in the defence of the Russian progress report in the results of the third round of mutual assessments at the MONEYVAL⁸² plenary meeting in September 2009, and the EAG⁸³ plenary meeting in December 2009, the international community acknowledged the high level of development of the Russian AML/CTF system and confirmed the significant progress made by the country in that field.

⁸¹ Eurasian Economic Community.

⁸² Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures.

⁸³ Eurasian Group on Combating Money Laundering and Terrorism Financing.

III.7. Central Catalogue of Credit Histories

Household lending volumes contracted significantly in 2009. Lending to households declined 11.0%, whereas in 2008 it expanded 35.2%. As a result, growth in the number of titles accumulated since 2005 in the Central Catalogue of Credit Histories (CCCH), which is regulated by Federal Law No. 218-FZ of December 30, 2004, 'On Credit Histories' declined year on year (growth of 20% as against 59% in 2008).

As of the end of 2009, credit history makers and users could access 66.7 million credit history titles containing information on the credit bureaus (55.5 million titles in 2008) where credit histories are kept. This number of credit history titles corresponds to more than 37.3 million credit history makers: borrowers who have agreed to pass information to the credit bureaus. The share of household credit history titles in total credit history makers remained unchanged from the previous year, at 99.7% as of the beginning of 2010. The share of corporate credit history titles stood at 0.3%.

About 0.9 million inquiries were sent to the CCCH by credit history users and makers in 2009 (about 0.7 million fewer than in 2008).

Despite slower growth in credit history titles, the year 2009 saw a rise in credit history makers' interest in their own credit histories, a fact that testifies to the growing public awareness of the services provided by the CCCH and credit bureaus. In 2009, inquiries from credit history makers increased 52% year on year, and the total num-

ber of inquiries since 2006, when titles began to be collected in the CCCH, stood at more than 257,000.

The year 2009 saw a rise in credit institutions' interest in the credit histories of their borrowers, which may be a manifestation of credit institutions' desire to upgrade their debtor solvency assessment procedures. Thus, the number of inquiries sent by credit history makers and users to the CCCH through credit institutions rose in 2009 163% year on year. In addition, inquiries posted by credit history makers and users through the Bank of Russia official website increased 33% year on year. It should be noted that in the overwhelming majority of cases, the CCCH had information about the credit bureaus where the credit histories inquired about were kept.

Credit histories from two credit bureaus were passed to the CCCH in 2009 for temporary custody, pursuant to the standards set by Federal Law No. 218-FZ of December 30, 2004, 'On Credit Histories.' As the auction of credit histories and bid for the free transfer of credit histories from the Komi Credit Bureau, a limited liability company, were declared invalid, the credit histories it transferred will be kept in the CCCH for five years. Credit histories from the Central Credit Bureau, another limited liability company, have been transferred to the CCCH for custody, until they are transferred to a credit bureau that wins the tender for the free transfer of credit histories that is being organised by the Federal Financial Market Service (FFMS).

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

In the year under review, the Bank of Russia organised and held the 18th International Banking Congress on 'Growth and Stability of the Banking System: Search of the Optimum,' which took place in St Petersburg from May 27 to 30, 2009. Participants in the plenary meetings and congress sections discussed ways to implement the Russian Government's anti-crisis programme for 2009, as well as the improving of the monetary policy tools, anti-cyclical regulation and the chances for using it in Russia, the necessity and possibility of developing a standardised anti-crisis early warning system, and the process of sharing of information between countries within the framework of such a system.

In 2009, the Bank of Russia held:

- the scientific and practical conference 'Banking Supervision: Yesterday, Today, Tomorrow' (October 9, 2009), devoted to the 20th anniversary of the initiation of banking supervision in Russia. The conference discussed the immediate and long-term objectives of banking regulation and supervision in the context of international and Russian experiences. It was attended by Bank of Russia executives and experts, as well as representatives of the State Duma of the Federal Assembly, the Russian President's Office, Ministry of Finance, Ministry of Economic Development, Federal Anti-monopoly Service, Prosecutor-General's Office, Federal Financial Monitoring Service, Association of Regional Banks, rating agencies, mass media and credit institutions;
- the All-Russia meeting on the banking supervision of the chief executives of the Bank of Russia regional branches and their deputies responsible for supervision (November 16 to 19, 2009). The meeting discussed the current problems involving banking supervision, the licensing and financial rehabilitation of credit institutions, and inspection priorities in 2010 (especially the supervision of credit institutions from the standpoint of anti-money laundering and counter-terrorism financing). It also discussed co-operation between the Bank of Russia economic and supervisory divisions in conducting monetary regulation

operations and upgrading the accounting practices in the Russian banking system.

In 2009, Bank of Russia specialists took an active part in the conferences, meetings, roundtable debates and working meetings organised by the Association of Russian Banks (ARB), the Housing Mortgage Credit Agency, the Association of Credit Institutions of the Tyumen Region, the National Stock Market Association (NSA), the Russian Union of Industrialists and Entrepreneurs, the Association of Regional Banks of Russia (Association Russia) and the Urals Banking Union. The participants in these meetings discussed a wide range of issues, such as Russia's current monetary policy and measures to maintain banking sector liquidity; risk assessment in the securitisation of mortgage loans; the procedure for making provisions by credit institutions for possible losses on loans, loan and similar debts; swap transaction accounting and reporting by credit institutions for the purposes of Bank of Russia supervision of compliance with required ratios in accordance with their economic significance; the quality of assets used as collateral for credit and the need to audit them in a comprehensive way in order to minimise risk; problem debt and non-core asset management in credit institutions; prospects for the development of the Russian banking sector and the recovery from the adverse aftermath of the economic crisis; and the outlook for the Russian financial market, including the repo market, taking into consideration the lessons of the crisis.

In the period under review, the Bank of Russia continued to increase the transparency of credit institutions and regulate interest rates on household deposits by monitoring the maximum interest rates on the rouble-denominated deposits of the top 10 credit institutions in terms of the value of their household deposits, and regularly published the final monitoring results.

Information posted on the Bank of Russia official website in 2009 included new analysis data, which segment key credit institution performance indicators in terms of the credit institution's weight in the banking system and the value of its assets and capital.⁸⁴

⁸⁴ As of January 1, 2010, more than 95% of total operating credit institutions disclosed information via the Bank of Russia official website, of which over 87% of total operating credit institutions agreed to disclose full reporting data in Form 0409101 and Form 0409102.

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

Co-operation with international economic and financial organisations

As a member of the **Basel Committee on Banking Supervision** (BCBS) since 2009, Russia has been involved in the development of approaches to the regulation and supervision of credit institutions. The approaches accepted by the international community are to be implemented in Russia's banking regulation practices. Bank of Russia representatives participated in the **Financial Stability Board** working group on cross-border crisis management, the Basel Committee on Banking Supervision (the Standards Implementation Group, the Accounting Task Force, the high-level group on macroprudential supervision, the microfinance group and the group on corporate governance) along with 17 sub-groups of BCBS working groups.

Within the framework of co-operation with the **International Monetary Fund** (IMF), Bank of Russia specialists took part in 2009 in meetings with Article IV Consultation mission of the IMF European Department (May 20 through June 2, 2009) and the IMF mission on the assessment of the current economic and financial situation in Russia (November 30 through December 4, 2009), to discuss issues relating to the Russian banking sector and banking regulation and supervision.

The Bank of Russia also continued to take part in the IMF-Coordinated Compilation Exercise for the Financial Soundness Indicators (FSIs). Since 2009, the Bank of Russia has been compiling the FSIs on the banking sector and the government securities market half-annually.

In 2009, the Bank of Russia took part in the discussion of the concept of the **World Bank** programme by sending its representatives to the Russian Finance Ministry's inter-agency working group to draft a project entitled 'The Advancement of Financial Education and Financial Literacy in the Russian Federation.'

In the year under review, Bank of Russia specialists and experts with the **European Central Bank** (ECB) continued to work together within the framework of the European Union-financed Basel II project. In line with the co-operation plan approved within the framework of the project, the Bank of Russia composed, in collaboration with Eurosystem experts, questionnaires for pilot banks geared at the self-assessment of the compliance of their internal approaches to credit risk management with the contents and minimum requirements of the IRB-approach, and the compliance of their risk management, internal control and capital planning systems with the provisions of Basel II Pillar 2. The Bank of Russia contacted the banks in order to become acquainted with the approaches they used in managing risks and capital, including their assessment techniques.

In the year under review, in line with an agreement (Memorandum of the Understanding) between them, the **Bank for International Settlements** (BIS) and Bank of Russia implemented a project to translate into Russian and integrate 53 instruction courses of the computer-based teaching programme FSI Connect; these courses relate to banking regulation and supervision, and were developed by the BIS Financial Stability Institute. Eighteen training courses had been completed by the end of 2009.

In addition, the Bank of Russia prepared information and analysis materials on the compatibility of Russian legislation and law enforcement practices with the core principles of the **Organisation for Economic Co-operation and Development** (OECD), in the context of Russia's accession to this organisation. In July and November 2009, Bank of Russia representatives took part in consultations with OECD Secretariat's experts on issues relating to the regulation of the Russian financial services market.

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

In the year under review, the Bank of Russia co-operated with foreign supervisors on a bilateral and multilateral basis.

It continued to maintain bilateral co-operation with foreign supervisors, in some cases within the framework of the agreements (memorandums) on co-operation in the field of banking supervision. By now, the Bank of Russia has signed 29 bilateral agreements (memorandums). In 2009, it signed a memorandum of co-operation with the Central Bank of the Argentine Republic, and continued to discuss drafted memorandums of understanding with the supervisors of six countries. Information about the co-operation agreements (memorandums of understanding) and their texts are posted on the Bank of Russia website at www.cbr.ru.

The Bank of Russia also co-operates with foreign banking and financial supervisors by holding meetings on issues relating to banking regulation and supervision with representatives of foreign central (national) banks and banking (financial) supervisory authorities. In 2009, the Bank of Russia held consultations with representatives of the Austrian National Bank and the Austrian Financial Market Authority, the Netherlands Bank and the National Bank of Ukraine.

In the year under review, the Bank of Russia also co-operated with the supervisors of individual countries on a multilateral basis, within the framework of 'supervisory colleges' set up to improve interaction between supervi-

sors in cross-border supervision. These included co-operation with the objective of implementing by the international community the Group of 20-elaborated anti-crisis measures.

Set up to ensure the co-ordination of supervisory activities with regards to specific international banking groups, supervisory colleges are international structures which operate on the basis of multilateral co-operation agreements. These agreements are concluded by the supervisors of home and host countries.

The Banks/Financial Services sub-group, formed under the aegis of the Russian-German Working Group on the Strategy of Economic and Financial Cooperation, continued its work in 2009. In May 2009, it met in Tula to discuss issues relating to small and medium-sized enterprises and banks in a market economy and the pension system. In December 2009, it convened in Berlin to discuss the idea of building an international financial centre in Moscow, the effect of the financial crisis, and decisions

taken by the Group of 20 on regulation in the field of banking supervision.

In addition, the Bank of Russia took an active part in preparing analysis material and reference information for meetings held within the framework of co-operation of the **Eurasian Economic Community** (EurAsEc) and the Council of the Central (National) Bank Governors of EurAsEc Member States in 2009. These included measures taken to support the EurAsEc countries' banking sectors and financial markets amid the global crisis. It drafted bilateral agreements on information support for the participants in the EurAsEc integrated foreign exchange market, between the Bank of Russia and the supervisory authorities of Belarus, Kazakhstan and Tajikistan.

In the period under review, the Bank of Russia also prepared comments and proposals on draft agreements to create a legal framework for the single economic space (SES) of Russia, Belarus and Kazakhstan (from October 2009 to January—February 2010).

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

In the field of banking regulation and supervision, the Bank of Russia continued to attach priority to the maintenance of banking sector stability and to protect the interests of depositors and creditors. The principal tool that will be used in banking regulation and supervision will be risk-based supervision, including systemic risk management. Efforts will be made to this end in the field of banking regulation and supervision, in the context of the summit-level obligations entered into by Russia to implement Group of 20 resolutions.

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

In 2010, Russia plans to continue amending legislation, to include in it a number of provisions aimed at tightening requirements for the executives of credit institutions and their branches, as well as establishing more stringent control by the Bank of Russia over executives' compliance with the following requirements:

- they should meet fitness and propriety requirements, not only when they are appointed, but also throughout the entire period of their management of credit institutions, while the Bank of Russia should have the power to demand their replacement if they fail to meet the established requirements;
- the requirements for the business reputation of executives must be specified, while the Bank of Russia should be granted the right to set criteria for reputation assessment and receive information about the business reputation of executives;
- the Bank of Russia should be given the power to collect and store information on individuals whose actions have harmed the financial situation of credit institutions, or led to violations of legislation by creating situations that threaten the interests of creditors and the stability of the Russian banking system.

A problem that is still relevant is that of how to upgrade legislation in order to formulate the business reputation criteria for credit institutions' board of directors (supervisory board) members more precisely. Building upon the supervisory experience gained by the Bank of Russia and the Basel Committee's Core Principles for Effective Banking Supervision, Russian lawmakers should give the Bank of Russia the power to assess the business reputation of the individuals indicated above.

The financial crisis illustrated the problem of maintaining the credibility and responsibility of credit institutions' owners in order to maintain the financial soundness of those credit institutions and safeguard the legitimate

interests of creditors and depositors. Therefore, the problem of tightening requirements for the financial situation and business reputation of the owners (members) of credit institutions has come to the foreground. It necessitates:

- setting requirements for the financial situation and business reputation of the founders of credit institutions and acquirers of more than 10% of the shares (stakes) of credit institutions;
- granting the Bank of Russia the power to assess the business reputation and financial situation of the individuals indicated above, in accordance with criteria that are set on a permanent basis;
- envisaging a mechanism allowing the Bank of Russia to dismiss credit institution executives who own a 10% block of shares (stakes) of credit institutions, if their financial situation and business reputation no longer meet the established requirements;
- reducing from 20% to 10% the maximum stake that may be acquired in a credit institution without the Bank of Russia's prior permission, in order to warrant Bank of Russia oversight during the acquisition of a significant stake in a credit institution by investors.

Additional measures will be worked out and implemented to increase the capitalisation of credit institutions. To this end:

- credit institutions issuing shares (and securities converted into shares) will be granted the right to notify the registration authority about the share issues, instead of registering issue reports, if these credit institutions meet the requirements set for them.

While giving these issuer credit institutions the right to use the notification procedure, additional control mechanisms are to be used to encourage the compliance with banking laws of investors acquiring shares (stakes) of credit institutions. For this purpose:

- the Bank of Russia is to be granted the power to fine the acquirers of shares (stakes) of credit institutions for violating the requirement to obtain the Bank of Russia's prior permission (send a notice to the Bank of Russia) to acquire shares (stakes) of credit institutions in the established amount, when the Bank of Russia identifies violations of the procedure for acquiring shares (stakes) of a credit institution;
- a ban is to be imposed on voting at general meetings with shares (stakes) acquired by an investor in a credit institution in violation of the requirements set by law.

Taking into consideration that the Bank of Russia has accumulated and is using the personal data of individuals such as members of the boards of directors (supervi-

sory boards), executives and employees of credit institutions and founders (members) of credit institutions, legislators will continue to secure for the Bank of Russia the right to process personal data obtained in the course of carrying out its functions in the field of banking regulation and supervision, pursuant to the Federal Law on Personal Data.

The Bank of Russia will continue work on the proposed federal law that requires the nominal shareholders to disclose information to the credit institution about the owners of their shares and owners of shares of joint-stock companies who exert material influence (through a third party) on the decisions taken by the management of the credit institution. If this bill is passed into law, both the Bank of Russia and share-issuing credit institutions will be able to promptly receive information about the individuals indicated above.

To simplify the merger and acquisition procedures, lawmakers intend to make an amendment to federal legislation that would allow corporate entities with different forms of incorporation, including credit institutions, to participate in these reorganisations. The idea is to make reorganisation an economically more attractive means of increasing capitalisation.

The Bank of Russia plans to complete in 2010 the drafting of the following regulations:

- the Ordinance ‘On Amending Bank of Russia Regulation No. 307-P, Dated July 20, 2007, on the Procedure for Making Accounting of and Presenting Information about Affiliated Parties in Credit Institutions,’ in view of the coming into force of Federal Law No. 164-FZ of July 17, 2009, which had changed Article 9 of the Federal Law on the Protection of Competition, defining the term ‘a group of parties’;
- the Ordinance ‘On Amending Point 4.6 of Bank of Russia Regulation No. 271-P, Dated June 9, 2005, on the Procedure for Considering Documents Submitted to a Bank of Russia Regional Branch for Making a Decision on the State Registration of Credit Institutions, Issuing Banking Licences and Keeping Databases on Credit Institutions and their Divisions.’ The ordinance envisages reviewing the grounds for entering information about the executives of credit institutions or their branches who have violated federal laws and (or) Bank of Russia regulations into the database;
- amendments to Bank of Russia Instruction No. 109-I of January 14, 2004, ‘On the Bank of Russia’s Decision-making Procedure on the State Registration of Credit Institutions and the Issuance of Banking Licences’ (hereinafter referred to as Instruction No. 109-I).

The last set of amendments provide for:

closing exchange offices and striking them off the register of credit institutions’ internal divisions (branches);

establishing a procedure for the submission of both positive and negative reports by the Bank of Russia regional branches on the state registration and licensing of credit institutions to the Bank of Russia head office;

reducing the number of on-site inspections of the sources of funds contributed as payment for shares (stakes) of a credit institution conducted inside the credit institution. Reductions would be completed by granting the chief executives of the Bank of Russia regional branches the power to decide to carry out such an on-site inspection, provided that the capital of the credit institution (as of the last reporting date and preceding the date on which its management had decided to increase authorised capital) is not less than 180 million roubles. Meanwhile, the parties who exert direct or indirect material influence over the shareholders (members) of the credit institution and own at least 75% of the amount by which authorised capital augmented would necessarily be: corporate entities whose financial situation is liable for the assessment in accordance with the established procedure, banks assigned to a certain classification group, and non-bank credit institutions assigned to the category of financially sound credit institutions. At the same time, they should have a certain minimum long-term credit rating for foreign currency obligations, or a certain minimum credit rating assigned by the corresponding international or national rating agencies;

setting a requirement that candidates applying for executive positions indicate, when filling in the questionnaire, according to Annex 1 of Instruction No. 109-I, the lines of credit institutions’ business they intend to control after taking office. This measure will allow the Bank of Russia to determine more precisely the responsibility of the executives for the violations committed by the credit institutions, and take this information into consideration in the future when assessing the executives’ business reputation.

III.10.2. Banking regulation

Building upon the experience gained when carrying out anti-crisis measures in the context of improving the banking regulation system, Russia will tackle in 2010 problems involved in emulating international best practice approaches to financial risk assessment and the elimination of the aftermath of the financial crisis.

To improve the quality of banking regulation and promote a risk-based approach, while taking into account the obligations assumed by Russia with regards to the decisions of the Group of 20, the Bank of Russia will continue in 2010 to prepare the groundwork for the introduction of Basel II recommendations. Firstly, it will introduce essentially new approaches to risk assessment, based on advanced financial practice and mathematical methods and using internal statistics (hereinafter referred to as the advanced approaches). Secondly, it will complement bank capital quantification with quality assessment, by formulating the general principles of risk-based supervision and setting market discipline requirements.

To accomplish these tasks, the Bank of Russia will make in 2010 a preliminary compliance assessment of the internal risk management, internal control and capital planning systems in several of the largest banks, in

line with the requirements of the IRB-approach of Pillar 1 and recommendations of Pillar 2 of Basel II. To this end, the Bank of Russia will prepare proposals that legislation be amended in order to receive sufficient power:

- to require credit institutions to maintain their capital at a specified level;
- to make the management and boards of directors (supervisory boards) of credit institutions accountable for their institutions' performance, including risk management, and to sanction the chief executives and owners of credit institutions. Legislators are to make the owners and management of credit institutions accountable for the quality and results of their risk assessment and management policy, and empower the Bank of Russia to use sanctions in case this policy proves ineffective. In addition, following the Basel Committee's Supervisory Guidance on Dealing with Weak Banks, as well as the Core Principles for Effective Banking Supervision (2006) and the recommendations made by the International Monetary Fund and World Bank (following the implementation of the Russia's Financial Sector Assessment Programme in 2007 and 2008), Russian lawmakers will continue to legislate additional powers to the Bank of Russia with regards to the use of sanctions against credit institution chief executives and owners. The broadening of the Bank of Russia's powers in dealing with credit institutions in the event of mismanagement or dishonest practices will help stimulate fair play, and make bank managers more responsible when taking decisions that affect the interests of creditors and depositors;
- to require credit institutions and banking groups to disclose information about exposure to risk and risk management procedures to a wide range of users;
- to set banking risk management rules for credit institutions and banking groups, to enable them to meet the requirements relating to the International Capital Adequacy Assessment Process (ICAAP), in accordance with Basel II Pillar 2. Before the relevant amendments are made to applicable legislation, the Bank of Russia proposes making the corresponding minimum requirements known to the credit institutions as recommendations.

Taking into account the lessons of the financial crisis, the Bank of Russia will pay special attention in 2010 to the inadequate diversification of risks taken by banks. These risks include those associated with investments, securities issuers, economically related borrowers, sectors and sub-sectors of the economy, market segments (construction, wholesale and retail trade and the stock market), as well as the concentration of risk involved in providing services to the credit institution owners' business and to affiliated parties.

The Bank of Russia will continue in 2010 to upgrade approaches to the quality of bank governance. Specifically, it plans to set additional criteria, taking into account the bank's compensation practices and the correlation

between compensation payments and the risks taken by the bank. The projected changes will help the Bank of Russia implement core international approaches to efficient compensation practices in the financial institutions, including the approaches described in the Financial Stability Board's "Principles for Sound Compensation Practices."

In the course of analysing the practice of settling problems credit institutions faced as a result of the global financial crisis (especially the problem of regulating risk levels in credit institutions), the Bank of Russia prioritized the task of further improving risk-based approaches in supervision, including those based on the professional judgement of a banking regulator and supervisor. When the term 'professional judgement' is legally defined, it will become possible to build a coherent and transparent system for decision-making by the supervisor with regards to the assessment of the financial situation of a bank, its assets and liabilities, and outlook.

To improve the assessment of risks involved in these operations and the capital adequacy requirements for covering these risks, the Bank of Russia plans:

- to make the corresponding amendments to federal laws to create a legal framework for the efficient regulation of risks taken by credit institutions when lending to affiliated parties. The Bank of Russia is currently taking part in drafting amendments to the Federal Law on Banks and Banking Activities, and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). These will empower it to set the requirements for limiting risks arising from operations to extend credit to affiliated parties, including the required ratio of maximum risk per related person or a group of related borrowers;
- to establish higher risk ratios (more than 1.0) for a group of loans with signs of sectoral concentration, for the purpose of capital adequacy calculation;
- to set increased ratios (more than 1.0) for bank operations with securities (debt securities portfolios, loans to acquire securities and equity portfolios) and 'non-transparent' credit transactions, including those conducted through third parties, for the purpose of capital adequacy calculation;
- to set additional, more stringent requirements for the financial instruments described above, in terms of their assessment and loss provisions.

Given the problem of evaluating property⁸⁵ that has been exacerbated during the financial and economic crisis, and the inadequate assessment of risks involved in evaluating problem assets that are passed to third parties for management, the priority tasks of banking regulation in this area call for the Bank of Russia to set the following requirements:

- making loss provisions for property accepted as compensation, or in the course of realising the right for collateral for problem loans, depending on the time period during which the collateral was on the balance sheet, and taking a more conservative approach to

⁸⁵ Accepted by banks as compensation or in case of the realisation of the claim of right to collateral for problem loans.

the use of Quality Category 1 or 2 collateral for loan loss provisions;

- recognising and assessing risks involved in investments made by credit institutions in unit investment funds or other collective investment funds, including cases in which a credit institution is a trust founder, and making regulatory deductions when calculating capital.

The Bank of Russia will pay special attention to the regulation of liquidity risk. To harmonise the Russian practice in this area with international banking and supervisory practices (which are dictated by the need to assess the outlook for the inflow/outflow of funds, depending on the term for which they were raised/redeemed,⁸⁶ for the purpose of identifying the most 'vulnerable' periods of time when additional resources may have to be raised) off-balance sheet instruments⁸⁷ are to be included in the liquidity ratio calculation.

Tightening consolidated supervision remains a major challenge for banking regulation. To make consolidated banking supervision more efficient, the Bank of Russia will pay special attention to the problem of increasing the responsibility of the parent organisations of bank holding companies for the performance of member credit institutions. This particularly applies to compliance by the parent organisations with the requirement of the Federal Law on Banks and Banking Activities to notify the Bank of Russia about the creation of bank holding companies. At present, the supervisory powers of the Bank of Russia are limited, so it cannot efficiently deal with the parent organisations of bank holding companies that ignore this requirement. As a result, the Bank of Russia does not have full information about bank holding companies in Russia, their composition and the nature of the influence other holding members exert on credit institutions. The idea is to change this situation by giving the Bank of Russia wider powers to control the participation of credit institutions in bank holding companies. For this purpose, amendments are being drafted to the Federal Law on Banks and Banking Activities and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia). These will spell out the major provisions of consolidated supervision and the information disclosure requirements for credit institutions, banking groups and bank holding companies. They will also legitimise the powers of the Bank of Russia to set requirements for risk management systems in the credit institutions and banking groups, and remove legislative restrictions on the content of information the parent organisations of banking groups (bank holding companies) should share with their corporate members and with the authorities supervising group and holding company members.

Setting a requirement that parties affiliated with business entities provide information about themselves, holding these affiliated parties responsible for non-compliance with this requirement, and requiring the disclosure

of information about parties affiliated with limited liability companies will help make the ownership structure of credit institutions more transparent. The identification and regulation of affiliated parties is also necessary to prevent a conflict of interest in transactions conducted by credit institutions with related parties.

To improve co-operation between the Bank of Russia and external auditors of credit institutions in the sharing of information about credit institutions, amendments will be made to the following federal laws:

- The Audit Law;
- The Federal Law on the Central Bank of the Russian Federation (Bank of Russia);
- The Federal Law on Banks and Banking Activities.

These amendments will help harmonise banking audit standards with international recommendations, increase Russian financial system participants' confidence in credit institutions, and enhance the efficiency of banking supervision, including the timely implementation of corrective measures aimed at ensuring the financial stability of the market.

III. 10.3. Off-site supervision

In 2010, the Bank of Russia will focus its efforts in the field of off-site supervision on the following:

- analysing and assessing systemically important banks;
- identifying risks at early stages and collaborating with banks in taking risk-mitigation measures;
- scrutinising banks that conduct aggressive policies in various segments of the banking services and securities markets for the purpose of assessing the risks they take and the adequacy of their risk management systems;
- tightening the supervision of opaque credit institutions;
- taking additional measures to assess credit, market, interest rate and other risk concentration levels;
- closely monitoring bank exposures to affiliated parties;
- dealing with the management and owners of banks in order to help them improve the quality of corporate governance, including risk management, and ensure the stability of banks, including the maintenance of liquidity and capital at the adequate level;
- assessing the quality and compliance with internal risk management regulations by banks, including banks with branches.

The Bank of Russia will take additional steps to introduce substantive (risk-based) approaches to the assessment of risks and the quality of risk management by banks in its supervisory practice.

In the course of supervising banking (consolidated) groups, it will pay special attention to the quality of risk management on a consolidated basis.

⁸⁶ "Cash flow concept."

⁸⁷ Off-balance sheet claims and off-balance sheet liabilities.

To ensure an adequate assessment of banking risks and identify suspect operations, including operations with fictitious, 'mirror' bank bills, the Bank of Russia will promote co-operation and the sharing of information with federal government agencies, such as the Federal Financial Market Service, the Federal Tax Service, the Federal Customs Service and the DIA.

The Bank of Russia plans to continue working together with foreign supervisors in establishing the nature and economic substance of cross-border transactions between Russian credit institutions and foreign banks, and assessing the risks involved in the activities of foreign subsidiaries and the foreign branches of Russian banks.

To make credit institutions that are members of international banking groups and operate on international financial markets more transparent, and tighten control over their activities, the Bank of Russia will expand its participation in international supervisory colleges. In addition, supervisory colleges are to be set up with the participation of foreign supervisors to oversee the largest Russian banks that conduct cross-border operations. This will allow them to better understand and control the activities of Russian banks and their banking groups and assess the risks they take to a fuller extent.

Building upon the positive results of the work carried out by authorised representatives in banks that had received government aid, and to improve the quality of supervision of credit institutions, it would be meaningful to give the Bank of Russia the power to appoint its representatives to banks, regardless of their receipt of government aid. For this purpose, the Bank of Russia has drafted the relevant amendments to the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

The Bank of Russia will continue to improve its macroprudential analysis by compiling and publishing FSIs jointly with the IMF, assessing systemic risks by stress testing the Russian banking sector, and by other methods. The Bank of Russia will actively use the approaches to stress testing recommended by international organisations. It is to develop a model describing the interrelationships between the macroeconomic indicators and key banking sector indicators. The stress test scenarios will also focus on shocks that occurred during the world financial and economic crisis.

III.10.4. On-site inspection

In 2010, the Bank of Russia inspection service will seek to accomplish two major tasks:

- obtaining meaningful supervisory information about the financial (economic) situation of credit institutions, especially those of federal and regional importance and those that have received government aid;
- preparing a transition to the step-by-step centralisation of all Bank of Russia inspection activities.

To receive meaningful supervisory information about the financial (economic) situation of credit institutions in

the course of inspections, the Bank of Russia will focus on the inspection of credit institutions that were exceedingly exposed to systemic risk as a result of the adversities created by macroeconomic developments late in 2008 and 2009. Therefore, the main targets of inspection will be:

- systemically important credit institutions, that is, credit institutions that exert material influence on the systemic stability of the banking sector;
- credit institutions that have invested significantly in economic activities that were the hardest hit by the crisis, such as commercial real estate and retail trade;
- credit institutions doing business in depression-hit regions;
- credit institutions controlled by financially-troubled owners.

Inspectors will pay special attention to:

- control of the activities and use by credit institutions of government aid, especially the credit institutions that have received the most government aid and on the longest-term basis, or in the form of investments in their authorised capital;
- the assessment of the nature of credit institutions' operations to place funds with non-resident banks and invest in non-resident securities, except for the stakes in their authorised capital;
- the assessment of the quality of loans, the adequacy of the loan loss provisions and the quality of collateral accepted for their reduction;
- the examination of the sources of the funds contributed as payment for the shares (stakes) of a credit institution when its authorised capital is increased by more than 20% of the previously registered amount (including in connection with the coming into force of Federal Law No. 28-FZ of February 28, 2009, 'On Amending the Federal Law on Banks and Banking Activities,' which, as of January 1, 2010, raised the minimum capital requirements for credit institutions).

The Bank of Russia will continue to keep close watch on compliance by credit institutions with the requirements of federal laws and Bank of Russia regulations on AML/CTF and foreign exchange legislation, paying special attention to the efficiency of credit institutions' actions to identify and record suspect operations.

In line with the single state monetary policy, the Bank of Russia will pay special attention to inspections of the compliance of assets accepted as collateral (or which may be accepted as collateral) for Bank of Russia loans. This will be done in line with the requirements of Bank of Russia Regulation No. 312-P, dated November 12, 2007, 'On the Procedure for Extending Bank of Russia Loans, Secured by Assets or Guarantees, to Credit Institutions.'

Taking into consideration the success of the experiment to centralise inspections, the Bank of Russia Board of Directors decided to gradually centralise all inspections.⁸⁸

⁸⁸ In accordance with the Bank of Russia Board of Directors Decision, dated April 8, 2010.

The first phase of the centralisation process will involve Inspectorate No. 3 (owing to the completion of the experiment in the North-Western Federal District), and the inspection divisions of the Siberian and Far Eastern Federal Districts and Interregional Inspectorates No. 7 and No. 8, which control their activities.

In the future, the upgrading of the regulatory and legal framework for inspection will proceed as follows:

- upgrading the regulatory and legal framework for organising and conducting on-site inspections of credit institutions and their branches, including audits by audit organisations appointed by the Bank of Russia Board of Directors;
- improving inspection methodologies, including the methodologies of inspecting certain aspects of credit institutions' activities.

III. 10.5. Household deposit insurance

At present, the household deposit insurance compensation payment of 700,000 roubles corresponds to the social and economic conditions of this country, and the financial capability of the deposit insurance system. For most of 2009, the insurance fund adequacy ratio (the ratio of the fund to the DIA's total insurance liability) remained at the permissible level of 5%. The deposit insurance fund, which amounted to 93.7 billion roubles as of January 1, 2010, is large enough to pay insurance to depositors in a timely manner.

To further strengthen confidence in the banking system, the Bank of Russia will continue to work at amendments to Article 5 of the Federal Law on the Insurance of Household Deposits with Russian Banks. This will spread the financial safety net provided by the deposit insurance system to funds held in bank accounts (deposits) by individual unincorporated entrepreneurs, and to funds kept in the bank accounts (deposits) of notaries, defence lawyers and other individuals, if these accounts (deposits) are open for the fulfilment of professional duties.

To prevent the unwarranted receipt of insurance compensation from the deposit insurance fund by dishonest bank customers, the Bank of Russia will continue to work in collaboration with the DIA at introducing amendments to the Federal Law on the Insurance of Household Deposits with Russian Banks. These will not allow corporations, unincorporated entrepreneurs and private individuals to receive compensation in excess of the amount insured, in accordance with this Federal Law, by artificially creating bank liabilities to depositors.

III. 10.6. The financial rehabilitation of credit institutions

Russia's legislation and subsequent implementation of a system for the immediate interference by the state in the affairs of problem banks and the funding of bank bankruptcy-prevention measures, with the participation of the Bank of Russia and the DIA (Federal Law on Additional Measures to Strengthen the Stability of the Banking Sys-

tem up to December 31, 2011), made it possible to significantly raise the level of safety of the banking system and its creditors, bolster market discipline and increase the responsibility of principal bank owners amidst the financial crisis. It is necessary now to pass legislation that would make this rehabilitation procedure for problem banks a permanent arrangement, used not only in times of turbulence, but also in the period of economic stability.

At the same time, building upon the experience gained by the Bank of Russia and the DIA in preventing bankruptcies, it would be meaningful to further improve this arrangement to make it possible to use the most efficient bank bankruptcy prevention tools and procedures. The most important aspect would be to encourage private investors to participate in the prevention of bank bankruptcies by granting the Bank of Russia the power to establish a special regime where credit institutions could carry out financial rehabilitation plans by private investors instead of using government funds. In addition, building upon the practice of applicable legislation, it would be meaningful to revise the current legal framework and methods so that property and liabilities could be quickly transferred from a problem bank to a sound one.

To raise the responsibility of the owners and management for the situation in a credit institution, it is necessary to pass a law that will give the Bank of Russia the power to use sanctions when it discovers violations of banking rules and procedures, not only against the credit institutions, but also their chief executives, as well as individuals that exert material influence on the activities of credit institutions. It is necessary to set up a procedure for restricting by court order the rights of the owners of credit institutions whose decisions create a threat to the interests of creditors and depositors.

In addition, work will continue to amend the Federal Law on Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011. This will establish the accountability of chief executives, members of the board of directors (supervisory board), founders (members) and other individuals who have or have had the right to give binding instructions or otherwise decide the affairs of a bank where the DIA is implementing bankruptcy prevention measures, if the need to carry out these measures arose as a result of the culpable activity or inactivity of these individuals. The purpose of these amendments is to create a mechanism that would reduce the risk of abuse by the individuals indicated above and alleviate the financial burden of the investors and other individuals involved in the bank bankruptcy prevention measures stipulated by the Federal Law on Additional Measures to Strengthen the Stability of the Banking System up to December 31, 2011.

To enhance the efficiency of the provisional administrations appointed by the Bank of Russia to credit institutions after the revocation of their licences, and to expedite the search for and recovery of assets, it would be meaningful not to limit the DIA's involvement in the work of the provisional administrations to the payment of insurance compensation. DIA employees should have the power to examine credit institutions, participate in han-

dling their assets and access data that constitute banking secrecy. At the same time, to ensure the safety of banks' property, cut costs and increase the amount of funds paid to meet creditors' claims, it would be meaningful to enact a law that would give provisional administrations the power to conclude agreements with the DIA on the fulfilment of some functions free of charge (safe-keeping bank property, relocating the bank, and so forth).

III.10.7. Control over the liquidation of credit institutions

The Bank of Russia is set to continue in 2010 to upgrade the procedures for liquidating credit institutions that have had their banking licences revoked. It will do so by participating in the drafting of amendments to the federal laws regulating bankruptcy and liquidation procedures, and by issuing new regulations.

An important objective in the field of control over the liquidation of credit institutions is to improve legislation for the purpose of reducing the risk of abuse by credit institutions' management and owners, and minimising the negative consequences of licence revocations for creditors and the banking system as a whole.

This calls for the drafting of a law that would incorporate amendments to the bank bankruptcy law, and make it possible to use non-monetary settlements with creditors in the course of bankruptcy proceedings. Specifically, the new law should facilitate the rapid transfer of the defaulted debtor's property and liabilities to the operating credit institution, and the use for settlements with creditors of other forms of termination of obligations stipulated by civil law. It is also important to specify the procedure for transferring to the bank's founders (members) property that may remain after settlements with creditors have been completed.

To protect creditors' rights, it is also necessary to make amendments to the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions, and set a simplified procedure for the transition of a credit institution to its bankruptcy following its compulsory liquidation, especially with regards to ascertaining creditors' claims. The amendments should stipulate that the creditors' claims, ascertained in the course of liquidating the credit institution, need not be repeatedly ascertained in the course of the bankruptcy proceedings. If this amendment is passed, settlements with creditors will accelerate significantly.

As there is legal uncertainty in applicable legislation about the property of customers of a credit institution taken by the latter in trust and (or) registered under trust agreements or other agreements connected with the credit institution's professional activities on the securities market, it is necessary to pass a federal law that would establish the possibility that this property may be returned following the revocation of the credit institution's banking licence, and in the course of liquidation procedures, that this property be excluded from the bankruptcy estate (assets).

To prevent any abuse of law during insolvency (bankruptcy) and liquidation cases, it is necessary to precisely

indicate the grounds for the arbitration court's decision to order an expert examination in the case and to establish the responsibility of the parties who filed the corresponding petition in case of their abusing laws.

An important measure to support the financial market and minimise for its players the consequences of the revocation of banking licences will be amendments passed to the insolvency (bankruptcy) law that stipulate the possibility of concluding by forward market participants of agreements on netting of financial liabilities.

To reduce risks to creditors, it is necessary to require the chief executive of a credit institution to ensure the safety of the credit institution's electronic databases, make backup copies and establish accountability for the failure to comply with this requirement.

This being said, it will be necessary to draft amendments to the Federal Law on the Insolvency (Bankruptcy) of Credit Institutions that would settle the problems described above.

In addition, the amendments made to the federal insolvency (bankruptcy) law should be accompanied by amendments to other federal laws, with the objective of reducing the risk of abuse by credit institutions' management and owners.

To be able to examine a bank whose licence was revoked and detect signs of insolvency (bankruptcy), as stipulated by the Federal Law on Banks and Banking Activities, a 15-day period that the Bank of Russia has to file a petition for the forced liquidation of a credit institution with the arbitration court should be extended to 30 days.

To protect the rights of the creditors of credit institutions, it is necessary to establish criminal responsibility for the chief executive and the individual in charge of the compilation and (or) presentation of accounting and other reports. This responsibility would be ascertained for making distortive changes in the accounting report and other reports reflecting the economic activity of the credit institution, and for misreporting and underreporting for concealing information about the real financial situation of the credit institution.

The Bank of Russia will continue in 2010 to improve its regulatory framework. Specifically, it is to complete the drafting of amendments to 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 Being Liquidated and their Approval by a Bank of Russia Regional Branch,' which are aimed at enhancing the efficiency of liquidation procedures and recording their results in the interim liquidation balance sheet and the liquidation balance sheet of a credit institution.

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

To enhance the efficiency of the efforts made by credit institutions in the field of AML/CTF, the Bank of Russia will take steps further in 2010 to upgrade the regulation

and methodologies used in this field. This particularly applies to:

- the identification of customers and beneficiaries;
- the assessment of the level of risk taken by customers and involved in their transactions;
- the detection, recording and analysis of operations that arouse the suspicion that they are conducted for money laundering and (or) terrorism financing.

In the course of fulfilling its supervisory functions, including off-site supervision, the Bank of Russia will pay special attention to the assessment of the quality of internal control and other rules used by credit institutions for AML/CTF purposes, their adequacy (given the nature of the activities of customers serviced by the credit institution) and the credit institution's ability to quickly identify and thoroughly examine suspect operations.

III.11. Bank of Russia Supervisors

The Bank of Russia supervisory divisions employ 4,489 executives and specialists, of whom 15.6% work in the head office and 84.4% in the regional branches. Most of the specialists (96.7%) have a higher education, 63.5% are between 30 and 50 years of age and 88.7% have worked in the banking system for more than three years.

In 2009, the Bank of Russia trained 2,104 employees in banking supervision at 146 courses, of which 47 were conducted in line with the Bank of Russia Vocational Training Plan for 2009 (1,051 employees took advanced training).

Sixty-two specialists completed an MBA course in banking, finance and banking, and receivership and bank management with the assistance of Moscow's leading institutions of higher education in 2009.

Under agreements with the Russian Government's Financial Academy, specialised seminars and advanced training courses were held in 2009 for the supervisors of the Bank of Russia head office and regional branches in the following topics: trust, off-site analysis of the financial situation of a commercial organisation, and the assessment of the financial situation of non-resident corporations, including credit institutions. In addition, four advanced training courses involving 98 employees were organised in the period under review, on issues relating to the licensing of banking operations, the financial reha-

bilitation of credit institutions and the provisional administrations of credit institutions.

In 2009, the Bank of Russia also arranged 52 courses for 808 supervisors to provide training in international financial reporting standards under an agreement with the PricewaterhouseCoopersExpert corporate training centre.

In the year under review, 141 Bank of Russia employees attended 42 international seminars in Russia and abroad.

In addition, eight courses of training in financial monitoring and foreign exchange control, involving 360 specialists, were organised in 2009 at the initiative of the Bank of Russia Financial Monitoring and Foreign Exchange Control Department.

Beginning from 2005, top level instructors have provided training under paid-for contracts for Bank of Russia supervising executives and supervisors of the regional branches in social competence and mobilisation of personal resources. Seventeen training sessions of this kind have been conducted in five years, involving 248 people.

Training and instruction in the year under review focused on the development of co-operation skills as professionally important qualities for supervisors, and the enhancement of the efficiency of communicative interaction.

Annexes

IV

IV.1. Monitoring Banking Sector Stability

In 2009, amid the crisis, the Bank of Russia paid more attention to the monitoring of banking sector stability, which includes the regular monitoring of banking sector risks and stress testing (*for banking sector stress testing, see II.6 Macprudential Analysis of Banking Sector*). The monitoring of credit institutions' liquidity, based on the so-called 'raw reports',⁸⁹ has been conducted faster and more frequently. The regular monitoring of liquidity risk, lending to households, capital adequacy and market risk was conducted to pre-empt negative trends in the banking sector and identify groups of credit institutions and individual banks whose operations make decisive contribution to these trends.

Additionally, the Bank of Russia monitored in 2009:

- the dynamics of total banking sector assets and credit portfolio, including consumer lending (in some cases, these dynamics were based on 'raw reports' presented by credit institutions and Sberbank indicators);
- the structure of assets and liabilities of Russia's top 30 credit institutions;
- the structure of assets and liabilities of the banks with the largest value of household deposits;
- the effect of stock market turbulence on the financial standing of credit institutions;
- the activities of the banks offering high interest rates on ruble-denominated interbank loans and deposits;
- large-value loans extended to companies that have reported technical defaults.

To analyse banking sector stability, the Bank of Russia clustered credit institutions to assess their operations and risks on the basis of their business strategies and evaluate the structure of the various segments of the banking services market and the likelihood of negative trends in these segments.

The Bank of Russia monitored in 2009 loan loss provisions in credit institutions, guided by its Ordinance No. 2156-U of December 23, 2008, 'On the Specifics of the Assessment of Credit Risk on Loans, Loan and Similar Debts' (*see II. 1. 1 Loan portfolio quality*).

Taking into consideration the development of the crisis, the Bank of Russia made monthly forecasts of overdue debts, the required increase in loan loss provisions and the shortage of capital in individual credit institutions and the banking sector as a whole.

In 2009, it continued to implement the IMF project to compile and post in the Internet banking sector financial soundness indicators.

⁸⁹ Reports by credit institutions other than Sberbank that have not been previously tested in the Bank of Russia IT Centre.

IV.2. Banking Sector Clustering

In the course of analysing the systemic aspects of banking sector development, banking operations and risks, the Bank of Russia in compiling this Report clustered the banking sector, grouping banks with similar characteristics, such as ownership, volume of operations and region. The study of such clusters reveals the specific trends and factors that induce the processes in the banking sector that cannot be detected in the analysis of averaged indicators.

The following clustering methodology was used in compiling this Report.

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

- non-bank credit institutions;
- banks, in which more than 50% of authorised capital is owned by the state and banks that are members of the 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.

At the second stage, the Bank of Russia considered banks from among the top 200 banks in terms of assets,

excluding the banks that were included in the three groups indicated above. This group was labelled 'large private banks.'

At the third stage, the Bank of Russia considered all other banks not included in the four groups indicated above. These are medium-sized and small banks, which, for their part, were 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 six groups of credit institutions were formed:

- state-controlled banks;
- banks controlled by foreign capital;
- large private banks;
- medium-sized and small banks based in Moscow and the Moscow Region;
- medium-sized and small regional banks;
- non-bank credit institutions.

The fact that the main parameters of the clusters are stable confirms the efficiency of clustering as the method of banking sector analysis.

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	
	1.01.09	1.01.10	1.01.09	1.01.10	1.01.09	1.01.10
State-controlled banks	17	15	40.5	42.6	47.1	47.6
Foreign-controlled banks	101	106	18.7	18.3	17.2	16.9
Large private banks	136	139	34.6	33.3	27.6	28.7
Medium-sized and small banks based in Moscow and the Moscow Region	361	335	2.7	2.6	4.3	3.4
Medium-sized and small regional banks	443	412	2.8	2.8	3.6	3.1
Non-bank credit institutions	50	51	0.7	0.4	0.1	0.2
TOTAL	1,108	1,058	100	100	100	100

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

IV.3. Improving the Central Catalogue of Credit Histories

In 2010, the Bank of Russia will continue to enhance the efficiency of the Central Catalogue of Credit Histories (CCCH) and expand the capabilities of and modernise the CCCH automated system.

To meet the requirements of Federal Law No. 152-FZ, dated July 27, 2006, 'On Personal Data,' amended by Federal Law No. 363-FZ of December 27, 2009, the Bank of Russia plans to upgrade in 2010 the part of the CCCH automated system that processes personal data.

It also intends to put into practice its regulation enabling credit history makers and users to make inquiries to the CCCH through notaries. Such inquiries may be made by notaries through the automated system run by the Federal Notarial Chamber, which will serve as a single centre for filing inquiries to the CCCH through notaries.

This year, the Bank of Russia will continue to discuss with the Communications Ministry amendments to

the Bank of Russia regulation setting the procedure for sending inquiries to and receiving information from the CCCH by a credit history maker through a post office. These amendments are designed to improve co-operation between the CCCH, credit bureaus, and credit history makers.

In 2010, the Bank of Russia will continue to participate in drafting amendments to the federal law in regard of the creation of credit histories and ensuring access to credit reports for credit history makers and users.

To set up a procedure for the cross-border exchange of information from credit histories between EurAsEc member countries and prepare the text of the Agreement on Co-operation between EurAsEc Member States on the Exchange of Information Contained in Credit Histories, the Bank of Russia will continue in 2010 to meet with representatives of the EurAsEc banking community, financial market supervisors and central banks.

IV.4. Statistical Appendix

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

TABLE 1

Indicator	2003	2004	2005	2006	2007	2008	2009
GDP, billion roubles	13,243.2	17,048.1	21,625.4	26,903.5	33,258.1	41,444.7	39,063.6
GDP growth rate	107.3	107.2	106.4	107.7	108.1	105.6	92.1
Federal budget surplus (+) / deficit (—), as % of GDP	1.7	4.3	7.5	7.4	5.4	4.1	—5.9
Industrial output	108.9	108.0	105.1	106.3	106.3	102.1	89.2
Agricultural output	99.9	102.4	101.6	103.0	103.3	110.8	101.2
Retail trade turnover	108.8	113.3	112.8	114.1	116.1	113.5	95.1
Fixed capital investment	112.5	113.7	110.9	116.7	122.7	109.9	83.8
Household real disposable money income	115.0	110.4	112.4	113.5	112.1	101.9	102.3
Unemployment rate, as % of economically active population (average for period)	8.6	8.2	7.6	7.2	6.1	6.4	8.4
Consumer price index (December as % of previous December)	112.0	111.7	110.9	109.0	111.9	113.3	108.8
Average nominal US dollar/rouble rate over period	30.68	28.81	28.28	27.18	25.57	24.81	31.68

**Russian banking sector
macroeconomic indicators**

TABLE 2

Indicator	1.01.06	1.01.07	1.01.08	1.01.09	1.01.10
Banking sector assets (liabilities), billion roubles	9,696.2	13,963.5	20,125.1	28,022.3	29,430.0
as % of GDP	44.8	51.9	60.5	67.6	75.3
Banking sector capital, billion roubles	1,241.8	1,692.7	2,671.5	3,811.1	4,620.6
as % of GDP	5.7	6.3	8.0	9.2	11.8
as % of banking sector assets	12.8	12.1	13.3	13.6	15.7
Loans and other funds provided to non-financial organisations and households, including overdue debt, billion roubles	5,452.9	8,030.5	12,287.1	16,526.9	16,115.5
as % of GDP	25.2	29.8	36.9	39.9	41.3
as % of banking sector assets	56.2	57.5	61.1	59.0	54.8
Securities acquired by banks, billion roubles	1,400.1	1,745.4	2,250.6	2,365.2	4,309.4
as % of GDP	6.5	6.5	6.8	5.7	11.0
as % of banking sector assets	14.4	12.5	11.2	8.4	14.6
Household deposits, billion roubles	2,761.2	3,809.7	5,159.2	5,907.0	7,485.0
as % of GDP	12.8	14.2	15.5	14.3	19.2
as % of banking sector liabilities	28.5	27.3	25.6	21.1	25.4
as % of household income	20.0	22.0	24.2	23.1	26.4
Funds raised from organisations*, billion roubles	3,138.9	4,790.3	7,053.1	8,774.6	9,557.2
as % of GDP	14.5	17.8	21.2	21.2	24.5
as % of banking sector liabilities	32.4	34.3	35.0	31.3	32.5

* 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

	1.01.09	1.01.10
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	1,228	1,178
of which:		
— banks	1,172	1,124
— non-bank credit institutions	56	54
1.1. No. of registered wholly foreign-owned credit institutions	77	82
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	1
of which:		
— banks	3	1
— non-bank credit institutions	0	0
Operating credit institutions		
2. Credit institutions licensed to conduct banking operations, total ³	1,108	1,058
of which:		
— banks	1,058	1,007
— non-bank credit institutions	50	51
2.1. Credit institutions holding licences (permits):		
— to take household deposits	886	849
— to conduct operations in foreign currencies	736	701
— general licences	298	291
— to conduct operations with precious metals		
— permits	3	2
— licences ⁴	200	201
2.2. Credit institutions with a foreign stakes in authorised capital, total	221	226
of which:		
— wholly foreign-owned credit institutions	76	82
— credit institutions with a 50%-plus foreign stake	26	26
2.3. Credit institutions registered with the deposit insurance system ⁵	893	859
3. Registered authorised capital of operating credit institutions, million roubles	881,350	1,244,364
4. Branches of operating credit institutions in Russia, total	3,470	3,183
of which:		
— Sberbank branches ⁶	775	645
— branches of wholly foreign-owned credit institutions	242	241
5. Branches of operating credit institutions abroad, total ⁷	5	5
6. Branches of non-resident banks in Russia	0	0
7. Representative offices of operating Russian credit institutions, total ⁸	721	517
of which:		
— in Russia	679	475
— in non-CIS countries	30	29
— in CIS countries	12	13
8. Additional offices of credit institutions, total	21,272	21,641
of which:		
— Sberbank additional offices	9,491	10,061
9. External cash desks of credit institutions, total	13,871	12,461
of which:		
— Sberbank cash desks	10,127	8,962
10. Cash and credit offices of credit institutions, total	1,445	1,252
of which:		
— Sberbank cash and credit offices	0	0
11. Operations offices of credit institutions (branches of credit institutions), total	1,498	2,109
of which:		
— Sberbank operations offices	6	7
12. Mobile banking vehicles of credit institutions (branches of credit institutions), total	62	84
of which:		
— Sberbank mobile banking vehicles	61	82

* These include data based on information received from the Registration Authority as of the reporting date.

END

	1.01.09	1.01.10
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	117	119
14. Liquidated credit institutions struck off the State Register, total ¹⁰	1,900	1,957
of which:		
— liquidated due to licence revocation (cancellation)	1,495	1,540
— liquidated due to reorganisation	404	416
of which:		
— by merger	2	2
— by acquisition	402	414
of which:		
— by being transformed into other banks' branches	347	354
— by being merged with other banks (without setting up a branch)	55	60
— liquidated due to an infraction of law in respect of payment of authorised capital	1	1

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

- a corporate entity registered by the Bank of Russia (prior to July 1, 2002) or Registration Authority and having the right to conduct banking operations;
- a corporate entity registered by the Bank of Russia (prior to July 1, 2002) or Registration Authority, which had but lost the right to conduct banking operations.

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

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

⁴ 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 DIA 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 open by Russian credit institutions abroad.

⁸ Representative offices of Russian credit institutions abroad include the 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: 1,621 as of January 1, 2009, and 1,668 as of January 1, 2010.

¹⁰ After July 1, 2002, the liquidated credit institution is struck off the State Register as a corporate entity only after its liquidation has been registered by the Registration Authority.

Credit institutions by form of incorporation

TABLE 4

Title	1.01.09		1.01.10	
	number	% share	number	% share
Operating credit institutions licensed to conduct banking operations, total	1,108	100.00	1,058	100.0
of which:				
— joint-stock companies	726	65.52	699	66.07
— close joint-stock companies	296	26.71	285	26.94
— open joint-stock companies	430	38.81	414	39.13
— unit trusts	382	34.48	359	33.93
— additional liability companies	—	—	—	—
— limited liability companies	382	34.48	359	33.93

**Number of credit institutions and their branches by region
as of January 1, 2010**

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	1,058	3,183	601	2,582
Central Federal District	598	687	159	528
Belgorod Region	5	33	5	28
Bryansk Region	1	25	2	23
Vladimir Region	3	23	0	23
Voronezh Region	3	58	0	58
Ivanovo Region	6	17	1	16
Kaluga Region	4	27	0	27
Kostroma Region	5	12	0	12
Kursk Region	2	21	0	21
Lipetsk Region	2	26	1	25
Orel Region	2	20	3	17
Ryazan Region	4	22	0	22
Smolensk Region	4	23	6	17
Tambov Region	1	17	3	14
Tver Region	8	33	3	30
Tula Region	5	29	1	28
Yaroslavl Region	8	36	3	33
<i>Moscow and Moscow Region (For reference)</i>	<i>535</i>	<i>265</i>	<i>131</i>	<i>134</i>
Moscow	522	163	30	133
Moscow Region	13	102	6	96
North-Western Federal District	75	386	29	357
Republic of Karelia	1	19	2	17
Komi Republic	3	34	7	27
Arkhangelsk Region	3	31	1	30
of which: Nenets Autonomous Area	0	1	0	1
Vologda Region	8	28	8	20
Kaliningrad Region	7	36	1	35
Leningrad Region	4	32	0	32
Murmansk Region	4	27	1	26
Novgorod Region	2	16	1	15
Pskov Region	3	12	0	12
St Petersburg	40	151	8	143
Southern Federal District	113	484	100	384
Republic of Adygeya	5	5	1	4
Republic of Daghestan	32	76	59	17
Republic of Ingushetia	2	5	1	4
Kabardino-Balkaria Republic	7	13	4	9
Republic of Kalmykia	2	3	0	3
Karachai-Cherkess Republic	5	4	0	4
Republic of North Ossetia — Alaniya	6	11	3	8
Chechen Republic	0	4	0	4
Krasnodar Territory	17	105	6	99
Stavropol Territory	8	60	7	53
Astrakhan Region	4	26	6	20
Volgograd Region	5	63	0	63
Rostov Region	20	109	13	96

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	125	694	132	562
Republic of Bashkortostan	11	59	1	58
Republic of Mari El	1	20	4	16
Republic of Mordovia	4	11	1	10
Republic of Tatarstan (Tatarstan)	26	94	55	39
Udmurt Republic	7	29	0	29
Chuvash Republic — Chuvashia	5	21	0	21
Perm Territory	6	68	2	66
Kirov Region	3	22	0	22
Nizhny Novgorod Region	16	116	13	85
Orenburg Region	9	46	3	43
Penza Region	2	30	0	30
Samara Region	20	87	13	74
Saratov Region	11	67	19	48
Ulyanovsk Region	4	24	3	21
Urals Federal District	54	366	120	246
Kurgan Region	4	19	0	19
Sverdlovsk Region	22	97	14	83
Tyumen Region	17	145	66	79
of which:				
Khanty-Mansi Autonomous Area — Yugra	10	45	13	32
Yamalo-Nenets Autonomous Area	2	27	2	25
Chelyabinsk Region	11	105	40	65
Siberian Federal District	62	394	38	356
Republic of Altai	5	4	1	3
Republic of Buryatiya	1	18	3	15
Republic of Tyva	2	4	0	4
Republic of Khakassia	3	6	0	6
Altai Territory	7	52	12	40
Trans-Baikal Territory	0	17	0	17
Krasnoyarsk Territory	6	63	8	55
Irkutsk Region	8	48	4	44
Kemerovo Region	8	35	0	35
Novosibirsk Region	13	71	1	70
Omsk Region	6	47	0	47
Tomsk Region	3	29	9	20
Far Eastern Federal District	31	172	23	149
Republic of Sakha (Yakutia)	4	37	1	36
Kamchatka Territory	5	13	4	9
Primorsky Territory	8	42	7	35
Khabarovsk Territory	4	29	4	25
Amur Region	3	15	0	15
Magadan Region	2	12	5	7
Sakhalin Region	5	12	2	10
Jewish Autonomous Region	0	5	0	5
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) pertains to 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 line Moscow and the Moscow Region, figures in column 4 and 5 indicate the number of branches whose parent credit institution is located in the given region (Moscow and the Moscow Region) and in other regions.

Credit institutions grouped by registered authorised capital
as of January 1, 2010

TABLE 6

Region	Up to 3m roubles	3m to 10m roubles	10m to 30m roubles	30m to 60m roubles	60m to 150m roubles	150m to 300m roubles	300m roubles and over	Total
1	2	3	4	5	6	7	8	9
Russian Federation	26	38	71	117	204	252	350	1,058
Central Federal District	8	15	35	58	93	152	237	598
Belgorod Region	0	0	0	0	2	3	0	5
Bryansk Region	0	0	0	0	0	1	0	1
Vladimir Region	0	0	0	1	1	1	0	3
Voronezh Region	0	0	1	0	1	0	1	3
Ivanovo Region	0	0	0	2	2	2	0	6
Kaluga Region	0	0	0	0	2	1	1	4
Kostroma Region	0	0	1	0	1	1	2	5
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	0	1	0	1	1	1	4
Tambov Region	0	0	0	0	1	0	0	1
Tver Region	1	1	1	2	2	0	1	8
Tula Region	0	1	0	2	1	1	0	5
Yaroslavl Region	0	0	1	3	1	1	2	8
<i>Moscow and Moscow Region (For reference)</i>	<i>7</i>	<i>13</i>	<i>29</i>	<i>44</i>	<i>76</i>	<i>138</i>	<i>228</i>	<i>535</i>
Moscow	7	12	29	44	74	135	221	522
Moscow Region	0	1	0	0	2	3	7	13
North-Western Federal District	4	4	6	15	12	12	22	75
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	2	0	2	2	2	8
Kaliningrad Region	0	0	0	1	2	1	3	7
Leningrad Region	0	0	1	1	0	1	1	4
Murmansk Region	1	0	0	0	1	1	1	4
Novgorod Region	0	1	0	0	0	1	0	2
Pskov Region	0	0	1	1	0	1	0	3
St Petersburg	3	2	2	9	5	4	15	40
Southern Federal District	8	11	11	13	38	20	12	113
Republic of Adygeya	1	0	3	0	1	0	0	5
Republic of Daghestan	4	5	5	3	12	1	2	32
Republic of Ingushetia	0	1	0	0	1	0	0	2
Kabardino-Balkaria Republic	0	1	1	0	2	1	2	7
Republic of Kalmykia	0	0	0	0	2	0	0	2
Karachai-Cherkess Republic	1	0	0	1	2	0	1	5
Republic of North Ossetia — Alaniya	0	0	0	2	2	2	0	6
Chechen Republic	0	0	0	0	0	0	0	0
Krasnodar Territory	0	0	1	2	6	5	3	17
Stavropol Territory	1	1	0	2	4	0	0	8
Astrakhan Region	0	3	0	0	0	1	0	4
Volgograd Region	0	0	0	1	1	3	0	5
Rostov Region	1	0	1	2	5	7	4	20

END

Region	Up to 3m roubles	3m to 10m roubles	10m to 30m roubles	30m to 60m roubles	60m to 150m roubles	150m to 300m roubles	300m roubles and over	Total
1	2	3	4	5	6	7	8	9
Volga Federal District	3	2	4	9	25	39	43	125
Republic of Bashkortostan	0	0	1	0	1	5	4	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 (Tatarstan)	0	1	0	1	5	7	12	26
Udmurt Republic	0	1	1	0	1	3	1	7
Chuvash Republic — Chuvashia	1	0	0	1	1	1	1	5
Perm Territory	1	0	0	1	0	1	3	6
Kirov Region	0	0	0	1	0	0	2	3
Nizhny Novgorod Region	0	0	1	2	5	4	4	16
Orenburg Region	0	0	0	1	3	1	4	9
Penza Region	0	0	0	0	1	0	1	2
Samara Region	1	0	0	1	1	8	9	20
Saratov Region	0	0	0	1	5	3	2	11
Ulyanovsk Region	0	0	0	0	2	2	0	4
Urals Federal District	1	2	4	8	8	10	21	54
Kurgan Region	0	1	0	2	1	0	0	4
Sverdlovsk Region	1	1	0	4	3	4	9	22
Tyumen Region	0	0	3	1	3	4	6	17
of which:								
Khanty-Mansi Autonomous Area — Yugra	0	0	1	1	2	2	4	10
Yamalo-Nenets Autonomous Area	0	0	1	0	0	1	0	2
Chelyabinsk Region	0	0	1	1	1	2	6	11
Siberian Federal District	2	3	8	7	20	11	11	62
Republic of Altai	0	0	2	0	2	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	0	1	2	3	0	1	7
Trans-Baikal Territory	0	0	0	0	0	0	0	0
Krasnoyarsk Territory	0	0	1	0	2	2	1	6
Irkutsk Region	0	0	1	1	4	2	0	8
Kemerovo Region	0	0	1	2	2	1	2	8
Novosibirsk Region	2	1	1	1	3	0	5	13
Omsk Region	0	1	0	0	2	1	2	6
Tomsk Region	0	0	1	0	1	1	0	3
Far Eastern Federal District	0	1	3	7	8	8	4	31
Republic of Sakha (Yakutia)	0	0	0	2	0	1	1	4
Kamchatka Territory	0	0	2	2	0	1	0	5
Primorsky Territory	0	1	1	0	3	3	0	8
Khabarovsk Territory	0	0	0	1	2	0	1	4
Amur Region	0	0	0	0	0	1	2	3
Magadan Region	0	0	0	1	0	1	0	2
Sakhalin Region	0	0	0	1	3	1	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, 2009**

TABLE 7.1

Region	No. of credit institutions, branches, additional and operations offices	Assets, million roubles*	Loans and other funds to resident organisations and households, million roubles**	Household deposits, million roubles**	Gross Regional Product (GRP) for 2008, billion roubles	Population, thousands	Average monthly per capita income in 2008, roubles	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	12,927	37,122	19,116	1.08	1.84	1.22	1.51	1.38
<i>For reference: Central Federal District without Moscow</i>	<i>4,074</i>	<i>1,749,185</i>	<i>2,300,992</i>	<i>785,086</i>	<i>4,486</i>	<i>26,613</i>	<i>13,157</i>	<i>0.79</i>	<i>0.44</i>	<i>1.10</i>	<i>0.81</i>	<i>0.75</i>
Belgorod Region	203	141,441	221,818	44,034	319	1,525	12,758	0.69	0.50	1.50	0.81	0.81
Bryansk Region	123	43,714	46,243	21,072	127	1,300	10,043	0.49	0.39	0.78	0.58	0.54
Vladimir Region	224	69,263	77,928	37,665	176	1,440	9,596	0.81	0.45	0.95	0.98	0.76
Voronezh Region	308	200,476	142,105	68,358	289	2,270	10,305	0.70	0.79	1.06	1.05	0.89
Ivanovo Region	180	41,583	45,542	23,449	86	1,073	8,354	0.87	0.55	1.14	0.94	0.85
Kaluga Region	195	65,808	61,503	28,835	153	1,003	11,756	1.01	0.49	0.86	0.88	0.78
Kostroma Region	143	40,307	36,454	15,996	81	692	9,413	1.07	0.57	0.97	0.88	0.85
Kursk Region	194	77,743	86,653	23,050	168	1,155	11,411	0.87	0.53	1.11	0.63	0.75
Lipetsk Region	169	77,675	89,990	31,948	263	1,163	12,274	0.75	0.34	0.74	0.80	0.62
Moscow Region	1,022	537,565	983,812	286,751	1,685	6,713	19,776	0.79	0.36	1.26	0.78	0.73
Orel Region	121	31,064	56,241	16,631	95	817	9,815	0.77	0.37	1.27	0.75	0.72
Ryazan Region	178	69,620	74,056	27,566	150	1,158	11,311	0.80	0.53	1.07	0.76	0.76
Smolensk Region	152	58,548	59,083	22,963	122	974	11,523	0.81	0.55	1.05	0.74	0.76
Tambov Region	135	34,859	46,350	18,747	123	1,097	11,253	0.64	0.32	0.81	0.55	0.55
Tver Region	191	67,367	69,390	29,303	197	1,369	10,856	0.72	0.39	0.76	0.71	0.62
Tula Region	259	91,155	97,284	40,149	231	1,553	11,389	0.87	0.45	0.91	0.82	0.73
Yaroslavl Region	277	100,997	106,538	48,568	220	1,310	12,587	1.10	0.52	1.04	1.06	0.89
Moscow	3,627	19,086,394	5,045,235	2,204,642	8,441	10,509	34,207	1.79	2.57	1.29	2.20	1.90
North-Western Federal District	3,091	2,089,317	1,688,403	668,702	3,400	13,462	15,052	1.19	0.70	1.07	1.19	1.01
Republic of Karelia	147	39,166	43,735	15,938	117	688	12,229	1.11	0.38	0.80	0.68	0.69
Komi Republic	163	61,740	56,795	34,135	296	959	18,636	0.88	0.24	0.41	0.69	0.49
Arkhangelsk Region	200	69,618	78,589	34,601	298	1,262	14,824	0.82	0.27	0.57	0.66	0.54
Vologda Region	248	112,751	101,788	36,940	298	1,218	12,194	1.06	0.43	0.74	0.89	0.74
Kaliningrad Region	218	94,025	106,846	33,185	182	937	12,922	1.21	0.59	1.27	0.98	0.97
Leningrad Region	338	57,739	116,643	36,616	384	1,632	12,014	1.07	0.17	0.65	0.67	0.53
Murmansk Region	203	62,322	57,924	35,354	216	842	18,773	1.25	0.33	0.58	0.80	0.66
Novgorod Region	159	33,656	50,644	12,633	115	646	11,646	1.28	0.33	0.94	0.60	0.70
Pskov Region	153	27,110	27,066	11,380	73	696	10,291	1.14	0.42	0.79	0.57	0.68
St Petersburg	1,262	1,531,188	1,048,371	417,919	1,421	4,582	17,649	1.43	1.23	1.59	1.86	1.51

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	2,745	22,902	10,874	0.90	0.47	0.88	0.58	0.68
Republic of Adygeya	85	11,123	14,861	4,769	37	443	7,986	1.00	0.34	0.86	0.48	0.61
Republic of Daghestan	227	28,774	18,520	9,526	211	2,712	10,962	0.43	0.16	0.19	0.12	0.20
Republic of Ingushetia	18	3,671	3,838	1,117	19	508	5,513	0.18	0.22	0.43	0.14	0.22
Kabardino-Balkaria Republic	91	21,465	19,742	8,989	59	892	8,589	0.53	0.42	0.73	0.42	0.51
Republic of Kalmykia	45	6,712	9,223	1,825	21	284	5,651	0.82	0.37	0.96	0.41	0.59
Karachai-Cherkess Republic	45	10,685	14,068	3,036	35	427	8,676	0.55	0.35	0.86	0.29	0.47
Republic of North Ossetia — Alaniya	70	17,632	17,281	9,218	58	702	9,838	0.52	0.35	0.64	0.48	0.49
Chechen Republic	29	15,876	12,854	2,054	66	1,238	—	0.12	0.28	0.42	—	—
Krasnodar Territory	1,281	369,183	371,041	137,388	809	5,142	12,024	1.29	0.52	0.99	0.80	0.85
Stavropol Territory	518	128,307	136,869	55,463	275	2,707	9,953	0.99	0.53	1.07	0.74	0.80
Astrakhan Region	160	43,364	41,055	20,421	147	1,005	11,120	0.83	0.34	0.60	0.66	0.58
Volgograd Region	361	132,144	146,851	55,670	432	2,599	10,866	0.72	0.35	0.73	0.71	0.60
Rostov Region	1,063	339,369	314,318	94,568	576	4,242	12,161	1.30	0.67	1.17	0.66	0.91
Volga Federal District	5,070	2,557,808	2,378,248	772,243	5,349	30,158	12,351	0.87	0.54	0.96	0.75	0.76
Republic of Bashkortostan	750	218,059	248,088	82,711	749	4,057	14,253	0.96	0.33	0.71	0.51	0.58
Republic of Mari El	81	29,697	28,805	9,409	67	700	7,843	0.60	0.50	0.92	0.62	0.64
Republic of Mordovia	152	49,158	50,347	14,550	95	833	8,384	0.95	0.59	1.15	0.75	0.83
Republic of Tatarstan (Tatarstan)	700	502,266	428,125	111,756	923	3,769	14,181	0.96	0.62	1.00	0.75	0.82
Udmurt Republic	277	115,247	114,838	31,015	240	1,528	9,581	0.94	0.55	1.03	0.76	0.80
Chuvash Republic — Chuvashia	154	74,838	89,519	22,061	158	1,279	8,594	0.62	0.54	1.22	0.72	0.74
Perm Territory	447	269,079	275,400	80,902	609	2,708	16,119	0.86	0.50	0.97	0.67	0.73
Kirov Region	216	68,373	76,440	26,926	151	1,401	10,112	0.80	0.52	1.09	0.68	0.74
Nizhny Novgorod Region	560	341,558	312,860	106,781	598	3,341	13,090	0.87	0.65	1.13	0.88	0.86
Orenburg Region	348	111,297	131,740	41,695	425	2,112	10,184	0.86	0.30	0.67	0.70	0.59
Penza Region	202	56,572	60,924	25,205	145	1,380	10,173	0.76	0.44	0.90	0.65	0.67
Samara Region	591	521,386	360,732	136,035	707	3,171	15,805	0.97	0.84	1.10	0.98	0.97
Saratov Region	349	134,579	128,394	59,614	331	2,573	9,062	0.70	0.46	0.84	0.92	0.71
Ulyanovsk Region	243	65,699	72,034	23,583	151	1,305	9,756	0.97	0.50	1.03	0.67	0.76
Urals Federal District	2,382	1,487,365	1,436,108	439,401	4,859	12,255	18,726	1.01	0.35	0.64	0.69	0.63
Kurgan Region	114	29,773	36,858	11,020	106	953	11,161	0.62	0.32	0.75	0.37	0.48
Sverdlovsk Region	882	687,670	629,651	160,539	944	4,395	17,171	1.04	0.83	1.44	0.76	0.99
Tyumen Region	763	479,757	453,122	180,069	3,144	3,399	27,612	1.16	0.17	0.31	0.69	0.46
Chelyabinsk Region	623	290,165	316,477	87,773	665	3,509	14,161	0.92	0.50	1.02	0.64	0.74

END												
1	2	3	4	5	6	7	8	9	10	11	12	13
Siberian Federal District	3,716	1,155,163	1,466,363	410,098	3,491	19,545	12,857	0.99	0.51	0.90	0.59	0.72
Republic of Altai	44	11,700	21,765	1,815	19	209	10,173	1.09	0.71	2.50	0.31	0.88
Republic of Buryatiya	242	43,592	45,367	11,598	127	961	11,299	1.31	0.39	0.77	0.38	0.62
Republic of Tyva	45	7,426	8,070	1,638	24	314	7,871	0.74	0.35	0.71	0.24	0.46
Republic of Khakassia	120	21,202	28,795	7,002	74	538	10,764	1.16	0.33	0.84	0.43	0.61
Altai Territory	395	140,968	140,105	38,594	269	2,497	9,749	0.82	0.60	1.12	0.57	0.75
Trans-Baikal Territory	282	42,756	41,348	14,188	141	1,117	10,972	1.31	0.35	0.63	0.42	0.59
Krasnoyarsk Territory	622	227,621	239,744	67,191	740	2,890	15,605	1.12	0.35	0.70	0.54	0.62
Irkutsk Region	522	177,677	208,413	55,758	457	2,506	12,882	1.08	0.44	0.98	0.62	0.74
Kemerovo Region	409	204,686	249,519	66,448	576	2,822	14,439	0.75	0.40	0.93	0.59	0.64
Novosibirsk Region	540	451,766	271,822	75,452	460	2,640	12,838	1.06	1.12	1.27	0.80	1.05
Omsk Region	279	144,389	132,273	43,577	353	2,014	13,627	0.72	0.47	0.81	0.57	0.63
Tomsk Region	216	81,381	79,142	26,837	252	1,039	13,482	1.08	0.37	0.68	0.69	0.66
Far Eastern Federal District	1,393	483,939	501,276	213,000	1,548	6,460	15,622	1.12	0.36	0.70	0.76	0.68
Republic of Sakha (Yakutia)	173	63,975	148,247	23,917	305	950	18,741	0.95	0.24	1.05	0.48	0.58
Kamchatka Territory	96	26,772	23,695	15,888	78	344	19,063	1.45	0.39	0.65	0.87	0.75
Primorsky Territory	419	123,851	108,773	57,499	319	1,988	12,808	1.09	0.44	0.73	0.81	0.73
Khabarovsk Territory	298	150,569	129,811	58,900	273	1,402	15,705	1.10	0.63	1.02	0.96	0.91
Amur Region	196	53,381	43,188	17,498	137	864	11,936	1.18	0.44	0.68	0.61	0.68
Magadan Region	49	16,792	15,547	9,240	42	163	19,703	1.56	0.46	0.80	1.03	0.88
Sakhalin Region	110	39,333	24,330	24,042	336	515	24,552	1.11	0.13	0.16	0.68	0.35
Jewish Autonomous Region	33	4,720	5,432	2,709	27	185	10,877	0.92	0.20	0.44	0.48	0.45
Chukchee Autonomous Area	19	4,547	2,254	3,309	31	50	32,140	1.99	0.17	0.16	0.75	0.45
Total	27,346	30,137,478	15,937,144	5,897,218	34,320	141,904	14,939	1.00	1.00	1.00	1.00	1.00

* Credit volume calculation is based on consolidated balance sheets of head offices and branches located in corresponding regions.

** Based on data reported in Form 0409302.

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

TABLE 7.2

Region	No. of credit institutions, branches, additional and operations offices	Assets, million roubles*	Loans and other funds to resident organisations and households, million roubles**	Household deposits, million roubles**	Gross Regional Product (GRP) for 2009, billion roubles (estimate)	Population, thousands (estimate)	Average monthly per capita income in 2009, roubles	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	7,979	20,766,330	7,223,945	3,760,101	12,184	37,140	22,965	1.09	1.81	1.24	1.41	1.36
<i>For reference: Central Federal District without Moscow</i>	<i>4,332</i>	<i>1,957,617</i>	<i>2,177,994</i>	<i>970,100</i>	<i>4,228</i>	<i>26,627</i>	<i>14,209</i>	<i>0.82</i>	<i>0.49</i>	<i>1.07</i>	<i>0.82</i>	<i>0.77</i>
Belgorod Region	214	155,015	218,208	51,405	301	1,530	13,930	0.71	0.55	1.51	0.77	0.82
Bryansk Region	129	40,850	43,127	26,715	120	1,300	11,175	0.50	0.36	0.75	0.59	0.53
Vladimir Region	234	73,666	72,426	50,006	166	1,440	10,091	0.82	0.47	0.91	1.10	0.79
Voronezh Region	311	235,095	149,674	91,620	273	2,271	11,689	0.69	0.91	1.15	1.10	0.95
Ivanovo Region	196	43,706	45,078	31,446	81	1,073	9,157	0.93	0.57	1.16	1.02	0.89
Kaluga Region	208	79,907	64,339	37,361	144	1,033	13,113	1.05	0.59	0.93	0.91	0.85
Kostroma Region	150	47,752	33,844	19,756	76	693	10,328	1.10	0.66	0.92	0.88	0.88
Kursk Region	195	81,225	90,852	29,134	158	1,156	12,408	0.86	0.54	1.20	0.65	0.78
Lipetsk Region	171	86,106	89,597	39,813	248	1,164	14,075	0.75	0.37	0.75	0.78	0.63
Moscow Region	1,127	657,380	854,977	331,470	1,589	6,715	20,797	0.85	0.44	1.12	0.76	0.75
Orel Region	128	31,122	65,740	21,628	90	817	10,050	0.79	0.37	1.53	0.84	0.78
Ryazan Region	182	69,708	72,636	35,747	141	1,158	11,127	0.80	0.52	1.07	0.89	0.79
Smolensk Region	155	55,326	55,016	29,431	115	974	13,111	0.81	0.51	1.00	0.74	0.74
Tambov Region	140	40,266	44,059	23,988	116	1,097	11,873	0.65	0.37	0.79	0.59	0.58
Tver Region	198	69,056	68,124	39,407	186	1,370	11,909	0.73	0.39	0.77	0.77	0.64
Tula Region	261	86,180	99,328	51,285	217	1,554	13,621	0.85	0.42	0.95	0.78	0.72
Yaroslavl Region	333	105,256	110,970	59,888	207	1,311	12,566	1.29	0.54	1.12	1.16	0.97
Moscow	3,647	18,808,712	5,045,951	2,790,002	7,956	10,513	45,145	1.76	2.50	1.32	1.88	1.82
North-Western Federal District	3,235	2,285,290	1,676,571	848,296	3,205	13,442	16,571	1.22	0.76	1.09	1.22	1.05
Republic of Karelia	151	37,952	40,005	19,455	110	684	13,358	1.12	0.36	0.76	0.68	0.68
Komi Republic	186	63,909	49,522	42,226	279	952	19,719	0.99	0.24	0.37	0.72	0.50
Arkhangelsk Region	222	77,585	101,382	45,489	281	1,255	16,411	0.90	0.29	0.75	0.71	0.61
Vologda Region	359	116,418	101,307	46,493	281	1,214	11,549	1.50	0.44	0.75	1.06	0.85
Kaliningrad Region	226	101,258	109,299	42,257	171	938	14,563	1.22	0.63	1.33	0.99	1.00
Leningrad Region	343	72,246	107,518	45,079	362	1,630	12,157	1.07	0.21	0.62	0.73	0.56
Murmansk Region	206	67,315	54,128	44,946	203	837	20,909	1.25	0.35	0.56	0.82	0.67
Novgorod Region	160	35,838	45,342	15,970	109	641	12,630	1.27	0.35	0.87	0.63	0.70
Pskov Region	144	27,261	26,553	14,028	69	689	11,047	1.06	0.42	0.80	0.59	0.68
St Petersburg	1,238	1,685,509	1,041,513	532,354	1,339	4,602	20,353	1.36	1.33	1.62	1.82	1.52

CONT.

1	2	3	4	5	6	7	8	9	10	11	12	13
Southern Federal District	4,071	1,209,878	1,148,543	522,152	2,587	22,910	12,371	0.90	0.50	0.93	0.59	0.70
Republic of Adygeya	87	13,784	15,805	5,946	35	443	9,563	1.00	0.42	0.94	0.45	0.65
Republic of Daghestan	249	37,852	22,980	13,025	199	2,713	13,798	0.47	0.20	0.24	0.11	0.22
Republic of Ingushetia	20	5,682	4,727	2,042	18	508	6,110	0.20	0.33	0.55	0.21	0.30
Kabardino-Balkaria Republic	97	28,728	24,156	10,160	55	893	9,530	0.55	0.55	0.91	0.38	0.57
Republic of Kalmykia	44	7,792	9,574	2,661	20	284	6,809	0.79	0.42	1.02	0.44	0.62
Karachai-Cherkess Republic	44	14,578	17,207	3,782	33	427	10,036	0.52	0.46	1.08	0.28	0.52
Republic of North Ossetia — Alaniya	74	22,885	18,107	11,889	55	702	11,690	0.53	0.44	0.69	0.46	0.53
Chechen Republic	15	15,722	13,018	1,980	62	1,239	—	0.06	0.27	0.44	—	—
Krasnodar Territory	1,318	414,149	393,166	178,741	762	5,144	13,865	1.30	0.58	1.08	0.80	0.90
Stavropol Territory	529	142,345	134,214	70,190	259	2,708	11,437	0.99	0.58	1.08	0.73	0.82
Astrakhan Region	166	49,834	42,661	26,440	139	1,006	12,229	0.84	0.38	0.64	0.69	0.61
Volgograd Region	373	129,005	138,959	72,282	407	2,600	12,284	0.73	0.34	0.71	0.72	0.60
Rostov Region	1,055	327,522	313,970	123,016	543	4,243	12,693	1.26	0.64	1.21	0.73	0.92
Volga Federal District	5,222	2,707,676	2,293,845	990,085	5,041	30,119	13,661	0.88	0.57	0.95	0.77	0.78
Republic of Bashkortostan	745	321,982	242,897	111,367	706	4,067	16,261	0.93	0.48	0.72	0.54	0.65
Republic of Mari El	84	31,768	31,846	12,620	64	698	9,036	0.61	0.53	1.05	0.64	0.68
Republic of Mordovia	158	59,589	57,183	18,115	89	827	9,474	0.97	0.71	1.34	0.74	0.91
Republic of Tatarstan (Tatarstan)	733	546,263	431,934	145,500	870	3,780	15,620	0.98	0.66	1.04	0.79	0.85
Udmurt Republic	262	102,960	105,625	40,520	226	1,527	10,607	0.87	0.48	0.97	0.80	0.76
Chuvash Republic — Chuvashia	160	71,964	90,352	28,312	149	1,279	9,469	0.63	0.51	1.27	0.75	0.75
Perm Territory	514	256,017	294,114	98,889	574	2,702	17,084	0.96	0.47	1.07	0.69	0.76
Kirov Region	225	74,983	68,670	35,371	142	1,392	10,623	0.82	0.56	1.01	0.77	0.77
Nizhny Novgorod Region	591	335,302	283,394	137,675	564	3,325	14,290	0.90	0.63	1.05	0.93	0.86
Orenburg Region	348	99,393	119,128	51,871	401	2,114	11,465	0.83	0.26	0.62	0.69	0.55
Penza Region	201	58,458	59,583	32,944	137	1,374	11,155	0.74	0.45	0.91	0.69	0.68
Samara Region	595	554,629	327,998	170,128	666	3,170	17,707	0.95	0.88	1.03	0.97	0.96
Saratov Region	354	134,134	114,783	74,613	312	2,566	10,411	0.70	0.46	0.77	0.89	0.68
Ulyanovsk Region	252	60,235	66,339	32,160	142	1,299	10,096	0.98	0.45	0.97	0.78	0.76
Urals Federal District	2,402	1,573,126	1,294,469	550,857	4,580	12,284	19,856	0.99	0.36	0.59	0.72	0.63
Kurgan Region	119	29,852	36,014	14,389	100	948	12,432	0.64	0.32	0.75	0.39	0.49
Sverdlovsk Region	890	722,516	569,685	197,427	890	4,396	19,315	1.03	0.86	1.34	0.74	0.97
Tyumen Region	770	554,952	412,463	227,261	2,963	3,432	27,295	1.14	0.20	0.29	0.78	0.48
Chelyabinsk Region	623	265,807	276,307	111,781	627	3,509	15,343	0.90	0.45	0.92	0.66	0.71

END												
1	2	3	4	5	6	7	8	9	10	11	12	13
Siberian Federal District	3,693	1,448,713	1,360,022	524,506	3,291	19,569	13,379	0.96	0.47	0.86	0.64	0.70
Republic of Altai	45	12,835	20,561	2,421	18	211	9,700	1.08	0.77	2.42	0.38	0.93
Republic of Buryatiya	239	44,666	41,488	15,481	120	964	12,481	1.26	0.40	0.72	0.41	0.62
Republic of Tyva	45	8,042	9,125	2,374	23	317	9,249	0.72	0.37	0.83	0.26	0.49
Republic of Khakassia	140	21,413	27,563	9,086	70	539	11,545	1.32	0.32	0.82	0.47	0.64
Altai Territory	396	142,334	142,222	49,381	253	2,492	9,441	0.81	0.60	1.17	0.67	0.78
Trans-Baikal Territory	242	32,027	36,369	18,314	133	1,117	12,490	1.10	0.26	0.57	0.42	0.51
Krasnoyarsk Territory	646	214,707	228,443	84,853	698	2,895	16,187	1.13	0.33	0.68	0.58	0.62
Irkutsk Region	495	161,710	192,021	68,195	430	2,504	13,792	1.00	0.40	0.93	0.63	0.70
Kemerovo Region	410	166,787	225,725	82,995	543	2,822	13,842	0.74	0.33	0.87	0.68	0.61
Novosibirsk Region	535	448,098	247,434	101,156	434	2,651	14,702	1.02	1.09	1.19	0.83	1.03
Omsk Region	282	126,236	115,839	54,679	333	2,013	13,692	0.71	0.40	0.73	0.64	0.60
Tomsk Region	218	69,857	73,233	35,569	237	1,044	13,528	1.06	0.31	0.64	0.81	0.64
Far Eastern Federal District	1,387	546,837	504,220	280,746	1,459	6,462	17,892	1.09	0.40	0.72	0.78	0.70
Republic of Sakha (Yakutia)	188	65,094	180,016	30,500	287	950	20,857	1.00	0.24	1..31	0.49	0.63
Kamchatka Territory	95	32,666	24,040	19,962	74	344	22,425	1.40	0.47	0.68	0.83	0.78
Primorsky Territory	409	150,712	99,727	80,011	301	1,989	14,482	1.04	0.53	0.69	0.89	0.76
Khabarovsk Territory	293	159,565	115,055	77,569	257	1,402	18,225	1.06	0.66	0.93	0.97	0.89
Amur Region	181	58,603	38,752	23,663	129	865	14,195	1.06	0.48	0.63	0.62	0.67
Magadan Region	50	21,626	14,952	11,661	40	163	23,937	1.55	0.58	0.79	0.96	0.91
Sakhalin Region	120	47,349	24,419	30,315	317	515	26,402	1.18	0.16	0.16	0.71	0.38
Jewish Autonomous Region	32	4,393	5,671	3,032	25	185	12,727	0.87	0.18	0.47	0.41	0.42
Chukchee Autonomous Area	19	6,829	1,588	4,033	29	50	32,646	1.95	0.25	0.11	0.80	0.46
Total	27,989	30,537,850	15,501,616	7,476,744	32,346	141,927	16,863	1.00	1.00	1.00	1.00	1.00

* Credit volume calculation is based on consolidated balance sheet data of head offices and branches located in corresponding regions.

** Based on data reported in Form 0409302.

*** Owing to reorganisation of individual credit institutions, some regional indicators are underestimated. The estimated decrease in indicators in lines 10 and 13 is 0.02–0.03.

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

TABLE 8

	1.01.06	1.01.07	1.01.08	1.01.09	1.01.10
Credit institutions with a 50%-plus foreign stake in authorised capital					
Assets	8.3	12.1	17.2	18.7	18.3
Capital	9.3	12.7	15.7	17.3	23.8
Correspondent accounts with non-resident banks	10.4	24.0	23.2	17.0	15.6
Loans and other placements with non-financial organisations	7.3	9.9	15.5	16.6	14.8
Loans, deposits and other funds provided to credit institutions	17.1	22.5	22.2	25.0	31.7
Household deposits	3.4	6.2	8.9	10.3	12.0
Funds raised from organisations*	9.4	13.1	17.8	18.8	18.5
Current-year profits (losses)	7.6	10.9	16.4	19.7	29.8
of which: wholly foreign owned credit institutions					
Assets	8.1	9.0	11.6	13.0	11.3
Capital	9.0	10.1	11.1	12.2	15.4
Correspondent accounts with non-resident banks	9.8	8.5	15.6	12.1	9.0
Loans and other funds provided to non-financial organisations	7.2	7.8	10.7	11.6	9.1
Loans, deposits and other funds provided to credit institutions	16.8	18.4	18.6	21.6	23.8
Household deposits	3.3	4.1	5.0	5.4	6.2
Funds raised from organisations*	9.2	8.9	10.9	12.6	11.1
Current-year profits (losses)	7.3	8.2	10.7	14.8	27.4

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

**Credit institutions' assets grouped by investment
(billion roubles)**

TABLE 9

Assets		1.01.09	1.04.09	1.07.09	1.10.09	1.01.10
1	Money, precious metals and gemstones, total	829.3	675.6	598.6	586.6	795.8
1.1	Of which: money	795.1	636.3	552.4	537.3	747.0
2	Accounts with the Bank of Russia and authorised bodies of other countries, total	2,078.7	1,902.8	1,720.8	1,070.2	1,755.2
	Of which:					
2.1	Credit institutions' correspondent accounts with the Bank of Russia	1,773.6	1,584.5	1,071.8	688.4	1,060.8
2.2	Credit institutions' required reserves transferred to the Bank of Russia	29.8	33.2	61.8	153.8	151.2
2.3	Deposits and other funds deposited with the Bank of Russia	267.2	276.5	578.0	216.9	535.3
3	Correspondent accounts with credit institutions, total	1,238.8	956.0	905.4	976.1	839.2
	Of which:					
3.1	Correspondent accounts with correspondent credit institutions	395.8	288.8	192.9	178.3	171.7
3.2	Correspondent accounts with non-resident banks	843.0	667.2	712.5	797.8	667.6
4	Securities acquired by credit institutions, total	2,365.2	2,650.0	2,908.6	3,636.8	4,309.4
	Of which:					
4.1	Debt obligations	1,760.3	1,994.4	2,225.9	2,807.6	3,379.1
4.2	Equities	193.4	228.4	296.0	396.6	411.8
4.3	Discounted bills	199.5	201.6	167.8	188.9	234.0
4.4	Shares of subsidiaries and affiliated joint-stock companies	212.0	225.6	219.0	243.7	284.5
5	Other stakes in authorised capital	45.1	48.6	61.2	63.2	72.6
6	Loans, total	19,941.0	20,604.5	19,915.2	20,215.0	19,878.4
	Of which:					
6.1	Loans, deposits and other placements	19,884.8	20,561.3	19,879.0	20,178.0	19,847.1
	Of which: overdue debt	422.0	642.6	830.1	961.6	1,014.7
	Of which:					
6.1.1	Loans and other placements with non-financial organisations	12,509.7	13,115.8	12,829.3	12,715.9	12,541.7
	Of which: overdue debt	266.4	454.0	612.7	717.0	762.5
6.1.2	Loans extended to individuals	4,017.2	3,871.7	3,697.9	3,618.6	3,573.8
	Of which: overdue debt	148.6	182.1	211.4	231.1	243.0
6.1.3	Loans, deposits and other placements with credit institutions	2,501.2	2,664.6	2,376.8	2,907.7	2,725.9
	Of which: overdue debt	1.3	2.3	1.6	2.0	1.9
7	Fixed and intangible assets and inventories	544.1	658.2	678.7	693.9	790.7
8	Disposition of profits	109.8	55.5	55.7	59.3	71.4
8.1	Of which: profits tax	—	55.0	55.6	56.9	68.4
9	Other assets, total	870.4	975.9	931.9	880.7	917.4
	Of which:					
9.1	Float	520.3	573.5	491.6	397.5	434.3
9.2	Debtors	129.3	135.7	138.9	138.3	125.8
9.3	Deferred expenses	69.0	61.4	60.1	64.9	74.4
Total assets		28,022.3	28,527.1	27,776.2	28,181.8	29,430.0

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

TABLE 10

Liabilities		1.01.09	1.04.09	1.07.09	1.10.09	1.01.10
1	Credit institutions' funds and profits, total	3,109.2	3,236.5	3,280.7	3,605.2	3,766.4
	Of which:					
1.1	Funds	1,789.4	1,947.3	2,114.5	2,440.4	2,432.8
1.2	Profits (losses), including previous-year financial results	1,319.8	1,289.2	1,166.2	1,164.8	1,333.5
	Of which:					
1.2.1	Current-year profits (losses)	409.2	58.3	6.8	31.2	205.1
2	Loans, deposits and other funds received by credit institutions from the Bank of Russia	3,370.4	3,293.5	2,002.8	1,589.1	1,423.1
3	Credit Institutions' accounts, total	346.0	217.6	201.3	212.3	273.1
	Of which:					
3.1	Correspondent credit institutions' correspondent accounts	252.4	164.4	145.8	145.2	168.0
3.2	Non-resident banks' correspondent accounts	77.7	47.4	49.1	63.3	97.1
4	Loans, deposits and other funds received from other credit institutions, total	3,639.6	3,700.4	3,409.3	3,119.4	3,117.3
5	Customers' funds, total*	14,748.5	15,013.5	15,687.1	16,128.9	17,131.4
	Of which:					
5.1	Budget funds in settlement accounts	15.6	19.2	22.2	26.0	20.4
5.2	Government and extra-budgetary funds in settlement accounts	14.2	24.5	23.6	22.2	13.7
5.3	Organisations' funds in settlement and other accounts	3,521.0	3,474.5	3,602.5	3,721.3	3,857.4
5.4	Customer float	281.5	308.9	299.2	273.9	209.7
5.5	Deposits and other funds raised by corporate entities other than credit institutions	4,945.4	4,912.7	5,180.1	5,311.5	5,466.6
5.6	Household deposits	5,907.0	6,197.3	6,491.2	6,704.7	7,485.0
5.7	Customer funds in factoring and forfeiting operations	10.7	8.9	9.5	9.1	10.1
6	Bonds	375.3	371.9	341.8	361.5	412.7
7	Bills and bank acceptances	756.3	653.1	626.1	680.2	748.6
8	Other liabilities, total	1,677.0	2,040.6	2,227.1	2,485.3	2,557.4
	Of which:					
8.1	Provisions	1,022.7	1,325.1	1,572.2	1,824.4	2,050.6
8.2	Float	431.6	405.2	358.6	365.5	257.9
8.3	Creditors	33.9	44.3	61.7	51.7	45.2
8.4	Deferred income	4.7	4.9	3.5	3.8	4.9
8.5	Accrued interest and interest/coupon liabilities on securities	184.1	261.2	231.1	239.9	198.9
	Of which:					
	Overdue interest	0.0	0.1	0.0	0.0	0.0
Total liabilities		28,022.3	28,527.1	27,776.2	28,181.8	29,430.0

* Including certificates of deposit and savings certificates.

**Major characteristics of banking sector lending operations
(billion roubles)**

TABLE 11

Indicators	Roubles					Foreign currency					Total				
	1.01.09	1.04.09	1.07.09	1.10.09	1.01.10	1.01.09	1.04.09	1.07.09	1.10.09	1.01.10	1.01.09	1.04.09	1.07.09	1.10.09	1.01.10
1. Loans, deposits and other placements, total	13,874.9	13,987.0	13,893.0	13,887.4	13,872.8	6,009.9	6,574.3	5,986.1	6,290.7	5,974.4	19,884.8	20,561.3	19,879.0	20,178.0	19,847.1
Of which: overdue debt	353.2	511.5	630.1	766.6	835.1	68.8	131.1	200.0	195.0	179.6	422.0	642.6	830.1	961.6	1,014.7
1.1. Loans and other placements with resident non-financial organisations	8,723.1	8,917.8	8,848.3	8,939.3	8,812.6	3,032.2	3,424.7	3,291.9	3,059.9	2,954.8	11,755.3	12,342.5	12,140.2	11,999.1	11,767.4
Of which: overdue debt	214.7	346.3	428.3	542.3	599.0	46.1	88.3	147.5	139.7	123.0	260.8	434.6	575.8	682.0	722.0
Of which:															
1.1.1. Loans to unincorporated entrepreneurs	313.8	295.2	278.5	272.9	269.7	9.2	9.3	7.5	6.9	6.4	323.0	304.5	286.1	279.8	276.2
Of which: overdue debt	8.1	11.7	15.4	19.4	21.9	0.1	0.2	0.2	0.3	0.3	8.2	11.8	15.7	19.7	22.2
1.2. Loans and other placements with non-resident corporate entities, other than banks	176.3	302.2	300.6	294.6	308.1	578.2	471.1	388.5	422.2	466.3	754.4	773.3	689.1	716.8	774.3
of which: overdue debt	0.5	3.6	12.7	12.1	19.2	5.1	15.9	24.2	22.9	21.3	5.6	19.4	36.9	35.0	40.6
1.3. Loans, deposits and other placements with financial sector	778.8	771.1	809.4	744.8	827.5	232.0	305.8	269.1	299.6	313.0	1,010.8	1,077.0	1,078.5	1,044.4	1,140.5
Including overdue debt	6.4	4.1	4.4	11.4	7.2	0.3	1.0	0.9	0.9	0.8	6.7	5.0	5.2	12.3	8.0
Of which:															
1.3.1. Loans, deposits and other placements with resident credit institutions	512.9	493.9	548.9	491.7	562.2	164.1	230.7	181.4	221.6	240.9	677.0	724.6	730.4	713.2	803.0
Of which: overdue debt	1.2	1.3	1.1	1.0	0.9	0.1	0.1	0.1	0.1	0.1	1.2	1.4	1.2	1.1	0.9
1.3.2. Loans, deposits and other placements with resident financial organisations of different forms of ownership	265.9	277.2	260.4	253.1	265.3	67.9	75.1	87.7	78.1	72.1	333.8	352.4	348.2	331.2	337.5
Of which: overdue debt	5.3	2.8	3.2	10.4	6.4	0.2	0.8	0.8	0.8	0.7	5.5	3.6	4.0	11.2	7.1
1.4. Loans, deposits and other placements with non-resident banks	239.1	210.6	190.6	214.3	208.5	1,585.1	1,729.4	1,455.8	1,980.2	1,714.4	1,824.3	1,940.0	1,646.5	2,194.4	1,922.9
Of which: overdue debt	0.0	0.0	0.0	0.0	0.2	0.1	0.9	0.4	0.8	0.8	0.1	0.9	0.4	0.9	1.0
1.5. Loans and other funds placed with government fiscal authorities and extra-budgetary funds	156.5	162.7	177.1	181.0	230.0	0.2	0.3	0.2	0.2	0.1	156.7	163.0	177.3	181.2	230.1
Of which: overdue debt	0.2	0.3	0.3	0.3	0.2	0.0	0.0	0.0	0.1	0.0	0.2	0.3	0.3	0.3	0.2
1.6. Loans to resident individuals	3,534.3	3,352.2	3,235.8	3,194.3	3,168.0	471.5	507.7	451.1	414.0	395.6	4,005.8	3,859.9	3,686.9	3,608.3	3,563.6
Of which: overdue debt	131.4	157.2	184.4	200.5	209.3	17.0	24.6	26.7	30.4	33.5	148.3	181.9	211.1	230.8	242.8
1.7. Loans to non-resident individuals	2.9	2.9	1.9	2.0	1.9	8.5	8.9	9.1	8.2	8.3	11.4	11.8	11.1	10.2	10.2
Of which: overdue debt	0.1	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.2
For reference:															
Provisions for loans, deposits and other placements	898.5	1,137.8	1,370.8	1,614.9	1,820.6	0.0	0.0	0.0	0.0	0.0	898.5	1,137.8	1,370.8	1,614.9	1,820.6
Overdue interest on loans, deposits and other placements recorded in balance sheet accounts	12.9	24.8	34.0	42.9	42.3	2.6	7.7	10.8	9.8	9.0	15.5	32.5	44.7	52.6	51.3
Bank portfolios of resident bills	184.7	176.4	146.7	164.3	210.1	9.8	19.6	18.9	22.4	21.4	194.5	196.1	165.7	186.7	231.6
Bank portfolios of non-resident bills	0.4	0.0	0.3	0.5	0.7	4.6	5.4	1.8	1.7	1.7	5.0	5.5	2.1	2.3	2.5

**Quantitative and qualitative characteristics of supervisors of the Bank of Russia head office and regional branches
(based on Form 1-K data as of January 1, 2010)**

TABLE 12

Bank of Russia divisions	Total number of job titles as of January 1, 2010	Total number of employees as of January 1, 2010 (excluding employed under fixed-term contract and part-timers)	of whom							
			age			educational status		duration of work in banking system		women
			under 30 years (born in 1980 and later)	50 years and more (born in 1960 and earlier)	of whom women aged 55 years and more and men aged 60 years or more	higher education	secondary vocational training	up to 3 years	15 years and more	
Head office										
Credit Institution Licensing and Financial Rehabilitation Department	145	141	19	34	16	137	4	16	53	107
Banking Regulation and Supervision Department	189	185	37	60	25	180	2	44	65	126
Main Inspectorate of Credit Institutions	278	268	44	67	29	259	9	142	40	169
Financial Monitoring and Foreign Exchange Control Department	111	106	15	26	14	102	1	10	34	63
Head office total	723	700	115	187	84	678	16	212	192	465
Regional branches										
Financial Monitoring and Foreign Exchange Control Division (Department, Section)	611	601	91	98	34	583	9	45	310	418
Division (Department, Section) for Supervision of Credit Institutions	1,256	1,227	125	257	95	1,204	22	56	718	1,022
Division (Department, Section) for Inspection of Credit Institutions	855	848	115	182	55	840	4	53	422	447
Division (Department) for Licensing of Credit Institutions	349	343	45	66	23	336	7	24	185	286
Moscow branch divisions	775	770	232	127	60	700	59	116	236	572
Regional branches total	3,846	3,789	608	730	267	3,663	101	294	1,871	2,745
Bank of Russia total	4,569	4,489	723	917	351	4,341	117	506	2,063	3,210