SM/08/243
Correction 1

April 7, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Russian Federation—Financial System Stability Assessment—Update**

The attached corrections to SM/08/243 (7/14/08) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 27, para. 55, lines 2–3: for "The CBR has applied measures to prevent insolvency in 125 banks in the past two years." read "In the past 2 years, measures to prevent insolvency have been applied in 125 banks by their shareholders and management as either required by the legislation or enforced by the CBR."

Page 29, para. 63, line 2: for "The 2004 strategy to align Russian Accounting Standards (RAS) with IFRS was delayed" read "The accounting standards for credit institutions, in effect from January 1, 2008, are closely aligned with the IFRS. However, the overall 2004 strategy to align Russian Accounting Standards (RAS) with IFRS was delayed"
Page 29, para. 64, line 1: for "In the banking sector, the CBR requires all credit institutions to prepare supplementary IFRS financial statements" read "In the banking sector, since January 2004, the CBR requires all credit institutions to prepare supplementary IFRS financial statements"
Page 29, para. 64, line 3: for "While rules based on application of IFRS were introduced in January 2008" read "While the IFRS-based accounting standards were introduced in January 2008"

Page 31, para. 70, line 4: for "The introduction of IFRS based reporting by financial institutions, from January 1, 2008" read "The introduction of new accounting standards for financial institutions, which are closely aligned with the IFRS, from January 1, 2008"

Page 34, para. 83, line 5: for "From January 1, 2008, the law requires banks to report on a basis that is significantly closer to IFRS" read "From January 1, 2008, bank accounting standards were brought significantly closer to IFRS"

Page 47, Table 1, line Ruble broad money, 2003: for "51.6" read "50.5"
Page 47, Table 1, line Ruble broad money, 2005: for 38.6 read 38.5
Page 47, Table 1, line Credit to the economy, 2003: for "46.6" read "43.0"
Page 47, Table 1, line Credit to the economy, 2004: for "46.7" read "46.3"
Page 47, Table 1, line Credit to the economy, 2005: for "34.2" read "34.6"
Page 47, Table 1, line Credit to the economy, 2006: for "48.5" read "48.8"

Page 49, Table 3, line Industry, of which, 2004: for "28.8" read "28.0"
Page 49, Table 3, line of which mortgages, March 2008: for "5.6" read "5.5"
Page 49, Table 3, line Agriculture: add a footnote: "Since 2005 data on agriculture are presented as agriculture, fishing and forestry"
Page 49, Table 3, line Trade and public dining: add a footnote: "Since 2005 data on trade and public dining are presented as wholesale and retail trade; repair of motor vehicles and motorcycles"

Questions may be referred to Mr. Hardy, MCM (ext. 38490).

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the development of an institutional strengthening plan covering staff recruitment, training, remuneration needs, data base and analytical platform, and management information system.

A. Problem Bank Resolution and Safety Nets

Lender of last resort

54. **The CBR response to the August 2007 turmoil confirmed its ability to deal with systemic liquidity stress but further enhancements may be warranted.** The CBR expanded the list of eligible Lombard collateral in September–November 2007. The CBR has considered expanding further its collateral base to deal with emergency situations including a broader set of eligible marketable securities. The acceptance by the CBR of nonmarketable assets from banks to collateralize credit should be combined with heightened supervisory oversight and clear triggers for bank intervention.

Bank resolution framework

55. **The CBR has powers to require some early remedial action, change management, and intervene in a failed bank**. ~~The CBR has applied measures to prevent insolvency in 125 banks in the past two years~~In the past two years, measures to prevent insolvency have been applied in 125 banks by their shareholders and management as either required by the legislation or enforced by the CBR. In practice, however, the CBR has relied on violations of anti-money laundering legislation rather than soundness and safety grounds to close banks. Over the last two years, the CBR has withdrawn licenses from 115 banks and liquidation procedures have been completed for 106.

56. **The resolution framework would be strengthened if the CBR had the authority to intervene weak banks at an early stage.** The CBR should have the authority to require shareholder recapitalization at an early stage of capital depletion. In the event the shareholders are unable to do so, the CBR would then have the option to intervene before bank capital falls below a predetermined level—such as 4 percent of risk weighted assets—and then sell parts or all of the bank to qualified purchasers. The overall enforcement regime would also be strengthened if economic sanctions could be applied to directors and managers. The CBR cannot impose such sanctions on directors and managers under the current banking law, and the responsibilities of the former in governing banks and banking groups are not clearly spelled out.

57. **Contingency planning is an essential aspect of bank supervision that should be strengthened.** Such plans would allow policymakers to focus on the most appropriate policy response rather than managing the details of the bank resolution process. Such plans should include:

- procedures to exchange real-time information among relevant CBR departments;

- the CBR needs authority to require restructuring or resolution plans for illiquid but solvent banks; and

- the CBR should be authorized to conduct purchase and assumption transactions or sell the failed bank to viable third parties.

58. **The deposit insurance system provides depositor protection in the event of a failure.** The Deposit Insurance Agency (DIA) is a paybox and, as such, does not have an active role in the problem bank resolution framework. Coverage levels appear adequate at Rub 400,000 (US$17,000) including a copayment of 10 percent copayment for amounts exceeding Rub 100,000. A review of the features of the deposit insurance system, particularly in light of recent experiences in other European countries, could be warranted, particularly with respect to coinsurance. Efforts could be enhanced to ensure that the extent of coverage and solvency of the system is fully recognized by depositors.

C. Anti-Money Laundering and Combating the Financing of Terrorism[16]

59. **Minor shortcomings in the criminalization of money-laundering and terrorist financing were identified, reflecting the incomplete coverage of offenses and the lack of criminal liability for legal persons.** The systems for confiscation of the proceeds of crime were judged effective but problems were identified in the regime for freezing terrorist assets including overreliance on the judicial system and issues with the procedures for delisting persons and unfreezing assets. The legal framework for cross-border declaration of currency should be better integrated into the law. The Financial Intelligence Unit performed effectively and only minor shortcomings were found in the work of other law enforcement authorities.

60. **All required financial institutions and certain nonfinancial institutions are fully covered by the AML/CFT regime but weaknesses were found.** Weaknesses existed in the customer due diligence framework, including lack of clarity concerning beneficial ownership requirements. Lawyers, notaries, and accountants are covered by a less strict regime considered incomplete and ineffectively implemented, and trust and company service providers are not covered. Loopholes that could permit criminal ownership of financial institutions have not been closed. The CBR's AML/CFT inspections were assessed positively, but some fault was found with legal limitations on the frequency of inspections and sanctioning power. AML/CFT supervision of other sectors was deemed ineffective.

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[16] The following summary reflects the findings of the Financial Action Task Force (FATF) mutual evaluation mission which visited Russia in the period October and November, 2007. The mutual evaluation report was adopted by the FATF in June 2008. An AML/CFT ROSC will be prepared and circulated to the Executive Board for information following the expected adoption of the report in mid-July 2008 by the Eurasian Group and MONEYVAL— FATF-style regional bodies of which Russia is a member.

While provisions for international cooperation appeared robust, inadequate statistics precluded an evaluation of their practical effectiveness.

D. Market Infrastructure

Systemic liquidity management

61. **The CBR has effectively managed systemic liquidity but steps could be taken to further improve its effectiveness.** The CBR monitors daily liquidity needs in the markets and projects liquidity needs. This system has proven robust in the difficult circumstances of market turmoil. Nevertheless, excess reserves held by banks remain significant. Steps to reduce the need for precautionary balances could include strengthening the payment system infrastructure.[17] In addition, monthly tax collections result in strong intra-month volatility of the overnight interest rate. The shift to a quarterly payment schedule for VAT taxes may create significant liquidity pressures. The Ministry of Finance could be encouraged to introduce cash management systems that, in coordination with the CBR's liquidity management facilities, would smooth such fluctuations.

62. **The Russian interbank market is thin and segmented.** The large state-owned and large private banks hold most of the system's liquid assets and lend to some of the more illiquid, smaller banks. This redistribution of liquidity between the two tiers has largely taken place through the collateralized (repo) interbank market. However, not all of the needs of market participants are met. Interbank market constraints could be eased by improved governance and transparency, wider availability and distribution of the system's liquid assets, and improved laws and regulations for intervening and when liquidating banks.[18]

Accounting and auditing

63. **Progress has been made towards aligning Russian and international accounting standards, but important differences remain.** ~~The~~ The accounting standards for credit institutions, in effect from January 1, 2008, are closely aligned with the IFRS. However, the overall 2004 strategy to align Russian Accounting Standards (RAS) with IFRS was delayed by an emphasis on complying with tax laws, and substantive differences between IFRS and RAS on (i) revenue recognition; (ii) consolidation; (iii) employee benefit and pension accounting; (iv) impairment testing; (v) the application of fair value measurement; and (vi) related-party disclosure requirements.

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[17] Commercial banks' liquidity management is hampered by the late availability of funds, as most payments are settled by the CBR after 7:00 pm but the money market closes at 5:00 pm. CBR facilities can be accessed to deal with intraday funding gaps.

[18] MCM technical assistance provided recommendations to improve the operation of the interbank market.

64. **In the banking sector, since 2004, the CBR requires all credit institutions to prepare supplementary IFRS financial statements but does not require that they be published.** While the IFRS-based accounting standards ~~rules based on application of IFRS~~ were introduced in January 2008 publication of IFRS consolidated financial reporting will only be required when a law on consolidation is passed by the Duma.

Capital markets infrastructure

65. **The capital markets infrastructure is fragmented and inefficient.** The two markets, MICEX and Russian Trading System (RTS), have significant differences that raise costs and contribute to market fragmentation. MICEX listings are ruble-denominated and the market has a prepayment requirement. RTS listings are dollar-denominated and the market does not impose a prepayment requirement.

66. **Secondary market trading in Russia is limited by high transaction costs, clearance and settlement risks, and the perception that investor rights are poorly protected.** Operational costs are high because of multiple back-office procedures to accommodate different trading platforms and trade processing requirements. Operational risks increase with the complexity of the back-office functions. Many foreign investors have requirements that restrict their ability to invest in markets without a central depository that meets international standards.

67. **Increased process automation is necessary to reduce risks stemming from the time-consuming, inefficient system for securities registration.** At end-2006, there were 67 licensed securities registries; many require manually signed transfer forms to record transfer of ownership. Errors in these systems could prevent a purchaser from receiving a dividend, being able to vote a share, or reselling shares. The FFMS is attempting to simplify the system and introduce a new system for registry fees.

68. **While MICEX and RTS own and operate their own clearance and settlement systems, neither entity has been legally designated a central counterparty.** As a result, they cannot provide full legal protection and certainty to the clearance and settlement process. The stock exchanges are attempting to address this issue through the use of contractual agreements among member firms, but it is uncertain whether this planned approach will withstand legal challenge in the event of a market failure.

ANNEX—OBSERVANCE OF FINANCIAL SECTOR STANDARDS AND CODES—SUMMARY ASSESSMENT OF COMPLIANCE WITH THE BASEL CORE PRINCIPLES OF EFFECTIVE BANKING SUPERVISION

Summary, Key Findings, and Recommendations

69. **Banking supervision has strengthened significantly since the 2003 assessment**, even when measured against the more complex and demanding revised Basel Core Principles (BCP). The overall system of supervision is of high quality, well resourced, and staff has a high level of professionalism. In Russia, banking supervision is exercised by the Central Bank of the Russian Federation (CBR), on the basis of the Statute of the Central Bank (Statute), the Law on the Central Bank (CBL) and the Law on Banks and Banking Activity (BL). The CBR makes intensive use of its 78 regional offices in the exercise of supervision.

70. **Clear progress has been made in a number of areas.** They include the practice of day-to-day supervision over institutions, including licensing, supervisory reporting, off-site and on-site work, as well as corporate governance and internal controls and AML/CFT. The introduction of new accounting standards for financial institutions, which are closely aligned with the IFRS, ~~IFRS based reporting by financial institutions,~~ from January 1, 2008, can strengthen management information and disclosure. The intention to appoint specific staff as supervisory portfolio managers for individual banks ("curators") is welcomed and encouraged.

71. **There are some areas where further strengthening of supervision would be beneficial for depositors, banks, and supervisors**. Some initiatives are already under way. Systems for the assessment of the soundness of acquisitions by banks, and for assessing country transfer and repayment risk need to be developed. Tightening of the system for loan classification and provisioning would be useful, at a time when globally the need is felt for more robust capital and capital calculation. A critical challenge is to shift supervision from a compliance based to a more risk-based approach, based on best supervisory judgment. Legal amendments are needed to provide adequate powers to the CBR to perform effective consolidated supervision. Also, in order to maintain good working relationships with banks, there may be a need to look for ways to lower the regulatory and supervisory burden on banks and on CBR staff.

Introduction and methodology of the assessment

72. An assessment of compliance with the revised Basel Core Principles (BCP), adopted in October 2006, took place in coordination with the authorities. The assessment was conducted based on an extensive and high quality self-assessment prepared by the CBR, laws, regulations, a "sterilized" inspection report, and discussions with CBR staff from a

variety of departments as well as commercial banks. The assessment was prepared by Michael Edwards (World Bank) and Jan Willem van der Vossen (IMF). The CBR's very cooperative and forthcoming stance greatly contributed to the work.

Institutional and macroeconomic setting and market structure—overview

73. **Russia's economy has grown robustly in recent years with substantial balance of payments and fiscal surpluses and a large accumulation of international reserves**. High oil prices, as well as improved macroeconomic management, have contributed significantly to Russia's favorable situation, which has attracted substantial interest from foreign investors, boosted domestic incomes, and spurred credit growth.

74. **The financial system is bank dominated and has grown quickly. However, it is still smaller than many Western European countries**. At end-2006 financial system assets relative to GDP stand at just under 60 percent, compared to over 300 percent in France, Germany, and Spain. Commercial banks account for over 90 percent of total financial assets.

75. **The banking sector of Russia comprises some 1,200 institutions, has adequate profitability, but is fragmented, with a thin and segmented interbank market.** Balance sheet total of credit institutions amounts to roughly Rub 20 trillion at end-2007, and the average risk weighted capital adequacy ratio stood at 15.5 percent. Profitability is adequate, with an ROA of 3.0 percent, and ROE of 22.7 percent. Liquidity covers around 73 percent of short term liabilities. Total NPLs amount to around 2.2 percent of total gross bank loans, whereas provisioning amounts to 3.4 percent of total gross loans.

Preconditions for effective banking supervision

76. **Soundness and sustainability of macroeconomic policies.** Economic growth is robust, with strong external and fiscal surpluses. International reserves are substantial, and the economy is well positioned to deal with macroeconomic shocks. However, growing demand pressures are raising inflationary concerns, and if oil prices stabilize or decrease, Russia's external and fiscal surpluses could be reversed.

77. **Disclosure and transparency need further development.** Notwithstanding a degree of convergence between Russian and international accounting standards, important differences remain on revenue recognition, consolidation, employee benefit and pension accounting, impairment testing, the application of fair value accounting, and related party transaction disclosure requirements. Although plans exist to enhance financial reporting in Russia, further measures are required. A proposal has been submitted on consolidation of accounts, and on mandatory use of IFRS by banks. This would also apply to listed companies, insurers, pension funds and other public companies, benefiting disclosure and transparency and improve the effectiveness of supervision and regulation.

Mechanisms for systemic protection or public safety net

78. **The CBR has powers to address liquidity stress and take early remedial action.** Depositor protection is complemented by deposit insurance. The CBR's response to the financial sector turmoil has confirmed its ability to respond to the liquidity stresses in the system. The CBR has powers to require early remedial action, mandate change of management and intervene in a failed bank. Over the last two years, the CBR has closed over 100 banks. A system for early intervention as well as powers to take action against individual managers and directors, would enhance the CBR's powers, Since 2005, Russia has a Deposit Insurance Agency, which has improved the level of confidence of depositors in the system. Since its inception, the DIA has paid off insured deposits in 22 closures of small insured banks.

Main findings

Objectives, independence, powers, transparency, and cooperation (CP 1)

79. **The objectives of banking supervision, the powers of the regulator, transparency and cooperation with other supervisory bodies, domestically and abroad, are fully or largely in line with the requirements of the BCP.** The objectives are clearly defined in the law, and elaborated in a large number of regulations and other guidance material. Laws and regulations are updated as needed. The CBR is operationally autonomous, but subject to heavy oversight from the National Banking Council, which consists of Duma members, CBR, presidential, and government representatives. The CBR's supervisory work is adequately funded, and staff is adequate in numbers and of excellent quality. The CBR issues an Annual Report to the Duma, which contains an analysis of the situation of the Russian banking system, and an anonymous overview of enforcement actions against banks. A separate Banking Supervision Report is issued annually as are a monthly banking statistics bulletin and a weekly CBR bulletin, and the CBR operates a website. Although a considerable number of MoUs with foreign regulatory agencies are in place, a significant improvement of cooperation with other regulators could be achieved if the prohibition of the CBR to share, even confidentially, client information, could be lifted.

Licensing and structure (CP 2–5)

80. **Bank licensing is generally well regulated** Areas such as the range of activities permitted to a bank, the prohibition of use of the word "bank" by nonlicensed institutions, and the licensing criteria are well regulated. Nevertheless, strengthening is possible in fully assessing the suitability of owners and shareholders and using professional judgment. Prior permission for acquisitions by a bank is only required for domestic acquisitions. Foreign investments by Russian banks require prior approval by the CBR, when the bank becomes parent of a subsidiary abroad, or of a nonresident entity. Review by the CBR of acquisitions of shares in a bank takes place only above 20 percent.

Prudential regulations and requirements (CP 6–18)

81. **The CBR has issued an extensive range of prudential standards, covering all main risk areas**. Capital adequacy, risk management, large exposures, related party exposures, market, liquidity and operational risk, interest rate risk and control and audit are

largely in line with international standards. A regulation should be introduced to cover country risk and transfer risk. Loan classification and provisioning requires tightening. The current system leaves banks much discretion in classification of loans and setting provisioning percentages. In particular the range for setting provisions for loans in the categories doubtful and problem loans of 20 to 100 percent is too large. The current system does not provide a sufficiently clear view of individual banks' asset quality, hence of capital, could imply substantial overstatement of capital, and hinders meaningful cross bank monitoring.

Methods of ongoing banking supervision (CP 19–21)

82. **The general approach to supervision in Russia combines both on-site and off-site work, based on detailed manuals**. An extensive reporting framework is in place. The CBR assesses the risk profile of individual banks and banking groups, and analyzes general developments in the banking sector. Based on its analysis, the CBR sets priorities for its supervisory work. The CBR has an off-site tracking system for compliance with CBR orders and remedial actions. Much of the on-site work is performed by staff of the CBR's regional branches. The system for supervisory reporting is extensive, and requires that banks submit monthly statement and profit and loss accounts, capital calculations, provisions, composition of the group, and other materials.

Accounting and disclosure (CP 22)

83. **Banks' consolidated financial statements shall be audited once per year by a licensed external auditor**. The audit report shall express an opinion whether the statements present a true and fair view of the financial condition of the group or institution. Banks' mandatory published financial statements are prepared according to Russian accounting standards (RAS). From January 1, 2008, bank accounting standards were brought ~~the law requires banks to report on a basis that is~~ significantly closer to IFRS, including use of the accrual method. Separately from the legal requirement, the CBR requires banks to prepare accounts based on IFRS, and encourages publication.

Corrective and remedial powers of supervisors (CP 23)

84. **The CBR has a wide range of remedial and intervention powers for banks not in compliance with legal or regulatory standards, or engaging in unsafe or unsound practices.** The measures range from a simple communication to the bank, to cease and desist orders, temporary administration and license withdrawal. However, the CBR is unable to restrict the voting rights of shareholders, limit payments to shareholders and to directors and senior staff, and cannot directly sanction bank directors and officers. The CBR and the Ministry of Finance are jointly preparing amendments to the Banking Law and Central Bank law to address these aspects.

Consolidated and cross-border banking supervision (CP 24–25)

85. **In certain aspects, the CBR's rules on consolidated supervision do not meet internationally accepted approaches and the Basel requirements.** The CBR and the Ministry of Finance are amending the law to strengthen the CBR's authority with regard to bank holding companies, including sanctions, clarification of the CBR's powers to take actions against banks for violations within the group, removing certain legal barriers against

APPENDIX II. MACROECONOMIC AND FINANCIAL SECTOR INDICATORS

Table 1. Selected Macroeconomic Indicators

	2003	2004	2005	2006	2007	2008	2009
			Actual		Est.	Proj.	Proj.
			(Annual percent change; unless indicated otherwise)				
Real economy							
Real GDP	7.3	7.2	6.4	7.4	8.1	7.8	7.3
Consumer prices							
Period average	13.7	10.9	12.7	9.7	9.0	14.6	13.8
End of period	12.0	11.7	10.9	9.0	11.9	14.1	13.5
Gross investment (percent of GDP)	20.8	20.9	20.1	21.3	24.6	25.2	27.2
National savings (percent of GDP)	29.0	30.9	31.1	30.9	30.6	33.3	31.8
Nominal GDP (in billions of U.S. dollars)	431	592	764	989	1,290	1,855	2,306
Public sector			(In percent of GDP)				
General government (commitment basis)							
Overall balance	1.4	4.9	8.2	8.3	6.8	6.8	4.4
Primary balance	3.1	6.1	9.1	9.1	7.4	7.3	4.9
Nonoil balance	-3.9	-2.9	-4.6	-4.5	-3.9	-7.2	-7.6
Public debt	31.6	23.1	14.2	9.1	7.3	7.8	8.4
of which: foreign exchange denominated (in percent of total)	74.5	74.3	76.8	52.5	47.4	25.6	17.0
Money			(Annual percent change)				
Base money	49.6	24.9	31.7	39.6	33.1	31.4	28.3
Ruble broad money	501.56	35.8	38.56	48.8	47.5	42.6	38.5
Credit to the economy	43.06.6	46.37	34.62	48.85	49.3	44.8	36.3
External Sector			(In billions of U.S. dollars; unless indicated otherwise)				
Merchandise exports, fob	135.9	183.2	243.8	303.6	355.5	522.4	561.6
of which: oil	53.7	78.3	117.2	147.0	173.7	293.4	322.6
Merchandise imports, fob	-76.1	-97.4	-125.4	-164.3	-223.4	-312.9	-389.6
External current account	35.4	59.5	84.4	94.4	78.3	150.1	106.4
(in percent of GDP)	8.2	10.1	11.0	9.5	6.1	8.1	4.6
External debt	186.0	214.5	257.2	310.6	459.6	558.8	685.1
(in percent of GDP)	43.1	36.2	33.7	31.4	35.6	30.1	29.7
Public external debt	106.0	105.6	82.1	48.6	46.4	37.1	32.9
(in percent of GDP)	24.6	17.8	10.7	4.9	3.6	2.0	1.4
Foreign direct investment inflows	8.0	15.4	12.9	32.4	52.5	45.3	49.0
(in percent of GDP)	1.8	2.6	1.7	3.3	4.1	2.4	2.1
Gross international reserves	76.9	124.5	182.2	303.7	476.4	660.7	828.8
In months of imports 1/	8.9	11.4	13.3	17.4	20.2	20.5	20.9
In percent of short-term debt	128.4	198.0	160.6	175.2	281.3	376.9	442.3
Exchange rate							
Regime			Managed float				
Rubles per U.S. dollar, period average	30.7	28.8	28.3	27.2	25.6	23.9	23.7
Real effective exchange rate (average percent change) 2/	3.0	7.8	8.7	9.5	5.7	6.1	7.0

Social indicators

Per capita GDP US$ 6,897 (2006); **Poverty** (population below poverty line, percent): 15.8 (2005);
Life expectancy at birth 58.9 (males, 2005), 72.4 (females, 2005).

Source: Russian authorities; World Development Indicators 2006; and Fund staff estimates (as of June 2008 for latest projections).

1/ In months of imports of goods and nonfactor services.

2/ Based on CPI.

Table 2. Financial System Structure 1/

	2004			2006			2007		
	Assets (Rub bn)	Percent of Total Assets	Number	Assets (Rub bn)	Percent of Total Assets	Number	Assets (Rub bn)	Percent of Total Assets	Number
Credit institutions	7,136.9	89.9	1,299	14,045.6	90.1	1,189	20,241.1	…	1,136
State-owned banks	2,719.3	34.3	21	5,306.6	34.0	31	7,936.4	…	24
Private banks	4,377.1	55.1	1,228	8,651.5	55.5	1,112	12,209.6	…	1,068
Domestic	3,838.2	48.4	1,187	6,954.1	44.6	1,048	8,727.2	…	983
Foreign 2/	538.9	6.8	41	1,697.4	10.9	64	3,482.3	…	85
Nonbank credit institutions	40.4	0.5	50	87.5	0.6	46	95.0	…	44
Nonbank financial institutions	800.0	10.1	...	1,549.3	9.9	...	…	…	...
Unit investment funds (PIF)	108.9	1.4	...	420.5	2.7	641	…	…	…
General bank management funds (OFBU)	3.6	0.0	...	16.8	0.1	138	…	…	…
Private pension funds	215.8	2.7	...	509.9	3.3	...	…	…	...
Insurance companies (premiums)	471.6	5.9	...	602.1	3.9	918	…	…	…
Total	7,936.9	100.0	...	15,594.9	100.0	...	…	…	...

Source: Central Bank of Russia, Rosstat, Federal Insurance Supervision Service (FSSN), National Managers League, Federal Financial Markets Service, Cbonds, Tsentr Razvitiya (Center for Development).

1/ Excludes leasing companies.

2/ Majority foreign-owned

Table 3. Financial Soundness Indicators

	2002	2003	2004	2005	2006	2007	March 2008
Capital adequacy							
Regulatory capital to risk-weighted assets	19.1	19.1	17.0	16.0	14.9	15.5	15.3
Capital to assets	14.0	14.6	13.3	12.7	12.1	13.2	13.4
Asset quality							
NPLs (cat. IV-V) to total gross loans 1/	5.6	5.0	3.8	3.2	2.6	2.2	2.1
NPLs (cat. III-V) to total gross loans			13.6	12.3	10.8	…	…
Loan loss reserves to total gross loans	6.3	5.9	5.3	5.0	4.1	3.4	3.3
Large exposures to capital 2/	228.6	241.0	242.8	239.8	240.6	211.9	211.2
Sectoral distribution of loans to total loans							
Industry, of which	36.7	33.3	28.~~8~~0	…	…	…	…
Manufacturing	…	…	…	16.3	14.6	13.5	13.8
Extraction	…	…	…	3.5	3.9	3.1	2.7
Utilities	…	…	…	2.3	2.0	1.7	1.7
Agriculture 3/	2.2	2.4	2.7	3.0	3.6	3.8	3.8
Construction	4.4	4.4	4.5	4.6	4.9	6.0	6.1
Trade and pubic dining 4/	21.6	20.6	18.8	23.9	19.6	18.0	18.3
Transport and communication	4.6	5.1	4.8	4.0	3.7	3.7	3.7
Others	22.4	22.7	24.9	22.8	21.3	23.3	23.0
Individuals	8.0	11.5	16.2	19.6	23.9	24.8	24.7
Of which mortgages	--	--	0.5	1.0	3.0	5.1	5.~~6~~5
Profitability							
Return on assets	2.6	2.6	2.9	3.2	3.2	3.0	2.9
Return on equity	18.0	17.8	20.3	24.2	26.3	22.7	21.1
Liquidity							
Liquid assets to total assets	39.1	36.1	30.3	27.3	26.7	24.7	23.9
Liquid assets to short-term liabilities	90.6	90.4	78.0	73.8	76.8	72.9	68.7
Market risk							
Net open position in FX to capital	0.0	-0.2	0.6	-0.8	.06	2.2	2.1
Risk weighted exposure:							
FX risk to capital	18.5	8.4	5.8	5.8	5.3	3.6	3.5
Interest rate risk to capital	6.9	9.9	13.3	13.3	19.3	24.3	26.8
Equity position risk to capital	11.7	12.4	12.6	14.4	20.4	10.8	10.4
Other							
Foreign exchange loans to total loans	38.5	34.8	29.9	31.5	28.8	26.6	26.6
Foreign exchange deposits to total deposits 5~~3~~/	43.8	33.9	31.2	28.7	20.4	17.0	23.2

Source: Central Bank of Russia.

1/ 2002–03 data for categories III and IV, the definition used in that period.
2/ Calculated as the amount of large credit risk to capital.
3/ Since 2005 data on agriculture are presented as agriculture, fishing, and forestry.
4/ Since 2005 data on trade and public dining are presented as wholesale and retail trade; repair of motor vehicles and motorcycles.
5~~3~~/ The 2008 data include certificates of deposit and savings certificates.

Table 4. Summary Balance Sheet of the Banking System

(In billions of rubles unless stated otherwise)

	2002	2003	2004	2005	2006	2007	March 2008
Assets	**4,145.3**	**5,600.7**	**7,136.9**	**9,750.3**	**14,045.6**	**20,241.1**	**21,323.4**
Highly liquid assets	808.8	1,102.1	1,119.6	1,205.1	1,722.3	2,209.7	1,810.9
Cash	91.2	137.9	196.3	263.4	368.5	501.7	412.9
Accounts at CBR	416.8	658.6	695.5	684.1	955.6	1,294.7	1,056.8
Correspondent accounts at banks	300.9	305.6	227.8	257.5	398.2	413.3	341.2
Securities	779.9	1,002.2	1,086.9	1,539.4	1,961.4	2,554.7	2,252.5
Government bonds 1/	412.8	447.0	435.6	492.0	537.2	580.3	1,563.9
Corporate bonds	89.8	178.1	317.0	544.5	803.9	1,093.7	…
Equities	68.7	115.8	140.9	292.8	391.0	629.6	430.1
Discounted bills of exchange	200.8	261.3	193.4	210.1	229.2	251.1	258.5
Loans	2,148.8	3,048.0	4,463.8	6,371.1	9,440.5	14,260.1	16,110.9
Of which household loans	141.2	298.4	616.5`	1,174.9	2,059.5	3,234.6	3,190.6
corporate loans	1,654.0	2,385.0	3,268.7	4,274.8	5,966.2	9,046.2	10,253.4
interbank loans	291.4	263.7	425.8	668.0	1,035.6	1,418.1	1,921.7
Other assets	407.7	448.5	466.6	634.7	921.4	1,216.6	1,149.2
Liabilities	**3,492.8**	**4,766.4**	**6,130.7**	**8,430.1**	**12,262.6**	**17,431.9**	**18,377.3**
Customer deposits	2,194.5	2,999.6	4,151.5	5,818.9	8,467.3	12,053.1	12,896.2
Of which deposits of individuals	1,060.7	1,558.5	2,026.7	2,817.1	3,881.8	5,263.8	5,313.6
corporate deposits	276.7	312.5	564.0	936.4	1,543.5	2,584.7	3,611.7
Dues to banks	315.4	525.3	737.1	1,086.4	1,730.5	2,807.4	2,999.2
Securities issued	450.6	634.5	644.2	749.2	1,018.1	1,176.1	1,126.1
Other liabilities	532.3	606.9	597.9	775.6	1,046.6	1,395.3	1,355.8
Capital and reserves	**652.5**	**834.3**	**1,006.1**	**1,320.2**	**1,783.0**	**2,809.2**	**2,946.1**

Source: Central Bank of Russia.

1/ Data for March 2008 includes government and corporate bonds