

**Banking Sector of the Russian Federation: Study of the Correlation between Commodity  
Prices and Key Safety, Soundness and Performance Indicators**

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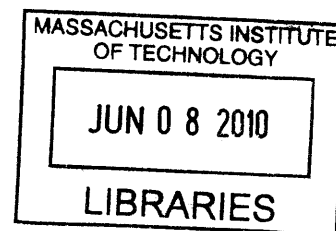
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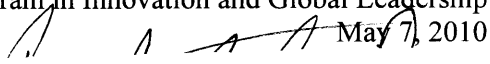
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and Key Safety, Soundness and Performance Indicators

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## **ABSTRACT**

The purpose of this work is to provide a comprehensive overview of the state of banking system in Russia, and to understand its core dependencies and potential risks. The system, the way we find it now, has evolved through difficult transition from highly centralized and planned Soviet economy to government-sector dominated, commodity-focused market economy of today.

Twenty years after Perestroika and the collapse of the Soviet Union, we find Russian version of “too big to fail” in majority control by the government of about 50% of assets of the banking sector through ownership in country’s largest financial institutions. Large industrial and private banks that roamed the economy in the 90s all but disappeared, closed due to insolvency or absorbed by government banks. At the same time, close to 900 smaller private banks in the system together account for less than 7% of its total assets.

Having reviewed the structure and key elements of the system, I continue with analysis of its concentrations and weaknesses. Here I focus on how Russia’s dependence on commodity exports –specifically, oil industry - translates into strengths and weaknesses of the balance sheet of country’s banking system and its leading banks. Currently, Russia is world’s largest producer of crude oil. As much as 93% of Russian exports are commodity goods, primarily oil and gas (64% of total exports). As expected, we find returns of both government and private sectors highly dependent on oil exports.

Little transparency exists regarding direct and indirect exposures of Russian banks to oil and gas industry clients and assets. However, this relationship can be observed indirectly by analyzing historical correlation between financial indicators and the oil price. Pooling data from multiple sources (IMF, Central Bank of Russia, BankScope, Bloomberg, S&P, etc.), I dedicate substantial part of this work to analyzing this relationship via correlation analysis of historical results and ratios. The analysis is organized in three tiers: stock market dependencies, aggregate industry results, and safety/ soundness indicators of the group of leading banks.

Thesis Supervisor: Roberto Rigobon, Professor of Economics



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I am thankful to Professor Roberto Rigobon, for inspiration and guidance in preparation of this thesis. I would like to express my appreciation to the staff of the International Monetary Fund (IMF) in Moscow and in Washington DC for their kind consultation and help with information sources and reports, and performance data statistics for the Russian banking sector. By saying this, I do not imply that opinions, calculations or conclusions drawn in this work have any affiliation with IMF, except where I directly refer to their publications.

Central Bank of the Russian Federation (CBR) was a major source of information about the system. I am thankful to the staff of CBR for their advice regarding the information sources. Large quantity of data used in this work and in related research was public information downloaded from their web site.

BankScope database (Bureau van Dijk) of financial institutions served as key resource for this work. I used database queries to obtain reports on individual financial institutions. BankScope compiles bank information from a group of resources, which include financial reporting, Central Bank of Russia, Financial Times Intelligence, Reuters, Dow Jones, Zephyr and others. As with any other information database, it is as accurate as its sources. Although BankScope generally is considered a very reliable source, I acknowledge a possibility that some data on individual financial institutions may be inaccurate or dated. However, as we study general trends, such occurrence would have little impact on the results.

Bloomberg workstation provided by MIT Sloan School of Business served as key source for significant portion of news articles and all historical price series (primarily, oil and FX) used in this work. Several articles quoted here were written by Bloomberg staff analysts. I also used Bloomberg analysis tools for data analysis, including the correlation of historical series.

Standard & Poors analysis articles were used in several instances, I provide references for these and other sources. Other sources for this work (29 in total) are referenced/quoted accordingly.



## TABLE OF CONTENTS

<b>Acknowledgements and Sources .....</b>	<b>5</b>
<b>Introduction .....</b>	<b>10</b>
<b>Chapter I Overview of Russian Banking System .....</b>	<b>12</b>
1.1 Key Characteristics.....	12
<i>Relatively small</i> .....	12
<i>Highly concentrated</i> .....	12
<i>Majority Owned by the Government</i> .....	15
<i>Geographically Concentrated</i> .....	16
1.2 Commodity dependence and customer concentration .....	17
<i>Too big to fail, Russian style</i> .....	19
1.3 History: the emergence of Russian banking system .....	19
<i>Emergence of government-owned banks and de-facto privatization of Gosbank assets...</i>	20
<i>Private banks appear and spread quickly</i> .....	22
<i>The “Wild East” of banking: Yeltsin years</i> .....	24
<i>Rise of oligarchs and their banks</i> .....	25
<i>Growth of financial-oil conglomerates</i> .....	27
<i>Russia default of 1998</i> .....	28
1.4 From Russia Default to Present Day: The Normal Country.....	29
<i>Still lending to Oligarchs? You bet</i> .....	30
<i>Smaller banks</i> .....	30
<i>Major concern: Asset Quality</i> .....	31
<i>The bailout</i> .....	33
<i>Defaults</i> .....	33
1.5 Latest developments, economic trends and the aftermath of the 2008-2009 crisis .....	33
<i>Role of CBR</i> .....	34
<b>Chapter II Dynamic of Stock Prices and Indices.....</b>	<b>36</b>
2.1 Methodology .....	36
2.2 Stock prices of major Russian banks vs. oil price .....	37

<b>Chapter III</b>	<b>Industry-Level Statistics</b>	<b>48</b>
3.1	Industry profits	48
3.2	Total Assets of the Industry, Total Loans and Total Loans to Corporations	49
3.3	Total overdue loans, Overdue Loans to Corporations	50
<b>Chapter IV</b>	<b>Bank-Level Statistics</b>	<b>53</b>
4.1	Total assets of leading banks	53
4.2	Total Equity	54
4.3	Equity to Total Assets Ratio	55
4.4	Loan Loss Reserve/Gross Loans Ratio	56
4.5	Loan impairment charges	57
4.6	Profitability: Net Income	59
4.7	Operating Profit / Average Total Assets	60
<b>Chapter V</b>	<b>Analysis and Conclusions</b>	<b>62</b>
5.1	Analysis	62
<b>Conclusion</b>		<b>63</b>
Appendix 1	Extract of the database of Russian banks (data from BankScope database)	66
<b>BIBLIOGRAPHY</b>		<b>72</b>

## Introduction

The purpose of this work is to provide a brief but comprehensive overview of the state of banking system in Russia, pinpoint its key dependences and major risk factors. First, I analyze key structural features of the system and, in doing so, will review how system evolved and developed. I use modern history of banking system in Russia as a roadmap to understanding forces and constraints that shaped the system the way we find it today. Second, I narrow down the review to focus on one important dependency of Russia as a leading developer and exporter of natural resources: the key role of oil and gas extracting, refining and exporting clients in the banking system. Little transparency exists regarding direct and indirect exposures of Russian banking sector to oil and gas. However, their relationship can be observed indirectly on the macro level by analyzing the correlation between financial indicators and the oil price. In this work, I look only at oil prices, acknowledging, however, the role of other commodities, such as natural gas and metals. We will look at three groups of indicators, one chapter for each. I start from the most liquid one, the stock market. Here I analyze its evolution vs. daily movement of oil price, the correlation between publicly traded stocks of major banks and the stock market indices, and then the correlation between stock prices of major banks and the historical oil price. Next, we will look at aggregated performance of financial sector, the evolution of its assets, equity, profits, and selected safety / soundness ratios. I compare them to historical series of oil price and review the correlation. Finally, we will look at similar metrics on a micro level, for several major banks that together represent over **51%** of assets of the system. Based on these steps, we will draw conclusions and recommendations regarding the present state of the system and its future potential.

It is important to mention however, that this work does not infer direct relationship between oil price and various financial indicators, as this relationship is indirect and rather complex. We respect the difference here between correlation and causation. Other variables we do not consider (USD/RUB exchange rate and reserves, interest rate environment, money supply, actions and policies of CBR, rate of inflation, productivity etc.) are also important predictors of financial growth and performance of banks in Russia. However, as we will soon see, oil specifically and commodities in general indeed play central role in performance of Russian sector.

## Chapter I Overview of Russian Banking System

### 1.1 Key Characteristics

**Appendix 1** contains an extract (top 50 banks) from the database on Russian banking system uploaded from BankScope, sorted by size of assets. The database counts **1145** financial institutions established in Russia. This number includes some banks with revoked banking licenses, the actual number of banks currently operating in Russia is about 1066.

We note several important structural characteristics of Russian banking sector.

#### *Relatively small*

Despite the substantial growth during the last 10 years, the banking system remains relatively small compared to developed countries and some emerging markets, with credit-to-GDP in Russia at about 40 percent (IMF, [1]).

Growth in recent years, fuelled by about 8 years long “bull run“ in commodity markets, improved the size of the industry (IMF/CBR data):

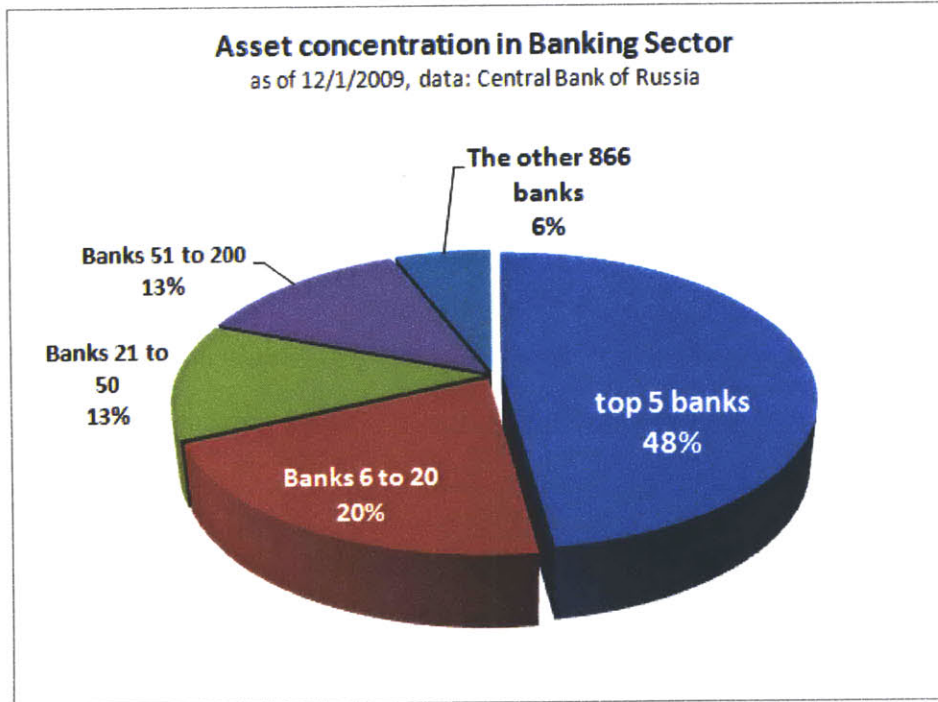
Year	1/1/2005	1/1/2006	1/1/2007	1/1/2008	1/2009
Banking industry assets, biln. RUB	7,100.6	9,696.2	13,963.5	20,125.1	<b>28,022.3</b>
As % of GDP	41.7	44.8	51.9	60.8	<b>67.3</b>

#### *Highly concentrated*

In 2009, CBR reported that **1066 banks** operated in the Russian Federation. This number came down from as high as 2439 in 1995, the high inflation years (CBR data).

However, as of 12/1/2009, **top five banks held 48% of assets of the banking system**, or RUB 13.7 trillion; top 20 banks held 68% of assets; to 50 banks 81%; and top 200 as much as 94%, **leaving remaining 866 banks with mere 6% of the assets of the credit system.** (CBR, as reported in IMF’s [2]). Chart 1A below illustrates this.

Chart 1A



As of 12/1/2009, total assets of the banking system were **RUB 28,692 billion, or USD 987 billion.**

According to our database, the **top banks by size of assets** (in the order of size) are

- 1. SBERBANK** Savings Bank of the Russian Federation
- 2. VTB Bank, JSC** Part of the VTB group, former Vneshtorgbank
- 3. Gazprombank** Part of Gazprom Group, the largest natural gas producer in the world,
- 4. Vnesheconombank** a state corporation, Bank for Development and Foreign Economic Affairs
- 5. Rosselkhozbank** Russian Agricultural Bank, 100% state-owned

6. **Bank of Moscow** Former Moscow Municipal Bank, owned by the City of Moscow
7. **Alfa-Bank OJSC** The largest private bank in Russia
8. **ZAO Raiffeisenbank** Subsidiary of Raiffeisen International Bank-Holding AG
9. **Bank VTB24 CJSC** Subsidiary of VTB, former Guta Bank
10. **UniCredit Bank ZAO** Subsidiary of UniCredit S.p.A., former International Moscow Bank
11. **JSC Rosbank** 64.7% owned by Societe Generale, former Nezavisimost bank, absorbed MFK bank

For purpose of this paper we exclude Vnesheconombank from consideration as it is a 100%-owned state corporation, not a commercial bank, similar to Eximbank in the US.

**Table 1** below provides a summary data on top banks based on the S&P [6] publication, as we see, it matches our database

**Table 1 Assets of largest Russian banks**

Data: Central Bank of Russia/ S&P

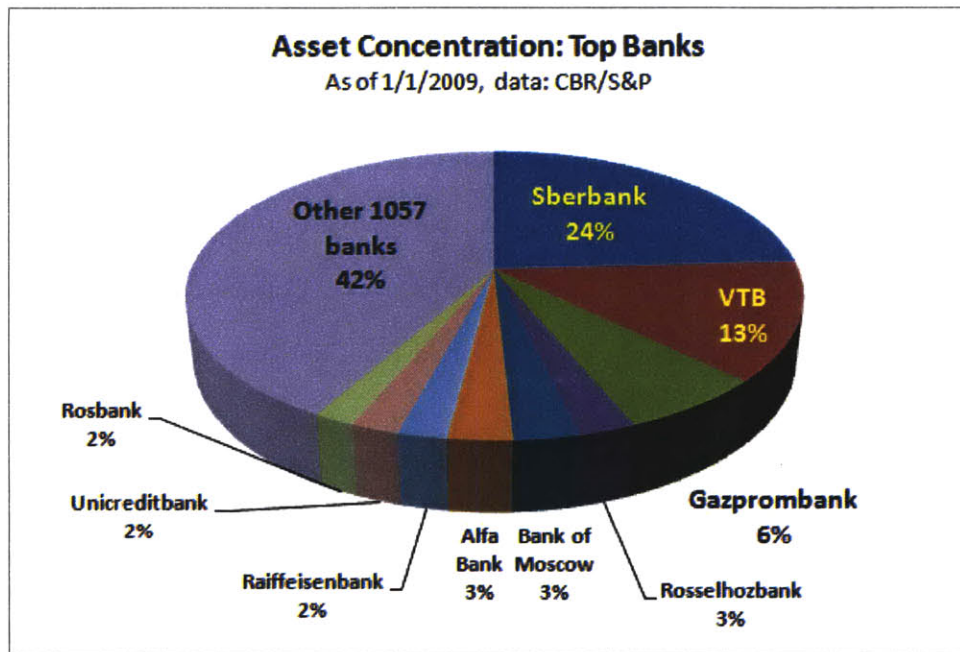
Name	Assets at 1/1/09, billion RUB	Assets at 1/1/09, billion USD	Share of Total Assets %	running sum % of system assets
1 Sberbank	6,766	230.1	24.1%	24.1%
2 VTB	3,690	125.5	13.2%	37.3%
3 Gazprombank	1,814	61.7	6.5%	43.8%
4 Rosselhozbank	713	24.2	2.5%	46.3%
5 Bank of Moscow	801	27.2	2.9%	49.2%
6 Alfa Bank	793	27.0	2.8%	52.0%
7 Raiffeisenbank	608	20.7	2.2%	54.2%
8 Unicreditbank	595	20.2	2.1%	56.3%
9 Rosbank	506	17.2	1.8%	58.1%
Total	16,286	553.9	58.1%	
Total system assets	28,022	953.0		

### ***Majority Owned by the Government***

We note that among the top five banks (responsible for nearly 50% of nation's banking assets) all are majority-owned and controlled by the government, either federal or local. See Chart 1B.

As of 8 May, 2009, CBR owned 60.25% of Sberbank's ordinary shares and 57.58% of its total share capital, being Sberbank's controlling shareholder. The remaining shares were held by institutional and private investors. Russian government owns 100% of Rosselhozbank (Russian Agricultural Bank). (Fitch, [3]) VTB, second-largest after Sberbank, also considered by S&P a government-related entity. The Russian state owns 85.5% of the ordinary shares of VTB Bank.

**Chart 1B**



Gazprombank is majority-owned by Russian government via its ownership in OAO Gazprom, the world's largest natural gas producer. Bank of Moscow is controlled by the city of Moscow, which owns 48.11% directly and 18.29% indirectly, through group of subsidiary companies of Capital Insurance Group [4].

Alfa-Bank, currently is the country's largest private bank with total assets of \$23 billion (at June 30, 2009). However, given the dominance of state-controlled banks, Alfa-banks' market share is modest 2% (S&P,[5]). Many large private banks, including Alfa remain affiliated with large industrial groups, where the majority control is held through on- and off-shore firms by a few industrial oligarchs, topic that will be further discuss in this chapter.

Foreign participation in Russian banking sector is not extensive but has been growing steadily in recent years. To some degree, proliferation of foreign banks can be attributed to lack of trust by the population and businesses in local private banks and even government-owned institutions. In 2009, **108** credit institutions with over 50% foreign participation operated in Russia, of which 81 were 100% owned. Together, they accounted for **about 19% of assets** of operating credit institutions (CBR, 2009). ZAO Raiffeisenbank is the largest bank with majority foreign ownership, it is 99.97%-owned by Raiffeisen International Bank-Holding AG. Among other large banks with foreign participation are Rosbank, 64.7%-owned by France's Societe Generale; ZAO Unicredit Bank 100% owned by UniCredit S.p.A.; Nordea Bank, 100%-owned by Nordea Bank AB; CJSC Santander Consumer Bank; 100% owned Santander Consumer Finance, ZAO Citibank, 100% owned by Citigroup Inc.; ZAO Danske Bank,100% owned by Danske Bank A/S (S&P, Moody's)

### ***Geographically Concentrated***

Since Perestroika times, Moscow remains Russia's dominant center of business and banking activity. Although banks slowly develop regional branch networks, Moscow remains home base of the banking industry. In part, it is the dominance of Sberbank in retail sector to blame for this. As of 12/2009, according to CBR, **535 out of 1066 banks in Russia were founded in Moscow** region. In contrast, some regions of Russia remain vastly underdeveloped both in terms of business activity and bank competition. The giant Ural region had only 55 banks registered locally, the rest of all Siberia only 63, while Far Eastern region as few as 34 banks.

## 1.2 Commodity dependence and customer concentration

According to S&P<sup>1</sup> ([6]), currently **93% of Russian exports are commodity goods**, primarily oil and gas (64% of total exports) and metals (16%). In 2009, Russia ranked number two after the US on natural-gas output in 2009 and overtook Saudi Arabia as the world's largest oil producer. High sensitivity of corporate earnings to commodity prices affects banks' balance sheets and profitability due to two factors: (1) **low client diversity** (high asset/liability concentration with few key clients), even at major banks; and (2) a German-style banking system where **holding company aggregates an industrial company and a bank**. Often there's little distance between the bank and its parent (or subsidiary) industrial company. They may even share same premises with smaller banks. As a result, asset quality of banks' balance sheets is constrained by high concentration on names and industries that have direct or indirect relation to their industrial affiliates. Moody's found that concentration levels of loans and deposits at 137 banks surveyed by them were **"materially above the levels seen other markets"**.

Currently, banks in Russia are becoming even more reliant on single clients, posing risk to their stability. In part, this is consequence of aggressive expansion strategy pursued in the past (we will review it further). In some cases, an affiliate or shareholder becomes also the biggest client of the bank. The concept of **"pocket bank"**, a convenience financial institution for a large industrial company, evolved during Perestroika years and continues to exist in various forms today. Credit crunch of 2008 and subsequent 2009' "flight to liquidity" further narrowed the spectrum of "trustworthy" clients, effectively increasing the client concentration. Many of these "trustworthy" clients are key companies and investments of the founders or conglomerates directly or indirectly affiliated with the banks, the clients they cannot turn down. No surprise that many of these clients are oil and gas producers and exporters, as they are able to generate cash from exports while the rest of the economy still struggles to gain momentum. In light of the high percentage ownership

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<sup>1</sup> *Banking Industry Country Risk Assessment: Russia*, Standard and Poors RatingsDirect, September 24, 2009

of top banks by the government, it is important to remember that government itself is highly dependent on oil profits and the investor community perceives these banks as government-dependent. This contributes to volatility of stock prices and swings in investor sentiment.

According to Moody's [7], the ratio of 20 biggest loans to total capital of banks in Russia stood at about 230%, while the top 20 deposits accounted for 36 % of customer funds, the concentration levels that are **three times higher than in the US and Canada** and 50% higher than those in Asia, exposing Russian and ex-Soviet banks to high levels of credit and liquidity risks.

The rest of the economy, to certain extent, suffers from "Dutch disease". President Dmitry Medvedev has called Russia's dependence on raw materials "humiliating" [8]. Although Russian officials on various occasions pledged to reduce Russia's dependence on oil exports, the "curse of natural resources" remains, oil and gas extraction is just too lucrative for the government to forego in favor of something else. In total, the government revenue from upstream oil activity was 9.5 percent of GDP in 2008, most of which came from the mineral extraction tax and export duty (both of which are revenue-based), with the remainder coming from the corporate income tax. From these three taxes combined, the government receives 90 percent of each additional dollar of export earnings when the Urals oil price exceeds \$25 per barrel (!) for a field with oil depletion below 80 percent—this top marginal rate is high by international standards. Russia's oil taxation regime has been successful in providing the government with very large revenue [1].

In private sector, oil and gas industry oligarchy remains the dominant force. Taking example of Alfa Bank, six individuals own the majority of Alfa-Bank's shares through onshore and offshore companies. Three of them, owners of Alfa Group Consortium (AGC) own 78% of the bank (the largest private bank in the country): Mikhail Freedman (the oligarch, one of the founders), German Khan, executive director of TNK-BP oil company, and Alexei Kuzmichev, board chairman of an investment arm of AGC. AGC also holds a 25% stake in one of Russia's largest oil producers, TNK-BP International (S&P,[5])

The described relationship drives dependency of country in general on oil and natural gas production and prices, and the government-dominated financial sector closely follows their clients and owners.

### ***Too big to fail, Russian style***

Surprisingly, 20 years after Perestroika and collapse of the Soviet Union, we find Russian version of “too big to fail” in the majority state control of close to 50% of the assets of the banking sector and ownership of several key banks with the most developed retail and commercial banking networks. No doubt, that these banks enjoy preferential treatment with respect to access to liquidity and budgetary funds. Large market share, cheap funding and near-sovereign credit rating, and most notably, state capital injections allow these banks to continue growth in current adverse industry conditions, absorbing weaker near-insolvent private sector counterparts. In the aftermath of the Russia Default of 1998, when many then powerful private banks went bankrupt, the government step by step regained control of the industry. We may think of it as “**de-facto nationalization**” of key assets of the banking sector. Despite the impressive number of banks, pure private sector banking remains a niche market with a few exceptions. Foreign banks are gradually entering the market taking advantage of their superior capitalization and corporate governance, expanding the private sector. Many “pocket banks” of all sizes still exist in Russia, serving sole industrial shareholder.

To better understand the dynamic of Russian banking sector and the reasons why the system evolved this way, we need to take a close look at post-Perestroika years.

### **1.3 History: the emergence of Russian banking system**

The origins of the Russian banking system can be traced back to the middle of the 18th century. First Russian banks, The Gentry Credit Bank and The Merchants Bank, opened in 1754 in St. Petersburg and Moscow respectively. Before World War I, Russia ranked fifth in the world in

terms of industrial output. The country was developing and operating a successful finance and credit system, with the number of banks amounting to as high as 3,575 by 1914. The State Bank of Russia was at the head of the system, controlling monetary policy and also engaging in business operations. After the October Revolution, in December of 1917 Soviet government adopted a decree to nationalize all commercial banks and establish a **state monopoly of banking**. The Soviet economic system, based from the beginning on the principle of abolition of private ownership of the means of production, became strictly centralized after 1928 under Stalin<sup>2</sup> [9]. The USSR had a mono-bank structure, where one government-owned bank called Gosbank (which means “Government Bank”) existed for redistribution and accounting purpose. Over half of the assets of the banking system at any given time were credits to the government. The Council of Ministers directly controlled Gosbank and the Ministry of Finance.

#### ***Emergence of government-owned banks and de-facto privatization of Gosbank assets***

In the early 1980s, the USSR still had a centralized banking system in place where State Bank held the monopoly of the credit sector. Gosbank had branches in all major cities. It also controlled three subordinate banks: Stroibank (the bank for financing of the investments of the USSR), Sberbank (the savings bank), and Vneshtorgbank (the foreign trade bank) . The three banks had no competitors in respective sectors. Soviet system was characterized by separation of cash money circuit and non-cash money with strict purposes defined for each. For example, a factory could not freely withdraw noncash funds from its account to pay salaries; it could only withdraw funds designated as cash. Instead, it could use the non-cash funds to pay other company for goods and services. In some way, this was Soviet-era mechanism of limiting money supply in the system and curbing inflation.

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<sup>2</sup> Juliet Johnson, *A Fistful of Rubles The Rise and Fall of the Russian Banking System*, Cornell University Press, 2000

When Gorbachev came to power, he wanted to increase financial accountability and control over the economy. He and his supporters in the Politbureau of Communist Party initiated series of political and economic reforms that were called Perestroika (reconstruction), Glasnost (openness) and Uskorenie (acceleration). The party leaders probably realized the effect of what they did only when it was too late: as they removed key pillars of the centralized control system of planned economy, in just a few years the whole Socialist System came down crashing, destroying the Party and soon, the USSR itself.

One of the reforms broke up Gosbank, creating several government-owned banks independent from each other while Gosbank itself was freed from serving clients and became a central bank, responsible for managing the monetary policy [9]. It retained control over Vneshtorgbank, now renamed Vnesheconombank (bank of foreign economic affairs) and Sberbank. The rest of Gosbank structures split into three specialized banks: Agroprombank (the agro-industrial bank), Zhilsotsbank (the bank of housing and social development) and Promstroibank (the industrial-construction bank, former Stroibank), also known as *spetsbanks* (special banks).

Effectively, **this transformation laid the foundation for highly concentrated banking system with several large banks that are affiliated with the government.** The architects of Perestroika wanted to retain control over monetary and credit mechanisms during the period of uncertainty and change [9]. - Probably with similar objective, in the aftermath of Russia default in 1998, Putin's administration kept and strengthened the system of state-owned banks.

In the second wave of restructuring, around 1990, political games increased around so called independence of Russian Federation from the USSR. That resulted in infighting between different government branches for ex-Gosbank assets. The Supreme Soviet of the Russian Federation (the government body of Russian republic) adopted a resolution calling for creation of a two-tiered banking system headed by an independent Central Bank of Russia (CBR). The resolution declared all special banks on Russian territory to be property of Russian Republic (not the federal government of the USSR) and provided legal means for their rapid transformation into

joint-stock banks [9]. Effectively, it allowed local governments seizing and redistributing assets in order to create a parallel structure independent from federal power. This decree generated a bitter “telegram war” between branches of power and Gosbank. Eventually, CBR won. The remaining branches of special banks were quickly commercialized, creating a group of large banks, predominantly based in Moscow, and a large number of smaller banks in the regions. This process of rapid decentralization went on with implicit blessing of the CBR and with little control and legal base. Many special banks’ branches in the regions became free-standing banks, taking their clients, facilities and equipment. This way the special banks that had emerged from Gosbank commercialized themselves in a rapid process that gave shares in the resulting banks to their enterprise customers [9]. Note that initially only state-owned enterprises were shareholders, there was no privatization of government property. However, when a few years later the shareholder enterprises were privatized, Gosbank assets effectively became privately owned by the founding enterprises which became privately owned through privatization. Many Gosbank assets fell in hands of their former directors and their politically affiliated friends and entrepreneurs. The Russian oligarchy was born.

#### ***Private banks appear and spread quickly***

Gorbachev’s “Law on Cooperation” of 1988 officially permitted creation of cooperatives, including cooperative banks. Cooperative banks required only 500,000 rubles of capital to start, while higher-tiered commercial banks required 5 million [9]. Legal uncertainty, lack of supervision and weakening power of Kremlin created incentives to channel budgetary funds at all levels into private sector. The legislation regarding use of funds was very weak and the enforcement corrupt. The dualism of cash/non-cash, state/private, official/unofficial economies and money circles that existed at the time created plenty of opportunities of “arbitrage” for government officials and newly organized private banks. To make matters worse, special banks, still owned by the government, started actively sponsoring creation of cooperative banks.

Promstroibank became a shareholder of 50 new banks, Argoprombank helped to found at least 16 commercial banks (IMF, [10]). Those in position of power (economic or political) in the Soviet system took advantage of economic decentralization and vague legal system by appropriating state resources by themselves or sponsoring their more business-minded associates.

For example, Inkombank was founded by Vladimir Vinogradov, who worked for state Promstroibank at the time, with support of Leonid Abalkin, then deputy prime minister, and Vitalii Groshev, rector of Plehanov Institute of economics. Vinogradov received first 10,000 rubles from Moscow City Soviet under auspices of the Komsomol “Youth Housing Complex” initiative. With this money they started on of the most powerful banks of the 90s. [11, as quoted in 9]. Another then famous bank, Most, emerged from personal relationships of its founder, oligarch Mr. Gusinskii with Moscow City Hall. The bank originally was headquartered in the City Hall (!) and made its first profits on government-sponsored real estate transactions.

Industry banks emerged when legislation allowed state-owned enterprises to open their own banks. Soviet economic ministries and their affiliated enterprises created the largest and most influential industry banks. Neftekhimbank (Bank of Petrol Chemistry), for example, was founded in 1988 with capital from the petrochemical and refining industries, including the USSR Ministry of the Petroleum Refining and Petrochemical Industry and affiliated enterprises. These banks (among them Tokobank, Avtobank) had extensive access to financial resources and political power in the regions because of their ministry connections and successfully continued operation as private or semi-private structures after the collapse of the Soviet Union and reorganization of their founding ministries.

“Pocket banks”. Although legislation required that no single entity owned over 35% of a bank, this rule was easily evaded by creation family of affiliated companies. “Pocket banks” were opened by cooperatives, enterprises, even groups of wealthy individuals. Barriers to entry were very low, while money-making opportunities from having a commercial firm and a bank under one roof were rewarding. These banks often were located on the premises of their parent

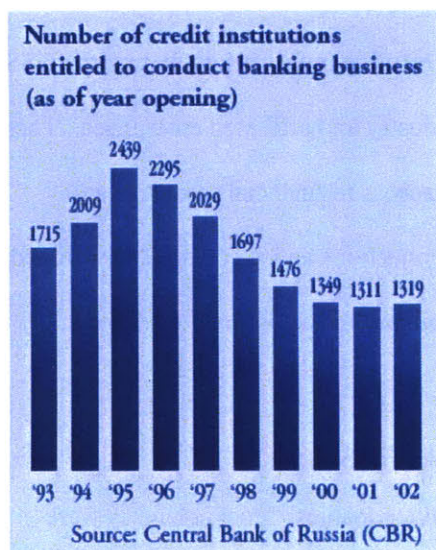
organization and even shared personnel. Typically, they were undercapitalized and lend heavily to their founding organization. Tax evasion, under-market funding, speculative transactions in cash/non-cash markets were typical of pocket banks.

Through the process described above, **hundreds of small, poorly capitalized banks and a few massive, bank-industrial groups emerged during late 1980s- early 90s**. By 1991, over 1300 private banks already operated in Russia.

### *The “Wild East” of banking: Yeltsin years*

Soviet Union collapsed in 1991 when Boris Yeltsin seized power in the aftermath of a failed coup that had attempted to topple Gorbachev’s government. On January 1, 1992 the CBR took over the rest of Gosbank’s resources throughout Russia and Gosbank officially ceased to exist.

After collapse of the USSR, Yeltsin administration attempted to carry out a radical reform program known as “**shock therapy**” that was at the time supported by some western economists as the quickest path from socialism to market economy. However, the way it was implemented “shock therapy” characterized by hyperinflation, loss of central control and widespread



corruption.

Simultaneous attempt to introduce democracy and market economy in Russia demand a dramatic reconfiguration of political and economic infrastructure, while key players in the system had no incentives to get it right. Unaddressed institutional legacies in the financial system made it all but impossible for the CBR to control the money supply.[9]

On January 2, 1992 the prices were liberalized. This triggered a wave of **hyperinflation** that lasted for several years and completely wiped out life savings of the population. For years to

come, Russians lost their faith in Ruble and government banks. Capital flight and dollarization of the economy skyrocketed, the level of mutual debt among enterprises reached billions of dollars. Government enterprises throughout the country needed cash to pay salaries. In attempt to deal with the shortage, CBR printed money as fast as they could, literally day and night.

**In 1992 alone, prices increased 2,520%.** The inflation created speculative, short-term money making opportunities for commercial banks. The number of small, speculative banks kept growing (see chart above).

Even though liberalization granted banks more freedom from the central control, the autonomy did not create competitive, market-oriented, efficient institutions [9]. In lax regulatory environment and poor corporate governance the German model of banking, with tight relationship between banks and commercial firms was taken to extreme. Many Russian firms owned their own banks and simultaneously were their principal borrowers. Effectively, many commercial banks transformed part of deposits into loans for their owners and affiliate companies. Household disincentives to maintain ruble deposits due to extremely high inflation in 1992-1994, were matched by bank disincentives to lend to real economy. Banks found it more lucrative to engage in foreign exchange transactions, foreign trade servicing, government bonds (GKO)s and interbank lending [12].

Effectively, the core function of any banking system, financial and time intermediation was not the primary activity of newly organized banks. Retail credit almost did not exist as the population won't trust private banks or, for that matter, any banks of the time. Credit to large enterprises, often subsidized by the state and CBR, was about 99% of total credit [12].

### ***Rise of oligarchs and their banks***

Yeltsin era was marked by widespread corruption, economic collapse, and social problems. Gradually, his administration became unpopular and hugely dependent on political and financial support of prominent bankers, who also happened to own key media outlets. In part, this was a

result of handling of privatization program (that I don't discuss here). The oligarchy that controlled oil and gas industry and their bankers were ready to "bail out" Yeltsin in exchange for political and economic concessions. For example, in April 1996, when incumbent Boris Yeltsin started trailing in the re-election campaign against Communist Party leader Gennady Zyuganov, a letter signed by thirteen prominent bankers and businessmen appeared simultaneously in almost every major Russian newspaper. It was signed by B.A. Berezovskii (then president of LogoVAZ), V.A. Gusinskii (chairman of the Most bank Group), V.A. Gorodilov (chairman of Sibneft oil), S.V. Muravlenko (president of Yukos oil) D.L. Orlov (chairman of Vozrozhdenie Bank), V.O. Potanin (president of ONEKSIM Bank), A.P. Smolenskii (president of Stolichnyi Savings Bank), M.M. Fridman (chairman of the board of Alfa Bank Group – still the owner of Alfa), and M.B. Khodorkovskii (chairman of the board of Menatep bank) and A.N. Dundukov (president of Yakovlev Bank) among others [9]. Within days, Zyuganov's leadership in polls disappeared in great part a result of massive monetary and media support of the Thirteen. Yeltsin reciprocated by giving two of them, Potanin and Berezovski, key positions in his administration [13] and later, with infamous Loans for Shares program.

After Yeltsin's victory, the collusion between state and its key financiers became far more obvious. Its full extent was demonstrated vividly during the infamous **Loans for Shares** program. In March 1995, a consortium of banks led by ONEKSIM developed a scheme to lend 9 trillion rubles (about \$2 billion) to cash strained Russian government in exchange for getting management control over the state's share of several largest companies for the period of five years with possibility of eventual ownership. [14]. Twelve loans-for-shares auctions took place in 1995. When Russian parliament (Duma) refused to ratify the program, Yeltsin himself authorized it by a presidential decree. "Bespredel" (limitless violation of rules) is Russian word that best describes handling of the auctions. The administration allowed favored banks both to organize and to bid in the auctions. Not surprisingly, the bank organizing the auction usually won. The auctions were riddled with allegations of alleged fraud. The program allowed leading oligarchs

to acquire key Russian extracting, metal and exporting enterprises at rock-bottom prices. For example, Norilsk Nickel, a Siberian nickel producer that controls approximately 35% of the world's nickel reserves, with a potential market value of \$ 6 billion, was sold to ONEKSIM group for \$170.1 million. [9] For purpose of this work, we focus on oil and gas assets. **Table 2** below shows key assets in oil and gas industries acquired by the banking groups during Loans for Shares program. (Source: OECD Economic Surveys: Russian Federation 1997, quoted in [9])

**Table 2 Holdings of Oil Companies acquired by bank holdings during the Loans for Shares program [9]**

Date of the auction	Company offered	Minimum bid	Winning Bid	Auction winner
12/7/1995	Sidanko Oil	\$125 million (51% stake)	\$130 mm	MFK/ONEKSIM (Potanin)
12/08/1995	Yukos Oil	\$150 million (45% stake)	\$159 mm	ZAO Laguna (Menatep, Tokobank, Stolichniy bank guarantee)
12/28/1995	Sibneft Oil	\$100 mm (51% stake)	\$100.1 mm	Oil Financial Co (Menatep, Stolichniy Bank guarantee) (Berezovskii)

In the second phase of Loans for Shares program government had an option to re-purchase the shares of the auctioned enterprises, but when the time came, it refused to do so. In such case, the program required banks to sell the “collateral” and use proceeds to repay the loans. In reality, most of the bank holdings sold lucrative businesses to their subsidiaries and affiliates, although officially again there was a competitive auction process. For example, Menatep’s subsidiary Laguna sold its stake in Yukos to Monblan, another Menatep’s corporation, for just \$100,000 over starting price. [9]

***Growth of financial-oil conglomerates***

As we saw above, during the privatization process many key resource-based companies fell into hands of oligarchs. Poor capital markets, uncertain property rights, poor enforcement and, in

some cases, near-criminal business practices in the regions all contributed to rapid consolidation of industrial and extraction assets in private hands. Banks went on acquiring enterprises in consumer goods, construction, chemicals, metal, and especially the industries that were generating hard currency through exports, such as oil and natural gas. Below are examples of key oil and gas holdings of the time [15]

**Table 3 Examples of Oil & Bank conglomerates in late 1990s**

Financial holding	Selected affiliates and shareholders
Alfa Group	Tiumen oil
LogoVAZ	AvtoVAZbank, Oil Financial Company
Menatep	Yukos oil, Surgutneftegaz, Interros-Oil,

In other cases, leading oil and gas conglomerates such as Lukoil and Gazprom had substantial interest in several banks, where they became sole largest clients. Gazprom at the time had interest in at least eight banks, including their own Gazprombank (now 3<sup>rd</sup> largest bank in the country). The banks were invested heavily in new acquisitions, often overextending their financial resources.

***Russia default of 1998***

In this work I do not discuss Russia default in detail. It was a logical end to a prolonged period of “crony capitalism” with collusion between administration and leading industrial and financial oligarchy, unsustainable monetary policy and overextension of government debt. In the aftermath of the crisis, several largest banks of Yeltsin’s era went bankrupt and were closed. The collapse of largest banks, who also were largest holders of government-issued GKO, reflected structural weakness of the industry, weakness of regulation and supervision, low capitalization and aggressive acquisition strategy pursued by banks. Among the banks that were shut down were Menatep and Inkombank (Inkombank was later accused in money laundering and criminal

affiliation [16]), while the empty shells of once powerful ONEKSIM and MFK were later absorbed by Rosbank (now 64% owned by Soc Gen ). Once, a truck carrying documents from a closed Menatep's branch fell into Dubna river, however nobody believed it was an accident. [9] Similarly, the closure of largest private banks of Yeltsin era effectively closed page on some of the most controversial transactions of the privatization. While the banks collapsed, most of their holding companies and industrial groups did well financially in subsequent years.

#### **1.4 From Russia Default to Present Day: The Normal Country<sup>3</sup>**

At the turn of the millennium, Yeltsin abruptly resigned from power, leaving Putin in charge.

As the macroeconomic situation improved in 2000s and real income grew (with average annual growth of 8.8% in 2000-2002 period, against the 18.1% drop in 1998), the rate of inflation decreased (from 84.4% in 1998, to 15.1% in 2002) (IMF). Devaluation of Ruble increased competitiveness of domestic producers. Healthy oil revenues of the key market players for nearly 10 years brought stability and growth to the banking sector. Two major drivers of the economic improvement of 2000s were steady rise in commodity prices and substantial capital inflows. (IMF, [1]). **After collapse of several key private banks, the banking system started moving back to government ownership.** It is hard to say whether this was a consequence of deliberate drive of the central government for greater control or failure of the market economy damaged by structural disproportions. The system also carries a legacy of over a thousand small and “micro” banks.

In recent years, CBR has shown commitment to improving transparency of regulation and supervision, and, as demonstrated in the 2008-2009 financial crisis, it's willingness to provide substantial liquidity support to the system. **Fiscal, budgetary and structural changes brought improvement to business climate.** The financial stabilization and prolonged “bull run” in

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<sup>3</sup> As in Andrei Shleifer , A Normal Country, Russia after Communism, Harvard University Press, 2005

commodities contributed to growth in assets of the banking sector and a rapid credit expansion during 2001-2008.

With relatively stable Ruble and a lower inflation, Russian banking industry becomes more “normal”, with gradual shift from opportunistic, speculative and “pocket” banking to real, longer-term financial intermediation. However, banks often opt to grow their loan books through large transactions, whilst retail and small and medium enterprise lending continues to lag behind. The “crony”, or “oligarchical” capitalism remains. Russia’s big businesses, especially in the extracting sector continue to be dominated by tycoons. Similar situation is found in other developing and even mature markets. Overall, over a decade, Russia has become a “typical middle-income capitalist democracy”(A. Shleifer, [17]).

#### ***Still lending to Oligarchs? You bet***

Close ties between government-affiliated banking structures and companies controlled by key oligarchs continue to exist in today’s Russia. Two recent examples to illustrate. In January 2010, state-run Sberbank lent to Renova - StroyGroup, - led by billionaire oligarch Viktor Vekselberg – lent 8.2 billion rubles (\$277 mm) for local-government promoted real estate development in Sverdlovsk region. Renova-StroyGroup is a developer headed by Veniamin Golubitsky, a former chief of staff of Sverdlovsk governor. Vekselberg is also a co-owner of aluminum producer United Co Rusal and oil company THK-BP. Total assets of Renova were \$24.8 billion as of January 2009. (Bloomberg,[18]). In another example, in January 2010, Gazprombank (majority controlled by the government), and Rusnano corporation, headed by Anatoly Chubais, (one of the masterminds of Yeltsin’s privatization programs) signed Memorandum of Cooperation according to which the bank will lend Rusnano amount of 20 billion rubles [19].

#### ***Smaller banks***

Over the last 14 years, the number of registered banks operating in Russia reduced **from 2439 in 1995 to 1066 in 2009** (CBR). This reflects diminishing opportunities for making “quick ruble”

on short-term speculative transactions, the economy of scale and better capitalization enjoyed by larger banks, competition from foreign banks entering the country, and, in part, dominance of government-supported oligopolies in the market, both among the biggest clients and in the banking sector. The opportunities for small and “pocket” banks are diminishing.

In retail sector, the dominance of state-controlled Sberbank with its extensive country-wide network dampens retail and small-business opportunities for independent banks. At year-end of 2008, retail loans accounted for only 23% of total banking loans.

In situations of financial distress Russians tend to withdraw deposits or convert them to foreign currency (predominantly, Dollar). Despite creation in 2008 of the Deposit Insurance Agency smaller private banks remain very vulnerable to bank runs. During the 2008’ crisis private deposits fell from 61% to 52% of total liabilities. State-owned and large foreign-owned banks were more resilient to the run, while small private banks, especially regional ones, suffered severely, with deposit outflow from some as high as 30% of deposit base [6]. This leads to even greater concentration of the retail and small business accounts in large government-owned banks. In 2009, Standard & Poors characterized banking industry of the Russian Federation as “**very high risk on a global comparison**” [6]. Its banking industry country risk assessment scored as low as banking systems countries like Serbia, Argentina, Egypt, and Pakistan. It noted weaknesses in risk management and corporate governance practices, including the risk associated with nontransparent and concentrated ownership.

#### ***Major concern: Asset Quality***

In recent years, non-performing and doubtful loans and other non-performing assets have been rising in the system (particularly after 2008, as we will see in the graphs below). It seems that the system is beginning to pay for long period of aggressive growth and short-term, speculative, often politically motivated lending and acquisition practices. Like in many other countries, during two years of the economic downturn banks were finding it difficult to source good quality borrowers

and re-valuate the collateral values [6]. During the oil boom years, industrial-banking conglomerates overextended credit to their affiliates and related parties. Now when time comes to pay, restructuring is often the only option for the cash-strained borrower. Like in “good old” Soviet times, government-sponsored industrial and banking firms who became de-facto insolvent due to reckless financial management and lending practices, seek government help.

According to S&P, cumulative problematic assets, including restructured loans, of Russian banks could reach 38% of year-end 2008 system-wide loans during the period of 2009-2011. In US Dollars, this totals \$213 billion, compared with system wide loans by domestic banks of \$560 billion at year-end 2008. S&P assumes that cumulative credit losses over the three-year period could reach 14%, or about 80 billion\$. [6].

Lack of reporting quality and provisioning discipline in Russian banking sector make it hard to assess the whole magnitude of the problem. Russian banks are not required to report as overdue the entire principal outstanding of an overdue loan, but rather they may choose to report only the amount of the overdue payment.

According to another rating agency, Moody’s, the share of problem loans may jump to 25% by the end of 2010, compared to 11% in mid-2009 [20]. Another credit rating agency, Fitch “remained concerned” about asset quality and debt delinquency in the banking industry. In 2009, Fitch-rated Russian banks reported an average of 7% of non-performing loans (90 days overdue) and 12% restructured exposures where maturities were extended. The agency expected the total problem loans to peak around 25%, with assumption of 50% losses on problem loans [21]. The CEO of Sberbank also confirmed that Russian banks’ bad loans could reach at least 20% of lending this year (2010) [22].

According to CBR reporting, as of 12/1/2009, the amount of total loans outstanding in the system was RUB 20,081 billion, of which 1,043.40 billion , or 5.2% were classified as overdue claims (this is the actual interest overdue, it may not include principal amount). However, the same

report declared 36% of all loans “substandard”, 9.6% “doubtful” and 4.4% “problem”, leaving only 44.6% loans in “standard” category, according to the CBR classification. (Data source: [2])

### ***The bailout***

Central bank of Russia came up with a list of “systematically important banks”, which gives them special access to liquidity and funding support from the state. As a result of recent capital injections, Russian banks’ loss absorption capacity has increased. A trend to deleveraging also contributed. In the 12 months ending Q3 of 2009, the banking sector received Rub 1.43 trillion (\$ 47 billion) of new capital injections, supporting the increase of the system’s aggregate capital ratio to 20.3% from 14.5%, while the majority of system’s profits during the period were channeled into increasing the reserves, with reserves-to-loans ratio jumping from 4% to 9.3%. Capital injections, in form of both subordinated debt and equity, have been focused predominantly on state-owned banks [21].

### ***Defaults***

Since November 2008, CBR revoked licenses of over 90 banks [7]. The state-run Deposit Insurance Agency which was mandated by law in October 2008 has taken over 18 banks so far. Inadequate bankruptcy laws and still insufficient bank supervision reduces the recovery rate and increases uncertainty about ultimate recovery of defaulted assets. The recovery rate in the region is expected to reach less than 40% [23].

Personal delinquency was also on the rise, a reflection of the economic slowdown and higher unemployment. It stood at \$8.5 billion as of yearend 2009, an increase by \$3 billion from July to December. [24]

## **1.5 Latest developments, economic trends and the aftermath of the 2008-2009 crisis**

In 2009, Russia has been hit hard by the dual shocks of declining oil prices and capital flow reversals due to global flight to quality, away from emerging markets. Following an extended period of overheating, the Russian economy contracted [1]. In an environment of high

uncertainty, banks globally preferred liquidity, domestic lending to enterprises and persons reduced substantially. Following tightening of the monetary policy and large devaluation of Ruble in January 2009, reserve losses stopped and the ruble began to recover. Rising oil prices have further strengthened the balance of payments since then. The current account balance has largely stabilized at around \$8 billion [1]. More recently, monetary policy tightening alongside ruble devaluation, resurgent oil prices, and an increase in investor risk appetite for Russian assets have led to a limited resumption of capital inflows. We should not forget that close neighbors (Ukraine, Belorussia, and others) have suffered severely during the downturn, so the whole regional business domain remains weak. Banks remain cautious, prefer to hold large deposits at the CBR rather than extend credit and are cautiously returning to the interbank market.

### ***Role of CBR***

Unlike previous periods of economic distress, in 2008 CBR acted swiftly with series of measures targeted at preserving the liquidity of banking system. Government widened remit of deposit insurance agency by injecting Rub 200 billion from the budget, instituted a new uncollateralized lending facility on top of Rub 200 billion rolled over via daily repos has eased local liquidity. Central bank also provided other loans of about Rub 589 billion in subordinated loans and other forms of support to government-controlled VTB, Sberbank, and Rosselhozbank. Collateralized lending of \$2 billion was provided to Alfa Group. CBR provided financial support to a group of other large private banks. Although a number of small- and medium-sized banks have been taken into receivership, the combination of CBR liquidity provision and regulatory forbearance has allowed the banking system to weather the crisis relatively well [1] and prevented catastrophic nation-wide run on banks. Because the banking system is small compared to GDP (about 40%) potential cost of recapitalizing of too big to fail institutions is unlikely to pose a major fiscal burden. Since August 2008, the CBR has stepped up the intensity of supervision, including by

supplementing the on-site work of its regional branches and by collecting detailed information from the 34 banks that had received government funds.

**Late 2009 – early 2010'** reports showed stabilization of the deposit base and eased concerns of another bank run in response to the ruble devaluation (Bloomberg, [25]). However, provisions for loan losses continued to grow. In July 2009 alone, banks set aside 1.5 trillion rubles (\$50 billion, a substantial amount considering relatively small size of banking sector) to cover overdue debt [26].

The surge in commodities in 2009 helped to stabilize government finances. Urals crude; - the country's chief export blend- surged 83% in 2009. The fiscal shortfall was 5.9% of GDP in 2009, compared to earlier estimates for a shortfall as wide as 8.3%. Oil and gas revenue jumped to 3 trillion rubles (\$100.7 billion). Goldman Sachs in December 2009 issued an upbeat estimate that Russia's budget will probably balance in 2011 (Bloomberg). Inflation remained high through the crisis, in double digits despite the recession and contraction of GDP of about 8% last year.

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Having reviewed the structure and composition of Russian banking system and how it evolved and shaped the way we find it now, we identified major players and driving forces of the industry. Now we continue to Chapters 2 -5 with specific analysis of correlation between Oil markets and key financial indicators that pertain to Russian banking sector.

## Chapter II Dynamic of Stock Prices and Indices

A Bloomberg terminal at MIT Sloan was used for this part. A few words about the methodology.

### 2.1 Methodology

The correlation measures the direction and strength of the linear relationship between two quantitative variables [29]. Bloomberg is using this standard formula for correlation coefficient for two arrays of historical prices:

$$\rho = \frac{\sum (X_i - \bar{X}) \cdot (Y_i - \bar{Y})}{(n-1) \cdot \sigma_X \cdot \sigma_Y}$$

Where:

$X_i$  – price for stock X

$\bar{X}$  - average price of stock X over the n data points

$Y_i$  - price of stock Y

$\bar{Y}$  – average price of stock Y over the n data points

$\sigma_X$  – standard deviation of stock X's price for the n data points

$\sigma_Y$  - standard deviation of stock Y's price for the n data points

$n$  - correlation period

Standard deviation is

$$\sigma_X = \sqrt{\frac{\sum (X_i - \bar{X})^2}{(n-1)}}$$

$n$  – the number of pricing events

A few notes about correlation. Correlation indicates the direction of a linear relationship by its sign: > 0 for a positive association and <0 for a negative association. Correlation coefficient is always between -1 and 1, with + or – 1 indicating perfect correlation in either direction. Correlation ignores the distinction between explanatory and response variable. Correlation is sensitive to outliers that can greatly change the value of correlation coefficient.

## 2.2 Stock prices of major Russian banks vs. oil price

We start with a brief look at the most liquid and dynamic metric: the movement of the stock market.

There are two indices that best describe Russian stock market:

**Micex** is the real-time cap-weighted Russian composite index that comprises 30 most liquid stocks of Russian largest and most developed companies from 10 main economy sectors, including several banks stocks. The index represents 30 largest and most important Russian corporations, and it is no surprise that major Russian oil and gas companies are in the list. As of 4/10/2010, OAO Lukoil represented 14.7%, OAO Gazprom 13.8%, Rosneft Oil Company 7.4%, Tatneft 3.5% of Micex index.

Sberbank and VTB Bank are also members of the index with substantial share, 13.8 % and 3.5% respectively. So correlation of the stock index with oil price would be something expected in this case.

Another Russian stock index is **The Russian Trading System Index (RTS)** is a capitalization-weighted index that is calculated in USD. The index (symbol RTSI\$) is comprised of stocks traded on the Russian Trading System and uses free-float adjusted shares. S&P added Russia's RTS Index to its global index portfolio in 2006. Currently the index counts 50 companies, with greater presence of other companies, and still representing substantial number of oil and gas companies, among other extracting and processing firms.

Throughout this work, we use **Urals Crude** historical price series from Bloomberg (symbol EUCRURNW). This is defined by Bloomberg as Bloomberg European Urals Northwest Europe Crude Oil Spot Price, a spot price of crude that originates from Russia. Other very liquid oil price indicator, NYMEX 1 month oil future contract (symbol CL1) is used later in Chapter 4. The results are very similar as the prices of global oil market are almost identical, with small difference irrelevant for this purpose. Here we do not analyze any metrics of oil markets or oil output but simply use them as benchmark to review movements of banking sector.

**Exhibit 1** illustrates movement of two leading bank stocks, VTB (orange line in the chart), SBERBANK (purple), RTS stock index (green) and Urals Oil price (white). Without calculating the correlation, we observe that there were historical periods when movements of indices were very much in sync and

periods when oil deviated from the other three. The banks consistently stay with the index. (VTB's price history starts in 2007). In this comparison (logarithmic) scale, it looks like the oil market was more volatile during 2000 – 2006 period, but its long term average kept climbing in the same direction as Sberbank and the Russian stock index. Then, in 2006 -2007, the relationship breaks and they part substantially until the oil market ended its bull run in June 2008 at 142.5\$ per barrel level in the beginning of July 08. Interestingly, Russian stock market peaked earlier, somewhere in May 2008, while major banks peaked even earlier, around December 2007, after rather sluggish and volatile 2007. It was really the “credit crunch” in 2008 that brought the curves back together. Another observation we can make is that although the August 2008 conflict with Georgia was a major stress for Russian business and investment climate, the downfall of the stock market started earlier, around May and the trend was solidified with the fell of oil in July. **Exhibit 2** presents a zoomed picture that covers the 2006-2010 period.

Late 2008 to 2010 show strong joint movement of oil, Russian stock markets banks, a trend that is just starting to weaken in 2010.

To analyze the correlation, I use **Historical Spread Analysis (HS)** function in Bloomberg. I verified the calculation by running the model manually, in Excel. Throughout this study, I use **rolling 260-day correlation of daily price returns**. Shorter period 120, 90, 30 days rolling correlations bring more variability, while we are interested in longer-term trends.

First, it is important to check the correlation of major banks and the stock market. **Exhibit 3** shows correlation of Sberbank and the RTS index, both expressed in USD (RTS\$ is denominated in USD while SBER03 RX ticker is RUB denominated stock, however currency of denomination make little change here as long as both are expressed in the same currency). The correlation between the index and the country's leading bank is very strong and persistent since 2000, currently at 0.986, with the highest point at **0.9936** (!) in April 2009. The correlation of Sberbank with the RTS index breaks briefly only in July 2008, when investors started selling off emerging market banks following the collapse of IndyMac in the

US that brought the fear of extended and spreading bank crisis. VTB Bank's stock VTBR RX shows similar relationship, with current 260-day correlation at **0.9795 (Exhibit 4)**

In the next step, we calculate the correlation between Urals Crude and the RTS stock index. Here we find a mixed picture, with relatively long periods of positive and negative correlation. This clearly changes after the oil collapsed in early July 2007, when we start to see strong positive correlation between the index and oil, a trend that continues until now, with the latest 260 day figure of **0.85 (Exhibit 5)**.

As the major banks move almost exactly the same as the stock index, Exhibit 5 should be considered a proxy for the relationship Urals crude and major bank stocks, however we will explore recent period in greater detail. **Exhibit 6 presents correlation between Sberbank and Urals crude**. Very strong correlation since August 2008, with peak at 0.96 and current value 0.81. **Exhibit 7 presents a manual calculation that closely replicates Exhibit 6 and provides further detail**. As mentioned earlier, bank stocks in Russia started downward trend back in December 2007, a trend that continued in Spring'08, while global oil price kept climbing until its peak in early July, that is why we see negative correlation. Later in 2008 the oil collapsed and the bank stocks accelerated their downfall, moving together with oil for the rest of the recession, all the way until 2010.

**Conclusion:** Currently there is a strong correlation between oil price and Russian stock index. This comes not as a surprise, as we know that Russian economy is highly dependent on oil exports while extracting companies and their banks are major components of the index. More, Russian budget is highly dependent on oil profits. Government owns and supports major banks and some key oil and gas assets. Oil gains and losses (and the sentiment regarding possible trends there) translate into market values of Russian stocks. The recession that was accompanied by collapse of oil price was very hard for Russian economy and financial system. This brought fear into the stock market so the index followed oil very closely. Will they split again? Historically, there were periods when Russian stocks did not follow oil. Aggressive asset growth of 2001-2007 in Russian banking industry with regulation and safety trailing behind resulted in growing concerns about the asset quality and valuation in 2007-early 2008, a situation

independent from the oil market (although, obviously, the recovery of oil profits help to deal with credit provisions). Asset quality and bad loans and unresolved structural issues remain major concerns regarding financial sector in Russia, a factor that might hold back the bank stocks while oil production recovers.

Exhibits 1- 7 are below

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Exhibit 1 Stock prices of Sberbank, VTB vs RTS index and Urals Crude price , 2000 – 2010 (Bloomberg)

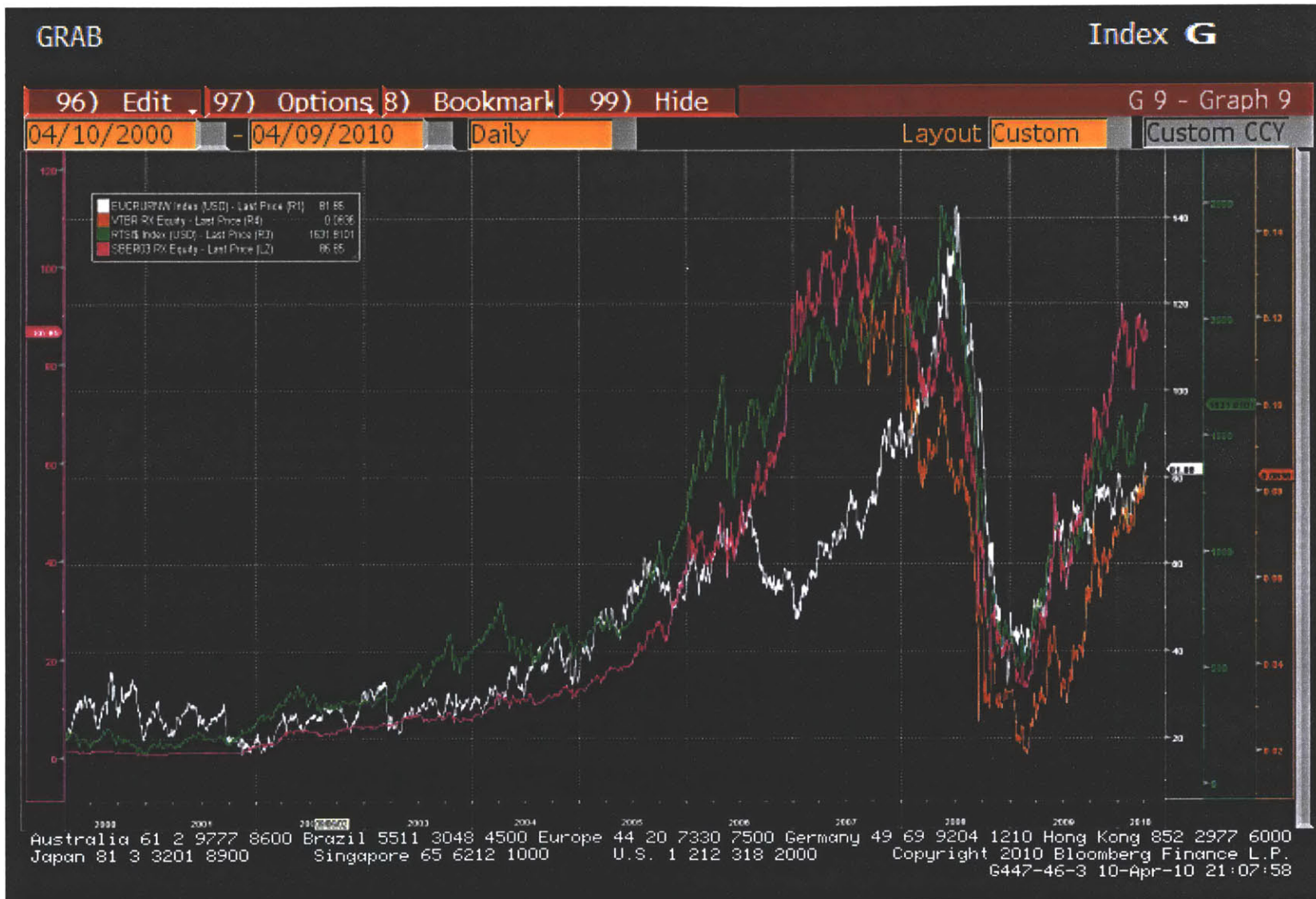


Exhibit 2 Stock prices of VTB, Sberbank vs RTS index and Urals Crude index , period of 2006 – 2010 (Bloomberg)

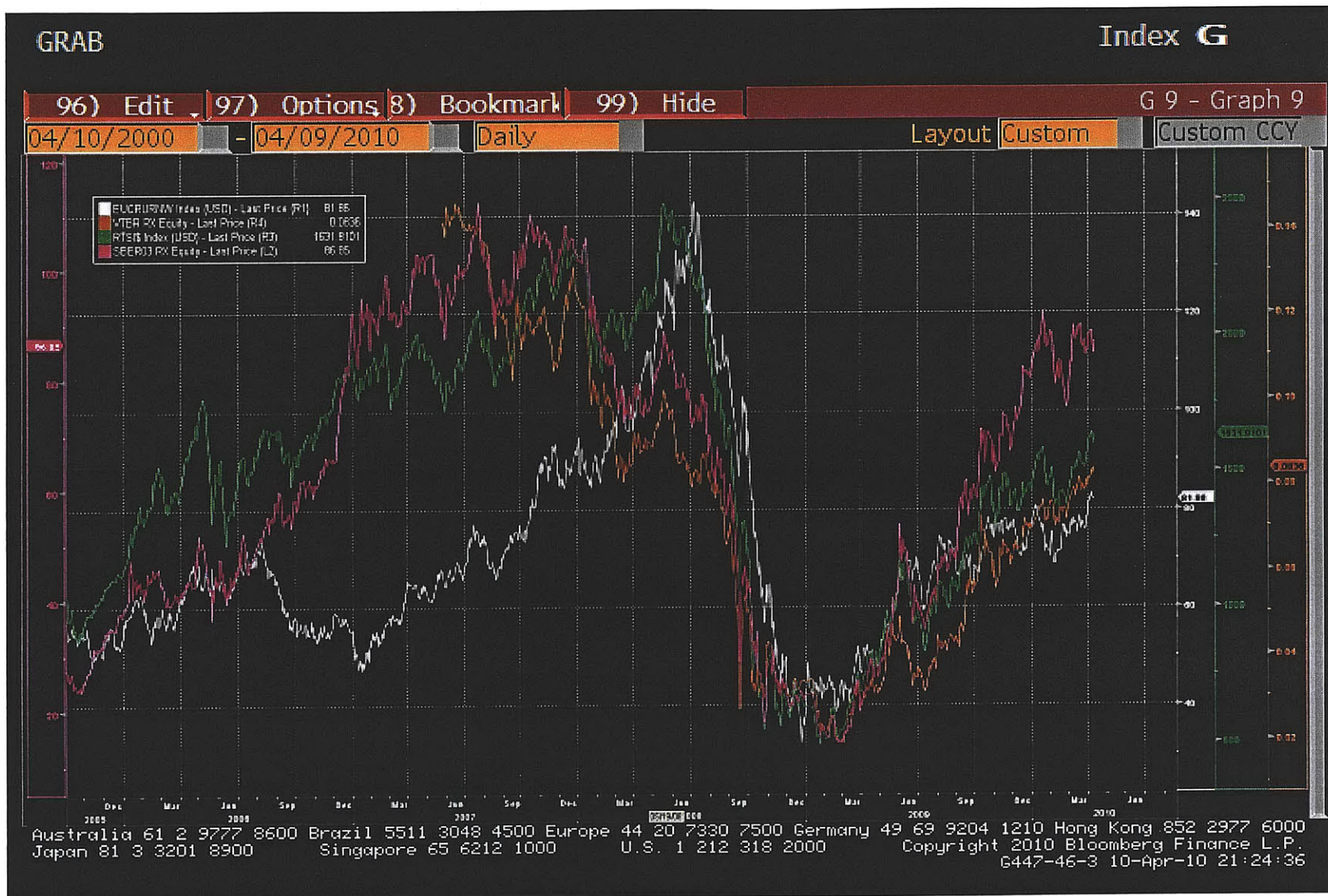


Exhibit 3 Rolling 260-day correlation Sberbank vs RTS Index, 2000 - 2010 (Bloomberg)

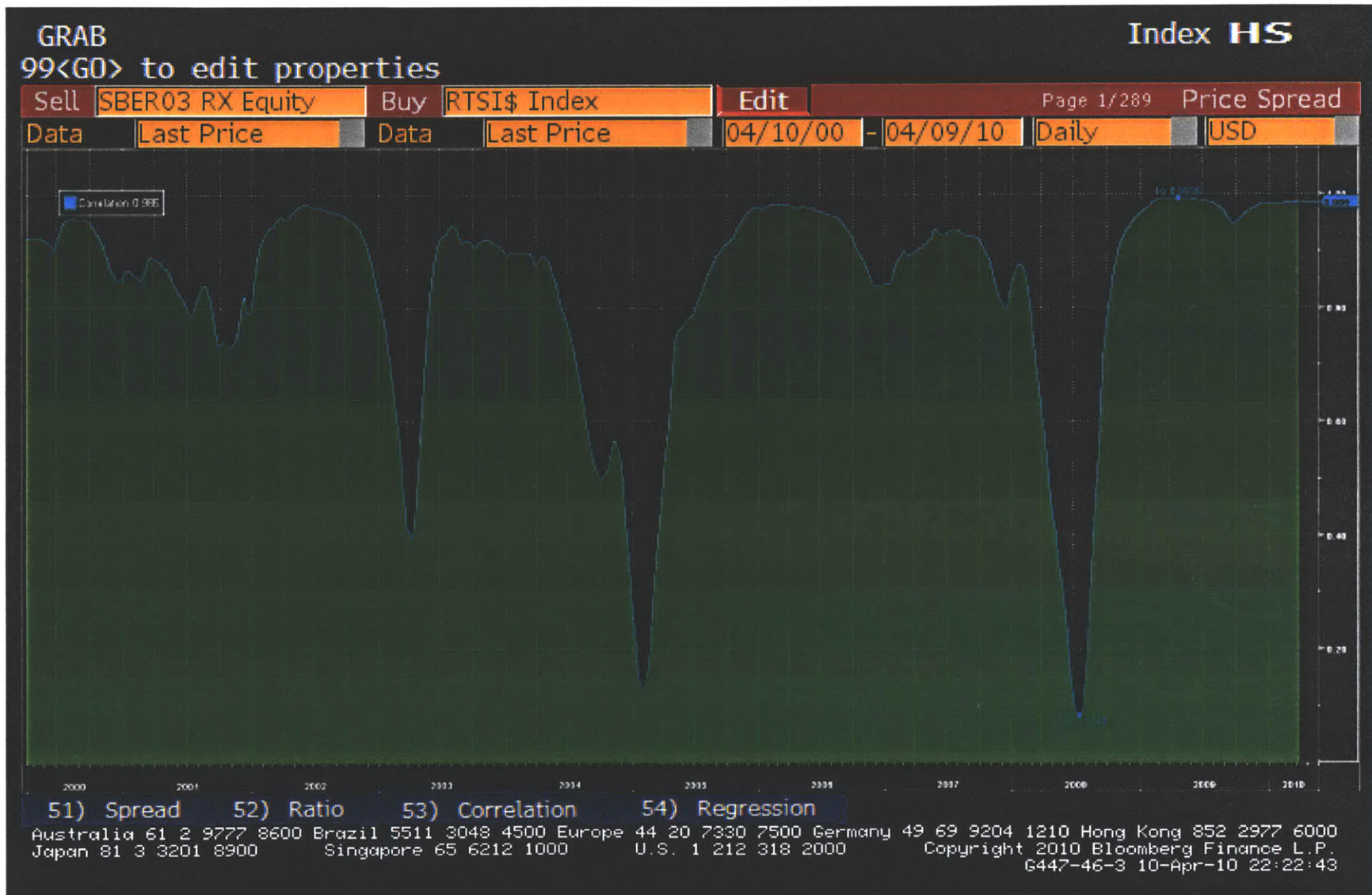


Exhibit 4 Rolling 260-day correlation VTB vs RTS Index, 2000 - 2010 (Bloomberg)

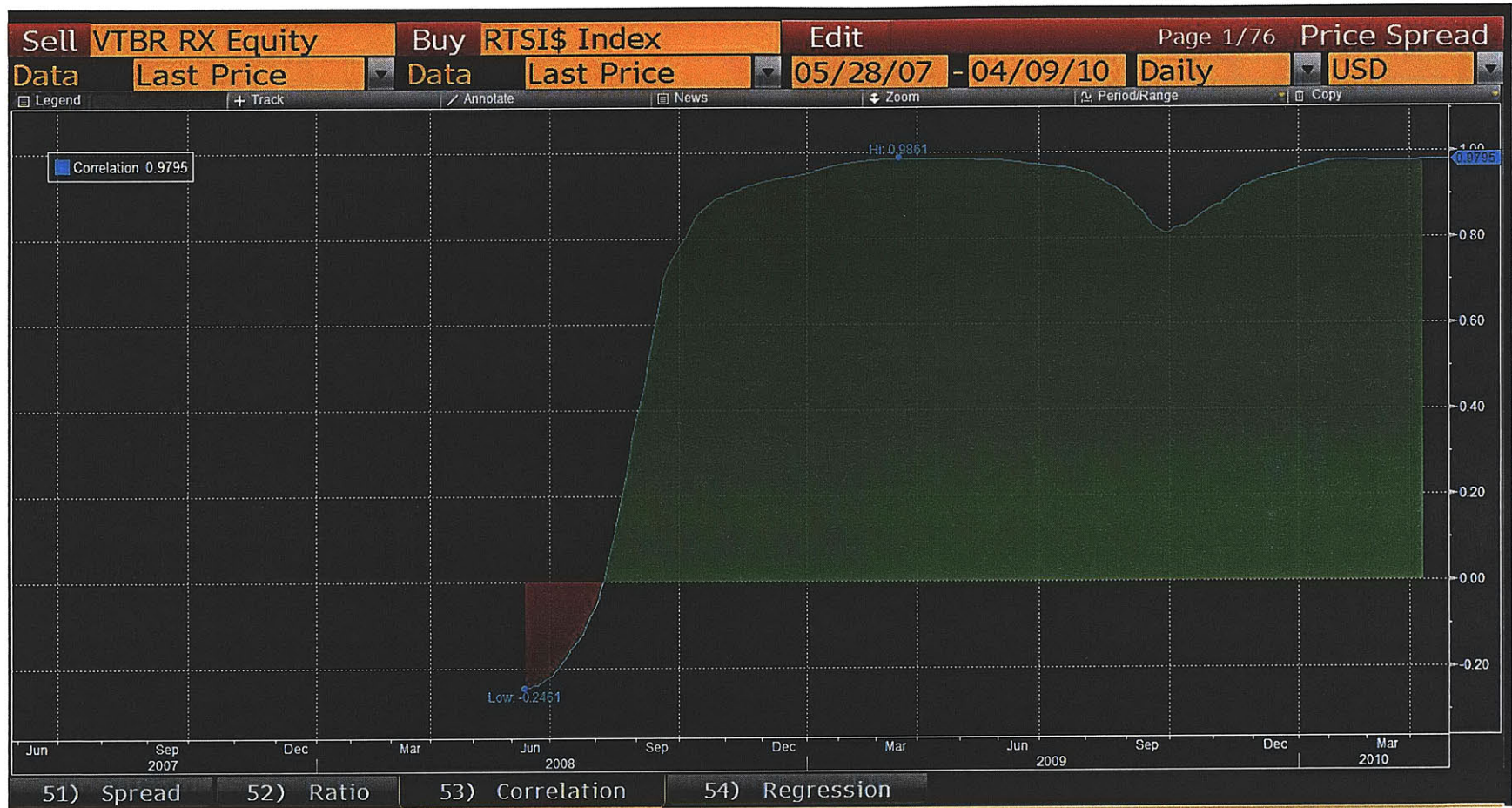


Exhibit 5 Rolling 260-day correlation between Urals crude price and the Russian stock index, RTS , 2000 - 2010 (Bloomberg)

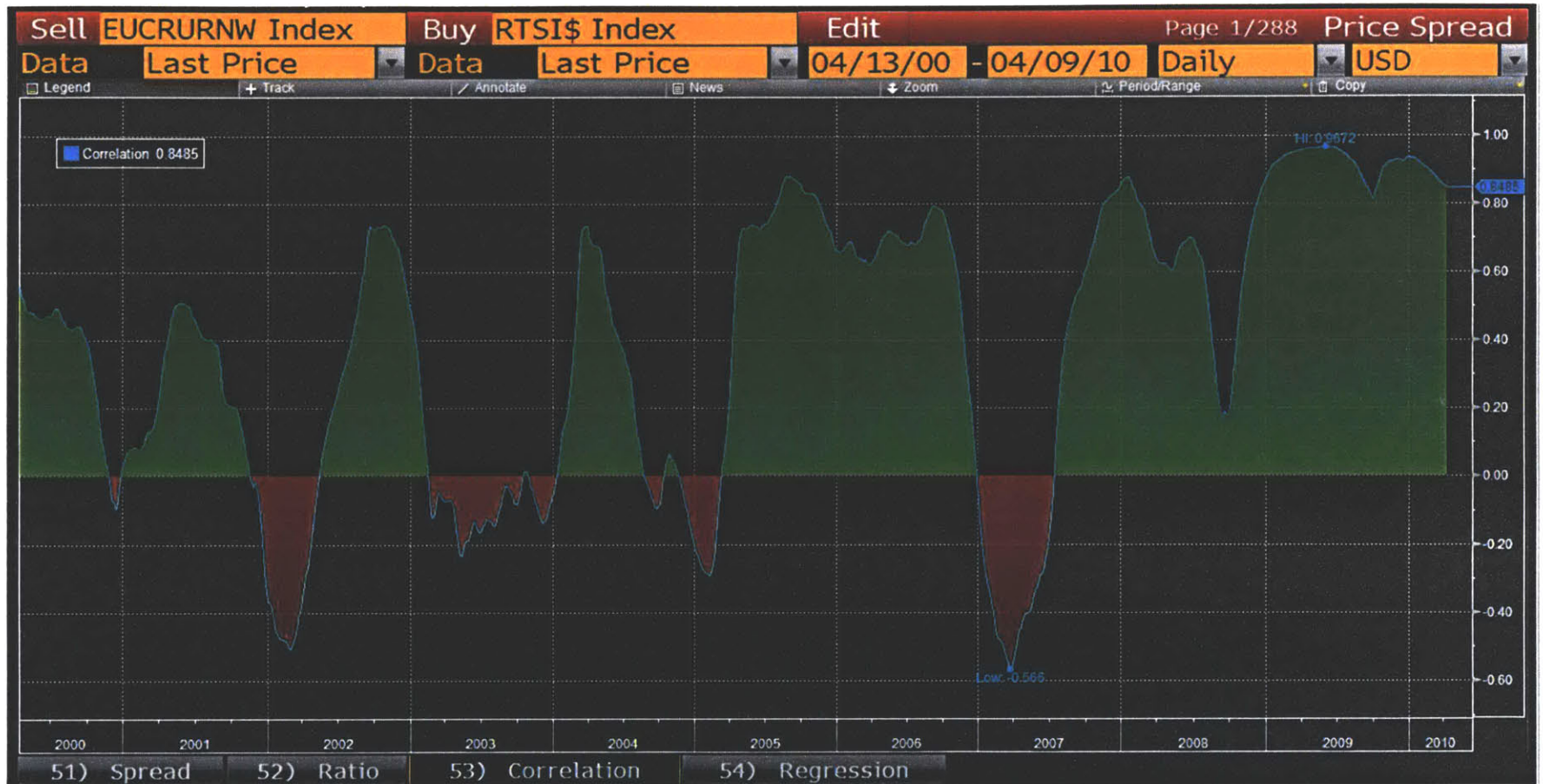
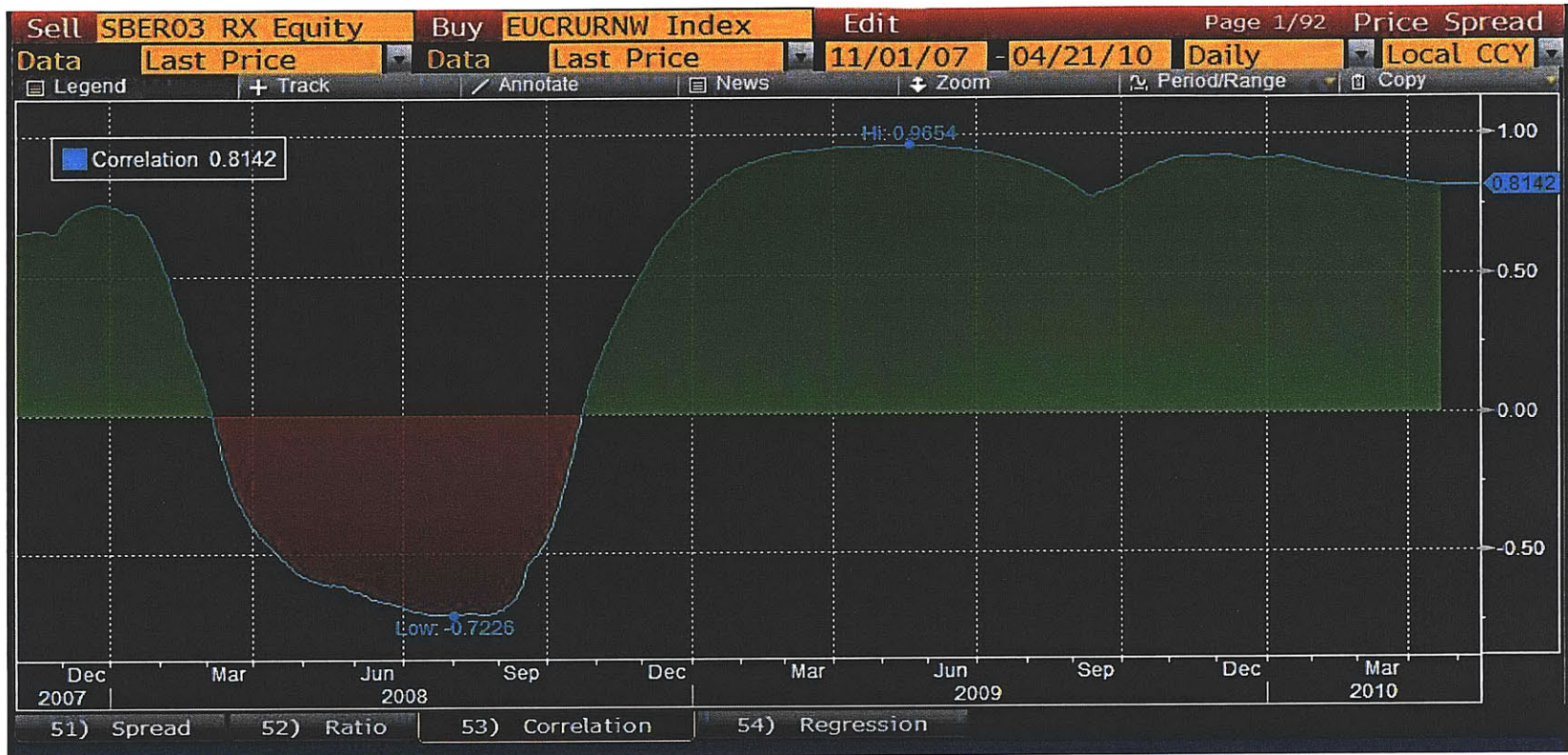
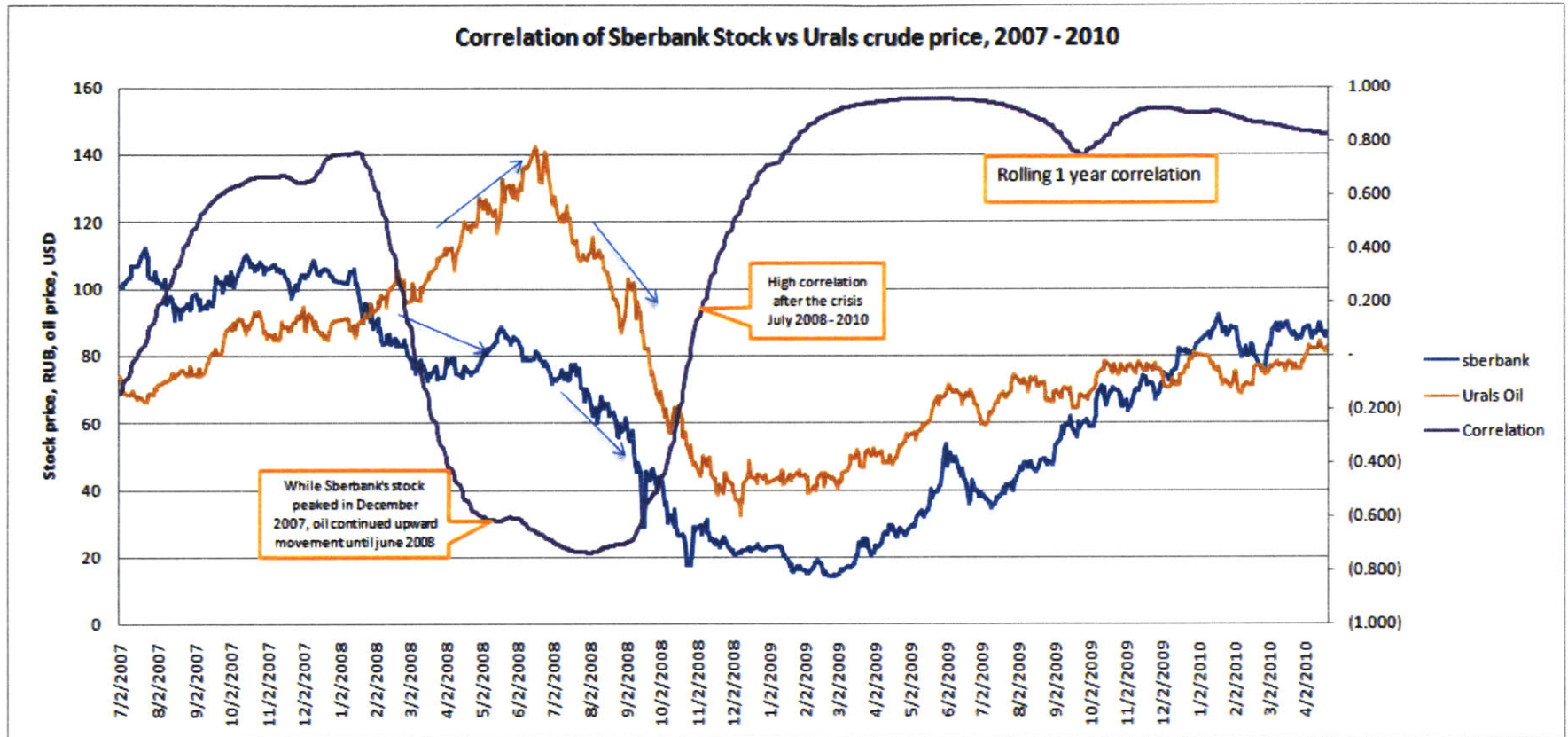


Exhibit 6 Rolling 260-day correlation between Sberbank vs Urals crude price, 2007 - 2010 (Bloomberg)



**Exhibit 7 Rolling 260-day correlation between Sberbank vs Urals crude price, 2007 – 2010, calculated manually**



## Chapter III Industry-Level Statistics

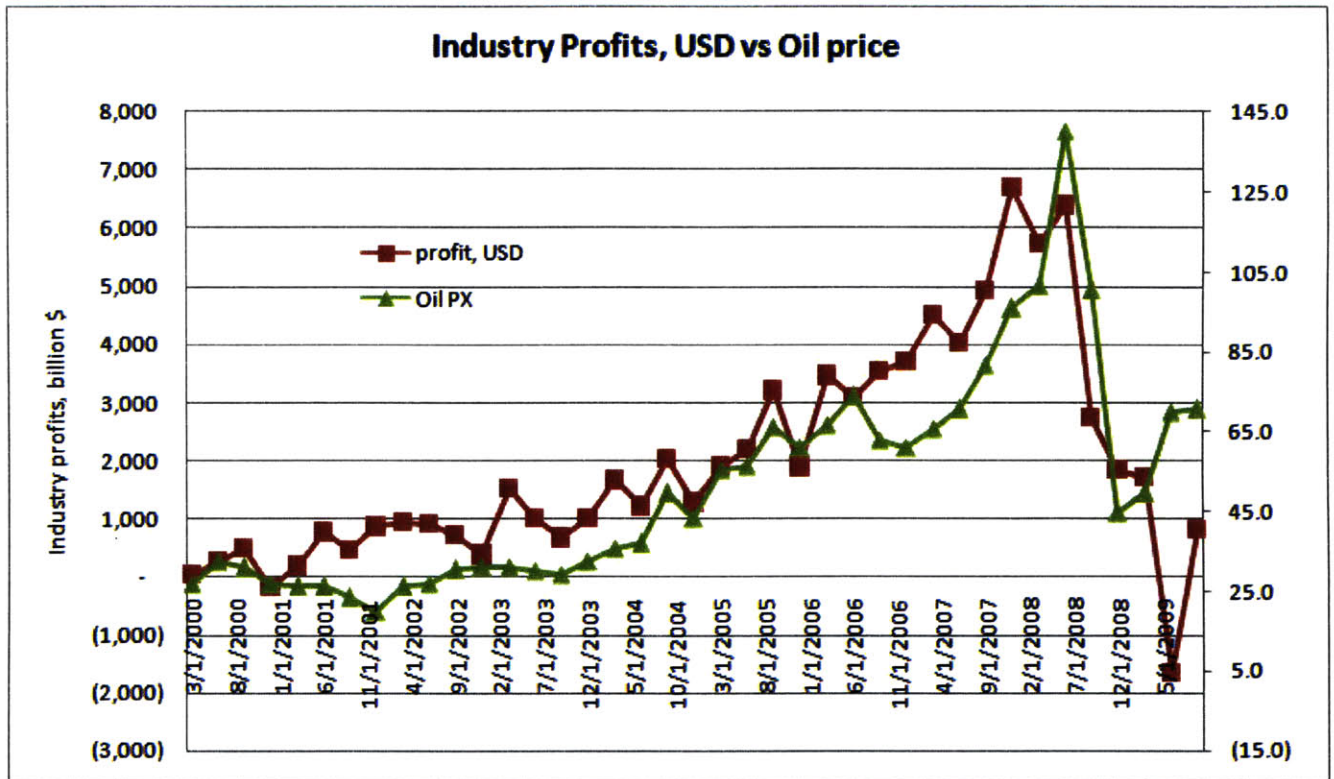
From stock price relationships we move to Industry statistics. This part was prepared based on aggregate reporting data published by CBR in Monthly Bulletin of Banking Statistics [27] and the database table provided by the IMF (also sourced from CBR).

### 3.1 Industry profits

The Bulletin provides quarterly profitability results for the industry. Almost 10 years of quarterly results from [27] (1Q 2000 through 3<sup>rd</sup> quarter of 2009) were used vs. oil prices NYMEX 1 MO, historical series obtained with Bloomberg terminal. **Chart 2** summarizes the results.

Looking at Chart 2, we notice that during the oil's "bull run" period, 2000 – 2008, industry profits were closely following general movement of the oil market; Russian banking system was making more money and growing as oil was getting more expensive and exports were growing. Correlation coefficient for the period 3/2000 through 3/2008 is **0.948**. In 2008, with the fall of oil market and global sell-off in emerging markets, the correlation breaks as industry lost a lot more money than oil market returns would "predict". Credit crisis, the pileup of bad assets accumulated during the expansion period we discussed in Chapter I, are to blame. The overall correlation during 2000 – 2009 period was 0.795

**Chart 2 Industry Profitability (CBR data, Bulletin of Banking Statistics 2000 – 2009)**



**3.2 Total Assets of the Industry, Total Loans and Total Loans to Corporations**

This and the next segments are based on monthly data for 10 years received from the IMF. I converted the RUB figures to USD at historical USD/RUB rates (loaded from Bloomberg) and compared to historical series of NYMEX 1 Mo contract. See **Chart 3** two pages below.

The chart clearly shows gradual build-up of assets of the system during the last 10 years. Oil price chart fits it nicely, with high correlation throughout the history (below is correlation table per period):

	2000-2009	2000-May2008	2000-Jan2009
Total Assets	0.825	0.939	0.917
Total Loans	0.827	0.940	0.919
Commercial loans	0.833	0.943	0.924

### 3.3 Total overdue loans, Overdue Loans to Corporations

Another important industry statistic is monthly Overdue loans. It represents the downside of the growth effect we just saw. Obviously, we should not expect that oil volatility by itself will make banks to lose money. **Chart 4** illustrates the dynamic. Before summer 2008, the growth in oil price and the growth of banking sector' overdue loans were closely correlated, which can be attributed to growth, the more loans, the more overdue loans.

However, Credit Crunch of 2008 completely reverses the correlation: as oil went down, the bank industry exploded with losses. Here is the correlation table:

	before 5/1/2008	during 2008	after 1/1/09
Total overdue loans	0.925	(0.985)	0.949
Overdue corp loans	0.958	(0.985)	0.950

Although this tight relationship seems unusual for banking sector that normally has many other drivers and sources of P&L, in this case all happened at the same time, the oil and the banking crisis, exacerbating the magnitude of losses. As we see here, this bank sector indeed was fueled by oil profits of its clients and its own investments.

**Chart 3 Total Assets and Loans (CBR data provided by IMF)**

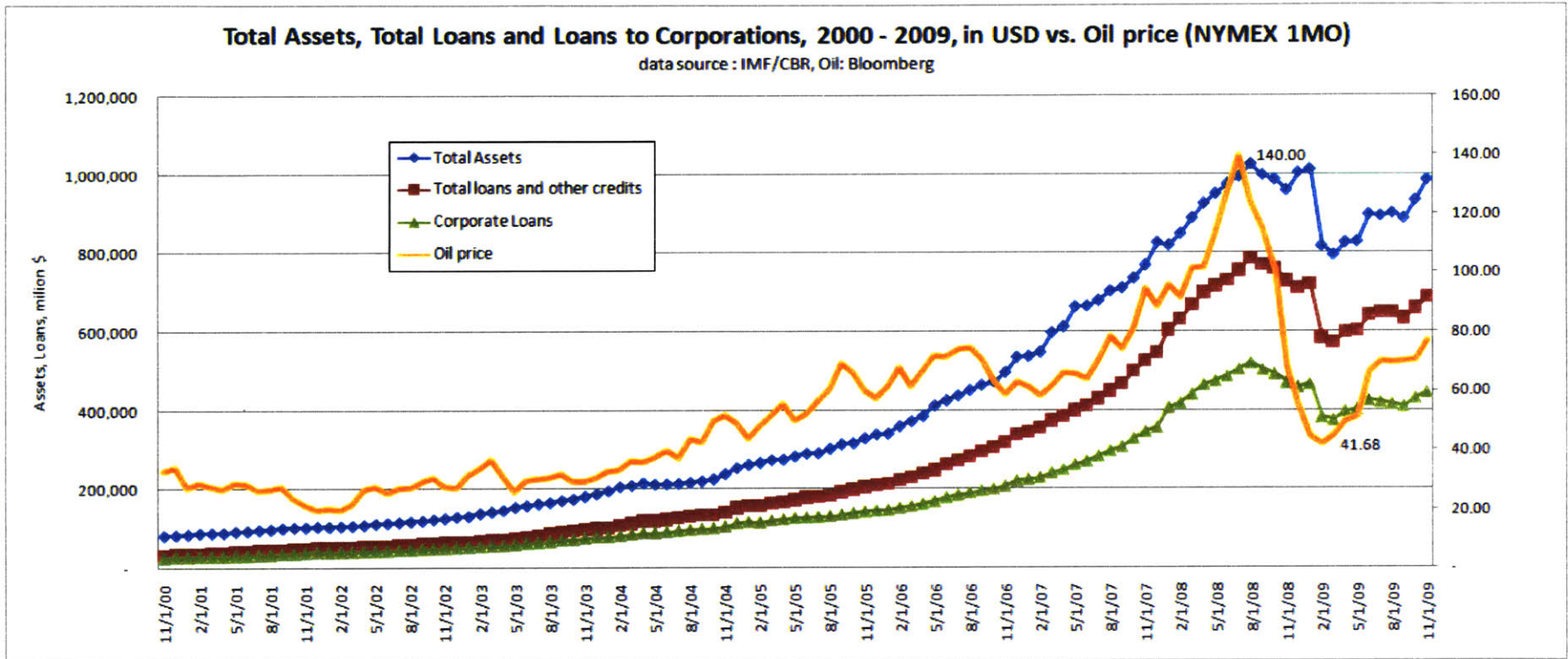
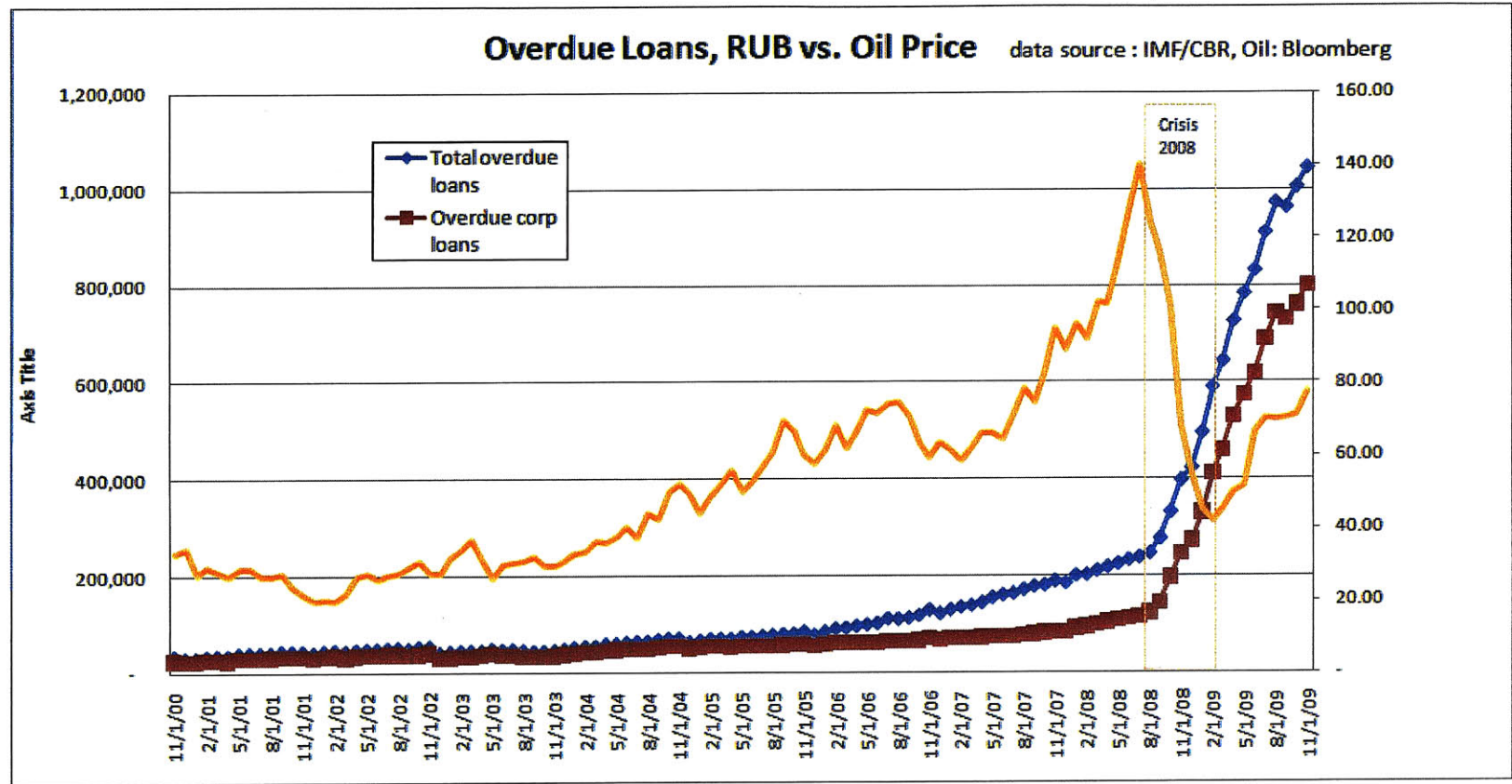


Chart 4 Industry Total Overdue Loans (CBR data provided by IMF)



## Chapter IV Bank-Level Statistics

In this chapter we look at performance and figures for top Russian banks. I use reports generated by BankScope database (Bureau van Dijk), downloaded via MIT Library link. I loaded results for each bank via database queries. Unfortunately, as international reporting is relatively new for Russian banks, the financial reporting in the database goes back only to 2001.

### 4.1 Total assets of leading banks

As before, I use RUB/USD rates and Oil prices series for respective dates, downloaded from Bloomberg.

The banks used were **Sberbank**, **VTB**, **Gazprombank**, **Roselhozbank**, **Bank of Moscow**, and **Rosbank**. Together, they represent 51% of total assets of the system (as of 1/1/2009, CBR data) see

**Chart 5** for results.

Total assets in RUB and in USD, see correlation coefficient (highlighted in Yellow).

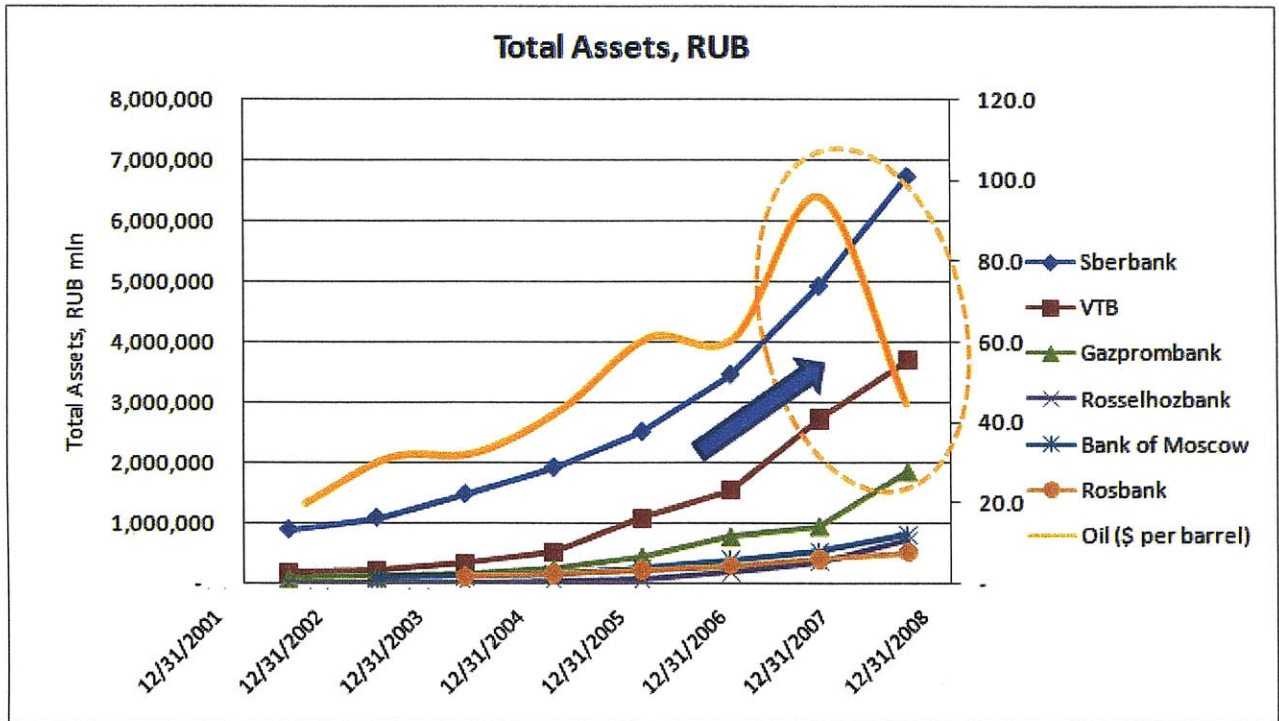
in RUB	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001	
Sberbank	6,736,482	4,928,808	3,466,673	2,513,128	1,922,220	1,477,501	1,087,013	890,420	
VTB	3,697,400	2,720,700	1,539,700	1,079,000	523,300	329,800	213,500	180,000	
Gazprombank	1,852,167	948,523	774,726	441,678	258,930	170,423	120,784	93,232	
Roselhozbank	713,114	356,460	184,581	57,035	25,269	13,295	9,059	10,966	
Bank of Moscow	801,385	528,086	381,958	245,769	158,836	119,825	93,228		
Rosbank	506,553	408,063	293,836	213,057	149,874	115,428			
Oil (\$ per barrel)	44.6	96.0	61.1	61.0	43.5	32.5	31.2	19.8	

in USD	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001	Correlation with Oil ex last period
Sberbank	229,111	200,353	131,685	87,439	69,344	50,526	34,017	29,189	0.971
VTB	125,750	110,595	58,487	37,542	18,878	11,278	6,681	5,901	0.968
Gazprombank	62,993	38,557	29,429	15,367	9,341	5,828	3,780	3,056	0.945
Roselhozbank	24,253	14,490	7,011	1,984	912	455	283	359	0.914
Bank of Moscow	27,256	21,466	14,509	8,551	5,730	4,098	2,917		0.963
Rosbank	17,228	16,588	11,162	7,413	5,407	3,947			0.964

Similar to the overall industry assets we saw earlier, this chart shows near exponential growth of Ruble assets of the 6 banks in the period 2001 - 2008 that until the last period closely (with average correlation **0.95** in our group, when expressed in USD) followed the surge in commodities. Interestingly, the buildup in assets, however, when expressed in RUB completely overshoots the oil downfall. Something that might have contributed to current problems with capitalization and non-performing assets in the system.

Chart 5 Evolution of Total Assets of leading banks (BankScope data)



#### 4.2 Total Equity

Another balance sheet item, total equity, shows trends in capitalization of the system. See Chart 6

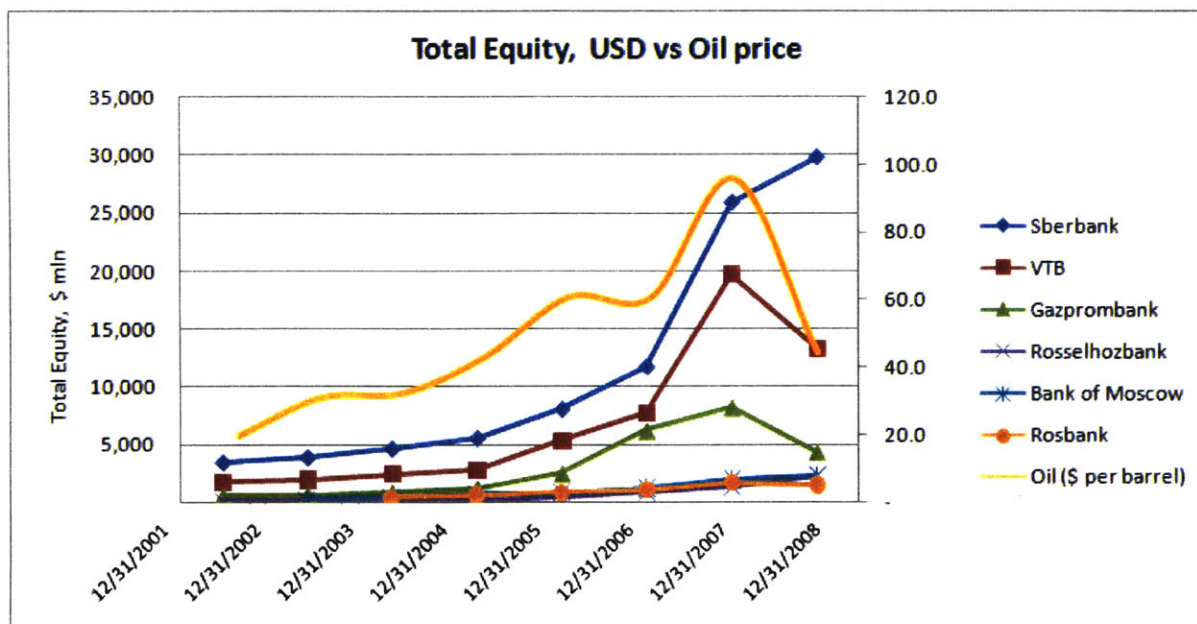
Total equity in RUB and USD, correlation coefficient highlighted in Yellow.

	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001	
Sberbank	876,320	637,197	308,524	231,069	153,319	134,873	123,120	103,968	
VTB	392,100	484,700	205,400	154,800	79,600	72,800	64,400	55,400	
Gazprombank	127,880	201,553	162,685	71,358	33,177	24,647	20,381	17,467	
Roselhozbank	67,758	33,824	21,930	11,032	4,835	4,763	3,938	3,182	
Bank of Moscow	67,650	48,595	31,969	23,704	19,473	12,885	9,287		
Rosbank	43,517	40,891	28,164	22,820	16,426	11,284			
Oil (\$ per barrel)	44.6	96.0	61.1	61.0	43.5	32.5	31.2	19.8	
	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001	Correlation with Oil ex last period
Sberbank	29,804	25,902	11,720	8,040	5,531	4,612	3,853	3,408	0.942
VTB	13,336	19,703	7,802	5,386	2,872	2,490	2,015	1,816	0.936
Gazprombank	4,349	8,193	6,180	2,483	1,197	843	638	573	0.917
Roselhozbank	2,304	1,375	833	384	174	163	123	104	0.935
Bank of Moscow	2,301	1,975	1,214	825	702	441	291		0.975
Rosbank	1,480	1,662	1,070	794	593	386			0.980

Again, the 2008 period is excluded in the correlation figures. Before the crisis, banks were able to build up their equity capital on the upside with strong correlation with the oil boom (0.95 on average). But when the crisis started, the losses in investment and loan books started draining their equity. Sberbank

added adequate amount of capital,(partially mitigated by Ruble devaluation), while others just couldn't keep up. Additional capital injections were made in 2009 by the CBR.

**Chart 6 Total Equity of leading banks (BankScope data)**



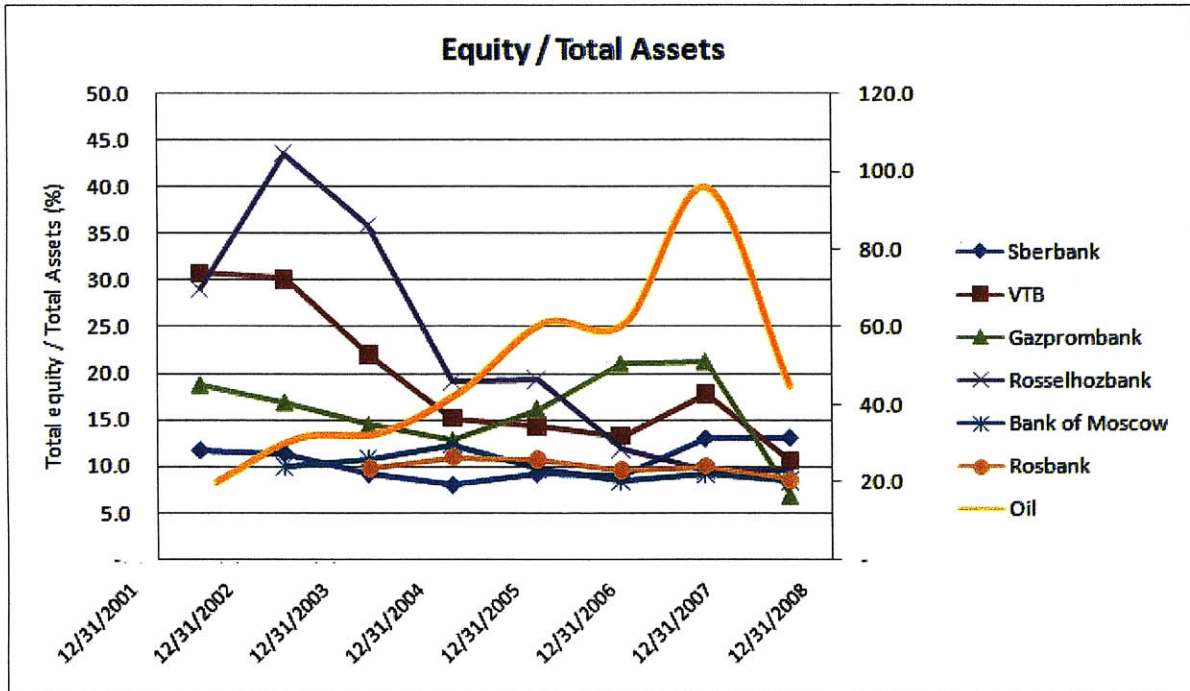
### 4.3 Equity to Total Assets Ratio

Equity to Total Assets ratio is another, relative way of looking at capital adequacy. The pattern (Chart 7) is messy: on the upside, the ratio was going down, probably reflecting overheating, as equity capital was not catching up with buildup of assets. When oil collapsed and the credit crisis hit, the equity got hit further increasing the need for additional capital.

#### Equity / Total Assets

%	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001
Sberbank	13.0	12.9	8.9	9.2	8.0	9.1	11.3	11.7
VTB	10.6	17.8	13.3	14.4	15.2	22.1	30.2	30.8
Gazprombank	6.9	21.3	21.0	16.2	12.8	14.5	16.9	18.7
Roselhozbank	9.5	9.5	11.9	19.3	19.1	35.8	43.5	29.0
Bank of Moscow	8.4	9.2	8.4	9.7	12.3	10.8	10.0	
Rosbank	8.6	10.0	9.6	10.7	11.0	9.8		

**Chart 7 Ratio of Equity to Total Assets (BankScope data)**



**4.4 Loan Loss Reserve/Gross Loans Ratio**

This important asset quality ratio shows relationship between reserve for loan losses and total outstanding loans. If provisioning policy is adequate, growth in the ratio indicates accumulation of problem loans.

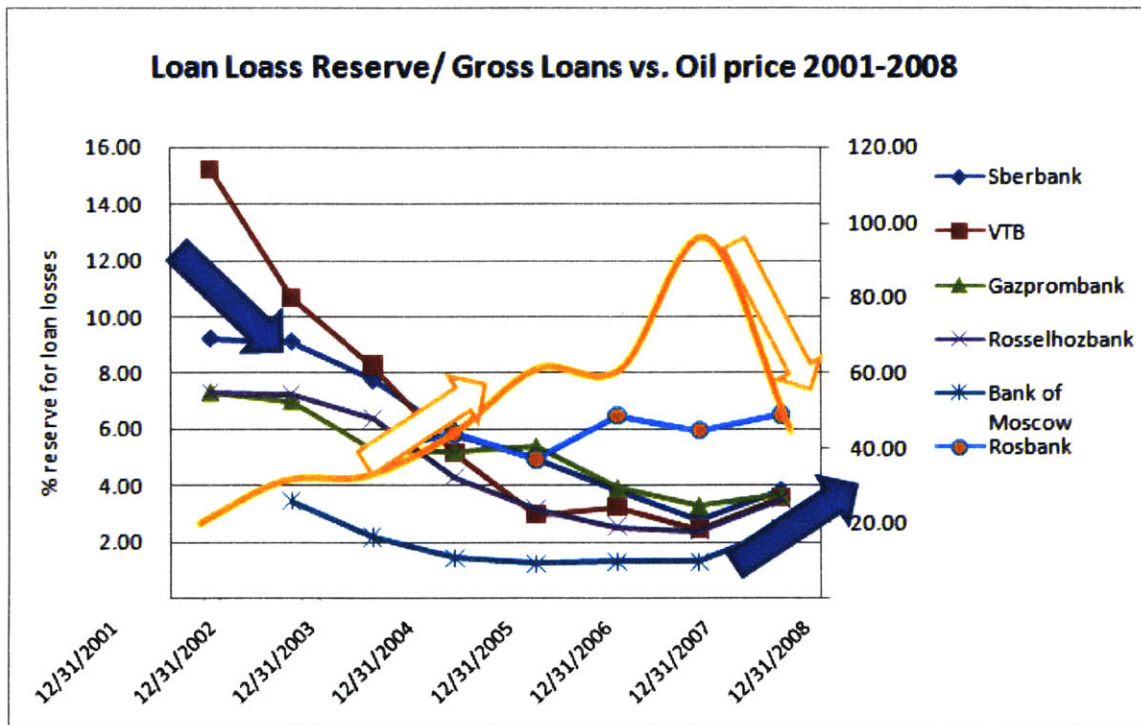
See **Chart 8** for results.

Loan Loss Reserve / Gross Loans	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001	(including (excl. last last Correlation: period) period)	
Sberbank	3.83	2.76	3.82	4.95	5.76	7.75	9.12	9.22	(0.85)	(0.93)
VTB	3.57	2.45	3.22	2.97	5.14	8.27	10.69	15.22	(0.80)	(0.84)
Gazprombank	3.64	3.26	3.90	5.38	5.20	5.27	6.99	7.31	(0.77)	(0.88)
Rosselhozbank	3.53	2.38	2.54	3.18	4.29	6.37	7.28	7.32	(0.85)	(0.89)
Bank of Moscow	2.43	1.27	1.29	1.22	1.40	2.15	3.43		(0.67)	(0.66)
Rosbank	6.50	5.94	6.46	4.93	5.85	5.17			0.15	0.35

The chart and the table above show negative correlation with oil in most cases. During the time of growth, the ratio was going down, possibly due to buildup in loans that were performing amid rising commodity

prices. When oil sharply “turned the corner”, the provisioning probably did not pick up fast (as we don’t see sharp rise here), it possibly remained too low, because we know from the equity part that there were massive losses. The next chart will provide more detail.

**Chart 8 Ratio of Reserve for Loan Losses to Gross Loans (BankScope data)**



#### 4.5 Loan impairment charges

The amounts actually written off as loan impairments, **Chart 9**. These are actual defaults with no chance of recovery.

**Loan impairment charges**

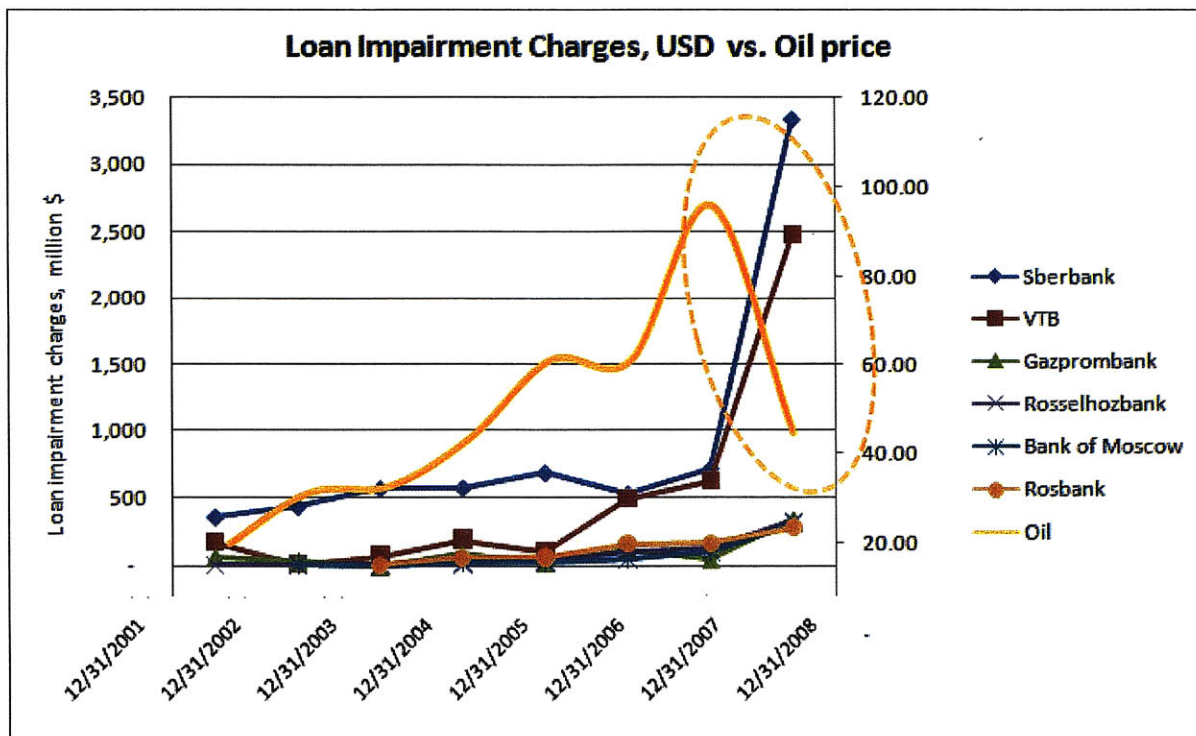
million RUB	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001
Sberbank	97,881	17,633	13,851	19,602	15,791	16,510	13,737	10,795
VTB	72,900	15,500	13,000	3,200	5,400	2,200	500	5,300
Gazprombank	9,943	1,168	3,112	749	2,488	(100)	1,238	2,057
Rosselhozbank	9,495	3,113	2,631	848	127	198	144	153
Bank of Moscow	8,967	2,427	1,352	701	463	(187)	325	
Rosbank	8,291	4,118	4,247	1,865	1,712	224		

million USD	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001
Sberbank	3,329	717	526	682	570	565	430	354
VTB	2,479	630	494	111	195	75	16	174
Gazprombank	338	47	118	26	90	(3)	39	67
Rosselhozbank	323	127	100	30	5	7	4	5
Bank of Moscow	305	99	51	24	17	(6)	10	
Rosbank	282	167	161	65	62	8		

Chart 9 below shows the dramatic effect of the financial crisis accompanied by the drop in oil prices: for Sberbank and VTB the impairment charges skyrocketed in 2008. This may also confirm the earlier concern that the provisions might have been inadequate.

**Chart 9 Loan Impairment Charges (BankScope data)**



#### 4.6 Profitability: Net Income

From capital adequacy and asset quality we move to profitability. **Chart 10** shows net profits of the largest banks.

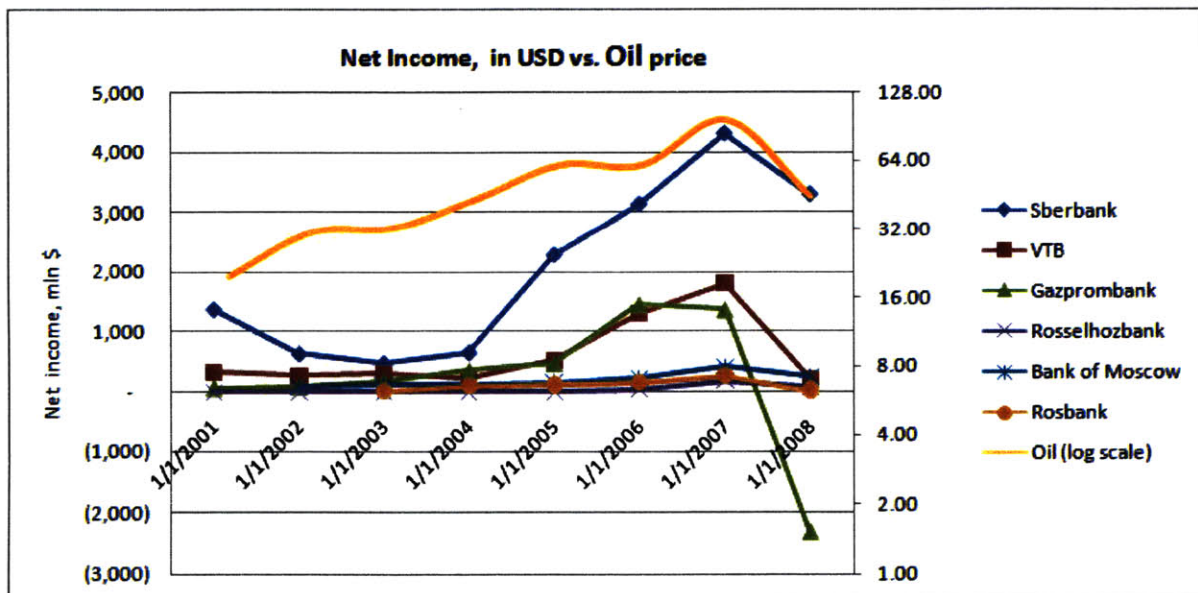
Net Income									
million RUB	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001	
Sberbank	97,096	106,024	82,509	65,618	18,024	13,818	20,199	41,811	
VTB	6,200	44,500	34,400	14,900	6,100	8,400	8,200	9,600	
Gazprombank	(68,234)	33,563	38,107	13,416	9,592	4,756	2,840	1,977	
Rosselhozbank	2,053	4,354	853	90	83	8	(216)	(301)	
Bank of Moscow	6,978	10,046	5,778	4,025	3,129	2,728	2,284		
Rosbank	627	6,165	3,674	3,053	2,325	343			

million USD	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001	Correlation vs Oil
Sberbank	3,302	4,310	3,134	2,283	650	473	632	1,371	0.80
VTB	211	1,809	1,307	518	220	287	257	315	0.87
Gazprombank	(2,321)	1,364	1,448	467	346	163	89	65	0.46 (.85 without last loss)
Rosselhozbank	70	177	32	3	3	0	(7)	(10)	0.84
Bank of Moscow	237	408	219	140	113	93	71		0.89
Rosbank	21	251	140	106	84	12			0.96

As we can expect, Net Income for all banks collapsed in 2008. The correlation with oil markets, including the dramatic last year, is high, at about **0.85** on average (excluding the extraordinary high loss of Gazprombank)

**Chart 10 Net Income (BankScope data)**



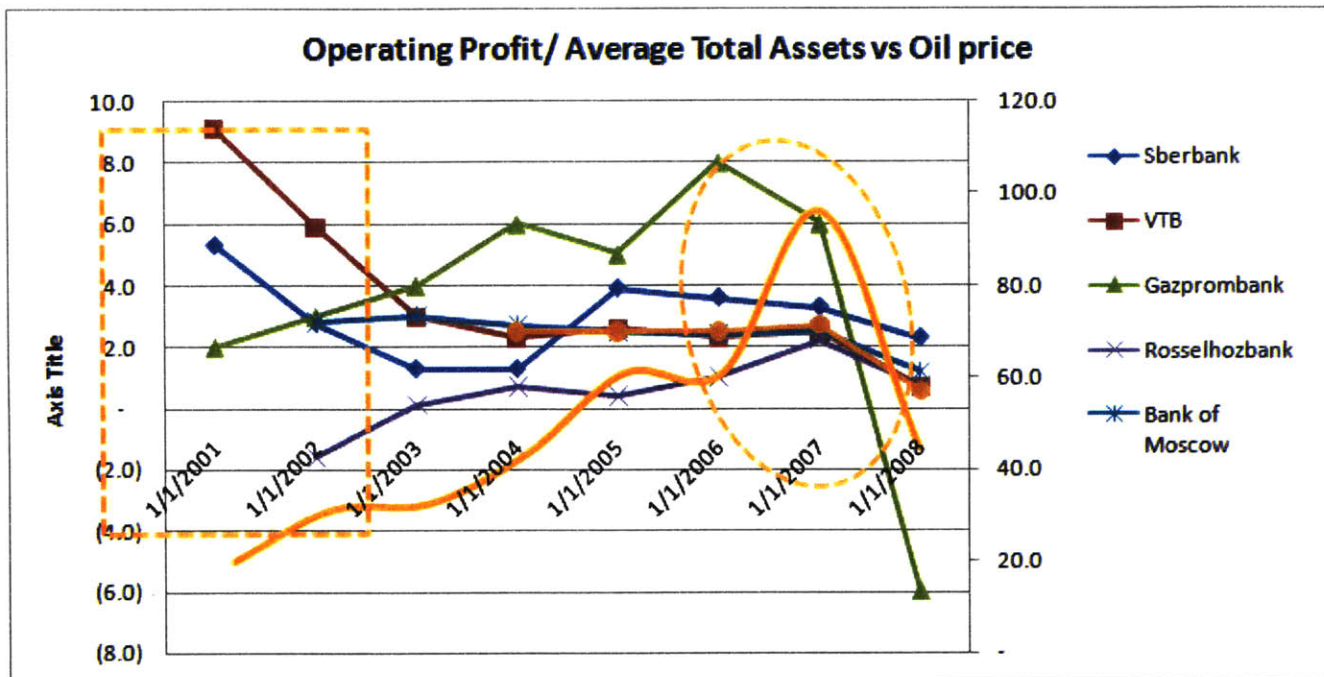
#### 4.7 Operating Profit / Average Total Assets

##### Operating Profit/ Average Total Assets

%	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002	12/31/2001
Sberbank	2.3	3.3	3.6	3.9	1.3	1.3	2.8	5.3
VTB	0.7	2.5	2.3	2.6	2.3	3.0	5.9	9.1
Gazprombank	(6.0)	6.0	8.0	5.0	6.0	4.0	3.0	2.0
Roselhozbank	0.7	2.2	1.0	0.4	0.7	0.1	(1.6)	
Bank of Moscow	1.2	2.5	2.4	2.5	2.7	3.0	2.8	
Rosbank	0.6	2.7	2.5	2.5	2.5			

Although it is quite messy, **Chart 11** delivers interesting perspective on operating profits on average assets. We can probably distinguish two periods there. In the beginning of the time horizon, the 2001 – 2004 period, banks continued making money on short-term speculative activities in relatively high inflation environment. The ratio moves without visible relationship with oil. As oil prices grow, clients of largest banks are increasingly profiting from oil extraction and exports, while opportunities for other sources of profitable growth fail to materialize, inflation rate was gradually going down. The variability of the ratio across banks becomes smaller and follows more closely the path of the oil price. The downturn really puts it all together, oil and the operating profits, as we observed also in other charts. Of course, this is just one possible interpretation.

Chart 11 Ratio of Operating Profit to Average Total Assets (BankScope data)



## Chapter V Analysis and Conclusions

### 5.1 Analysis

Oil and gas concentrations expose the extraction sector and the banks that back it, to asset bubbles. As we saw in the past, every time oil price starts rising, global capital markets respond by pumping money into oil and gas ventures and stocks. This results in inflated prices, excess liquidity, overheating in the extraction sector. Later, when the commodities run recedes, oil-related stocks crash. In case of Russia, in some periods – including last two years - the whole stock market seems to be moving as one leveraged bet on oil and gas industry. In Chapter II, we saw that largest banks, Sberbank and VTB are nearly perfectly correlated with Russian RTS stock index. So, market capitalization of banks that represent substantial part of total assets of the financial sector is highly dependent on the oil price. When oil stocks fell for external reasons unrelated to Russia, they drag down the whole market, including the correlated banking sector. **The volatility in energy resources translates into volatility of Russian stock market and poses threat to stability of Russian finances on macro level and bank solvency on micro level.**

Overheated assets mean excess liquidity that need to be absorbed, to prevent growth of inflation, by the CBR as part of the money supply policy. The reflection of this may be found in actions of the CBR, that cut its benchmark interest rate 10 times between April and December 2009, to 8.75%, a record low for Russia (Bloomberg, [28])

As we saw in Chapter III, **the growth of asset base of the banking sector in Russia nearly mirrored the acceleration of commodities markets**. It might have been a coincidence, but unlikely, given high dependence of the sector on oil and gas clients, described in Chapter I. And it overshoot. When commodities markets finally went down, the sector continued building up commercial loan assets and remained undercapitalized. The growth of equity base and provisioning were falling behind the growth of assets. The crisis hit hard, as illustrated in Chapter IV. Loan impairment charges skyrocketed, provisions seemed too low, while sector desperately needed additional capital. Credit crisis caused tighter funding

markets, rising asset-quality risks, and losses that have further eroded capitalization. Provisioning costs are eating into profitability. Client base, already inadequately narrow, shrank even further.

Now that commodity prices recovered, government has better financial flexibility to capitalize government-owned institutions and help banking system in general. Shift of the strategic focus towards preservation of capital and balance sheet stability is needed.

Russian banks' risk profile was dominated by increasingly high credit risk, accentuated by aggressive growth in recent years [5], growing liquidity and funding risks. **Asset quality**, discussed in Chapter I, **presents a major challenge to Russian financial system.**

## **Conclusion**

The mishandled, “shock-therapy”- styled transition into market economy without adequate structural and regulatory reforms plunged the country for a decade into “wild east “of disproportionately concentrated, highly speculative and loosely supervised, unsustainable banking practices that ended with Russia Default. A combination of subsequent events and factors, including the change of administration, fiscal and economic policy reforms, control of money supply, devaluation and stabilization of Ruble, and, undoubtedly, long period of rising commodity prices resulted in stabilization and positive correction of Russian banking. In the lower interest rate and inflation environment of recent years, banks started gradually shifting from speculative short-term money making practices to performing the core banking function, the intermediation by accepting deposits and providing loans.

At the same time, the Russian version of “crony capitalism” that evolved in the 90s placed substantial part of country’s production, extraction, and exporting assets into hands of a few industrial and financial moguls. The Russian oligarchy continues to operate closely with central and local government structures. Bank-industrial conglomerates, that combine under the same roof a bank and extracting and exporting clients and/or owners, remain common business practice. This results in “pocket

banking”, with high client concentration and excessive risk taking. Soon after Russia Default of 1998, several large industrial oligarch-owned banks collapsed, exposing **high concentration in risky assets and inadequate capitalization**. Ten years later, after years of continued growth fueled by favorable oil prices, the same two problems remain critical for Russian banks. Banks need to focus on improving asset-liability and risk management, strengthening their balance sheets through better diversification and capital adequacy.

The new system where several large government-controlled banks dominate the market, evolved in the aftermath of the crisis. It is hard to say whether this “**de facto re-nationalization**” of nearly half of the banking sector and most of its retail business was a result of deliberate drive by Kremlin for greater control over country’s finances or a failure of the market economy damaged by structural disproportions. What is clear, however, is that current system is economically inefficient. Government sector, - as it happens everywhere- tends to be slow, reactive, prone to excessive spending, high costs and low innovation. The competition in Russian banking sector remains low. Private sector, despite large number of small banks, remains a niche on the national scale. Even the largest privately owned Alfa bank holds less than 4% of the market share. Arguably, oil profits were the reason this system was able to function and expand this way. Low competition in financial sector also means inefficient, underdeveloped and expensive capital markets for the whole economy.

We note substantial efforts of the Central Bank in recent years to improve transparency, supervision, and financial discipline. CBR acted swiftly during the 2008 crisis to ensure liquidity of the system. It provided confidence and control that have, most likely, prevented nation-wide run on banks. Government continues efforts in improving banking sector, including capital injection in its banks, setting up the deposit insurance system, and creating a system of credit information sharing, essential steps toward development of modern banking system.

When a crisis hits, the oligarch’s ventures tend to find themselves overextended due to unrestricted risk taking during bullish years. Same goes for the banks they own. To cope with liquidity and capitalization problems, these large industrial groups seek to government bailout money. Stability of

the financial system would benefit from reduction of the dominance of oligarchy, curbing intra-group lending and banking practices, and deliberate improvement of competitiveness in the economy. Clearly, this task may be the hardest for Russia.

I see positive role of foreign banks in Russia. Although their market share is still small relative to the size of the sector, foreign banks provide important benchmark of competitiveness and efficiency, as well as best practices to banking sector. Their independence from government and industrial (including oil) circles is a strength and competitive advantage over local peers. They bring better capitalization and technological and business innovation, but more importantly, they bring competition so much needed for sustainable progress of the banking sector. For this reason, Government and CBR should work on continued support of foreign banks by creating adequate legal and fiscal environments that would attract foreign investment to the financial industry.

Last year's 83 % rebound in the price of Urals crude propelled Russian banks toward recovery, challenging the resolve of some policymakers to wean the economy off its commodity reliance. **As demonstrated in this paper, Russian economy in general, and its banking sector specifically remain largely dependent on the movement of oil markets.** Commodity booms result in overheating, overexpansion and asset bubbles, which end in steep value declines later when commodity market cools down. **Volatility of oil translates directly into volatility of earnings of key industrial groups in Russia, and through multiple interconnecting activities, into P&L of major Russian banks. Instead of boosting direct control and government ownership of banks, Government and CBR need to focus more on supervision and stimulating market mechanisms that foster diversification of customer base and investment practices, and providing support to non-oil economy.**

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## Appendix 1 Extract of the database of Russian banks (data from BankScope database)

#	Bank name	Total Assets 000 USD Last avail. Yr	Equity th USD Last avail. Yr	Source	Last Accounting Date	Status	Number of Employees Last avail. Yr	Bank History	Previous Bank Name	Size comment	City	Ticker Symbol	Std. & Poor's Foreign Curr. LT	Web Site Address
1	<b>SBERBANK-Savings Bank of the Russian Federation</b>	229,284,904	29,826,682	Annual Report	09/2008*	Active	259,599	Established in 1841.		The major lender and the largest provider of long-term funds to the Russian economy. The largest bank in Central and Eastern Europe	MOSCOW	SBER		www.sbrf.ru
2	<b>VTB Bank, an Open Joint-Stock Company (JSC)</b>	125,845,806	13,345,632	Annual Report	09/2008*	Active	41,992	Established on October 17, 1990. On October 5, 2005, Vneshtorgbank re-registered its legal address from Moscow to Saint-Petersburg. In March 2007, changed its name to VTB Bank, an Open Joint-Stock Company (JSC).	Bank for Foreign Trade - Vneshtorgbank	Operates 155 branches in Russia; Maintains 12 bank subsidiaries in the Commonwealth of Independent States, Europe and Africa as well as four representative offices in Belarus, China, India and Italy	ST. PETERSBURG	VTBR	BBB	www.vtb.ru
3	<b>Gazprombank Group</b>	63,040,907	4,352,562	Annual Report	06/2008*	Active		Established on July 31, 1990.		The third largest bank in Central and Eastern Europe; Has a regional network comprises of 36 branches, 124 subsidiary offices, and 13 cash desks.	MOSCOW	Unlisted	BB	www.gazprombank.ru/en/
4	<b>Vnesheconombank-State Corporation "Bank for Development and Foreign</b>	55,980,894	7,327,879	Annual Report	06/2008*	Active		Established in 1924.		One of the oldest Russian banks with the status of a specialized state financial institution	MOSCOW	Unlisted	BBB	www.vneb.ru
5	<b>Rosselkhozbank-Russian Agricultural Bank</b>	27,592,492	2,265,953	Bank of Russia	01/2009	Active					MOSCOW	Unlisted		www.rusagrobank.com
6	<b>Joint Stock Commercial Bank - Bank of Moscow</b>	27,276,191	2,302,569	Annual Report	06/2008*	Active	11,233	Established on March 15, 1994. In September 2004, Moscow Municipal Bank - Bank of Moscow changed its name to Joint Stock Commercial Bank - Bank of Moscow.	Moscow Municipal Bank - Bank of Moscow	One of the leading Russian financial institutions	MOSCOW	MMSM		www.mmbank.ru
7	<b>Alfa-Bank OJSC</b>	27,252,580	2,127,503	Annual Report	12/2008	Active				One of Russia's largest private banks	MOSCOW	Unlisted	B+	www.alfabank.ru
8	<b>ZAO Raiffeisenbank</b>	21,079,343	2,533,536	Annual Report	12/2008*	Active	10,147	In November 2007, ZAO Raiffeisenbank Austria absorbed Impexbank and changed its name to ZAO Raiffeisenbank.	ZAO Raiffeisenbank Austria		MOSCOW	Unlisted	BBB-	www.raiffeisen.ru
9	<b>Bank VTB24 CJSC</b>	20,423,727	1,877,761	Bank of Russia	01/2009	Active		Established in 1994. On June 6, 2005 Guta Bank was renamed CJsc Vneshtorgbank Retail Services. In 2006, changed its name to CJSC Bank VTB24.	Vneshtorgbank Retail Financial Services (CJSC)	One of the leading banks in Russia	MOSCOW	Unlisted	BBB	www.vtb24.ru
10	<b>UniCredit Bank ZAO</b>	20,277,465	1,806,799	Annual Report	03/2009*	Active		Established on October 19, 1999. On October 1, 2001 International Moscow Bank absorbed Bank Austria Creditanstalt (Russia). In December 2007, changed its name to UniCredit Bank ZAO.	International Moscow Bank - IMB		MOSCOW	Unlisted	BBB-	www.imb.ru
11	<b>JSC Rosbank</b>	17,241,182	1,481,161	Annual Report	12/2008*	Active		Established on March 2, 1993 as Nezavysimost Commercial Bank. On September 9, 1998, changed its name to JSC Rosbank. On November 11, 2000, absorbed United Export Import Bank - UNEXIMBANK. In April 2002, absorbed MFK Bank.	Nezavysimost Commercial Bank	Leader in local debt arrangement and placement	MOSCOW	ROSB	BB+	www.rosbank.ru
12	<b>Financial Corporation UralSib</b>	16,849,329	2,168,248	Annual Report	12/2008*	Active					MOSCOW	Unlisted		www.uralsib.com
13	<b>OJSC Promsvyazbank</b>	15,717,996	1,360,587	Annual Report	06/2008*	Active		Established in May 2005. In September 2007 JSCB Promsvyazbank (OJSC) changed its name to OJSC Promsvyazbank.		One of the largest private banks in Russia	MOSCOW	Unlisted	B	www.psbank.ru
14	<b>Bank UralSib</b>	15,189,310	1,640,856	Annual Report	06/2008*	Active		Established on January 27, 1993. In December 2001, Ural-Siberian Bashkir Republic Investment and Credit Bank - BashCreditBank changed its name to Ural-Siberian Bank, OJSC. In October 2005, absorbed AvtoBank-Nikolii, Nikolii IBG Bank, Kuzbassugolbank and Bryensky Narodny Bank and Ural-Siberian Bank, OJSC - UralSib changed its name to Bank UralSib.	Ural-Siberian Bank, OJSC - UralSib		UFA, BASHKORTOSTAN	USBN	B+	www.uralsibbank.ru

16	<b>IFD Kapital Group</b>	11,991,400	5,087,200	Annual Report	12/2006	Active		IFD Kapital Group consists of 2 sub-holdings: Reserve Investment Holding (Cyprus) Limited and ZPIF Strategic Investments (Russia). The combined financial statements of the Group include the		Unlisted	n.a.			
17	<b>MDM Bank</b>	11,201,924	1,398,007	Annual Report	06/2009*	Disolved		Established in 1993. In April 2008, Moscow Business World Commercial Bank changed its name to MDM Bank. In May 2009, MDM Bank was absorbed by MDM Bank.	Moscow Business World Commercial Bank	One of the largest private banking groups in Russia	MOSCOW	Unlisted	www.mdmbank.com	
18	<b>NOMOS-Bank-Joint-Stock Investment Commercial Bank Novaya Moskva</b>	9,455,120	1,148,888	Annual Report	06/2009*	Active		Established on December 15, 1992.		One of the leading private banks in Russia and placed among the top ten largest privately-owned Russian financial institutions according to assets size	MOSCOW	Unlisted	www.nomos.ru	
19	<b>TransCreditBank-TransCreditBank Group</b>	8,317,852	553,791	Annual Report	06/2009*	Active					MOSCOW	TCBN	BB	www.tkb.ru
20	<b>Bank VTB North-West OJSC</b>	7,811,388	801,102	Bank of Russia	01/2009	Active		Established in 1990. In February 2005, Industry & Construction Bank - ICB absorbed Uralpromstroybank. In June 2007, changed its name to open joint-stock company "Bank VTB	Industry & Construction Bank - ICB		ST. PETERSBURG	Delisted		www.vtb-sz.ru
21	<b>Russian Standard Bank JSC-Russian Standard Bank</b>	7,651,870	1,310,908	Annual Report	06/2009*	Active		Established in 1992.			MOSCOW	Unlisted	B+	www.rs.ru
22	<b>AK Bars Bank</b>	7,399,801	852,886	Bank of Russia	01/2009	Active		Established on November 29, 1993. In 1997, AK Bars Bank absorbed Tatinfabrik. In 2000, absorbed Bank Interkama		The largest bank in the Republic of Tatarstan	KAZAN	AKBR		www.akbars.ru
23	<b>Bank Société Générale</b>	7,371,969	271,994	Annual Report	12/2008*	Active					MOSCOW	Unlisted		www.bsgv.ru
24	<b>Bank Saint-Petersburg</b>	7,342,154	640,042	Annual Report	09/2009*	Active		Established on October 3, 1990.		One of the largest banks in the Northwest region of Russia and the third largest bank in St	ST. PETERSBURG	STBK		www.bspb.ru
25	<b>Bank Rossiya</b>	6,811,351	994,404	Annual Report	12/2008	Active		Established on June 27, 1990.			ST. PETERSBURG	Unlisted		www.abr.ru
26	<b>Bank Petrocommerce</b>	6,533,581	784,928	Annual Report	12/2008*	Active	3,051	Established in 1992.			MOSCOW	PETR	B+	www.petrocommerce.ru
27	<b>National Clearing Centre CJSC JSCB Sviaz-Bank</b>	6,476,444	72,327	Annual Report	12/2008	Active		Established on May 30, 2006.			MOSCOW	Unlisted		www.nccbank.ru
28	<b>Sviaz-Bank</b>	6,401,378	488,095	Bank of Russia	01/2008	Active		In February 2008, Sviaz-Bank absorbed Russian Industrial Bank.		One of the major credit banks in Russia	MOSCOW	Unlisted		www.sviaz-bank.ru
29	<b>Bank Zenit</b>	6,375,574	570,608	Annual Report	06/2009*	Active		Established in 1995.		One of the largest financial institutions in the Russian Federation	MOSCOW	ZENT		www.zenit.ru
30	<b>Financial Corporation NIKoil</b>	6,292,861	1,553,800	Annual Report	12/2003	Active	12,398		Company NIKoil		MOSCOW	Unlisted		www.nikoil.ru
31	<b>ZAO Citibank</b>	6,156,900	625,100	Annual Report	12/2008	Active		Established on November 1, 1993.			MOSCOW	Unlisted		www.citibank.ru
32	<b>Absolut Bank</b>	5,871,339	622,507	Internet site of the institution	01/2008	Active		Established in April 1993.		A leader in the Trade Finance market in the segment of medium-sized Russian businesses and ranks among the top 25 Russian banks by assets size. Operates more than 66 branch offices spreading throughout the Russian	MOSCOW	Unlisted		www.absolutbank.com
33	<b>Nordea Bank</b>	5,813,750	362,286	Annual Report	12/2008*	Active		Established in 1994. In June 2008, Ogresbank JSB changed its name to Nordea Bank.	Ogresbank JSB	One of the top 100 Russian banks in terms of assets and equity; Has four banking branches in Saratovskiy, Penzenskiy, Samarskiy and St. Petersburg	MOSCOW	Unlisted		www.orgresbank.ru
34	<b>KIT Finance Investment Bank</b>	5,774,262	819,699	Annual Report	12/2007*	Active		Established on June 11, 2002. In 2001, Palmira Bank changed its name to Web-Invest Bank. In 2005, changed its name to CIT Finance Investment Bank. The official name of the bank in English language is KIT Finance Investment Bank has	CIT Finance Investment Bank		ST. PETERSBURG	Unlisted		www.kf.ru

35	<b>MBRD-Moscow Bank for Reconstruction &amp; Development</b>	5,669,351	469,619	Annual Report 12/2008*	Active	Established in 1993.		MOSCOW	MBRD		www.mbrd.ru
36	<b>ING Bank (Eurasia) ZAO</b>	5,594,203	622,078	Annual Report 12/2008	Active	406 Established in 1993.	One of main financiers for major Russian corporates and international companies	MOSCOW	Unlisted		www.ing.ru
37	<b>Mezhdunarodny Promyshlenny Bank- International Industrial Bank</b>	5,593,213	1,528,165	Annual Report 05/2009*	Active	Established in 1992.	One of the largest private banks in Russia and ranked among the top five largest Russian banks in terms of main financial ratios	MOSCOW	Unlisted	BB-	www.iib.ru
38	<b>Troika Dialog Group</b>	5,526,600	626,200	Annual Report 09/2008	Active		One of the largest and oldest investment banks in Russia	MOSCOW	Unlisted		www.troika.ru
39	<b>Interregional Bank for Settlements of the</b>	5,372,371	375,015	Annual Report 12/2008	Active	In February 2008, Sviat-Bank absorbed Russian industrial Bank.	One of the major credit banks in Russia	MOSCOW	Unlisted		www.sviat-bank.ru
40	<b>Gazenergoprombank</b>	5,249,646	501,443	Annual Report 12/2008	Active	Established in 1996.		GAZOPROVOD	Unlisted		www.geprombank.ru
41	<b>International Industrial Bank</b>	5,040,475	981,870	Bank of Russia 01/2009	Active	Established in 1992.	One of the largest private banks in Russia and ranked among the top five largest Russian banks in terms of main financial ratios	MOSCOW	Unlisted	BB-	www.iib.ru
42	<b>Incombank - Joint Stock Bank</b>	4,861,700	411,600	Annual Report 12/1997	Disolved	Established in 1988. Banking licence revoked on October 29, 1998 after it effectively went into liquidation	One of the largest banks in Russian Federation	MOSCOW	Unlisted		n.a.
43	<b>Vozrozhdeniye Bank</b>	4,814,446	507,925	Bank of Russia 01/2009	Active	Established on April 12, 1991.	One of the leading Russian financial institutions and the largest issuer of debit and credit cards in the country	MOSCOW	VZRZ	B+	www.vbank.ru/en/
44	<b>VTB Leasing</b>	4,027,243	124,866	Annual Report 06/2009*	Active		The leading Russian leasing company that offers a wide range of leasing services and operating both at the territory of Russia and abroad	MOSCOW	Unlisted	BBB	www.vtb-leasing.com
45	<b>Bank of Khanty-Mansiysk</b>	4,011,072	413,487	Annual Report 01/2009	Active	Established on July 27, 1992.	Has 16 operating branch offices with 90 additional outlets and operational teller counters	KHANTY-MANSIYSK	KHMB	B+	www.khmb.ru
46	<b>Home Credit and Finance Bank</b>	3,861,391	701,083	Annual Report 12/2008*	Active			MOSCOW	Unlisted	B+	www.homecredit.ru
47	<b>Deutsche Bank LLC</b>	3,783,995	227,301	Annual Report 12/2008	Active	837 Established in 1998.	A leader in the Russian financial market	MOSCOW	Unlisted		www.deutsche-bank.ru
48	<b>United Export Import Bank - UNEXIMBANK</b>	3,778,876	826,107	Annual Report 12/1997	Disolved	Established in April 1993. Was put under administration in July 1999. On November 21, 2000, United Export Import Bank was absorbed by JSC Rosbank		RUSSIA	Unlisted		n.a.
49	<b>Bank SOYUZ</b>	3,747,219	474,656	Annual Report 12/2007	Active	Established on December 4, 1992 as AKB ALINA-Moscow. On April 10, 1994, changed its name to Bank Ingosstrakh Soyuz. In September 2003, absorbed Avtozabank, Sibirsky Regional Bank	Bank Ingosstrakh Soyuz	MOSCOW	Unlisted	B-	www.banksoyuz.ru
50	<b>Agroprombank - Joint Stock Commercial Agroindustrial Bank</b>	3,552,715	181,497	Annual Report 01/1996	Disolved	Established in 1987. Banking licence revoked effective on June 30, 1999		MOSCOW	Unlisted		n.a.
51	<b>Bank UralSib</b>	3,097,042	398,401	Annual Report 03/2005*	Active	7,821 Established on January 27, 1993. In December 2001, Ural-Siberian Bashkir Republic Investment and Credit Bank - Bank, OJSC - BashCreditBank changed its name to Ural-Siberian Bank, OJSC. In October 2005, absorbed Avtozabank-		UFA, BASHKORTOSTAN	USBN	B-	www.ural-sibbank.ru
52	<b>Conversbank Ltd</b>	3,032,809	233,048	Annual Report 12/2006*	Disolved	Established on March 30, 1989. In April 2008, Conversbank Ltd was absorbed by Investbank.		MOSCOW	Unlisted		n.a.
53	<b>National Bank Trust</b>	3,028,403	486,263	Annual Report 06/2009*	Active	Established in November 1995. In March 2005, Bank Menatep Saint-Petersburg changed its name to National Bank Trust. In November 2008, absorbed Trust Investment Bank.	Bank Menatep Saint-Petersburg	ST. PETERSBURG	Unlisted		www.trust.ru
54	<b>Rusfinance Bank OOO</b>	2,945,496	481,028	Annual Report 12/2008	Active	7,256 Established on May 12, 1992. In February 2005, KB Promek-Bank OOO changed its name to Rusfinance OOO	One of the largest car financing banks in the Russian Federation; The third leading Point-of-Sale (POS) financing bank	SAMARA	Unlisted		www.rusfinancebank.ru

55	Commerzbank (Eurasija)	2,894,566	238,991	Bank of Russia	01/2009	Active				MOSCOW	Unlisted		www.commerzbank.ru
56	Russ-Bank	2,863,613	208,060	Annual Report	12/2008	Active	In October 2006, Russian Interregional Bank for Development changed its name to Russ-Bank.	Russian Interregional Bank for Development	Has 14 branch offices in Russia	MOSCOW	Unlisted		www.russbank.ru
57	Joint Stock Bank Sobinbank	2,716,196	279,449	Annual Report	12/2007	Active	Established on December 29, 1990.		One of the largest Russian banks by total assets	MOSCOW	SBNK		www.sobinbank.ru
58	OTP Bank OJSC	2,713,378	323,296	Bank of Russia	01/2009	Active	In February 2008, Investsberbank OAO changed its name to OJSC OTP Bank.	Investsberbank OAO		MOSCOW	BISI		www.otpbank.ru
59	Probusiness Bank	2,658,728	253,067	Annual Report	09/2009*	Active	Established on July 28, 1993.			MOSCOW	P825		www.prbb.ru
60	B&N Bank	2,467,523	288,985	Annual Report	06/2009*	Active	Established on November 1, 1995.			MOSCOW	Unlisted	B-	www.binbank.ru
61	Impexbank	2,444,667	275,236	Annual Report	01/2007	Dissolved	Established in 1993. In November 2007, Impexbank was absorbed by ZAO Raiffeisenbank.			MOSCOW	Unlisted		n.a.
62	AMT Bank	2,427,247	474,680	Annual Report	06/2009*	Active	In 2002, Astana International Bank changed its name to Slavinvestbank Limited. In June 2008, Slavinvestbank Limited changed its name to BTA Bank. In April 2009, BTA Bank changed its name to	BTA Bank	One of the leading banks in Russia	MOSCOW	Unlisted		slavinvest.ru
63	KMB Bank/ Small Business Credit Bank	2,424,545	234,574	Bank of Russia	01/2009	Active	Established in 1992 as Russian Project Finance Bank (RPF). In December 1999, changed its name to KMB Bank / Small Business Credit Bank.			MOSCOW	Unlisted		www.kmb.ru
64	Moscow Industrial Bank	2,402,970	297,995	Annual Report	12/2008*	Active	3,966 Established on November 22, 1990.			MOSCOW	MOIB		www.minbank.ru
65	Credit Europe Bank Ltd	2,294,996	391,952	Annual Report	12/2008	Active	4,359 Established on August 27, 1997. In November 2004, Finansbank (Moscow) Ltd changed its name to Finansbank (Russia) Ltd. on March 29, 2007, changed its name to Credit Europe Bank Ltd.	Finansbank (Russia) Ltd		MOSCOW	Unlisted		www.credit-europe.com
66	Open Joint-Stock Company Bank Petrovski	2,249,158	252,740	Annual Report	12/2007	Active	Established on November 12, 1990 as Petrovskiy Bank Plc. In August 2000, changed its name to Open Joint-Stock company Petrovskiy Narodniy Bank. In 2005, changed its name to MDM-Bank	Bank of East-European Finance Corporation PLC-Bank VEK	One of the largest banks of Saint Petersburg by assets, corporate and individual clients' funds	ST. PETERSBURG	Unlisted		www.mdmspb.com
67	Commercial Bank Globex-Globexbank	2,242,260	632,833	Annual Report	12/2008	Active	Established on June 28, 1992.		One of the largest investors in the commercial real estate market in Russia and one of the leading and largest banks in the country	MOSCOW	Unlisted	B5-	www.globexbank.ru
68	BNP Paribas ZAO	2,231,355	141,546	Bank of Russia	01/2008	Active				MOSCOW	Unlisted	B5B-	www.bnpparibas.ru
69	Royal Bank of Scotland ZAO (The)	2,216,856	318,968	Annual Report	12/2008	Active	339 In July 2008, ABN Amro Bank ZAO changed its name to The Royal Bank of Scotland ZAO.	ABN Amro Bank ZAO	One of the largest providers of personal banking services in the world	MOSCOW	Unlisted		www.rbsbank.ru
70	CB Renaissance Capital OOO	2,187,292	414,824	Annual Report	09/2009*	Active	5,182		The leading independent investment banking firm operating in Russia and the Commonwealth of Independent States (CIS); One of the leading players in the Russian consumer finance market.	MOSCOW	Unlisted		www.rencap.com

71	<b>Probusinessbank</b>	2,164,036	180,423	Bank of Russia	01/2009	Active	Established on July 28, 1993.		MOSCOW	FB26		www.pribb.ru
72	<b>Swedbank</b>	2,081,062	194,443	Bank of Russia	01/2009	Active	In May 2007, Hansabank changed its name to Swedbank.	Hansabank	MOSCOW	Unlisted		www.swedbank.ru/
73	<b>Credit Bank of Moscow</b>	2,055,565	218,728	Annual Report	12/2008*	Active	Established on August 5, 1992.		MOSCOW	Unlisted		www.mkb.ru
74	<b>National Reserve Bank</b>	2,026,725	696,178	Annual Report	12/2008*	Active	Established in 1994.		MOSCOW	Unlisted		www.nrb.ru
75	<b>Vserossiyskiy Bank Razvitiya Regionov-Russian Regional Development Bank</b>	2,023,100	147,738	Annual Report	12/2008	Active	2,265		MOSCOW	Unlisted		www.vbr.ru
76	<b>Rosagroleasing JSC</b>	1,977,294	1,499,796	Annual Report	12/2008*	Active			MOSCOW	Unlisted		eng.rosagroleasing.f u
77	<b>RosEvroBank</b>	1,938,942	229,823	Annual Report	09/2009*	Active	Established in 1994.		MOSCOW	Unlisted		www.roseurobank.ru
78	<b>Moskommertsbank</b>	1,998,170	129,845	Annual Report	03/2008*	Active			MOSCOW	Unlisted		www.moskb.ru
79	<b>Transcapitalbank</b>	1,876,018	187,128	Bank of Russia	01/2009	Active			MOSCOW	Unlisted		www.transcapital.co m
80	<b>Baltiyskiy Bank</b>	1,841,547	322,055	Annual Report	12/2008	Active	Established on July 5, 1989.		MOSCOW	Unlisted		www.baltbank.ru
81	<b>Joint Stock Bank Avangard</b>	1,822,899	303,641	Annual Report	06/2009*	Active	Established in 1994.		MOSCOW	AVAN		www.avangard.ru
82	<b>Bank Menstep</b>	1,803,082	214,896	Annual Report	01/1996	Disolved	Established in 1988. Banking licence revoked, effective on May 18, 1999.		MOSCOW	Unlisted		n.a.
83	<b>Uniastrum Bank</b>	1,796,365	248,211	Bank of Russia	01/2009	Active			MOSCOW	Unlisted		www.uniastrum.ru
84	<b>Evrofinance Mosnarbank</b>	1,783,942	343,572	Bank of Russia	01/2009	Active	Established in 1992. In December 2003, Bank Evrofinance absorbed Commercial Bank Mosnarbank and changed its name to Evrofinance Mosnarbank.	Bank Evrofinance	MOSCOW	Delisted		www.evrofinance.ru
85	<b>Ural Bank for Reconstruction &amp; Development</b>	1,755,296	144,796	Annual Report	12/2008	Active	3,254 Established in 1990.		EKATERINBURG	UBRD	6-	www.ubrr.ru

86	<b>Bank Center-Invest</b>	1,724,054	186,488	Annual Report 12/2008*	Active	1,976		Has a network of 90 branches, offices and cash desks in Rostov, Volgograd, Krasnodar and Stavropol regions; The largest bank in the South region of Russia	ROSTOV-ON-DON	CINB			www.centinvest.ru
87	<b>Zapsibcombank-West Siberian Commercial Bank</b>	1,653,841	136,070	Annual Report 12/2008	Active	2,470	Established in 1990.	Has an estimated operating revenue/turnover of more than \$100 million annually	TUYMEN	ZAPK	B-		n.a.
88	<b>OTKRITIE Commercial Bank Closed Joint-Stock Company</b>	1,630,252	120,956	Annual Report 01/2008	Active		Established on October 28, 1992. On July 10, 2009, Russian Development Bank changed its name to OTKRITIE Commercial Bank Closed Joint-Stock Company.	Russian Development Bank	MOSCOW	Unlisted			www.bank-open.ru
89	<b>Surgutneftegasbank</b>	1,594,896	151,129	Bank of Russia	01/2009	Active	Established in 1965.		SURGUT	Unlisted	B+		www.sngb.ru
90	<b>HSBC Bank (RR) LLC</b>	1,553,696	280,360	Annual Report 12/2008	Active	423	Established on April 23, 1996. In June 2000, Republic National Bank of New York changed its name to HSBC Bank.	Republic National Bank of New York	MOSCOW	Unlisted			n.a.
91	<b>Tatfondbank</b>	1,552,946	283,661	Bank of Russia	01/2009	Active			KAZAN	TATF			www.tatfondbank.ru
92	<b>NIKOIL IBG Bank</b>	1,532,868	291,423	Annual Report 03/2005*	Dissolved	1,061	Established in September 1990. In November 1997, changed its name from Rodina Joint-Stock Bank to NIKOIL IBG Bank. In October 2005, was absorbed by Bank UralSib.	Rodina Joint-Stock Bank	MOSCOW	Unlisted			n.a.
93	<b>Bank Severnaya Kazna</b>	1,518,019	145,485	Annual Report 12/2007	Active	1,656	Established on September 9, 1992.	One of the leading banks in the Russian Federation	EKATERINBURG	SVKB			www.kazna.ru
94	<b>Master-Bank</b>	1,414,154	295,129	Annual Report 03/2009*	Active		Established in 1992.		MOSCOW	Unlisted			www.masterbank.ru
95	<b>International Bank of St Petersburg</b>	1,402,930	122,190	Bank of Russia	01/2009	Active	Established in 1991 as Petersburg's Lesopromishlenny Bank. In 1999, changed its name to International Bank of St Petersburg.	One of the leading full service financial institutions in St. Petersburg, Russia	ST. PETERSBURG	MBSP	B-		www.ibsp.ru
96	<b>Uralsib Leasing Group</b>	1,389,637	140,607	Annual Report 06/2009*	Active				MOSCOW	Unlisted			www.leasing.uralsib.ru
97	<b>Avtobank-Nikoil</b>	1,382,977	229,467	Annual Report 05/2005*	Dissolved		Established in 1988. On August 13, 2003 Avtobank changed its name to Avtobank-Nikoil. In October 2005, was absorbed by Bank UralSib.	Avtobank	MOSCOW	Unlisted			n.a.
98	<b>Joint-Stock Commercial Bank of Support to Commerce and Business-SKB-</b>	1,358,685	200,560	Bank of Russia	01/2009	Active			EKATERINBURG	Unlisted			www.skbbank.ru
99	<b>JSC 'Pervobank'</b>	1,357,079	148,999	Bank of Russia	01/2009	Active	In January 2006, Samara Credit Bank changed its name to First United Bank (Первый Объединенный Банк is the name in Russian). In 2008, First United Bank changed its name to JSC 'Pervobank'.	First United Bank - Первы Объединенный Банк	SAMARA	Unlisted			www.pervobank.ru
100	<b>Russian Regional Development Bank</b>	1,326,817	77,411	Bank of Russia	01/2009	Active			MOSCOW	Unlisted			www.vdrr.ru

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