



The banking system of the Russian Federation in 2004

Despite the summer crisis of confidence and the instability of the stock market, the Russian banking system is still showing high growth rates, as it has for the past four years.

In 2004, the Bank of Russia oversaw a number major developments, specifically those related to changeover to International Financial Reporting Standards, introduction of a deposit insurance system, introduction of new foreign currency legislation, significant changes in supervision of banks and enforcement of capital transparency.

	As of 01.01.2004	As of 01.01.2005
Number of active credit organizations	1,329	1,299
Assets of the banking sector, billions of rubles	5,600.7	7,136.9
as a % of GDP	42.4	42.5
Capital of the banking sector, billion rubles	814.9	946.6
as a % of GDP	6.2	5.6
as a % of banking sector assets	14.6	13.3
Credits to resident non-financial companies	2,266.9	3,149.9
as a % of GDP	17.2	18.8
Deposits and other funds borrowed from individuals, billions of rubles	1,514.4	1,964.0
as a % of GDP	11.5	11.7
Funds borrowed from enterprises, billions of rubles	1,384.8	1,986.1
as a % of GDP	10.5	11.8
Banking sector net income, billions of rubles	128.4	177.9
as a % of average banking sector assets	2.6	2.9
as a % of banking sector average capital	17.8	20.3

(data of the Central Bank of the Russian Federation)



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In 2004, banks' own capital grew slower than the assets of the banking sector. In 2004, banking sector assets rose by 27.4% (in 2003 – by 35.1%) whereas banks' capital grew only by 16.2% (in 2003 – by 40.2%). As in 2003, the increase in banks' own capital was largely due to capitalized profit. The main part of Russian banks asset growth was in loans. This resulted in a reduction of capital adequacy in the Russian banking system.

Net income of banks rose by 38.6% compared to 2003. There were fewer banks that ended the year with losses: down from 39 in 2003 to 22 last year. Financial performance of the banks was mainly based on interest margin on loans provided to companies and individuals. The aggregate credit portfolio of the banks rose by 46.5% in 2004, only slightly less than the 41.8% of 2003, but with a 2.1 times increase in the volume of loans provided to individuals. In 2004, we saw a change of priorities with respect to investment in securities and debentures: banks significantly reduced investments in negotiable bills – by 26%. By the year end there was a drop in investments in government securities but a simultaneous increase in investments in municipal, corporate and bank bonds. By the year end, the summer crisis of confidence had had no measurable impact on the increase in funds on clients' accounts: in 2004 they rose by 38.4% compared to 36.7% in 2003. The 2003 trend of a reducing share of foreign currency in the assets and liabilities of the banking sector continued into 2004, in part as a result of the strengthening of the national currency against the US dollar.

Key problems currently hampering the development of the Russian banking system include:

- limited sources of long-term funds and funds to increase the level of bank capitalization;
- underdevelopment of refinancing of bank assets;
- high lending risks owing to inefficient economic structures, low transparency of many enterprises, high probability of changes in the tax legislation and claims made by supervisory bodies against companies;
- excessive banking regulation;
- poor legal protection of legitimate rights and interests of banks;
- the increasing costs of banking services for individuals and enterprises.



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An increase in the competitive capacity of Russia's national banking system as a financial driving force of the economy is a must if we are to hit targets set for the Russian economy. Speeding up the development of Russian banks will enable us to create a better environment for stable growth of the national economy.

The main ways to improve efficiency of the banking sector:

- a wider source of funds, especially longer term funds;
- higher capitalization;
- higher returns and improved profitability;
- better legal protection of the rights of creditors;

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Vozrozhdeniye is a bank of federal importance. A wide network of branches and advanced banking technologies give the clients access to a full range of popular products and services in all regions where the Bank has established a presence.

Vozrozhdeniye is a modern bank that has inherited the best traditions of a state-run institution, a bank that treasures its impeccable reputation. It has a rich business experience, maintaining extensive long-term ties with
