



COUNTRY PROFILE, RUSSIA

Introduction and Country Background	2
Banking Environment	4
Financial Authorities	7
Legal & Regulatory Issues	8
Market Dominant Banks	11
Clearing Systems	14
Payments & Collections Methods & Instruments	17
Electronic Banking	20
Cash Pooling Solutions	21
Tax Issues	22
Source and Contacts	27

Introduction and Country Background

Russia has the largest population in Europe

Key Facts

Capital - Major Cities	Moscow (Moskva)— St Petersburg, Novosibirsk, Yekaterinburg, Nizhniy Novgorod, Omsk, Samara, Kazan', Chelyabinsk, Rostov-on-Don, Ufa, Volgograd, Perm
Area	17,075,200 km ²
Population	141.9m (2008 estimate)
Languages	Russian, many minority languages
Currency	RUB (Russian Rouble)
Telephone Code	+7
National / Religious / Bank Holidays	2009: 1-5 Jan, 6, 7, 8, 9 Jan; 23 Feb; 8,9 Mar; 1,9,11 May; 12 Jun; 4 Nov. Extra bank day 11 Jan (Sun)
Bank Hours	09:00–18:00 (Mon–Fri)
Business Hours	10:00– (Mon–Sat)
Stock Exchange	RTS Stock Exchange, Moscow Interbank Currency Exchange (MICEX) Moscow Stock Exchange (MSE)
Leading Share Index	RTS Index, S&P/RUX Composite Index, MICEX Index

Strong economic growth, helped along by high oil prices, has been the norm in recent years

Economic Performance

	2004	2005	2006	2007
Exchange Rate - RUB/EUR ¹	35.7639	35.1897	34.1886	35.0297
Exchange Rate - RUB/USD ¹	28.8042	28.2960	27.2578	25.5515
Money Market Rate (%) ¹	3.3	2.7	3.4	6.03
Consumer Inflation (%) ²	10.9	12.6	9.7	12.0
Unemployment Rate (%) ³	8.5	8.3	7.6	5.9
GDP (RUB billions)	16,966	21,598	26,585	30,819.9
GDP (USD billions) ⁴	589.0	763.3	975.3	1,208.2
GDP Volume Growth (%) ²	7.2	6.4	6.5	6.5
GDP Per Capita (USD)	4,105	5,349	6,861	8,516
Current Account (% of GDP)	9.9	10.9	12.3	10.7

Sources: International Monetary Fund, Statistics Denmark, Central Bank of Denmark

¹ Period average

² Year on year

³ Per annum (seasons adjusted)

⁴ Per average exchange rate

Putin still retains an official position of power in the Russian government

Government

The Russian Federation was established as an independent country in December 1991 after the dissolution of the Soviet Union. The country is a federal presidential republic. The President of Russia is the Head of State and holds the highest position within the Government of Russia. Executive power is split between the

President and the Prime Minister, who is the Head of Government.

Legislative regime

Russia is a federation of 83 administrative units with a bicameral Federal Assembly (Federalnoye Sobraniye). Each administrative unit has its own legislation in the spheres in accordance with the competence shared between the Federal Centre and the regions (units). The Federalnoye Sobraniye consists of:

- Federation Council (Sovet Federatsii) - 176 members appointed by the top executive and legislative officials in each federal administrative unit
- State Duma (Gosudarstvennaya Duma) - 450 members, who are elected via proportional representation. All members are elected for four-year terms. Next election is due to be held in December 2011.

Head of State

Dmitry Anatolyevich Medvedev, President-elect. He was elected on March 2, 2008 and has taken office May 7, 2008.

Government Leader

Due to constitutionally mandated term limits, Putin was ineligible to run for a third consecutive Presidential term. On April 15, 2008, the then sitting President, Vladimir Putin, accepted the nomination to become the head of United Russia (centrist), the largest political party in Russia. After the victory of his successor, Dmitry Medvedev, in the 2008 presidential elections, he was then nominated by the latter to be Russia's Prime Minister. Putin took the post on 8 May 2008. The Prime Minister is appointed by the President of Russia and is first-in-line to the presidency in the case of the President's death or resignation.

Banking Environment

Reform of the Russian banking sector is continuing, albeit at a slow pace with many essential reforms not yet tabled, which hinders increased banking efficiency and economic development

Overview

Introduction

One third of Russian banks were created in 1990 by dividing large Soviet banks into smaller banks. By 1992, second-tier banks represented 55% of the 1,414 banking entities in existence. Russia saw the second wave of bank creation between 1992 and 1994 when large enterprises and organizations established their own small banks. 2,439 banks were registered at the peak of the sector's expansion in 1995.

At the same time, however, shareholders and owners (enterprises, associations, ministries, social organizations, etc.) of these banks were, at least nominally, public sector entities themselves. Hence, this metamorphosis of state-owned banks took place almost entirely *within* the public sector.

Banking crises in 1995, 1998, and 2004 have generally been precipitated by banks' deteriorating liquidity situations or partial default on the part of the state itself (1998).

Sector Figures

As at end-September 2008, there were 1,077 registered banks operating in Russia, 74 of which are wholly foreign-owned and 24 banks which have a foreign stake larger than 50%. Together banks in Russia have 3,512 full scale branches, of which 795 are Sberbank (the country's largest bank, which is majority owned by the Central Bank of Russia, CBR) branches. There are about 45,000 "additional offices" throughout Russia of which 35,000 belong to Sberbank. 10,373 of Russia's 14,176 ATMs are Sberbank run.

Researchers at the Russian Centre for Macroeconomic Analysis and Short-Term Forecasting have concluded that the sector should only have around 180-220 banks, based on their analysis of the Russia's territorial size, GDP per capita and inflation compared to banking sectors in other countries. Industry observers in Russia note that the number of banks in Russia is so high because of the lack of transparency, which hampers mergers and acquisition on the market. Nonetheless, a nearly 20% reduction in the number of banks has taken place, partially due to a bill at the end of 2003, which permitted the CBR to investigate all of Russia's banks for transparency and risk management.

The smallest 1,000 banks only hold around 5% of Russia's total banking assets. Assets of the 50 largest banks account for more than 75% of total banking assets, however, the Russian banking sector is tiny compared to that of the European Union, the United States, Canada, Japan and other countries where banking is central to the operation of the economy and where a larger proportion of the population have bank accounts and make widespread use of the banking system.

Foreign ownership of banks, measured in terms of charter capital, climbed from

16% in January to 28% at end-September 2008 – partly a reflection of the Sberbank and VTB share offerings. Foreign ownership in VTB now exceeds 20%. As part of its WTO agreement currently under negotiations, Russia can limit foreign ownership of the national banking sector. As of January 2007, a foreign bank can now acquire as much as up to 20% in a domestic bank without requiring prior approval from the CBR. Russia does, however, allow 100%-owned foreign subsidiaries. As at end-September 2008, fully owned foreign subsidiaries numbered 74 and banks with a foreign stake of more than 50% numbered 24. All in all there are 221 banks which have some form of foreign ownership. Three of the country's ten largest banks are foreign owned: UniCredit Bank which is majority-owned by Italy's UniCredito, Raiffeisen Bank which is part of the Austrian Raiffeisen Bank Group, and ROSbank of which more than 50% belongs to Societe Generale.

According to the Bank of Finland's Institute for Economies in Transition (BOFIT), the total assets of Russia's banking sector as of end-May 2007 stood at 17,000 billion roubles (€487 billion) – an amount equal to about 50 % of GDP (again, fairly low by international standards). Nevertheless, balance sheet growth has been nothing short of remarkable – up 52% year-on-year. Growth has in part been driven by massive IPOs to enhance the position of Russia's two largest banks.

Recent Years

Sberbank's IPO at the start of 2007 raised nearly \$6 billion in fresh capital. Vneshtorgbank's listing in May of 2007 brought in over \$8 billion, making it one of the largest share offerings anywhere in the world in 2007. Even with the IPOs, the state is to retain its majority position in both banks.

The decline of the combined market share of public sector banks from 100% to about 30% ended around 1998. The trend reversed thereafter with the Russian public banking sector steadily expanding its ownership to 51% on September 1 2008. Creeping re-nationalisation of banks threatens to create a leading public sector backed by a strong, but loyal, foreign sector and a weak, eroding domestic private sector.

Furthermore, the Russian banking sector is undergoing regulatory reform, e.g. anti-money laundering measures have been implemented and a bank deposit insurance system (guaranteeing reimbursement of individuals' deposits up to RUB 700,000 (€20,200) from October 2008) was introduced, this limit is enough to cover 95% of private deposits in terms of the whole sum of all deposits. Nonetheless, the list of needed reforms is much longer. They include:

- The consolidated supervision of banking groups.
- An early-warning rating system to assess banks' stability for supervisory purposes, with a particular focus on the largest banks.
- Applying the Basel II capital accord.

In addition, the minimum capital adequacy ratio for banks in Russia were increased to 10% in 2007.

Russia finds itself stuck between a rock and a hard place when it comes the deteriorating situation of its financial markets, Breakingviews says. Nationalizing banks isn't an option for the Russian government: It already owns the country's largest

financial institutions, and a string of smaller ones. But the, publication notes, the global liquidity freeze in 2008 has hit the country's banks hard, and their problems have been amplified over the summer by capital flight from foreign investors who fear the Kremlin's unpredictability. Russian exchanges, meanwhile, have lost more than two-thirds of their value since their high in May.

Several large banks, included in top-100 in terms of assets: KIT-Finance, Globeks, Svyasbank, Sobinbank and some others suffered already from the crisis, their owners were changed mostly to state-related ones (VEB, Russian Railways, Gazprom-bank and so on).

There's no clear way for Russia to regain investors' confidence, Breakingviews concedes. But, it says, a comprehensive reform of its financial system to make it better capitalized and more transparent would be a good place to start.

The Central Bank is independent

Central Bank

Background

The Central Bank of the Russian Federation (CBR) is an independent legal entity only accountable to the State Duma. It operates in accordance with the Constitution of the Russian Federation and the Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

Responsibilities

The principal function of the Bank of Russia is to protect the rouble and guarantee its stability. The CBR supervises the banking sector within Russia. As a rule neither the State is liable for the Bank of Russia, nor the Bank of Russia is liable for the State.

Financial Authorities

FFMS is the federal executive body, which controls and supervises activity in the financial markets,

Federal Financial Markets Service (FFMS)

FFMS is the federal executive body, which controls and supervises activity in the financial markets, including the activity of exchanges, and issues relevant regulations. It also regulates pension savings investments.

The key objectives of FFMS are:

- to maintain stability in the financial markets,
- make the markets more efficient and attractive to investors, and
- increase market transparency and reduce investment risks.

It achieves these objectives by regulating the activities of financial market participants and by setting out the conditions for securities issuance and trading.

The Association of Russian Banks represents 763 members

Association of Russian Banks

Founded in 1990 by amalgamating banking associations that had sprung up in various Russian cities, the Association of Russian Banks is non-government non-commercial organization that unites commercial banks and other credit organizations, as well as organizations the activity of which is connected with functioning of money-and-credit system of Russian Federation.

As of October 2008, the Association has 763 members, including 585 credit organizations, which have 3,035 branches.

Legal & Regulatory Issues

The following is general and individual legal advice should be sought

Resident organizations include legal entities, established under Russian laws and with its CEO located in Russia

Account ownership available in local and foreign currencies

Cash management regulation has become less tight

Banking transaction fees are not standardised and banks follow the market practice

Introduction

Regulations develop in tact with the state of the Russian economy. The following is general and individual legal advice should be sought.

Resident and Non-Resident Status

Resident organizations include legal entities, established under Russian laws and located in Russia, e.g. economic partnerships, companies, production cooperatives, state and municipal unitary enterprises as well as non-profit organizations.

Non-resident organizations include foreign legal entities, companies and other corporate associations with a civil legal capacity, set up in keeping with the legislation of foreign states, international organisations, their branches and representative offices set up on the territory of the Russian Federation.

Account Ownership

Accounts in domestic currency (RUB) as well as in foreign currency can be held by residents, domestically and abroad, and non-residents which have been registered in the relevant tax office in Russia. The relevant local tax office has to be notified about each Bank account opened with a Russian bank. Effective from June 2005, Russian resident companies are allowed to open accounts in OECD or FATF countries (from January 2007 - also in other countries) without permission of the Russian Central Bank and are obliged to notify tax authorities afterwards.

Cash Pooling Regulations

There is no specific legislation on cash pooling and also no specific restrictions to the accounting and tax treatment of physical pooling arrangement. At the same time, each arrangement requires good understanding of all legal, taxation and operational aspects. Therefore there is no common cash pooling market practice.

Account Types and Charges

Banking transaction fees are not standardised and banks follow their individual policies staying in the market. Fees can vary a lot depending on the relationships between the bank and a client as well as on the transaction. Lifting fees are not applied. Russia has not adopted the IBAN.

The rouble is freely convertible

FX Controls

Russian rouble is currently pegged to a basket composed 55% of US dollars and 45% of Euros. The Central Bank determines the exchange rate between the rouble and the basket and the amount of band of fluctuation. After some years of stability, and at times appreciation, the Central Bank confirmed in November 2008 that it has adopted a course towards the governed depreciation of rouble.

It is expected that in the upcoming years Moscow will shift from a monetary policy based on exchange rate management to an interest-rate managed policy, in line with most developed countries. The exchange rate for the most prominent foreign currencies is calculated daily, based on quotes for the RUB against the USD in the domestic foreign exchange market and other currencies' quotes against the USD in the global exchange market.

Currency controls are applied by the CBR. Export proceeds can be kept in residents' bank accounts outside of Russia. There is a requirement for a CBR permit in order to establish or acquire capital in financial institutions abroad any longer.

Reporting is necessary

Central Bank Reporting Requirements

All transactions between residents and non-residents need to be reported to the CBR. Reporting is usually effected by the banks on behalf of customers.

Money laundering regulations were strengthened in 2008

Money Laundering

Russia has implemented anti-money laundering legislation (Law RF 115-FZ on Combating Legalisation (Laundering) of Criminally Gained Income and Financing of Terrorism in 2002 and article 174 of the Criminal Code). Federal law 275-FZ "On the amendments to articles 5 and 7 of the Federal law" and "On counteracting the legalization (laundering) of criminal income and financing of terrorism" came into force on 15 January 2008. Together this will ensure the increased disclosure of client details on payments, which were previously anonymous.

Russia is a Financial Action Task Force (FATF) member and observes most of the FATF-49 standards. Russia is also a member of the Council of Europe's MONEYVAL Select Committee and the Eurasian Regional Group on Combating Money Laundering and Financing of Terrorism (EAG). Russia has established a financial intelligence unit (FIU), the Federal Financial Monitoring Service (FFMS), which is a member of The Egmont Group.

Financial institutions in the broadest sense must record and report suspicious transactions to the authorities (FFMS). All financial institutions in the broadest sense have to identify all clients. Transactions over RUB 600,000 (ca. €17,000) involving cash, bank deposits, precious materials, life insurance payments, gambling and entities in certain high-risk countries must be reported to the authorities.

Account operating procedures require full identification. Correspondent relationships with non-resident credit institutions that do not have a physical presence in the country of incorporation are not permitted. All foreign financial institutions must operate solely through subsidiaries incorporated in Russia which are subject to domestic supervisory authorities. Banks are required to keep all records for at least five years after account closing.

E-signature and -
transactions legisla-
tion is in place

Regulations Applicable for Electronic Transactions

On 10 January 2002, Federal Law No. 1-FZ "On Electronic Digital Signature" came into force. According to this legislation, an electronic digital signature can be used for any civil law contract if otherwise is specifically not stipulated by legislation, e.g. purchase of real estate must be drafted in a form of one document physically signed by the parties.

It cannot be used for signing of any electronic documents submitted to the government authorities. Equally, it cannot be used for signing of any civil law documentation that will subsequently need state registration (or notarisation).

Market Dominant Banks

Five of Russia's top ten banks are public sector entities

Introduction

The largest four banks as of October 1, 2008 are Sberbank, VTB, Gazprombank and Rosselhozbank (state-owned agricultural bank). Sberbank continues to dominate Russian banking; in fact, the banks' total assets exceed the combined assets of the next 10 largest Russian banks. Sberbank and VTB went public with IPOs, some of the largest share offerings anywhere in the world in 2007. Nevertheless, even with the IPOs, the state is to retain its majority position in both banks.

In October 2005 Avtobank-Nikoil, Nikoil IBG Bank, Bryansk Narodny Bank and Kuzbassugolbank merged into Ural-Siberian Bank, which has been renamed UralSib. It (11th place) and Alfa-Bank (6th place) are Russia's largest privately-owned banks in terms of total assets.

More than 50% shares of ROSBANK, the 10th largest bank, belongs to Societe Generale. Societe Generale owns 4 banks/brands in Russia.

The largest foreign bank, UniCredit Bank, which is owned by the Italian UniCredit, occupies seventh place on October 1, 2008. Eight place goes to the Austrian Raiffeisen Bank. Other foreign banks operating in Russia are Royal Bank of Scotland, Citibank, HSBC, ING, BNP Paribas, Deutsche Bank, Danske Bank, SEB, Swedbank, KBC, Commerzbank, Barclays, Bank of Cyprus, Orgresbank (Nordea) and others. Four of those foreign banks, UniCredit, Raiffeisenbank (RZB), ROSBANK (SocGen) and Absolutbank (KBC), belong to the country's top 25 banks in terms of capital as of Oct. 2008. However, not many foreign banks cover the full spectrum of corporate services in Russia and only a few have directly acquired Russian banks.

Market Dominant Banks

Bank	Assets (USDm)	
	31 Dec 2007	1 Sep 2008
Sberbank	* 176,917	235,878
VTB	92,609	102,794
Gazprombank	*46,079	43,700
Roselhosbank		28,688
Alfa Bank		26,087
Bank Moskv	**22,112	25,651

*Per 30 September 2007

** Per 31 June 2007

Note: Figures are total group consolidated assets in millions USD.

Source: Banks' annual reports (2007) and business magazine Profile's bank rankings (2008).

Russia's largest bank with the Central Bank owning some 60% of its voting shares

Sberbank

Established in 1841, Sberbank (Savings Bank of the Russia Federation) is a universal commercial bank and the leader of the Russian banking industry by a wide margin according to The Banker. The bank maintains its undisputed leadership of the Russian banking sector with a market share of 53% in deposits, 37% in retail lending, 32% in commercial lending and 25% of aggregate total assets.

The country-wide network includes about 35,000 outlets operating in 11 time zones and services 1.43 million corporate customers. Sberbank operates a proprietary country-wide settlement system.

Sberbank's IPO at the start of 2007 raised nearly \$6 billion in fresh capital. The Bank of Russia, is a majority shareholder of Sberbank, owning slightly over 60% of its voting shares.

The Banker magazine Top 1000 World Banks 2007, based on Tier 1 capital, ranked Sberbank 66 (82 in 2006) and a country ranking of 1 in Russia.

Russia's leading bank with an increasingly international footprint

VTB

VTB (Former Vneshtorgbank - Bank for Foreign Trade) is a universal bank, with a leading position in the Russian corporate sector and a large player in retail banking. Through its specialized retail bank, VTB24, the group aims to have 500 branches and affiliated offices operating by 2008. The Group is also present in many of the CIS (Commonwealth of Independent States) countries, in Europe (where one fourth of its assets, liabilities and profits derive), and most recently in sub-Saharan Africa.

VTB's listing in May of 2007 brought in over \$8 billion, making it one of the largest share offerings anywhere in the world in 2007. Until January 2007, the Russian government held 99.9% stake in VTB. In July 2007 the Russian government's share declined to 77.5% after the IPO.

The banking arm of Russia's largest company and the world's second largest oil company

Gazprombank (GPB)

Gazprombank, founded in 1990, is the largest Russian non-state owned bank. However, the bank is majority owned by the Russian gas company Gazprom, which itself is majority-owned by the Russian state, consequently making the bank indirectly state owned. Nonetheless, in November 2006, Gazprombank announced that it could hold an IPO in the fall of 2007. This was delayed following the large IPOs of Sberbank and VTB. With the Russian stock market losing two-thirds of its value in 2008, the IPO has been delayed once again.

Besides the gas industry, Gazprombank currently renders banking services to enterprises and employees of other real sector industries (chemical, engineering, defence, and other industries). The Bank's client base consists of approximately 2 million retail clients, over 40,000 corporate clients, including 1,000 enterprises and institutions of the gas industry. The regional network of Gazprombank com-

prises 36 branches, 124 subsidiary offices, 13 cash desks.

One of Russia's largest private retail banks

Bank Moskv

The Bank of Moscow was established in 1995 at the initiative of the Government of the City of Moscow as an open joint-stock company. The Moscow Government and its related entities own a 44% share in the bank's equity.

Currently the Bank serves about 107,000 corporates and over 9 million individuals through 383 branches in Russia. The bank ranks second biggest in the country by number of the issued plastic cards (9m) and the third one by the amount of private customers deposits.

Part of the Danske Bank group after being Sampo Bank acquired it and Sampo was acquired by Danske

ZAO Danske Bank

The Danske Bank group is present on the Russian market through joint stock company Danske Bank. In August 2006, a small St. Petersburg bank was acquired by Sampo Pankki Oyj (Sampo Bank), itself acquired by the Danske Bank Group in November 2006. The bank was rebranded into Danske Bank in June 2007. Danske Bank Russia is part of Danske Bank's Corporate and Institutional Banking network, which includes operations in the Nordic countries, United Kingdom, Ireland, The Baltics, Germany and Poland.

Measured by total assets, the Danske Bank Group is the largest financial enterprise in Denmark and one of the largest in the Nordic region offering services in banking, mortgage finance, insurance, leasing, real-estate brokerage and asset management. The vision of the Group is "One platform - exceptional brands" and its mission is to be "the best local financial partner". In total, the Group serves 5 million retail customers and a large number of public sector and institutional organisations. Some 2 million customers use the Bank's online services.

In the mid 1990s it expanded its operations into the rest of Scandinavia, and in 2005 via acquisition in the Republic of Ireland and Northern Ireland, marking its first move out of Scandinavia. In November 2006, the Danske Bank Group acquired the Sampo Bank Group, for approximately USD 5 billion in cash. Sampo Bank is Finland's third-largest bank with a market share of 16% and 121 branches; subsidiaries in Estonia, Latvia and Lithuania; and a recently acquired bank in Russia.

In Russia Danske Bank's mission is to serve current and potential corporate clients of the Danske Bank Group. It offers corporate banking services including cash management, treasury and financing. The Bank is located in St. Petersburg, operates in all geographic areas of Russia, and is fully licensed for all banking operations in all currencies.

Clearing Systems

Russia has two main interbank payment systems

95 % of all interbank payment are processed via CBR payment system

Overview

In Russia rouble payments are processed via four main channels:

- Central Bank payment system, which is the principle system used by all banks;
- Interbank bilateral correspondent banking;
- Intrabank payments;
- Non-bank credit institutions (clearing and settlement houses),

CBR Payment System (VER-MER)

The CBR payment system is the Bank of Russia's centralised and decentralised gross settlement system composed of 78 regional centres all with operating regional settlement centres. Each branch is responsible for determining its own rules for processing payments.

The Bank of Russia payment system dominates the Russian payment system both in terms of the number and the value of payments. In 2007, it accounted for 42% of domestic payments by volume and 59% of international payments by value.

Payments may be effected either electronically or paper-based. Absolute majority of payments are processed in electronic form.

The majority of payments are processed as intraregional (settled within one regional branch). Interregional are payments where sender and receiver banks belong to different regional branches and settlement is effected between the CBR regional branches via their correspondent accounts open with each other.

- Participants: all licensed credit institutions in Russia participate in the CBR payment system. As of January 1, 2007, 1,189 credit institutions and 2,062 branches of credit institution with correspondent accounts or sub accounts with the Bank of Russia participated in the Bank of Russia payment system. CBR also provides settlement services to more than 36,401 clients that are not credit institutions.
- Transaction types:
 - The CBR payment system processes a significant proportion of all cashless domestic transactions in Russia, a significant majority of which are funds transfers.
 - Transactions that are not processed by the CBR payment system are either processed via correspondent accounts held at the CBR, via correspondent accounts opened by credit institutions with each other, via correspondent accounts opened with clearing non-bank credit institutions or via intra-bank settlement.
- Pricing indication:
 - The CBR pricing policy is based on fixed rates, regardless of the amount

- of payment set for the processing of one settlement document.
- o The fees charged by the CBR for the settlement services differ, depending on the method of payment (electronic payments, payments by mail and telegraphic payments), the method of passing settlement documents to the CBR by clients (by communications channels on magnetic or paper carriers) and the time of passing settlement documents to the Bank of Russia by clients through communications channels within the time period established for their receipt.
- o Rates range from 2.40 - 4.00 roubles for electronic intra-regional payments (and up to 6.80 roubles for postal), while electronic inter-regional payments range from 3.00 - 8.80 roubles (and up to 8.00 roubles for postal).
- Operating hours: due to the numerous time zones across Russia, there are no official operating hours.
- Domestic clearing cycle details: most of the regional centres process payments continuously throughout a day, while other use batch processing. E.g. Moscow branch has the following clearing cycles (Moscow time):
 - o 10:00 - 11:00
 - o 11:15 - 14:00
 - o 14:15 - 16:00
 - o 16:15 - 18:00
 - o 19:00 - 21:00
 - o A significant majority of payments are initiated via the presentation of funds transfer instructions to the commercial banks.
 - o Payments are processed individually in RUB.
 - o Settlements on intra-regional electronic payments are effected on the same day.
 - o Inter-regional electronic payments are settled within no later than the following day, depending on the difference between the time zones of the regions where the payer and payee are located.

BESP is Russia's new centralised RTGS

High Value Clearing – BESP

The BESP system (Banking Electronic Speed Payments) is the real time gross settlement (RTGS) system of the Bank of Russia with “hybrid” system elements for time critical payments in the currency of the Russian Federation. BESP is a centralized federal system that performs real time payments for all system participants irrespective of their territorial location. It started its operations in December 2007.

BESP operates in parallel, i.e. independently, with the intraregional electronic settlement system (VER) and interregional electronic settlement system (MER). BESP system participants always have an option to pay through VER-MER systems.

- Participants: Participation is two-tiered: Direct (with opportunity to use all services). Associated (with limited range of payment and information services via Bank of Russia subdivisions). Both levels are accessible to foreign banks through their correspondence banks or a subsidiary bank in Russia.
- Transaction types: There are three types of high-value RUB denominated BESP payments:
 - Regular;

- Time-critical (express payments) – the highest priority;
 - Limit payments – the regular payments require a bilateral check, or multilateral limit set by a participant-payer.
- Pricing indication:
 - Regular payment: RUB 25 (direct member) / 20 (associated)
 - Express payment: RUB 30 (direct)
 - There is a discount practice related to volume of payments.
- Operating hours: Almost round-the-clock system operation in Russia's 11 time zones of Russia – 1:00 – 21:30 Moscow time
 - 1:00 – 2:00 preliminary
 - 2:00 – 21:00 system's operational day with last cut-off
 - 21:00 – 21:30 finalisation
- Domestic clearing cycle details:
 - Settlement in real time with immediate finality
 - BESP payments are considered irrevocable when funds were debited from participant-payer's account with the institution of Bank of Russia and final when funds were credited to participant-recipient's account with the institution of Bank of Russia.
 - BESP can settle a payment to its full value only. Partial settlement is not allowed.
 - Participants may use the Bank of Russia telecommunication system and formats. In the future, it will be possible to use the SWIFT system and formats.

Sberbank, having the biggest branch network, operates the only nation-wide clearing system in Russia for retail payments.

Sberbank

The most important intrabank and interbank payment settlement system is that operated by Sberbank. Sberbank, which has approximately 35,000 outlets all over the country. Many Russian banks open correspondent accounts with Sberbank as an alternative settlement channel. Sberbank has 598 accounts opened by resident banks and their regional branches.

Payments & Collections Methods & Instruments

Some 90% of payments, by value, are electronic, though cash is still a significant means of payment by volume

Introduction

Paper-based payment methods are rapidly being replaced by electronic methods in Russia. Electronically processed payments represent more than 77% by volume and 90% by value of all domestic payments. These figures are higher than 99% in the Bank of Russia CBR payment system. Nonetheless, cash is still an important form of payment in Russia - 31% of total settlements in rouble, although the trend is that this is decreasing. Credit transfers are the dominant payment instrument in both volume and value terms. Cheques are only used by companies to withdraw cash from their own accounts and this is a regulatory requirement, meaning that cheques as a payment mean in Russia are not used.

The retail credit card market in Russia is developing at a rapid pace and banks in Russia are issuing an increasing number of credit cards. The infrastructure of the payment card industry is fairly developed and has advanced further since 2002, when 99% of consumer retail cards were used for ATM cash withdrawals. This figure has now decreased to 70% used at ATMs, with more people using their cards for purchases at the point-of-sale.

On the non-retail side, corporates are now well aware of the advantages of using corporate cards instead of cash for corporate expenses. Both debit and credit cards are used for corporate purposes and this trend is increasing rapidly.

Volume of Transactions (millions)

	2005	2006	2007	% change
Credit transfers	994.60	1,006.81	1,145.58	13.8
Direct debit	19.84	43.37	80.51	85.6
Cheques	0.59	0.62	0.26	-58.1
Letters of credit	0.42	0.37	0.03	-91.9
Other instruments	226.24	457.08	792.84	73.5
Total	1,241.68	1,507.63	1,988.22	31.9

Value of Transactions (RUB billions)

	2005	2006	2007	% change
Credit transfers	304,989	351,279	510,875	45.4
Direct debit	1,766	2,644.0	6,630.3	150.8
Cheques	26.9	87.6	57.6	-34.2
Letters of credit	49.2	101.7	138.4	36.1
Other instruments	13,701	8,449.8	4,859.2	-42.1
Total	320,532	362,563	522,560	44.1

Note: Percentage change calculated from 2006-2007

Sources: Central Bank of the Russian Federation, 2007 Annual Report

Usage of cards as a means of payment is expected to increase

Card Payments

While the usage and issuance of payment cards have increased steadily over recent years, Russia remains essentially a cash-based economy. The coming into force on April 10, 2005, of Bank of Russia Regulation of December 24, 2004, No. 266 P "On the Issue of Bank Cards and Payment Card Operations", facilitated further expansion of the payment card market. The number of cards issued by credit institutions increased by 36.8% to 74.8 million (54.7 mil. in 2005). The number of payment card operations reached 1,198.5 million, an increase of 39.0% in 2006, and their value stood at 4,396.7 billion rubles, an increase of 47.3%.

First introduced in 2001, the credit card market continued to expand in 2006. The number of credit cards increased by 128.3%, the number of credit card operations rose by 77.2% and their value expanded by 88.4%. However, despite this growth, credit card operations accounted for a lowly 2.0% of total payment card operations.

The dynamic expansion of the payment card infrastructure (in 2006 the number of trading and service establishments accepting payment cards and ATMs increased by 27.0% to 181,000) led to an 18.6% increase in the share of payment cards in non cash payments in 2006 (as against 16.7% in 2005). As a result, the share of cash withdrawal operations accounted for 81.4% of total operations and 91.4% of the total value of operations.

The following is an extract of Euromonitor's March 2008 report of financial cards in Russia.

Effective Credit Rate Disclosure Puts Spotlight on Predatory Lending

- Since 1 July 2007 credit organisations have been required to disclose effective interest rates for all credit products. This has brought the issue of predatory lending into focus.
- As of 15 August 2007 banks have been required to put an end to monthly commissions and other hidden charges. Major credit card issuers have dropped monthly commissions, but tightened their credit standards. This is likely to slow down the credit growth rate in the short term, but could be beneficial for the industry as a whole in the long term, as the banks will be able to attract responsible borrowers and reduce non-performing loan numbers.

Switch from Consumer Credit to Credit Cards and Payroll Projects Driving Growth

- The main factor influencing the financial cards market in Russia in 2007 was the switch from consumer credit-to-credit cards.
- The banks and payment systems are investing a lot of money in advertising and sparing no effort to try and switch their clients to credit products.
- In the short term the growth will continue, albeit at a lower rate, while, from a longer-term perspective, the growth will slow down considerably.

Social Benefit Payments and Payroll Projects Driving Debit Card Growth

- Growth drivers include such systems as pension cards with a transport card attached or social benefits cards for things like childcare money and student allowances etc. Among other contributory factors are further devel-

opment of payroll projects and social benefit projects.

- All this is increasing the number of cardholders, with this area of the market experiencing steady growth. Pre-paid cards or payroll projects and credit cards are experiencing particularly dynamic growth, with the majority of credit cards being debit cards with a credit function. Credit card growth is still insignificant in absolute terms.

Smart Card Growth Is Sponsored by the State

- Most smart cards are issued within the framework of government projects. These include pension cards, student cards and social benefits cards. Apart from having a debit function, such cards have a contactless transport function and various discount plans.
- Although many of the cards have both magnetic stripe and embedded chip, ATMs and point-of-sale terminals process only magnetic stripes. The major issuers of smart cards are Bank of Moscow and Sberbank. The
- cost of a smart card is six times more than the cost of a magnetic stripe card, which is the reason why this category is slow to develop outside of state-sponsored projects.

Banks Aggressively Grow Their Client Base While Service Standards Lag Behind

- Over the review period the banks were rapidly increasing their client base.
- The increase in customer base and banked population share did not bring about a corresponding increase in transaction value. On the client side this can be attributed to the limited financial culture of the population, the predominance of cash payments and the large share of payroll cards. On the side of the banks it is the insufficient customer service technology and poor service standards.

The payment order is the dominant cashless payment instrument in Russia, in terms of both volume and value

Credit Transfers

The payment order is the dominant cashless payment instrument in Russia, in terms of both volume and value. Credit transfers can be paper-based or automated. However, electronic credit transfers account for the majority of transfers and are continuing to increase in popularity. Nearly all interbank transactions are effected electronically.

In value terms direct debits have been in decline

Direct Debits

Direct debits (payment requests), standing orders, collection orders and letters of credit account for a very small proportion of cashless payments in Russia.

Cheque usage is negligible

Cheques

Cheques as a payment mean are not used in Russia and are used only as a mean of cash withdrawal from corporate accounts because it's required by law.

There is no interbank cheque clearing system in Russia.

Electronic Banking

There is currently no electronic banking standard in Russia

Introduction

Electronic banking services are offered by the market dominant Russian banks as well as international banks. There is currently no electronic banking standard. Banks either offer standard platforms, provided by local or foreign vendors (e.g. Germany's MultiCash system), or their own proprietary software (which do not tend to have multibank functionality) for corporate banking purposes.

Internet banking by retail customers is not widespread. The Russian electronic banking system has been used for corporate-to-bank connectivity for many years. Recent trends include the need for connectivity between corporate enterprise resource planning (ERP) systems and electronic banking systems, and also the need for global solutions that link accounts across different countries.

Host-to-host solutions are available

EDIFACT / Host-to-Host Solutions

Corporations growing effort of streamlining payment processing is supported by a number of banks. Host-to-host (H2H) solutions are available, which provide direct connectivity between the customer's ERP system and the bank's processing engine with no bank software in between.

Many local players provide e-payment services

E-payments

Micropayments are offered by domestic and "global" players, e.g. Webmoney, Yandex.Money, E-Gold, E-port, Rapida, Assist, CyberPlat, PayPal, MoneyMail, Rupay, Moneybookers and Internet. Money, as well as via web-based remote banking platforms. In general, such solutions usually rest on two important prerequisites: (1) prepayment and (2) settlement via debit or credit cards.

No industry wide EBPP solution exists

E-invoice / EBPP

No industry wide electronic bill present and payment (EBPP) solutions exist on the market, although various providers operate in Russia.

Cash Pooling Solutions

Cash pooling is legal but not common practice

With the liberalisation of the Russian currency regulations, which has opened up the possibility of holding offshore accounts, large Russian corporates are increasingly looking for global solutions that enable them to access their accounts not only with Russian banks but also with foreign banks through one screen and one system.

The current state of cash pooling in Russia is as follows:

- Rules on currency restrictions were changed in 2006
- Resident and non-resident accounts are legal
- All pooling variations are legal - but not common practice
- A market practice needs to appear before cash pooling becomes widespread among companies

Tax Issues

Tax information is general and individual advice should be sought

Introduction

The following tax information, last updated by PricewaterhouseCoopers in November 2008, should be considered general and individual advice should always be sought.

Resident companies' are subject to tax on their worldwide income

Tax Liability

A company is considered resident and thus liable to tax in Russia if it is established under Russian law. Resident companies are subject to tax on their worldwide income whereas foreign, i.e. non-resident, companies are generally liable to tax on Russian sourced income only.

The tax legislation related to partnerships is underdeveloped in Russia, thus some partnerships are treated as transparent entities for tax purposes, while some may be treated as taxable entities.

The corporate tax rate is depends on residency status

Tax Base

In general, taxable profits are determined based on the profit and loss account prepared in accordance with Russian accounting principles as well as special tax registers prepared due to certain significant differences between Russian accounting and taxation principles. Separate tax bases are envisaged for securities and non-quoted term deals.

The corporate profits tax rate for Russian companies and permanent establishments of foreign companies is 24%. For non-resident companies with no permanent establishment, the tax rate of 20% is generally applied for many types of income and 15% for dividend payments. Interest income on state and municipal securities is taxable at source at 15% or 9% (some of municipal bonds are tax-exempt).

Annual depreciation on assets is optionally made under the declining-balance method or the straight-line method. Fixed assets are divided into ten depreciation groups according to their useful life. For groups 8 - 10 (fixed assets with more than 20 years of useful life) straight-line method is applied only, while for others it depends on a taxpayer's choice.

Companies are required to make monthly prepayment of a portion of the estimated annual corporate profits tax. Any underpaid profits tax charges penalties of 1/300 of the refinancing rate of the Central Bank of Russia per each day of delay (12% per annum from 12 November 2008). An overpaid profits tax may be compensated within a month after the relevant claim consideration.

Restructuring, i.e. mergers, divisions and transfers of assets may be carried out tax

free with succession, provided certain conditions are met.

Tax losses can be carried forward for 10 years following the tax period, in which these losses have been incurred without limitations (i.e., they can be used to offset the entire taxable profit before a loss carry forward deduction).

Group tax consolidation is not available under Russian law

Tax Consolidation

Russian tax law does not provide for group tax consolidation (the Ministry of finance has prepared a draft law, however, it is not expected to be effective from 2009).

The taxation level of dividends depends on the company's origin

Inbound and Outbound Taxation of Dividends

From January 2008 dividends received by Russian legal entities from Russian or foreign legal entities will be taxed in Russia at a rate of 9%. However, dividends received from "strategic investments" will generally be exempt from Russian income tax, if the following conditions are met:

- the owner (recipient of dividends) owns at least 50% of the capital of the payer of dividends, or owns depository receipts entitling it to receive at least 50% of the total amount of paid dividends;
- the share or depository receipts have been owned for at least 365 days on the day dividends are declared;
- the value of the investment is at least RUB 500 million (approx. EUR 14 million);
- dividends from companies residing in offshore zones with preferential tax regimes will not be eligible for the tax exemption. The list of the above offshore zones is established by the Ministry of Finance.

Dividend payments to foreign companies from Russian companies are generally subject to a 15% withholding tax. However, the rate may be reduced according to a double tax treaty.

Russian companies face a 24% tax rate for capital gains

Taxation of Capital Gains and Losses on Shares, Bonds, Debts, Receivables and Financial Contracts

For Russian companies (and Russian permanent establishment of foreign entity) tax base for capital gains arising from the disposal of assets is generally calculated as the sum of realization income decreased by expenses related to that disposal (including remaining cost basis of assets disposed). Tax rate is 24%.

For foreign companies without a permanent establishment in Russia, capital gains are generally exempted from withholding tax except for capital gains on sale of immovable property in Russia, or on sale of shares of a company with assets consisting of Russian immovable property more than 50%, or certain derivatives on such shares. In case a foreign company is able to confirm the costs of such property, shares or derivative contracts, profits tax is charged at tax rate of 24% on capital gain, otherwise - 20% on the total sales revenue.

CFC taxation rules are not applicable to Russian companies

CFC Taxation

CFC taxation rules are not applied to Russian companies, i.e. Russian parent company does not include income of a foreign subsidiary in its Russian profits tax return until such time as it is repatriated (however, under the vision of the future of the Russian tax system provided by the Ministry of finance, CFC rules may be introduced in the future).

Outbound interest and royalty payments are subject to a 20% withholding tax

Withholding Tax

Outbound interest and royalty payments are subject to a 20% withholding tax. However, the rate can be reduced or eliminated according to a double tax treaty.

All inter-company transactions must take place at market level values

Transfer Pricing and Thin Capitalisation

According to Russian transfer pricing rules, all inter-company transactions must take place at market level values. If transaction price deviates more than 20% from the average price of identical market deals, the tax authorities would accrue income for profits tax purposes based on the market value of such transactions.

Russian thin capitalization rules are applied in case when a Russian company has an outstanding debt owed to (or guaranteed by) a foreign company that, directly or indirectly, holds over 20% of the charter capital of the Russian company ("controlled debt"). In such a case ultimate amount of interest on controlled debt, deductible for profits tax purposes, is generally determined by dividing the amount of interest on the controlled debt by a capitalisation coefficient which is defined by dividing the amount of the corresponding unsettled controlled debt by the own capital size in the amount corresponding to the share of this foreign company's participation in the charter capital of the Russian company, and by dividing the obtained result by 3 (for banks and for leasing companies - by 12.5).

Stamp duties apply; there are no capital duties in Russia

Capital or Stamp Duties

Stamp duties are levied in amount, determined by Russian tax legislation for legal actions commitment. For instance, stamp duty when establishing a Russian company is 2 thousand RR. There is no capital duty in Russia.

In general the VAT rate is 18%

VAT and Payroll Duty

VAT is levied on the supply of goods and services at a general rate of 18%. Also rates 0% and 10% are applied for certain types of operations.

All companies registered in accordance with Russian legislation, including permanent establishments of foreign companies, individual entrepreneurs and Russian entities, are required to register for VAT.

Certain services are VAT exempt, e.g. insurance and reinsurance, certain financial and banking services, healthcare and social services.

Income taxes are withheld on a monthly basis

Employer Obligations – Tax and Social Security Withholdings

Employers are required to withhold income tax and social contributions on employees' wages on a monthly basis and submit the monthly notifications as well as an annual notification about the payroll and taxes withheld to the tax authorities.

Unified Social Tax rate depends on the volume of the annual salary of the employee and represents regression scale (maximum rate is 26%, minimum rate is RUR 104 800 + 2% of salary exceeding RUR 600 000).

Personal Income Tax rate on most types of income is 13% for residents. Russian-sourced income received by non-residents is subject to Personal Income Tax at the rate of 30% (except dividends are subject to 15% tax). To qualify as a tax resident a person generally should present in Russia for an aggregate period of less than 183 days or more in any 12 consecutive months. The law specifies that for determination of tax residence status of an individual in Russia, the period of stay in Russia is not interrupted by an individual's short term departures (less than six months) for medical treatment or educational purposes.

However, there are opinions expressed by the RF Ministry of Finance that tax residency should still be defined based on a whole calendar year by counting the days spent in Russia within the relevant calendar year. Under this approach the definition of residency remains the same as under the previous legislation: an individual who spends in Russia less than 183 days in a calendar year is recognized as a non-resident for Russian tax purposes.

On July 2008 the RF Ministry of Finance has issued a new guidance on calculation of days for the purposes of determination of Russian tax residence for individuals. According to the new rules both arrival and departure dates shall be taken into account while counting Russian days.

Employers are also required to pay statutory accident insurance calculated on the basis of full amount of an employee's salary with minor exceptions. The rate varies from 0.2% to 8.5%, depending on the industry in which the taxpayer is engaged. Such contributions are normally deductible for profits tax purposes.

Users of subsoil face a specific Mineral Resource Recovery Tax

The Mineral Resource Recovery Tax

The Mineral Resource Recovery Tax is another federal tax and shall be imposed upon organisations and individual entrepreneurs recognised as users of subsoil under Russian law.

Property taxes, not to exceed 2.2% of the property's value, apply

The Property Tax

Russian organizations and foreign organizations, which fulfil activity in Russia or which possess real estate on the territory of Russia, are subjects to the property regional tax, the rate of which is not to exceed 2.2% of the property's value and to be set by local regional authorities.

Other taxes and special tax regimes may apply in specific cases

Other

Some other taxes as well as special tax regimes are to be imposed on and to be applied in specific cases.

Source and Contacts

Sources used for this country profile

Sources

Central Bank of the Russian Federation	www.cbr.ru
Ministry of Finance	www.minfin.ru
Ministry of Economic Development and Trade	www.economy.gov.ru
Federal Financial Markets Service	www.fcsm.ru
RTS Stock Exchange	www.rts.ru
Moscow Stock Exchange (MSE)	www.mse.ru
Moscow Interbank Currency Exchange	www.micex.com
Federal Property Fund	www.fpf.ru
Association of Russian Banks	www.arb.ru
Russian Chamber of Commerce and Industry	www.tpprf.ru

Contact Danske Bank for cash management services

Danske Bank Contacts

See www.danskebank.com/corporate for contact persons.

Tax information provided by PricewaterhouseCoopers

Tax Contacts

PricewaterhouseCoopers Russia B.V.
Kosmodamianskaya nab. 52, bldg. 5
115054 Moscow
Russia

Brian Arnold	Tax Partner	+7 495 967 6416	brian.arnold@ru.pwc.com
--------------	-------------	-----------------	--

Market research provided by CaRisMa Consulting

Country Research

This country profile was researched CaRisMa Consulting. For contact information see www.carismaconsulting.dk

Disclaimer: This publication was prepared by Danske Bank and CaRisMa Consulting solely for information purposes.

The information, calculations, estimates and judgements in the publications do not replace the customer's own judgement of how and whether to act in the market/area concerned. In the Bank's opinion, the information in the publications is correct and fair. The Bank does not, however, accept any responsibility for how accurate or comprehensive the publications are. Furthermore, the Bank is not liable for any loss resulting from actions taken on the basis of the publications. Further and/or updated information can be requested from the Bank.

Danske Bank A/S holds the copyright to the publications, which are intended for the customer's personal use and may not be published elsewhere.