

Implementation of Bank Bankruptcy Prevention Measures

In order to exercise its powers in relation to bank bankruptcy prevention the Agency has created the necessary organizational infrastructure.

In particular, there were formed the Bank Restructuring Department which provides planning and implementation of bank bankruptcy prevention measures, and Expert Analytical Department which functions include evaluation and analysis of financial position of banks and their investors, particularly for determining whether it is expedient for the Agency to participate in prevention of bankruptcy of particular banks.

In the reporting period, starting October 28, 2008 (effective date of the Law), the Bank of Russia offered the Agency to consider expediency of its participation in prevention of bankruptcy of 20 banks.

The indicated banks have the following location:

- Central federal district - 6 banks, among them 1 – in the Kaluzhskaya region, 5 – in Moscow;
- Urals federal district - 6 banks, among them 1 – in Kurganskaya, 2 – in Tumenskaya and 3 – in Sverdlovskaya regions;
- Volga federal district - 5 banks, among them 1– the Republic of Bashkortostan, 1 – in Penzenskaya, 1 – in Samarskaya and 2 banks – in Nizhegorodskaya regions;
- Northwest federal district - 2 banks, among them 1 – in Saint Petersburg and 1 bank – in Kaliningradskaya region;
- Southern federal district (1 bank - the Krasnodar region) (Fig. 13)

For determination of expediency of participating in bank bankruptcy prevention the Agency's representatives together with representatives of the Bank of Russia estimated their financial position. After considering results of such evaluation the Agency accepted offers to participate in bankruptcy prevention measures in relation to 15 banks. The total volume of their liabilities exceeded 340 billion rubles, including more than 100 billion rubles – on household deposits.

The Agency made decisions about inexpediency of participation in bankruptcy prevention as concerning 5 banks. The reasons for refusal to accept the offers of the Bank of Russia were, first of all, substantial loss of capital, low quality of the banks' assets (in particular, credit portfolio), absence of potential investors and acquirers of the banks' assets and liabilities.

The Agency developed plans of its participation in prevention of bankruptcy of banks subject to the accepted offers within the time period established by law. As a rule, these plans were approved by the Agency's Management Board simultaneously with acceptance of the Bank of Russia's offer. This was required by a situation, because the process of worsening of banks' financial conditions could become irreversible at any moment.

The plans were developed with due account of concrete situation in a bank.



Journalist Oksana Kobzeva ("Interfax" news agency) – a holder of a special DIA award for professional coverage of the Agency's activity in 2008

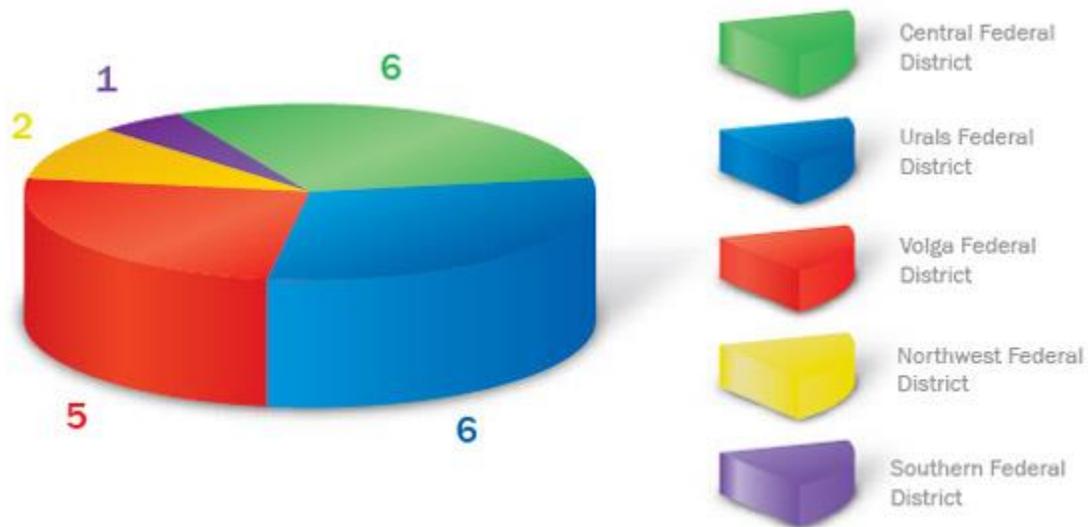


Fig. 13. Number of Banks on which Agency Received Offers to Participate in Bankruptcy Prevention in Different Federal Districts

Most plans of the Agency's participation in prevention of bankruptcy of banks included attraction of new investors that were willing to purchase not less than 75% of shares (equity interest) of a bank and ensure recovery of the bank's financial soundness.

In the reporting period the Agency found investors interested in implementation of bankruptcy prevention measures in 10 banks: LLC "Potensial Bank", JSC "Gazenergobank", "Gubernskiy Bank" (JSC), "Russian Bank of Development" (JSC), CJSC "Nizhegorodpromstroybank", LLC "Bashinvestbank", JSC GB «Nizhniy Novgorod», "Sevevnaya Kazna" Bank, «Bank 24.ru», AKB «Souz» (JSC).



A seminar for media of the Republic of Bashkortostan "Finance and Press"

The Agency concluded general cooperation agreements with respective banks and investors for implementation of the planned measures.

According to these agreements financial assistance was provided to the investor and (or) the bank subject to fulfillment of all their obligations, including furnishing of all necessary information to the Agency, providing access to all bank premises, any documents and information systems. Within the general agreement term the investor should provide to the Agency reports on progress of planned measures implementation on a weekly basis. The bank and the investor were obliged to render assistance during the Agency's inspections of their activity in relation to implementation of agreed measures focused on financial restructuring of the bank. In case of detection of unauthorized use of funds received from the Agency, and also, if the investor's financial position does not allow it to carry out the planned measures, the investor is obliged to return received funds upon request in full amount. Rendered by the Agency financial assistance was allocated under appropriate security, provided by investors or banks.

Assigning of functions of provisional administration for bank management was considered only as a forced measure, when possibilities of finding new investors able to lead the bank out from a crisis situation had been exhausted. The Agency's task as a provisional administration first of all included search of a potential acquirer of a part of bank assets and liabilities, and then transfer of the bank's assets and liabilities to the acquirer.

In the reporting period the Agency executed functions of the provisional administration in 4 banks. In 3 of them – AKB «Electronika» (JSC) (Moscow), KB «Moscow Capital» (LLC) (Moscow) and AKB «MZB» (CJSC) (Moscow) – there were implemented measures that envisaged transfer of part of their assets and liabilities to sound DIS member banks.

This is a new mechanism for Russia, which is known in other countries as "purchase and assumption transaction". It envisages that a financially sound bank – "acquirer" - accepts a failed bank's obligations to depositors. Some part of remaining bank's assets is transferred to such bank to cover the accepted liabilities. As to the rest of the insolvent bank, the standard bankruptcy process is applied. This mechanism is beneficial for all its participants. Depositors of the failed bank have constant access to their money and bank services provided to them by a new bank under the same conditions, and an acquiring bank receives new customers. In this regard realization of this mechanism requires substantially less financial, human and temporal expenses than the standard liquidation procedures. For this reason this mechanism successfully and for a long time is used in certain foreign countries.

JSC «VEFK Bank» which did not have any investor interested in it, and which perspectives of reorganization were considered as possible, was taken over by the Agency in the reporting period. Thus, the previous managers were removed from their positions.⁴

The bankruptcy prevention measures were financed by means of loans to banks and investors in accordance with plans agreed with the Bank of Russia.

The sources of such funding were loans granted to the Agency by the Bank of Russia (83.05 billion rubles), and also the property contribution of the Russian Federation, that are not included in the mandatory deposit insurance fund (25.35 billion rubles).

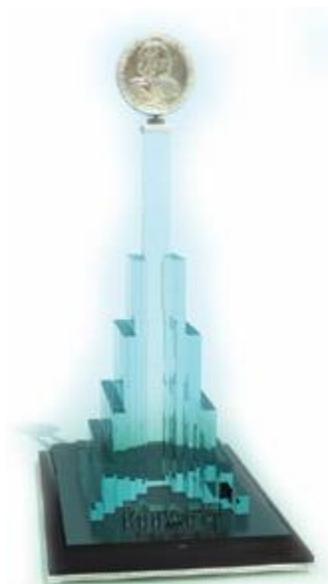


Alexandr Turbanov receives the highest award of the legal community, "Femida" prize, from Chairman of the Supreme Arbitration Court Anton Ivanov

The resources of the mandatory deposit insurance fund were not used for the purposes of bank bankruptcy prevention in the reporting period.

Controls over spending of monetary funds and over other actions of the Agency, related to its participation in bankruptcy prevention was executed by the Agency's Board of Directors and the Bank of Russia. Reporting was provided upon their request within established terms and on regular basis.

Analysis shows that during the reporting period the situation in banks in relation to which bankruptcy prevention measures were applied with the participation of the Agency has in general stabilized.



Award by the "Itogi" magazine

⁴The temporary administration on management of Open Society "Provincial bank "Tarhany" has been appointed 1/12/2009