



Bank of Russia



ANNUAL REPORT 2018

MOSCOW



Bank of Russia

Bank of Russia Annual Report for 2018

Approved by the Bank of Russia Board of Directors on 26 April 2019

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Contents

	OPENING REMARKS BY THE GOVERNOR OF THE BANK OF RUSSIA	9
	SUMMARY	11
1	THE STATE OF THE ECONOMY OF THE RUSSIAN FEDERATION	19
	1.1. The macroeconomic situation.....	23
	1.1.1. External economic conditions.....	23
	1.1.2. Inflation and economic activity	27
	1.1.3. Fiscal policy, government finance and domestic government debt	32
	1.1.4. Balance of payments, international investment position, and external debt.....	35
	1.2. The financial sector	41
	1.2.1. Monetary aggregates and financial and commodity market conditions	41
	1.2.2. Financial market participants.....	48
	1.2.2.1. Financial institutions	48
	1.2.2.2. Financial market infrastructures and other participants	58
	1.2.2.3. Competition in the financial market.....	63
2	THE BANK OF RUSSIA'S ACTIVITIES	65
	2.1. Ensuring price stability.....	69
	2.1.1. Monetary policy objectives and key measures.....	69
	2.1.2. Monetary policy instruments	72
	2.2. Ensuring financial market resilience	77
	2.2.1. Ensuring financial stability.....	77
	2.2.1.1. Monitoring of financial stability risks	77
	2.2.1.2. Macroprudential regulation measures to ensure financial stability.....	83
	2.2.2. Managing assets in foreign currencies and precious metals.....	85
	2.2.3. Access to the financial market.....	90
	2.2.3.1. Credit institutions	90
	2.2.3.2. Non-governmental pension funds	92
	2.2.3.3. Insurance entities.....	93
	2.2.3.4. Microfinance market entities	94
	2.2.3.5. Other participants.....	95
	2.2.3.6. National payment system participants	96
	2.2.3.7. Financial instruments	97
	2.2.4. Regulation and supervision	100
	2.2.4.1. Credit institutions, banking groups, and bank holding companies.....	100

2.2.4.2. Non-governmental pension funds	109
2.2.4.3. Insurance entities.....	111
2.2.4.4. Microfinance market entities	114
2.2.4.5. Other participants.....	116
2.2.4.6. National payment system participants	126
2.2.5. Financial rehabilitation of financial institutions.....	127
2.2.6. Termination of financial institutions.....	132
2.2.7. Countering malpractice in the financial market	135
2.2.8. Foreign exchange regulation and foreign exchange control	140
2.2.9. Countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism.....	142
2.2.10. Improving financial and commodity market instruments and infrastructure.....	145
2.2.11. Improving the accounting and the accounting (financial) statements of financial institutions.....	148
2.3. Expanding financial inclusion for households and businesses.....	150
2.3.1. Financial consumer and investor protection	150
2.3.2. Increasing financial literacy.....	158
2.3.3. Expanding financial inclusion	160
2.3.4. Improving corporate relations.....	166
2.3.5. Development of the bond market	168
2.4. Development of the national payment system	169
2.4.1. Cash circulation management	169
2.4.2. Development of national payment instruments.....	171
2.4.3. Development of the Bank of Russia payment system.....	172
2.4.4. Development of other payment systems.....	173
2.5. Technology development and innovation support in the financial market	174
2.5.1. Development of financial technologies	174
2.5.2. Development of electronic interaction mechanisms	177
2.5.3. Ensuring information security and enhancing cyber resilience	178
2.6. Other activities.....	181
2.6.1. Information policy.....	181
2.6.2. Economic research	184
2.6.3. Statistical activities	188
2.6.4. International cooperation.....	190
2.6.5. Bank of Russia stakeholdings in russian economic entities	196
2.6.6. Bank of Russia stakeholdings in credit institutions undergoing financial rehabilitation.....	198
2.6.7. Bank of Russia stakeholdings in international organisations.....	199
2.6.8. Improving legislation	200
2.6.9. Addressing administrative and legal issues	204
2.6.10. Addressing judicial issues.....	205
2.6.11. Data management in the Bank of Russia.....	206

3	ORGANISATIONAL DEVELOPMENT OF THE BANK OF RUSSIA	209
3.1.	Personnel development	211
3.2.	Process management development	214
3.3.	Project management development	215
3.4.	Information technology development in the Bank of Russia	216
3.5.	Changes in the organisational structure	217
3.6.	Development of the Bank of Russia's procurement system	218
3.7.	Internal auditing	220
4	ANNUAL FINANCIAL STATEMENTS OF THE BANK OF RUSSIA FOR 2018 AND AUDITORS' REPORTS	223
	Introduction	223
	Annual Balance Sheet as of 31 December 2018	225
	Statement of financial performance	226
	Capital, funds and profit allocation	227
	Notes to Annual Financial Statements for 2018	229
1.	Accounting and financial reporting	229
2.	Accounting Policy principles, accounting items and methods for their appraisal	229
3.	Impact of economic conditions on Bank of Russia financial statements	243
4.	Precious metals	244
5.	Funds placed with non-residents and foreign securities	245
6.	Loans and deposits	247
7.	Securities	248
8.	Claims on the IMF	250
9.	Other assets	251
10.	Cash in circulation	253
11.	Funds in accounts with the Bank of Russia	254
12.	Float	255
13.	Securities issued	255
14.	Liabilities to the IMF	256
15.	Other liabilities	256
16.	Capital	257
17.	Interest income	258
18.	Income from securities trading	259
19.	Income from stakeholdings in credit institutions and other organisations	259
20.	Other income	260
21.	Interest expenses	260
22.	Expenses on securities trading	261
23.	Cash turnover management expenses	262
24.	Net expenses (income) on the formation (from the recovery) of provisions	262
25.	Other operating expenses	263

26. Personnel costs.....	264
27. Off-balance sheet claims and obligations accounts.....	264
28. Post-accounting date events.....	268
Statement of profit and its allocation	269
Statement of Bank of Russia reserves and funds	270
Statement of Bank of Russia management of securities and stakeholdings in organisations constituting Bank of Russia property.....	272
Statement of the volume of Bank of Russia securities trading on organised trading venues	276
Statement of Bank of Russia personnel costs.....	277
Statement of capital investment budget performance.....	278
Auditors' reports.....	280

5

ADDENDA

289

5.1. Measures to implement the single state monetary policy	290
5.2. Liquidity support instruments to ensure the financial sustainability of banks. Special refinancing facilities	292
5.3. Implementation of the guidelines for the development of the financial market.....	293
5.4. Statistical tables	303
 List of abbreviations.....	346
List of charts	350
List of tables	351

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Opening remarks by the Governor of the Bank of Russia

This Annual Report of the Bank of Russia contains detailed information on its activities in 2018. The Bank of Russia's policy is aimed at delivering on strategic goals of raising the financial sector's efficiency and enhancing its role in Russia's economic development.

The first strategic goal is price stability. The 4% inflation target was first achieved in 2017 and last year monetary policy was aimed at keeping inflation near the target. At the end of the year, the consumer price index held close to the target reading at 4.3% despite increased internal and external risks.

The second objective is to ensure the financial market resilience. In 2018, the Bank of Russia continued to pursue its policy of improving regulation and supervision in all its sectors. Banks with capital of less than ₹1 billion switched to basic licences. The resolution framework for insurance companies was introduced. New measures were taken to curb consumer lending risks. The value of dubious transactions in the financial system continues to decline. The Bank of Russia strengthened its regulation and monitoring of cyber-security of financial institutions.

The third objective is to ensure the availability of financial products and services for households and businesses. In 2018, a pilot project was launched to improve the financial inclusion in the Far East, and the experience will be extended to other regions with a large number of hard-to-reach and sparsely populated areas. The Bank of Russia worked

consistently to stimulate bank lending to small- and medium-sized enterprises, which in general brought the interest rates of loans to SMEs closer to those of corporate loans.

The fourth objective is the development of the national payment system. Over the past year, the share of Mir cards has substantially expanded, both in terms of their number and volume of transactions.

The fifth objective is to develop financial technologies and support innovations in the financial market. In 2018, we completed the work to create the Bank of Russia Faster Payment System. The mechanism of biometric remote identification was launched to provide financial services to the public.

The comprehensive implementation of strategic objectives serves the national goals of the Russian Federation, makes a significant contribution to sustainable and high-quality economic growth, and is part of the government's policy to raise Russians' prosperity.



Elvira S. Nabiullina
Governor of the Bank of Russia

Summary

The Bank of Russia Annual Report for 2018 was prepared in accordance with Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'. The report reflects performance in key areas and includes a review of the internal and external environment, the annual financial statements of the Bank of Russia, the auditor's report and the statement by the Accounts Chamber of the Russian Federation.

Comprehensive implementation of strategic objectives of the Bank of Russia serves the national goals of the Russian Federation, makes a significant contribution to sustainable and high-quality economic growth, and is part of the government's policy to raise the prosperity of Russian nationals.

Currently, the objectives faced by the Bank of Russia require significant institutional and legislative changes in the operation of the financial sector. Together with the Government of the Russian Federation, the Bank of Russia participates in the intensive legislative process of the Federal Assembly. This helps develop a legal framework to enhance the efficiency of the financial sector.

Price stability is crucial for economic activity as it is necessary to ensure a favourable business climate and investment activity and to protect the purchasing power of household incomes and savings from depreciation. In 2018, the Bank of Russia continued its monetary policy

to **maintain annual inflation near 4% in the medium term**. In 2018, consumer price growth was 4.3%. GDP growth also reached 2.3%, while fixed capital investments grew by 4.3%. Unemployment stayed at its historical low (4.8%), with real disposable household income increasing by 0.1%.

In the second half of the year, as a result of a stronger influence of proinflationary factors (the most significant of which were changes in the external environment and a decision to increase the VAT base rate effective from 2019), the Bank of Russia updated its inflation forecasts. After two key rate cuts in early 2018, it was decided to proactively raise the key rate in September and December to prevent the anchoring of inflation at a level well above the Bank of Russia's target and to return it to 4% in 2020 H1.

Despite the decline in the ruble exchange rate, primarily due to changes in the external environment, inflation was under control, resulting in persistent **confidence in the Russian ruble**. In 2018, companies and households borrowed and saved less in foreign currency. The outstanding amount of foreign currency-denominated loans issued by non-financial organisations decreased by 11.1%. A slight increase in the share of corporate (from 33.4% in 2017 to 35.7% in 2018) and household (from 19.9% to 20.5% respectively) foreign currency deposits was due to their revaluation following the depreciation of the ruble. The growth of ruble-denominated money supply (by 11%) outpaced inflation and was seen mainly in ruble-denominated deposits of households and organisations. Over the year, the volume of bank foreign currency assets declined by \$25 billion, or 7.6%, and the volume of liabilities decreased by \$22 billion (6.9%).¹

In 2018, an important contribution to ensuring financial resilience and economic stability to external risks was made by the **accumulation and diversification of the international reserves of the Russian Federation**. With the fiscal rule in place, international reserves in 2018 increased from \$432.7 billion to \$468.5 billion, and the share of monetary gold in their composition rose as well.

To **support financial stability**, the Bank of Russia adopted measures to curb both current and potential future risks. In 2018, the Bank of Russia decided to suspend its purchases of foreign currency under the fiscal rule, which contributed to limiting the current risks. To minimise potential risks, macroprudential measures were taken in the segments of unsecured consumer lending and mortgage lending with a low down payment and to stimulate the dedollarisation of the banking sector. In addition, the adopted legislative changes and issued regulations improved

¹ Data on credit institutions in operation as of 1 January 2019 (including banks reorganised in 2018); relative figures are presented adjusted for the exchange rate.

the efficiency of macroprudential policy and established (from 1 October 2019) the obligation of banks and microfinance institutions to calculate the debt burden ratio for individuals in accordance with the methodology elaborated by the Bank of Russia.

In 2018, **the reliability of the financial sector improved**. As demonstrated by stress tests, the financial market is now better prepared to withstand threats.

Stable functioning of the financial sector and the resilience and reliability of its institutions are the priorities for the Bank of Russia. There are constant efforts to improve oversight efficiency, and the use of proportionate regulation is expanding. The Bank of Russia continues to develop and enhance the analysis of risks faced by financial institutions. Supervision is focused on the issues of assessing high concentration of risks in the businesses of owners and investments in non-core assets.

The mechanism of financial rehabilitation with the Bank of Russia's involvement helps quickly restore the stability of organisations undergoing resolution. Within a short period, they were able to resume stable operations, received additional capital and are currently in compliance with regulatory requirements.

The key indicators of the banking sector have improved and attest to its enhanced stability. In 2018, the total capital of the banking sector increased by 9.3%, while the equity of banks (excluding market participants undergoing resolution) grew at an annual rate of 15.1%. In 2018, capital adequacy of the banking sector (N1.0) was 12.2% (vs 12.1% as of 1 January 2018).¹ The net profit of banks was up from ₹0.8 trillion in 2017 to ₹1.3 trillion² in 2018, which allowed them to increase their capital. Return on assets increased from 1.0% to 1.5%; return on equity, from 8.3% to 13.8%. The weighted average liquidity coverage ratio of systemically important credit institutions went up from 114% to 122%.

2018 was marked by a **higher value of operations of all financial market entities**.

The increase in capital and higher returns on equity of credit institutions supported the expansion of bank lending to the economy. Ruble and foreign currency-denominated lending to the non-financial sector grew by 5.8% (against 3.7% in the preceding year),³ while ruble-denominated claims on organisations to the banking sector rose by 8.4% (13.4% in 2017). In terms of lending, the highest growth rates

¹ With the minimum allowed numerical value of total capital adequacy ratio (N1.0) of 8% and requirements for capital conservation buffer of 1.875 pp and systemic importance buffer of 0.650 pp established as of 1 January 2019. The values of these buffers are gradually rising in 2019 to reach 2.5 pp and 1.0 pp respectively, as of 1 January 2020.

² Excluding banks undergoing resolution, ₹1.9 trillion.

³ Data on the dynamics of lending to non-financial organisations and households are presented net of the exchange rate effect for credit institutions in operation as of 1 January 2019 (including banks reorganised in 2018).

were reported in transport and communications (32.8%), agriculture and forestry (15.9%), wholesale and retail trade (14.0%), and mining and quarrying (10.0%).

For two years, the volume of loans issued to SMEs grew at an accelerated pace reaching 11.4% in 2018 (the loan portfolio rose to ₹6.8 trillion). This was facilitated by the Bank of Russia's policy of stimulating regulation to make SME lending more attractive for banks, especially for those with a basic licence. In addition, the maximum amount of a micro-loan from microfinance organisations to SMEs was raised to ₹5 million.

To better protect the funds of small enterprises placed in bank accounts and deposits, on 1 January 2019, the deposit insurance system was extended to small enterprises with the same insurance limit as for individuals and individual entrepreneurs (₹1.4 million).

In 2018, the portfolio of housing mortgage lending increased by 23.1% (16.2% in 2017) to ₹6.6 trillion. The measures taken by the Bank of Russia ensured that the issuance of foreign currency-denominated mortgage loans virtually stopped. For the year, the interest rate on housing mortgage loans fell by 0.2 pp to 9.7% p.a.

To develop and improve the stability of the housing finance market, the Bank of Russia made efforts in 2018 to prepare for the transition from equity to project financing of housing construction. To this end, the Bank of Russia established a special provisioning procedure using escrow accounts for loans granted to developers in the course of equity construction. In addition, the legislative changes adopted in 2018 created a legal framework for issuing exchange-traded mortgage bonds. This will also contribute to the development of housing mortgage lending.

In 2018, unsecured consumer loans increased by 22.8%. At the same time, their growth significantly outstripped the rise of household incomes, which placed a higher debt burden on households and required the use of macroprudential measures to limit the risks to financial stability and protect the rights of financial consumers.

In 2018, the market portfolio of corporate bond issues circulating in the domestic market rose by 4.5% to ₹11.9 trillion at par value, while the market portfolio of OFZ issues circulating in the domestic market went up by 10.8% to reach ₹7.5 trillion at par value. Capitalisation of ruble-denominated stocks on the Moscow Exchange grew by 11.4% to ₹40.0 trillion.

Dynamic development was observed in the insurance sector. In 2018, insurance premiums increased by 15.7%, and payouts under insurance contracts rose by 2.5%. The number of concluded CMTPLI (compulsory motor third-party liability insurance) contracts increased by 4% to 39.7 million.

The number of CMTPLI complaints received by the Bank of Russia also dropped by more than 40%. The development of online sales, reduction of losses and suppression of unfair practices contributed to the higher availability of CMTPLI policies. In 2018, the Bank of Russia developed a set of measures to facilitate a phased transition to individual CMTPLI rates. As a first step, the Bank of Russia adopted a regulation providing for more flexible approaches to determining insurance premiums.

In 2018, the pension fund investment portfolio of NPFs grew by 4.9%, while the NPF pension savings portfolio increased by 5.2% and pension reserves went up by 4.2%. Over the last five years, the weighted average annual return of NPFs amounted to 6.0% for the portfolio of pension savings and 6.1% for the portfolio of pension reserves.

In 2018, the loan portfolio of microfinance institutions grew by 45% to ₹163.6 billion.¹ The Bank of Russia also took additional measures to protect the rights of consumers of microfinance services, which resulted in the legislative amendments adopted in 2018 for the imposition of gradual limits on the maximum debt of borrowers from MFIs and a significant reduction in the daily cost of microloans.

Consumer protection and financial inclusion are important priorities for the Bank of Russia. Conduct supervision procedures have been standardised and regulated in the area of consumer protection.

Activities to improve financial inclusion are carried out in two areas. The first area includes efforts to increase the number of access points to banking and payment services for consumers in remote, sparsely populated or hard-to-reach areas, and for SMEs and groups of people with limited access to financial services.² In 2018, **the network of access points to financial services in small communities expanded significantly**. For example, in the second half of the year, the network of access points to the financial services of three major banks in rural communities increased by about 60% (about 2,700 access points), and the coverage of rural communities grew by more than 60% (about 2,500 communities). By the end of 2018, more than 30,000 post offices provided access to various banking operations after the installation of automated equipment (ATMs and POS terminals).

The second area for improving financial inclusion is the development of remote channels using modern internet technologies. A pilot **project to improve financial inclusion in the Russian Far East was launched in 2018**. As part of the project, the Bank of Russia signed agreements with major providers to ensure high-speed internet access, including via satellite, in remote and sparsely populated areas.

¹ By the end of 2018, the loan portfolio of microfinance institutions was just over 1% of the portfolio of household loans provided by banks.

² These include low-income individuals, people with disabilities, the elderly, and other groups with limited mobility.

In recent years, the Bank of Russia has focused on building infrastructure platforms promoting competition in the financial market and improving financial inclusion. These infrastructure solutions include the **launch of remote identification** using biometric data, **creation of the Faster Payments System**, enabling households to instantly transfer funds to one another, even if their accounts are with different banks, and elaboration of the Marketplace, a project granting individuals access to the services of various financial institutions through a single point of contact.

The Bank of Russia focuses special attention on the development of electronic interaction mechanisms in the financial market. Starting in January 2018, credit institutions can now exchange legal documents with the Bank of Russia electronically using their personal cabinet, which helps increase the speed of interaction and reduce operational costs.

The Bank of Russia's efforts to combat cyber threats contribute to financial consumer protection. The federal law on combating cyber fraud adopted in 2018 requires credit institutions to identify and, if necessary, block suspicious transactions as well as participate in information exchange with the Bank of Russia and report to the regulator all cases and attempts to steal funds from banks and their customers. This helps limit fraud risks in the financial system.

Reliability and independence of the National Payment System was consolidated, and its services are now more advanced and user-friendly.

To develop and improve the payment service quality, in 2018, the Bank of Russia transitioned its payment system to a centralised infrastructure to introduce modern payment services, establish unified regulations for the payment system across the Russian Federation and provide credit institutions with flexible liquidity management mechanisms.

The Bank of Russia continued developing its Financial Messaging System (FMS). By the end of 2018, FMS had 403 participants, and the number of financial messages sent via FMS more than doubled in the reporting year compared to 2017. In addition, in 2018, the services of FMS were made available to foreign participants.

More than 53 million Mir payment cards were issued in 2018, which accounted for 19.2% of all payment cards issued in Russia. In the total volume of operations, the share of domestic transactions with Mir cards was 14.5%. Efforts continue to expand the acceptance of Mir cards outside Russia, including in the national payment systems of Kyrgyzstan and Belarus, as well as by banks in Kazakhstan, Turkey and other countries, which will allow cardholders to withdraw funds from ATMs and pay for goods and services, including in popular tourist destinations.

In 2018, the share of non-cash payments in retail turnover for the first time exceeded cash payments, amounting to 55.6%.

The Bank of Russia views its activities to **improve financial literacy** of households and small businesses as particularly significant. In 2018, as part of the Action Plan adopted jointly with the Government of the Russian Federation to implement the Strategy for the Improvement of Financial Literacy in the Russian Federation for 2017–2023, the Bank of Russia developed educational programmes and guides, ensured access to methodological materials on its Financial Culture website (fincult.info) and held educational events for the public, entrepreneurs (small businesses) and the media. The Bank of Russia together with the Russian Ministry of Education continues to integrate the topics of financial literacy into national educational standards.

The Public Reception Office continued its activities in the Bank of Russia. In the reporting year, this office held meetings with individuals on issues of foreign currency-denominated mortgage loans, blocking of accounts, revocation of licences from credit institutions, raising funds by institutions not included in the register, failure to perform obligations under voluntary insurance contracts against accidents and diseases, and other issues. During the year, the Public Reception Office serviced 2,200 individuals.

In 2018, the Bank of Russia replied to more than 250,000 written appeals and complaints from the public. For the first time in recent years, amid a growing volume of financial services and increasing number of their consumers, the Bank of Russia **noted a decline (by 2.3%) in complaints** about financial institutions.

In 2018, the Bank of Russia implemented measures to streamline its activities in a number of areas, which led to changes in the organisational structure and reduced the maximum number of employees by 9% (to 50,600).¹

Reliability of the annual financial statements of the Bank of Russia was confirmed by the auditor's report of independent auditors and the report of the Accounts Chamber of the Russian Federation.

¹ The average number of employees in 2018 decreased by 6.3% to 47,900.

**BANK OF RUSSIA
KALININGRAD REGIONAL
DIVISION BUILDING**

designed by W. Varrentrapp,
1900



1. The state of the economy of the Russian Federation

To implement its functions and ensure coordination with other areas of state economic policy, the Bank of Russia reviews the state of the national economy. The decisions adopted by the Bank of Russia have an impact on domestic economic conditions, but a number of economic characteristics, including institutional and structural, are beyond the reach of the Bank of Russia and determine the environment in which it operates. Chapter 1 includes an analysis of the external environment and the state of the economy and financial sector of Russia, which the Bank of Russia took into account during decision-making.

The changes in external economic conditions were heterogeneous and, as a result, had a diverse impact on the Russian economy. For example, 2018 saw favourable conditions for trade, as the continued cooperation between OPEC and non-OPEC countries on limiting oil production helped maintain relatively high oil prices. Along with higher external demand, this significantly expanded the current account surplus up to \$114 billion (\$33 billion in 2017) and ensured a positive input of external demand to the growth of Russia's GDP. A larger current account surplus also created conditions for reduction of the economy's external liabilities and growth of foreign assets, including accumulation of international reserves. Yet in 2018, we also observed increased volatility in global financial markets and a decline in capital inflows to emerging markets (EMs). This was mostly

due to the continued tightening of the monetary policy by the US Federal Reserve System, aggravation of international trade disputes, and the deteriorated economic standing and instability in some EMs. The Russian financial market was also further influenced by geopolitical factors related to the actual and potential expansion of sanctions against Russia by other countries. All of this had an impact on business sentiment in the Russian economy and increased volatility in the domestic financial market. In particular, the change in external conditions led to the weakening of the ruble, which turned into a factor for higher inflation and inflation expectations in 2018.

Domestic financial conditions in 2018 were generally shaped by both the external environment and the monetary policy of the Bank of Russia. As a result of increased volatility in the global financial markets and geopolitical factors, the interest rate cuts in the economy, which continued in early 2018, gave way to interest rate hikes. The deterioration of the external environment, increase in the country's risk premium and lower demand among foreign investors for OFZs resulted in higher yields of Russian government and corporate bonds, which was especially noticeable in August and early September 2018. Amid the increasing inflationary risks, including related to external factors and the expected VAT hike at the start of 2019, the Bank of Russia decided in September and December to raise its key rate, in aggregate, from 7.25% to 7.75% p.a. These decisions were made to prevent the anchoring of inflation at a level well above 4%. With a higher key rate and a change in monetary policy signals coming from the Bank of Russia, market participants have since revised upward their expectations of the key rate path. This also affected the interest rates in the economy from September to December 2018.

A decision of the Bank of Russia to suspend foreign currency purchases in the domestic market under the fiscal rule from mid-August to the end of 2018, which was adopted in the context of increased volatility in the domestic financial market, also helped limit exchange rate volatility and its associated risks to financial stability during this period.

In 2018, the lending and money supply continued to grow steadily following the expanded demand in the economy for money amid the recovery of production, investment and consumer activities. Positive real interest rates supported the attractiveness of ruble-denominated investments. Growth of household and corporate deposits was the main driver for the increase in broad money totalling 12.3% (7.9% adjusted for foreign currency revaluation). Lending to the economy increased by 11.5% (8.7% adjusted for foreign currency revaluation). The retail segment, including consumer and mortgage lending, contributed significantly to the increase

in the liabilities of the economy to the banking sector. The expansion of lending to the economy was accompanied by an improvement in the quality of the loan portfolio. As before, credit institutions dominated the structure of the Russian financial sector. In 2018, the banking sector's net profit was higher than in the previous year by a factor of 1.5, which contributed to the growth of bank capital and capital adequacy.

In 2018, the financial conditions were largely shaped by the decisions of the Bank of Russia to ensure financial and price stability.

In 2018, annual inflation was near 4%, totalling 4.3% (2.5% at the end of 2017). Inflation became more homogeneous in terms of product groups and regions.

The accelerated growth of food prices, which was largely the result of economic recovery, contributed substantially to rising inflation from its lower levels at the beginning of the year. This process was driven by the adjustment of production (which from 2015 to 2017 was expanding more rapidly than demand) to consumption. Another factor that contributed to higher inflation was the weaker ruble, which had an impact on both prices and producer costs. Exchange rate dynamics combined with the increase in oil prices resulted in the accelerated growth of prices for the main types of motor fuels in the second quarter, which was subsequently stopped by measures taken by the Government of the Russian Federation. However, the increase of motor fuel prices in 2018 was higher than last year, which contributed to higher inflation during the year. At the end of the year, the forthcoming increase in the standard VAT rate also began to have a slight upward effect on prices.

Realisation of some inflationary risks in 2018 led to a reversal in the trend toward lower inflation expectations among households and businesses observed over the past few years. For example, inflation expectations of households reached a historic low of 7.8% in April, but then higher motor fuel prices and a weaker ruble caused household inflation expectations to rise. Under the impact of these factors, along with the upcoming VAT rate hike, there was also a noticeable increase in the price expectations of businesses. In general, the dynamics of expectations of businesses and households in 2018 showed that they remain highly sensitive to one-time factors. This was a significant source of uncertainty affecting Bank of Russia's monetary policy decisions and assessment of the inflation risk balance. Analysts also raised their inflation expectations in 2018 but maintained them at a level close to 4%.

The state of aggregate demand did not exert upward pressure on inflation; according to the estimates of the Bank of Russia, the output was near its potential level. The expansion of external demand made a

significant contribution to GDP growth. Output grew at a higher pace in export-oriented industrial sectors. In contrast, imports increased at a substantially slower pace amid the weakening of the ruble and growing uncertainty under the impact of changes in the external environment. Domestic demand expanded at a moderate pace. Consumer activity was boosted by a continued shift away from savings-oriented behaviour in 2018, including an increase in retail lending. The expansion of domestic demand and import substitution progress supported the growth of industrial production facilities oriented toward consumer demand as well as investment demand to a certain extent. A significant positive impact on GDP dynamics was made by the growth of output in construction, which was facilitated by the implementation of a number of major projects, including with state participation. Driven by all these factors, the Russian economy grew at a higher pace in 2018, with GDP growth of 2.3% (1.6% in 2017).

The labour market remained stable. Unemployment fell to its all-time low as the demand of employers for labour rose in the face of limited supply shaped by demographic factors. According to the estimates of the Bank of Russia, unemployment was close to its natural level, which does not create additional pressure on inflation. Real wages grew by 6.8% in 2018 (2.9% in 2017). The acceleration of their growth was largely associated with the increase in wages in the social and cultural spheres as part of implementing the May 2012 Decrees of the Russian President. At the same time, other household incomes, including property income, decreased in real terms. In 2018, the growth rate of real household disposable money income was low, totalling 0.1%.

In 2018, both the federal budget and the budget system in general registered a surplus amid the favourable dynamics of budget revenues in the context of relatively high energy prices, stronger economic activity, and increased tax collection. A balanced fiscal policy along with the application of the budget rule continued to contribute to the stability of public finances and overall economic development, including the lower sensitivity of domestic economic conditions to changes in the global commodity markets.

1.1. The macroeconomic situation

1.1.1. EXTERNAL ECONOMIC CONDITIONS

In 2018, the external conditions of the Russian economy were shaped by a number of diverse factors. Favourable trade terms (primarily, relatively high oil prices) supported the value of Russian exports for most of the year, yet in other areas we observed worsening conditions and increased uncertainty and risks, which affected the dynamics of capital flows and the ruble exchange rate. These factors include lower economic growth rates in a number of countries, including Russia's leading trade partners, heightened international trade tensions, expanded foreign sanctions on the Russian economy and a substantial drop in oil prices at the end of 2018. Rising interest rates in the US and increased volatility in financial markets contributed to capital outflows from emerging market economies (EMEs), which led to the depreciation of most currencies against the US dollar and increased pressure for higher interest rates in EMEs.

According to the IMF, in 2018, global economic growth slowed down slightly compared to the previous year, totalling 3.6% (3.8% in 2017). A slight slowdown of growth was ob-

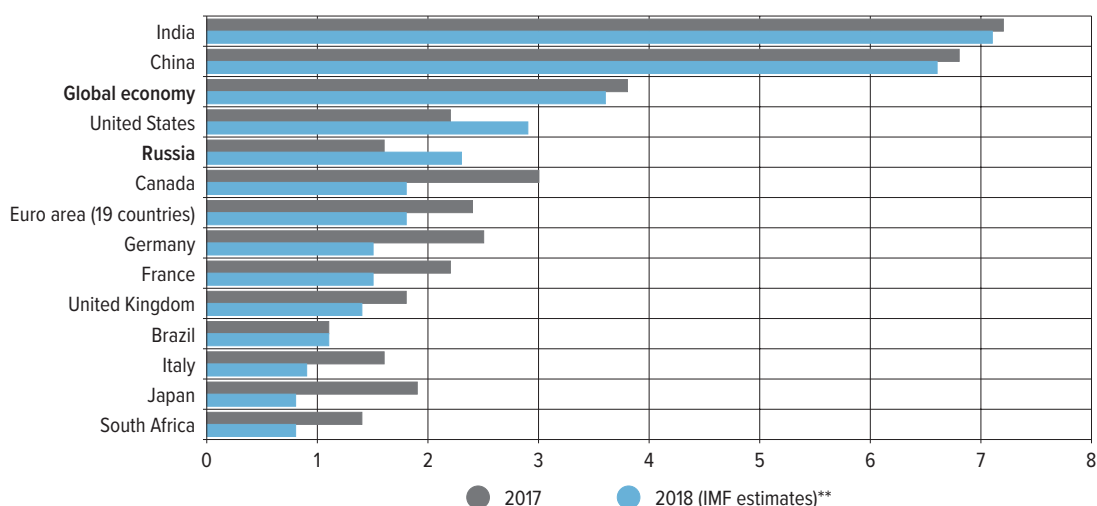
served in both advanced economies (from 2.4% to 2.2%) and EMEs (from 4.8% to 4.5%). Among advanced economies, economic growth continued to accelerate in the United States (from 2.2% to 2.9%), where it was supported by a stimulating fiscal policy. Key components of domestic demand, including household consumption spending, grew at a higher pace, while the negative input of net exports to GDP growth was lower due to higher growth rates of exports compared to imports.

In other advanced economies, the growth of consumer spending slowed down, which negatively affected their GDP dynamics in addition to deteriorating external demand. The growth rate in the euro area declined from 2.4% to 1.8%. Economic growth slowed down in the United Kingdom, where increased uncertainty as a result of continued disagreements over Brexit was combined with the general slowdown in external markets. The growth of both consumer spending and fixed capital investment slowed, and net export contribution went negative.

The growth rate of the Japanese economy declined (from 1.9% to 0.8%) following a slow-

**GROWTH IN OUTPUT OF GOODS AND SERVICES IN THE GLOBAL ECONOMY AND CERTAIN COUNTRIES*
(PER CENT)**

Chart 1



* Based on official statistics published by the corresponding countries, Eurostat and the IMF.

** For Russia, Rosstat estimates.



Global economic growth slowed down. Global financial markets experienced increased volatility

down in consumer spending, private investment in housing construction, and the export of goods and services amid the accelerated growth of imports. Canada's GDP growth decreased from 3.0% to 1.8%.

In EMEs, growth dynamics also differed, including among the largest economies, as some countries demonstrated a significant slowdown of growth. China's economic growth declined from 6.8% to 6.6% following the negative contribution of net exports in the context of increased protectionism and due to the constraining effect that measures to tighten the regulation of financial sector had on domestic demand.¹

The growth rate of India's GDP fell from 7.2% to 7.1%. The positive effects of structural reforms in a favourable demographic situation contributed to continued high growth rates.

Brazil's GDP growth remained at 1.1%, while in Mexico it slowed down from 2.1% to 2.0%. Overall, the economic growth in Latin America and the Caribbean declined from 1.2% to 1.0% as a result of the crises caused by long-term structural issues in certain countries of the region. The GDP of Argentina declined by 2.5% (in 2017, it grew by 2.7%), and Venezuela experienced a deepening economic recession (down 18% compared to 15.7% in 2017). Turkey's GDP growth significantly slowed down (from 7.4% to 2.6%).

According to the IMF, the growth of global trade in goods and services slowed to 3.8% (5.4% in 2017). The growth rate of exports and imports declined in both advanced economies and EMEs. Heightened trade and political tensions between the US and China have not yet posed an obstacle to increasing the foreign

trade turnover of these countries, but they negatively affected expectations for the prospects of international trade.

With the continued growth of the global economy and the agreement to curb oil production between OPEC and certain non-OPEC countries still in place,² global oil prices rose for most of the year. However, at the end of the year, expectations of a global economic slowdown and higher oil production in the US led to their significant decline. The price of Urals crude oil increased by 31% on average in 2018 compared to the previous year and reached \$70 per barrel (in 2017, it increased by 27% YoY).

Higher energy prices contributed to a certain increase in inflationary pressure around the world. At the same time, food price movements had a downward impact on inflation, which partially offset the impact of oil prices. Average global food prices (FAO index)³ fell by 4.3% in December 2018 YoY (0.7% in December 2017).

According to IMF estimates, as a result of the combined impact of these factors, inflation in advanced economies increased from 1.7% in 2017 to 2.0% in 2018. Inflation in the US also slightly declined from 2.1% in December 2017 to 1.9% in December 2018.⁴ In EMEs, inflation accelerated in a more significant way than in advanced economies (from 4.3% to 4.8%). In China, inflation increased from 1.8% in December 2017 to 1.9% in December 2018.

In the context of high economic activity and inflation near the target level, the US Federal Reserve System (US Fed) continued to tighten its monetary policy, pursuing the trend started in December 2015. The key rate was raised in March, June, September, and December (each time by 0.25 pp). As a result, it went up from 1.25–1.50% at the end of 2017 to 2.25–2.50% at the end of 2018. This was one of the factors contributing to the strengthening of the US dollar against most of the world's currencies and reducing the attractiveness of EME assets.

¹ In particular, the authorities tightened the regulation of real estate transactions and non-banking financial intermediation. At the same time, the People's Bank of China reduced its reserve requirements for credit institutions.

² In late November 2017, this agreement was extended until the end of 2018. In early December 2018, OPEC and non-OPEC countries agreed to jointly cut their oil production by 1.2 million barrels per day in 2019 H1. A new agreement will be discussed in June 2019.

³ Index calculated by the Food and Agriculture Organisation of the United Nations (FAO).

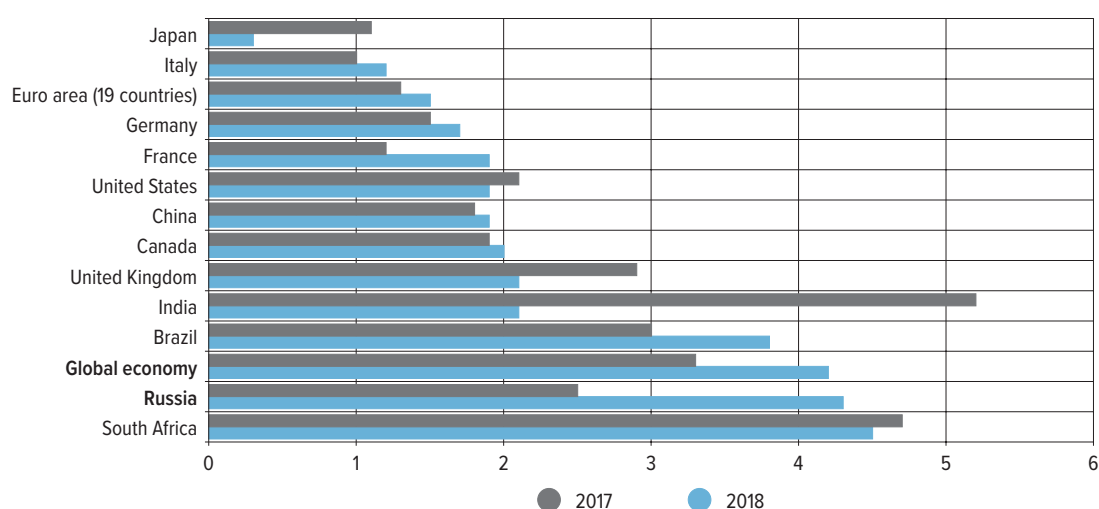
⁴ Headline inflation data (consumer price index for all urban consumers, CPI-U).

The European Central Bank (ECB) maintained an accommodative policy stance. Official interest rates established in 2016 remained at their historical lows: a zero key rate and the deposit rate at -0.40% . The ECB stated its intention to maintain this level of interest rates until at least the summer of 2019 and then until inflation stabilises on a path consistent with the medium-term objective of achieving a level lower

but close to 2% .¹ The quantitative easing programme was extended to 2018, but its volume was reduced. From January to September 2018, the purchases of assets by the ECB amounted to €30 billion per month, and from October to December, to €15 billion (in April–December 2017, they amounted to €60 billion). The programme was completed in December 2018.² By transitioning to forward guidance, the ECB seeks

INFLATION IN THE GLOBAL ECONOMY AND CERTAIN COUNTRIES* (DECEMBER AS A PERCENTAGE OF PREVIOUS DECEMBER)

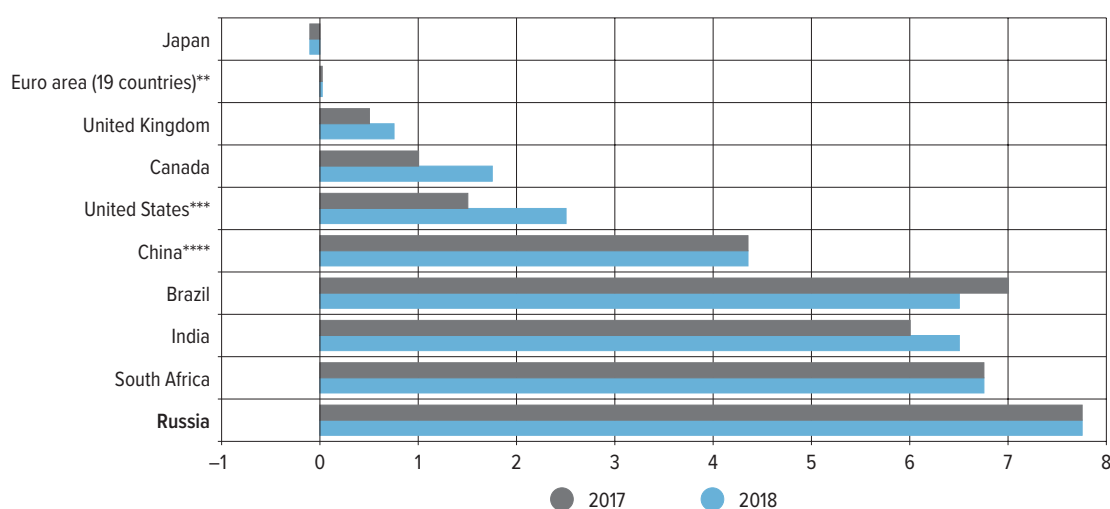
Chart 2



* Based on official statistics published by the corresponding countries, Eurostat and the IMF.

CENTRAL BANKS' KEY RATES* (PER CENT P.A. AS OF END OF YEAR)

Chart 3



* Based on data provided by central banks and the IMF.

** In 2017 and 2018, European Central Bank's key rate was 0.00%.

*** Upper bound of the key rate corridor.

**** Benchmark interest rate on 1-year loans.

¹ In March 2019, the ECB announced its intention to maintain the current level of interest rates until the end of 2019.

² The reinvestment of principal payments received from these assets will continue as long as necessary to maintain favourable liquidity conditions and a sufficiently stimulating monetary policy.

to stabilise market expectations following the completion of the quantitative easing policy.

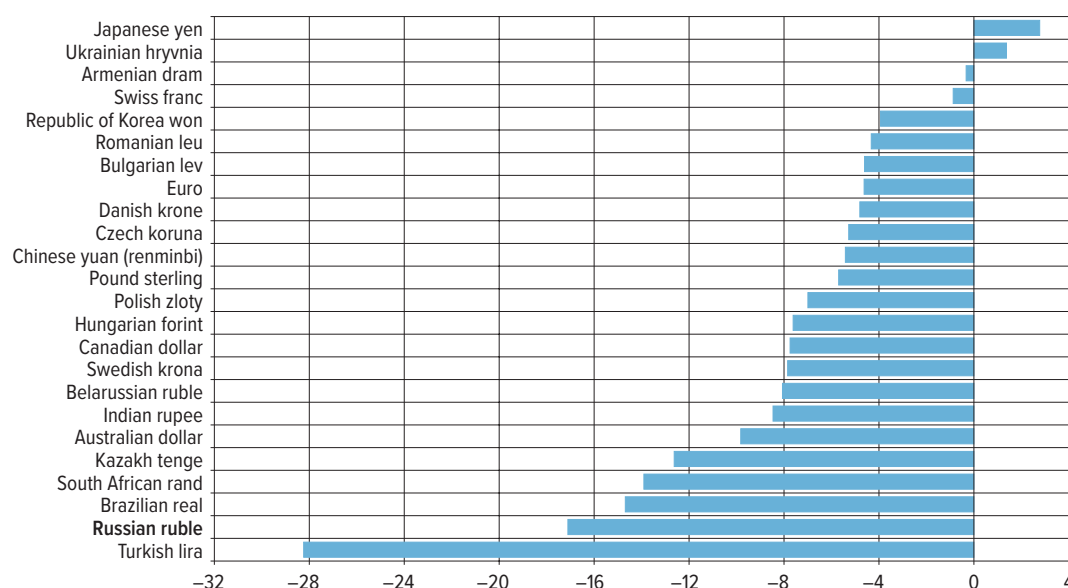
In 2018, the inflow of portfolio investments in EMEs dropped sharply amid a slight slowdown in economic growth, the tightening of the US monetary policy, a growing threat of local currency crises, and rising trade and political tensions between the US and China. According to Emerging Portfolio Fund Research (EPFR), total net capital inflows to funds investing in EMEs amounted to just over \$34 billion in 2018 (more than \$188 billion in 2017). Reduced capital inflows to EMEs and concerns about the inflationary effects of previous increases in oil prices prompted central banks in several EMEs (Indonesia, Mexico, Thailand, South Africa, and others) to raise their monetary policy rates. Argentina and Turkey also made significant increases in key interest rates during the currency crises. At the same time, the People's Bank of China left its key rate unchanged. In October–November, the situation in EMEs slightly improved after the US Fed revised its intentions in favour of a looser monetary policy.

The decline in investors' risk appetite and the currency crises in some countries (Argentina, Turkey) prompted increased volatility in global financial markets compared to 2017. After a sharp drop in 2017, VIX, a volatility index,¹ rose again to an average annual level close to the level was observed in 2016.

Various factors, including those common for EMEs and specific to the Russian economy, such as the expansion of foreign sanctions against Russia and increased uncertainty about the future geopolitical environment, had a downward impact on the ruble exchange rate, which was most pronounced in April and August–September 2018. In November–December 2018, the impact made on the ruble exchange rate by the decline in global energy prices was offset by a general improvement of EME standings. On average, in 2018, ruble's real effective exchange rate was 7.7% lower than in 2017. By the end of the year (December 2018), ruble's real effective exchange rate decreased by 7.0% compared to December 2017.

GROWTH IN EXCHANGE RATES OF CERTAIN CURRENCIES AGAINST THE US DOLLAR IN 2018*
(DECEMBER AS A PERCENTAGE OF PREVIOUS DECEMBER)

Chart 4



* A '-' denotes the appreciation of the US dollar; '+' — its depreciation.
Source: Bloomberg.

¹ VIX is an indicator of expected option volatility calculated by the Chicago Board Options Exchange (CBOE).

1.1.2. INFLATION AND ECONOMIC ACTIVITY

In 2018, the Russian economy grew at a faster pace amid the expansion of external demand. The situation in the labour market remained stable, and unemployment was close to its natural level. Real wages continued to rise. Investment activity increased moderately. Annual inflation rose to 4.3%, which was in line with the inflation target of near 4%. The main factors of price dynamics were the adjustment of supply to demand for a number of food products and weakening of the ruble caused by external factors.

In 2018, the most notable contribution to the acceleration of growth in the production of goods and services (from 1.6% to 2.3%) was made by the increase in gross value added in the industrial sector and construction.

Expansion of domestic demand and the expansion of import substitution contributed in 2018 to higher growth rates in industrial production facilities focused on consumer and partly on investment demand. In production of food products, the most noticeable was higher output of processed fruit and vegetable products as well as production of finished animal feed. Import substitution had a positive impact on cattle and pork meat production. The output of non-food goods oriented to the domestic market, including textiles, medicines and durable goods (furniture, cars), continued to grow. Among investment-oriented industries, import substitution contributed to the higher output of electrical equipment (electric motors, batteries) and metal-working machinery. High growth rates were maintained in production of motor vehicles and railway transport amid further expansion of domestic demand.

Yet growth of output slowed down in production of construction materials and engineering products. The slowdown in the production of engineering products was largely due to a decline in production of agricultural machinery following a drop in profitability among agricultural producers in 2017. In 2018, growth slowed down in the manufacturing of intermediate industrial products, where in 2016 and 2017 there was a noticeable accel-

eration in the growth of output due to import substitution (in the chemical industry and production of rubber products and plastics). As a result, production of investment goods in 2018 generally grew at a slower pace.

In 2018, production growth was largely determined by the expansion of external demand. Thus, there was higher output growth in export-oriented industrial facilities, primarily in oil and gas production and wood processing.

Overall, the contribution of gross value added of the industrial sector to GDP growth in 2018 increased from 0.3 pp to 0.6 pp compared to 2017.

Higher export volumes had an impact on the growth rate of gross value added in transportation and storage. Its contribution to GDP growth in 2018 increased to 0.2 pp (it was close to zero in 2017).

The growth of grain exports in a favourable external economic environment was ensured, *inter alia*, by the resource base formed in 2016 and 2017. In 2018, grain harvest was below its record peak of 2017, although it was higher than the average for the previous five years. As a result, despite a better harvest of some crops, the overall output of crop production decreased. The growth in the output of livestock products also slowed down following a correction in supply (primarily, poultry and eggs) after a significant rise in recent years. The output of livestock products was badly affected by epizootic issues in a number of Russian regions. Overall, in 2018, we observed a decline in the output of farm produce, which negatively affected GDP growth (–0.1 pp).

Construction output made a sizeable contribution to economic growth in 2018. This was facilitated by a number of major projects, including with state participation, such as the construction of the Nord Stream 2 and Power of Siberia gas pipelines, a plant for liquefying natural gas in the Tyumen Region, the railway section of the Crimea Bridge, and the reconstruction of the Baikal-Amur Mainline. The contribution of higher gross value added

in construction to GDP growth amounted to 0.3 pp (in 2017, it was negative).

At the same time, domestic demand in general, including both investment and consumer demand, grew at moderate rates in 2018, which was reflected in the dynamics of GDP expenditure components. Investment activity in 2018 was more restrained than the previous year. Gross fixed capital formation increased by 2.9% (5.2% in 2017). This was related to the weakening of the ruble, which had a negative impact on investment imports, and to higher risks due to increasing sanction pressure. In the context of continuing economic uncertainty, the change in inventories made a negative contribution to GDP dynamics. As a result, the growth rate of gross savings in 2018 fell to 0.8% (6.0% in 2017), and its contribution to GDP growth declined from 1.4 pp to 0.2 pp.

Consumer demand grew moderately in 2018, supported by a decline in unemployment to its historic lows (4.8% on average in 2018). This was facilitated by the higher demand of employers for labour amid a limited supply of labour due to demographic factors. At the same time, according to Bank of Russia estimates, unemployment was close to its natural level, which was neutral compared to price dynamics.

Higher demand for labour was accompanied by an increase in labour compensation, which helped outpace inflation. Real wages grew by 6.8% in 2018 (2.9% in 2017). The acceleration of their growth was largely associated with the increase of wages in the social and cultural spheres as part of implementing the May 2012 Decrees of the Russian President.

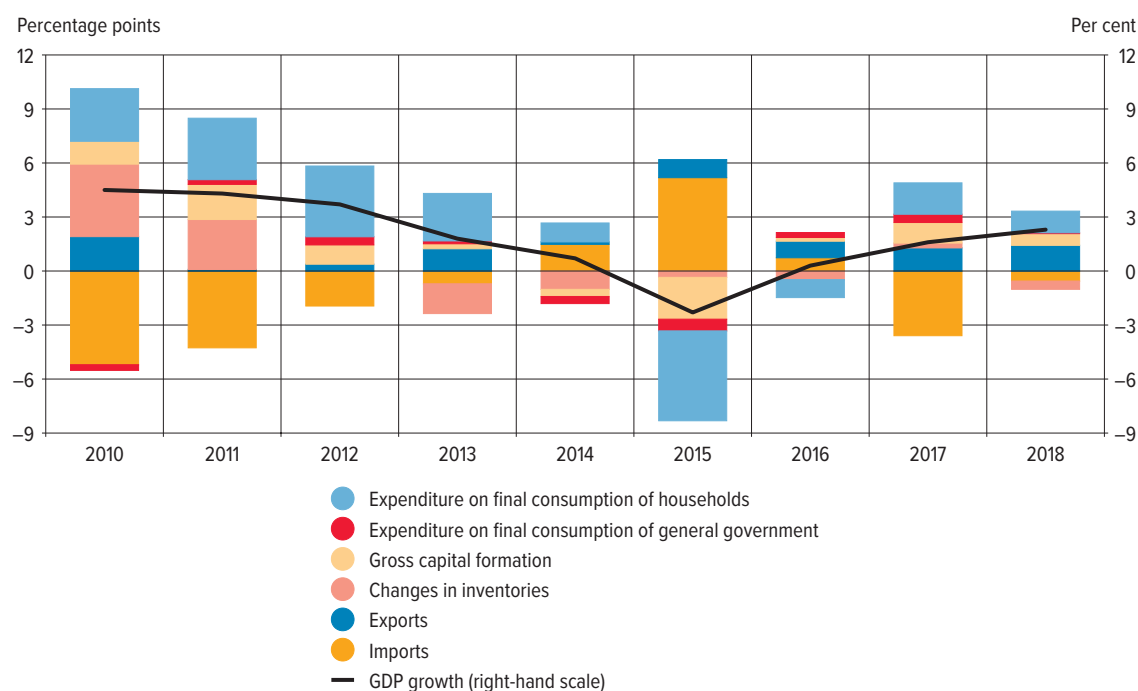
However, other household incomes have been declining. The decline in social payments in real terms was largely due to a high base effect (a lump-sum payment was made to pensioners in January 2017). Other components of household income, including property income, also decreased. In this context, the growth rate of real household disposable money income in 2018 was low and amounted to 0.1%.

Demand was supported by the shift away from savings-oriented behaviour, which continued in 2018. It is estimated that by the end of the year the savings rate declined to 3.6%, which was facilitated by the expansion of household lending.

The growth rate of household final consumption expenditure slowed to 2.3% in 2018 (3.3% in 2017). In the context of conservative fiscal policy, the growth rate of general government final consumption expenditures slipped

GDP GROWTH BY EXPENDITURE

Chart 5



down to 0.3% (2.5% in 2017). Overall, final consumption expenditures went up 1.8% (3.1% in 2017). Contribution of this indicator to GDP growth decreased by 0.9 pp to 1.3 pp.

External demand was a significant factor for higher economic growth rates in 2018. Exports of goods and services grew at a higher rate of 5.5% (5.0% in 2017). Thus, the volumes of oil exports grew at an accelerated rate, which was facilitated by the easing of restrictions under agreements between exporting countries. The growth rate of natural gas and coal exports also increased, mainly influenced by higher demand from Europe, Turkey, and China. The quantities of various non-commodity exports, such as agricultural, metallurgy, wood-working, chemical, and food products, also grew at a higher rate.

In contrast, the growth rate of imports slowed to 2.7% in 2018 (17.4% in 2017). This was affected by the weakened ruble and increased general economic uncertainty, which was largely the result of increased sanction pressure on Russia and a trend towards capital outflows from emerging markets. Overall, in 2018, net exports made a positive contribution of 0.9 pp to GDP growth.

The Bank of Russia estimates that in 2018 output was close to its potential level neutral to inflation.

In 2018, inflation was 4.3%, up from 2.5% in 2017 to the Bank of Russia's target of near 4%. The dynamics of consumer prices was mainly driven by the accelerating growth of food prices (up to 4.7%), which largely had a recovery nature.

In 2017, annual food inflation slowed down to its historical low of 1.1%. This was largely due to oversupply of individual food product markets in recent years. In 2018, oversupply was decreasing, including as a result of measures taken by producers (e.g., reduction of sugar beet crop areas, decrease of poultry production). The ad-

justment of supply to demand was accompanied by the shift from depreciation to appreciation of sugar and eggs and higher growth rates of prices for meat products. The dynamics of prices for these food products made a major contribution to accelerating food inflation. The pork, poultry and egg markets were also negatively affected by epizootic issues. Additional pressure on the costs and prices of processed animal products comes from higher feed prices, including higher grain prices as a result of reduced supply in the domestic and global markets. Some contribution to the annual inflation increase at the end of 2018 resulted from the base effect, where at the end of 2017 the dynamics of vegetable and fruit prices were unusually low for this period under the impact of temporary supply-side factors.

In addition to these factors, higher inflation in 2018 was also caused by the weaker ruble. In particular, the price of imported cars and foreign tourism services grew at an accelerated rate.

In the second quarter, the weakening of the ruble along with higher global oil prices accelerated the growth of domestic oil crude and petroleum product prices. During this period, petrol prices in the consumer market rose by 8.9%, and diesel fuel prices, by 8.5%. Later, these prices remained virtually unchanged due to the measures taken by the Russian Government, such as a reduction of excise rates and agreements with major oil companies to stabilise retail prices for petroleum products. However, the general increase of motor fuel prices in 2018 was higher than in the previous year, which made a certain contribution to higher inflation. Overall, in 2018, the prices for non-food products rose by 4.1% after an uncharacteristically low level in 2017 (2.8%), which was due to conservative consumer behaviour by households and the influence of temporary factors.



The growth rate of the Russian economy accelerated to 2.3%. Annual inflation stood at 4.3%, which was in line with the Bank of Russia's target of near 4%

By contrast, the annual growth rate of prices for services slowed down to 3.9% in 2018 (from 4.4% in 2017). The prices for mobile communication services rose less than a year ago amid stronger market competition, and annual inflation was also lower for certain regulated services, such as housing services (maintenance, repair, operation of housing, payment for public housing) and passenger transport fees.

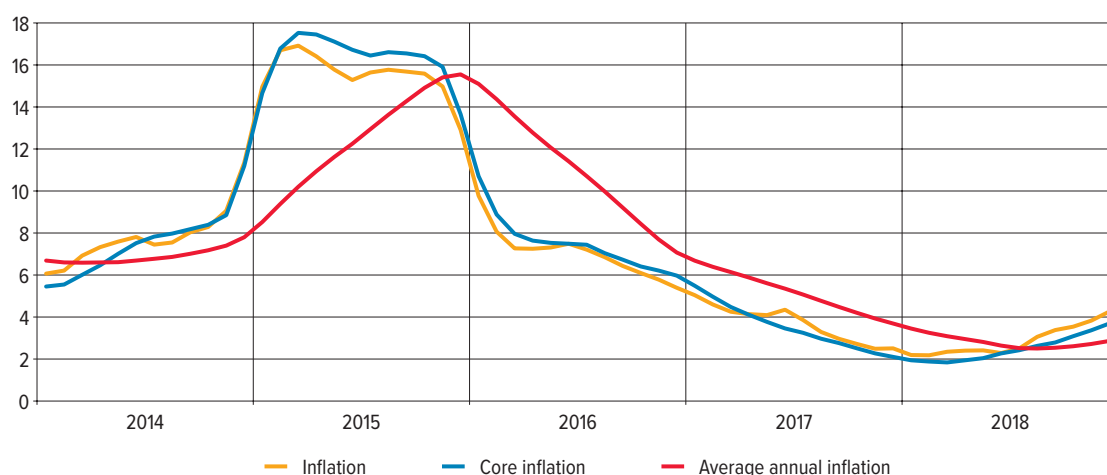
Recovery of prices for a number of food products and the impact of the weaker ruble on prices for a wide range of goods and services influenced the increase of core inflation, which reflects the movements of prices for consumer

goods and services, except for items with prices that are regulated or influenced by one-time factors. At the end of 2018, core inflation was 3.7% (1.6 pp higher than the minimum value in 2017).

In the Russian regions, price dynamics in 2018 were mainly influenced by national factors, such as the weaker ruble, adjustment of the supply to demand for a number of food products, rising costs, and higher inflation expectations of economic entities. During the year, inflation was in general more homogeneous across the regions, with a slight decrease in homogeneity at the end of the year, which was caused, *inter alia*, by the impact of local

INFLATION, CORE INFLATION, AND AVERAGE ANNUAL INFLATION*
(GROWTH AS A PERCENTAGE OF CORRESPONDING MONTH OF PREVIOUS YEAR)

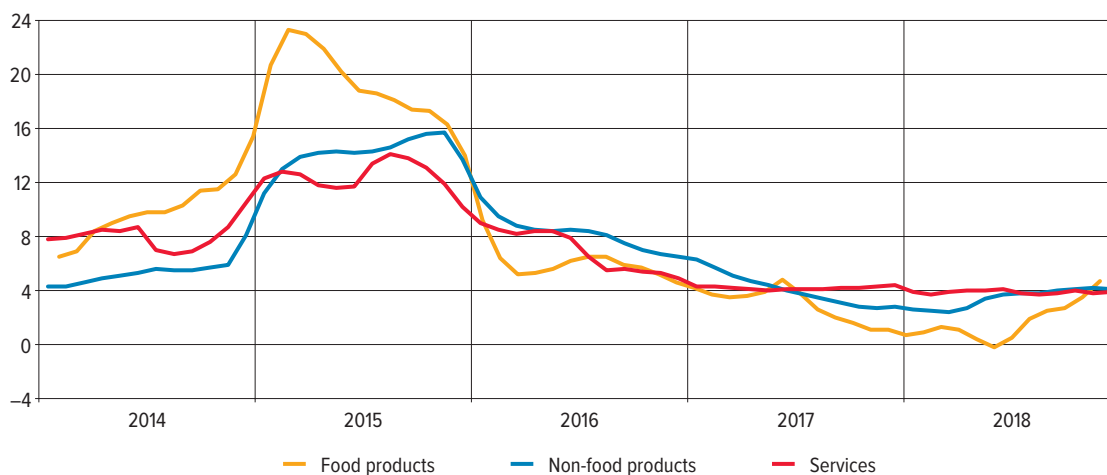
Chart 6



* Reflects changes of the average level of prices over 12 months to the average level of prices over the previous 12 months.

PRICES OF FOOD PRODUCTS, NON-FOOD PRODUCTS, AND TARIFFS OF SERVICES
(GROWTH AS A PERCENTAGE OF CORRESPONDING MONTH OF PREVIOUS YEAR)

Chart 7



non-monetary factors. The highest regional heterogeneity was observed in food inflation, mostly in the southern regions. Well established, clear differences persisted in the indexation of prices and tariffs for utility services.

In 2018 Q2, the weaker ruble and a hike of motor fuel prices in the retail market affected household inflation expectations. In May—June, they increased and remained at a higher level until the end of the year despite the stabilisation of petrol and diesel prices. In the second half of the year, they were affected by occasional decreases in the ruble exchange rate and acceleration, including seasonal, in the growth of prices for certain everyday goods, which households remain sensitive to.

Businesses also increased their price expectations in 2018. As the case with households, businesses shape them largely by focusing on current price dynamics. Amid the observed

acceleration of producer prices (including in mining and agriculture) and the weakening of the ruble, there was an increase in the share of businesses expecting higher prices in the future. In the second half of the year, inflation rice expectations were also associated with the decision to raise the VAT rate from 1 January 2019.

The inflation forecasts published by professional analysts for 2018 and beyond were revised upward during the year following changes in the macroeconomic situation. Nevertheless, the medium-term expectations of analysts remained in line with the Bank of Russia's target of near 4%.

According to the forecast of the Bank of Russia, after a temporary increase to 4.7—5.2% in 2019, which is largely related to the increase in the standard VAT rate, the annual inflation will return to 4% in 2020 H1.

1.1.3. FISCAL POLICY, GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

The Bank of Russia believes fiscal policy in 2018 can be defined as restraining. Surplus of the general government budget of the Russian Federation¹ in 2018 was 2.9% of GDP after a deficit of 1.5% of GDP a year earlier, and surplus of the federal budget was 2.6% of GDP after a deficit of 1.4% of GDP a year earlier. This was partly facilitated by favourable dynamics of incomes amid relatively high energy prices, improved economic activity, and increased tax collection. On the other hand, budget expenditures were limited by the budget rule,² which was finalised in the Budget Code version of 30 July 2017.

The mechanism of operations in the domestic foreign exchange market for the sterilisation of oil and gas budget revenues generated when oil prices exceed their base level (\$40 per barrel of Urals crude oil in 2017 prices) continued to function in accordance with the fiscal rule. The foreign currency purchased by the Bank of Russia in 2018 on behalf of the Russian Ministry of Finance will be used to replenish the National Wealth Fund (NWF) in mid-2019. In terms of financing the budget deficit resulting from the withdrawal of certain revenues to the NWF, the Russian Ministry of Finance continued to follow the strategy of using domestic borrowings. These measures not only helped improve the balance of public finances but also contributed to the further improvement of macroeconomic stability in Russia. Thus, the mechanism for the sterilisation of extra oil and gas revenues continued to facilitate lower sensitivity of the Russian economy in general, and the ruble exchange rate in particular, to fluctuations in global oil prices.

A number of important fiscal policy decisions were adopted in 2018. Some of them

had an impact on fiscal policy parameters the same year, while others will shape the fiscal policy in 2019 and in the medium term. Key legislative decisions in 2018 included a VAT hike, tax manoeuvres in the oil production industry, an increase of the retirement age as well as measures stipulated by Decree of the President of the Russian Federation No. 204, dated 7 May 2018, 'On National Goals and Strategic Objectives of the Russian Federation through to 2024'.

BUDGET SYSTEM

According to the Federal Treasury,³ in 2018, the revenues of the budget system of the Russian Federation totalled ₽36,916.9 billion, which is 18.9% more than in 2017 (Table 5, Section 5.4 'Statistical tables'). The most significant growth was demonstrated by oil and gas revenues. In 2018, they increased by a factor of 1.5 vs the previous year. Among non-oil and gas revenues, the most significant proceeds were received from the corporate income tax, personal income tax and value added tax on goods (works, services) sold in Russia (VAT).

Budget expenditures in 2018 amounted to ₽33,880.7 billion, which is 4.6% more than in the previous year. The main expenditure items were 'Social policy' and 'National economy'. The most significant growth was observed in such areas as 'Healthcare' and 'Education', which can be attributed to the implementation of the May Decrees of the President of the Russian Federation, dated 7 May 2012.

As a result, surplus of the budget system of the Russian Federation in 2018 amounted to ₽3,036.2 billion after a deficit of ₽1,349.1 billion in 2017.

¹ Including the budgets of government extra-budgetary funds.

² In accordance with Clause 3 of Article 199 of the Budget Code of the Russian Federation, the maximum amount of federal budget expenditures may not exceed the amount of basic oil and gas revenues, non-oil and gas revenues and projected expenditures for the servicing of public debt. In 2018, an increment of 1% of GDP was introduced into the expenditure formula (due to the need to implement the May 2012 Decrees of the Russian President). From 2019 to 2024, the increment will amount to 0.5–0.6% (expenditures within the infrastructure investment fund).

³ The data on the implementation of the general government budget of the Russian Federation and budgets of government extra-budgetary funds in 2018 are presented in accordance with the monthly report of 28 February 2019 published by the Federal Treasury.

FEDERAL BUDGET

According to the Federal Treasury,¹ in 2018, revenues of the federal budget totalled ₽19,454.9 billion (18.7% of GDP), which exceeds the figure for 2017 by 28.9% (+2.3 pp of GDP). The highest growth was observed in oil and gas revenues (by 51.0%), which was due to an increase in oil prices along with the rise of the US dollar exchange rate against the ruble. An increase in non-oil and gas revenues of the federal budget (by 14.5%) was mainly the result of higher domestic and import VAT as well as a higher profit tax. In 2018, federal budget expenditures amounted to ₽16,712.9 billion (16.1% of GDP), which is 1.8% more than a year ago in nominal terms (–1.7 pp of GDP).

In 2018, federal budget surplus amounted to ₽2,742.0 billion (2.6% of GDP) after a deficit of ₽1,331.4 billion (1.4% of GDP) in 2017.

Actual federal budget revenues for 2018 exceeded the planned level approved by Federal Law No. 362-FZ, dated 5 December 2017 'On the Federal Budget for 2018 and the 2019–2020 Planning Period' (as amended on 29 November 2018), by ₽507.3 billion (+2.7% of the planned amount). In addition, expenses reached 99.4% of their planned volume, i.e., they were ₽95.9 billion less than the amount stipulated by the Russian Ministry of Finance in the above Federal Law. As a result, federal budget surplus exceeded the forecast of the Russian Ministry of Finance by ₽603.3 billion or 0.5 pp of GDP.

SOVEREIGN FUNDS

The Reserve Fund was liquidated in 2018. As of 1 January 2019, the amount of funds in the NWF was ₽4,036.0 billion (3.9% of GDP). In 2018, ₽1,108.2 billion was allocated from the NWF to finance the budget deficit of the Pension Fund of the Russian Federation, and ₽5.1 billion, to co-finance voluntary pension savings of Russian citizens. Additional ₽906.7 billion of oil and gas revenues were credited to the NWF in 2017. The increase in the volume of sovereign funds in rubles in

2018 (7.5% in annual terms) was also facilitated by the positive exchange rate revaluation (₽489.7 billion).

In 2018, the Russian Ministry of Finance purchased foreign currency in the amount of excess oil and gas revenues for the subsequent replenishment of the NWF under a mechanism of operations in the domestic FX market involving the Bank of Russia. With the actual Urals crude oil price permanently exceeding the base price of \$40.8 per barrel, the amount of excess oil and gas revenues in 2018 was ₽4,216.3 billion. However, from the third decade of August 2018, the Bank of Russia postponed the purchases of foreign currency in the domestic FX market under the fiscal rule until the end of the year to reduce the volatility of financial markets. As a result, in 2018, the purchases of foreign currency in the open market to replenish the NWF amounted to ₽2,139.0 billion. In early February 2019, the Bank of Russia started making purchases postponed in 2018. Their full volume will be purchased in the market within 36 months. As a result, the additional volume of daily foreign currency purchases during this period will total ₽2.8 billion.

PUBLIC DEBT

According to the Russian Ministry of Finance, as of 1 January 2019, the total public and municipal debt of the Russian Federation amounted to ₽15,162.7 billion (14.6% of GDP), which in nominal terms is 6.5% higher and, with regard to GDP, 0.9 pp below the level of 2017. The share of internal debt in total public and municipal debt was 77.5%, which was 2.4 pp below the level of this indicator as of 1 January 2018.

As of 1 January 2019, the volume of federal domestic debt was ₽9,169.6 billion (8.8% of GDP). Government securities in the amount of ₽7,742.7 billion account for about 84.4% of the federal domestic debt, while the rest falls on government guarantees in the amount of ₽1,426.9 billion. Over the year, the federal domestic debt increased by 5.5% overall

¹ The data on the implementation of the federal budget of the Russian Federation in 2018 are presented in accordance with the monthly report of 28 February 2019 on the implementation of the general government budget of the Russian Federation and budgets of government extra-budgetary funds published by the Federal Treasury.

and declined by 0.6 pp relative to GDP. Its components showed mixed dynamics: while investments in securities increased by 6.8% (including 8.9% in OFZs), government guarantees declined by 1.1%.

Increased volatility in the emerging markets and publication of several draft laws in the US on anti-Russian sanctions led to a certain deterioration in the attractiveness of Russian assets for foreign investors and an increased risk premium. As a result, in 2018, the portfolio of OFZs held by non-residents dropped by almost 20%, and their share in the OFZ market decreased from 33.1% to 24.4%. The highest withdrawal rates were recorded following the April sanctions and the curtailment by foreign investors of the carry trade strategy in June. Similar trends associated with the outflow of foreign capital were observed in the segment of Russian sovereign eurobonds. In addition to higher federal domestic debt following the positive net placement of OFZs, foreign debt increased in ruble terms due to exchange rate revaluation. At the same time, the total public debt to GDP ratio remains stable and does not exceed the level observed at the end of 2014 (about 15–16% of GDP).

KEY LEGISLATIVE INITIATIVES IN 2018

The 'Guidelines for Fiscal, Tax and Customs and Tariff Policy for 2019 and the 2020–2021 Planning Period', which included budget projections for 2019–2021, were published at the end of 2018 and provided for further implementation of the fiscal rule.

In addition, in 2018, the President of the Russian Federation signed Decree No. 204, dated 7 May 2018, 'On National Goals and Strategic Objectives of the Russian Federation through to 2024' to help ease the current structural constraints for the development of the Russian economy. The Decree provides for additional spending on healthcare, education,

science, culture, demography, environment, support for non-commodity investment exports, and other areas. In addition, to implement the Decree, a Development Fund was set to be established in 2019 under the federal budget to help increase public investment in infrastructure projects. The Development Fund will be established on a temporary basis until 2024 and financed by internal borrowings. The formula of the maximum amount of federal budget expenditures for 2019–2024 is expected to include an annual add-on in the amount of the Development Fund's estimated expenditure (0.5–0.6% of GDP).

An important legislative initiative was to increase the standard VAT rate from 1 January 2019. The Bank of Russia estimates that this measure will add about 1 pp to annual inflation in 2019.¹ According to the estimates of the Russian Ministry of Finance, the VAT hike will bring to the budget additional ₽525.4 billion, ₽646.9 billion and ₽696.1 billion in 2019, 2020 and 2021 respectively.²

As for the impact of other legislative initiatives on budget indicators, the increase of the retirement age will create a financial basis for systematic indexation of pensions at a rate outpacing inflation. The tax manoeuvre in the oil sector may result in a slight decline in oil and gas revenues of the federal budget in 2019, but it will increase them in subsequent years.³

Consistent implementation of the macroeconomic stabilisation policy (fiscal rule) along with the creation of new development instruments (Development Fund) will ensure a gradual reduction in the non-oil and gas deficit and will not threaten the sustainability of public finances and the availability of credit resources for the private sector. These measures will likely reduce economic uncertainty and ensure further macroeconomic stabilisation and the improvement of the sovereign credit rating.

¹ See the Report on the Estimated Impact of the Increase of the Standard VAT Rate on Inflation published in the section 'Monetary Policy / Economic and Financial Market Outlook' on the Bank of Russia website (www.cbr.ru).

² Guidelines for Fiscal, Tax and Customs and Tariff Policy for 2019 and the 2020–2021 Planning Period (as of 2 October 2018).

³ See the report 'Assessment of the Effect of Oil Tax Manoeuvre on Headline Inflation' published in the section 'Monetary Policy / Economic and Financial Market Outlook' on the Bank of Russia website.

1.1.4. BALANCE OF PAYMENTS, INTERNATIONAL INVESTMENT POSITION, AND EXTERNAL DEBT

BALANCE OF PAYMENTS

In 2018, the current account of the balance of payments continued to consolidate amid the improved pricing environment for the main items of Russian exports. A larger current account surplus created conditions for the reduction of the economy's external liabilities and growth of foreign assets, including international reserves accumulation.

In 2018, current **account surplus** reached \$113.8 billion (\$33.2 billion in 2017). The higher current account surplus was due to the strengthening of the trade balance and lower deficit of other components.

Surplus of foreign trade in goods expanded to \$194.5 billion (\$115.4 billion in 2017), which was caused by the high growth rates of exports in value terms, with imports remaining at a level close to that of the previous year.

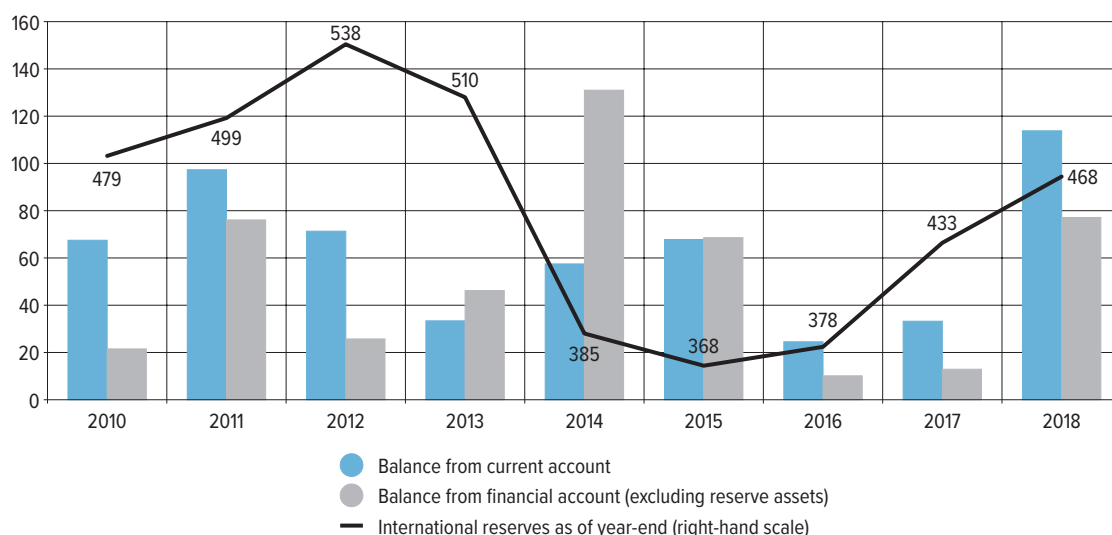
Exports of goods reached \$443.1 billion, which is 25% more than in 2017. Higher exports in value terms were driven primarily by the price factor as the export deflator was 1.19, with the prices of main fuel and energy products growing at a faster rate¹ (by 30.9%). In physical terms, exports increased by 4.9% largely due to non-energy goods.

In value terms, an increase was reported for most consolidated groups of export commodities. The most significant growth was observed in the export of fuel and energy products (up 35.2% to \$286.7 billion); as a result, their share reached 63.8% (a year earlier, 59.3%). Supplies of ferrous and non-ferrous metals, including products made thereof, increased by 18.3% to \$43.9 billion, and their share declined to 9.8% (10.4% in 2017). Exports of food products and raw materials for their production increased by 20.2% to \$24.9 billion, while the share of this product group remained virtually unchanged at 5.5% (5.8% in 2017). The supplies of chemicals increased by 14.2% to \$27.4 billion, and the share of this product group declined to 6.1% (6.7% in 2017). The exports of engineering products increased by 2.7% to \$29.1 billion, while the share of this group was down to 6.5% (7.9%).

In the geographical structure of exports, the share of EU was 45.6% (44.6% in 2017); APEC, 25.9% (24.1%); and EAEU, 8.4% (9.4%). The largest export volumes of Russian goods went to China: 12.5% (10.9%); the Netherlands: 9.7% (10.0%); Germany: 7.6% (7.2%); Belarus: 4.9% (5.2%); and Turkey: 4.8% (5.2%).

RUSSIA'S MAJOR BALANCE OF PAYMENTS COMPONENTS AND INTERNATIONAL RESERVES
(BILLIONS OF US DOLLARS)

Chart 8



¹ Crude oil, petroleum products, natural gas, and liquefied natural gas.



Exports of goods increased by 25%, and imports were up 4.4% compared to 2017. The largest volumes of Russian goods were exported to China, a number of EU countries, Belarus, and Turkey

In 2018, **imports of goods** totalled \$248.6 billion, which is 4.4% higher than in 2017. The increase in imports was primarily driven by the price factor.

Growth in the imports of machinery, equipment and vehicles slowed down to 2.0% with a value of \$112.6 billion, and the share of this product group in imports declined to 47.3% (in 2017, 48.6%). Imports of chemical products and products of related industries increased by 8.1% to \$43.6 billion, while the share of this group reached 18.3% (17.7%). There were 8.5% more metals imported to Russia, and their share was 7.2%, a slight increase from 2017 (6.9%). Imports of food products, including raw materials for their production, grew by 2.4% to \$29.6 billion, while the share of this group remained virtually unchanged at 12.5% (12.7%).

In the geographical structure of the imports of goods, the share of APEC was 40.7% (40.3%). At the same time, the share of EU was down to 37.5% (38.2%), and the share of EAEU remained stable at 7.7%. Among Russia's most important trading partners, China accounted for 21.9% of imports, Germany for 10.7%, the US for 5.3%, Belarus for 5.1%, and Italy for 4.4%.

Deficit in **the balance on external trade in services** declined by 4.1% to \$29.9 billion following a substantial increase in the exports of services.

Exports of services reached \$64.8 billion (in 2017, \$57.6 billion). The cost of transport services increased to \$22.1 billion compared to \$19.9 billion the previous year. The cost of services provided to non-residents under the 'Travel' item increased by \$2.5 billion to \$11.5 billion, which was in part due to the FIFA World Cup held in Russia. Exports of other services expanded to \$31.1 billion (\$28.8 billion in 2017) primarily as a result of more computer services and construction services.

Imports of services increased by 6.6% to \$94.7 billion. The dynamics of this indicator

were mainly caused by the higher cost of services reported under the 'Travel' item, which increased by 10.3% to \$34.3 billion. The volume of services provided by foreign transport companies increased to \$15.3 billion (\$14.5 billion in 2017) due mainly to freight transport. Imports of other services rose to \$45.1 billion compared to \$43.3 billion in 2017 primarily as a result of intellectual property fees and construction services.

The negative balance **of labour remuneration** increased to \$3.0 billion (in 2017, \$2.3 billion). Labour remuneration of non-residents rose from \$6.4 billion to \$7.1 billion both as a result of the higher number of migrants employed in the Russian economy for less than a year and an increase in their average wages. The amount of remuneration due to Russian citizens employed abroad did not change substantially and totalled \$4.0 billion.

The negative balance **of investment income** was down from \$39.8 billion to \$38.4 billion. As the income receivable in other sectors grew at a higher rate, this reduced the negative balance of their investment income to \$38.2 billion, from \$40.3 billion a year earlier. The balance of investment income in the banking sector went negative mostly following the decline in receipts from non-residents to \$8.9 billion (\$10.1 billion in 2017). In contrast to the previous year, the total investment income of government authorities and the central bank was consolidated with a surplus of \$0.9 billion as a result of higher income received by the Bank of Russia (in 2017, a negative balance of \$0.4 billion).

The negative balance **of secondary income** was \$9.3 billion compared to \$9.0 billion in the previous year.

Deficit **of the capital account** expanded to \$1.1 billion (\$0.2 billion a year earlier). The decisive factor was the forgiveness of debt under state credits granted earlier by the Russian Federation to non-residents.

Net lending to the rest of the world (the cumulative balance of the current account and capital account) in 2018 grew to \$112.7 billion (in 2017, \$33.0 billion). The net lending to GDP ratio increased from 2.1% in 2017 to 6.7% in 2018.

Net lending to the rest of the world as reflected in the financial account (excluding reserve assets) amounted to \$77.1 billion in 2018 (\$12.9 billion a year earlier). In contrast to the previous year, this was a result in part by the lowered external liabilities of the economy.

External liabilities declined by \$36.4 billion (in 2017, they increased by \$2.9 billion).

Foreign liabilities of the general government decreased by \$5.6 billion (in 2017, by \$15.1 billion) mainly due to the repurchase of ruble-denominated sovereign securities in the secondary market from non-residents.

The decline in external liabilities of the central bank by \$2.0 billion followed repo operations with non-resident banks (an increase of debt by \$1.3 billion was reported in 2017).

In 2018, the net decrease in the private sector's liabilities to non-residents was \$28.9 billion (\$13.5 billion a year earlier) due to lower external liabilities both in banks and other sectors.

Foreign liabilities of the banking sector were down by \$25.0 billion (by \$27.7 billion in 2017).

External liabilities of other sectors declined by \$3.9 billion (in 2017, they increased by \$14.1 billion), as the inflow of direct investments slowed down to \$5.9 billion (\$27.1 billion in the previous year), including as a result of one-time intra-group operations; net repayment of external debt by other sectors increased to \$10.4 billion (\$8.5 billion in 2017) and the portfolio investments of non-residents declined by \$0.7 billion (by \$4.6 billion in 2017).

In 2018, **financial assets**, excluding reserve assets, increased by \$40.6 billion (\$15.8 billion in 2017).

Total foreign claims of the general government and the central bank grew by \$1.4 billion (\$3.1 billion in 2017) mostly in the form of government loans.

In 2018, private sector's¹ financial assets increased by \$37.0 billion (in 2017, by \$14.1 billion).

Foreign assets of banks increased by \$7.6 billion compared to their decline of \$4.4 billion in 2017.

Net acquisition of financial assets by other sectors¹ was \$29.4 billion (\$18.5 billion in 2017). Direct investments amounted to \$30.2 billion and included an increased volume of credit support to related entities of Russian companies. Foreign investments in the form of other assets were \$10.3 billion. As a result of transactions between residents and non-residents, the amount of cash foreign currency declined by \$7.1 billion (\$6.0 billion in 2017). The amount of dubious transactions² was insignificant.

As a result of operations, **reserve assets** increased by \$38.2 billion (\$22.6 billion in 2017), which was caused primarily by the purchase of foreign currency in the domestic market under the fiscal rule.

In the reporting year, the **balance of financial operations of the private sector** was \$63.3 billion (in 2017, \$25.1 billion), formed in approximately equal proportions by net redemption of liabilities and increase in external assets.

INTERNATIONAL INVESTMENT POSITION

As of 1 January 2019, **foreign assets of the Russian Federation** amounted to \$1,340.2 billion. In 2018, their amount remained virtually unchanged, as the positive contribution of operations and other changes (\$78.8 billion and \$1.4 billion respectively) was offset by negative foreign exchange and market revaluations in the amount of \$79.1 billion. The depreciation of foreign assets was caused mainly by the strengthening of the US dollar against other currencies.

¹ Excluding amounts payable for supplies under intergovernmental agreements.

² Dubious transactions include transactions that show signs of being fictitious and involve trade in goods and services, the purchase/sale of securities, the provision of loans and transfers of funds to one's own accounts abroad for the purpose of cross-border movement of funds.

Reserve assets grew by \$35.8 billion to \$468.5 billion, while direct investments abroad, on the contrary, declined by \$35.2 billion to \$433.3 billion. Portfolio investments of non-residents were down by \$5.4 billion and amounted to \$68.6 billion. In other investments totalling \$363.4 billion, the increase in cash foreign currency and deposit balances in other sectors was partially offset by the decline of liabilities owed by non-residents on loans and borrowings.

As of 1 January 2019, **external liabilities of the Russian Federation** were \$969.3 billion, having decreased by \$97.1 billion (or 9.1%) during 2018 as a result of the aggregate negative impact of the balance of operations (by \$36.4 billion), revaluation (\$52.2 billion), and other changes (\$8.5 billion).

In 2018, direct investment liabilities declined by \$33.0 billion to \$496.6 billion. Foreign portfolio investments decreased by \$21.9 billion to \$208.2 billion, mainly following the sale of Russian sovereign securities by non-residents and the decline of their value in dollar terms. Other investment liabilities decreased by \$42.6 billion to \$259.5 billion in part following the repayment of long-term loans and borrowings by other sectors.

With an almost unchanged volume of foreign assets in the economy, the substantial

reduction of liabilities owed to non-residents in 2018 increased the **net international investment position** of the Russian Federation by \$98.3 billion (or 36.1%) to \$370.9 billion.

INTERNATIONAL RESERVES OF THE RUSSIAN FEDERATION

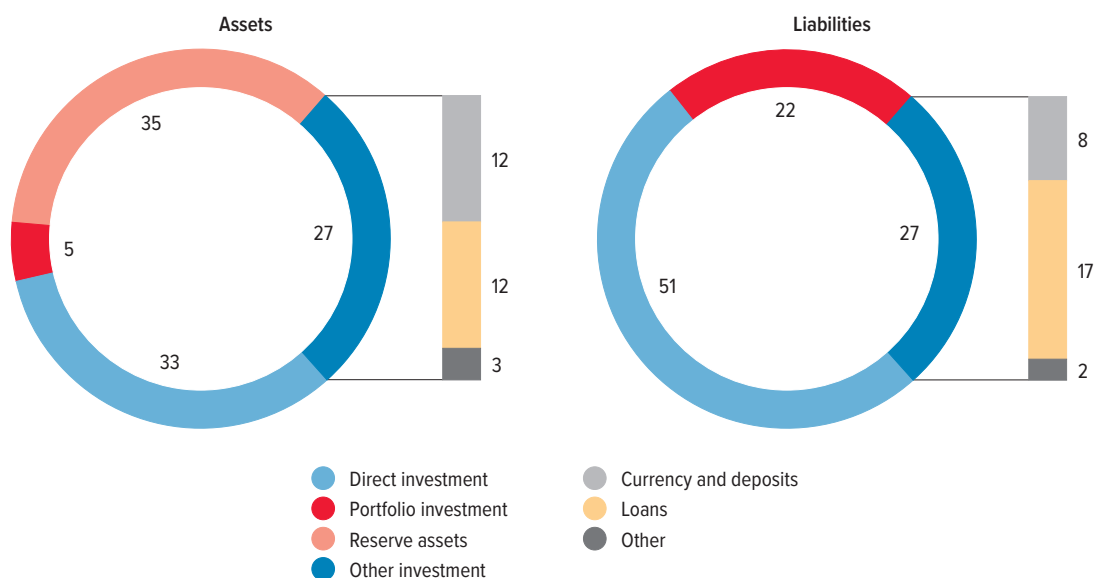
In 2018, international reserves of the Russian Federation increased from \$432.7 billion to \$468.5 billion.

As a result of operations recorded in the balance of payments, international reserves increased by \$38.2 billion (\$22.6 billion a year earlier). The negative exchange rate and market revaluations in the amount of \$15.9 billion resulted from US dollar strengthening in the international foreign exchange market and the corresponding decline in the US dollar equivalent of reserve assets denominated in other currencies and gold.

As of 1 January 2019, the value of monetary gold amounted to \$86.9 billion. The increase in gold reserves by \$10.3 billion in value terms (or 13.4%) was due to replenishment of the Bank of Russia's holdings in physical terms (by \$11.1 billion) with a slight offsetting impact of negative revaluation (by \$0.8 billion). The share of gold in international reserves increased from 17.7% at the beginning of 2018 to 18.5% as of 1 January 2019.

INTERNATIONAL INVESTMENT POSITION AS OF 31 DECEMBER 2018 (PER CENT)

Chart 9





International reserves grew to \$468.5 billion. The share of gold in the reserves increased to 18.5%

The volume of international reserves as of 1 January 2019, just as in the previous year, was sufficient to finance the imports of goods and services for 16 months.

EXTERNAL DEBT

As of 1 January 2019, external debt of the Russian Federation totalled \$454.0 billion, having decreased by \$64.1 billion (or 12.4%) over the year. Other sectors accounted for

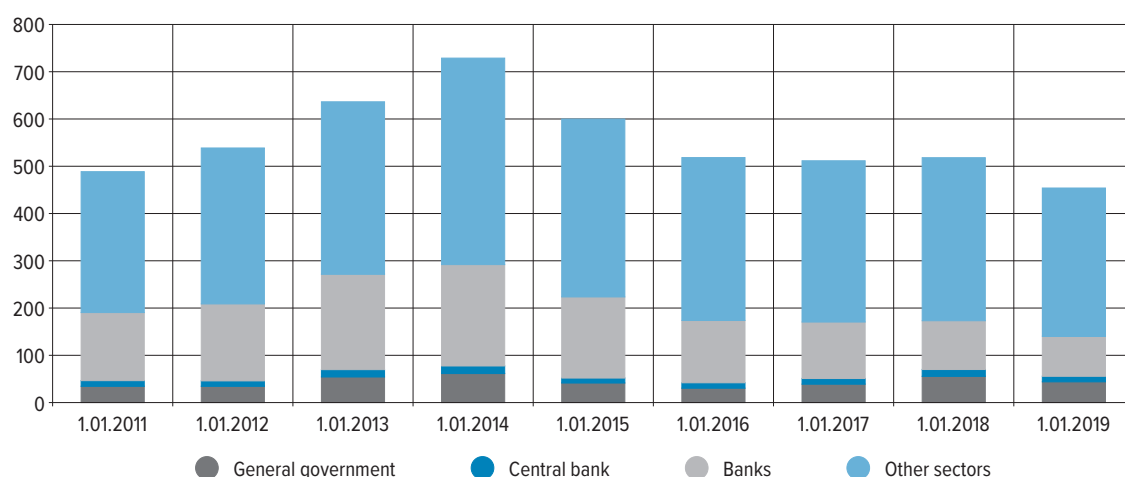
about half of the decrease in debt to non-residents.

External liabilities of the private sector amounted to 87.7% of the total external debt of the Russian Federation (\$398.2 billion as of 1 January 2019). The share of liabilities of the general government and the central bank was 12.3% (\$55.8 billion).

Indebtedness of the federal government decreased by \$11.6 billion to \$43.8 billion. A significant decline (by \$13.0 billion, or one-third) was reported in the segment of ruble-denominated sovereign debt securities, which at the end of the year accounted for liabilities in the amount of \$25.8 billion, while the foreign currency-denominated portfolio of non-residents, on the

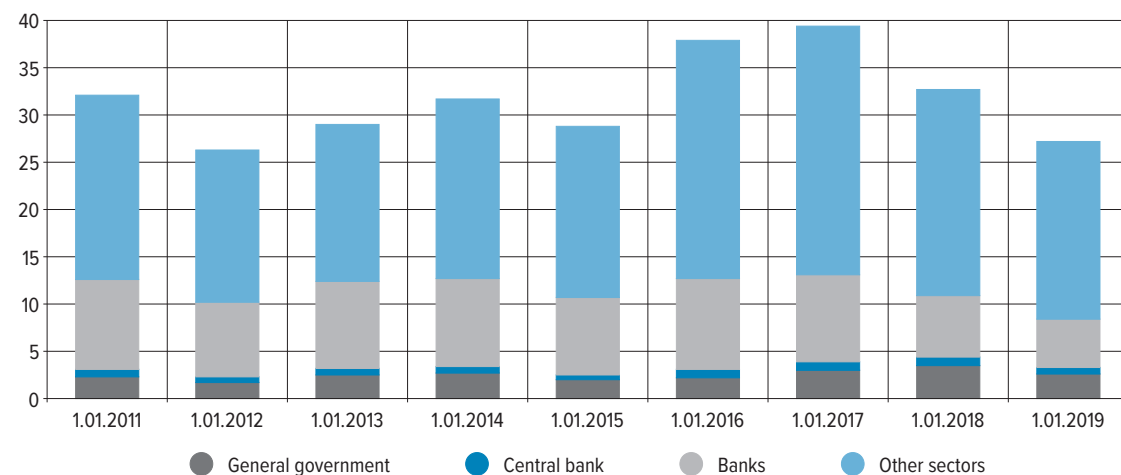
RUSSIA'S EXTERNAL DEBT
(BILLIONS OF US DOLLARS)

Chart 10



RUSSIA'S EXTERNAL DEBT
(PER CENT OF GDP)

Chart 11





Over the year, the external debt to GDP ratio declined by 6 pp to 27%

contrary, grew by \$1.7 billion to \$16.7 billion. External liabilities of the constituents of the Russian Federation amounted to \$0.2 billion.

In the total amount of the central bank's external debt, which in 2018 fell by \$2.6 billion to \$11.9 billion, liabilities to the IMF under special drawing rights (SDRs) allocated to the Russian Federation accounted for 66.5% of the debt; liabilities under repo transactions with non-residents, for 16.8%; and cash Russian rubles, accounts and deposits held by non-residents, for 16.7%.

In 2018, external debt liabilities of banks declined by \$18.8 billion (or 18.2%) to \$84.6 bil-

lion. External debt of other sectors was down by \$31.0 billion to \$313.6 billion.

In the reporting period, external debt decreased at the expense of long-term liabilities, which dropped by \$62.0 billion to \$400.2 billion (88.1% of debt). The short-term component of external debt fell by \$2.0 billion to \$53.9 billion.

As of 1 January 2019, foreign currency-denominated debt amounted to \$341.8 billion, a drop by \$38.2 billion over the reporting period. External debt denominated in Russian rubles decreased by \$25.8 billion to \$112.2 billion.

According to the international criteria, as of 1 January 2019, the debt burden on the Russian economy remained moderate, as the ratio of external debt to GDP was 27% (33% at the beginning of 2018), and the ratio of general government debt to GDP was 3% (4% at the beginning of 2018).

1.2. The financial sector

1.2.1. MONETARY AGGREGATES AND FINANCIAL AND COMMODITY MARKET CONDITIONS

In 2018, lending and money supply continued to grow amid a recovery of production, investment and consumer activities. In the context of positive real interest rates, ruble-denominated investments remained attractive.



Money supply (M2) increased by 11%

In 2018, money supply in the national definition (monetary aggregate M2) increased by 11.0% (by 10.5% in 2017). Broad money supply growth rate was 12.3% (7.4% in 2017); growth, adjusted for foreign currency revaluation, was 7.9% (in 2017, 8.6%).

The growth in broad money supply was driven primarily by the ruble-denominated deposits of households and organisations. Confidence in the national currency remains solid.

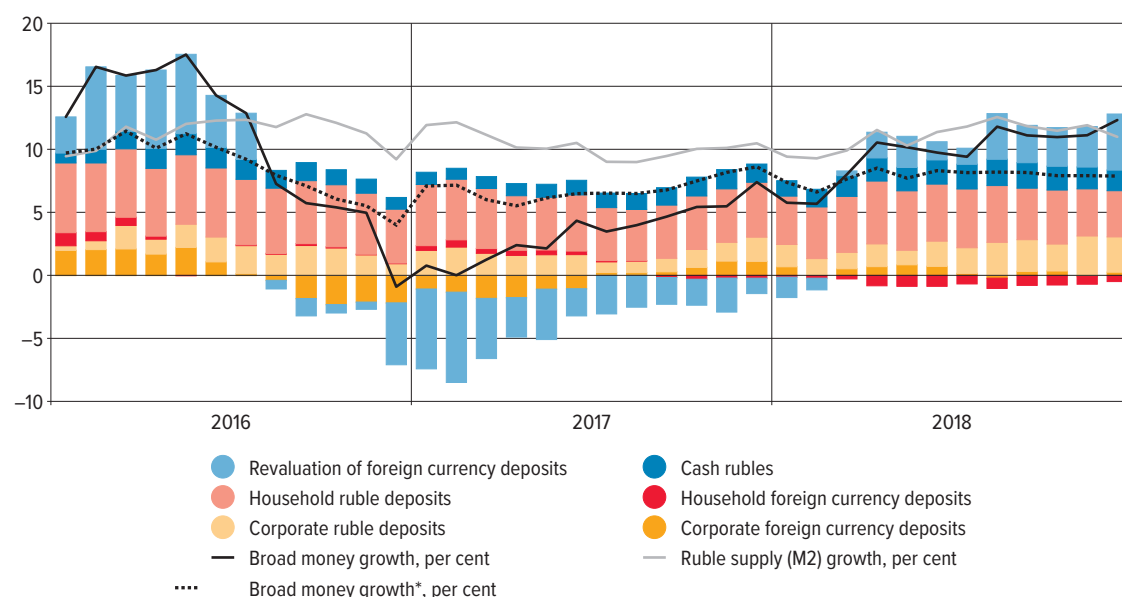
In 2018, ruble-denominated household deposits grew by 10.9%, while foreign currency-denominated deposits declined in their US dollar equivalent by 4.7%. The deposits dynamics were influenced by the retention of rather attractive real interest rates on ruble-denominated deposits.

In 2018, ruble-denominated deposits of organisations grew by 11.5%, while foreign currency-denominated deposits declined in their US dollar equivalent by 1.9%.

In 2018, the share of foreign currency-denominated deposits increased slightly to 27.2% as of 1 January 2019, including 35.7% for the deposits of organisations and 20.5% for household deposits (as of 1 January 2018, 25.8%, 33.4% and 19.9% respectively). The higher share of foreign currency-denominated deposits was due to the depreciation of the ruble against foreign currencies in the reporting period and the resulting revaluation of previously made deposits.

BROAD MONEY
(CONTRIBUTION OF CERTAIN COMPONENTS TO ANNUAL GROWTH RATES, PERCENTAGE POINTS)

Chart 12



As in the previous years, the growth of broad money supply in 2018 was driven mostly by lending from the banking sector to the economy,¹ which increased by 11.5% (or 8.7%, adjusted for foreign currency revaluation). This was also facilitated by the recovery in consumer activity (see Subsection 1.1.2) and easing of bank lending terms in the first half of the year, primarily as a result of lower interest rates. In 2018, ruble-denominated claims of the Russian banking system on corporates increased by 8.4% (13.4% in 2017). The growth of such ruble-denominated claims on households amounted to 22.3% (12.7% in 2017). Mortgage and consumer lending made a comparable contribution to the growth of claims on households.

In 2018, total foreign currency-denominated claims on organisations and households decreased in their US dollar equivalent by 10.6% (10.4% in 2017).

Net foreign assets of the Bank of Russia also made a significant contribution to the

growth of broad money supply in 2018 H1. Contribution of net foreign assets of credit institutions increased since the second half of the year.

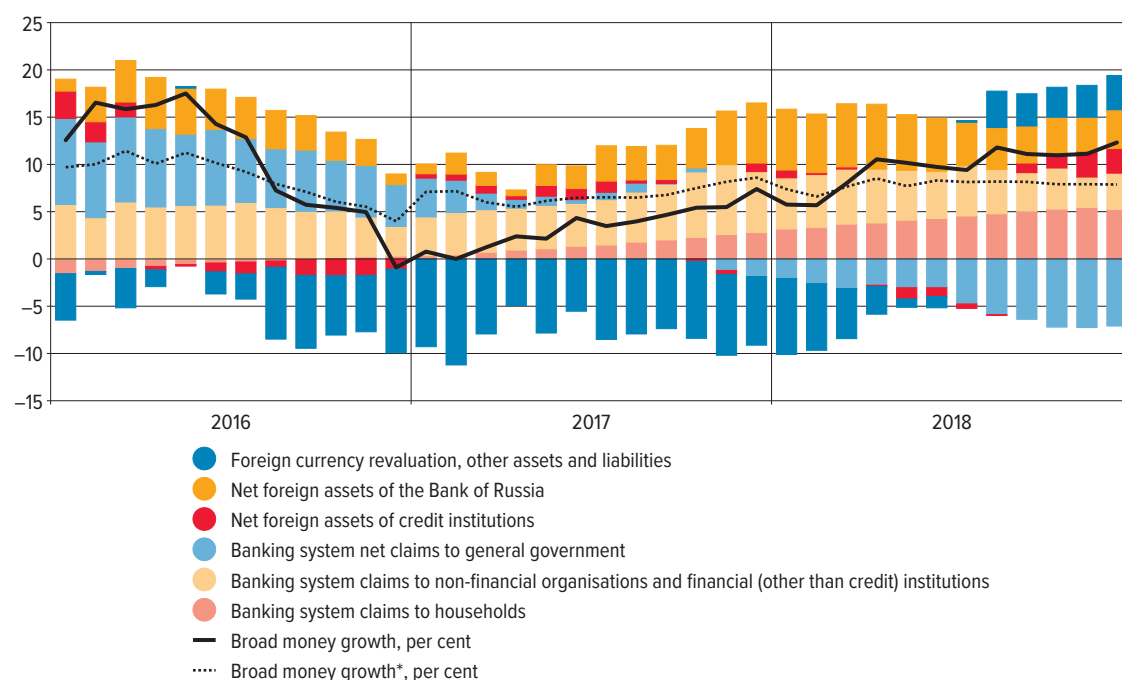
In 2018, banking system's claims on general government continued to grow. However, due to the accelerated accumulation of funds in general government accounts with the Bank of Russia, total contribution of net claims on the general government to the growth of the money supply was negative.

The market experienced continued liquidity surplus. In early 2018, liquidity inflow was shaped mainly by operations providing liquidity to individual credit institutions as part of measures to enhance their financial stability. The Bank of Russia absorbed the excess liquidity through holding deposit auctions and issuing Bank of Russia coupon bonds (see Subsection 2.1.2).

Rates on overnight ruble interbank loans (IBL) followed the key interest rate of the Bank

BROAD MONEY SUPPLY SOURCES
(CONTRIBUTION TO BROAD MONEY ANNUAL GROWTH, PERCENTAGE POINTS)

Chart 13



* Adjusted for foreign currency revaluation.

¹ Banking sector lending to the economy means all claims of the banking system on non-financial organisations and financial institutions and households in the currency of the Russian Federation, foreign currency, and precious metals, including loans extended (including overdue loans), overdue interest on loans, investments of credit institutions in debt and equity securities and promissory notes, other forms of stakeholding in the capital of non-financial organisations and financial institutions, and other receivables under settlement operations with non-financial organisations and financial institutions and households.

of Russia. On average, in 2018, the deviation of the IBL rate from the key rate remained slightly negative, as in the previous year. In certain periods, the spread between IBL rates and the Bank of Russia key rate widened. The largest growth of the spread was observed at the beginning of the year as a result of liquidity-providing operations to individual credit institutions as part of their bankruptcy prevention measures. As banks adapted to the changed level of structural liquidity surplus, the spread narrowed (see Subsection 2.1.2).

The foreign exchange liquidity situation remained relatively stable. From February to June, the outflow of customer foreign currency deposits contributed to its temporary deterioration. In June, FX liquidity was also affected by the seasonally low inflow in the current account of the balance of payments amid high volumes of foreign currency purchases by the Russian Ministry of Finance. In July, the situation stabilised as a result of significant export revenues related to oil price fluctuations and the redemption of a large eurobond issue by the

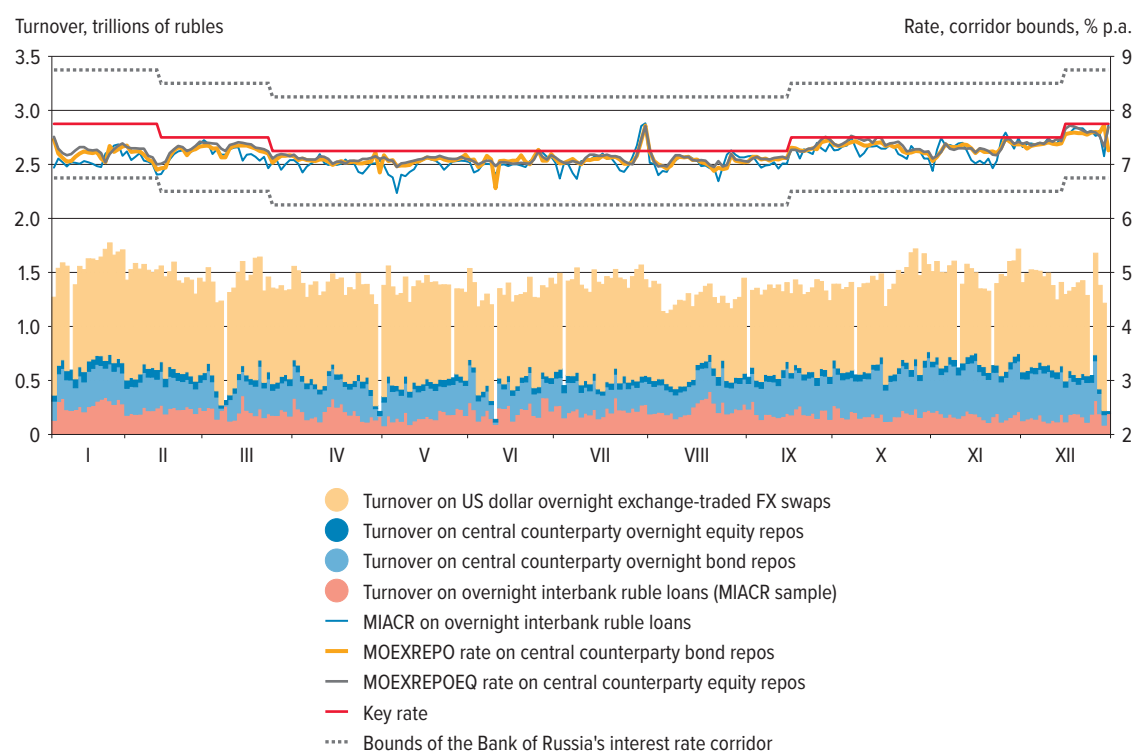
Russian Ministry of Finance. In August, there was a deficit of foreign exchange liquidity amid a lower supply of foreign currency from major banks. In September, FX liquidity conditions improved and remained favourable until the end of the year as a result of a high inflow in the current account of the balance of payments following the suspension of foreign currency purchases in the domestic market under the fiscal rule. In the context of continued favourable FX liquidity in the last few months of 2018, the demand of banks for foreign currency did not increase significantly in the last days of the year, unlike in the previous few years.

In 2018, in the foreign exchange market, the ruble weakened against the US dollar by 20.6% to 69.47 rubles per US dollar and against the euro by 15.4% to 79.46 rubles per euro (as of 31 December 2018).

The beginning of the year was positive for the foreign exchange market. In January–February 2018, volatility of the ruble exchange rate and its elasticity to oil prices remained close to their minimum values since the beginning

**SPREADS BETWEEN INTEREST RATES AND BANK OF RUSSIA KEY RATE
AND TURNOVERS IN CERTAIN MONEY MARKET SEGMENTS IN 2018**

Chart 14



Sources: Bank of Russia, Thomson Reuters and PJSC Moscow Exchange.

of 2014, while the country risk premium for Russia (CDS) dropped to the minimum levels of 2008. This was facilitated by the global growth in demand for EME assets and high oil prices. In February, with a slight increase in volatility in global stock markets, the ruble was supported by an upgrade of Russia's sovereign credit rating to the investment grade. The CDS spread narrowed and was close to the levels of EMEs with higher ratings (e.g., Mexico or Indonesia).

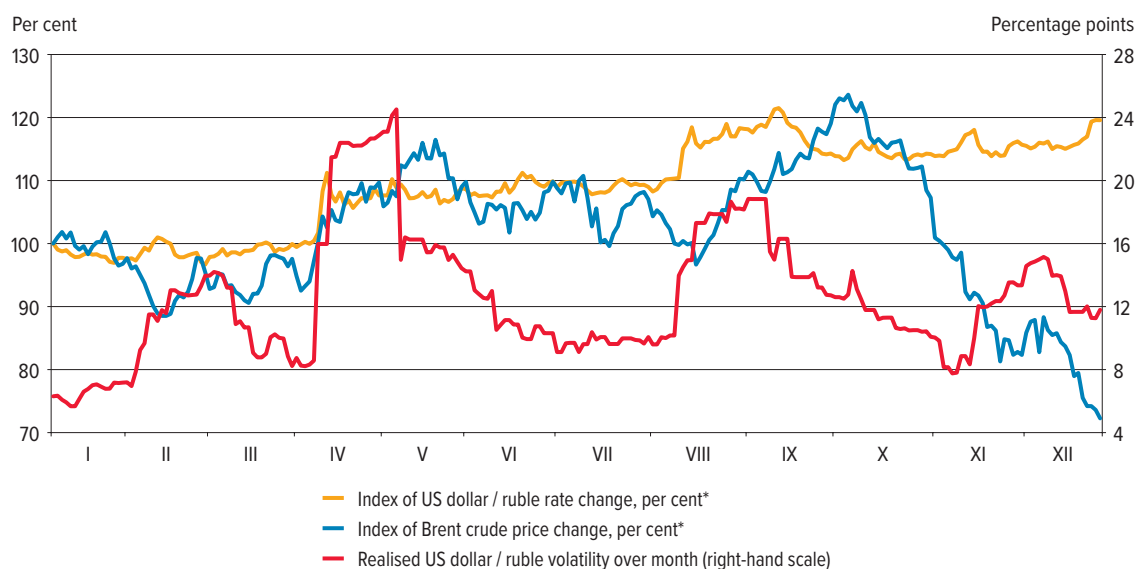
In Q2–Q3, the external environment deteriorated. Tightening of the US monetary

policy, local events in certain countries and the increased probability of trade wars resulted in a higher volatility in the global markets and a reduced risk appetite (see Subsection 1.1.1). As in most other EMEs, the Russian CDS spread started to widen, FX market volatility increased, and the ruble weakened. Expansion of external sanctions and stepped up sanctions rhetoric against Russia (in April and August) also contributed to the weakening of the ruble.

In this context, the Bank of Russia decided in August to suspend the purchase of fo-

RUBLE EXCHANGE RATE AND ITS VOLATILITY IN 2018

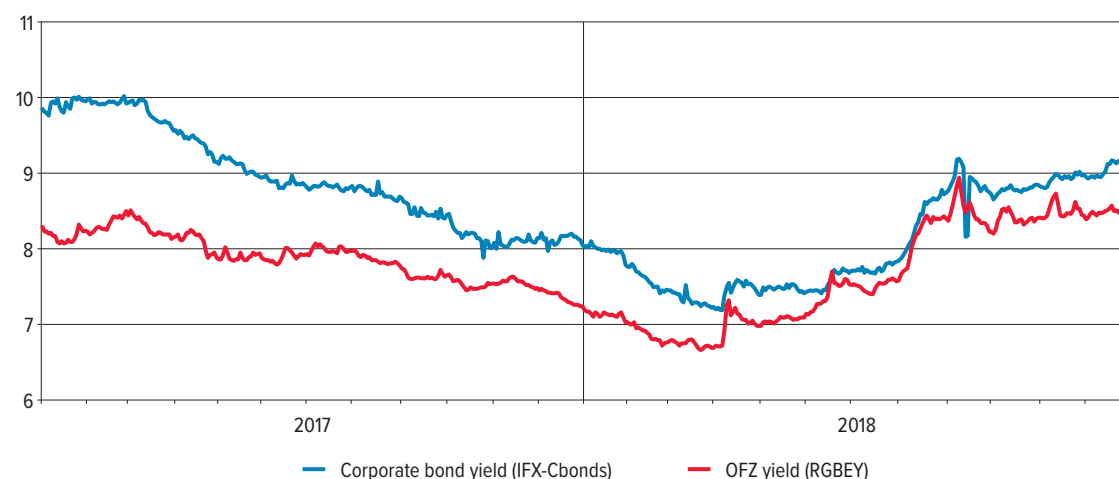
Chart 15



* Indicators as of 9 January 2018 equal 100 per cent.
Source: Thomson Reuters.

BOND YIELDS IN SECONDARY MARKET (PER CENT P.A.)

Chart 16



Sources: PJSC Moscow Exchange, Cbonds.ru news agency.

foreign currency in the domestic market under the fiscal rule. In September, the suspension was extended until the end of the year. This decision coupled with the key rate hike in September 2018 and certain stabilisation of external conditions (the recovery in demand for emerging market assets and the easing of sanction rhetoric against Russia) helped stabilise the Russian financial market. In these circumstances, a drop in oil prices in November and intermediate dividend payments by Russian companies in December had a minor effect on the ruble exchange rate.

The oil price elasticity of the ruble exchange rate remained low thanks to the fiscal rule and a considerable effect on the exchange rate in 2018 of the factors unrelated to commodity markets (global risk appetite, monetary policy in major economies, and uncertainty over the sanctions).

In 2018, the average daily trading turnover in the spot segment of the FX market for the USD/RUB and EUR/RUB pairs remained near its 2017 level at \$5.0 billion.

In 2018, external factors had a mixed impact on the stock market. At the beginning of the year, high global oil prices contributed to higher demand among foreign investors for shares of oil and gas companies. The upgrade of Russia's sovereign credit rating to an investment grade in February drove up the stock prices of Russian

financial assets. Tougher external sanctions and intensified sanction rhetoric in April and August, a weaker ruble and its growing volatility in various periods as well as a reduced risk appetite in the global market contributed to consolidation of the country risk premium for Russia at a higher level. In this context, foreign investors significantly reduced their purchases of OFZs and sold OFZs in the secondary market. At the same time, higher yields generated stronger demand for OFZs from domestic investors (banks and collective investors).

In the primary government securities market, the Russian Ministry of Finance placed various types of OFZs in the amount of ₽1,035.1 billion at face value, which is 38.7% less than in the previous year.

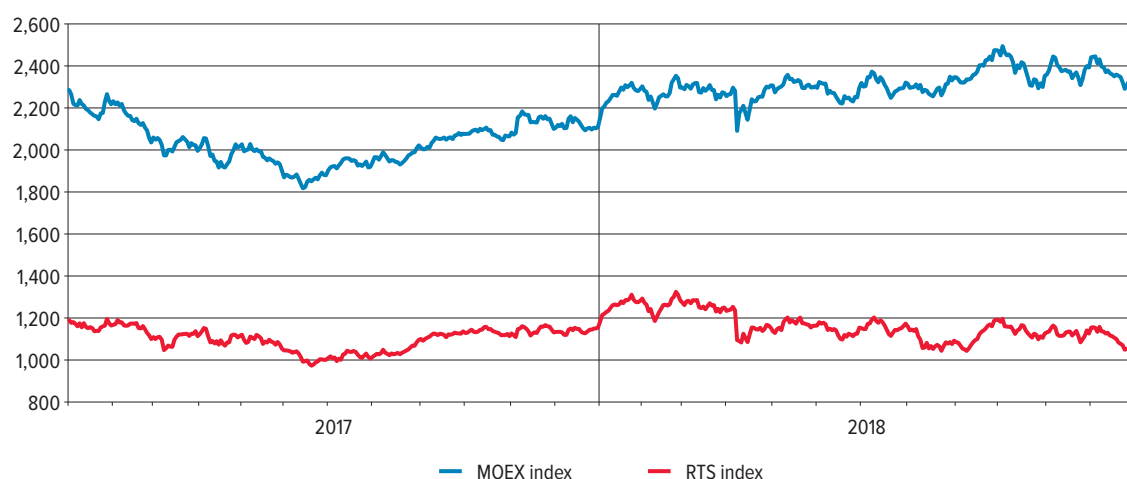
In 2018, OFZ purchases by banks in the primary market amounted to 51.3% of the total amount of OFZs placed in the primary market, while purchases by non-residents totalled 26.8%, and purchases by collective investors amounted to 11.1%.

The market portfolio of outstanding OFZ issues increased by 10.8% to ₽7.5 trillion at face value.

The market portfolio of outstanding corporate bond issues in the domestic market increased by 4.5% in 2018 compared to the end of 2017 and amounted to ₽11.9 trillion at face value.

STOCK PRICE INDICES IN SECONDARY MARKET (POINTS)

Chart 17



Source: PJSC Moscow Exchange.



The MOEX index was up 12.3%,
with the stock market
capitalisation increasing by 11.4%

The volume of secondary trading in OFZs on the Moscow Exchange increased by 1.0% to ₽6.5 trillion, while the trading volume in corporate bonds dropped by 29.6% to ₽2.8 trillion.

In the first quarter, the yields of government and corporate bonds declined following the cut of the Bank of Russia key rate and the slowdown of inflation. Starting in April, they began to rise, which was mainly related to the deterioration of external conditions. OFZ yields (RGBEY index¹) increased from 7.24% p.a. at the end of 2017 to 8.39% p.a. at the end of 2018, and corporate bond yields (IFX-Cbonds index²), from 8.05% p.a. to 9.14% p.a. respectively.

With respect to sovereign foreign currency-denominated bonds, in 2018, the Russian

Ministry of Finance redeemed in full the external bond issue maturing in 2018 in the amount of \$3.5 billion and repaid \$3.3 billion on the issue maturing in 2030.³ Compared to 2017, the portfolio of outstanding Russian sovereign eurobonds declined in 2018 by 4.3% down to \$36.6 billion at face value.

In 2018, the MOEX index (calculated on the basis of ruble-denominated stock prices) rose by 12.3%, while the RTS index (calculated on the basis of US dollar-denominated stock prices) declined by 7.4% following the weakening of the ruble. During certain periods, Russian stock indices declined in line with the global markets and oil prices.

In ruble terms, the stock market capitalisation on the Moscow Exchange increased by 11.4% in 2018 to ₽40.0 trillion. The secondary trading turnover of shares and Russian depository receipts on the Moscow Exchange increased by 17.9% in 2018 vs 2017, reaching ₽10.8 trillion.

In 2018, organised commodity trading was held on six exchanges. The total trading volume in 2018 (in monetary terms) increased by more than 26% compared to 2017 and amounted to ₽1,093 billion, or 1.05% of Russia's GDP for the year.

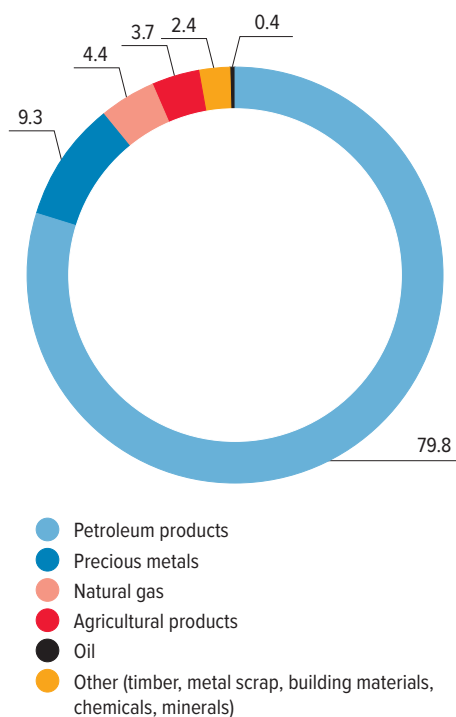
During the reporting period, exchange trading was held for such commodity groups as petroleum products, precious metals, natural gas, agricultural products, crude oil, timber, construction materials, ferrous and non-ferrous metals, and other commodities.

Structural changes were mainly reflected in the higher volume of trading in the most popular commodity groups, such as petroleum products and agricultural products, and the lower volume of trading in precious metals and natural gas that demonstrated negative dynamics and decreased their share in the total volume to 9.3% and 4.4% respectively (in 2017, 11.8% and 7.0% respectively).

The bulk of trading in 2018 was in the petroleum products segment, which demonstrated

STRUCTURE OF ORGANISED
COMMODITY TRADING IN 2018 (PER CENT)

Chart 18



¹ The indicator of the effective yields of government bonds calculated by PJSC Moscow Exchange.

² The indicator of the effective corporate bond yield calculated by Cbonds.ru news agency.

³ The redemption amount includes both scheduled redemption and partial early redemption by exchanging for a new eurobond issue maturing in 2029 and an additional eurobond issue maturing in 2047.

significant growth in the reporting period (25%) and amounted to ₽872 billion, or 79.8% of the total trading volume (in 2017, this figure was 79.6%). At the same time, in physical terms, the trading volume increased by only 4% to 20.14 million metric tons of light petroleum products, which indicates a significant increase in petroleum product prices.

Another driver for the growth of organised trading in commodities in 2018 was the exchange market of agricultural products,

which increased by a factor of 7.2, reaching ₽40.06 billion by the end of 2018. Most of the traded contracts involved forwards that do not stipulate the actual shipment of commodities.

In addition, in 2018, JSC National Mercantile Exchange sold grain from the federal reserves for the first time in accordance with the rules of organised trading. Overall, in 2018, sales of products from the state intervention fund amounted to ₽9.94 billion.

1.2.2. FINANCIAL MARKET PARTICIPANTS

1.2.2.1. FINANCIAL INSTITUTIONS

Despite a significant number of non-bank financial institutions (NFIs), credit institutions (CIs) still dominate the Russian financial sector in terms of assets. In 2018, the ratio of their assets to GDP exceeded 90%. Detailed information on the number of credit institutions and non-bank financial institutions in the financial market is provided in Table 9 of Section 5.4 'Statistical tables'.



Assets of credit institutions exceeded 90% of GDP, and throughout the year their volume increased by 6.9%

CREDIT INSTITUTIONS

In 2018, GDP growth was accompanied by an increase in consumer demand. In this context, growth of the banking sector's assets was largely driven by higher consumer lending as households shifted from savings-oriented to consumption-oriented behaviour.

There was also acceleration in the growth of lending to non-financial organisations. In general, higher lending was accompanied by the improved quality of the loan portfolio.

Relative indicators of the banking sector were influenced by the dynamics of the ruble exchange rate and, to some extent, by the withdrawal of licences from a number of credit institutions. Therefore, for more correct reporting of the actual dynamics of assets and liabilities in the banking sector, the data presented in this section are adjusted for exchange rate effects and refer to credit institutions operating as of 1 January 2019 (including banks reorganised in 2018).

Another 2018 tailwind came from the ongoing inflow of household savings to banks; this proved households' confidence in banks.

In 2018, banking sector assets grew by 6.9% (9.0% in 2017) to ₽94.1 trillion. The growth of assets lagged behind the growth of nominal GDP; as a result, the ratio of banking sector assets to GDP fell from 92.5% to 90.6% over the year.

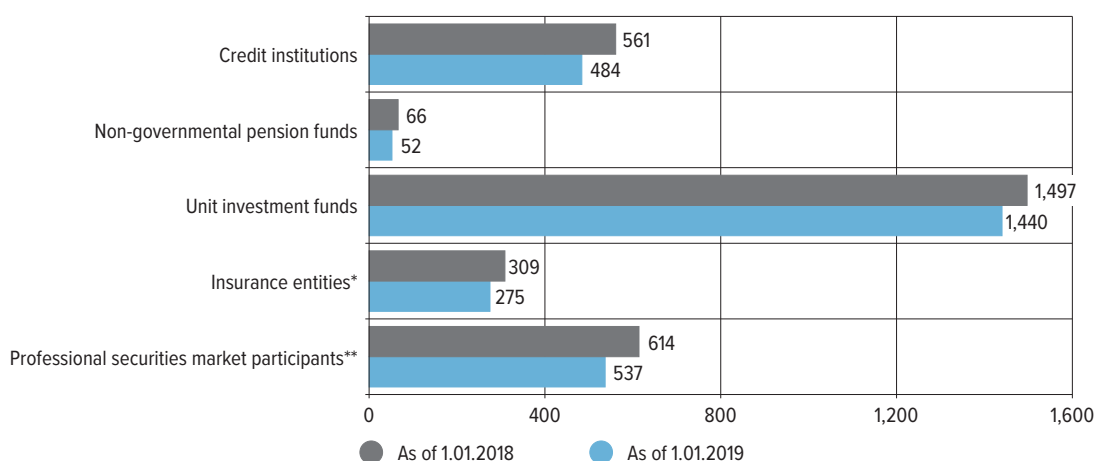
In 2018, the total assets of systemically important credit institutions (SICI) increased by 6.8% to ₽65.8 trillion.

Credit institution liability structure.

The funding of operations conducted by banks in 2018 remained balanced. The structure of funding was changing amid the substitution

NUMBER OF MAJOR FINANCIAL MARKET PARTICIPANTS
(UNITS)

Chart 19



* Insurance entities comprise insurance companies, mutual insurance companies, and insurance brokers.

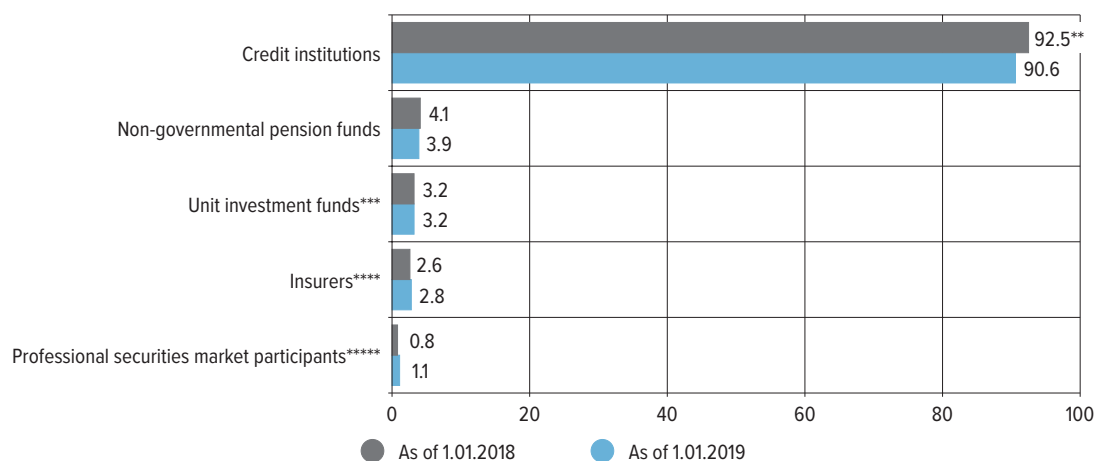
** Taking into account credit institutions which are professional securities market participants.

of external funding by internal. The growth of the ruble-denominated component and the reduction of foreign currency-denominated

component (in the US dollar equivalent) confirms the effectiveness of the Bank of Russia's dedollarisation policy.

ASSETS OF MAJOR FINANCIAL MARKET PARTICIPANTS* (AS A PERCENTAGE OF GDP)

Chart 20



* Assets taken into account based on 2018 results; for credit institutions — according to statements as of 1 January 2019, for insurers, non-governmental pension funds, unit investment funds and professional securities market participants — according to statements as of 31 December 2018.

** Here and below, the indicator as of the beginning of 2018 differs from the indicator used in Bank of Russia Annual Report for 2017, due to the update of GDP data.

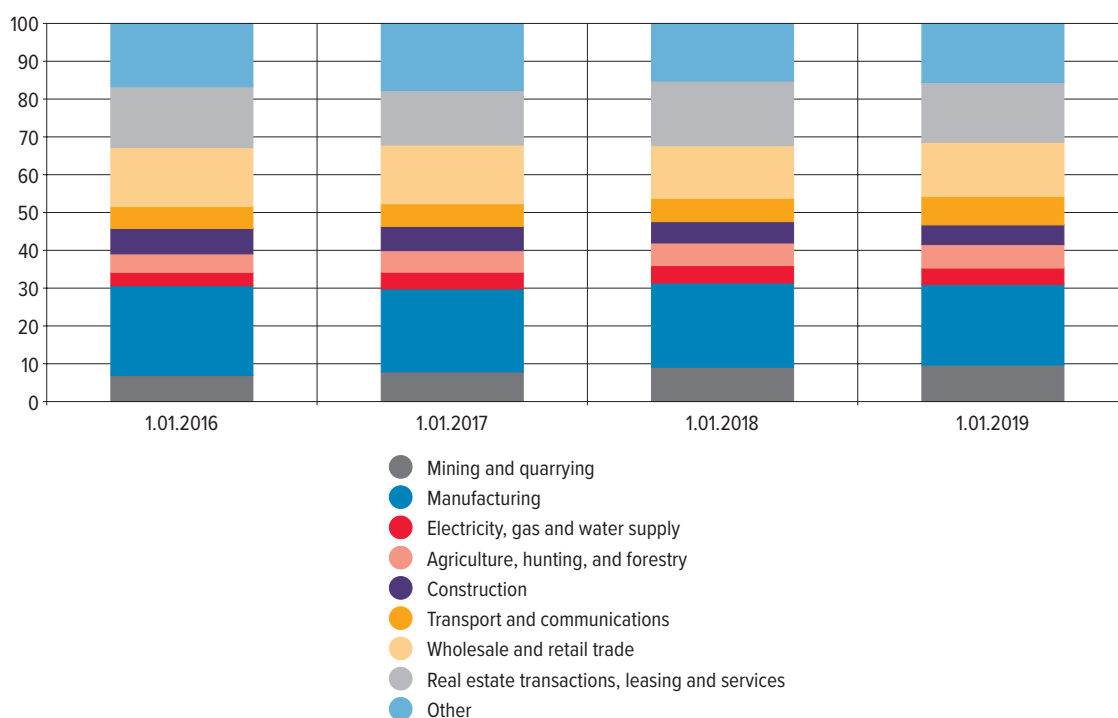
*** The value of net assets of unit investment funds.

**** Insurers comprise insurance companies and mutual insurance companies.

***** Data include non-bank financial institutions engaged in professional activities in the securities market, excluding JSC DOM.RF (earlier, AHML) and FBSC AMC Ltd.

STRUCTURE OF BANKING SECTOR CORPORATE LENDING PORTFOLIO BY ECONOMIC ACTIVITY* (PER CENT)

Chart 21



* For loans extended to resident legal entities and individual entrepreneurs, excluding loans to complete settlements. Here and below, lending indicators broken down by economic activity take into account data of the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) (from 9 December 2018, State Development Corporation VEB.RF).



The amount of household deposits in banks increased by 6.5%; the amount of corporate deposits and funds in corporate accounts increased by 6%

Household deposits continued to be the top source of funding for banking operations, as their share in bank liabilities exceeded the share of corporate deposits (as of 1 January 2019, 30.2% and 29.8% respectively).

In 2018, household deposits¹ grew by 6.5% (10.7% in the previous year) to ₽28.5 trillion. Despite a certain decline (from 46.1% to 45.1%), Sberbank continues to retain a sizeable share in the household deposit market.

In 2018, the total amount of corporate deposits and funds in corporate accounts increased by 6.0% (4.8% in 2017); as of 1 January 2019, their volume amounted to ₽28.0 trillion.

In 2018, the share of the foreign currency component (adjusted for exchange rate effects) declined in household deposits (from 20.6% to 18.5%) and in corporate deposits and funds in corporate accounts (from 36.7% to 32.7%).

In SICs, the amount of corporate deposits and funds in corporate accounts increased² in 2018 by 5.0% to ₽20.6 trillion, while the volume of household deposits was up 8.0% to ₽21.9 trillion.

In 2018, the borrowings of credit institutions from the Bank of Russia increased by 29.4% due to the fact that certain major market players received significant volumes of overnight loans as part of their liquidity management. The share of these funds in the liabilities of banks also increased from 2.4% to 2.8%. Banks sharply increased their borrowings from the

Federal Treasury (by 66.1% in 2018), however, despite having risen from 1.2% to 1.8% over the year, the share of these funds in banking sector liabilities remains insignificant.

The weighted average interest rate on ruble deposits of non-financial organisations for a period exceeding one year changed slightly and amounted to 6.7% per annum in December 2018. With a certain decline in the middle of the year, the interest rate on ruble household deposits changed from 6.7% to 6.8% per annum during the year.

In 2018, banking sector liabilities in foreign currency (in their US dollar equivalent) decreased by 6.9%, and their share in total liabilities, adjusted for exchange rate effects, amounted to 19.1% (as of 1 January 2018, 21.8%).

Credit institution asset structure. In 2018, total loans to non-financial organisations and households increased by 10.7% (6.2% in 2017) to ₽48.3 trillion. The growth of these loans in SICs was even more significant at 11.6% to reach ₽38.8 trillion.

In 2018, for the banking sector in general, the amount of outstanding loans³ to non-financial organisations increased by 5.8% (3.7% in 2017) to ₽33.4 trillion. The share of these loans in the banking sector's assets remained virtually unchanged throughout 2018 (35.5%).

For the second consecutive year, there was accelerated growth in the volume of new



Loans to non-financial organisations and households increased by 10.7%. Lending to transport, communication, agricultural, forestry, and trade companies grew at the highest pace

¹ Including savings certificates.

² The performance dynamics of SICs were also affected by a merger of a large subsidiary bank with one of the banks included in this category. Therefore, for a more correct assessment of the growth rates describing the performance of SICs, the data presented as of 1 January 2018 hereinafter include the indicators of the subsidiary bank.

³ Hereinafter, loans and other placed funds.



Loans to small and medium enterprises increased by 11.4%.
The retail loan portfolio went up 22.8%.
Mortgage lending grew at a record pace of 23.1%

loans to small- and medium-sized enterprises (SMEs). In 2018, the amount of loans extended by banks to SMEs increased by 11.4% compared to the previous year (₽6.8 trillion), while the similar figure for 2017 was 15.4%. Outstanding bank loans to SMEs increased by 4.2% and amounted to ₽4.2 trillion as of 1 January 2019.

In 2018, bank lending to the key sectors of the economy showed positive dynamics. There was a significant increase in the volume of loans extended to transport and communication businesses (by 32.8%), agriculture and forestry businesses (by 15.9%), and wholesale and retail trade companies (by 14.0%). High growth rates (by 10.0%) were observed in lending to mining and quarrying companies amid the steady improvement of operational performance in this sector. At the same time, outstanding loans to businesses involved in

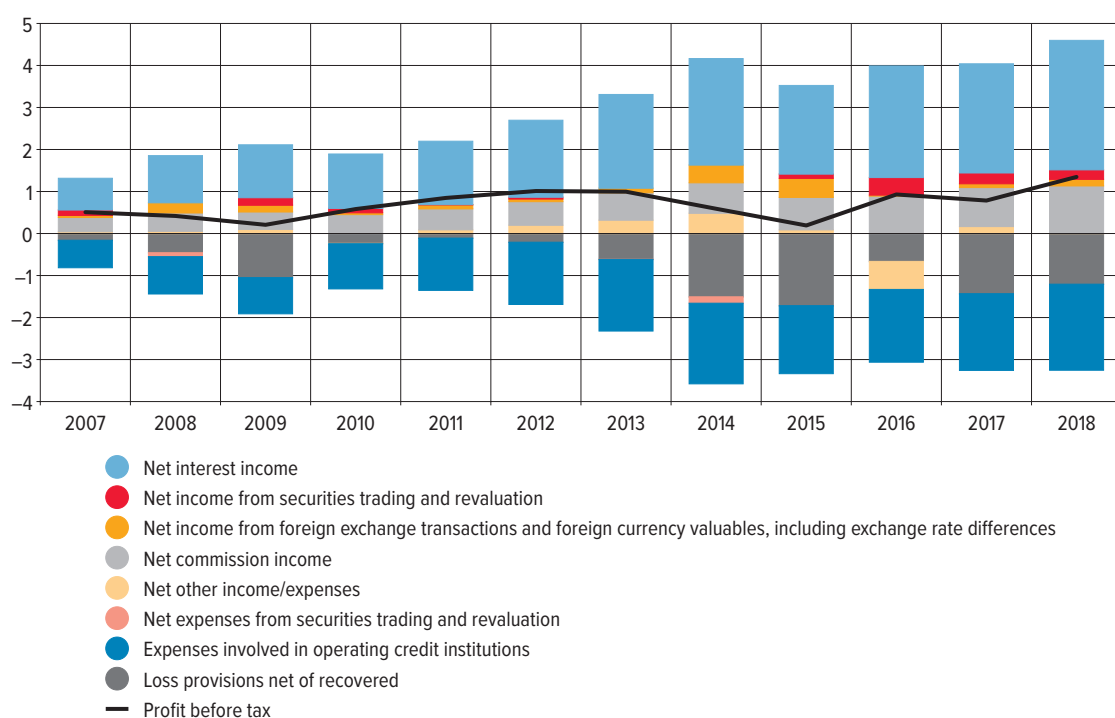
real estate operations, leasing and services decreased by 1.1%.

In 2018, the share of foreign currency-denominated loans in the total amount of loans to non-financial organisations declined even in nominal terms from 29.7% to 28.8%, caused by higher ruble-denominated lending, along with lower lending in foreign currency. The share of the foreign currency component decreased in loans to organisations involved in all types of economic activities, except in mining and quarrying, agriculture, and construction. The share of foreign currency-denominated debt remained the highest in lending to the extractive industry, given the significant foreign currency revenues in that sector.

In 2018, outstanding bank loans to households increased in general for the banking sector by 22.8% (13.2% in 2017) to ₽14.9 trillion. As of 1 January 2019, this segment accounted

BANKING SECTOR PROFIT FACTORS
(TRILLIONS OF RUBLES)

Chart 22



for 15.8% of banking sector assets. Foreign currency revaluation had an insignificant impact on the growth rates of retail loans due to a fairly low share of their foreign currency component. Unsecured consumer loans, which increased by 22.8% to ₹7.4 trillion in 2018, and housing mortgage loans (HML) were the key driver behind the growth of retail lending.

In 2018, the HML portfolio grew by 23.1% (16.2% in 2017) to ₹6.6 trillion, which was primarily the result of lower average annual interest rates. Mortgage lending has virtually no foreign currency segment, and as of 1 January 2019 ruble-denominated loans accounted for 99.2% of the portfolio. Overall in 2018, about 1.5 million HMLs were provided in the amount of more than ₹3 trillion (in 2017, 1.1 million loans in the amount of ₹2.0 trillion).

In December 2018, the average weighted interest rate on ruble-denominated loans to non-financial organisations for a period exceeding one year was 9.2% p.a., or 0.6 pp higher than in January 2018. The interest rate on ruble-denominated household loans with the same maturity declined from 13.5% p.a. in January to 12.5% p.a. in December. The average weighted interest rate on ruble-denominated housing mortgage loans decreased from 9.9% p.a. in January to 9.7% p.a. in December, but the minimum of 9.4% was reached in September–October.

In 2018, the securities portfolio grew by 2.4% (9.7% in 2017) to ₹13.1 trillion, but its share in banking sector assets declined from 14.5% to 13.9%. Investments in debt liabilities still constituted the largest share (83%) in the securities portfolio. The volume of equity securities was down by 0.5%, and their share in the securities portfolio declined from 3.9% to 3.8%.

In the reporting period, the securities portfolio of SICs increased by 3.5% to ₹7.9 trillion.

Amid the liquidity surplus, credit institutions' claims on the Bank of Russia (deposits, required reserves and correspondent accounts with the Bank of Russia as well as investments in Bank of Russia bonds) were up 12.7% in 2018 to ₹5.7 trillion. Their share in banking sector assets did not change compared to the beginning of 2018 (6.0%).

Foreign currency assets of credit institutions (their US dollar equivalent) decreased by 7.6% in 2018, and their share in total assets, adjusted for exchange rate effects, declined to 19.3% (as of 1 January 2018, 22.3%).

Claims and obligations on interbank loans.

In 2018, the total portfolio of interbank loans decreased by 9.8% (10.0% in 2017) to ₹9.3 trillion, and over the year their share in the banking sector's assets fell from 11.5% to 9.9%. Loans to resident banks decreased by 8.4%, while loans to non-resident banks declined by 16.5%.

The volume of raised interbank loans diminished by 5.2% (in 2017, it was up 10.5%) to ₹9.2 trillion, while its share in banking sector liabilities decreased by 1.1 pp to 9.8%. Over the year, interbank loans raised from non-resident banks increased by 3.9%.

At the end of 2018, the Russian banking sector remained a net creditor in operations with non-resident banks: net claims to non-residents in the IBL market stood at ₹0.5 trillion (₹0.8 trillion a year earlier).

Financial results and capital of the banking sector in 2018.

In 2018, credit institutions made a net profit of ₹1.3 trillion (in 2017, ₹0.8 trillion). The financial result was still affected by the performance of banks under resolution. These banks aside, the banking sector's net profit in 2018 amounted to ₹1.9 trillion (₹1.4 trillion in 2017).

The growth of the sector's profit was primarily driven by higher net interest income (up 18.7% to ₹3.1 trillion). Net interest income is consistently the most significant profit factor (67.0% in 2018, 64.2% in 2017).

A significant positive shift was observed in banks' net interest income to gross interest income ratio, as this indicator increased from 44.8% as of 1 January 2018 to 50.2% as of 1 January 2019 due to higher interest income and a simultaneous reduction of interest expenses.

Net interest income from operations with households increased by ₹396 billion, or 90.6%. Interest income on household loans grew by 29.7%, while interest expenses on operations with households increased by only 4.4%.

Net commission income is the most stable source of income, which in fact is only mildly affected by the market environment. In 2018, it grew by 21.5% compared to the corresponding figure for 2017 (to ₽1.1 trillion, or 24.5% of profit factors).

There was also an increase in net income from foreign exchange transactions (by 70.2% to ₽0.2 trillion, or 3.4% of profit factors), which was mainly generated by sale and purchase operations.

In 2018, the net income from securities transactions declined by 12.7% to ₽0.2 trillion and accounted for 4.9% of profit factors (6.4% in 2017).

The financial performance of the banking sector was also supported by net income from other operations of credit institutions, although their share in the structure of profit factors decreased from 4.2% in 2017 to 0.2% in 2018.

In 2018, expenditures related to the activities of credit institutions increased by 12.3% to ₽2.0 trillion.

The total profit of SICs in 2018 amounted to ₽1.5 trillion; the activities of SICs (except for Promsvyazbank PJSC, which is undergoing financial rehabilitation) were profitable.

The banking sector profitability indicators improved. Return on assets grew from 1.0% to 1.5% over the year, and return on equity increased from 8.3% to 13.8%.

Most credit institutions in the sector were profitable. In 2018, 382 credit institutions made an aggregate profit of ₽1.9 trillion (79% of the number of credit institutions operating as of 1 January 2019), and 100 credit institutions (21%) had an aggregate loss of ₽575 billion.

The banking sector's equity (capital) generally increased in 2018, with the aggregate growth of total capital amounting to ₽872 billion (9.3%); Tier 1 capital, ₽594 billion (9.3%); and common equity Tier 1 capital, ₽877 billion (13.2%).

During the year, 325 credit institutions increased their equity by a total of ₽2.0 trillion; the capital of 159 credit institutions decreased by a total of ₽1.0 trillion; and 77 credit institutions (with a total capital of ₽96 billion) ceased

their activities for various reasons (revocation of licences, reorganisation).

Capital growth in the sector was constrained by performance of banks under resolution, as these banks accounted for 93% of the total capital decline in 2018, while the annual growth of the sector's equity, excluding banks under resolution, amounted to ₽1.4 trillion (or 15.1%).

CAPITAL ADEQUACY

In 2018, both large and small banks increased their capital. For systemically important banks, this figure grew by 19.4%; for other banks included in the top 100 by assets, 6.2%; and for small banks, 8.4%.

In 2018, the increase in equity was generated by financial performance (achieved mainly by the largest banks) and by the reduction of investments in shares of financial institutions and their subsidiaries and affiliates, which can be explained by the merger of several major banks and the sale of subsidiaries by the largest banks.

As a result, the capital structure underwent some changes in 2018. The share of profit in the sources of capital increased (from 44% to 47%), while the share of subordinated debt declined (from 19% to 17%), as did authorised capital and share premium (from 21% to 20% and from 14% to 13% respectively). In the structure of deductions, there was a decline in the share of investments in subsidiaries (from 23% to 11%) and subordinated loans extended to financial institutions (from 9% to 8%), but there was an increase in the share of losses (from 49% to 64%).

In 2018, the banking sector's total capital adequacy increased by 0.1 pp to 12.15%; common equity Tier 1 capital adequacy, by 0.1 pp to 8.31%; and core capital adequacy, by 0.4 pp to 8.88%.

Growth of capital adequacy in the sector was constrained by banks under resolution, which experienced a significant decrease in their equity along with the growth of risk-weighted assets. These banks aside, total capital adequacy increased significantly (by 1.1 pp to 14.44%).

In addition, the growth of risk-weighted assets of major banks had a downward effect on the total capital adequacy of the banking sector (the denominator in the N1.0 ratio of systemically important banks increased by 22.1%; in other top 100 banks by assets, the denominator increased by 13.0%).

In 2018, total capital adequacy increased in most banks (a total of 253), while a decrease was reported in 206. Capital adequacy increased mainly among small banks. As of 1 January 2019, the share of banks that increased their capital adequacy totalled just 32% of the sector's assets, while major banks mostly demonstrated a decrease in capital adequacy.

In 2018, the sector's capital stock slightly declined by ₹177 billion (or 8.0%) from ₹2.2 trillion to ₹2.0 trillion. It should be noted that the decrease in the capital stock was not caused by lower capital adequacy in the sector but by a planned increase of requirements for buffers in 2018.¹

In 2018, the number of banks with capital deficit declined from 23 to 17. All of them are undergoing financial resolution.

Foreign-controlled banks. In 2018, the number of operating credit institutions with non-residents' participation declined from 160 to 141.

As of 1 January 2019, their total authorised capital² amounted to ₹2,697.7 billion and increased in 2018 by ₹27.5 billion (or 1%).

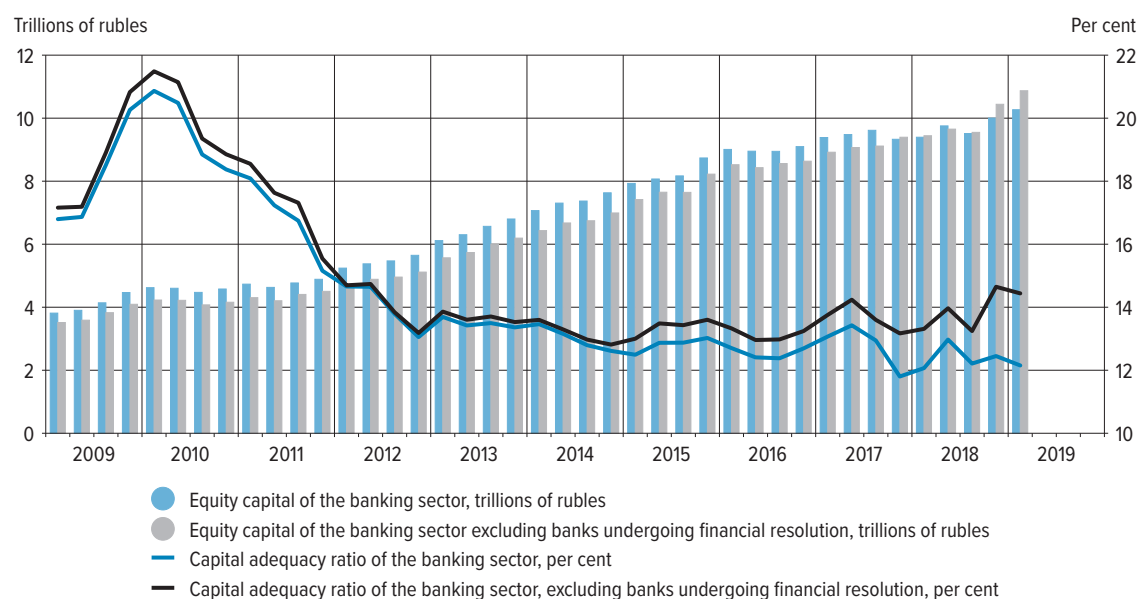
In 2018, the total amount of investments by non-residents in the total authorised capital of operating credit institutions declined by ₹11.7 billion (or 2.9%) and as of 1 January 2019 totalled ₹391.7 billion. Non-residents' share in the total authorised capital of operating credit institutions decreased in 2018 from 15.1% to 14.5%.³

The share of foreign capital in the total authorised capital of existing credit institutions, as calculated by the Bank of Russia in accordance with the procedure specified in Article 18 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' was 12.4% as of 1 January 2019 (12.9% as of 1 January 2018).

In 2018, the number of operating credit institutions with a non-resident share of more

CAPITAL ADEQUACY

Chart 23



¹ In accordance with Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios', the current capital conservation buffer is 1.875 pp, and the systemic importance capital buffer is 0.650 pp. In 2017, these values were 1.250 pp and 0.350 pp respectively.

² For the purpose of calculation of non-residents' participation in the banking system, total authorised capital means total registered authorised capital and issues of joint-stock credit institutions completed as of 1 January 2019.

³ The paragraph contains figures of the absolute and relative stakes of non-residents, net of the adjustments established in Article 18 of Federal Law No. 395-1, 'On Banks and Banking Activities'.



Total NPF assets increased by 6.3%. The number of participants in the voluntary pension system increased to 6.1 million people

than 50% in the authorised capital decreased from 84 to 77. In 12 out of these 77 credit institutions, the non-resident shareholders (participants) were under the control of Russian residents.

NON-GOVERNMENTAL PENSION FUNDS

In 2018, the number of operating NPFs declined by 21.2% to 52 funds as of 1 January 2019, of which more than half (35 funds) are members of the guarantee system for the rights of insured persons and carry out activities related to mandatory pension insurance.

The investment portfolio of NPF pension funds increased by 4.9% to ₽3,856.2 billion as of 31 December 2018. The pension savings portfolio of NPFs was up by 5.2% to ₽2,595.1 billion, and the pension reserves portfolio increased by 4.2% to ₽1,261.1 billion.

Key indicators of non-governmental pension provision showed growth in 2018. Thus, the number of participants in the voluntary pension system increased by 2.1% to 6.1 million people, the volume of pension payouts went up 1.3% to ₽60.1 billion and the number of recipients of voluntary pensions grew by 2.8% to 1,526,100 people.

For mandatory pension insurance, the number of insured persons placing their savings in funds increased by 7.7% to 37.0 million, the volume of pension payouts went up 41% to ₽11.5 billion and the number of insured persons receiving a pension¹ declined by 1.8% to 425,000 people.

Over the year, total NPF assets increased by 6.3% and amounted to ₽4,057.0 billion as of 31 December 2018.

UNIT AND JOINT-STOCK INVESTMENT FUNDS

In 2018, the number of management companies operating in the collective investment market² declined by 8.2% (by 25 companies) and as of 1 January 2019 totalled 280.

At the end of 2018, the number of registered unit investment funds (UIFs) not excluded from the register was 1,440, which is 3.8% less than a year earlier. The number of closed-end UIFs was 1,128; open-end UIFs, 268; and interval UIFs, 40. As of the end of December, there were four registered exchange-traded UIFs.

The number of organisations operating as a specialised depository decreased by 6.5% to 29.

The number of joint-stock investment funds declined to two. The decrease by one fund was due to cancellation of its license based on the application of the joint-stock investment fund.

Despite the lower number of open-end UIFs, the number of their unit holders significantly increased in the reporting period by 148,200, or 33.4%. As a result, the total number of UIF unit holders grew from 1,516,400 to 1,660,300 over the year.

Nevertheless, the largest contribution to the increase in the net asset value of UIFs was made by closed-end UIFs, which accounted for 89.6% of the total net asset value (NAV). In the



Net Asset Value of UIFs increased by 13.7%.
The number of participants in open-end UIFs increased by 33.4%

¹ Lump sum payments, term payments, payments of the funded component of retirement pension.

² Entities licenced to manage investment funds, unit investment funds, and non-governmental pension funds.

reporting period, the NAV of closed-end UIFs grew by 11.0%. In addition, total NAV increase for the reporting year exceeded 13.7%. Thus, as of the end of the year, the NAV of UIFs amounted to ₹3,341.8 billion, with assets of ₹3,665.5 billion accounting for 3.5% of GDP.

In 2018, there were some changes in the structure of UIF assets. During the year, the management companies of UIFs reduced their share of investments in real estate from 28.4% to 23.8%. As of 31 December 2018, the top three investment areas included the stocks of Russian issuers, which accounted for 20.2% of UIF assets (19.7% a year earlier), and contributions into the authorised (share) capital of Russian companies (18.4% of the total value of UIF assets, with annual growth of 0.9 pp).

INSURANCE AGENTS

In 2018, the total number of insurance agents declined by 11% and totalled 275 as of 1 January 2019 (see, Table 9 in Section 5.4 'Statistical tables').

In 2018, the amount of collected insurance premiums reached ₹1,479.5 billion,¹ with contributions growing at a rate of 15.7%. 202.6 million contracts were entered into in 2018. In 2018, payouts under insurance contracts increased by 2.5% compared to the previous year. Total payments amounted to ₹522.5 billion.

Life insurance continues to be the market's main support. In 2018, life insurance premiums increased by 36.5%, and the amount of collected premiums reached ₹452.4 billion. The number of life insurance contracts is steadily increasing, with 6.0 million contracts entered into in 2018 (+32.3% for the year). Total payouts in 2018 amounted to ₹67.1 billion.

Accident and health insurance also had a substantial impact on market dynamics.

In 2018, contributions increased by 39.8%, and the amount of accident and health insurance premiums reached ₹169.5 billion. The number of contracts entered into declined by 3.3% to 57.6 million. Payouts under accident and health insurance increased by 14.2% to ₹16.4 billion.

Voluntary medical insurance made a positive contribution to market dynamics. In 2018, the amount of contributions grew at a rate of 8.5%. As a result, in 2018, the amount of collected voluntary health insurance premiums amounted to ₹151.8 billion. During the year, the number of contracts entered into increased by 11.1% to 12.3 million. In 2018, payouts grew by 5.8% compared to the previous year. The amount of payouts reached ₹111.9 billion.

In 2018, ₹168.7 billion was collected for ground vehicle insurance, excluding railway transport (motor hull insurance). Contributions increased by 3.8% in 2018. The number of contracts entered into in 2018 grew by 20.3% compared to the previous year, totalling 4.7 million. Over 2018, the average premium for motor hull insurance declined by ₹5,700 to ₹35,700. The amount of payouts in 2018 was ₹83.3 billion.

In the segment of compulsory motor third-party liability insurance (CMTPLI), contributions increased by 1.8%. As of 2018 year-end, the amount of CMTPLI contributions was ₹226.0 billion. In 2018, the number of CMTPLI contracts entered into grew to 39.7 million. Over the year, the average insurance premium under CMTPLI declined by ₹100 to ₹5,700. In 2018, payouts under CMTPLI dropped by 21.4%. The amount of payouts under CMTPLI totalled ₹137.9 billion.

In 2018, contributions to other corporate property insurance declined by 7.8%, while collected premiums amounted to ₹88.5 billion, and payouts in the segment reached ₹49.3 billion.



The amount of insurance premiums increased by 15.7%.
The key growth drivers are life insurance, accident and health insurance
as well as voluntary health insurance

¹ Hereinafter, the statistical data on the results of insurer activities are provided as of 26 February 2019, and annual accounting (financial) data, as of 6 March 2019.



Over the year, the assets of NFIs holding licences of professional securities market participants grew by a factor of 1.6

Contributions under reinsurance contracts increased in 2018 by 6.1% compared to 2017 and reached ₽115.5 billion. Incoming reinsurance showed a 24.5% increase in contributions, reaching ₽43.4 billion in 2018.

In 2018, Joint-stock Company Russian National Reinsurance Company (JSC RNRC) operated in the insurance market.¹ Over the year, RNRC JSC accrued reinsurance premiums in the amount of ₽12,177,994,000 under 8,985 reinsurance contracts, including 8,010 optional contracts and 975 obligatory contracts.

In 2018, the moving loss and expense ratios decreased to 49.1% and 35.8% in 2018 respectively. As a result, the moving combined loss ratio declined to 84.9%.

The profit² of insurance companies in 2018 reached ₽164.9 billion. Capital of insurance companies amounted to ₽677.3 billion (+11.9% in 2018). Return on capital of insurance companies reached 31.2%. As of 31 December 2018, insurance reserves grew by 26.4% over the year to ₽1,831.1 billion. As of 31 December 2018, total assets of insurers amounted to ₽2,918.9 billion after increasing by 20.1% in 2018. In 2018, the return on assets of insurers reached 7.6%.

MICROFINANCE MARKET PARTICIPANTS

In 2018, the number of microfinance organisations (MFOs) declined by 11.8% to 2,002 as of 1 January 2019. This includes 53 microfinance companies (MFCs, 11.7% less than in 2017) and 1,949 microcredit companies (MCCs, 11.9% less than in 2017). The number of consumer credit cooperatives (CCCs) declined by 14.3% to 2,285; pawnshops, by 20.1% to 4,617; and agricultural CCCs, by 16.1% to 1,042.

Over the year, core assets of MFOs (the amount of principal debt on microloans issued

as of the end of the reporting period) increased by 45.1% and amounted to ₽163.6 billion as of 31 December 2018.

The number of microloan agreements entered into in 2018 was 28.9 million, which is 23% more than in 2017.

The amount of issued microloans increased by 28.8% to ₽329.8 billion.

In the reporting year, MFOs raised ₽54.0 billion in cash, which is 13% less than in 2017.

Compared to 2017, the net profit of MFOs doubled and amounted to ₽10.9 billion as of 31 December 2018.

PROFESSIONAL SECURITIES MARKET PARTICIPANTS

In 2018, the number of credit institutions and non-bank financial institutions holding licences of professional securities market participants continued to decline. Over the year, the number of such organisations decreased by 12.5% to 537 as of 1 January 2019, including 297 non-bank financial institutions (NFIs) holding licences of professional securities market participants and 240 credit institutions holding licences of professional securities market participants.

During the year, total assets of NFIs holding licences of professional securities market participants³ grew by a factor of 1.6 and as of 31 December 2018 amounted to ₽1,136.1 billion, or 1.1% of GDP (0.8% of GDP as of 31 December 2017).

The equity of NFIs holding licences of professional securities market participants declined by a factor of 1.5 to ₽84.5 billion as of 31 December 2018.

As of 31 December 2018, liabilities of NFIs holding licences of professional securities market participants amounted to ₽735.3 billion, or 64.7% of their assets (53.9% of assets of NFIs holding licences of professional securities market participants as of 31 December 2017).

The net profit of NFIs holding licences of professional securities market participants decreased threefold compared to 2017 and amounted to ₽10.0 billion as of 31 December 2018.

¹ Established by decision of the Bank of Russia Board of Directors in accordance with Federal Law No. 363-FZ, dated 3 July 2016, 'On Amending the Law of the Russian Federation 'On the Organisation of the Insurance Business in the Russian Federation'.

² Profit is given after taxes.

³ Hereinafter, the statistical data on professional securities market participants do not include DOM.RF JSC (previously known as AHML) and FBSC AMC Ltd.

1.2.2.2. FINANCIAL MARKET INFRASTRUCTURES AND OTHER PARTICIPANTS

In 2018, infrastructures operating in the financial market included exchanges, the central depository, repositories, clearing organisations, central counterparty, organisations performing the functions of a central counterparty, commodity delivery operators, payment system operators, credit history bureaus, and information agencies accredited to disclose information on securities and other financial instruments.

In 2018, the Bank of Russia accredited one commodity delivery operator and decided to remove four legal entities from the state register of credit history bureaus.¹ The number of self-regulatory organisations in the financial market decreased by two organisations.² The details of one responsible actuary were included in the single register of responsible actuaries³ and two responsible actuaries were excluded from that register. Detailed information on the number of infrastructure organisations and other financial market participants is provided in Table 9 of Section 5.4 'Statistical tables', and on the number of self-regulatory organisations and their members, in Table 10 of Section 5.4 'Statistical tables'.

2018 saw improvement of key performance indicators in systemically important infrastructure organisations of the financial market, which include the Non-bank Credit Institution – Central Counterparty National Clearing Centre (Joint-stock Company) (NCI NCC (JSC), which was the central counterparty (CC), clearing organisation and commodity delivery operator, and the Nonbank Credit Institution – Joint-stock Company National Settlement Depository (NCI JSC NSD), which was the central depository (CD), repository, clearing organisation,

settlement depository and payment system operator.

The value of assets in custody at the central depository increased by 12% and amounted to ₽50 trillion, which was primarily due to growth in the value of stocks in custody and the inflow of new bond issues for servicing. The number of transactions registered in the repository under all types of contracts increased by 11% to 12.5 million. The increased number of registered contracts was mainly due to reporting on over-the-counter repo and foreign exchange transactions.

The trading volume of operations with the CC increased by 5% and amounted to ₽716 trillion thanks to the growth of trading volume in the forward market and in the CC repo market involving clearing participation certificates (CPCs), including following the adoption of measures to develop these markets and improve their liquidity and attractiveness for investors. Such measures include expanding the list of traded instruments and foreign currencies available for settlement as well as implementing the Liquidity Providers and Single Collateral Pool for all Markets projects.

As part of the Liquidity Providers service, market participants gained access to global FX liquidity through over-the-counter transactions with NCI NCC (JSC) acting as the CC based on prices of the WORLD'S most traded currencies quoted through NCI NCC (JSC) by major international banks providing liquidity.

In 2018, NCI NCC (JSC) was assessed by external organisations. Fitch Ratings, an international rating agency, confirmed the long-term foreign currency issuer default rating at BBB-⁴

¹ Three credit bureaus were removed in connection with their voluntary liquidation, and one was removed in accordance with judicial procedure due to repeated violations and a failure to comply with Bank of Russia orders.

² In 2018, the status of a self-regulatory organisation in the financial market was terminated for the National Union Self-regulatory Organisation of Consumer Credit Cooperatives Soyuzmikrofinans based on the Bank of Russia decision, and the association of management companies National League of Managers was reorganised in the form of accession to the National Association of Stock Market Participants.

³ The Bank of Russia modified the procedure for obtaining the status of responsible actuary to be based on electronic interaction between the Bank of Russia and the actuary through a personal cabinet as well as the exemption of actuaries intending to obtain the status of a responsible actuary from the obligation to submit to the Bank of Russia documents containing information received by the Bank of Russia using the system of interagency electronic interaction.

⁴ Corresponds to the sovereign rating of the Russian Federation.

(with a positive outlook) and long-term local currency rating at BBB (with a stable outlook).

Analytical Credit Rating Agency (Joint-stock Company) (ACRA JSC) confirmed the credit rating of NCI NCC (JSC) at AAA (RU) (with a stable outlook).

On 20 September 2018, the Bank of Russia certified conformity of management quality in NCI NCC (JSC), which exercises the functions of CC, as 'satisfactory'.

2018 saw a number of material events in the activities of NCI JSC NSD. In the past year, the organisation actively developed its services to manage collateral under repo transactions, organised electronic voting at the meetings of shareholders, and supported technology for the placement and purchase/sale of securities using blockchain, the Marketplace project, and other digital products.

These innovations increase the attractiveness of the domestic financial market, its transparency and competitiveness and reduce risks and costs for market participants.

In 2018, NCI JSC NSD successfully passed the accreditation of the Global Legal Entity Identifier Foundation (GLEIF) as a local operating unit (LOU)¹ of the Global Legal Entity Identifier System (GLEIS), obtained the status of authorised depository in Belarus, began to assign international codes to securities of Moldovan issuers, and took measures to improve corporate governance, risk management and business continuity.

In 2018, as part of developing the National Payment System (NPS), **NPS agents** implemented technical renovation of important payment infrastructure facilities and ensured uninterrupted provision of funds transfer services. This contributed to the expanded use of high-tech remote payment services and improved the convenience, quality and security of provided payment services.

As of 1 January 2019, 485 funds transfer operators (including 93 e-money operators), 36 payment system operators,² 48 operators

of payment infrastructure services, two federal post service operators, payment agents, and bank payment agents operated as NPS agents.

At the beginning of 2019, 36 payment systems were operating in the Russian Federation.

In 2018, 1.6 billion funds transfers were made via the systemically important Bank of Russia payment system (the Bank of Russia PS) in the amount of ₽1,715.1 trillion, including operations made to implement the monetary policy, settlements in the interbank and financial markets, and operations using payment cards. Funds transfers exceeded GDP by a factor of 16.5 (15.6 in 2017). For the purpose of settlement of card transactions,³ 37.4 thousand funds transfers were made via the Bank of Russia PS in the amount of ₽3.6 trillion (a 6% increase in terms of number of funds transfers, and 27.6% in terms of volume).

In 2018, the volume of funds transfers within the NSD payment system (NSD PS) was ₽131.1 trillion. As in the previous years, the structure of funds transfers within the NSD PS, which provides settlements on the exchange and over-the-counter markets, was dominated by transfers made under organised trading transactions (70.8%). OTC funds transfers accounted for 14.4%.

In 2018, performance indicators of credit institutions, which are funds transfer operators and provide the institutional framework for the National Payment System, grew rapidly. Operations performed by credit institutions at their customers'⁴ orders as well as credit institutions' own operations increased by 33.4% in terms of number of operations and by 13.4% in terms of volume (35.8 billion payments in the amount of ₽757.4 trillion).

The improvement of remote banking systems is one of the priority areas in the banking sector's development. During the reporting year, the number of household accounts with remote access increased by 10.4% to reach 236.2 million. Corporate customers are also using more remote banking services, with 6.2 million

¹ LOU is an organisation authorised to assign LEI codes to legal entities within a certain territory.

² Including the Bank of Russia and Joint-stock Company National Payment Card System.

³ Payment card settlements are made on a net basis.

⁴ Here and elsewhere, individuals and legal entities other than credit institutions.



The share of non-cash payments in the retail turnover for the first time exceeded cash payments amounting to 55.6%

accounts with remote access opened as of the end of 2018, which is 14.3% more than in the previous year. The share of accounts with remote access in the active accounts of the customers of credit institutions reached 84.4%.

The number of transactions carried out by customers of credit institutions using digital technologies increased by more than a third compared to 2017 (to 34.4 billion orders), while their volume increased by 14.1% (to ₽676.1 trillion). This was achieved owing mainly to transactions of individuals, which grew at an annual rate of 36.5% in terms of the number of transactions and 35.3% in terms of volume. In addition, one in five electronic retail payments was made via the Internet and/or mobile devices.

In 2018, strong growth was registered in contactless payments¹ which have gained in popularity in recent years. Contactless payments were used in 8.1 billion transactions worth ₽5.5 trillion (an increase by a factor of 4.4 in number and by a factor of 3.7 in value). One in four card payments was contactless. The number of ATMs and electronic terminals

supporting contactless transactions increased by almost 23% to 2.5 million. More than 40% of the total number of payment cards issued by credit institutions were cards supporting contactless payment (which is almost twice as much as in the previous year).

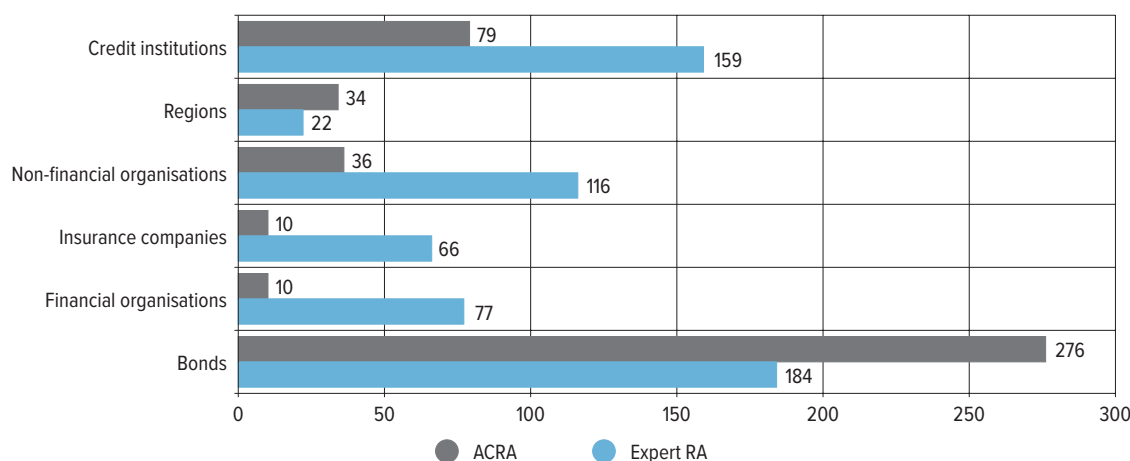
The total number of payment cards issued by Russian credit institutions increased by 0.4% to reach 272.7 million as of 1 January 2019 (1.9 cards per capita in the Russian Federation). In 2018, they were used in Russia and abroad for 32.3 billion transactions in the amount of ₽77.9 trillion (an increase of 34.7% in terms of the number of transactions and 22.9% in terms of volume), which made 220 transactions worth ₽530.3 thousand per capita.

International payment systems Visa and MasterCard continued to dominate the payment card market. Yet in 2018, the Mir payment system operated by NSPC JSC was their true competitor. As of 1 January 2019, Mir cards accounted for 19.2% of all payment cards issued (10.6% a year earlier). The share of Mir card-enabled transactions in total volume of domestic payment card-enabled operations grew from 2.9% in 2017 to 14.5% in 2018.

The payment card market was traditionally characterised by high growth rates of non-cash transactions (by a factor of 1.4 in terms of both the number and volume as compared

CREDIT RATINGS ASSIGNED BY RUSSIAN CREDIT RATING AGENCIES AS OF 31 DECEMBER 2018
(UNITS)

Chart 24



¹ Using contactless payment cards, Apple Pay, Samsung Pay, etc.



A new service was created to provide information on credit history bureaus through the Public Services Portal

with the corresponding indicators for 2017). In 2018, the share of non-cash transactions in the total number of transactions using payment cards increased by 4 pp and reached 90.1%, with the share of such transactions in terms of value amounting to almost 64% (57% in 2017). At the same time, the number of operations to withdraw cash was down 4.0%, and their volume increased by 3.1%.

The wider use of non-cash payment instruments had an impact on the growth of non-cash payments in the total turnover of retail trade, public catering and paid services provided to households, which in the reporting year reached a share of 55.6% compared to 47.4% in 2017.¹

In 2018, the number of POS terminals installed in trading and service companies increased by 18.3% to 2.6 million, and 49.7 million transactions in the amount of ₽38.9 billion were made through them on a daily basis. The number of ATMs, most of which also allow

performing non-cash transactions, was 191,100 as of 1 January 2019.

The number of electronic means of payment (EMP) for the transfer of e-money (EM) issued by EM operators in 2018 increased by 2.7% to 376.0 million (including 348,800 prepaid Mir cards). Over the year, they were used to carry out 2.3 billion transactions in the amount of ₽1.7 trillion² (up 12.1% in terms of number and 24.4% in terms of volume), most of which were non-personalised EMPs (77.8% and 53.6% respectively).

In 2018, the **Central Catalogue of Credit Histories** (CCCH) saw a further increase in credit history titles and inquiries from credit history holders and users.

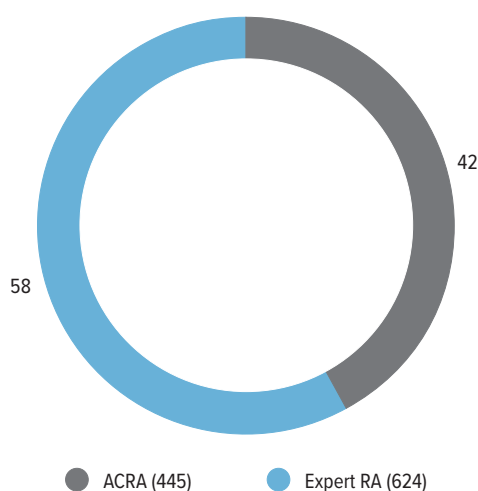
As of the end of 2018, the number of credit history titles in the CCCH totalled 340.8 million³ (9.2% growth compared with the beginning of 2018), of which the number of credit history titles of individual borrowers stood at 339.5 million, while the number of credit history titles of corporate borrowers came in at 1.3 million.

In 2018, the four largest CHBs accounted for about 94% of credit history titles.

The number of inquiries submitted to CCCH by credit history holders, credit history users and

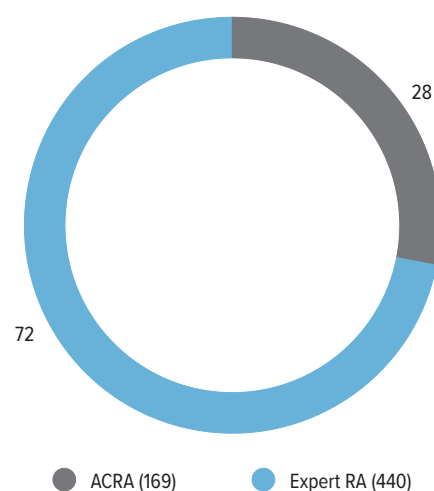
SHARES BY NUMBER OF CREDIT RATINGS
(PER CENT)

Chart 25



SHARES BY NUMBER OF RATED PERSONS
(PER CENT)

Chart 26



¹ Assessment based on Bank of Russia reporting forms and Rosstat data.

² Includes transfers of electronic money and electronic money balances, with the latter including cash withdrawal.

³ The number of credit history titles is defined as the total sum of all credit history titles transferred to the CCCH by all CHBs (information about the same borrower can be kept in several CHBs), including credit history titles filed only upon the creditor's request.

units of the Federal Bailiffs Service regarding CHBs where credit histories of credit history holders are stored, and requests for creation, cancellation or modification of the code (additional code) of the credit history holder increased by 3 million during the reporting year and reached 33.3 million since the start of CCCH operation. The most popular channels for submitting requests to CCCH were credit institutions, the Bank of Russia website and CHBs.

In late November 2018, the Bank of Russia piloted the service for submitting CCCH requests through the Unified Public Services Portal, and in less than two months the number of requests reached 57,510. From 31 January 2019, this service is provided by the Bank of Russia on a permanent basis.

As of 31 December 2018, **Russian credit rating agencies** ACRA JSC and JSC Expert RA assigned 1,069 credit ratings.

1.2.2.3. COMPETITION IN THE FINANCIAL MARKET

Development of competition in the financial market is a priority for the Bank of Russia because it contributes to economic growth and technological progress.

An inter-agency working group on the development of competition in the financial services market was established on 23 April 2018 with the participation of representatives from the Russian Federal Antimonopoly Service, the Bank of Russia, the Russian Ministry of Finance and the Ministry of Economic Development¹ pursuant to Presidential Decree No. 618, dated 21 December 2017, 'The Guidelines for the State Competition Policy'.

In 2018 Q2, the Bank of Russia and FAS published the first joint analytical report on Competition in the Financial Market, which contained analysis results indicating that the vast majority of segments reviewed in the Russian financial market were characterised by insufficient competition and represented a monopoly or oligopoly in a competitive environment with a significantly limited competition with the leader(s).

In addition, the results show a high degree of heterogeneity in competition, the level and conditions of which substantially differ among the constituents of the Russian Federation, making it necessary to conduct a balanced regional competition policy in the financial market. As a result, in 2018, the Bank of Russia initiated the efforts of its regional institutions to review competition in regional financial markets, primarily in the area of banking services.

Based on the review, this report proposed a list of priority measures. Subsequently, this list provided a framework for preparing an Action Plan (road map) for the improvement of competition in certain sectors of the Russian economy and transition of certain natural monopolies to a competitive market in 2018–2020.²

This plan is cross-sectoral in nature and focuses on three main areas in the financial market:

- creating equal business conditions for various market participants, including the removal of unjustified advantages for major financial institutions with state participation;
- reducing market barriers and creating a unified competitive environment, primarily through the introduction of new financial technologies;
- establishing a system of incentives for fair competition.

In 2018, all financial market activities involving the Bank of Russia were completed on time.

In particular, in December 2018, the following proposals were submitted to the Government of the Russian Federation:

- on improving the framework for the admission of banks to place budgetary funds in bank deposits (accounts) and provide other individual types of banking services; and
- on reducing barriers to transfers over household bank accounts.

¹ Subsequently, it also included representatives from the relevant committees of the Federation Council and the State Duma of the Federal Assembly of the Russian Federation.

² Approved by the Russian Government Directive No. 1697-r, dated 16 August 2018.

**BANK OF RUSSIA
KURSK REGIONAL
DIVISION BUILDING**

designed by F.O. Livchak,
1914



2. The Bank of Russia's activities

Information on the Bank of Russia's activities is presented in accordance with the strategic goals of the Bank of Russia:

- ensuring price stability;
- ensuring financial market resilience;
- expanding financial inclusion for households and businesses;
- development of the national payment system;
- technology development and innovation support in the financial market.

The report structure follows implementation of individual objectives and assesses overall results in the selected areas.

Ensuring price stability is one of the key goals for the Bank of Russia. In 2018, the Bank of Russia continued implementing its monetary policy under the inflation targeting regime by maintaining annual inflation near 4%.

Over the year, conditions for implementing the monetary policy substantially changed, primarily due to external factors. This caused the Bank of Russia to update its inflation forecasts. To keep inflation near 4% over the medium-term forecast horizon, the Bank of Russia shifted from a gradual reduction of the key rate at the beginning of 2018 to its increase in the second half of the year amid the materialisation of inflationary risks. As of year-end 2018, annual inflation was near 4%, totalling 4.3% (vs 2.5% in 2017).

The effectiveness of the monetary policy was confirmed by the dynamics of money market rates, which were primarily near the key rate. The streamlining and simplification of the Bank of Russia's lending and deposit operations helped improve the operating procedure. In particular, overnight deposits were automated without the need to exchange applications with credit institutions. Changes in technology of overnight deposit operations allowed extending the time frames of such operations.

In the area of **ensuring financial market sustainability**, the Bank of Russia's efforts were aimed at reducing the probability of various shocks and preventing and limiting their negative impact. To respond in a timely manner to increasing risks, the Bank of Russia regularly monitored and assessed risks in the banking sector and non-bank financial institutions. In particular, the accelerating growth of household debt in 2018, especially as regards unsecured consumer loans and mortgage loans with a low down payment, raised some concerns. To prevent the excessive growth of household debt burden and accumulation of risks in certain lending segments, the Bank of Russia adopted a number of macroprudential measures.

The Bank of Russia continued to improve its supervision of financial institutions to identify risks at the earliest stages. An important step was implementation of several regulatory standards of the Basel Committee on Banking Supervision (BCBS) completed in 2018. This had great importance for Russian credit institutions viewed as part of the global financial system. In 2018, proportionate regulation was gradually introduced for banks with a basic licence. In 2018, they were exempted from preparing IFRS financial statements on an individual basis. The Bank of Russia has also taken important steps to introduce the concept of incentive-based banking regulation. This will facilitate more active development of priority market segments. To improve the efficiency and effectiveness of supervision, the Bank of Russia completed centralisation of banking supervision in the autumn of 2018, and at the end of the year it tested the functional subsystem Supervised Institution Consolidated File designed to automate supervisory processes. The launch of personal accounts for supervised organisations will help improve communication with market participants and speed up the processing of information.

Regulation of NFI activities was also improved in the standardisation of financial operations and financial services. Their supervision by the Bank of Russia was complemented with supervision by self-regulatory organisations in the financial market.

The Bank of Russia was in constant dialogue with financial market participants to discuss the specifics of approaches to regulation and

supervision of NFIs. The Concept of Proportionate Regulation and Risk-Based Supervision of NFIs was elaborated and published on the basis of international experience. It set the direction for future changes.

The first stage of CMTPLI reform to transition toward individual rates was completed in 2018. In particular, the Bank of Russia elaborated and adopted an ordinance providing for more flexible approaches to determining insurance premiums. 2018 was also marked by an increase in purchases of electronic CMTPLI policies thanks to an improved quality of insurance company websites.

The Bank of Russia maintained its policy of purging the financial sector from weak and unscrupulous participants. The new mechanism for the financial rehabilitation of credit institutions proved to be a success. It provides for direct participation of the Bank of Russia in the capital of credit institutions under resolution. This experience was used to develop a mechanism for the financial rehabilitation of insurance companies.

Measures taken by the Bank of Russia to counteract unfair behaviour of financial market participants contributed to strengthening confidence in the financial market as well as its stable functioning and development. An important step was the establishment of the Situation Centre for Monitoring Exchange-Trading Markets. The Centre will help ensure more effective market monitoring. The territorial system for counteracting illegal activity in the financial market became fully operational. The volume of dubious transactions in the banking sector steadily declined.

Major efforts were made **to develop new technologies in the financial market**. The Bank of Russia started accepting reports from supervised organisations (non-bank financial institutions) in the XBRL format. Communication with financial market participants regarding various areas of their activity is now possible through a single personal account.

The Bank of Russia was also focused on supporting innovations as well as developing financial instruments and financial market infrastructure. The legal framework was created for issuing new types of financial instruments, improving the financing of financial sector companies, and reforming the market for over-the-counter financial instruments. In addition, the attributes and potential were determined for issuing structural bonds with the option of incomplete capital protection, perpetual bonds of non-bank organisations and non-voting preferred shares; regulation was also enhanced for convertible securities and the admission of savings (deposit) certificates of credit institutions to the financial market.

New services were implemented in the **Bank of Russia payment system** providing for high availability, a single extended work schedule and new liquidity management mechanisms. Efforts to create the Faster Pay-

ments System¹ were aimed at ensuring equal conditions for participating banks. The launch of the Unified Centralised Payment Gateway (Transport Gateway) improved the availability and reliability for the connection of participants to the Bank of Russia payment system. Mir cards were successfully promoted as part of **the development of payment instruments**.

A priority area for the Bank of Russia was **improvement of the availability of financial products and services to households and businesses**. The Bank of Russia initiated the creation of the marketplace system. This financial 'supermarket' will significantly simplify and accelerate the availability of financial products to Russian nationals. In 2018, the measures taken to implement conduct supervision aimed at monitoring the interaction of financial companies with consumers of their services reduced the number of complaints from financial consumers against financial institutions for the first time in recent years. The number of financial consumers also grew.

Information on the Bank of Russia's functions contributing to the achievement of all strategic goals is now in a separate block titled **Other Activities**. The information policy of the Bank of Russia was designed to communicate the benefits of low inflation and supervisory policy to the public and businesses as well as protect the rights of financial consumers. Bank of Russia employees regularly published on the Bank of Russia website and in scientific literature the findings of numerous studies conducted in all key areas of the Bank of Russia's activities. Seminars and conferences in Russia and abroad also served as platforms for discussing research findings.

A key area of international cooperation was establishment of a common financial market of EAEU member states. In particular, the central banks and governments of these states signed the Agreement on the Harmonisation of Financial Market Legislation of EAEU Member States. This defined the area and procedure for the convergence of regulatory and supervisory requirements in the banking and insurance sectors as well as in the securities market. There was continued development of co-operation within BRICS. BRICS Contingent Reserve Arrangement passed its first testing.

¹ Launched on 28 January 2019.

2.1. Ensuring price stability

2.1.1. MONETARY POLICY OBJECTIVES AND KEY MEASURES

The main goal of the Bank of Russia monetary policy is to ensure price stability, that is, maintain annual inflation near 4%. Low and stable inflation is an important element of public well-being and a favourable business environment.

As of year-end 2018, annual inflation was near 4%, totalling 4.3% (vs. 2.5% in 2017). In the past year, inflation became more homogeneous in terms of product groups and regions.

In 2018, there was no change in the principles of the Bank of Russia monetary policy. Under the inflation targeting regime, the key rate was the main instrument of the Bank of Russia monetary policy. Since changes in the key rate affect inflation over time through a long chain of relationships,¹ the Bank of Russia based its key rate decisions on macroeconomic forecasts, while focusing on sustainable trends and long-term factors. When making its key rate decisions, the Bank of Russia sought to create monetary conditions that contributed to achieving the inflation target and did not prevent the economy from remaining close to its potential. As the economic situation evolved (see Subsection 1.1.2), the Bank of Russia updated its forecast and published it in the Monetary Policy Report (quarterly) as well as in the Monetary Policy Guidelines in 2019–2021. The Bank of Russia maintained a conservative approach to building its internal and external forecast assumptions, which were adjusted as new information became available during the year.

In 2018, the Bank of Russia maintained a tight focus on ensuring the transparency and predictability of its monetary policy. In addition to information on its key rate decisions in press releases following Board of Directors meetings, the Bank of Russia also published

signals on possible monetary policy decisions in the future. These signals, along with the key rate decisions, affected expectations of market participants and influenced the formation of interest rates in the economy. The Bank of Russia sought to disclose in detail the reasons and logic of its decisions on monetary policy in the press releases on the key rate and Monetary Policy Reports, in the speeches and interviews with members of the Board of Directors and by using a number of other communication tools and channels (see Subsection 2.6.1).

2018 saw a material change in monetary policy conditions, which led the Bank of Russia to revise its inflation forecasts. As a result, the Bank of Russia moved from a gradual reduction of the key rate at the beginning of 2018 to its increase in the second half of the year amid realisation of inflation risks, as it sought to stabilise inflation near 4% over the medium-term forecast horizon.

In early 2018, inflation was stable and low under the influence of both temporary and permanent factors. The influence of temporary factors was primarily caused by disinflationary pressure in some food markets. The influence of permanent factors was related to the Bank of Russia's monetary policy, a steady trend toward the reduction of inflationary expectations, and generally moderate demand dynamics. In this context, the probability of inflation exceeding 4% by the end of 2018 remained low. The Bank of Russia forecast that with the recovery of the supply and demand balance in certain food markets inflation would rise to 3.0–4.0% by the end of 2018 and hold near 4% in 2019.² This allowed the Bank of Russia Board of Directors to reduce the key interest rate in February and March 2018 by a total of 50 bp to 7.25% p.a. In its press releases, the Bank of Russia also gave signals that it expected a transition to a

¹ For more details, see section 'The use of monetary policy instruments in 2018 and 2019–2021 and the effect of the transmission mechanism' in the Monetary Policy Guidelines for 2019–2021.

² Press Release on Monetary Policy, dated 23 March 2018, and Monetary Policy Report No. 1 (March 2018).

neutral monetary policy in 2018. The Bank of Russia also estimated the neutral level of the key rate to be at 6.0–7.0% p.a.

However, a number of inflationary risks were realised in 2018 Q2–Q3. In April, the ruble weakened following the expansion of sanctions against Russia. In May 2018, there was a significant increase in the domestic prices of petroleum products amid rising global oil prices and an increase in excise taxes in early 2018. In June, the Russian Government announced a decision to increase the base VAT rate from 18% to 20% from 1 January 2019. These factors (in particular, the growth of motor fuel prices) contributed to a reversal of the trend toward lower inflation expectations of households and businesses. In this context, the balance of inflation risks shifted toward proinflationary risks on the horizon of 2018 and 2019. From April to July 2018, the Bank of Russia Board of Directors maintained its key rate at 7.25% p.a. At the same time, the Bank of Russia revised its signal regarding the future monetary policy, indicating that under the new conditions the transition to a neutral monetary policy would take place later than it had been previously expected.

At the end of 2018 Q3, further deterioration of external conditions was observed. In August–September, increased geopolitical tension and higher volatility in global financial markets, especially in emerging market economies, contributed to further weakening of the ruble and an increase in the country's risk premium. From October to December, there was a significant decline in global oil prices, which further increased uncertainty about the prospects for changes in the external conditions in the future. At the same time, 2018 H2 saw a gradual adjustment of prices to the weakening of the ruble that had been happening since the beginning of the year, and, in late 2018, growth rates of consumer prices started to experience the effects of the forthcoming VAT hike in 2019. In this context, the inflation expectations of businesses, households and financial market participants continued to rise. There was significant remaining uncertainty about

their further reaction to the weakening of the ruble in 2018 and the forthcoming increase of VAT in 2019 as well as the overall scale of the secondary effects produced by these proinflationary factors.

This has further increased proinflationary risks, especially over the short-term horizon. In September, the Bank of Russia revised its annual inflation forecast upwards to 3.8–4.2% for the end of 2018 and 5.0–5.5% for the end of 2019¹ taking into account the impact of increased VAT and the ruble's weakening in 2018. In this environment, in September and December, the Bank of Russia raised its key rate (in aggregate by 50 bp) to 7.75% p.a. by the end of 2018. In its signal of future monetary policy, the Bank of Russia also expressed its willingness to assess the appropriateness of raising the key rate more by considering the dynamics of inflation and economy in relation to the forecast and by taking into account the risks posed by external conditions and the response of financial markets to them. According to the forecast of the Bank of Russia, the timely response of the monetary policy to increased proinflationary risks will help prevent the anchoring of inflation at a level significantly exceeding the goal of the Bank of Russia and ensure the return of annual inflation to 4% in 2020 H1.

In 2018, the Bank of Russia continued to follow a floating exchange rate regime. Under this regime, the central bank does not conduct foreign exchange interventions to influence the ruble exchange rate level or the pace of its adjustment. At the same time, in 2018, the Bank of Russia continued to purchase foreign currency in the domestic financial market to replenish the National Wealth Fund in accordance with the existing fiscal rule mechanism. Such transactions are allowed under a floating exchange rate regime.

In the periods of increased financial market volatility (such as in April and from mid-August to the end of 2018), the Bank of Russia suspended its purchases of foreign currency in the domestic market under the fiscal rule mechanism, which allowed curbing exchange rate

¹ Press Release on Monetary Policy, dated 14 September 2018, and Monetary Policy Report No. 3 (September 2018).



Inflation risks and inflation expectations required an increase of the key rate to 7.75% to ensure that inflation returns to 4%

volatility and the associated risks to financial stability. As at the situation in the domestic financial market stabilised in late 2018, the Bank of Russia decided to resume its regular foreign currency purchases from 15 January 2019 and from 1 February 2019 proceed with the purchases of foreign currency postponed

in 2018. Postponed purchases will be made evenly within 36 months from the start of these operations. This will increase the daily volume of foreign currency purchases in the domestic market made under the fiscal rule by ₽2.8 billion, in addition to the daily volume of regular purchases.

2.1.2. MONETARY POLICY INSTRUMENTS

The Bank of Russia uses monetary policy instruments to achieve its operational objective of maintaining the rates of the overnight ruble-denominated interbank market near the key rate. In 2018, the dynamics of short-term money market rates were shaped in the context of the banking sector's structural liquidity surplus. The key reasons for the excess liquidity of credit institutions in 2017, which then gradually increased, were measures taken by the Bank of Russia for financial rehabilitation of certain banks and large-scale spending of sovereign funds' money to finance the federal budget deficit.

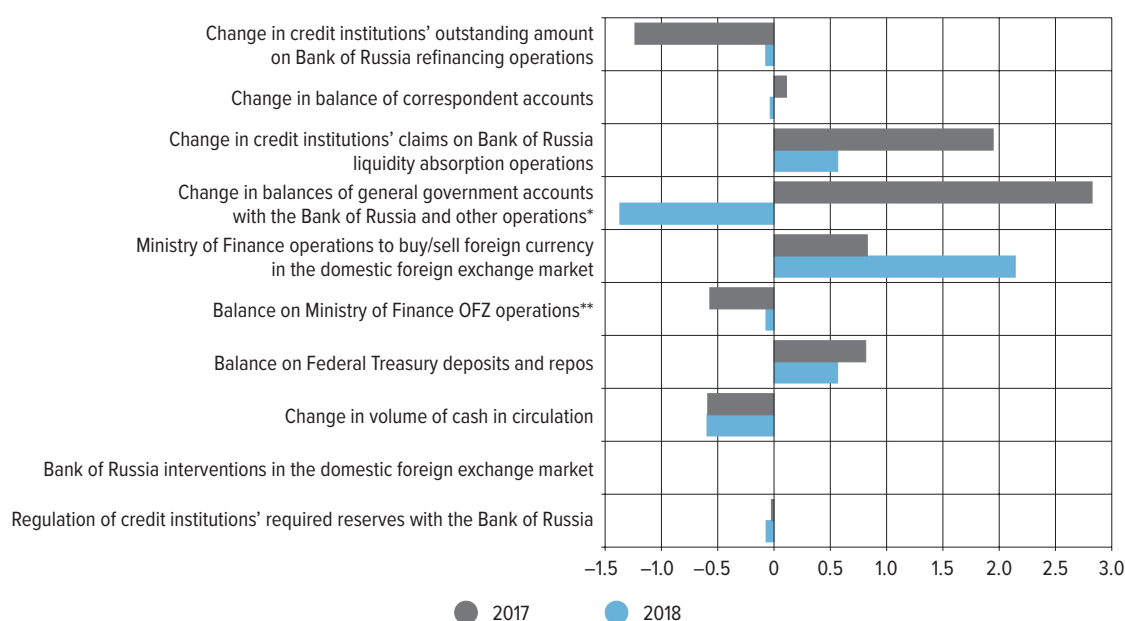
At the beginning of 2018, a significant inflow of funds into the banking sector was generated by the Bank of Russia's operations to implement measures aimed at preventing bankruptcy of individual banks. In addition, in January, the reduced volume of cash in circulation following the return of cash to banks after the New Year's holidays became a factor for the seasonal growth of the structural liquidity surplus. Bud-

get expenditures and operations to purchase foreign currency in the domestic market under the fiscal rule did not, in the aggregate, have a significant impact on the dynamics of structural liquidity surplus. As a result, from January to August, the structural liquidity surplus grew from ₺2.6 trillion to ₺3.4 trillion, reaching ₺4.9 trillion in some periods.

From September to December, structural liquidity surplus declined and amounted to ₺3.0 trillion at the end of the year. Structural surplus decreased following the decision of the Bank of Russia to temporarily suspend the purchases of foreign currency under the fiscal rule in the domestic foreign exchange market from mid-August until the end of 2018. Significant tax payments by customers from their bank accounts to budget accounts with the Bank of Russia representing additional oil and gas budget revenue received due to the actual Urals crude price considerably exceeding \$40 per barrel were not matched by equivalent foreign currency purchases. Moreover, in De-

**LIQUIDITY FACTORS AND CHANGE IN OUTSTANDING AMOUNT ON REFINANCING OPERATIONS
AND CLAIMS ON LIQUIDITY ABSORPTION OPERATIONS OF THE BANK OF RUSSIA IN RUBLES
(TRILLIONS OF RUBLES)**

Chart 27



* Net of Federal Treasury deposit and repo operations and Ministry of Finance OFZ operations, including Ministry of Finance operations to buy or sell foreign currency in the domestic foreign exchange market, settlements on Bank of Russia sell/buy USD/RUB FX swaps, Bank of Russia operations to buy monetary gold, and other operations.

** Taking account of coupon payments.

cember, the reduction of liquidity was caused by the traditional increase of cash in circulation before the New Year's holidays.

During the year, credit institutions could take advantage of temporarily idle budgetary funds from the Federal Treasury, which enabled the banking sector to receive over ₺0.5 trillion. The borrowings of the Russian Ministry of Finance in the domestic market to finance the budget through OFZ placement (including debt service payments) caused an insignificant cash outflow from the banking sector in the amount of less than ₺0.1 trillion.

The decision of the Bank of Russia to increase, from 1 August 2018, the required reserve ratios for credit institutions' liabilities in foreign currency to disincentivise the increase in foreign currency-denominated liabilities in the structure of liabilities of credit institutions led to the outflow of liquidity from the banking sector in the amount of less than ₺0.1 trillion following the growth of balances in accounts used for keeping required reserves with the Bank of Russia. This decision had a more pronounced effect on the growth of

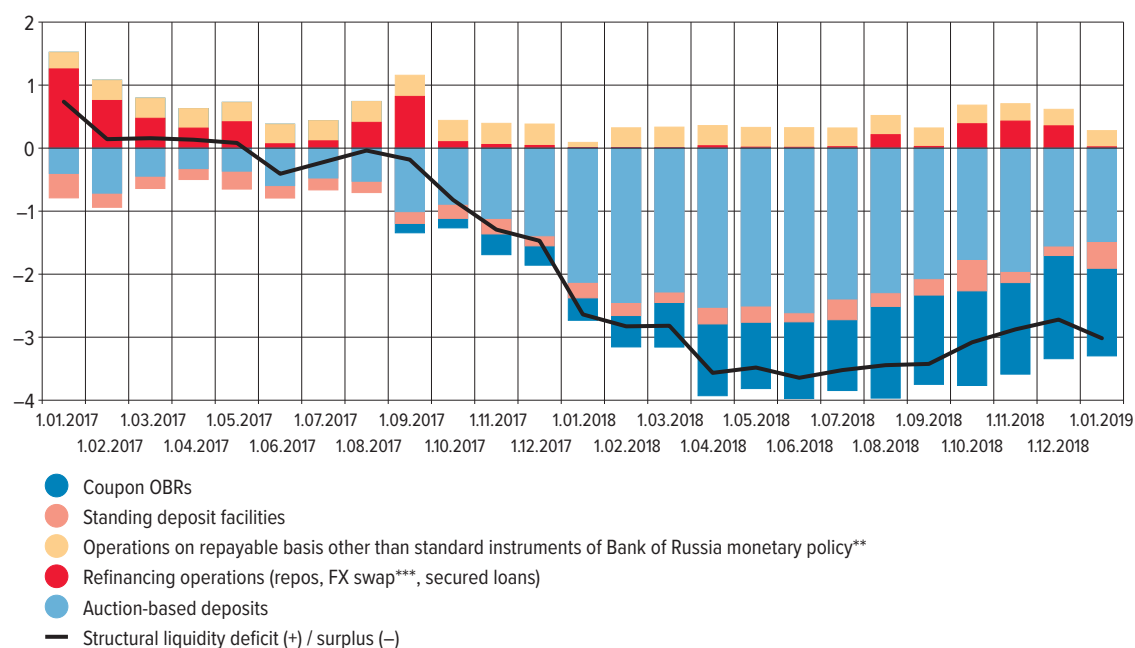
balances in correspondent accounts with the Bank of Russia supported by the mechanism for required reserves averaging. The average amount of funds held by credit institutions in correspondent accounts with the Bank of Russia increased from ₺2.1 trillion from January to August to ₺2.3 trillion from September to December.

In 2018, the Bank of Russia carried out liquidity-absorbing operations to maintain money market rates near the key rate. Its main instrument was one-week deposit auctions. The amount of funds raised through them increased significantly compared to the previous year. While in 2017, the average amount of funds raised at weekly deposit auctions was ₺0.8 trillion, in 2018 it totalled ₺2.2 trillion. To prevent significant deviations of the money market rates from the key rate, the Bank of Russia held fine-tuning deposit auctions. 49 such auctions were held in 2018.

To absorb the stable part of excess liquidity, the Bank of Russia placed three-month Bank of Russia coupon bonds (Coupon OBRs). The volumes of their placement grew significantly over

STRUCTURE OF BANK OF RUSSIA OPERATIONS*
(TRILLIONS OF RUBLES)

Chart 28



* Bank of Russia claims to credit institutions on refinancing instruments / Bank of Russia liabilities to credit institutions on excess liquidity absorption instruments as of start of business.

** Bank of Russia special refinancing instruments, Bank of Russia loans under irrevocable credit lines, and USD/RUB and EUR/RUB sell/buy FX swaps.

*** Bank of Russia USD/RUB and EUR/RUB buy/sell FX swaps.

the year. The decision of the Bank of Russia to set the minimum price for the placement of Coupon OBRs lower than 100% of their face value, which provided for a maturity premium over the Bank of Russia key rate, contributed to the increased attractiveness of Coupon OBRs. The total volume of Coupon OBRs in circulation at the face value, including the accrued coupon income, increased from ₺0.4 trillion as of 1 January 2018 to ₺1.4 trillion as of 1 January 2019.

Amid the liquidity surplus, money market rates were formed near the Bank of Russia key rate with a small negative spread. For the year, absolute deviation of the RUONIA rate from the key rate was on average 29 bp (26 bp a year earlier). A higher spread in certain periods can be explained by one-time factors. At the beginning of the year, the irregular inflows of funds received by some banks as part of the measures taken by the Bank of Russia to prevent their bankruptcy created a short-term imbalance in the money market, which resulted in a wider spread between money market rates and the key rate. As a result, in the first half of the year, the absolute deviation of the RUONIA rate from the key rate was on average 35 bp. The spread stabilised with the adaptation of the banking sector to the changed level of structural liquidity surplus and in the absence of significant cash inflows. In the

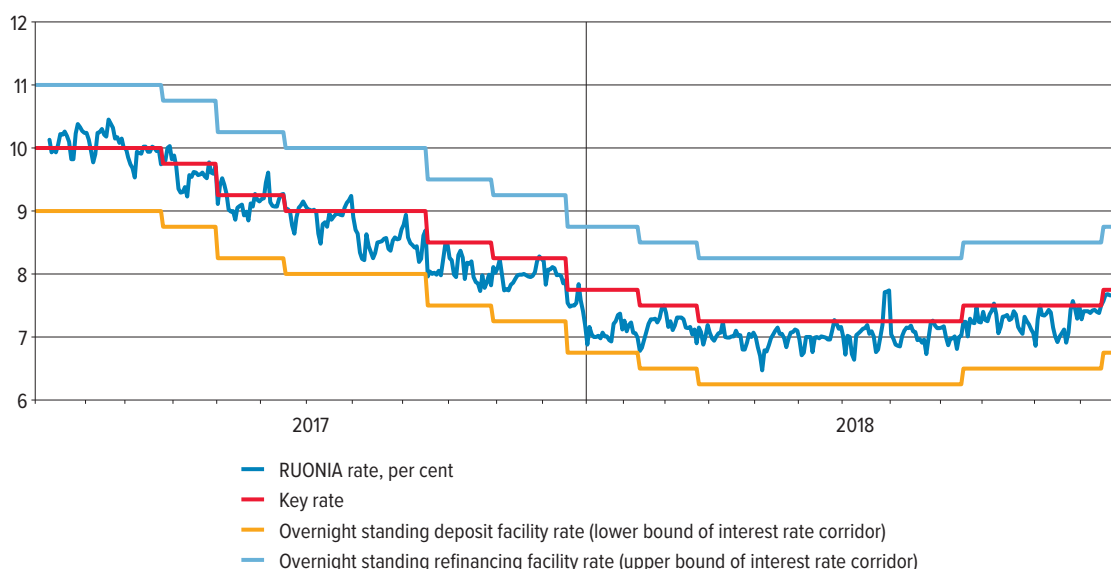
second half of the year, the absolute deviation of the RUONIA rate from the key rate was on average 24 bp.

During the year, the Bank of Russia sought to improve the efficiency of its operating procedures by modernising and simplifying the use of monetary policy instruments. Since May 2018, overnight deposits are now automated without the exchange of applications with credit institutions, as was previously the case. Changes in the technology of overnight deposit operations allowed extending the time frames for deposit operations. They are now conducted through the whole operational day (in accordance with the schedule of Bank of Russia payment system operations, from 01:00 AM to 09:00 PM Moscow time) on each business day (previously, from 09:00 AM to 05:00/04:45 PM). The change in the deposit operations procedure allowed cancelling such deposit operations as TOM/NEXT, SPOT/NEXT and sight deposits starting from May 2018. While earlier these operations could reduce the incentives for banks to carry out money market operations, this decision contributed to higher activity in the interbank market, which increased the efficiency of the operating procedure.

Not only fixed rate deposit operations but also the Bank of Russia's deposit operations

**BANK OF RUSSIA INTEREST RATE CORRIDOR AND RUONIA RATE
(PER CENT P.A.)**

Chart 29





The Bank of Russia modernised and simplified the procedure for using monetary policy instruments

in general were affected by changes. In particular, the criteria for admission of credit institutions to making deposit operations of the Bank of Russia were abolished, the placement of funds in deposits was allowed only from correspondent accounts opened with the Bank of Russia, and a possibility was provided for conversion of the entire workflow into an electronic form.

In July, to encourage credit institutions to manage their own liquidity in a more balanced manner, it was decided that non-competitive bids from credit institutions (bids without the indication of an interest rate) would not be accepted for participation in deposit auctions. This helped simplify the procedure for collecting and accepting bids during auctions.

In 2018, an important stage in streamlining the Bank of Russia's credit operations was completed with the release of new regulatory documents.¹ A new credit operations procedure came into effect on 1 October 2018. In particular, it allows for conversion of the entire workflow on credit operations into an electronic form. As early as 1 October 2018, credit institutions began to submit certain documents to the Bank of Russia exclusively electronically.

From July 2018, banks may participate in a special liquidity settlement period from 08:00 PM to 09:00 PM Moscow time. During this period, payments can be made only by banks and clearing companies, and only for certain transactions. This allows banks to settle their liquidity positions as of the end of the operational day in the interbank market and borrow funds from or place them with the Bank of Russia, after making all client

payments. With the simultaneous extension of the time for standing facilities of the Bank of Russia, this will help credit institutions more accurately forecast the balances of their correspondent accounts with the Bank of Russia and manage them at the end of the business day.

From 4 June 2018, the Bank of Russia changed the procedure for establishing interest rates on all its operations by starting to set these rates in the form of spreads to the key rate (the level of rates has not been changed). The new procedure was published in the Monetary Policy section on the Bank of Russia's website.²

This approach was implemented to emphasise the role of the key rate as the main instrument of the Bank of Russia's monetary policy as well as to simplify the perception of information on the framework of interest rates on the Bank of Russia's operations by market participants.

In 2018, given the expected persistence of liquidity surplus in the medium term and a sufficient amount of collateral held by credit institutions, as part of implementing the countercyclical approach to preparation of the collateral list for refinancing operations, the Bank of Russia took measures to tighten the requirements to the quality of assets accepted as collateral for these operations.

In particular, starting 1 January 2018, the Bank of Russia raised its requirements for the minimum credit rating of the issue (issuer) to be included in the Lombard List of bonds of the constituent entities of the Russian Federation and municipal bonds as well as bonds of resident legal entities of the Russian Federation that are not credit institutions³ from BBB (RU)/ruBBB to A (RU)/ruA according to the classifications of ACRA (JSC) / JSC Expert RA credit rating agencies.

As of 1 July 2018, the Bank of Russia suspended the use of bonds of credit institu-

¹ Bank of Russia Ordinance No. 4801-U, dated 22 May 2018, 'On the Form and Conditions for Secured Bank Refinancing' (published on 2 July 2018), Terms and Conditions of Issue and Redemption of Bank of Russia Loans Backed by Securities or Credit Claims as well as the model contract (published on 17 August 2018).

² Also see Tables 29, 31 in Section 5.4 'Statistical tables'.

³ In accordance with its earlier decision, the Bank of Russia suspended, as of 1 October 2017, the inclusion of bonds issued by credit institutions into the Lombard List.

tions¹ and Vnesheconombank,² bonds of insurance companies, bonds of international financial institutions and debt securities issued by non-resident legal entities of the Russian Federation outside the Russian Federation, whose beneficiaries or final borrowers are Russian credit institutions, insurance companies or Vnesheconombank, in its lending and repo operations.

In 2018, the amount of potential marketable collateral for the Bank of Russia's refinancing operations changed both as a result of measures to tighten requirements for the quality

of assets used as collateral for the refinancing operations of the Bank of Russia and following the redemption of securities previously included in the Lombard List as well as the inclusion of new securities issues that meet the requirements of the Bank of Russia into that list.

As of the end of 2018, the potential marketable collateral for Bank of Russia refinancing operations amounted to ₹7.1 trillion (at the end of 2017, ₹8.0 trillion) and about ₹6.2 trillion (at the end of 2017, ₹5.2 trillion) of non-marketable assets included in the pool of collateral for standard Bank of Russia refinancing operations.

¹ This decision does not apply to mortgage-backed bonds issued by credit institutions.

² Starting 9 December 2018, State Development Corporation VEB.RF.

2.2. Ensuring financial market resilience

2.2.1. ENSURING FINANCIAL STABILITY

2.2.1.1. MONITORING OF FINANCIAL STABILITY RISKS

EXTERNAL RISKS

2018 was marked by increasing pessimism over the growth prospects of the global economy amid greater volatility in the emerging markets, heightened international trade tensions (especially between the US and China) and a global trend toward the slowdown of business activity in the manufacturing sector. In May–June and August–September 2018, as the US Fed continued to raise its rate, emerging market economies were facing an outflow of capital, higher risk premiums and weakening of their national currencies. EMEs with accumulated structural imbalances (current account deficit, budget deficit, high debt burden, including in the US dollars) were particularly vulnerable. Some of them had to significantly raise their interest rates (Argentina, Turkey) and extensively intervene in the foreign exchange markets to support their national currencies. However, by the end of 2018, the situation in EMEs gradually normalised. In December 2018, advanced economies faced increased volatility (as the US S&P 500 index fell 9%). This was related to the decision of the US Fed to adjust the number of rate increases in 2019 to fewer than expected by the market (from three to two), despite risks of economic slowdown in the US. Other factors that negatively affected market stability in 2018 included increased economic policy risks around the world (such as budget disputes in Italy, growing concerns over Brexit terms, and the US federal government shutdown at the end of the year) as well as a continued slowdown of economic growth in China. In addition, from October to December 2018, the price of Brent crude dropped by 35% (19.5% for the year), which was largely caused by ramped up

oil production in the US as well as the heightened risks of a decline in global demand for oil amid the slowing global economic growth. In this context, new agreements were reached by OPEC+ participants to cut oil production.

FINANCIAL SECTOR RISKS

In 2018, a moderate growth of volatility in the Russian financial market was observed amid the worsening external environment. Additional negative factors included a number of published draft laws on sanctions against the Russian economy and generally negative media coverage about the possibility of restrictions on transactions with Russian public debt. As a result, foreign investors reassessed the risks of investing in Russian assets. Over the year, the share of non-residents in the OFZ market decreased from 33.1% to 24.4%. In the periods of increased volatility, the premium on Russia's sovereign CDSs exceeded 170 bp (growing by 35 bp to 152 bp over the year), while the yields of five-year OFZs rose to 8.90% (over the year, they increased by 1.34 pp to 8.40%). These figures did not exceed the average level in the main EMEs. In general, the response of market participants did not lead to critical issues for all types of financial institutions and did not require significant regulatory intervention. The active sale of foreign currency proceeds by exporters and the temporary suspension of the Bank of Russia's foreign currency purchases under the fiscal rule contributed to the stability of the foreign exchange market.¹ Stabilisation of the Russian financial market was likewise facilitated by the decision of the Bank of Russia to raise its key interest rate in September and December 2018 (up to 7.75%).

¹ On 23 August 2018, the Bank of Russia suspended foreign currency purchases in the market for the Russian Ministry of Finance until the end of 2018 and resumed these purchases on 15 January 2019.

BANKING SECTOR RISKS

In 2018, the banking sector in general remained stable, which was attested to, *inter alia*, by the results of stress tests proving that capital adequacy of the banking sector was above the regulatory minimum even under the risk scenario (when the average price of oil drops to \$25 per barrel).



In 2018, the banking sector remained stable, which was confirmed by stress test results

Liquidity risks. In 2018, the liquidity risks of the banking sector remained at an acceptable level. Thus, from 1 January 2018 to 1 January 2019, the weighted average of the instant liquidity ratio (N2) across all banks showed steady growth (from 118% to 129%) while the current liquidity ratio (N3) slightly decreased (from 167% to 166%) but remained significantly above the minimum acceptable level. For SICs, the weighted average liquidity coverage ratio N26 (N27) increased from 114% to 122% over the same period, with individual banks still including irrevocable credit lines in its calculation to comply with the ratio. As of 1 January 2019, the Bank of Russia had seven irrevocable credit line agreements with credit institutions. At that date, the total maximum limit of irrevocable credit lines was ₹1,039,000 million. No loans were granted to credit institutions under this refinancing mechanism in 2018.

The situation with foreign currency liquidity also remained stable in 2018. Higher demand for foreign currency liquidity in certain periods was caused by short-term factors related to the operations of major banks. In periods of increased demand for foreign currency liquidity, the Bank of Russia conducted FX swaps to sell US dollars for rubles. The demand for these operations did not exceed the limits set by the Bank of Russia.

Credit risk. Credit risk prevailed in the portfolio of banking risks. The share of overdue loans to non-financial organisations and households declined from 6.6% to 5.9% amid

intensive growth of the loan portfolio, while the amount of overdue debt increased by 1.6% in 2018¹ (by 2.5% in 2017). The share of bad loans (of quality categories IV and V) in total loans to all categories of borrowers over 2018 increased from 10.0% to 10.1%, which resulted largely from the reassessment of the quality of assets of banks undergoing resolution (net of their impact, the share of bad loans decreased from 7.3% to 6.4%). In addition, the coverage of bad loans with provisions for possible losses declined in 2018 from 92.7% to 89.7% (net of banks undergoing resolution, it declined from 75.2% to 72.8%).

Bank risks on loans to non-financial organisations. In 2017, banks increased their ruble-denominated lending to non-financial organisations by 12.9%. The share of overdue debt declined from 8.2% to 7.8%, and if banks under resolution are excluded, this figure is even lower (4.2%).

The quality of the ruble-denominated corporate loan portfolio of the banking sector remained stable. In 2018, the share of quality category IV and V loans continued to be at the level of 12.6%. Excluding the portfolios of banks under resolution, the share of quality category IV and V loans declined by 0.4 pp to 8.3%.

The share of foreign currency in the loan portfolio continued to decline in 2018. The foreign-currency denominated debt on loans to non-financial organisations decreased by 11.1% (in US dollar equivalent), while the level of overdue debt on these loans remained low (as of 1 January 2019, the share of overdue debt was 2.6%). Thus, amid further decline of the share of foreign currency in the loan portfolio, the credit risk associated with the FX risk remained low, which indicated the conservatism of banks in their selection of borrowers of foreign currency-denominated loans.

Bank risks on household loans. An improvement in the quality of household loans was observed in both mortgage lending and unsecured consumer lending segments. In this context, the growth of loans outpacing income growth may create conditions for increased risks in the

¹ The data in the credit risk section are presented net of the exchange rate effect for credit institutions in operation as of 1 January 2019 (including banks reorganised in 2018).



The share of foreign currency in the loan portfolio continued to decline in 2018

future. With the improvement in the quality of the unsecured consumer loan portfolio as well as under the impact of significant growth in the mortgage lending segment, which is best in terms of quality, the overall volume of overdue household loans declined in 2018 by 10.0% (by 0.4% in 2017), and the share of overdue loans decreased from 7.0% to 5.1%.

The quality of the housing loan portfolio (including housing mortgage loans) remained high, and the share of loans overdue by more than 90 days declined in 2018 from 2.2% to 1.8%. The Bank of Russia took macroprudential measures limiting bank risks to ensure sustainable development of the mortgage segment in the future (see Subsection 2.2.1.2).

In 2018, the Bank of Russia continued to focus on the growth of lending to households, primarily unsecured consumer lending, its most risky segment. In 2018, the debt under such loans increased by 22.8%. At the same time, the share of loans overdue by more than 90 days declined from 12.8% to 9.1% due both to higher loan portfolio and better payment discipline among borrowers.

In 2018, the increase in debt under unsecured consumer loans outpaced the growth of household incomes, which resulted in the increase in households' debt burden. To limit risks for the banking system, the Bank of Russia adopted macroprudential measures (see Subsection 2.2.1.2).

RISKS OF NON-BANK FINANCIAL INSTITUTIONS

Insurance companies. Life insurance remained the key driver of insurance market growth in 2018, with a continued, albeit slower,

increase in premiums (+36.5% compared to 2017). In connection with the trend toward the growing financial consumers' dissatisfaction with the quality of services provided under long-term life insurance contracts (compared to 2017, the number of complaints against life insurance companies increased by 75.1%) identified by the Bank of Russia and in order to increase the transparency of such insurance, the Bank of Russia published its concept for improving the regulation of investment life insurance¹ and established a requirement for insurers to provide insured persons with material information on the risks and terms of endowment or investment life insurance contracts.²

In 2018, the Bank of Russia continued monitoring of insurers' performance indicators in the segment of property developers public liability (PDPL) insurance. In 2018, PDPL insurers made insurance payments in the total amount of ₹1.1 billion, which is six times higher than in 2017. As of 31 December 2018, the relevant beneficiaries declared losses of more than ₹15 billion under PDPL contracts. The risks in this segment will decline following the transition to the mechanism of financing equity construction projects through developers' contributions to the compensation fund as well as the use of escrow accounts under co-investment agreements in equity construction from 1 July 2019.

In 2018, the CMTPLI market was in a transformation phase. The segment's moving combined loss ratio decreased (from 106.9% in 2017 Q4 to 87.9% in 2018 Q4), which was facilitated by the introduction of the in-kind compensation of damage practice. However, a time lag in recording losses in kind may lead to volatility in market indicator dynamics. A reform for transition to the system of individual rates was initiated in 2018 (see Subsections 2.2.4.3, 2.3.3). In addition, to reduce the level of fraud by vehicle owners, a delay of three days after purchase was introduced for the entry into force of electronic CMTPLI policies.³

¹ Concept for improving the regulation of investment life insurance (30 October 2018).

² See Subsections 2.2.4.3 'Insurance agents' and 2.3.1 'Financial consumer and investor protection' (as regards information on handling the appeals of financial consumers by the Bank of Russia).

³ Bank of Russia Ordinance No. 4723-U, dated 15 February 2018 'On Amending Bank of Russia Ordinance No. 4190-U, dated 14 November 2016, 'On Requirements for the Use of Electronic Documents and the Procedure for Electronic Information Exchange in the Process of Compulsory Third Party Liability Insurance of Vehicle Owners'.

It should be noted separately that to eliminate systemic issues that may arise as a result of unstable financial standing of socially important insurers, the Bank of Russia introduced in 2018 a mechanism of financial rehabilitation (resolution) of insurance companies (see Sub-section 2.2.5).

Non-governmental pension funds. In 2018, the NPF segment continued to improve the credit quality of their pension fund portfolios following an increase in investments in the public sector as well as the write-off of low-quality assets. Thus, in 2018, the share of government securities in the portfolio of pension savings (PS) increased by 14 pp (to 35.7%) and by 5 pp (to 14.2%) in the portfolio of pension reserves (PR). However, corporate bonds continued to be the leading asset class (44.9% in PS; 37.6% in PR).

The improvement in the credit quality of the NPF investment portfolio was also related to the fact that NPFs are required to pass a stress test for the adequacy of their assets to meet liabilities.¹ In 2018, there was a gradual tightening of the requirements for stress-testing criteria. Starting from 1 July 2018, the amount of a fund's assets was deemed adequate to meet its liabilities if its assets were adequate in at least 35% of Monte Carlo tests conducted under each scenario; starting from 1 January 2019, this figure became at least 50%.

In 2018, we noted a decrease in the returns of NPFs associated with the revaluation and write-off of certain low-quality assets.

Brokers. In 2018, the total assets of brokers² increased from ₹697.7 billion to ₹937.3 billion, and their concentration in the industry also increased, as the share of the ten largest organisations by assets rose from 79.4% to 85.5%.

Liquidity risk is the main systemic risk for brokers. To curb this risk, in 2017, the Bank of Russia introduced a liquidity coverage ratio (LCR) applying to brokers with the right to use the funds of their clients. In 2018, only brokers were required to calculate this mandatory in-

dicator, but in the future the Bank of Russia plans to establish a required ratio. In 2018, certain brokers had a low LCR, yet on average, the ratio was increasing across all organisations of this segment.

In addition to the liquidity risk, brokers are also exposed to market risks. As of the end of 2018, brokers' own securities portfolio, which was worth ₹153.5 billion, primarily included investments in the bonds of non-residents. The share of stocks and depositary receipts was about 30% (for credit institutions, insurance companies and non-governmental pension funds, this share was much lower). In 2018, to curb market and credit risks, the Bank of Russia introduced a capital adequacy ratio for brokers. In 2018, only brokers were required to calculate this mandatory indicator, but in the future the Bank of Russia plans to establish a required ratio.

In addition, during the year, the Bank of Russia conducted quarterly stress testing of major brokers. Stress testing included modelling of crisis conditions, such as changes of stock indices, securities prices, currency exchange rates, and defaults on obligations by counterparties. It also included calculating the broker's capital (stress testing of capital adequacy) and the LCR (liquidity stress testing) in the event of 'crisis' scenarios.

Microfinance organisations. Credit risk is the most significant among the main types of risks of microfinance organisations. It should be noted that microloans granted for business and consumer purposes have a substantial difference in terms of credit quality due to the specifics of microfinance organisations (MFOs).

Given that the bulk of business financing by MFOs comes from non-profit funds with state participation established to support entrepreneurship (84% of the segment), they historically have higher capital adequacy and a low NPL 90+³ as a result of low risk premium. Therefore, the major part of credit risks is absorbed by equity capital. At the same time, compared to consumer microloans, the

¹ Bank of Russia Ordinance No. 4060-U, dated 4 July 2016, 'On the Requirements for the Organisation of the Risk Management System of a Non-governmental Pension Fund'.

² Non-bank financial institutions with a brokerage licence.

³ Debt payments overdue by more than 90 days.

segment of business financing demonstrated a fairly moderate annual growth rate of 23.5% for 2018, expanding to ₽29.6 billion.

Consumer microfinancing by MFOs traditionally demonstrated higher growth rates and a higher proportion of non-performing microloans. In 2018, the portfolio of consumer microloans grew to ₽134 billion, more than doubling the annual growth rate of unsecured consumer loans (51% vs 22.8%), which was the result of both a low base in 2017, when the market slowed down before the introduction of new regulatory requirements, and the growth of the portfolio held by several major market players. Despite the high growth rate of consumer microloans, we observed an increase in the share of NPL 90+ in the microloan portfolio from 28.0% to 30.6%, which was likely related to lower amounts of written-off and assigned microloans (down by 34% for the year).

In 2018, to limit the debt burden of households, the Bank of Russia developed and implemented specific instruments of macroprudential policy for MFOs (see Subsections 2.2.4.4, 2.3.1).

In addition to the above, MFOs face reputational risks, including related to the activities of illegal lenders, unscrupulous market participants and a generally low financial literacy of MFO borrowers as well as operational risks in terms of reporting (errors/typos/omissions), which may affect the reliability of market analysis and lead to supervisory measures taken by the Bank of Russia.

RISKS OF DEVELOPMENT INSTITUTIONS

In 2018, the activities of development institutions, which typically have cross-sectoral links with credit and other financial institutions (VEB.RF,¹ DOM.RF JSC, JSC RSMB Corporation), did not generate additional risks for the financial system. At the same time, the scale of activities of development institutions expanded amid the increasing complexity of their risk profile and business activities, which required more in-depth monitoring by the Bank of Russia.

In particular, the main challenge for the unified development institution in the housing sector (DOM.RF JSC) in 2018 was the consolidation of Bank DOM.RF JSC, which is in the process of financial rehabilitation, as well as granting DOM.RF JSC with the right to guarantee loans to developers within the mechanism of developer financing through escrow accounts (due to enter into force from 1 July 2019). In this regard, in October 2018, the National Council for Financial Stability adopted a decision on the expediency of setting legislative standards and requirements for the activities of a unified development institution in the housing sector to support its financial stability. The Russian Ministry of Finance together with the Russian Ministry of Economic Development and Trade, the Russian Ministry of Construction and the Bank of Russia began elaborating a mechanism for setting these standards.

In 2018, VEB.RF demonstrated gradual improvement of its financial performance and continued removing bad assets from its balance sheet. In this regard, the Project Finance Factory is particularly important, as it provides for issuing loans worth up to ₽3 trillion within five to six years (with the share of VEB.RF in the amount of ₽300 billion). In 2019, it is planned to complete the recovery process and proceed to the active implementation of the new strategy.²

In 2018, the main risks for JSC RSMB Corporation were related to the launch of its leasing business (four leasing companies were established jointly with the constituent entities of the Russian Federation) and the first transactions to securitise the loans issued to SMEs. JSC RSMB Corporation currently meets the required financial stability ratios introduced in 2018 by a large margin.

IMPROVEMENT OF RISK ASSESSMENT METHODS

Macroprudential stress testing. In 2018, the Bank of Russia continued to improve its meth-

¹ In accordance with Federal Law No. 452-FZ, dated 28 November 2018, 'On Amending the Federal Law 'On the Bank for Development' and Certain Laws of the Russian Federation', the State Corporation Bank for Development and Foreign Economic Activity (Vnesheconombank) was renamed State Development Corporation VEB.RF effective from 9 December 2018.

² Briefing by VEB.RF Chairman I.I. Shuvalov following the meeting of the Supervisory Board.

odology for the macroprudential stress testing of the financial sector. In terms of assessing the credit risk of banks, the methodology began to include the assessment of the probability of default for corporate borrowers and was complemented by the assessment of unsecured consumer lending risks. In terms of the market risk, banks' securities portfolios were broken down by the accounting method, and the possibility to conduct the emergency sale of securities of certain participants was considered. The interest rate risk was assessed taking into account the forecast deterioration in the quality of the credit portfolio and its impact on the interest income of banks. The methodology for the stress testing of insurance companies and non-governmental pension funds in terms of insurance and credit risks was significantly improved. The forecast of the financial sector's net income in stress scenarios has become an additional part of stress testing. In addition, the scope of participants in macroprudential stress testing was expanded to include non-bank financial institutions, such as professional securities market participants (brokers).

The results of macroprudential stress testing showed that the Russian financial sector became more resilient to the cyclical stress scenario. Lower losses of the banking system in stressful conditions and a reduced network effect compared to 2017 stress testing results were primarily achieved by implementing the Bank of Russia measures on financial rehabilitation. The stronger financial position of major banking groups helped reduce the sector's exposure to potential systemic risks.

Using the Situation Centre for Monitoring Exchange-Trading Markets toolkit. In 2018, the Bank of Russia began using the toolkit of its newly established Situation Centre for Monitoring Exchange-Trading Markets¹ ('Situation Centre') to monitor financial stability risks.

Implementing the functionality of organised markets of PJSC Moscow Exchange and integrating the corporate news and macroeconomic indicators block within the Situation Centre enabled, *inter alia*, the use of the Centre's activities for decisions of the Bank of Russia ensuring the stability of organised trading to shock imbalances.

¹ See Subsection 2.2.7 'Countering malpractice in the financial market'.

2.2.1.2. MACROPRUDENTIAL REGULATION MEASURES TO ENSURE FINANCIAL STABILITY

Development of macroprudential regulation.

In 2018, the Bank of Russia developed macroprudential regulation by both changing the procedure for implementing the macroprudential policy and expanding the list of macroprudential instruments available to the Bank of Russia.

The amendments to Article 18 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', effective from 7 March 2018, enabled the Bank of Russia to set add-ons to risk weights by a decision of its Board of Directors to calculate capital adequacy of credit institutions. This allows the Bank of Russia to more quickly implement its macroprudential policy decisions, which were previously carried out by amending the regulatory acts governing the activities of credit institutions.

In furtherance of Article 18, the Bank of Russia issued Bank of Russia Ordinance No. 4892-U¹ establishing the procedure for applying add-ons to risk weights and defining the procedure for calculating the household debt burden ratio (DBR). This established an obligation for credit institutions to calculate this ratio for newly granted loans starting from 1 October 2019. The household debt burden ratio is to be calculated as the ratio of payments on all loans (borrowings) held by the borrower during 12 months to the average monthly income of the borrower for 12 months. The indicator will be used to limit the risks of an increase in households' debt burden. Add-ons to risk weights will be based on the DBR. This ratio will expand the list of macroprudential instruments available to the Bank of Russia.

In December 2018, to assess the potential regulatory impact, the draft Ordinance 'On the Specifics of Applying Buffers to Risk Ratios for Certain Assets of Credit Institutions Which Commit to Use Banking Methodologies for Risk

Management and Models of Qualitative Risk Assessment for Calculating Required Ratios'² was published for credit institutions that evaluate their credit risk by using internal models to account for the add-ons to risk weights.

Macroprudential measures in the unsecured consumer lending segment. In 2018, the Bank of Russia made three decisions to increase the add-ons to risk weights for unsecured consumer loans. The need to increase the add-ons was due to the fact that the debt on such loans was growing at a rate outpacing the growth of household income. Fast growth of outstanding unsecured loans in 2018 was virtually not offset by the rate reduction which resulted in the increase in households' debt burden. In order to prevent excessive growth of households' debt burden and raise banks' resilience to potential systemic risks in the market of unsecured consumer lending, the Bank of Russia took the following decisions to change risk ratios on such loans:

- raised by 10 pp add-ons to risk weights for consumer loans issued after 1 May 2018 with EIR of 15% to 25%;
- raised risk ratios on consumer loans issued after 1 September 2018 (EIR of 10% to 15% — from 100% to 130%; EIR of 15% to 20% — from 110% to 150%; EIR of 20% to 25% — from 120% to 180%; EIR of 25% to 30% — from 140% to 200%);
- raised by 30 pp add-ons to risk weights for consumer loans issued after 1 April 2019 with EIR of 10% to 30%.

Macroprudential measures in the mortgage lending segment. For all the currently high growth paces of mortgage lending, its growth comes so far without substantial financial stability risks. At the same time, 2018 saw a persistently high share of mortgage loans with the down payment of 10–20% of the real estate

¹ Bank of Russia Ordinance No. 4892-U, dated 31 August 2018, 'On Types and Characteristics of Assets for Which Risk-based Capital Buffers are Set and on the Methodology for Applying These Buffers to the Said Types of Assets for Credit Institutions to Calculate Their Capital Adequacy Ratios'.

² Bank of Russia Ordinance No. 5072-U, dated 12 February 2019, 'On the Specifics of Applying Buffers to Risk Ratios for Certain Assets of Credit Institutions Which Commit to Use Banking Methodologies for Risk Management and Models of Qualitative Risk Assessment for Calculating Required Ratios' became effective on 29 March 2019.



Legal basis was established for the use of the debt burden ratio

value, which are characterised with an elevated credit risk of borrowers. Thus, in the third quarter, this share was 43.4%¹ (in the second quarter, 41.4%; and in the first quarter, 41.2%). To curb the risks of mortgage loans with the down payment of 10–20% of the real estate value, the Bank of Russia decided to establish add-ons to risk weights for such loans at 1.0 from 1 January 2019 to calculate the capital adequacy of credit institutions.

Macroprudential measures in the segment of lending to non-financial organisations in foreign currency. In early 2018, FX lending to non-financial organisation was on the rise. A large proportion of foreign currency in the banking sector's assets and liabilities poses risks to financial stability that may be challenged by both borrowers without FX revenues

and exporters. The situation is further complicated for Russian banks and non-financial organisations by international restrictions imposed on access to external borrowing.

In view of the above the Bank of Russia increased risk ratios on FX credit claims (and investments in debt securities) on resident exporters (from 100% to 110%). In order to further reduce lending in the riskiest segment, risk ratios on mortgage loan exposures were revised upwards from 130% to 150%. All other claims against legal entities in foreign currency are weighted at a risk ratio of 130% (the previous ratio is 110%). There remains an exception that abrogates the application of the new risk ratios to credit claims guaranteed, directly or indirectly, by the Russian Federation (in particular, FX credit claims backed by an EXIAR insurance policy).

The said changes apply to loans (debt securities transactions) issued after 1 July 2018. This will help distribute pressure on bank capital over time (as and when companies need current debt refinancing and investment).

¹ Based on a quarterly survey of banks which account for over 70% of households' outstanding loans.

2.2.2. MANAGING ASSETS IN FOREIGN CURRENCIES AND PRECIOUS METALS¹

ASSET STRUCTURE

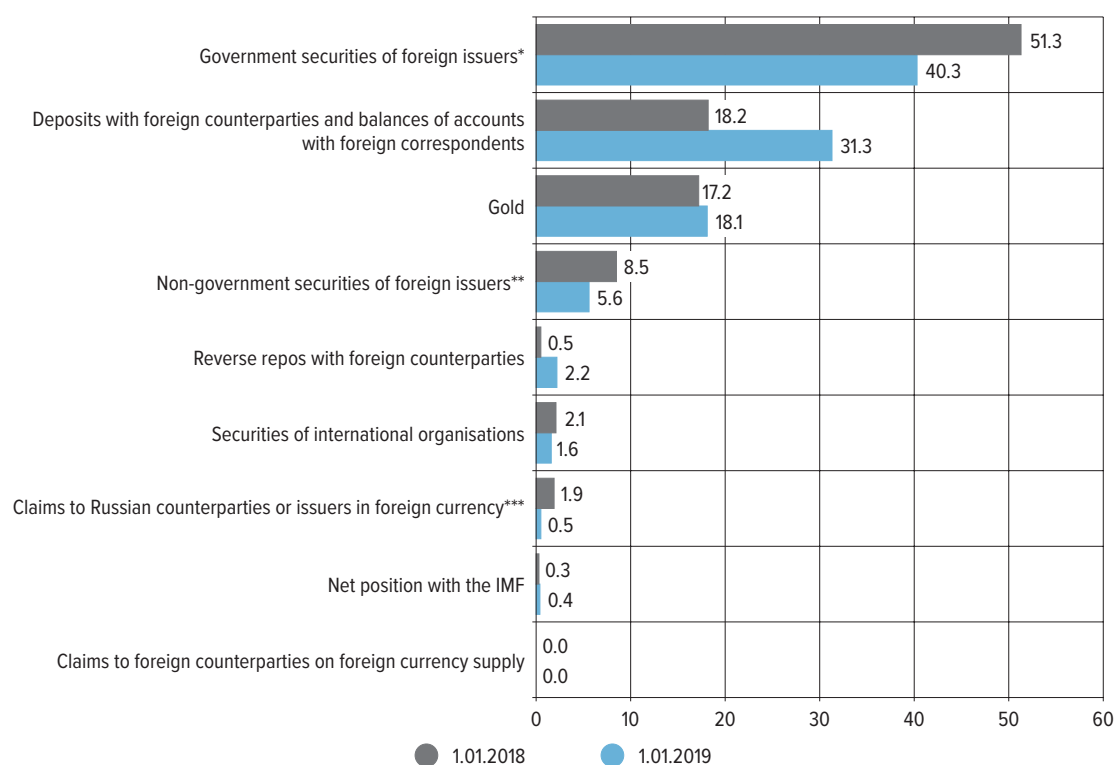
The foreign currency assets of the Bank of Russia include government and non-government debt securities; deposits and balances of nostro accounts; funds invested under reverse repo transactions;² the net position of the Russian Federation in the IMF (net claims on the IMF); eurobonds of the Russian Federation; and other claims on counterparties under executed transactions. The said instruments are denominated in the US dollars, euros, pounds sterling, Canadian and Australian dollars, Swiss francs, yen, yuan, and special drawing rights (SDR)³ (hereinafter, foreign currencies).

Bank of Russia assets in precious metals consist of monetary gold stored in the territory of the Russian Federation.

As of the end of 2018, the amount of Bank of Russia assets in foreign currency and gold stood at \$473.9 billion, of which \$385.8 billion were foreign currency assets from the category 'International Reserves of the Russian Federation', \$2.5 billion were other foreign currency assets, and \$85.6 billion were gold assets. During 2018, the Bank of Russia's gold assets increased by 270 tonnes thanks to purchasing gold from Russian credit institutions and as of 31 December 2018 amounted to 2,077 tonnes.

**BANK OF RUSSIA ASSETS IN FOREIGN CURRENCY AND GOLD BY INSTRUMENT
(PER CENT)**

Chart 30



* Securities issued by foreign government or foreign issuers with explicit government guarantee.

** Securities of foreign issuers with highly expected government support due to the organisation's special role in or importance to the economy of a country or region (implicit guarantee).

*** Claims to Russian credit institutions, eurobonds of the Russian Federation and other Russian issuers.

¹ All the breakdowns and indicators provided in this section were calculated based on management accounting data.

² Transactions for the purchase of securities with the obligation to repurchase (sell) them in a certain period of time at a price agreed upon in advance. Securities purchased by the Bank of Russia with the obligation to sell them back under reverse repo transactions are not included in foreign currency assets.

³ Unit of calculation used in IMF operations. The exchange rate of SDR is determined based on the dollar value of a basket consisting of five currencies: the US dollar, the euro, the yen, the pound sterling, and the yuan.

The securities of foreign issuers are debt obligations mainly issued or guaranteed by foreign governments (China, France, Germany, the United Kingdom, the USA, Canada) as well as government agencies and foundations, international organisations and banks.

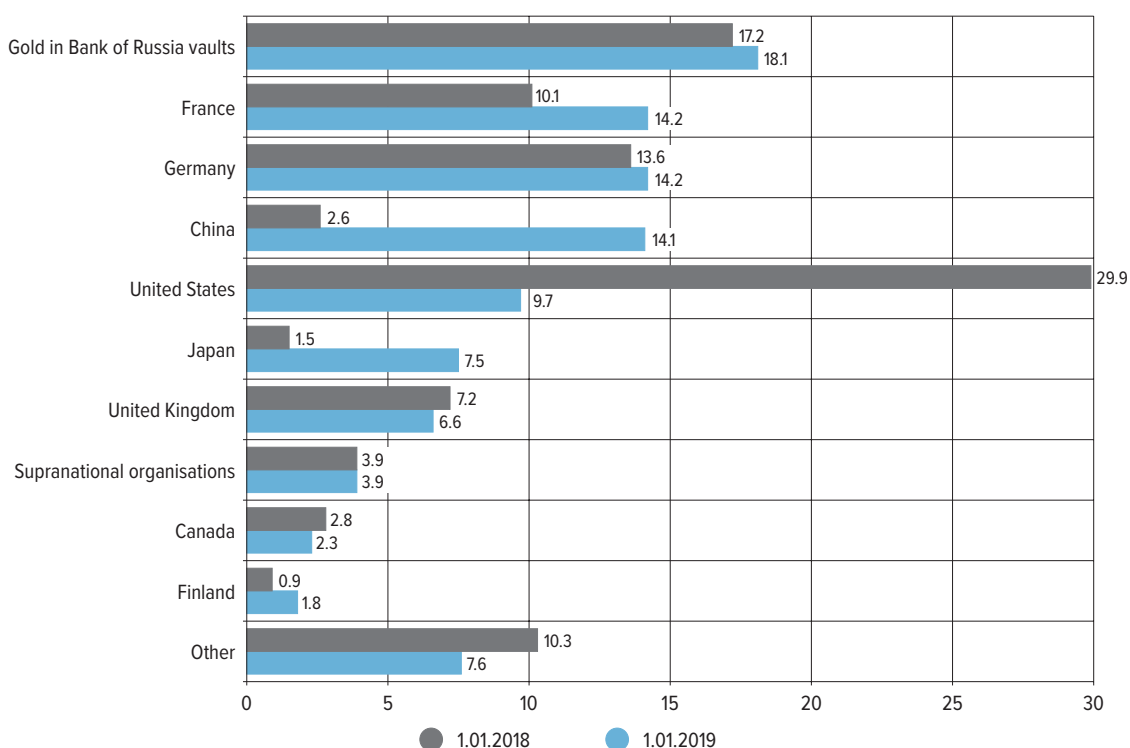
As part of its operations to manage foreign currency assets, the Central Bank of the

Russian Federation purchased and sold debt obligations of foreign issuers, conducted repo transactions with the said securities, and provided foreign issuers' securities on a reverse basis.

The geographic breakdown of foreign currency assets is based on the location (place of registration) of the legal entities which are Bank

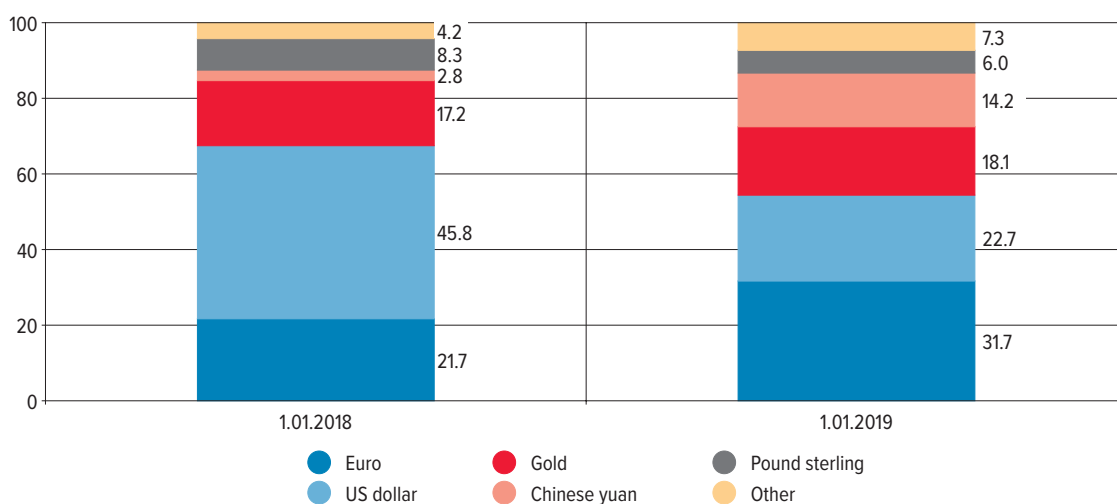
**BANK OF RUSSIA ASSETS IN FOREIGN CURRENCY AND GOLD BY COUNTRY
(PER CENT)**

Chart 31



**BANK OF RUSSIA ASSETS IN FOREIGN CURRENCY AND GOLD*
(AS A PERCENTAGE OF THEIR MARKET VALUE)**

Chart 32



* The breakdown of Bank of Russia assets includes foreign exchange transactions which have not been settled.

of Russia counterparties or foreign issuers of securities (Chart 31).

In the structure of the Bank of Russia's assets in foreign currency and gold, the category 'Other currencies' includes assets in the Japanese yen (4.0%), Canadian dollars (2.5%), and Australian dollars (0.8%) (Chart 32). Account balances in the Swiss francs were insignificant. The SDR-denominated net claims of the Russian Federation to the IMF were accounted in the breakdown as assets in the foreign currencies included in the SDR basket, in the proportions determined by the IMF for calculating the SDR¹ value.

In 2018, the amount of Bank of Russia assets in foreign currency and gold grew by \$36.1 billion. Their growth was driven mainly by transactions to purchase foreign currency in the domestic FX market carried out by the Bank of Russia in connection with the purchase of foreign currency from the Bank of Russia by the Federal Treasury under the fiscal rule. Another driver in the growth of assets was the purchase of gold from Russian credit institutions. Assets also grew due to the fact that, as of the reporting date, the Bank of Russia had outstanding repo transactions with foreign counterparties. These transactions are mainly concluded by the Bank of Russia to raise funds

under a repo transaction and simultaneously place the corresponding amount of funds with foreign counterparties at a higher interest rate in the form of deposit, reverse repo or on a nostro account with a correspondent bank. The growth of assets was partially offset by changes in the exchange rates of foreign currencies vs the US dollar and the outflow of customer funds from accounts with the Bank of Russia.

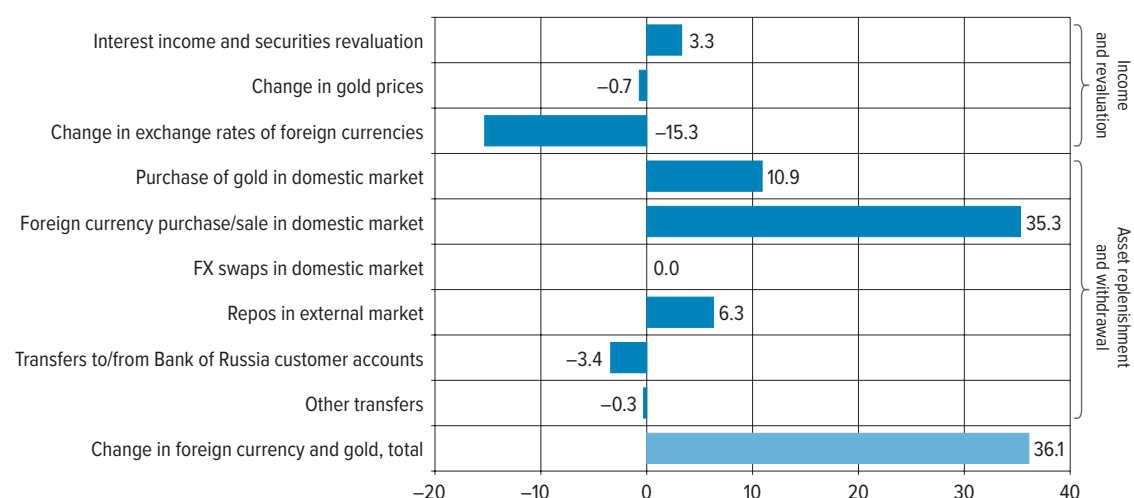
MANAGEMENT OF ASSETS

The assets of the Bank of Russia in foreign currencies are managed with due regard for its foreign currency liabilities (balances of customer foreign currency accounts, mainly the National Wealth Fund (NWF)² and other Federal Treasury funds).

Management of foreign currency assets is associated with the assumption of the following financial risks by the Bank of Russia: credit, foreign exchange, interest rate, and liquidity risks. The risk management process while conducting operations with foreign currency assets of the Bank of Russia includes identification of risks, risk assessment, setting of risk limits, and monitoring compliance with the limits. In its management decisions, the Bank of Russia considers both financial and non-economic risks.

**FACTORS BEHIND CHANGES IN BANK OF RUSSIA ASSETS IN FOREIGN CURRENCY AND GOLD IN 2018
(BILLIONS OF US DOLLARS)**

Chart 33



¹ USD 0.58252; EUR 0.38671; GBP 0.085946; JPY 11.9; CNY 1.0174.

² The assets of NWF are managed by the Ministry of Finance of the Russian Federation, including through their placement on foreign currency (US dollars, euros, and pounds sterling) accounts with the Bank of Russia.

Foreign exchange risk means the risk of a decrease in the value of net foreign currency assets resulting from changes in foreign currencies' exchange rates. Net foreign currency assets represent the difference between the foreign currency assets and foreign currency liabilities of the Bank of Russia and are a source of foreign currency risk for the Bank of Russia. The Bank of Russia sets limits on the level of foreign exchange risk by specifying a benchmark currency structure of net foreign currency assets with target weights or volumes of foreign currencies and the limits of their deviations.

Credit risk means the risk of default by a counterparty or securities issuer on their liabilities to the Bank of Russia. Credit risk is constrained by various limits and requirements for the credit quality of foreign counterparties and issuers. The minimum required long-term credit rating of the Bank of Russia's foreign counterparties under operations with Bank of Russia foreign currency assets was established at 'A' (Fitch Ratings and S&P Global Ratings) or 'A2' (Moody's Investors Service). The minimum rating of securities issues of foreign issuers (the long-term credit rating of the issuer, if a securities issue has no rating) was established at 'AA-' (Fitch Ratings and S&P Global Ratings) or 'Aa3' (Moody's Investors Service).

Interest rate risk means the risk of a decline in the value of Bank of Russia foreign currency assets as a result of unfavourable changes in interest rates. The level of interest rate risk accepted by the Bank of Russia is determined by the duration of assets in the relevant foreign currency. For the purpose of interest rate risk management, the minimum and maximum duration¹ of assets in each of the foreign currencies is established, and the time left to maturity of securities and the terms of deposits and repo transactions are limited.

Liquidity risk means the risk of loss as a result of the lack of funds for the Bank of Russia to discharge its current liabilities in

foreign currencies. In order to mitigate the risk, the amount of liquid assets in each of the currencies is maintained at a level exceeding the amount of liabilities in the respective currency. Government securities, which make up a substantial share of foreign currency assets, remain the most liquid assets. Sources of liquidity also include the balances of nostro accounts, credit facilities, short-term deposits and repo transactions and cash inflow from coupon payments and redemption of securities in foreign currencies. The volumes that can be accumulated by the Bank of Russia through the use of liquid assets and additional sources of liquidity exceed the volumes of liabilities, for the discharge of which these funds may be spent within a specific period.

Under bank account agreements, the Bank of Russia accrues and pays interest on the balances of foreign currency accounts of the NWF, based on the yields of indices, each of which is an aggregate of foreign government securities (denominated in the currency of the account) that have specific shares in this aggregate. The set of foreign government securities included in the index is established by the Federal Treasury and revised regularly in compliance with the procedure set forth in the said agreements. Liabilities related to interest payment are discharged by the Bank of Russia in Russian rubles. The Bank of Russia is the issuing bank that is why the said liabilities do not create any interest rate risk or liquidity risk for it.

Bank of Russia foreign currency assets are grouped into portfolios by the respective currency. For the purpose of evaluating the effectiveness of the management of the said portfolios, their yield is compared with the yield of standard portfolios.² The rate of return on Bank of Russia foreign currency assets was calculated as the total (realised and unrealised) return on investment as a percentage per annum for each of the eligible currencies. The cumulative rates of return on Bank of Russia foreign

¹ The percent change in the value of a financial instrument or a class of instruments against the change in the corresponding interest rates by 1 percentage point.

² The set of instruments available for investment in each of the foreign currencies taken with certain weights. Standard portfolios reflect the target allocation of Bank of Russia assets and the market structure in each of the foreign currencies.

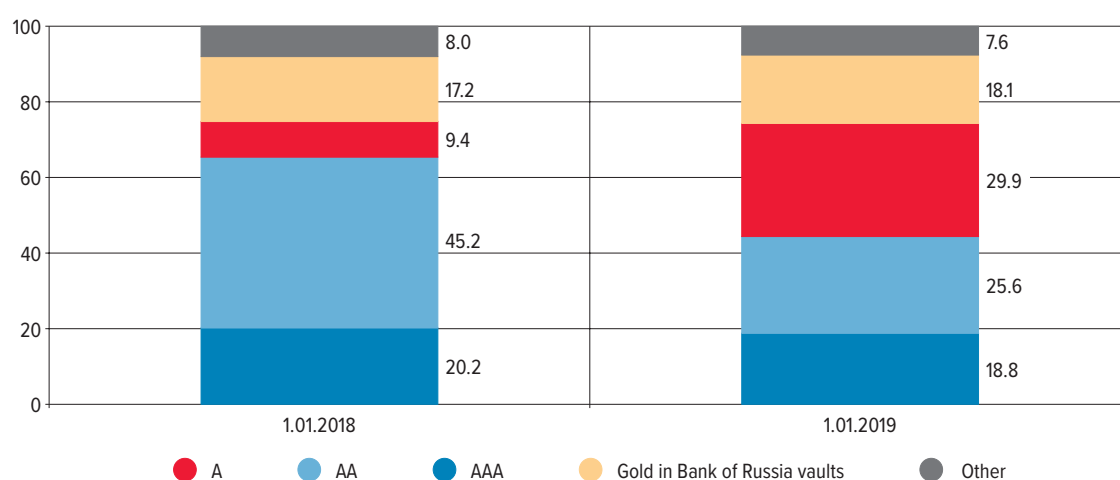
currency assets for 2018 are available in Section 5.4 'Statistical tables'.

The Bank of Russia has a multi-tiered collegial system of investment decision-making. The Bank of Russia Board of Directors determines the objectives of managing assets in foreign currency and precious metals, the list of eligible investment instruments, and the target level of foreign exchange risk. A collegial body

of the Bank of Russia accountable to the Board of Directors and responsible for the investment strategy makes decisions on the level of interest rate and credit risks and determines the list of counterparties and issuers. Investment decisions are implemented by the structural units of the Bank of Russia. External organisations are not involved in the management of assets in foreign currency and precious metals.

BANK OF RUSSIA ASSETS IN FOREIGN CURRENCY AND GOLD BY CREDIT RATING*
(PER CENT)

Chart 34



* For financial institutions related to the government with no credit rating assigned (for example, some national banks included in the ECB system) long-term solvency ratings of corresponding countries were used.

2.2.3. ACCESS TO THE FINANCIAL MARKET

2.2.3.1. CREDIT INSTITUTIONS

As of 1 January 2019, there were 484 operating credit institutions with a banking licence (including 44 non-bank credit institutions), which is 77 units or 13.7% less than on 1 January 2018.

In 2018:

- one bank incorporated through restructuring by way of spin-off and simultaneous merger into another credit institution was registered;
- 11 credit institutions¹ terminated their operations as a result of merger.

In 2018, three banks changed their status to that of a non-bank credit institution.

As of 1 January 2019:

- 291 banks, or 60.1% of the total number of operating credit institutions, had a universal licence;
- 149 banks, or 30.8% of the total number of operating credit institutions, had a basic licence.

The right to carry out banking operations with precious metals was granted to 214 credit

institutions, or 44.2% of the total number of operating credit institutions (as of 1 January 2018, 149 credit institutions or 26.6%).

In 2018, total authorised capital of operating credit institutions increased by ₽20.3 billion to ₽2,655.4 billion as of 1 January 2019.

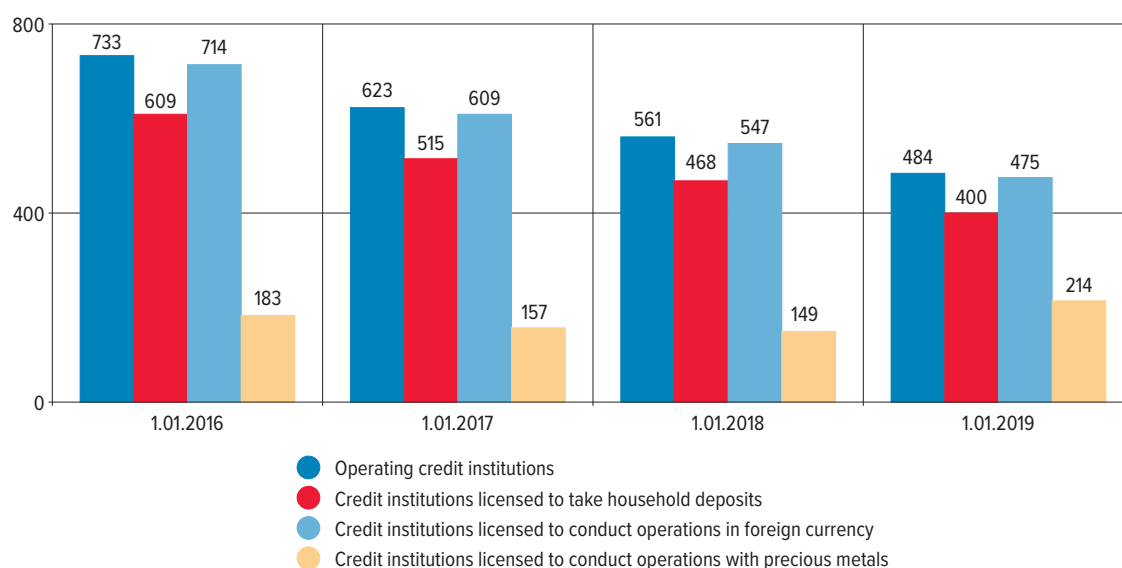
As of 1 January 2019, the total amount non-residents' investments in the total authorised capital² of operating credit institutions was ₽391.7 billion, or 14.5% of the total authorised capital of operating credit institutions (as of 1 January 2018, ₽403.4 billion or 15.1%).³

The number of operating credit institutions with non-residents' participation was 141 as of 1 January 2019 (160 as of 1 January 2018). As of 1 January 2019, the number of operating credit institutions with over 50% non-residents' participation in the authorised capital was 77 (as of 1 January 2018, 84).

The share of foreign capital in the total authorised capital of existing credit institutions, as calculated by the Bank of Russia in accor-

NUMBER OF OPERATING CREDIT INSTITUTIONS AND BANKING LICENCES GRANTED TO THEM
(UNITS)

Chart 35



¹ Including one bank established through restructuring by way of spin-off and simultaneous merger.

² For the purpose of calculation of non-residents' participation in the banking system, total authorised capital means total registered authorised capital and issues of joint-stock credit institutions completed as of 1 January 2019. On 1 January 2019, this figure was ₽2,697.7 billion.

³ The paragraph contains figures of the absolute and relative stakes of non-residents, net of the adjustments established in Article 18 of Federal Law No. 395-1, 'On Banks and Banking Activities'.

dance with the procedure specified in Article 18 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' was 12.4% as of 1 January 2019 (12.9% as of 1 January 2018).

The branch network of credit institutions operating in the Russian Federation decreased in the reporting period (the number of branches decreased from 890 as of 1 January 2018 to 709 as of 1 January 2019, or by 20.3%) as a result of consolidation in the banking sector and withdrawal of unscrupulous credit institutions from the market. At the same time, there was an increase in the number of units providing information, advisory and other services. As of 1 January 2019, the number of representative offices was 316, which is 92 units more than on 1 January 2018.

The development of electronic services by banks and the use of online banking reduced the physical presence of credit institutions in the regions. Thus, in 2018, the total number of internal structural units of credit institu-

tions (their branches) decreased by 3,503 to total 29,783 as of 1 January 2019 compared to 33,286 as of 1 January 2018. However, the number of additional offices increased from 20,263 to 20,499, and mobile cash points, from 275 to 283, while the total number of cash operations departments outside cash settlement centres declined from 3,033 to 1,068, credit and cash offices, from 1,972 to 1,918, and operations offices, from 7,743 to 6,015.

As of 1 January 2019, the Bank of Russia accredited 46 representative offices of foreign credit institutions. In 2018, the Bank of Russia accredited three new representative offices of foreign credit institutions for operation in the Russian Federation and extended the accreditation of 13 representative offices of foreign credit institutions. In 2018, the Bank of Russia terminated the accreditation of five representative offices of foreign credit institutions due to the decisions adopted by their authorised bodies to terminate the activities of representative offices.

2.2.3.2. NON-GOVERNMENTAL PENSION FUNDS

The beginning of 2019 marked the completion of the five-year period established by the legislation of the Russian Federation for changing the legal form of non-governmental pension funds that were non-profit organisations and were not insurers engaged in mandatory pension insurance.



The transformation of non-governmental pension funds into joint-stock companies was completed

In 2018, approvals were given for 11 reorganisations in the form of transformation of a non-profit non-governmental pension fund into a joint-stock non-governmental pension fund, and one reorganisation in the form of a spin-off of a non-profit non-governmental pension fund with its simultaneous transformation into a joint-stock non-governmental pension fund.¹

In 2018, two reorganisations were carried out in the form of a merger of joint-stock

non-governmental pension funds, which led to termination of activities of four joint-stock non-governmental pension funds.

As of 1 January 2019, 52 joint-stock non-governmental pension funds were operating in the financial market.

In the reporting year, the Bank of Russia considered:

- 428 applications for the approval of candidates to executive positions in non-governmental pension funds (419 applications were approved and 9 candidates were rejected);
- 16 petitions for preliminary consent or a subsequent approval by the Bank of Russia of transactions to acquire more than 10% of shares in non-governmental pension funds or establish control over such shareholders (11 petitions were approved, 5 petitions were denied);
- 112 documents containing information on the structure and shareholders of non-governmental pension funds, including persons exercising control or significant influence over non-governmental pension funds.

¹ The fund was granted a licence for non-governmental pension provision and pension insurance activities.

2.2.3.3. INSURANCE ENTITIES

In 2018, with regard to insurance entities, the Bank of Russia issued eight licences for insurance activities, three licences for intermediary activities as an insurance broker, three licences for mutual insurance, and two licences for reinsurance; for two insurance companies, the forms of licences were replaced in connection with their reorganisation, and 72 decisions were adopted to reissue licences to insurance entities. As of 1 January 2019, the total number of insurance entities was 275 (199 insurance companies,¹ 64 insurance brokers, and 12 mutual insurance companies).

In 2018, the Bank of Russia considered:

- 548 applications for approval of candidates to executive positions in insurance companies (524 applications were approved, 24 denied);
- 43 petitions for preliminary consent or a subsequent approval by the Bank of Russia of transactions aimed at acquiring more than 10% of shares in insurance companies

(19 petitions were approved, 11 petitions were denied, the review of five petitions was terminated upon request of the organisation and decisions on eight petitions were adopted in 2019);

- 215 documents containing information on the structure and shareholders of insurance companies, including persons exercising control or significant influence over insurers.

As of 1 January 2019, the amount of foreign capital participation in the total authorised capital of insurance companies licensed to carry out insurance activities, as calculated by the Bank of Russia in accordance with Article 6 of Federal Law No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation' and in accordance with the Bank of Russia regulation establishing the procedure for calculating the amount (quota) of foreign capital participation in the authorised capital of insurance companies, was 11.99% (as of 1 January 2018, 11.29%).

¹ Including Joint-stock Company Russian National Reinsurance Company (JSC RNRC).

2.2.3.4. MICROFINANCE MARKET ENTITIES

In 2018, the information on 354 microfinance organisations was included in the state register of microfinance organisations, and information on 623 microfinance organisations was removed.

In 2018, the Central Bank of the Russian Federation considered:

- 48 applications for approval of candidates to executive positions in microfinance companies (42 applications were approved, and 6 denied);
- ten petitions for preliminary consent or a subsequent approval by the Bank of Russia of transactions aimed at acquiring more than 10% of shares (stake) in microfinance companies (seven petitions were approved, and three denied);
- 64 sets of documents containing information on the structure and shareholders (members) of insurance companies, including persons exercising control or significant influence over microfinance companies.

2.2.3.5. OTHER PARTICIPANTS

In 2018, the Bank of Russia included 20 investment advisers in the unified register of investment advisers¹ and issued seven brokerage licences (including two client broker licences), seven depository licences, six dealer licenses, three securities management licences, and one forex dealer licence.



Regulation was introduced for the activities of investment advisers

In 2018, the Bank of Russia reviewed 267 notifications on approval of candidates for the positions of executives and other officials of professional securities market participants (232 candidates were approved, three candidates were denied approval and no approval was required for 32 candidates).

In the reporting year, the Bank of Russia improved its procedure for admitting applicants for professional securities market participant licences, including elaboration of a procedure for admitting investment advisers, a new type of professional participants. The new procedure provides for electronic interactions between the Bank of Russia and applicants for a professional participant licence. If the Bank of Russia decides to grant a licence (enter information in the register), an entry about the new participant will be made in the register of professional securities market participants, and such participant will be notified of the decision by sending an extract from the register electronically. From a legal perspective, extracts from the register will be equivalent to licences issued by the Bank of Russia on paper.

In 2018, the unified register of self-regulatory organisations in the financial market was amended to include information on exclusion of one organisation with the status of self-regulatory organisation in relation to the activities of consumer credit cooperatives and one organisation with the status of a self-regu-

latory organisation in relation to the activities of managers, joint-stock investment funds, management companies of investment funds, unit investment funds and non-governmental pension funds.

The register of branches and representative offices of foreign credit rating agencies was amended to include information on one branch of a foreign credit rating agency (S&P Global Ratings Europe Limited, Dublin, Ireland). That register was also amended to exclude information on one branch of a foreign credit rating agency (Standard & Poor's Credit Market Services Europe Limited, London, UK).

In the reporting period, the following changes were made with regard to organisations performing attestation of financial market specialists: one organisation was accredited, six organisations had their accreditations extended, accreditation of one organisation expired. The total number of organisations accredited for carrying out a qualification review of financial market specialists decreased by one organisation to total 11 as of 1 January 2019.

In 2018, seven management companies were granted licenses to manage investment funds, unit investment funds and non-governmental unit funds.

In 2018, the Bank of Russia considered:

- 916 applications for approval of candidates to executive positions in management companies (900 applications were approved, and 16 denied);
- 22 petitions for preliminary consent or a subsequent approval by the Bank of Russia of transactions aimed at acquiring more than 10% of shares (stakes) in management companies or establishing control over such shareholders (members) (11 petitions were approved, and 11 petitions denied);
- 386 documents containing information on the structure and shareholders (members) of management companies, including persons exercising control or significant influence over management companies.

¹ Following the entry into force of Federal Law No. 397-FZ, dated 20 December 2017, 'On Amending the Federal Law 'On the Securities Market' and Article 3 of the Federal Law 'On Self-Regulatory Organisations in the Financial Market' on 21 December 2018, professional securities market participants include investment advisers.

2.2.3.6. NATIONAL PAYMENT SYSTEM PARTICIPANTS

In accordance with Article 15 of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System' (hereinafter, Federal Law No. 161-FZ), the Bank of Russia registers payment system operators.

In 2018, the Bank of Russia received applications from nine organisations for registration as a payment system operator. Three of them were refused registration because of their non-conformity to the requirements of Fede-

ral Law No. 161-FZ and six organisations were registered as payment system operators. Also, the Bank of Russia adopted two decisions to exclude operators from the register of payment system operators following the revocation of banking licences.

As of 1 January 2019, there were 34 payment system operators registered and included in the register of payment system operators (as of 1 January 2018, 30).

2.2.3.7. FINANCIAL INSTRUMENTS

In 2018, the Bank of Russia actively contributed to the adoption of federal laws¹ for creation of new and enhancing the existing financial instruments. The attributes and potential were determined for issuing structural bonds with the option of incomplete capital protection, perpetual bonds of non-bank organisations and non-voting preferred shares; regulation was also enhanced for convertible securities and the admission of savings (deposit) certificates of credit institutions to the financial market.

Federal Law No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance' (hereinafter, Federal Law No. 514-FZ) contains provisions aimed at simplifying and shortening the procedure for issuing debt and equity securities as follows:

- abolishing the documentary form of issue-grade securities (bonds) (except for government and municipal bonds);
- optimising the content of issuance documents, excluding duplicate information in the decision to issue securities and in the securities prospectus;
- shortening corporate procedures required to issue securities (cancelling the procedure to approve the decision on the issuance of securities other than shares by the authorised body of the issuer; an option to assign the right to sign the decision on the issuance (additional issuance) of securities to the authorised official of the issuer);
- codifying in law the option to submit documents for the registration of securities issue electronically;
- simplifying the procedure for summing up the results of the placement of issue-grade securities;
- extending the possibility of issuing bonds under a simplified procedure, within the

frames of a bond programme, to any bonds that are not convertible into shares;

- introducing the option to issue exchange-traded mortgage bonds;
- introducing the option to issue bonds of Russian issuers under foreign law outside the Russian Federation without the authorisation of the Bank of Russia;
- improving the procedure for the admission of foreign issuers' securities to the Russian financial market.

Federal Law No. 514-FZ also contains provisions that address the issue of delegating certain authorities to admit financial instruments to the financial market (the authorities to register share issues when establishing joint-stock companies have been transferred to registrars; the provisions are to come into effect on 1 January 2020).

Another substantial amendment introduced by Federal Law No. 514-FZ was the restriction on the turnover of subordinated bonds of credit institutions as a higher risk instrument, which may not always be correctly assessed by non-professional investors (it has been established that subordinated bonds are intended for qualified investors, and the nominal value of one subordinated bond should be no less than ₽10 million).

The key provisions of Federal Law No. 514-FZ will enter into force on 1 January 2020, and during 2019 the Bank of Russia regulations governing the procedure for the admission of issue-grade securities to the financial market will be brought into line with the provisions of that law.

The following measures were taken in 2018 to improve the availability of information on the results of the admission of issue-grade securities to the financial market:

- finalising the procedure for publishing on the Bank of Russia's website reports on the decisions adopted by the Bank of Russia

¹ Federal Law No. 75-FZ, dated 18 April 2018, 'On Amending the Federal Law 'On the Securities Market' with Regard to the Regulation of Structural Bonds', Federal Law No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance', Federal Law No. 106-FZ, dated 23 April 2018, 'On Amending Certain Laws of the Russian Federation and Invalidating Certain Provisions of Russian Laws'.



A new law was adopted to simplify the issuance of securities

following the review of issue documents; currently, all reports and notices are published in the section 'Financial markets / Decisions of the Bank of Russia on Financial Instruments' of the Bank of Russia's website;

- ensuring public access to information on registered issues of issue-grade securities of non-credit institutions included in the register of issue-grade securities.

In continuation of its efforts to improve admission of financial instruments to the financial market, in 2018, the Bank of Russia:

- brought its procedure for qualification of foreign financial instruments as securities in line with a new version of ISO 10962 'Securities and related financial instruments – Classification of financial instruments (CFI code)'¹
- defined the specifics of a procedure for the issuance of securities of an insurance company when the Bank of Russia is carrying out measures to prevent the insurance company's bankruptcy.²

Overall, as in 2017, the Bank of Russia's efforts in 2018 to improve procedures for admission of securities had the most significant impact on the total number of issues of exchange-traded and commercial bonds admitted to the financial market by exchanges³ and the central depository⁴ (in 2018, 692 issues, or 56.2% more than in 2017). A total of 804 bond issues were admitted in 2018, with the total par value of ₽28,212.5 billion, \$1.42 billion and €0.35 billion (in 2017, 528 issues with the par value of ₽20,516.4 billion, \$1.68 billion and €0.32 billion).

The total par value of shares admitted to the market was ₽1,834.43 billion under 2,282 issues (in 2017, ₽1,848.03 billion under 2,492 issues). Furthermore, the Central Bank of the Russian Federation registered 26 prospectuses of shares in 2018.

The total par value of securities placed in 2018 was ₽11,965.9 billion and \$0.61 billion (₽1,538.7 billion for shares, ₽10,427.2 billion, \$0.61 billion for bonds, including exchange-traded and commercial bonds). In 2017, this amount was up ₽2,674 billion, \$0.61 billion and €0.02 billion (the amount of shares placed in 2017 was ₽2,118.2 billion; the amount of placed bonds, ₽12,521.7 billion, \$1.22 billion and €0.02 billion).

One set of conditions for the issue and circulation of registered savings certificates was registered in 2018 (five sets of conditions for the issue and circulation of savings certificates and certificates of deposit were issued in 2017).

The number of new sets of rules of trust management of unit investment funds registered in 2018 increased slightly (192 sets of rules in 2018, 174 sets of rules in 2017), while the number of amendments to them slightly declined (1,595 amendments in 2018, 1,832 amendments in 2017). In addition, in 2018, nine amendments were registered for the previously registered rules of trust management of mortgage coverage (in 2017, there were also nine amendments registered for the previously registered rules of trust management of mortgage coverage).

In 2018, the Bank of Russia registered exchange-traded unit investment funds for the

¹ Bank of Russia Ordinance No. 4561-U, dated 3 October 2017, 'On the Qualification Procedure for Foreign Financial Instruments as Securities'.

² Bank of Russia Ordinance No. 4848-U, dated 3 July 2018, 'On the Specifics of Insurance Companies' Securities Issue and Registration in the Course of Bankruptcy Prevention Measures Conducted by the Bank of Russia'.

³ Hereinafter in this section, 'exchanges' means Public Joint-stock Company Moscow Exchange MICEX-RTS and Public Joint-stock Company Saint Petersburg Stock Exchange.

⁴ The central depository is Non-bank Credit Institution Joint-stock Company National Settlement Depository.

first time. Overall, in 2018, the number of operating unit investment funds declined by 3.8% to 1,440, including 268 open-end unit investment funds, 40 interval unit investment funds, 1,128 closed-end unit investment funds, and four exchange-traded unit investment funds. The number of valid registered sets of rules

of trust management of mortgage coverage declined by 2 to 39.

In 2018, the Bank of Russia registered eight specifications of financial derivative contracts and nine amendments to these specifications (in 2017, 13 amendments to the specifications of financial derivative contracts).

2.2.4. REGULATION AND SUPERVISION

2.2.4.1. CREDIT INSTITUTIONS, BANKING GROUPS, AND BANK HOLDING COMPANIES

IMPROVING REGULATION

In 2018, the Bank of Russia continued to implement **proportionate regulation** for a new type of credit institutions: banks with a basic licence. In addition to the measures implemented in 2017 (reducing the number of required ratios and the amount of publicly disclosed information), banks with a basic licence were, on an individual basis, exempt from preparing their financial statements in accordance with IFRS. For the purpose of current operations of banks with a basic licence, the list of securities eligible for their operations and trades was expanded. Similar to the regulation applicable to banks with a basic licence, non-bank credit institutions were exempt from disclosure of information in accordance with Pillar 3 'Market Discipline' of Basel II.



Proportionate regulation
was implemented
in the banking sector

The Bank of Russia continued to implement **incentive-based banking regulation**. Key issues of the concept were discussed in 'Stimulating Banking Regulation', a consultation paper published on the Bank of Russia website on 28 June 2018.

In 2018, to implement its incentive-based regulation, the Bank of Russia established a special procedure to make provisions for loans and borrowings granted under the project financing mechanism involving the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank)¹ as well as for loans granted to developers in the course of equity construction using escrow accounts. In addition, the Bank of Russia implemented measures to improve the availability of loans for small- and medium-sized enterprises.²

As regards prudential regulation, the Bank of Russia took measures to support corporate borrowers (counterparties) of credit institutions against which foreign states had introduced restrictive measures.

To inform the banking **community about a reform of collateral security**, on 13 March 2018, the Bank of Russia published on its website a consultation paper 'On Improving the Regulation of Collateral', which generated widespread public interest. The paper included discussions with market participants about the main areas for improving regulation in this area, such as the advisability of authorising the Bank of Russia to take measures to prevent the withdrawal of pledged assets from banks and change approaches to the formation of provisions for possible losses by banks depending on pledged collateral. The results of these discussions will be used by the Bank of Russia to prepare proposals for amendments to legislation in terms of providing the Bank of Russia with new authorities to apply supervisory measures, as well as to improve the methodology for making provisions for possible losses.

The Bank of Russia updated the method for determining total capital of credit institutions to ensure due quality of capital sources and prevent including in its calculation the so called fictitious sources.

The Bank of Russia completed work on the set of its regulations related to the implementation of **IFRS 9 'Financial Instruments'**, which provided for the preservation of existing approaches to the prudential regulation of credit institutions; among other things, the existing base for forming prudential reserves remained generally unchanged. To minimise the impact of IFRS 9, the regulations stipulated certain specifics for banks when calculating equity (capital) and required ratios. At the same time, the regulations retained ap-

¹ Starting 9 December 2018, State Development Corporation VEB.RF.

² See Subsection 2.3.3 'Expanding financial inclusion'.

proaches to assessing the economic position of banks based on their prudential indicators¹ and clarified the requirements for the public disclosure of information on the activities of credit institutions.²

The Bank of Russia issued a regulation³ establishing a procedure for applying measures to credit institutions (parent credit institutions of banking groups). This Bank of Russia regulation establishes the officials of the Bank of Russia authorised to make such decisions as well as the standard form of order to apply (cancel) such measures. The regulation replaces Bank of Russia Instruction No. 59, dated 31 March 1997, 'On the Application of Corrective Measures Against Credit Institutions'.

The Bank of Russia completed implementation of **several regulatory standards of the Basel Committee on Banking Supervision (BCBS)**.

A revised Basel III approach to credit risk assessment for securitisation transactions was introduced in banking regulation. Under this approach, fixed risk ratios are replaced by calculated risk ratios determined by the quality of securitised assets and transaction structure and are independent of the credit rating of securitised instruments. With the new regulation, the previously mandatory risk ratio of 1,250% for junior tranches will be applied only in the absence of information on the quality of securitised assets and transaction structure, while the calculated risk ratio value may come out as low as 15% as the quality of securitised assets and the transaction structure achieves higher rankings. Concurrently, this approach suggests that the so-called simple, transparent and comparable securitisation (STC-securitisation) was carved out, with the relevant risk

ratio reduced to 10% as regard investments in senior tranches.

Implementation of Phase 2, Pillar 3 'Market Discipline' of Basel II was completed⁴ with regard to public disclosure by credit institutions of information on the estimated characteristics of adjustments to the value of individual financial instruments, indicators of the global systemic importance of credit institution, geographical distribution of credit and market risks in the calculation of the countercyclical buffer for capital adequacy ratios and the calculation of the structural liquidity ratio (net stable funding ratio) and its calculation components.

Amendments⁵ were made to the procedure for calculating market risk by credit institutions. The purpose of these amendments was to bring the calculation of special interest rate risk on debt securities in the bank's trading portfolio, except for securitisation instruments, in line with the simplified standardised approach to the calculation of credit risk applied for calculating required ratios as well as to clarify the procedure for calculating market risk on financial derivatives.

The Bank of Russia started to implement the BCBS standard for assessment of risk concentration in accordance with which all exposures of a bank to a borrower are included in the calculation not weighed by risk level (less formed provisions for possible losses). An indicator of maximum concentration of exposure (PKC 6.1) was introduced as part of implementing the standard. This indicator will be calculated in the monitoring mode from 1 January 2019 only by systemically important credit institutions.

A new procedure for calculating the interest rate risk for major banks and changes in the

¹ Bank of Russia Ordinance No. 4976-U, dated 27 November 2018, 'On Amending Bank of Russia Ordinance No. 4336-U, Dated 3 April 2017, 'On Assessing Banks' Economic Situation'.

² Bank of Russia Ordinance No. 4983-U, dated 27 November 2018, 'On the Forms, Procedure and Timeframe for Disclosing Information on Activities by Credit Institutions'.

³ Bank of Russia Instruction No. 188-I, dated 21 June 2018, 'On the Procedure for Applying Measures to Credit Institutions (Parent Credit Institutions of Banking Groups) Envisaged by Article 74 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

⁴ Bank of Russia Ordinance No. 4967-U 'On Amending Bank of Russia Ordinance No. 4482-U, Dated 7 August 2017, 'On the Form and Procedure for a Credit Institution (Parent Credit Institution of a Banking Group) to Disclose Information on Risks Assumed, Risk Assessment Procedures and Risk and Capital Management Procedures'.

⁵ Bank of Russia Ordinance No. 4969-U, dated 15 November 2018 'On Amending Bank of Russia Regulation No. 511-P, Dated 3 December 2015, 'On the Procedure for Calculating Market Risk by Credit Institutions'.

requirements for the risk management system of credit institutions in terms of managing the interest rate risk of the bank portfolio were prepared as part of implementing the new BCBS standard for managing the interest rate risk of the bank portfolio. The above novelties are expected to take effect in 2019.

The Bank of Russia presented draft requirements for operational risk management in credit institutions, including the requirements for the operational risk event database, for discussion with the professional community to prepare for the implementation of the new standardised approach of BCBS to measuring operational risk. Implementation of these requirements will allow banks to collect and calculate, in a uniform manner, losses from the materialisation of operational risk.

In 2018, the Bank of Russia established composition and procedure for submission of information to the Bank of Russia on the **internal capital adequacy assessment process** (ICAAP) and its results by banks with a universal license.

In 2018, following the assessment conducted by the Bank of Russia on compliance with the requirements for an internal ratings-based approach (IRB approach) to **credit risk measurement**, Raiffeisenbank was authorised to use the IRB approach to calculate capital adequacy ratios for its corporate exposures, in particular, for large- and medium-sized borrowers and the specialised lending segment.

IMPROVEMENT OF OFF-SITE SUPERVISION

In October 2018, **the Bank of Russia completed centralisation of banking supervision**. The Systematically Important Banks Supervision Department (SIBSD) and the Service for Ongoing Banking Supervision (SOBS) took up supervision over all credit institutions from regional branches. Importantly, the centralisation allowed the Bank of Russia to apply uniform supervisory standards, promptly respond to negative trends in credit institutions' opera-

tions and start a timely professional dialogue banks' owners and management to discuss possible solutions of complex problems.

Transition to **proportionate regulation**, during which Russian banks with capital of less than 1 billion rubles had to build up their capital to no less than 1 billion rubles or change their status to that of a bank with a basic licence or a non-bank credit institution, came to an end in December 2018. Following the transition, 149 out of 484 operating credit institutions received the status of a bank with a basic licence as of 1 January 2019. Other banks (as of 1 January 2019, 291 banks¹), including 11 systemically important banks, continued to operate under a universal licence. Also, as of 1 January 2019, there were 44 operating non-bank credit institutions.

The Bank of Russia made a special focus on **preventive banking supervision**. It has built a system of systemic risk identification based on the ongoing analysis of the banking sector and the accepted risk with a due account of external factors. Coupled with stress-testing tools, risk monitoring (including on a consolidated cross-sectoral basis), this system can detect negative trends and events which lead or may lead to deterioration in the banking sector.

Supervision was focused on the assessment of an elevated concentration of risks on owners' business, the industry, region, and investments in non-core assets. Capability of a credit institution's supervisor to see intended actions of bank owners and management which lead to a deterioration in asset quality, asset withdrawal, involvement in shadow economy, was an important component of supervision.

To improve its supervisory framework, the Bank of Russia continued to **standardise banking supervision** in 2018. The Core Banking Supervision Standard was supplemented with both assessment standards (liquidity risk assessment, corporate governance quality assessment) and procedural standards (approaches to setting supervisory regimes, to activities

¹ As of 31 December 2018, SIBSD supervised 28 credit institutions. As of 1 January 2019, two credit institutions were reorganised (through merger).



Centralisation of banking supervision is complete

of authorised representatives), and elaboration of a standard for analysis of bank business models started. In 2019, the Bank of Russia will continue to standardise banking supervision.

In 2018, the coverage for considerable risks was assessed under the first **Internal Capital Adequacy Assessment Process** (ICAAP) in accordance with Bank of Russia Ordinance No. 3883-U, dated 7 December 2015, 'On the Procedure for the Bank of Russia to Assess the Quality of Risk and Capital Management Systems, and Capital Adequacy of a Credit Institution or a Banking Group'. The process applied to credit institutions whose assets totalled $\text{R}500$ billion or more as of 1 January 2017.

Credit institutions assessed under the first ICAAP received instructions and recommendations on the removal of revealed deficiencies in and improvement of their risk and capital management systems.

The Bank of Russia launched the ICAAP in other credit institutions with a universal licence in addition to banks whose assets exceeded $\text{R}500$ billion in 2017.

The quality assessment under the ICAAP in banks with a basic licence and non-bank credit institutions is supposed to be held as part of their economic position assessment in accordance with Bank of Russia Ordinance No. 4336-U, dated 3 April 2017, 'On Assessing Banks' Economic Situation'.

The results of the quality assessment under the ICAAP point to a number of deficiencies in their organisation the most typical of which are as follows:

- incompliance of banks' internal documents with Bank of Russia requirements;
- low involvement of banks' board of directors and executive bodies in development, implementation and control of compliance with the ICAAP;
- inappropriate determination of material and immaterial risks of a credit institution;

- incompliance with internal indicators which characterise the acceptable risk level, and capital adequacy for their coverage;
- untimely approval of internal documents by the authorised body and submission of internal risk reports to credit institution management;
- lack of response from credit institutions to underestimation of risks revealed by the Bank of Russia's supervision and inspections until Bank of Russia instructions are received.

The first evaluation of ICAAP quality in banking groups will be conducted in 2019.

In 2018, the Bank of Russia continued to develop consolidated supervision. It was aimed at:

- early detection, analysis and registration of both external risks which impact on a financial group and its individual participants, and internal risks, including those associated with intragroup transactions;
- preparation and important supervisory solutions (measures) with respect to participants of a financial group;
- detection of regular arbitrage and preparation of proposals for its elimination.

As of 1 January 2019, there were 81 banking groups operating in the Russian Federation; and their activities were supervised by: SIBSD (11 banking groups) and SOBS (70 banking groups). The Bank of Russia formed special supervisory groups for a number of systemically important credit institutions (parent companies of banking groups) in accordance with Bank of Russia Ordinance No. 3089-U, dated 25 October 2013, 'On the Procedure for Supervising Banking Groups'. Given the structure of the banking groups, supervisory groups include employees specialising in supervision over non-bank financial institutions.

In accordance with the objective of the off-site banking supervision to introduce consolidated approaches to risk assessment and supervision over financial groups, information exchange with Bank of Russia divisions specialising in supervision on the financial markets was carried out with the aim at assess mutual influence of group participants on

their financial standing; proposals were made to update the subject matters of inspections of affiliated credit institutions in 2018. Recommendations on Supervision over Informal Financial (Banking) Groups were elaborated and approved to introduce the rules of consolidated supervision.

Further development of consolidated supervision over banking/financial groups provides for preparation of a concept of cross-sectoral regulation by the Bank of Russia of the activity of associations of legal entities with participation of financial organisations (banking/financial groups).

In 2018, the Bank of Russia issued a regulation aimed at development of banking laws and implementation of international recommendations regarding the mechanisms for recovery of financial institutions' stability. The regulation establishes the requirements to the contents of **financial stability recovery plans** (FSRP) for credit institutions and banking groups, including the requirements that FSRPs should contain measures for financial stability recovery in cases of materialisation of various stress-scenarios. The regulation also stipulates the procedure for submission of a FSRP to the Bank of Russia, its assessment by the regulator, and notification of the Bank of Russia of the events in the operations of a credit institution provided for by the FSRP and the decision to launch the implementation of the plan. Systemically important credit institutions submit their FSRPs annually no later than 1 July 2019, other credit institutions should provide their plans within 30 business days after receiving the Bank of Russia's request.

In 2018, the Bank of Russia performed **supervisory stress tests** based on scenario analysis with the use of macromodels in order to identify credit institutions which were most exposed to individual types of risks and estimate recapitalisation relevance. Stress tests helped estimate banks' potential losses in the event of shocks, which took into account the influence of deteriorating external economic conditions on the Russian economy.

The results of the latest stress tests conducted by the Bank of Russia indicate that there were no threats to systemic stability of the banking sector, as the situation with the possible shortage of capital arising in the extremely severe scenario (in particular, the scenario considered a decline of an average oil price to \$25 per barrel) is generally manageable. In addition, the results of 'bottom-up'¹ stress test conducted in 2018 for the 14 largest banks showed a moderate decline in capital adequacy under the stress scenario.

In 2018, to further improve approaches to stress testing and increase the proactive component of the banking supervision process, the Bank of Russia launched a project to develop a comprehensive system of supervisory stress testing. The project provides for creation of tools/models that will allow improving the accuracy of stress test estimates and developing approaches for taking measures in response to stress test results. In general, the implementation of this project will contribute to providing the supervisory units of the Bank of Russia with a timely assessment of individual banks' resilience to macroeconomic shocks. The implementation of this project is scheduled for 2019–2020.

In 2018, the Risk Analysis Service continued to improve their approaches to improving the quality of **independent off-site analysis of risks in credit institutions and non-bank financial institutions**.

In 2018, a new line of analysis appeared: the analysis of credit risks of major borrowers (legal entities and major groups). The Bank of Russia analysed nearly 400 groups and major borrowers whose total debt burden comes in at ₽20 trillion (affiliated companies factored in).

More than 22 thousand loans were analysed as part of the mass assessment of legal entities' credit risk in 2018.

In 2018, a pilot analysis of retail credit risks was completed. The Bank of Russia worked out and launched the main types of analysis, and extensively developed an analytical system for processing big data arrays for retail loan

¹ Banks use their own internal models to independently calculate stress tests under the Bank of Russia's scenarios.

portfolios. The regulator assessed more than 17 million retail loans with total debt of more than ₽973 billion.

Comprehensive assessment of possible loan losses in 2018 was driven by **expert evaluation of pledged items** accepted by credit institutions as collateral on loans. It assessed the actual pledged item, its legal status, and provided judgement on the cost of the pledged item. In 2018, more than 30 thousand pledged items and more than 15 thousand assets of credit institutions were assessed.

The Bank of Russia worked on the Collateral Register that should help establish the facts of pledging the same item as collateral against several loans and control the calculation of loan loss provisions by credit institutions. Introduction of the Collateral Register will allow the Bank of Russia to aggregate information about pledged items, analyse credit institutions' collateral portfolio as a whole and collateral of individual loans.

In 2018, the Bank also conducted a pilot project on reviewing the operational risk management system of credit institutions. This included a review of 11 credit institutions.

To improve the quality of risk analysis, the Bank of Russia extensively improves approaches to collection and processing of primary data of credit institutions, automates analysis of big data with the use of new technologies, and expands the use of open source data in its operations:

- development of automated data collection about operational risk events in credit institutions was launched to reduce the number of one-time requests and simplify the analysis;
- bank data register templates were developed, tested and are being applied in the analysis of big data on retail loan portfolios; processing and analysis techniques were improved;
- processes involving open source data, including the analysis of credit and market risks, were expanded.

Moreover, in 2018, for the purpose of development of supervisory tools, amendments were made to Federal Law No. 86-FZ; they

empower the Bank of Russia to conduct control exercises in respect of financial market participants. Regulations were worked out which stipulate the procedure for the Bank of Russia to organise and carry out test purchases (secret shopper) in banks which mislead customers regarding financial services.

In 2018, the Bank of Russia continued to automate supervisory processes which will also facilitate transition to consolidated supervisions. The Supervised Institution Consolidated File functional subsystem included functions related to supervision over non-bank financial institutions. In terms of supervision over credit institutions, in December 2018, the Bank of Russia completed the preparation of the first version of the system that automates loan portfolio analysis.

In 2018, the Bank of Russia started to **implement a project aimed at collection and analysis of accounting and operational data of credit institutions (business day data)** to reduce the load on credit institutions, increase reliability and promptness of reporting data, and timely respond to negative trends in credit institutions' operations. The project is the first step towards real-time collection of primary data instead of aggregated data provided in reporting forms. The regulator carried out test collection of data from credit institutions willing to participate in the project. In the follow-up to the testing, the Bank of Russia worked out a new format and composition for business day data collection with the aim to shift to a mandatory daily data collection from 1 January 2021. The accounting and operational data will be used, among other things, to control the reliability of deposit accounting.

The Bank of Russia continues to develop other applied information and analytical systems which help raise the effectiveness and depth of supervisory and analytical procedures, and reduce the number of labour force needed to tackle these issues.

ON-SITE SUPERVISION

In 2018, the Bank of Russia initiated inspections of 384 credit institutions (their branches) (including 19 inspections of systemically

important credit institutions (their branches) and credit institutions supervised by SIBSD).

74.5% of inspections (286) were carried out on a scheduled basis, and 66% of all unscheduled inspections (65 out of 98) were conducted by a decision of the management of the Bank of Russia in view of information on material violations in the activities of credit institutions.

In accordance with the risk-based approach to the organisation and conduct of inspections, the main focus was made on the assessment of risk portfolios and their concentration, asset and capital quality was assessed, ultimate receivers of borrowed funds and sources of loan repayments were detected, the accounting discipline and compliance with regulatory requirements were checked.

For the purpose of consolidated risk assessment the Bank of Russia continued to conduct simultaneous inspections of credit institutions and non-bank financial institutions (NFIs) which have economic ties or controlled by the same group of persons.

During 2018, the Bank of Russia conducted simultaneous inspections of 33 credit institutions which were members of 13 banking groups, including credit institutions under resolution and their investors, as well as 17 credit institutions and 26 NFIs which were members of 15 banking groups / bank holding companies.

Simultaneous inspections of credit institutions and NFIs revealed individual facts which suggest that microfinance market participants and credit institutions apply business models aimed at gaining economic benefits from the difference in regulation of different financial market participants. These facts are non-systemic in nature. The Bank of Russia applied supervisory measures on the revealed facts.

Simultaneous inspections of investor banks and banks under resolution revealed that investors' operations may be financed from the funds provided by the DIA to banks under resolution, banks under resolution may suffer sizable losses from mutual transactions with an investor bank; and banks providing financial resolution may have low quality of assets.

They also revealed instances when participants of an informal financial group (a credit institution and an investment company) conducted securities transactions that had no economic expediency with non-resident legal entities, which resulted in accumulation of funds in accounts of foreign companies directly controlled by the group's ultimate beneficiary.

Inspections also registered instances when a non-governmental pension fund used pension reserves to purchase low-quality assets from banks of the group.

Most violations (68% of the total number of violations identified in the inspections of credit institutions) are related to the high-risk banks' credit policy conducted, *inter alia*, in the interests of owners, and inadequate quality assessment of outstanding loans; the established facts included cases of loans with signs indicating the withdrawal of assets.

The Bank of Russia revealed multiple violations in retail lending, including the excess of the highest possible TCL, operations aimed at concealing the real credit risk accepted by the bank through the issue of new retail loans for repayment of overdue loans, and through the assignment of claims on individuals to legal entities on a deferred-payment basis, and incorrect determination of overdue payments. This concealed the real risk on loans and formed credit institutions' income from unreliable sources.

Other violations in credit institutions' operations are associated with manipulation of accounting and reporting data through delayed accounting of data contained in the bank's primary documents and fictitious transactions aimed at concealing cash shortages and diversion of high quality liquid assets from the bank.

Violations of legislation requirements in the sphere of countering the legalisation (laundering) of criminally obtained incomes and terrorism financing (AML/CFT) accounted for 13% of all violations identified in the inspections of credit institutions and were related to banks' failure to submit to the authorities (late submission of) information

on transactions subject to mandatory control and a failure to take reasonable and available measures to identify customers (their beneficial owners). In addition, suspicious cross-border transactions were identified, which were conducted by the banks' customers and not reported by the credit institutions to the authorities.

Violations of the procedure for notifying the authorities by credit institutions about opening/closing the accounts of business entities of strategic importance were also identified.

DIA employees initiated 71 inspections which assessed timeliness and completeness of insurance payments to the compulsory deposit insurance fund, the procedure for accounting liabilities to depositors, and credit institutions' capability to provide a register of such liabilities in the due course.

At all stages of inspection activities, the Bank of Russia maintained active information interaction and information exchange with supervisory, monitoring, and law-enforcement agencies. Measures to improve inspection activities were taken on a continuous basis.

SUPERVISORY RESPONSE

In 2018, the Bank of Russia's supervisory response was primarily geared towards early identification of negative trends in the activities of credit institutions and adoption of adequate measures to prevent development of those trends. Information on the measures applied to credit institutions in 2018 is shown in Table 35, Section 5.4 Statistical tables.

If the owners did not take effective measures to eliminate the identified violations and recover financial stability, the Bank of Russia revoked the banking licence as a measure of last resort when there were grounds. In 2018, the Bank of Russia revoked the licences of 60 credit institutions (51 credit institutions in 2017) in accordance with Article 74 of Federal Law No. 86-FZ and Article 20 of Federal Law No. 395-1.

In 2018, banking licences were revoked on the following grounds:

- in 56 cases (51 cases in 2017), failure to comply with federal banking laws and Bank

of Russia regulations, if, within one year, the measures set forth in Federal Law No. 86-FZ had been enforced against a credit institution more than once;

- in 35 cases (24 cases in 2017), repeated violation of the requirements set by Federal Law No. 115-FZ and Bank of Russia regulations issued in accordance therewith;
- in two cases (five cases in 2017), material inaccuracy of reporting data;
- in eight cases (14 cases in 2017), decrease in capital adequacy below 2%;
- in eight cases (14 cases in 2017), decrease in equity (capital) of the credit institution below the minimum level of the authorised capital established as of the date of its state registration.

In addition, in 2018, the Bank of Russia cancelled licences of seven credit institutions following the resolution of their shareholders (members) on voluntary liquidation.

29 out of 60 credit institutions whose licences were revoked in 2018 were registered in the Moscow Region.

MONITORING OF USE OF FUNDS RECEIVED BY CREDIT INSTITUTIONS UNDER THE RECAPITALISATION PROGRAMME THROUGH DIA

In connection with Decree of the State Duma of the Federal Assembly of the Russian Federation No. 5807-6 GD, dated 19 December 2014, 'On Draft Federal Law No. 298254-6 'On Amending Article 11 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks' and Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia carried out regular monitoring of the use of funds received by banks in accordance with Federal Law No. 451-FZ, dated 29 December 2014, 'On Amending Article 11 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks' and Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

Participation of banks in the programme to increase capitalisation through the DIA enabled

significant growth in lending to the economy.¹ Since the launch of the programme (2015), for eight banks that submit their reporting to the DIA, the growth in lending and the placement of funds in bonds of organisations engaged in priority economic activities, SMEs, housing mortgage lending and the constituent territories of the Russian Federation was ₽323.6 billion as of 1 January 2019, which is 11.3 times greater than the amount of funds provided for additional capitalisation of these banks (₽28.6 billion). In 2018, 13 banks (as of 1 January 2019) also completed their three-year commitment to increase lending under additional capitalisation programme.

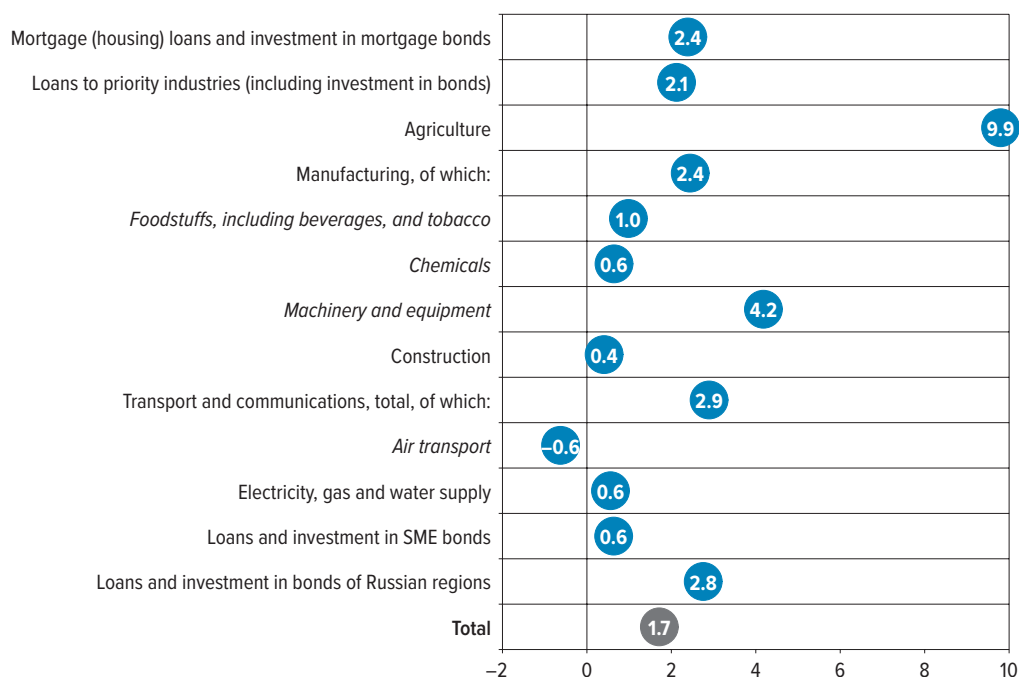
According to banks' reports to the DIA, after receiving federal government bonds, these banks extended loans primarily to manufacturing companies (29% of the total increase

in the claims portfolio as of 1 January 2019), provided housing mortgage loans and invested in mortgage bonds (20%), granted loans to SMEs and invested in SME bonds (14%), and extended loans to transport and communications companies (12%).

The results of monitoring the use of government support funds show that the group of additionally capitalised banks generally observed the requirement for increasing the total portfolio: as of 1 January 2019, the average monthly growth rate of lending and investment in bonds of priority economy sectors, SMEs, HMLs and the constituents of the Russian Federation by these banks amounted to 1.7%.² However, one of the banks that submitted reports as of 1 January 2019 failed to comply with the conditions for increasing lending stipulated by the Procedure.

**AVERAGE MONTHLY GROWTH RATES IN LENDING BY GROUP OF BANKS
SUPPORTED BY GOVERNMENT THROUGH THE DIA AS OF 1 JANUARY 2019
(AS PER BANKS' SPECIAL STATEMENTS TO THE DIA, PER CENT)**

Chart 36



¹ According to the Procedure and Conditions for Investing the Property Contribution of the Russian Federation to DIA Property in the Subordinated Liabilities and Preference Shares of Banks (hereinafter, the Procedure), one of the main requirements for obtaining these funds was banks' obligation to increase the aggregate volume of ruble lending within three years after the recapitalisation, including mortgage (housing) lending, and (or) lending to small and medium-sized enterprises, and (or) constituent territories of the Russian Federation, and (or) entities conducting their business in one or several sectors of the economy, by no less than 1% per month. Apart from actual loans, calculation of the increase should also include bank investments in the ruble-denominated mortgage bonds and the ruble bonds issued by the aforementioned entities and purchased by banks.

² The average monthly indicators were calculated for each bank for the period starting from their receipt of funds from the DIA.

2.2.4.2. NON-GOVERNMENTAL PENSION FUNDS

LEGISLATIVE SUPPORT OF ACTIVITIES

In 2018, Federal Law No. 75-FZ 'On Non-Governmental Pension Funds' dated 7 May 1998 was amended with the participation of the Bank of Russia.

Federal Law No. 49-FZ¹ introduced the institution of fiduciary responsibility of NPFs.



The institution of 'fiduciary responsibility' was introduced for NPFs

NPFs were obliged to arrange investment of pension savings and placement of pension reserves exclusively in the interests of insured persons and participants. An NPF is required to purchase and dispose of assets on the best available terms at the time of transaction. An NPF that has failed to exercise due care of interests of future pensioners, who are its clients, is required to reimburse losses at its own expense.

The existing NPF remuneration system was changed. It was established that remuneration includes fixed and variable parts. The fixed part of remuneration is paid out of pension savings, while the variable part is paid out of the income from the investment of pension savings. The fixed part does not depend on investment results. At the same time, its amount for the reporting year and the amount of expenses re-

lated to the investment of pension savings cannot in aggregate exceed the established level.²

The results of investment of pension savings (placement of pension reserves) may be calculated by using the depreciated cost of securities rather than their market value. Depreciated cost provides for valuation of a security assuming that it is held in the portfolio until maturity. In this case, short-term fluctuations in the market value unrelated to changes in the quality of the security are not accounted for.

Federal Law No. 269-FZ³ was adopted in order to address issues related to violations of rights of insured persons when they change the insurer.

Starting from 1 January 2019, individuals may submit their applications to change the insurer under mandatory pension insurance as well as notifications of refusal to change the insurer via the Unified Portal of State and Municipal Services or to the Pension Fund of the Russian Federation. Prior to submitting the application for a change of insurer, the insured person must be informed of the amount of the investment income that will be lost.

IMPROVING REGULATION AND SUPERVISION

To improve the approaches to establishing the requirements for the investment of pension savings of NPFs, Bank of Russia Regulation No. 580-P⁴ was amended as follows:

¹ Federal Law No. 49-FZ, dated 7 March 2018, 'On Amending Certain Legislative Acts of the Russian Federation Regarding the Regulation of Non-Governmental Pension Funds'. The document came into effect on 18 March 2018.

² The maximum amount is established by Clause 2 of Article 36.23 of Federal Law No. 75-FZ, dated 7 May 1998, 'On Non-Governmental Pension Funds'.

³ Federal Law No. 269-FZ, dated 29 July 2018, 'On Amending Certain Legislative Acts of the Russian Federation to Ensure the Right of Citizens to Receive Information about the Effects of Termination of Mandatory Pension Insurance Contracts'. The document came into effect on 30 July 2018.

⁴ Bank of Russia Ordinance No. 4996-U, dated 29 November 2018, 'On Amending Bank of Russia Regulation No. 580-P, Dated 1 March 2017, 'On Additional Restrictions on Investing Pension Savings Placed with Non-governmental Pension Funds Providing Mandatory Pension Insurance; on Cases When a Management Company Acting as a Trustee of Pension Savings Is Entitled to Execute Repo Agreements; on Requirements Aimed at Risk Mitigation the Observance Whereof Entitles the Management Company to Execute Derivative Contracts; on Additional Requirements for Credit Institutions Which Servicemen Pension and Housing Savings are Placed with; and on the Additional Requirement for the Management Company to Finance Funded Pension under Pension Savings Trust Management Agreement'. Registered with the Russian Ministry of Justice on 26 December 2018. The document came into effect on 8 January 2019 (except for certain provisions).

Bank of Russia Ordinance No. 5054-U, dated 10 January 2019, 'On Amending Bank of Russia Regulation No. 580-P, Dated 1 March 2017, 'On Additional Restrictions on Investing Pension Savings Placed with Non-governmental Pension Funds Providing Mandatory Pension Insurance; on Cases When a Management Company Acting as a Trustee of Pension Savings Is Entitled to Execute Repo Agreements; on Requirements Aimed at Risk Mitigation the Observance Whereof Entitles the Management Company to Execute Derivative Contracts; on Additional Requirements for Credit Institutions Which Servicemen Pension and Housing Savings are Placed with; and on the Additional Requirement for the Management Company to Finance Funded Pension under Pension Savings Trust Management Agreement'. Registered with the Russian Ministry of Justice on 1 February 2019. The document came into effect on 6 February 2019.

- a limit on investments in assets of a group of related parties is to be gradually reduced by 1 July 2021 from 15% to 10% of the investment portfolio value, and a 5% limit on investments in shares of a single issuer is introduced;
- it is now allowed to place pension savings with credit institutions (for which the Bank of Russia Board of Directors has approved a plan of the Bank of Russia's participation in bankruptcy prevention measures) during implementation of that plan;
- NPF pension savings can now be placed in concessionaire bonds without a credit rating that meet certain requirements;
- criteria for NPFs to be able to make transactions with shares of Russian joint-stock companies offered for public circulation for the first time, including during their initial public offering, were clarified.

ON-SITE SUPERVISION

As part of their 2018 inspections in NPFs, the authorised representatives of the Bank of Russia initiated inspections of 22 NPFs, including one inspection of NPF coordinated with the inspections of five other financial market participants to conduct a comprehensive study of the banking group.

In a number of NPFs, these inspections revealed violations in the placement of pension reserves and investment of pension savings,

instances of investing in assets of poor investment quality, provision and disclosure of unreliable information, violation of requirements for internal controls and other violations of laws on non-governmental pension funds.

SUPERVISORY RESPONSE

In 2018, the Bank of Russia took the following measures based on identified violations of the pension laws of the Russian Federation:

- 139 orders to eliminate violations (including 22 orders based on the review of inspection reports) were sent to NPFs and their management companies (MCs). 141 letters were sent as part of supervisory collaboration on identified violations of the laws of the Russian Federation (including one letter based on the review of an inspection report);
- five administrative offence reports were issued in relation to NPFs and 26 reports were issued in relation to NPF MCs;
- the licence of one NPF was revoked for repeated violations of the requirements of pension laws;
- qualification certificates of two financial market specialists in charge of management of investment funds, unit investment funds, unit investment funds and NPFs were cancelled.

The licences of ten NPFs were cancelled based on the request of the licensees to give up their licences.

2.2.4.3. INSURANCE ENTITIES

LEGISLATIVE SUPPORT OF ACTIVITIES

In 2018, Law of the Russian Federation No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation' and a number of other legislative acts of the Russian Federation were amended with the participation of the Bank of Russia.

Federal Law No. 251-FZ¹ provides for increased requirements for the minimum amount of the authorised capital of insurance companies. Starting from 1 January 2019, this amount is ₽300 million for personal and property insurance, ₽450 million for life insurance, and ₽600 million for reinsurance. In accordance with the new requirements, the insurance companies operating as of the date of adoption of the law will have to increase their authorised capital in three stages until 1 January 2022. Increased capitalisation will improve the financial stability and solvency of insurance companies.

Federal Law No. 320-FZ² streamlines the mechanism of assistance to individuals for restoration (acquisition) of property lost as a result of emergency situations, including through the use of the insurance mechanism. The law grants the authorities of the constituent territories of the Russian Federation the right to develop, approve and implement programmes to organise compensation for individuals for damage to residential premises using the voluntary insurance mechanism. The law is aimed at increasing the economic interest of individuals and insurance companies in entering into contracts for the insurance of residential premises and reducing the budget expenditure of the budgetary system

of the Russian Federation for the restoration of residential premises damaged as a result of emergency situations.

Federal Law No. 563-FZ³ is aimed at increasing the interest of agricultural producers in insurance by providing parties to the contract the option to choose the terms of insurance, including the expansion of its basic parameters, as well as the use of remote monitoring tools. Given the social importance of this type of insurance, the law expands the authority of the Bank of Russia to monitor the activities of the United All-Russian Association of Insurers in the area of agricultural insurance.

Federal Law No. 87-FZ⁴ was adopted to ensure protection of rights and legitimate interests of financial consumers. In accordance with this law, from 1 January 2019, the Bank of Russia was granted the right to revoke licences for insurance activities in the event of a repeated material violation of financial stability requirements during the year and ban/restrict certain transactions (related to the disposal/acquisition of property, financial transactions with securities and derivative financial instruments).

Federal Law No. 478-FZ⁵ is in part aimed at ensuring the performance of developer's obligations to equity construction participants and establishes obligation of the developer to pay deductions (contributions) to the compensation fund of the public company 'Fund for the Protection of the Rights of Individual Shared-equity Construction Participants'. Deductions (contributions) are made under the equity construction participation agreements submitted for state registration from 25 December 2018.

¹ Federal Law No. 251-FZ, dated 29 July 2018, 'On Amending the Law of the Russian Federation 'On the Organisation of the Insurance Business in the Russian Federation'. The document came into effect on 1 January 2019 (except for certain provisions).

² Federal Law No. 320-FZ, dated 3 August 2018, 'On Amending Certain Legislative Acts of the Russian Federation'. The document came into effect on 4 August 2019 (except for certain provisions).

³ Federal Law No. 563-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On Government Support for Agricultural Insurance and On Amending the Federal Law 'On Agricultural Sector Development'. The document came into effect on 1 March 2019.

⁴ Federal Law No. 87-FZ, dated 23 April 2018, 'On Amending Certain Legislative Acts of the Russian Federation'. The document came into effect on 8 June 2018 (except for certain provisions).

⁵ Federal Law No. 478-FZ, dated 25 December 2018, 'On Amending the Federal law 'On Participating in Shared-equity Construction of Apartment Houses and Other Real Estate and On Amending Certain Laws of the Russian Federation' and Certain Laws of the Russian Federation'. The document came into effect on 25 December 2018.

IMPROVING REGULATION AND SUPERVISION

In 2018, the Bank of Russia continued its work on the project to implement a risk-based approach to insurance sector regulation in the Russian Federation based on Solvency II principles.¹ The Bank of Russia conducted its first quantitative study, which included a qualitative analysis of the insurance industry's readiness for the requirements of this approach. In particular, this included assessing readiness of the corporate governance system and methodological and technological readiness of insurance sector participants for regular preparation of their balance sheet required to calculate capital adequacy ratios.

In 2018, the Bank of Russia approved the basic standard of operations of insurance companies in the financial market and the basic standard for protection of rights and interests of individuals and legal entities who receive financial services provided by members of self-regulatory organisations uniting insurance companies developed by the All-Russian Insurance Association. Application of these standards will protect the rights of insurance consumers and improve the quality of insurance companies and transparency of their activities. During the transition period until 7 May 2019, insurance companies must bring their activities in compliance with the requirements of the basic standards.



Reform of CMTPLI rate-setting procedure was initiated

In 2018, to improve the rate-setting procedure in the area of compulsory motor third-party liability insurance, the Bank of Russia adopted its Ordinance No. 5000-U,² which provides for more flexible approaches to establishing

the amount of the insurance premium. This ordinance is the first step towards the gradual implementation to a flexible pricing system depending on various risk factors. In particular, it established new values of basic CMTPLI insurance rates, introduced more flexible consideration of driver age and driving experience, and enhanced the procedure to apply the coefficient depending on whether the insurers paid insurance compensation in the previous period.

To fulfil the obligations assumed by the Russian Federation when it joined the World Trade Organisation,³ the Bank of Russia defined approaches to the admission of foreign insurance company branches to the insurance market of the Russian Federation after 22 August 2021, which set out the main parameters for the admission of branches, including the issues related to the status of insurer and insurance agent, terms and procedure for the accreditation of a foreign insurer branch, its reporting, guarantees of the financial stability of the branch, the procedure for supervision over its activities, and ways to ensure the protection of consumer rights. In October 2018, the proposals of the Bank of Russia on admission of foreign insurance company branches to the insurance market of the Russian Federation were submitted to the Russian Ministry of Finance for review and discussion within the interagency work group involving the Russian Federal Antimonopoly Service, the Federal Tax Service, the Ministry of Finance, the Ministry of Economic Development, and the Bank of Russia. Work has begun to prepare a corresponding draft law.

Maintenance of dossiers on insurance companies was a key focus of the Bank of Russia's supervisory activity in the insurance market in 2018. This helped speed up decision-making on determining the risk profile of insurers and modes of supervision over them.

The Bank of Russia continued monitoring of insurers' performance indicators in the segment

¹ Information on the progress of these activities is promptly posted in the Financial Markets / Implementation of Solvency II section on the Bank of Russia's website.

² Bank of Russia Ordinance No. 5000-U, dated 4 December 2018, 'On Limiting Basic Insurance Tariffs (Their Minimum and Maximum Values in Rubles) and Insurance Tariff Ratios, on the Requirements for Insurance Tariff Structure, and on the Procedure for Insurers to Use Them for Calculating Insurance Premium under the Contract of Compulsory Third Party Liability Insurance of Vehicle Owners'. The document came into effect on 9 January 2019 (except for certain provisions).

³ Protocol, dated 16 December 2011, 'On the Accession of the Russian Federation to the Marrakesh Agreement Establishing the World Trade Organization, dated 15 April 1994'.

of property developers public liability insurance. As of 31 December 2018, 11 insurers met the requirements of Federal Law No. 218-FZ.¹ Overall, 398,494 agreements of civil liability insurance for developers were entered into in 2018, with total insurance liability in the amount of ₽1,458 billion. As of 31 December 2018, total insurance liability under 695,290 effective agreements of civil liability insurance for developers was ₽2,668 billion, which is 18% less than the similar figure as of 31 December 2017. In 2018, insurers providing civil liability insurance for developers made insurance payments totalling ₽1.1 billion, which is nearly six times higher than in 2017. In 2018, the Bank of Russia received about 1,300 inquiries from shareholders, developers, government authorities and other organisations regarding civil liability insurance for developers.

In 2018, PJSC IC Rosgosstrakh, which was included in resolution of PJSC Bank FC Ot-kritie, demonstrated stable positive financial performance for the first time in three years. Consolidation of Rosgosstrakh Group's insurance subsidiaries on the basis of PJSC IC Rosgosstrakh was completed in the fourth quarter, which allowed the company to reduce costs and strengthen its position in the corporate segment.

ON-SITE SUPERVISION

As part of inspection activities with regard to insurance entities (IE) in 2018, authorised

representatives of the Bank of Russia initiated on-site inspections of 30 IEs, including nine inspections of IEs organised on a coordinated basis, in order to comprehensively assess their activities.

A number of inspections of insurers revealed grounds for measures aimed at preventing bankruptcy (including those related to numerous violations of the loss settlement procedure), high risks regarding the insurer's ability to ensure the fulfilment of its obligations under a government contract, and signs of 'pseudo-insurance' schemes used by insurance companies in socially important types of insurance. Inspections of two insurance companies involved in the provision of civil liability insurance for developers revealed indications that these insurance organisations were exposed to higher risks, including in connection with the non-market mechanism of setting insurance rates and the failure to conduct a detailed review of developers prior to entering into the relevant insurance agreements.

In addition, during inspection of IEs, a particular attention was paid to the analysis of behavioural aspects of their activities, including the provision of full and reliable information on insurance products to insured persons, compliance with the procedure for the provision of information and early termination of insurance agreements, and the possibility to enter into CMTPLI contracts electronically with each applicant.

¹ Federal Law No. 218-FZ, dated 29 July 2017, 'On a Public Company for the Protection of the Rights of Individual Shared-equity Construction Participants in Case of the Insolvency (Bankruptcy) of Developers and on Amending Certain Laws of the Russian Federation'.

2.2.4.4. MICROFINANCE MARKET ENTITIES

LEGISLATIVE SUPPORT OF ACTIVITIES

In 2018, Federal Law of the Russian Federation No. 151-FZ, dated 2 July 2010, 'On Microfinance Activities and Microfinance Organisations' and a number of other legislative acts of the Russian Federation were amended with the participation of the Bank of Russia.

The adopted Federal Law No. 554-FZ¹ provides, among other things, for a phased transition from 2.5-fold to 1.5-fold limitation of the borrower's maximum debt under consumer loan (credit) agreements, a gradual limitation of the interest rate under consumer loan (credit) agreements from 1.5% to 1% per day, and the lender's right to offer the borrower a special product in the PDL segment² (see Subsection 2.3.1).

The adopted Federal Law No. 537-FZ³ provides for an increase in the microloan amount of MFOs for business financing to ₽5 million.

IMPROVING REGULATION AND SUPERVISION

The Bank of Russia continued to improve regulation of the microfinance market to further improve its socialisation, enhance financial stability of its participants, and ensure market transparency in general.

Introduction of proportionate regulation of microfinance entities continued. A new procedure was established to calculate economic

ratios for MFCs⁴ and MCCs.⁵ Additional ratios were introduced for MFCs (as larger participants), while previous approaches were retained for MCCs.

To stimulate lending to SMEs, a reduced ratio was established to calculate capital adequacy for the portfolio of microloans extended to SMEs, and a similar ratio was increased to discourage the provision of PDL loans by microfinance organisations.

The prudential requirements for the compliance of agricultural consumer credit cooperatives (ACCCs) with financial ratios⁶ were established to consider a greater number of financial risks in the activities of ACCCs.

The procedure for placing reserve funds of consumer credit cooperatives (CCPs)⁷ was amended to preserve the ability of CCPs to place their reserve funds as loans with second-tier CCPs in the absence of credit ratings assigned by credit rating agencies.

In 2018, the Bank of Russia discussed with market participants the specifics of current approaches to the regulation and supervision of NFIs (including MFOs) and main areas of future changes. It published the Concept of Proportionate Regulation and Risk-Based Supervision of NFIs.⁸ This Concept was followed by the consultation paper 'Improving microfinance regulation', which set out the proposals to differentiate the requirements for

¹ Federal Law No. 554-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On Consumer Loans' and the Federal Law 'On Microfinance Activities and Microfinance Organisations'. The document came into effect on 28 January 2019 (except for certain provisions).

² PDL (payday loans) are short-term consumer microloans to individuals (for up to 30 days) for a small amount (up to ₽30,000).

³ Federal Law No. 537-FZ, dated 27 December 2018 'On Amending the Federal Law 'On the Development of Small and Medium-sized Businesses in the Russian Federation' and Article 12 of the Federal Law 'On Microfinance and Microfinance Organisations'. The document came into effect on 8 January 2019.

⁴ Bank of Russia Ordinance No. 4382-U, dated 24 May 2017, 'On Setting Economic Ratios for a Microfinance Company Raising Funds from Individuals, Including Individual Entrepreneurs, and (or) Legal Entities, in the Form of Loans, and for a Microfinance Company Issuing and Placing Bonds'. Registered with the Ministry of Justice of Russia on 21 June 2017. The document came into effect on 1 January 2018.

⁵ Bank of Russia Ordinance No. 4384-U, dated 24 May 2017, 'On Setting Economic Ratios for a Microcredit Company Raising Funds from Individuals, Including Individual Entrepreneurs, Who are Founders (Members, Shareholders), and (or) Legal Entities in the Form of Loans'. Registered with the Ministry of Justice of Russia on 21 June 2017. The document came into effect on 1 January 2018.

⁶ Bank of Russia Ordinance No. 4299-U, dated 27 February 2017, 'On the Numerical Value of the Financial Ratio and the Procedure for Calculating Financial Ratios of Agricultural Consumer Credit Cooperatives'. Registered with the Ministry of Justice of Russia on 22 March 2017. The document came into effect on 1 June 2019 (except for certain provisions).

⁷ Bank of Russia Ordinance No. 4612-U, dated 16 November 2017, 'On Amending Bank of Russia Ordinance No. 3805-U, Dated 24 September 2015, 'On the Procedure for Investing Reserve Funds of Consumer Credit Cooperatives'. Registered with the Ministry of Justice of Russia on 23 January 2018. The document came into effect on 23 January 2018.

⁸ Most NFIs are already to some extent regulated using a risk-based approach (the scope of regulatory requirements depends on the amount of risks accepted by NFIs). Current legislation already provides for proportionate regulation of microfinance institutions. Major market players (or those with a sizeable scope of authority) are singled out as a separate group the Bank of Russia supervises on a regular basis. Regulatory compliance of small market players in the microfinance market is supervised through SROs, with the Bank of Russia stepping in if non-compliance is reported.



A law was adopted to set further limits on the maximum debt of MFO borrowers and substantially reduce the daily cost of microloans

the admission of microfinance institutions to the market, proposals to business reputation of management and owners, the procedure for submission and preparation of reports, the procedure for calculation and values of ratios, and to improvement of supervision over small market participants through self-regulatory organisations (SRO). The discussion helped understand the opinion of the professional community and prepare a roadmap to further develop the principles of proportionate regulation and risk-based supervision in the microfinance market.

ON-SITE SUPERVISION

In 2018, as part of their inspection activities with regard to microfinance market participants, authorised representatives of the Bank of Russia initiated on-site inspections of 41 CCCs, 125 MFOs, 12 pawnshops, and three ACCCs. This included 15 inspections of MFOs, 15 inspections of CCCs, seven inspections of pawnshops and one inspection of an ACCC organised on a coordinated basis to provide a comprehensive assessment of their activities.

In the activities of some microfinance market entities, the inspections revealed failures to ensure financial stability by not complying with financial regulations and requirements to the minimum amount of MFI equity, and other identified instances revealed the repeated submission of materially unreliable reporting data by microfinance market participants to the Bank of Russia as well as signs indicating a financial pyramid in the activities of MFIs.

Simultaneous inspections of credit institutions and NFIs revealed individual facts which suggest that microfinance market participants and credit institutions apply business models aimed at gaining economic benefits from the difference in regulation of different financial

market participants. These facts are non-systemic in nature. The Bank of Russia applied supervisory measures on the revealed facts.

SUPERVISORY RESPONSE

In the course of Bank of Russia supervision of microfinance market entities, in 2018, 2,432 orders to eliminate violations of Russian laws and 68 orders to prohibit CCCs from raising funds, accepting new members, and issuing loans were issued to MFOs, CCCs, ACCCs, HSCs, and pawnshops; 78 cases on administrative offences were initiated against MFCs, large CCCs, and their officials.

To ensure financial stability and financial market development, the Bank of Russia continued to strike off organisations that did not comply with legislative requirements, violated financial consumer rights, failed to comply with requirements for financial stability and reliability, did not join a SRO, or did not provide any microloans during the year from the state register of MFOs. In 2018, details of 611 legal entities were struck off from the state register of MFOs: 290 organisations terminated their activity due to repeated violations of Russian laws during the year, and 321 organisations terminated their activity voluntarily after losing the status of an MFO based on applications.

In 2018, the Bank of Russia continued systematic application of supervisory response measures in respect of the insolvency (bankruptcy). This included regular monitoring of CCCs and MFOs to identify the grounds for taking bankruptcy prevention measures, including through the review of activity reports, financial statements, websites of arbitration courts and the Federal Tax Service of Russia, as well as complaints from individuals and legal entities received by the Bank of Russia. The Bank of Russia collaborated with self-regulatory organisations and provided recommendations to CCCs on the submission of necessary documents and the elaboration of solvency recovery plans. During the year, there were no grounds for decisions to appoint the provisional administration to MFOs or CCCs.

2.2.4.5. OTHER PARTICIPANTS

COLLECTIVE INVESTMENT MARKET ENTITIES (EXCEPT NPFS)

Improving regulation and supervision

To improve regulation of collective investment entities, the Bank of Russia adopted Ordinance No. 4885-U¹ aimed at expanding investment capability of investment funds and providing for the transfer of any property stipulated by the investment declaration to closed-end and exchange-traded unit investment funds for trust management, if such option is included in the trust management rules of such funds. This ordinance also provides for entering into loan and credit agreements as well as transactions to purchase securities (shares) issued by the affiliates of the management company and organisations rendering services to the investment fund, provided such option is stipulated by the charter (trust management rules) of the investment fund for qualified investors.

On-site supervision

During their inspection activities in 2018, authorised representatives of the Bank of Russia initiated on-site inspections in four management companies of investment funds, unit investment funds and non-governmental pension funds and one specialised depository, including three inspections of management companies organised on a coordinated basis to comprehensively assess their activities. Violations of Russian laws and Bank of Rus-

sia regulations governing the corresponding activities were established on the basis of inspection results.

Supervisory response

In 2018, the Bank of Russia took the following measures based on the identified violations of Russian laws:

- 1,186 orders² to provide information and 240 orders³ to eliminate violations were issued;
- nine qualification certificates were cancelled;
- 65 orders to extend the term for the winding up of UIFs were issued;
- 90 administrative cases were considered and penalties were imposed in 20 of them;
- Bank of Russia representatives took part in three court sessions where lawsuits of supervised entities were considered.

PROFESSIONAL SECURITIES MARKET PARTICIPANTS

Improving regulation and supervision

The Bank of Russia began to implement the Concept of Proportionate Regulation and Risk-Based Supervision of NFIs published in 2018 with regard to professional securities market participants (PSMP).⁴ Bank of Russia Ordinance No. 5013-U⁵ was also issued, which set forth the indicators that enabled conditional division of professional securities market participants into small-, medium-sized and large players.

¹ Bank of Russia Ordinance No. 4885-U, dated 29 August 2018, 'On Possible Transferring to a Closed-end Unit Investment Fund or an Exchange Unit Investment Fund for Trust Management of Property (Excluding Monetary Funds) Stipulated by Investment Declaration Envisaged by the Trust Management Rules of the Respective Fund, on Cases Where the Establishment of the Closed-end Unit Investment Fund May not Exceed Six Months and on the Non-applicability of Limitations on Entering into Credit (Loan) Agreements by the Management Company of a Joint-stock Investment Fund or Unit Investment Fund, Shares (Investment Units) of Which are Intended for Qualified Investors, on Purchasing Securities Issued by Persons Specified in Sub-clause 8 of Clause 1 of Article 40 of Federal Law No. 156-FZ, Dated 29 November 2001, 'On Investment Funds', or Shares in the Authorised Capital of the Said Persons, and on Issuing Orders to Conclude Such Agreements'. Registered with the Ministry of Justice of Russia on 25 September 2018. The document came into effect on 20 October 2018.

² This includes 122 orders to wind up the activities of UIFs.

³ This includes 41 orders to wind up the activities of UIFs.

⁴ See Subsection 2.2.4.4 'Microfinance market entities'.

⁵ Bank of Russia Ordinance No. 5013-U, dated 17 December 2018, 'On Amending Bank of Russia Regulation No. 481-U, Dated 27 July 2015, 'On Licensing Requirements for and Conditions of Professional Activity in the Securities Market, Restrictions on Holding Together Certain Types of Professional Activity in the Securities Market, and on the Procedure and Timeframes for Submitting to the Bank of Russia Reports on Terminating Obligations Related to Professional Activity in the Securities Market in Case of Cancellation of a Professional Securities Market Participant Licence'. Registered with the Ministry of Justice of Russia on 22 January 2019. The document came into effect on 17 February 2019 (except for certain provisions).



Proportionate regulation was introduced for professional securities market participants

The division into categories is based on simple indicators, such as the volume of broker/trust management transactions, the number of customers as per brokerage / trust management contracts, the cost of securities recorded in depository accounts and the number of persons with personal accounts in the securities registrar. This minimal set of criteria will enable PSMPs themselves to select a category they belong, selecting optimal regulatory compliance for their business. This regulatory act¹ also established the obligation, starting from 1 October 2020, to carry out internal audits only for large professional participants. It was established that only large registrars would be required to form a board of directors. For depositories, the requirements for the minimum number of qualified employees were differentiated depending on the selected category.

The adopted Bank of Russia Ordinance No. 4805-U² and Bank of Russia Ordinance No. 4928-U³ were aimed at improving the protection of broker's customers from price fluctuations in various segments of the financial market (other than the stock market).

In 2018, three regulatory acts were adopted to govern investment consulting activities.

Bank of Russia Ordinance No. 4956-U⁴ supplemented the existing legal requirements⁵ to investment advisers by general requirements that a legal entity or individual entrepreneur must meet to be included in the unified register of investment advisers. Bank of Russia Ordinance No. 4980-U⁶ defined the range of persons allowed to apply for programme accreditation, the list of documents required for programme accreditation, and the procedure for a decision on programme accreditation, decision to deny programme accreditation and the decision to revoke programme accreditation. Bank of Russia Ordinance No. 5014-U⁷ established the procedure for profiling an investment adviser's customer as well as the requirements for the form of individual investment advice and requirements for investment advisory activities.

Clarifications were made with regard to the items of internal accounting carried out by PSMPs. Bank of Russia Ordinance No. 5034-U⁸ adopted in connection with this issue excludes transactions made by PSMPs with foreign currency or goods admitted to organised trading from the items subject to internal accounting. Clarifications were made with regard to the standards for recording liabilities in the internal accounting of PSMP customers; internal accounting rules were established for cases when PSMP customers' funds are kept in PSMP cash desk; and clarifications were made with regard to the rules for reconciling customers' cash balances in internal accounting.

¹ Overall, Bank of Russia Ordinance No. 5013-U laid the foundation for introducing the principle of proportionate regulation, including the requirements for the procedure and terms of reporting, internal controls, risk management system, business continuity, and corporate governance.

² Bank of Russia Ordinance No. 4805-U, dated 1 June 2018, 'On Amending Bank of Russia Ordinance No. 3234-U, Dated 18 April 2014, 'On Unified Requirements Regarding Rules for Broker Activities When Making Certain Transactions at Customers' Expense'. Registered with the Ministry of Justice of Russia on 13 August 2018. The document came into effect on 28 August 2018.

³ Bank of Russia Ordinance No. 4928-U, dated 8 October 2018, 'On the Requirements for Brokerage with Regard to Securities Transactions and Derivatives Contracts, Liquidity Criteria of Securities Serving as Collateral of Customers' Obligations to the Broker Engaged in Such Transactions and Contracts, as well as the Required Ratios of Brokers Engaged in Such Transactions and Contracts'. Registered with the Ministry of Justice of Russia on 4 March 2019. The document came into effect on 1 July 2019.

⁴ Bank of Russia Ordinance No. 4956-U, dated 2 November 2018, 'On the Requirements for Investment Advisers'. Registered with the Ministry of Justice of Russia on 14 January 2019. The document came into effect on 19 February 2019.

⁵ Established by Federal Law No. 39-FZ, dated 22 April 1996, 'On the Securities Market'.

⁶ Bank of Russia Ordinance No. 4980-U, dated 27 November 2018, 'On the Procedure for Accrediting Software Programs to Provide Individual Investment Recommendations'. Registered with the Ministry of Justice of Russia on 14 February 2019. The document came into effect on 5 March 2019.

⁷ Bank of Russia Ordinance No. 5014-U, dated 17 December 2018, 'On the Procedure for Profiling an Investment Adviser's Customer and the Requirements for Individual Investment Recommendation Form and Investment Advisory Services'. Registered with the Ministry of Justice of Russia on 11 February 2018. The document came into effect on 5 March 2019.

⁸ Bank of Russia Ordinance No. 5034-U, dated 24 December 2018, 'On Amending Bank of Russia Regulation No. 577-P, Dated 31 January 2017, 'On the Internal Accounting Rules of Professional Securities Market Participants Engaged in Broker, Dealer, and Securities Management Activities'. Registered with the Ministry of Justice of Russia on 23 January 2019. The document came into effect on 12 February 2019.

The requirements for equity of depositories were streamlined to maintain stability and integrity of the accounting infrastructure. The adopted Bank of Russia Ordinance No. 4761-U¹ eliminated the requirement for higher ratios to the equity of depositories that have nominee accounts held with a depository bank, in which a provisional administration had been appointed to manage the credit institution, or a plan had been approved involving the participation of the Bank of Russia in the implementation of bankruptcy prevention measures. Elimination of this requirement will allow depository banks undergoing resolution to retain their market position in the area of depository services and, thereby, contribute to minimising state expenses on restoring their financial stability.

Bank of Russia Ordinance No. 4944-U,² which provides for introduction of targeted innovations as well as a number of amendments identified during the application of the current version of Bank of Russia Regulation No. 503-P,³ was adopted to allow depository record-keeping of electronic mortgage certificates.

The adopted Bank of Russia Ordinance No. 4748-U⁴ regulates the maximum fee charged by the register holder to registered persons for transactions over personal ac-

counts and for the provision of information from the register of securities holders. This ordinance is aimed at improving the accessibility and transparency of financial service costs.

Bank of Russia Ordinance No. 4743-U,⁵ which clarifies the procedure for disclosure of information on rates charged by the registrars for transactions over the personal accounts of registered persons, provision of information from the register of securities holders as well as the procedure for disclosure of information on calculation of equity and information on affiliates was adopted to improve the existing disclosure procedure of PSMPs. These amendments will help increase transparency in the activities of entities supervised by the Bank of Russia.

Bank of Russia Ordinance No. 4622-U,⁶ which entered into force in 2018, specified the requirements for the procedure for organised trading established by the regulator earlier to ensure price stability, improve financial inclusion, and discourage unfair conduct.

Newly adopted regulatory acts established the requirements for organising and implementing internal monitoring and internal audit in infrastructure organisations of the financial market⁷ based on international standards and Russian practices.

¹ Bank of Russia Ordinance No. 4761-U, dated 2 April 2018, 'On Amending Bank of Russia Ordinance No. 4373-U, Dated 11 May 2017, 'On the Capital Requirements for Professional Securities Market Participants'. Registered with the Ministry of Justice of Russia on 23 April 2018. The document came into effect on 14 May 2018.

² Bank of Russia Ordinance No. 4944-U, dated 25 October 2018, 'On Amending Bank of Russia Regulation No. 503-P, Dated 13 November 2015, 'On the Procedure for Depositories to Open and Manage Depo and Other Accounts'.

³ Bank of Russia Regulation No. 503-P, dated 13 November 2015, 'On the Procedure for Depositories to Open and Manage Depo and Other Accounts'.

⁴ Bank of Russia Ordinance No. 4748-U, dated 22 March 2018, 'On the Maximum Payment Charged by Security Holders' Registrar from the Registered Persons for Personal Account Transactions and Provision of Information from the Register of Security Holders, and the Procedure for its Setting'. Registered with the Ministry of Justice of Russia on 17 April 2018. The document came into effect on 1 October 2018.

⁵ Bank of Russia Ordinance No. 4743-U, dated 19 March 2018, 'On Amending Bank of Russia Ordinance No. 3921-U, Dated 28 December 2015, 'On the Content and Volume of Information, and the Procedure and Timeframe for its Disclosure by Professional Securities Market Participants'. Registered with the Ministry of Justice of Russia on 11 April 2018. The document came into effect on 28 April 2018.

⁶ Bank of Russia Ordinance No. 4622-U, dated 27.11.2017, 'On Amending Bank of Russia Regulation No. 437-P, Dated 17 October 2014, 'On Conducting Organised Trading'. Registered with the Ministry of Justice of Russia on 16 February 2018. The document came into effect on 1 July 2018.

⁷ Bank of Russia Ordinance No. 4739-U, dated 15 March 2018, 'On the Requirements for Internal Controls and Auditing Conducted by a Clearing Organisation'. Registered with the Ministry of Justice of Russia on 25 May 2018. The document came into effect on 1 September 2018.

Bank of Russia Ordinance No. 4792-U, dated 7 May 2018, 'On the Requirements for the Procedure for Trade Organisers to Exercise Internal Control and Internal Audit'. Registered with the Ministry of Justice of Russia on 23 August 2018. The document came into effect on 20 March 2019.

Bank of Russia Ordinance No. 4904-U, dated 12 September 2018, 'On the Requirements for the Central Depository to Exercise Internal Control and Internal Audit, for Internal Audit Rules and Action Plan of Internal Audit of the Central Depository'. Registered with the Ministry of Justice of Russia on 4 October 2018. The document came into effect on 30 May 2018.

Bank of Russia Ordinance No. 4791-U,¹ which specifies the measures to be taken by trade organisers as part of their processes to identify, analyse, assess, monitor, control and mitigate the risks associated with the organisation of trading, was adopted to ensure the sustainability and stability of the financial market and its infrastructure organisations. Bank of Russia Ordinance No. 4905-U,² which established the requirements for organising the risk management framework of the central depository, aims to address a similar task.

Bank of Russia Ordinance No. 4824-U,³ which established the capital adequacy ratio for the trade organiser defining the amount of capital sufficient for supporting the daily functions at a level that ensures organised trading for six months, was adopted to ensure financial market stability.⁴

Bank of Russia published a consultation paper 'Improving the Regulation of Accounting Infrastructure'. The purpose of this paper was to discuss with the professional community potential models of accounting infrastructure, its direct participation in securities lending transactions, the modification of rights, obligations and liability of accounting institutions, the issues of risk distribution, as well as the mechanisms for protection of investors' property rights, followed by identification of potential reform areas for accounting infrastructure regulation.

The Bank of Russia continued efforts to increase the transparency of its activities. It approved the concept for improvement of the procedure to cancel (revoke) licences of NFIs and to cancel qualification certificates of financial market specialists. Bank of Russia Regulation No. 664-P,⁵ which established the procedure for the Bank of Russia to monitor implementation of the solvency recovery plan and regulated the relations between the Bank of Russia and provisional administration, was adopted to ensure a transparent mechanism for the measures implemented by the Bank of Russia to prevent bankruptcy of PSMPs, management companies of investment funds, unit investment funds and non-governmental pension funds, clearing organisations, trade organisers as well as to regulate relations between the Bank of Russia and the provisional administrations of such financial institutions.

Bank of Russia Ordinance No. 5015-U⁶ adopted in 2018 was aimed at:

- establishing the procedure for selecting head of the provisional administration of PSMP, management companies of investment funds, unit investment funds and non-governmental pension funds, non-governmental pension funds not engaged in mandatory pension insurance, clearing companies, trade organisers, CCCs, MFOs and their members;

¹ Bank of Russia Ordinance No. 4791-U, dated 7 May 2018, 'On the Requirements for Trade Organisers to Create a System for Managing Risks Related to Trading and Transactions with Their Assets and on the Requirements for Trade Organisers' Documents Stipulating Measures to Mitigate the Said Risks and Prevent Conflict of Interest'. Registered with the Ministry of Justice of Russia on 4 October 2018. The document came into effect on 20 March 2019.

² Bank of Russia Ordinance No. 4905-U, dated 12 September 2018, 'On the Requirements for the Central Depository's Activity with Regard to Managing Risks Related to its Activity, as well as for Rules to Manage the Said Risks'. Registered with the Ministry of Justice of Russia on 16 November 2018. The document came into effect on 30 May 2018.

³ Bank of Russia Ordinance No. 4824-U, dated 18 June 2018, 'On the Value and Methodology Used to Measure the Trade Organisers' Capital Adequacy Ratio'. Registered with the Ministry of Justice of Russia on 16 July 2018. The document came into effect on 20 July 2019.

⁴ In particular, following a substantial decline in the income (losses) of the trade organiser due to the loss of confidence on the part of a certain share of participants in trading.

⁵ Bank of Russia Regulation No. 664-P, dated 5 December 2018, 'On the Provisional Administration of a Financial Institution, Which is a Professional Securities Market Participant, Management Company of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, Clearing Company, and Trade Organiser; the Procedure for the Bank of Russia to Control the Implementation of the Solvency Recovery Plan of Such Financial Institution and the Cases when the Bank of Russia Decides to Conduct an On-site Inspection of its Activities Based on the Analysis of its Solvency Recovery Plan'. Registered with the Ministry of Justice of Russia on 25 March 2019. The document came into effect on 14 April 2019.

⁶ Bank of Russia Ordinance No. 5015-U, dated 18 December 2018, 'On the Procedure for the Bank of Russia to Select a Head of the Provisional Administration of the Financial Institution, Which is a Professional Securities Market Participant, Management Company of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, Non-governmental Pension Fund not Engaged in Mandatory Pension Insurance, Clearing Company, Trade Organiser, Consumer Credit Cooperative, Microfinance Organisation, and its Members and to Approve the Composition of the Provisional Administration of This Financial Institution, and the Procedure and Grounds for Changing its Composition'. Registered with the Ministry of Justice of Russia on 7 February 2019.

- establishing the procedure for approving composition of the provisional administration by the Bank of Russia;
- establishing the grounds for changing composition of the provisional administration.

On-site supervision

In 2018, authorised representatives of the Bank of Russia initiated on-site inspections of 25 professional securities market participants, including coordinated inspections of 17 organisations. Two coordinated inspections of professional securities market participants revealed 'scheme' transactions (operations) with securities that make no obvious economic sense.

In addition, inspection of a trade organiser established certain violations in the organisation of its risk management framework and in the organisation and implementation of internal control, violations of the procedure for stress testing of software and hardware and deficiencies in its information protection practices.

Supervisory response

To improve the efficiency of supervision, apply uniform approaches to implementation of supervisory procedures and minimise the risks inherent in supervisory activities, the Bank of Russia continued to develop its risk-based approach to supervision over PSMPs. The supervisory procedures are being brought in line with the elaborated matrix of supervisory regimes and depend on the category assigned to the PSMP risk profile calculated and updated automatically on a monthly basis. Development of the 'Trigger Indicators' project facilitated transition to preventive supervision, the integral feature of which is the focus of supervisors on assessing risks inherent for the activities of supervised entities.

In 2018, the Bank of Russia implemented 231 off-site supervisory activities of PSMPs and

29 supervisory activities of infrastructure organisations of the financial market, including two off-site supervisory activities for the purpose of strategic risk assessment. It also conducted surveys of 35 registrars, 11 depositories and all supervised infrastructure organisations on issues of risk management and internal control framework.

SELF-REGULATORY ORGANISATIONS IN THE FINANCIAL MARKET

Legislative support of activities

In 2018, Federal Law No. 223-FZ¹ was amended with the participation of the Bank of Russia.

Federal Law No. 397-FZ² included investment adviser activities in the list of financial institution activities covered by the principles and terms of self-regulation in the financial market.

Improving regulation and supervision

In 2018, to standardise activities of financial institutions, the Bank of Russia approved the following basic standards for self-regulatory organisations in the financial market:

- basic standard for broker operations on the financial market;
- basic standard for the protection of the rights and interests of individuals and legal entities who receive financial services provided by members of self-regulatory organisations uniting brokers;
- basic standard for operations performed by depositories in the financial market;
- basic standard for the protection of the rights and interests of individuals and legal entities who receive financial services provided by members of self-regulatory organisations uniting managers;
- basic standard for the protection of the rights and interests of individuals and legal entities who receive financial services provided by members of self-regulatory organisations uniting insurance companies;

¹ Federal Law No. 223-FZ, dated 13 July 2015, 'On Self-Regulatory Organisations in the Financial Market'.

² Federal Law No. 397-FZ, dated 20 December 2017, 'On Amending the Federal Law 'On the Securities Market' and Article 3 of the Federal Law 'On Self-regulatory Organisations in the Financial Market'. The document came into effect on 21 December 2018.

- basic standard for operations performed by insurance companies in the financial market;
- basic standard for consumer credit co-operatives' risk management;
- basic standard for operations performed by microfinance organisations in the financial market;
- basic standard for the risk management of microfinance organisations.

As of the end of 2018, 15 basic standards setting requirements for activities of microfinance organisations, consumer credit co-operatives, brokers, depositories, managers, forex dealers, and insurance companies were elaborated by SROs and approved by the Bank of Russia. Among other things, this completed the formation of the basic standard framework for MFOs and CCCs. Bank of Russia approved all basic standards that had to be elaborated by MFO SROs and CCC SROs:

- basic standard for the risk management of MFOs, basic standard for operations performed by MFOs in the financial market, basic standard for the protection of the rights and interests of individuals and legal entities who receive financial services provided by members of self-regulatory organisations uniting MFOs;
- basic standard for consumer credit co-operatives' risk management, basic standard for operations performed by CCCs in the financial market, basic standard for the protection of the rights and interests of individuals and legal entities who receive financial services provided by members of self-regulatory organisations uniting CCCs, basic standard for CCC corporate governance.

The Bank of Russia continued to develop the institute of self-regulation in the microfinance market. In 2018, there were three MFO SROs in the microfinance market and eight CCC SROs in the financial market (1 CCC

SRO in the financial market lost its status in August 2018); members of these SROs comprised 100% MFOs, 95% MCCs, 72% CCCs (of operating CCCs, excluding those in liquidation).

To streamline the interaction between the Bank of Russia and ACCCs, the Bank of Russia established a procedure for its inquiries and orders (as well as replies to them) to be sent through SROs to ACCCs.¹ The requirements for corrective measures applied by MFO SROs to their members were established to minimise the arbitrage between self-regulatory organisations and ensure uniformity in the application of these measures.²

On-site supervision

As part of its inspection activities, in 2018, the Bank of Russia initiated three on-site inspections of three CCC SROs. Two on-site inspections of two CCC SROs revealed facts indicating the improper monitoring by these SROs of CCCs' compliance with the requirements of federal laws, regulatory legal acts of the Russian Federation, Bank of Russia regulations, basic standards, internal standards and other internal documents of the SROs and failure to submit (late submission) of reports to the Bank of Russia. For one CCC SRO, the inspection continued in 2019.

Supervisory response

In 2018, regulatory and supervisory measures were taken to identify violations by CCC SROs and MFO SROs of the requirements established by federal laws, Russian regulatory legal acts, Bank of Russia regulations, basic standards, and internal standards, which resulted in:

- the issuance of 27 orders to rectify violations of the requirements of Russian laws;
- the initiation of 53 cases of administrative offences.

¹ Bank of Russia Ordinance No. 4770-U, dated 9 April 2018, 'On the Procedure for Sending, Via a Financial Market Self-regulatory Organisation Uniting Agricultural Consumer Credit Cooperatives, Bank of Russia Requests and Orders and Responses Thereto'. Registered with the Ministry of Justice of Russia on 27 April 2018. The document came into effect on 3 June 2018.

² Bank of Russia Ordinance No. 4788-U, dated 3 May 2018, 'On the Requirements for the Measures Applied by a Financial Market Self-regulatory Organisation to Microcredit Companies for Incompliance with Federal Law No. 151-FZ, Dated 2 July 2010, 'On Microfinance Activities and Microfinance Organisations' and Related Bank of Russia Regulations, and the Internal Standards of a Self-regulatory Organisation'. Registered with the Ministry of Justice of Russia on 3 August 2018. The document came into effect on 20 August 2018.

Due to violation of requirements of Russian laws, a repeated failure to comply with the deadlines for requests of the Bank of Russia and a failure to provide information and submission of knowingly false information, the Bank of Russia decided to terminate the status of one CCC SRO in the financial market.

No supervisory response measures were applied to SROs uniting NPFs, MCs and specialised depositories.

CREDIT RATING AGENCIES

Improving regulation and supervision

In 2018, the Bank of Russia published on its official website five information letters confirming compliance of the methodology used by credit rating agencies with the requirements of Federal Law No. 222-FZ.¹ As of 31 December 2018, the Bank of Russia confirmed compliance of ten methodologies used by ACRA (JSC) and 11 methodologies used by JSC Expert RA with the requirements of Federal Law No. 222-FZ.

In 2018, to improve supervision effectiveness, it was decided to extend the provisions of the Bank of Russia's supervision standard for NFIs to credit rating agencies. The files of credit rating agencies are maintained on an ongoing basis, including information on the credit rating agency's ownership structure, corporate governance, internal control and risk management framework, additional services, information disclosure, financial performance indicators, and statistics of rating actions.

In 2018, the Bank of Russia launched a system² to collect and store data on rating actions

taken by credit rating agencies included by the Bank of Russia in the register of credit rating agencies. The information on rating actions includes, among other things, details of the credit rating and credit rating outlook, rated entity, type and reason of rating action, and press release on the rating action. Assigned credit ratings are monitored on an ongoing basis. The reliability of individual credit ratings assigned by Russian credit rating agencies is verified on the basis of relevant internal and external information.

The principles to be followed by the credit rating agencies to prevent conflicts of interest in the provision of additional (including analytical) services by legal entities belonging to the group of entities related to the credit rating agency have been agreed upon within the Expert Council on Credit Rating Agencies.³

In 2018, rating activities were included⁴ in the All-Russian Classifier of Types of Economic Activity and the All-Russian Classifier of Products by Types of Economic Activity.

On-site supervision

Inspection of a credit rating agency conducted in 2018 revealed instances of the inappropriate organisation and implementation of internal control as well as certain deficiencies in the assignment of credit ratings to non-financial organisations.

Supervisory response

In 2018, the Bank of Russia took enforcement measures with regard to credit rating agencies, including seven orders issued to resolve violations of Russian laws and an administrative fine.

¹ Federal Law No. 222-FZ, dated 13 July 2015, 'On the Activity of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On The Central Bank of the Russian Federation (Bank of Russia)' and Invalidating Certain Provisions of Russian Laws'. In accordance with the provisions of Federal Law No. 222-FZ, if Russian laws provide for the use of credit ratings by the federal government, local government, local self-government bodies, or the Bank of Russia, credit ratings assigned on the national rating scale for the Russian Federation shall be applied to Russian rating objects.

² The legal framework of this system is established by Bank of Russia Ordinance No. 4062-U, dated 4 July 2016, 'On the Procedure, Contents, Forms and Timeframes for Submitting to the Bank of Russia the Information on Rating Actions by the Credit Rating Agencies'.

³ The main objectives of the Expert Council are to collect and summarise the opinions of Russian financial market participants on the relevant activities of credit rating agencies.

⁴ Based on the orders of the Federal Agency on Technical Regulating and Metrology No. 158-st, dated 29 March 2018, and No. 159-st, dated 29 March 2018.

ACTUARIES

Improving regulation and supervision

To improve the regulation of actuarial activity, the Bank of Russia issued Ordinance No. 4731-U.¹

In 2018, the Bank of Russia approved the following:

- federal standard of actuarial activity for asset analysis and comparison of assets and liabilities in actuarial valuation of insurers and non-governmental pension funds;
- federal standard of actuarial activity on actuarial evaluation of non-governmental pension funds (new version).

Bank of Russia Ordinance No. 5053-U² was published to improve the system of access to actuary profession.

Supervisory response

To implement its supervisory activities, the Bank of Russia sent to the SROs of actuaries its requirements for inspections of individual members, which resulted, in particular, in a decision to exclude one responsible actuary from the unified state register of authorised actuaries. In addition, one responsible actuary was excluded from the single register of responsible actuaries upon its application.

In 2018, the Bank of Russia held two qualification exams for persons wishing to join the self-regulatory organisations of actuaries, and these exams were successfully passed by 20 candidates. In 2018 to implement the procedures required to obtain the status of an authorised actuary, the Bank of Russia took part in the qualification reviews held by the self-regulatory organisations of actuaries, which resulted in granting the status of an authorised actuary to one candidate.

CENTRAL COUNTERPARTIES

Legislative support of activities

In 2018, Federal Law No. 7-FZ, dated 7 February 2011, 'On Clearing, Clearing Activities, and the Central Counterparty' and Federal Law No. 325-FZ, dated 27 November 2011, 'On Organised Trading' were amended with the participation of the Bank of Russia.

Federal Law No. 132-FZ³ established the use of precious metal bank accounts in clearing and settlements following clearing results and eliminated the requirement for trade organisers to comply with liquidity ratios.

Improving regulation and supervision

In 2018, the Bank of Russia continued to harmonise Russian regulation of the central counterparty with generally accepted international standards. To ensure that the approaches set forth in federal legislation with regard to the central counterparty are legally binding, the Bank of Russia elaborated its regulations establishing:

- a detailed list of banking operations of the central counterparty with regard to opening and maintaining bank accounts of legal entities in precious metals;
- that central counterparties should move from the use of credit ratings assigned by the rating agencies of issuers and counterparties when establishing requirements for the accepted collateral as well as for instruments and counterparties when placing temporarily available funds to the evaluation of their financial standing;
- the requirements for the content, procedure, and timeframes for submitting the plan for ensuring the central counterparty's business continuity to the Bank of Russia;

¹ Bank of Russia Ordinance No. 4731-U, dated 2 March 2018, 'On the Non-application of Order of the Inspectorate of Non-governmental Pension Funds at the Ministry of Labour and Social Development of the Russian Federation No. 15, Dated 12 February 2001, 'On the Approval of Requirements for the Procedure for Documenting the Results of Actuarial Evaluation of the Activities of Non-governmental Pension Funds'. The document came into effect on 20 March 2019.

² Bank of Russia Ordinance No. 5053-U, dated 10 January 2019, 'On Amending Bank of Russia Ordinance No. 3435-U, Dated 6 November 2014, 'On Additional Requirements for the Qualifications of Responsible Actuaries and the Procedure for Certifying Responsible Actuaries'. Registered with the Ministry of Justice of Russia on 30 January 2019. The document came into effect on 15 February 2019.

³ Federal Law No. 132-FZ, dated 4 June 2018, 'On Amending the Federal Law 'On Clearing, Clearing Activities and the Central Counterparty' and Article 8 of the Federal Law 'On Organised Trading'. The document came into effect on 4 June 2018.

- additional requirements (to the general requirements established for central counterparties by other Bank of Russia regulations) in terms of market and credit risk management as well as the procedure for the Bank of Russia to recognise management quality of the central counterparty as satisfactory in the event of compliance with the requirements for a qualified central counterparty;
- a methodology for assessing the financial standing of the central counterparty;
- a procedure and timeframes for the Bank of Russia to take the decision to terminate the status of a central counterparty.

Supervisory response

The Bank of Russia has confirmed management quality of NCI NCC (JSC) ('NCC') as 'satisfactory' in accordance with Bank of Russia Ordinance No. 2919-U.¹

As part of its monitoring the NCC and NCI JSC NSD as systemically important infrastructure organisations of the financial market, the Bank of Russia analysed their risks, including through stress testing. The results showed that these institutions maintained their financial stability and there would not be any threat of the breach of their business continuity within the stress scenarios used.

REPOSITORIES

The Bank of Russia continued to develop regulation of repositories. Bank of Russia Ordinance No. 4660-U,² which came into effect in 2018, established the scope and procedure for disclosure of information by requiring repositories to disclose the following:

- aggregated indicators calculated by the repository on the basis of information included in the register of contracts;³

- procedure for calculating the aggregated indicators established and applied by the repository;
- changes made to the procedure for calculating the aggregated indicators.

CREDIT HISTORY BUREAUS

In 2018, the Bank of Russia's activities in the regulation of credit history bureaus (CHBs) were aimed at comprehensively modernising the existing system of credit history formation based on the development level of today's credit market and financial technologies. In particular, this included the consideration of the following issues:

- establishment of a duty to check liabilities of a citizen under loan agreements when issuing a consumer loan;
- introducing the institution of qualified CBH, which will be entitled to provide information on the debt (payment) burden of credit history owners to credit history users;
- providing entities supervised by the Bank of Russia with the right to accept and transfer applications to CHBs, which will enable credit history owners permanently and/or temporarily residing in remote regions of the Russian Federation without access to the internet and electronic communication channels to exercise their right to receive their credit report or challenge their credit history (if necessary);
- increased quality and availability of credit information;
- improvement of the Bank of Russia's supervisory powers in respect to the activity of CHBs.

In 2018, the Bank of Russia took part in developing draft federal law No. 542749-7 'On Amending Article 4 of the Federal Law 'On Credit Histories', which provided for the

¹ The Bank of Russia Ordinance No. 2919-U, dated 3 December 2012, 'On the Assessment of the Management Quality of a Credit Institution Acting as a Central Counterparty'.

² Bank of Russia Ordinance No. 4660-U, dated 22 December 2017, 'On the Volume and Procedure for Disclosing Information by Repository'. Registered with the Ministry of Justice of Russia on 14 March 2018. The document came into effect on 9 April 2018.

³ This register is maintained by the repository in accordance with Bank of Russia Ordinance No. 4104-U, dated 16 August 2016, 'On the Types of Agreements Executed Outside Organised Trading Venues and Reported to the Repository; on Persons Submitting Information on Such Agreements to the Repository; on the Procedure, Composition, Form and Timeframes for the Provision of Information to the Repository; on Additional Requirements for the Repository to Keep a Register of Agreements; on the Procedure and Timeframes for the Repository to Provide Information; and on the Procedure, Composition, Form and Timeframes for the Repository to Submit the Register of Agreements to the Bank of Russia'.

introduction of a unique transaction identifier and was aimed at addressing the following issues:

- improving reliability of information included in the credit histories of individuals and legal entities by ensuring accurate identification of credit (loan) agreements, the information on which is transmitted to CHBs;
- eliminating 'gaps' in credit histories following the change of passport or full name;
- eliminating duplication of agreement details.

The draft law was adopted by the State Duma in the first reading on 7 November 2018 (introduced by the Government of the Russian Federation on 3 September 2018).

Federal Law No. 327-FZ, dated 3 August 2018, 'On Amending the Federal Law 'On Credit Histories' was adopted in 2018 and enabled credit history owners to receive, from 31 January 2019, information on CHBs storing their credit history through the Unified Public Services Portal. Also, credit history owners were given the opportunity to remotely obtain their credit report on CHB websites by means of identification in the Unified System of Identification and Authentication.

In 2018, as part of supervision over CHBs, the Bank of Russia initiated scheduled inspections of five CHBs, including one CHB inspection coordinated with the inspections of three other financial market participants and aimed,

among other things, at assessing the reliability of their information submitted to CHBs. The inspections revealed certain instances of non-compliance with the requirements for the content of credit histories, violations of the procedure and terms established for providing credit reports, failure to verify whether credit history users obtained the consent of credit history owners as well as a number of cases of failing to take organisational and technical measures to ensure the protection of information in its processing, storage and transfer. In connection with such violations of the laws on credit histories and regulatory acts of the Russian Federation, the Bank of Russia issued eight orders to CHBs to eliminate these violations and executed two protocols on administrative violations.

In 2018, in order to establish conditions for free movement of goods, services, capital and labour in the financial markets, to minimise credit risks and ensure protection of the rights and legitimate interests of consumers and providers of financial services, the Bank of Russia participated in drafting an international agreement defining the procedure for sharing information included in credit histories within the EAEU and using this information to deepen the integration of financial markets and build a common financial market within the EAEU.

2.2.4.6. NATIONAL PAYMENT SYSTEM PARTICIPANTS

The Bank of Russia oversees compliance by funds transfer operators, payment system operators, and operators of payment infrastructure services with the requirements of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System' (hereinafter, Federal Law No. 161-FZ) and Bank of Russia regulations adopted in pursuance thereof.

Throughout 2018, the Bank of Russia conducted 119 inspections of credit institutions and seven inspections of payment system operators¹ and operators of payment infrastructure services other than credit institutions to check their compliance with the requirements of Federal Law No. 161-FZ and Bank of Russia regulations adopted in pursuance thereof.

The inspections revealed violations with regard to information security in the course of funds transfers and ensuring the smooth functioning of payment systems, risk management and assessment in payment systems, failure of payment system operators to control compliance of payment system participants and payment infrastructure services operators with payment system rules; inspections also revealed unreliable data in statements submitted to the Bank of Russia.

In accordance with the requirements of Federal Law No. 86-FZ, as of 1 January 2019,

four payment system operators which were not nationally important formed their security deposits in full, and one payment system operator had its deposit returned in full due to its exclusion from the register of payment system operators.

In 2018, the Bank of Russia introduced risk-based approaches to proactive supervision in the NPS, procedures for assessing and monitoring the quality of business process Supervision and Monitoring in the NPS, completed the formation of its regulatory framework following the re-engineering of Bank of Russia business process Supervision and Monitoring in the NPS, centralised the functions of supervision and monitoring in the NPS, and clarified the procedure for sending requests to federal post offices.²

In 2018, to ensure the uninterrupted and efficient operation of payment systems, the Bank of Russia provided payment system operators with explanations regarding the issues of finalising payment system rules and internal documents based on Bank of Russia requirements for the procedure and indicators of the uninterrupted operation of the payment system and methods of risk analysis in the payment system, including risk profiles.

¹ Five of these operators were also inspected as payment infrastructure operators.

² The Bank of Russia issued the following regulations:

- Bank of Russia Regulation No. 640-P, dated 16 April 2018, 'On the Procedure for Supervision by the Bank of Russia over the Compliance by Non-bank Payment System Operators and Payment Infrastructure Operators with Federal Law No. 161-FZ, Dated 27 June 2011, 'On the National Payment System' and Related Bank of Russia Regulations';
- Bank of Russia Ordinance No. 4973-U, dated 26 November 2018, 'On the Procedure for a Bank of Russia Request for Information and for Receipt from Federal Post Offices Information on Completed Postal Remittances'.

2.2.5. FINANCIAL REHABILITATION OF FINANCIAL INSTITUTIONS

In 2018, the Bank of Russia continued its efforts to prevent bankruptcy of credit institutions in accordance with Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' (hereinafter, Federal Law No. 127-FZ).

When the Bank of Russia decides to take bankruptcy prevention measures or to submit to the State corporation Deposit Insurance Agency (DIA) the proposal on its participation in these measures, it takes into account systemic importance of a bank both at the level of the financial system as a whole and at the regional level, the importance of certain segments of the financial market, and possible consequences of the Bank of Russia's decision to revoke the banking licence for the financial market, certain sectors, regions and Russia's economy as a whole.

At the beginning of 2018, implementing bankruptcy prevention measures with DIA participation were conducted in 26 banks. During the reporting period:

- a decision was taken to terminate financial resolution with DIA's participation in four credit institutions and to simultaneously approve plans of the Bank of Russia's participation. Consequently, a decision was taken to settle the liabilities of JSC Bank Sovetsky and revoke its banking licence;
- plans for the DIA's participation were approved for UFC Bank (PJSC) and Bank IBSP (JSC); however, in the follow-up to the analysis of their financial standing it was recognised impossible to execute DIA participation plans and as a result these banks had their banking licences revoked.

As of the beginning of 2018, bankruptcy prevention measures involving the Bank of Russia were being implemented in three systemically important credit institutions. During the reporting period:

- the Bank of Russia decided to start the procedure of financial rehabilitation in Asian-Pacific Bank (PJSC);
- ROST BANK JSC was restructured through merger with NB Trust (PJSC);

- JSC B&N Bank and JSC B&N Bank Digital were merged with PJSC Bank FC Otkritie on 1 January 2019.

As of 1 January 2019, 21 credit institutions continued to undergo bankruptcy prevention measures with the DIA's participation and five banks with the Bank of Russia's participation. Thus, in 2018, the Bank of Russia did not make any decisions to initiate bankruptcy prevention measures with the DIA's participation which provide for financial assistance.

The total cost of assets of the banks for which plans of the DIA's or the Bank of Russia's participation in bankruptcy prevention measures were approved stood at ₽9.95 trillion or 10.6% of total banking sector assets as of 1 January 2019.

Loans to non-financial organisations accounted for 7.5%, household loans — for 4.4% and funds raised from households — for 6.6% of loans issued by the said banks. Meanwhile, the banks where bankruptcy prevention measures are implemented with the participation of the Bank of Russia account for 6.7% of banking sector assets, 4.7% of corporate loans; 2.7% of household loans and 4.5% of household deposits.

The DIA's outstanding loan with the Bank of Russia aimed at bankruptcy prevention measures amounted to ₽1,082.89 billion as of the end of the reporting period. Information on the total debt of the DIA to the Bank of Russia is given in Table 36, Section 5.4 'Statistical tables'.

As of 1 January 2019, outstanding deposits with credit institutions which the Bank of Russia provided a part of financial assistance in accordance with the plan of the Bank of Russia's participation from FBSC funds came in at ₽1,791.18 billion (excluding accrued interest). As of the end of 2018, all credit institutions which complied with capital adequacy requirements repaid the outstanding deposits of the Bank of Russia provided in accordance with the bank of Russia participation plans.

In the reporting period, the Bank of Russia continued to implement bankruptcy prevention



Operations of Otkritie Group, Promsvyazbank PJSC, and Asian-Pacific Bank PJSC were stabilised within a short period of time. All banks received additional capital and comply with the capital adequacy ratios

measures in PJSC Bank FC Otkritie, PJSC B&N Bank, and PJSC Promsvyazbank initiated in 2017.

In 2018, it was decided to guarantee that PJSC Bank FC Otkritie, PJSC B&N Bank, PJSC Promsvyazbank, and Asian-Pacific Bank PJSC would continue as a going concern during the implementation of the plans for the Bank of Russia's participation in bankruptcy prevention of these credit institutions.

In order to provide financial assistance to credit institutions, in 2018, the Bank of Russia recapitalised credit institutions from FBSC funds and became the owner of more than 99.99% of ordinary shares of PJSC B&N Bank, ROST BANK JSC, JSC AVB Bank, NB Trust (PJSC), and Asian-Pacific Bank PJSC. The amount of additional capital provided to PJSC Bank FC Otkritie in 2018 included financial assistance to PJSC RGS Bank and JSC NPF Otkritie¹ as well as compensation of PJSC Bank FC Otkritie losses from the impairment of assets of PJSC IC Rosgosstrakh. As of 1 January 2019, the Bank of Russia's participation in the capital of these credit institution came in at ₽565.84 billion.

After receiving additional capital, PJSC B&N Bank, PJSC Bank FC Otkritie, and Asian-Pacific Bank PJSC now meet all capital adequacy requirements.

In 2018, PJSC Bank FC Otkritie and the Bank of Russia established a universal financial group affiliated with PJSC Bank FC Otkritie. Thus, by 1 January 2019, JSC B&N Bank and JSC B&N Bank Digital were merged with PJSC Bank FC Otkritie. The standing management bodies of PJSC Bank FC Otkritie will continue to develop the business of Otkritie Group to ensure the performance comparable with that of leading market participants.

In the reporting period, a non-core asset bank (NAB) was established under the auspices of NB Trust (PJSC) which received non-core

and toxic assets as provided for in the Bank of Russia participation plans. In addition, during the establishment of NAB, ROST BANK JSC was merged with NB Trust (PJSC). NAB assets were in part formed through the spin-off of a separate legal entity from PJSC Bank FC Otkritie with its simultaneous merger with NB Trust (PJSC). JSC AVB Bank was merged with NB Trust (PJSC) on 7 March 2019.

After reviewing the financial position of JSC Bank Sovetsky, the Bank of Russia decided to settle the liabilities of the bank (and, accordingly, revoke its banking licence) to protect the interests of creditors and depositors of the bank. A purchaser bank, which received part of the property and liabilities of JSC Bank Sovetsky, was selected following a competitive bidding procedure held by the DIA.

Federal Law No. 53-FZ, dated 7 March 2018, 'On Amending Certain Laws of the Russian Federation' allowed state ownership of PJSC Promsvyazbank that became the core bank of the military-industrial complex of the Russian Federation. To implement these changes, the Bank of Russia engaged the DIA to act as an investor in the bank's recapitalisation and financial assistance. The respective funding of the DIA came from the asset contribution of the Bank of Russia to the DIA property.

After purchasing an additional issue of ordinary certified shares of PJSC Promsvyazbank, the DIA has become the owner of more than 99.99% of ordinary shares of PJSC Promsvyazbank which were subsequently transferred to the treasury of the Russian Federation. As a result of the said measures, PJSC Promsvyazbank complies with all capital adequacy requirements.

The Bank of Russia-held shares of Asian-Pacific Bank PJSC are supposed to be sold in 2020 after it discloses information about its

¹ Previously, JSC NPF LUKOIL-GARANT.



A non-core asset bank was established on the basis of NB Trust (PJSC)

2019 performance to the public, including potential investors.

As the Bank of Russia prepares to sell Asian-Pacific Bank PJSC to a new owner, it decided to establish a closed-end mixed unit investment fund Spetsialny (CUIF) managed by Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company (FBSC AMC Ltd.) using FBSC funds. The mechanism that provides for the establishment of the CUIF aimed at the purchase of assets of the bank, to which the Bank of Russia participation plan applies, may be further used as an alternative to direct recapitalisation. The decision on the application of this mechanism will depend on the nature of toxic assets, recovery forecasts and other measures aimed at financial resolution of the credit institution.

In 2018, the new mechanism of financial resolution of credit institutions proved as an effective instrument for recovering banks' financial standing which helps them to promptly ensure compliance with regulatory requirements. Furthermore, the Bank of Russia's direct participation in capital of credit institutions under resolution helped untie financial resolution of a credit institution from the financial standing of its investor and ensured resolution of large credit institutions, including systemically important banks.

In 2018, the Bank of Russia made efforts to recover in court the damages inflicted by the actions (inactions) of persons who controlled the credit institution before bankruptcy prevention measures were initiated. As part of these efforts the Bank of Russia applied the procedure for determining the damage inflicted by the actions (inactions) of persons controlling the credit institution which can be recovered from the controlling parties in court as stipulated in Federal Law No. 87-FZ, dated 23 April 2018, 'On Amending Certain Laws of the Russian Federation'. This will help offset the Bank of Russia's expenses on financial resolution of

credit institutions and raise the responsibility of the parties controlling the bank for their decisions. The Bank of Russia also submitted to law enforcement agencies the information about the seemingly illegal operations carried out before the provisional administration was introduced which inflicted damage to the credit institutions.

The operations of provisional administrations to manage credit institutions eligible for bankruptcy prevention, which had been appointed before their licences were revoked, make an important part of the Bank of Russia's activity.

In 2018, the Bank of Russia controlled 16 provisional administrations, of which nine provisional administrations to manage credit institutions were appointed in the reporting period:

- five provisional administrations were appointed to banks in accordance with the approved plans for the Bank of Russia's participation in bank bankruptcy prevention measures and their functions were assigned to FBSC AMC Ltd.;
- three provisional administrations were appointed to banks in accordance with the approved plans for DIA's participation in bank bankruptcy prevention measures;
- one provisional administration was appointed after the bank's banking licence was revoked following the approval of plans for DIA's participation in the settlement of the bank's liabilities.

In 2018, the activity of 15 provisional administration to manage credit institutions was terminated. As of 1 January 2019, the provisional administration continued its operations in one credit institution.

Moreover, during the reporting period, 31 credit institutions were eligible for bankruptcy prevention in accordance with Article 189.10 of Federal Law No. 127-FZ; however, the Bank of Russia or the DIA did not apply any bankruptcy prevention measures to these institutions, of which:

- ten credit institutions eliminated the reasons for bankruptcy prevention measures;
- one credit institution worked out and submitted to the Bank of Russia a financial resolution plan which did not provide for

financial assistance from the Bank of Russia or the DIA;

- 20 credit institutions had their banking licences revoked. Among them PJSC Uraltransbank that took bankruptcy prevention measures in accordance with its financial resolution plan, which did not provide for assistance from the Bank of Russia or the DIA, but failed to implement all the core measures stipulated by the plan and, therefore, had its banking licence revoked.

INFORMATION PROVIDED BY THE BANK OF RUSSIA CHIEF AUDITOR ON THE UTILISATION EFFICIENCY OF THE FUND OF BANKING SECTOR CONSOLIDATION

In accordance with Article 76.12 of Federal Law No. 86-FZ, the FBSC utilisation efficiency is assessed on an annual basis by the Bank of Russia Chief Auditor.

For the purposes of this assessment, efficiency means the achievement of goals and desired outcomes with the maximum return on available resources at the minimum resource cost.

Efficiency was assessed by areas of FBSC funds utilisation in accordance with the Bank of Russia participation plans to prevent the bankruptcy of banks:

1. providing financial assistance for uninterrupted operation of banks to ensure financial stability of the banking system (assessing efficiency by comparing the amounts of financial assistance allocated by the Bank of Russia and the damage to the economy in the event of the credit institution's bankruptcy scenario);
2. recapitalisation of banks (adequacy of resource utilisation for the recovery of credit institution financial position indicators);
3. management of recapitalised banks by their permanent management bodies until their sale, handling non-core and toxic assets (the efficiency of utilisation of funds by the credit institution's management);
4. selling the shares of banks undergoing resolution to third-party investors (the efficiency of the sale of shares of the credit

institution by the Bank of Russia given the market situation).

As of 1 January 2019, ₽2,357 billion received from FBSC were placed with banks undergoing resolution, including ₽565.8 billion to acquire shares and ₽1,791.2 billion in the form of deposits.

Modelling of the bankruptcy scenario for JSC AVB Bank, Asian-Pacific Bank PJSC, NB Trust (PJSC), and ROST BANK JSC, which were covered by the decisions made in 2018 on bank resolution with the participation of the Bank of Russia, showed that the use of ₽1,248.9 billion from the FBSC prevented potential damage to the economy in the amount of ₽1,543.9 billion.

The measures taken in accordance with the participation plans provided additional capital to PJSC Bank FC Otkritie, NB Trust (PJSC), ROST BANK JSC, JSC AVB Bank, Asian-Pacific Bank PJSC, and PJSC B&N BANK.

Provision of additional capital to PJSC Bank FC Otkritie enabled the bank to comply with the prudential requirements of the Bank of Russia by taking into account the compensation of the bank's losses from the impairment of assets in PJSC IC Rosgosstrakh and provision of financial assistance to PJSC RGS Bank and JSC NPF Otkritie.¹

Provision of additional capital to PJSC B&N BANK and Asian-Pacific Bank PJSC in the total amount of ₽65.9 billion allowed these credit institutions to comply with the prudential requirements of the Bank of Russia. In the event of the financial rehabilitation of PJSC B&N BANK and Asian-Pacific Bank PJSC with the participation of DIA, the amount to be provided on preferential terms for a period of 10 years would have been ₽134.4 billion.

NB Trust (PJSC), ROST BANK JSC, and JSC AVB Bank received additional capital in the minimum amount sufficient to ensure their stable operations, as their compliance with the required ratios was not stipulated by Bank of Russia participation plans to prevent the bankruptcy of banks.

Since the efforts to establish a universal financial group on the basis of PJSC Bank FC

¹ Previously, JSC NPF LUKOIL-GARANT.



A mechanism was created for the resolution of insurance companies

Otkritie and PJSC B&N BANK, which it merged with on 1 January 2019, as well as to establish a non-core asset bank on the basis of NB Trust (PJSC) will be completed in 2019, the efficiency of managing these credit institutions will be assessed from 2019.

IMPLEMENTATION OF THE RESOLUTION MECHANISM FOR INSURANCE COMPANIES

Following the successful experience of financial rehabilitation of credit institutions with the participation of the Bank of Russia, legislation was amended in 2018 to extend a similar bankruptcy prevention mechanism to insurance companies.

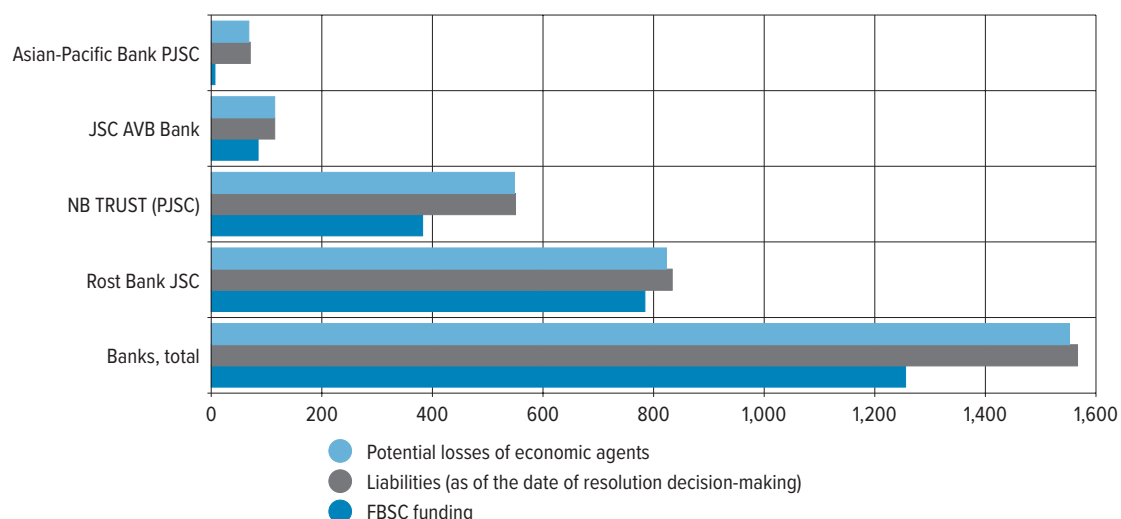
If an insurance company shows signs indicating an unstable financial position which threatens the rights and legitimate interests of its policyholders, insured persons, beneficiaries, other stakeholders and/or a threat to the stability of the financial/insurance market, the Bank of Russia may use its mechanism of the financial rehabilitation of insurance companies.¹

FBSC AMC Ltd. will participate in implementation of measures to prevent bankruptcy of insurance companies in the same way it does for the financial rehabilitation of credit institutions. In this event, insurance companies will receive financial assistance from the Insurance Sector Consolidation Fund of the Bank of Russia.

To enable implementation of the financial rehabilitation mechanism for insurance companies, the Bank of Russia issued by-laws to regulate specific stages of their financial rehabilitation.²

**FBSC FUNDS USED AND LIABILITIES OF BANKS THE DECISION OF WHOSE RESOLUTION
WITH THE PARTICIPATION OF THE BANK OF RUSSIA WAS TAKEN IN 2018.
ESTIMATED IMPACT ON THE ECONOMY IN CASE OF BANK BANKRUPTCY SCENARIO
(BILLIONS OF RUBLES)**

Chart 37



¹ Federal Law No. 87-FZ, dated 23 April 2018, 'On Amending Certain Laws of the Russian Federation'.

² Bank of Russia Ordinance No. 4876-U, dated 30 July 2018, 'On the Procedure for the Bank of Russia to Develop and Approve Plans for Its Participation in Bankruptcy Prevention Measures for Insurance Companies, on Amending the Approved Plans for the Bank of Russia's Participation in Bankruptcy Prevention Measures for Insurance Companies, on the Content of the Report of the Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company on the Implementation of Measures Stipulated by the Plans for the Bank of Russia's Participation in Bankruptcy Prevention Measures for Insurance Companies and their Submission to the Bank of Russia'; Bank of Russia Ordinance No. 4896-U, dated 3 September 2018, 'On the Methodology for Measuring Insurer's Capital (Excluding Mutual Insurance Companies)'; Bank of Russia Ordinance No. 4898-U, dated 3 September 2018, 'On the Procedure for the Bank of Russia to Decide on Reducing the Authorised Capital of an Insurance Company to the Value of its Capital or One Ruble'; Bank of Russia Ordinance No. 4995-U, dated 29 November 2018, 'On the Procedure for Analysing the Financial Position of an Insurance Company to Decide on the Bank of Russia's Measures to Prevent its Bankruptcy'; Bank of Russia Ordinance No. 4901-U, dated 12 September 2018, 'On the Procedure for Insurance Companies to Bring their Authorised Capital and Equity Capital in Line with the Requirement of Clause 6 of Article 25 of Federal Law No. 4015-1, Dated 27 November 1992, 'On the Organisation of the Insurance Business in the Russian Federation'.

2.2.6. TERMINATION OF FINANCIAL INSTITUTIONS

CREDIT INSTITUTIONS

In accordance with Federal Law No. 127-FZ, after the revocation of the banking licence (hereinafter, the licence) from a credit institution, the Bank of Russia must, no later than the day following the date of revocation of the licence from the credit institution, appoint a provisional administration for the management of the credit institution, which exercises the powers of executive bodies of that credit institution from the date of its appointment and until the date when the arbitration court decides to declare that credit institution insolvent/bankrupt and initiate bankruptcy proceedings (approval of the receiver) or until the effective date of the decision of the arbitration court to appoint the liquidator of the credit institution.

As of 1 January 2018, 12 provisional administrations of credit institutions appointed due to revocation of credit institutions' licences were operating.

In 2018, 59 provisional administrations to manage credit institutions were appointed due to revocation of the credit institutions' licences.¹

Activities of 55 provisional administrations appointed to manage the credit institutions following the revocation of their licences were terminated.

As of 1 January 2019, 16 provisional administrations of credit institutions appointed due to revocation of credit institutions' licences were operating.

As of 1 January 2019, 398 credit institutions with revoked (cancelled) licences were subject to liquidation, and the Bank of Russia had not received certificates of their state registration for the purpose of liquidation from the competent registration authorities. Liquidation procedures were being implemented in 382 credit institutions, and in 16 credit institutions the corresponding court rulings had not been passed after the revocation of their licences as of 1 January 2019.

Out of the 382 credit institutions subject to liquidation, 342 banks were recognised insolvent (bankrupt) and had bankruptcy proceedings initiated, among others 41 credit institutions were recognised bankrupt in 2018. Arbitration courts ruled on the forced liquidation of 34 credit institutions, including 16 rulings on forced liquidation passed in 2018. Furthermore, six credit institutions underwent voluntary liquidation following the decisions of their founders.

As of 1 January 2019, in 357 credit institutions liquidation was implemented by the DIA, of which in 333 credit institutions the DIA acted as a receiver and in 24 as a liquidator. As of 1 January 2019, in 19 credit institutions liquidation was implemented by liquidators accredited with the Bank of Russia as receivers of bankrupt credit institutions, of which nine credit institutions underwent bankruptcy proceedings and 10 banks underwent involuntary liquidation.

As of 1 January 2019, liquidation proceedings were completed in 388 credit institutions which had their banking licences revoked (cancelled) after 2004 (the establishment of a corporate liquidator institute). In accordance with the reports submitted to the Bank of Russia, claims of creditors of these credit institutions were met in 35.3% of instances, including 58.2% of first-priority creditors' claims. In liquidated credit institutions where the DIA acted as a receiver (liquidator), creditors' claims were met in 37.3% of instances, including 57.3% of first-priority creditors' claims.

In 2018, the Bank of Russia held 68 inspections in accordance with the Consolidated Plan of Inspections of Receivers (Liquidators) of Credit Institutions in order to implement the powers to oversee the activities of receivers (liquidators) of credit institutions vested in the Bank of Russia by the laws of the Russian Federation on insolvency (bankruptcy). Furthermore, six unscheduled inspections were held.

¹ Excluding the provisional administration of Joint-stock Company Bank Sovetsky, where its functions are performed by the State Corporation Deposit Insurance Agency.

68 inspections were focused on the activity of the DIA, and six inspections – on the activity of liquidators duly accredited by the Bank of Russia as receivers in the bankruptcy of credit institutions.

In 2018, 24 liquidators were accredited with the Bank of Russia as receivers of bankrupt credit institutions and the accreditation of another 30 liquidators was extended. Furthermore, four liquidators were denied accreditation due to their incompliance with the accreditation conditions.

As of 1 January 2019, 54 liquidators were accredited with the Bank of Russia.

INSURANCE ENTITIES

During 2018, the Bank of Russia revoked the insurance licences of 36 insurance entities, including 26 insurance companies (including 12 in connection with the voluntary withdrawal from the insurance business), seven insurance brokers (including two in connection with the voluntary withdrawal from the insurance business), and three mutual insurance companies (including one in connection with voluntary withdrawal from the insurance business).

As of 1 January 2019, five provisional administrations operated in insurance companies after their licences were revoked.

As of 1 January 2019, the DIA performed the functions of a receiver in 19 insurance companies recognised as insolvent (bankrupt).

NON-GOVERNMENTAL PENSION FUNDS, MANAGEMENT COMPANIES, AND INVESTMENT FUNDS

In 2018, the Bank of Russia revoked one NPF licence for violation and ten NPF licenses upon their application.

As of 1 January 2019, liquidation procedures were implemented in 56 NPFs, including bankruptcy proceedings introduced in 25 NPFs (in 2018, 15 NPFs were recognised as bankrupt), and forced liquidation of 31 NPFs (in 2018, decisions on forced liquidation were made in respect of eight NPFs). In 33 NPFs, liquidation procedures were implemented by the DIA, in 24 of which the DIA performed the functions

of a receiver, and in nine, the functions of a liquidator. In 2018, liquidation procedures were completed in four NPFs.

In pursuance of Part 6 of Article 23 of Federal Law No. 422-FZ, dated 28 December 2013, 'On Guaranteeing the Rights of Insured Persons in the Compulsory Pension Insurance System of the Russian Federation when Forming and Investing Pension Savings and Making Payments out of Pension Savings', during 2015–2018, the Bank of Russia transferred ₹66,872,266,100 of the pension savings of insured persons to the Pension Fund of the Russian Federation due to the cancellation of NPFs' licences for pension provision and pension insurance activities. As of 1 January 2019, 39% of Bank of Russia claims acquired as a result of funds transfers to the Pension Fund of the Russian Federation were satisfied (₹26,062,227,500).

In 2018, the Bank of Russia revoked seven licences of management companies for violations of requirements established by the laws of the Russian Federation and 25 licences upon submitted applications.

As of 1 January 2019, three provisional administrations operated in management companies.

INVESTMENT FUNDS

In 2018, 141 termination reports were approved for unit investment funds. One licence of a joint-stock investment fund was revoked upon application.

SPECIALISED DEPOSITORIES

In 2018, the Bank of Russia revoked one licence from a specialised depository due to its failure to carry out activities for more than 18 months and one licence upon application.

As of 1 January 2019, two provisional administrations operated in specialised depositories.

NON-BANK FINANCIAL INSTITUTIONS WHICH ARE PROFESSIONAL SECURITIES MARKET PARTICIPANTS

In 2018, as many as 231 licences of 107 professional securities market participants for professional activity in the securities market

were cancelled.¹ This includes 86 professional securities market participants who ceased their professional activities in the securities market.

In 2018, the Bank of Russia monitored termination of operations in 24 non-bank financial institutions acting as professional securities market participants (including five forex dealers). The Bank of Russia worked on regulating the procedures associated with the return of property to the customers of PSMPs whose licences had been cancelled. For PSMPs, which provided documentary evidence of returning property to their customers under their respective professional activity:

- obligations to return securities were fulfilled by 91.2% (2.68 billion items);
- obligations to return cash were fulfilled by 88% (₽3.02 billion), 99.9% (\$1.5 million), and 99.9% (€1.84 thousand).

In 12 PSMPs, grounds² were identified for their forced liquidation following legal action taken by the Bank of Russia.

In 2018, the Bank of Russia appointed one provisional administration for a professional

securities market participant due to the repeated refusal, within one month, of a PSMP to meet creditors' claims under monetary obligations and failure to submit to the Bank of Russia a notice of relevant circumstances. This provisional administration was operating as of 1 January 2019.

MICROFINANCE MARKET ENTITIES

In 2018, the Bank of Russia carried out activities to terminate (liquidate) 1,902 micro-finance market entities³ that were subject to liquidation but lacked funds to perform liquidation procedures.

The Bank of Russia held working meetings with the FTS and the FBS to organise inter-agency collaboration for the liquidation of the above entities. Interagency collaboration on this issue was maintained.

As a result, 924 of the above-mentioned 1,902 entities were excluded from the Unified State Register of Legal Entities; additionally, decisions were adopted on the exclusion of 194 entities.

¹ The Bank of Russia decided to cancel: 60 licences for brokerage activities, 64 licences for dealer activities, 51 licences for securities management, 51 licences for depository activities, and five licences for forex dealer activities. The Bank of Russia decided to cancel 50 licences due to violations, 87 licences were cancelled upon application of their holders, 70 licences for professional activities in the securities market were cancelled due to revocation of the banking licence, four licences were cancelled due to failure to carry out activities for more than 18 months, and 20 licences were terminated due to reorganisation and liquidation.

² Failure of a PSMP to fully perform its obligations to customers within the period established by the decision of the Bank of Russia and failure to submit reports to the Bank of Russia in accordance with the procedure, form and within the period established by the Bank of Russia.

³ Pawnshops, consumer credit cooperatives, and agricultural consumer credit cooperatives.

2.2.7. COUNTERING MALPRACTICE IN THE FINANCIAL MARKET

In accordance with the Guidelines for the Development of the Russian Federation Financial Market in 2016–2018, in 2018, the Bank of Russia continued to take measures aimed at discouraging malpractice in the financial market.

The Bank of Russia continued its efforts to counteract **misuse of insider information and market manipulation** in Russian organised trading (see Table 38 in Section 5.4 'Statistical tables').

In 2018, amid the increasing complexity of inspections to identify misuse of insider information and market manipulation, the Bank of Russia disclosed on its website more cases involving the violations of Russian laws identified by it. Among other things, this was due to the development of the Bank of Russia's mechanism for conducting relevant inspections, under which it continued to share information with foreign financial market regulators in 2018 (see Table 41 in Section 5.4 'Statistical tables') and improved efficiency of activities preceding such inspections.



Situation Centre for Monitoring
Exchange-Trading Markets
was established

In 2018, the number of measures of last resort taken against qualified financial market participants following the inspections declined. At the same time, the number of preventive measures as well as measures leading to economic consequences for persons found to be involved in the misuse of insider information and/or market manipulation significantly increased. For example, the number of orders issued in 2018 by the Bank of Russia to eliminate violations of Russian laws and take measures to prevent violations in the future was comparable to the total number of such orders for the previous two years. Also, in 2018, the Bank of Russia continued to apply such

corrective measures as blocking accounts of persons involved in transactions aimed at the misuse of insider information and/or market manipulation. The number of such blocked accounts increased by a factor of 2.5 in 2018 compared to 2017.

In 2018, the Situation Centre for Monitoring Exchange-Trading Markets (hereinafter, the Situation Centre) started operating in the Bank of Russia. In its activities, the Situation Centre relies on the exchange data received in real time by the Bank of Russia. These data are processed using a number of algorithms which generate signals when they encounter irregularities (price and volume anomalies, behavioural correlations, etc.) and the probability of wrongdoing by certain trading participants, while also generating an analytical database to track the dynamics of market indicators, such as liquidity, volatility of key financial instruments and other indicators, including in comparison to historical data. In 2018, the Bank of Russia began to use the Situation Centre's toolkit to identify malpractices in organised trading, including the misuse of insider information and market manipulation.¹

The analytical toolkit of the Situation Centre will be further expanded and updated. Currently, it is being developed for adaptability to the permanent nature of new challenges amid substantial volatility of the financial market.

In order to prevent possible abuses during the formation of financial indicators recognised by the Bank of Russia, throughout 2018, the Bank of Russia monitored the quality of formation of the financial indicator MOEX USD/RUB FX Fixing (administered by PJSC Moscow Exchange; hereinafter, the Fixing) and the financial indicator MosPrime Rate (administered by SRO National Financial Association). Fixing calculation model was implemented within the framework of the activity of the Situation Centre. The Bank of Russia began to monitor the quality of operations of NCI JSC NSD Price Centre (hereinafter, the Price Centre) for deter-

¹ The results of the Situation Centre's activities in 2018 were used, among other things, in the Bank of Russia's decisions to ensure financial market resilience (see Subsection 2.2.1.1 'Monitoring of financial stability risks').

mining the value of ruble-denominated bonds. As of year-end 2018, no facts suggesting that the quality of formation of the said indicators and the quality of operations of the Price Centre cannot be deemed satisfactory were discovered. It should also be noted that in 2018 the Price Centre greatly expanded the list of entities, the value of which could be assessed by the Price Centre.

To further improve the framework for countering misuse of insider information and market manipulation, a law was adopted in 2018 to amend Federal Law No. 224-FZ, dated 27 July 2010, 'On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation' (hereinafter, the Law on Insider Information),¹ which entered into force on 1 May 2019.

In 2018, the Bank of Russia issued the following methodological recommendations to provide methodological assistance for trade organisers with regard to establishing criteria of substantial deviation in the volume of foreign currency trading required to detect market manipulation in organised FX trading.²

To provide methodological assistance to legal entities that are insiders in accordance with the Law on Insider Information, the Bank of Russia issued methodological recommendations on compliance with the requirements of the Law on Insider Information containing the principles and measures that should be followed by these entities when elaborating and approving the procedure for access to insider information and the rules for protecting its confidentiality.³

In 2018, based on existing practices, the Bank of Russia issued an information letter

clarifying the requirements of Russian laws for market maker activities and the possibilities of exemption from the Law on Insider Information, as well as the recommendations to trade organisers and market makers aimed at preventing malpractice in the course of their respective activities.⁴

In 2018, to improve effectiveness of countering and preventing misuse of insider information and market manipulation, the Moscow Academy of the Investigative Committee of the Russian Federation elaborated, with the participation of the Bank of Russia, a training manual Grounds and Procedures for Interactions between the Investigative Authorities and Credit Institutions to Identify and Investigate Crimes Related to Market Manipulation and Misuse of Insider Information and began to apply it in training.

A draft law aimed at establishing such a new Russian legal institute as an arrangement with the regulator (the Bank of Russia) that would provide grounds for the exemption from administrative liability for offences related to the misuse of insider information and/or market manipulation⁵ was adopted in 2018 by the State Duma of the Federal Assembly of the Russian Federation (hereinafter, the State Duma) in the first reading. A bill developed as a follow-up to this draft law⁶ was also submitted to the State Duma in 2018.

In 2018, as part of implementing its target business process Identification of Entities Conducting **Unlicensed Activities in the Financial Market**, the Bank of Russia launched full-fledged operations of sections for countering illegal activity in its regional branches as well as the Competence Centre for Countering Illegal Activity in the Financial Market (Krasnodar).

¹ Federal Law No. 310-FZ, dated 3 August 2018, 'On Amending the Federal Law 'On Countering the Misuse of Insider Information and Market Manipulation and On Amending Certain Laws of the Russian Federation' and Certain Laws of the Russian Federation'.

² Methodological Recommendations No. 10-MR, dated 13 April 2018, on setting criteria for the material divergence of the volume of foreign currency trading.

³ Methodological Recommendations No. 23-MR, dated 14 September 2018, on developing and approving the procedure for getting access to insider information and rules for maintaining its confidentiality.

⁴ Information Letter No. IN-06-59/53, dated 7 August 2018, on the participation of individuals in the activity of trading participants as market makers.

⁵ Draft Federal Law No. 220190-7 'On Amending the Russian Federation Code of Administrative Offences'.

⁶ Draft Federal Law No. 564013-7 'On Amending Article 76.3 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and the Federal Law 'On Countering the Misuse of Insider Information and Market Manipulation and on Amending Certain Laws of the Russian Federation'.



A regional model was implemented to combat illegal activities in the financial market

This territorial model enabled extended coverage of the Russian Federation in terms of detecting unlicensed activities in the financial market and providing competent authorities with the information to suppress such activities. The establishment of the Competence Centre helped centralise distribution of information flows to units involved in countering illegal activities and ensured coordinated efforts in this area.

In 2018, the number of entities identified by the Bank of Russia as allegedly operating as illegal lenders rose by more than 70% compared to 2017 to reach 2,293 (see Table 40 in Section 5.4 'Statistical tables'). In 2018, the following public response measures were applied to 697 such entities: initiation of administrative and criminal cases, removal of legal entities from the Unified State Register of Legal Entities, deregistration of websites, etc.



Nearly 2,300 illegal lenders were identified in 2018

The Bank of Russia identified an increased number of illegal forex dealers. In 2018, this figure rose by more than 70% compared to 2017. The information about such websites was forwarded to the Prosecutor General's Office of the Russian Federation and to the Financial Sector Computer Emergency Response Team (FinCERT) of the Bank of Russia's Information Security Department to take further measures.

Overall, in 2018, FinCERT initiated deregistration of 454 domains hosting information about financial market activities with signs of being unlicensed.

In 2018, the Bank of Russia's units responsible for counteracting illegal activities in the financial market made systematic efforts to create and implement mechanisms for effective

collaboration with the executive authorities and law enforcement agencies. These mechanisms enable representatives of these units of the Bank of Russia to participate in the meetings of interagency working groups to combat economic crimes and offences and hold meetings with the representatives of executive authorities and law enforcement agencies.

Such collaboration included a review of the principal objectives and challenges in combating unlicensed activities in the financial market, holding training events for employees of law enforcement agencies, and elaborating methods to optimise the implementation of measures aimed at prompt suppression unlicensed activities in the financial market.

Among other things, increased collaboration of the Bank of Russia with law enforcement agencies and executive authorities resulted in more letters sent by the Bank of Russia and reviewed by these agencies and authorities in 2018 with regard to information about signs of unlicensed activities in the financial market.

In 2018, as part of identifying unlicensed online activities in the financial market, the Bank of Russia intensified the use of insights gained from Big Data.

Also, in 2018, in order to obtain the information necessary to identify unlicensed activities in the financial market, the Bank of Russia began to send requests to foreign financial market regulators for assistance in providing such information. In total, the Bank of Russia sent 28 such requests, which was largely responsible for the significantly higher number of requests sent by the Bank of Russia in 2018 to foreign financial market regulators for the provision of information and documents compared to 2017 (for more details on information sharing with foreign financial market regulators under IOSCO MMoU, see Table 41 in Section 5.4 'Statistical tables'). Most of these inquiries contained requests to foreign financial market regulators for assistance in suppressing the activities of such companies within the Russian Federation and disseminating the information on such activities among the public.

Close collaboration with the Cyprus Securities and Exchange Commission (CySEC)



168 financial pyramid schemes were identified in 2018

helped communicate information on current restrictions on financial services in the Russian Federation to entities registered in the Republic of Cyprus.

As a result of such collaboration, three companies decided to terminate their activities in the Russian Federation and restrict access to their official websites from the Russian Federation.

In 2018, given the effectiveness of the territorial model for counteracting unlicensed activities in the financial market, the Bank of Russia established the Competence Centre **for Counteracting Financial Pyramid Schemes** (Khabarovsk) on the basis of its regional branch. Its main function is to identify entities with activities that show signs of financial pyramid schemes and to send relevant information to law enforcement agencies and executive authorities so they can respond within their remit.

In 2018, the number of organisations identified by the Bank of Russia as involved in activities with signs of financial pyramid schemes increased compared to 2017 but was lower than in 2016 (see Table 39 of Section 5.4 'Statistical tables'). Such dynamics confirm evolution of the anti-pyramid framework. However, this also indicates ongoing adaptation of financial pyramid schemes to the evolving environment. In particular, we observed a lower number of 'traditional' financial pyramid schemes along with a greater number of financial pyramid schemes in the form of public online projects with a website registered outside the Russian Federation, which limits the options for influencing their activities.

To improve the identification of entities involved in online activities with signs of financial

pyramid schemes, the Bank of Russia works on using insights gained from Big Data by adjusting and adding new criteria and selection algorithms to the existing system.

In 2018, to improve the effectiveness of counteracting financial pyramid schemes, the Bank of Russia approved its methodological recommendations on 'Qualification and Investigation of Pyramid Schemes' elaborated jointly with the All-Russian Scientific Research Institute of the Ministry of Internal Affairs of Russia.

A draft law providing for restricting access at the request of the Bank of Russia (extrajudicial blocking) to websites used for distribution of information related to the offer and/or provision of financial services specified in the Federal Law 'On Protection of Competition' within the Russian Federation by persons not entitled to provide them in accordance with the laws of the Russian Federation¹ as well as information related to financial pyramid schemes was submitted to the State Duma in December 2018.

In 2018, the Bank of Russia also played an active role in finalising the draft law aimed at preventing the illegal organisation and conduct of gambling and lotteries under the guise of professional activities in the securities market,² which was adopted by the State Duma in the first reading.

To elaborate effective methods **to combat fraud in the financial market**, in 2018, the Bank of Russia developed the Concept of Counteracting Malpractices in the Financial Market (hereinafter, the Concept), which formulated proposals based on international and Russian experience to combat negative and illegal phenomena violating the principles of business ethics and business conduct, such as the abuse of rights and unfair practices in the financial market.³

The Concept is aimed at protecting the rights and legitimate interests of bona fide

¹ Draft Federal Law No. 605945-7 'On Amending the Federal Law On Information, Information Technology and Information Protection' and the Code of Civil Procedure of the Russian Federation'.

² Draft Federal Law No. 501874-7 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation' (in terms of establishing liability for the illegal organisation and conduct of gambling and lotteries under the guise of professional activities in the securities market).

³ The Concept was posted on the Bank of Russia website on 31 October 2018.

financial consumers, reducing the losses of financial institutions (including insurance companies) from unfair activities and improving the infrastructure for detecting fraudulent activities.

In 2018, with the participation of the Bank of Russia, the University of the General Prosecutor's Office of the Russian Federation conducted a study of insurance crimes to develop

a theoretical framework to improve crime prevention in the financial market.

At the end of 2018, as part of the Comprehensive Training Course for employees of the General Prosecutor's Office of the Russian Federation and the Investigative Committee of the Russian Federation, the Bank of Russia held training sessions, including on the issues of combating unfair practices in the financial market.

2.2.8. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

In 2018, the Bank of Russia continued to implement measures to liberalise the requirements of Russian foreign exchange legislation for the purpose of simplifying foreign exchange control procedures for foreign trade participants.



Foreign exchange control
procedures were simplified
for participants in foreign
economic activity

Thus, a number of conceptual amendments were introduced to Federal Law No. 173-FZ, dated 19 December 2003, 'On Foreign Exchange Regulation and Foreign Exchange Control' (hereinafter, Federal Law No. 173-FZ), with the participation of the Bank of Russia, to provide for the following:

- recognition of a resident entity as having complied with the requirement to repatriate foreign currency proceeds, if such resident entity is subject to restrictive measures imposed by foreign states, and such resident entity is included in the list of such entities (companies under sanctions) approved by the Russian Federal Tax Service and approved by the Russian Ministry of Finance;¹
- the option to perform currency transactions between residents related to the execution and/or termination of a repo agreement as well as to make settlements for foreign securities in foreign currency following clearing results;
- the right of the Bank of Russia to set requirements to credit institutions for posting information on foreign currency exchange rates to the currency of the Russian Federation and/or cross-rates of foreign currencies when buying and selling foreign currency cash and checks.²

In addition, as proposed by the Bank of Russia, Federal Law No. 173-FZ established mechanisms to prevent illegal transfer of funds abroad, in particular, it established the obligation of a resident to repatriate to its accounts with authorised banks the funds due from non-residents under loan agreements in the event of a loan granted to a non-resident by a resident.³

To ensure monitoring of how residents comply with their obligation to repatriate funds due from non-residents under loan agreements to their accounts with authorised banks in the event such loans are granted to non-residents,⁴ the Bank of Russia established a procedure for monitoring the compliance of residents with this obligation by authorised banks⁵ and established reporting forms for foreign exchange transactions related to the provision and repayment of such loans.⁶

A new foreign exchange control mechanism, which came into effect on 1 March 2018, substantially increased the minimum amount of obligations that requires the registration of export transactions and simplified the control procedure.⁷ The rules for compiling and submitting the information stipulated by this pro-

¹ Federal Law of No. 246-FZ, dated 29 July 2018, 'On Foreign Exchange Regulation and Foreign Exchange Control'.

² Federal Law of No. 474-FZ, dated 18 December 2018, 'On Amending Articles 9 and 11 of the Federal Law 'On Foreign Exchange Regulation and Foreign Exchange Control'.

³ Federal Law of No. 64-FZ, dated 3 April 2018, 'On Amending the Federal Law 'On Foreign Exchange Regulation and Foreign Exchange Control' and Article 15.25 of the Russian Federation Code of Administrative Offences'.

⁴ This obligation was introduced by Federal Law No. 64-FZ, dated 3 April 2018, 'On Amending the Federal Law 'On Foreign Exchange Regulation and Foreign Exchange Control' and Article 15.25 of the Russian Federation Code of Administrative Offences', which entered into force on 14 April 2018.

⁵ Bank of Russia Ordinance No. 4855-U, dated 5 July 2018, 'On Amending Bank of Russia Instruction No. 181-I, Dated 16 August 2017, 'On the Procedure for Residents and Non-residents to Submit Documents and Information Confirming Foreign Exchange Transactions to Authorised Banks, on Single Accounting and Reporting Forms Related to Foreign Exchange Transactions, and the Procedure and Timeframes for Their Submission'.

⁶ Bank of Russia Ordinance No. 4927-U, dated 8 October 2018, 'On the List, Forms and Procedure for Compiling and Submitting Credit Institutions' Reporting Forms to the Central Bank of the Russian Federation'.

⁷ More details on this mechanism are provided in Subsection II.2.8 of the 2017 Annual Report of the Bank of Russia.

cedure were published on the Bank of Russia website.¹

The Bank of Russia published and posted on its official website the methodological recommendations on submission of supporting documents to authorised banks by residents for contracts registered with authorised banks. These recommendations ensure uniformity of approaches to the acceptance of supporting documents by the authorised banks from residents in order to comply with the requirements of Bank of Russia foreign exchange control regulation.²

In 2018, the amount of cash foreign currency purchased by households from authorised banks declined by 5% compared to 2017, totalling \$34 billion (hereinafter and until the end of this section, figures are provided in their US dollar equivalent). Households' sales of cash

foreign currency to authorised banks were up 10% to \$17.4 billion.

In this context, authorised banks reduced the amount of foreign currency imported into Russia and increased the amount of exported foreign currency. Overall, in 2018, \$40.2 billion cash foreign currency was imported, down by 17% compared to 2017. Authorised banks increased the amount of exported cash foreign currency compared to 2017 by 29% to \$13 billion.

At the same time, the net demand for cash foreign currency (the difference between the amounts of cash foreign exchange sold to households and withdrawn from their foreign currency accounts and amounts of cash foreign currency cash purchased from households and credited to their accounts) remained virtually unchanged compared to 2017 and stood at \$21 billion.

¹ The rules for compiling and submitting information electronically, as stipulated by Bank of Russia Ordinance No. 4498-U, dated 16 August 2017, 'On the Procedure for Authorised Banks and the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) to Transfer to Foreign Exchange Control Agencies Information about Violations of the Foreign Exchange Laws of the Russian Federation and Acts of Foreign Exchange Regulatory Bodies by Entities Conducting Foreign Exchange Operations'; the rules for compiling and submitting information in electronic form, as stipulated by Bank of Russia Ordinance No. 4512-U, dated 30 August 2017, 'On the Volume and Procedure for Authorised Banks Acting as Foreign Exchange Control Agents to Transfer Information to Foreign Exchange Control Bodies'.

² Methodological recommendations of the Bank of Russia on the submission of supporting documents to authorised banks by residents for contracts registered with authorised banks No. 22-MR, dated 12 September 2018 (Bank of Russia Bulletin No. 71, dated 19 September 2018, p. 45).

2.2.9. COUNTERING THE LEGALISATION (LAUNDERING) OF CRIMINALLY OBTAINED INCOMES AND THE FINANCING OF TERRORISM

In 2018, the Bank of Russia continued to exercise the powers granted by Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (hereinafter, Federal Law No. 115-FZ). Special attention was given to enhancing effectiveness of the system of countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism (AML/CFT).

In 2018, a number of conceptual changes were introduced to Federal Law No. 115-FZ, with direct participation of the Bank of Russia to bring national legislation in line with international AML/CFT standards:

- a mechanism was enshrined in law to counteract the financing of proliferation of weapons of mass destruction;¹
- auditors were required at the legislative level to notify the Federal Financial Monitoring Service of any grounds to believe that deals

or financial transactions of the audited entity are connected with the legalisation (laundering) of criminally obtained incomes or financing of terrorism.²

Also in 2018, the Bank of Russia focused on bringing the AML/CFT regulatory framework in line with the new legislative requirements.³

In 2018, the Bank of Russia continued its planned and systematic activities to reduce the amount of dubious transactions,⁴ which resulted in a steady decline of such transactions in the banking sector.

Compared to 2017, the amount of funds transferred abroad by customers of credit institutions declined by a factor of 1.2 in 2018 (from ₹77 billion to ₹65 billion), the amount of cash-out transactions in the banking sector fell by a factor of 1.9 (from ₹326 billion to ₹176 billion), and the amount of dubious transit operations fell almost twofold (from ₹2.5 trillion to ₹1.3 trillion).

¹ Federal Law No. 90-FZ, dated 23 April 2018, 'On Amending Certain Laws of the Russian Federation for Countering the Financing of Proliferation of Weapons of Mass Destruction'.

² Federal Law No. 112-FZ, dated 23 April 2018, 'On Amending the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and Article 13 of the Federal Law 'On Audit Activities'.

³ Bank of Russia Ordinance No. 4707-U, dated 29 January 2018, 'On Amending Clauses 2.1 and 2.3 of Bank of Russia Regulation No. 375-P, Dated 2 March 2012, 'On the Requirements for a Credit Institution's Internal Control Rules Designed to Counter the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'; Bank of Russia Ordinance No. 4708-U, dated 29 January 2018, 'On Amending Bank of Russia Regulation No. 445-P, Dated 15 December 2014, 'On the Requirements to Internal Control Rules of Non-bank Financial Institutions for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'; Bank of Russia Ordinance No. 4758-U, dated 30 March 2018, 'On Amending Bank of Russia Regulation No. 375-P, Dated 2 March 2012, 'On the Requirements for a Credit Institution's Internal Control Rules Designed to Counter the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'; Bank of Russia Ordinance No. 4759-U, dated 30 March 2018, 'On Amending Bank of Russia Regulation No. 445-P, Dated 15 December 2014, 'On the Requirements to Internal Control Rules of Non-bank Financial Institutions for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'; Bank of Russia Ordinance No. 4760-U, dated 30 March 2018, 'On the Requirements for an Application, Composition of an Interagency Commission; Procedure and Timeframe for Considering by the Interagency Commission of the Application and Documents and (or) Data Submitted by the Applicant; Decision-making Based on Such Consideration; and Procedure for the Interagency Commission to Inform the Applicant and a Financial Institution about the Decision Made'; Bank of Russia Regulation No. 639-P, dated 30 March 2018, 'On the Procedure, Timeframes and Volume of Information to be Communicated to Credit Institutions and Non-bank Financial Institutions on the Cases of Refusal to Conduct Operations and to Execute Bank Account (Deposit) Agreement and (or) Cases of Terminating Bank Account (Deposit) Agreement with a Customer, on Eliminating Grounds for a Decision to Refuse to Conduct Operations and to Execute Bank Account (Deposit) Agreement, and on the Absence of Grounds for Terminating Bank Account (Deposit) Agreement with a Customer'; Bank of Russia Ordinance No. 4846-U, dated 3 July 2018, 'On the Procedure and Terms for the Bank of Russia to Send Notifications to Banks of Making a Decision Specified in Paragraph One of Clause 511 of Article 7 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'; Bank of Russia Ordinance No. 4936-U, dated 17 October 2018, 'On the Procedure for Credit institutions to Submit to the Authorised Body Information in Accordance with Articles 7 and 7.5 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (published on 21 January 2019, entered into force on 22 April 2019); Bank of Russia Ordinance No. 4937-U, dated 17 October 2018, 'On the Procedure for Non-bank Financial Institutions to Submit to the Authorised Body Information in Accordance with Articles 7 and 7.5 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (published on 21 January 2019, entered into force on 23 March 2019).

⁴ Transactions performed by bank customers which have an ambiguous character, no apparent economic expediency or evident legal purpose, which may be conducted in order to divert capital outside the country, finance 'grey' imports, cash-out funds to avoid taxation, and to support corruption and pursue other unlawful objectives.



Illegal transfer of funds abroad declined by a factor of 1.2, and the amount of cash-out transactions in the banking sector was down by a factor of 1.9

In 2018, a notable decline in cash-out transactions in the banking sector led to an increase in the amount of such operations in the non-financial sector. The Bank of Russia identified significant amounts of dubious transactions aimed at non-cash compensation of cash sales revenues 'sold' by wholesalers and retailers to third parties as well as foreign exchange transactions and cross-border transfers related to servicing the shadow economy circulation of cash and commodity flows in major Russian markets.

In connection with this, the Bank of Russia took additional measures in 2018 to promptly identify and suppress dubious transactions.

As part of its supervisory functions, the Bank of Russia completed 146 inspections of credit institutions (their branches)¹ in 2018 on issues of AML/CFT, which comprised 35% of all scheduled and unscheduled inspections of credit institutions (their branches) completed in 2018, including five inspections terminated following the revocation of banking licences from credit institutions.

As many as 35 credit institutions had their licences revoked in 2018 due to the violation of laws, including AML/CFT laws (the total of 60 credit institutions had their licences revoked in 2018).

In 2018, following violation of AML/CFT-related regulations and Federal Law No. 115-FZ² supervisory measures were applied to 316 credit institutions in accordance with Article 74 of Federal Law No. 86-FZ, including: fines (imposed on 211 credit institutions), restrictions to carry out certain transactions (37 credit institutions), bans on certain transactions (three

credit institution), and requirements to mitigate violations of AML/CFT regulations (256 credit institutions).

Furthermore, as part of advisory supervision, the Bank of Russia applied such measures as a written notification of the management and/or the board of directors of a credit institution of the deficiencies in its operations and recommendations for their removal. The regulator applied this measure 346 credit institutions and held meetings with 17 banks.

As part of their supervisory functions, the Bank of Russia and its regional branches completed 32 inspections of NFIs' compliance with AML/CFT requirements in 2018.³ Issues related to AML/CFT legislation were reviewed in 12% of all completed scheduled and unscheduled inspections of NFIs.

In 2018, for the breach of the requirements of AML/CFT regulations and Federal Law No. 115-FZ based on Article 76.5 of Federal Law No. 86-FZ, measures in the form of orders to eliminate violations and/or take steps aimed at preventing violations in the future were taken against 1,419 NFIs, and measures in the form of letters sent to NFIs with recommendations advising on the deficiencies in their activities and meetings held with their management were taken against 640 NFIs.

The Bank of Russia continued to use its powers to initiate and review cases of administrative offences related to the failure of NFIs and their officials as well as officials of credit institutions to comply with AML/CFT regulations.⁴

In 2018, the Bank of Russia initiated 466 cases of administrative offences under Article 15.27 of the Code of Administrative

¹ Bank of Russia data.

² Excluding Clause 3 of Article 7 of Federal Law No. 115-FZ.

³ Bank of Russia data.

⁴ As stipulated in Article 15.27 of the Code of Administrative Offences of the Russian Federation.

Offences of the Russian Federation¹ against officers of 236 credit institutions. In 2018, the consideration of 431 cases of administrative offences (including cases initiated in 2017) was completed; under these cases 128 rulings on imposition of fines, 115 rulings on issuance of warnings, and 188 rulings on the termination of proceedings in cases of administrative offences were issued with regard to officers of credit institutions.

Throughout 2018, the Bank of Russia initiated 2,859 cases of administrative offences against NFIs, as provided for by Article 15.27

of the Code of Administrative Offences of the Russian Federation (including 1,306 cases against officers). Consideration of 2,726 cases of administrative offences (including cases initiated in 2017) was completed; under these cases 217 rulings on imposition of fines (including 81 rulings with regard to NFI officers), 2,137 rulings on issuance of warnings (including 992 rulings with regard to NFI officers), and 372 rulings on the termination of proceedings in cases of administrative offences (including 176 rulings with regard to NFI officers) were issued.²

¹ According to the data of Section 3 of reporting form 0409028 Report on the work to monitor compliance of credit institutions and non-bank financial institutions with the requirements of foreign exchange legislation of the Russian Federation and regulations of the foreign exchange regulation and foreign exchange control authorities and laws of the Russian Federation on countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism.

² Data on the total number of cases of administrative offences initiated and reviewed by officials of the Bank of Russia are provided in Subsection 2.6.9 'Addressing administrative and legal issues'.

2.2.10. IMPROVING FINANCIAL AND COMMODITY MARKET INSTRUMENTS AND INFRASTRUCTURE

In 2018, the Bank of Russia played an active role in developing federal laws, aimed, among other things, at improving the toolkit and infrastructure of the financial market.

This included establishing a legal framework for issuing a new type of financial instruments, **structured bonds**,¹ which provide for incomplete protection of capital and ensure a repayment of the par value (in full or in part) and/or the payment of income on structured bonds to their holders depending on certain circumstances specified in the decision on their issue.

Considering the existing economic situation and taking into account the decline of interest rates on traditional bonds, the new type of issue-grade securities is expected to offer market participants more attractive products with higher income.

The Bank of Russia developed the necessary amendments to the regulations² governing the procedure for issuing securities and allowing admission of structured bonds to the financial market.

The Bank of Russia established a working group to develop criteria for structured bonds offered to unqualified investors, which includes

representatives of both the Bank of Russia and financial market participants.

It established **the procedures for transferring the shares of issuers**³ registered in the Republic of Crimea or the federal city of Sevastopol prior to 16 March 2014 to the ownership of the Republic of Crimea or the federal city of Sevastopol depending on the location of the issuer following termination of trust management of the issuer's shares by the autonomous non-profit organisation 'Depositor Protection Fund'.

The **use of precious metal accounts** was introduced in clearing and settlements following clearing results.⁴

Work was conducted to enshrine in law⁵ a separate method to guarantee the performance of obligations under the contracts provided for in Clause 1 of Article 51.5 of Federal Law No. 39-FZ, dated 22 April 1996 'On the Securities Market' through the use of a **financial collateral arrangement** which involves the transfer of 'ownership' of money and/or securities to the recipient of collateral.

A federal law⁶ eliminating legal risks in the implementation of projects for the construc-



A legal framework was established for issuing structured bonds, non-voting preferred shares, and perpetual bonds

¹ Federal Law No. 75-FZ, dated 18 April 2018, 'On Amending the Federal Law 'On the Securities Market' with Regard to the Regulation of Structural Bonds'.

² Bank of Russia Ordinance No. 4884-U, dated 28 August 2018, 'On Amending Bank of Russia Ordinance No. 3417-U, Dated 13 October 2014, 'On the Procedure for Assigning and Cancelling State Registration Numbers or Identification Numbers to the Issues (Additional Issues) or Issue-grade Securities'; Bank of Russia Ordinance No. 4903-U, dated 12 September 2018, 'On Amending Bank of Russia Ordinance No. 4561-U, Dated 3 October 2017, 'On the Qualification Procedure for Foreign Financial Instruments as Securities'; Bank of Russia Ordinance No. 5020-U, dated 18 December 2018, 'On Amending Bank of Russia Regulation No. 428-P, Dated 11 August 2014, 'On Securities Issue Standards, Procedure for the State Registration of Issues (Additional Issues) of Issue-grade Securities, the State Registration of Reports on Results of Issues (Additional Issues) of Equity Securities and Registration of Prospectuses of Securities'.

³ Bank of Russia Ordinance No. 4776-U, dated 16 April 2018, 'On the Procedure Whereby the Ownership of the Shares of Issuers Registered in the Republic of Crimea / the Federal City of Sevastopol before 16 March 2014 Shall be Transferred to the Republic of Crimea / the Federal City of Sevastopol Following the Termination of the Trust Management of These Shares by Depositor Protection Fund, Autonomous Non-profit Organisation'.

⁴ Federal Law No. 132-FZ, dated 4 June 2018, 'On Amending the Federal Law 'On Clearing, Clearing Activities and the Central Counterparty' and Article 8 of the Federal Law 'On Organised Trading'.

⁵ In 2018 Q3, the Bank of Russia submitted its amendments to draft Federal Law No. 177953-7 'On Amending the Federal Law 'On the Securities Market' to Improve the Regulation of Certain Financial Contracts' for the second reading to the State Duma Committee on Financial Markets.

⁶ Federal Law No. 281-FZ 'On Amending Article 4 of the Federal Law 'On Concession Agreements' and Article 7 of the Federal Law 'On Public-Private Partnership, Municipal-Private Partnership in the Russian Federation and Amending Certain Laws of the Russian Federation'.

tion and/or reconstruction of facilities for the storage and processing of agricultural products was adopted to develop the financing mechanism **for agro-industrial companies** through public-private partnership.

The range of operations involving the use of foreign currency was expanded to allow **foreign currency transactions between residents** related to performance and/or termination of a repo agreement and **transactions with foreign securities** subject to settlements following clearing results.¹

A draft law² introducing **regulation of leasing companies** affiliated with the state as well as companies receiving state support was developed to promote leasing activities.

In accordance with the decisions adopted by G20, the Bank of Russia is **reforming the OTC derivatives market**. The deadlines for reform stages were adjusted by the Bank of Russia.³ Regulations on mandatory centralised clearing of OTC swap contracts are scheduled to come into force in 2019 H2, and mandatory margin requirements for OTC derivatives not subject to centralised clearing will come into force in 2020 H2.

Federal Law No. 514-FZ,⁴ dated 27 December 2018, was adopted to **develop other equity and debt financing instruments** and is aimed, among other things, to improve the regulation of the following instruments:

- convertible securities (establishing the requirements for the procedure for converting issue-grade securities to reduce risks for the owners of such securities and improve their investment attractiveness);

- non-voting preferred shares, which are a hybrid instrument for increasing capital without raising the debt burden (as an alternative to perpetual bonds) with priority in the order of receiving the dividends over other categories (types) of shares and voting rights granted only on issues related to the liquidation of the joint-stock company;
- perpetual bonds, when a decision on their issue does not include a maturity date and may provide for the issuer's right to unilaterally refuse to pay interest on such bonds. The law also established additional, more stringent requirements for issuers of perpetual bonds.

To arrange for depository accounting of such new financial instruments as **electronic mortgages**, the issuance of which is stipulated by Federal Law No. 102-FZ, dated 16 July 1998, 'On Mortgage (Mortgage Security)', the list of depository accounts was supplemented with a new assets account: uncertified securities account.⁵

To **establish legal regulation of electronic platform-based transactions**,⁶ the Bank of Russia participated in the elaboration of draft Federal Law No. 617867-7 'On Electronic Platform Transactions' (hereinafter, the Draft Law on the Marketplace) as well as draft Federal Law No. 617880-7 'On Amending Certain Laws of the Russian Federation in Connection with the Adoption of the Federal Law 'On Electronic Platform Transactions'.

The Draft Law on the Marketplace regulates the conclusion of transactions with financial institutions using information technologies and defines the legal framework for electronic plat-

¹ Federal Law of No. 474-FZ, dated 18 December 2018, 'On Amending Articles 9 and 11 of the Federal Law 'On Foreign Exchange Regulation and Foreign Exchange Control'.

² Draft Federal Law 586986-7 'On Amending Certain Laws of the Russian Federation with Regard to Regulating the Activities of Special Leasing Entities' was elaborated by the Bank of Russia together with the Russian Ministry of Finance, approved by the Russian Government, and submitted to the State Duma of the Russian Federation on 14 November 2018.

³ In view of the joint report prepared by the Financial Stability Board, Basel Committee on Banking Supervision, Committee on Payments and Market Infrastructures and International Organization of Securities Commissions called 'Incentives to Centrally Clear Over-the-Counter (OTC) Derivatives'. Information Notice 'On Stages of Reforming the OTC Derivatives Market in Russia' was published on the Bank of Russia website on 21 December 2018.

⁴ Federal Law of No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance'.

⁵ Bank of Russia Ordinance No. 4944-U, dated 25 October 2018, 'On Amending Bank of Russia Regulation No. 503-P, Dated 13 November 2015, 'On the Procedure for Depositories to Open and Manage Depo and Other Accounts'.

⁶ On 27 December 2018, the draft laws were submitted to the State Duma of the Federal Assembly of the Russian Federation, and on 14 January 2019 they were reviewed by the Council of the State Duma of the Federal Assembly of the Russian Federation and included in the program of legislative work of the State Duma for the spring session of 2019.

form operators. This draft law is aimed, among other things, at ensuring financial inclusion for the general public, transparency and promptness in obtaining reliable information about financial products and current obligations of financial institutions to their customers, increasing competition in the financial services market.

Development of organised trading in commodities and expansion of the list of commodity market instruments continued in the reporting year. The following measures were taken in this area:

- on 23 May 2018, JSC National Mercantile Exchange launched trading in soy bean derivatives, and on 20 December 2018 it started to trade in sunflower derivatives to implement the Action Plan (roadmap) to develop competition in the economic sectors of the Russian Federation and prompt the transition of certain natural monopolies to the competitive market in 2018–2020;¹
- as part of implementing the Action Plan for the development of organised trading in agricultural products,² on 20 June 2018, JSC National Mercantile Exchange sold grain from federal reserves in accordance with the rules of organised trading;
- on 16 July 2018, the Derivatives Market section of JSC Saint Petersburg International

Mercantile Exchange launched trading in a new deliverable derivative market instrument: deliverable futures contracts for petrol with basic pricing points. In addition, on 15 October 2018, a similar instrument was launched for liquefied petroleum gases.

On 25 January 2018, to develop post-trading infrastructure of the commodity market and guarantee the performance of contracts entered into in organised trading, the Bank of Russia decided to accredit the organiser of natural gas transportation to perform the functions of a commodity delivery operator.

In 2018, the Bank of Russia developed the concept of supervision over the activities of commodity delivery operators (hereinafter, the Concept). The Concept proposes a balanced approach to supervisory processes over the activities of commodity delivery operators based on the existing powers of the Bank of Russia (indirectly through trade and clearing infrastructure organisations). The implementation of the proposed Concept should help timely provide the Bank of Russia with a toolkit to monitor the risks arising in the organised commodity market in the context of new post-trading infrastructure organisations emerging in that market and processes of their integration into the existing trading and clearing infrastructure.

¹ Approved by Directive of the Government of the Russian Federation No. 1697-r, dated 16 August 2018.

² Approved in 2017 Q4 by the relevant authorities (the Bank of Russia, FAS of Russia, the Ministry of Agriculture of Russia, and FTS of Russia).

2.2.11. IMPROVING THE ACCOUNTING AND THE ACCOUNTING (FINANCIAL) STATEMENTS OF FINANCIAL INSTITUTIONS

In 2018, to achieve its strategic goal of ensuring financial market resilience in terms of the compliance of financial market regulation and supervision with international standards, the Bank of Russia adopted measures to improve accounting in credit institutions and non-bank financial institutions.

To ensure transition of credit institutions from 1 January 2019 to a new financial instruments accounting procedure based on IFRS 9 'Financial Instruments', the Bank of Russia issued Bank of Russia Ordinance No. 4826-U,¹ Bank of Russia Ordinance No. 4827-U,² and Bank of Russia Ordinance No. 4828-U,³ which simplify the accounting procedures for financial instruments used by basic licence-holder banks and non-bank credit institutions, and prepared Bank of Russia Information Letter No. IN-18-18/21⁴ with recommendations on how to start applying the new requirements.

In 2018, the Bank of Russia issued regulations governing accounting treatment of lease agreements by credit institutions and non-bank financial institutions in accordance with IFRS 16 'Leases' (enacted in the Russian Federation by Order of the Russian Ministry of Finance No. 111-n, dated 11 July 2016, 'On the Enactment and Termination of the Documents of International Financial Reporting Standards in the Russian Federation').⁵

In 2018, due to changes in the Russian laws, the Bank of Russia amended its accounting regulations for credit institutions with regard to:

- accounting of payments made by individuals under equity construction agreements and real estate purchase and sale transactions;
- accounting of individual and collective clearing collateral in precious metals in clearing and trading bank accounts.

The following documents were prepared and published at the proposal of government authorities and at the request of self-regulatory organisations of financial market participants:

- Bank of Russia Ordinance No. 4966-U,⁶ which postponed the start date for implementation of 18 Bank of Russia regulations for the accounting in non-bank financial institutions by consumer credit cooperatives, housing savings cooperatives, agricultural consumer credit cooperatives and pawnshops to 1 January 2022;
- Bank of Russia Ordinance No. 5021-U,⁷ which granted to insurance brokers, other than small businesses, the right to apply, under certain conditions, a simplified accounting and financial reporting procedure stipulated by Bank of Russia Regulation No. 612-P⁸ and Bank of Russia Regulation No. 613-P starting 1 January 2019.⁹

¹ Bank of Russia Ordinance No. 4826-U, dated 21 June 2018, 'On Amending Clauses 1.3 and 1.6 of Bank of Russia Regulation No. 604-P, Dated 2 October 2017, 'On the Procedure for Credit Institutions to Account Transactions to Raise Funds under Bank Deposit Agreements and Loan Agreements, and Transactions to Issue and Redeem Bonds, Promissory Notes, Deposit and Savings Certificates'.

² Bank of Russia Ordinance No. 4827-U, dated 21 June 2018, 'On Amending Bank of Russia Regulation No. 605-P, Dated 2 October 2017, 'On the Procedure for Credit Institutions to Account Transactions to Place Funds under Loan Agreements, Transactions to Purchase Receivables from Third Parties Related to the Performance of Cash Liabilities, Transactions Related to Liabilities under Bank Guarantees Issued and Funds Provision'.

³ Bank of Russia Ordinance No. 4828-U, dated 21 June 2018, 'On Amending Bank of Russia Regulation No. 606-P, Dated 2 October 2017, 'On the Procedure for Credit Institutions to Account Securities Transactions'.

⁴ Bank of Russia Information Letter No. IN-18-18/21, dated 23 April 2018, 'On Some Issues Relating to Bank of Russia Accounting Regulations Which Will Come into Effect on 1 January 2019'.

⁵ Bank of Russia Regulation No. 635-P, dated 22 March 2018, 'On the Procedure for Non-Bank Financial Institutions to Make Loan Agreement Entries to Accounting Records', effective from 1 January 2019; Bank of Russia Regulation No. 659-P, dated 12 November 2018, 'On the Procedure for Credit Institutions to Account Lease Agreements', which will come into effect on 1 January 2020.

⁶ Bank of Russia Ordinance No. 4966-U, dated 12 November 2018, 'On the Application of Certain Bank of Russia Regulations Related to Accounting and Accounting (Financial) Statements'.

⁷ Bank of Russia Ordinance No. 5021-U, dated 18 December 2018, 'On Amending Certain Bank of Russia Regulations on Accounting and Accounting (Financial) Statements by Non-bank Financial Institutions'.

⁸ Bank of Russia Regulation No. 612-P, dated 25 October 2017, 'On the Procedure for Non-bank Financial Institutions to Record Accounting Items'.

⁹ Bank of Russia Regulation No. 613-P, dated 25 October 2017, 'On Disclosure Forms in Accounting (Financial) Statements of Non-bank Financial Institutions and the Procedure for Grouping Accounts in Accordance with the Accounting (Financial) Statements Data'.

In respect of work on implementing collection and processing of financial institutions' statements based on XBRL (eXtensible Business Reporting Language), the Bank of Russia took the following measures in 2018.

In accordance with the approved regulations,¹ starting 1 January 2018, the submission of reports, including accounting (financial) statements, in XBRL format became mandatory for insurance companies and mutual insurance companies (insurance entities), NPFs, PSMPs, trade organisers, clearing organisations and entities exercising the functions of a central counterparty.

Starting from 4 May 2018, the reports, including accounting (financial) statements

of joint-stock investment funds, management companies of unit investment funds, unit investment funds and non-governmental pension funds, are accepted in XBRL format in accordance with Bank of Russia Ordinance No. 4715-U.² The first reporting period to submit the regular reporting in accordance with the new requirements was set for May 2018 (for accounting (financial) statements, 2018 H1).

The plans provide for a gradual transition to reports, including accounting (financial) statements submitted by the following non-bank financial organisations to the Bank of Russia by means of XBRL taxonomy: specialised depositories, insurance brokers, credit rating agencies.

¹ Bank of Russia Ordinance No. 4584-U, dated 25 October 2017, 'On the Form, Timeframe and Procedure for Insurance Companies to Compile and Submit to the Bank of Russia Reporting, Required for Control and Supervision Purposes, and Statistical Reporting, as well as on the Form, Timeframe and Procedure for Insurance Companies to Submit Accounting (Financial) Statements to the Bank of Russia'; Bank of Russia Ordinance No. 4621-U, dated 27 November 2017, 'On the Forms, Timelines and Procedure for Professional Securities Market Participants, Trade Organisers, Clearing Companies and Entities Acting as Central Counterparties. to Compile and Submit Statements to the Central Bank of the Russian Federation'; Bank of Russia Ordinance No. 4623-U, dated 27 November 2017, 'On the Form, Timeframe and Procedure for Compiling and Submitting to the Bank of Russia Operating Statements, Including the Requirements for Statements on Mandatory Pension Insurance, by Non-governmental Pension Funds'.

² Bank of Russia Ordinance No. 4715-U, dated 8 February 2018, 'On Forms, Procedure and Timeframes for Compiling and Submitting to the Bank of Russia Statements by Joint-stock Investment Funds, Management Companies of Investment Funds, Unit Investment Funds, and Non-governmental Pension Funds'.

2.3. Expanding financial inclusion for households and businesses

2.3.1. FINANCIAL CONSUMER AND INVESTOR PROTECTION

In 2018, the Bank of Russia continued its systematic efforts to protect the rights of financial consumers and ensure financial inclusion and improved the framework for preventive and reactive conduct supervision with regard to the activities of financial market participants. Continuous communication with market participants, clarification of the regulator's position and support for best practices, while monitoring implementation of supervisory measures, are among the most effective ways to protect the rights of financial consumers.

Conduct supervision

Creating a conduct supervision framework is one of the strategic objectives of the Bank of Russia, which is closely related to raising public confidence in the financial market, quality and availability of financial services as well as the development of the financial market in general. Introduction of conduct supervision will help comprehensively address these objectives by monitoring conduct of financial companies in interactions with the consumers of their services.

The Bank of Russia issued an information letter¹ with recommendations to use sales scenarios (scripts) which should provide for the fullest possible information provided to

the consumer about the specifics and risks of a financial product.

The Bank of Russia approved² the basic standard for the protection of the rights and interests of individuals and legal entities who receive financial services provided by members of self-regulatory organisations uniting insurance companies³ and the basic standard for operations performed by microfinance organisations in the financial market, which stipulates that the interest for the use of funds provided to the recipient of financial services under a microloan agreement should accrue from the day following the day of microloan issuance until the loan repayment day, inclusively (except when the microloan is repaid on the day of its issuance).

In 2018, amid a growing number of financial consumers, the Bank of Russia observed a decrease in the number of complaints for the first time in recent years. Overall, the Bank of Russia received 243,500 complaints in the reporting year, which is 2.3% less than a year earlier.

The Bank of Russia received 130,300 complaints about credit institutions, which is 6.5% more than in 2017, and 87,400 complaints about non-bank financial institutions and parties to corporate relations, which is 28.2% less than in 2017. The number of other complaints and appeals was 25,800 and 19,600 respectively.



The Bank of Russia received 243,500 complaints, most of which concerned banks. The number of complaints about CMTPLI declined substantially

¹ Information Letter No. IN-01-59/69, dated 28 November 2018, 'On the Sale of Financial Products' was posted in the section Financial Markets / Financial Market Regulation / Information Letters on the Bank of Russia's website.

² Posted on 10 August 2018 in the 'News and Comments' section on the Bank of Russia's website.

³ See Subsection 2.3.3 'Expanding financial inclusion'.

*Credit institutions and other
professional creditors*

Complaints on issues of consumer and mortgage lending dominated complaints about credit institutions. In a quarter of all received complaints, the applicants reported issues with loan repayment. Besides, shortly before the revocation of credit institutions' banking licenses, there were complaints about refusals to return deposits and/or failures to effect payments.

In 2018, as part of conduct supervision (both reactive and preventive), the Bank of Russia issued a total of 240 recommendations to 21 credit institutions on eliminating violations, deficiencies and unfair practices identified in their activities.

A federal law¹ was adopted to enhance the protection of the public and prevent lenders from using unfair practices in the area of consumer lending, which provides for:

- a three-stage transition from 2.5-fold (from 28 January 2019) to twofold (from 1 July 2019) to 1.5-fold (from 1 January 2020) restriction of a borrower's maximum debt under a consumer loan agreement;

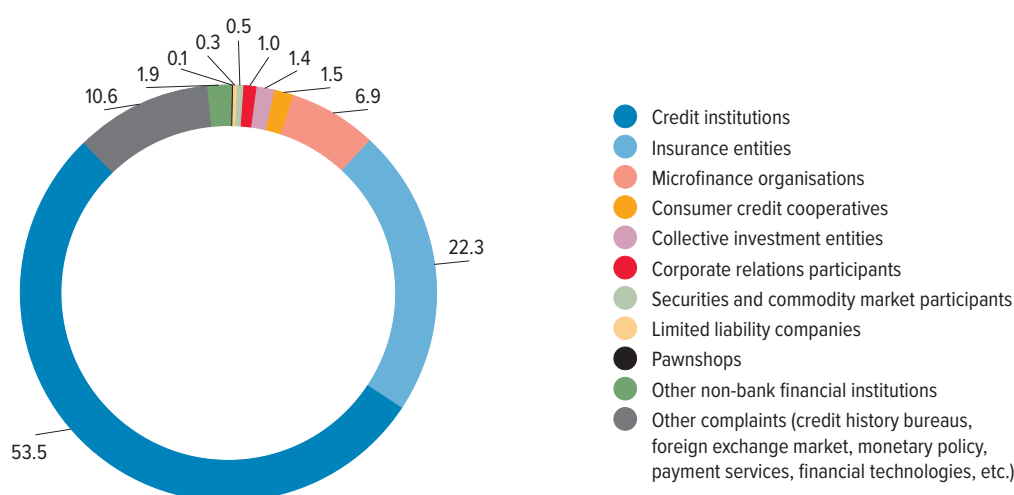
- a gradual limitation of the interest rate under consumer loan agreements with 1.5% (from 28 January 2019) to 1% per day by 1 July 2019;
- limitation of the TCL with the lowest of 365% p.a. or 1/3 of the market average TCL (starting from 1 July 2019);
- a lender's right to offer a borrower a special credit product in the amount of up to ₽10,000 for up to 15 days (with the highest possible payments of no more than ₽3,000).

In the reporting year, to calculate the debt burden ratio, the Bank of Russia issued an ordinance² defining the procedure to calculate an approximate amount of the borrower's average monthly payment under a loan agreement or credit agreement entered into with the individual for purposes other than entrepreneurial activities and under which the borrower's liabilities are secured by a mortgage.

Since the Assistance Programme³ for mortgage borrowers with foreign currency loans was launched, the Bank of Russia made systematic efforts to build a dialogue between mortgage borrowers with such liabilities and lenders. This

**BREAKDOWN OF COMPLAINTS BY PRINCIPAL FINANCIAL MARKET SECTOR IN 2018
(PER CENT)**

Chart 38



¹ Federal Law No. 554-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On Consumer Loans' and the Federal Law 'On Microfinance Activities and Microfinance Organisations'.

² Bank of Russia Ordinance No. 4795-U, dated 15 May 2018, 'On the Procedure for Calculating the Approximate Average Monthly Payment of a Borrower Under Credit (Loan) Agreements, Which are Concluded with an Individual for Purposes not Related to Entrepreneurial Activity and Whereunder the Borrower's Obligations are Secured by a Mortgage'.

³ Approved by Resolution of the Government of the Russian Federation No. 961, dated 11 August 2017, 'On Further Realisation of Targeted Support Programme for Distressed Housing Mortgage Loan Borrowers'.

work involved the ministries participating in the implementation of the Assistance Program and JSC DOM.RF, and included registration and surveys of mortgage borrowers, who applied to the Bank of Russia Public Reception. The Bank of Russia controlled preparation of over 1,930 decisions on FX mortgage loans, including written application handling; decisions were taken regarding 1,600 loans and implemented with respect to 1,410 loans. In addition, according to JSC DOM.RF, funds were approved for allocation to compensate creditors for part of the incurred losses during the restructuring of 3,043 mortgage loans; transactions were completed for 2,577 of these loans. As a result of these efforts, during the period of the Assistance Programme, the amount of overdue foreign currency-denominated loans declined by 48.5% after their restructuring and conversion into the currency of the Russian Federation.

In December, the Bank of Russia supported the concept of the Responsible Mortgage Lending Standard¹ (hereinafter, the Standard), which was submitted for its review by JSC DOM.RF. This document includes the uniform rules of conduct covering all stages of the mortgage loan (credit) lifecycle: from promotion of a mortgage product to its complete repayment. Special attention is given to pre-trial debt settlement procedures and debt recovery in court, when interactions between the lender and the borrower tend to be especially tense. The standard aims to achieve social goals, which include support for borrowers experiencing issues with loan servicing and the minimisation of borrowers' losses if the loan cannot be repaid. The standard prioritises out-of-court settlement over debt acceleration and mortgage foreclosure.

In 2018, as part of the preventive conduct supervision carried out by the Bank of Russia to ensure that sources of credit history (creditors) comply with credit history laws, credit history bureaus updated about five million credit histories owned by the borrowers of credit institutions.

To inform a wide range of stakeholders, including lenders, about the state of affairs in credit institutions with revoked banking licences, from 15 June 2018, the provisional administrations of credit institutions appointed by the Bank of Russia in connection with licence revocation regularly disclose the following information on the websites of relevant credit institutions:

- on the payment of insurance compensation;
- on assessing the financial condition of the credit institution;
- on the collateral accepted by the credit institution to secure the liabilities of borrowers;
- on administrative expenses;
- on litigation against the credit institution;
- on collaboration between the provisional administration and law enforcement agencies.

To increase transparency of liquidation procedures in credit institutions, the Bank of Russia published on its website² a public report on 'Termination of the Activities of Credit Institutions in 2018 H1' which, among other things, includes the following information:

- on the activities of provisional administrations;
- on the methods used for liquidation of credit institutions and powers of receivers (liquidators) of credit institutions;
- on the procedure for satisfying creditor claims in the event of the bankruptcy (liquidation) of credit institutions;
- statistical data describing the main results of handling the property of liquidated credit institutions and satisfaction of creditor claims during liquidation procedures in credit institutions;
- on the procedure for the accreditation of liquidators with the Bank of Russia as receivers in the event of bankruptcy of credit institutions.

Insurance entities

Insurance companies rank second in terms of complaints received by the Bank of Russia

¹ The Responsible Mortgage Lending Standard is the first part of the Mortgage Lending Standard, which is being developed under Mortgage, a federal project of JSC DOM.RF.

² See section 'Information on Credit Institutions / Liquidation of Credit Institutions / Information Materials'.

(22.3%). In 2018, 54,300 complaints were received against insurers and other insurance entities, which is 40% less than in 2017. The trend observed in recent years also continued, as the vast majority of complaints (81.5%) were the issues related to entering into and performing CMTPLI contracts.

The Bank of Russia noted a significant decline in the number of complaints about entering into CMTPLI contracts in the form of an electronic document (e-policy) compared to the previous year (by a factor of 2.7). The number of complaints related to application of the bonus-malus coefficient (BMC) was down 41% and the number of complaints about the hard-selling of additional services and refusal to enter into CMTPLI contracts dropped by 40%.

Improvement in the situation with the purchase of e-policies can be explained by improved operation of websites run by insurance companies. Most insurers have promptly eliminated the shortcomings in operation of their websites identified by the Bank of Russia. In addition, policyholders were provided with the opportunity to receive an e-policy using the so-called system of guaranteed conclusion of electronic CMTPLI contract.

In the opinion of the Bank of Russia, the decline in the number of complaints about the BMC application was due to introduction and an increased use of a simplified procedure for the correction of BMC by applicants, which allows submitting requests directly to their insurers rather than to the Bank of Russia.

Complaints about CMTPLI were in part inspired by the need to improve the rate-setting procedure, which was reflected in Bank of Russia Ordinance No. 5000-U.¹

The Bank of Russia published its Concept for Improving the Regulation of Investment Life Insurance (ILI), which scheduled a number of additional systemic measures aimed at the reduction of misselling and increasing consumer satisfaction with the quality of ILI services. In 2019, the Bank of Russia scheduled activities aimed at increasing the financial literacy of consumers with regard to ILI, which provide for the distribution of information booklets, coverage of ILI-related issues at relevant events and their inclusion in financial literacy programmes.

In addition, given the continued growth of life insurance in 2018 and the increased number of complaints by the public caused by dissatisfaction with the quality of endowment and investment insurance services, the Bank of Russia continued to actively work on preventing the misselling² of such insurance products.

In particular, the Bank of Russia issued an ordinance³ stipulating the obligation of the insurer to inform consumers that life insurance with periodic insurance payments (rents, annuities) and/or with the participation of the policyholder in the investment income of the insurer is not a bank deposit, and, in the event of revocation of the insurer's licence, insurance agreements are not covered by the mechanisms guaranteeing the refund of insurance premiums similar to the household deposit insurance system⁴ in banks.

The Bank of Russia regulation⁵ extending the cooling period to 14 calendar days, which entitles the policyholder to terminate the voluntary insurance agreement following its conclusion and receive the refund of insurance premium in full or in part depending on the start of the insurance period, entered into force on 1 January 2018.

¹ Bank of Russia Ordinance No. 5000-U, dated 4 December 2018, 'On Limiting Basic Insurance Tariffs (Their Minimum and Maximum Values in Rubles) and Insurance Tariff Ratios, on the Requirements for Insurance Tariff Structure, and on the Procedure for Insurers to Use Them for Calculating Insurance Premium under the Contract of Compulsory Third Party Liability Insurance of Vehicle Owners'.

² Misselling is the unfair practice of selling financial products/services to consumers with regard to providing complete, transparent and clear information on the nature of a financial service or the terms and conditions of a financial product as well as on the risks associated with them, their costs and other material conditions.

³ Bank of Russia Ordinance No. 5055-U, dated 11 January 2019, 'On Minimum (Standard) Requirements for the Conditions and Procedure to Provide Voluntary Life Insurance with Periodic Insurance Payments (Rents, Annuities) and/or Participation of a Policyholder in the Investment Income of an Insurer'. Registered with the Ministry of Justice of Russia on 21 March 2019. The document came into effect on 1 April 2019.

⁴ Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Deposits with Russian Banks'.

⁵ Bank of Russia Ordinance No. 4500-U, dated 21 August 2017, 'On Amending Clause 1 of Bank of Russia Ordinance No. 3854-U, Dated 20 November 2015, 'On Minimum (Standard) Requirements for Conditions and Procedure to Provide Certain Types of Voluntary Insurance'.

The Bank of Russia receives complaints about application of the cooling period in combined insurance agreements, where the insurance premium is for the most part comprised of foreign travel insurance premium, that is, the type of insurance not governed by the requirements of Bank of Russia Ordinance No. 3854-U, dated 20 November 2015, 'On Minimum (Standard) Requirements for Conditions and Procedure to Provide Certain Types of Voluntary Insurance'. After reviewing such complaints, the Bank of Russia informs the recipients of financial services that they can terminate combined voluntary insurance agreements during the cooling period and receive a refund of the insurance premium in accordance with the requirements of the above ordinance, regardless of the combination of insured items, including in the event when a part of the insurance premium under such combined insurance agreement accounts for foreign travel insurance.

In 2018, the Bank of Russia received approximately 1,300 appeals on the issues of developer civil liability insurance related to introduction of procedures used in the bankruptcy proceedings against developers with insured liability and a significant increase in the number of insured events under this type of insurance.

All appeals were reviewed by the Bank of Russia, and clarifications were sent to applicants on the terms and procedure for insuring the developer civil liability.

In addition, given the social importance of this type of insurance, the Bank of Russia monitors the performance of insurers in the segment of developer civil liability insurance and actively collaborates with the Ministry of Construction of the Russian Federation, Rosreestr and other government authorities on the issues of developer civil liability insurance, in particular, as a member of the Working Group of the State Duma on the protection of the rights of equity construction participants.

Federal Law No. 478-FZ, dated 25 December 2018, 'On Amending the Federal law

'On Participating in Shared-equity Construction of Apartment Houses and Other Real Estate and On Amending Certain Laws of the Russian Federation' and Certain Laws of the Russian Federation' elaborated with the participation of the Bank of Russia was adopted in 2018. The law provides, among other things, for the payment of mandatory deductions (contributions) to the compensation fund of the public company 'Fund for the Protection of the Rights of Individual Shared-equity Construction Participants' instead of entering into a developer liability insurance agreement.

The following information was posted on the Bank of Russia website¹ to inform the creditors of insurance companies (including insured persons) on the activities of the provisional administrations of insurance companies after the revocation of their licences:

- on the possibility of introducing new information into the CMTPLI insurance policy specified in the application for entering into a CMTPLI contract during the operation of a provisional administration of the insurance company following the revocation of its licence;
- on the procedure for satisfying the claims of creditors of the insurance company following the revocation of its insurance licence;
- on termination of compulsory or voluntary insurance agreements following the revocation of the insurance company's insurance licence;
- on the actions to be taken by the insured person following the revocation of the insurance company's licence.

Securities market participants

To protect the rights of investors, the following measures were taken as part of regulation of organisations in the securities market:

- an account for keeping uncertified securities intended for recording electronic documents kept in the depository and establishing the rights under uncertified securities² was

¹ See section 'Questions and answers / Insurance / Questions related to the activities of provisional administrations of insurance companies'.

² Bank of Russia Ordinance No. 4944-U, dated 25 October 2018, 'On Amending Bank of Russia Regulation No. 503-P, Dated 13 November 2015, 'On the Procedure for Depositories to Open and Manage Depo and Other Accounts'.

added to the list of assets accounts (See Subsection 2.2.10);

- a working group of professional securities market participants and SRO NAUFOR members was established to develop standards for the disclosure of information and procedures for selling complex (structured) products to unqualified investors.

The Bank of Russia held working meetings with the management of companies, which had been the subject of complaints about the incompetence of managers offering to place their customers' funds in trust management instead of deposits and failing to inform about the risks and consequences of the early withdrawal of funds as well as about the fact that funds transferred under a trust management agreement would not be covered by the guarantees of the deposit insurance system.

The Bank of Russia issued an information letter to inform the public about the risks associated with the purchase of promissory notes.¹

Corporate relations participants

Federal Law No. 209-FZ, dated 19 July 2018 'On Amending the Federal Law 'On Joint-stock Companies'² (hereinafter, the Law), which was elaborated with the participation of the Bank of Russia, settled the long-standing issues with the definition of the minimum amount of dividends on preferred shares and the voting rights held by the owners of such preferred shares in the charter. Thus, if the company charter sets the minimum amount of dividends on preferred shares, the amount of dividends is deemed to be defined, and such shares become voting shares in situations stipulated by Clause 5 of Article 32 of the Law.

The Law eliminated the uncertainty regarding the obligation of the joint-stock company to redeem shares in the event of decisions to transfer issues from the remit of the General

Meeting of Shareholders to the remit of the Board of Directors. Shareholders have no right to request the redemption of shares when dealing with such issues.

Appeals received by the Bank of Russia indicated that there was legal uncertainty regarding disclosure of information on unclaimed dividends by the issuers. Bank of Russia Regulation No. 454-P, dated 30 December 2014, 'On Disclosing Information by Securities Issuers' was supplemented³ with provisions clarifying disclosure of information in the event of a failure to pay income on issue-grade securities due to circumstances beyond the issuer's control (Clauses 37.4 and 37.5 of said Regulation).

In connection with the received questions and identified cases of reorganisation conducted by joint-stock companies without providing shareholders with a share (stake) in the authorised (share) capital of the legal entity being established, the Bank of Russia issued an information letter⁴ explaining that it would be unacceptable not to provide a share (stake) in the authorised (share) capital of the legal entity being established to shareholders who did not participate in voting on the issue of reorganisation or voted against such a decision, for the purposes of excluding shareholders with whom all communication was lost from the joint-stock company.

Microfinance market participants

The Bank of Russia elaborated a new draft ordinance⁵ establishing the rules for cash settlements in the Russian Federation, which stipulated that microfinance market entities would have a right to spend, within the established limits, the proceeds from their cash desk for the purposes of carrying out operations to extend/repay loans and pay interest on loans without prior crediting such proceeds to a bank account. This draft ordinance is aimed at

¹ Bank of Russia Information Letter No. IN-01-59/74, dated 17 December 2018, 'On Informing Individuals about the Risks Associated with the Purchase of Promissory Notes' was posted in the section 'Information and Analytical Materials / Standard Acts / Miscellaneous' on the Bank of Russia website.

² Federal Law No. 208-FZ, dated 26 December 1995, 'On Joint-stock Companies'.

³ Bank of Russia Ordinance No. 4803-U, dated 25 May 2018, 'On Amending Bank of Russia Regulation No. 454-P, Dated 30 December 2014, 'On Disclosing Information by Securities Issuers'.

⁴ Information Letter No. IN-06-28/11, dated 1 February 2019, was posted in the section Financial Markets / Financial Market Regulation / Information Letters on the Bank of Russia's website.

⁵ 'On Amending Bank of Russia Ordinance No. 3073-U, Dated 7 October 2013, 'On Cash Settlements'.

improving the availability of services provided by microfinance market entities for extending/repaying loans.

Payment system participants

The Bank of Russia receives complaints regarding:

- the use of electronic means of payment (EMPs), such as e-wallets and bank cards (mainly due to the EMP blocking), unauthorised debiting of funds, delays in crediting the funds to replenish EMPs, and the unilateral termination of EMP agreements by credit institutions;
- the procedure and timeframes for funds transfers and search for transfers made by applicants;
- acceptance of cash in points of payment, including payment terminals of credit institutions and bank payment agents (sub-agents) for their further transfer.

Following the review of received complaints, the Bank of Russia applied the relevant regulatory and supervisory measures to supervised entities, such as fines, letters requesting to eliminate violations, and working meetings with the heads of credit institutions.

Cash circulation

Due to receiving questions regarding the purchase of commemorative coins made of precious and non-precious metals, in 2018, the Bank of Russia started to publish a list of organisations, which signed an agreement with the Bank of Russia on the sale of its commemorative and investment coins, on its website.

In 2018, the Bank of Russia received complaints from financial consumers about e-mail offers with regard to the wholesale purchase of printed products that partially reproduce the image and security features of Bank of Russia banknotes accepted by ATMs and other software and hardware. The Bank of Russia passed this information to the Main Directorate of Economic Security and Combating the Corruption of the Ministry of Internal Affairs of the Russian Federation.

Bank of Russia management decided to resume work on the draft law 'On Amending Arti-

cle 29 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and the Russian Federation Code of Administrative Offences' aimed at counteracting production and sale of products resembling banknotes and eliminating conditions for illegal acts involving the use of banknote copies.

Countering unfair practices

Complaints about the illegal use of insider information and market manipulation included information on possible manipulation of financial instruments, goods and foreign currency in organised trading. Most of these complaints were related to the signs indicating illegal activities in raising household funds, and almost a quarter of them were related to the issuance of loans to the public by persons with no rights to carry out these activities.

It should be noted that the above complaints helped identify the categories of financial consumers exposed to the highest risks. They include:

- young people up to 25 years, who are attracted by the technological nature of the offered services, wish to earn their own income and have a superficial understanding of the offered service;
- pensioners who want to preserve their savings and sometimes even look for quick ways to increase them. The main reason why they use illegal market participants' services is not only their inadequate financial literacy but also their lack of knowledge and experience in using new technologies, which results in a low threshold of critical perception when it comes to information provided by illegal financial market participants, who aggressively seek to acquire new consumers.

For more details on the measures aimed at countering malpractice in the financial market see Subsection 2.2.7.

Activities of the Bank of Russia

Public Reception

The Bank of Russia continued to reduce the level of social tension in a number of financial market segments. In the reporting year, the Bank of Russia Public Reception served as a



The institute of financial ombudsman was established

platform to meet with individuals on the issues of foreign currency mortgage loans, account blocking, obtaining credit history, and the revocation of licences from credit institutions.

People also contacted the Bank of Russia on issues of raising funds by organisations not included in the register, violations of agreements on the transfer of personal savings to credit cooperatives, and defaults on obligations under agreements of voluntary accident and health insurance.

During the year, the Public Reception held meetings with 2,200 individuals, including representatives of legal entities, foreign citizens and individual entrepreneurs.

Start of financial ombudsman's activities

Federal Law No. 123-FZ, dated 4 June 2018, 'On the Financial Consumer Ombudsman' came into force on 3 September 2018.

The institute of financial ombudsman provides for an independent official, who considers out-of-court property disputes between financial consumers (individuals or persons who received the rights of individuals under an agreement with a financial institution) and financial institutions.

The financial ombudsman considers claims to recover amounts up to ₽500,000 or claims of financial consumers resulting from the in-

surer's violation of the procedure for paying indemnities established by Federal Law No. 40-FZ, dated 25 April 2002, 'On Compulsory Third Party Liability Insurance of Vehicle Owners'.

For financial consumers, appeals are considered on a no-fee basis. Preparing an appeal does not require special legal knowledge (unlike preparing a court claim).

The decision of the financial ombudsman is binding for the parties to the dispute (financial consumers and financial institutions).

The operation of the institute of financial ombudsman will help reduce the number of court disputes and consumers' expenses on the consideration of disputes and shorten the time required for such consideration. This will help lower the burden on the judicial system and improve the protection of financial consumers in general.

Initially, the institute of financial ombudsman will operate as a mandatory out-of-court element for reviewing customer complaints about violations or improper performance of contracts in the CMTPLI and motor hull insurance segments (starting from 1 June 2019). Since 28 November 2019, it will become mandatory for insurance companies engaged in other types of insurance (other than compulsory medical insurance); since 1 January 2020, for microfinance organisations; and since 1 January 2021, for CCCs, pawnshops, credit institutions, and NPFs. However, financial institutions may voluntarily collaborate with the financial ombudsman starting as early as 3 December 2018.

2.3.2. INCREASING FINANCIAL LITERACY

Public confidence in the financial system and customer satisfaction with services provided directly depend on the level of financial literacy. In its educational activities, the Bank of Russia focuses on developing a responsible attitude toward money, effective personal finance management skills, adequate risk assessment among the public, and seeks to expand their knowledge of financial products. First and foremost, this applies to schoolchildren as well as the least protected and most vulnerable categories of individuals, such as pensioners and people with disabilities.

FOR CHILDREN AND YOUNG PEOPLE

When elaborating programmes for improving financial literacy, the Bank of Russia pays special attention to children and youth. In 2018, the Bank of Russia and the Government of the Russian Federation approved the Action Plan to Implement the Strategy for the Improvement of Financial Literacy in the Russian Federation for 2017–2023.

A draft Federal State Educational Standard (FSES) will include materials on financial literacy basics prepared together with the Ministry of Education of Russia for the subject of Social Studies.¹ In addition, financial literacy educational modules have been developed and included in the model basic educational programmes for certain higher education areas and disciplines, including for people with disabilities.

An additional general educational programme 'Finance at Your Fingertips' was elaborated and approved by the Ministry of Science and Higher Education of the Russian Federation. The programme includes three modules: 'Personal Financial Plan', 'Investment' (securi-

ties market research), and 'Invest in a Dream!' (approaches to starting business projects).

The Basic Financial Literacy study pack prepared with the assistance of the Bank of Russia was included in the federal list of textbooks. The module on the basics of financial literacy developed with the participation of the Bank of Russia experts was for the first time included in the series of Social Studies textbooks edited by L.N. Bogolyubov.

In 2018, approximately 87,000 online classes were held for students of general education institutions, with a total of more than 1.7 million lesson views. Almost 14,400 schools had access to online classes (34% of the total number of schools).

To support introduction of financial literacy in education programmes, the Bank of Russia releases methodological and educational materials for teachers, which are freely available on the Financial Culture website (fincult.info).

Monitoring has shown that more than 70% of primary, basic and secondary general education institutions and more than 80% of secondary vocational education institutions have included financial literacy in their programmes. A total of 4,320 Basic Financial Literacy study packs were provided to 1,152 orphanage organisations.

FOR ADULTS

In April 2018, the Bank of Russia and the Agency for Strategic Initiatives signed an agreement to promote new projects to improve financial literacy among the public, with joint activities scheduled for 2018–2021, the first of which was the Russian Financial Literacy Test taken by 300,000 participants.

Training sessions on Promoting Financial Culture were held for pensioners in 26 cities



More than one-third of Russian schools have joined the Bank of Russia's online classes on financial literacy. 87,000 online classes were held for schoolchildren

¹ FSES is currently being approved by the Ministry of Education of Russia.



More than 200,000 entrepreneurs attended Bank of Russia webinars for SMEs

across Russia. The course was designed to meet the specific needs of the target audience and included user-friendly printed materials. The materials can be used for a four-session course or to hold individual events and lectures for senior citizens. More than 800 people completed such training in 2018. Currently, these lectures and classes are conducted not only by Bank of Russia experts but also by representatives of non-profit organisations and volunteers.

15 lectures on financial literacy were held at popular venues in Moscow (libraries, ZIL Cultural Centre) with the participation of Bank of Russia experts, financial market specialists, bloggers, and journalists.

An important role in financial education is also played by the Financial Culture website. In 2018, the website was attracting an increasing number of visits, with an average of 90,400 visitors per month. The website materials are used by financial consumers as well as by financial education teachers and volunteers. The videos have become particularly popular, as they are shown in multifunctional centres of public and municipal services, in cinemas, and on information displays in public transport vehicles.

In November 2018, under the Action Plan of the Russian Ministry of Defence and the

Bank of Russia to improve financial literacy of servicemen of the Russian Armed Forces in 2017–2019, the Bank of Russia provided the Russian Ministry of Defence with 1,000 Basic Financial Literacy study packs for the libraries of 10 military units.

FOR SMALL- AND MEDIUM-SIZED ENTERPRISES

More than 40 training seminars and Money for Business webinars were held for entrepreneurs of small- and medium-sized enterprises. More than 200,000 entrepreneurs attended the webinars.

Bank of Russia employees took part in the 2018 WorldSkills Russia National Competition which included the experiment of introducing the use of financial instruments at different stages of a company's life cycle for the Entrepreneurship category.

FOR THE MEDIA

In 2018, a series of seminars were held for regional media journalists from all constituent territories of the Russian Federation (by federal district). The programme of seminars aimed at developing regional socio-economic journalism and quality coverage of issues related to personal finance management included five blocks: monetary policy, financial market fraud, banking system, microfinance, and insurance. About 500 journalists attended in-person seminars, and another 700 were trained online.

2.3.3. EXPANDING FINANCIAL INCLUSION

FINANCIAL INCLUSION STRATEGY OF THE RUSSIAN FEDERATION FOR 2018–2020

On 26 March 2018, the Bank of Russia Board of Directors approved the Financial Inclusion Strategy of the Russian Federation for 2018–2020, which defined the following priority goals:

- 1) to improve the accessibility and quality of financial services for financial consumers in remote, sparsely populated or hard-to-reach areas, SMEs and underbanked population groups (low-income individuals, disabled and elderly persons, and other mobility-impaired population groups);
- 2) to raise the speed and quality of access to financial services for the population with access to the Internet.

ANNUAL MONITORING OF FINANCIAL INCLUSION

The Bank of Russia conducted its fourth annual measurement of financial inclusion and, based on its results, prepared the third annual issue of the Review of Financial Inclusion in the Russian Federation¹ (hereinafter, the Review). The collected data show that more than a half of the Russian adult population (54.3%) is ready to use remote access to financial services on a regular basis, given the opportunity.² The share of online or mobile banking users went up to 45.1% in 2018 (vs 31.5% in 2017).

In the run-up to the Global Policy Forum of the Alliance for Financial Inclusion,³ the English version of the Review was published for the

first time on the official websites of the Bank of Russia and the Alliance for Financial Inclusion.

As part of the pilot project on the regional monitoring of financial inclusion, a survey⁴ of SMEs was conducted on the availability of financial services.

IMPROVING FINANCIAL INCLUSION AND QUALITY OF FINANCIAL SERVICES IN REMOTE, SPARSELY POPULATED AND HARD-TO-REACH TERRITORIES

In August 2018, the Far Eastern Main Branch of the Bank of Russia launched a pilot project and approved an action plan (road map) to improve financial inclusion in remote, sparsely populated and hard-to-reach territories.

During the year, the Bank of Russia signed two agreements with major internet service providers, including in the satellite segment.

Since July 2018, the Bank of Russia has supported a working group on improving financial inclusion in remote, sparsely populated and hard-to-reach territories (hereinafter, the Working Group). As part of its activities, the Working Group monitors the networks of major state-owned banks covering more than 95% of all credit institution units located in rural communities. Despite an overall decrease in the number of credit institution units in Russia by 10.9% in 2018, in 2018 H2 (after the Working Group began its activities), the network of outlets to access the financial services of credit institutions participating in the Working Group (units and other formats accepting account opening documents) in rural areas increased by about 60% (about 2,700 outlets), and the coverage of rural communities grew by more than 60% (about 2,500 communities).

At the end of 2018, more than 30,000 post offices (the total number of operating post offices was more than 40,000 at the end of the



A pilot project to improve
financial inclusion was launched
in the Russian Far East

¹ Posted in 'Financial Markets / Financial market development / Financial inclusion / Review of Financial Inclusion' section on the Bank of Russia website.

² The basis for calculation of this indicator is the population that never used or used only once remote services (Internet banking and/or mobile banking) as a means of interaction with a financial institution.

³ Held on 3–7 September 2018 in Sochi (see Subsection 2.6.4 'International cooperation').

⁴ The survey was conducted in 82 constituent territories of the Russian Federation excluding the autonomous districts within the constituent territories.

year) provided an opportunity for performing certain banking transactions via automatic devices (ATMs and POS terminals). Moreover, some of the actively used models involve the presence of bank employees in post offices, engagement of post office employees as agents, and engagement of employees of FSUE Russian Post acting as the bank payment agent.

In 2018, amid the declining attractiveness of full-scale services through the units and ATMs of credit institutions, in addition to the development of digital channels for the provision of financial services and the general maintenance of physical outlets in rural areas (given the slower spread of digital services in these areas), banks began to rely more on various formats of remote service outlets with employees or agents of credit institutions providing a wide range of financial products and services outside the physical location of credit institution units. At the same time, new emerging service formats appeared, such as cash withdrawal in retail/service outlets using POS terminals. According to the comprehensive survey of credit institutions conducted by Bank of Russia, as of 1 January 2019, in Russia, there were over 27,000 remote service outlets with employees of credit institutions and more than 196,000 remote service outlets with agents of credit institutions.

FINANCIAL INCLUSION FOR PERSONS WITH DISABILITIES, ELDERLY AND OTHER LOW MOBILITY PERSONS

The Bank of Russia reviewed compliance of credit institutions with the regulator's recommendations¹ on creating barrier-free environment. More than half of credit institutions (68%) have almost completed their implemen-

tation, including 43% of credit institutions that have fully implemented the recommendations and 25% that are currently developing and implementing changes with completion of work expected by the end of 2020. Recommendations for upgrading or purchasing technical equipment are being implemented.

According to the action plans received from 50 banks,² 38% of banks planned to complete the adaptation of their services and infrastructure for persons with disabilities, elderly and other low mobility persons by the end of 2018, 44% of banks are planning to complete adaptation by the end of 2019, 4%, by the end of 2020, 10% in 2021–2033, and 4% of banks have not yet determined the deadline for the implementation of their action plans.

The findings of the study on the Assessment of Financial Inclusion for Persons with Disabilities in 2017–2018 conducted by National Agency of Financial Information LLC at the request of the Bank of Russia showed that 31% of people with disabilities (7 pp more than in 2017) were fully satisfied with banking services in 2018. Other findings of the study are available in the report Assessment of Financial Inclusion of People with Disabilities in 2018.³

Thanks to collaboration between the Bank of Russia and the Ministry of Construction of Russia within the Working Group, wheelchair ramps and other devices facilitating the access of limited mobility customers to financial institutions offices were included⁴ in the list of required amenities.⁵

In the reporting year, the Bank of Russia published⁶ a review 'International Experience in Regulatory Innovations in Servicing People with Disability and Mobility Impaired Individuals. Experience of Certain Countries in Ensuring

¹ Bank of Russia Information Letter No. IN-03-59/20, dated 12 May 2017.

² Banks that had not previously submitted their action plans to ensure the accessibility of their services and infrastructure for persons with disabilities, elderly and other low mobility persons and that had primarily mentioned issues with regard to the compliance with Bank of Russia recommendations.

³ See section 'Financial markets / Financial market development / Financial inclusion / Improving financial inclusion for persons with disabilities, elderly and other low mobility persons' on the Bank of Russia's website.

⁴ Resolution of the Government of the Russian Federation No. 765, dated 30 June 2018, 'On Amending the List of Facilities That Can Be Located on Lands or Land Plots in State or Municipal Property Without Provision of Land Plots and the Establishment of Easements'.

⁵ As provided in Resolution of the Government of the Russian Federation No. 1300, dated 3 December 2014, 'On Approving the List of Facilities That Can Be Located on Lands or Land Plots in State or Municipal Property Without Provision of Land Plots and the Establishment of Easements'.

⁶ See section 'Financial markets / Financial market development / Financial inclusion / Improving financial inclusion for persons with disabilities, elderly and other low mobility persons' on the Bank of Russia's website.

Financial Inclusion' and a review of the first stage of the project 'Assessment of Financial Inclusion of People with Disabilities' for 2017.

CROWDFUNDING MARKET MONITORING

The Bank of Russia continues to monitor, on a quarterly basis, the activities of crowdfunding sites by reviewing the reports voluntarily submitted by key market participants involved in the Working Group for monitoring, consumer risks assessment and proposal development for the regulation of crowdfunding sector. This monitoring showed that the crowdfunding market¹ amounted to ₽15.2 billion in 2018, with a significant part (₽14.85 billion) associated with the financing of SMEs (where the segment of sites offering non-financial rewards to investors, which in 2018 amounted to ₽163.2 million, may include investments in the projects of both individuals and legal entities).

Draft Law No. 419090-7 'On Attracting Investments Using Investment Platforms' was adopted by the State Duma of the Federal Assembly of the Russian Federation in the first reading.²

Its goal is to create favourable conditions for the long-term development of the crowdfunding market, stimulate development of SME financing, and strengthen protection of rights of lenders and retail investors.

Voluntary testing of regulation principles for the crowdfunding market involved ten major market players. Tested regulatory requirements did not go beyond the scope of the applicable laws of the Russian Federation and were aimed at improving the risk management framework, enhancing the procedures for the disclosure of information about the activities of platforms and their implemented projects, dividing participants into groups depending on qualification, improving regulations aimed at eliminating conflicts of interest, ensuring the awareness and acceptance of investment risks by platform participants, and streamlining

processes related to information disclosure, including project selection procedures. In addition, requirements were aimed at creating documents describing the rules of business conduct and procedures of interaction between participants and the site and other aspects of crowdfunding activities. The insights gained from voluntary testing were used in the work on draft law No. 419090-7.

IMPROVING FINANCIAL INCLUSION FOR SMALL- AND MEDIUM-SIZED ENTERPRISES

In 2018, the Bank of Russia continued to use special refinancing instruments of the Bank of Russia (hereinafter, the special instruments) to support lending to major investment projects, non-commodity exports, leasing and small- and medium-sized enterprises. This support allowed the banks to obtain loans at preferential rates with maturities of up to three years.

In 2018, demand of credit institutions for the use of instruments declined amid easing of monetary conditions in the first half of the year and earlier as well as in the context of the continuing liquidity surplus in the banking sector. During the year, the total debt on special instruments dropped by 18% to ₽235 billion. In this environment, the Bank of Russia continued to pursue a strategy aimed at ceasing to use the special instruments and did not increase limits on them in 2018.

In 2018, as part of implementing its concept of incentive-based regulation and making lending to SMEs more attractive for banks, the Bank of Russia amended its Regulation No. 590-P, dated 28 June 2017, 'On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts'.³ These amendments expanded the use of preferential approaches in calculating provisions for possible losses on loans to SMEs, which will help banks reduce their operating costs in lending to SMEs.

¹ Based on reports processed as of 1 March 2019. It should be noted that given the voluntary nature of reporting some sites involved in monitoring had not provided their reports by the above date.

² Decree of the State Duma of the Federal Assembly of the Russian Federation No. 4031-7 GD, dated 22 May 2018.

³ Bank of Russia Ordinance No. 4874-U, dated 26 July 2018, 'On Amending Bank of Russia Regulation No. 590-P, Dated 28 June 2017, 'On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts' entered into force on 19 October 2018.



Opportunities for SMEs to attract financing were expanded substantially. SME funds with credit institutions are now insured in the amount of ₽1.4 million

It raised the threshold for SME loans that may be included in the homogeneous loan portfolio from 0.5% to 1.5% of the capital of banks with a basic licence. It also increased, from ₽5 million to ₽10 million, the threshold value of SME loans which may be included in the portfolio of homogenous loans for borrowers with an average financial standing.

Independent guarantees and sureties issued by JSC RSMB Corporation may be qualified as quality category I collateral, subject to their compliance with statutory ratios.

For all banks, the list of sources of information used to analyse the financial position of SME borrowers was supplemented with information on their cash flows, information from credit history bureaus and the official websites of federal authorities.

When calculating the required ratios, the reduced risk ratio of 75%, which had been used for small enterprises, was also extended to medium-sized enterprises.¹ In addition, for an SME borrower (a group of related borrowers) to be eligible for using the reduced risk ratio of 75%, its maximum amount of exposure was raised from ₽60 million to ₽70 million.²

For microfinance organisations specialising in entrepreneurial financing, the maximum amount of microloans was increased to ₽5 million³ to expand the opportunities of SMEs to raise funds. This level was raised due to a steady SME demand for microloans of micro-

finance organisations established under the state SME support programme.

The amendments to certain legislative acts of the Russian Federation came into effect on 1 January 2019⁴ to better protect the funds held by small enterprises on bank deposits. These amendments extended the deposit insurance system to small enterprises with the same insurance limit as for households and individual entrepreneurs (₽1.4 million).

In September 2018, the Bank of Russia approved a roadmap for the development of SME financing in 2019–2021 (hereinafter, the Roadmap).⁵ Its main areas included the development of lending to SMEs by enhancing the incentive-based regulation of banks as well as improving SME access to financial resources by developing alternative sources of financing, such as stock market instruments, leasing, factoring, and microfinance. The Roadmap aims at better financial inclusion for SMEs, including by implementing the 'digital client' concept in the online segment. It will make it possible for certain aspects of interaction between SME clients and banks to be conducted online, thereby speeding up the service.

Based on the approved standards for securitisation of SME loan portfolios developed by JSC RSMB Corporation and JSC SMP Bank with the advisory support of the Bank of Russia, two securitisation transactions were carried out in 2018 Q4, including one transaction using the multi-originator platform.⁶

¹ Introduced by Bank of Russia Ordinance No. 4635-U, dated 6 December 2017, 'On Amending Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios', effective from 27 January 2018.

² Introduced by Bank of Russia Ordinance No. 4899-U, dated 3 September 2018, 'On Amending Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios', effective from 8 October 2018.

³ Federal Law No. 537-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Development of Small and Medium-sized Businesses in the Russian Federation' and Article 12 of the Federal Law 'On Microfinance and Microfinance Organisations' (in terms of expanding the opportunities for small- and medium-sized enterprises to attract affordable financing).

⁴ Federal Law No. 322-FZ, dated 3 August 2018, 'On Amending the Federal Law 'On the Insurance of Household Deposits with Russian Banks' and Certain Laws of the Russian Federation'.

⁵ Posted on 10 October 2018 in the 'News and Comments' section on the Bank of Russia's website.

⁶ Multi-originator securitisation platform implies the simultaneous securitisation of portfolios held by more than one bank.

EXPANDING FINANCIAL INCLUSION (IN TERMS OF DEVELOPING ELECTRONIC INSURANCE AND SOCIALLY IMPORTANT TYPES OF INSURANCE)

Developing electronic insurance

The Ministry of Finance of Russia together with the Bank of Russia finalised and submitted to the Government of the Russian Federation a draft law¹ allowing insurance agents and insurance brokers to provide services related to conclusion of electronic insurance agreements. Adoption of this law will improve availability of insurance services, including for persons with disabilities.

Monitoring prevention of discriminatory terms in insurance rules

At the initiative of the Bank of Russia, the All-Russian Insurance Association (ARIA), which unites all insurance companies, reviewed rules and agreements of personal insurance to identify terms that restrict the rights of socially vulnerable categories of persons.

The findings of this review were considered by ARIA in developing the basic standard for the protection of the rights and interests of individuals and legal entities who receive financial services provided by members of self-regulatory organisations uniting insurance companies (hereinafter, the Basic Standard).² Clause 3.2.3 of the Basic Standard prohibits discrimination of the recipients of insurance services when they enter into an insurance agreement.

Insurance companies were obligated to bring their activities in compliance with the requirements of the Basic Standard by 7 May 2019. The regulator sent a letter to ARIA on the need to monitor the compliance of insurance companies with the requirements of the Basic Standard.

Home insurance

In 2018, a law³ developed with the participation of the Bank of Russia was adopted to streamline the mechanism of assistance to individuals for the restoration (acquisition) of property lost as a result of emergency situations, including through the use of the insurance mechanism. The law grants the authorities of the constituent territories of the Russian Federation the right to develop, approve and implement programmes to organise compensation for individuals for damage to residential premises using the voluntary insurance mechanism. The law is aimed at increasing economic interest of individuals and insurance companies in entering into contracts for the insurance of residential premises and reducing the budget expenditure of the budgetary system for the restoration of residential premises damaged as a result of emergency situations.

Agricultural insurance

In 2018, a law⁴ developed with the participation of the Bank of Russia was adopted to increase the interest of agricultural producers in insurance by providing parties to the contract the option to choose the terms of insurance, including the expansion of its basic parameters, as well as the use of remote monitoring tools.

Given the social importance of such insurance, the law expands the powers of the Bank of Russia to monitor the activities of the United All-Russian Association of Insurers in the area of agricultural insurance (establishing the forms and periods for providing information on compensation payments).

Developer civil liability insurance

In 2018, a law⁵ developed with the participation of the Bank of Russia was adopted to change the way of ensuring the performance

¹ Draft Federal Law 'On Amending the Law of the Russian Federation 'On the Organisation of the Insurance Business in the Russian Federation' and Certain Laws of the Russian Federation'.

² Posted on 10 August 2018 in the 'News and Comments' section on the Bank of Russia's website.

³ Federal Law No. 320-FZ, dated 3 August 2018, 'On Amending Certain Legislative Acts of the Russian Federation'.

⁴ Federal Law No. 563-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On Government Support for Agricultural Insurance and On Amending the Federal Law 'On Agricultural Sector Development'.

⁵ Federal Law No. 478-FZ, dated 25 December 2018, 'On Amending the Federal law 'On Participating in Shared-equity Construction of Apartment Houses and Other Real Estate and On Amending Certain Laws of the Russian Federation' and Certain Laws of the Russian Federation'.

of developer's obligations to equity construction participants under equity construction contracts submitted for state registration from 25 December 2018. Under this law, instead of entering into an insurance agreement, the developer pays mandatory deductions (contributions) to the compensation fund of the public company 'Fund for the Protection of the Rights of Individual Shared-equity Construction Participants'.

Transition to individual CMTPLI rates

In 2018, the Bank of Russia developed a set of measures aimed at improving CMTPLI rate-setting procedure by transitioning to in-

dividual rates for vehicle owners based on their experience and quality of driving.

As a first step toward these measures, the Bank of Russia adopted an ordinance¹ providing for more flexible approaches to determining the amount of the insurance premium.

The ordinance sets new values for basic insurance rates, which significantly extend the 'rate corridor', introduces changes in the coefficient system depending on the age and driving experience of the driver, and increases the number of rate categories. In addition, changes to the system of assigning the coefficient depending on whether insurance compensation was paid in the previous period were introduced.

¹ Bank of Russia Ordinance No. 5000-U, dated 4 December 2018, 'On Limiting Basic Insurance Tariffs (Their Minimum and Maximum Values in Rubles) and Insurance Tariff Ratios, on the Requirements for Insurance Tariff Structure, and on the Procedure for Insurers to Use Them for Calculating Insurance Premium under the Contract of Compulsory Third Party Liability Insurance of Vehicle Owners'.

2.3.4. IMPROVING CORPORATE RELATIONS

In 2018, the Bank of Russia continued to work on improving the investment attractiveness of Russian public companies, which is one of the priority areas in the development of the Russian financial market.¹ The Bank of Russia made further efforts to improve corporate legislation, develop the practice of applying the federal laws governing corporate relations, and protect the rights of shareholders and investors.

Enshrining in law² of rules aimed at strengthening the role of the board of directors in the corporate governance system of companies and increasing their internal efficiency played a key role in regulation of corporate relations. This included:

- granting the board of directors the right to nominate candidates for election to the new board of directors to form an effective, professional and balanced board of directors capable of making objective and independent judgments and adopting decisions in the interests of the company and its shareholders, ensuring the continuity of the board of directors;
- eliminating obstacles to the effective implementation by the board of directors of its functions to monitor the implementation of the development strategy and actions of company's management, which involves nominating executive bodies by the board of directors;
- forming an audit committee within the board of directors of the public company for the preliminary review of issues related to monitoring financial and economic activities, organising the risk management and internal control framework as well as the internal audit in the public joint-stock company.

Another significant measure implemented in the reporting year in regulation of corpo-

rate relations was the adoption of a federal law³ aimed at streamlining the requirements for disclosure of information by issuers of issue-grade securities. The law clarified the grounds for the obligation to disclose information. The Bank of Russia was allowed to establish differentiated requirements for disclosure of information in the form of issuer's report and notice of material facts. Requirements may vary depending on the class, category (type) of securities, inclusion of securities in the quotation list or admission of securities to trading without their inclusion in the quotation list, core activity of the issuer, and on whether the issuer is a small- or medium-sized enterprise.

To stimulate transfer of foreign companies to the Russian jurisdiction, the Bank of Russia participated in elaboration of a federal law aimed at redomiciliation⁴ of international companies to special administrative regions.⁵ The introduced regulation clarifies the procedure for applying the requirements of the Russian law, foreign corporate law and rules of foreign exchanges to international companies and preserves the existing rights of foreign company shareholders in the process of redomiciliation.

To establish a clear, consistent and adequate mechanism for acquisition of large blocks of shares in public joint-stock companies ensuring a balance of interests of participants in relevant relations, the Bank of Russia and the Ministry of Finance of Russia jointly implemented measures to improve the relevant regulation. After the State Duma rejected the draft federal law scheduled for consideration in the second reading, the work in this area continued as part of preparing a new draft law.⁶

¹ The Guidelines for the Development of the Russian Financial Market in 2016—2018 were approved by the Bank of Russia Board of Directors on 26 May 2016.

² Federal Law No. 209-FZ, dated 19 July 2018, 'On Amending the Federal Law 'On Joint-stock Companies'.

³ Federal Law of No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance'.

⁴ Changing of the company's jurisdiction.

⁵ Federal Law No. 485-FZ, dated 25.12.2018, 'On Amending Certain Legislative Acts of the Russian Federation'.

⁶ Draft Federal Law 'On Amending the Federal Law 'On Joint-stock Companies' and Certain Other Laws of the Russian Federation' (as regards improvement of the legal regulation of the purchase of large blocks of shares of public joint-stock companies).



The role of the board of directors in the corporate governance of public companies was strengthened

This measure is planned for implementation as part of a unified roadmap on Business Climate Transformation.¹

In the reporting year, in order to implement disclosure of information by issuers based on a single-window mechanism and enable simultaneous submission of identical information on corporate actions to the central depository, the Bank of Russia adopted regulations² aimed at enabling introduction of an agent-based single-window system.

Based on amendments to legislation and given evolution of information technologies, the Bank of Russia adopted a regulation³ establishing additional requirements for the procedure for preparing, convening and holding a general meeting of shareholders to facilitate the exercise of rights by shareholders. The regulation establishes the specifics of participation of shareholders whose shares are held by nominee holders on their behalf in the general meeting of shareholders, the specifics of online voting, and the procedure for the joint exercise of rights by shareholders.

As part of its efforts to improve corporate governance, the Bank of Russia continued to stimulate public joint-stock companies to comply with the Corporate Governance Code⁴ (hereinafter, the Code) and to properly disclose the causes for deviations from practices recommended by the Code in their annual reports. On 4 December 2018, following the review of 2017 annual reports released by companies whose shares are included in the quotation lists of the Moscow Exchange, the Bank of

Russia published a fresh version of the Review of Corporate Governance in Russian Public Companies on its website.

In 2017, a growing adoption of the Code's principles and recommendations by joint-stock companies was observed, albeit at a slower pace than in 2016. Compared to 2015, the share of companies that implemented more than 75% of the Code's principles increased by 26 pp in 2017 (by 6 pp compared to 2016), and the number of companies that complied with less than 50% of the Code's principles fell more than threefold. The quality of explanations provided by companies for deviations from the Code's principles has improved. In 2017, the average quality level of explanations was 53%, which is 14 pp higher than in 2016 and 20 pp higher than in 2015.

The Bank of Russia continued to communicate with public companies and provide them with methodological support to implement the Code's principles, to prepare explanations of the reasons for the inadequate quality of compliance with the principles of the Code, and to selectively check reliability of information disclosed by joint-stock companies in their reports on compliance with the principles of the Code.

Throughout 2018, the Bank of Russia considered a total of over 1,800 queries of individuals and legal entities, state authorities and other entities on corporate relations and information disclosure. It reviewed 538 packages of documents as part of state oversight of the acquisition of large blocks of shares. The regulator considered 305 applications on the release of issuers from the duty to disclose information. In the course of the current supervision of corporate relations and information disclosure, the Bank of Russia issued over 5,500 orders and identified over 3,000 administrative offences.

¹ Russian Government Directive No. 20-r, dated 17 January 2019, 'On the Approval of an Action Plan on Business Climate Transformation'.

² Bank of Russia Ordinance No. 4803-U, dated 25 May 2018, 'On Amending Bank of Russia Regulation No. 454-P, Dated 30 December 2014, 'On Disclosing Information by Securities Issuers' and Bank of Russia Ordinance No. 4804-U, dated 25 May 2018, 'On Amending Bank of Russia Regulation No. 546-P, Dated 1 June 2016, 'On the List of Information Associated with the Exercise of Securities Rights and Provided by Issuers to the Central Depository, the Procedure and Timeframes for Its Provision, and on the Requirements for the Procedure for the Central Depository to Give Access to Such Information'.

³ Bank of Russia Regulation No. 660-P, dated 16 November 2018, 'On General Meetings of Shareholders', which came into force on 25 January 2019.

⁴ Approved by the Bank of Russia Board of Directors on 21 March 2014 and recommended for use by joint-stock companies with securities admitted to organised trading by Bank of Russia Letter No. 06-52/2463, dated 10 April 2014.

2.3.5. DEVELOPMENT OF THE BOND MARKET

Federal Law No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance' aimed, among other things, at simplifying the procedure of and reducing the time required for bonds issuance was developed with the participation of the Bank of Russia and adopted in December 2018. The key provisions of the law will enter into force on 1 January 2020, and during 2019 Bank of Russia regulations

governing the procedure for admission of issue-grade securities to the financial market are to be brought in line with them.

More detailed information on provisions of the law is provided in Subsection 2.2.3.7 'Financial instruments'.

In addition, in 2018, the Bank of Russia amended its regulation¹ governing the procedure of submitting a notification (with information on the representative of bond holders) and improving the above-mentioned procedure.

¹ Bank of Russia Ordinance No. 4818-U, dated 9 June 2018, 'On Amending Bank of Russia Regulation No. 439-P, Dated 29 October 2014, 'On the Procedure for the Inclusion of Persons into a List of Persons Representing Bond Owners and Exclusion Therefrom, Procedure for Informing Bond Owners by their Representative and Providing a Notice on the Representative of Bond Owners, and Requirements for its Form and Contents' (entered into force on 19 August 2018).

2.4. Development of the national payment system

2.4.1. CASH CIRCULATION MANAGEMENT

A continuous supply of banknotes and coins for payment turnover while reducing the costs of cash circulation and minimising risks are among the key objectives of the Bank of Russia.

A wider use of non-cash payment instruments had an impact on the decline in the share of cash payments in the total turnover of retail trade, public catering and paid services from 52.6% in 2017 to 44.4% in 2018.

In the reporting year, cash in circulation increased¹ (including cash in cash offices at Bank of Russia establishments) by ₹775.2 billion (by 8.1% vs 2017), including banknotes in the amount of ₹768.5 billion and coins in the amount of ₹6.7 billion.

As of 31 December 2018, there was ₹10,323.2 billion worth of Bank of Russia token money in circulation, including coins made of precious metals, of which ₹10,220.4 billion were banknotes (6.3 billion pieces), ₹102.4 billion were coins (66.9 billion pieces), and ₹0.4 billion were coins made of precious metals. Banknotes accounted for 99.0% of the total value of cash in circulation, and coins accounted for 1.0%. In the total number of cash in circulation

banknotes accounted for 8.6% and coins — for 91.4%.

In 2018, the number of banknotes increased by 0.1 billion pieces, and the number of coins (excluding coins made of precious metals) increased by 1.3 billion pieces.

In the note structure of cash in circulation, the share of ₹2,000 banknotes expanded from 0.3% to 4.4% in the reporting period. At the same time, the shares of ₹1,000 banknotes and ₹500 banknotes both contracted (from 20.4% to 16.3% and from 3.2% to 2.6% respectively). The respective shares of ₹5,000, ₹200, ₹100, ₹50, ₹10, and ₹5 banknotes essentially remained at 2017 levels.

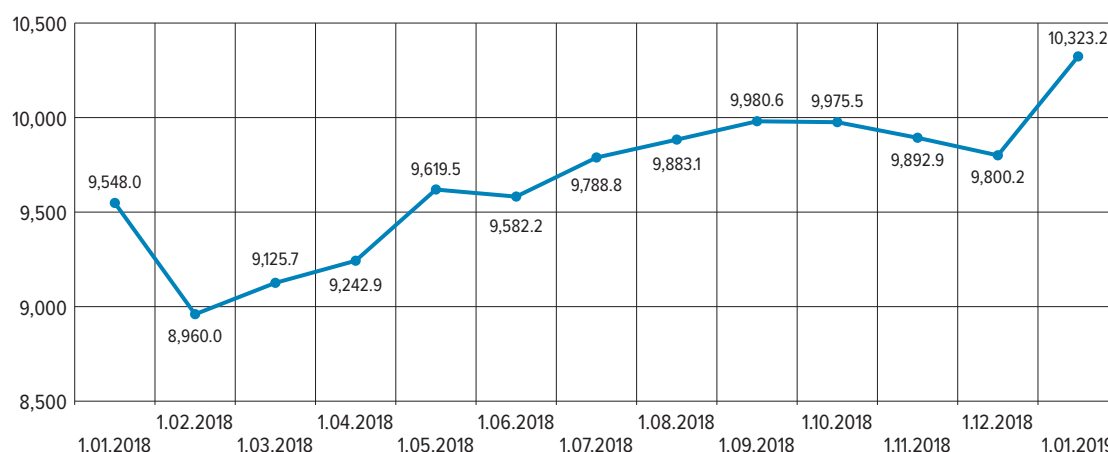
In 2018, ₹10 banknotes were replaced with coins with the same face value, and the number of such coins increased by 7.3%.

The Bank of Russia monitored cash turnover and examined its structure, analysing the note structure of cash in circulation and the reserves of Bank of Russia units to make sure that it matched the needs of payment turnover.

In 2018, cash turnover through the cash desks of Bank of Russia establishments and credit insti-

**CASH IN CIRCULATION
(BILLIONS OF RUBLES)**

Chart 39



¹ An increase in the amount of Bank of Russia token money, including coins made of precious metals, based on balance-sheet data.

tutions did not change compared to the previous year and amounted to ₹100.0 trillion.

In 2018, the Bank of Russia improved its regulations related to the organisation of cash circulation, cash issuance and other cash operations as well as the storage, transportation and collection of cash based on changes in the economy and legislation of the Russian Federation and technology used for handling banknotes and coins.

As of 1 January 2019, Bank of Russia divisions provided cash services to 3,904 credit institutions and their units as well as 7,613 non-credit institutions. In 2018, the number of credit institutions and their divisions that used the cash services of Bank of Russia establishments decreased by 787 as a result of structural changes in the banking sector. The number of non-credit institutions using the cash services of Bank of Russia establishments decreased by 990 due to the closing of bank accounts in Bank of Russia regional branches.

The Bank of Russia continued to optimise the number of its cash desk divisions and number of employees involved in the organisation of cash circulation.

In 2018, Bank of Russia establishments carried out 0.95 million expert assessments of Bank of Russia token money, including 0.47 million expert assessments of suspicious token money and 0.48 million control assessments of the accuracy with which banknote and coin were exchanged. In the reporting year, 38,504 counterfeit banknotes and coins were detected in the banking system of the

Russian Federation, withdrawn from circulation and handed over to law-enforcement agencies; which is 15.0% less than in 2017. The number of counterfeit ₹1,000 banknotes decreased from 17,218 in 2017 to 9,310 in 2018; the number of counterfeit ₹5,000 banknotes increased from 26,948 in 2017 to 27,763 in 2018.

The share of counterfeit ₹1,000 banknotes in the total number of counterfeit banknotes was 24.2% in 2018 (38.0% in 2017). The share of counterfeit ₹5,000 banknotes increased by 12.6 pp to 72.1%.

The largest number of counterfeit token money was detected in the Central Federal District.

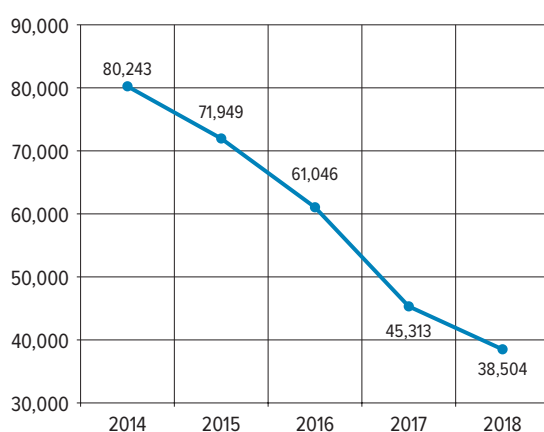
The share of counterfeit Bank of Russia token money identified by credit institutions contracted by 2 pp compared with 2017 to 35.6% of the total number of detected forgeries.

In 2018, Bank of Russia establishments and credit institutions identified 2,579 counterfeit banknotes of foreign countries (groups of foreign countries) and delivered them to law-enforcement agencies; this is 0.4% less than in 2017.

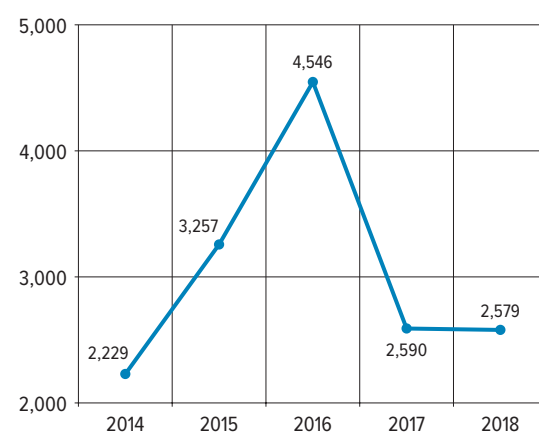
In 2018, the Bank of Russia introduced a commemorative ₹100 banknote dedicated to 2018 FIFA World Cup. The banknote was made on a polymeric medium.

In 2018, the Bank of Russia issued into circulation 44 kinds of precious metal coins (four gold and 40 silver coins) and eight kinds of commemorative base metal coins, including one coin with coloured paintwork in souvenir packaging.

**DETECTION OF COUNTERFEIT BANK OF RUSSIA
NOTES AND COINS (PIECES)** *Chart 40*



**DETECTION OF COUNTERFEIT
FOREIGN BANKNOTES (PIECES)** *Chart 41*



2.4.2. DEVELOPMENT OF NATIONAL PAYMENT INSTRUMENTS

In 2018, the Bank of Russia continued to develop the National Payment Card System (NPCS). Priority in this area was promotion of the national payment instrument, Mir cards. As of year-end 2018, 322 credit institutions participated in the Mir payment system, of which 304 accepted the national payment instruments in their infrastructure and 160 credit institutions issued them.

In 2018, Mir cards issued by credit institutions accounted for 19.2% of all cards issued in Russia. At the same time, the efficiency of their use rose: the target set for the share of domestic transactions with Mir cards in the total value of transactions with payment cards was exceeded, reaching 14.5% at the end of the reporting year compared to the planned 12%. Compared to 2017, the number of transactions with Mir cards spiked more than sixfold, while the value of transactions increased by more than five times (to 5.4 billion transactions for the total amount of ₽11.1 trillion). The share of cashless operations in the total number and value of operations with Mir cards reached 85.7% and 55.6% respectively, and cash with-drawal operations amounted to 14.3% and 44.4% respectively.

In 2018, in accordance with the Russian laws, the Bank of Russia and NPCS JSC jointly with state executive authorities transitioned budget sector employees to Mir cards.

In the reporting year, projects for placing non-finance applications on Mir cards were implemented mostly in Khabarovsk and Krasnodar Territories, Sverdlovsk, Rostov and Moscow Regions. In particular, this included the ability to pay for public transit with a Mir card in 34 re-

gions, including by recipients of social benefits. Another implemented service enabled making direct payments from the Social Insurance Fund of the Russian Federation to Mir cards of insured persons in 50 Russian regions.

As part of development of promising payment products and NPCS services, Mir Pay, a contactless mobile payment service developed by JSC NPCS, was brought into commercial operation. Major banks participating in the Mir payment system were connected to Samsung Pay to ensure its availability to the holders of national payment instruments.

Several projects were implemented to launch co-branded products with Mir cards, and individual marketing campaigns were held together with major Russian credit institutions to promote national payment instruments in the domestic market. Major credit institutions and more than 50 federal online stores delivering goods across key Russian regions joined the loyalty programme (cashback service) of the Mir payment system to boost the attractiveness of national payment instruments. An advertising campaign involving more than 80 retail and service companies, including large federal chains, was held across Russia to promote the Mir payment system loyalty programme.

To further promote Mir cards outside the Russian Federation, their acceptance was ensured in South Ossetia, Abkhazia, Kyrgyzstan, Kazakhstan, and Belarus. In 2018, the first Mir card transactions were conducted in Turkey.

Cooperation with other countries (Tajikistan, Uzbekistan, Azerbaijan, Vietnam, and Thailand) was conducted to ensure acceptance of Mir cards on their soil.

2.4.3. DEVELOPMENT OF THE BANK OF RUSSIA PAYMENT SYSTEM

In 2018, the Bank of Russia payment system was used to make 1.6 billion funds transfers for the total amount of ₽1,715.1 trillion (increasing by 4.1% and 19.0% respectively). On average, 6.4 million daily transfers were made worth ₽6.9 trillion.

In 2018, the number of customers served by the Bank of Russia declined by 21.8% to 2,011 as of 1 January 2019. This was the result of measures implemented by the Bank of Russia for the financial rehabilitation of the banking sector as well as measures taken by credit institutions to streamline their own branch networks.

In 2018, as part of its activities to establish new payment services,¹ the Bank of Russia centralised the processing of information from all regional components of the Bank of Russia payment system and implemented the transition of Bank of Russia divisions and customers to new payment services centralised within a single platform. These services ensure a high level of continuity, provide a single extended work schedule, new liquidity management mechanisms, and indirect participation in the Bank of Russia payment system.



Faster Payments System was established

In 2018, the Bank of Russia issued amendments to its regulations ensuring the implementation of the project to establish the Faster Payments System (FPS) and approved and published rates for FPS services.

The designed and tested FPS is set to launch in 2019. It will enable individuals to make instant 24/7 funds transfers using a mobile phone number (even if the payer and the recipient have accounts with different

banks) ensuring equal conditions for participating banks and minimum rates. The second stage scheduled for launch in 2019 H2 will support payments to legal entities for goods and services and will include payments using QR codes.

The Unified Centralised Payment Gateway (transport gateway), which implemented various connection schemes to ensure high availability and reliability of connection to the Bank of Russia payment system for its participants, was put into operation to improve efficiency of payment and financial messaging with the customers of the Bank of Russia. Critical payment traffic was segregated into a separate thread and fully centralised at a single point bypassing regional transportation hubs and infrastructure components of the Bank of Russia telecommunications system.

In accordance with the Bank of Russia settlement network optimisation programme, 35 cash settlement centres were shut down in 2018 (32.1% of the total number of centres operating as of the beginning of the year).

In 2018, the number of users of the Bank of Russia financial messaging system (FMS) increased to 403 participants. FMS users sent 5.4 million messages, or twice as many as in 2017. In 2018, 85% of SWIFT electronic messages were submitted in MT103 format 'Single Customer Credit Transfer' (4.6 million messages).

As part of FMS development in 2018, the Bank of Russia ensured its readiness to connect foreign credit institutions to FMS as well as complete legal, technical and technological readiness to implement both 24/7 receipt of messages from FMS participants and a new format of electronic specialised financial messages related to treasury's guarantees on bank obligations under public contracts starting January 2019.

¹ In accordance with Bank of Russia Regulation No. 595-P, dated 6 July 2017, 'On the Bank of Russia Payment System'.

2.4.4. DEVELOPMENT OF OTHER PAYMENT SYSTEMS

In 2018, the amount of funds transfers within the payment systems included in the register of payment system operators (excluding NSD PS) increased by 40% compared to 2017 and reached ₽35 trillion.

41.2% of the total transfers in the payment systems were transfers made via the socially important Sberbank payment system.

In accordance with Federal Law No. 161-FZ, in the course of supervision of systemically and socially important payment systems, second stage assessments of the conformity of the systemically important NSD payment system and socially important Sberbank and Mastercard payment systems to the international standard of the Committee on Payments and Market Infrastructures and the International Organisation of Securities Commissions 'Principles for Financial Market Infrastructures' (hereinafter, the PFMI) were completed. In addition, the socially important Visa payment system was also assessed for compliance with the PFMI. The results of the evaluations confirmed a high level of the payment systems' conformity to the PFMI.

Based on the results of these evaluations, the Bank of Russia issued recommendations to payment system operators to improve their activities in the Russian Federation to be included in action plans developed by payment

system operators subject to further the Bank of Russia's approval.

To disclose information on its NPS monitoring activities, the Bank of Russia published the Results of Monitoring in the National Payment System in 2016–2018, which include general results of Bank of Russia activities in the monitoring of the NPS, including evaluation of important payment systems for their compliance with international standards, as well as information on the key indicators and trends in the development of NPS and its individual entities, key changes in NPS regulation during this period and international cooperation in the area of NPS monitoring and supervision.

In 2018, as part of international cooperation in the area of NPS monitoring and supervision, the Bank of Russia signed a Memorandum of Understanding with the State Bank of Vietnam on information exchange and collaboration in the supervision (oversight) of payment systems. The efforts aimed at sharing the experience and streamlining approaches in the area of regulation, supervision and monitoring of payment systems under the bilateral agreements on payment system supervision/monitoring signed by the Bank of Russia and the central (national) banks of EAEU member states were continued.

2.5. Technology development and innovation support in the financial market

2.5.1. DEVELOPMENT OF FINANCIAL TECHNOLOGIES

Federal Law No. 327-FZ, dated 3 August 2018, 'On Amending the Federal Law 'On Credit Histories' was developed and adopted with the participation of the Bank of Russia. This Federal Law stipulates the right of credit history owners to receive twice a year on a no-fee basis a credit report in each CHB, including remotely in the electronic format, and to sign their consent to receipt of credit reports by credit history users through the Unified System of Identification and Authentication (USIA). This mechanism enables **remote lending to customers** who pass remote identification in banks using USIA and the Unified Biometric System (these standards are already in effect).

The **mechanism of biometric remote identification** was launched on 30 June 2018. Registration in the Unified Biometric System that stores and processes biometric data for remote identification is available in more than 3,250 offices of 61 banks and outside banks in all Russian constituent territories (by courier). After remote identification, customers can receive remote banking services (such as opening accounts/deposits, obtaining loans and transferring funds).

Five banks started providing bank services with the use of remote identification, among other things, with the use of an Android-based mobile application for remote identification through a smartphone. The iOS mobile app is available for banks for testing purposes.

Implementing remote identification is one of key objectives aimed at shifting the provision of

financial services into the digital sphere. It will help improve financial inclusion, boost competition, and lower costs in the financial market.

In April 2018, the Bank of Russia approved the operating principles of the Bank of Russia regulatory sandbox, the main goal of which was to create a mechanism for the quick and safe implementation of innovative products, services and technology in the Russian financial market.

The regulatory sandbox enables verification of hypotheses on the positive effects of the use of financial services and technology, the identification of relevant risks and the determination of measures needed to create the legal and technological conditions for their implementation. The Regulatory Platform section of the Bank of Russia website includes general information on its activities and the pilot project application form and procedure for submitting it to the Bank of Russia. For the purpose of expert support of activities held in the regulatory sandbox, the Expert Council of Financial Market Participants and the Interdepartmental Expert Council were established.

In 2018, the Bank of Russia received more than 20 applications for participation in the sandbox from banks, fintech and other companies. Successfully implemented projects include:

- the pilot project for the online management of authorities over corporate bank accounts. Bank of Russia Ordinance No. 5035-U, dated 28 December 2018, aimed at establishing legal conditions for the market implemen-



The remote biometric identification mechanism was launched to provide remote banking services

tation of the service, entered into force on 15 February 2019;

- the pilot project for holding ICOs based on distributed ledger technology. The Bank of Russia Committee for Financial Market Development approved a roadmap for the creation of the appropriate legal conditions.

The Bank of Russia continues **to study and analyse innovative technology** in the financial market. In 2018, the Bank of Russia published on its website two consultation papers, 'RegTech and SupTech Issues and Trends in Russia's Financial Market' and 'Application of Cloud Technologies in the Financial Market', as well as analytical reviews in the area of fintech.

On 17–19 October 2018, the regular Forum of Innovative Financial Technology Finopolis 2018 was held in Sochi and attended by more than 1,400 top managers from major financial companies and IT developers. In particular, the Forum focused on its Youth Day, which included six workshops, eight master classes and the review of business cases (presented by Forum partners) by teams of Russian students. In addition, there was a fintech startups competition which resulted in four winners.

Draft laws aimed at regulating relations arising from the creation, issuance, storage and circulation of digital financial assets were prepared with participation of the Bank of Russia and adopted in the first reading¹ to implement the instructions of the President of the Russian Federation No. Pr-2132, dated 21 October 2017, and the 'Digital Economy of Russia' programme.

A draft law² aimed at establishing the **Unified Information System for the Verification of Individual Subscribers** and Users of Communications Services of Corporate Subscribers was submitted to the State Duma to allow financial institutions to:

- ensure the countering of fraud in the financial market when onboarding individuals

and legal entities and providing services to them, including funds transfers;

- use the information received from communications operators for the identification of individuals when onboarding individuals and legal entities and providing services to them.

Within the framework of creating the **Faster Payments System** (FPS),³ the Bank of Russia, NPCS and the FinTech Association completed testing of the prototype system joined by 12 banks.

The amendments introduced to the regulations and other acts of the Bank of Russia ensured the implementation of the project to establish FPS service in the Bank of Russia payment system, the rates for FPS services were approved and published and information and consulting seminars were held on issues of FPS functioning.

FPS allows making real-time payments and funds transfers 24/7/365 between individuals and, in the future, to legal entities for goods and services within the established limits by using simple and convenient identifiers of the payment recipient (such as mobile phone numbers for individuals and INN for legal entities).

Introduction of the FPS will improve financial inclusion for households, among other things, in remote regions, boost competition in the financial market, and help reduce costs of its participants.

The following pilot projects are implemented on the **masterchain** platform developed by the Bank of Russia together with financial market participants under the auspices of the FinTech Association:

- e-mortgage accounting — the project provides for accounting and storage of e-mortgages in a decentralised depository system (the first mortgage deal with an e-mortgage was closed on September 2018);

¹ Draft Federal Law 'On Digital Financial Assets' (prepared by the Ministry of Finance of Russia together with the Bank of Russia), draft Federal Laws 'On Amending Part One, Part Two and Part Four of the Civil Code of the Russian Federation' and 'On Attracting Investments Using Investment Platforms'.

² Draft Federal Law 'On Amending the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and Other Laws of the Russian Federation'.

³ For details on the functioning of the Faster Payment System, see Subsection 2.4.3 'Development of the Bank of Russia payment system'.

- operations with digital bank guarantees (first pilot transactions were closed in December 2018);
- trade financing with the use of digital letters of credit.

In 2018, the Bank of Russia issued the ordinances regulating opening and management of accounts to register and store e-mortgages¹ and the specifics of electronic submission and verification of documents involving the use of information systems in settlements on digital letters of credit.²

The Bank of Russia initiated and coordinated activities to establish a **marketplace** system. It will include a platform for the sale of financial services and products, which will allow individuals to access the services of various financial institutions through a single point of service, including the opening of deposits and funds transfers. The draft laws regulating transactions using the electronic platform were submitted to the State Duma.³

The Bank of Russia together with the Ministry of Digital Development, Communications and Mass Media and PJSC Rostelecom worked out a concept and architecture for developing a **digital profile** as part of the Digital Economy of Russia programme. A draft federal law is being developed on the creation of a digital profile.

A digital profile provides for a convenient and secure infrastructure for online data exchange between the government and businesses to enable individuals to manage their digital data.

This infrastructure will help simplify companies' access to data in public information

systems, improve customer experience in commercial and public services, reduce their cost and raise quality.

In November 2018, a meeting of the Working Group on **Coordination of National Payment Systems of EAEU Member States**, which brings together the central/national banks of EAEU member states, discussed the results of its activities in 2018, which included preparing a list of fintech concepts to be harmonised across the EAEU, defining the approaches to implementation of cross-border remote identification, preparing proposals for the development of open APIs, and defining the approaches to implementation of the system of bank guarantee registration across the EAEU. These activities also included approval of the following roadmaps for 2019: 'Cooperation in the Development of Financial Technologies', 'Faster Payments Systems', 'Cooperation in Financial Messaging and Settlements', 'Digital Letters of Credit, Bank Guarantees and Mortgage Certificates', 'National Payment Card Systems', 'Implementation of ISO 20022', and 'Cyber Security'.

A concept was approved in March 2018 to establish a **FinTech Hub of the Bank of Russia** at the Mathematics and Information Technology Laboratory of the Sirius Educational Centre (Sirius Centre) to host innovative projects for the benefit of market participants with the participation of Sirius Centre students in such areas as big data, distributed ledger technology, and information security. The work to establish the FinTech Hub is continuing.

¹ Bank of Russia Ordinance No. 4944-U, dated 25 October 2018, 'On Amending Bank of Russia Regulation No. 503-P, Dated 13 November 2015, 'On the Procedure for Depositories to Open and Manage Depo and Other Accounts'.

² Bank of Russia Ordinance No. 4930-U, dated 11 October 2018, 'On Amending Bank of Russia Regulation No. 383-P, Dated 19 June 2012, 'On Funds Transfer Rules'.

³ Draft Federal Laws 'On Electronic Platform Transactions' and 'On Amending Certain Laws of the Russian Federation Regarding Electronic Platform Transactions'.

2.5.2. DEVELOPMENT OF ELECTRONIC INTERACTION MECHANISMS

Since January 2018, interested banks can obtain electronic information on the results of provision of certain government and municipal services, including information from PFR, FTS, the Ministry of Internal Affairs, FBS and Rosreestr information systems. The information is provided through the Unified Portal of State and Municipal Services (Functions) (UPSS) with the consent of customers expressed through UPSS.

In November 2018, the Bank of Russia began to interact with individuals through UPSS. The portal provides information from the Central Catalogue of Credit Histories on which CHB stores the credit history of a particular individual.

In 2018, the Bank of Russia established a new procedure for communication with financial market participants and other parties on various occasions with the use of personal accounts (PA) of information exchange participants.

A personal account became an important means of exchange of legally important electronic documents, including confidential information, between market participants and the Bank of Russia, as it combined the interactions of the Bank of Russia with all non-credit and credit financial institutions within a single technological platform.

Transition to the interaction through personal accounts significantly increased the share of electronic document workflow. The share of documents submitted by credit institutions through the personal accounts in 2018 reached 68%; for NFIs, this figure reached 74%.

The Bank of Russia started accepting **reports from supervised organisations** (non-bank financial institutions) in **the XBRL format**.¹ The Bank of Russia launched a system for the automated verification of reports in accordance with the XBRL taxonomy and automated generation of protocols for supervised entities.

It also developed and implemented regulatory measures to support NFIs at the initial stage of their transition to the XBRL format. The regulator cooperated with the supervised entities to help them correct errors in the reports submitted to the Bank of Russia.

The Bank of Russia developed and posted on its website a corrective version of the XBRL taxonomy (version 1.3.1) with updated control ratios and table layer visualisation, which simplifies the preparation of reporting data by supervised entities and improves the quality of reports submitted to the Bank of Russia; it also developed and posted on its website the final XBRL taxonomy (version 3.0). The version 3.0 of the taxonomy also includes supervisory requirements covering new market segments slated for a transition to XBRL format reporting in 2020.

Together with the Ministry of Economic Development of Russia, other government agencies and financial market participants, the Bank of Russia is working to expand the list of information banks may obtain electronically with the use of the Unified System of Interdepartmental Electronic Collaboration (USIEC) and the UPSS. The draft Russian Government Directive that includes more than 20 types of data agreed upon with the banking community has been introduced to the Russian Government.

A draft law elaborated with the participation of the Bank of Russia is aimed at creating legal grounds and technological conditions for the storage and use of electronic documents. The draft law provides for replacement scanning, which converts paper-based documents into electronic files while preserving their validity, as well as the conversion and migration principles to ensure the safekeeping and format continuity of electronic documents. The transition to electronic storage will significantly reduce the costs of document workflow.

¹ See Subsection 2.2.11 'Improving the accounting and accounting (financial) statements of financial institutions'.

2.5.3. ENSURING INFORMATION SECURITY AND ENHANCING CYBER RESILIENCE

Ensuring cyber resilience in credit and financial institutions is an important area of the Bank of Russia's activity.

The Bank of Russia makes efforts to ensure operations of the uniform system for countering informational threats:

- by mitigating the risks of financial stability breaches in banks and financial organisations resulting from cyber-attacks on their information resources;
- by mitigating the risks of direct financial damage to customers and counterparties of banks and financial organisations associated with unauthorised financial transactions, including unauthorised money transfers;
- by ensuring confidence of customers and counterparties of banks and financial institutions in the security of implemented electronic technologies and services;
- by improving reliability of data on incidents associated with violation of information security related to funds transfers.

The Bank of Russia takes part in improvement of Russian laws aimed at developing the legal framework for countering fraud in the financial market and creating an automated system for countering misappropriation of funds in the financial market.

To ensure and monitor information security and counter informational threats in the financial sector, the Bank of Russia focused on the implementation of Federal Law No. 167-FZ.¹

For this purpose, information exchange was established between the Bank of Russia and credit institutions on all incidents and/or attempts of embezzlement through the Automated Incident Processing System (AIPS) of the Financial Sector Computer Emergency Response Team of the Bank of Russia Information Security Department (FinCERT). The Bank of Russia elaborated and approved Ordinance No. 4926-U,² which established the following:

- a form for submitting information about all actual and/or attempted unauthorised funds transfers by information exchange participants;
- a procedure for information exchange between information exchange participants and the Bank of Russia;
- a procedure for countering unauthorised funds transfers by information exchange participants.

On 1 November 2018, the Bank of Russia introduced its Standard STO BR FBOS-1.5-2018³ which established the forms and terms of the Bank of Russia's cooperation with information exchange participants to reveal violations of information security.

A database of actual and attempted unauthorised funds transfers was created on the basis of FinCERT AIPS, which is used by funds transfer operators, payment system operators, and payments service infrastructures to reveal operations bearing the evidence of unauthorised funds transfers.



A law on combating cyber fraud was adopted. All credit institutions are required to identify and, if necessary, block transactions conducted without the customer's consent and participate in information exchange with the Bank of Russia

¹ Federal Law No. 167-FZ, dated 27 June 2018, 'On Amending Certain Laws of the Russian Federation for Countering Embezzlement'.

² Bank of Russia Ordinance No. 4926-U, dated 8 October 2018, 'On the Form and Procedure for Funds Transfer Operators, Payment System Operators, and Payment Infrastructure Operators to Inform the Bank of Russia about All Actual and (or) Attempted Funds Transfers Without the Customer's Consent and Receive from the Bank of Russia's Database Information about Actual and Attempted Funds Transfers Without the Customer's Consent, and on the Procedure for Funds Transfer Operators, Payment System Operators, and Payment Infrastructure Operators to Counter Funds Transfers Without the Customer's Consent'.

³ Bank of Russia Standard STO BR BFBO-1.5-2018 'Financial (Bank) Operation Security. Information Security Incident Management. On the Forms and Terms for Cooperation Between the Bank of Russia and Information Exchange Participants When Violations of Information Security Protection are Revealed', enforced by Bank of Russia Order No. OD-2403, dated 14 September 2018.

As of 31 December 2018, all credit institutions were connected to FinCERT AIPS.

In 2018 (starting from 26 September 2018) 15,607 transactions made without customer's consent were registered in FinCERT AIPS. FinCERT AIPS helped prevent the attempts of hackers who gained access to credit institutions' automated systems to steal their funds exceeding ₽131 million and the funds of credit institutions' customers exceeding ₽50 million.

To implement Part 14 of Article 14.1 of Federal Law No. 149-FZ,¹ the Bank of Russia together with Rostelecom PJSC elaborated and approved joint Ordinance No. 4859-U/01/01/782-18² aimed at:

- protection of human and civil rights when processing biometric personal data for identification purposes;
- establishing the basis for requirements for information technologies and technical equipment used in processing biometric personal data for identification purposes;
- providing necessary protection of biometric personal data during their processing, including their collection and storage in the uniform information system of personal data that provides for biometric personal data processing, including their collection and storage, verification and transfer of information on their conformity with the biometric personal data provided by a Russian citizen for identification.

Implementation of these measures helped increase the detection rate of unauthorised transactions, which led to adjustments in a number of trends observed in the dynamics of misappropriations over the past few years. Thus, the decline in the share of unauthorised transactions observed in 2016–2017 in the total value of transactions with payment

cards was superseded by their slight increase. In 2018, this indicator rose to 0.0018% or ₽0.018 per ₽1,000 of funds transfers (0.0021% in 2016, 0.0016% in 2017). Overall, in the reporting period, 416,900 unauthorised transactions with payment cards were performed totalling ₽1,384.7 million (in 2017, 317,000 transactions in the amount of ₽961.3 million respectively). As the number and value of cashless payments is forecast to grow further, the Bank of Russia aims to hold the share of unauthorised transactions in total payment card transactions below 0.005%.

In 2018, credit institutions reported to the Bank of Russia 6,151 unauthorised corporate account transactions worth ₽1.47 billion (in 2017, 841 transactions worth ₽1.57 billion). Whereas banks considerably increased the number of reports on unauthorised corporate account transactions (by a factor of 7.3), their value remained virtually unchanged. This trend and the rise in the share of unauthorised payment card transactions is attributed to an increase in the quality of data provided to the Bank of Russia, as well as a more serious approach of supervised entities to information security. As a result, banks started to report not only major incidents but also less significant cyber-attacks.

Following 59 inspections that took place in credit and financial institutions after enactment of new legislation (starting from 1 July 2018), it was established that the violations of requirements for information security (IS) were related to inadequate knowledge and understanding of the regulatory framework on IS issues, insufficient responsibility of employees in supervised entities with regard to compliance with IS requirements, deficiencies in the organisation of internal audit and internal controls on IS issues.

¹ Federal Law No. 149-FZ, dated 27 July 2006, 'On Information, Information Technology and Information Protection'.

² Ordinance of the Bank of Russia and Rostelecom PJSC No. 4859-U/01/01/782-18, dated 9 July 2018, 'On the List of Security Threats to Biometric Personal Data Processing, Including Collection and Storage, Verification and Transfer of Information about Their Correspondence to Biometric Personal Data of a Citizen of the Russian Federation Provided to Governmental Agencies, Banks and Other Institutions Indicated in Paragraph One of Part 1 of Article 14.1 of Federal Law No. 149-FZ, Dated 27 July 2006, 'On Information, Information Technology and Information Protection' Stored in the Unified Information System'. In accordance with Directive of the Government of the Russian Federation No. 293-r, dated 22 February 2018, PJSC Rostelecom was designated the operator of the unified information system of personal data that provides for the processing of biometric personal data, including their collection and storage, verification and transfer of information on their conformity with the biometric personal data provided by a Russian citizen for identification.



The Bank of Russia initiated the blocking of more than 2,600 fraudulent websites

According to the reporting data received by the Bank of Russia, credit institutions indicate the use of social computing by fraudsters to influence holders of electronic payment instruments as the main reason behind most embezzlements. Credit institutions are obliged by law to inform customers about possible risks. The Bank of Russia also regularly takes measures to raise public awareness of ways to ensure the financial security of payment services. 24 such measures were taken in the reporting year.

In 2018, FinCERT sent 155 real-time reports on computer attacks and six reports on highly dangerous threats with detailed recommendations on their prevention to more than 700 participants of information exchange on information security. The frequency of mailings increased with the launch of the automated system Feed-Antifraud prototype.

Bank of Russia specialists helped more than 200 credit institutions investigate embezzlements.

As part of its efforts to combat online fraud, the Bank of Russia initiated the discontinuation (deregistration) of 2,643 websites used for fraudulent activities (phishing) in the credit and financial sector in the Russian segment of the Internet.

Following its joint efforts with telecommunication operators to combat mobile fraud, the Bank of Russia submitted requests to block 462 mobile phone numbers (including mobile operator numbers and numbers in the 8-800 area code) involved in SMS fraud, spam distribution, attacks, malware dissemination, etc.

In addition, in 2018, agreements in the area of information security were entered into with the financial regulators of all member states of the Eurasian Economic Union (EAEU). The expansion of international cooperation on information security with EAEU countries is aimed at creating a common cyberspace and a trusted financial environment within the EAEU.

2.6. Other activities

2.6.1. INFORMATION POLICY

In 2018, the information policy of the Bank of Russia was aimed at expanding communication with financial market participants and the general public and raising confidence in the Bank of Russia's activities and their transparency. An information policy based on the opinions of target audiences and feedback received when preparing fundamental documents have become indispensable conditions for the Bank of Russia.

In 2018, the focus of the regulator's communication policy was informing the public about the importance of consistently low inflation for economic growth and social well-being, about the supervisory policy of the Bank of Russia aimed at rehabilitating and stabilising the banking system, protecting consumer rights, preventing fraud and counteracting unfair practices.

Information was spread in various formats through media resources targeted at particular audiences. In 2018, the Bank of Russia continued to expand its online presence with new social media accounts for effective communication with the audiences on various platforms and maximising its information reach. In addition to its existing Facebook and Twitter accounts, the Bank of Russia created accounts on Odnoklassniki, VK, Instagram, and Yandex Zen.

In 2018, the Bank of Russia made an effort to improve communication with Russian and foreign institutional investors, stock market analysts and economic experts.

It held regular conference calls with institutional investors, face-to-face meetings with analysts and experts following pivotal meetings of Bank of Russia Board of Directors on monetary policy. New Bank of Russia website features

enable investors to ask questions, request a meeting with a Bank of Russia representative, and subscribe to key publications.

The Bank of Russia's communication strategy is aimed at explaining its position in various areas and alerting the public about the potential risks of the emerging financial market.

Regarding the monetary policy, the Bank of Russia continued to actively inform the public, businesses, expert community and financial market participants of all its decisions, their grounds, reasons and potential impact on the financial market, economy and inflation. Such systematic, large-scale and prompt communication through mass media and social networks allows the public and business community to assess the situation objectively, plan and prepare their strategies. In 2018, the Bank of Russia was particularly focused on communication with key regional audiences. It continued to hold regular meetings with representatives of regional businesses, banks, authorities, academic community, and the media. Monthly public communications on inflation dynamics in the federal districts, educational and analytical mass media materials, interviews with local TV channels explaining the Bank of Russia's measures in the area of monetary policy contributed to raising confidence in the Bank of Russia's policy and relative stabilisation of inflation expectations. Simplifying the communication format and language and adapting it to a broader audience was also an important line of work.

In 2018, the information support of the new bank resolution mechanism through the Fund of Banking Sector Consolidation and the establishment of the Non-Core Asset Bank was a



The information policy is aimed at explaining the position of the Bank of Russia and alerting the public about the potential risks of the financial market

special focus in the area of banking regulation and supervision.

Much attention was paid to the coverage of the reform and centralisation of banking supervision, which began in the spring of 2017 and was completed in the autumn of 2018. The Bank of Russia management representatives held a series of regional meetings with the banking community on both the continuity of the supervisory process during its centralisation and transition of banks to universal and basic licences. This process was completed by early 2019 as part of the proportionate regulation concept. At the same time, to improve the transparency of the regulator's activities, the Bank of Russia management representatives held a series of briefings with the regional media.

Media attention was also focused on important regulatory innovations in banking, such as the Bank of Russia's transition from neutral to stimulating banking regulation aimed at economic development; preparation for reform in construction financing and transition from equity construction to project financing; reform proposals for bank pledges; development prospects of RegTech and SupTech in the Russian financial market. The legislation amendments extending the deposit insurance system to small business funds of up to ₽1.4 million were another important area of public communication.

In consumer protection, particular attention was paid to countering unfair sales of financial products, or misselling. Both at the federal and regional levels, the regulator involved all mass media formats, its website and social media accounts to make the public aware of potentially incomplete or knowingly misleading information provided to consumers in the offices of credit institutions selling non-bank products under the guise of higher-yield deposits. In 2018, the Bank of Russia publicly presented a CMTPLI reform aimed at a gradual transition to an individual rate for each driver. To explain the essence of the proposed innovations and inform the vehicle owners of new approaches to the CMTPLI rate policy, the Bank of Russia organised and conducted large-scale information campaigns at the federal and regional levels. The reform

was also discussed at the parliamentary hearings held in the State Duma and the Federation Council, where the deputies, representatives of public organisations, professional and expert communities could express their views and obtain answers to relevant questions. This information campaign helped dispel myths about the upcoming reform and raise the awareness of vehicle owners. Another important focus of the Bank of Russia's communication policy on CMTPLI was the enactment of new legislative norms and rules for CMTPLI, such as a twofold increase of payouts under the European Accident Statement, introduction of new insurance form certificates, the cooling-off period increase, and a changed procedure for obtaining a CMTPLI insurance policy in electronic form. A significant reduction in the number of CMTPLI customer complaints (by more than 40%) was achieved, among other factors, due to the intensive outreach by the Bank of Russia.

In 2018, the Bank of Russia conducted a public information campaign on the launch of a remote identification mechanism that enabled people to remotely obtain financial services by confirming their identity with biometric data. This project required communication at all stages, ranging from the development and information support of a relevant draft law to its entry into force, with a subsequent explanation of its mechanism, benefits and key features, as well as the work of credit institutions in this area.

The law on combating cybercrime, which came into force in late September 2018, requires all banks to identify suspicious transactions and, if necessary, block them. The communication was primarily focused on the mechanism banks would use to comply with this law, communication between banks and customers if suspicious transactions are identified, and recommendations on what to do if a person's account is frozen.

In early 2018, the Bank of Russia conducted a public awareness campaign for the micro-finance market participants, media and the general public about its proposals to further limit the maximum personal debt on short-term loans, fix daily interest rates, and combat

illegal lenders. Throughout the year, it actively explained the key points of the upcoming legislative changes, which eventually incorporated the regulator's proposals. The awareness campaigns highlighted new tools for combating entities engaged in illegal activities in micro-loans and overdue debt collection. In addition, as part of a joint project by the Bank of Russia and Russia Today from January to May 2018, the Bank of Russia explained the key features of the microfinance market and the risks for MFO customers. At the same time, the Bank of Russia intensified its educational efforts in the Russian regions aimed at maximum public awareness about all aspects of interaction with consumer credit cooperatives.

The investigation of Cashbery, a financial pyramid scheme, was one of the highest-profile cases brought about by the Bank of Russia's efforts to suppress illegal entities in the financial market. The Bank of Russia provided the materials collected to the law enforcement agencies. Comments and interviews by the regulator in the press, popular TV and radio shows, including the regional media, and social networks raised the public awareness of the risks associated with investment in this entity. The statistics on identified illegal activities in the financial market and information on the key trends in this area are disclosed quarterly in media interviews and comments by the Bank of Russia both at the federal and regional levels.

In 2018, the Bank of Russia continued to raise public awareness of its proposals on cur-

rent issues in the financial market regulation, supervision and development. Over the year, it published seven consultation papers on its official website. The topics discussed with the professional and expert community included improving the regulation of the accounting infrastructure in the securities market, activities of MFOs and collateral security, stimulating banking regulation, conceptual approaches to listing regulation, and inclusion of bonds into quotation lists.

The format of the consultative reports implies the receipt of feedback from the general public, including the professional and expert community. The results of discussion of consultative reports, as well as the remarks and proposals received from market participants and stakeholders were published on the Bank of Russia website.

The Bank of Russia paid particular attention to creating a well-regarded platform for the discussion of research ideas, problems and tasks in the field of economics, finance, banking activity and financial technology. Such platform was provided by the Russian Journal of Money and Finance, the oldest bank publication founded in 1938 to replace the USSR State Bank Bulletin published since 1927. In 2018, the journal was re-launched in a new format. It became a peer-reviewed academic publication in Russian and English. Its articles are freely available on the Bank of Russia's website, thus allowing the journal to substantially expand its readership.

2.6.2. ECONOMIC RESEARCH

In 2018, the Bank of Russia's economic research mainly focused on the following key areas:

- analysing and forecasting inflationary processes;
- financial stability issues;
- interaction between monetary, fiscal and macroprudential policies;
- economic growth and productivity;
- developing the model apparatus to analyse and forecast macroeconomic indicators.

In 2018, the Bank of Russia continued to develop the model apparatus to analyse and forecast macroeconomic indicators. As part of its combined forecasting round, the Bank of Russia extensively employed a dynamic stochastic general equilibrium model (DSGE model) with the banking sector for medium-term forecasting. It continued to develop the dynamic stochastic general equilibrium model that considers interaction of fiscal and monetary policies, including in the context of introducing the fiscal rule and higher value-added tax. At the same time, the Bank of Russia was developing a number of other advanced statistical methods for analysing and short-term forecasting of macroeconomic indicators. These methods are primarily aimed at improving the quality of macroeconomic forecasts for the Russian economy, which is characterised by relatively short time frames of observed data and frequent changes in economic policy. The results were presented at the seminars held by the Bank of Russia with the participation of external experts as well as at an international scientific conference.

Analysing the characteristics of inflationary processes in the Russian economy continued to be a key area of research at the Bank of Russia in 2018. *The Review of Methodological Specifics of Consumer Price Index Seasonal Adjustment in the Bank of Russia*, published as a working paper on the Bank of Russia's website as well as in the *Voprosy Statistiki* journal, suggests approaches to addressing the conceptual issues related to seasonal adjustment of the consumer price index. Understanding

the evolution of consumer price dynamics with seasonal adjustments based on short-term statistical data leads to a significant improvement in the quality of determining and interpreting short-term fluctuations in the consumer price index considered by the Bank of Russia in its monetary policy decisions.

The working paper *The Role of Regional and Sectoral Factors in Russian Inflation Developments* published on the Bank of Russia website and (as an article in English) in the *Economic Change and Restructuring* peer-reviewed journal examined the data on the inflation level in the context of regions and goods and service categories. The paper demonstrates that the inflation dynamics in Russia are significantly affected by changes in relative prices for goods and services, rather than by regional factors.

Another working paper, *Forecasting Inflation in Russia by Dynamic Model Averaging*, published on the English version of the Bank of Russia's website, described the implementation of the modern statistical approach to forecasting inflation in Russia based on a wide range of short-term macroeconomic indicators.

The article *Drivers of Price Inertia: Survey Evidence* published in the *Voprosy Ekonomiki* journal presented an analysis of a company survey conducted for the Bank of Russia in 2018 to identify the key pricing drivers for consumers in the Russian economy. The work in this area will continue.

Another important area of research in 2018 was *financial stability*. The article *Consumer Finance in Russia: Income Shocks and Consumption Smoothing*, published in *Voprosy Ekonomiki*, examines the evolution of the financial decision-making model used by households amid the structural changes in the Russian economy.

The working paper *Analysis of the Debt Burden in Russian Economy Sectors* published on the Bank of Russia's website provides an analysis of the uneven debt burden of companies in different economic sectors in Russia. In addition to profitability, company size, asset turnover and capital-labour ratio, the

debt burden of companies in various sectors is largely determined by industry-specific factors. Understanding the debt burden structure in the economic sectors is important for financial stability and implementation of micro- and macroprudential policies.

The article *Analysis of Debt Burden and Credit of Corporate Sector: Estimates for Russia and Cross-Country Cases*, published in *Voprosy Ekonomiki*, used a broad sample of countries over a long time (about 35 countries in 1991–2017) to examine the dynamics of the private non-financial sector debt to GDP ratio and debt service ratio. A key finding of this study was that in countries with inflation-targeting regimes debt burden fluctuations are smoothed faster than in countries with a different monetary policy.

The credit gap, i.e. the difference between the ratio of total credit in the economy to GDP and the average of this ratio over the past periods, is an important criterion of financial stability. The working paper *When Estimates of Credit Gaps Are Reliable?* published on the Bank of Russia's website shows that the available data for 12 to 15 years are sufficient for a reliable estimate of the credit gap.

In 2018, the Bank of Russia conducted a study on *High-frequency Trading: Its Volume and Effect on Financial Market*, which for the first time estimated the presence of high-frequency traders in the Russian financial market and their impact on the change in market indicators. The study examined specific aspects of liquidity withdrawal and provision by high-frequency traders at organised biddings and concluded that they make a significant impact on the available market liquidity. These findings were published on the Bank of Russia's website.

Another research topic at the Bank of Russia in 2018 was closely related to financial stability and included *the interaction between monetary, fiscal and macroprudential policies*. The working paper *Should Central Banks Prick Asset Price Bubbles? An Analysis Based on a Financial Accelerator Model with an Agent-Based Financial Market*, posted on the English version of the Bank of Russia's website,

demonstrated that, with a fundamentally unjustified rise in asset prices, increasing the key interest rate can reduce GDP and inflation fluctuations, especially if the bubbles were caused by growth of lending in the economy.

The working paper on *Fiscal Multipliers in Russia*, published first on the Bank of Russia website and then as an article in the *Journal of the New Economic Association*, examined the impact of fiscal policy on GDP growth in Russia. The study assessed the fiscal multipliers of total revenues and expenditures in the budget system of Russia. It came to the conclusion that the negative effect on GDP growth caused by fiscal consolidation primarily in the area of budget expenditures is moderate. The direct effect of budget cuts can be offset by a substantial indirect positive effect on GDP produced by an increased confidence in the long-term budget stability.

In an open economy, an important stabilisation policy element is management of gold and foreign exchange reserves. Assessing the implications of foreign exchange reserve accumulation policy for the national economy requires the ability to forecast changes in the money supply. The working paper *Forecasting the Implications of Foreign Exchange Reserve Accumulation with an Agent-Based Model*, posted on the Bank of Russia's website, modelled the mechanism for forecasting the money supply and loans from the beginning to the end of the foreign exchange reserve accumulation by the Bank of Russia.

The Bank of Russia experts also studied theoretical aspects of monetary circulation. The paper *Money Multiplier in the Context of Modern Views on Money Creation: Theory and Facts*, published in *Voprosy Ekonomiki*, examined the possibility of multiplying money in modern financial systems, i.e. the growth of money supply in the economy through lending operations of the banks. The multiplication phenomenon was typical of the formation stage of monetary systems, when bank lending was limited by the size of the bank reserves; currently, bank lending is limited mainly by the demand for credit. The conclusions were based on studying the balance sheet structure of

Russian banks and analysing the bank lending drivers in Russia in 2005–2017.

The Bank of Russia continued to actively participate in the *International Banking Research Network (IBRN)* which it joined in 2017. This is an international research consortium that brings together the central banks of both advanced and emerging economies and is co-ordinated by the Federal Reserve Bank of New York. In 2018, some of its research findings were published on the Bank of Russia's website as *Transmission of Foreign Monetary Shocks to a Small Open Economy under Structural Instability: The Case of Russia*. The paper used micro-data on certain banks to estimate the impact made by the normalisation of the US monetary policy on lending to the economy by Russian banks. As part of the *IBRN* project, the Bank of Russia experts also continued their research on another topic related to interaction between the macroprudential and monetary policy given the current challenges for the world economy.

In 2018, an important research topic at the Bank of Russia was the issue of stimulating *economic growth and productivity* in the Russian economy. The article *Analysis of Russian Firms' TFP Growth in 2009–2015*, published by Bank of Russia experts in *Voprosy Ekonomiki*, uses the data on individual businesses in the industrial and service sectors to analyse the dynamics in aggregate productivity of production factors and identify the risks of accumulating a productivity gap between the most efficient and lagging enterprises in the Russian economy.

The topic of productivity and structural changes is also related to the issues of savings, investment and capital accumulation. The article *What Do Aggregate Saving Rates (Not) Show?*, published in *Economics: The Open-Access, Open-Assessment E-Journal*, demonstrated that the change in the aggregate savings rate in the national accounts system does not necessarily reflect a change in the individual propensity to save, since the aggregate savings rate actually measures changes in net assets.

In addition to publications in academic journals and working papers on the website, an important tool for interaction between the

Bank of Russia and the Russian and international expert community is the participation in international scientific and practical conferences and seminars. For example, at the 19th April International Academic Conference On Economic and Social Development held in Moscow by the National Research University Higher School of Economics on 10–13 April 2018, the Bank of Russia organised a special session on the *Development of Forecasting for Central Banks*. A roundtable was also held in conjunction with the Bank of Russia on the *Relationship between the Monetary and Budgetary Policy Following the Transition to the New Fiscal Rule*. The Bank of Russia experts also delivered presentations at other sessions of the NRU HSE conference.

In 2018, the Bank of Russia experts presented their economic research findings at international academic conferences (with preliminary competitive selection of the speakers), which included the following:

- *Forecasting the Implications of Foreign Exchange Reserve Accumulation with an Agent-Based Mode* at the 24th International Conference on Computing in Economics and Finance held by the Society for Computational Economics at the Catholic University of the Sacred Heart in Milan (Italy);
- *When Are Credit Gap Estimates Reliable?* at the Annual Conference of the Society for Economic Measurement at Xiamen University in Xiamen (PRC);
- *Income Shocks and Consumption Smoothing: Crisis Behaviour of Russian Household* at the 3rd Annual Congress of the European Economic Association in Cologne (Germany);
- *How to Better Measure the Production Gap or Labour Surplus in the Labour Market in Terms of Inflation Forecasting?* at the 5th International Conference Modern Econometric Tools and Applications held at the Nizhny Novgorod campus of NRU HSE.

In June 2018, on the sidelines of the 27th International Financial Congress (IFC 2018) in Saint Petersburg, the Bank of Russia held an international conference on economic research *Inflation: New Insights for Central Banks*. To-

gether with the conference's academic committee, which included members of the research advisory board under the Bank of Russia, the organisers reviewed more than 40 applications to select five presentations for the main conference and nine presentations for a special poster session. Researchers from Russian and foreign universities, central banks and applied research institutes presented and discussed new findings on inflation in various countries. The presentations covered three topics, including inflation expectations, structural factors, and monetary policy.

As part of IFC 2018, the Bank of Russia also held the second Summer Macroeconomic School for Master's and Postgraduate Students, Young Researchers, and Teachers of Economics. The programme of the event consisted of a two-day course and covered issues related to the modern macroeconomic concept and monetary theory as applicable to Russia, banking regulation, financial stability, and macroprudential regulation.

A highlight of IFC 2018 was the presentation by the Bank of Russia experts *The 2008–2017 Decade in the Russian Banking Sector: Trends and Factors*. The report is focused on changes that occurred in the Russian banking sector from 2008 to 2017, their influence on the stability of banks and the interbank competition.

In 2018, the Bank of Russia continued to hold regular seminars to present the research findings of its staff members and invited experts on the topics important to the Bank of Russia's policy. The list of invited experts includes representatives of a many higher educational institutions, research organisations and federal executive authorities. In total, 12 seminars attended by 20 speakers were held in 2018.

In 2018, the newly upgraded *Money and Credit* journal published several articles based on original research conducted by Bank of Russia experts. The articles were selected for publication on a competitive basis following an independent and anonymous peer review.

2.6.3. STATISTICAL ACTIVITIES

In accordance with the Bank of Russia Strategy of Statistical Activity for 2016–2020, the work in the reporting year was aimed at the systemic development of macroeconomic financial statistics for compilation and publication of new sets of statistical data in accordance with advanced international standards and initiatives, improvement of the quality of statistical publications, and development of promising areas for data processing.

To implement the recommendations of the second phase of the G20 Data Gaps Initiative, the Bank of Russia expanded its published information by a detailed presentation of the international investment position of the Russian Federation and provided additional indicators of accumulated foreign assets and liabilities in the non-financial sector. In addition, the list of published statistical information was expanded to include the data on the currency structure of external debt and liabilities of the economy. The Coordinated Portfolio Investment Survey data for the counterparty sectors were prepared and submitted for publication to the IMF three years before the deadline.

In 2018, the Bank of Russia began to regularly publish quarterly sectoral financial accounts and balance sheets for the financial assets and liabilities of the System of National Accounts of the Russian Federation. It also expanded information on the non-financial sector and household debt. In addition to the monthly indicator of internal liabilities in these sectors arising from provided bank loans and issued debt securities, in 2018, the Bank of Russia started publishing a quarterly extended indicator of the debt of non-financial corporations and households. The new indicator expands the capabilities to monitor the financial standing of economic entities and allows assessing both internal and external debt of non-financial organisations and households broken down by financial instruments and currency.

Within the working groups set up by international organisations to improve the methodological approaches to statistical accounting of

cross-border transactions, the Bank of Russia took an active part in preparing the Handbook on Measuring Digital Trade and the recommendations for assessing the informal economy.

The Bank of Russia also pursued its statistical activities in the area of collaboration with the Russian ministries and government agencies to implement the state programmes to increase exports of services in accordance with the provisions of Decree of the President of the Russian Federation No. 204, dated 7 May 2018, 'On National Goals and Strategic Objectives of the Russian Federation through to 2024'. To meet the needs of its users and to monitor the implementation of objectives set by the International Cooperation and Exports national project, the Bank of Russia developed a new monthly publication of operational data on exports and imports for the most important categories of services. For the first time, it published information on the foreign trade volume by individual consolidated groups of services by the constituent entities of the Russian Federation, which expanded the opportunities for analysing the non-commodity export development and contribution of regions to the international service trade of the Russian Federation.

In 2018, new regional publications supplemented the foreign investments statistics with the data on accumulated loans raised and granted by other sectors as well as dynamic series of direct investment indicators in the economy of the subjects of the Russian Federation as a percentage of the gross regional product, i.e. the indicators included in the list of targets for the national goals of sustainable development of Russia.

In 2018, to provide statistical information to its users more quickly, the Bank of Russia continued the transition to shorter deadlines for publishing statistical information on the Bank of Russia's website. In 2018 H2, the Bank of Russia began to provide data on foreign portfolio investments of residents in SDDS¹ Plus, an advanced IMF standard, to users much earlier.

¹ SDDS is special data dissemination standard.

As part of implementing the Plan for Co-operation of the Russian Federation with the Organisation for Economic Cooperation and Development (OECD) for 2017–2018, the Bank of Russia introduced new communication guidelines based on international principles for classification and use of the Statistical Data and Metadata Exchange (SDMX) formats.

The Bank of Russia continued its collaboration with the Eurasian Economic Commission (EEC) to digitise the exchange of statistical information and provide classification of statistical indicators in order to harmonise their generation methodologies. The Bank of Russia took part in the EEC project to introduce new

classification principles for statistical indicators and develop a new SDMX-based methodology for communication between the Eurasian Economic Union member states.

In 2018, as part of unifying and streamlining collection and processing of additional information from financial market participants and developing common approaches to data management, the Bank of Russia began to publish the Bank of Russia Survey Schedule on its website. The schedule discloses the list of upcoming surveys for which the Bank of Russia will request information from financial markets participants in order to monitor and/or study the financial markets and specific aspects in the companies' activities.

2.6.4. INTERNATIONAL COOPERATION

The Bank of Russia approved the Priority Areas of the Bank of Russia's International Activities for 2019–2021. This is the first document by the Bank of Russia defining a unified approach to international activities and a transparent list of the main objectives and measures for their implementation.

A key area in 2018 was **establishing a common financial market of EAEU member states**. In particular, the central banks and governments of these states signed the Agreement on Harmonisation of Financial Market Legislation of EAEU Member States. This defines the direction and the procedure for the convergence of regulatory and supervisory requirements in the banking and insurance sectors as well as in the securities market.

In addition, the Bank of Russia continued its active cooperation with the financial market regulators of EAEU member states to complete a draft concept of EAEU common financial market and elaborate the following draft agreements aimed at establishing a common financial market:

- Roadmap for the Common Exchange Space of the Eurasian Economic Union;
- Agreement on the Permission for Brokers and Dealers of One EAEU Member State to Participate in Organised Trading at Exchanges of Other Member States;
- Agreement on Mutual Permission to Place and Trade in Securities at Organised Trading in EAEU Member States;
- Agreement on Cooperation between EAEU Member States Regarding the Exchange of Credit History Data;

- Agreement on the Rules of Issue, Circulation and Redemption of Warehouse Certificates for Agricultural Products within the EAEU;
- Agreement on Harmonised Approaches to the Regulation Regarding Foreign Exchange and the Adoption of Liberalisation Measures.

Much attention was paid in the reporting period to the development of a bilateral information exchange mechanism and information security in the EAEU. On 7 June 2018, the Bank of Russia and the National Bank of the Republic of Kazakhstan signed an Agreement on Cooperation and the Exchange of Information (Including Confidential Data) on Financial Market Supervision. In June, the Republic of Armenia joined the 2014 Agreement on the Exchange of Information in Financial Area.¹ The Bank of Russia also signed agreements on countering cyber attacks with the central (national) banks of the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan and the Kyrgyz Republic.

The Bank of Russia took part in a project of the Eurasian Economic Commission to introduce new classification principles for statistical indicators and develop a new SDMX-based methodology for communication between the Eurasian Economic Union member states.

The Expert Council for Financial Integration of EAEU Member States has been operating under the Bank of Russia since 2018.² Its purpose is to prepare proposals to create conditions for the development of the EAEU common financial market based on the positions of the government authorities, academic and business community.



The Agreement on Harmonisation of Legislation was signed to establish a common financial market of EAEU Member States

¹ The Protocol of Accession by the Republic of Armenia to the Agreement on the Exchange of Information, Including Confidential Information, in the Financial Area to Create Conditions for Free Capital Flows in the Financial Markets, dated 23 December 2014, was signed on 18 June 2018.

² Two meetings were held in 2018.

In May and November 2018, the Bank of Russia held two extended seminars on Using DSGE Models for Macroprudential and Monetary Policy Analysis and Experience and Challenges of Inflation Targeting in Emerging Markets for the representatives of central (national) banks of EAEU member states. The seminars were also attended by leading foreign experts.

Cooperation also continued within the CIS (the Council of the Heads of Authorised Bodies on Securities Markets Regulation of the CIS Member States and the Interstate Coordination Council of the Heads of Insurance Supervision Authorities of the CIS Member States). As the presiding regulator, the Bank of Russia took an active part in the work of the Interstate Coordination Council of the Heads of Insurance Supervision Authorities of the CIS Member States (hereinafter, the Council). The Council prepared a draft memorandum on electronic CMTPLI and continued to develop the methods for lawful exchange of information on cross-border insurance fraud.

In the reporting period, the Bank of Russia participated in preparing proposals with regard to Russia's Presidency in the **Shanghai Cooperation Organisation** in 2019–2020.

Regarding the Union State of Russia and Belarus, work of the Interbank Currency Council of the Central Bank of the Russian Federation and the National Bank of the Republic of Belarus continued, with meetings held to discuss the current issues of monetary and financial relations.

In 2018, the Bank of Russia continued its active cooperation with the **International Monetary Fund**. In particular, during consultations held in accordance with Article IV of the IMF Articles of Agreement, international experts expressed their support for the Bank of Russia's policy to rehabilitate the banking sector. The IMF experts positively assessed the inflation targeting and flexible national currency exchange rate policies implemented by the Bank of Russia, which helped mitigate the impact of negative external factors on the Russian economy.

In April 2018, the Bank of Russia held consultations with the IMF on the development

and implementation of a macroprudential stress test. In September 2018, the Bank of Russia together with the IMF held an international seminar on macroprudential stress testing, which was attended by representatives of the Bank of Russia, foreign central banks, regulators, and the academic community.

Within the IMF Committee on Balance of Payments Statistics, the Bank of Russia participated in defining common approaches to reflecting new economic phenomena, reducing data asymmetries and developing guidelines for countries on collecting and disseminating statistical information. There were further developments in the area of bilateral comparisons of direct investment statistics: in 2018 the Bank of Russia presented to a number of major European partners a statistical estimate of investments accumulated by Russian residents in real estate in each of these countries.

In September 2018, the Bank of Russia Governor Elvira Nabiullina delivered the Michel Camdessus Central Banking Lecture on Russia's Rocky Road to the (Inflation) Target at the IMF conference in Washington.

In the area of cooperation with the **World Bank**, the Bank of Russia continued to develop common methodological approaches to the recording of new forms of cross-border money remittances made by individuals (contactless transfers, transfers in cryptocurrencies, etc.).

In the reporting period, the Bank of Russia coordinated the agenda for the meetings of the **Central Banks Governors' Club of Central Asia, Black Sea Region and Balkan Countries**. The Russian mega-regulator presented reports on the current state of the world economy and financial sector, sustainability of global economic growth recovery as well as challenges and opportunities of faster payment systems.

Active work was conducted within the **BRICS**. July 2018 was marked by successful completion of the first testing of the BRICS Contingent Reserve Arrangement, the methodology of which was developed with the Bank of Russia's participation. The interim governing body of the BRICS Local Currency Bond Fund held its first meeting at the level of deputy central bank governors. Russia began to pre-

pare the plan of events and possible themes for its presidency at the BRICS Forum in 2020.

In 2018, the Bank of Russia experts joined the Research Group of the BRICS System of Exchange in Macroeconomic Information and took part in its five teleconferences. They also prepared information for analytical reports of the Research Group. The Bank of Russia also participated in the review of digital asset regulation practices in the BRICS.

As part of its cooperation with the **G20**, the Bank of Russia took part in the development of international approaches to limit the risks associated with cross-border capital flows, the parallel banking system and financial technologies. In 2018, the Bank continued to work on updating the national economic growth strategies, reforming financial regulation and the international finance architecture. Considerable attention was paid to assessing the effectiveness of the international financial regulatory reforms.

The Bank of Russia was actively involved in sharing the experience on the most pressing international financial agenda issues at the meetings of central bank governors at the **Bank for International Settlements (BIS)**.¹ The Bank of Russia continued to develop its cooperation with the relevant BIS committees, including the Committee on Payments and Market Infrastructures (CPMI), the Irving Fisher Committee on Central Bank Statistics, and the Basel Committee on Banking Supervision (BCBS). In particular, this included the completion of the new **BCBS** standards, such as the market risk calculation standard based on a new simplified standardised approach, and an updated standard for information disclosure under Pillar 3 of Basel II. Representatives of the Bank of Russia also participated in the regional Group of Banking Supervisors from Central and Eastern Europe.

In 2018, the participation of the Bank of Russia experts in the work of **CPMI** included the publication of reports on cross-border

payments, digital currencies of central banks, mitigation of fraud risks in wholesale payments to ensure the safety of end users, and stress testing of counterparties.

In the reporting year, the Bank of Russia continued its cooperation with the International Association of Insurance Supervisors.² In January 2018, the Bank of Russia joined the IAIS Multilateral Memorandum of Understanding on cooperation and information exchange (IAIS MMoU), and in July 2018 it hosted meetings of IAIS committees and the Global Seminar for Market Participants in Moscow.

Representatives of the Bank of Russia participated in IAIS activities to improve the Insurance Core Principles, Standards, Guidance and Assessment Methodology (Insurance Core Principles, ICPs), revise the ICP assessment guidelines, conduct peer reviews of the ICP implementation by IAIS member jurisdictions, prepare a review of key risks and trends in the insurance sector, a report on the global insurance market and a number of other reports and practical recommendations, including on the supervision of insurers' compliance with cybersecurity, on the members and role of the board of directors, proactive supervision of corporate governance, wider use of digital technology in insurance and its impact on consumers, protection of personal data and other information. In addition, the Bank of Russia began assessing compliance of legislation and practices of supervision over insurance entities with the ICPs.

In 2018, representatives of the Bank of Russia continued to actively participate in the work of ten IAIS bodies, including the Implementation (and Assessment) Committee (IC/IAC), the Policy Development Committee (PDC), and the Macroprudential Committee (MPC). Also, in 2018, the Bank of Russia joined six working and expert IAIS groups.

In April 2018, the Bank of Russia, together with the Financial Stability Institute³ and the IAIS, held a seminar for regulators from Central

¹ This included globalisation and deglobalisation, the impact of FinTech and global investors on emerging markets, evolution of the Global Legal Entity Identifier System, completion of Basel III, macroprudential measures and research activity of central banks.

² IAIS.

³ The Financial Stability Institute (FSI) was established jointly by BIS and BCBS.

and Eastern Europe and Transcaucasia on risk-based insurance supervision, macroprudential regulation, and the protection of policyholders.

In collaboration with the **Financial Stability Board (FSB)**, the Bank of Russia participated in preparation of the eighth annual review on the trends and risks of a parallel banking system, 13th regular progress report on implementation of the OTC derivatives market reforms, sixth progress report on implementation of FSB Principles for Sound Compensation Practices, and a concept of the crypto-asset market monitoring.

The Bank of Russia also participated in a regular FSB assessment of implementing the Key Attributes of Effective Resolution Regimes for banks and insurance companies; FSB surveys on the structure and forms of attracting financing by small- and medium-sized businesses, approaches to managing operational risks and cyber risks, collecting and aggregating data on security lending and borrowing, implementing FSB recommendations for regulating these transactions, thematic assessment of planning the regulation of insolvency for credit institutions; studying the legal hurdles to providing information on financial transactions to trade repositories as well as expanding the international list of information security terms.

In 2018, the Bank of Russia continued its efforts to develop the Global Legal Entity Identifier System. A representative of the Bank of Russia participated in the work of an FSB expert group to assess global practices in implementing the Legal Entity Identifier.¹ The final report containing recommendations for the national authorities and international organisations will be presented in 2019 Q2.

The main areas of cooperation between the Bank of Russia and the **Organisation for Economic Cooperation and Development (OECD)** included the liberalisation of capital flows, foreign investment statistics, insurance and pensions, corporate governance, responsible business practices, and increasing financial literacy.

The Bank of Russia proposed to add new areas that are of interest to the Russian mega-regulator to the Cooperation Plan of the Russian Federation with the OECD for 2019–2020, which is currently under development. In 2018, the Bank of Russia took part in reviewing the feasibility of Russia's accession to the OECD Declaration on International Investment and Multinational Enterprises. To implement the OECD standards, the Bank of Russia has prepared proposals to amend the corporate governance and insurance legislation. From 2018, the exchange of statistical data between the Bank of Russia and the OECD is based on the international classification principles and the SDMX data transmission formats.

In the reporting period, the Bank of Russia was involved in a number of committees of the **International Organisation of Securities Commissions (IOSCO)**.² The key themes included: good practices in audit committees aimed at ensuring audit quality; mechanisms used by trading platforms to manage extreme volatility and support organised trading; retail OTC leveraged products; outsourcing; liquidity risk management recommendations for collective investment institutions; good practices for commodity storage and delivery infrastructures; behavioural approach to financial literacy, education programmes, and initiatives for investors.

In addition, the Bank of Russia joined the advisory networks on initial coin offering (ICO) and financial technologies (FinTech), continued to work on a more comprehensive implementation of the IOSCO Objectives and Principles of Securities Regulation.³ In addition, under an agreement reached in 2018, the Bank of Russia will hold a meeting of the European Regional Committee in Saint Petersburg in September 2019 as well as meetings and conferences of the IOSCO Growth and Emerging Markets Committee. Also, in 2018, the Bank of Russia, along with regulators from more than 90 countries, once again held the World Investor Week, an

¹ LEI.

² The European Regional Committee (ERC), Growth and Emerging Markets Committee (GEMC), Presidents Committee, Assessment Committee, IOSCO MMoU Monitoring Group, seven of the eight IOSCO Policy Committees.

³ IOSCO OPSR.

information campaign initiated by IOSCO and aimed at educating investors and protecting their rights.

The Bank of Russia is actively involved in the standing committees of the International Financial Consumer Protection Organisation (**FinCoNet**). A study launched at the end of 2018 is aimed at identifying the best supervisory practices in the area of financial advertising, in particular, advertising through digital channels. The materials generated from FinCoNet activities were actively used by the Bank of Russia to develop regulation in the area of financial consumer protection.

On 3–7 September 2018, the Bank of Russia together with the Alliance for Financial Inclusion (AFI) held the 10th annual AFI Global Policy Forum in Sochi attended by more than 550 representatives of the financial market regulators and the private sector. The Forum adopted a Concept on further progress of the Alliance toward the status of an international institution that develops standards in the area of finance and the Sochi Accord on FinTech for Financial Inclusion (Sochi Consensus); the Eastern Europe & Central Asia Policy Initiative was launched; and a meeting attended by the leaders of this initiative was held, so were the meetings of the working groups and subgroups which included representatives of the Bank of Russia.

In 2018, the Bank of Russia devoted a great deal of attention to developing bilateral cooperation with its foreign partners to support international trade and economic cooperation and stimulate collaboration at the level of financial institutions. The meetings of the Bank of Russia's finance and banking working groups with the financial regulators from China, India, Turkey, and Vietnam led to agreements in the area of interbank cooperation, payment system integration, and financial market collaboration. The Bank of Russia continues to work on draft memorandums of understanding with other foreign financial regulators.

The Bank of Russia University held several major international events attended by the representatives of the Bank of Italy, Deutsche Bundesbank, the Central Bank of the Republic

of Azerbaijan, the European Central Bank, the People's Bank of China, the International Monetary Fund, the Agency for Financial Technology Exchange, the Joint Vienna Institute, the Central Bank of the Republic of Uzbekistan, the Central Bank of the Republic of Turkey, and the Bank of Finland.

The Bank of Russia continues its collaboration with the central (national) banks under the Agreement on Cooperation in Personnel Training for the Central (National) Banks signed on 12 March 2004 in Minsk. In 2018, 27 international seminars were held under the Programme of Professional Training for Personnel of the Central (National) Banks, including 14 seminars hosted by the Bank of Russia (in 2017, 30 and 13 respectively), 15 internships were organised (in 2017, 16) for representatives of the banks from the EAEU member states in various business units of the Bank of Russia, and three video conferences were held (in 2017, one). Overall, 458 representatives of central (national) banks attended training under this programme in 2018 (330 in 2017).

Collaboration with the central banks of other countries and international financial institutions in the area of personnel training allowed about 700 Bank of Russia specialists to improve their professional competencies by attending 163 training events, such as study visits to European central banks and participation in international seminars held at the Bank of Russia with the leading experts of foreign financial institutions (in 2017, 659 and 212 respectively). In addition to face-to-face training events, the Bank of Russia shared experiences with foreign colleagues through distance learning, video conferences, and online information resources. The Bank of Russia hosted a number of major international events, including high-level ones, attended by representatives of European central banks and institutions, regulators from Asia, South America, and the CIS. In addition, the Bank of Russia organised seminars and internships for the delegations of the Financial Market Supervisory Authority of Azerbaijan and the Central Bank of the Republic of Turkey. The Bank of Russia continued

to provide educational support to the national banks of the Republic of South Ossetia and the Republic of Abkhazia.

In 2018, the Bank of Russia became a member of the European Foundation for Manage-

ment Development (EFMD) and Executive Corporate Learning Forum (ECLF), two international associations that unite major business schools and corporate universities of the world's leading institutions.

2.6.5. BANK OF RUSSIA STAKEHOLDINGS IN RUSSIAN ECONOMIC ENTITIES

In accordance with Article 8 of Federal Law No. 86-FZ, the Bank of Russia holds a stake in the authorised capital of Sberbank and the authorised capital of organisations supporting activities of the Bank of Russia, such as PJSC Moscow Exchange and JSC SPCEX. Participation in these organisations is aimed at implementing the strategic objectives of the state economic policy and further development of the financial market infrastructure for successful open market operations by the Bank of Russia.

In 2018, the Bank of Russia's stake in the authorised capital of Sberbank remained at 50% plus one voting share. The amount of dividends due to the Bank of Russia from Sberbank for 2017 was ₽135.5 billion and was fully credited to federal budget revenues in accordance with the requirements of Federal Law No. 370-FZ, dated 5 December 2017, 'On the Specifics of Transfer in 2018 of Income Gained by the Central Bank of the Russian Federation from Stakeholdings in Public Joint-stock Company Sberbank of Russia Following the Results of 2017' (in 2016, ₽67.8 billion). The amount of dividends increased as a result of higher net profits of Sberbank under IFRS and the approval of a new Sberbank dividend policy in December 2017 providing for a gradual increase of the percentage of dividends paid out of the net profit of Sberbank Group under IFRS to 50% over three years.

In the reporting year, the 2017 annual general shareholders' meeting approved a new version of Sberbank's Charter. In particular, the new version excluded information on branches and representative offices, clarified the procedure for the approval of interested party transactions, further specified the rights and obligations of shareholders and the remit of Sberbank's management bodies with regard to the internal control framework. Moreover, the

Sberbank Supervisory Board approved a new version of Sberbank Group Risk and Capital Management Strategy, which defined basic principles for the risk and capital management framework and key areas for the development of the corporate governance framework in 2019.

In 2018, the Bank of Russia's stake in the authorised capital of PJSC Moscow Exchange remained at 11.78%. The dividends for 2017 paid by PJSC Moscow Exchange to the Bank of Russia in the reporting year totalled ₽1.8 billion (₽1.8 billion in 2016), of which ₽0.6 billion was paid to the Bank of Russia in 2017 in the form of interim payments for 2017 H1.

In the reporting year, PJSC Moscow Exchange and the Bank of Russia presented a prototype marketplace of financial products designed to improve the financial inclusion and user-friendliness of financial services. PJSC Moscow Exchange also implemented the Single Collateral Pool, a project aimed at establishing a single clearing system across all markets.

In 2018, PJSC Moscow Exchange established MB Information Protection LLC, its 100% subsidiary, for ensuring information security.

In 2018, the Bank of Russia's stake in the capital of CJSC SPCEX remained at 8.9%. The JSC SPCEX annual general shareholders' meeting decided not to pay dividends for 2017.

The Bank of Russia is the sole shareholder of Joint-stock Company National Payment Card System (JSC NPCCS).¹ The authorised capital of JSC NPCCS did not change in the reporting year and totalled ₽4.3 billion. The dividends the Bank of Russia received from JSC NPCCS in 2018 based on the results for 2017 amounted to ₽0.8 billion (₽0.65 billion in 2017).

The Bank of Russia is the sole shareholder of Joint-stock Company Russian National Re-insurance Company (JSC RNRC)² established

¹ Established in 2014 to comply with the requirements of Parts 1 and 2 of Article 30.2 of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'.

² Established in 2016 in accordance with Part 1 of Article 13.1 of Law of the Russian Federation No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation'.

to provide the Russian reinsurance market with additional capacity to create a mechanism for protecting property interests of policyholders sanctioned by foreign governments or international organisations and ensure the financial stability of insurers.

The authorised capital of JSC RNRC in the reporting year remained at ₽21.3 billion. In the reporting year, JSC RNRC for the first time paid dividends to the Bank of Russia for 2017 in the amount of ₽23.4 million.

In the reporting year, the sole shareholder of JSC RNRC approved new versions of the Regulations on the Reinsurance Council and the Regulations on the Audit Committee by its annual decision. The Supervisory Board of JSC RNRC approved the Strategy of JSC RNRC in the markets outside the Russian Federation aimed at diversifying the risk portfolio, gaining access to new insurance products and creating a reinsurance environment within the Customs Union of the Eurasian Economic Union. It also approved the new version of the Reinsurance Policy of JSC RNRC and the Regulation on Insurance Risk Assessment and Insurance Risk Management of JSC RNRC.

In April 2018, the credit rating agency ACRA JSC confirmed the AAA (RU) rating of JSC RNRC with a stable outlook. In May 2018, the international rating agency Fitch Ratings confirmed the financial stability rating of the insurer at BBB– with a positive outlook.

The Bank of Russia is the sole stakeholder of Limited Liability Company Fund of Banking

Sector Consolidation Asset Management Company established in 2017 in accordance with Article 76.10 of Federal Law No. 86-FZ.

In 2018, the Bank of Russia's participation in the authorised capital of FBSC AMC Ltd. remained at ₽1.5 billion.

In the reporting year, Federal Law No. 87-FZ, dated 23 April 2018, 'On Amending Certain Laws of the Russian Federation' introduced a possibility to take measures to prevent bankruptcy of insurance companies by using the funds of the Bank of Russia and FBSC AMC Ltd. (similar to the bank bankruptcy prevention mechanism with the participation of the Bank of Russia).

The key activities of FBSC AMC Ltd. include:

- participating¹ on behalf of the Bank of Russia in the measures to prevent bankruptcy of credit institutions and insurance companies using funds from the FBSC or the Insurance Sector Consolidation Fund, such as exercising the functions of the provisional administration for the banks and insurance companies;
- trust management of shares/stakes of credit institutions or insurance companies transferred under its management by the Bank of Russia and of unit investment funds established by the Bank of Russia to prevent bankruptcy of credit institutions or insurance companies;
- keeping records and providing custody of property constituting unit investment funds, except for rights to securities.

¹ In accordance with Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)'.

2.6.6. BANK OF RUSSIA STAKEHOLDINGS IN CREDIT INSTITUTIONS UNDERGOING FINANCIAL REHABILITATION

In 2018, the Bank of Russia acquired shares of the following credit institutions in accordance with the approved plans for the Bank of Russia's participation in preventing bankruptcy of these credit institutions: PJSC B&N BANK, ROST BANK JSC, JSC AVB Bank, NB Trust (PJSC), and Asian-Pacific Bank PJSC. Following recapitalisation, the Bank of Russia became the holder of over 99.9% of ordinary shares in these credit institutions. Also, in 2018, the Bank of Russia acquired an additional issue of ordinary shares in PJSC Bank FC Otkritie, which was recapitalised in December 2017. Information about the Bank of Russia's stakeholdings in the capital of credit institutions undergoing financial rehabilitation is provided in the Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property (see Chapter 4).

In 2018, the shares of ROST BANK JSC held by the Bank of Russia were converted into the shares of NB Trust (PJSC) following the merger of ROST BANK JSC with NB Trust (PJSC) which was established as a bank to deal with non-core and distressed assets of credit institutions approved for Bank of Russia participation in

preventing their bankruptcy. JSC AVB Bank was merged with NB Trust (PJSC) on 7 March 2019.

On 1 January 2019, to establish a universal financial group on the basis of PJSC Bank FC Otkritie, the shares of PJSC B&N BANK acquired by the Bank of Russia were converted into shares of PJSC Bank FC Otkritie following the reorganisation through a merger of PJSC B&N BANK with PJSC Bank FC Otkritie.

In 2018, following the establishment of permanent management bodies in PJSC B&N BANK, ROST BANK JSC, JSC AVB Bank, NB Trust (PJSC), Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company ceased its provisional administration of these banks. The shares of these credit institutions were transferred by the Bank of Russia for trust management to Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company along with the shares of PJSC Bank FC Otkritie acquired in 2017.

The sale of the shares in Asian-Pacific Bank PJSC held by the Bank of Russia is scheduled for 2020 following disclosure of information on its performance in 2019 to a wide circle of interested parties, including potential investors.

2.6.7. BANK OF RUSSIA STAKEHOLDINGS IN INTERNATIONAL ORGANISATIONS

Pursuant to Article 9 of Federal Law No. 86-FZ, in 2018, the Bank of Russia held stakes in the capital of international organisations, such as the Basel-based Bank for International Settlements (0.57% of the authorised capital) and the Belgium-based Society for Worldwide Interbank Financial Telecommunications (SWIFT) (0.006% of the authorised capital). The Bank of Russia also shows the stakes held by the Russian Federation in the Moscow-based Interstate Bank in its balance sheet. The Russian Federation holds 50% of the Interstate Bank's authorised capital and a corresponding percentage of the votes in the bank's Board, which is its highest management body.

In accordance with Article 4 of Federal Law No. 86-FZ, the Bank of Russia is the depository of IMF funds in the currency of the Russian Federation and performs the operations and transactions provided for by the articles of the IMF Articles of Agreement and contracts with the IMF. Starting 2011, the Russian Federation's quota with the IMF has been included in the Bank of Russia's balance sheet, which amounted to SDR12,903.7 million as of 31 December 2018. The stake of the Russian Federation in the aggregate quotas (capital) of the IMF did not change during 2018 and as of 31 December 2018 amounted to 2.71%, representing 2.59% of the total number of its member countries' votes.

2.6.8. IMPROVING LEGISLATION

In 2018, about 70 federal laws developed with the active participation of the Bank of Russia were adopted to improve the legislative regulation of the financial market.

Adoption of a package of federal laws produced a significant effect on the overall functioning of the financial market in Russia.

First of all, it is necessary to mention Federal Law No. 123-FZ, dated 4 June 2018, 'On Financial Consumer Ombudsman', which defined the legal status, goals and powers of the financial consumer ombudsman, procedure for pre-trial settlement of disputes between financial consumers and financial institutions by the financial consumer ombudsman, the legal framework for interactions between financial institutions and the financial consumer ombudsman.¹ The Federal Law entered into force on 3 September 2018, except for certain provisions which will become effective gradually depending on the type of financial institution. In accordance with this law, the Bank of Russia established the Autonomous Non-profit Organisation Financial Ombudsmen Operations Support Service.

Adoption of Federal Law No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance' was caused by the need to clarify the rights and obligations of issuers and holders of issue-grade securities, improve the procedure for issuance and circulation of convertible securities, provide business entities with a mechanism to raise investments in the form of issuing bonds with no maturity date (subordinated loans) and a new type of preferred shares.²

Federal Law No. 327-FZ, dated 3 August 2018, 'On Amending the Federal Law 'On Credit Histories' was adopted to improve the procedure for generating, receiving, and

storing credit histories; it allows sending requests for credit reports to credit history bureaus through credit institutions using remote identification. In addition, the law established that requests submitted by credit history owners can be sent to the Central Catalogue of Credit Histories using the Unified Portal of State and Municipal Services (with the answers provided by the Bank of Russia also using UPSS). It also extended the validity period of consent granted by the credit history owner for provision of a credit report by the credit history bureau to the credit history user from two to six months.

Federal Law No. 554-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On Consumer Loans' and the Federal Law 'On Microfinance Activities and Microfinance Organisations' provided, *inter alia*, for a phased transition from a 2.5-fold to a 1.5-fold limit on the fixed payment amount under consumer credit (loan) agreements concluded for a period of up to one year as well as for a gradual reduction of the interest rate limit from 1.5% to 1% per day. This law prohibited requiring the borrower to perform obligations under consumer credit (loan) agreements concluded with illegal creditors; it also limited the right to assign rights (claims) under a consumer credit (loan) agreement only to a professional creditor, a legal entity engaged (as its main activity) in collection of overdue debts owed by individuals, a special-purpose financial company, or an individual specified in the written consent form of the borrower.

The adoption of Federal Law No. 310-FZ, dated 3 August 2018, 'On Amending the Federal Law 'On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation' and on Amending Certain Laws of the Russian Federation' was aimed at improving the

¹ Some provisions of Federal Law No. 123-FZ, dated 4 June 2018, are discussed in more detail in the 'Start of financial ombudsman's activities' clause of Subsection 2.3.1.

² More details on certain provisions of Federal Law No. 514-FZ, dated 27 December 2018, are provided in Subsection 2.2.3.7 (with regard to simplification and reduction of time for issuing debt and equity securities), Subsection 2.2.10 (with regard to improving the regulation of securities), and Subsection 2.3.4 (with regard to streamlining the requirements for information disclosure by issuers of issue-grade securities).

efficiency of regulation in the area of illegal use of insider information as well as optimising the administrative burden on market participants related to complying with the measures aimed at countering illegal use of insider information. For a more flexible approach to establishing the list of insider information for different categories of insiders, the law required insiders to determine their own procedure for defining insider information in accordance with the Bank of Russia regulation and to prepare their own list of insider information. To monitor compliance with the requirements of the laws on counteracting the misuse of insider information and market manipulation, the Bank of Russia was granted the right to conduct inspections of entities other than credit institutions and non-bank financial institutions by inspecting their territories, premises, and documents.

Federal Law No. 263-FZ 'On Amending Certain Laws of the Russian Federation' provided the Bank of Russia with the authority to exercise banking supervision (control and supervision of financial markets) and conduct control activities (including those carried out remotely using information and communication technologies), which are equivalent to controlled purchases. During such activities, the Bank of Russia employees can make transactions (or create conditions for making transactions) as part of normal business operations of the credit institution (non-bank financial institution).

It is also necessary to mention Federal Law No. 530-FZ, dated 27 December 2018, 'On Amending the Criminal Code of the Russian Federation and the Code of Criminal Proceedings of the Russian Federation', which provides for stricter penalties under Article 172.1 'Falsification of Accounting Records and Statements of Financial Institutions' of the Criminal Code of the Russian Federation, an introduction of a new crime (Article 172.3 of the Criminal Code of the Russian Federation), namely the failure to include in the financial accounting statements and reports of the credit institution information about the funds placed by individuals and individual entrepreneurs, an amendment to Article 170.1 of the Criminal Code of the Russian Federation establishing liability for knowingly

entering incomplete or incorrect information into accounting systems in the 'interests' of the customer(s) of the institution that keeps the records of rights to securities.

An entire set of federal laws was adopted with a view to improving activities of credit institutions. This includes Federal Law No. 105-FZ, dated 23 April 2018, 'On Amending Chapter 25 of Part Two of the Tax Code of the Russian Federation', which extended the special taxation procedures established for banks in order to allow them to carry over the unused amounts of provisions for possible losses on loans to the next reporting (tax) period to cases of revocation (cancellation) of the banking licence. The same law provided for special taxation of income of the State Corporation Deposit Insurance Agency (DIA) and banks following termination of obligations under subordinated instruments in the bank resolution procedures.

Federal Law No. 106-FZ, dated 23 April 2018, 'On Amending Certain Laws of the Russian Federation and Invalidating Certain Provisions of Russian Laws' defined the procedure for issuing, distribution, and circulation of savings certificates and certificates of deposit and also the procedure for transferring the rights thereto, prohibited credit institutions from issuing savings certificates and certificates of deposit on previously registered issue and circulation terms, introduced amendments related to eliminating the institute of bearer savings certificates and bearer savings books from the Russian legislation.

Federal Law No. 322-FZ, dated 3 August 2018, 'On Amending the Federal Law 'On the Insurance of Household Deposits with Russian Banks' and Certain Laws of the Russian Federation' extended the deposit insurance system to small businesses. As a result, the funds of small businesses placed on accounts and deposits at banks included in the deposit insurance system are now subject to insurance for an amount not exceeding ₹1.4 million.

It is also necessary to mention Federal Law No. 53-FZ, dated 7 March 2018, 'On Amending Certain Laws of the Russian Federation' which included in the authority of the Bank of

Russia Board of Directors the establishment of add-ons to risk weights used to mitigate threats to the financial stability of the Russian Federation and excluded the ratio of the maximum amount of loans, bank guarantees, and sureties issued by a credit institution (banking group) to its members (shareholders) (required ratio N9.1). In addition, the law clarified the authority of Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company to extend subordinated loans to credit institutions under bankruptcy prevention measures, actions of the Bank of Russia and the DIA during bankruptcy procedures for credit institutions, the procedure for the DIA to pay for shares (stakes) of banks using federal government bonds as well as the sources of DIA property. The same law introduced a requirement for the lender to inform the borrower of the debt and remaining credit limit on the consumer loan provided using electronic means of payment.

To relieve banks with a basic licence of the burden associated with the need to generate reports in accordance with the Russian Accounting Standards and the International Financial Reporting Standards, Federal Law No. 567-FZ, dated 27 December 2018, 'On Amending Article 2 of the Federal Law 'On Consolidated Financial Statements' established that its provisions would not extend to banks with a basic licence that did not establish a group under IFRS.

Federal Law No. 167-FZ, dated 27 June 2018, 'On Amending Certain Laws of the Russian Federation for Countering Embezzlement' was adopted in order to create a mechanism to counter unauthorised funds transfers. This law established the action procedure for credit institutions if signs of a funds transfer without the consent of the payer are identified. In addition, the law defined the procedure for credit institutions providing services to the payer and recipient, for returning funds if a corporate payer notifies that the funds were debited without its consent. The law also defined the authority of the Bank of Russia to create and maintain a database of cases involving funds transfers without the customer's consent.

Regarding non-bank financial institutions, it is necessary to mention Federal Law No. 87-FZ, dated 23 April 2018, 'On Amending Certain Laws of the Russian Federation' aimed at improving legislation of the Russian Federation on insolvency (bankruptcy) of insurance companies. Similar to the procedure for financial rehabilitation of credit institutions, this law allowed the Bank of Russia to participate in the measures to prevent bankruptcy of an insurance company by providing financial assistance from a specially established Insurance Sector Consolidation Fund.

Federal Law No. 269-FZ, dated 29 July 2018, 'On Amending Certain Legislative Acts of the Russian Federation to Ensure the Right of Citizens to Receive Information about the Effects of Termination of Mandatory Pension Insurance Contracts', requiring to submit an insurer change application to the Pension Fund of the Russian Federation either through the Unified Portal of State and Municipal Services, in person or through an authorised representative, was adopted in order to eliminate systemic problems associated with violation of policyholder rights following a change of the mandatory pension insurance insurer. Before submitting the said application, the insured person is informed on the amount of their investment income lost in connection with an early transfer to another insurer.

Federal Law No. 49-FZ, dated 7 March 2018, 'On Amending Certain Legislative Acts of the Russian Federation Regarding the Regulation of Non-Governmental Pension Funds' established the obligation of non-governmental pension fund to organise management of pension savings and pension reserves exclusively for the benefit of the insured persons and participants; and, in case of failure to perform this obligation, the fund is required to reimburse the losses from its own funds. This law also improved the remuneration system for a fund, management company, specialised depository (by defining the fixed and variable parts of the remuneration).

Along with the participation in preparing and reviewing these federal laws and other draft federal laws, the Bank of Russia issued 164 Bank of Russia regulations from 1 January

to 31 December 2018. They passed state registration in the Ministry of Justice of Russia. In addition, 46 Bank of Russia regulations issued in 2017 were registered with the Ministry of Justice of Russia.

The Bank of Russia prepared 84 Bank of Russia information letters and 33 methodological recommendations and sent them to its regional branches for explanatory and methodological purposes.

2.6.9. ADDRESSING ADMINISTRATIVE AND LEGAL ISSUES

In 2018, the officials of the Bank of Russia initiated 23,458 administrative proceedings.

This included:

- 13,402 administrative offences reviewed by the officials of the Bank of Russia (including cases left unsettled from the previous periods);
- 4,301 application for bringing non-bank financial institutions to administrative liability under Part 3 of Article 14.1 and Article 14.36 of the Code of Administrative Offences of the Russian Federation reviewed by arbitration courts (including cases left unsettled from previous periods);
- 986 protocols on administrative offences prepared in accordance with Part 1 of Article 20.25 of the Code of Administrative Offences of the Russian Federation reviewed by magistrate judges.

In 2018, the officials of the Bank of Russia reviewed 1,278 complaints against rulings in administrative offences and rulings on a refusal to initiate administrative proceedings, which resulted in 204 rulings to sustain the complaints, 770 rulings to dismiss the complaints, and 304 rulings to modify previous rulings in terms of administrative fines imposed on entities subject to administrative liability.

In 2018, administrative fines imposed by Bank of Russia officials and courts following consideration of administrative cases amounted to ₽1,797,876,600. In the same period, the budgets of the Russian Federation received ₽453,210,200¹ as payments of administrative fines, including ₽380,358,500 paid voluntarily by entities subject to administrative liability; ₽72,851,700 collected from entities subject to administrative liability to enforce the adopted decisions.

¹ The difference in the amounts of administrative fines imposed and paid within the said period occurred mainly due to the breach of a deadline for payment of administrative fines by the persons fined. This forms grounds for the Bank of Russia to send respective documents to the Federal Bailiff Service of the Russian Federation for the enforcement of rulings ordering administrative sanctions. The mentioned difference also stems from the bankruptcy and/or forced winding up of organisations supervised by the Bank of Russia on which administrative sanctions were imposed.

2.6.10. ADDRESSING JUDICIAL ISSUES

As part of exercising its functions to monitor and supervise CIs and NFIs, the Bank of Russia filed 651 suits in court, including:

- 69 suits for recognising CIs as insolvent (bankrupt) and forced liquidation of CIs;
- 568 suits for recognising NFIs as insolvent (bankrupt) and forced liquidation of NFIs;
- 14 suits on disputes associated with supervisory response measures with regard to NFIs.

518 suits filed by the Bank of Russia were sustained in 2018 (including cases left unsettled from the previous periods), including 59 applications against CIs and 459 applications against NFIs.

In 2018, CIs filed 61 appeals against actions and decisions of the Bank of Russia; five appeals were sustained in 2018 (including

cases left unsettled from the previous periods). During the same period, NFIs filed 1,141 appeals against actions and decisions of the Bank of Russia; 192 appeals were sustained in 2018 (including cases left unsettled from the previous periods).

In 2018, 171 suits arising out of business and other activity were brought against the Bank of Russia, including property-related suits totalling ₽657,962,470. Overall, 14 suits were upheld in court (including cases left unsettled from the previous periods), including property-related suits for a total amount of ₽5,940,290.

Also, in 2018, 94 suits arising from employment relations were filed against the Bank of Russia, of which 24 were upheld (including cases left unsettled from the previous periods).

2.6.11. DATA MANAGEMENT IN THE BANK OF RUSSIA

In 2018, the Bank of Russia continued to develop its information asset management, a new activity under a programme of projects aimed at establishing a data management system in the Bank of Russia.

An important milestone of the reporting year was the approval of the Bank of Russia Data Management Strategy for 2019–2021 by the Data Management Committee of the Bank of Russia. The Strategy is aimed at improving efficiency of data use in the decision-making processes at the Bank of Russia. The main data management objectives addressed by the Bank of Russia in order to achieve the stated goal include improving data quality and availability, enhancing data collection and granularity, building sustainable competencies in data analysis, creating and implementing a data management methodology and system, simplifying information interaction with external organisations, and enhancing data access management.

In 2018, to build a semantic framework to ensure data quality, the Bank of Russia continued to establish and support its data model based on the development priorities of specific subject areas. This centralised data model allows building a common understanding of the data by all participants involved in the data management processes, harmonising reporting, and integrating data for analysis. To improve data collection and granularity, the Bank of Russia developed data models and a new IT solution to collect microdata on such subject areas as 'Business day of a credit institution' and 'Loans provided to households'. They were used as a basis to create the draft forms scheduled for inclusion in the mandatory reporting of credit institutions.

As part of project management, the Data Management Committee of the Bank of Russia approved key business processes and key data management efficiency indicators along with their calculation methodology.

In 2018, to measure and monitor data quality, the Bank of Russia developed, and the Data Management Committee of the Bank of Russia approved the Data Quality Management Methodology, which is used to manage the data requirements to ensure their compliance with the quality criteria and to design data control procedures. The methodology was tested on operational, register, and reporting data and allows maintaining the proper quality of data used by the Bank of Russia to perform its statutory functions, thereby helping increase confidence of financial market participants in the decisions and publications of the Bank of Russia.

To unify and streamline collection and processing of information from financial market participants, the Bank of Russia published the Bank of Russia Survey Schedule for the next six months on its website every quarter of the reporting year. Preparation of the Bank of Russia Survey Schedule allowed eliminating duplication of requests for information outside the reporting cycle, structuring the incoming information, and, at the same time, increasing the predictability of changes in the Bank of Russia's data requirements for financial market participants.

Given a rapidly growing data volume, a great deal of attention was paid in the reporting year to the development of a unified data access procedure. This included the preparation of the access matrix concept and template based on the access subject and object attributes and requirements for the data matrix support subsystem.

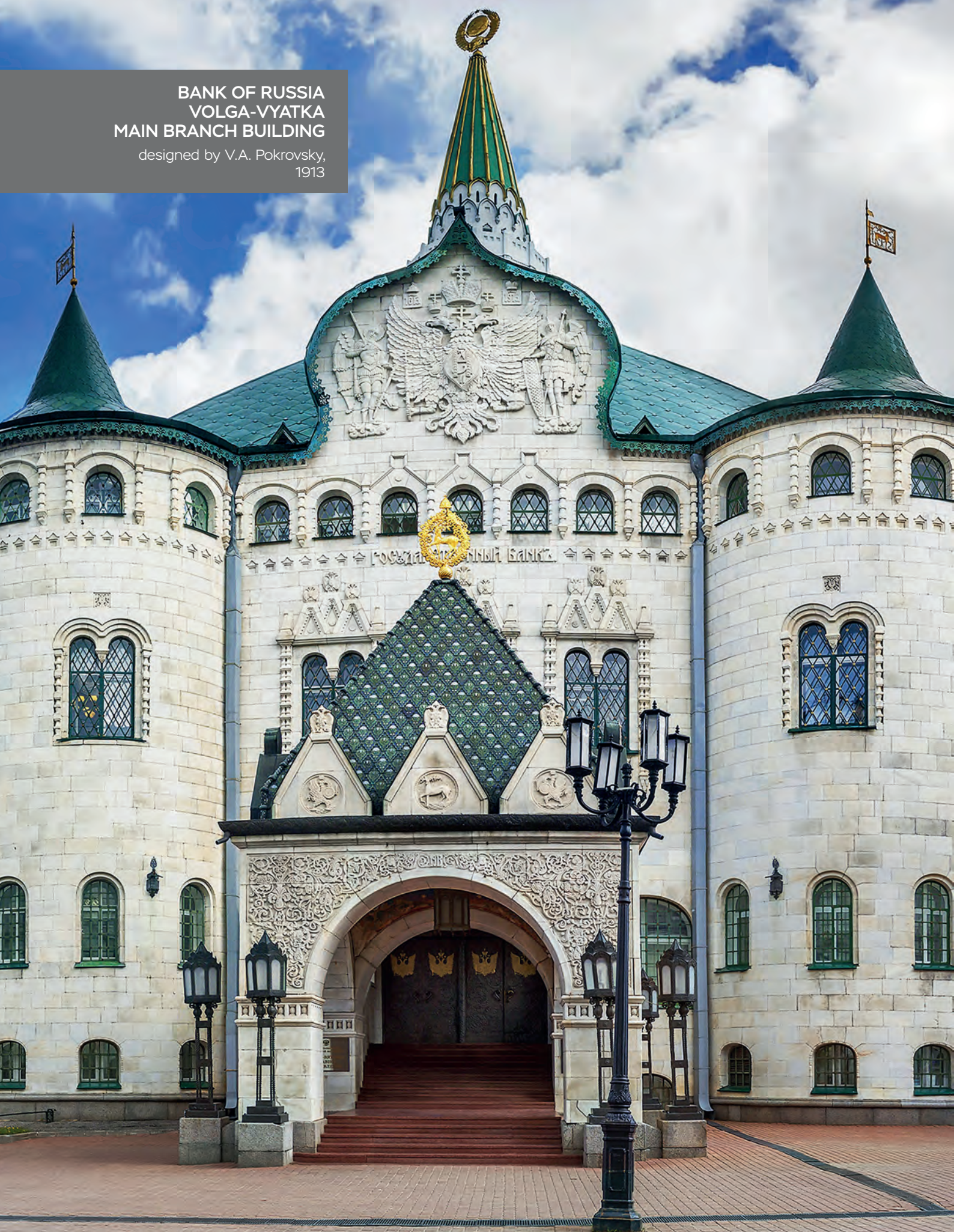
As part of interdepartmental collaboration with individual federal ministries and agencies, the Bank of Russia worked on streamlining the information flows and improving data quality as well as on meeting the Bank of Russia's needs to obtain the necessary data and meta-data using advanced exchange methods and formats.

The Bank of Russia was also focused on developing personnel qualifications and building competencies required for data management. The analysts and researchers of the Bank of Russia were trained to use modern technologies of business analysis, data mining,

and big data for operating in a self-service mode. Collaboration with foreign organisations made it possible to study international data management standards and methodological approaches to data modelling when building databanks.

**BANK OF RUSSIA
VOLGA-VYATKA
MAIN BRANCH BUILDING**

designed by V.A. Pokrovsky,
1913



3. Organisational development of the Bank of Russia

Resource management and organisational development are what enable Bank of Russia's activities. The best international practices, proprietary approaches to management, highly skilled personnel and advanced information technologies facilitate the achievement of goals and objectives of the Bank of Russia.

In 2018, organisational development of the Bank of Russia was focused on building a highly qualified talent pool. To this end, a systemic approach was introduced to personnel management based on developing new practices for building a talent pipeline and assessing competences as well as using modern training methods. New approaches were used to assess managerial competences and professional knowledge of executives at various levels, and newly designed training and development programmes now include interactive collaboration and distance learning elements.

Process and project management practices gained further momentum. As part of its Business Process Re-Engineering Programme started in 2016, the Bank of Russia completed a number of strategically important projects (centralised oversight of credit institutions, a unified service for admission of financial market participants, oversight in the national payment system, and centralisation of the payment system and personnel administration). It also implemented business processes to improve operational efficiency and streamline labour costs. Implementation of new

payment services helped reduce costs and operational risk. The unified automated accounting system, which had been in development since 2016, was also put into operation. In 2018, the Bank of Russia developed, implemented and announced to the public a new methodology and procurement system to help substantially streamline this activity, making it more open, competitive and cost-efficient. In the area of project management, there were major developments in the tools for more flexible approaches to accelerate and improve project implementation. To develop its risk management system, the Bank of Russia approved regulations governing the key aspects of operational risk management and began the phased introduction of a unified methodology for operational risk management in its business processes.

IT developments included new analytical tools and support of a unified information environment for communication with financial market participants and individuals, including the use of personal accounts. The technology for report processing and analysis was further developed by completing the first phase of the data management platform and unified database as well as implementing advanced data management tools and new self-service facilities. New information resources, including those designed for distance learning, were developed and introduced for the Bank of Russia's employees and external participants. The transition to Russian repeater satellites helped streamline satellite communication costs.

In 2018, the Bank of Russia completed its implementation of measures to centralise activities in a number of areas (oversight functions, consumer protection, licensing and financial services were all centralised at the level of main branches), which helped streamline the Bank's organisational structure and reduce staff. The phased implementation of activities to improve the organisational structure will continue over the coming years.

In 2018, all key business processes and activities of the Bank of Russia were covered by internal audit procedures, with the findings reported to the Bank of Russia's management and the National Financial Council; this ensured monitoring of the implementation of adopted decisions.

3.1. Personnel development

On 20 April 2018, the Bank of Russia Board of Directors adopted a decision to classify the Bank of Russia Corporate University as a separate structural unit of the head office responsible, among other things, for the assessment and development of the Bank of Russia's personnel and collaboration with the financial sector in this regard, international cooperation in the area of personnel training as well as elaboration and implementation of approaches to the talent pipeline.

In 2018, the Bank of Russia switched to a systemic approach towards its talent pool. The first meeting of the Strategic HR Committee resulted in decisions on the priority areas for development of the talent pool, creation of a common human resources environment for the Bank of Russia, a new approach to building a talent pipeline for managerial positions at various levels and requirements for the heads of regional branches of the Bank of Russia. The meetings of HR committees in the main branches helped build a talent pool for the positions of division managers used for appointment of six executives to crucial positions in 2018, most of which involved relocation to other regions. 50 individuals were included in the strategic talent pipeline.

New projects launched in 2018 allowed 3,370 Bank of Russia employees to obtain an expert assessment of their professional potential and business skills. A 78% increase in staff who passed the assessment was made possible by the development of the internal expert team in the regional units of the Bank of Russia. In 2018, Bank of Russia managers used the assessment of business skills and managerial competences to select external candidates, build the talent pipeline and ensure the professional development of employees in its units. For the first time in its history, the Bank of Russia assessed the managerial competences of the heads and deputy heads of structural units in its head office, which resulted in individual development plans and specialised development programmes for staff.

Leadership Steps, a large-scale modular managerial training programme, was debuted in September 2018 to develop leadership competences of mid-level executives. 200 mid-level executives in the head office, main branches and regional divisions started their training under this programme. In addition, 8,314 middle and line managers were trained in 2018 in the course of regular activities under 20 management training and practice programmes.

Today, the Bank of Russia Corporate University is a platform for discussing and making strategic decisions. In 2018, it held two strategic sessions for the top management of the Bank of Russia and more than 20 functional and cross-functional strategic sessions for structural units.

In 2018, the Bank of Russia Corporate University continued implementing its project to develop the models of professional competences and to assess professional knowledge. Professional testing of Bank of Russia staff is primarily aimed at designing professional training programmes and individual development plans. Overall, 1,906 employees were tested in 2018, including 93 external candidates for positions in the economic units of the Bank of Russia's regional branches.

Centralised training of the Bank of Russia's staff increased by 24% compared to 2017, covering 21,700 staff members. Moreover, 77% of all trainees went on to attend professional development programmes. 100 specialists completed professional retraining programmes totalling more than 250 academic hours. This included inspectors (heads of CI and NFI audit, inspection coordinators) and supervisors over the activities of professional securities market participants and infrastructure organisations of the financial market (clearing companies and trade organisers). Short further training programmes were provided for personnel in all areas of the Bank of Russia's activities.

Various formats of foreign language training were provided to ensure the executives



Over 20,000 employees
have completed further training
at the Bank of Russia
Corporate University

and specialists of the Bank of Russia can effectively fulfil their job requirements. This included continuing operation of the English Club, an educational project to help improve English language proficiency among staff (discussion sessions, the English Club Community on the corporate portal, and the publication of a linguistic digest (with more than 1,000 subscribers)).

In line with its image as a tech-savvy regulator, the Bank of Russia is implementing new advanced technology into its processes of personnel assessment, training, and development. In 2018, the Bank launched a corporate training portal and SOVA, a learning system for its external audience. Training events, conferences and strategic sessions are held using tools for interactive collaboration with the audience.

The implemented elements of the knowledge management system include methodological guidelines for blogging, a library of lessons learned, development and application of case studies, establishment of expert communities and methodological guidelines for creating distance microlearning courses and proprietary content.

53 distance learning programmes were designed, and 76 such programmes were updated in 2018. Today, they have been completed by 25,730 employees of the Bank of Russia (over 80,000 man-courses). Newly implemented formats of distance learning include video courses, video instructions, and Bank of Russia software simulators.

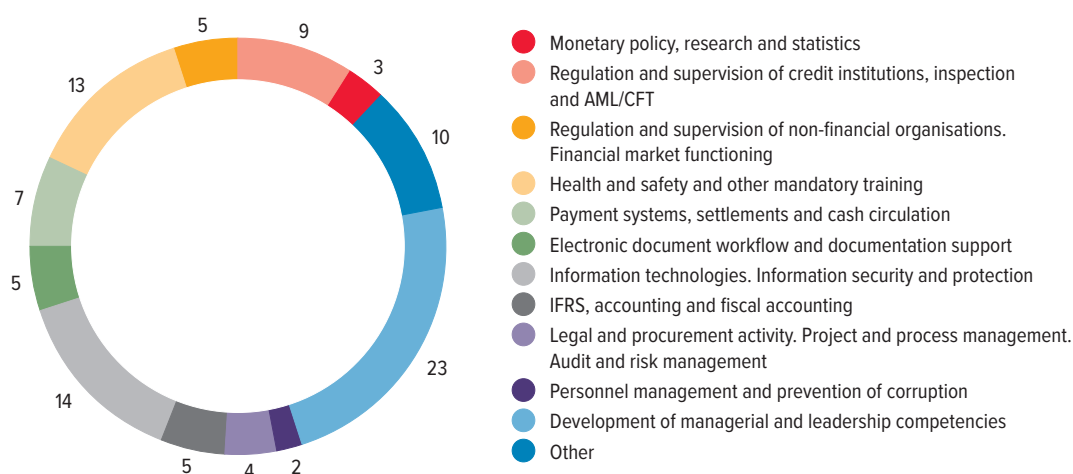
Opportunities to share experience with foreign colleagues also contributed to improving the professional level of Bank of Russia staff and helped employees introduce the best practices in their daily activities.

Representatives of the Bank of Russia also participated in the development of youth movements in the Coordination Council of Youth Organisations of Federal Executive Authorities. In August 2018, 18 representatives of the Bank of Russia took part in the National Youth Team session held at Terra Scientia on the Klyazma River, a Russian national educational youth forum.

In 2018, the Bank of Russia continued its collaboration with universities and educational institutions to help improve the quality of financial market specialist training. The Bank of Russia's experts regularly held specialised training events for students, participated in academic and practical conferences, and supervised the preparation of graduate theses. The Bank of Russia also supports the Talent and Success Educational Fund in developing

**CENTRALISED BANK OF RUSSIA PERSONNEL TRAINING IN 2018
(AS A PERCENTAGE OF TOTAL NUMBER OF TRAINEES)**

Chart 42



a system to identify, train and assist the professional self-determination and development of gifted children who received grants from the President of the Russian Federation and winners of Olympiads in specialised areas.

Collaboration between Bank of Russia divisions and the educational foundation took the form of training sessions (interactive lectures, workshops, business games) held by Bank of Russia experts on specialised topics. In 2018, the Bank of Russia arranged 10 visits of its specialists to Sirius educational centre, and trained 226 participants during various learning sessions.

In accordance with the requirements of Federal Law No. 238-FZ, dated 3 July 2016,

‘On Independent Qualification Assessment’, the Bank of Russia discussed the prospects of switching from the existing system for certification of specialists to an independent qualification assessment and developing a target model for admission (cancellation of admission) of specialists to the financial market. To ensure a high level of confidence in the new system and the validity of independent qualification assessments, the Bank of Russia, in collaboration with the Financial Qualifications Council, elaborated a list of measures to improve the quality of individual elements of the independent qualification assessment framework and the strategic development of the system in general.

3.2. Process management development

In 2018, the Bank of Russia continued to implement its Business Process Re-Engineering Programme. This included completion of several projects to implement target business processes, such as:

- completing centralisation of oversight of credit institutions and establishing the Current Banking Supervision Service in the head office of the Bank of Russia;
- implementing a unified service for financial market participants in established financial market participant admission centres;
- completing centralisation of oversight and monitoring in the National Payment System;
- implementing conduct supervision in the area of consumer protection;
- approving the Financial Inclusion Strategy of the Russian Federation for 2018–2020;
- establishing a unified centre for combating financial pyramid schemes (Khabarovsk);
- establishing a unified centre for processing financial statements received from financial market participants (Tver);
- establishing a unified centre of personnel services to centralise personnel administration and optimise labour costs (Ufa);
- elaborating and implementing a new procurement methodology, establishing a centralised procurement unit of the Bank of Russia;
- carrying out a phased transition to in-house IT development.

Following implementation of its target business processes, the Bank of Russia completed the main stage in transition to its target regional model, including centralisation of several key and support functions, unification of organisational structures in the divisions, and personnel optimisation.

3.3. Project management development

The project portfolio of the Bank of Russia includes 147 projects. A number of strategically important projects to improve the Bank of Russia's efficiency were implemented in 2018.

The new payment system of the Bank of Russia was launched in July. It includes an expanded operational schedule, a centralised payment component, increased flexibility and improved liquidity management efficiency.

Also in 2018, the Bank of Russia launched its first service on the Unified Public Services Portal. This service is designed for individuals and legal entities to receive information electronically about the credit history bureau, which keeps track of the applicant's credit history.

By 1 July 2018, the Bank of Russia had completed the transfer of its dedicated satellite communications network to Russian transponder satellites, eliminating the need for foreign satellites and significantly cutting the cost of satellite communications.

The Faster Payments System was developed and tested for launch in 2019 to enable individual bank customers to make 24/7/365 online payments to other individuals using a mobile phone number or other simplified identifiers.

In July 2018, the Bank of Russia successfully started collection of business day data from a pilot group of credit institutions. A new system for collecting and processing business day data will reduce the burden on credit institutions by eliminating excessive reporting.

Electronic collaboration between supervised entities and the Bank of Russia via personal accounts helped eliminate paper document flows and reduce the time spent on receiving and processing information.

To counteract unfair practices and promptly respond to negative trends in the markets, the Bank of Russia launched its Situation Centre for Monitoring Exchange-Trading Markets (see Subsection 2.2.7).

The Bank of Russia Banknotes mobile app was also developed and made available online to help the public learn about the banknotes in circulation, including their design and visual security features, and obtain necessary information to independently verify authenticity without using specialised equipment.

To encourage cross-functional collaboration, the Bank of Russia created a unified information environment on its corporate intranet portal for all its employees, and data from all regional online portals were transferred to this centralised intranet resource.

The Bank of Russia continued to improve its project management tools. This includes the replication of agile approaches, such as Scrum, a set of tools and techniques to speed up project implementation, and Kanban, a method used to manage tasks in complex processes within the structural units of Bank of Russia to speed up work through enhanced transparency and priority control.

3.4. Information technology development in the Bank of Russia

In 2018, the Bank of Russia continued to implement its IT Strategy to transform its IT landscape and IT operating model and create a new IT computing infrastructure.

On 2 July 2018, the Bank of Russia launched its new centralised payment system to provide payment services to customers in accordance with Bank of Russia Regulation No. 595-P, dated 6 July 2017, 'On the Bank of Russia Payment System'.

The Unified Centralised Payment Gateway (transport gateway) ensuring high availability and reliability of connection to the Bank of Russia payment system for its participants and facilitating the use of various connection schemes was put into operation to improve the efficiency of payment and financial messaging with the customers of the Bank of Russia.

A high-performance hardware and software infrastructure for the relational segment of the Unified Data Warehouse of the Bank of Russia was established as part of development of supervised entities' report processing technology, including the ability to download data from key sources, advanced master data management and business intelligence tools and regulatory reporting data marts.

This solution ensures that the reports of financial market participants, such as insurance agents, non-governmental pension funds, professional securities market participants and management companies, are collected using such data-centric format as XBRL.

Work has also begun on industrial implementation of tools for big data processing

and analysis and development of analytical self-services; a new pilot project was launched to collect business day data from credit institutions.

The Financial Culture website was improved with the addition of the Borrower's Test, a new service designed to assist in effective personal budget planning.

External training participants were provided with expanded learning opportunities at the Bank of Russia Corporate University through a virtual online training platform for distance learning and knowledge assessment.

A new solution now ensures electronic sharing of invoices, primary accounting documents and other financial and business documents between the Bank of Russia and third parties.

A corporate intranet portal in the Bank of Russia, which brought together all regional branches of the Bank of Russia in a single unified centralised information environment to enable employees to share information, communicate and submit online requests for information services, was created to streamline resources and support collaboration among staff.

The first phase in implementation of the Private Cloud of the Bank of Russia included new IT infrastructure, which helped provide computing resources under the infrastructure as a service (IaaS) model as well as promptly scale and distribute computing power when deploying centralised Bank of Russia IT solutions.

3.5. Changes in the organisational structure

In 2018, the Bank of Russia continued to improve its organisational structure and optimise staff numbers, which was related, among other things, to its newest stage of centralisation. The Bank of Russia completed centralisation of its oversight, consumer protection and licensing functions at the level of head office divisions, and the centralisation of financial services at the level of main branches.



Total Bank of Russia staff decreased by 5,000

Reorganisation of the head office continued. The Bank of Russia Corporate University was established to help implement the best practices in the area of personnel development and improve collaboration with the world's leading universities and business schools. The Accounting Regulation Department was established to improve methodological support and develop the accounting system in the Bank of Russia as well as in credit and non-bank financial institutions. The security framework was reorganised by establishing the Informa-

tion Security Department and the Security Department of the Bank of Russia to replace the dissolved Main Office of Security and Information Protection.

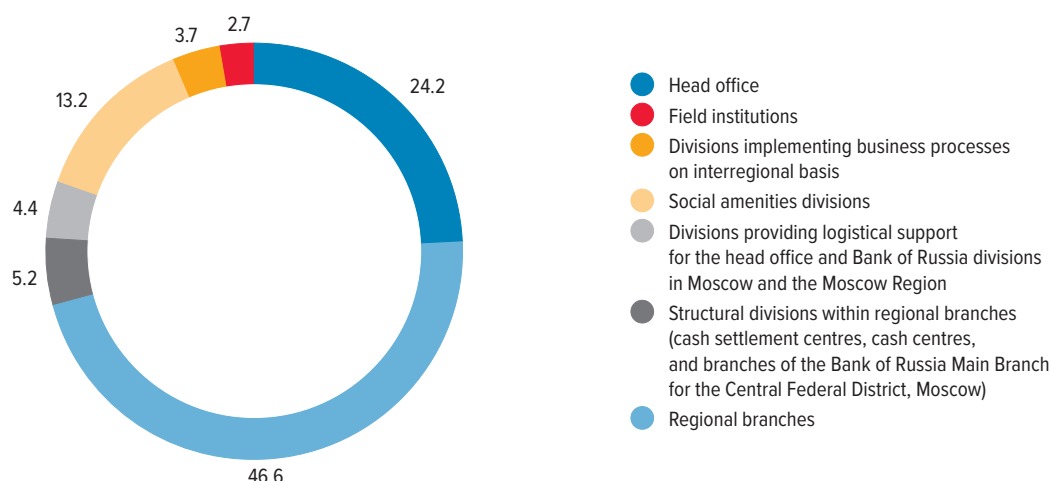
2018 saw continuation of activities initiated in previous years. Liquidation of cash settlement centres continued in accordance with a settlement network optimisation programme, the next stage was completed in staff optimisation of social amenities divisions, and new units were created to implement business processes on an interregional basis.

Overall, following these activities, total staff of the Bank of Russia decreased by 5,000 in 2018 (9%) to 50,600.

As of 1 January 2019, the Bank of Russia's structure consisted of 375 divisions, including: the head office; seven main branches, which comprise 74 divisions (divisions — national banks), one interregional depository, 75 cash settlement centres and two divisions of the Bank of Russia Main Branch for the Central Federal District; 25 divisions implementing business processes based on the interregional principle; 91 field institutions; the representative office of the Bank of Russia in the People's Republic of China; and other ancillary divisions.

NUMBER OF BANK OF RUSSIA PERSONNEL BY STRUCTURAL DIVISION AS OF 1 JANUARY 2019
(AS A PERCENTAGE OF TOTAL PERSONNEL)

Chart 43



3.6. Development of the Bank of Russia's procurement system

In 2018, Bank of Russia Regulation No. 632-P, dated 1 March 2018, 'On the Procurement at the Central Bank of the Russian Federation (Bank of Russia)' was published on the Bank of Russia's website and made available to all market participants. This document replaced an internal regulatory act in force until April 2018. The above regulation defines a wide range of tools to respond quickly to external challenges and the dynamically changing market of goods, works and services. A full set of regulatory documents was created to define the target process of the Bank of Russia's procurement system. Separation of 'customer' and 'buyer' functions, cross-functional collaboration and the roles of all participants were established at the regulatory level. The updated system of collective bodies ensures balanced decision-making.



A new Bank of Russia procurement regulation was adopted to improve the competitiveness of procurement procedures

Flexibility of the new methodology enables selection of optimal procurement methods, which generated ₽2.09 billion in savings in 2018, with average contract prices reduced by 6.5% from the initial/maximum price. The share of procurements made as open tenders remained at the level of 2017 and amounted to 66% (₽21.2 billion in the initial/maximum contract price amount). The implemented measures to digitise the procurement process and ensure transparency increased the share of competitive procurement carried out electronically under the new methodology to 99.6% of all competitive procedures.

In 2018, 92.8% of all procurements in the Bank of Russia were centralised. The share of procurement procedures with four or more admitted participants was 16.5% for centralised purchases and 16.3% for local purchases. The Bank of Russia reviews the market environment, procurement procedure results and its expected needs to determine the optimal level of procurement centralisation.

Seven category-based strategies with the greatest potential for streamlining administrative and IT procurement were elaborated and approved as part of implementing category-based procurement management. Their implementation will help obtain the most competitive bids, improve the quality of supplied goods (performed works, provided services) and reduce their final cost.

As part of procurement procedures conducted in 2018, the Bank of Russia signed 1,964 contracts for a total value of ₽25.4 billion, of which 42% were contracts for the supply of goods, 35% for the performance of works, and 23% for the provision of services.

To implement Federal Law No. 303-FZ, dated 3 August 2018, 'On Amending Certain Laws of the Russian Federation on Taxes and Levies',¹ the Bank of Russia defined its approach to relations with counterparties based on preserving contract prices following the tax rate increase. The negotiations with counterparties conducted under this approach helped avoid increased costs for most existing contracts and achieve savings of at least ₽19 million.

The re-engineering of the 'Contractual activities in the procurement system' business process initiated in 2018 resulted in the transition to a fully electronic document workflow for contract approval processes at the Bank of Russia.

¹ Entered into force on 1 January 2019.

The Bank of Russia implemented a procedure for accreditation of suppliers to establish uniform requirements for participants in procurement procedures and a centralised approach to their verification. In 2018, more than 2,000 suppliers received accreditation from the Bank of Russia, which is valid for 24 months and entitles the procurement participant to submit a simplified set of documents. The Bank of Russia regularly monitors the compliance of suppliers with established requirements.

An independent collective body was established to handle complaints from procurement participants and ensure a level playing field for the Bank of Russia's procurement participants, fair prices and non-price competition. Information on decisions adopted by this commission

is posted on the website of the Bank of Russia. In 2018, 26 complaints from procurement participants were accepted for review, and nine were found to be justified.

The first Bank of Russia Supplier Conference was held in 2018 as part of an open dialogue with market participants to help explain the new procurement methodology and attract new suppliers.

The implemented KPI system helped comprehensively assess the achievement of the optimal ratio between price, quality and time and promptly coordinate and monitor the activities of the Bank of Russia Procurement Department as well as of procurement divisions in Bank of Russia main branches. In 2018, main KPI targets were achieved.

3.7. Internal auditing

In accordance with the Internal Audit Development Concept for 2016–2020,¹ the goal of the internal audit of the Bank of Russia is to facilitate the effective achievement of goals and implementation of functions of the Bank of Russia by providing recommendations to Bank management based on internal audit procedures.

In the reporting period, the internal audit procedures covered all key business processes and activities of the Bank of Russia.

In 2018, the Bank of Russia conducted 114 internal audit procedures, including 94 audits, six analytical activities, 12 monitoring activities, and two project audits.

The audited entities were head office and regional divisions, information technology, health-care and other units of the Bank of Russia.

The internal audit organisation ensured prompt responses to changes, a lower burden on audited entities, and the most efficient and rational allocation of resources. Achievement of these goals was primarily driven by remote audit methods.

Given the uncertainty regarding the impact of external factors on financial markets, the Bank of Russia monitored the management of its assets in foreign currency and precious metals on a daily basis and also assessed measures designed to respond to the risks inherent to related transactions.

The activities of the Bank of Russia to develop its forecasting of the macroeconomic conditions for conducting monetary policy were reviewed in accordance with instructions from Bank of Russia management.

Research continued into the causes of bankruptcies of certain credit institutions and non-bank financial institutions. This included a detailed review of the inadequate effectiveness of certain oversight measures and recommendations for improving Russian laws, Bank of Russia regulations, business processes, risk management and internal control procedures.

Amid the changes in organisation and performance of oversight of non-bank financial institutions, the main priority of internal audit was to contribute to the achievement of the Bank of Russia's corporate goals and key performance indicators based on these goals.

The results of internal audit procedures confirmed the need for consolidated oversight over credit institutions and non-bank financial institutions to ensure a comprehensive review of the financial position and activities of such entities and provide the opportunity to apply oversight response measures in a prompt and integrated manner.

The Bank of Russia's activities to rehabilitate the financial sector were audited in terms of how well the activities of provisional administrations were organised to better manage credit institutions. The Bank of Russia implements its internal audit recommendations to improve the financial rehabilitation process of credit institution with the participation of FBSC AMC Ltd.

To comply with the requirements of Article 76.12 of Federal Law No. 86-FZ, the internal audit reviewed the efficiency of using funds provided by the Fund of Banking Sector Consolidation.

The audit of cash circulation management included continued monitoring of the efforts to create the optimal model for transportation and storage of valuables, assessment of the cost efficiency of transportation of the Bank of Russia's valuables and a review of technological efficiency of processing and storing banknotes.

The internal audit procedures were applied to the business processes used in the design of new banknotes, organisation of their production and preparation for their circulation. This helped assess the efficiency of these processes to address the tasks set for the Bank of Russia.

Monitoring of activities to design the future payment system of the Bank of Russia was based on the results of internal audits conduct-

¹ Approved by Bank of Russia Board of Directors.

ed in the previous periods. The audits included assessing performance of the Bank of Russia's units involved in exercising the functions of the payment infrastructure services operator in the payment system.

Internal audit continued its monitoring of implementation of the Bank of Russia IT Strategy for 2016–2020. An audit of project management in the Bank of Russia was conducted, and recommendations were made to improve the regulatory framework and practices for project and programme management. The internal audit procedures were used to assess the effectiveness of activities to organise the operation of the Bank of Russia's telecommunications system operation and evaluate the continuity of services and response to emergency situations and incidents.

Given the importance of issues related to the efficiency of the Bank of Russia's expenditures on the construction, operation and maintenance of its facilities, internal audit monitored the framework for decision-making and monitoring of the construction/reconstruction of the Bank of Russia's facilities and assessed the efficiency of the Bank of Russia's healthcare divisions. The transition to the target model of the Bank of Russia's procurement process was monitored to minimise the operational and reputational risks in the context of a new regulatory framework.

In the course of internal security audits, considerable attention was given to the organisation and implementation of processes related to the security of the Bank of Russia's facilities.

The information security audit was carried out as part of the review of the Bank of Russia's cyber-resilience as well as when verify-

ing compliance with the requirements of the Bank of Russia for creation, implementation and operation of the Bank of Russia's information and telecommunications system (ITS) used in payment technologies and systems for processing restricted access information and personal data.

In 2018, reliability of internal financial controls and validity of the Bank of Russia's budgetary reporting were assessed and confirmed as part of the Bank of Russia's budgetary authority with regard to internal financial audits.

The internal audit findings generally confirm the audited entities' performance of their functions and their compliance with the requirements of Russian laws, Bank of Russia regulations and other acts, and that the risk management system of the Bank of Russia corresponds to the internal and external environment and is adequate to the organisational structure and scope of the Bank of Russia's activities.

The internal audit findings were reported to the management of the Bank of Russia and the National Financial Council, followed by the relevant management decisions and monitoring of their implementation.

In the reporting period, the Bank of Russia maintained interaction with the Accounts Chamber of the Russian Federation in the course of controlling and expert analytical measures, as well as with the auditor of the Bank of Russia's annual financial statements. The Bank of Russia continued to monitor interaction of its divisions with the government authorities in countering legal offences in the economic sphere.

**BANK OF RUSSIA
ORENBURG REGIONAL
DIVISION BUILDING**

designed by unknown architect,
1900s



4. Annual financial statements of the Bank of Russia for 2018 and auditors' reports

Introduction

The Annual Financial Statements include information on banking operations and other transactions conducted by the Bank of Russia to fulfil its duties set out in Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', (as amended) (hereinafter, the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)').

The Annual Financial Statements for 2018 presented below (hereinafter, the financial statements) are comprised of:

- Annual Balance Sheet;
- Statement of Financial Performance;
- Statement of Profit and its Allocation;
- Statement of Bank of Russia Reserves and Funds;
- Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property;
- Statement of Volume of Bank of Russia Securities Trading on Organised Trading Venues;
- Statement of Bank of Russia Personnel Costs;
- Statement of Capital Investment Budget Performance.

The principal objectives of the Bank of Russia are:

- to protect the ruble and ensure its stability;
- to upgrade and strengthen the Russian banking system;
- to ensure the stability and development of the national payment system;
- to develop the Russian financial market;
- to ensure the stability of the Russian financial market.

Annual Balance Sheet as of 31 December 2018

(millions of rubles)

	Note	2018	2017
ASSETS			
1. Precious metals	4	6,123,931	4,505,183
2. Funds placed with non-residents and foreign securities	5	24,496,143	18,878,512
3. Loans and deposits	6	3,672,548	3,511,045
4. Securities, of which:	7	1,038,786	886,080
4.1. Federal government debt obligations		179,019	218,883
4.2. Credit institutions' shares acquired as part of bankruptcy prevention measures		565,839	456,200
5. Claims on the IMF	8	1,751,536	1,491,825
6. Other assets, of which:	9	2,285,999	1,542,461
6.1. Fixed assets		83,212	80,069
6.2. Profit tax advance payments		140	151
Total assets		39,368,943	30,815,106
LIABILITIES			
1. Cash in circulation	10	10,312,842	9,539,356
2. Funds in accounts with the Bank of Russia, of which:	11	14,526,589	11,003,132
2.1. Federal government funds		7,894,719	4,565,692
2.2. Funds of resident credit institutions		4,381,714	4,812,384
3. Float	12	50	727
4. Securities issued	13	1,388,252	356,777
5. Obligations to the IMF	14	1,616,353	1,407,818
6. Other liabilities	15	130,573	120,808
7. Capital, of which:	16	11,394,284	8,386,488
7.1. Authorised capital		3,000	3,000
7.2. Reserves and funds		12,261,422	8,818,796
7.3. Previous years' losses		(435,459)	0
7.4. Reporting year losses		(434,679)	(435,308)
Total liabilities		39,368,943	30,815,106

Governor of the Bank of Russia



E.S. Nabiullina

Bank of Russia Chief Accountant



I.Yu. Granovskaya

26 April 2019

Statement of financial performance

		(millions of rubles)	
	Note	2018	2017
INCOME			
Interest income	17	361,695	282,082
Income from securities trading	18	67,751	17,195
Income from stakeholdings in credit institutions and other organisations,	19	137,721	70,866
including income from stakeholdings in Sberbank		135,522	67,761
Other income	20	10,789	20,866
Total income		577,956	391,009
EXPENSES			
Interest expenses	21	354,106	136,063
Expenses on securities trading	22	130,119	52,517
Cash turnover management expenses	23	15,597	9,746
Net expenses on the creation of provisions	24	198,275	385,619
Other operating expenses	25	64,551	63,659
Bank of Russia personnel costs	26	114,465	110,952
Total expenses		877,113	758,556
Financial result before transferring income from stakeholdings in Sberbank at end-year		(299,157)	(367,547)
Income received from stakeholdings in Sberbank at end-year and transferred to the federal budget in line with federal laws		(135,522)	(67,761)
Reporting year loss		(434,679)	(435,308)

Capital, funds and profit allocation

(millions of rubles)

	Authorised capital	Reserves	Social fund	Accrued revaluation of precious metals	Accrued foreign currency exchange rate differences	Positive revaluation of securities available for sale	Growth in asset value upon revaluation	Loss for the year	Total capital	Profit for the year
Balance as of 31 December 2015, after tax and allocation of profit for 2015 in 2016	3,000	329,628	3,375	2,415,131	9,707,057	48,828	7,966	0	12,514,985	0
Profit for 2016	0	0	0	0	0	0	0	0	0	43,745
Transferred to funds in 2016	0	0	0	0	0	18,558	0	0	18,558	0
Paid from funds in 2016	0	0	(225)	(420,647)	(3,446,902)	(18,004)	0	0	(3,885,778)	0
Balance as of 31 December 2016, before tax and allocation of profit for 2016	3,000	329,628	3,150	1,994,484	6,260,155	49,382	7,966	0	8,647,765	43,745
Taxes and duties paid from Bank of Russia profit for 2016	0	0	0	0	0	0	0	0	0	(153)
Transferred to the federal budget	0	0	0	0	0	0	0	0	0	(39,233)
Allocation of profit for 2016 retained by the Bank of Russia	0	4,185	174	0	0	0	0	0	4,359	(4,359)
Balance as of 31 December 2016, after tax and allocation of profit for 2016 in 2017	3,000	333,813	3,324	1,994,484	6,260,155	49,382	7,966	0	8,652,124	0
Loss for 2017	0	0	0	0	0	0	0	(435,308)	(435,308)	0
Transferred to funds in 2017	0	0	0	271,286	0	1,795	0	0	273,081	0
Paid from funds in 2017	0	0	(315)	0	(71,659)	(31,435)	0	0	(103,409)	0

	Authorised capital	Reserves	Social fund	Accrued revaluation of precious metals	Accrued foreign currency exchange rate differences	Positive revaluation of securities available for sale	Growth in asset value upon revaluation	Loss for the year	Total capital	Profit for the year
Balance as of 31 December 2017, before tax for 2017	3,000	333,813	3,009	2,265,770	6,188,496	19,742	7,966	(435,308)	8,386,488	0
Taxes and duties, including those paid in advance in 2017	0	0	0	0	0	0	0	(151)	(151)	0
Balance as of 31 December 2017, after tax for 2017	3,000	333,813	3,009	2,265,770	6,188,496	19,742	7,966	(435,459)	8,386,337	0
Loss for 2018	0	0	0	0	0	0	0	(434,679)	(434,679)	0
Transferred to funds in 2018	0	0	0	957,437	2,684,230	60,587	0	0	3,702,254	0
Paid from funds in 2017	0	(246,773)	(793)	0	0	(12,062)	0	0	(259,628)	0
Balance as of 31 December 2018, before tax for 2018	3,000	87,040	2,216	3,223,207	8,872,726	68,267	7,966	(870,138)	11,394,284	0
Taxes and duties, including those paid in advance in 2018	0	0	0	0	0	0	0	(140)	(140)	0
Balance as of 31 December 2018, after tax for 2018	3,000	87,040	2,216	3,223,207	8,872,726	68,267	7,966	(870,278)	11,394,144	0

Information on funds and the allocation of the Bank of Russia's profit is disclosed in the Statement of Profit and its Allocation and in the Statement of Bank of Russia Reserves and Funds.

Notes to Annual Financial Statements for 2018

1. ACCOUNTING AND FINANCIAL REPORTING

The Bank of Russia's accounting and financial reporting practices are carried out in accordance with the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'; Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting'; Bank of Russia Regulation No. 567-P, dated 19 December 2016, 'On the Chart of Accounts at the Central Bank of the Russian Federation (Bank of Russia) and the Procedure for Using It'; Bank of Russia Regulation No. 522-P, dated 21 December 2015, 'Bank of Russia Accounting Policy for Accounting Purposes' (hereinafter, the Accounting Policy); and other Bank of Russia regulatory documents issued in pursuance of the said federal laws.

The financial statements have been compiled on the basis of the annual accounting statements of the Bank of Russia, including its regional and other divisions within the structure of the Bank of Russia as a legal entity; accounting registers; and information set out in the Bank of Russia regulations on the accounting rules in the Bank of Russia and other Bank of Russia regulations.

These financial statements have been compiled exclusive of the financial statements of credit institutions and other organisations within and outside of Russia in which the Bank of Russia holds a stake and/or whose activities it controls, as well as of legal entities established by the Bank of Russia. Under the Russian law, the Bank of Russia is not required to compile consolidated financial statements that include the financial statements of credit institutions and other organisations in which it holds a stake and/or whose activities it controls, as well as of legal entities established by the Bank of Russia.

These financial statements have been compiled in the currency of the Russian Federation, the Russian ruble (hereinafter, rubles), or in millions of rubles.

The financial statements cover the period from 1 January through 31 December 2018 inclusive. Bracketed figures in tables are negative values.

For the purposes of these financial statements, Bank of Russia operations with credit institutions and the State Development Corporation VEB.RF (hereinafter, VEB.RF) are jointly referred to as operations with resident banks.

Resident banks with government stakeholdings in their authorised capitals from 50% to 100% are categorised as resident banks with the direct stakeholdings of the Russian Federation represented by the Russian Ministry of Finance or the Federal Agency for State Property Management, constituent territories of the Russian Federation represented by their ministries and agencies, the Bank of Russia, the State Corporation Deposit Insurance Agency and VEB.RF (Notes 6, 11).

2. ACCOUNTING POLICY PRINCIPLES, ACCOUNTING ITEMS AND METHODS FOR THEIR APPRAISAL

Assets (claims) and liabilities are recorded at their initial value at the moment of their acquisition or occurrence. The initial value does not change until their retirement, sale, or redemption, unless otherwise provided for by the Russian legislation, the Accounting Policy, and/or Bank of Russia regulations or other by-laws. The specifics of any subsequent appraisal (revaluation) of the value of assets (claims) and liabilities are described in this Note.

(A) PRECIOUS METALS

Assets (claims) and liabilities denominated in precious metals, including precious metals contained in commemorative and investment coins that are legal tender in the Russian Federation or placed on metal accounts (custody accounts and unallocated metal accounts) of the Bank of Russia opened with non-resident and resident banks, and precious metals in deposit accounts, are entered in the books at the value of the precious metals according to the book prices for refined precious metals established by the Bank of Russia (hereinafter, the book price) as of the date of the assignment of title and shall be revalued according to changes in book prices. The Bank of Russia calculates book prices based on the current fixed prices of precious metals on the London Metal Exchange.

Assets (claims) and liabilities denominated in precious metals are reflected in the books as of the end of the reporting year at their fair value. The fair value of precious metals as of the end of the reporting year is the last price for the precious metals as fixed in the London metals spot market in the reporting year and recalculated based on the official US dollar / ruble exchange rate effective as of the reporting date.

The excess of positive unrealised differences, which arise from the revaluation of precious metal balances due to change in the book prices of precious metals and in the fair value as of the end of the reporting year, over negative unrealised differences is recorded in the balance account *Accrued revaluation of precious metals* as part of capital and is not included in the statement of financial performance.

If the negative unrealised difference exceeds the positive unrealised exchange difference in the results of the year's activities, the excess is compensated for from previously accrued unrealised differences recorded to the balance sheet account *Accrued revaluation of precious metals* as part of capital, in accordance with a decision by the Bank of Russia Board of Directors. If there are no funds in the balance sheet account *Accrued revaluation of precious metals* or if the funds are insufficient, the negative unrealised difference is entirely (or in the amount that exceeds the credit balance in the aforementioned balance sheet account) attributed to Bank of Russia operating expenses for the corresponding reporting year in accordance with a decision by the Bank of Russia Board of Directors.

The realised differences (income or expenditure) that arise when trade operations with precious metals are conducted at a price different from the book price of such precious metals are calculated individually for each operation. The realised difference is the difference between the actual value of a transaction and the value based on the book price of the corresponding precious metal.

The realised differences in operations with precious metals are determined as of the transfer date of the title to the precious metal to which the transaction relates (date of delivery of the precious metal). Net positive realised differences are recorded to financial statements as other income, while net negative realised differences are recorded as other operating expenses.

Bank of Russia claims and liabilities with respect to the delivery of precious metals in forward transactions under signed contracts are recorded to off-balance-sheet accounts at the book prices from the transaction date to the date of delivery of the precious metals or the settlement date, whichever is earlier, and are revalued as the book prices change.

The value of precious metals used to recalculate assets (claims) and liabilities in precious metals as of the reporting date was as follows: ₽2,862.6000 per gram of gold (2017: ₽2,400.9700 per gram of gold); ₽34.5400 per gram of silver (2017: ₽31.2300 per gram of silver); ₽1,773.4200 per gram of platinum (2017: ₽1,716.7000 per gram of platinum); ₽2,820.9500 per gram of palladium (2017: ₽1,955.5900 per gram of palladium).

(B) FOREIGN CURRENCY ASSETS AND LIABILITIES

Foreign currency assets (claims) and liabilities are entered in the books as of the date of the operation or transaction in foreign currency at the official rate of exchange of the foreign currency against the ruble set by the Bank of Russia as of that date (hereinafter, the official exchange rate).

Foreign currency assets (claims) and liabilities are revalued as the official exchange rate changes, except for amounts received, advances paid and down payments made under business transactions with non-resident companies (for goods delivered, works performed or services rendered), as well as the amounts of down payment in Bank of Russia transactions related to its stakeholdings in other companies which are not subject to revaluation.

The excess of the positive unrealised exchange rate differences that arise in the course of revaluing the balances in balance sheet accounts, where funds in foreign currency are reflected, over the negative unrealised exchange rate differences due to changes in the official exchange rates, is recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital and is not included in the statement of financial performance.

If the negative unrealised exchange rate differences exceed positive unrealised exchange rate differences accrued over the year, the excess is offset by previously accrued unrealised exchange rate differences recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital in accordance with a decision by the Bank of Russia Board of Directors. If there are no funds in the balance sheet account *Accrued foreign currency exchange rate differences*, or if the funds are insufficient, the negative unrealised exchange rate differences are posted entirely (or in the amount that exceeds the credit balance of the above balance sheet account) to Bank of Russia other operating expenses for the corresponding reporting year in accordance with a decision by the Bank of Russia Board of Directors.

Realised exchange rate differences that arise in foreign exchange transactions conducted at rates that differ from official exchange rates are calculated individually for each transaction and are posted to Bank of Russia income or expenses as of the transaction date. The total excess of positive realised exchange rate differences from foreign exchange operations over negative realised exchange rate differences is recorded as part of other income, whereas the total excess of negative realised exchange rate differences from foreign exchange operations over the positive realised exchange rate differences is recorded as part of other operating expenses.

Bank of Russia claims and liabilities denominated in foreign currency under foreign currency purchase and sale forward contracts are posted to off-balance-sheet accounts at the official exchange rates from the transaction date to the first settlement date set forth by transaction terms and are revalued at the official exchange rates.

The official exchange rates used to recalculate assets (claims) and liabilities in foreign currency as of the reporting date were as follows: ₹69.4706 to the US dollar (2017: ₹57.6002 to the US dollar); ₹79.4605 to the euro (2017: ₹68.8668 to the euro); ₹88.2832 to the pound sterling (2017: ₹77.6739 to the pound sterling); ₹50.9614 to the Canadian dollar (2017: ₹45.9258 to the Canadian dollar); ₹62.9976 to 100 Japanese yen (2017: ₹51.1479 to 100 Japanese yen); ₹96.6190 to the SDR (special drawing right) (2017: ₹81.8326 to the SDR); ₹48.9351 to the Australian dollar (2017: ₹44.9570 to the Australian dollar); ₹10.0997 to the Chinese renminbi (2017: ₹88.4497 to 10 Chinese renminbi).

(C) SECURITIES

Investments in debt securities other than promissory notes are categorised as follows, depending on the purpose of the purchase:

- *Appraised at fair value through profit or loss.* These include securities purchased for short-term sale (up to one year) whose fair value can be determined reliably;

- *Held to maturity*. These include securities that the Bank of Russia intends to hold to maturity, regardless of the period between the purchase date and the maturity date;
- *Available for sale*. These include securities that are not categorised as *Appraised at fair value through profit or loss* or *Held to maturity* when purchased.

Securities are accounted for at their initial value, which includes the acquisition price (purchase value) and, for securities *Available for sale* and *Held to maturity*, material additional expenses (costs) directly associated with their purchase. Expenses (costs) exceeding 5.0% of the transaction value are recognised as material.

Securities are entered in the accounts in the currency in which they are issued.

The price of securities purchased in a currency other than that in which they were issued is determined at the official exchange rate as of the purchase date, or at a cross rate calculated using official exchange rates.

The balance-sheet value of securities after their initial recognition is altered by the amount of interest income (interest expenses) accrued, amounts of partial redemption of the nominal value of securities and coupon payment, and, for the securities *Appraised at the fair value through profit or loss* and *Available for sale*, with due regard to their revaluation at the fair value.

The amount of discount and interest (coupon) income less the premium amount is recognised as part of interest income. A discount on the security means a positive difference between the nominal value (current face value) of the security and its initial value less interest (coupon) income included in the purchase price.

The amount of premium in excess of the interest (coupon) income is recognised as interest expense. A premium on the security means a negative difference between the nominal value (current face value) of the security and its initial value less interest (coupon) income included in the purchase price.

Interest income and expenses are accrued on a uniform basis from the purchase date of securities and during their remaining circulation time, unless otherwise specified in Bank of Russia regulations.

Interest income on securities where there is no uncertainty as to the receipt of the said income, as well as interest expenses on securities are recognised as income or expenses respectively, on the last working day of the month in which the securities are retired (sold) or redeemed, and when interest (coupon) income is paid by the issuer. Interest income on securities where the receipt of the income is recognised to be uncertain is recorded to separate off-balance sheet accounts for unearned interest income and is recognised as income when the funds are actually received.

Securities categorised as *Available for sale* whose fair value can be determined reliably are appraised (revalued) at their fair value.

Market prices posted by trading organisers from the latest organised trades are used to evaluate the fair value of securities traded in a foreign financial market in organised (stock exchange) trading and securities eligible for circulation in organised trading in the domestic financial market (excluding Russian Federation Eurobonds). The latest quotations (prices) posted in the Bloomberg information system are used to evaluate securities traded in non-organised (over-the-counter) trading of a foreign financial market, securities traded in the domestic financial market which are not eligible for circulation in organised trading in the domestic financial market and Russian Federation Eurobonds at fair value. Assessment models based on market data are used to evaluate the fair value of securities that do not have representative quotations (prices).

The securities revaluation amount is the difference between the fair price of securities of a corresponding issue (issuer) and their balance sheet price, net of the revaluation reflected in the corresponding balance sheet accounts.

Revaluation of securities categorised as securities *Available for sale* is posted during the year to the balance sheet accounts *Revaluation of securities available for sale — positive differences* and *Revaluation of securities available for sale — negative differences*.

At year-end, excess of positive revaluation over negative revaluation of securities categorised as *Available for sale* of the corresponding issue (issuer) is written off to the account for income from securities transactions within the limits of negative revaluation of the corresponding issue (issuer), recorded to the account showing expenses from securities transactions in previous years; in the absence of a negative revaluation of the corresponding issue (issuer), posted to expenses in previous years, or in the amount of its excess, it is recorded to the balance sheet account *Positive revaluation of securities available for sale* as part of capital. With respect to securities categorised as *Available for sale* that are acquired in the reporting year, the positive revaluation of such securities of the corresponding issue (issuer) is recorded to the balance sheet account *Positive revaluation of securities available for sale* as part of capital.

At year-end, excess of negative revaluation over positive revaluation of securities categorised as *Available for sale* of the corresponding issue (issuer) is written off against positive revaluation accounted for as part of capital within the limits of the previously accrued positive revaluations of that issue (issuer). In the absence (or shortage) of previously accrued positive revaluations of that issue (issuer) accounted for as part of capital, it is recorded to the account for expenses on securities transactions. With respect to securities categorised as *Available for sale* and acquired in the reporting year, the sum of negative revaluation of such securities of the corresponding issue (issuer) is written off to the account showing expenses on securities transactions.

The Bank of Russia is entitled to reclassify securities categorised as *Available for sale* to those *Held to maturity*.

The price of securities categorised as *Held to maturity* is reflected in the financial statements net of depreciation provisions.

Securities categorised as *Held to maturity* are not subject to revaluation.

Upon the retirement (sale) of securities, the price of such securities shall be determined using the FIFO method, which stipulates that the securities purchased first are written off from the Bank of Russia's balance sheet first.

The financial result of the retirement (sale) or redemption of securities is calculated as the difference between the balance sheet price of the security as of the retirement date, inclusive of accrued interest income (for securities in the category *Appraised at fair value through profit or loss*, net of revaluation amounts), and the contractual redemption price or retirement (sale) price and is recorded to the income or expenses on securities transactions in the statement of financial performance. For securities in the category *Available for sale*, alongside showing the retirement (sale) or redemption of securities, the total amount of accumulated revaluation of the retired securities is transferred to the accounts for income on or expenses from securities transactions.

Securities transferred by the Bank of Russia in reverse transactions (including securities in repo transactions with non-resident banks) are recognised in the same category of securities, in which they were recognised before the transaction, in separate balance sheet accounts. Funds raised by the Bank of Russia in repo transactions are accounted for in Bank of Russia balance sheet accounts for funds raised.

Securities received by the Bank of Russia in reverse transactions (including securities in repo transactions with resident or non-resident banks) are recorded to off-balance sheet accounts and revalued at the fair price on the last working day of the month. Funds raised in repo transactions with resident or non-resident banks are recorded to Bank of Russia balance sheet accounts for funds placed.

Income received or expenses incurred by the Bank of Russia in reverse transactions are recorded as part of interest income or interest expenses respectively.

Promissory notes issued by credit institutions are accounted for at their purchase price net of depreciation provisions.

(D) BANK OF RUSSIA BONDS

Bank of Russia coupon bonds (coupon OBRs) are accounted for at the nominal value reduced or increased by the discount or premium (the difference between the nominal value and the placement or selling price) inclusive of accrued interest.

The amount of discount and coupon income payable to coupon OBR holders less the premium amount are recognised as interest expenses. Interest expenses accrue starting from the date of coupon OBRs placement (sale) throughout the time to their maturity on a uniform basis. Interest expenses are recorded to expense accounts on the last working day of the month when the coupon OBRs are bought back or redeemed, and coupon income is paid.

Coupon OBRs received by the Bank of Russia in repos with resident banks are recorded to off-balance sheet accounts as securities received in repos.

(E) INVESTMENTS

Bank of Russia investments in the authorised capital of credit institutions and other organisations are accounted for at their initial price as of the date of transfer of the title to shares (stakes), as specified in the documents confirming the transfer of title to the shares (stakes).

The initial value of shares (stakes) entered in the books includes the purchase price (purchase value) and material additional expenses (costs) directly associated with their purchase. Expenses (costs) exceeding ₺25,000 are recognised as material.

Immaterial additional expenses (costs) directly related to the purchase of shares (stakes) are included in expenses on securities trading.

Bank of Russia investments in the shares of credit institutions, which were acquired for the purpose of participation in bankruptcy prevention measures and were transferred to trust management, are accounted for in balance sheet accounts for assets transferred to trust management.

Foreign currency investments in the shares (stakes) of legal entities, which are denominated in foreign currency, are accounted for in rubles at the official exchange rate as of the date on which the title to the shares (stakes) is transferred or at the official exchange rate as of the date on which they are paid up with a prepayment.

The value of shares (stakes) denominated in a foreign currency is not subject to further revaluation following a change in the official exchange rate.

(F) LOANS AND DEPOSITS

Loans, including subordinated loans, provided to credit institutions, state corporations, and other legal entities, and deposits placed, *inter alia*, in accordance with federal laws and decisions by the Bank of Russia Board of Directors are recognised as part of the principal, including accrued interest whose receipt is regarded as certain, net of depreciation provisions. Interest income where there is uncertainty as to its receipt is recorded to off-balance sheet accounts for unearned interest income and is recognised as income when the funds are actually received.

The Bank of Russia issues loans against the pledge (blocking) of securities, pledge of receivables on loan agreements and/or guarantees.

Securities received as loan collateral are appraised at their market value as of the transfer date of the indicated securities as collateral on a Bank of Russia loan, using the adjustment ratios established by the Bank of Russia, and are not subject to further revaluation.

Claims under loan agreements received as collateral on extended loans are accounted for at the value determined according to the procedure defined by the loan agreement, adjusted by the adjustment ratios established by the Bank of Russia.

The value of collateral under Bank of Russia loans provided against guarantees is calculated as the amount of loan debt plus the interest to be paid for the anticipated period of use of the loan, calculated based on the conditions of the loan agreement signed with the Bank of Russia.

Within the framework of implementing measures aimed at stabilising the financial market of the Russian Federation, the Bank of Russia places funds as part of bankruptcy prevention measures at credit institutions using the money of the Fund of Banking Sector Consolidation.

(G) LOSS PROVISIONS FOR BANK OF RUSSIA OPERATIONS

To cover possible financial losses if risks materialise under Bank of Russia claims and liabilities (including contingent ones) in the currency of the Russian Federation and in a foreign currency, which arise in the course of the Bank of Russia's performing its functions in accordance with Russian laws, the Bank of Russia makes the following provisions: on credit and other similar exposures (hereinafter, exposures), including those on securities held to maturity; claims on interest income under exposures reflected on balance sheet accounts (hereinafter, claims on interest income); funds placed on deposit by the Bank of Russia with a credit institution to compensate for the part of losses (expenses) incurred by the credit institution under transactions with other credit institutions whose banking licences have been revoked; Bank of Russia compensation payments for household deposits at bankrupt banks not covered by the Russian Federation's compulsory household deposit insurance system; performance of obligations to participants in the Bank of Russia's Pension Plan; debt incurred by foreign counterparties and issuers; liabilities of credit institutions whose participation in the international payment system has been suspended; amounts paid by the Bank of Russia to the Pension Fund of the Russian Federation in accordance with Russian laws to compensate for the shortage of pension savings; amounts transferred by the Bank of Russia to the Pension Fund of the Russian Federation in the event of the forced winding up of a non-governmental pension fund; and accounts receivable under the business activity of the Bank of Russia.

Provisions are made in the currency of the Russian Federation. Bank of Russia provisions are made based on decisions by the Bank of Russia Board of Directors and are recognised as Bank of Russia expenses.

Given a decrease in the amount of claims and liabilities in the event of their full or partial repayment, mitigation of the risk of possible financial losses thereunder, or decrease in the official exchange rate of foreign currencies against the ruble, the corresponding part of the provisions made for the claims and liabilities should be reduced and recovered to Bank of Russia income.

Provisions are used to cover financial losses under liabilities in the event that risks thereunder materialise and to write off claims the Bank of Russia cannot recover after it has undertaken all and any necessary and sufficient legal and actual measures to recover them and to exercise the rights arising from the availability of collateral for the claims, including when an entry on the debtor's registration in connection with its liquidation is made in the Unified State Register of Legal Entities.

Provisions for exposures as well as exposures to credit interest income are made by the Bank of Russia when the risk of possible financial loss (credit risk) arises as a result of a borrower's default on or improper fulfilment (if there is a threat of such default or improper fulfilment) of obligations in accordance with the terms and conditions of agreements or other documents confirming the provision and placement of funds by the Bank of Russia or as a result of the revocation of the borrower's banking licence.

The Bank of Russia determines the level of credit risk and makes provisions in the amount corresponding to the identified credit risk level for the following exposures: loans issued by the Bank of Russia (*inter alia*, under opened credit lines); deposits placed by the Bank of Russia; funds placed by the Bank of Russia under repo operations; and securities held to maturity. When assessing credit risk, the Bank of Russia evaluates the financial standing of a borrower and the quality of its debt servicing.

Provisions for exposures of the Bank of Russia in rubles and foreign currency are made on an individual basis or for a portfolio of homogeneous credit claims (on a portfolio basis).

For exposures without individual signs of impairment, which meet the criteria for the formation of portfolio of homogeneous credit claims, provisions are made on a portfolio basis.

Provisions for exposures pooled in a portfolio of homogeneous credit claims are made for the portfolio as a whole and reflect the amount of probable financial losses that may result from the overall impairment of homogeneous exposures pooled (grouped) in the portfolio. When determining the criteria for attributing credit claims to the portfolio of homogeneous credit claims, the Bank of Russia may take into account the following properties of exposures: type of exposures, emergence of exposures as a result of transactions under a single agreement; placement of funds on similar conditions; placement of funds in compliance with certain federal laws; the net settlement of debt obligations under several transactions; and other properties of transactions.

The amount of provisions for exposures is determined taking into account the value (amount) of collateral provided under concluded agreements calculated using adjustment ratios (discounts) (Note 2(f)).

Loss provisions for the funds deposited by the Bank of Russia with a credit institution to compensate, pursuant to federal laws, for the portion of losses (expenses) sustained by the credit institution in transactions with other credit institutions whose banking licences have been revoked (hereinafter, the compensation deposit) are made when the credit institution writes off the compensation deposit in whole or in part.

Provisions to guarantee Bank of Russia obligations to participants in its Pension Plan are made to ensure fulfilment of supplementary pension obligations to Bank of Russia employees in accordance with the terms and conditions of the Pension Plan. The amount of provisions to be made is determined by the excess of the forecast value of pension obligations over the forecast balance of the Bank of Russia pension fund as of the end of the year following the reporting year.

Provisions for debts of foreign counterparties and issuers may be made for the following kinds of Bank of Russia claims: claims arising as a result of Bank of Russia operations and transactions as provided for by the IMF Articles of Agreement and contracts with the IMF; claims to foreign counterparties (except for business operations); claims to foreign issuers under securities not redeemed in due time or categorised by the Bank of Russia as securities held to maturity; and claims arising in the course of foreign companies fulfilling their obligations to the Bank of Russia as provided for by suretyship agreements concluded between the Bank of Russia and the said companies to ensure intraday settlements across Russian payment systems.

Provisions for credit institutions' obligations, for the fulfilment of which in full an international payment system does not bear subsidiary liability to the Bank of Russia and/or when such institutions' participation in the international payment system has been suspended, are formed in the amount of the claim to compensation consisting of the amount of the credit institution's obligation to the Bank of Russia for whose complete fulfilment the international payment system does not bear subsidiary liability to the Bank of Russia, and/or when the institution's participation in the international payment system has been suspended, which occurred because of the insufficiency of funds in its correspondent account to fulfil the collection order for the amount of the debit net position and a fine for the unfulfilled obligations.

Provisions for the amount of compensation paid by the Bank of Russia to the Pension Fund of the Russian Federation for the shortage of pension savings are formed when, in accordance with Russian laws, the Bank of Russia, as a result of compensating the shortage of pension savings, acquired claims which, in the event of the bankruptcy of a non-governmental pension fund, that is not a participant fund, or in the event of its forced liquidation, shall be satisfied using the own capital (assets securing statutory activity, if the non-governmental pension fund is a non-profit organisation) of such non-governmental pension fund.

Provisions for the amounts of funds transferred by the Bank of Russia to the Pension Fund of the Russian Federation are made if an arbitration court issues a ruling, upon the Bank of Russia's

application, on the forced liquidation of a non-governmental pension fund which has not been registered in the system guaranteeing the rights of insured persons because of the cancellation of its licence.

Provisions to cover possible financial losses under receivables from economic activity determined in the values established by the Bank of Russia's regulation governing the procedure for the Bank of Russia to write off assets, receivables and other expenditures are formed for receivables recognised in the books in the balance sheet accounts for settlements with employees with regard to imprest amounts (in respect of the amounts of shortages); settlements with suppliers, contractors, and buyers; settlements with non-residents under business transactions; or settlements with other debtors which bear the risk of possible financial loss due to the default on (improper performance of) obligations by the Bank of Russia's debtor under the contract for the delivery of goods, performance of works, or provision of services.

Bank of Russia assets, for which provisions are made, are accounted for in the financial statements net of the amount of provisions made.

(H) FIXED ASSETS

Bank of Russia fixed assets are defined as assets which possess physical form and a service life exceeding 12 months and a value in excess of the limit set by the Bank of Russia for the recognition of property as fixed assets which are used as tools for the provision of services or management of a Bank of Russia division, as well as in the cases stipulated in public health, technical and maintenance, and other special technical standards and requirements. Since 1 January 2016, the limit of the property value required for such property to be entered into the books as fixed assets has been set by the Bank of Russia at over ₹100,000 per accounting unit put into operation from 1 January 2016. Objects entered into the books as fixed assets before 1 January 2016 are accounted for as part of fixed assets.

Fixed assets are recognised in the financial statements at their residual value, i.e. at the purchase price including revaluation less accrued depreciation.

Bank of Russia fixed assets have been revalued in accordance with Russian Federation Government resolutions. The latest revaluation was made as of 1 January 1997.

Depreciation allowances are made each month, on the first day of the month following the month a fixed asset is put into operation, at the rate of one-twelfth of the annual sum, and are continued throughout its entire service life (except in cases when the asset is in the process of reconstruction or modernisation for more than 12 months or has been closed down for more than three months by a decision of the Bank of Russia). They are discontinued from the first day of the month following the month during which the cost of the asset was fully repaid, or the asset was retired.

The maximum amount of accrued depreciation equals the balance sheet value of the fixed asset, which means the initial or current (replacement) value of the asset (including revaluation).

Fixed assets acquired and put into operation prior to 1 January 2002 are depreciated at the official rates of depreciation set by USSR Council of Ministers Resolution No. 1072, dated 22 October 1990, 'On Standard Rates of Depreciation Allowances for the Complete Replacement of Fixed Assets of the National Economy of the USSR':

	%	
	2018	2017
Buildings and other facilities	1—6	1—7
Equipment (including computers, furniture, vehicles, etc.)	1—6	1—7

Fixed assets put into operation from 1 January 2002 are depreciated according to the classifier of depreciated fixed assets of the Bank of Russia issued pursuant to Russian Federation Go-

vernment Resolution No. 1, dated 1 January 2002, 'On the Classification of Fixed Assets Included in Depreciation Groups' (as amended by Russian Federation Government Resolutions No. 415, dated 9 July 2003; No. 476, dated 8 August 2003; No. 697, dated 18 November 2006; No. 676, dated 12 September 2008; No. 165, dated 24 February 2009; No. 1011, dated 10 December 2010; No. 674, dated 6 July 2015; No. 640, dated 7 July 2016; and No. 526, dated 28 April 2018):

%

	2018	2017
Buildings and other facilities	1–37	1–46
Equipment (including computers, furniture, vehicles, etc.)	2–71	2–75

The maximum annual depreciation rate decreased as a result of 100% depreciation accrual for fixed assets for which the highest depreciation rates applied in the previous reporting period.

Expenses for the repair and maintenance of fixed assets are recorded to the financial statement as other operating expenses.

Income or expenses following the retirement of fixed assets are calculated as the difference between their balance sheet value (including accrued depreciation and retirement cost) and are recorded to the statement of financial performance as other income or other operating expenses.

(I) INTANGIBLE ASSETS

Intangible assets are identifiable objects whose initial value may be accurately determined. They do not have a physical form and are meant for long-term use (i.e., for a service life of over 12 months). They are not intended for sale within 12 months and are capable of bringing further economic advantages, which advantages the Bank of Russia is entitled to receive, unlike other entities enjoying only limited access to such economic advantages.

Intangible assets are accounted for in the financial statements at their residual value, i.e. at the purchase price net of accrued depreciation.

A change in the value of an intangible asset is allowed in the event of its revaluation at the current market value. Intangible assets are revalued by recalculating their residual value. The balance sheet value of an intangible asset after revaluation and the amount of accrued depreciation are determined using a recalculation ratio defined as the quotient of the current market value of the intangible asset divided by its residual value. Intangible assets have not been revalued before.

Depreciation allowances are made each month, starting the first day of the month following the month intangible assets are put into operation, at the rate of one-twelfth of the annual sum, and are continued throughout their entire service life. They are discontinued from the first day of the month following the month during which the cost of the asset was completely repaid, or the asset was retired.

The maximum amount of accrued depreciation equals the balance sheet value of intangible assets.

The following rates of depreciation are applied to intangible assets put into operation on or after 1 January 2002:

%

	2018	2017
Intangible assets	10–67	7–75

The maximum annual depreciation rate decreased due to the change of the service life in the case of a material change in the duration of the period (over one year) during which the Bank of Russia is expected to use the software product.

The Bank of Russia establishes the service life of its intangible assets in accordance with its Ordinance No. 2581-U, dated 22 February 2011, 'On the Service Life of Software Products and/or Databases Used by the Bank of Russia, and on the Procedure for Recording the Acquisition of Software Licences to Bank of Russia Expenses'.

Income or expenses arising following the retirement of intangible assets are calculated as the difference between their balance sheet value (including accrued depreciation) and the retirement value, and are recorded to the statement of financial performance as other income or other operating expenses.

(J) CASH IN CIRCULATION

The Bank of Russia is the sole issuer of cash and the organiser of cash circulation. Banknotes and coins put into circulation are shown in the financial statements at their nominal value, exclusive of ruble cash at Bank of Russia tills, Bank of Russia ATMs and cash in transit.

(K) FUNDS IN ACCOUNTS WITH THE BANK OF RUSSIA

Funds in accounts with the Bank of Russia are comprised of federal government funds, resident banks' correspondent accounts, required reserves of credit institutions deposited with the Bank of Russia, credit institutions' and other organisations' deposits taken by the Bank of Russia, regional and local government budget funds and government extra-budgetary funds, funds of organisations that are federal or public property, as well as funds raised from non-resident banks in repos executed in the external market. Funds in accounts with the Bank of Russia are reflected in the financial statements at their nominal value, inclusive of interest accrued.

(L) FLOAT

As of the reporting date, float includes the balances resulting from the completion of settlement operations related to money transfers within the Bank of Russia payment system.

Float is reflected in the financial statements at its nominal value.

(M) CAPITAL

The Bank of Russia's capital consists of:

- authorised capital. Under Article 10 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia has authorised capital in the amount of ₪3 billion;
- various reserves and funds created to enable the Bank of Russia to perform the functions assigned to it by the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. Information about the sources and use of Bank of Russia reserves and funds is contained in the Statement of Bank of Russia Reserves and Funds, which is part of these financial statements;
- loss of the reporting year and previous years (Note 2(o)).

(N) RECOGNITION OF BANK OF RUSSIA INCOME AND EXPENSES

Income and expenses are formed as a result of conducting transactions in rubles, in foreign currency and in precious metals and are recorded on an accrual basis, that is, they are posted as soon as they occur, rather than after the funds (or their equivalents) have been actually received or paid.

Records across accounts for income and expenses is maintained in rubles.

Income and expenses are recorded in the period to which they relate.

Income and expenses earned (incurred) in foreign currency are converted into rubles at the official exchange rate as of the date of their recognition in the books. Income and expenses

earned (incurred) in precious metals are recalculated into rubles at the book prices in effect as of the date of their recognition in the books.

Expenses on the replenishment of supplementary pension funds for Bank of Russia employees are recorded to the statement of financial performance, after they have been incurred, based on the actuarial assessment of pension obligations of the Bank of Russia.

Income in the form of dividends due for the Bank of Russia's stakeholdings in the authorised capitals of legal entities in foreign currency and in the currency of the Russian Federation is recorded in the books based on information on the decision to pay dividends made by the legal entity's authorised body.

Income (expenses) received (incurred) and accrued in previous reporting periods is (are) recorded to the items of the statement of financial performance for the reporting period with corresponding economic content.

Interest income and interest expenses are accrued during the period of placement (attraction) of funds on a uniform basis, unless otherwise stipulated by Bank of Russia regulations.

The receipt of interest income on all exposures with regard to borrowers against which claims, according to the provisioning procedure, are assigned to groups lower than those with zero, insignificant or moderate credit risk, or the receipt of interest income on operations, for which the portfolio of homogeneous credit claims has been created, is recognised for reflection in accounting as uncertain from the date of assignment.

(O) FINANCIAL PERFORMANCE

Financial performance: profit or loss is calculated in accordance with the legislation of the Russian Federation as the difference between total income and expenses of the Bank of Russia for the reporting year, as reflected in the books.

Loss of the reporting year and previous years is entered in the books as part of capital (Note 2(m)).

(P) TAXATION OF THE BANK OF RUSSIA

The Bank of Russia pays taxes and duties in compliance with the Tax Code of the Russian Federation. It has drawn up and approved its accounting policy for the purposes of taxation, which sets out the applicable tax accounting principles and methods, alongside the rules on and procedure for creating a tax base for the calculation of taxes and duties to be paid by the Bank of Russia.

(Q) TRANSFER OF PROFIT TO THE FEDERAL BUDGET

Pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia transfers 75% of the actual annual profit retained after the payment of taxes and duties under the Tax Code of the Russian Federation to the federal budget.

In accordance with Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019', the Bank of Russia shall transfer by 1 August 2017 the income received in 2017 for 2016 from its stakeholdings in Sberbank to the federal budget. The part of the profit the Bank of Russia receives for 2017 which is to be transferred to the federal budget shall be reduced by the said amount.

In accordance with Federal Law No. 370-FZ, dated 5 December 2017, 'On the Specifics of Transferring the Income for 2017 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2018', the income received in 2018 by the Bank of Russia from its stakeholdings in Sberbank at end-2017 shall be transferred by the Bank of Russia to the federal budget on or before 1 August 2018. The part of the Bank of Russia's profit to be

transferred to the federal budget in 2019 in accordance with Article 26 of Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' shall be reduced by the said amount.

If a loss incurs as of the end of the reporting year, the income earned from the stakeholdings in Sberbank and transferred to the federal budget in accordance with the legislation of the Russian Federation shall be posted to expenses of the reporting year.

(R) CLAIMS ON THE IMF AND OBLIGATIONS TO THE IMF

Pursuant to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia serves as a depository for IMF funds in the currency of the Russian Federation and performs operations and transactions stipulated by the IMF's Articles of Agreement and contracts with the IMF.

The Bank of Russia keeps records of the Russian Federation's claims on the IMF (including the Russian Federation's quota in the Fund) and its obligations to the IMF.

Claims on the IMF include the Russian Federation's quota in the Fund; funds in the Russian Federation's account with the IMF's Special Drawing Rights Department (SDR Department); and loans provided by the Bank of Russia to the IMF under the New Arrangements to Borrow (NAB), inclusive of interest accrued.

IMF quotas are subscriptions of all member states, which are paid in national and foreign currencies. The portion of the quota paid in a foreign currency constitutes a position on the reserve tranche. Quotas are denominated in Special Drawing Rights (SDRs).

SDRs are reserve assets created by the IMF. The SDR value is posted daily based on a basket of currencies, consisting of the US dollar, euro, Chinese renminbi, Japanese yen and pound sterling.

The New Arrangements to Borrow are a lending facility to provide funds to the IMF by a group of member countries with a sustainable balance of payments and sufficient international reserves. In 2012, upon agreement with member countries, the maximum maturity of NAB claims, including previously issued loans, was extended from five to ten years, while other lending terms and conditions remained unchanged. The Bank of Russia can recall its committed funds at any time, if necessary.

Obligations to the IMF are represented by the ruble balances in the IMF's Number 1 and 2 Accounts with the Bank of Russia and by the obligations on SDRs received by the Russian Federation during previous issues of SDRs by the IMF, inclusive of accrued interest.

The IMF's Number 1 Account is used for financial operations and trades. The IMF's Number 2 Account is used to pay for the administrative expenses of the IMF representative office in the Russian Federation and is replenished by withdrawing funds from the IMF's Number 1 Account.

The accounting of claims on the IMF and obligations to the IMF as well as interest accrual is performed in line with IMF recommendations and Bank of Russia regulations. In order to maintain the total of Bank of Russia ruble-denominated obligations to the IMF in SDR terms at the ruble exchange rate set by the IMF, the balances in the IMF's Number 1 and 2 Accounts are revalued on a monthly basis on the first working day of the month following the reporting month. The total exchange rate differences accrued on the IMF's Number 1 Account are recognised in correspondence with the account for recording the part of the quota paid in rubles. The total exchange rate differences accrued to the IMF's Number 2 Account are recorded to the Bank of Russia's income or expenses. At the end of the IMF's fiscal year (30 April) and by the decision of the IMF or at the request of the Bank of Russia, the amount of the accrued exchange rate differences from the revaluation of the IMF's Number 1 Account is recorded to the increase (decrease) in the balance of the IMF's Number 1 Account; and the revaluation of the IMF's Number 2 Account is recorded to the increase (decrease) in this account's balance.

SDR-denominated claims on the IMF and obligations to the IMF are revalued at the official rate of exchange of the SDR to the ruble set by the Bank of Russia.

(S) REPORTING OF OPERATIONS UNDER THE CHINESE RENMINBI (RMB) / RUSSIAN RUBLE FX SWAP AGREEMENT BETWEEN THE PEOPLE'S BANK OF CHINA AND THE BANK OF RUSSIA AND OPERATIONS TO PROVIDE RMB RECEIVED UNDER THE AGREEMENT TO RUSSIAN CREDIT INSTITUTIONS THROUGH SWAPS

The RMB/RUB bilateral FX Swap Agreement between the People's Bank of China and the Bank of Russia (hereinafter, the National Currency Swap Agreement) was concluded¹ to develop bilateral economic relations by funding trade and direct investment. Under this Agreement, the parties can provide their own national currency or obtain the national currency of the other party through swaps within certain maximum limits. The Bank of Russia provides RMB to Russian credit institutions through swaps under agreements between the Bank of Russia and Russian credit institutions.

The current maximum amount in rubles (Chinese renminbi) that may be supplied (received) by the Bank of Russia through swaps under the National Currency Swap Agreement is recorded to off-balance sheet accounts under the item *Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans*. The total of the maximum amount in rubles (renminbi) posted to the off-balance sheet account is decreased by the amounts of swaps between the Bank of Russia and People's Bank of China and is recovered after the transactions are completed.

The current amount of rubles (renminbi) that may be provided (received) by the Bank of Russia through swaps between the Bank of Russia and the People's Bank of China in the event that the People's Bank of China (Bank of Russia) requests funds through a swap is recorded to off-balance sheet accounts under the item *Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans*. The respective amount of renminbi (rubles) is posted to the off-balance sheet accounts for the bank guarantees and sureties received (issued) during the effective period of a swap. The total of the current amount in rubles (renminbi) posted to the off-balance sheet account under the item *Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans* is decreased when the Bank of Russia provides rubles to the People's Bank of China (when the Bank of Russia receives renminbi from the People's Bank of China) by the amount of funds provided (received) and is recovered upon their repayment.

The rubles supplied by the Bank of Russia to the People's Bank of China (renminbi received by the Bank of Russia from the People's Bank of China) under the swaps are recorded to the balance sheet accounts for other placed (received) funds.

(T) CHANGES TO COMPARATIVE DATA

Due to the amendments introduced starting 1 January 2018 to the classification of items in the Bank of Russia personnel costs budget and items in the Bank of Russia capital investment budget performance, the Statement of Bank of Russia Personnel Costs and the Statement of Capital Investment Budget Performance are presented according to the new classification of expenses.

¹ Due to the expiry of the Agreement concluded in 2014, in 2017, the Bank of Russia and the People's Bank of China concluded a new National Currency Swap Agreement.

3. IMPACT OF ECONOMIC CONDITIONS ON BANK OF RUSSIA FINANCIAL STATEMENTS

Balance sheet indicators and the income and expenses of the Bank of Russia were shaped by the recovery of economic activity, inflation growth, weakening of the national currency, an increase in the structural liquidity surplus of the banking sector, the influence of current measures and decisions associated with the performance of various legislative functions by the Bank of Russia and other factors.

In 2018, recovery of economic activity picked up. According to Rosstat estimates, Russia's gross domestic product in real terms grew by 2.3% from 1.6% in 2017, and in nominal terms, GDP grew by 12.5% from 7.1% in 2017.² In 2018, household final consumption expenditure grew by 5.4% in nominal terms.

In the first half of 2018, inflation remained below the target level at 2.2–2.4%. This was mostly explained by the time factor, i.e., a high supply of farm produce and, therefore, a low growth rate of food prices. In this context, the Bank of Russia reduced its key rate twice, by 25 bp in February and in March, to 7.25% p.a.

In the second half of 2018, consumer price growth accelerated under the influence of change in the trade-off between demand and supply in some food markets and as a result of price adjustment to the weakening of the ruble in April and then in August. Household and business inflation expectations remained elevated, and uncertainty regarding their further movements remained. Considering these factors, the Bank of Russia increased its key rate twice, in September and December, by 0.5 pp in aggregate, from 7.25% to 7.75% p.a.

As the nominal GDP and household final consumption expenditure increased, cash in circulation grew by 8.1% in 2018.

The US dollar / ruble exchange rate increased by 18% over 2018, while the euro/ruble exchange rate increased by 12%. The weakening of the ruble was mostly associated with the reassessment by investors of the risks of investments in emerging market economies and with the decline of demand for their assets. Furthermore, a country risk premium for Russia was negatively affected by the intensification of sanctions rhetoric, which spurred sales of Russian securities by investors and put pressure on the ruble exchange rate. Consequently, for the purpose of curbing risks for financial stability, the Bank of Russia suspended fiscal rule-based foreign currency purchases from late August to the end of 2018.

In 2018, in the context of the operating fiscal rule, \$35.4 billion was purchased. The amount of postponed purchases in the dollar equivalent was 31.1 billion. The suspension of purchases slowed down the growth of international reserves. Furthermore, in 2018, about \$16.5 billion from the National Wealth Fund was allocated to finance the budget deficit of the Pension Fund of the Russian Federation. As a result, in 2018, the volume of international reserves in dollar terms grew by 8.3% (by \$35.8 billion); while in 2017 they increased by 14.6% (by \$55.0 billion). The growth of the international reserves in 2018 was caused both by increase in their FX component (by \$25.5 billion, or 7.2% as compared with 2017) and gold reserves (by \$10.3 billion, or 13.4%). A positive foreign exchange revaluation also contributed to the growth of international reserves in ruble terms. Consequently, the balance of funds under the item *Funds placed with non-residents and foreign securities* grew by 29.8%.

Federal government funds held in accounts with the Bank of Russia expanded by 72.9% mostly as a result of fiscal rule-based foreign currency purchases, as well as foreign currency revaluation.

At the beginning of 2018, an inflow of liquidity to the banking sector was observed as a result of foreign currency purchases in the domestic foreign exchange market and the provision of funds

² The figures for 2017 were adjusted due to the revision of the nominal GDP for 2015–2018 by Rosstat in December 2018.

to credit institutions undergoing financial rehabilitation. In the second half of 2018, following suspension of foreign currency purchases in the domestic foreign exchange market, the structural liquidity surplus contracted, as moderate budget expenditure was unable to off-set the outflow of funds from banks due to tax payments. As a result, the balance of credit institutions' funds held in accounts with the Bank of Russia declined by 8.9%.

Credit institutions' demand for Bank of Russia refinancing facilities remained subdued. Therefore, the balance of funds in the *Loans and deposits* item remained virtually unchanged.

The financial result of the Bank of Russia's performance in 2018 was negative. In the face of a structural liquidity surplus, in 2018, the Bank of Russia actively conducted liquidity-absorbing operations, including regular deposit auctions and auctions for the placement of Bank of Russia coupon bonds. Consequently, Bank of Russia interest expenses in 2018 were 2.6 times higher than in the previous year. At the same time, amid growing interest rates in the global financial markets and a change in the structure of Bank of Russia reserve assets in 2018, return on their placement was higher than in 2017.

In addition to the above factors, another negative drag on the financial result came from the provision of funds to credit institutions as part of bankruptcy prevention measures using the resources of the Fund of Banking Sector Consolidation and by the transfer of income from the stakeholdings in Sberbank to the federal budget in accordance with federal laws.

4. PRECIOUS METALS

	(millions of rubles)	
	2018	2017
Precious metals in physical form	6,113,297	4,494,384
Precious metals in coins and commemorative medals	10,634	10,799
Total	6,123,931	4,505,183

The increase in the *Precious metals in physical form* item was mainly due to the purchase of gold through purchase and sale transactions with Russian credit institutions under master agreements and the change in the fair value of precious metals as of the end of the reporting year.

The decrease in the *Precious metals in coins and commemorative medals* item was mainly due to the sale of coins made of precious metals in the domestic and foreign financial markets.

5. FUNDS PLACED WITH NON-RESIDENTS AND FOREIGN SECURITIES

(millions of rubles)

	2018	2017
Funds placed with non-residents and foreign securities in foreign currency, of which:	24,487,579	18,869,953
– foreign securities	15,626,515	15,585,204
– balances in correspondent accounts and deposits placed with non-resident banks	8,120,584	3,156,637
– other funds placed with non-residents	740,480	128,112
Funds placed with non-residents in rubles	8,564	8,559
Total	24,496,143	18,878,512

Funds placed with non-residents and foreign securities in foreign currency**Foreign securities**

Foreign securities in foreign currency are classified as *Securities available for sale* and mostly comprise government bonds and bills of China, France, the United Kingdom, Germany, Canada, US treasuries, non-government bonds guaranteed, among others, by governments of foreign states and debt obligations issued by supranational financial institutions.

As of 31 December 2018, foreign securities in foreign currency had maturities ranging from 2019 to 2024 and were either coupon-free or had coupon income rates between 0% and 8% p.a.

As of 31 December 2017, foreign securities in foreign currency had maturities ranging from 2018 to 2028 and were either coupon-free or had coupon income rates between 0% and 9.125% p.a.

As of 31 December 2018, the fair value of foreign securities in foreign currency in the Bank of Russia's portfolio totalled ₺15,626,515 million (2017: ₺15,585,204 million) (Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property).

The fair value of foreign securities in foreign currency was measured using their latest purchase quotes (prices), as shown in the Bloomberg information system, or, for coupon-free commercial securities without representative quotes (prices), according to a model for assessing future cash flows discounted using government stock yield rates with respective maturities and denominations adjusted for the credit risk premium (spread).

As of 31 December 2018, the fair value of foreign securities in foreign currency appraised using the quotes (prices) shown in the Bloomberg information system totalled ₺13,678,862 million (2017: ₺13,434,265 million).

As of 31 December 2018, the fair value of foreign securities in foreign currency appraised using the model of future cash flow assessment totalled ₺1,947,653 million (2017: ₺2,150,939 million).

The change in the balance of this item was mostly due to the growth in the official exchange rates of the foreign currencies in which the securities were denominated against the ruble. The influence of this factor compensated for the decline in the value of securities caused by the contraction in Bank of Russia investments in those securities.

This item includes foreign securities transferred by the Bank of Russia in repo transactions, with a total fair value of ₺825,980 million (2017: ₺334,302 million) (Note 11), those transferred as additional collateral (margin) in repos, with a total fair value of ₺250 million (2017: ₺239 million), and those transferred as a loan, with a total fair value of ₺97,717 million (2017: ₺290,048 million).

Balances in correspondent accounts and deposits placed with non-resident banks

The item *Balances in correspondent accounts and deposits placed with non-resident banks* includes deposits with non-resident banks and funds in correspondent accounts with non-resident banks, plus interest accrued. Among other things, balances in correspondent accounts include funds in Bank of Russia accounts held with the national banks of Eurasian Economic Union member states.

In accordance with the Eurasian Economic Union Treaty, dated 29 May 2014, the central (national) banks of one party are to sell US dollars to the central (national) banks of the other party for a sum in the national currency equal to the amount of distributed customs duties in the national currency in favour of the other party. Settlements between the parties are made by offsetting a sum equal to the difference between the parties' mutual obligations in US dollars.

According to the bilateral agreements signed by the Bank of Russia with the Central Bank of the Republic of Armenia, the National Bank of the Republic of Belarus, the National Bank of the Republic of Kazakhstan and the National Bank of the Kyrgyz Republic, the Bank of Russia opened correspondent accounts in the mentioned banks in the national currencies of the member states of the Eurasian Economic Union.

As of 31 December 2018, money in correspondent accounts held with the said banks totalled $\text{₽}744$ million (2017: $\text{₽}349$ million).

Increase in the item *Balances in correspondent accounts and deposits placed with non-resident banks* is mostly due to the growth of the total amount of money placed by the Bank of Russia in deposits with non-resident banks and in correspondent accounts with non-resident banks as of the end of the reporting period, as well as due to the growth of official exchange rates of foreign currencies in which the money has been placed against the ruble.

Other funds placed with non-residents

The item *Other funds placed with non-residents* includes funds placed with non-resident banks in transactions for the purchase of foreign securities with an obligation to resell (reverse repo), plus interest accrued on these transactions. The said funds include, *inter alia*, money placed in the amount of $\text{₽}687,216$ million (2017: $\text{₽}76,383$ million) received in transactions for the sale of securities with an obligation to repurchase (repo transactions) concluded with the same counterparty (Note 11).

Securities received by the Bank of Russia in reverse repos with non-residents are recorded to off-balance sheet accounts at the fair value and total $\text{₽}750,437$ million (2017: $\text{₽}129,815$ million) (Note 27). Of these, securities received in reverse repos executed for the placement of funds received in repos have a fair value of $\text{₽}695,294$ million (2017: $\text{₽}76,978$ million) (Notes 11 and 27).

The increase in the item *Other funds placed with non-residents* is due to the growth of the total amount of funds provided by the Bank of Russia in repos as of the end of the reporting period and due to the growth of official exchange rates of foreign currencies in which money has been placed against the ruble.

Funds placed with non-residents in rubles

The item *Funds placed with non-residents in rubles* reflects Bank of Russia ruble-denominated claims on the People's Bank of China under the bilateral National Currency Swap Agreement, including accrued interest.

6. LOANS AND DEPOSITS

	(millions of rubles)	
	2018	2017
Loans and deposits with resident banks,	3,039,841	2,421,399
of which:		
– issued using the money of the Fund of Banking Sector Consolidation	1,791,678	1,000,468
– issued and placed under certain federal laws	503,838	503,829
Other funds placed with resident banks (in repo transactions)	3,626	3,569
Other,	1,884,698	2,055,328
of which:		
– issued and placed under certain federal laws	1,882,109	2,052,739
Provisions	(1,255,617)	(969,251)
Total	3,672,548	3,511,045

The item *Loans and deposits with resident banks* mostly reflects ruble-denominated debt under Bank of Russia deposits placed as part of bankruptcy prevention measures using money of the Fund of Banking Sector Consolidation (hereinafter, the FBSC) and under Bank of Russia loans secured by receivables under loan agreements or guarantees or by pledge of securities (including mortgage deeds).

The item *Loans and deposits with resident banks, of which: issued and placed under certain federal laws* reflects the amount outstanding on subordinated loans provided to Sberbank in 2008 and 2014 as part of statutory measures implemented by the Russian Federation to support its financial system.

Outstanding amounts on loans and deposits with resident banks with a 50% to 100% government stake in their authorised capital amounted to ₽2,896,023 million (2017: ₽1,685,621 million).

The increase in the item *Loans and deposits with resident banks* is mostly associated with the provision of funds by the Bank of Russia as part of bankruptcy prevention measures at the cost of money that make up the FBSC.

The item *Other funds placed with resident banks (in repo transactions)* reflects funds placed by the Bank of Russia with resident banks in repos amounting to ₽3,626 million (2017: ₽3,569 million), including interest accrued.

Securities acquired by the Bank of Russia in repos with resident banks are recorded to off-balance sheet accounts at the fair value and amount to ₽3,791 million (2017: ₽3,744 million) (Note 27).

The item *Other* reflects outstanding amounts on Bank of Russia loans provided to the State Corporation Deposit Insurance Agency (hereinafter, the DIA) to implement bankruptcy prevention measures at banks (in accordance with Article 189⁵⁶ of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)'), ensure the financial sustainability of the deposit insurance system, and fund the payment of indemnities on deposits (to replenish the compulsory deposit insurance fund) (in accordance with Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Household Deposits with Russian Banks') in the amount of ₽1,879,889 million (2017: ₽2,050,519 million), a compensation deposit of ₽2,220 million (2017: ₽2,220 million) placed by the Bank of Russia with a credit institution in compliance with Federal Law No. 173-FZ, dated 13 October 2008, 'On Additional Measures to Support the Financial System of the Russian Federation', in order to partially compensate for this credit institution's losses (expenses) that had been caused by the default of a borrower whose banking licence had been revoked, and a subordinated loan to the Interstate Bank in the amount of ₽2,589 million (2017: ₽2,589 million).

The decrease under this item is mostly due to a decline of outstanding amounts on loans granted by the Bank of Russia to the DIA.

The value of collateral received under loans extended is ₹324,661 million (2017: ₹435,744 million). The value of collateral received under deposits placed by the Bank of Russia as of 31 December 2017 amounted to ₹312,345 million. No collateral was provided for the deposits, which were placed by the Bank of Russia and under which there were outstanding amount as of the end of the reporting period.

Provisions totalling ₹1,255,617 million were made for loans issued, deposits and other funds placed (2017: ₹969,251 million), of which:

- provisions for outstanding amounts on secured ruble-denominated loans issued by the Bank of Russia to resident banks and placed deposits totalling ₹874,830 million (2017: ₹554,337 million);
- provisions for outstanding amounts on funds provided by the Bank of Russia to finance bankruptcy prevention measures at banks, ensure the financial sustainability of the deposit insurance system, and fund the payment of indemnities on deposits (to replenish the compulsory deposit insurance fund) totalling ₹375,978 million (2017: ₹410,104 million);
- provisions for outstanding amounts on other loans, deposits and funds placed with resident banks (in repo transactions), totalling ₹4,809 million (2017: ₹4,810 million).

7. SECURITIES

	(millions of rubles)	
	2018	2017
Debt obligations <i>Available for sale</i>, of which:		
Russian federal government debt obligations, of which:	179,019	218,883
– federal government bonds (OFZs)	59	0
– Russian government external foreign currency-denominated loan bonds (Russian Eurobonds)	178,960	218,883
Total	179,019	218,883
Debt obligations <i>Held to maturity</i>, of which:		
Other Russian issuers' debt obligations	212,636	212,636
Provisions	(23,390)	(106,318)
Subtotal	189,246	106,318
Credit institutions' shares acquired for the participation in bankruptcy prevention measures	565,839	456,200
Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)	104,661	104,661
Credit institutions' promissory notes acquired by the Bank of Russia	23	23
Provisions	(2)	(5)
Total	1,038,786	886,080

Debt obligations Available for sale

Federal government bonds (OFZs)

As of 31 December 2017, the OFZs in the Bank of Russia's portfolio are to mature in 2021 and have a coupon income of 6.5% p.a.

As of 31 December 2018, the total fair value of the OFZs is ₹59 million.

As of 31 December 2018, the fair value of the OFZs was determined based on the latest market prices provided by the trade organiser (PJSC Moscow Exchange MICEX-RTS).

Russian government external foreign currency-denominated loan bonds (Russian Eurobonds)

Russian government external foreign currency-denominated loan bonds (Russian Eurobonds) are US dollar-denominated government securities issued by Russia's Ministry of Finance.

As of 31 December 2018, Russian Eurobonds were set to mature from 2028 to 2030, with coupon income from 7.5% to 12.75% p.a.

As of 31 December 2017, Russian Eurobonds were set to mature from 2018 to 2028, with coupon income from 11% to 12.75% p.a.

As of 31 December 2018, the fair value of Russian Eurobonds is ₹178,960 million (2017: ₹218,883 million).

Decrease in the balance under the item is mostly associated with the sale and redemption (partial repayment of the principal debt) of securities and with the revaluation of securities at their fair value due to the downturn of market prices.

The fair value of Russian Eurobonds was determined using their latest purchase quotes (prices) provided in the Bloomberg information system.

Debt obligations Held to maturity

Other Russian issuers' debt obligations

Other issuers debt obligations held to maturity consist of VEB.RF bonds acquired by the Bank of Russia in 2014 to provide funding to VEB.RF in connection with the early fulfilment by VEB.RF of its obligations to return deposits placed by the Bank of Russia with VEB.RF in 2008–2009 following the decisions of the Bank of Russia Board of Directors.

These bonds mature in 2021 and have a coupon income of 2% p.a.

Provisions in the amount of ₹23,390 million were created for the acquisition of VEB.RF bonds (2017: ₹106,318 million) (Note 24).

Credit institutions' shares acquired for the participation in bankruptcy prevention measures and shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)

The structure of Bank of Russia investments in credit institutions shares acquired for the participation in the implementation of bankruptcy prevention measures (including those transferred in trust management) and shares issued by credit institutions and other organisations is shown in the Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property.

Credit institutions' promissory notes acquired by the Bank of Russia

Promissory notes issued by credit institutions are accounted for at their purchase price.

This item includes the outstanding amount on a promissory note acquired by the Bank of Russia in 2001 under the terms and conditions of an Amicable Agreement.

The item *Provisions* shows provisions made for the promissory note issued by a credit institution in the amount of ₹2 million (2017: ₹5 million).

8. CLAIMS ON THE IMF

	(millions of rubles)	
	2018	2017
The Russian Federation's quota with the IMF, of which:	1,246,742	1,055,943
– quota with the IMF paid in rubles	1,067,365	943,124
– IMF reserve tranche position	180,164	115,093
– revaluation of the Russian Federation's quota with the IMF paid in rubles, negative differences	(787)	(2,274)
Funds in the Russian Federation's account with the IMF SDR Department	468,039	395,512
Loans to the IMF issued by the Bank of Russia according to the New Arrangements to Borrow	36,474	40,251
Fee for the reserve tranche position	281	119
Total	1,751,536	1,491,825

The quota of the Russian Federation in the IMF in SDR terms (SDR12,903.7 million or 2.71% of all IMF quotas) did not change in 2018 (the ruble equivalent of the quota increased owing to the growth of the official exchange rate of the SDR against the ruble).

The change of the components of Russia's quota with the IMF was due to the issuance of loans in 2018 by the IMF to the borrower states using quota resources of the fund within the framework of the Financial Transactions Plan. When providing funds to the IMF, the Bank of Russia transferred US dollars to the IMF borrower states, which caused an increase in the IMF's reserve tranche position and a decline in Russia's quota with the IMF paid in rubles equivalent to the amount of funds transferred. The increase in the item *Quota with the IMF paid in rubles* was due to the growth of the official exchange rate of the SDR against the ruble established by the IMF, which offset the decline in the volume of the said component of Russia's quota with the IMF.

The increase in the item *Funds in the Russian Federation's account with the IMF SDR Department* is chiefly associated with the growth of the official exchange rate of the SDR against the ruble. Additionally, the interest accrued on SDRs was credited to the said account.

Due to the Russian Federation's participation in the IMF credit facility under the New Arrangements to Borrow, in 2018, the Bank of Russia received from the IMF SDR114.5 million in repayment of outstanding amounts (2017: SDR284.2 million). In 2017 and 2018, the Bank of Russia did not provide any loans to the IMF under the said Arrangements.

9. OTHER ASSETS

(millions of rubles)

	2018	2017
Fixed assets (at residual value)		
Buildings and other facilities	53,666	53,881
Equipment (including computers, IT and data processing systems, furniture, transport vehicles and other)	29,546	26,188
Subtotal fixed assets	83,212	80,069
Till cash	2,164,424	1,424,805
Bank of Russia claims on credit institutions with revoked banking licences	42,997	42,841
Compensation from the Bank of Russia to the Pension Fund of the Russian Federation for shortfall in pension savings	40,810	47,020
Construction projects in progress	14,420	15,283
Bank of Russia correspondent accounts	2,059	1,585
Settlements with suppliers, contractors and buyers	2,036	2,508
Intangible assets (at residual value)	1,580	1,648
Bank of Russia funds contributed to the authorised capitals of organisations	1,510	1,510
Profit tax advance payments	140	151
Other	17,615	16,065
Provisions	(84,804)	(91,024)
Subtotal other assets	2,202,787	1,462,392
Total	2,285,999	1,542,461

The table below shows the movement of fixed assets:

	(millions of rubles)	
	2018	2017
Fixed asset value net of accrued depreciation		
Balance as of 1 January	184,481	181,838
Receipt	13,815	14,294
Retirement	(5,279)	(11,651)
Balance as of 31 December	193,017	184,481
Accrued depreciation		
Balance as of 1 January	104,412	104,295
Depreciation allowances due to expenses	10,231	10,279
Depreciation allowances due to other sources	2	298
Accrued depreciation of retired fixed assets	(4,840)	(10,460)
Balance as of 31 December	109,805	104,412
Fixed asset residual value as of 31 December	83,212	80,069

Fixed asset structure and value, net of accrued depreciation:

	(millions of rubles)	
	2018	2017
Buildings and other facilities	70,055	69,071
Equipment	56,348	55,472
Computers, office equipment and furniture	34,923	30,975
IT and data processing systems	28,040	25,122
Transport vehicles	2,635	2,821
Other	1,016	1,020
Total	193,017	184,481

The increase in the item *Fixed assets* was mostly due to categories *Computers, office equipment and furniture* and *IT and data processing systems* in connection with the creation of the Bank of Russia Private Cloud and its automated control and monitoring systems and with the commissioning of telecommunication equipment and security and information protection tools.

The item *Bank of Russia claims on credit institutions with revoked banking licences* mostly reflects the following monetary claims of the Bank of Russia on credit institutions with revoked banking licences, listed in the register of creditors' claims and subject to settlement using the credit institution's property that constitutes bankruptcy assets:

- claims arising under restructured loans initially provided as unsecured loans, totalling ₴30,384 million (2017: ₴30,384 million);
- claims on credit institutions that were the issuers of debt instruments acquired by the Bank of Russia, totalling ₴6,780 million (2017: ₴6,780 million);
- claims arising under secured loans totalling ₴5,083 million (2017: ₴4,938 million)
- claims arising under reinstated debt owed to the Bank of Russia on unsecured loans pursuant to the ruling of the Arbitration Court of Moscow, totalling ₴530 million (2017: ₴530 million);
- claims resulting from the termination of obligations under repo transactions pursuant to clearing rules or from the settlement of outstanding obligations under repo transactions, totalling ₴212 million (2017: ₴209 million).

The item *Compensation from the Bank of Russia to the Pension Fund of the Russian Federation for shortfall in pension savings* reflects claims acquired by the Bank of Russia as a result of the transfer of funds determined in accordance with Parts 1 and 2, Article 6, Federal Law No. 422-FZ, dated 28 December 2013, to the Pension Fund of the Russian Federation, as well as the indemnity reserve funds and pension savings funds of insured persons who are entitled to receive a fixed-term pension payment, formed as of the cancellation date of the licences of the non-governmental pension funds, in fulfilment by the Pension Fund of the Russian Federation of its obligations under compulsory pension insurance agreements.

The decrease in that item was due to the receipt of funds for the satisfaction of claims acquired by the Bank of Russia because of funds transfer to the Pension Fund of the Russian Federation.

The item *Bank of Russia correspondent accounts* reflects the balances in foreign currencies in Bank of Russia correspondent accounts at resident banks.

The item *Bank of Russia funds contributed to the authorised capitals of organisations* reflects the funds contributed by the Bank of Russia to the authorised capital of Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company (hereinafter, FBSC AMC Ltd.) in the amount of ₹1,500 million (2017: ₹1,500 million) and to the authorised capital of the Interstate Bank in the amount of ₹10 million (2017: ₹10 million) (Statement of Bank of Russia Management of Securities and Stakeholdings in Organisations Constituting Bank of Russia Property).

The item *Profit tax advance payments* reflects profit tax advance payments made in 2018.

The item *Other* mostly reflects expenses related to the purchase and acquisition of software products, licences and certificates, totalling ₹7,838 million (2017: ₹6,928 million), inventories totalling ₹951 million (2017: ₹1,029 million), and also shares of a closed-end unit investment fund which the Bank of Russia retained pursuant to an out-of-court agreement to recover collateral in partial repayment of debt on a loan restructured in 2010 in the amount of ₹837 million (2017: ₹837 million).

The item *Provisions* reflects provisions totalling ₹84,804 million (2017: ₹91,024 million) which have been created for:

- Bank of Russia claims on credit institutions whose banking licences have been revoked totalling, ₹42,997 million (2017: ₹42,841 million);
- claims acquired by the Bank of Russia following the transfer of funds in an amount determined in accordance with Parts 1 and 2, Article 6, Federal Law No. 422-FZ, dated 28 December 2013, to the Pension Fund of the Russian Federation, as well as the indemnity reserve funds and pension savings funds of insured persons who are entitled to receive a fixed-term pension payment, formed as of the cancellation date of a licence, in fulfilment by the Pension Fund of the Russian Federation of its obligations under their compulsory pension insurance agreements, totalling ₹40,810 million (2017: ₹47,020 million);
- other assets, totalling ₹997 million (2017: ₹1,163 million).

10. CASH IN CIRCULATION

The increase in the item Cash in circulation was due to the growing demand for cash funds among households and businesses.

11. FUNDS IN ACCOUNTS WITH THE BANK OF RUSSIA

(millions of rubles)

	2018	2017
Federal government funds,	7,894,719	4,565,692
of which:		
– National Wealth Fund	2,359,055	2,204,449
Deposits taken by the Bank of Russia from resident banks	1,903,540	2,373,221
Credit institutions' funds in correspondent accounts	1,902,894	1,932,968
Other funds taken from non-residents	825,877	334,718
Regional and local budget funds	670,668	442,574
Required reserves deposited with the Bank of Russia	575,279	506,152
Funds of federal or public organisations	410,586	504,227
Government and other extra-budgetary funds	203,963	244,230
Other	139,063	99,350
Total	14,526,589	11,003,132

The item *Federal government funds* mostly reflects the funds of the federal budget kept in accounts with the Bank of Russia under bank account agreements concluded with the Federal Treasury: funds in foreign currency accounts opened for the National Wealth Fund and other accounts in foreign currencies.

The increase in the item *Federal government funds* was due to an increase in foreign currency balances in accounts other than accounts used for the National Wealth Fund and due to the growth of the official exchange rates of the ruble against the foreign currencies in which the said accounts were opened.

The change in the item *funds of the National Wealth Fund* is associated with the decline of foreign currency balances in the accounts of the National Wealth Fund and the increase in the ruble equivalent of the said account balances due to the increase of the official exchange rates of foreign currencies in which accounts of the National Wealth Fund are opened against the ruble.

The item *Deposits taken by the Bank of Russia from resident banks* is comprised of funds raised from resident banks in Russian rubles, including deposits of banks in whose authorised capital the government holds stakes from 50% to 100%, inclusive, totalling ₽577,567 million (2017: ₽989,459 million).

The decrease in the item *Deposits taken by the Bank of Russia from resident banks* was due to the decline of funds raised from resident banks as of the end of the reporting period.

The increase in the item *Required reserves deposited with the Bank of Russia* is mostly associated with the increase of required reserve ratios for credit institutions' FX liabilities to non-resident legal entities and for other liabilities from 1 August 2018, as well as with the growth of reservable liabilities.

The item *Other funds taken from non-residents* is comprised of funds raised from non-resident banks in transactions to sell foreign securities with an obligation to repurchase (repo transactions) amounting to ₽825,877 million (2017: ₽334,718 million), including accrued interest under these transactions.

The Bank of Russia concludes repos to bridge cash gaps and to raise funds under repo transaction and simultaneously place the corresponding amount of money with foreign counterparties at a higher rate on a deposit account, a nostro account with a correspondent bank, or under a reverse repo transaction, including one concluded with the same counterparty (securities lending collateralised by other securities).

Securities lending takes the form of repos and reverse repos that are simultaneously concluded with a counterparty for the same amount and for the same tenor. In a repo transaction, the counterparty receives securities it is interested in; in a reverse repo transaction, the Bank of Russia places funds obtained in a repo transaction at a higher interest rate and receives other securities as collateral. The amount of funds raised in repos opened as of the end of the year and placed in reverse repos concluded, with the same counterparty, totals ₺687,216 million (2017: ₺76,383 million). Foreign securities provided in these transactions have a total fair value of ₺687,115 million (2017: ₺76,199 million) (Note 5). Foreign securities received in these transaction as collateral have a total fair value of ₺695,294 million (2017: ₺76,978 million) (Note 27).

Foreign securities provided in repos with a total fair value of ₺825,980 million (2017: ₺334,302 million) are accounted for as foreign securities in the item *Foreign securities* (Note 5).

Increase in the balance of the item *Other funds taken from non-residents* is mainly due to the increase in the volume of funds raised by the Bank of Russia in transactions to sell securities with an obligation to repurchase at the end of the reporting period and due to the growth of the official exchange rates of foreign currencies in which money has been raised against the ruble.

The item *Other* includes the deposit taken from the DIA, funds in the accounts of other clients, and funds in the correspondent accounts of the Central Bank of the Republic of Armenia, the National Bank of the Kyrgyz Republic, the National Bank of the Republic of Belarus, and the National Bank of Kazakhstan, which were opened with the Bank of Russia within the framework of the Eurasian Economic Union, totalling ₺1,216 million (2017: ₺563 million).

12. FLOAT

The reduction in the balance of the item is associated with the application by the Bank of Russia in 2018 of the technology of processing funds transfers of payment system participants using speedy and non-speedy funds transfer services, which enables the completion of settlements within the Bank of Russia payment system on the day of funds transfer operation.

13. SECURITIES ISSUED

	(millions of rubles)	
	2018	2017
Bank of Russia coupon bonds	1,388,252	356,777
Total	1,388,252	356,777

In 2018, the Bank of Russia continued to place coupon OBRs to reduce the structural liquidity surplus in the banking sector. Coupon OBRs were issued for three months and had a floating coupon rate tied to the Bank of Russia key rate.

The item *Bank of Russia coupon bonds* shows the value of coupon OBRs placed as of 31 December 2018, including interest expenses accrued. The growth of the item is caused by increase in the amount of coupon OBRs placed.

14. LIABILITIES TO THE IMF

	(millions of rubles)	
	2018	2017
Balances in IMF Number 1 and 2 Accounts with the Bank of Russia	1,067,366	943,125
Liabilities on the funds provided to the Russian Federation as a result of the SDR allocation by the IMF	548,987	464,693
Total	1,616,353	1,407,818

Change in the item *Balances of IMF Number 1 and 2 Accounts with the Bank of Russia* is mainly due to the increase in the balance of the IMF Number 1 Account due to revaluation caused by growth in the SDR to ruble exchange rate established by the IMF. The effect of this factor offset the decline in the balance of funds of the IMF Number 1 Account resulting from the issuance of IMF loans to borrower states in 2018 using quota resources of the Fund as part of the Financial Transactions Plan.

The obligations on the funds provided to the Russian Federation under an SDR allocation at the IMF did not change in 2018 in SDR, totalling SDR5,671.8 million or ₴548,003.9 million (2017: SDR5,671.8 million or ₴464,138 million), net of accrued interest. Increase in the ruble equivalent of the obligation resulted from the growth of the official exchange rate of the SDR against the ruble.

15. OTHER LIABILITIES

	(millions of rubles)	
	2018	2017
Assets of the Bank of Russia pension fund	112,059	108,218
Other	13,062	1,089
Provisions	5,452	11,501
Total	130,573	120,808

Pursuant to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia Board of Directors sets up a supplementary pension fund for its employees. The fund is created without forming a separate legal entity and is financed by the Bank of Russia. This takes into account the fact that Bank of Russia employees are not covered by the guarantees to which civil servants of the Russian Federation are entitled. The Bank of Russia is implementing the Pension Plan with defined payments that are open-ended (lifetime) in nature. The eligibility criteria for receiving a supplementary pension are determined by Bank of Russia regulations.

Obligations under the Bank of Russia pension fund and the fund's adequacy are subject to an annual actuarial assessment carried out by a responsible actuary. The Bank of Russia Board of Directors made a decision in March 2018 to create provisions to secure obligations to the participants in the Bank of Russia Pension Plan against the forecast pension obligations as of 1 January 2019 in the amount of ₴11,392 million. Based on the results of actuarial assessment of the Bank of Russia's pension liabilities in 2019 and in furtherance of the decision made by the Bank of Russia Board of Directors, the Bank of Russia added ₴7,090 million to the pension fund using provisions created earlier to secure obligations to the participants in the Bank of Russia Pension Plan.

The increase in the item *Other* was mostly due to the reflection of the Bank of Russia's liabilities related to the payment of compensation, taxes, duties and insurance contributions.

The *Provisions* item shows the following:

- provisions for the Bank of Russia's potential losses with regard to pension savings funds to be transferred by the Bank of Russia to the Pension Fund of the Russian Federation totalling ₹1,150 million (2017: ₹11,501 million) (Note 2(g);
- provisions to meet obligations to the participants in the Bank of Russia's Pension Plan totalling ₹4,302 million (2017: ₹0 million) based on the indicative assessment of pension obligations (Notes 2(g) and 24).

16. CAPITAL

Due to the formation of a ₹434,679 million loss as of the end of the reporting period, no allocations were made to the Bank of Russia Reserve Fund or to the Bank of Russia Social Fund (Capital, funds, and profit allocation and the Statement of Bank of Russia reserves and funds).

In 2018, money from the Bank of Russia Reserve Fund in the amount of ₹246,773 million, in pursuance of the decision of the Bank of Russia Board of Directors, was allocated to cover expenses for the Bank of Russia's property contributions to the DIA's assets, incurred for the purpose of performing its functions (Capital, funds and profit allocation and the Statement of Bank of Russia reserves and funds).

The loss occurred as a result of:

- transactions for the provision of funds to credit institutions as part of bankruptcy prevention measures, at the cost of cash funds from the FBSC (Notes 6 and 24);
- the transfer in 2018 of the Bank of Russia's income from stakeholdings in Sberbank for 2017 (Statement of financial performance) to the federal budget in accordance with Federal Law No. 370-FZ, dated 5 December 2017, 'On the Specifics of Transferring the Income for 2017 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2018';
- increase in interest expenses on deposits in the domestic market and on the Bank of Russia's issued debt instruments (Note 21);
- increase in expenses from securities trading (Note 22).

17. INTEREST INCOME

	(millions of rubles)	
	2018	2017
Interest income from securities	203,640	135,781
Interest income from ruble loans, deposits and other placements, of which:	77,107	98,599
– issued and placed under certain federal laws	32,500	32,500
– interest income from Bank of Russia funds placed as part of bankruptcy prevention measures	7,775	3,801
Interest income from foreign currency loans, deposits and other placements	60,902	30,380
Interest income from Bank of Russia claims on the IMF	5,572	2,866
Other, of which:	14,474	14,456
– issued and placed under certain federal laws	9,660	11,928
Total	361,695	282,082

The item *Interest income from securities* consists of ₱190,119 million in interest income from foreign issuers' debt obligations (2017: ₱112,681 million) and ₱13,521 million from Russian issuers' debt obligations (2017: ₱23,100 million).

The item *Interest income from ruble loans, deposits and other placements* reflects interest income from Bank of Russia ruble-denominated loans issued against the pledge of receivables under loan agreements, securities from the Lombard List, and mortgage certificates, as well as secured with suretyship; interest income on funds provided to resident banks under repo transactions in rubles; and interest income from other placed funds provided to the People's Bank of China through swaps under the National Currency Swap Agreement.

The item *Interest income from ruble loans, deposits and other placements, of which: issued and placed under certain federal laws* reflects interest income from subordinated loans provided to Sberbank (Note 6); the item *Interest income from Bank of Russia funds placed as part of bankruptcy prevention measures* reflects interest income from deposits placed by the Bank of Russia with credit institutions as part of bankruptcy prevention measures at credit institutions at the expense of FBSC funds (Note 6).

The decrease in the item *Interest income from ruble loans, deposits and other placements* is mostly associated with the decline of repo volumes and with the decline of interest rates on loans granted as part of several refinancing facilities for credit institutions and on repo transactions.

The item *Interest income from foreign currency loans, deposits and other placements* reflects interest from Bank of Russia placements with non-resident banks, including interest from deposits and funds provided in repo transactions with foreign securities.

The item *Interest income from Bank of Russia claims on the IMF* reflects interest on the funds in the Russian Federation's account with the SDR Department, on loans issued under the New Arrangements to Borrow and the amounts of remuneration on the reserve tranche position.

The item *Other* mostly includes interest income from loans extended to the DIA totalling ₱9,660 million (2017: ₱11,928 million), as well as from securities lending to non-resident banks on a reverse basis and interest income received on accounts opened with non-resident banks.

18. INCOME FROM SECURITIES TRADING

	(millions of rubles)	
	2018	2017
Income from operations with foreign securities	62,300	6,290
Net income from the retirement (sale) of Russian issuers' securities available for sale	5,320	0
Income from operations with Russian debt obligations	131	10,905
Total	67,751	17,195

The item *Income from operations with foreign securities* includes income from positive revaluation of foreign securities at fair value, which was used to offset negative revaluation of the respective issues posted to expenses in previous years.

The item *Net income from the retirement (sale) of Russian issuers' securities available for sale* reflects net income from the retirement (sale) and revaluation at fair value of retired (sold) securities of Russian issuers.

19. INCOME FROM STAKEHOLDINGS IN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

	(millions of rubles)	
	2018	2017
Income from stakeholdings in Sberbank	135,522	67,761
Income from stakeholdings in subsidiary, affiliated and other organisations	2,132	3,026
Income from stakeholdings in non-resident banks (excluding subsidiary and affiliated banks)	67	79
Total:	137,721	70,866

The item *Income from stakeholdings in subsidiary, affiliated and other organisations* reflects income from stakeholdings in PJSC Moscow Exchange, JSC National Payment Cards System and JSC Russian National Reinsurance Company.

The item *Income from stakeholdings in non-resident banks (excluding subsidiary and affiliated banks)* reflects income from Bank of Russia stakeholdings in the Bank for International Settlements (Basel).

20. OTHER INCOME

	(millions of rubles)	
	2018	2017
Fees for Bank of Russia services provided to customers	7,820	8,032
Income from the sale of coins made of precious metals	498	547
Fines and penalties received	258	102
Income of previous years (net of interest income) identified in the reporting year	110	170
Net positive realised foreign currency exchange rate differences	0	7,207
Other	2,103	4,808
Total	10,789	20,866

The item *Fees for Bank of Russia services provided to customers* consists of ₹7,778 million received in fees for settlement services provided by the Bank of Russia (2017: ₹8,001 million) and other fees totalling ₹42 million (2017: ₹31 million).

21. INTEREST EXPENSES

	(millions of rubles)	
	2018	2017
Interest expenses on deposits taken from resident banks in the domestic market	187,279	92,002
Interest expenses on issued Bank of Russia debt obligations	85,752	7,253
Interest expenses on federal budget balances, of which:	34,949	1,183
– National Wealth Fund balances	15,757	0
Interest expenses on acquired debt obligations (premium)	27,150	21,405
Interest expenses on Bank of Russia obligations to the IMF	4,738	2,420
Interest expenses on other foreign currency funds taken from non-residents	1,703	3,442
Interest expenses on deposits taken from the state corporation	1,608	2,613
Other	10,927	5,745
Total	354,106	136,063

The item *Interest expenses on deposits taken from resident banks in the domestic market* reflects interest expenses on funds deposited by credit institutions with the Bank of Russia.

The item *Interest expenses on issued Bank of Russia debt obligations* reflects the discount amounts accrued during the year and accrued coupon income payable, less the amount of premium.

The increase in the items *Interest expenses on deposits taken from resident banks in the domestic market* and *Interest expenses on issued Bank of Russia debt obligations* is associated with the growth of the value of operations for the purpose of reducing the structural liquidity surplus of the banking sector.

The item *Interest expenses on federal budget balances* reflects interest accrued on the balances of foreign currency accounts of the National Wealth Fund and other federal budget accounts opened in foreign currencies.

In 2018, interest was accrued on the balances of National Wealth Fund foreign currency accounts in the amount calculated on the basis of the yield on the indices of government securities generated in accordance with the bank account agreement.

The increase in the amount of interest is due to the positive yield on the indices of government securities, the increase of funds in National Wealth Fund accounts (interest accrual base) for the period from the end of 2018 H1 to mid-December 2018, as well as to the growth of exchange rates of the foreign currencies in which the said accounts have been opened against the ruble.

In 2018, interest was accrued on the balances of other foreign currency accounts of the federal budget. The amount of such interest was calculated on the basis of the level of short-term rates in the money market in the corresponding foreign currency.

The amount of interest accrued on the balances of other foreign currency accounts for federal budget funds in 2018 was ₹19,192 million (2017: RUB 1,183 million).

The increase in the amount of interest is associated with the growth of funds in the said accounts in 2018 and with the growth of exchange rates of foreign currencies in which the said accounts have been opened against the ruble and the corresponding money market rates (Note 11).

The item *Interest expenses on acquired debt obligations (premium)* reflects the premium on foreign securities where the terms of their issue do not provide for the payment of interest (coupon) income and the excess of the premium over interest (coupon) income payable on securities (net of interest (coupon) income included in the purchase price).

The item *Interest expenses on Bank of Russia obligations to the IMF* includes the interest accrued and paid on the balance of the Russian Federation's obligations to the IMF with regard to the allocated SDRs.

The item *Interest expenses on other foreign currency funds taken from non-residents* includes interest expenses on other funds taken from non-resident banks (repo transactions).

The item *Interest expenses on deposits taken from the state corporation* includes interest expenses on deposits taken from the DIA.

The item *Other* mainly reflects interest expenses incurred when placing funds in correspondent accounts and in deposits with non-resident banks on conditions of a negative interest rate.

22. EXPENSES ON SECURITIES TRADING

	(millions of rubles)	
	2018	2017
Net expenses from the retirement (sale) of foreign securities available for sale	125,176	7,104
Expenses on operations with debt obligations of Russian issuers	3,546	0
Expenses on operations with foreign securities	1,153	43,218
Net expenses from the retirement (sale) of Russian securities available for sale	0	1,952
Other	244	243
Total	130,119	52,517

The item *Net expenses from the retirement (sale) of foreign securities available for sale* includes net expenses on the sale and revaluation, at fair value, of retired (sold) foreign securities.

The item *Expenses on operations with debt obligations of Russian issuers* includes the amounts of negative unrealised revaluation as of the end of 2018 with respect to the securities available for sale from individual issues of Russian debt obligations posted to Bank of Russia expenses.

The item *Expenses on operations with foreign securities* includes the amounts of negative unrealised revaluation as of the end of 2018 with respect to securities available for sale from individual issues of foreign debt obligations posted to Bank of Russia expenses.

The item *Other* mainly includes expenses on fee payments to organisations supporting securities trading in the domestic market.

23. CASH TURNOVER MANAGEMENT EXPENSES

This balance sheet item includes expenses involved in the manufacture, destruction and anti-counterfeit protection of banknotes and coins, as well as the purchase of packaging materials and accessories necessary for the processing of cash. The growth of expenses is driven by the increase in the production volumes of currency notes and the increase in output prices for making banknotes and coins.

24. NET EXPENSES (INCOME) ON THE FORMATION (FROM THE RECOVERY) OF PROVISIONS

	(millions of rubles)	
	2018	2017
Increase in provisions for loans to and deposits with resident banks	320,493	313,095
Increase in provisions to secure obligations to participants in the Bank of Russia's Pension Plan	11,392	0
Increase in provisions for other active operations	156	11,847
(Decrease) in provisions for other funds placed with resident banks (in repos)	(1)	(13,306)
(Decrease)/increase in provisions for accounts receivable	(147)	326
(Decrease) in provisions for the Bank of Russia's compliance with Federal Law No. 422-FZ, dated 28 December 2013	(16,561)	(13,074)
(Decrease)/increase in provisions for funds provided to the state corporation	(34,126)	86,737
(Decrease) in provisions for securities acquired from resident banks	(82,931)	(6)
Total	198,275	385,619

The increase in provisions for loans to and deposits with resident banks is mainly associated with the increase in total amount of deposits placed by the Bank of Russia in the course of implementing bankruptcy prevention measures using the funds of the FBSC (Note 6).

The increase in provisions to secure obligations to participants in the Bank of Russia's Pension Plan was effected in accordance with a decision of the Bank of Russia Board of Directors.

The increase in provisions for other assets side operations is mainly associated with the creation of provisions for the outstanding amounts of credit institutions with revoked banking licences.

The decrease in provisions for other funds placed with resident banks (in repos) resulted from the improvement of the quality of assets.

The decrease in provision for accounts receivable results from the decline in overdue debt on the Bank of Russia's business activity.

The decrease in provisions to secure the Bank of Russia's compliance with Federal Law No. 422-FZ, dated 28 December 2013, took place in connection with the Bank of Russia's receipt of cash funds from the DIA as a result of non-governmental pension funds' fulfilment of Bank of Russia claims acquired in accordance with Part 6 of Article 23 of Federal Law No. 422-FZ, dated 28 December 2013 (Note 9), and in connection with the recovery of a part of loss provisions of the Bank of Russia in respect of pension savings to be transferred by the Bank of Russia to the Pension Fund of the Russian Federation (Note 15).

The decrease in provisions for funds provided to the DIA is associated with a decline in funds provided by the Bank of Russia to the DIA to implement bankruptcy prevention measures at credit institutions, as well as with the issue of loans to ensure the financial sustainability of the deposit insurance system and to fund compensation payments on deposits (Note 6).

The decrease in provisions for securities acquired from resident banks is mainly associated with the decline of the credit risk level under exposures to VEB.RF (Note 7).

25. OTHER OPERATING EXPENSES

	(millions of rubles)	
	2018	2017
Expenses on IT maintenance and logistics	12,428	10,840
Depreciation allowances	10,740	10,771
Net negative realised foreign currency exchange rate differences	7,707	0
Security expenses	4,442	4,522
Expenses on the maintenance of buildings	4,266	4,085
Net negative realised differences for precious metals	3,283	2,837
Asset contributions	3,007	0
Expenses involved in the use of titles to intellectual property	2,631	1,754
Expenses on the delivery of bank documents and valuables	2,170	2,050
Repair expenses	2,125	2,512
Taxes and duties paid	1,790	1,810
Postage, telegraph and telephone expenses, and expenses on renting communication lines and channels	1,407	1,431
Expenses on foreign currency operations	380	360
Expenses on operations with precious metals	64	65
Expenses on the replenishment of the Bank of Russia pension fund	0	12,040
Other	8,111	8,582
Total	64,551	63,659

The item *Net negative realised foreign currency exchange rate differences* reflects net realised exchange rate differences arising from the purchase (sale) of foreign currency in the domestic and international markets at exchange rates that differ from the official rates established by the Bank of Russia.

The item *Net negative realised differences for precious metals* reflects net negative realised differences arising from the purchase (sale) of precious metals in the domestic and international financial markets.

The item *Asset contributions* reflects asset contributions to the assets of Autonomous Non-profit Organisation Financial Ombudsman Service in the amount of ₴3,000 million and to the

assets of Autonomous Non-profit Organisation XBRL Implementation and Development Centre in the amount of ₮7 million in accordance with the decisions of the Bank of Russia Board of Directors.

The item *Other* mainly reflects business travel expenses, expenses related to the purchase of equipment and accessories put into operation/use and expenses on the disposal (sale) and write-off of Bank of Russia assets.

26. PERSONNEL COSTS

For explanation, see the Statement of Bank of Russia Personnel Costs.

27. OFF-BALANCE SHEET CLAIMS AND OBLIGATIONS ACCOUNTS

Claims and obligations on forward operations recorded to off-balance sheet accounts are as follows:

	(millions of rubles)	
	2018	2017
Claims		
Claims for the delivery of rubles in spot transactions	4,135	0
Claims for the delivery of foreign currency in spot transactions	0	258,665
Claims for the delivery of foreign currency from non-residents in spot transactions	33,392	32,031
Claims for the delivery of foreign currency-denominated securities from non-residents in spot transactions	0	3,059
Claims for the delivery of foreign currency from non-residents in forward transactions	460,165	14,687
Claims for the delivery of foreign currency-denominated securities from non-residents in forward transactions	158,975	0
Unrealised (negative) exchange rate differences from the revaluation of foreign currency	9,487	258
Total claims	666,154	308,700
Obligations		
Obligations to deliver rubles in spot transactions	0	259,056
Obligations to deliver foreign currency in spot transactions	4,127	0
Obligations to deliver foreign currency to non-residents in spot transactions	33,372	31,619
Obligations to deliver foreign currency-denominated securities to non-residents in spot transactions	0	3,406
Obligations to deliver foreign currency to non-residents in forward transactions	628,644	14,619
Unrealised (positive) exchange rate differences from the revaluation of securities	11	0
Total obligations	666,154	308,700

Claims and obligations in spot transactions included in the items are claims and obligations on swaps executed in the domestic financial market, as well as claims and obligations on conversion transactions executed in the international financial market.

Claims and obligations in forward transactions included in the items are claims and obligations on swaps and conversion transactions, as well as on securities purchase transactions, executed in the international financial market.

Other claims and obligations recorded to the off-balance sheet accounts include:

	(millions of rubles)	
	2018	2017
Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans	4,693,352	4,110,019
Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans	2,756,428	2,353,431
Securities received in reverse transactions	754,270	133,559
Unused lines of credit facilities	188,000	188,000
Assets accepted as collateral for funds placed, except for securities and precious metals	182,001	250,514
Guarantees and sureties received	152,516	458,837
Securities accepted as collateral for funds placed	145,946	393,697
Guarantees and sureties issued	49,700	49,700
Settlements with the IMF related to servicing funds raised and placed	8,322	7,042
Arrears in interest payments on the principal not written off the balance sheet	7,550	3,691

Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans

Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans include:

- unused lines of Bank of Russia credit facilities to be provided under agreements to open irrevocable credit lines in the amount of ₽1,039,000 million (2017: ₽857,500 million);
- unused line of Bank of Russia credit facilities to be provided to the IMF under the New Arrangements to Borrow in the amount of SDR4,064.2 million or ₽392,675 million (2017: SDR3,949.7 million or ₽323,213 million)³ (Note 8);
- unused line of Bank of Russia credit facilities to be provided under the bilateral credit agreement between the Bank of Russia and the IMF in the amount of \$10,000 million or ₽694,706 million (2017: \$10,000 million or ₽576,002 million);
- unused limit for Bank of Russia to provide US dollars under the Treaty for the Establishment of a BRICS Foreign Currency Reserve Pool between the BRICS nations in the amount of \$18,000 million or ₽1,250,471 million (2017: \$18,000 million or ₽1,036,804 million);
- unused ruble limit for the execution of swaps between the Bank of Russia and the People's Bank of China under the bilateral National Currency Swap Agreement⁴ in the amount of ₽1,316,400 million (2017: ₽1,315,000 million) and unused limit to provide rubles under swaps that have already been concluded with the People's Bank of China in the amount of ₽100 mil-

³ In 2017 and 2018, the maximum amount of obligations of the Russian Federation under the New Arrangements to Borrow did not change and totalled SDR4,440.9 million.

⁴ In accordance with the bilateral National Currency Swap Agreement settled in 2017, the maximum amount of rubles that may be provided by the Bank of Russia to the People's Bank of China via swaps is ₽1,325,000 million.

lion (2017: ₹1,500 million). These limits constitute the current maximum amount of rubles, which the Bank of Russia may provide under the said Agreement. The change in the unused limit for executing swaps is caused by the decrease in the total amount of funds provided and to be provided via swaps concluded as of the end of the reporting period with the People's Bank of China. These funds are reflected in the item *Funds placed with non-residents and foreign securities* (Note 5).

Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans

Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans include:

- unused limits for the Bank of Russia to receive US dollars under the Treaty for the Establishment of a BRICS Foreign Currency Reserve Pool between the BRICS nations, totalling \$18,000 million or ₹1,250,471 million (2017: \$18,000 million or ₹1,036,804 million);
- unused limit in Chinese renminbi to conclude swap transactions between the Bank of Russia and the People's Bank of China under the bilateral National Currency Swap Agreement totalling RMB149,109 million or ₹1,505,957 million (2017: RMB148,856 million or ₹1,316,627 million). This limit constitutes the current maximum amount of Chinese renminbi, which the Bank of Russia may receive via swaps.⁵ The increase in the unused limit results from the decrease in the amount of swaps concluded in 2018 with the People's Bank of China.

Securities received in reverse transactions

Securities included in the item *Securities received by the Bank of Russia in reverse transactions* are securities received from counterparties in repos with resident banks in the domestic market and with non-residents in international markets, as well as securities received by the Bank of Russia as additional collateral (margin) in repos with non-residents in international markets.

Securities received by the Bank of Russia from counterparties in repos in the domestic market are accounted for at fair value, which, as of 31 December 2018, totals ₹3,791 million (2017: ₹3,744 million) (Note 6).

Securities received by the Bank of Russia from counterparties in repos in international markets are accounted for at fair value, which, as of 31 December 2018, totals ₹750,437 million (2017: ₹129,815 million); this includes the fair value of securities received in reverse repos that match repo transactions, totalling ₹695,294 million (2017: ₹76,978 million) (Note 5).

As of 31 December 2018, the Bank of Russia received additional collateral (margin) in the form of foreign securities in repos with non-residents in the international market, with a total fair value of ₹42 million. These securities were received due to the excess of total obligations of the Bank of Russia's counterparty over total Bank of Russia obligations in all repos with that counterparty.

The increase in this item results mainly from the growth in the volume of repos concluded in international markets.

Unused lines of credit facilities

Unused lines of credit facilities constitute Bank of Russia obligations under the lending agreement with the DIA to ensure the financial sustainability of the deposit insurance system and to fund the payment of indemnities on deposits.

⁵ In accordance with the bilateral National Currency Swap Agreement concluded in 2017, the maximum amount of Chinese renminbi which the Bank of Russia may receive from the People's Bank of China under swaps is RMB150,000 million.

Assets accepted as collateral for funds placed, except for securities and precious metals

Assets accepted as collateral for funds placed, except for securities and precious metals, constitute credit claims under loan agreements accepted by the Bank of Russia as collateral for loans granted to credit institutions (Note 6).

The decrease in the item is due to the drop in the volume of placed funds secured by credit claims under loan agreements.

Guarantees and sureties received

Guarantees and sureties received by the Bank of Russia are predominantly sureties accepted as collateral for issued loans.

Additionally, this item includes RMB891 million or ₸8,998 million (2017: RMB1,144 million or ₸10,118 million) under the swap concluded with the People's Bank of China in the framework of the National Currency Swap Agreement.

Securities accepted as collateral for funds placed

Securities accepted as collateral for funds placed are securities accepted by the Bank of Russia from credit institutions as collateral for issued loans (Note 7) and securities accepted by the Bank of Russia as collateral in securities lending on a reverse basis in international markets.

Guarantees and sureties issued

Guarantees and sureties issued constitute the maximum amount of Bank of Russia contingent liabilities for paying up the authorised capital of JSC Russian National Reinsurance Company.

Settlements with the IMF related to servicing funds raised and placed

As an IMF member state, the Russian Federation participates in the burden-sharing mechanism for debt arrears. Under this mechanism, in order to compensate for third-party defaults on payments to the IMF, IMF borrower countries pay surcharges on the SDR interest rate, while a deduction on this rate is withheld from creditor countries. Settlements with the IMF related to servicing borrowed and placed funds represent amounts of the Russian Federation's claims on the IMF for paid interest rate surcharges and withheld interest rate deductions under the burden-sharing mechanism and total SDR86.1 million, or ₸8,322 million, as of 31 December 2018 (2017: SDR86.1 million, or ₸7,042 million).

Arrears in interest payments on the principal not written off the balance sheet

Arrears in interest payments on the principal not written off the balance sheet consist mainly of accrued interest on loans and other funds placed, provided by the Bank of Russia to credit institutions, the receipt of which is uncertain. Furthermore, the said item includes claims on credit institutions whose banking licence has been revoked as regards the accrued interest income due to the Bank of Russia, which is posted to off-balance sheet accounts.

28. POST-ACCOUNTING DATE EVENTS

The Bank of Russia approved the Plans for the Bank of Russia's participation in bankruptcy prevention measures for Public Joint-stock Company Moscow Industrial Bank (hereinafter, PJSC MIN BANK) and Joint-stock Company Volga-Oka Commercial Bank (hereinafter, JSC VOCBANK), under which the functions of the provisional administration for the management of the said banks were assigned to FBSC AMC Ltd.: from 22 January 2019 in PJSC MIN BANK and from 17 April 2019 in JSC VOCBANK. As part of measures aimed at supporting the business continuity of PJSC MIN BANK in the banking services market and to enhance its financial stability, the Bank of Russia plans to act as an investor using funds from FBSC. With respect to JSC VOCBANK, the Bank of Russia is also planning measures to increase its capital, where the volume of such increase and, consequently, the strategy of further operations of the bank will be determined following the analysis of its financial standing.

In January 2019, the Bank of Russia Board of Directors decided to issue coupon OBRs in the amount of ₹1,500,000 million at face value (Notes 2(d) and 13).

The Bank of Russia Board of Directors made a decision in March 2019 to create provisions to secure obligations to the participants of the Bank of Russia Pension Plan against the forecast cost of pension obligations as of 1 January 2020 in the amount of ₹7,577 million.

Statement of profit and its allocation

	(millions of rubles)	
	2018	2017
1 Actual loss for the year, total:	(434,679)	(435,308)
2 of which:		
– transferred to the federal budget in accordance with federal laws	(135,522) ⁶	(67,761) ⁷
3 Taxes and duties paid from the Bank of Russia's profit ⁸	(140)	(151)
4 Loss after the payment of taxes and duties under the Tax Code of the Russian Federation	(434,819)	(435,459)

In accordance with Article 11 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia's profit is calculated as a difference between total income from banking operations and transactions stipulated by the legislation of the Russian Federation, including the said Federal Law, income from stakeholdings in organisations and other income from Bank of Russia activities and total expenses associated with the Bank of Russia's fulfilment of the functions assigned to it by Article 4 of the said Federal Law, including expenses for supporting Bank of Russia operations, and its organisations and employees.

Articles 1 and 2 of Federal Law No. 370-FZ, dated 5 December 2017, 'On the Specifics of Transferring the Income for 2017 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2018' stipulate that income received by the Central Bank of the Russian Federation in 2018 from stakeholdings in Sberbank for 2017 is to be transferred to the federal budget on or before 1 August 2018. The part of profit to be transferred to the federal budget in 2019 shall be reduced by the amount of funds transferred to the federal budget in accordance with Article 1 of the said Federal Law in 2018.

In 2018, the Bank of Russia's income and expenses were shaped amid the structural liquidity surplus and the growth of interest rates in the international financial markets, as well as by the change of the structure of Bank of Russia reserve assets. In connection with this, Bank of Russia interest expenses grew significantly along with the growth of income from the placement of Bank of Russia reserve assets. The above factors along with the implementation of measures to improve the financial sustainability of the banking sector and the transfer of income from the stakeholdings in Sberbank to the federal budget in accordance with the federal laws determined the formation of the negative financial result of the Bank of Russia's performance.

Due to a loss posted at the end of the reporting year, no allocations were made either to the Bank of Russia Reserve Fund or to its Social Fund.

⁶ In accordance with Article 1 of Federal Law No. 370-FZ, dated 5 December 2017, 'On the Specifics of Transferring the Income for 2017 Received by the Central Bank of the Russian Federation from Stakeholdings in Sberbank of Russia in 2018'.

⁷ In accordance with Part 7 of Article 2 of Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019'.

⁸ Corporate profit tax defined as per Article 284 of the Tax Code of the Russian Federation.

Statement of Bank of Russia reserves and funds

(millions of rubles)

	Reserve fund	Social fund	Accrued precious metal revaluation	Positive revaluation of securities available for sale	Accrued foreign currency exchange rate differences	Growth in the value of property after revaluation	Total
Opening balance of the reporting year, inclusive of funds received as a result of profit allocation for the year preceding the reporting year	333,813	3,009	2,265,770	19,742	6,188,496	7,966	8,818,796
Transferred to funds from other sources	0	0	957,437	60,587	2,684,230	0	3,702,254
Funds used	(246,773)	(793)	0	(12,062)	0	0	(259,628)
Opening balance of the year following the reporting year	87,040	2,216	3,223,207	68,267	8,872,726	7,966	12,261,422
Transferred from reporting year profit	0	0	0	0	0	0	0
Total, inclusive of funds received as a result of reporting year profit allocation	87,040	2,216	3,223,207	68,267	8,872,726	7,966	12,261,422

Pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia allocates to various reserves and funds its profit retained after the payment of taxes and duties under the Tax Code of the Russian Federation and after transferring a part of this profit to the federal budget. The procedure for the allocation of the profit retained by the Bank of Russia is established by the Bank of Russia Regulation on the procedure for allocating profit retained by the Bank of Russia.

Pursuant to the Bank of Russia Regulation on the Bank of Russia Reserve Fund, the Bank of Russia created the Reserve Fund to ensure its stable activity for carrying out the functions assigned to it by law. The Bank of Russia Reserve Fund is formed from the Bank of Russia's profit, and, according to the decision of its Board of Directors, the Bank of Russia may also transfer money from other funds and reserves that are part of its capital to the Reserve Fund. In 2018, ₽246,773 million of the Bank of Russia Reserve Fund, according to the decision of the Bank of Russia Board of Directors, was allocated to cover expenses for the Bank of Russia's asset contributions to the DIA's assets made in furtherance of its functions.

The Bank of Russia Social Fund was set up to provide financing for the social needs of Bank of Russia employees and, in some cases, pensioners registered with the Bank of Russia. The Social Fund is formed from the Bank of Russia's retained profit. In 2018, the procedure for creating and using the Social Fund was governed by the Bank of Russia Regulation on the Bank of Russia Social Fund (invalidated from 1 January 2019). In connection with amendments to Article 11 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', according to which the Bank of Russia's profit shall be calculated taking into account expenses for supporting the Bank of Russia's activities and those of its organisations and employees, starting from 2019, payments previously made at the cost of the Bank of Russia Social Fund shall be included in Bank of Russia personnel costs and other operating expenses.

Due to a loss posted at the end of 2018, no allocations were made to the Bank of Russia Reserve Fund and the Bank of Russia Social Fund based on the results of 2018.

Pursuant to the Bank of Russia Accounting Policy, assets (claims) and liabilities denominated in precious metals, including precious metals in commemorative and investment coins, are entered in the books at the value of precious metals at the book prices for refined precious metals, as established by the Bank of Russia as of the date of the operation (transaction), and are revalued as book prices are changed. In 2018, based on the annual results, positive unrealised differences exceeded negative ones by ₽957,437 million. This excess was recorded to the balance account *Accrued precious metal revaluation* as part of the Bank of Russia capital (in 2017, the positive unrealised differences exceeded the negative ones by ₽271,286 million).

Pursuant to the Bank of Russia Accounting Policy, debt obligations categorised as *Available for sale* are subject to revaluation at the fair value of the securities. In 2018, the accrued positive revaluation of debt obligations categorised as *Available for sale* totalling ₽60,587 million was posted to the balance sheet account *Positive revaluation of securities available for sale* as part of the Bank of Russia capital (2017: ₽1,795 million). The positive revaluation of securities accrued in previous years was written off to settle the negative unrealised revaluation of securities of corresponding issue (issuer) accrued in 2018 in the total amount of ₽12,062 million (2017: ₽31,435 million).

Accrued foreign currency exchange rate differences result from the revaluation of assets (claims) and liabilities denominated in foreign currency, caused by changes in the official exchange rate of foreign currencies against the ruble. In 2018, positive unrealised differences exceeded the negative ones by ₽2,684,230 million. This excess was recorded to the balance account *Accrued foreign currency exchange rate differences* as part of the Bank of Russia capital (in 2017, the negative unrealised differences exceeded the positive ones by ₽71,659 million).

The increase in the value of property as a result of revaluation is the revaluation of fixed assets made in compliance with the Russian Government Resolutions in 1992, 1994, 1995, 1996, and 1998.

Statement of Bank of Russia management of securities and stakeholdings in organisations constituting Bank of Russia property

Bank of Russia investments in debt obligations

(millions of rubles)

	2018	2017
Foreign issuers' debt obligations, of which:		
EU issuers' debt obligations	8,712,009	7,424,836
– denominated in euros	6,310,423	3,623,427
– denominated in pounds sterling	1,685,530	1,870,569
– denominated in US dollars	614,378	1,774,032
– denominated in Australian dollars	64,818	73,928
– denominated in Canadian dollars	36,860	82,880
Chinese issuers' debt obligations:	4,601,275	650,250
– denominated in Chinese renminbi	4,601,275	650,250
US and Canadian issuers' debt obligations:	1,674,307	6,827,246
– denominated in US dollars	916,343	6,140,604
– denominated in Canadian dollars	752,308	681,515
– denominated in euros	4,271	3,836
– denominated in Australian dollars	1,385	1,291
Debt obligations of international organisations:	516,674	529,950
– denominated in euros	382,967	406,664
– denominated in Australian dollars	50,366	9,257
– denominated in pounds sterling	33,766	0
– denominated in Canadian dollars	32,106	10,167
– denominated in US dollars	17,469	103,862
Australian issuers' debt obligations:	122,250	152,922
– denominated in Australian dollars	122,250	152,922
Subtotal	15,626,515	15,585,204
Russian issuers' debt obligations, of which:		
Russian federal government debt obligations:	179,019	218,883
– denominated in rubles	59	0
– denominated in US dollars	178,960	218,883
Other Russian issuers' debt obligations (excluding promissory notes): ⁹	212,636	212,636
– denominated in rubles	212,636	212,636
Promissory notes issued by credit institutions ⁹	23	23
Subtotal	391,678	431,542
Total	16,018,193	16,016,746

Note: The Bank of Russia's investments in debt obligations comprise securities owned by the Bank of Russia, excluding those acquired in reverse transactions (including repos) and securities transferred by the Bank of Russia in reverse transactions.

⁹ The value of securities not accounted for at fair value is indicated net of provisions created (Note 7).

The Bank of Russia's investments in debt obligations are mostly categorised under securities available for sale (excluding investments in VEB.RF bonds, which are categorised under securities held to maturity) (Notes 5 and 7).

Foreign issuers' debt obligations mostly consist of the government bonds and bills of China, France, the United Kingdom, Germany, Canada, US Treasuries, non-government bonds guaranteed, among other things, by the governments of foreign states, and debt obligations of supranational financial institutions.

As part of its operations to manage foreign-currency assets, the Bank of Russia purchased and sold debt obligations of foreign issuers, conducted repo transactions with the said securities and provided foreign issuers' securities on a reverse basis.

The increase in the balance on this item was mostly caused by the growth of the official exchange rates of the foreign currencies in which the securities were denominated against the ruble, as a result of which the value of foreign securities grew in ruble terms. Furthermore, 2018 saw a contraction in Bank of Russia investments in foreign securities.

In 2018, the Bank of Russia's portfolio comprised securities of Russian and foreign issuers which were acquired as a result of foreclosure by the Bank of Russia on the securities pledged under a loan granted to a credit institution, obligations under which were not fulfilled, as well as securities left in the Bank of Russia's possession under repos with Russian credit institutions, obligations under which were terminated as a result of revocation of the credit institution's banking licence.¹⁰ The said securities were sold during the reporting period (except for part of the ruble-denominated debt instruments of the Russian Government, which constitute OFZs).

Russian federal government debt obligations denominated in US dollars are external foreign-currency bonds. The decrease in the balance of this item is mostly associated with the sale and redemption (partial repayment of the principal) of securities and with the revaluation of securities at fair value due to the downturn of market prices.

Other Russian issuers' debt obligations denominated in rubles as of the end of the reporting period are bonds of VEB.RF (Note 7).

¹⁰ Termination of obligations in accordance with Article 4.1 of Federal Law No. 127-FZ, dated 26 October 2002.

Bank of Russia investments in the authorised capitals of credit institutions and other organisations

(millions of rubles)

	2018		2017	
	Investment amount	Share in authorised capital, %	Investment amount	Share in authorised capital, %
Investments in resident shares, of which:	670,173		560,534	
Public Joint-stock Company Bank Financial Corporation Otkritie, PJSC Bank FC Otkritie, Moscow	498,920	over 99.99	456,200	over 99.90
Sberbank of Russia, Sberbank, Moscow	72,938	50.00% + 1 voting share	72,938	50.00% + 1 voting share
Public Joint-stock Company B&N BANK, PJSC B&N BANK, ¹¹ Moscow	56,914	over 99.99	—	—
JSC Russian National Reinsurance Company, JSC RNRC, Moscow	21,300	100	21,300	100
Asian-Pacific Bank (Public Joint-stock Company), Asian-Pacific Bank (PJSC), Blagoveshchensk	9,000	over 99.99	—	—
Public Joint-stock Company Moscow Exchange MICEX-RTS, Moscow Exchange, Moscow	5,793	11.78	5,793	11.78
National Payment Card System Joint-stock Company, NPCS JSC, Moscow	4,300	100	4,300	100
Public Joint-stock Company National Bank TRUST, NB TRUST (PJSC), Moscow	655	over 97.99	—	—
Joint-stock Company AVTOVAZBANK, JSC AVB Bank, Togliatti	350	100	—	—
Joint-stock Company Saint Petersburg Currency Exchange, JSC SPCEX, Saint Petersburg	3	8.90	3	8.90
Investments in non-resident shares, of which:	327		327	
Bank for International Settlements, Basel	326	0.57	326	0.57
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium	1	0.006	1	0.006

¹¹ On 1 January 2019, PJSC B&N BANK was restructured and merged with PJSC Bank FC Otkritie.

The Bank of Russia holds stakes in the capital of credit institutions and other organisations pursuant to Articles 8, 9, 75 and 76.10 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', Parts 1 and 2 of Article 30² of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System', and Part 1 of Article 13¹ of Law of the Russian Federation No. 4015-1, dated 27 November 1992, 'On the Organisation of the Insurance Business in the Russian Federation'.

The increase in the item *Investment in resident shares* was caused by the Bank of Russia's acquisition of shares of the following credit institutions in 2018 as part of measures under the approved plans of the Bank of Russia's participation in the implementation of bankruptcy prevention measures at: B&N BANK, AVB Bank, NB TRUST, ROST BANK, and Asian-Pacific Bank. As a result of recapitalisation, the Bank of Russia became the owner of over 99.9% of ordinary shares of the previously mentioned credit institutions, including indirect stakeholdings through subsidiaries. Furthermore, in 2018, the Bank of Russia acquired an additional issue of ordinary shares of PJSC Bank FC Otkritie, whose capital was increased in December 2017.

The shares of ROST BANK acquired by the Bank of Russia in 2018 for ₴350 million were converted into NB TRUST shares upon the merger of ROST BANK and NB TRUST, on the basis of which a bank was set up for processing non-core and troubled assets of credit institutions, with regard to which plans for the Bank of Russia's participation in the implementation of bankruptcy prevention measures were approved.

For the purpose of formation of a universal financial group on the basis of Bank FC Otkritie PJSC, on 1 January 2019, PJSC B&N BANK shares acquired by the Bank of Russia were converted into the shares of PJSC Bank FC Otkritie following the restructuring through merger of PJSC B&N BANK with PJSC Bank FC Otkritie.

In 2018, permanent management bodies were created in PJSC B&N BANK, ROST BANK JSC, JSC AVB Bank and NB TRUST (PJSC), as a result of which the performance of provisional administration functions by FBSC AMC Ltd. with regard to the management of the said banks was terminated.

JSC AVB Bank was merged with NB TRUST (PJSC) on 7 March 2019.

Furthermore, the Bank of Russia is the sole member of FBSC AMC Ltd. In 2018, the amount of the Bank of Russia's investments in the authorised capital of FBSC AMC Ltd. did not change and was ₴1,500 million.

The Bank of Russia also reflects in its balance sheet the Russian Federation's stakeholdings in international financial institutions: the quota of the Russian Federation in the International Monetary Fund (IMF) in the amount of SDR12,903.7 million, which is 2.71% of the total quotas (capital) of the IMF and 2.59% of the total votes of IMF member states, as well as investments of the Russian Federation in the authorised capital of the Interstate Bank in the amount of ₴10 million, which is 50% of its authorised capital and 50% of the total votes of Interstate Bank member states.

Information on income from the stakeholdings in credit and other institutions is provided in Note 19.

Statement of the volume of Bank of Russia securities trading on organised trading venues

(millions of rubles)

Trade organiser	Volume of Bank of Russia own securities trading (including repos)		Volume of Bank of Russia securities trading on the instruction of its customers		Volume of Bank of Russia sales of collateral under Lombard loans and repos	
	2018	2017	2018	2017	2018	2017
Public Joint-stock Company Moscow Exchange MICEX-RTS, PJSC Moscow Exchange, Moscow	7,902,621	36,997,962	1,038,304	1,704,914	0	0
Joint-stock Company Saint Petersburg Currency Exchange, JSC SPCEX, Saint Petersburg	1	0	0	0	0	0
	7,902,622	36,997,962	1,038,304	1,704,914	0	0

The column Volume of Bank of Russia own securities trades (including repos) shows summary data on the volumes of the following Bank of Russia operations with securities in 2018:

- acquisition of securities in the first leg of repos in the currency of the Russian Federation;¹²
- placement (sale) of securities issued by the Bank of Russia (Bank of Russia bonds);
- sale of securities acquired by the Bank of Russia in 2018 as a result of foreclosure by the Bank of Russia on securities pledged under an issued loan, obligations under which were not fulfilled by the credit institution, as well as securities left in the Bank of Russia's possession in 2018 under repos with Russian credit institutions, obligations under which were terminated as a result of revocation of the credit institution's banking licence.

The column *Volume of Bank of Russia securities trading on the instruction of its customers* shows summary data on the sale of Russian government securities by the Bank of Russia on the instructions of the Russian Ministry of Finance under an agency agreement.

¹² In 2017, the column *Volume of Bank of Russia own securities trades (including repos)* included acquisition of securities by the Bank of Russia in the first leg of repos in a foreign currency (these operations amounted to \$31,300 million in their respective settlement currency, while the ruble equivalent was calculated at the exchange rate as of 31 December 2017). In 2018, the said transactions were not conducted.

Statement of Bank of Russia personnel costs

	(millions of rubles)	
	2018	2017
Compensation and other benefits to Bank of Russia personnel	92,815	90,938
Charges on compensation and other benefits	21,650	20,014
Total Bank of Russia personnel costs	114,465	110,952

Bank of Russia personnel costs increased by ₹3,513 million or 3.2% compared to 2017, with compensation-related expenses and other benefits to Bank of Russia personnel up by ₹1,877 million or 2.1%. Charges on compensation and other benefits grew by ₹1,636 million or 8.2%.

Compensation expenses and other payments to Bank of Russia personnel include: salary payments, seniority bonuses for the length of service with the Bank of Russia, additional payments for participation in inspections, other increments and benefits established by Bank of Russia regulations, monthly and year-end bonuses, regular paid leaves and study leaves, one-off allowances for annual paid leaves, payments of regional coefficients and interest allowances for those working in the Extreme North and similar regions in accordance with the legislation of the Russian Federation, one-off allowances upon old age retirement, emergency allowances, benefits for employees living (working) in regions affected by the radiation following the Chernobyl nuclear power plant disaster, benefits for employees taking parental leave until their child reaches the age of three, allowances for temporary disability due to a disease or injury paid for the first three days of disability, compensation for holiday travel expenses for employees working in the Extreme North and similar regions and to their non-working family members for the payment of their round-trip tickets, and for the expenses incurred in moving to a new place of residence in a different region upon the expiration of their employment agreement or due to retirement, compensation for the expenses of employees and their family members to move to work at another Bank of Russia establishment located in another region, and other benefits.

Upon a decision of the Board of Directors, compensation expenses and other payments to Bank of Russia employees in 2018 include a performance bonus for 2018, which was paid in 2019 (during previous periods, end-year bonuses for the reporting year were posted to the expenses of the year following the reporting one).

The average number of Bank of Russia employees fell by 3,217 persons in 2018 (6.3%) to 47,910. The decrease resulted from organisational personnel-related measures.

The average monthly income per one employee was ₹161,440 in 2018 (2017: ₹148,222).

Insurance contributions constituted 23.1% of total compensation and other benefit-related expenses (2017: 21.8%). Charges to the Social Insurance Fund for compulsory social insurance against on-the-job accidents and occupational disease were made at the fixed rate of 0.2%.

Expenses for compensation of key management personnel (members of the Bank of Russia Board of Directors, the Deputy Governors of the Bank of Russia and the Chief Auditor of the Bank of Russia — 21 persons) amounted to ₹657.1 million or 0.7% of the total Bank of Russia expenses on compensation and other personnel benefits, including ₹99.5 million in year-end bonuses for 2017 and ₹114.9 million — for 2018 (2017: 19 persons, ₹451.9 million or 0.5%, including ₹69.9 million in year-end bonuses for 2016).

Statement of capital investment budget performance

(millions of rubles)

Capital investment	Approved for 2018	Actual amount in 2018	Actual amount in 2017
Ensuring the functioning of payment, operational, information and analytical, and information and telecommunications systems	22,636	11,422	15,229
Security and protection of Bank of Russia facilities	2,848	1,743	968
Construction (reconstruction) and logistics	1,976	1,185	7,834
Acquisition of means of transport, medical and other equipment and tools	403	356	216
Cash turnover management	350	217	723
Ensuring the security of payment, operational, information and analytical, and information and telecommunications systems	146	90	81
Obtaining licences and certificates	20	1	26
Centralised reserve	568	—	—
Total capital expenses	28,947	15,014	25,077

In 2018, capital investment of the Bank of Russia declined by ₹10,063 million.

In the structure of capital investment, investment in ensuring functioning of payment, operational, information and analytical system, and information and telecommunications systems made up the biggest part (76.1%). The share of investment in the security and protection of Bank of Russia facilities accounted for 11.6%; in the construction (reconstruction) and logistics — 7.9%; in the acquisition of means of transport, medical and other equipment and tools — 2.4%; capital investment in the cash turnover management — 1.4%; and in ensuring the security of payment, operational, information and analytical system, and information and telecommunications systems — 0.6%.

Capital investment in ensuring functioning of payment, operational, information and analytical system, and information and telecommunications systems decreased by ₹3,807 million. The decline of expenses results from the reduction of the scope of work under the Bank of Russia IT Strategy. Capital investment, including acquisition of intangible assets and rights to use software products, is aimed at creating the control and visualisation system of the Bank of Russia Private Cloud core infrastructure servers and engineering support systems of data processing centres; creating a reserve module for the Bank of Russia payment system and faster payment system; supporting the functioning and development of the existing computing and analytical information systems of the Bank of Russia and the unified information system supporting the Bank of Russia's operations and the unified telecommunication banking network; and upgrading the computing infrastructure of the corporate and applied transport systems.

Capital investment in ensuring security and protection of Bank of Russia facilities grew by ₹775 million. The growth of expenses is associated with the creation of engineering systems of security tools at the facilities of data processing centres. The funds were also used to develop the existing fire alarm systems, video security and surveillance systems and control and access systems as well as to replace expired and obsolete facilities.

Capital investment in the construction (reconstruction) and logistics decreased by ₹6,649 million (in 2017, the property complex in Moscow was entered in Bank of Russia books). The funds were used to build (reconstruct) office buildings and other facilities; set up engineering and technical systems and installations for building operation and maintenance; purchase replacement equipment, tools and furniture to replace those whose service life had expired.

Capital investment in the acquisition of means of transport, medical and other equipment and tools grew by ₹140 million and was mostly used to replace the assets whose service life had expired.

Capital investment in cash turnover management dropped by ₽506 million following the reduction in the volume of purchased equipment. This occurred when modular complexes based on high-performance banknote processing machines were installed, as a result of the re-distribution of cash-office hardware across Bank of Russia establishments. Funds were also used to create video systems for the surveillance and recording of operations with valuables, to create the transport and warehousing system of an automated storehouse, and to purchase technological equipment.

Capital investment in the ensuring the security of payment, operational, information and analytical system, and information and telecommunications systems, including acquisition of intangible assets and rights to use software products, grew by ₽9 million and was spent on equipping the Financial Sector Computer Emergency Response Team (FinCERT) of the Bank of Russia and on purchasing technical means for the protection of information and computer equipment in a secure form.

The expenses for purchasing licences and certificates amounted to less than ₽1 million. The decrease in expenses is associated with changes in the certification of computer equipment for compliance with requirements for the protection of information against unauthorised access.

Auditors' reports



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Auditor's report of independent auditors

To the management of the Central Bank of the Russian Federation

Opinion

We have audited the Annual Financial Statements of the Central Bank of the Russian Federation (hereinafter, the Bank of Russia) for the period from 1 January to 31 December 2018 inclusive. Pursuant to Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, *'On the Central Bank of the Russian Federation (Bank of Russia)'*, the Bank of Russia Annual Financial Statements consist of the annual balance sheet, the statement of financial performance (including the statement of profit and its allocation), the statement of Bank of Russia reserves and funds, the statement of Bank of Russia management of securities and stakeholdings in the capital of organisations constituting Bank of Russia property, the statement of Bank of Russia personnel costs, the statement of capital investment budget performance and the statement of the volume of Bank of Russia securities trading on organised trading venues (hereinafter all these statements are collectively referred to as the Annual Financial Statements).

In our opinion, the Annual Financial Statements attached hereto present, in all material aspects, a reliable picture of the Bank of Russia's financial standing as of 31 December 2018 and the results its financial performance for 2018 in accordance with the requirements of Federal Law No. 86-FZ, dated 10 July 2002, *'On the Central Bank of the Russian Federation (Bank of Russia)'*, Federal Law No. 402-FZ, dated 6 December 2011, *'On Accounting'*, Bank of Russia Regulation No. 567-P, dated 19 December 2016, *'On the Chart of Accounts for Accounting Purposes at the Central Bank of the Russian Federation (Bank of Russia) and the Procedure for Using it'* and Bank of Russia Regulation No. 522-P, dated 21 December 2015, *'Bank of Russia Accounting Policy for Accounting Purposes'*.

Basis for expressing an opinion

We have conducted the audit in compliance with the International Standards on Auditing (ISA). Our duties under these standards are described in the section *'The auditor's responsibility for the audit of the Annual Financial Statements'* of our report below. We are independent of the Bank of Russia in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (the IESBA Code of Ethics) and ethical requirements applicable to our audit of annual financial statements in the Russian Federation, and we have discharged other ethical duties in accordance with these requirements and the IESBA Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to serve as the grounds for expressing our opinion.



Critical audit matters

Critical audit matters are the issues which, according to our professional judgement, were the most significant for our audit of the Annual Financial Statements for the current period. These matters were considered in the context of our audit of the Annual Financial Statements as a whole and in the course of preparing our opinion on these statements, and we do not express a separate opinion on these matters. In respect of the matter mentioned below, our description of how it was reviewed in the course of our audit is given in this context.

We have performed the duties described in the section 'The auditor's responsibility for the audit of the Annual Financial Statements' hereof, *inter alia*, in respect of the said matter. Accordingly, our audit included the implementation of procedures developed in response to our assessment of the risks of material misstatement in the Annual Financial Statements. The results of our audit procedures, including procedures performed while examining the matter below, serve as basis for expressing our auditor's opinion on the Annual Financial Statements attached.

The following critical matter was examined in the course of our audit

Critical audit matter

Provisions for credit and other similar claims

In performing its functions in accordance with the laws of the Russian Federation, the Bank of Russia incurs claims which bear the risk of possible financial losses. Such claims specifically include loans and deposits provided by the Bank of Russia, funds placed by the Bank of Russia in repo operations and investments in securities held to maturity.

The Bank of Russia assesses the risk of possible financial losses on these claims and creates provisions to cover this risk on an individual or on a portfolio basis. For the purpose of assessing individual provisions, the Bank of Russia determines the quality category of each exposure based on the assessment of a borrower's financial standing and quality of its debt servicing.

Due to a considerable amount of credit and other similar claims and the subjectivity of judgement used for assessing provisions, this was one of the critical audit matters.

Our audit procedures included analysis of the methods used by the Bank of Russia to assess borrowers' financial standing, review of the judgement used by the Bank of Russia's management when assessing their financial standing and determining the quality category and the amount of provisions, as well as the analysis of credit claims' conformity to the criteria for their attributing to homogeneous credit portfolios and verification of the calculation of provisions for such portfolios.

We examined the information on provisions for credit and other similar claims disclosed in Notes 6 and 7 to the Bank of Russia's Annual Financial Statements.

**Other matters**

In accordance with Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, '*On the Central Bank of the Russian Federation (Bank of Russia)*', the reliability of the Bank of Russia's accounts and operations to which access is limited pursuant to Russian Federation Law No. 5485-1, dated 21 July 1993, '*On State Secrecy*' (hereinafter, the Russian Federation Law '*On State Secrecy*'), which have been included in the items of the annual balance sheet and the statement of financial performance, has been confirmed by the Accounts Chamber of the Russian Federation in its Statement of 24 April 2019 as a result of the examination of the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and also data covered by the Russian Federation Law '*On State Secrecy*' for the year 2018.

Other information included in the Bank of Russia's Annual Report for 2018

Other information includes information contained in the Bank of Russia's Annual Report for the year 2018 but does not include the Annual Financial Statements and our auditor's report on them. Responsibility for other information shall be borne by the management.

Our opinion on the Annual Financial Statements does not cover other information, and we do not provide a conclusion expressing our confidence in any form in respect of such information.

In connection with our auditing of the Annual Financial Statements, our duty consists in acquainting ourselves with the other information and concurrently examining whether there are any material inconsistencies between the other information and the Annual Financial Statements or our knowledge received during the audit and whether the other information contains other material misstatements. If based on our work we arrive at the conclusion that such other information contains any material misstatements, we must report this fact. We have not discovered any facts which need to be reflected in our report.

**Responsibility of the management and persons in charge of corporate governance
for the Annual Financial Statements**

The management of the Bank of Russia shall bear responsibility for compilation and reliable presentation of the said Annual Financial Statements in accordance with the requirements of Federal Law No. 86-FZ, dated 10 July 2002, '*On the Central Bank of the Russian Federation (Bank of Russia)*', Federal Law No. 402-FZ, dated 6 December 2011, '*On Accounting*', Bank of Russia Regulation No. 567-P, dated 19 December 2016, '*On the Chart of Accounts for Accounting Purposes at the Central Bank of the Russian Federation (Bank of Russia) and the Procedure for Using it*' and Bank of Russia Regulation No. 522-P, dated 21 December 2015, '*Bank of Russia Accounting Policy for Accounting Purposes*', and also for the internal control system which the Bank of Russia's management considers necessary for compilation of the Annual Financial Statements without any material misstatement as a result of malpractice or errors.

When preparing the Annual Financial Statements, the management shall be responsible for assessing the ability of the Bank of Russia to continue as a going concern, for disclosing information pertaining to going concern issues, when necessary, and for compiling the statements based on the going concern assumption.

Persons in charge of corporate governance shall be responsible for supervising the process of drawing up the Bank of Russia's Annual Financial Statements.



The auditor's responsibility for the audit of the Annual Financial Statements

Our goals consist in obtaining reasonable confidence that the Annual Financial Statements as a whole do not contain material misstatements due to malpractice or errors and in issuing the auditor's report with our opinion. Reasonable confidence constitutes a high level of certainty but does not guarantee that an audit performed in accordance with the International Standards on Auditing will always reveal material misstatements, if these exist. Misstatements may result from malpractice or errors and are considered material if it may be reasonably assumed that they could influence, individually or in aggregate, users' economic decisions made on the basis of these Annual Financial Statements.

In the course of an audit performed in accordance with the International Standards on Auditing we apply professional judgement and retain professional scepticism throughout the audit. Furthermore, we perform the following:

- ▶ we identify and assess the risks of material misstatement of the Annual Financial Statements as a result of malpractice or errors; develop and carry out audit procedures in response to these risks; and obtain audit evidence which is sufficient and adequate to serve as grounds for expressing our opinion. The risk of failure to discover material misstatement as a result of malpractice is higher than the risk of failure to discover material misstatement as a result of errors because malpractice may include conspiracy, falsification, deliberate omission, distorted presentation of information or circumvention of the internal control system;
- ▶ we obtain an understanding of the internal control system which is important for the audit in order to develop audit procedures corresponding to the circumstances, but not for the purpose of expressing our opinion on the effectiveness of the Bank of Russia's internal control system;
- ▶ we evaluate the appropriateness of applicable accounting policies and the soundness of accounting estimates made by the management and the disclosure of respective information;
- ▶ we arrive at a conclusion on the appropriateness of the going concern assumption made by the management and, based on the obtained audit evidence, a conclusion on whether there is material uncertainty in connection with events or conditions which could give rise to significant doubts as to the Bank of Russia's ability to continue as a going concern. If we arrive at a conclusion that there is material uncertainty, we must draw attention in our audit report to the respective disclosure of information in the Annual Financial Statements or, if such disclosure of information is improper, modify our opinion. Our findings are based on the audit evidence received before the date of our audit report;
- ▶ we evaluate the presentation of the Annual Financial Statements as a whole, their structure and contents, including information disclosure, and whether the Annual Financial Statements represent the underlying operations and events in such a way as to ensure their reliable presentation.

We maintain information exchange with the Bank of Russia's management and communicate to them, among other things, information on the scheduled scope and timing of the audit and on material comments based on the audit findings, *inter alia*, on considerable deficiencies in the internal control system, should we discover any in the course of the audit.

We also submit to the Bank of Russia's management a statement that we have complied with all relevant ethical requirements related to independence issues and informed them of all mutual relationships and other matters which could be reasonably considered as influencing the auditor's independence and, if necessary, of appropriate precautions.



Among the issues which we have brought to the attention of the Bank of Russia's management, we determine the issues which were the most significant for the audit of the Annual Financial Statements for the current period and which, therefore, are critical audit matters. We describe these issues in our audit report, except when public disclosure of information on these issues is prohibited by law or a specific regulation, or when, in exceedingly rare cases, we arrive at the conclusion that information on a certain issue should not be included in our report, as it may be reasonably assumed that the negative consequences of such disclosure would exceed its public benefit.

The executives charged with the conduct of audit as a result of which this auditor's report of independent auditors has been released are D.Ye. Vainstein and N.A. Kozlova.

D.Ye. Vainstein
Partner
Ernst & Young LLC

N.A. Kozlova
General Director
FinExpertiza LLC

26 April 2019

Information on the audited entity

Name: Central Bank of the Russian Federation (Bank of Russia)
An entry was made in the Unified State Register of Legal Entities under No. 1037700013020 based on certificate series 77 No. 006996300, dated 10 January 2003.
Domicile: 12 Neglinnaya Street, Moscow 107016, Russia
The Bank of Russia performs its functions pursuant to the Constitution of the Russian Federation, Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' and other federal laws.

Information on the auditors

Name: Ernst & Young LLC
An entry was made in the Unified State Register of Legal Entities on 5 December 2002 under the state registration number 1027739707203.
Domicile: Bldg.1, 77 Sadovnicheskaya Naberezhnaya, Moscow 115035, Russia
Ernst & Young LLC is a member of the self-regulatory organisation of auditors Russian Union of Auditors (Association) (SRO RUA). Ernst & Young LLC was included in the control copy of the register of auditors and auditing organisations under the main registration entry number 11603050648.

Name: FinExpertiza LLC
An entry was made in the Unified State Register of Legal Entities on 29 August 2002 under the state registration number 1027739127734.
Domicile: Bldg. 3, 47 Leningradskiy Prospekt, office X, floor 3, room 1, Moscow 125167, Russia
FinExpertiza LLC is a member of the self-regulatory organisation of auditors Russian Union of Auditors (Association) (SRO RUA). FinExpertiza LLC was included in the control copy of the register of auditors and auditing organisations under the main registration entry number 11603076287.



ACCOUNTS CHAMBER OF THE RUSSIAN FEDERATION

2 Zubovskaya St., Moscow 119991

Tel.: 986-05-09, fax: 986-09-52

24 April 2019

No. 06-76/06-02

To the Governor of the Central Bank
of the Russian Federation

E.S. NABIULLINA

Statement

on the Results of the Examination of the Accounts and Operations of the Central Bank of the Russian Federation (Bank of Russia) and Data for 2018 Covered by the Russian Federation Law 'On State Secrecy' (approved by the decision of the Collegium of the Accounts Chamber of the Russian Federation of 23 April 2019, protocol No. 17K (1313))

The Accounts Chamber of the Russian Federation has examined the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and the data for 2018 covered by the Russian Federation Law 'On State Secrecy' at the Bank of Russia's structural divisions and regional branches, pursuant to the provisions of Article 25 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and in accordance with the Work Plan of the Accounts Chamber of the Russian Federation for 2019.

The management of the Bank of Russia is responsible for assigning information to the category of data covered by the Russian Federation Law 'On State Secrecy', and for delineating the competence of the Accounts Chamber of the Russian Federation and the consortium of auditing organisations — Ernst & Young LLC and FinExpertiza LLC (the Auditor of the Bank of Russia Annual Financial Statements for the year 2018).

Under the applicable legislation, the Accounts Chamber's duty is to present to the Bank of Russia a statement on the results of the examination of the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and data for 2018, covered by the Russian Federation Law 'On State Secrecy', and to express an opinion on the credibility in all material aspects of the Bank of Russia Annual Financial Statements for 2018, and on the compliance of the accounting procedure with Russian federal legislation and Bank of Russia regulations.

The Accounts Chamber of the Russian Federation has conducted examination of Bank of Russia accounts and operations, and also data for 2018 covered by the Russian Federation Law 'On State Secrecy', in the structural divisions and regional branches of the Central Bank of the Russian Federation (Bank of Russia) in such a way as to become sufficiently convinced that the Bank of Russia's annual balance sheet (with respect to sub-accounts and off-balance sheet accounts) as of 31 December 2018 (as of 1 January 2019), and its statement of financial performance for the period from 1 January to 31 December 2018, falling within the scope of competence of the Accounts Chamber of the Russian Federation, do not contain any material errors and adequately recognise in all aspects the assets and liabilities of the Central Bank of the Russian Federation (Bank of Russia) as of 31 December 2018, and the income and expenses of the Central Bank of the Russian Federation (Bank of Russia) for the period from 1 January to 31 December 2018, in line with the Bank of Russia's accounting policy.

Having examined the Bank of Russia's accounts and operations and data for 2018, covered by the Russian Federation Law 'On State Secrecy', the Accounts Chamber of the Russian Federation confirms, within the scope of its competence, the following data:

the Bank of Russia annual balance sheet as of 31 December 2018 (balance sheet assets totalling ₹2,710,219 million and balance sheet liabilities totalling ₹0 million), the statement of financial performance for the period from 1 January to 31 December 2018 (income totalling ₹4,301 million and expenses totalling ₹115,398 million);

precious metals revaluation for the period from 1 January to 31 December 2018: positive unrealised differences from the revaluation of precious metals totalling ₹35,304.4 million;

foreign currency revaluation for the period from 1 January to 31 December 2018: positive unrealised exchange rate differences from the revaluation of foreign currency totalling ₹339,037.5 million;

annual balance sheet as of 31 December 2018 (as of 1 January 2019) (with respect to sub-accounts and off-balance sheet accounts) and the statement of financial performance for the period from 1 January to 31 December 2018 (for 2018);

data on the total number of Bank of Russia notes and coins (exclusive of coins containing precious metals), which should be in circulation as of 31 December 2018 (as of 1 January 2019).

According to the accounting data of the Central Bank of the Russian Federation relating to the accounts and operations covered by the Russian Federation Law 'On State Secrecy', a total of ₹9,547,643.1 million in Bank of Russia notes and coins should be in circulation as of 1 January 2018 (exclusive of coins containing precious metals).

Over the period from 1 January to 31 December 2018, the Bank of Russia put into circulation banknotes and coins (exclusive of coins containing precious metals) totalling ₹12,346,242.1 million, and withdrew from circulation Bank of Russia banknotes and coins (exclusive of coins containing precious metals) totalling ₹11,571,078.7 million.

Consequently, in the period under review, the amount of Bank of Russia notes and coins (exclusive of coins containing precious metals) in circulation increased by ₹775,163.4 million.

According to the accounting data of the Central Bank of the Russian Federation relating to the accounts and operations covered by the Russian Federation Law 'On State Secrecy', a total of ₹10,322,806.5 million in Bank of Russia notes and coins should be in circulation as of 31 December 2018 (as of 1 January 2019) (exclusive of coins containing precious metals).

Provisions for assets covered by the Russian Federation Law 'On State Secrecy' have been created in line with Bank of Russia regulations.

The Accounts Chamber of the Russian Federation confirms the credibility, in all material aspects, of the Bank of Russia Annual Financial Statements for 2018 and the compliance of the accounting procedure with the Russian federal legislation and Bank of Russia regulations.

Auditor

A.V. Perchyan

**BANK OF RUSSIA
ALTAI TERRITORIAL
DIVISION BUILDING**

supposedly designed by I.F. Nosovich,
1913



5. Addenda

5.1. Measures to implement the single state monetary policy

The Bank of Russia key rate and the system of interest rates on monetary policy instruments	
The Bank of Russia key rate was changed	At the start of 2018, the key rate stood at 7.75% p.a. Over the course of 2018, the Bank of Russia Board of Directors decided to cut the key rate on two occasions: to 7.50% p.a. starting 12 February 2018 and to 7.25% p.a. starting 26 March 2018. At the end of 2018, the Bank of Russia Board of Directors increased the key rate twice to take into account changes in the external environment and higher proinflationary risks: to 7.50% p.a. starting 17 September 2018 and to 7.75% p.a. starting 17 December 2018
The Bank of Russia tied its interest rates on monetary policy instruments to the key rate	On 4 June 2018, the Bank of Russia Board of Directors set the interest rates on the Bank of Russia's operations with credit institutions as spreads to the key rate. This decision established fixed spreads between the interest rates on Bank of Russia's operations and the key rate. Interest rates on the Bank of Russia's operations will be changed simultaneously with the key rate according to the established spreads
Bank of Russia bonds	
The Bank of Russia changed its approach to setting prices of Bank of Russia coupon bonds	On 15 May 2018, the Bank of Russia made the decision to change its approach to setting the minimum price for Bank of Russia coupon bonds at the time of their placement (additional placement). The minimum price will be set for each auction at a level below 100% of the par value, which implies a term premium to the Bank of Russia key rate
Required reserves	
The Bank of Russia clarified its procedure for depositing required reserves by credit institutions	In connection with the additional mechanisms of financial rehabilitation, the reserve requirements procedure was clarified for credit institutions facing bankruptcy prevention measures, including involving the participation of the Bank of Russia. This specified the rules regarding the composition of the reservable liabilities of credit institutions that perform the functions of a central counterparty. To increase the accountability of credit institutions in the formation of required reserves, the Bank of Russia amended the procedure to calculate the fine for the violation of required reserve requirements by credit institutions, namely the calculation of the fine for the failure of credit institutions to perform required reserves averaging will take into account the duration of such violation. These amendments came into effect on 1 February 2018
The Bank of Russia changed the required reserve ratios	As of 1 August 2018, the Bank of Russia decided to increase the required reserve ratios on foreign currency liabilities of credit institutions by 1 pp (to 7.00% for liabilities to households and to 8.00% for liabilities to non-resident legal entities and other liabilities). Required reserve ratios on credit institutions' liabilities in the currency of the Russian Federation remain unchanged
Refinancing and absorbing instruments	
The Bank of Russia abolished the limit for ruble funding under FX swaps	The Bank of Russia decided not to set the upper limit for the provision of ruble-denominated funds under FX swaps from 1 January 2018. The decision is grounded on sustained stability in the domestic foreign currency market against the background of a structural liquidity surplus when most credit institutions see no need for ruble funding from the Bank of Russia
The Bank of Russia expanded the use of the electronic document workflow in secured loan issues	Starting 19 February 2018, all credit institutions can use the electronic document flow with the Bank of Russia when obtaining secured loans of the Bank of Russia. Before that, only credit institutions with basic accounts at the Bank of Russia's Main Branch for the Central Federal District and Main Branch divisions were given such an opportunity.
The Bank of Russia amended its procedure for deposit operations	On 17 May 2018, the new Rules of Bank of Russia Deposit Operations came into effect providing for a streamlined line of deposit products, simplified procedure for conducting overnight deposit transactions and the electronic-only submission of applications for participation in the deposit auctions. From that date, the Bank of Russia ceased to carry out deposit operations under Bank of Russia Regulation No. 404-P, dated 9 August 2013, 'On Bank of Russia Deposit Operations with Credit Institutions'
The Bank of Russia changed the timeframe for settlements on deposit and credit operations	As of 16 July 2018, the Bank of Russia changed the timeframe for settlements on monetary policy transactions. The Bank of Russia now returns funds under deposit operations by 9:00 AM local time. The main time for issuing collection orders to credit institutions to repay Bank of Russia loans remained unchanged (from 4:00 PM to 5:00 PM local time). Moreover, starting from the said date credit institutions were granted more time to repay Bank of Russia loans. If a credit institution intends to use the released collateral to obtain a new loan the same day, loan repayment might be carried out from 10:00 AM till 11:00 AM local time at the request of the credit institution.
The Bank of Russia amended its procedure for deposit auctions	As of 26 July 2018, the Bank of Russia decided that no bids submitted by credit institutions without indicated interest rate (non-competitive bids) will be accepted for deposit auctions.

The Bank of Russia amended its procedure for credit operations	Bank of Russia Ordinance No. 4801-U, dated 22 May 2018, 'On the Form and Conditions for Secured Bank Refinancing', and the Terms and Conditions for the Issue and Redemption of Bank of Russia Loans Backed by Securities or Credit Claims (Terms and Conditions) entered into force on 1 October 2018. These documents replaced the previous regulations on credit operations, such as Bank of Russia Regulation No. 236-P, dated 4 August 2003, 'On the Procedure for Extending Bank of Russia Loans to Credit Institutions against the Collateral (Blocking) of Securities' and Bank of Russia Regulation No. 312-P, dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Covered by Assets or Guarantees to Credit Institutions'. The Terms and Conditions combine within a single document the rules of credit operations against the collateral of both non-marketable assets and securities, facilitate the creation of liquidity pools, and stipulate the obligation to exchange certain documents with the Bank of Russia in the electronic form only
Bank of Russia Lombard List	
The Bank of Russia expanded its Lombard List	In 2018, in accordance with decisions of the Bank of Russia Board of Directors, 71 securities issues were added to the Lombard List
As part of its countercyclical approach to the list of collaterals, the Bank of Russia implemented measures aimed at tightening requirements for the quality of assets used as collateral for its operations	As of 1 January 2018, the Bank of Russia raised requirements for the minimum credit rating of the issue (issuer) to be included in the Lombard List of bonds issued by constituent territories of the Russian Federation and municipal entities as well as the bonds of resident legal entities of the Russian Federation that are not credit institutions ¹ from BBB (RU)/ruBBB to A(RU)/ruA under the classifications of credit rating agencies ACRA (JSC) / JSC Expert RA
	As of 1 July 2018, the Bank of Russia suspended the use of bonds of credit institutions ² and Vnesheconombank, ³ bonds of insurance companies, bonds of international financial institutions and debt securities issued by non-resident legal entities of the Russian Federation outside the Russian Federation, whose beneficiaries or final borrowers are Russian credit institutions, insurance companies or Vnesheconombank, ³ in its lending and repo operations.

¹ In accordance with its earlier decision, the Bank of Russia suspended, as of 1 October 2017, the inclusion of bonds issued by credit institutions into the Lombard List.

² This decision does not apply to mortgage-backed bonds issued by credit institutions.

³ As of 9 December 2018, State Development Corporation VEB.RF.

5.2. Liquidity support instruments to ensure the financial sustainability of banks. Special refinancing facilities

Irrevocable credit lines	
The Bank of Russia continued to provide systemically important credit institutions with the option of using irrevocable liquidity lines to comply with the liquidity coverage ratio	The parameters of irrevocable liquidity lines are reviewed annually at the meetings of the Financial Stability Committee. In 2018, the parameters of irrevocable liquidity lines did not change: the maximum aggregate limit on irrevocable credit lines remains at ₱1.5 trillion, the fee for the right to use irrevocable liquidity lines remains at 0.15% p.a., and the premium on the key rate used to set the interest rate on loans taken out within the framework of irrevocable liquidity lines remains at 1.75 pp
Foreign currency refinancing mechanisms	
The Bank of Russia reduced the aggregate limit on foreign currency refinancing operations	The maximum amount of credit institutions' debt to the Bank of Russia under foreign currency repo transactions and loans is set to \$15 billion for 2018. As the domestic foreign currency market evolves towards normalisation in line with the forecast, the Bank of Russia reduces this amount in a consistent manner
Emergency liquidity assistance mechanism	
The Bank of Russia retained the emergency liquidity assistance mechanism (ELA) in its system of instruments	ELA is designed to support financially stable banks experiencing temporary liquidity issues. ELA may be used by systemically important credit institutions or banks from classification groups 1 and 2, which have no overdue debt owed to the Bank of Russia and meet all ratio requirements, except for the instant liquidity ratio. At the same time, ELA does not imply Bank of Russia obligation to provide liquidity to any requesting bank. This mechanism allows the Bank of Russia to provide needed support to a financially stable bank when it does not have other sources to raise funds, including the standard instruments for obtaining liquidity from the Bank of Russia. As of 1 January 2019, the Bank of Russia concluded 55 agreements with credit institutions on the provision of funds under ELA. The Bank of Russia did not conduct any transactions under this mechanism in 2018
Special refinancing facilities	
The Bank of Russia changed its approach to setting interest rates on special refinancing instruments	As of 4 June 2018, the Bank of Russia Board of Directors decided to set interest rates on special refinancing instruments tied to the key rate of the Bank of Russia. For loans from the Bank of Russia secured by the guarantees of Joint-stock Company Russian Small and Medium Business Corporation, pledge of credit claims under agreements entered into by JSC SME Bank with credit institutions, microfinance organisations or leasing companies, pledge of credit claims under agreements secured by insurance agreements of JSC EXIAR, and the pledge of credit claims under loans provided to leasing companies the interest rate is determined as the lower of the following two values: 6.50% p.a. or the Bank of Russia key rate. For Bank of Russia loans secured by the pledge of receivables on loans issued to fund investment projects or by the pledge of bonds placed to fund investment projects and included in the Bank of Russia Lombard List, the interest rate is determined as the lower of the following two values: 9.00% p.a. or the Bank of Russia key rate minus 1.00 pp. For Bank of Russia loans secured by mortgages issued under the Military Mortgage Programme, the interest rate is set equal to the Bank of Russia key rate

5.3. Implementation of the guidelines for the development of the financial market

Development of the financial market is a key area of the Bank of Russia's activities. It is intended to promote economic growth, improve living standards and quality of life, and create conditions for the growth of the financial industry. A developed financial market supports the efficiency of the monetary policy transmission mechanism and, therefore, determines the effectiveness of measures taken by the Bank of Russia to ensure price stability.

Every three years, in collaboration with the Government of the Russian Federation, the Bank of Russia elaborates its Guidelines for the Development of the Russian Financial Market¹ and an action plan for their implementation. These documents were first prepared for the period of 2016–2018. According to the estimates of the Bank of Russia, as of 1 January 2019, the action plan was implemented by 94%. Some projects were implemented partially and will be completed in 2019–2021.

From 2016 to 2018, the Bank of Russia made efforts to clear the domestic market of unscrupulous and financially unstable financial institutions. For example, it implemented a new mechanism for the financial rehabilitation of credit institutions which provides for the direct participation of the Bank of Russia in the capital of such banks to prevent the significant losses of economic entities. The newly implemented system for the resolution of insurance companies helps eliminate systemic problems in the insurance sector.

The most significant remaining tasks include early identification and response to issues in financial institutions and the transition towards proactive oversight without increasing the regulatory burden on bona fide market participants. To this end, the Bank of Russia introduced and now uses a new approach to macroprudential stress testing to consider the risks of financial institutions (banks, NPFs, and systemically important insurance companies), including on a group basis.

Federal Law No. 281-FZ,² which entered into force in 2018, increased the requirements to founders (participants), management bodies, and the officials of financial institutions. This helped reduce the potential influence on the activities of financial institutions by parties with an unsatisfactory business reputation, such as those previously involved in the bankruptcy of financial institutions.

The Financial Ombudsman Service,³ which is independent of the state and local authorities, the Bank of Russia, organisations and officials, was established in 2018 to implement alternative mechanisms for resolving disputes between the financial consumers and financial institutions. The financial ombudsman ensures faster and less costly resolution of disputes than the consideration of disputes in court, which reduces the burden on the judicial system of the Russian Federation.

Over the three years, the Bank of Russia prepared the legislative framework to improve the quality of corporate governance and protection of the rights and interests of investors to provide a key tool for building trust between investors, management, and company shareholders. In particular, it introduced requirements for the organisation of internal control, audit and risk management frameworks, a detailed mechanism for disclosure of information on the remuneration and compensations of the members of the board of directors and management as well as the rules to help strengthen the role of the board of directors in the management of a public joint-stock company. The Bank of Russia worked on implementing the best practices, many of which are reflected in the Corporate Governance Code, a tool to improve the management efficiency and long-term sustainability for most companies.

In addition, to increase confidence in financial institutions, the Bank of Russia took measures to eliminate unfair practices, prevent and suppress offences, and build a conduct supervision system. A concept was elaborated to im-

¹ In accordance with Federal Law No. 86-FZ.

² Federal Law No. 281-FZ, dated 29 July 2017, 'On Amending Certain Laws of the Russian Federation with Regard to Improving Mandatory Requirements for Financial Institutions' Founders (Participants), Management Bodies and Officials'.

³ See Subsection 2.3.1 'Financial consumer and investor protection'.

prove the investor protection system in the financial market by introducing the regulation of investor categories and determining their investment profiles.

The Bank of Russia introduced proportionate regulation in the banking and microfinance sectors, which will help promote competition and ensure the availability of financial services to the public and small- and medium-sized enterprises, including in the regions, as well as accelerate the growth of regional economies.

The entry into force of the law on syndicated loans¹ and structured bonds in 2018 along with the measures to develop capital market instruments (including the simplification of the bond issuance procedure and the possibility to register bond issues electronically) was an important result of the collaboration between the Bank of Russia and the Government of the Russian Federation, which contributed to the increased availability of financing for a wide range of economic agents and the inflow of long-term investments into the economy.

The Bank of Russia contributed extensively to a wider use of financial technologies in provision of financial services, including the launch of the remote identification mechanism; the elaboration of the regulatory and technological framework for the electronic conclusion of CMTPLI contracts; the creation of the Faster Payments System; the transition to electronic interaction with supervised financial institutions; and the acceptance of reports in XBRL format.

The Bank of Russia also contributed to the development of integration processes in the EAEU. The first significant steps in this area were taken as early as in 2014–2016, when the EAEU Treaty was signed and entered into force, and the member states entered into agreements on sharing information in the area of finance and free trade. The Agreement on the Harmonisation of Financial Market Legislation of EAEU Member States was signed in 2018.

The lists of federal laws and Bank of Russia regulations aimed at developing the financial market, prepared with the participation of the Bank of Russia and adopted from 2016 to 2018, are presented in Tables 1 and 2 respectively.

LIST OF FEDERAL LAWS ON FINANCIAL MARKET DEVELOPMENT

Table 1

Financial market development objectives	Federal laws
Improving the system for the identification of financial market participants and their customers	No. 482-FZ, dated 31 December 2017, 'On Amending Certain Laws of the Russian Federation'
Establishing a legal framework for financial advisers	No. 397-FZ, dated 20 December 2017, 'On Amending the Federal Law 'On the Securities Market' and Article 3 of the Federal Law 'On Self-regulatory Organisations in the Financial Market'
Reviewing the existing tax incentives for household investments	No. 58-FZ, dated 3 April 2017, 'On Amending Chapter 23 of Part Two of the Tax Code of the Russian Federation'; No. 123-FZ, dated 18 June 2017, 'On Amending Articles 10.2-1 and 20 of the Federal Law 'On the Securities Market'
Creating a mechanism for interaction between the Bank of Russia and auditing organisations that provide services to credit institutions and non-bank financial institutions	No. 263-FZ, dated 29 July 2018, 'On Amending Certain Laws of the Russian Federation'
Improving the efficiency of regulation in the area of countering the misuse of insider information and market manipulation	No. 310-FZ, dated 3 August 2018, 'On Amending the Federal Law 'On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation' and on Amending Certain Laws of the Russian Federation'
Reviewing the potential for developing a liability system that provides for penalties to a non-bank financial institution and its employees, executives and owners alike without applying the most severe action, such as the licence revocation (cancellation)	No. 281-FZ, dated 29 July 2017, 'On Amending Certain Laws of the Russian Federation with Regard to Improving Mandatory Requirements for Financial Institutions' Founders (Participants), Management Bodies and Officials'
Eliminating the restrictions constraining the development of the bond market and further development of the bond market	No. 200-FZ, dated 19 July 2018, 'On Amending Articles 210 and 214.1 of Part Two of the Tax Code of the Russian Federation'
Facilitating the development of syndicated lending	No. 486-FZ, dated 31 December 2017, 'On Syndicated Loans and on Amending Certain Laws of the Russian Federation'
Defining approaches to the implementation of a professional judgement mechanism for specific issues in the activities of financial institutions	No. 49-FZ, dated 7 March 2018, 'On Amending Certain Legislative Acts of the Russian Federation Regarding the Regulation of Non-Governmental Pension Funds'

¹ Federal Law No. 486-FZ, dated 31 December 2017, 'On Syndicated Loans and on Amending Certain Laws of the Russian Federation'.

Introducing additional requirements for systemically important non-bank financial institutions	No. 176-FZ, dated 18 July 2017, 'On Amending the Federal Law 'On Clearing, Clearing Activities and the Central Counterparty' and Certain Laws of the Russian Federation'
Improving the laws of the Russian Federation to develop a bank resolution mechanism for financial institutions	No. 84-FZ, dated 1 May 2017, 'On Amending Certain Laws of the Russian Federation'; No. 87-FZ, dated 23 April 2018, 'On Amending Certain Laws of the Russian Federation'
Granting the Bank of Russia the right to conduct expert evaluation of pledged items accepted by credit institutions as collateral for loans	No. 362-FZ, dated 3 July 2016, "On Amending Articles 72 and 73 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Article 33 of the Federal Law 'On Banks and Banking Activities'
Excluding the subordinated deposits of individuals engaged in business activities without the establishment of a legal entity from items subject to household deposit insurance	No. 364-FZ, dated 3 July 2016, 'On Amending Article 5 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks'
Clarifying the requirements for legal entities established for insurance and reinsurance	No. 251-FZ, dated 29 July 2018, 'On Amending the Law of the Russian Federation 'On the Organisation of the Insurance Business in the Russian Federation'
Ensuring the legal environment for the establishment of a national reinsurance company	No. 363-FZ, dated 3 July 2016, 'On Amending the Law of the Russian Federation 'On the Organisation of the Insurance Business in the Russian Federation'
Amending the laws of the Russian Federation on the compulsory third party liability insurance of vehicle owners based on the law enforcement practice	No. 49-FZ, dated 28 March 2017, 'On Amending the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners'; No. 448-FZ, dated 29 December 2017, 'On Amending Articles 11.1 and 12 of the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners'
Improving the terms and procedure of compulsory carrier's third-party liability insurance for inflicting damage to the life, health and property of passengers based on law enforcement practices	No. 277-FZ, dated 29 July 2017, 'On Amending the Federal Law 'On Compulsory Third Party Liability Carrier Insurance for Causing Harm to Life, Health and the Property of Passengers and on the Procedure for Compensating Such Harm Caused when Carrying Passengers by the Underground'
Improving the Russian legislation on insolvency (bankruptcy) with regard to insurance companies	No. 222-FZ, dated 23 June 2016, 'On Amending Certain Laws of the Russian Federation'
Improving the insurance mechanism to assist individuals in recovering (acquiring) property lost in fires, floods and other natural disasters	No. 320-FZ, dated 3 August 2018, 'On Amending Certain Laws of the Russian Federation'
Improving the procedure for issuing securities	No. 514-FZ, dated 27 December 2018, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation with Regard to Improving the Legal Regulation of Securities Issuance'

LIST OF THE KEY BANK OF RUSSIA REGULATIONS ON FINANCIAL MARKET DEVELOPMENT

Table 2

Measure	Bank of Russia Regulations
Improvement of interaction of financial consumers and investors with the Bank of Russia	Bank of Russia Ordinance No. 4580-U, dated 11 October 2017, 'On the Procedure for Organising and Carrying out Personal Reception of Citizens by the Bank of Russia Public Reception at the Bank of Russia Head Office'
Standardisation of financial operations and financial services	Bank of Russia Ordinance No. 4026-U, dated 30 May 2016, 'On the List of Mandatory Core Standards and Their Contents to be Developed by Financial Market Self-regulatory Organisations Comprising Brokers, Dealers, Managers, Depositories and Registrars, and the List of Financial Market Operations (Activity Types) to be Standardised Depending on the Activity Types of Financial Institutions'; Bank of Russia Ordinance No. 4027-U, dated 30 May 2016, 'On the List of Mandatory Core Standards and Their Contents, and the List of Financial Market Operations (Activity Types) to be Standardised Depending on the Activity Types of Financial Institutions, and to be Developed by Financial Market Self-regulatory Organisations Comprising Microfinance Organisations, and Consumer Credit Cooperatives'; Bank of Russia Ordinance No. 4270-U, dated 25 January 2017, 'On the List of Mandatory Core Standards and Their Contents to be Developed by Financial Market Self-regulatory Organisations Comprising FX Dealers, and the List of Financial Market Operations (Activity Types) of FX Dealers to be Standardised'; Bank of Russia Ordinance No. 4278-U, dated 3 February 2017, 'On the Requirements for Core Standard for the Protection of Rights and Interests of Individuals and Legal Entities Consuming Financial Services from Financial Market Self-regulatory Organisations Comprising Microfinance Organisations'; Bank of Russia Ordinance No. 4279-U, dated 3 February 2017, 'On Amending Bank of Russia Ordinance No. 4027-U, Dated 30 May 2016, 'On the List of Mandatory Core Standards and Their Contents, and the List of Financial Market Operations (Activity Types) to be Standardised Depending on the Activity Types of Financial Institutions, and to be Developed by Financial Market Self-regulatory Organisations Comprising Microfinance Organisations, and Consumer Credit Cooperatives';

	<p>Bank of Russia Ordinance No. 4467-U, dated 12 July 2017, 'On the List of Mandatory Core Standards and Their Contents to be Developed by Financial Market Self-regulatory Organisations Comprising Insurance Companies and Insurance Brokers, and the List of Financial Market Operations (Activity Types) of Insurance Companies and Insurance Brokers to be Standardised' ;</p> <p>Bank of Russia Ordinance No. 4490-U, dated 14 August 2017, 'On the Requirements for the Core Standard for the Protection of Rights and Interests of Individuals and Legal Entities Consuming Financial Services from Financial Market Self-regulatory Organisations Comprising Consumer Credit Cooperatives';</p> <p>Bank of Russia Ordinance No. 4491-U, dated 14 August 2017 'On Amending Bank of Russia Ordinance No. 4027-U, Dated 30 May 2016, 'On the List of Mandatory Core Standards and Their Contents, and the List of Financial Market Operations (Activity Types) to be Standardised Depending on the Activity Types of Financial Institutions, and to be Developed by Financial Market Self-regulatory Organisations Comprising Microfinance Organisations, and Consumer Credit Cooperatives';</p> <p>Bank of Russia Ordinance No. 4585-U, dated 26 October 2017, 'On the Requirements for Core Standards for the Protection of Rights and Interests of Individuals and Legal Entities Consuming Financial Services from Financial Market Self-regulatory Organisations Comprising Brokers, Manager, Depositories and Registrars';</p> <p>Bank of Russia Ordinance No. 4586-U, dated 26 October 2017, 'On Amending Bank of Russia Ordinance No. 4026-U, Dated 30 May 2016, 'On the List of Mandatory Core Standards and Their Contents to be Developed by Financial Market Self-regulatory Organisations Comprising Brokers, Dealers, Managers, Depositories and Registrars, and the List of Financial Market Operations (Activity Types) to be Standardised Depending on the Activity Types of Financial Institutions';</p> <p>Bank of Russia Ordinance No. 4484-U, dated 9 August 2017, 'On the Procedure for the Bank of Russia Standards Committee on the Respective Activity of Financial Organisations to Coordinate Basic Standards and for the Bank of Russia to Approve Such Basic Standards'</p>
Establishing a legal framework for financial advisers	Bank of Russia Ordinance No. 4970-U, dated 15 November 2018, 'On the Procedure and Timeframe for the Bank of Russia to Decide on Entering (Refusal to Enter) Information on a Legal Entity (Individual Entrepreneur) into the Unified Register of Investment Advisers, on the List of Documents Based on which the Bank of Russia Decides on Entering (Refusal to Enter) Information on a Legal Entity (Individual Entrepreneur) into the Unified Register of Investment Advisers, on the Grounds for the Bank of Russia to Decide on Refusal to Enter Information on a Legal Entity (Individual Entrepreneur) into the Unified Register of Investment Advisers, and on the Procedure for the Bank of Russia to Maintain the Unified Register of Investment Advisers'
Providing financial market participants with access to information on individuals from federal state information systems using the infrastructure for IT interaction of information systems used for the provision of state and municipal services and execution of state and municipal functions electronically	<p>Bank of Russia Ordinance No. 4106-U, dated 23 August 2016, 'On the Procedure for the Free Transfer of Credit Histories to Credit History Bureaus on a Competitive Basis';</p> <p>Bank of Russia Ordinance No. 4150-U, dated 10 October 2016, 'On the Procedure for Transferring Credit Histories to the Central Catalogue of Credit Histories for Safekeeping'</p>
Improving the regulation of credit rating agencies in the Russian Federation	<p>Bank of Russia Ordinance No. 4097-U, dated 4 August 2016, 'On the Procedure and Timeframe for a Credit Rating Agency to Disclose Information on Reasons Behind Deviations from the Calendar Set Dates for Revising and Disclosing Sovereign Credit Ratings';</p> <p>Bank of Russia Ordinance No. 4103-U, dated 11 August 2016, 'On the Procedure for the Bank of Russia to Approve the List of Additional Services Provided by a Credit Rating Agency Mentioned in Part 9 of Article 9 of Federal Law No. 222-FZ, Dated 13 July 2015, 'On the Activity of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Invalidating Certain Provisions of Russian Laws';</p> <p>Bank of Russia Ordinance No. 4156-U, dated 13 October 2016, 'On the Procedure for the Bank of Russia to Issue Orders to Correct Violations of the Requirements Mentioned in Parts 1 and 6 of Article 6 of Federal Law No. 222-FZ, Dated 13 July 2015, 'On the Activity of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and on Invalidating Certain Provisions of Russian Laws';</p> <p>Bank of Russia Ordinance No. 4062-U, dated 4 July 2016, 'On the Procedure, Contents, Forms and Timeframes for Submitting to the Bank of Russia the Information on Rating Actions by the Credit Rating Agencies'</p>
Improving the regulation of repository activity as an information source for financial market participants	<p>Bank of Russia Instruction No. 173-I, dated 8 June 2016, 'On the Procedure for, and Conditions of, Licensing of Repository Activities and on the Procedure for a Repository to Notify the Bank of Russia of the Appointment or Dismissal of the Head of a Structural Unit Set up to Conduct Repository Activities';</p> <p>Bank of Russia Ordinance No. 4045-U, dated 16 June 2016, 'On the Procedure for the Bank of Russia to Register Repository Rules, Rules of Internal Controls, Internal Audit and Risk Management, and the Related Amendments, and the Procedure for the Bank of Russia to Approve the Regulation on the Committee of Repository Service Users';</p> <p>Bank of Russia Ordinance No. 4104-U, dated 16 August 2016, 'On the Types of Agreements Executed Outside Organised Trading Venues and Reported to the Repository; on Persons Submitting Information on Such Agreements to the Repository; on the Procedure, Composition, Form, and Timeframes for the Provision of Information to the Repository; on Additional Requirements for the Repository to Keep a Register of Agreements; on the Procedure and Timeframes for the Repository to Provide Information; and on the Procedure, Composition, Form, and Timeframes for the Repository to Submit the Register of Agreements to the Bank of Russia';</p>

	<p>Bank of Russia Ordinance No. 4145-U, dated 30 September 2016, 'On the Requirements for a Repository's Internal Control and Internal Audit Rules';</p> <p>Bank of Russia Ordinance No. 4660-U, dated 22 December 2017, 'On the Volume and Procedure for Disclosing Information by Repository'</p>
Application of a reduced risk ratio for claims on small business entities	<p>Bank of Russia Instruction No. 180-I, dated 28 June 2017, 'On Banks' Required Ratios';</p> <p>Bank of Russia Ordinance No. 4635-U, dated 6 December 2017, 'On Amending Bank of Russia Instruction No. 180-I, Dated 28 June 2017, 'On Banks' Required Ratios'</p>
Improving the system for assessing the business reputation of members of management bodies and officials of financial institutions and approaches to the qualification requirements established for them	<p>Bank of Russia Regulation No. 625-P, dated 27 December 2017, 'On the Procedure for Approving by the Bank of Russia of Candidates' Appointment (Selection) to Positions in a Financial Institution; for Notifying the Bank of Russia about Selecting (Terminating Authorities), Appointing (Releasing from Office of) Top Managers, Other Officials in Financial Institutions; for Assessing Compliance with the Qualification Requirements and (or) Requirements for Business Reputation of the Top Managers, Other Officials and Founders (Shareholders, Members) of Financial Institutions; for Forwarding Information to the Bank of Russia by a Member of a Financial Institution's Board of Directors (Supervisory Board) on Voting (Non-voting) against a Decision Made by the Board of Directors (Supervisory Board) of a Financial Institution; for Requesting Information from the Bank of Russia and the Latter's Replying Regarding the Availability (Non-availability) of Information in Databases Stipulated by Articles 75 and 76.7 of Federal Law No. 86-FZ, Dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'; and on the Procedure for Maintaining Such Databases';</p> <p>Bank of Russia Regulation No. 621-P, dated 25 December 2017, 'On the Procedure for the Bank of Russia to Send Orders Following the Failure to Comply with Qualification Requirements and (or) Business Reputation Requirements, Violation of the Procedure to Purchase Shares (Stakes), Establishment of Control over Shareholders (Members) of Financial Institutions, and the Revelation of Unsatisfactory Financial Position; on the List of Persons to Whom Copies of Orders are Sent; the Procedure for Informing Shareholders (Members) of Financial Institutions about Receiving Copies of Orders and Acts of Order Repeal; the Procedure for Determining the Number of Voting Shares (Stakes) of Credit Institutions Following the Sending of Orders; the Procedure for Sending an Act of Order Repeal, a Notification of Order Execution; and on the Procedure for Posting Information on Sending an Order (Repealing an Order) on the Bank of Russia Website';</p> <p>Bank of Russia Ordinance No. 4662-U, dated 25 December 2017, 'On the Qualification Requirements for the Head of Risk Management, Internal Controls and Internal Audit of a Credit Institution; for the Risk Management Officer and Controller of a Non-governmental Pension Fund, and the Auditor of an Insurance Company; on the Procedure for Informing the Bank of Russia about the Appointment to (Termination of) these Positions (Except for the Controller of a Non-governmental Pension Fund) and the Position of Special Officers Responsible for the Implementation of Internal Controls Rules Aimed at Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism of Credit Institutions, Non-governmental Pension Funds, Insurance Companies, Management Companies of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, and Microfinance Companies; of an Internal Control Officer of a Management Company of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds; and on the Procedure for the Bank of Russia to Assess the Compliance of These Persons (Except for the Controller of a Non-governmental Pension Fund) with Qualification and Business Reputation Requirements';</p> <p>Bank of Russia Regulation No. 626-P, dated 28 December 2017, 'On the Assessment of, and Requirements for, Financial Standing, Grounds for Recognising Financial Standing as Unsatisfactory with Regard to the Founders (Participants in) of a Credit Institution and Other Persons Specified by Federal Law No. 281-FZ, Dated 29 July 2017, 'On Amending Certain Laws of the Russian Federation with Regard to Improving Mandatory Requirements for Financial Institutions' Founders (Participants), Management Bodies and Officials';</p> <p>Bank of Russia Ordinance No. 4666-U, dated 26 December 2017, 'On the Procedure for Appealing Against a Person's Recognition as Non-compliant with Qualification Requirements and (or) Business Reputation Requirements';</p> <p>Bank of Russia Regulation No. 622-P, dated 26 December 2017, 'On the Procedure for Disclosing Information on Persons Controlling or Exerting Material Influence on Banks Participating in the Compulsory Household Deposit Insurance System of the Russian Federation, and on the Procedure for Disclosing and Submitting to the Bank of Russia Information on the Structure and Composition of the Shareholders (Members) of Non-governmental Pension Funds, Insurance Companies, Management Companies, Microfinance Companies, Including Persons Controlling or Exerting Material Influence Thereon';</p> <p>Bank of Russia Instruction No. 185-I, dated 25 December 2017, 'On Obtaining the Bank of Russia's Consent (Approval) to the Acquisition of the Shares (Stakes) of a Financial Institution and (or) to Setting Control over the Shareholders (Members) of a Financial Institution; and on Notifying the Bank of Russia about Instances as a Result of Which a Person Entitled to Directly or Indirectly Dispose of More Than 10 Per Cent of the Shares (Stakes) of a Non-bank Financial Institution Has Completely Lost Such Right or Retained the Right to Directly or Indirectly Dispose of Less Than 10 Per Cent of the Shares (Stakes) of a Non-bank Financial Institution';</p> <p>Bank of Russia Ordinance No. 4657-U, dated 21 December 2017, 'On Amending Bank of Russia Ordinance No. 3984-U, dated 28 March 2016, 'On the Procedure for the Bank of Russia to Maintain the State Register of Microfinance Organisations, the Form of Application for Entering Information on a Legal Entity into the State Register of Microfinance Organisations, the Form of Information on the Founders (Members, Shareholders) of the Legal Entity, the Form of a Certificate of Entry of Information on the Legal Entity into the State Register of Microfinance Organisations and the Procedure for its Reregistration, Application Forms on Changing the Type of a Microfinance Organisation and on Operation as a Microfinance Company or as a Microcredit Company, and the Form and Procedure for Submitting Documents and Information Confirming the Availability of Equity (Capital) and Sources of Funds Contributed by Founders (Members, Shareholders)';</p>

	Bank of Russia Ordinance No. 4658-U, dated 21 December 2017, 'On the Procedure and Timeframe for Submitting a Notice by the Person That Has Directly or Indirectly Acquired the Right to Dispose of 10 and More Per Cent of Votes Which Are Voting Shares and Which Make Up the Authorised Capital of a Professional Securities Market Participant, a Microcredit Company or a Pawnshop; and on the Procedure for the Bank of Russia to Send Inquiries about Persons That Directly or Indirectly Have the Right to Dispose of 10 and More Per Cent of Votes Which Are Voting Shares and Which Make Up the Authorised Capital of a Professional Securities Market Participant, a Microcredit Company or a Pawnshop'
Implementing measures to counter fictitious pricing in open markets	Bank of Russia Regulation No. 534-P, dated 24 February 2016, 'On Securities Admittance to Organised Trades'; Bank of Russia Ordinance No. 4028-U, dated 30 May 2016, 'On the Procedure for Calculating the Capital of Non-governmental Pension Funds'; Bank of Russia Ordinance No. 4075-U, dated 19 July 2016, 'On the Capital Requirements for Management Companies of Investment Funds, Unit Investment Funds, Non-governmental Pension Funds, and Applicants for Management Company Licences'; Bank of Russia Ordinance No. 4373-U, dated 11 May 2017, 'On the Capital Requirements for Professional Securities Market Participants'; Bank of Russia Ordinance No. 4954-U, dated 31 October 2018, 'On the Procedure for Calculating the Current Asset Value and the Net Asset Value Constituting Pension Savings, on the Procedure and Timeframe for Calculating the Value of Assets Constituting Pension Reserves and the Aggregate Value of Pension Reserves of a Non-governmental Pension Fund' (invalidates Bank of Russia Ordinance No. 4579-U, dated 11 October 2017, 'On the Procedure for Calculating Current Market Value and Value of Net Assets in Trust Management under a Trust Management Agreement to Manage Pension Savings; on the Procedure and Timeframe for Calculating Market Value of Assets into Which Savings are Invested and on the Total Market Value of a Non-governmental Pension Fund's Pension Reserves')
Ensuring transition of non-bank financial institutions to international financial reporting standards and electronic format for collecting and processing reporting data based on XBRL	Bank of Russia Ordinance No. 4623-U, dated 27 November 2017, 'On the Form, Timeframe and Procedure for Compiling and Submitting to the Bank of Russia Operating Statements, Including the Requirements for Statements on Mandatory Pension Insurance, by Non-governmental Pension Funds'; Bank of Russia Ordinance No. 4621-U, dated 27 November 2017, 'On the Forms, Timelines and Procedure for Professional Securities Market Participants, Trade Organisers, Clearing Companies and Entities Acting as Central Counterparties, to Compile and Submit Statements to the Central Bank of the Russian Federation'; Bank of Russia Ordinance No. 4584-U, dated 25 October 2017, 'On the Form, Timeframe and Procedure for Insurance Companies to Compile and Submit to the Bank of Russia Statements, Required for Control and Supervision Purposes, and Statistical Statements, as well as on the Form, Timeframe and Procedure for Insurance Companies to Submit Accounting (Financial) Statements to the Bank of Russia'; Bank of Russia Ordinance No. 4715-U, dated 8 February 2018, 'On Forms, Procedure and Timeframe for Compiling and Submitting to the Bank of Russia Statements by Joint-stock Investment Funds, Management Companies of Investment Funds, Unit Investment Funds, and Non-governmental Pension Funds'
Removing duplicate and/or unused information from financial institutions' reporting statements and expanding the unified reporting statements to enable efficient simultaneous remote and prudential supervision	Bank of Russia Ordinance No. 4022-U, dated 20 May 2016, 'On Amending Bank of Russia Regulation No. 487-P, Dated 2 September 2015, 'Sectoral Standard for Accounting Income, Expenses and Other Total Return of Non-bank Financial Institutions'; Bank of Russia Ordinance No. 4083-U, dated 25 July 2016, 'On the Forms, Timeframe and Procedure for Compiling and Submitting to the Bank of Russia Documents Containing the Activity Report and the Report on the Composition of the Governing Bodies of a Consumer Credit Cooperative'; Bank of Russia Ordinance No. 4113-U, dated 30 August 2016, 'On Amending Bank of Russia Regulation No. 488-P, Dated 2 September 2015, 'Sectoral Standard for Accounting Financial Derivatives by Non-bank Financial Institutions'; Bank of Russia Ordinance No. 4114-U, dated 30 August 2016, 'On Amending Bank of Russia Regulation No. 502-P, Dated 5 November 2015, 'Sectoral Standard for Non-governmental Pension Funds to Account Operations Related to Their Activities as Insurers in Mandatory Pension Insurance and Non-governmental Pension Provision'; Bank of Russia Ordinance No. 4127-U, dated 5 September 2016, 'On Amending Bank of Russia Regulation No. 526-U, Dated 28 December 2015, 'Sectoral Accounting Standard 'Procedure for Compiling Accounting (Financial) Statements by Insurance Companies and Mutual Insurance Companies'; Bank of Russia Ordinance No. 4128-U, dated 5 September 2016, 'On Amending Bank of Russia Regulation No. 532-P Dated 3 February 2016, 'Sectoral Accounting Standard 'Procedure for Compiling Accounting (Financial) Statements of Professional Securities Market Participants, Joint-stock Investment Funds, Trade Organisers, Central Counterparties, Clearing Companies, Specialised Depositories of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, Asset Management Companies of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, Credit History Bureaus, Credit Rating Agencies, and Insurance Brokers'; Bank of Russia Ordinance No. 4130-U, dated 6 September 2016, 'On Amending Bank of Russia Regulation No. 491-P, Dated 4 September 2015, 'Sectoral Standard for Accounting in Insurance Companies and Mutual Insurance Companies Located in the Russian Federation'; Bank of Russia Ordinance No. 4173-U, dated 31 October 2016, 'On Amending Bank of Russia Regulation No. 527-P, Dated 28 December 2015, 'Sectoral Accounting Standard 'Procedure for Compiling Accounting (Financial) Statements by Non-governmental Pension Funds';

	<p>Bank of Russia Ordinance No. 4177-U, dated 3 November 2016, 'On the Contents of Statements of a Credit Rating Agency, its Form, Timeframe and Procedure for Compiling and Submitting to the Bank of Russia';</p> <p>Bank of Russia Ordinance No. 4178-U, dated 7 November 2016, 'On Amending Bank of Russia Regulation No. 487-P, Dated 2 September 2015, 'Sectoral Standard for Accounting Income, Expenses and Other Total Return of Non-bank Financial Institutions';</p> <p>Bank of Russia Ordinance No. 4179-U, dated 7 November 2016, 'On Amending Bank of Russia Regulation No. 493-P Dated 1 October 2015, 'Sectoral Standard for Accounting Operations to Withdraw (Place) Funds under Loan Agreements and Bank Deposit Agreements at Non-bank Financial Institutions';</p> <p>Bank of Russia Ordinance No. 4180-U, dated 7 November 2016, 'On Amending Bank of Russia Regulation No. 494-P, Dated 1 October 2015, 'Sectoral Standard for Securities Transactions Accounting at Non-bank Financial Institutions';</p> <p>Bank of Russia Ordinance No. 4181-U, dated 7 November 2016, 'On Amending Bank of Russia Regulation No. 501-P Dated 5 November 2015, 'Sectoral Standard for Accounting Fund Raising under Loan Agreements, and Bond and Promissory Note Issuance and Redemption (Repayment) by Non-bank Financial Organisations';</p> <p>Bank of Russia Ordinance No. 4247-U, dated 27 December 2016, 'On Amending Bank of Russia Regulation No. 486-P Dated 2 September 2015, 'On the Chart of Accounts for Accounting Purposes at Non-bank Financial Institutions and the Procedure for Using it';</p> <p>Bank of Russia Ordinance No. 4711-U, dated 31 January 2018, 'On Amending Bank of Russia Ordinance No. 3608-U, Dated 26 March 2015, 'On the Timeframe and Procedure for Compiling and Submitting Reporting by a Housing Savings Cooperative to the Bank of Russia';</p> <p>Bank of Russia Ordinance No. 4737-U, dated 14 March 2018, 'On Amending Bank of Russia Ordinance No. 4262-U, Dated 13 January 2017, 'On the Content, Form, Procedure and Timeframe for Self-regulatory Organisations in the Financial Market to Submit Statements to the Bank of Russia';</p> <p>Bank of Russia Ordinance No. 4764-U, dated 2 April 2018, 'On Amending Bank of Russia Ordinance No. 3927-U, Dated 30 December 2015, 'On the Forms, Timeframes and Procedure for Compiling and Submitting to the Bank of Russia Documents Containing the Activity Report of a Pawnshop and the Report on the Composition of the Governing Bodies of a Pawnshop';</p> <p>Bank of Russia Ordinance No. 4777-U, dated 19 April 2018, 'On the Form, Timeframe and Procedure for a Specialised Depository to Compile and Submit Statements to the Bank of Russia; on the Form, Timeframe and Procedure for a Specialised Depository to Submit Statements to an Insurer; and on the Form and Timeframe for a Specialised Depository to Submit Statements to a Management Company Engaged in the Trust Management of Servicemen Housing Savings and to an Authorised Federal Executive Body in Charge of the Savings and Mortgage System of Housing Provision for Servicemen';</p> <p>Bank of Russia Ordinance No. 4945-U, dated 26 October 2018, 'On Amending Bank of Russia Ordinance No. 4083-U, Dated 25 July 2016, 'On the Forms, Timeframe and Procedure for Compiling and Submitting to the Bank of Russia Documents Containing the Activity Report and the Report on the Composition of the Governing Bodies of a Consumer Credit Cooperative';</p> <p>Bank of Russia Ordinance No. 4753-U, dated 30 March 2018, 'On Amending Bank of Russia Ordinance No. 2831-U, Dated 9 June 2012, 'On Reporting by Payment System Operators, Payment Infrastructure Operators, Funds Transfer Operators on Information Protection During Funds Transfers';</p> <p>Bank of Russia Ordinance No. 4927-U, dated 8 October 2018, 'On the List, Forms and Procedure for Compiling and Submitting Credit Institutions' Reporting Forms to the Central Bank of the Russian Federation'</p>
Implementing proportionate regulation in the financial market	<p>Bank of Russia Ordinance No. 3964-U, dated 20 February 2016, 'On Microfinance Organisations for Business Financing';</p> <p>Bank of Russia Instruction No. 183-I, dated 6 December 2017, 'On the Required Ratios of Banks with a Basic Licence';</p> <p>Bank of Russia Ordinance No. 4667-U, dated 26 December 2017, 'On Amending Bank of Russia Ordinance No. 4336-U, Dated 3 April 2017, 'On Assessing Banks' Economic Situation';</p> <p>Bank of Russia Ordinance No. 4668-U, dated 26 December 2017, 'On Amending Bank of Russia Ordinance No. 3277-U, Dated 11 June 2014, 'On Methodologies for Assessing Bank Financial Soundness for Qualifying it as Adequate for Participation in the Deposit Insurance System';</p> <p>Bank of Russia Ordinance No. 4979-U, dated 27 November 2018, 'On the Requirements for Securities with Which Banks with a Basic Licence Are Entitled to Conduct Operations and Transactions in the Securities Market';</p> <p>Bank of Russia Regulation No. 596-P, dated 26 July 2017, 'On the Procedure for Systemically Important Credit Institutions to Calculate Structural Liquidity Ratio (Net Stable Funding Ratio) (Basel III)'</p>
Improving the practice of applying regulatory impact assessment procedures	Bank of Russia Regulation No. 602-P, dated 22 September 2017, 'On the Rules for Preparing Bank of Russia Regulations'
Defining approaches to the implementation of a professional judgement mechanism for specific issues in the activities of financial institutions while simultaneously enhancing the oversight of the decision-making procedure	<p>Bank of Russia Ordinance No. 4203-U, dated 17 November 2016, 'On the Signs of Potential Interconnectedness between an Entity (Entities) and a Credit Institution';</p> <p>Bank of Russia Ordinance No. 4205-U, dated 17 November 2016, 'On the Procedure for the Bank of Russia Banking Supervision Committee to Recognise an Entity to be Interconnected with a Credit Institution (to Belong to the Group of Entities Interconnected with a Credit Institution) on the Basis of Informed Judgment, to Send Instructions to the Credit Institution, and to Consider Applications from the Credit Institution'</p>

Bringing regulation of calculations to determine the capital value and capital adequacy ratios of credit institutions in line with the Basel standards	Bank of Russia Regulation No. 647-P, dated 4 July 2018, 'On Measuring Exposure by Banks for Fund Raising Operations Through the Issuance of Debt Securities Whose Obligations Are Secured Fully or Partially by the Receipts from Assets Used as Collateral'
Adopting a federal law authorising the Bank of Russia to carry out expert evaluation of pledged items accepted by credit institutions as security for loans and require that credit institutions consider the results of such expert evaluation when making provisions	Bank of Russia Regulation No. 570-P, dated 26 December 2016, 'On the Procedure for the Bank of Russia to Carry out Examination of Collateral Accepted by a Credit Institution to Secure a Loan'; Bank of Russia Instruction No. 176-I, dated 20 December 2016, 'On the Procedure for, and Instances of, Bank of Russia Authorised Representatives (Employees) to Examine the Loan Collateral and/or Familiarise Themselves with the Activities of a Credit Institution's Borrower and/or Collateral Provider'
Further implementation of Basel II, Basel 2.5 and Basel III standards	Bank of Russia Ordinance No. 4838-U, dated 27 June 2018, 'On Amending Bank of Russia Ordinance No. 3624-U, Dated 15 April 2015, 'On the Requirements for the Risk and Capital Management System of a Credit Institution or a Banking Group'; Bank of Russia Ordinance No. 4482-U, dated 7 August 2017, 'On the Form and Procedure for a Credit Institution (Parent Credit Institution of a Banking Group) to Disclose Information on Risks Assumed, Risk Assessment Procedures and Risk and Capital Management Procedures'
Implementing a project to build new payment infrastructure within the Bank of Russia payment system	Bank of Russia Regulation No. 552-P, dated 24 August 2016, 'On the Requirements for Data Protection in the Bank of Russia Payment System'; Bank of Russia Regulation No. 595-P, dated 6 July 2017, 'On the Bank of Russia Payment System'
Ensuring the financial stability of professional securities market participants	Bank of Russia Ordinance No. 4630-U, dated 30 November 2017, 'On the Requirements for Dealer, Broker, Securities Management and Forex Dealer Activities with Regard to the Calculation of the Capital Adequacy Ratio'; Bank of Russia Ordinance No. 4402-U, dated 6 June 2017, 'On the Requirements for Brokerage with Regard to the Calculation of the Liquidity Coverage Ratio Where Customers Entitle Brokers to Use Their Funds in the Brokers' Interest'; Bank of Russia Regulation No. 548-P, dated 19 July 2016, 'On the Procedure for Calculating the Capital of Professional Securities Market Participants and Also of Applicants for Professional Securities Market Participant's Licence'
Organisation of a risk management system of professional securities market participants	Bank of Russia Ordinance No. 4501-U, dated 21 August 2017, 'On the Requirements for Professional Securities Market Participants to Organise a System to Manage Risks Related to Their Professional Activity in the Securities Market and Operations with Their Own Assets Depending on the Type of Activity and the Nature of Operations Performed'
Organisation of internal accounting by professional securities market participants and potential transferring of the function to manage information systems and internal accounting systems	Bank of Russia Regulation No. 577-P, dated 31 January 2017, 'On the Internal Accounting Rules of Professional Securities Market Participants Engaged in Broker, Dealer, and Securities Management Activities'
Improving internal control requirements and elaborating internal audit requirements for infrastructure organisations of the financial market	Bank of Russia Ordinance No. 4739-U, dated 15 March 2018, 'On the Requirements for Internal Controls and Auditing Conducted by a Clearing Organisation'; Bank of Russia Ordinance No. 4792-U, dated 7 May 2018, 'On the Requirements for the Procedure for Trade Organisers to Exercise Internal Control and Internal Audit'; Bank of Russia Ordinance No. 4904-U, dated 12 September 2018, 'On the Requirements for the Central Depository to Exercise Internal Control and Internal Audit, for Internal Audit Rules and Action Plan of Internal Audit of the Central Depository'
Elaborating the requirements for maintaining a register of securities holders with regard to document sharing, record storage and register transfer	Regulation No. 572-P, dated 27 December 2016, 'On the Requirements for Keeping the Register of Securities Holders'
Elaborating the requirements for brokerage activities with regard to unifying margin requirements for transactions with financial instruments	Bank of Russia Ordinance No. 4805-U, dated 1 June 2018, 'On Amending Bank of Russia Ordinance No. 3234-U, Dated 18 April 2014, 'On Unified Requirements Regarding Rules for Broker Activities When Making Certain Transactions at Customers' Expense'
Improving requirements for the financial stability and solvency of insurers	Bank of Russia Regulation No. 557-P, dated 16 November 2016, 'On the Rules of Creating Life Insurance Reserves'; Bank of Russia Regulation No. 558-P, dated 16 November 2016, 'On the Rules of Creating Non-life Insurance Reserves'; Bank of Russia Ordinance No. 4280-U, dated 6 February 2017, 'On Amending Bank of Russia Ordinance No. 3743-U, Dated 28 July 2015, 'On the Procedure for an Insurance Company to Calculate Capital to Liabilities Ratio'; Bank of Russia Ordinance No. 4297-U, dated 22 February 2017, 'On the Procedure for Investing Insurance Reserve Funds and the List of Assets Eligible for Investment'; Bank of Russia Ordinance No. 4298-U, dated 22 February 2017, 'On the Procedure for Investing Insurer's Capital and the List of Assets Eligible for Investment';

	<p>Bank of Russia Ordinance No. 4423-U, dated 20 June 2017, 'On Amending Clause 17 of Bank of Russia Ordinance No. 4297-U, Dated 22 February 2017, 'On the Procedure for Investing Insurance Reserve Funds and the List of Assets Eligible for Investment';</p> <p>Bank of Russia Ordinance No. 4424-U, dated 20 June 2017, 'On Amending Clause 17 of Bank of Russia Ordinance No. 4298-U, Dated 22 February 2017, 'On the Procedure for Investing Insurer's Capital and the List of Assets Eligible for Investment';</p> <p>Bank of Russia Ordinance No. 4451-U, dated 7 July 2017, 'On Amending Clause 5 of Bank of Russia Ordinance No. 3743-U, Dated 28 July 2015, 'On the Procedure for an Insurance Company to Calculate Capital to Liabilities Ratio';</p> <p>Bank of Russia Ordinance No. 4684-U, dated 9 January 2018, 'On Amending Bank of Russia Ordinance No. 3743-U, Dated 28 July 2015, 'On the Procedure for an Insurance Company to Calculate Capital to Liabilities Ratio';</p> <p>Bank of Russia Ordinance No. 4683-U, dated 9 January 2018, 'On Amending Bank of Russia Ordinance No. 4297-U, Dated 22 February 2017, 'On the Procedure for Investing Insurance Reserve Funds and the List of Assets Eligible for Investment';</p> <p>Bank of Russia Ordinance No. 4682-U, dated 9 January 2018, 'On Amending Bank of Russia Ordinance No. 4298-U, Dated 22 February 2017, 'On the Procedure for Investing Insurer's Capital and the List of Assets Eligible for Investment';</p> <p>Bank of Russia Ordinance No. 4897-U, dated 3 September 2018, 'On Amending Bank of Russia Ordinance No. 4298-U, Dated 22 February 2017, 'On the Procedure for Investing Insurer's Capital and the List of Assets Eligible for Investment';</p> <p>Bank of Russia Ordinance No. 4896-U, dated 3 September 2018, 'On the Methodology for Measuring Insurer's Capital (Excluding Mutual Insurance Companies)'</p>
Elaborating proposals for amending the laws of the Russian Federation on compulsory third party liability insurance of vehicle owners with due regard for law enforcement practice	<p>Bank of Russia Ordinance No. 4664-U, dated 25 December 2017, 'On Amending Bank of Russia Regulation No. 431-P, Dated 19 September 2014, 'On the Rules of Compulsory Third Party Liability Insurance of Vehicle Owners';</p> <p>Bank of Russia Ordinance No. 4775-U, dated 16 April 2018, 'On Amending Bank of Russia Regulation No. 431-P, Dated 19 September 2014, 'On the Rules of Compulsory Third Party Liability Insurance of Vehicle Owners'</p>
Improving the mechanism for countering unscrupulous actions of insurance companies providing compulsory types of insurance	Bank of Russia Ordinance No. 4500-U, dated 21 August 2017, 'On Amending Clause 1 of Bank of Russia Ordinance No. 3854-U, Dated 20 November 2015, 'On the Minimum (Standard) Requirements for the Procedure and Conditions to Provide Certain Types of Voluntary Insurance'
Improving the terms and procedure of compulsory carrier's third-party liability insurance for inflicting damage to the life, health and property of passengers based on law enforcement practices	Bank of Russia Ordinance No. 4293-U, dated 14 February 2017, On the List and Procedure for Compiling by the Beneficiary of Documents Authorizing the Receipt of Insurance Benefits, Part Thereof (Preliminary Payment of Benefits) under the Carrier's Contract on Compulsory Third Party Liability Insurance for Inflicting Damage to the Life, Health or Property of Passengers'
Improving Russian legislation on insolvency (bankruptcy) with regard to insurance companies	<p>Bank of Russia Regulation No. 599-P, dated 30 August 2017, 'On the Requirements for the Procedure to Create and Maintain Information System Databases, to Store Their Information on Insurance Reserves, Insurance Reserve Funds, Equity Capital and Their Movements, and on Providing Access to Such Information to the Bank of Russia';</p> <p>Bank of Russia Regulation No. 648-P, dated 16 July 2018, 'On the Provisional Administration of an Insurance Company'</p>
Clarifying, for supervisory purposes, the procedure for determining the value of securities held to maturity in which pension savings are invested	Bank of Russia Ordinance No. 4886-U, dated 29 August 2018, 'On Amending Bank of Russia Ordinance No. 4139-U, Dated 23 September 2016, 'On the Procedure for Calculating the Invested Amounts of Pension Savings not Included in the Reserves of a Non-governmental Pension Fund to be Recorded in a Funded Pension Account'
Changing the system of remuneration and payment for the services of parties to compulsory pension insurance	Bank of Russia Ordinance No. 4881-U, dated 23 August 2018, 'On the Procedure for Calculating the Return on Investment of Pension Savings for the Calculation of the Variable Part of Remuneration of a Non-governmental Pension Fund Involved in Mandatory Pension Insurance'
Developing a risk management framework for non-governmental pension funds	Bank of Russia Ordinance No. 4060-U, dated 4 July 2016, 'On the Requirements for the Organisation of the Risk Management System of a Non-governmental Pension Fund'
Expanding investment opportunities for investment funds with regard to asset composition and structure	Bank of Russia Ordinance No. 4129-U, dated 5 September 2016, 'On the Composition and Structure of Assets of Joint-stock Investment Funds and Unit Investment Funds'
Updating the rules for investing collective investment funds in real estate and mortgage securities	Bank of Russia Regulation No. 580-P, dated 1 March 2017, 'On Additional Restrictions on Investing Pension Savings Placed with Non-governmental Pension Funds Providing Mandatory Pension Insurance; on Cases When a Management Company Acting as a Trustee of Pension Savings Is Entitled to Execute Repo Agreements; on Requirements Aimed at Risk Mitigation the Observance Whereof Entitles the Management Company to Execute Derivative Contracts; on Additional Requirements for Credit Institutions Which Servicemen Pension and Housing Savings are Placed with; and on the Additional Requirement for the Management Company to Finance Funded Pension under Pension Savings Trust Management Agreement'

Ensuring financial stability of microfinance organisations	Bank of Russia Ordinance No. 4382-U, dated 24 May 2017, 'On Setting Economic Ratios for a Microfinance Company Attracting Funds from Individuals, Including Individual Entrepreneurs and (or) Legal Entities, in the Form of Loans, and for a Microfinance Company Issuing and Placing Bonds'; Bank of Russia Ordinance No. 4384-U, dated 24 May 2017, 'On Setting Economic Ratios for a Microcredit Company Attracting Funds from Individuals, Including Individual Entrepreneurs, Who are Founders (Members, Shareholders), and (or) Legal Entities in the Form of Loans'
Elaborating the requirements for the risk management framework of microfinance market participants	Bank of Russia Ordinance No. 4168-U, dated 27 October 2016, 'On the Procedure for Determining Misreporting by Microfinance Organisations to the Bank of Russia and its Materiality Qualifiers'
Establishing financial ratios for the activities of agricultural consumer credit cooperatives	Bank of Russia Ordinance No. 4299-U, dated 27 February 2017, 'On the Numerical Value of the Financial Ratio and the Procedure for Calculating Financial Ratios of Agricultural Consumer Credit Cooperatives'
Improving requirements for the information transparency of public joint-stock companies	Bank of Russia Ordinance No. 4107-U, dated 23 August 2016, 'On the Procedure for an Issuer to Disclose (Submit) Information in the Event of Substitution of Securities Holders' Registrar'
Improving the procedure for issuing securities	Bank of Russia Ordinance No. 4171-U, dated 28 October 2016, 'On Amending Bank of Russia Regulation No. 428-P, Dated 11 August 2004, 'On Securities Issue Standards, Procedure for the State Registration of Issues (Additional Issues) of Issue-grade Securities, the State Registration of Reports on Results of Issues (Additional Issues) of Equity Securities and Registration of Prospectuses of Securities'
Improving the system for the oversight of financial institutions	Bank of Russia Regulation No. 553-P, dated 22 September 2016, 'On the Procedure for the Bank of Russia to Maintain the Register of Unit Investment Funds and Provide Extracts Therefrom, on the Requirements for the Statement of Consolidated Assets of Unit Investment Funds, Procedure for and Timeframes of its Submitting to the Bank of Russia'; Bank of Russia Ordinance No. 3984-U, dated 28 March 2016, 'On the Procedure for the Bank of Russia to Maintain the State Register of Microfinance Organisations, the Form of Application for Entering Information on a Legal Entity into the State Register of Microfinance Organisations, the Form of Information on the Founders (Members, Shareholders) of the Legal Entity, the Form of a Certificate of Entry of Information on the Legal Entity into the State Register of Microfinance Organisations and the Procedure for its Reregistration, Application Forms on Changing the Type of a Microfinance Organisation and on Operation as a Microfinance Organisation or as a Microcredit Company, and the Form and Procedure for Submitting Documents and Information Confirming the Availability of Equity (Capital) and Sources of Funds Contributed by Founders (Members, Shareholders)'
Improving the existing system of certification and accreditation	Bank of Russia Ordinance No. 4131-U, dated 8 September 2016, 'On Approving the Programme of Qualification Examinations to Certify Individuals in Broker, Dealer, Securities Management and Forex Dealer Activities'
Enhancing the analytical capacity of the Bank of Russia to identify threats to financial stability	Bank of Russia Ordinance No. 4091-U, dated 29 July 2016, 'On Amending Bank of Russia Ordinance No. 3386-U, Dated 22 September 2014, 'On the Procedure for Calculating the Foreign Capital Stake (Quota) in the Authorised Capital of Insurance Companies, and the Lists of Documents Required to Obtain the Bank of Russia's Permits to Alienate the Shares (Stakes in Authorised Capital) of Insurance Companies in Favour of Foreign Investors and/or Their Subsidiaries'; Bank of Russia Ordinance No. 4144-U, dated 29 September 2016, 'On the Requirements for the Risk Management System Related to Repository Activities and the Rules for Repository Risk Management'; Bank of Russia Ordinance No. 4148-U, dated 6 October 2016, 'On the Requirements for the Development and Approval of Plans for Business Continuity and Financial Sustainability of a Repository'
Improving the requirements for depository operations	Bank of Russia Regulation No. 546-P, dated 1 June 2016, 'On the List of Information Associated with the Exercise of Securities Rights and Provided by Issuers to the Central Depository, the Procedure and Timeframes for Its Provision, and on the Requirements for the Procedure for the Central Depository to Give Access to Such Information'
Improving CMTPLI regulation	Bank of Russia Ordinance No. 4190-U, dated 14 November 2016, 'On the Requirements for the Use of Electronic Documents and the Procedure for Electronic Information Exchange in the Process of Compulsory Third Party Liability Insurance of Vehicle Owners'; Bank of Russia Ordinance No. 4191-U, dated 14 November 2016, 'On the Requirements for the Smooth and Uninterrupted Functioning of the Websites of Insurers and the Professional Association of Insurers for the Purpose of Making Electronic Compulsory Insurance Agreements'; Bank of Russia Ordinance No. 4192-U, dated 14 November 2016, 'On Amending Bank of Russia Regulation No. 431-P, Dated 19 September 2014, 'On the Rules of Compulsory Third Party Liability Insurance of Vehicle Owners'

5.4. Statistical tables

KEY MACROECONOMIC INDICATORS (PER CENT OF PREVIOUS YEAR)

Table 1

	2016	2017	2018
Gross domestic product ^{1, 2}	100.3	101.6	102.3
of which: ³			
– agriculture, forestry, hunting, fishery and fish farming	102.3	101.5	98.0
– mining and quarrying	102.0	102.4	103.9
– manufacturing	102.8	101.2	101.6
– electricity, gas and steam supply; air conditioning	101.3	98.6	101.5
– water supply and disposal, waste collection and utilisation, pollution elimination	100.7	97.7	101.2
– construction	101.7	98.8	104.7
– wholesale and retail trade, and other	96.0	102.5	102.2
– transportation and storage	101.6	100.1	103.0
– information and communications	96.4	101.3	101.8
GDP deflator index ²	103.2	105.4	110.3
Consumer price index (December on previous December) ²	105.4	102.5	104.3
Fixed capital investment ^{1, 2}	99.8	104.8	104.3
Retail trade turnover ^{1, 2}	95.2	101.3	102.8
Unemployment rate calculated according to ILO methodology (annual average), as per cent of labour force ²	5.5	5.2	4.8
External trade (per balance of payments methodology) ⁴			
– merchandise exports	82.5	125.5	125.3
– merchandise imports	99.2	124.4	104.4
– exports of services	98.1	113.8	112.4
– imports of services	84.0	119.1	106.6

¹ Index of quantity.² Rosstat data.³ Gross value added in core prices.⁴ Bank of Russia data.

CONSUMER PRICES BY GROUP OF GOODS AND SERVICES¹
(GROWTH, DECEMBER AS A PERCENTAGE OF PREVIOUS DECEMBER)

Table 2

	2016	2017	2018
Consumer prices, total	5.4	2.5	4.3
of which:			
– food prices	4.6	1.1	4.7
of which:			
– food prices exclusive of fruit and vegetables	6.0	1.0	4.6
– fruit and vegetable prices	–6.8	1.2	4.9
– non-food prices	6.5	2.8	4.1
– paid services provided to the public	4.9	4.4	3.9
Prices of goods and services included in calculation of core consumer price index (CCPI)	6.0	2.1	3.7

¹ Rosstat data.**CONSUMER PRICE INFLATION STRUCTURE¹**

Table 3

	2017		2018	
	growth, percentage points	contribution to growth, per cent	growth, percentage points	contribution to growth, per cent
Headline inflation (December on December)	2.5	100.0	4.3	100.0
Inflation growth due to:				
– change in prices of goods and services included in CCPI calculation	1.5	60.7	2.6	61.0
– change in prices of goods and services not included in CCPI calculation	1.0	39.3	1.7	39.0
of which:				
– change in fruit and vegetable prices	0.0	1.9	0.2	4.5
– change in administered service and fuel prices	0.9	35.6	1.5	34.4

¹ Rosstat data, Bank of Russia calculations.

BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENDITURES¹
(MILLIONS OF RUBLES)

Table 4

	2017	2018	2018 as a percentage of 2017
Money income	55,938,298.8	58,162,889.9	104.0
Wages and salaries	30,974,855.0	34,534,204.7	111.5
Share, per cent	55.4	59.4	
Social allowances	10,850,333.5	11,101,897.6	102.3
Share, per cent	19.4	19.1	
Income from entrepreneurial activities	3,513,911.4	3,698,909.5	105.3
Share, per cent	6.3	6.4	
Income from property	2,415,172.3	2,463,781.7	102.0
Share, per cent	4.3	4.2	
Other income	8,184,026.6	6,364,096.4	77.8
Share, per cent	14.6	10.9	
Money expenditures	52,125,795.7	56,011,795.8	107.5
– consumer expenditures	44,455,361.9	47,506,761.8	106.9
– compulsory payments and contributions	6,172,462.6	6,907,900.7	111.9
– other expenditures	1,497,971.2	1,597,133.3	106.6
Growth in savings²	3,812,503.2	2,151,094.1	56.4
of which:			
– ruble and foreign currency deposits, government and other securities	1,265,633.4	1,736,243.9	137.2
– ruble and foreign currency cash on hand	1,237,738.6	1,391,198.3	112.4
Memo item			
Share of money income, per cent			
– consumer expenditures	79.5	81.7	
– compulsory payments and contributions	11.0	11.9	
– other expenditures	2.7	2.7	
– savings	6.8	3.7	
of which:			
– ruble and foreign currency deposits, government and other securities	2.3	3.0	
– ruble and foreign currency cash on hand	2.2	2.4	
Disposable money income	49,765,836.2	51,254,989.2	103.0
Share of, per cent			
– consumer expenditures	89.3	92.7	
– other expenditures	3.0	3.1	
– savings	7.7	4.2	
of which:			
– ruble and foreign currency deposits, government and other securities	2.5	3.4	
– ruble and foreign currency cash on hand	2.5	2.7	

¹ The table was compiled based on Rosstat data (Methodological regulations for calculating household monetary income and expenditures approved by Rosstat Order No. 465, dated 2 July 2014, and amended by Order No. 680, dated 20 November 2018).

² Savings include increase (decrease) in deposits, purchase of securities, change in accounts of individual entrepreneurs, purchase of real estate, purchase of cattle and poultry by households, change in ruble and foreign currency cash on hand, change in outstanding loans and other savings.

BUDGET SYSTEM AND GOVERNMENT DEBT

Table 5

	2017		2018	
	billions of rubles	percentage of GDP	billions of rubles	percentage of GDP
Consolidated budget				
Revenue	31,046.7	33.7	36,916.9	35.5
– oil and gas revenues	5,971.9	6.5	9,017.8	8.7
– non-oil and gas revenues	25,074.8	27.2	27,899.1	26.9
Expenditure	32,395.7	35.2	33,880.7	32.6
Balance	–1,349.1	–1.5	3,036.2	2.9
Federal budget				
Revenue	15,088.9	16.4	19,454.9	18.7
– oil and gas revenues	5,971.9	6.5	9,017.8	8.7
– non-oil and gas revenues	9,117.6	9.9	10,437.1	10.0
Expenditure	16,420.3	17.8	16,712.9	16.1
Balance	–1,331.4	–1.4	2,742.0	2.6
– use of sovereign funds to finance budget deficit and replenish the balances of budget accounts	1,124.5	1.2	1,108.2	1.1
– net placement of domestic government securities	1,123.5	1.2	507.5	0.5
– replenishment of balances of the federal budget account in foreign currency (MinFin interventions, the '–' sign)	–829.2	–0.9	–4,216.3	–4.1
National Wealth Fund¹	3,752.9	4.1	4,036.0	3.9
Aggregate public debt as of year-end	14,243.1	15.5	15,162.7	14.6
– aggregate public and municipal domestic debt	11,372.7	12.3	11,747.8	11.3
– aggregate public and municipal external debt	2,870.3	3.1	3,414.9	3.3
– federal domestic debt	8,689.6	9.4	9,169.6	8.8
of which:				
– in securities	7,247.1	7.9	7,742.7	7.5
– OFZs	6,779.6	7.4	7,380.4	7.1
– other securities	467.6	0.5	362.3	0.3
– in government guarantees	1,442.5	1.6	1,426.9	1.4

¹ Including funds of the National Wealth Fund in accounts with the Bank of Russia in national currency and in foreign currency, and also funds in credit institutions, State Development Corporation VEB.RF, preference shares of non-financial organisations, and other assets.

RUSSIA'S DOMESTIC GOVERNMENT DEBT AS OF 1 JANUARY 2019
(AT FACE VALUE, BILLIONS OF RUBLES)

Table 6

Debt instruments	Russia's domestic government debt
Permanent coupon-income federal government bonds (OFZ-PD)	4,929.4
Debt depreciation federal government bonds (OFZ-AD)	410.1
Variable coupon-income federal government bonds (OFZ-PK)	1,731.8
Inflation-indexed federal government bonds (OFZ-IN)	253.5
Federal government bonds for individuals (OFZ-n)	55.6
Government savings bonds (GSO)	362.3
MinFin bonds (OVOZ)	0.0
Russian government guarantees in national currency	1,426.9
Total	9,169.6

MINISTRY OF FINANCE DEBT TO THE BANK OF RUSSIA AS OF 1 JANUARY 2019¹
(MILLIONS OF RUBLES)

Table 7

	At face value
Russian government debt obligations	151,045
of which:	
– Russian government debt obligations available for sale, in national currency	60
– Russian government debt obligations available for sale, in foreign currency	150,985

¹ Exclusive of repo transactions.**VOLUME (TURNOVER) OF RESIDENTS' TRANSACTIONS WITH NON-RESIDENTS**
TO BUY AND SELL RUSSIAN GOVERNMENT FOREIGN CURRENCY BONDS IN SECONDARY MARKET
(AT MARKET PRICES, BILLIONS OF US DOLLARS)

Table 8

	Currency	Q1	Q2	Q3	Q4	2018
Eurobonds maturing in 2018 (issued in the course of restructuring of GKO's)	US dollar	0.21	0.12	0.01	—	0.34
Eurobonds maturing in 2019	US dollar	0.07	0.07	0.08	0.18	0.39
Eurobonds maturing in 2020	US dollar	0.26	0.26	0.33	0.45	1.31
Eurobonds maturing in 2020	Euro	0.01	0.02	0.02	0.02	0.08
Eurobonds maturing in 2022	US dollar	0.10	0.36	0.21	0.11	0.79
Eurobonds maturing in 2023	US dollar	0.36	0.18	0.37	0.23	1.13
Eurobonds maturing in 2025	Euro	—	—	—	1.17	1.17
Eurobonds maturing in 2026	US dollar	0.26	0.43	0.43	0.27	1.39
Eurobonds maturing in 2027	US dollar	0.61	0.55	0.73	0.60	2.49
Eurobonds maturing in 2028	US dollar	0.51	0.47	0.24	0.23	1.45
Eurobonds maturing in 2029	US dollar	0.67	0.41	0.41	0.15	1.64
Eurobonds maturing in 2030 (issued in the course of the second restructuring of debt to the London Club of commercial creditors)	US dollar	3.77	0.13	0.05	0.03	3.98
Eurobonds maturing in 2042	US dollar	0.16	0.11	0.17	0.28	0.71
Eurobonds maturing in 2043	US dollar	0.15	0.11	0.11	0.11	0.48
Eurobonds maturing in 2047	US dollar	3.71	1.32	1.58	0.86	7.48

INSTITUTIONAL FINANCIAL MARKET PARTICIPANTS
(UNITS)

Table 9

Name of institutional financial market participants	Number of participants	
	as of 1.01.2018	as of 1.01.2019
Credit institutions	561	484
of which:		
– banks	517	440
– non-bank credit institutions	44	44
Credit institutions with foreign stakes in authorised capital	160	141
Branches of credit institutions operating in Russia	890	709
Representative offices of operating Russian credit institutions	224	316
Internal divisions of credit institutions (branches), total	33,286	29,783
of which:		
– additional offices	20,263	20,499
– mobile cash offices	3,033	1,068
– credit and cash offices	1,972	1,918
– operations offices	7,743	6,015
– mobile banking vehicles	275	283
Insurance market entities, total	309	275
of which:		
– insurance companies ¹	226	199
– mutual insurance companies	12	12
– insurance brokers	71	64
Professional securities market participants, ² total	614	537
of which:		
– brokers	384	331
– forex dealers	8	4
– dealers	424	366
– trust managers	279	231
– depositories	350	306
– register holders	35	35
– investment advisers ³	—	20
Infrastructures, total ⁴	68	69
of which:		
– clearing houses	6	6
of which: institutions performing the functions of the central counterparty ⁵	2	2
– exchanges	7	7
– commodity delivery operators	5	6
– repositories	2	2
– central depository	1	1
– central counterparties ⁶	1	1
– payment system operators	30	34
– nationally important payment system operators ⁷	2	2
– credit history bureaus	17	13
– news agencies ⁸	5	5
Collective investment market entities, total	405	363
of which:		
– non-governmental pension funds	66	52
– joint-stock investment funds	3	2
– management companies	305	280
– specialised depositories	31	29

End

Name of institutional financial market participants	Number of participants	
	as of 1.01.2018	as of 1.01.2019
Unit investment funds, total	1,497	1,440
of which:		
– open-end	327	268
– interval	39	40
– closed-end	1,131	1,128
– exchange-traded		4
Microfinance agents and cooperatives, total	12,024	10,005
of which:		
– microfinance organisations	2,271	2,002
– housing savings cooperatives	63	59
– consumer credit cooperatives	2,666	2,285
– agricultural consumer credit cooperatives	1,242	1,042
– pawnshops	5,782	4,617
Responsible actuaries	104	103
Self-regulatory organisations, total	22	20
of which:		
– self-regulatory organisations in the financial market	20	18
– self-regulatory organisations of actuaries	2	2
Credit rating agencies	2	2
Branches and representative offices of foreign credit rating agencies	3	3

¹ Including Joint-stock Company Russian National Reinsurance Company (JSC RNRC).

² Including credit institutions, which are professional securities market players.

³ After entering into force on 21 December 2018 of amendments to Federal Law No. 39-FZ, dated 22 April 1996, 'On the Securities Market', investment advisers were introduced as a new type of professional securities market participants.

⁴ The data include information on operators of national importance:

1) the Bank of Russia;

2) Joint-stock Company National Payment Card System (JSC NPCS).

The number of infrastructure organisations (excluding the above mentioned entities) was 66 as of 1 January 2018 and 67 as of 1 January 2019.

⁵ Organisations performing the functions of the central counterparty in pursuance of the transitional provisions of Federal Law No. 403-FZ, dated 29 December 2015, 'On Amending Certain Laws of the Russian Federation' (hereinafter, 'Federal Law No. 403-FZ, dated 29 December 2015'): Joint-stock Company Settlement and Depository Company and Public Joint-stock Company Clearing Centre MFB (in accordance with Part 3 of Article 7 of Federal Law No. 403-FZ, dated 29 December 2015, a clearing company may obtain the central counterparty status within five years from the effective date of the above federal law to continue with their central counterparty operations (by 29 December 2020).

⁶ Organisations which have been assigned the status of the central counterparty in pursuance of Federal Law No. 7-FZ, dated 7 February 2011, 'On Clearing, Clearing Activities and the Central Counterparty'. As of 1 January 2019, non-bank credit institution — Central Counterparty National Clearing Centre (Joint-stock Company).

⁷ The Bank of Russia and Joint-stock Company National Payment Card System (JSC NPCS) are operators of the Bank of Russia payment system and the Mir payment system respectively based on Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'. The procedure for registering these operators and entering them into the register of payment system operators has not been specified.

⁸ News agencies accredited to disclose information about securities and other financial instruments.

SELF-REGULATORY ORGANISATIONS

Table 10

Financial market participants	As of 1.01.2018			As of 1.01.2019		
	number of self-regulatory organisations, units	number of members of self-regulatory organisations, units	share of members of self-regulatory organisations in the total number of financial institutions of the respective type of activity, per cent	number of self-regulatory organisations, units	number of members of self-regulatory organisations, units	share of members of self-regulatory organisations in the total number of financial institutions of the respective type of activity, per cent
Professional securities market participants (brokers, dealers, managers, depositories, register holders, forex dealers)	5	614	100.0	4	534	99.6
Joint-stock investment funds and management companies of investment funds, unit investment funds and non-governmental pension funds	2	302	99.0	1	279	99.3
Specialised depositories	2	31	100.0	2	29	100.0
Non-governmental pension funds	2	66	100.0	2	52	100.0
Insurance companies	1	225	99.5	1	197	98.9
Insurance brokers	1	68	95.8	1	64	100.0
Microfinance organisations	3	2,145	94.5	3	1,911	95.5
Consumer credit cooperatives	8	1,317	49.4	7	1,158	50.7
Actuaries	2	258	100.0	2	279	100.0

INFRASTRUCTURE OF FINANCIAL SERVICES PROVISION

Table 11

	1.01.2018	1.01.2019
Credit institutions		
Number of stand-alone structural units of credit institutions, including	1,114	1,025
– branches	890	709
– representative offices	224	316
Number of internal divisions of credit institutions (branches), including	33,286	29,783
– additional offices	20,263	20,499
– mobile cash offices	3,033	1,068
– credit and cash offices	1,972	1,918
– operations offices	7,743	6,015
– mobile banking vehicles	275	283
Number of operating credit institutions providing services to open accounts without visiting the bank	78	105
Number of operating credit institutions issuing payment cards	391	335
Number of operating credit institutions with the infrastructure permitting acceptance of payment cards	354	310
Insurance market entities		
Number of stand-alone units of insurers	2,512	2,486
Professional securities market participants		
Number of stand-alone units of professional securities market participants — non-bank financial institutions	639	648
Microfinance agents and cooperatives		
Number of stand-alone units of microfinance companies	1,747	1,721
Number of stand-alone units of microcredit companies	13,068	13,788
Number of stand-alone units of consumer credit cooperatives	2,278	2,053
Number of stand-alone units of agricultural consumer credit cooperatives	165	173
Number of stand-alone units of pawnshops	9,187	9,099
Payment infrastructure¹		
Number of cash dispensing and/or receiving ATMs of credit institutions (cash dispensing/depositing with the use of payment cards or their details)	195,234	191,071
Number of POS terminals	2,189,060	2,588,782
Number of ATMs of bank payment agents	280,639	301,070
Number of cash desks of bank payment agents	208,583	182,762
Number of payment terminals of payment agents	349,767	278,450
Number of cash desks of payment agents	71,956	71,764
Number of federal post offices offering payment services, including	38,669	38,712
– Russian Post branches ²	38,117	38,160
– Post of Crimea branches ³	552	552

¹ Information about bank payment agents, payment agents was obtained during a survey of credit institutions conducted by the Bank of Russia² According to Russian Post data.³ According to Post of Crimea data.

**BALANCE OF PAYMENTS¹ OF THE RUSSIAN FEDERATION
(ANALYTICAL PRESENTATION, MILLIONS OF US DOLLARS)**

Table 12

	Q1	Q2	Q3	Q4	2018	Memo item: 2017
Current account	30,024	17,905	27,482	38,400	113,811	33,156
Goods	44,220	45,351	47,770	57,110	194,450	115,422
<i>Exports</i>	<i>101,658</i>	<i>108,725</i>	<i>110,467</i>	<i>122,220</i>	<i>443,070</i>	<i>353,547</i>
oil	28,281	32,142	33,809	34,818	129,049	93,377
oil products	19,259	19,050	20,469	19,331	78,109	58,247
natural gas	12,710	10,992	11,654	13,792	49,148	38,693
liquefied natural gas	1,301	1,337	1,521	1,126	5,286	3,174
other	40,107	45,204	43,014	53,153	181,479	160,055
<i>Imports</i>	<i>57,438</i>	<i>63,374</i>	<i>62,698</i>	<i>65,110</i>	<i>248,620</i>	<i>238,125</i>
Services	-6,528	-7,638	-8,783	-6,995	-29,944	-31,233
<i>Exports</i>	<i>14,014</i>	<i>16,730</i>	<i>17,399</i>	<i>16,616</i>	<i>64,759</i>	<i>57,631</i>
transport	4,757	5,762	5,847	5,778	22,144	19,859
travel	2,008	3,230	4,163	2,085	11,486	8,945
other services	7,249	7,738	7,389	8,753	31,128	28,828
<i>Imports</i>	<i>20,541</i>	<i>24,367</i>	<i>26,182</i>	<i>23,612</i>	<i>94,702</i>	<i>88,864</i>
transport	3,412	3,967	3,922	3,997	15,298	14,492
travel	6,817	9,407	11,382	6,665	34,271	31,058
other services	10,312	10,993	10,878	12,950	45,133	43,314
Compensation of employees	-697	-518	-814	-998	-3,027	-2,278
Investment income	-4,395	-17,738	-8,338	-7,977	-38,449	-39,845
Receivable	12,846	9,695	14,279	12,021	48,840	42,381
Payable	17,241	27,433	22,617	19,998	87,289	82,225
<i>Federal government</i>	<i>-679</i>	<i>-786</i>	<i>-560</i>	<i>-506</i>	<i>-2,531</i>	<i>-2,318</i>
Receivable	289	101	225	237	852	930
Payable	968	887	785	743	3,383	3,249
<i>Local government (payable)</i>	<i>6</i>	<i>5</i>	<i>5</i>	<i>4</i>	<i>20</i>	<i>23</i>
<i>Central bank</i>	<i>828</i>	<i>819</i>	<i>843</i>	<i>930</i>	<i>3,421</i>	<i>1,901</i>
Receivable	865	844	862	953	3,524	2,001
Payable	37	24	20	23	104	100
<i>Banks</i>	<i>299</i>	<i>-2,058</i>	<i>78</i>	<i>589</i>	<i>-1,093</i>	<i>883</i>
Receivable	2,398	2,043	2,078	2,350	8,869	10,138
Payable	2,099	4,101	2,000	1,762	9,962	9,255
<i>Other sectors²</i>	<i>-4,838</i>	<i>-15,708</i>	<i>-8,694</i>	<i>-8,986</i>	<i>-38,225</i>	<i>-40,287</i>
Receivable	9,293	6,707	11,114	8,480	35,594	29,311
Payable	14,131	22,415	19,807	17,466	73,820	69,599
Rent	22	16	21	21	79	70
Secondary income	-2,598	-1,568	-2,373	-2,761	-9,300	-8,980
Capital account	-237	-201	-12	-665	-1,114	-192
Net lending (+) / net borrowing (-) (balance from current and capital accounts)	29,786	17,704	27,471	37,735	112,697	32,964

End

	Q1	Q2	Q3	Q4	2018	Memo item: 2017
Net lending (+) / net borrowing (–) (balance from financial account, excluding reserve assets)	12,370	9,303	24,244	31,143	77,060	12,910
Net incurrence of liabilities ('+' – increase, '–' – decrease)	4,636	–15,406	–15,648	–9,999	–36,418	2,857
<i>Federal government</i>	<i>4,044</i>	<i>–6,740</i>	<i>–2,039</i>	<i>–807</i>	<i>–5,542</i>	<i>15,127</i>
Portfolio investment	4,063	–6,645	–2,026	–702	–5,311	15,526
Issue	954	0	0	858	1,812	2,610
Redemption	–1,839	–931	–1,176	–748	–4,695	–3,921
principal	–882	0	–419	0	–1,301	–724
coupons	–957	–931	–757	–748	–3,394	–3,197
Interest reinvestment	965	878	782	732	3,358	3,224
Secondary market	3,983	–6,592	–1,633	–1,544	–5,786	13,613
Loans	–24	–100	–18	–102	–243	–341
Other liabilities	5	5	5	–3	12	–58
<i>Local government</i>	<i>–1</i>	<i>–7</i>	<i>–6</i>	<i>–18</i>	<i>–31</i>	<i>–3</i>
<i>Central bank</i>	<i>2,052</i>	<i>–3,099</i>	<i>–1,562</i>	<i>658</i>	<i>–1,951</i>	<i>1,265</i>
<i>Banks</i>	<i>–2,451</i>	<i>–9,582</i>	<i>–3,756</i>	<i>–9,164</i>	<i>–24,953</i>	<i>–27,661</i>
Direct investment	1,443	322	1,114	–1	2,878	1,470
Loans and deposits	572	–8,258	–222	–5,751	–13,659	–13,841
Other liabilities	–4,466	–1,646	–4,648	–3,413	–14,173	–15,290
<i>Other sectors²</i>	<i>992</i>	<i>4,022</i>	<i>–8,286</i>	<i>–668</i>	<i>–3,941</i>	<i>14,128</i>
Direct investment	6,366	2,053	–3,898	1,417	5,938	27,088
Portfolio investment	1,014	–492	–638	–564	–681	–4,564
Loans	–5,357	–2,026	–1,968	–1,066	–10,417	–8,542
Other liabilities	–1,030	4,487	–1,782	–455	1,220	146
Net acquisition of financial assets, excluding reserve assets (+' – increase, '–' – decrease)	17,005	–6,103	8,595	21,144	40,641	15,766
<i>General government</i>	<i>–453</i>	<i>1,240</i>	<i>–678</i>	<i>1,311</i>	<i>1,420</i>	<i>3,074</i>
Loans	–71	300	–459	1,291	1,060	2,252
Other assets	–382	940	–219	20	359	822
<i>Central bank</i>	<i>13</i>	<i>–4</i>	<i>2</i>	<i>3</i>	<i>14</i>	<i>14</i>
<i>Banks</i>	<i>307</i>	<i>–5,709</i>	<i>8,550</i>	<i>4,474</i>	<i>7,622</i>	<i>–4,356</i>
Direct investment	768	295	293	381	1,737	873
Loans and deposits	–143	–10,126	5,410	4,758	–101	–10,196
Other assets	–318	4,122	2,847	–665	5,986	4,968
<i>Other sectors²</i>	<i>17,138</i>	<i>–1,630</i>	<i>721</i>	<i>15,357</i>	<i>31,586</i>	<i>17,035</i>
Direct investment	12,633	4,595	1,121	11,842	30,191	35,884
Portfolio investment	360	–679	684	1,032	1,397	5,100
Cash foreign currency	–1,327	–2,000	–2,403	–1,384	–7,114	–6,038
Trade credit and advances	77	–3,975	–2,685	1,000	–5,583	–5,248
Indebtedness on supplies according to intergovernmental agreements	863	112	661	566	2,201	–1,425
Fictitious transactions ³	19	30	61	42	152	204
Other assets	4,513	288	3,281	2,258	10,341	–11,443
Net errors and omissions	1,917	2,900	1,726	–3,978	2,565	2,582
Change in reserve assets ('+' – increase, '–' – decrease)	19,333	11,301	4,953	2,614	38,202	22,636

¹ The balance of payments is compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). The use of signs corresponds to BPM6.

² Other sectors include other financial corporations (except banks), non-financial corporations, households, and non-profit institutions serving households.

³ Includes fictitious transactions related to foreign trade in goods and services, securities trading, lending and money transfers to own accounts abroad with the purpose of transferring money abroad.

FINANCIAL TRANSACTIONS OF PRIVATE SECTOR
(BASED ON THE BALANCE OF PAYMENTS DATA, BILLIONS OF US DOLLARS)

Table 13

	Financial transactions of private sector (net lending (+) / net borrowing (–))	Banks			Other sectors			
		financial transactions (net lending (+) / net borrowing (–))	net acquisition of financial assets	net incurrence of liabilities	financial transactions (net lending (+) / net borrowing (–))	net acquisition of financial assets ¹	net incurrence of liabilities	net errors and omissions of the balance of payments ²
2017	25.1	23.3	–4.4	–27.7	1.7	18.5	14.1	2.6
Q1	15.3	17.6	13.6	–3.9	–2.3	–5.0	–3.6	0.9
Q2	–2.0	9.2	–2.5	–11.7	–11.2	5.8	13.0	4.1
Q3	0.4	–8.5	–16.3	–7.8	8.8	11.1	3.0	–0.7
Q4	11.4	5.0	0.8	–4.2	6.4	6.5	1.8	–1.7
2018	63.3	32.6	7.6	–25.0	30.8	29.4	–3.9	2.6
Q1	16.1	2.8	0.3	–2.5	13.4	16.3	1.0	1.9
Q2	–4.8	3.9	–5.7	–9.6	–8.7	–1.7	4.0	2.9
Q3	18.9	12.3	8.6	–3.8	6.6	0.1	–8.3	1.7
Q4	33.1	13.6	4.5	–9.2	19.4	14.8	–0.7	–4.0

¹ Indebtedness on supplies of goods according to intergovernmental agreements is excluded.

² 'Net errors and omissions' entirely relates to Other sectors. It could be explained by the fact that most noticeable difficulties arise upon the recording of financial transactions undertaken by these sectors in the balance of payments.

Note. The use of signs corresponds to BPM6.

FINANCIAL TRANSACTIONS OF PRIVATE SECTOR BY TYPE OF INVESTMENT
(BASED ON THE BALANCE OF PAYMENTS DATA, BILLIONS OF US DOLLARS)

Table 14

	Q1	Q2	Q3	Q4	2018	Memo item: 2017
Direct investment	5.6	2.5	4.2	10.8	23.1	8.2
Net incurrence of liabilities	7.8	2.4	−2.8	1.4	8.8	28.6
Banks	1.4	0.3	1.1	0.0	2.9	1.5
Other sectors	6.4	2.1	−3.9	1.4	5.9	27.1
Net acquisition of financial assets	13.4	4.9	1.4	12.2	31.9	36.8
Banks	0.8	0.3	0.3	0.4	1.7	0.9
Other sectors	12.6	4.6	1.1	11.8	30.2	35.9
Portfolio investment	−1.8	2.1	1.7	0.4	2.4	7.5
Net incurrence of liabilities	−0.3	−1.8	−0.8	−1.2	−4.1	−6.3
Banks	−1.3	−1.3	−0.2	−0.6	−3.4	−1.7
Other sectors	1.0	−0.5	−0.6	−0.6	−0.7	−4.6
Net acquisition of financial assets	−2.1	0.3	0.9	−0.8	−1.6	1.2
Banks	−2.4	1.0	0.2	−1.8	−3.0	−3.9
Other sectors	0.4	−0.7	0.7	1.0	1.4	5.1
Financial derivatives	0.2	−0.7	−0.8	0.6	−0.7	0.4
Net incurrence of liabilities	−3.1	−2.7	−2.0	−3.1	−11.0	−14.1
Banks	−3.0	−2.5	−2.0	−2.9	−10.4	−13.8
Other sectors	−0.1	−0.2	−0.1	−0.2	−0.6	−0.4
Net acquisition of financial assets	−2.9	−3.4	−2.9	−2.5	−11.7	−13.8
Banks	−2.7	−3.2	−2.8	−2.5	−11.2	−13.1
Other sectors	−0.2	−0.2	−0.1	−0.1	−0.5	−0.7
Other investment	14.0	−5.8	15.6	17.3	41.1	11.5
Net incurrence of liabilities	−5.8	−3.5	−6.4	−7.0	−22.7	−21.7
Banks	0.5	−6.1	−2.8	−5.6	−14.0	−13.6
Other sectors	−6.3	2.6	−3.7	−1.3	−8.6	−8.0
Net acquisition of financial assets	8.2	−9.3	9.2	10.4	18.4	−10.1
Banks	4.7	−3.8	10.8	8.4	20.1	11.7
Other sectors ¹	3.4	−5.5	−1.6	2.0	−1.7	−21.9
Net errors and omissions of the balance of payments	1.9	2.9	1.7	−4.0	2.6	2.6
Private sector financial transactions (net lending (+) / net borrowing (−))	16.1	−4.8	18.9	33.1	63.3	25.1

¹ Indebtedness on supplies of goods according to intergovernmental agreements is excluded.

Note. The use of signs corresponds to BPM6.

CROSS-BORDER TRANSFERS OF INDIVIDUALS (RESIDENTS AND NON-RESIDENTS)¹

Table 15

	Q1	Q2	Q3	Q4	2018	Memo item: 2017
Total, millions of US dollars						
Money transfers from the Russian Federation by individuals	10,170	12,109	12,289	13,270	47,838	43,834
– to non-CIS countries	7,639	8,571	8,530	9,821	34,560	30,928
– to CIS countries	2,531	3,538	3,759	3,450	13,277	12,906
Money transfers to the Russian Federation for the benefit of individuals	5,301	5,761	4,956	6,433	22,451	20,786
– from non-CIS countries	4,492	4,883	4,073	5,402	18,850	17,451
– from CIS countries	809	878	883	1,031	3,601	3,335
Balance²	–4,869	–6,348	–7,333	–6,837	–25,387	–23,048
– with non-CIS countries	–3,147	–3,688	–4,457	–4,418	–15,711	–13,477
– with CIS countries	–1,722	–2,660	–2,876	–2,419	–9,677	–9,571
Average amount of transfer, US dollars						
Money transfers from the Russian Federation by individuals	176	209	197	182	191	220
– to non-CIS countries	172	199	176	164	177	222
– to CIS countries	192	240	267	262	241	214
Money transfers to the Russian Federation for the benefit of individuals	414	436	374	410	408	510
– from non-CIS countries	491	509	415	461	468	613
– from CIS countries	221	243	256	261	245	271

¹ Cross-border wire transfers by resident and non-resident individuals (receipts of resident and non-resident individuals) made via credit institutions (with or without opening an account), including remittances via payment systems.

² Negative balance reflects the excess of the amount of remittances from the Russian Federation over the amount of remittances to the Russian Federation.

**NET INCURRENCE OF LIABILITIES BY RUSSIAN FEDERATION RESIDENTS BY TYPE OF INVESTMENT
(ACCORDING TO BALANCE OF PAYMENTS DATA, BILLIONS OF US DOLLARS)**

Table 16

Type of investment	Q1	Q2	Q3	Q4	2018	Memo item: 2017
Direct investment	7.8	2.4	-2.8	1.4	8.8	28.6
Portfolio investment	3.7	-8.4	-2.8	-1.9	-9.4	9.2
Financial derivatives	-3.1	-2.7	-2.0	-3.1	-11.0	-14.1
Other investment	-3.8	-6.7	-8.0	-6.4	-24.8	-20.8
Total	4.6	-15.4	-15.6	-10.0	-36.4	2.9

Note. Net incurrence of liabilities reflects a difference between increase in liabilities and their decrease; '–' denotes net decrease in residents' foreign liabilities.

**NET ACQUISITION OF FINANCIAL ASSETS BY RUSSIAN FEDERATION RESIDENTS,
EXCLUDING RESERVE ASSETS, BY TYPE OF INVESTMENT
(ACCORDING TO BALANCE OF PAYMENTS DATA, BILLIONS OF US DOLLARS)**

Table 17

Type of investment	Q1	Q2	Q3	Q4	2018	Memo item: 2017
Direct investment	13.4	4.9	1.4	12.2	31.9	36.8
Portfolio investment	-2.1	0.3	0.8	-0.9	-1.8	1.3
Financial derivatives	-2.9	-3.4	-2.9	-2.5	-11.7	-13.8
Other investment	8.6	-7.9	9.3	12.3	22.2	-8.5
Total	17.0	-6.1	8.6	21.1	40.6	15.8

Note. Net acquisition of financial assets reflects a difference between increase in assets and their decrease; '–' denotes net decrease in residents' foreign assets.

INTERNATIONAL INVESTMENT POSITION OF THE RUSSIAN FEDERATION
(MILLIONS OF US DOLLARS)

Table 18

	Position as of 31.12.2017	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2018
	1	2	3	4	5	6
International investment position, net	272,632	115,261	-26,885	9,932	98,309	370,940
Assets	1,339,011	78,843	-79,067	1,428	1,205	1,340,216
Direct investment	468,567	31,929	-62,621	-4,535	-35,227	433,341
Equity and investment fund shares	363,981	25,251	-55,228	-6,380	-36,357	327,624
Debt instruments	104,587	6,678	-7,393	1,845	1,130	105,717
Portfolio investment	73,946	-1,827	-2,575	-992	-5,394	68,551
Equity and investment fund shares	4,645	1,316	-717	530	1,130	5,775
Debt securities	69,301	-3,144	-1,858	-1,523	-6,525	62,776
Financial derivatives (other than reserves) and employee stock options	4,853	-11,708	14,677	-1,415	1,554	6,407
Other investment	358,903	22,249	-12,691	-5,038	4,520	363,422
Other equity	6,976	483	-21	1	463	7,439
Currency and deposits	149,513	17,060	-2,491	2	14,571	164,084
Loans	170,262	5,893	-9,274	-4,583	-7,964	162,298
Insurance, pension, and standardised guarantee schemes	2,011	-68	-339	0	-407	1,604
Trade credit and advances	18,051	-3,382	-118	0	-3,500	14,551
Other accounts receivable	12,091	2,262	-448	-458	1,356	13,448
Reserve assets	432,742	38,202	-15,858	13,409	35,753	468,495
Liabilities	1,066,379	-36,418	-52,182	-8,504	-97,104	969,276
Direct investment	529,644	8,816	-39,957	-1,890	-33,031	496,613
Equity and investment fund shares	380,703	10,217	-32,578	-2,077	-24,438	356,265
Debt instruments	148,941	-1,401	-7,380	188	-8,593	140,347
Portfolio investment	230,155	-9,421	-11,743	-762	-21,926	208,229
Equity and investment fund shares	159,539	-4,164	-1,447	124	-5,487	154,052
Debt securities	70,616	-5,257	-10,296	-886	-16,439	54,177
Financial derivatives (other than reserves) and employee stock options	4,505	-10,975	11,761	-358	428	4,933
Other investment	302,076	-24,839	-12,242	-5,495	-42,576	259,501
Other equity	211	-4	-39	-49	-92	119
Currency and deposits	92,731	-13,851	-3,544	-151	-17,546	75,185
Loans	191,508	-12,415	-7,722	-5,114	-25,251	166,257
Insurance, pension, and standardised guarantee schemes	596	3	-119	0	-116	480
Trade credit and advances	3,234	-3	0	0	-3	3,231
Other accounts payable	5,709	1,427	-627	-182	618	6,327
Special drawing rights	8,087	5	-189	0	-185	7,902

Notes. 1. The international investment position of the Russian Federation is compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

2. '+' in columns 2 to 5 denotes net increase in assets or liabilities, '-' denotes their net decrease.

3. Data on portfolio investment (including government securities) are presented at market value.

INTERNATIONAL INVESTMENT POSITION OF THE BANKING SECTOR OF THE RUSSIAN FEDERATION
(MILLIONS OF US DOLLARS)

Table 19

	Position as of 31.12.2017	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2018
	1	2	3	4	5	6
International investment position, net	45,480	32,575	10,621	-19,873	23,324	68,804
Assets	202,379	7,622	4,197	-20,790	-8,970	193,409
Direct investment	13,599	1,737	-2,800	-148	-1,211	12,388
Equity and investment fund shares	12,246	1,628	-2,710	-3	-1,085	11,161
Debt instruments	1,353	109	-90	-145	-126	1,227
Portfolio investment	39,216	-3,040	-1,585	-1,039	-5,664	33,553
Equity	1,318	290	-218	-4	68	1,386
Debt securities	37,898	-3,329	-1,367	-1,035	-5,732	32,167
Short-term	96	410	0	-49	361	457
Long-term	37,802	-3,740	-1,367	-986	-6,093	31,710
Financial derivatives	4,842	-11,202	14,162	-1,415	1,545	6,387
Options	614	341	-174	0	167	780
Forward-type contracts	4,229	-11,543	14,336	-1,415	1,378	5,607
Other investment	144,722	20,127	-5,580	-18,187	-3,641	141,081
Other equity	8	-2	0	1	-1	7
Foreign currency	11,142	18,386	-215	-16,137	2,035	13,177
Deposits	43,905	-1,542	-1,082	-190	-2,814	41,091
Short-term	30,994	2,659	-730	-459	1,471	32,465
Long-term	12,911	-4,202	-352	269	-4,285	8,626
Loans	79,132	1,441	-4,002	-1,557	-4,119	75,013
Short-term	11,426	-4,782	-517	-1,329	-6,628	4,798
Long-term	67,706	6,223	-3,486	-229	2,509	70,215
Other accounts receivable	10,535	1,844	-282	-304	1,258	11,793
Short-term	4,849	3,529	-446	-2,851	233	5,083
Long-term	5,685	-1,686	164	2,547	1,025	6,711

End

	Position as of 31.12.2017	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2018
	1	2	3	4	5	6
Liabilities	156,899	-24,953	-6,424	-917	-32,294	124,605
Direct investment	23,208	2,878	-5,218	-124	-2,465	20,744
Equity	18,668	2,828	-5,055	-112	-2,340	16,328
Debt instruments	4,541	50	-163	-12	-125	4,416
Portfolio investment	35,577	-3,398	-8,979	-60	-12,437	23,141
Equity	30,201	-3,008	-8,650	121	-11,538	18,663
Debt securities	5,376	-389	-329	-181	-899	4,478
Short-term	1,358	15	-20	-382	-387	971
Long-term	4,018	-404	-309	202	-511	3,507
Financial derivatives	4,503	-10,386	11,172	-358	428	4,931
Options	305	230	-173	-1	55	361
Forward-type contracts	4,197	-10,616	11,345	-356	373	4,570
Other investment	93,611	-14,048	-3,398	-375	-17,821	75,790
Other equity	143	8	-28	-49	-68	74
Deposits	90,754	-14,278	-3,161	-184	-17,623	73,130
Short-term	26,814	1,705	-2,010	-88	-393	26,421
Long-term	63,940	-15,983	-1,152	-96	-17,231	46,709
Loans ¹	202	619	0	0	618	820
Short-term	202	619	0	0	618	820
Other accounts payable	2,512	-397	-209	-142	-748	1,764
Short-term	2,261	1,994	-197	-2,495	-697	1,564
Long-term	251	-2,391	-12	2,353	-50	200

¹ Liabilities of banks on securities repurchase agreements with non-residents which are not banks.

Notes. 1. The international investment position of the banking sector is compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

2. The table covers data on credit institutions, excluding non-bank credit institutions, and includes data of State Development Corporation VEB.RF.

3. Forward-type contracts include forwards, swaps and futures.

4. '+' in columns 2 to 5 denotes net increase in assets or liabilities, '-' denotes their net decrease.

5. Column 4 shows, inter alia, assets and liabilities of credit institutions that had their banking licences revoked within the reporting period.

**CURRENCY COMPOSITION OF FOREIGN ASSETS AND LIABILITIES OF THE BANKING SECTOR OF THE RUSSIAN FEDERATION
(PER CENT)**

Table 20

	Foreign assets					Foreign liabilities				
	US dollar	Euro	Russian ruble	other currencies	total	US dollar	Euro	Russian ruble	other currencies	total
31.12.2012	59.1	14.0	20.4	6.5	100.0	49.9	5.3	39.8	5.0	100.0
31.03.2013	62.3	14.4	17.5	5.8	100.0	49.9	6.0	39.2	4.9	100.0
30.06.2013	67.0	11.4	16.0	5.6	100.0	51.5	6.3	37.4	4.9	100.0
30.09.2013	65.2	12.0	16.2	6.5	100.0	51.7	6.5	37.3	4.5	100.0
31.12.2013	65.8	11.2	17.0	6.0	100.0	52.9	7.0	37.3	2.9	100.0
31.03.2014	64.3	12.4	16.6	6.7	100.0	56.0	7.9	32.7	3.4	100.0
30.06.2014	63.7	13.3	16.9	6.2	100.0	52.9	8.8	35.1	3.3	100.0
30.09.2014	63.4	13.4	16.4	6.7	100.0	55.4	9.8	31.3	3.5	100.0
31.12.2014	67.8	15.5	10.8	5.9	100.0	59.9	10.5	26.1	3.5	100.0
31.03.2015	68.6	14.5	11.1	5.8	100.0	59.9	10.0	26.2	3.8	100.0
30.06.2015	67.5	13.6	12.8	6.1	100.0	56.7	10.2	29.1	3.9	100.0
30.09.2015	70.7	13.8	10.1	5.4	100.0	58.6	11.5	26.6	3.4	100.0
31.12.2015	71.1	14.9	8.8	5.3	100.0	58.5	11.4	26.8	3.3	100.0
31.03.2016	69.5	15.1	8.9	6.5	100.0	56.7	11.1	28.5	3.7	100.0
30.06.2016	68.9	14.8	9.8	6.5	100.0	54.1	10.2	32.0	3.7	100.0
30.09.2016	67.8	14.5	10.9	6.8	100.0	52.8	9.9	33.7	3.6	100.0
31.12.2016	67.5	15.5	10.4	6.5	100.0	51.5	8.8	36.8	2.9	100.0
31.03.2017	67.2	16.6	9.9	6.4	100.0	50.4	9.5	37.2	2.9	100.0
30.06.2017	65.7	17.9	9.9	6.5	100.0	48.9	9.9	38.0	3.1	100.0
30.09.2017	63.7	17.5	11.9	7.0	100.0	45.3	9.6	42.1	3.1	100.0
31.12.2017	61.1	18.4	12.8	7.7	100.0	40.0	12.6	44.1	3.3	100.0
31.03.2018	60.5	19.5	12.8	7.2	100.0	39.4	12.5	44.8	3.3	100.0
30.06.2018	61.1	20.1	11.8	7.0	100.0	39.6	12.0	44.7	3.7	100.0
30.09.2018	58.8	23.9	10.9	6.4	100.0	39.9	12.6	43.8	3.8	100.0
31.12.2018	56.7	25.1	11.4	6.8	100.0	39.7	12.1	43.6	4.6	100.0

Note. Excluding data on financial derivatives.

FOREIGN ASSETS AND LIABILITIES OF THE BANKING SECTOR OF THE RUSSIAN FEDERATION BY GROUP OF COUNTRIES AS OF 31 DECEMBER 2018
(MILLIONS OF US DOLLARS)

Table 21

	Foreign assets						Foreign liabilities						Net international positions	
	interbank positions		other positions		total		interbank positions		other positions		total			
	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term
Total	50,396.6	18,897.6	12,022.6	112,092.2	62,419.2	130,989.7	17,223.9	31,839.9	18,026.8	57,514.6	35,250.7	89,354.5	27,168.5	41,635.2
of which:														
CIS countries	1,313.6	6,855.0	528.4	5,744.4	1,841.9	12,599.4	1,338.3	368.4	2,038.9	721.5	3,377.2	1,090.0	−1,535.3	11,509.4
of which:														
– EAEU countries	1,111.2	3,782.2	476.2	5,121.4	1,587.3	8,903.5	987.1	248.0	901.5	257.0	1,888.6	505.0	−301.2	8,398.5
– other countries	202.4	3,072.9	52.2	623.0	254.6	3,695.8	351.3	120.4	1,137.4	464.5	1,488.6	584.9	−1,234.1	3,110.9
Non-CIS countries	49,081.9	12,041.8	11,425.7	105,819.4	60,507.6	117,861.2	15,885.6	31,471.4	14,775.7	56,499.9	30,661.3	87,971.4	29,846.3	29,889.9
of which:														
– EU countries	26,223.9	6,362.8	8,599.8	83,521.1	34,823.7	89,883.9	9,093.4	14,507.9	7,811.2	47,563.3	16,904.6	62,071.2	17,919.1	27,812.7
– APEC countries	17,541.2	142.9	1,087.0	1,605.7	18,628.2	1,748.6	1,453.1	14,874.8	1,219.4	5,177.7	2,672.5	20,052.5	15,955.6	−18,303.9
– other countries	5,316.8	5,536.1	1,738.9	20,692.6	7,055.7	26,228.7	5,339.0	2,088.8	5,745.1	3,758.8	11,084.1	5,847.6	−4,028.4	20,381.1
International organisations	1.2	0.7	68.5	528.4	69.7	529.1	0.0	0.0	1,212.2	293.2	1,212.2	293.2	−1,142.5	235.9

RUSSIA'S INTERNATIONAL RESERVES
(BILLIONS OF US DOLLARS)

Table 22

	2017	2018											
	31.12	31.01	28.02	31.03	30.04	31.05	30.06	31.07	31.08	30.09	31.10	30.11	31.12
Reserve assets	432.7	447.7	453.6	458	459.9	456.6	456.7	458.0	460.6	459.2	459.6	462.1	468.5
Foreign currency assets	356.1	367.4	373.1	377.5	378.7	376.1	378.6	380.6	383.4	381.7	378.5	379.2	381.6
Monetary gold	76.6	80.4	80.6	80.5	81.1	80.5	78.2	77.4	77.3	77.5	81.1	82.9	86.9

RETURN¹ ON BANK OF RUSSIA FOREIGN CURRENCY ASSETS IN 2018²
(PER CENT P.A.)

Table 23

	Actual	Standard
US dollar ³	0.94	1.22
Euro	−0.28	−0.38
Pound sterling	0.45	0.38
Canadian dollar	1.77	1.68
Australian dollar	2.05	1.89
Chinese yuan	5.10	4.86

¹ Percentage change in the value of the portfolio during one business day. The daily portfolio rate of return is calculated according to this formula:

$$R = \frac{MV_1 - MV_0 \pm CF}{MV_0},$$

where R is the daily portfolio rate of return;

MV_0 is the market value of the portfolio as of the end of the previous day;

MV_1 is the market value of the portfolio as of the end of the day;

CF is the cash flows into or out of the portfolio during the day.

² Cumulative portfolio rate of return is calculated on the basis of the chained indices method. The rate of return over period is calculated according to this formula:

$$R = (1 + R_1) \times (1 + R_2) \times \dots \times (1 + R_n) - 1,$$

where R_i is the portfolio rate of return over day i .

³ The difference between the return on the actual and standard portfolios is related to changes in the structure of assets performed by the Bank of Russia in 2018.

BASIC DERIVED INDICATORS OF RUBLE'S EXCHANGE RATE DYNAMICS IN 2018

Table 24

	January	February	March	April	May	June	July	August	September	October	November	December
Nominal exchange rate of US dollar against ruble, end of period	56.29	55.67	57.26	62.00	62.59	62.76	62.78	68.08	65.59	65.77	66.63	69.47
Nominal exchange rate of US dollar against ruble, period averages	56.78	56.81	57.03	60.43	62.21	62.71	62.88	66.09	67.65	65.89	66.24	67.30
Nominal exchange rate of US dollar against ruble, period averages from the beginning of the year	56.78	56.80	56.87	57.74	58.61	59.27	59.78	60.53	61.28	61.73	62.13	62.54
Nominal exchange rate of euro against ruble, end of period	69.54	68.66	70.56	75.21	72.52	72.99	73.20	79.68	76.23	74.79	75.89	79.46
Nominal exchange rate of euro against ruble, period averages	68.99	70.31	70.35	74.23	73.74	73.22	73.41	76.24	78.95	75.75	75.33	76.64
Nominal exchange rate of euro against ruble, period averages from the beginning of the year	68.99	69.65	69.88	70.94	71.50	71.78	72.01	72.53	73.21	73.46	73.63	73.88
Percentage change over December 2017¹												
Nominal exchange rate of ruble against US dollar	3.2	3.1	2.7	-3.0	-5.8	-6.6	-6.8	-11.4	-13.4	-11.1	-11.6	-13.0
Nominal exchange rate of ruble against euro	0.5	-1.4	-1.4	-6.6	-5.9	-5.3	-5.5	-9.0	-12.1	-8.4	-7.9	-9.5
Nominal effective exchange rate of ruble vis-à-vis foreign currencies	1.1	-0.4	-0.7	-5.7	-6.0	-5.4	-4.6	-7.3	-9.2	-6.2	-6.5	-8.2
Real exchange rate of ruble against US dollar	2.9	2.6	2.3	-3.5	-6.2	-6.7	-6.6	-11.2	-13.2	-10.7	-10.4	-10.8
Real exchange rate of ruble against euro	1.1	-0.9	-1.1	-6.1	-5.5	-4.4	-4.5	-8.2	-11.2	-7.3	-6.2	-6.9
Real effective exchange rate of ruble vis-à-vis foreign currencies	1.1	-0.7	-0.7	-5.6	-5.8	-4.9	-4.0	-7.1	-9.3	-6.3	-6.0	-7.0
Percentage change over previous period¹												
Nominal exchange rate of ruble against US dollar	3.2	0.0	-0.4	-5.6	-2.9	-0.8	-0.3	-4.9	-2.3	2.7	-0.5	-1.6
Nominal exchange rate of ruble against euro	0.5	-1.9	-0.1	-5.2	0.7	0.7	-0.3	-3.7	-3.4	4.2	0.6	-1.7
Nominal effective exchange rate of ruble vis-à-vis foreign currencies	1.1	-1.5	-0.3	-5.1	-0.2	0.6	0.8	-2.9	-2.0	3.4	-0.4	-1.8
Real exchange rate of ruble against US dollar	2.9	-0.3	-0.3	-5.6	-2.9	-0.5	0.0	-4.9	-2.2	2.9	0.3	-0.5
Real exchange rate of ruble against euro	1.1	-2.0	-0.2	-5.1	0.7	1.1	0.0	-3.9	-3.3	4.4	1.2	-0.8
Real effective exchange rate of ruble vis-à-vis foreign currencies	1.1	-1.7	0.0	-5.0	-0.1	0.9	1.0	-3.2	-2.4	3.3	0.3	-1.0
Percentage change over corresponding period of 2017¹												
	January	January—February	January—March	January—April	January—May	January—June	January—July	January—August	January—September	January—October	January—November	January—December
Nominal exchange rate of ruble against US dollar	5.6	4.2	3.4	0.8	-1.0	-2.2	-2.6	-3.5	-4.9	-5.6	-6.1	-6.7
Nominal exchange rate of ruble against euro	-7.7	-9.7	-10.4	-12.5	-12.9	-12.7	-11.8	-11.3	-11.5	-11.4	-11.1	-11.0
Nominal effective exchange rate of ruble vis-à-vis foreign currencies	-3.0	-4.5	-5.2	-7.3	-8.1	-8.2	-7.6	-7.3	-7.6	-7.6	-7.5	-7.6
Real exchange rate of ruble against US dollar	5.7	4.3	3.5	0.9	-1.0	-2.3	-2.7	-3.6	-4.8	-5.5	-5.8	-6.3
Real exchange rate of ruble against euro	-7.0	-8.9	-9.6	-11.7	-12.1	-11.9	-11.1	-10.5	-10.6	-10.5	-10.1	-9.8
Real effective exchange rate of ruble vis-à-vis foreign currencies	-3.8	-5.2	-5.8	-7.8	-8.5	-8.7	-8.1	-7.8	-8.0	-8.0	-7.8	-7.7

¹ '+' denotes appreciation of the Russian ruble vis-à-vis foreign currencies, '-' denotes depreciation of the Russian ruble vis-à-vis foreign currencies.

EXTERNAL DEBT OF THE RUSSIAN FEDERATION
(MILLIONS OF US DOLLARS)

Table 25

	1.01.2018	1.04.2018	1.07.2018	1.10.2018	1.01.2019
Total	518,103	520,139	490,649	470,497	454,040
General government	55,628	59,741	49,764	46,281	43,955
Federal government	55,410	59,523	49,571	46,102	43,801
New Russian debt	54,809	58,943	49,026	45,557	43,292
Multilateral creditors	713	689	624	606	539
IBRD	575	558	507	497	447
Other	138	131	117	109	92
Foreign currency bonds	15,030	16,912	16,525	16,401	16,686
Eurobonds	15,011	16,912	16,525	16,401	16,682
Eurobonds (related to the second London Club debt restructuring)	19	0	0	0	4
Ruble-denominated bonds	38,781	41,050	31,584	28,252	25,772
OFZ	38,712	41,050	31,584	28,252	25,772
Eurobonds	69	0	0	0	0
Other debt liabilities	285	292	293	298	294
Debt of the former USSR	601	580	544	545	510
Debt owed to former socialist countries	20	21	20	20	20
Other official creditors	559	559	524	524	489
Other debt liabilities	21	0	0	0	0
Local government	219	218	194	179	154
Ruble-denominated bonds	219	218	194	179	154
Central bank	14,480	16,750	13,059	11,351	11,880
Loans	4,487	6,552	2,853	1,379	1,998
Currency and deposits	1,907	1,941	2,216	2,045	1,979
Other (SDR allocations)	8,087	8,257	7,990	7,926	7,902
Banks	103,385	105,218	95,499	92,187	84,609
Debt liabilities to direct investors and to direct investment enterprises	4,541	5,017	4,813	5,050	4,416
Loans	202	473	344	292	820
Currency and deposits	90,754	91,822	81,269	80,407	73,130
Debt securities	5,376	5,493	4,798	4,758	4,478
Other debt liabilities	2,512	2,413	4,275	1,680	1,764
Other sectors	344,609	338,430	332,326	320,679	313,596
Debt liabilities to direct investors and to direct investment enterprises	144,400	144,135	141,817	137,063	135,931
Loans and deposits	181,358	176,322	168,534	163,847	158,767
Debt securities	7,891	8,084	7,677	7,434	7,222
Trade credits	3,234	3,323	3,493	3,519	3,231
Financial leases	4,239	4,102	3,970	3,856	3,698
Other debt liabilities	3,487	2,464	6,833	4,960	4,748

Notes. 1. Included is the external debt in both domestic and foreign currencies.

2. Government securities are accounted for in the part of the debt owed to non-residents at face value.

3. The external debt data are compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) and in the External Debt Statistics: Guide for Compilers and Users (2013), prepared under the joint responsibility of a number of international organisations.

4. Banks' totals include data on State Development Corporation VEB.RF.

EXTERNAL DEBT OF THE RUSSIAN FEDERATION
(IN DOMESTIC AND FOREIGN CURRENCIES BY MATURITY, MILLIONS OF US DOLLARS)

Table 26

	31.12.2017	31.03.2018	30.06.2018	30.09.2018	31.12.2018
Total	518,103	520,139	490,649	470,497	454,040
Foreign currency	380,043	381,957	356,231	346,986	341,807
Domestic currency	138,061	138,183	134,418	123,511	112,233
General government	55,628	59,741	49,764	46,281	43,955
Foreign currency	16,629	18,473	17,987	17,850	18,029
Short-term	285	292	293	298	294
Long-term	16,344	18,181	17,693	17,552	17,735
Domestic currency	39,000	41,269	31,778	28,431	25,925
Short-term	0	0	0	0	0
Long-term	39,000	41,269	31,778	28,431	25,925
Central bank	14,480	16,750	13,059	11,351	11,880
Foreign currency	12,574	14,809	10,843	9,305	9,901
Short-term	4,487	6,552	2,853	1,379	1,998
Long-term	8,087	8,257	7,990	7,926	7,902
Domestic currency	1,907	1,942	2,216	2,045	1,979
Short-term	1,907	1,942	2,216	2,045	1,979
Long-term	0	0	0	0	0
Banks (excluding debt liabilities to direct investors and to direct investment enterprises)	98,844	100,200	90,687	87,137	80,193
Foreign currency	81,146	82,478	71,954	69,757	63,490
Short-term	20,328	23,763	19,978	20,873	18,955
Long-term	60,818	58,715	51,975	48,883	44,535
Domestic currency	17,698	17,722	18,733	17,380	16,703
Short-term	10,308	10,164	12,138	11,299	10,821
Long-term	7,390	7,558	6,595	6,081	5,882
Other sectors (excluding debt liabilities to direct investors and to direct investment enterprises)	200,209	194,295	190,508	183,615	177,664
Foreign currency	157,828	153,016	149,048	144,970	141,977
Short-term	8,964	9,204	9,566	9,062	8,765
Long-term	148,864	143,812	139,481	135,908	133,213
Domestic currency	42,381	41,279	41,461	38,645	35,687
Short-term	4,757	3,364	7,431	5,755	5,308
Long-term	37,625	37,915	34,029	32,890	30,379
Banks and other sectors — debt liabilities to direct investors and to direct investment enterprises	148,941	149,152	146,630	142,113	140,347
Foreign currency	111,866	113,182	106,400	105,104	108,409
Domestic currency	37,075	35,971	40,230	37,009	31,938

- Notes. 1. Included is the external debt in both domestic and foreign currencies.
2. Government securities are accounted for in the part of the debt owed to non-residents at face value.
3. The external debt data are compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) and in the External Debt Statistics: Guide for Compilers and Users (2013), prepared under the joint responsibility of a number of international organisations.
4. Banks' totals include data on State Development Corporation VEB.RF.

MONEY SUPPLY (NATIONAL DEFINITION) AND ITS STRUCTURE

Table 27

	As of 1.01.2018		As of 1.01.2019		1.01.2019 as a percentage of 1.01.2018
	billions of rubles	per cent	billions of rubles	per cent	
Money supply (M2), total	42,442.2	100.0	47,109.3	100.0	111.0
of which:					
– currency in circulation (M0) ¹	8,446.0	19.9	9,339.0	19.8	110.6
– deposits	33,996.2	80.1	37,770.3	80.2	111.1
of which:					
– non-financial and financial organisations ²	13,353.0	31.5	14,884.1	31.6	111.5
– households	20,643.2	48.6	22,886.1	48.6	110.9

¹ Currency in circulation outside the banking system.² Except credit institutions.

MONETARY BASE (BROAD DEFINITION) AND ITS STRUCTURE

Table 28

	As of 1.01.2018		As of 1.01.2019		1.01.2019 as a percentage of 1.01.2018
	billions of rubles	per cent	billions of rubles	per cent	
Monetary base (broad definition)	14,701.5	100.0	16,063.4	100.0	109.3
of which:					
– currency in circulation, including balances in credit institutions' cash vaults ¹	9,539.0	64.9	10,312.5	64.2	108.1
– credit institutions' correspondent accounts with the Bank of Russia ²	1,930.7	13.1	1,898.2	11.8	98.3
– required reserves ³	506.2	3.4	575.3	3.6	113.7
– credit institutions' deposits with the Bank of Russia	2,373.2	16.1	1,903.5	11.8	80.2
– Bank of Russia bonds with credit institutions ⁴	352.4	2.4	1,373.9	8.6	389.9

¹ Excluding cash rubles in Bank of Russia vaults, ATMs and in transit, as well as precious metal coins in circulation.² Balances of ruble-denominated accounts, including the average amount of required reserves.³ Balances of required reserve accounts deposited by credit institutions with the Bank of Russia on funds raised in rubles and foreign currency.⁴ At market value.

**INTEREST RATES ON BANK OF RUSSIA OPERATIONS TO PROVIDE AND ABSORB RUBLE LIQUIDITY
(PER CENT P.A.)**

Table 29

Purpose	Type of instrument	Instrument	Maturity	Frequency	As of 1.01.2018	From 12.02.2018	From 26.03.2018	From 17.09.2018	From 17.12.2018	Common approach to rate setting
Liquidity provision	Standing facilities	Overnight loans; lombard loans; loans secured by non-marketable assets; FX swaps (ruble leg); ² repos	1 day	Daily	8.75	8.50	8.25	8.50	8.75	Key rate + 1.00
		Loans secured by non-marketable assets	2 to 549 days		9.50	9.25	9.00	9.25	9.50	Key rate + 1.75
	Open market operations (minimum interest rates)	Auctions to provide loans secured by non-marketable assets ³	3 months	Monthly ⁴	8.00	7.75	7.50	7.75	8.00	Key rate + 0.25
		Repo auctions	1 week	Weekly ⁵	7.75 (key rate)	7.50 (key rate)	7.25 (key rate)	7.50 (key rate)	7.75 (key rate)	Key rate
			1 to 6 days	Occasionally ⁶						
		FX swap auctions (ruble leg) ²	1 to 2 days							
		Liquidity absorption	Open market operations (maximum interest rates)							
Standing facilities	Deposit operations		1 day ⁷	Daily	6.75	6.50	6.25	6.50	6.75	Key rate – 1.00

¹ From 4 June 2018, interest rates on Bank of Russia operations with credit institutions are set as key rate spreads. See the press release published on the Bank of Russia's website on 1 June 2018.

² From 23 December 2016, interest rates on the foreign currency leg equal LIBOR on overnight loans in US dollars or euros (depending on the currency of the transaction).

³ Operations conducted at a floating interest rate linked to the Bank of Russia key rate.

⁴ Operations have been discontinued since April 2016.

⁵ Either a repo or a deposit auction is held depending on the situation with liquidity.

⁶ Fine-tuning operations.

⁷ Until 16 May 2018, also call deposits. From 17 May 2018, the Bank of Russia only conducts overnight deposit operations with credit institutions.

Memo item: From 1 January 2016, the value of the Bank of Russia refinancing rate equals its key rate as of the respective date.

Source: Bank of Russia.

**BANK OF RUSSIA OPERATIONS TO PROVIDE AND ABSORB LIQUIDITY IN 2018
(BILLIONS OF RUBLES)**

Table 30

Purpose	Type of instrument	Instrument	Maturity	Frequency	Claims and liabilities of the Bank of Russia				
					as of 1.01.2018	as of 1.04.2018	as of 1.07.2018	as of 1.10.2018	as of 1.01.2019
Liquidity provision	Standing facilities	Overnight loans	1 day	Daily	0.0	0.8	14.6	0.4	8.1
		Lombard loans			0.0	0.0	0.0	0.0	0.0
		FX swaps			0.0	0.0	0.0	0.0	4.1
		Repo operations			3.6	6.5	2.4	10.0	3.6
		Loans secured by non-marketable assets	1 to 549 days		5.5	30.1	5.4	377.8	5.1
	Open market operations	Auctions to provide loans secured by non-marketable assets	3 months	Monthly ¹	0.0	0.0	0.0	0.0	0.0
		Repo auctions	1 week	Weekly ²	0.0	0.0	0.0	0.0	0.0
			1 to 6 days						
		FX swap auctions	1 to 2 days	Occasionally ³	0.0	0.0	0.0	0.0	0.0
Liquidity absorption	Open market operations	Deposit auctions	1 to 6 days	Weekly ²	2,124.9	2,520.6	2,389.1	1,761.8	1,478.2
		1 week							
		Auctions for the placement and additional placement of coupon OBRs ⁴	Up to 3 months	Occasionally	357.4	1,139.1	1,123.0	1,502.1	1,391.3
	Standing facilities	Deposit operations	1 day ⁵	Daily	246.8	264.6	329.1	499.0	423.8

¹ Operations discontinued since April 2016.

² Either a repo or a deposit auction is held depending on the situation with liquidity.

³ Fine-tuning operations.

⁴ If the reporting date falls on a weekend or holiday, the indicated amount of outstanding coupon OBRs includes the accrued coupon interest as of the first working day following the reporting date.

⁵ Until 16 May 2018, also call deposits. From 17 May 2018, the Bank of Russia only conducts overnight deposit operations with credit institutions.

Source: Bank of Russia.

BANK OF RUSSIA SPECIAL REFINANCING INSTRUMENTS¹

Table 31

Area of indirect support of bank lending	Maturity	Security	Interest rate, per cent p.a.						Bank of Russia claims on credit institutions as of 1.01.2018, billions of rubles	Bank of Russia claims on credit institutions as of 1.01.2019, billions of rubles	Limit as of 1.01.2019 billions of rubles
			as of 1.01.2018	from 12.02.2018	from 26.03.2018	from 17.09.2018	from 17.12.2018	common approach to rate setting ²			
Large investment projects ³	Up to 3 years	Receivables on bank loans to implement investment projects, obligations under which are secured by state guarantees of the Russian Federation	6.75	6.50	6.25	6.50	6.75	The least of two values: 9.00% p.a. or the key rate less 1.00 pp.	108.3	94.6	150.00
		Bonds placed for investment project funding and included in the Bank of Russia Lombard List							0.0	0.0	
Non-commodity exports	Up to 3 years	Credit claims on agreements backed by insurance contracts of JSC EXIAR	6.50	6.50	6.50	6.50	6.50	The least of two values: 6.50% p.a. or the key rate	47.4	39.1	75.00
Small- and medium-sized enterprises	Up to 3 years	Credit claims on agreements of JSC SME Bank ⁴	6.50	6.50	6.50	6.50	6.50		18.3	7.9	175.00
		Guarantees of JSC Russian Small and Medium Business Corporation issued under the programme to stimulate lending to small- and medium-sized businesses							81.5	85.0	
Leasing	Up to 3 years	Credit claims on leasing companies	6.75	6.50	6.50	6.50	6.50		0.2	0.2	10.00
Military mortgage	Up to 3 years	Mortgages issued under the Military Mortgage Programme	7.75	7.50	7.25	7.50	7.75	Bank of Russia key rate	29.3	8.3	30.00

¹ Special refinancing facilities are Bank of Russia instruments aimed at encouraging bank lending to certain segments of the economy whose development is hampered by structural factors. Under these facilities, the Bank of Russia provides funds to credit institutions at lower rates and for longer maturities compared with standard Bank of Russia operations. Special refinancing facilities are temporary Bank of Russia instruments, which will be valid until conditions for their replacement with market instruments are created in the financial market. The provision of funds under the special facilities is restricted, because their application should not distort the stance of the monetary policy and prevent the achievement of its key objective of ensuring price stability.

² From 4 June 2018, interest rates on Bank of Russia operations with credit institutions are set as key rate spreads. See the press release published on the Bank of Russia's website on 1 June 2018.

³ Projects should be selected in accordance with the rules set by Resolution of the Russian Federation Government No. 1016, dated 14 December 2010, 'On the Approval of Rules to Select Investment Projects and Principals to Provide State Guarantees of the Russian Federation under Loans or Bonded Loans Raised for Investment Projects Implementation' or Resolution of the Russian Federation Government No. 1044, dated 11 October 2014, 'On the Approval of the Programme to Support Investment Projects Implemented in the Russian Federation on a Project Financing Basis'.

⁴ Receivables on loans extended to banks and microfinance organisations, which are JSC SME Bank partners under the programme for financial support of small- and medium-sized enterprises, for the purposes of lending to SMEs, and also to leasing companies, which are JSC SME Bank partners, for the purposes of leasing property to SMEs.

Source: Bank of Russia.

**BANKING SECTOR SURVEY
(BILLIONS OF RUBLES)**

Table 32

	1.01.2018	1.01.2019	1.01.2019 as a percentage of 1.01.2018
Net foreign assets	29,581.3	39,692.4	134.2
Claims on non-residents	36,293.1	46,346.1	127.7
Monetary gold and SDR	4,810.4	6,505.2	135.2
Foreign currency and deposits	8,023.6	14,468.0	180.3
Debt securities	17,862.9	17,987.4	100.7
– in rubles	195.3	168.3	86.2
– in foreign currency	17,667.6	17,819.1	100.9
Loans	4,694.2	5,846.7	124.6
– in rubles	891.3	1,046.7	117.4
– in foreign currency	3,802.9	4,800.0	126.2
Equity and investment fund shares	870.0	1,526.0	175.4
– in rubles	12.8	12.3	96.1
– in foreign currency	857.1	1,513.7	176.6
Other claims	32.1	12.7	39.6
– in rubles	18.7	3.5	18.7
– in foreign currency	13.3	9.2	69.2
Liabilities to non-residents	6,711.8	6,653.7	99.1
Deposits	5,633.7	5,493.7	97.5
– in rubles	854.6	933.3	109.2
– in foreign currency	4,779.1	4,560.4	95.4
Debt securities	236.2	275.7	116.7
– in rubles	236.2	275.7	116.7
– in foreign currency	0	0	—
Loans	373.4	331.7	88.8
– in rubles	4.9	20.1	—
– in foreign currency	368.5	311.6	84.6
Liabilities on SDR allocations	464.7	549.0	118.1
Other liabilities	3.9	3.6	92.3
– in rubles	0.1	0.1	100.0
– in foreign currency	3.7	3.5	94.6
Domestic claims	53,649.4	55,517.5	103.5
Net claims on general government	–3,297.0	–7,983.9	—
Claims on federal government	4,521.2	4,665.5	103.2
Debt securities	4,438.2	4,572.8	103.0
– in rubles	3,454.3	3,672.7	106.3
– in foreign currency	984.0	900.1	91.5
Loans	83.0	92.7	111.7
– in rubles	83.0	92.7	111.7
– in foreign currency	0	0	—
Other claims	0	0	—
– in rubles	0	0	—
– in foreign currency	0	0	—
Claims on state and local government	1,340.6	1,301.9	97.1
Debt securities	430.8	415.9	96.5
– in rubles	430.8	415.9	96.5
– in foreign currency	0	0	—

Cont.

	1.01.2018	1.01.2019	1.01.2019 as a percentage of 1.01.2018
Loans	909.8	886.0	97.4
– in rubles	909.7	885.9	97.4
– in foreign currency	0.1	0.1	100.0
Other claims	0	0	—
– in rubles	0	0	—
– in foreign currency	0	0	—
Liabilities to federal government	7,430.6	11,621.5	156.4
Deposits	7,354.4	11,515.3	156.6
– in rubles	3,824.4	4,325.4	113.1
– in foreign currency	3,530.0	7,189.9	203.7
Other liabilities	76.3	106.2	139.2
– in rubles	0	0	—
– in foreign currency	76.3	106.2	139.2
Liabilities to state and local government	1,728.1	2,329.8	134.8
Deposits	1,728.1	2,329.8	134.8
– in rubles	1,728.1	2,329.8	134.8
– in foreign currency	0.1	0.1	100.0
Other liabilities	0	0	—
– in rubles	0	0	—
– in foreign currency	0	0	—
Claims on other sectors	56,946.3	63,501.4	111.5
– in rubles	48,799.4	54,721.8	112.1
– in foreign currency	8,146.9	8,779.6	107.8
Claims on other financial corporations	8,376.7	9,536.3	113.8
In rubles	7,513.6	8,008.4	106.6
– debt securities	821.9	678.7	82.6
– loans	5,433.3	5,985.6	110.2
– other claims	1,258.4	1,344.1	106.8
In foreign currency	863.1	1,527.9	177.0
– debt securities	123.4	106.9	86.6
– loans	484.5	979.4	202.1
– other claims	255.2	441.7	173.1
Claims on non-financial corporations	35,400.9	37,899.9	107.1
In rubles	28,284.2	30,812.3	108.9
– debt securities	1,358.8	1,258.0	92.6
– loans	24,511.2	26,913.7	109.8
– other claims	2,414.2	2,640.6	109.4
In foreign currency	7,116.7	7,087.6	99.6
– debt securities	21.0	10.5	50.0
– loans	6,939.1	6,901.8	99.5
– other claims	156.6	175.3	111.9
Claims on households	13,168.7	16,065.2	122.0
In rubles	13,001.7	15,901.1	122.3
– debt securities	0	0	—
– loans	13,001.7	15,901.1	122.3
– other claims	0	0	—

End

	1.01.2018	1.01.2019	1.01.2019 as a percentage of 1.01.2018
In foreign currency	167.0	164.1	98.3
– debt securities	0	0	—
– loans	167.0	164.1	98.3
– other claims	0	0	—
Broad money liabilities	54,667.1	61,401.6	112.3
Money supply (national definition)	42,442.2	47,109.3	111.0
In rubles	0	0	—
Currency outside depository corporations	8,446.0	9,339.0	110.6
Transferable deposits	11,062.8	12,285.1	111.0
Other financial corporations	654.5	480.1	73.4
Non-financial corporations	5,842.4	6,104.4	104.5
Households	4,565.9	5,700.5	124.8
Other deposits	22,933.3	25,485.2	111.1
Other financial corporations	1,319.2	1,309.4	99.3
Non-financial corporations	5,536.9	6,990.1	126.2
Households	16,077.3	17,185.6	106.9
In foreign currency	11,835.1	14,139.8	119.5
Transferable deposits	0	0	—
Other financial corporations	0	0	—
Non-financial corporations	0	0	—
Households	0	0	—
Other deposits	11,835.1	14,139.8	119.5
Other financial corporations	217.7	237.0	108.9
Non-financial corporations	6,490.2	8,009.3	123.4
Households	5,127.2	5,893.4	114.9
Debt securities included in broad money ¹	389.7	152.5	39.1
Other financial corporations	0	0	—
Non-financial corporations	0.5	0.1	20.0
Households	389.2	152.5	39.2
Deposits excluded from broad money	1,221.8	1,126.3	92.2
Debt securities excluded from broad money	1,418.1	1,531.3	108.0
Shares and other equity	17,504.5	20,732.1	118.4
Other items (net)	8,419.1	10,418.5	123.7
Other liabilities	17,152.5	19,339.8	112.8
Other assets	5,248.1	5,953.7	113.4
Consolidating adjustment	–3,485.2	–2,967.6	—

¹ Certificates of deposit and savings certificates.

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2017.

SURVEY OF CREDIT INSTITUTIONS
(BILLIONS OF RUBLES)

Table 33

	1.01.2018	1.01.2019	1.01.2019 as a percentage of 1.01.2018
Net foreign assets	5,224.3	7,862.2	150.5
Claims on non-residents	11,210.1	13,824.8	123.3
Foreign currency and deposits	3,433.5	4,174.2	121.6
Debt securities	2,282.8	2,360.9	103.4
Loans	4,599.6	5,754.3	125.1
Equity and investment fund shares	870.0	1,526.0	175.4
Other claims	24.3	9.5	39.1
Liabilities to non-residents	5,985.8	5,962.6	99.6
Deposits	5,630.8	5,490.5	97.5
Debt securities	236.2	275.7	116.7
Loans	115.0	192.9	167.7
Other liabilities	3.9	3.6	92.3
Claims on central bank	6,255.7	6,725.0	107.5
Currency	1,093.0	973.4	89.1
Deposits, of which	4,810.4	4,377.7	91.0
Required reserves	506.2	575.3	113.7
Debt securities	352.4	1,373.9	389.9
Net claims on general government	2,339.0	1,167.6	49.9
Claims on federal government	4,302.3	4,487.9	104.3
Debt securities	4,219.3	4,395.2	104.2
– in rubles	3,454.3	3,672.7	106.3
– in foreign currency	765.1	722.5	94.4
Loans	83.0	92.7	111.7
– in rubles	83.0	92.7	111.7
– in foreign currency	0	0	—
Other claims	0	0	—
– in rubles	0	0	—
– in foreign currency	0	0	—
Claims on state and local government	1,340.6	1,301.9	97.1
Debt securities	430.8	415.9	96.5
– in rubles	430.8	415.9	96.5
– in foreign currency	0.0	0.0	—
Loans	909.8	886.0	97.4
– in rubles	909.7	885.9	97.4
– in foreign currency	0.1	0.1	100.0
Other claims	0	0	—
– in rubles	0	0	—
– in foreign currency	0	0	—
Liabilities to federal government	2,236.2	3,246.3	145.2
Deposits	2,236.2	3,246.3	145.2
– in rubles	1,846.4	3,175.9	172.0
– in foreign currency	389.8	70.4	18.1
Other liabilities	0.0	0.0	—
– in rubles	0.0	0.0	—
– in foreign currency	0.0	0.0	—

Cont.

	1.01.2018	1.01.2019	1.01.2019 as a percentage of 1.01.2018
Liabilities to state and local government	1,067.7	1,375.8	128.9
Deposits	1,067.7	1,375.8	128.9
– in rubles	1,067.6	1,375.8	128.9
– in foreign currency	0.1	0.1	100.0
Other liabilities	0	0	—
– in rubles	0	0	—
– in foreign currency	0	0	—
Claims on other sectors	54,785.6	61,522.6	112.3
– in rubles	46,638.7	52,743.1	113.1
– in foreign currency	8,146.9	8,779.6	107.8
Claims on other financial corporations	6,218.5	7,559.6	121.6
In rubles	5,355.4	6,031.7	112.6
– debt securities	821.9	678.7	82.6
– loans	3,335.8	4,064.9	121.9
– other claims	1,197.7	1,288.1	107.5
In foreign currency	863.1	1,527.9	177.0
– debt securities	123.4	106.9	86.6
– loans	484.5	979.4	202.1
– other claims	255.2	441.7	173.1
Claims on non-financial corporations	35,398.4	37,897.8	107.1
In rubles	28,281.6	30,810.2	108.9
– debt securities	1,358.8	1,258.0	92.6
– loans	24,511.2	26,913.7	109.8
– other claims	2,411.7	2,638.6	109.4
In foreign currency	7,116.7	7,087.6	99.6
– debt securities	21.0	10.5	50.0
– loans	6,939.1	6,901.8	99.5
– other claims	156.6	175.3	111.9
Claims on households	13,168.7	16,065.2	122.0
In rubles	13,001.7	15,901.1	122.3
– debt securities	0	0	—
– loans	13,001.7	15,901.1	122.3
– other claims	0	0	—
In foreign currency	167.0	164.1	98.3
– debt securities	0	0	—
– loans	167.0	164.1	98.3
– other claims	0	0	—
Liabilities to central bank	2,684.3	3,304.3	123.1
In rubles	2,682.8	3,301.4	123.1
– deposits, loans, of which	2,470.1	3,088.8	125.0
– repos	3.6	3.6	100.0
– debt securities	212.7	212.7	100.0
– other liabilities	0	0	—

End

	1.01.2018	1.01.2019	1.01.2019 as a percentage of 1.01.2018
In foreign currency	1.6	2.9	181.3
– deposits, loans, of which	1.6	2.9	181.3
– repos	0	0	—
– debt securities	0	0	—
– other liabilities	0	0	—
Deposits included in broad money	45,785.9	51,843.9	113.2
In rubles	33,950.7	37,704.2	111.1
Transferable deposits	11,021.7	12,269.9	111.3
Other financial corporations	627.3	478.3	76.2
Non-financial corporations	5,828.5	6,091.0	104.5
Households	4,565.9	5,700.5	124.8
Other deposits	22,929.0	25,434.3	110.9
Other financial corporations	1,314.9	1,258.5	95.7
Non-financial corporations	5,536.9	6,990.1	126.2
Households	16,077.3	17,185.6	106.9
In foreign currency	11,835.1	14,139.8	119.5
Transferable deposits	0	0	—
Other financial corporations	0	0	—
Non-financial corporations	0	0	—
Households	0	0	—
Other deposits	11,835.1	14,139.8	119.5
Other financial corporations	217.7	237.0	108.9
Non-financial corporations	6,490.2	8,009.3	123.4
Households	5,127.2	5,893.4	114.9
Debt securities included in broad money	389.7	152.5	39.1
Deposits excluded from broad money	1,221.8	1,126.3	92.2
Debt securities excluded from broad money	1,418.1	1,531.3	108.0
Shares and other equity	6,547.5	7,697.7	117.6
Other items (net)	10,557.3	11,621.3	110.1
Other liabilities	16,144.5	17,660.2	109.4
Other assets	4,863.0	5,544.8	114.0
Consolidating adjustment	–724.2	–494.2	—

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2017.

BANKING SECTOR CAPITAL AND PROFIT
(BILLIONS OF RUBLES)

Table 34

	2018												2019
	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.01
Equity capital	9,397	9,259	9,328	9,755	9,833	9,916	9,512	9,587	9,784	10,003	10,086	10,172	10,269
– monthly growth, per cent	2.7	–1.5	0.7	4.6	0.8	0.8	–4.1	0.8	2.0	2.2	0.8	0.9	1.0
– excluding credit institutions with revoked licences, per cent	2.8	–1.5	0.8	4.7	0.7	0.9	–4.0	0.4	2.1	2.3	0.8	0.9	1.0
Capital adequacy N1.0, per cent	12.1	12.4	12.5	13.0	12.7	12.8	12.2	12.2	12.2	12.5	12.4	12.3	12.2
Loss provisions ¹	6,916	7,061	7,072	7,057	7,142	7,286	7,348	7,500	7,625	7,522	7,540	7,624	7,539
– monthly growth, per cent	3.8	2.1	0.2	–0.2	1.2	2.0	0.9	2.1	1.7	–1.3	0.2	1.1	–1.1
– excluding credit institutions with revoked licences, per cent	3.9	2.1	0.2	–0.1	1.6	2.1	0.9	2.2	1.7	–1.3	0.5	1.2	–1.1
Current year profit	790	71	178	353	537	527	634	776	901	1,068	1,183	1,279	1,345
Return on assets, ² per cent	1.0	0.9	0.9	1.0	0.9	0.8	0.8	0.8	0.8	1.4	1.5	1.4	1.5
Return on equity, ² per cent	8.3	7.9	8.0	8.5	8.1	7.0	6.8	6.8	7.3	12.4	13.3	12.4	13.8

¹ The balance sheet statement does not correspond to the income statement due to the writing-off of a part of bad debt provisions.

² Over 12 months preceding the reporting date.

MEASURES TAKEN AGAINST CREDIT INSTITUTIONS IN 2018

Table 35

No.	Measures	Number of credit institutions
Preventive measures		
1	Notifying in writing the management and/or board of directors (supervisory board) of a credit institution of shortcomings in its work, and recommending remedial action	549
2	Calling a meeting	427
3	Other (recommendations to draw up a plan of remedial action, tighten control over reporting, make a realistic assessment of credit risk, avoid misstatements in reports, etc.)	35
Punitive measures		
4	Fines ¹	288
4.1	of which: for non-compliance with reserve requirements	29
4.2	for breaches of federal laws and Bank of Russia rules and regulations issued in pursuance thereof and for non-reporting, under-reporting, or false reporting	275
5	Restrictions on individual banking operations conducted by credit institutions ¹	109
5.1	of which: taking household funds on deposit	75
5.2	settlements on behalf of corporate entities relating to transfer of funds to budgets of all levels and government extra-budgetary funds	3
5.3	opening bank accounts to corporate entities and households	74
5.4	interest rate on bank deposit agreements concluded (prolongated) in the restriction period	2
6	Prohibiting credit institutions from conducting certain banking operations ¹	17
6.1	of which: taking household funds on deposit	11
6.2	opening bank accounts to households, including unallocated metal accounts (demand and time accounts)	10
6.3	Other	17
Memo item		
	Bans on taking household funds on deposit and opening bank accounts to households imposed on credit institutions pursuant to Article 48 of Federal Law No. 177-FZ, dated 23 December 2003, 'On Insurance of Household Deposits in Russian Banks'	—
7	Prescriptive orders ¹	480
7.1	of which: orders to comply with Bank of Russia required ratios	5
7.2	orders to replace persons whose positions are indicated in Article 60 of Federal Law No. 86-FZ due to their failure to comply with the qualification requirements and requirements for business reputation in accordance with Russian laws	37
7.3	orders to reclassify receivables	300
7.4	orders to build up loan loss provisions	314
8	Prohibiting credit institutions from opening branches	19
9	Appointing provisional administrations to credit institutions without revoking their licences (including provisional administrations whose functions have been assigned to the DIA and the LLC Fund of Banking Sector Consolidation Asset Management Company)	8
10	Banking licence revocation	60

¹ The number of credit institutions indicated under clauses 4 to 7 differs from the sub-clauses total, as in some cases banks have been subjected to several actions and placed under several sub-clauses.

**STATE CORPORATION DEPOSIT INSURANCE AGENCY'S DEBT TO THE BANK OF RUSSIA
(MILLIONS OF RUBLES)**

Table 36

	1.01.2018	1.01.2019
Bank of Russia loans, total	2,050,519	1,879,889
of which:		
– extended for the purpose of taking measures to prevent bankruptcy of credit institutions	1,229,519	1,082,889
– extended for the purpose of ensuring the financial stability of the deposit insurance system and financing the payment of indemnities in respect of deposits	821,000	797,000

PROTECTION OF BANK DEPOSITORS

Table 37

	1.01.2018	1.01.2019
Number of banks participating in the deposit insurance system	781 ¹	757 ²
of which:		
– operating banks	472 ¹	407 ²
– under liquidation	309	350
Number of banks included in the deposit insurance system	3	2
Number of banks excluded from the deposit insurance system	30	26
Insured events	41	57
of which the moratorium on meeting creditor claims imposed	4	2

¹ Banks participating in the deposit insurance system include four credit institutions that used to attract deposits but lost the right to attract household funds.² Banks participating in the deposit insurance system include seven credit institutions that used to attract deposits but lost the right to attract household funds.**OUTCOMES OF BANK OF RUSSIA ACTIVITY TO COUNTER ABUSES ON RUSSIAN ORGANISED TRADING
(IN ABSOLUTE TERMS, UNITS)**

Table 38

Indicator	2017	2018
Number of inspections with respect to possible misuse of insider information and market manipulation, total	72	36
of which:		
– held in the reporting year	20	15
Number of disclosures with regard to violations of the Russian Federation legislation on countering the misuse of insider information and market manipulation, total	12	16
of which:		
– as a result of market manipulation	10	14
– as a result of misuse of insider information	2	2
Measures taken as a result of inspections with respect to possible misuse of insider information and market manipulation		
of which:		
– number of licences of financial market participants cancelled	2	0
– number of certificates of financial market experts cancelled	14	6
– number of orders to eliminate violations of the Russian Federation legislation and take measures to prevent future violations	40	84
– number of instances of blocking accounts of persons involved in market manipulation	4	10
Number of instances the materials of which have been submitted to law enforcement agencies	6	3
Number of financial instruments analysed with respect to possible organised market manipulation	254	290

OUTCOMES OF BANK OF RUSSIA ACTIVITY TO COUNTER ORGANISATIONS BEING FINANCIAL PYRAMID SCHEMES

Table 39

Indicator	2016	2017	2018
Number of organisations being financial pyramid schemes exposed by the Bank of Russia, units	180	137	168
Amount of damage inflicted by financial pyramid schemes (according to law enforcement agencies), billions of rubles	1.7	0.8	2.42

OUTCOMES OF COUNTERING UNLICENSED ACTIVITY IN THE FINANCIAL MARKET
(IN ABSOLUTE TERMS, UNITS)

Table 40

Indicator	2017	2018
Number of organisations supposedly acting as illegal creditors exposed by the Bank of Russia	1,344	2,293
Number of organisations supposedly performing other activity in the financial market without a proper licence exposed by the Bank of Russia	Data were not gathered	88
Number of websites of illegal forex dealers exposed by the Bank of Russia	129	223

OUTCOMES OF BANK OF RUSSIA ACTIVITY TO EXCHANGE INFORMATION, INCLUDING CONFIDENTIAL ONE,
WITH FOREIGN FINANCIAL MARKET REGULATORS UNDER IOSCO MMOU¹

Table 41

	2017	2018
Number of Bank of Russia requests to provide information and documents	48	77
Number of requests to provide information and documents answered by foreign regulators	39	46
Number of foreign regulators' requests to render assistance of which:	30	22
– with regard to business reputation of owners, managers and employees of organisations, financial market participants	17	11

¹ IOSCO MMoU means multilateral memorandum of understanding concerning consultation and cooperation and the exchange of information under the International Organization of Securities Commissions.

STRUCTURE OF BANK OF RUSSIA BANKNOTES IN CIRCULATION

Table 42

Denomination, rubles	Total in circulation, millions of rubles		Per cent of 1.01.2018	Share, per cent	
	as of 1.01.2018	as of 1.01.2019		as of 1.01.2018	as of 1.01.2019
5,000	7,035,734.8	7,656,655.9	108.8	74.5	74.9
2,000	27,653.1	447,021.0	1,616.5	0.3	4.4
1,000	1,929,607.0	1,663,463.8	86.2	20.4	16.3
500	300,389.6	271,111.0	90.3	3.2	2.6
200	1,318.6	31,635.1	2,399.1	0.0	0.3
100	124,350.5	117,922.8	94.8	1.3	1.2
50	28,779.8	28,690.3	99.7	0.3	0.3
10	4,049.3	3,847.1	95.0	0.0	0.0
5	35.6	35.6	100.0	0.0	0.0
Total balance sheet number of banknotes	9,451,918.3	10,220,382.6	108.1	100.0	100.0

STRUCTURE OF BANK OF RUSSIA COINS IN CIRCULATION¹

Table 43

Denomination	Total in circulation, millions of rubles		Per cent of 1.01.2018	Share, per cent	
	as of 1.01.2018	as of 1.01.2019		as of 1.01.2018	as of 1.01.2019
1 kopeck	72.8	72.8	100.0	0.1	0.1
5 kopecks	288.5	288.4	100.0	0.3	0.3
10 kopecks	2,543.5	2,543.1	100.0	2.7	2.5
50 kopecks	3,649.8	3,649.5	100.0	3.8	3.5
1 ruble	7,828.7	8,241.5	105.3	8.2	8.0
2 rubles	6,844.3	7,251.6	106.0	7.1	7.1
5 rubles	13,265.3	14,230.0	107.3	13.9	13.9
10 rubles	58,407.6	62,672.2	107.3	61.0	61.2
25 rubles	2,824.3	3,474.8	123.0	2.9	3.4
Total balance sheet number of coins	95,724.8	102,423.9	107.0	100.0	100.0

¹ Excluding coins made of precious metals.

NATIONAL PAYMENT SYSTEM KEY INDICATORS

Table 44

	2017	2018
National payment system participants¹		
Number of money transfer operators	563	485
of which:		
– Bank of Russia	1	1
– Vnesheconombank ²	1	1
– credit institutions	561	483
Number of payment system operators	32	36
of which:		
– Bank of Russia	1	1
– credit institutions	15	15
– organisations other than credit institutions	16	20
Number of operators of payment infrastructure services	45	48
of which:		
– operating centres	29	32
– payment clearing centres	29	31
– settlement centres	27	28
Number of e-money operators	93	93
Number of federal post offices ³	2	2
<i>Memo item</i>		
Number of Bank of Russia establishments	194	157
Number of branches of credit institutions	890	709
Number of establishments of federal post offices ⁴	42,821	42,948
of which rendering payment services	38,669	38,712
Number of payment systems operating in the Russian Federation	32	36
of which:		
– Bank of Russia payment system	1	1
– Mir payment system	1	1
– payment systems registered by the Bank of Russia	30	34
of which:		
– nationally important	16	17
– systemically important	2	2
– socially important	4	4
Money transfer operators – credit institutions		
Number of payments effected by credit institution customers being credit institutions, million	144.2	162.1
Number of payments effected by credit institution customers other than credit institutions, ⁵ million	26,795.3	35,751.1
of which, by payment instrument:		
– credit transfers ⁶	2,479.1	2,568.1
– direct debits ⁷	105.1	143.9
– payment cards ⁸	20,678.4	29,130.8
– electronic means of payment to transfer e-money ⁹	2,029.4	2,275.6
– other payment instruments ¹⁰	1,503.3	1,632.7
Volume of payments effected by credit institution customers being credit institutions, trillions of rubles	677.5	696.6
Volume of payments effected by credit institution customers other than credit institutions, ⁵ trillions of rubles	658.6	757.4
of which, by payment instrument:		
– credit transfers ⁶	617.3	694.9
– direct debits ⁷	2.2	2.0
– payment cards ⁸	36.1	49.8
– electronic means of payment to transfer e-money ⁹	1.3	1.6
– other payment instruments ¹⁰	1.6	9.1

End

	2017	2018
Number of payment cards issued by Russian credit institutions ¹ , million	271.7	272.7
Number of payment card operations in Russia and abroad, ¹¹ million	24,006.4	32,327.2
of which:		
– cash withdrawals	3,328.0	3,196.4
– cashless operations	20,678.4	29,130.8
of which payments of goods and services	17,937.6	24,641.6
Volume of payment card operations in Russia and abroad, ¹¹ trillions of rubles	63.4	77.9
of which:		
– cash withdrawals	27.3	28.1
– cashless operations	36.1	49.8
of which payments of goods and services	16.3	21.4
Share of cashless operations ¹² in the total turnover of retail trade, public catering and paid services, per cent	47.4	55.6
E-money transfer operators		
Number of electronic means of payment to transfer e-money used since start of year, million	366.1	376.0
Number of operations using electronic means of payment to transfer e-money, million	2,038.7	2,285.1
Volume of operations using electronic means of payment to transfer e-money, billions of rubles	1,350.5	1,679.4
Federal post offices³		
Number of money orders and household payments accepted by federal post offices as a payment agents and operations effected by federal post offices as a bank payment agents, million	552.0	519.8
Volume of money orders and household payments accepted by federal post offices as payment agents and operations effected by federal post offices as bank payment agents, billions of rubles	543.1	521.5
Payment agents and bank payment agents		
Number of accounts opened with credit institutions for payment agents and bank payment agents, ¹ thousand	24.4	20.5
of which:		
– payment agents	21.0	16.9
– bank payment agents	3.4	3.6
Volume of operations effected through payment agents and bank payment agents, billions of rubles	1,682.8	1,604.4
of which:		
– payment agents	1,065.6	842.9
– bank payment agents	617.2	761.5

¹ As of end of year.² From 9 December 2018, State Development Corporation VEB.RF.³ FSUE Russian Post, FSUE Post of Crimea.⁴ According to FSUE Russian Post, FSUE Post of Crimea.⁵ Including payments of credit institution customers — households and legal entities other than credit institutions and credit institutions' own payments.⁶ Including payments effected using payment orders and letters of credit as well as household remittances without opening a bank account.⁷ Including payments effected using payment requests and collection orders.⁸ Excluding operations to withdraw cash.⁹ Excluding operations to transfer e-money balance withdrawn in cash.¹⁰ Including payments effected using cheques and bank orders.¹¹ Including operations to withdraw cash, pay for goods and services, customs payments and other operations (for example, payments from one bank account to another) using payment cards issued by Russian credit institutions.¹² Including operations using payment cards and e-money as well as other payment instruments (e.g. payment orders generated based on invoices).

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2017.

BANK OF RUSSIA PAYMENT SYSTEM¹

Table 45

	2017	2018
Number of remittances effected, million	1,529.2	1,591.3
of which:		
– by credit institutions (branches)	1,274.5	1,316.6
– by customers other than credit institutions	254.2	274.2
– by Bank of Russia divisions	0.5	0.4
Including via settlement systems: ²		
– via the intraregional settlement system	847.9	394.5
– via the interregional settlement system	676.7	336.7
– via the BESP settlement system	4.6	2.9
– settlements effected on paper using letters of advice	0.0	—
Including via transfer services: ³		
– via the speedy funds transfer service	—	2.2
– via the non-speedy funds transfer service	—	854.9
Volume of remittances effected, trillions of rubles	1,440.9	1,715.1
of which:		
– by credit institutions (branches)	1,170.2	1,334.8
– by customers other than credit institutions	160.4	148.6
– by Bank of Russia divisions	110.3	231.7
Including via settlement systems: ²		
– via the intraregional settlement system	184.9	83.3
– via the interregional settlement system	99.7	46.8
– via the BESP settlement system	1,156.3	693.8
– settlements effected on paper using letters of advice	0.0	—
Including via transfer services: ³		
– via the speedy funds transfer service	—	753.9
– via the non-speedy funds transfer service	—	137.4

¹ Discrepancies are due to rounding.² Data on funds transfers effected through the Bank of Russia payment system using intraregional and interregional electronic settlement systems, the Banking Electronic Speedy Payment system and postal/telegraph technologies had been gathered until new payment services were introduced on 2 July 2018 in accordance with Bank of Russia Regulation No. 595-P, dated 6 July 2017, 'On the Bank of Russia Payment System'.³ Data on funds transfers effected through the Bank of Russia payment system using speedy and non-speedy funds transfers have been gathered since new payment services were introduced on 2 July 2018 in accordance with Bank of Russia Regulation No. 595-P, dated 6 July 2017, 'On the Bank of Russia Payment System'. Banking Electronic Speedy Payment system was transformed into the speedy funds transfer service.

Intraregional and interregional electronic settlement systems and postal/telegraph technologies were transformed into the non-speedy funds transfer service.

**STRUCTURE OF BANK OF RUSSIA CUSTOMERS OTHER THAN CREDIT INSTITUTIONS
AND NUMBER OF ACCOUNTS OPENED FOR THEM
(THOUSAND)**

Table 46

	Number of customers			Number of accounts		
	as of 1.01.2018	as of 1.01.2019	change over 2018	as of 1.01.2018	as of 1.01.2019	change over 2018
Total	1.2	0.9	−0.3	50.2	49.4	−0.8
Federal Treasury	0.2	0.2	0.0	47.6	47.4	−0.2
Regional and local budget management bodies	0.5	0.4	−0.1	1.9	1.6	−0.3
State-owned institutions financed from budgets of all levels	0.1	0.1	0.0	0.1	0.1	0.0
Government and other extra-budgetary funds	0.01	0.01	0.00	0.02	0.02	0.00
Election commissions (referendum commissions)	0.2	0.1	−0.1	0.3	0.1	−0.2
Other organisations	0.2	0.1	−0.1	0.3	0.2	−0.1

List of abbreviations

ACCC	— agricultural consumer credit cooperative
AFI	— Alliance for Financial Inclusion
AML/CFT	— anti-money laundering and countering the financing of terrorism
APEC	— Asia-Pacific Economic Cooperation
API	— application programming interface
Bank of Russia PS	— Bank of Russia payment system
BCBS	— Basel Committee on Banking Supervision
BESP	— banking electronic speedy payment system
BIS	— Bank for International Settlements
BPM6	— the 6 th edition of the IMF's Balance of Payments and International Investment Position Manual
BRICS	— Brazil, Russia, India, China, South Africa
CCC	— consumer credit cooperative
CCCH	— Central Catalogue of Credit Histories
CCP	— central counterparty
CD	— central depository
CDS	— credit default swap
CHB	— credit history bureau
CI	— credit institution
CIS	— Commonwealth of Independent States
CMTPLI	— compulsory motor third-party liability insurance
Coupon OBR	— Bank of Russia coupon bonds
CPMI	— BIS Committee on Payments and Market Infrastructures
CSC	— Bank of Russia cash settlement centre
DIA	— State Corporation Deposit Insurance Agency
EAEU	— Eurasian Economic Union
ECB	— European Central Bank
ELA	— emergency liquidity assistance mechanism
EME	— emerging market economies
E-money	— electronic money
EMP	— electronic means of payment
EU	— European Union
EXIAR	— Russian Agency for Export Credit and Investment Insurance
FAO	— UN Food and Agriculture Organisation
FAS	— Federal Antimonopoly Service
FBS	— Federal Bailiff Service
FBSC	— Fund of Banking Sector Consolidation
FBSC AMC Ltd.	— Limited Liability Company Fund of Banking Sector Consolidation Asset Management Company

Federal Law No. 86-FZ — Federal Law No. 86-FZ, dated 10 July 2002,
'On the Central Bank of the Russian Federation (Bank of Russia)'

Federal Law No. 115-FZ — Federal Law No. 115-FZ, dated 7 August 2001,
'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes
and the Financing of Terrorism'

Federal Law No. 395-1 — Federal Law No. 395-1, dated 2 December 1990,
'On Banks and Banking Activities'

FinCERT — Financial Sector Computer Emergency Response Team of the Bank of Russia
Information Security Department

FinCERT AIPS — FinCERT Automated Incident Processing System

FMS — financial messaging system

FPS — Faster Payments System

FSB — Financial Stability Board

FSS Conso File — functional sub-system Supervised Institution Consolidated File

FSUE — federal state unitary enterprise

FTS — Federal Tax Service

GDP — gross domestic product

GKO — government short-term bonds

GSO — government savings bonds

HML — housing mortgage loans

HSC — housing savings cooperative

IAIS — International Association of Insurance Supervisors

IBL — loans, deposits and other funds placed (raised) in the interbank market

IBRD — International Bank for Reconstruction and Development

ICAAP — internal capital adequacy assessment process

IE — insurance entities

IFRS — International Financial Reporting Standards

IFX-Cbonds — Russian corporate bond index (calculated by Interfax and Cbonds.ru
news agencies)

IMF — International Monetary Fund

IOSCO — International Organization of Securities Commissions

IOSCO MMoU — IOSCO Multilateral Memorandum of Understanding Concerning Consultation
and Cooperation and the Exchange of Information

IRB approach — internal ratings-based approach to calculating credit risk

IT — information technologies

JSC RNRC — Joint-stock Company Russian National Reinsurance Company

JSC SPCEX — Joint-stock Company Saint Petersburg Currency Exchange

LIBOR — London Interbank Offered Rate

MC — management company

MCC — microcredit company

MFC — microfinance company

MFO — microfinance organisation

MIACR — Moscow Interbank Actual Credit Rate

MOEXREPO — MOEX CCP Bond Repo Rate

MOEXREPOEQ — MOEX CCP Equity Repo Rate

NAV — net asset value

NCI — non-bank credit institution

NCI JSC NSD — Non-bank Credit Institution Joint-stock Company National Settlement Depository

NCI NCC (JSC) — Non-bank Credit Institution — Central Counterparty National Clearing Centre (Joint-stock Company)

NFI — non-bank financial institution

NFI PSMP — non-bank financial institutions which are professional securities market participants

NPCS — national payment card system

NPF — non-governmental pension fund

NPL 90+ — Non-performing loans 90+ (loans overdue for over 90 days)

NPS — national payment system

NRU HSE — National Research University Higher School of Economics

NSD PS — NSD payment system

NWF — National Wealth Fund

OBR — Bank of Russia bonds

OECD — Organisation for Economic Cooperation and Development

OFZ — federal government bonds

OFZ-AD — debt depreciation federal government bonds

OFZ-IN — inflation-indexed federal government bonds

OFZ-n — federal government bonds for individuals

OFZ-PD — permanent coupon-income federal government bonds

OFZ-PK — variable coupon-income federal government bonds

OPEC — Organisation of the Petroleum Exporting Countries

OVOZ — MinFin bonds

PJSC Moscow Exchange — Public Joint-stock Company Moscow Exchange MICEX-RTS

PJSC Sberbank — Public Joint-stock Company Sberbank of Russia

PSMP — professional securities market participant

RGBEY — Russian Government Bonds Effective Yield to Redemption

RTS — Russian Trading System

RUONIA — Ruble OverNight Index Average

SDMX — Statistical Data and Metadata Exchange

SDR — special drawing rights

SIBSD — Systematically Important Banks Supervision Department

SICI — systemically important credit institution

SME — small and medium-sized enterprise

SOBS — Service for Ongoing Banking Supervision

SRO — self-regulatory organisation in the financial market

SWIFT — Society for Worldwide Interbank Financial Telecommunications

TCL — total cost of loan

UIF — unit investment fund

UN — United Nations

UPSS — unified portal of state and municipal services (functions)

US Fed — US Federal Reserve System

VAT — value added tax

VEB.RF — State Development Corporation VEB.RF

XBRL — eXtensible Business Reporting Language

List of charts

1. Growth in output of goods and services in the global economy and certain countries	23
2. Inflation in the global economy and certain countries	25
3. Central banks' key rates.....	25
4. Growth in exchange rates of certain currencies against the US dollar in 2018.....	26
5. GDP growth by expenditure.....	28
6. Inflation, core inflation, and average annual inflation	30
7. Prices of food products, non-food products, and tariffs of services.....	30
8. Russia's major balance of payments components and international reserves	35
9. International investment position as of 31 December 2018.....	38
10. Russia's external debt (billions of US dollars)	39
11. Russia's external debt (per cent of GDP)	39
12. Broad money	41
13. Broad money supply sources.....	42
14. Spreads between interest rates and Bank of Russia key rate and turnovers in certain money market segments in 2018	43
15. Ruble exchange rate and its volatility in 2018	44
16. Bond yields in secondary market	44
17. Stock price indices in secondary market	45
18. Structure of organised commodity trading in 2018.....	46
19. Number of major financial market participants.....	48
20. Assets of major financial market participants	49
21. Structure of banking sector corporate lending portfolio by economic activity	49
22. Banking sector profit factors	51
23. Capital adequacy.....	54
24. Credit ratings assigned by Russian credit rating agencies as of 31 December 2018.....	60
25. Shares by number of credit ratings.....	61
26. Shares by number of rated persons.....	61
27. Liquidity factors and change in outstanding amount on refinancing operations and claims on liquidity absorption operations of the Bank of Russia in rubles.....	72
28. Structure of Bank of Russia operations	73
29. Bank of Russia interest rate corridor and RUONIA rate	74
30. Bank of Russia assets in foreign currency and gold by instrument.....	85
31. Bank of Russia assets in foreign currency and gold by country	86
32. Bank of Russia assets in foreign currency and gold	86
33. Factors behind changes in Bank of Russia assets in foreign currency and gold in 2018 ...	87
34. Bank of Russia assets in foreign currency and gold by credit rating	89
35. Number of operating credit institutions and banking licences granted to them.....	90
36. Average monthly growth rates in lending by group of banks supported by government through the DIA as of 1 January 2019	108

37. FBSC funds used and liabilities of banks the decision of whose resolution with the participation of the Bank of Russia was taken in 2018. Estimated impact on the economy in case of bank bankruptcy scenario	131
38. Breakdown of complaints by principal financial market sector in 2018	151
39. Cash in circulation	169
40. Detection of counterfeit Bank of Russia notes and coins	170
41. Detection of counterfeit foreign banknotes	170
42. Centralised Bank of Russia personnel training in 2018	212
43. Number of Bank of Russia personnel by structural division as of 1 January 2019	217

List of tables

1. Key macroeconomic indicators	303
2. Consumer prices by group of goods and services	304
3. Consumer price inflation structure	304
4. Balance of household money income and expenditures	305
5. Budget system and government debt	306
6. Russia's domestic government debt as of 1 January 2019	306
7. Ministry of Finance debt to the Bank of Russia as of 1 January 2019	307
8. Volume (turnover) of residents' transactions with non-residents to buy and sell Russian government foreign currency bonds in secondary market	307
9. Institutional financial market participants	308
10. Self-regulatory organisations	310
11. Infrastructure of financial services provision	311
12. Balance of payments of the Russian Federation	312
13. Financial transactions of private sector	314
14. Financial transactions of private sector by type of investment	315
15. Cross-border transfers of individuals (residents and non-residents)	316
16. Net incurrence of liabilities by Russian Federation residents by type of investment	317
17. Net acquisition of financial assets by Russian Federation residents, excluding reserve assets, by type of investment	317
18. International investment position of the Russian Federation	318
19. International investment position of the banking sector of the Russian Federation	319
20. Currency composition of foreign assets and liabilities of the banking sector of the Russian Federation	321
21. Foreign assets and liabilities of the banking sector of the Russian Federation by group of countries as of 31 December 2018	322
22. Russia's international reserves	323
23. Return on Bank of Russia foreign currency assets in 2018	323
24. Basic derived indicators of ruble's exchange rate dynamics in 2018	324
25. External debt of the Russian Federation	325
26. External debt of the Russian Federation (in domestic and foreign currencies by maturity)	326

27. Money supply (national definition) and its structure.....	327
28. Monetary base (broad definition) and its structure.....	327
29. Interest rates on Bank of Russia operations to provide and absorb ruble liquidity.....	328
30. Bank of Russia operations to provide and absorb liquidity in 2018	329
31. Bank of Russia special refinancing instruments.....	330
32. Banking sector survey.....	331
33. Survey of credit institutions.....	334
34. Banking sector capital and profit	337
35. Measures taken against credit institutions in 2018.....	338
36. State corporation Deposit Insurance Agency's debt to the Bank of Russia.....	339
37. Protection of bank depositors	339
38. Outcomes of Bank of Russia activity to counter abuses on Russian organised trading.....	339
39. Outcomes of Bank of Russia activity to counter organisations being financial pyramid schemes.....	340
40. Outcomes of countering unlicensed activity in the financial market	340
41. Outcomes of Bank of Russia activity to exchange information, including confidential one, with foreign financial market regulators under IOSCO MMoU	340
42. Structure of Bank of Russia banknotes in circulation.....	341
43. Structure of Bank of Russia coins in circulation.....	341
44. National payment system key indicators	342
45. Bank of Russia payment system	344
46. Structure of Bank of Russia customers other than credit institutions and number of accounts opened for them.....	345

