THE CENTRAL BANK OF THE RUSSIAN FEDERATION

BANKING SUPERVISION REPORT
2013

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Contents

Foreword

Dear readers,

We are offering for your attention the Bank of Russia annual Banking Supervision Report.

The year was not easy. Nevertheless, the Russian banking sector developed quite steadily. The risks encountered by most credit institutions were within their acceptable limits. These included liquidity risks, which remained moderate; this was to a substantial degree a result of Bank of Russia's refinancing operations and the placement of Federal Treasury funds in bank deposits.

Against the backdrop of a capital outflow from emerging markets, Russian banks primarily built-up their resource base in 2013 via internal sources of funding, such as household savings and corporate funds.

Corporate lending dynamics remained at their 2012 level. In the context of the economic slowdown, the confident expansion of bank lending in the economy played a stabilizing role in 2013.

Even taking into account the fact that banks were generally more conservative in their assessment of the risks they faced and, in particular, were intensively forming provisions for possible loan losses, the profitability of the banking sector was only slightly lower than it had been in 2012 (994 billion rubles as against 1,012 billion rubles in 2012).

In 2013, the Bank of Russia systematically and consistently implemented measures aimed at recovering and strengthening the banking sector. Its efforts were focused on the creation of an environment in Russia which would foster the development of reliable and stable banks which could be engaged in real banking and offer customers a wide range of modern financial services. In this regard, the Bank of Russia made efforts to free the banking sector from financially unstable organizations which were unable to ensure the safety of depositors' funds, as well as from banks that were deeply involved in suspicious transactions. Provided there were economic reasons, the Bank of Russia and the Deposit Insurance Agency (DIA) used rehabilitation mechanisms, including the transfer of liabilities (deposits) and assets of problem banks to healthy banks.

In 2013, a number of important legislative decisions were made, including those on consolidated supervision, anti-money laundering and counter-financing of terrorism, and the organization of consumer lending.

The Bank of Russia has taken additional measures to regulate unsecured consumer lending and develop the assessment of credit risk in consumer lending in line with its actual value. The end result of these changes should be an improvement in the quality of bank retail loan portfolios.

The Bank of Russia has adopted its regulations concerning the introduction of new international approaches to assessing bank capital adequacy (Basel III). This Report provides detailed information on these and other ways of improving banking regulation and supervision.

Given the great amount of interest in the problems associated with banking sector stability, considerable attention in this Report is devoted to analyzing global risks and assessing the systemic stability of the banking sector, using, inter alia, stress-testing methods.

The Report traditionally focuses on the outlook for banking regulation and supervision in Russia, based on the objectives set forth in the Russian Banking Sector Development Strategy until 2015.

Elvira Nabiullina
Bank of Russia Governor

The State of the Russian Banking Sector

I

I.1. General Economic Conditions

I.1.1. Macroeconomics and External Global Risks

I.1.1.1. External global risks

Tougher borrowing conditions exist in the world market, in a situation where the economies of many countries have not yet recovered from the global crisis; in some of them, a new wave of the crisis has emerged, becoming a key challenge. In 2013, the rate of recovery of developed countries, primarily of the United States, began to increase, while emerging economies showed a slowdown in GDP growth.

The recovery of the U.S. economy in 2013 became the basis for the beginning of the Fed's exit from the quantitative easing program. In fact, this decision marked the beginning of the completion of the super-soft monetary policy, which had been pursued by the central bank of the world's leading economy for a long period of time.

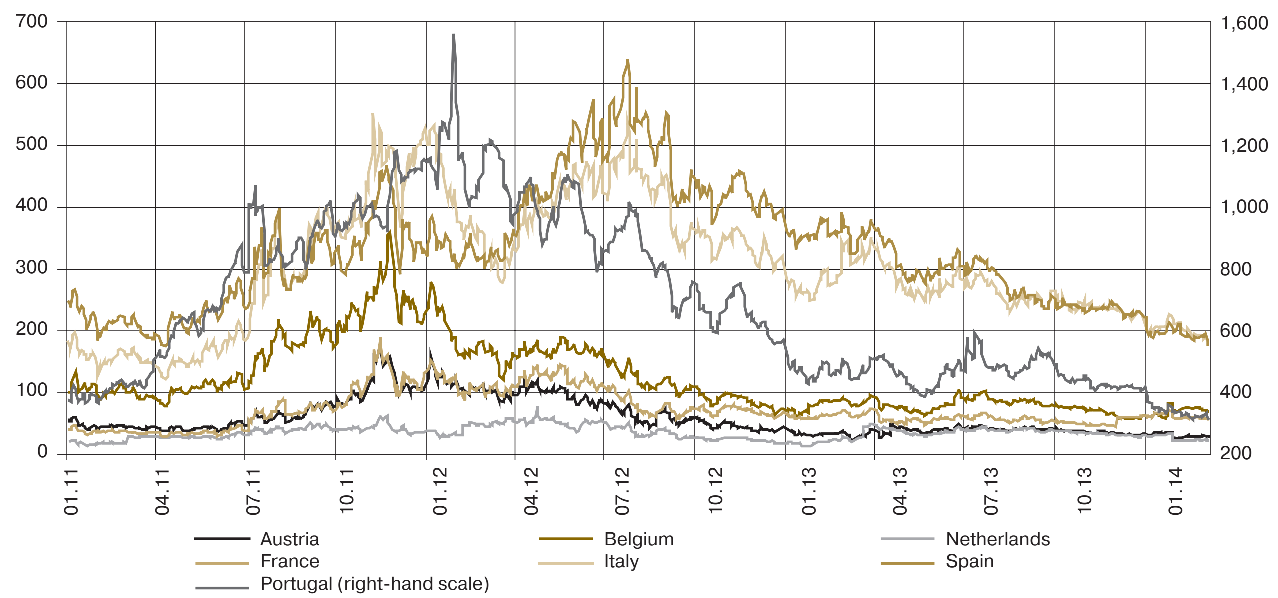
To revive economic growth and overcome deflation risks, in April 2013, the Bank of Japan adopted a series of stimulus measures that had a scale of impact on the economy which was comparable to the U.S. Federal Reserve's quantitative easing, and set an inflation target of 2%. To ensure the growth of the monetary base, the Japanese central bank implemented asset purchase programs, extended lines of credit to commercial banks, and much more. Already in the second half of the year, the economic growth rate in Japan increased.

The economy of the United Kingdom has improved markedly.

The ambiguous economic situation that faced the eurozone in 2013 demanded stimulus measures from the ECB. Twice last year, it was forced to lower the base rate, which, as a result, reached a record low value of 0.25%. Although the eurozone posted a positive growth for the first time since 2011 in the fourth quarter of 2013, GDP registered a decline of 0.5% in 2013, whereas in 2012 it had contracted by 0.7%. Germany was virtually the only remaining engine of growth in the euro area in 2013; its GDP rose by 0.4%. There was a noted decrease in the yield spreads of government bonds in the peripheral countries over the yields of German securities (Chart 1.1). At the same time, there remained significant differences in the economic position of countries in the region.

All this contributed to the growth of confidence in the future among households and companies in developed countries, which stimulated an increase in business activity and consumer demand. Indices of business activity in the industries of developed countries during

Yields on German ten-year bonds, bp *CHART 1.1*



Source: Bloomberg.

the reporting period rose significantly and reached their maximum levels since early 2011 by the end of 2013 (Chart 1.2).

Despite a decline in the value of sovereign debt, fiscal and debt risks remained high in 2013. Many national regulators among the eurozone countries, despite progress in the budget sector, have not been able to reduce public debt and the respective budget deficits to a sustainable level. Thus, U.S. national debt by the end of 2013 exceeded 70% of GDP, whereas in the eurozone, by the end of the third quarter of 2013, it had reached 90% of GDP. In some distressed countries, further fiscal consolidation is becoming increasingly difficult for domestic political reasons.

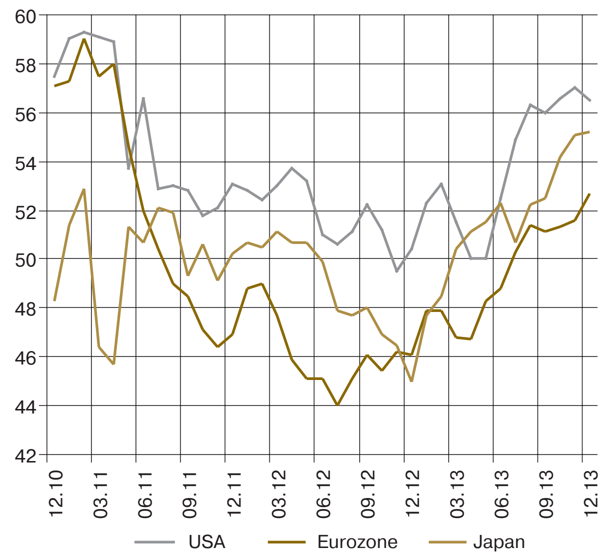
The eurozone's unemployment rate remains a serious problem; it averaged 12% at the end of 2013. Youth unemployment is particularly high. In the U.S., unemployment is declining, but this is mostly happening at the expense of the economically active population; new jobs aren't being created very quickly.

In 2013, the volume of liquidity in the European money market declined with a phased repayment by European banks of the three-year loans received at the ECB auctions in late 2011 – early 2012. Given their approaching maturity, preconditions have appeared for the formation of an increased demand for liquidity.

At the same time, with the further tightening of the U.S. Federal Reserve policy, the rate growth could put an additional downward pressure on the eurozone, which may require compensation incentives.

Amid increasing expectations of a reduced quantitative easing program, investors have begun to withdraw funds from emerging markets, triggering an outflow of capital which is at a record high for the post-crisis period.

Business activity indices in the manufacturing sector *CHART 1.2*

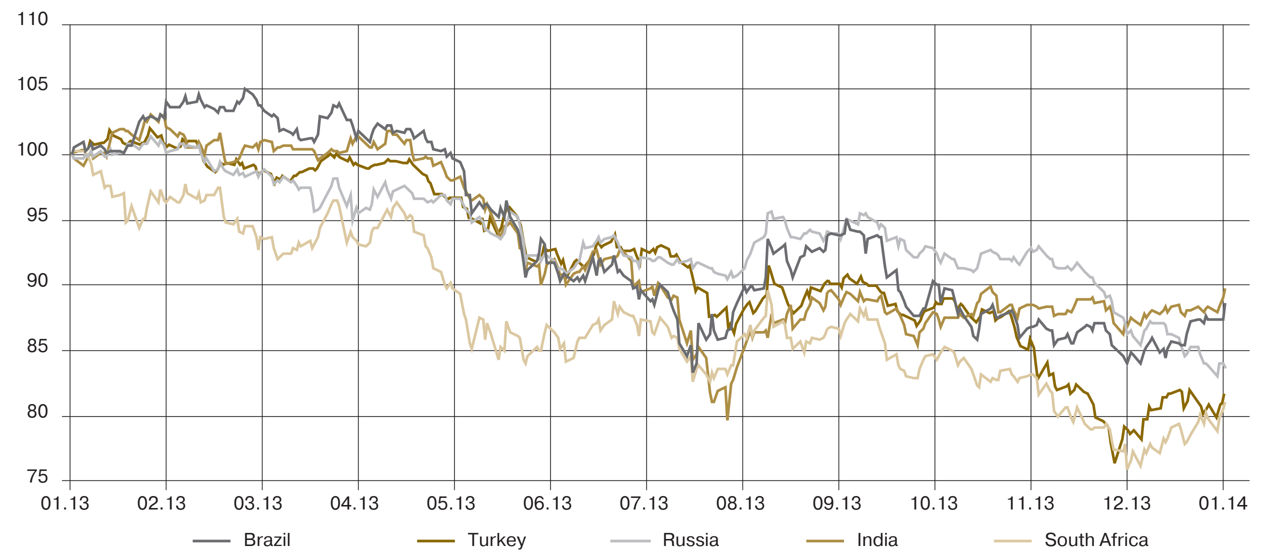


Source: Bloomberg.

It was accompanied by the large-scale sales of bonds and shares and the substantial devaluation of national currencies (see Chart 1.3). The worst performance was that of Argentina, Turkey, Brazil, Indonesia and South Africa. As a result, funds that invest in the assets of emerging markets lost nearly $80 billion in the period from end May to December 2013 (Chart 1.4).

In 2013, emerging markets went through several periods of an increased volatility in financial markets, which were associated primarily with a fundamental reassess-

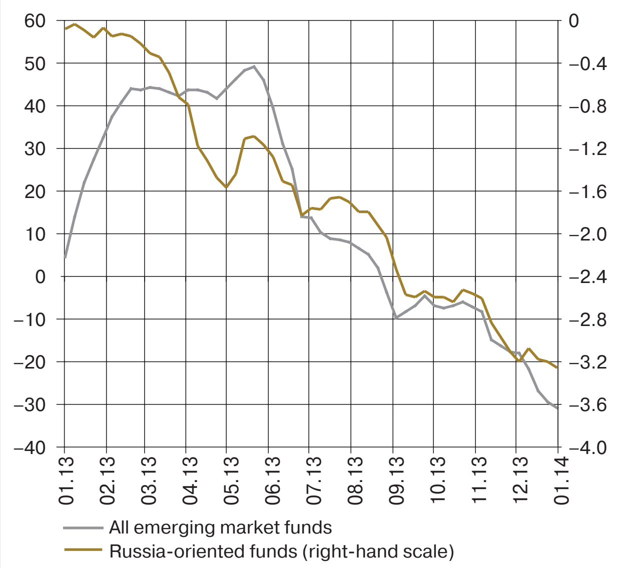
The exchange rates of national currencies to the U.S. dollar* *CHART 1.3*



* Growth means appreciation of national currency; 3 January 2012 = 1.

Source: Bloomberg.

Accumulated inflow/outflow of funds, trillions of U.S. dollars CHART 1.4



Source: Emerging Portfolio Fund Research.

ment of market risks by investors. Against the backdrop of the deteriorating economic situation in these countries, investment preferences have shifted in favor of more stable developed economies. Many emerging economies have accumulated significant internal imbalances. For example, Turkey, South Africa, India and Brazil have high current account and budget deficits.

In many countries, as a result of attempts to minimize the negative effects of the global economic crisis and an access to cheap credit amid super-soft monetary policies pursued by the leading central banks, the debt burden in both the public and private sectors substantially increased. With respect to this, amid policy tightening in the developed countries accompanied by the deterioration of refinancing conditions, there is a significant risk that the cost of servicing the accumulated debt will increase. The value of obligations due in 2014 is significant in Brazil (16% of GDP), Argentina (7.8%), Mexico (7.7%) and South Africa (7.5%). China has the largest government debt refinancing needs in absolute terms ($410 billion), but they account for only 4.2% of GDP. In Russia, this figure is low (2.1%).

Given these circumstances, the future economic prospects of emerging markets are a cause for concern among investors. First of all, there is no clear understanding of the sources of economic growth. In many countries, there is a decrease in domestic demand and industrial activity, while an inflow of investments is impeded not only by external factors, but also by internal structural reasons (poor infrastructure, bad business climate and a shortage of skilled labor). The regulators' possibilities to implement stimulus measures to support the economy are limited. Firstly, the easing of monetary policy is fraught with higher inflation that could pose a threat to financial stability. Secondly, budget deficits and growing public debt do not allow for an active fiscal stimulation.

In 2012–2013, Chinese GDP growth slowed down somewhat (although it remains among the highest in the world), and there appeared signs of a credit bubble forming in the country's financial sector. During the previous several years, China's fast-growing economy was experiencing significant demand for credit resources, and at the same time the growth rate of traditional bank lending was constrained by particularly tight government restrictions on the volume of issued loans. As a result, the non-bank lending sector developed. While in 2002, 92% of the borrowed financial resources in China were the result of bank lending, this figure was only 51% in 2013. So-called trust companies were spreading widely, raising funds in the market through the creation of financial instruments with more attractive yields than those of bank deposits (maximum deposit rates are regulated by the government). Simultaneously, the financing of projects persisted which were often associated with a high risk that funds wouldn't be repaid (and that the companies would declare bankruptcy). In the context of an economic slowdown, these risks increased even more.

A further slowdown in the Chinese economy may have a negative impact on commodity markets. On the supply side, a significant role in reducing the prices of industrial metals was played by the overproduction observed in Chinese heavy industry; China is the largest manufacturer of aluminum alloys and steel. Demand contraction was first observed due to the debt crisis developing in the eurozone, and then because of the economic slowdown in major emerging markets (especially in China).

Finally, at the end of the year, risks of economic deterioration, as well as a political destabilization emerged in the former Soviet Union. A decline in economic growth and demand for Russian exports among neighboring countries adversely affects the markets for Russian companies' products, and foreign currency devaluations make Russian goods less competitive. Political and economic instability among neighboring countries leads to the withdrawal of capital by global investors from the region as a whole.

I.1.1.2. Macroeconomics

External factors had a restraining effect on the development of the Russian economy. An increase in the volume of exports and a slowdown of imports, along with lower investment demand and a weakening ruble led to a significant decrease in net exports, fostering a negative effect on GDP growth in 2013 as compared with 2012.

The current account surplus more than halved in 2013 (from $71.3 billion to $32.8 billion) due to a 5.9% decrease in the trade surplus, which was negatively affected by a substantial reduction in the export of goods (including a 4.4% fall in crude oil exports) and the simultaneous growth of imports.

The average price of Urals oil in 2013 was 2.2% lower than it had been in 2012, amounting to $108.3 per barrel.

In the reporting period, the net outflow volume of private capital exceeded the previous year by 10.7% and reached $59.7 billion. Unlike in 2012, when capital raised by the banking sector on a net basis totaled $18.5 billion, in the reporting year, an outflow of capital was estimated at $7.6 billion amid some banks' foreign assets growing faster than their liabilities. The capital net outflow in other sectors decreased from $72.4 billion to $52.1 billion.

Despite the fact that during the year, Russia's international reserves contracted by $28.0 billion to $509.6 billion as of 1 January 2014, their volume, as before, was sufficient to finance the imports of goods and services for 12.9 months (as against 14.5 months as of 1 January 2013).

At the beginning of 2014, the volume of Russia's external debt was estimated at $732 billion, and its annual growth rate in 2013 decreased from 18.1% in 2012 to 15.0%. Due to growing debt liabilities to direct investors, the share of foreign debt of other sectors in its structure increased from 57.3% to 59.8%. External debt of banks rose by 6.6% (23.8% in 2012); their share of the total external debt fell to less than 30%.

GDP growth fell from 3.4% in 2012 to 1.3% in 2013 (see Statistical Appendix, Table 1). The possibilities for increasing the volume of output of goods and services in the reporting year were limited, as the level of capacity utilization in the industry remained high. A significant decline in the profits of non-financial organizations (especially in the manufacturing industries and transport), as well as an uncertainty about future economic development, limited the volume of investments in non-financial assets. Fixed capital investments decreased by 0.3% in 2013 (they had increased by 6.6% in 2012). A significant negative contribution to GDP growth was made by the reduction of inventories against the background of manufacturers' deteriorating expectations regarding demand dynamics. As a result, in the reporting year, the contribution of gross fixed capital formation to GDP growth was negative.

The unemployment rate remained low in 2013: excluding the seasonal factor in the first half of the year, this figure showed a slight increase, whereas in the second half of the year, it stabilized at 5.5%–5.6%. However, other indicators pointed to a reduction in the intensity of labor utilization (growing underemployment, the volume of unpaid leave, amount of arrears in wages).

Amid deteriorating labor market situation and consumer expectations, as well as a slower growth in household real income in 2013 as compared with the previous year, the growth rate of consumer spending decreased (from 7.9% to 4.7%). Nevertheless, its contribution to economic growth was the most significant when compared with other elements of the GDP use. Higher consumer spending had a positive impact on the dynamics of retail trade turnover.

Growth in wages and social transfers contributed to a 3.3% increase in household real disposable income in 2013. Against a background of lower interest rates on household deposits as compared with the previous year's level, on the one hand, and a continuing uncertainty over economic development prospects, on the other hand, the tendency of the population to avail themselves to organized savings[1] remained unchanged when compared with the year 2012, amounting to 10%.

Inflation in December 2013 was 6.5% year on year and exceeded the target range set for 2013 by the 'Guidelines for the Single State Monetary Policy in 2013 and for 2014 and 2015'.

During the year, inflation was influenced by countervailing factors. A noticeable inflationary impact, especially in the second half of the year, resulted from the exchange rate's dynamics. However, a moderating influence on the demand side prevailed over the effect of the ruble's depreciation. This is evidenced by the preservation of the downward trend in the annual price index for non-food products observed from the end of 2011 (from 105.2% in December 2012 to 104.5% in December 2013). The growth in prices for non-food products (net of gasoline), which are least subject to the influence of event-based and administrative factors, also decreased. Core inflation slowed for the year by 0.1 percentage points to 5.6%.

Throughout 2013, a major role that drove inflation was played by temporary factors, which influenced the situation in the food market. A poor harvest in 2012 accelerated growth in food prices early in the year and in the fourth quarter, and adverse weather conditions affected the harvesting of fruit and vegetables in October–November 2013. The increase was particularly noticeable in the price for milk, dairy products, cheese, and eggs. Inflationary pressure on the prices for these products was only partially offset by processed grain prices; grain prices fell due to a good harvest. As a result, at the end of the year, food prices rose by 7.3%, only 0.2 percentage points less than the food price growth rate posted in 2012.

To a greater extent than in 2012, prices and tariffs for housing and communal services rose, as well as the fares of passenger transport and the price for alcohol and tobacco products (including growth resulting from a higher rate of increase in regulated tariffs and excise rates).

I.1.2. Banking Sector Macroeconomic Performance

In 2013, most of the key indicators that reflected the banking sector's role in the economy exhibited positive dynamics. The ratio of banking sector assets to GDP increased from 79.6% to 86.0% during the year (see Statistical Appendix, Table 2).

[1] Savings include an increase (decrease) in deposits, purchase of securities, changes in the amount of funds in the accounts of individual entrepreneurs, changes in debt on loans, property acquisition, purchase of livestock and poultry by households.

The ratio of banking sector capital to GDP measured 10.6%, representing a rise of 0.8 percentage points during the year.

Funds in customer accounts constituted credit institutions' main resource base by the end of 2013, their ratio to GDP grew by 3.9 percentage points to 52.3%. The ratio of individual deposits to GDP during the reporting year was 25.4%, having grown 2.5 percentage points year on year; the ratio of deposits of non-financial organizations to GDP was much smaller: 16.2% (an increase of 0.8 percentage points).

In 2013, as in the previous year, loans prevailed in the structure of banking sector assets. The total loans[1] to GDP ratio went up by 6.0 percentage points to 60.5%, while their share of total banking sector assets increased by 1.8 percentage points to 70.4%. The ratio of loans to non-financial organizations and households to GDP rose by 4.1 percentage points to 48.6%.

[1] Loans and other placed funds made available to resident non-financial organizations, non-resident legal entities, government financial bodies and extra-budgetary funds and individuals, as well as loans, deposits and other placed funds made available to the financial sector.

I.2. The Institutional Aspects of Banking Sector Development

I.2.1. Quantitative Characteristics

The recent downward trend in the number of credit institutions continued in 2013. Their number decreased during the reporting year by 33 to 923 (Chart 1.5). During the year, 33 credit institutions had their licenses revoked (cancelled); eleven credit institutions were struck from the State Register following post-merger reorganizations and eleven new credit institutions received a banking license.

Large multi-branch banks continued to optimize their regional units in 2013. The total number of internal structural units of credit institutions grew by 618 to 43,376 as of 1 January 2014 (from 42,758 as of 1 January 2013). The number of additional offices increased from 23,347 to 24,486, along with cash and credit offices (from 2,161 to 2,463), operations offices (from 7,447 to 8,436), and mobile banking vehicles (from 118 to 146). Meanwhile, the total number of external cash desks decreased from 9,685 to 7,845.

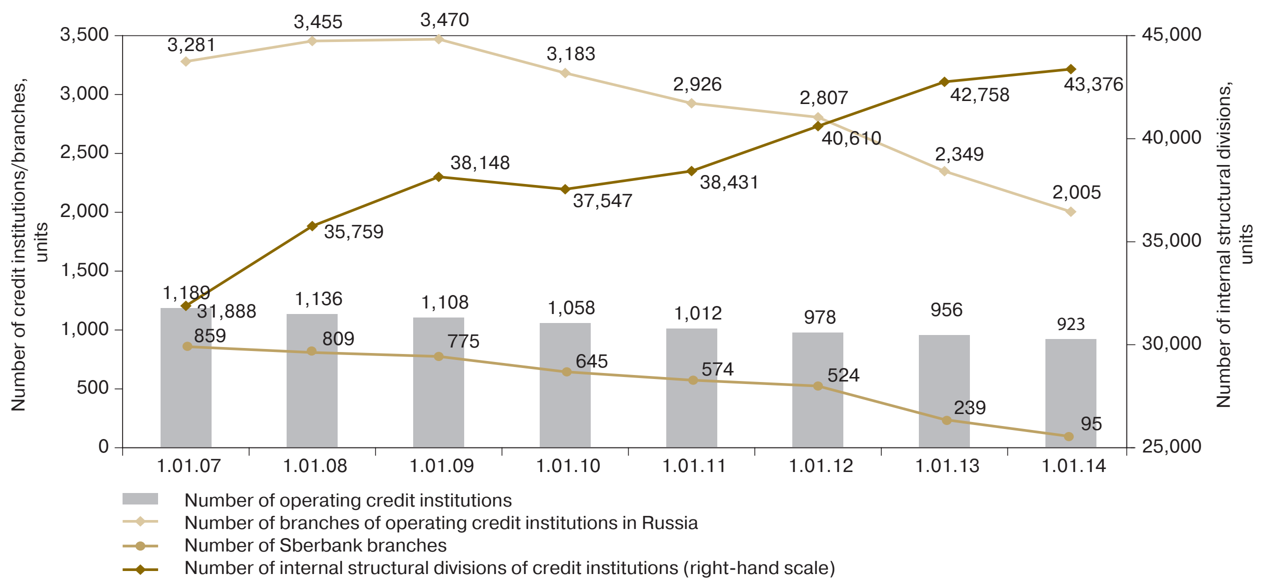
As a result, the number of internal divisions per 100,000 residents rose from 29.9 at the end of 2012 to 30.3 year on year.

I.2.2. Regional Banking

In 2013, the majority of Russian regions registered a reduction in the number of operating credit institutions: the number of regional banks[1] fell from 450 to 425. The asset growth rate of regional banks (11.0%) was lower than the asset growth rate of the entire banking sector (16.0%). As a result, the share of regional banks in banking sector total assets decreased from 11.6% to 11.1% during the year. The rate of capital growth of regional banks amounted to 12.2% in 2013, while their profits decreased by 9.2% (banking sector capital increased by 15.6%, while profits declined by 1.8%). As a result, the profitability of regional banks lagged behind the analogous indicator for the banking sector as a whole.

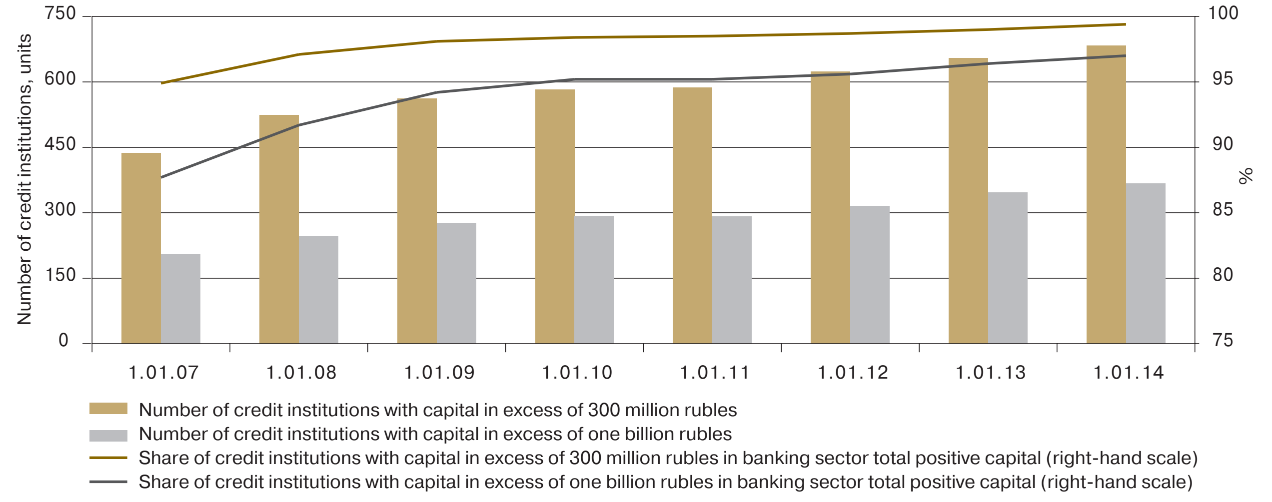
The aggregate index[2] of the density of banking services in regions has not changed significantly since the beginning of 2013. Banking services are still at their most accessible in the Central Federal District (especially in Moscow), followed by the North-Western Federal District (where St. Petersburg is characterized by a high level of banking service accessibility), and the Southern Federal

The number of credit institutions and their branches *CHART 1.5*



[1] Regional banks are banks registered outside the Moscow Region.
[2] Explanations of the methodology used to calculate the index are given in Section IV of this Report.

The number of credit institutions with capital in excess of 300 million rubles and one billion rubles CHART 1.6



District. In the Far Eastern, Volga and Urals Federal Districts, this indicator rose in 2013.

In the reporting year, the aggregate index of the density of banking services in regions recorded its lowest value in the North-Caucasian Federal District, which includes the Republic of Ingushetia, the Republic of Daghestan and the Chechen Republic (see Statistical Appendix, Table 7.1).

I.2.3. Banking Services Concentration

In 2013, banking concentration indicators continued to increase. The share of the top 200 credit institutions in terms of assets in banking sector total assets rose insignificantly in the reporting year, amounting to 94.9% at the end of the year as against 94.3% in 2012; this indicator has grown by 1.1 percentage points over the last five years (2009 to 2013). In 2013, the share of the five largest banks in terms of assets expanded from 50.3% to 52.7% and over a five-year period, their share has increased by 4.8 percentage points.

The top 200 credit institutions in terms of capital accounted for 93.4% of banking sector total capital as of 1 January 2014 (92.8% as of 1 January 2013), with the five largest banks accounting for 49.7% (48.4% as of 1 January 2013).

The number of credit institutions[1] with capital in excess of 300 million rubles[2] grew from 654 to 683 in 2013, and their share of total positive capital was almost 100% (99.4%). Of these, the number of credit institutions with capital in excess of one billion rubles increased from 346 to 367 in the reporting year (they held almost 97.0% of banking sector total positive capital, see Chart 1.6).

Quantitative estimates of concentration that are commonly used internationally, particularly the Herfindahl-Hirschman Index (HHI) dynamics, show that in terms of banking assets, the concentration level in 2013 remained moderate (Chart 1.7). This was due, among other factors, to a large number of small credit institutions. The asset concentration index increased to 0.107 as of 1 January 2014, exceeding the upper limit of the range of the three previous years (0.091–0.101). The concentration of capital also rose from 0.092 to 0.098. The concentration of loans to non-financial organizations remained moderate (the HHI stood at 0.131 in 2013).

The highest concentration index values continue to be those of the retail deposits market, and in 2013 these were observed to be increasing as well.

In 2013, differences remained among the regions in terms of their banking services concentration levels (see Chart 1.8). The development of regional networks of bank structural units in most federal districts was due to their mean asset concentration level (a HHI is between 0.10 and 0.18)[3].

I.2.4. Interaction between the Banking Sector and Other Financial Institutions and Financial Markets

I.2.4.1. The corporate securities market

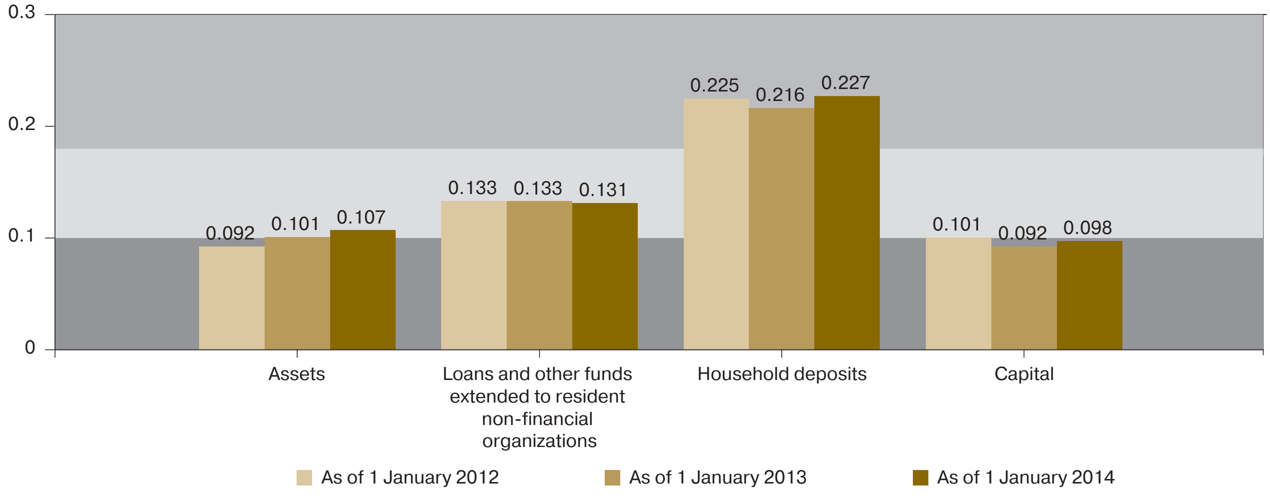
In 2013, Russian credit institutions reduced their ruble-denominated debt and equity securities portfolios, which featured a high level of risk.

Highly volatile prices persisted in the **domestic stock market**. Trading in stocks and shares in the primary and secondary markets slowed down.

[1] Including non-bank credit institutions.
[2] Taking into account Federal Law No. 391-FZ, dated 3 December 2011, 'On Amending the Federal Law on Banks and Banking Activities', which has increased the minimum capital level for newly established banks to 300 million rubles from 1 January 2012, and mandates that all banks meet this guideline by 1 January 2015.
[3] The Central Federal District and the North-Caucasian Federal District are two exceptions.

Banking sector concentration indices (Herfindahl-Hirschman Index values)

CHART 1.7



Note: The Herfindahl-Hirschman Index is calculated as the sum of the squared unit weights of credit institutions in the total volume of the banking sector.
The index shows the degree of index concentration, where values range from 0 to 1.
A value of zero corresponds to the minimum concentration.
A value of less than 0.10 indicates a low level of concentration.
A value that is between 0.10 and 0.18 represents a medium level of concentration.
A value over 0.18 indicates a high level of concentration.

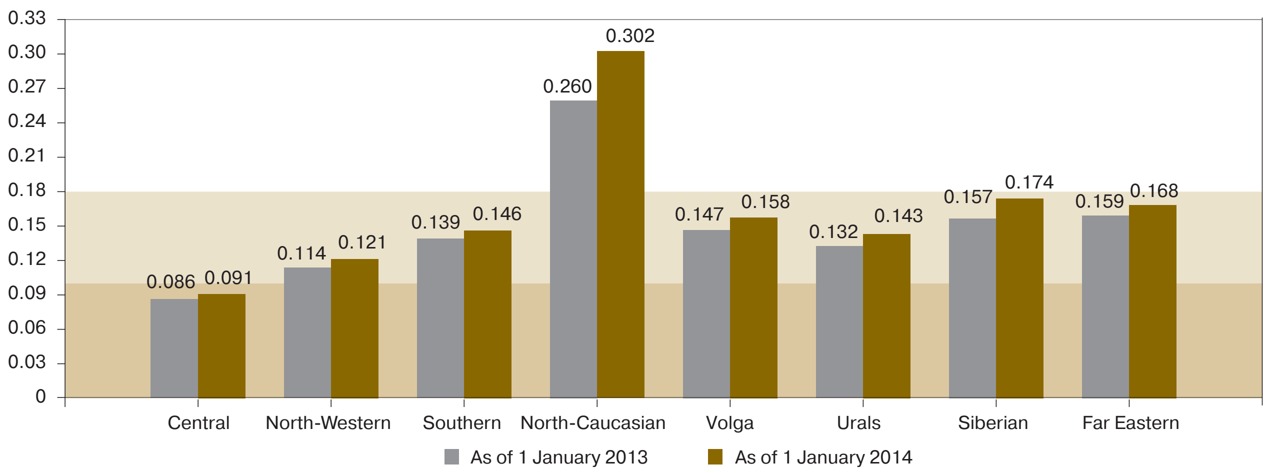
Concentration in the retail deposit market

TABLE 1.1

	1 January 2010	1 January 2011	1 January 2012	1 January 2013	1 January 2014
Sberbank share of total deposits, %	49.4	47.9	46.6	45.7	46.7
The share of the top five banks in terms of deposits in total deposits, %	61.3	60.0	59.4	58.3	60.5
HHI for deposits, %	0.251	0.236	0.225	0.216	0.227

Asset concentrations (HHI) by federal district

CHART 1.8



Note: The Herfindahl-Hirschman Index is calculated as the sum of the squared unit weights of total assets of divisions (head office and (or) branches located in the federal district) of each credit institution in the total assets of all divisions of credit institutions located in the federal district.

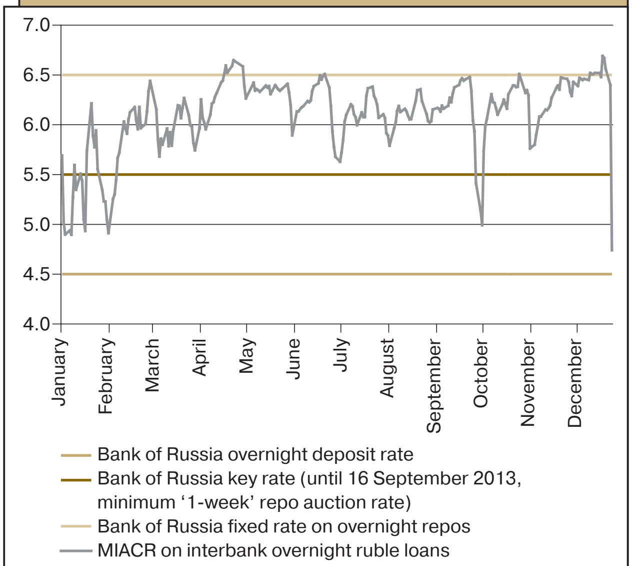
By the end of December 2013, the MICEX index[1] had increased by 2.0% year on year. The RTS index[2] decreased at a greater rate than the MICEX index in periods when the U.S. dollar appreciated sharply against the ruble (in June, early July–August and November 2013); it fell by 5.5% over the reporting period. The capitalization of the Moscow Exchange stock market[3] grew by 0.4% to 25.3 trillion rubles. The turnover of secondary trading in stocks and Russian depositary receipts at the Moscow Stock Exchange fell by 26.4% to 8.5 trillion rubles in 2013 year on year. The share of bank stocks in the total secondary trade turnover of the Moscow Exchange remained unchanged (approximately 40%).

During the reporting year, the **domestic corporate bond market** was characterized by the high issuing activity of Russian companies. The main volume of issues placed in the primary market consisted of the corporate bonds of issuers with a high credit quality. The Moscow Exchange placed 305 new corporate bond issues and one additional placement with a total par value of 1.7 trillion rubles. Of these, credit institutions accounted for about 28%.

As a result, the 2013 portfolio of corporate bonds traded in the domestic market increased by 25% to 5.2 trillion rubles at par value[4] compared to 2012. Sectorwise, bank securities, which accounted for about 30% of the total, remained the largest segment of the portfolio.

The volume of secondary trading in corporate bonds on the Moscow Stock Exchange grew in the reporting year by 16.7% to 6.2 trillion rubles year on year. The proportion of bank bonds amounted to 37%.

MIACR and rates on some Bank of Russia operations in 2013, % p.a. *CHART 1.9*



During the reporting period, the yields of corporate bonds in the secondary market largely decreased; their average yields fell by 0.6 percentage points to 8.2% p.a. as compared with 2012.

I.2.4.2. The money market

In 2013, the Russian money market operated amid an increasing liquidity structural shortage. The major factors that drove liquidity withdrawal were a growth in the amount of cash in circulation, the Bank of Russia's sale of foreign currency in the domestic market and higher balances of general government's accounts with the Bank of Russia. The combined effect of these factors led to an increase in the banking sector's needs for Bank of Russia refinancing.

As in 2012, the Bank of Russia's basic operations to provide liquidity consisted of repo transactions on an auction basis. The average total debt under repo agreements grew in 2013 by 0.9 trillion rubles to 2.0 trillion rubles year on year, and its maximum level reached 3.1 trillion rubles. Under the circumstances, the money market environment was determined primarily by banks' demand for liquidity and the level of interest rates on Bank of Russia liquidity provision transactions.

The inflow of funds into the banking sector via the budget channel in late December 2012 contributed to the growth of liquid bank assets and reduction of credit institutions' liabilities to the Bank of Russia in early 2013. Interbank loan rates decreased somewhat for that reason. In January and February, the average MIACR on interbank overnight ruble loans stood at 5.5% p.a. as against 6.1% p.a. in the fourth quarter of 2012 (see Chart 1.9).

In the following months of 2013, the renewed outflow of funds from the banking sector via the budget channel combined with an increase in cash in circulation and the Bank of Russia's sale of foreign currency in the domestic market led to a growth in the structural shortage of banking liquidity and demand for liquid ruble funds. Under these circumstances, money market rates rose. In March–December of 2013, the average MIACR on interbank overnight ruble loans was 6.2% p.a.

The average MIACR on interbank overnight ruble loans was 6.1% p.a. in the reporting year, which was 0.6 percentage points higher than in 2012. The MIACR-B (on loans to banks with a speculative credit rating) varied along with MIACR-IG (on loans to banks with an investment credit rating). The average monthly spread between these rates did not exceed 0.3 percentage points in 2013, which is evidence that mutual trust was maintained between market participants and credit risk in the money market was moderate. The average share of overdue interbank loans extended to Russian banks in 2013 amounted to 0.29% as against 0.33% in 2012. The volatility of interest rates on ruble interbank loans

[1] Calculated using the prices of shares denominated in rubles.
[2] Calculated using the prices of shares denominated in U.S. dollars.
[3] Stock market capitalization data in the Moscow Exchange Main Market sector.
[4] Source: Cbonds.ru news agency.

remained moderate during the reporting period. The standard deviation of the MIACR on interbank overnight ruble loans amounted to 0.38 percentage points in 2013 (0.64 percentage points in 2012).

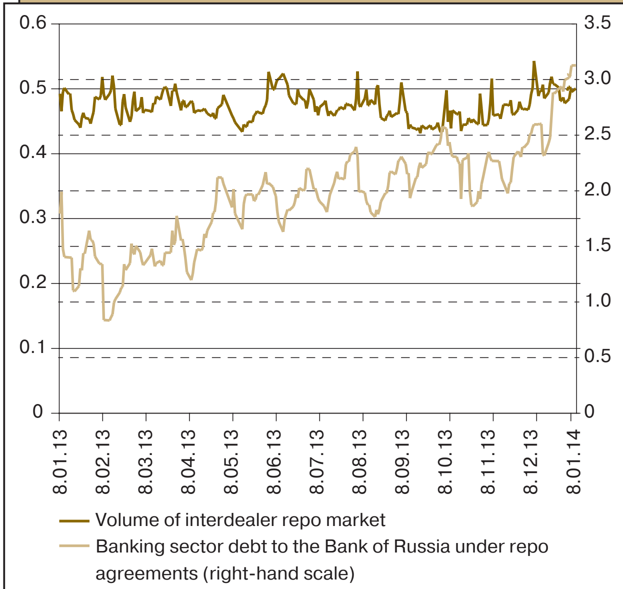
Despite an increase in repo transactions with the Bank of Russia, the amount of market participants' open positions in the interdealer repo market had no clear tendency to grow and accounted for 400–550 billion rubles as in the previous year (Chart 1.10). Banks preferred to borrow mainly from the Bank of Russia; in the interdealer repo market, the demand for funding was generated by non-bank institutions.

The main creditors in the interdealer repo market were banks (about 75% of the value of open positions on average for the quarter), and the borrowers were customers of both banks and non-bank institutions[1]. A significant role in the market was played by non-residents. The volume of their borrowings amounted to about 40% of total open positions, and the volume of loans stood at about 17%.

To reduce systemic risks, in February 2013, there appeared an opportunity to enter into repo transactions with a central counterparty on the Moscow Exchange. In such transactions, the central counterparty guarantees the fulfillment of obligations under a transaction, so the obligations to a bona fide party are executed even in the event of a defaulting party's failure to meet the obligations. Repo transactions with the central counterparty steadily increased from June 2013, and by the end of December 2013, the daily turnover of these operations reached 50 billion rubles (12% of open positions in the interdealer repo market).

The value of open positions in the interdealer repo market and debt to the Bank of Russia on repos, trillions of rubles

CHART 1.10



I.2.4.3. Non-bank financial institutions

In 2013, the Russian **insurance sector** continued to become more concentrated. The number of entities listed in the single state register of insurers decreased from 469 as of early 2013 to 432 as of late 2013[2]. However, the total authorized capital of those entities reached 211 billion rubles as of the end of 2013, which was a 1.2% increase on the same indicator registered at the beginning of the year.

Insurance market growth slowed during the reporting year. According to reports submitted by insurers[3], total insurance premiums[4] grew in 2013 by 11.1% to 905 billion rubles, while the value of indemnities increased by 12.9% to reach 421 billion rubles. The 2012 growth rate of insurance premiums and indemnities equaled 21.0%.

Voluntary life insurance and personal accident and illness insurance became one of the most fast-growing market segments in 2013 (premiums rose by 45.7% and 25.0%, respectively). Those segments were boosted by the efficient use of a banking channel for the sale of insurance products. In 2013, insurers gained 73.0% of total life insurance premiums and 48.0% of personal accident insurance premiums through credit institutions. Investment and endowment insurance products also have great growth potential via cooperation between banks and insurers. Over the reporting period, the value of life insurance premiums with recurrent insurance payments and (or) under participating insurance contracts increased 2.5-fold, though its share in the total value of insurance premiums is still insignificant (2.1% as of 1 January 2014).

Investments in the banking system remained among the most important investments for insurers in 2013. As of 1 October 2013, bank deposits and bank securities portfolios amounted to 37.4% of the total investments of insurance companies.

The collective investment market continued to grow in 2013. The total number of unit investment funds (PIFs)[5] increased by 24 to 1,571; qualified investor funds accounted for that growth. The total net asset value of PIFs, excluding qualified investor funds, amounted to 592 billion rubles as of the end of 2013, which was a 12.7% increase year on year. Bond funds and money market funds became growth leaders, their net asset value having grown by 97.0% and 39.0%[6], respectively. The inflow of new unit holders' funds accounted for three-fourths of the net asset growth of the above funds.

[1] Professional securities market participants that are not banks.
[2] Hereinafter, unless specified otherwise, according to Bank of Russia data.
[3] In 2013, 418 insurers submitted their reports in electronic form; four companies conducted no insurance operations.
[4] Net of compulsory medical insurance.
[5] Funds listed in the register of unit investment funds that have completed their forming, including those at the phasing-out stage.
[6] Source: Cbonds.ru news agency.

A feature of the investment portfolios of such funds, especially money market funds, is that a high share of their investments is in bank deposits: 10.0% and 44.0% of their portfolios, respectively.

Considerable growth was also observed in the **non-government pension fund** (NPF) segment. Pension accruals in NPFs increased by 47.5% in January–September 2013, having reached 986 billion rubles as of the end of the period. According to Cbonds.ru news agency, the growth rate of pension accruals over the same period amounted to 9.2% in the state management company Vnesheconombank, and to 8.3% in other management companies. NPF pension reserves rose by 5.7%, to 801 billion rubles. NPF investments in the banking system enlarged considerably in 2013, primarily owing to savings in deposits and the purchase of bank bonds. As of 1 October 2013, NPF investments in the banking system amounted to 35.6% of total NPF investments.

The operations of **general bank management funds** (OFBUs) remained insignificant in 2013. Although the total number of such funds exceeded 260[1] as of the year-end, their net asset value was below 4 billion rubles.

The highest growth was observed in 2013 in the segment of **microfinance organizations** (MFOs). Over the year, 1,970 organizations were listed in the state register of MFOs, and 614 were excluded from it. Finally, as of the year-end, registered MFOs totaled 3,860. The MFO loan portfolio increased by 77%[2] in 2013 to reach 85 billion rubles as of the year-end (about 1% of the household bank loan portfolio); additionally, the overdue loan growth rate somewhat exceeded the growth of the MFO loan portfolio in general.

[1] Source: Cbonds.ru news agency.
[2] Source: Bankir.ru news agency.

I.3. Banking Operations

I.3.1. Dynamics and Structure of Borrowed Funds

The resource base of banks was affected by global market turbulences and a persistent structural liquidity deficit in 2013 (see Chart 1.11). Still, the noted slowdown of the Russian economy's growth did not have a major effect on the development of the banking sector: its dynamics remained stable.

Only the largest Russian banks had access to external funding sources in 2013. Under those conditions, the Russian banking sector intensified its use of internal sources, particularly deposits, by offering attractive interest rates. Moreover, the objective advantages of large credit institutions, including economies of scale and access to work with state programs, enabled them to build up their capital. The number of credit institutions with capital totaling over one billion rubles grew from 346 to 367 over the reporting period.

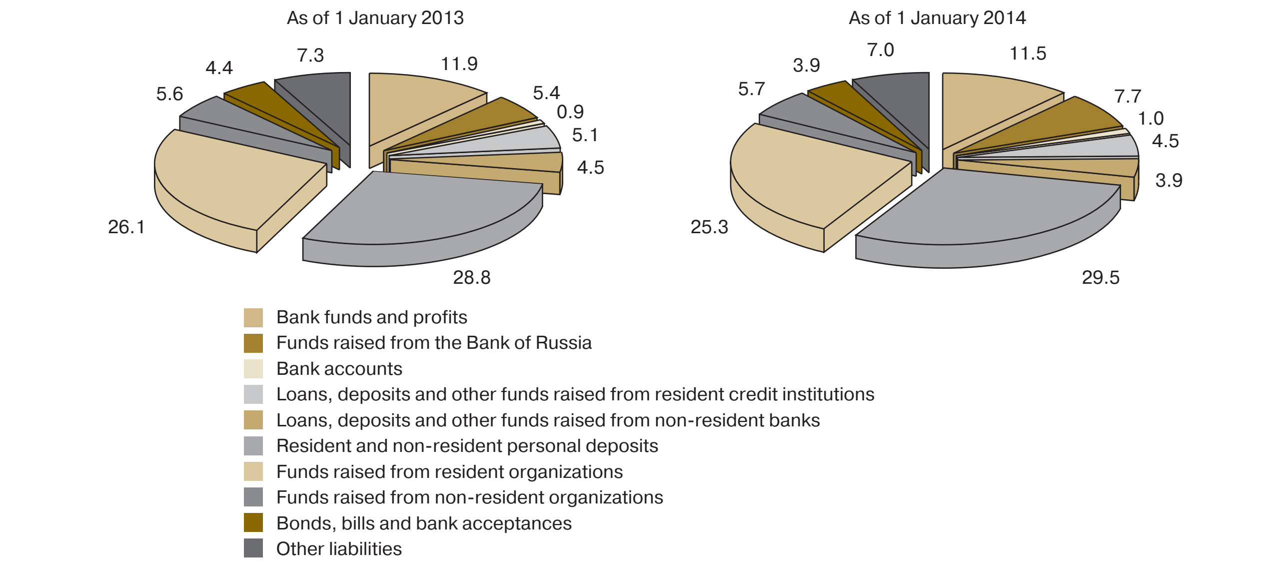
The funding base of credit institutions expanded mainly due to funds in customer accounts: the value of these funds increased by 16.0% in 2013 (15.5%[1]) to 34.9 trillion rubles; the share of those funds in banking sector liabilities remained the same over the year and totaled 60.8%.

In general, the value of household deposits (including savings certificates) increased by 19.0% in 2013 (20.0%) to 17.0 trillion rubles. Deposits accounted for 29.5% (28.8%) of banking sector liabilities. A brief reduction in the value of household deposits at the end of the year (caused by people's reaction to negative, and often untrue, information on the state of credit institutions) quickly gave way to the redistribution of deposits among banks, and then to overall deposit growth. The share of foreign currency deposits rose from 17.5% as of the beginning of the year to 18.6% as of the end of November. However, December showed an outrunning growth of ruble deposits, and as a result the share of foreign currency deposits fell to 17.4%.

The share of OJSC Sberbank of Russia in the household deposit market continued to shrink in 2013. However, the redistribution of funds in the banking sector in December caused it to grow from 45.7% to 46.7%.

Household deposits are an important source of funding for regional banks (Table 1.2)[2].

Structure of banking sector liabilities, % *CHART 1.11*



[1] In subsections 1.3.1 and 1.3.2, respective figures for 2012 are given within brackets.

[2] When analyzing banking sector stability, credit institutions are grouped into six clusters. Clustering makes it possible to evaluate the structure of various banking market segments and the probability of potential negative trends in these segments. Information on the change in the number of credit institutions related to different clusters depending on their market segments is given in the Statistical Appendix, Table 16.

Household and corporate deposits by group of banks, % *TABLE 1.2*

Bank group	Share of household deposits in banking sector total deposits		Share of household deposits in the liabilities of a respective bank group		Share of corporate deposits and other borrowed funds in banking sector total deposits		Share of corporate deposits and other borrowed funds in the liabilities of a respective bank group	
	1 January 2013	1 January 2014	1 January 2013	1 January 2014	1 January 2013	1 January 2014	1 January 2013	1 January 2014
State-controlled banks[1]	56.7	58.5	32.4	33.6	47.2	46.7	18.2	17.1
Foreign-controlled banks[2]	13.5	12.5	21.8	24.1	19.3	15.3	21.0	19.0
of which: banks under the material influence of Russian residents[3]	3.6	5.2	24.5	25.1	4.3	7.2	20.7	23.5
Large private banks[4]	23.9	23.8	25.9	24.4	31.0	35.5	22.7	23.3
Small and medium-sized banks based in the Moscow Region[5]	2.3	2.4	27.4	30.8	1.5	1.4	11.6	11.5
Small and medium-sized regional banks[5]	3.6	2.9	42.8	42.3	1.1	1.1	8.6	10.1

As inflation declined, interest rates on household deposits decreased during the reporting period: from 8.5% in January 2013 to 7.4% in December. In addition, Sberbank significantly influenced the dynamics of interest rates on household deposits (see the Statistical Appendix, Table 14).

In 2013, the number of banks where deposits totaled over ten billion rubles increased from 124 to 139 (Chart 1.12).

Total funds raised from organizations (other than banks) rose by 13.7% last year (11.8%) to 17.8 trillion rubles; the share of such funds in banking sector liabilities fell from 31.6% to 31.0%. However, corporate deposits (including certificates of deposit, and also other funds raised from legal entities) increased by 12.7% (15.0%), and funds in settlement and other accounts grew by 14.2% (7.1%) (Chart 1.13). Resident deposits accounted for 60.0% of the total annual growth of that funding source (resident funds accounted for 38.0% of total growth).

In 2013, corporate deposits with maturities exceeding one year continued to increase: their value grew by 20.8% (25.0%), and their share of total corporate deposits rose from 49.3% to 52.9% over the year.

The value of resources raised by credit institutions through the issuance of bonds grew by 16.9% in 2013 to 1.2 trillion rubles; the share of this source in banking sector liabilities remained unchanged for the year (2.1% as of 1 January 2014). As opposed to that, the volume of promissory notes issued by credit institutions and bank acceptances fell by 12.6% over the year and their share in banking sector liabilities decreased from 2.3% to 1.7%.

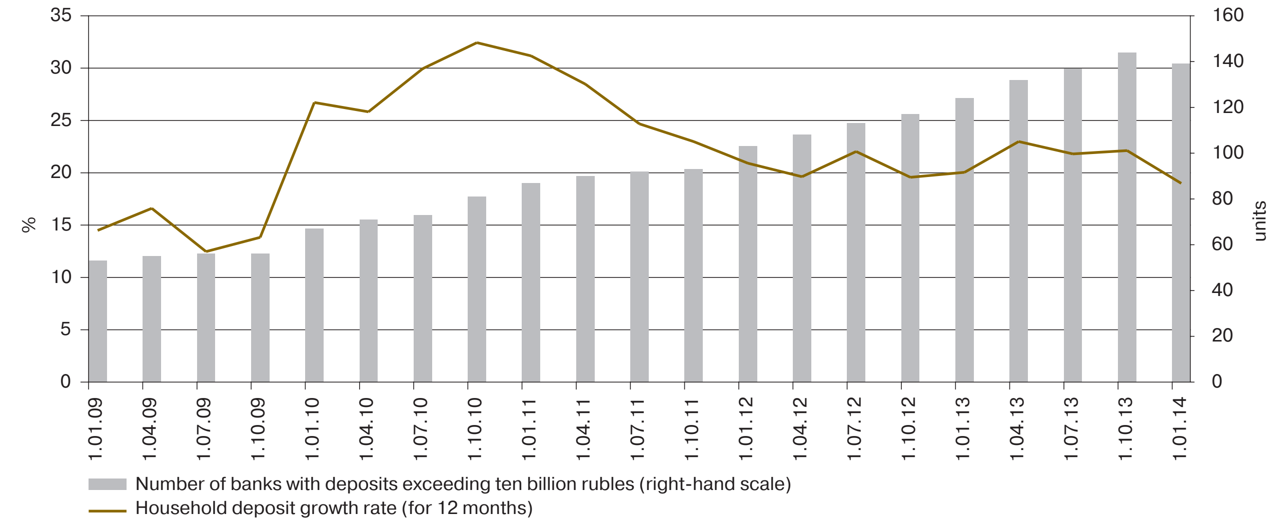
Bank of Russia funds became an important source for expanding the funding base in the reporting period: their value increased 70% in 2013, primarily due to their considerable (90%) growth in the second half of the year, while their share of banking sector liabilities grew from 5.4% to 7.7%.

Over the last three quarters of 2013, banks actively attracted Federal Treasury deposits, as well; however, in December a considerable portion of those funds were returned, and their total value decreased by 80.2% to 100 billion rubles as of 1 January 2014 and their share of liabilities fell from 1.0% to 0.2%.

[1] Banks in which more than 50% of authorized capital is owned by the state (including the holding of the Bank of Russia, Vnesheconombank and the DIA), and also member banks of the banking groups in which state-controlled banks are parent.
[2] Banks in which non-residents own over 50% of authorized capital.
[3] Banks in which decision-making by non-resident members (whose total share in the authorized capital of credit institutions exceeds 50%) is materially influenced by Russian residents.
[4] Banks from among the top 200 banks in terms of assets, excluding those included into the groups indicated above.
[5] The two lower lines of the Table contain data on banks divided into groups by geographical location – small and medium-sized banks based in the Moscow Region (Moscow and the Moscow Region) and small and medium-sized banks based in other regions. Data on non-bank credit institutions are not included in the Table.

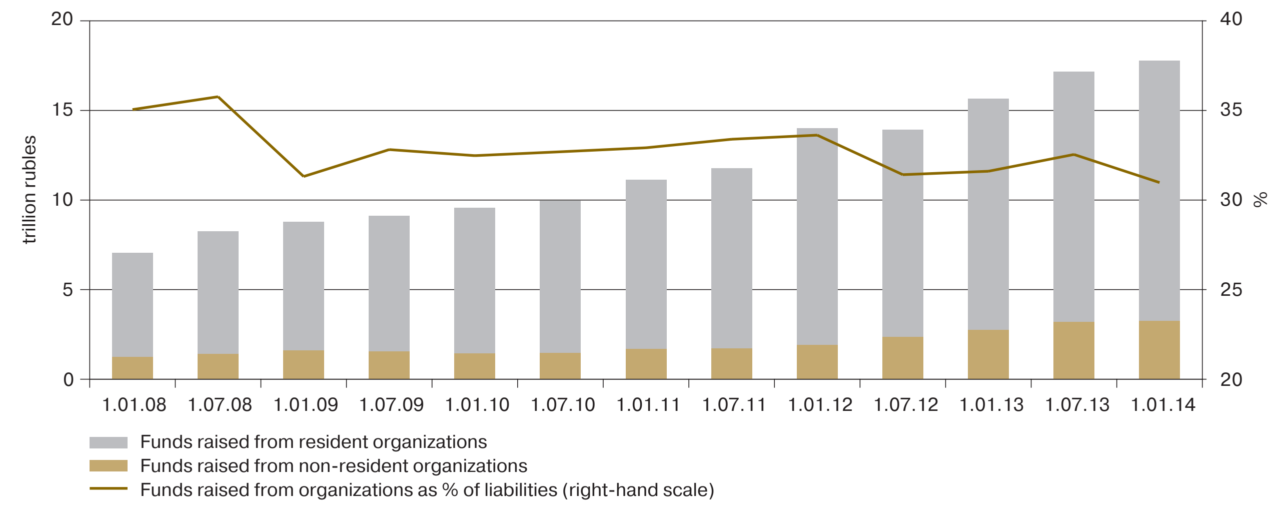
Number of banks with deposits totaling over ten billion rubles

CHART 1.12



Raising funds from organizations (other than banks)

CHART 1.13



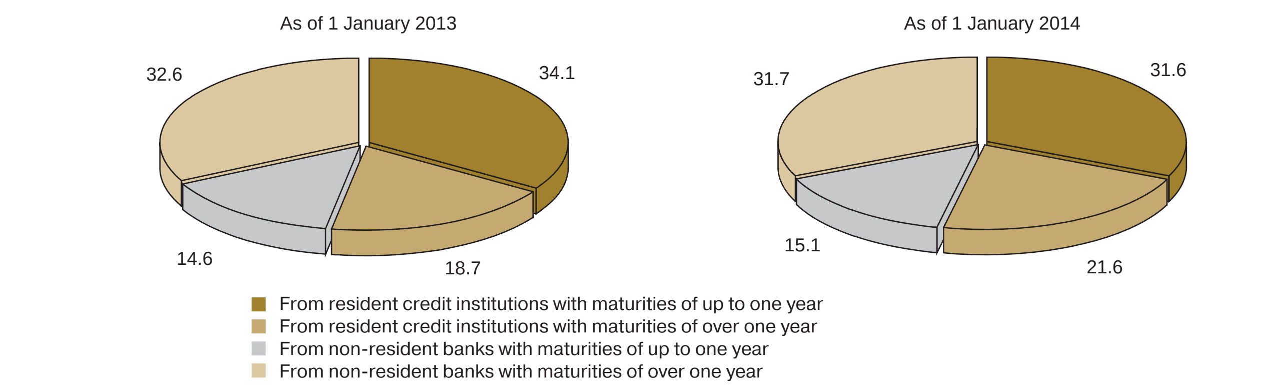
The value of interbank loans[1] increased by a mere 1.4% over the year (3.9%) to 4.8 trillion rubles. Their share of banking sector liabilities declined from 9.6% to 8.4%, whereas the balance of funds raised in the domestic interbank market increased by 2.2% in 2013 (17.8%), and overdue loans taken from non-resident banks grew by 0.5% (reduced by 8.2% in 2012).

Most of the funds that were borrowed by Russian credit institutions from non-resident banks had maturities of over one year. Most of those that were borrowed from resident banks had maturities of less than one year (Chart 1.14).

As of 1 January 2014, the share of loans from non-resident banks accounted for 6.9% of the liabilities of foreign-controlled banks, 3.6% of the liabilities of state-controlled banks, and 3.5% of the liabilities of large private banks. Small and medium-sized banks obtained virtually none of their resources from international markets.

[1] Loans, deposits and other borrowings in the interbank market.

Loans, deposits and other funds raised in interbank markets, by maturity (as % of total value) CHART 1.14



I.3.2. Asset Dynamics and Structure

Despite slower economic growth, the development of the Russian banking sector remained quite stable: during the year, bank assets grew by 16.0% to 57.4 trillion rubles as against 18.9% in the previous year.

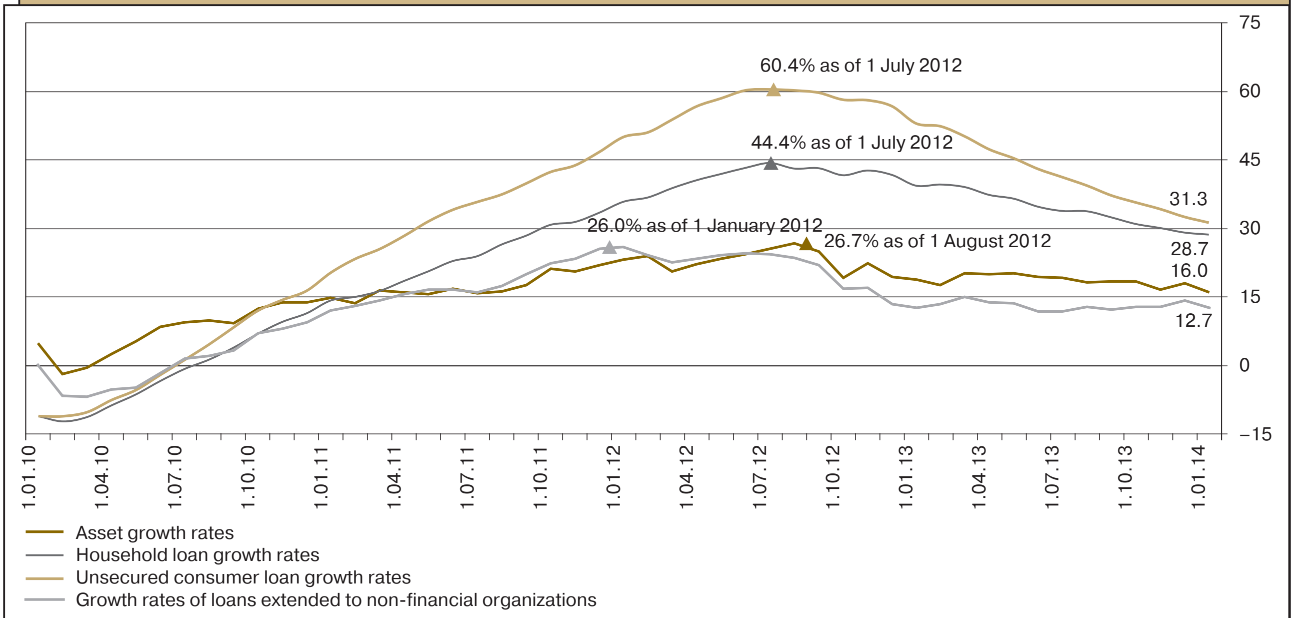
As of 1 January 2014, state-controlled banks accounted for the majority share (51.4%) of banking sector total assets. The share of large private banks equaled 28.8%. The share of foreign-controlled banks in banking sector total assets amounted to 15.3% (the share of banks under the material influence of Russian residents accounted for 5.9%). Small and medium-sized banks based in the Moscow Region as well as in other regions accounted for just 2.3% of banking sector total assets.

In 2013, banks continued to build up their loan portfolios, but the dynamics and structure of loans experienced a number of changes (see Chart 1.15 and Chart 1.16).

The total value of loans to non-financial organizations and households increased by 17.1% to 32.5 trillion rubles in 2013 (19.1%); their share of banking sector assets grew by 0.5 percentage points to 56.5%.

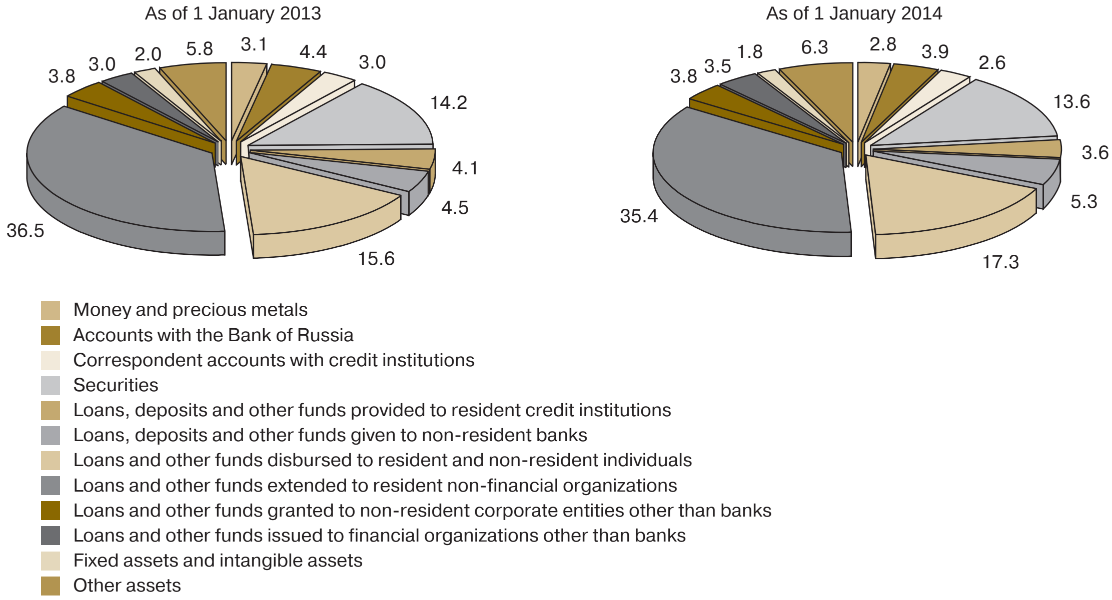
The value of loans and other placed funds provided by banks to non-financial organizations rose by 12.7% over the reporting period (the same growth rate was observed in 2012). The loan portfolio value reached 22.5 trillion rubles, and its share of banking sector assets amounted to 39.2% as of 1 January 2014 (40.3% as of early 2013). The lending dynamics mainly depended on the economic situation and commercial demand for loans.

Banking sector assets (for 12 months), % CHART 1.15



Banking sector asset structure, %

CHART 1.16



Loans disbursed to non-financial organizations in the banking sector total loan value, %

TABLE 1.3

Bank group	1 January 2013	1 January 2014
State-controlled banks	53.8	53.9
Foreign-controlled banks	14.2	12.0
of which: banks under the material influence of Russian residents	4.4	6.1
Large private banks	27.5	29.8
Small and medium-sized banks based in the Moscow Region	2.4	2.5
Small and medium-sized regional banks	2.2	1.9

The structure of the corporate lending market remained unchanged in 2013: state-controlled banks accounted for over 50% of the market (Table 1.3).

The share of loans with maturities of over one year gradually increased from 69.3% to 70.6% of the corporate loan portfolio; the share of loans with maturities of over three years grew from 41.0% to 45.0% of the corporate loan portfolio.

The most important roles in meeting the demand of non-financial organizations for long-term (more than one year) loans are those played by state-controlled banks and large private banks. Their total share of the banking sector total portfolio of such loans amounted to 84.2% as of 1 January 2014.

Broken down by industry, the largest share of loans was still disbursed to wholesale and retail companies (20.1% as of 1 January 2014), along with manufacturing companies (20.0%). In 2013, lending slowed down most significantly in transport and communication industries (the value of loans to these sectors decreased by 7.7% as against 20.7% growth in 2012); in fossil fuels production (15.0% growth as against 28.5% in 2012); in the production and distribution of energy, gas and water (8.2% growth as against 14.9%); and also in the wholesale and retail trade (8.1% growth as against 14.7%). No significant slowdown was recorded in the lending growth rate with respect to other economic sectors; all industries had access to bank loans.

Interest rates on loans granted by banks to non-financial organizations tended to ebb in 2013. Average-weighted interest rates on ruble loans with maturities of over one year provided to non-financial organizations decreased from 12.2% to 10.6% (rates on loans with maturities of over three years fell from 11.6% to 10.2%).

Interest rates on bank loans were influenced by funding costs. The latter are largely affected by rates on Bank of Russia transactions (repos, currency swaps, etc.), household deposits, and deposits extended to non-financial organizations. The credit risks of individual borrowers, inflation and foreign exchange-rate expectations, non-price lending conditions, the level of competition, and non-operating expenses are other essential factors that determine the level of interest rates.

The growth rate of consumer loans remained high last year. Their value increased by 28.7% to 10.0 trillion rubles (39.4%). The growth rate of household loans slowed down due to the implementation by the Bank of Russia in 2013 of additional regulatory requirements[1] related to risks associated with consumer loans, primarily unsecured loans (see details in Sections II.1, III.3). These requirements are aimed at bringing the growth rate of household loans in line with household income dynamics, and enhancing the quality of bank retail portfolios. As a result, the growth rate of unsecured consumer loans[2] decreased almost two-fold, to 31.3% as of 1 January 2014 as compared with the maximum rate (60.4% as of 1 July 2012; the value of unsecured consumer loans increased by 53.0% in 2012).

The retail banking structure's improvement has resulted in on-going mortgage lending growth: the number of housing mortgage loans disbursed in 2013 increased by 19.0% to 825,000 as compared with 2012. The total

Lending to small and medium-sized enterprises

Bank lending to small and medium-sized enterprises (SMEs) expanded in 2013 at a faster pace than lending to non-financial organizations in general. The SME loan portfolio grew by 15% to 5.2 trillion rubles as of 1 January 2014 (as against 16.9% a year earlier). The quality of that portfolio slightly improved: as of 1 January 2014, overdue loans amounted to 7.1% of the SME loan portfolio (8.4% as of 1 January 2013). However, that figure was considerably higher than overdue loans as a proportion of the overall corporate loan portfolio (4.2%).

According to the study of SME bank lending conditions carried out by the Bank of Russia, interest rates on SME loans as of the end of 2013 were about three percentage points higher than rates on loans to other non-financial organizations. A study of major Russian banks showed that in the fourth quarter of 2013, the bank lending conditions became a bit more stringent when granting loans to both large corporations and to SMEs, as well as for consumer loans. In general, the bank lending conditions were made severe for all those segments in order to raise the requirements for the financial standing of potential borrowers. In addition, the requirements also tightened for collateral secured loans granted to large corporations and SMEs; the range of credit products offered by banks narrowed.

The tightening of bank lending conditions was stricter for SMEs. In addition to tough requirements for the financial standing of a borrower and collateral, which were reported by 16% and 12% of respondents, respectively, about 10% of banks restricted their range of products for borrowers in that category, and about 9% of banks increased their interest rates on SME loans.

Constricting the bank lending conditions for SMEs in the fourth quarter of 2013 was mainly the result of the adoption by banks of a more tight credit policy amid the deterioration in the real economy and an expected lower financial standing of borrowers caused by unfavorable macroeconomic conditions. According to responding banks, enterprises operating in such industries as construction, cargo transportation, the automobile business, and the agricultural sector were most vulnerable to macroeconomic shocks.

The low transparency of borrowers' businesses, poor financial statements, and deteriorating financial results of SMEs (which posted lower revenues and profits in 2013 year on year) keep the risks of credit institutions when lending to SMEs high.

OJSC MSP-Bank (a subsidiary of Vnesheconombank) has been tasked with enhancing the development of SME lending. The average-weighted interest rate on loans granted by partner banks of OJSC MSP-Bank equaled 12.7% p.a. in 2013. The debt of SMEs to 135 banks under effective support agreements (i.e. under agreements on lending to SMEs by partner banks of OJSC MSP-Bank out of the funds of OJSC MSP-Bank) amounted to 75 billion rubles as of 1 January 2014. Additionally, in 2009, OJSC MSP-Bank launched its program to fund MFOs and credit cooperatives for small business lending purposes. OJSC MSP-Bank provides funds to MFOs at a rate of up to 9% p.a., restricting the maximum cost of micro-loans for entrepreneurs to double that amount of funding (18% p.a.). Improving banking legislation and regulation will considerably enable and expand banking support for SMEs, which together with other state efforts in this sphere, will boost the development of SMEs and increase their contribution to the Russian economy's development.

[1] Risk ratios for consumer loans disbursed after 1 July 2013, which have a high total cost due to capital adequacy calculations, have been increased (at the second stage, risk ratios are raised for loans disbursed after 1 January 2014, if the total loan cost is above 45% p.a.). The requirements are also raised for provisioning on the portfolios of unsecured homogeneous consumer loans disbursed after 1 January 2013.

[2] Other homogenous consumer loans – the term is used in the reporting Form 0409115, 'Information on the Quality of Bank Assets' (Section 3. Data on the Portfolios of Homogenous Claims and Loans Issued to Individuals).

The share of household loans in banking sector total loans (by group of banks), %

TABLE 1.4

Bank group	1 January 2013	1 January 2014
State-controlled banks	49.3	50.5
Foreign-controlled banks	22.6	21.0
of which: banks under the material influence of Russian residents	3.1	4.4
Large private banks	24.1	25.2
Small and medium-sized banks based in the Moscow Region	1.5	1.4
Small and medium-sized regional banks	2.5	1.9

overdue loans grew by 32.6% to 2.6 trillion rubles in 2013 (35.0%).

Consumer lending is one of the most competitive segments of the banking services market; state-controlled and private banks maintain a virtually equal presence (see Table 1.4).

The share of household loans rose from 15.6% to 17.3% of banking sector total assets and from 22.8% to 24.6% of total loans. Households still preferred to take out loans in rubles; the share of such loans in the total amounted to 97.6% as of 1 January 2014 as against 96.8% as of 1 January 2013.

Foreign-controlled and small and medium-sized regional banks stood out in terms of household loan shares in their portfolios: 34.4% and 26.4%, respectively. These loans accounted for 23.0% of large private bank assets, 22.9% of state-controlled bank assets, and 17.5% of assets of small and medium-sized banks based in the Moscow Region.

Interest rates on household loans decreased considerably, mainly due to regulatory measures taken by the Bank of Russia in 2013: rates on ruble loans with maturities of over one year dropped from 20.8% in January 2013 to 17.3% in December, while interest rates on mortgage loans fell from 12.7% to 12.1%, respectively.

The securities portfolio in the balance sheets of credit institutions increased by 11.2% to 7.8 trillion rubles in 2013 as against 13.3% in 2012, while its share of total assets decreased from 14.2% to 13.6%. Considering the liquidity situation in the banking sector, it is very important for banks, when managing their securities portfolios, to be able to use them as collateral in Bank of Russia refinancing operations. As in 2012, that was a driver for bank growing debt obligation portfolios: their value went up by 17.1% in 2013 (12.6%) to 6.2 trillion rubles, 52.6% of which was transferred without derecognition.

The main holders of debt obligations as of 1 January 2014 were state-controlled banks and large private banks, which accounted for 47.9% and 33.2% of the debt securities purchased by the banking sector. These credit institutions accounted for the majority of funds obtained through Bank of Russia various refinancing operations.

The value of equity securities portfolios reduced by 0.2% to 790 billion rubles over the reporting period (13.4%) with their share amounting to 10.1% of the securities portfolio as of the end of 2013 (11.3% as of 1 January 2013).

In 2013, the tendency continued towards the reallocation of equity securities in the portfolio: the share of state-controlled banks[1] in bank total equity securities portfolios fell from 33.2% to 26.8%. The share of foreign-controlled banks also shrank, from 15.9% to 11.3%. However, large private banks built up their share in that portfolio from 46.6% to 58.2%.

The value of bank promissory note portfolios continued to decrease in the reporting year: by 31.3% to 274 billion rubles (70.5%). In this connection, the share of notes in the securities portfolio fell from 5.7% to 3.5%. In the portfolio of discounted promissory notes, the volume of Russian bank notes accounted for 223 billion rubles, or 81.4%. The share of discounted promissory notes of other Russian entities rose over the year, from 14.6% to 17.8%.

For most of 2013, the interbank loan market showed a higher growth rate than in 2012, mainly due to more intense operations with non-residents. The value of interbank loan claims increased by 21.3% (6.9%) to 5.1 trillion rubles in the reporting year, while their share of banking sector assets grew from 8.5% to 8.9%. Loans placed with resident banks rose by 3.7% in 2013, yet the share of such loans in the assets fell from 4.1% to 3.6%. Loans placed with non-resident banks grew by 37.3%, and their share of banking sector assets went up from 4.5% to 5.3%.

[1] Excluding the shares of subsidiaries and affiliated joint-stock companies.

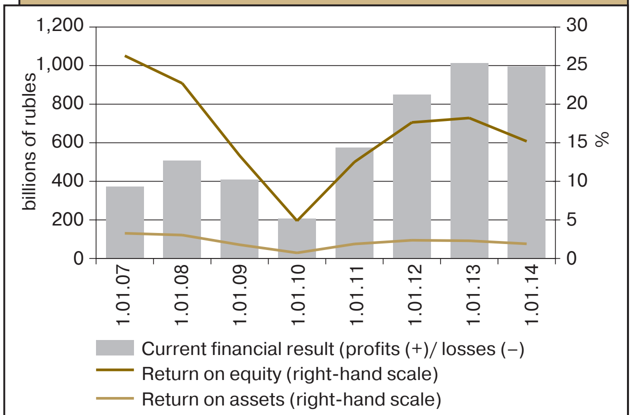
I.4. The Financial Performance of Credit Institutions

Financial results

In 2013, bank profits totaled 994 billion rubles as against 1.0 trillion rubles in 2012 (Chart 1.17).

In the reporting period, the share of profitable credit institutions decreased from 94.2% to 90.5%, while the share of loss-making credit institutions increased from 5.8% to 9.5% (their number rose from 55 to 88). Bank losses stood at 19 billion rubles in 2013 as compared with 9 billion rubles in 2012.

Banking sector financial performance *CHART 1.17*



The contributions of the individual groups of banks to the aggregate financial result are for the most part consistent with their share of banking sector assets. The greatest impact on the financial result was made by state-controlled banks (57.4%), large private banks (22.7%), and foreign-controlled banks (15.1%) (including banks under the material influence of Russian residents, whose share of the sector total result equaled 2.2%). In 2013, banks that implemented bankruptcy-prevention measures earned 8 billion rubles in profits (16 billion rubles in 2012).

In 2013, the return on the assets and equity of credit institutions stood at 1.9% and 15.2%, respectively (the same ratios were 2.3% and 18.2% in 2012)[1]. During the year, the return on assets increased in 384 banks, or 41.6% of the total number of credit institutions; 402 banks, or 43.6% improved their return on equity.

Analysis of factors that caused a reduction in return on equity proved that the reason for that was a decrease in the profit margin (See the Box below).

Only small and medium-sized banks slightly improved their profitability in 2013 (Table 1.5). Nevertheless, the highest degree of profitability continued to be demonstrated by state-controlled banks.

Structure of return on equity

	Capital multiplier (financial leverage)		*Profit margin*		*Return-on-assets ratio*		*Return on equity*
	Assets* / Equity*	x	Financial result / Gross net income**	x	Gross net income** / Assets*	=	Financial result / Equity*
2012	7.9486		0.3749		0.0611		0.1821
2013	8.0085		0.3002		0.0632		0.1519

* Average for the period.
** Gross net income (financial performance drivers) is a sum of net interest income, net income from securities trading and revaluation, net income from foreign exchange transactions, including revaluation, net commission income and other net income (before loss provisions net of recovered ones and the maintenance costs of a credit institution are deducted). It is calculated on the basis of data reported by credit institutions (Form 0409102).

[1] Annualized, calculated as the ratio of the financial result over 12 months preceding the reported date to the average values of assets and equity over the same period.

Profitability ratios by group of banks, % TABLE 1.5

Bank group	Return on assets		Return on equity	
	2012	2013	2012	2013
State-controlled banks	2.5	2.2	20.1	18.3
Foreign-controlled banks	2.5	1.8	18.8	13.1
Large private banks	1.9	1.5	16.0	12.5
Small and medium-sized banks based in the Moscow Region	1.5	1.6	8.5	9.8
Small and medium-sized regional banks	1.7	1.8	10.7	11.4

The profitability ratios of banks ranked by capital value are given in the Statistical Appendix, Table 18.

Bank financial result structure

The structure of financial performance drivers is shown in Chart 1.18. Profit reduction in 2013 was mainly caused by a more conservative estimate of risks assumed by banks and additional loan loss provisioning.

Net interest income remained the most significant item in the structure of financial performance for all groups of banks. It grew by 395 billion rubles in 2013, or by 21.6% as against 21.3% in 2012, while its share of the structure of profit drivers fell from 67.8% in 2012 to 67.3%.

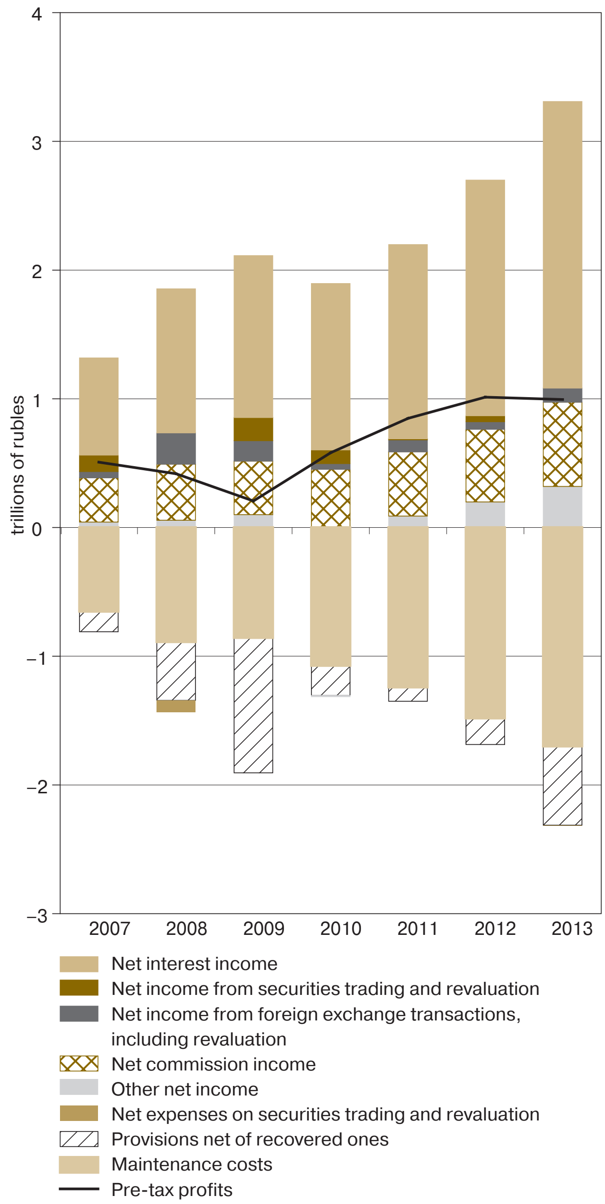
The performance of net interest income in 2013 was driven by its growth in transactions with individuals, which accounted for 58.9% of net interest income drivers, and transactions with legal entities (other than credit institutions), which accounted for 41.1%. With respect to other operations, including debt obligation portfolios and interbank lending, net interest income decreased.

An important source of profits was net commission income, which also demonstrated rather strong growth in 2013; it grew by 15.7% to 89 billion rubles year on year (13.4% in 2012). The share of net commission income in the structure of profit drivers declined slightly (from 20.9% in 2012 to 19.8% in 2013).

The highest share of net commission income (26.7%) in the structure of income drivers was that of small and medium-sized regional banks. Among other groups of banks, net commission income stayed within the 17.8%–22.5% range.

In contrast to previous years, credit institutions posted a net loss from securities trading and revaluation (4 billion rubles) in 2013. This was caused by the negative net revaluation of securities in the second half of the

Banking sector profit drivers CHART 1.18



year. Its share of the structure of profit reduction factors equaled 0.2% (in 2012, net income on that item stood at 1.7% in the structure of profit drivers).

Large private banks reported a net loss from securities trading and revaluation in 2013 (1.1% in the structure of profit reduction factors), as well as state-controlled banks (0.5%). Other groups of banks witnessed a lower share of net income from such transactions in the structure of profit drivers as compared with 2012.

The share of net income from foreign exchange transactions, including revaluation, in the structure of profit drivers of the banking sector grew by 1.1 percentage point to 3.3% in 2013 as compared with the previous year.

This source of income accounted for the largest share of profit drivers for small and medium-sized banks based in the Moscow Region. The share of income from foreign exchange transactions in the financial performance of foreign-controlled banks increased from 4.1% to 8.5% (including the financial performance of banks under the material influence of Russian residents , from 2.9% to 5.5%), and also the financial performance of large private banks, from 1.5% to 3.6%.

Additionally, the share of net other income in the structure of bank profit drivers grew in 2013, from 7.4% to 9.6%; this was mainly propelled by income generated by financial derivatives.

Foreign-controlled banks had the largest share of other net income (10.1%), including banks under the material influence of Russian residents, whose share amounted to 13.7%. As for other groups of banks, that share ranged from 7.7% to 9.8%; yet, they increased the share of that income over the year.

The maintenance costs of credit institutions grew by 14.7% in 2013 year on year, which was generally in line with the growth rate of bank transactions. It should be noted that the ratio of maintenance costs to total net income[1] decreased during the reporting year in the banking sector in general (from 54.9% to 51.3%) and among individual groups of banks. This ratio was the highest for small and medium-sized banks based in the Moscow Region (64.6%) and the lowest for state-controlled banks (46.2%).

The value of net loan loss provisions (net of recovered ones) increased almost three-fold in 2013, by 408 billion rubles, having amounted to 26.5% in the structure of profit reduction factors as against 12.2% in 2012, whereas the annual growth of loan loss provisions reached 315 billion rubles in 2013 (99 billion rubles in 2012).

All groups of banks increased their loan loss provisions. The share of such provisions in the structure of profit-eroding factors grew most substantially for large private banks (from 11.3% to 28.8%), foreign-controlled banks (from 13.5% to 27.6%), and state-controlled banks (from 11.5% to 25.3%). The share of loan loss provisions among other groups of banks was at a 20% level.

Bank dividend policy

Banks became significantly more profitable in 2012, which resulted in increased dividend payouts in 2013. The value of dividends in the reporting year totaled 233 billion rubles (Table 1.6). As a result, the dividend-profit ratio before tax rose from 13.0% to 23.4% over the year.

Banking sector dividends

TABLE 1.6

	2010	2011	2012	2013
Dividend payouts, billions of rubles	55	107	132	233
Profit before tax, billions of rubles	581	848	1013	994
Dividend-profit ratio before tax, %	9.4	12.7	13.0	23.4

[1] The cost/income ratio serves as one of the most widely accepted indicators of bank performance.

II

Banking Sector Risks

II.1. Credit Risk

II.1.1. Loan Portfolio Quality

There was no similar trend in changing quality indices of bank loan portfolios in 2013. In general, the share of overdue loans in the total value of disbursed loans fell from 3.7% to 3.5% over the reporting period, primarily due to a considerable slowdown in the growth rate of overdue loans to non-financial organizations. Meanwhile, loans and other placed funds grew by 19.0%, and overdue loans increased by 11.2%, amounting to 1.4 trillion rubles as of 1 January 2014.

The share of overdue loans in the total value of disbursed loans only fell in 2013 among the portfolios of state-controlled banks (from 4.4% to 3.6%), whereas it rose in the loan portfolios of other groups of banks. Foreign-controlled banks had the largest share of overdue loans (4.1%), while for other groups of banks, that share was below the banking sector average.

As of late 2013, 141 credit institutions had no overdue loans, of which 45 had no overdue debt because they had no loans and other placed funds in their assets (a year earlier, 161 and 43 credit institutions, respectively).

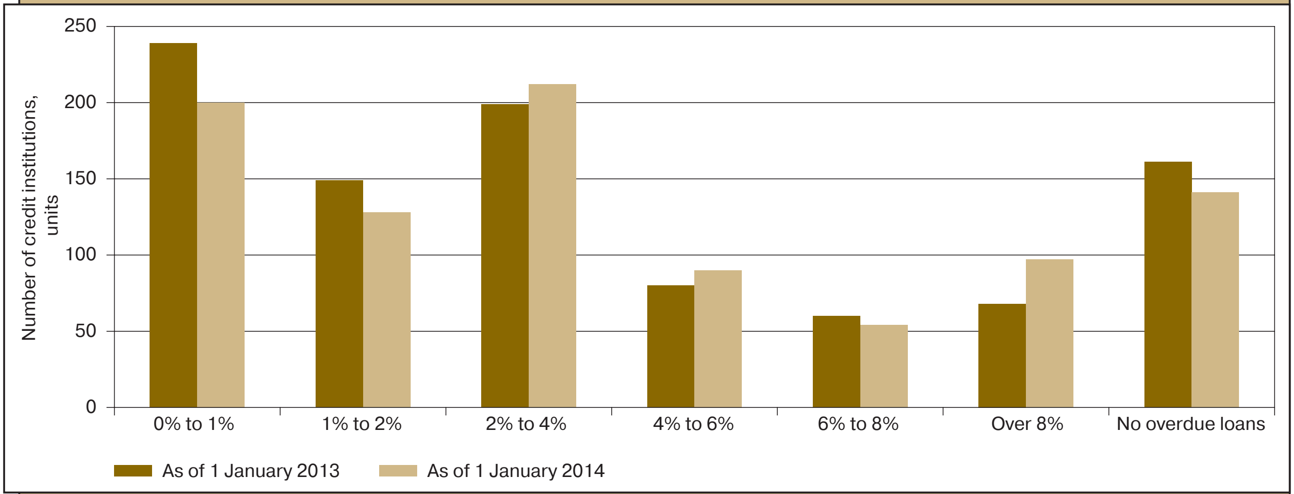
In the absolute majority of credit institutions which had overdue loans, that share did not exceed 4.0% of their portfolios, while the number of such institutions reduced in 2013 from 587 to 540, and their share of banking sector assets decreased from 79.0% to 75.5%. Ninety-seven credit institutions, accounting for 8.3% of banking sector assets, had a share of overdue loans exceeding 8.0% (Chart 2.1).

The credit risk exposure of Russian banks was determined to a significant extent by the quality of loans issued to non-financial organizations. These accounted for 55.7% of total loans issued as of 1 January 2014. Overdue loans to borrowers from this group increased by 1.0% in the reporting period, while lending rose by 12.7%. Overdue loans to non-financial organizations decreased from 4.6% to 4.2% during the reporting year. For ruble-denominated loans, this figure fell from 5.3% as of 1 January 2013 to 4.9% as of 1 January 2014, and for loans denominated in foreign currency, it went down from 2.2% to 1.9%.

With regards to the business areas of borrowers, the agriculture, hunting and forestry sector, wholesale and retail trade, manufacturing activity, and construction accounted for the largest share of overdue loans in 2013 (Chart 2.2).

The value of restructured large loans[1] to corporate entities increased by 21.4% during the year, reaching 2.0 trillion rubles (restructured loans accounted for 25.2% of the total large loan portfolio at the end of 2013). Loans that were restructured by way of extending the principal repayment period (rollover loans) accounted for 64.4% of total restructured loans as of 1 January 2014 (61.4% as of 1 January 2013). The share of restructured

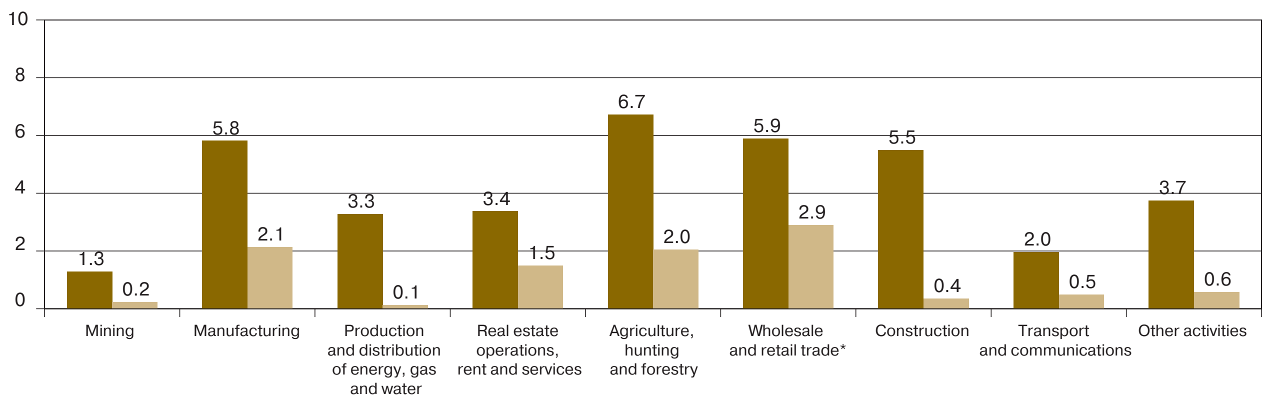
Credit institutions ranked by share of overdue loans in their loan portfolios *CHART 2.1*



[1] According to Form 0409117 'Large Loan Data' reports filed by credit institutions with data on a reporter's 30 largest loans extended to corporate entities other than credit institutions, including individual unincorporated entrepreneurs.

Overdue loans as % of loans by borrower activity as of 1 January 2014

CHART 2.2



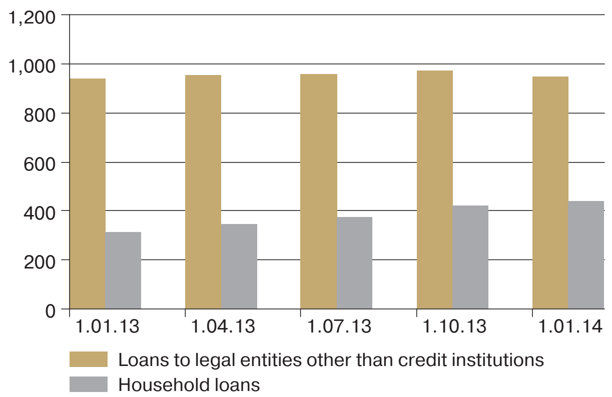
* Wholesale and retail trade, and repairs of cars, motorcycles, household appliances and personal goods.

loans that were overdue by more than 90 days decreased from 3.4% to 2.9% of total restructured large loans during the reporting year.

A considerable slowdown in the growth of the retail portfolio, together with a high growth rate of overdue household loans (by 40.7% in 2013 as against 7.6% in 2012) resulted in an increase of the overdue loan share in that portfolio from 4.0% to 4.4% in 2013. The share of overdue ruble loans to households grew from 3.7% as of 1 January 2013 to 4.2% as of 1 January 2014. At the same time, the share of overdue loans denominated in foreign currency dropped from 14.7% to 14.0% over the reporting year. In absolute terms, overdue household loans totaled 440 billion rubles by 1 January 2014, which was significantly below the value of overdue corporate loans: 934 billion rubles (Chart 2.3).

Overdue loans in bank loan portfolios, billions of rubles

CHART 2.3



Risks on household loans grouped into homogeneous loan portfolios

Bank of Russia regulations provide for credit institutions to maintain portfolio-based provisions. As of 1 January 2014, 93.8% of household loans (borrowings) and other claims were grouped into homogenous loan portfolios as against 92.9% as of 1 January 2013.

When assessing individual and systemic risks, special attention was given to unsecured consumer loans[1] during the reporting period. The implementation by the Bank of Russia of additional regulatory requirements for consumer lending[2] in 2013 (primarily unsecured lending) resulted in a slowdown of the annual growth rate of unsecured consumer loans from 53.0% as of 1 January 2013 to 31.3% as of 1 January 2014. As of late 2013, the value of unsecured consumer loans reached 5.9 trillion rubles.

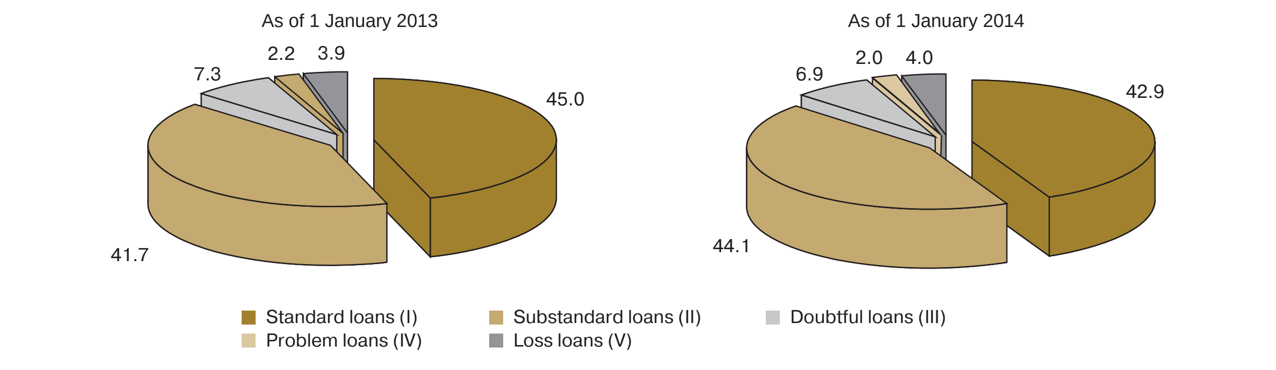
The share of loans delinquent for over 90 days in the total value of household loans grouped into homogeneous loan portfolios increased from 4.6% to 5.8%, including overdue unsecured consumer loans, which rose from 5.9% to 8.0%. The share of overdue car loans went up only slightly, from 4.8% to 4.9%, and the share of overdue mortgage loans fell from 1.6% to 1.2%.

Banks specializing in consumer lending typically have a larger share of bad loans in their portfolios of unsecured consumer loans: the average for that group totaled 17.1% as of 1 January 2014.

[1] Other consumer loans are used in the reporting Form 0409115 'Information on the Quality of Bank Assets' (Section 3. Data on the Portfolios of Homogenous Claims and Loans Issued to Individuals).

[2] The requirements are raised for provisioning on unsecured homogeneous consumer loans issued after 1 January 2013. Risk ratios for household loans (issued after 1 July 2013), having a high total cost based on a capital adequacy calculation, are increased (at the second stage, risk ratios are increased for loans issued after 1 January 2014, if the total loan cost is above 45% p.a.).

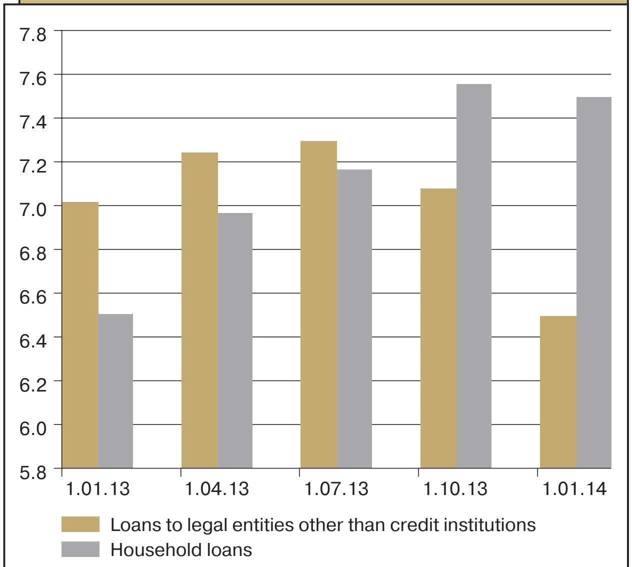
Quality of banking sector loan portfolio, % *CHART 2.4*



The quality of bank loan portfolios in 2013 was confirmed by prudential reporting. As of 1 January 2014, the share of Quality Category I and Quality Category II loans stood at 87.1% as against 86.7% as of the beginning of 2013. The share of Quality Category IV and Quality Category V loans (so-called 'bad' loans) remained unchanged during the year, at 6.0% (see Chart 2.4).

By the end of 2013, standard loans (Quality Category I) accounted for more than half of the portfolios in 172 banks, and the share of these banks in banking sector total assets increased to 26.7% (217 banks and 20.8%, respectively, as of 1 January 2013).

The share of Quality Category IV and Quality Category V loans (bad loans) in the total loan value, % *CHART 2.5*



The share of Quality Category IV and Quality Category V loans to legal entities (other than credit institutions) fell from 7.0% to 6.5% in 2013, while the share of household loans in those categories rose from 6.5% to 7.5% (Chart 2.5).

As of 1 January 2014, the share of Quality Category IV and Quality Category V loans in the portfolios of various groups of credit institutions ranged from 5.3% for large private banks to 8.5% for foreign-controlled banks (the share of bad loans in portfolios of banks under the material influence of Russian residents amounted to 8.6%).

Credit institutions undergoing bankruptcy-prevention procedures as of 1 January 2014 showed ratios differed from the banking sector averages. As of 1 January 2014, the share of Quality Category IV and Quality Category V loans reached 16.1%, overdue loans to non-financial organizations amounted to 26.5%, and the share of overdue loans to households stood at 6.8%. Excluding banks undergoing bankruptcy-prevention procedures, the share of overdue loans to non-financial organizations stood at 3.3% as of 1 January 2014, the share of overdue loans to households totaled 4.4%, and the share of Quality Category IV and V loans in total loans reached 5.6%.

In 2013, credit institutions maintained their loan loss provisions at a level that almost completely covered Quality Category IV and Quality Category V loans[1]. As of 1 January 2014, the loan loss provisions amounted to 5.9% of actual loans, including 71.1% of Quality Category IV and Quality Category V loans (as of 1 January 2013, those figures equaled 6.1% and 72.2%, respectively), while provisions for bad corporate loans fell from 70.7% to 67.4%, and provisions for household loans decreased from 79.7% to 78.7% (Chart 2.6).

[1] Collateral and the value of estimated provisions for problem loans are taken into account when provisions for Quality Category IV loans are created, which ranges from 51% to 100% of the principal depending on the loan impairment rate. When collateral and the value of estimated provisions for bad loans are made for Quality Category V loans, they amount to 100% of the loan principal.

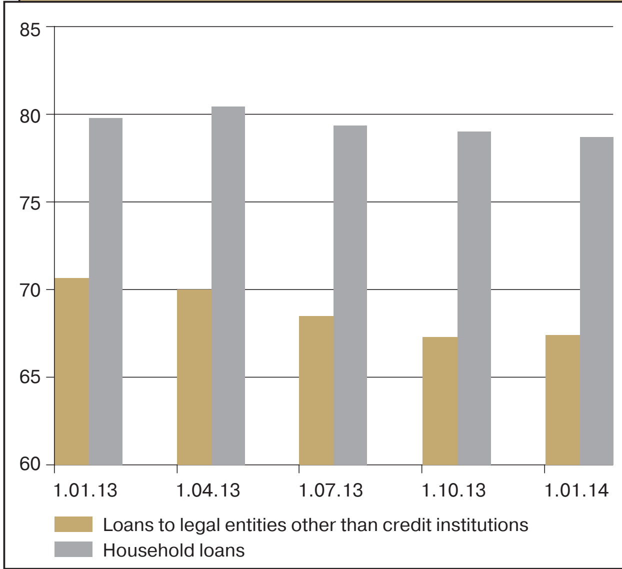
II.1.2. Credit Risk Concentration. Shareholder and Insider Credit Risks

In 2013, the large credit exposure[1] of the banking sector grew by 13.0% to 14.4 trillion rubles. The share of large loans in banking sector assets decreased from 25.8% to 25.1%.

In 2013, 69 credit institutions breached the required maximum exposure per borrower or group of related borrowers (N6) ratio (68 credit institutions in 2012), and six credit institutions violated the required large credit exposure (N7) ratio as against two credit institutions in 2012.

The maximum value of loans, guarantees and sureties provided by a credit institution (banking group) to its members (shareholders) (N9.1) ratio was calculated by 338 credit institutions as of 1 January 2014, or 36.6% of the total number of operating credit institutions (356 credit institutions, or 37.2% as of 1 January 2013). The ratio was breached by three credit institutions as against two credit institutions in 2012. There were a total of 265 violations as compared with 258 violations a year earlier. Nine credit institutions (five credit institutions in 2012) failed to meet total insider risk (N10.1) ratio requirements.

Provisions for Quality Category IV and Quality Category V loans as % of the loan value *CHART 2.6*



II.1.3. The Financial Standing of Enterprises[2]

At the end of 2013, the financial standing of non-financial enterprises was generally evaluated as satisfactory, although it slightly deteriorated when compared with 2012 due to a less favorable economic environment and business climate in the reporting year.

Factors supporting the satisfactory financial standing of non-financial enterprises were as follows: the build-up of the investment base for manufacturing, maintenance of the balanced capital structure due to loans matched to deposits, growth of total capital and all its components, working capital growth, low leverage, revenue growth, a prevalence of profitable businesses, good total liabilities to revenue ratio and short-term liabilities to working capital ratio, and sufficient cash proceeds for expenses.

The improvement of the financial standing of non-financial enterprises was hampered by such factors as the continuing material influence of economic activity risks, a higher growth rate of overdue receivables as compared with the growth rate of normal receivables, increased tension of bank loan payments, and a drop in financial performance (sales profits, before-tax profits, and net profits).

The financial standing of enterprises grouped by the value of assets differed considerably.

In addition to their capital, enterprises used borrowed funds, including long-term borrowing, to ensure the growth of investment assets and finance their current operations. The growth rate of long-term liabilities (135.3%) was higher than that of short-term liabilities (120.7%).

The self-financing level of enterprises decreased by 4.6% to 57.1% as of 31 December 2013.

Enterprises had their own working capital. Operating assets were formed using 16.8% of capital (as of 31 December 2013) as compared with 17.6% as of 31 December 2012. The total growth of enterprises' working capital equaled 0.3%.

Working capital growth was demonstrated by enterprises from all groups based on asset value. Large enterprises increased their operating assets by 0.1%, medium-sized enterprises by 5.2%, and small enterprises by 7.3%. Additionally, regardless of working capital dynamics, small and medium-sized enterprises more or less increased the share of operating assets created out of capital.

The payables and receivables of enterprises grew in 2013. They reported:
- an increased growth rate of payables and receivables;
- a higher growth rate of payables as compared with receivables;
- the improved quality of payables (based on the change in the overdue loan share), while the quality of receivables remained the same;
- the difference of debt quality and net positions of enterprises from various categories.

[1] In compliance with Article 65 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', when an amount of loans, guarantees and sureties are associated with one customer and total over 5% of bank's capital, they constitute a large credit exposure.

[2] Based on the 2013 business performance assessment of 8,063 non-financial enterprises from 79 regions of the Russian Federation, which participated in the poll carried out by the Bank of Russia.

The accounts payable of large and medium-sized enterprises increased, whereas overdue payables grew for medium-sized and small enterprises. Growth in the overdue liabilities of small enterprises was higher as compared with medium-sized enterprises: 14.7% and 2.1%, respectively.

In 2013, funds raised by enterprises in the form of loans from banks and organizations other than banks were characterized by the following:

- an apparent increase in the growth rate of bank loans and a greater share of loans in borrowed capital;
- a slightly increased tension of bank loan payments due to the more intensive growth of short-term loans as compared with long-term ones. Short-term bank loans grew by 38.7%, while long-term loans rose by 37.3%. By 31 December 2014, enterprises shall repay 25.2% of their loans reported as of 31 December 2013, whereas by 31 December 2013, they repaid 25.0% of the loans reported as of 31 December 2012;
- higher long-term and short-term loans raised from organizations other than banks;
- different loan dynamics depending on enterprises' asset value.

The differentiation of interest rates on bank loans remained rather high among enterprises having various assets values.

Interest rates on bank loans in rubles averaged 11.05% for large enterprises, 12.64% for medium-sized enterprises, and 14.41% for small ones. The differentiation of interest rates on foreign currency loans was significant as well. Interest rates on such loans averaged 6.21% for large enterprises, 7.02% for medium-sized enterprises, and 16.17% for small ones.

Large enterprises (with assets in excess of one billion rubles) demonstrated the highest growth, despite the deterioration of their financial performance. Those enterprises enlarged their investment expenses, 85% of which were intended to increase long-term financial investments and acquire fixed assets. Investment activity was financed using capital accumulation and fund raising in the form of loans.

Medium-sized enterprises (with assets that ranged from 100 million rubles to one billion rubles) developed production and conducted active investment operations. Their investment expenses were mainly used to expand the investment base for manufacturing (fixed assets expansion).

The financial standing of small enterprises (whose assets totaled less than 100 million rubles) was complicated due to a noticeable deterioration of their financial performance. Those enterprises redistributed their investment assets, having significantly reduced their long-term financial investments, and also used the withdrawal of short-term financial investments as an additional funding source. Cash receipts were insufficient for those enterprises to pay all their expenses. In the next period, small enterprises will need to raise additional funds for conducting their business activities.

II.2. Market Risk

II.2.1. General Characteristics of Market Risk

Assessed market risk in the banking sector[1] for capital adequacy calculation increased in 2013 by 17.2%[2], to 3,101 billion rubles as of 1 January 2014.

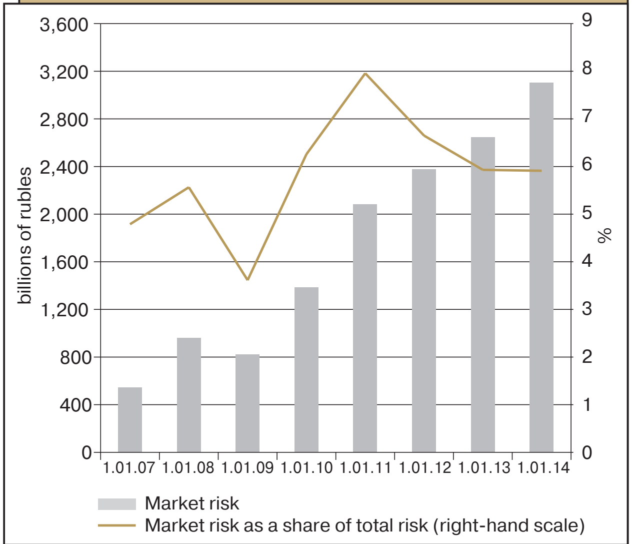
During 2013, the number of credit institutions calculating their exposure to market risk rose from 613 to 655, while their share of banking sector assets grew from 92.5% to 97.5%. In 2013, the share of market risk in the total value of banking sector risks[3] remained at the same level, totaling 5.9% as of 1 January 2014 (Chart 2.7). The ratio of market risk to the capital of banks that calculated market risk decreased by 1.7 percentage points to 45.6% as of 1 January 2014.

During the year, the number of banks that took **foreign exchange risk** into account in the calculation of their capital adequacy ratios increased by 6 to 382 as of 1 January 2014, but their share of banking sector assets somewhat decreased[4] (from 70.9% to 70.0%). **Equity position risk** was taken into account by 243 banks, which held a 76.5% share of banking sector assets (231 banks and 72.2% of assets as of 1 January 2013). **Interest rate risk** was calculated by 473 banks with a 95.7% share of banking sector assets (406 banks with 86.9% as of 1 January 2013).

Interest rate risk accounted for the largest share (82.9% as of 1 January 2014[5]) of total market risk. This indicator was affected by debt obligations (their share of bank **trading portfolios**[6] amounted to 87.0%). The share of equity position risk in the market risk structure decreased from 12.6% to 7.3% in 2013 (see Table 2.1).

Growth in foreign-exchange component of banking sector assets and liabilities from 21.0% of assets and 20.9% of liabilities as of 1 January 2013 to 22.1% of assets and 21.2% of liabilities as of 1 January 2014 was associated, *inter alia*, with ruble exchange rate dynamics[7] (Chart 2.8). Foreign assets in dollar terms grew by 13.2% in 2013 (liabilities increased by 9.3%), while ruble-denominated assets rose by 14.4% (liabilities went up by 15.5%).

Market risk and its share of banking sector total risk — *CHART 2.7*

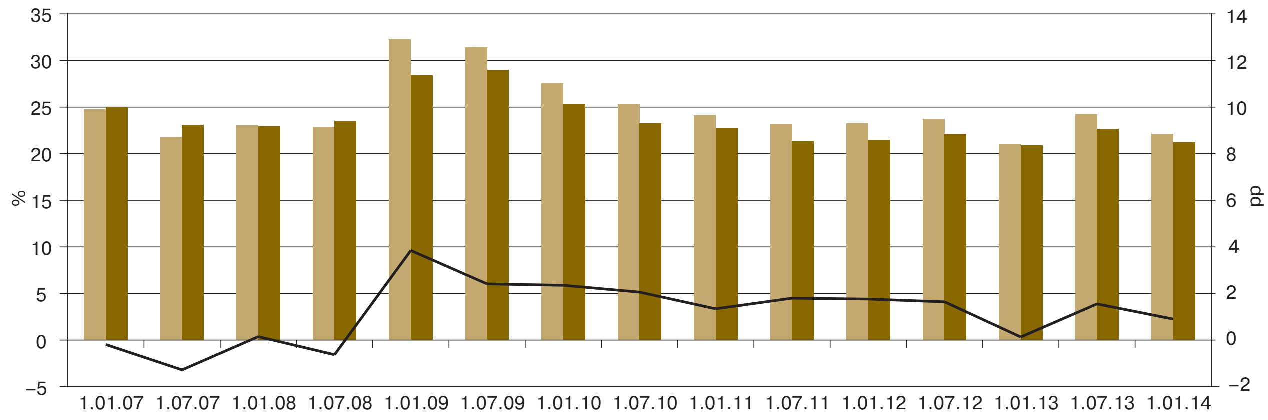


Banking sector foreign currency claims and liabilities on and off balance sheet, billions of rubles — *TABLE 2.1*

	1 January 2013	1 January 2014	Growth in 2013
Balance-sheet positions			
Claims	10,410	12,703	2,293
Liabilities	10,344	12,185	1,842
Net balance-sheet position	66	518	452
Off-balance-sheet positions			
Claims	5,783	7,011	1,228
Liabilities	5,357	7,063	1,707
Net off-balance-sheet position	426	–52	–479

[1] Market risk is calculated in accordance with Bank of Russia Regulation No. 387-P, dated 28 September 2012, 'On the Procedure for Calculating Market Risk by Credit Institutions'.
[2] In 2012, by 11.3%.
[3] Risk-weighted assets used to calculate the capital adequacy ratio of the banking sector, in accordance with Bank of Russia Instruction No. 139-I, dated 3 December 2012, 'On Banks' Required Ratios'.
[4] Due to a change in the composition of banks.
[5] As of 1 January 2013, 76.0%.
[6] Trading portfolio, here and hereinafter, means investments in debt and equity securities assessed at fair value and available for sale.
[7] In 2013, the ruble depreciated against the U.S. dollar by 7.8% in nominal terms and against the euro by 11.8%.

Foreign currency assets and liabilities in banking sector total assets and liabilities CHART 2.8



In the reporting year, total foreign-currency denominated balance-sheet and off-balance-sheet[1] assets and liabilities increased (see Table 2.1), but the difference between foreign-currency claims and liabilities on the balance sheet and in off-balance-sheet operations decreased from 493 billion rubles as of 1 January 2013 to 466 billion rubles as of 1 January 2014.

Net foreign-currency forward position TABLE 2.2

	Foreign currency	Net foreign currency forward position, billions of currency unit	Ruble equivalent of net foreign currency forward position, billions of rubles
1 January 2013	U.S. dollar	–4.9	–149
	Euro	1.4	58
1 January 2014	U.S. dollar	–13.8	–451
	Euro	3.0	135

Forward positions[2] – a short position in U.S. dollars and a long position in euros, grew in 2013 (see Table 2.2).

II.2.2. The Assessment of Banking Sector Vulnerability to Interest Rate Risk

The vulnerability of the banking sector to interest rate risk was assessed in terms of the total debt securities trading portfolio. It was assumed that given an upward shift in the yield curve of debt instruments which banks held in their portfolios[3], the debt securities trading portfolio would depreciate in value.

The analysis shows that the vulnerability to the interest rate risk of credit institutions assessing interest rate risk in 2013 increased, along with a rise (by 23.6% to 5.3 trillion rubles as of 1 January 2014) of the volume of debt liabilities in the trading portfolios of these banks (see Table 2.3). At the beginning of 2014, the potential losses of these banks could reach 14.2% of capital (12.2% as of 1 January 2013).

Characteristics of banks sampled for analysis of vulnerability to interest rate risk TABLE 2.3

	Number of banks in the sample	Share of analyzed debt portfolios, %	Share of banking sector assets, %	Share of banking sector capital, %
1 January 2013	402	95.5	86.8	84.9
1 January 2014	463	99.6	95.4	93.6

[1] Under Section D of the Bank Chart of Accounts.
[2] For all credit institutions that present Form 0409634, 'Statement on Open Currency Positions', in ruble terms, at the Bank of Russia official rate for the respective dates.
[3] Potential (stress) increase in the yields of federal government debt obligations by 350 basis points, and of Russian corporate bonds by 1,000 basis points.

II.2.3. The Assessment of Banking Sector Vulnerability to Equity Position Risk

The estimate of the Russian banking sector vulnerability to equity position risk is defined as the potential negative consequences of a fall in stock indices. As an initial factor, a 50% drop in stock indices was considered. Credit institutions were broken into two groups (see Table 2.4).

In the whole group of credit institutions calculating the value of equity position risk (Sample 1), the vulnerability to this risk decreased (a reduction was noted in the relevant portfolios); in the event of a 50% drop in stock market indices at the beginning of 2014, potential losses would be 6.2% of capital (8.2% as of 1 January 2013).

In the group of credit institutions that do not calculate the value of equity position risk (Sample 2), the vulnerability to this risk increased. If a negative event took place as of the beginning of 2014, potential losses could total 6.5% of capital (3.8% as of 1 January 2013).

II.2.4. The Assessment of Banking Sector Vulnerability to Foreign Exchange Risk

For the analysis of banking sector vulnerability to foreign exchange risk, a 20% **reduction** in the nominal exchange rate of the ruble against the U.S. dollar and the euro was picked as a source event. To determine the impact of foreign exchange risk on the financial state of the banking sector, statements filed by credit institutions that were required to calculate foreign exchange risk and held short open positions in U.S. dollars and euros were analyzed. In 2013, the number of banks with a short position in at least one of the two currencies rose, but their significance in the assets and capital of the banking sector fell (Table 2.5). The share of short open positions, in dollars and euros, of the banks in this sample in their short open positions in all currencies and precious metals[1] contracted from 95.7% as of 1 January 2013, to 91.1% as of 1 January 2014.

The analysis shows that banking sector vulnerability to the depreciation of the ruble by 20% against the U.S. dollar and the euro during the year has increased slightly. In the case of this scenario affecting the whole sample of banks, losses could reach 0.7% of their capital as of 1 January 2014 (0.6% a year ago).

Characteristics of banks analyzed for of sensitivity to equity position risk *TABLE 2.4*

	Number of banks in the sample		Share of equities portfolios, %		Share of banking sector assets, %		Share of banking sector capital, %	
	1 January 2013	1 January 2014	1 January 2013	1 January 2014	1 January 2013	1 January 2014	1 January 2013	1 January 2014
Sample 1	228	402	88.7	80.7	72.1	76.3	70.1	72.9
Sample 2	222	179	11.3	19.3	19.9	15.7	19.4	16.6

Characteristics of banks analyzed for their sensitivity to foreign exchange risk (a potential depreciation of the ruble) *TABLE 2.5*

	Number of banks in the sample		Share of banking sector assets, %		Share of banking sector capital, %	
	1 January 2013	1 January 2014	1 January 2013	1 January 2014	1 January 2013	1 January 2014
Credit institutions with short positions either in U.S. dollars and (or) in euros	231	245	66.7	61.4	65.6	60.3

[1] In the ruble equivalent.

II.3. Liquidity Risk

II.3.1. General Characteristics of Liquidity Risk

In 2013, the average of the most liquid assets as a share of the banking sector total asset[1] average increased from 7.4% in 2012 to 7.6% in 2013. Funds held in bank deposit and correspondent accounts with the Bank of Russia accounted for more than 30% of the most liquid assets. Traditionally, at the beginning of the year, the amount of these funds grows substantially (Chart 2.9).

The highest ratio of liquid assets to total assets was observed in 2013 in the small and medium-sized banks of the Moscow region: 16.5% (17.0% in 2012), as well as in regional banks: 15.9% (17.9% in 2012). Large banks (both state-controlled and private) had lower ratios (5.1% and 9.4%, respectively). One reason was their sufficient capacity to raise the necessary liquidity via refinancing.

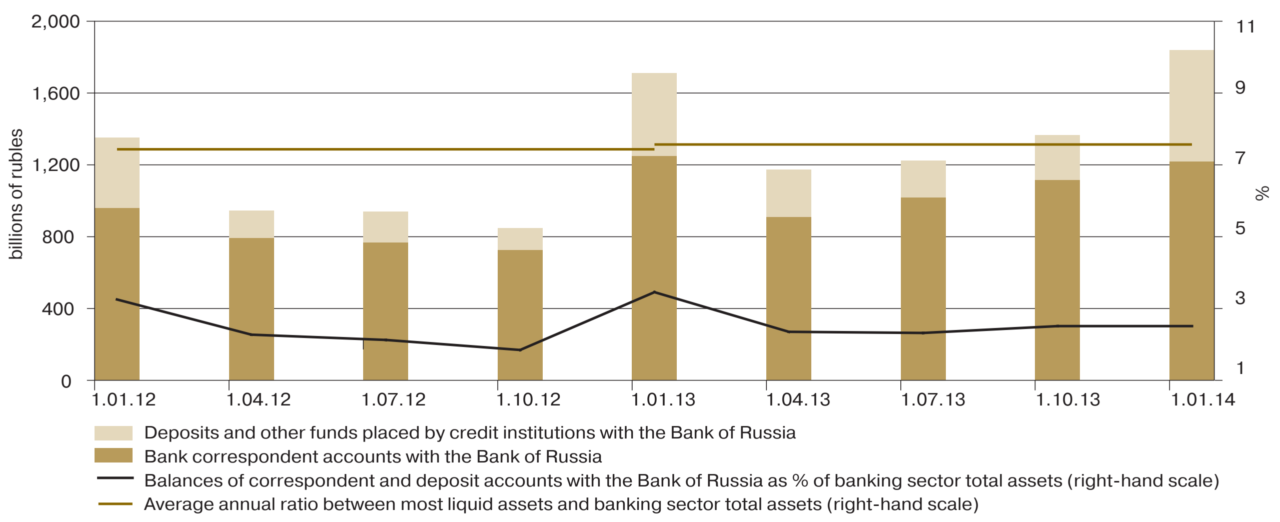
In December 2013, the revocation of the licenses of a number of credit institutions caused a higher mutual distrust among market participants and led, in turn, to interbank market segmentation: major banks and other credit institutions with excessive liquidity significantly reduced interbank loans to small and medium-sized banks. However, this situation left the usual indicators of liquidity in the banking sector practically unaffected.

II.3.2. Compliance with Required Liquidity Ratios

Due to the advanced growth of highly liquid assets relative to the short-term liabilities of credit institutions, the average value of the instant liquidity (N2) ratio of the banking sector increased from 59.0% to 63.2% in 2013 year on year (the standard level equals 15.0%). The average annual actual current liquidity (N3) ratio rose from 81.9% in 2012 to 84.8% in 2013 (Chart 2.10), which is also substantially higher than the minimum permissible ratio of 50%.

The long-term liquidity ratio grew from 83.5% in 2012 to 85.5% in 2013. The average annual value of long-term (over one year) lending increased by 20.5% year on year, and the average annual value of banking sector liabilities maturing in over one year rose by 17.8%, while the average growth rate of capital was 17.7%[2]. Current dy-

Balances of bank correspondent and deposit accounts with the Bank of Russia[3] CHART 2.9

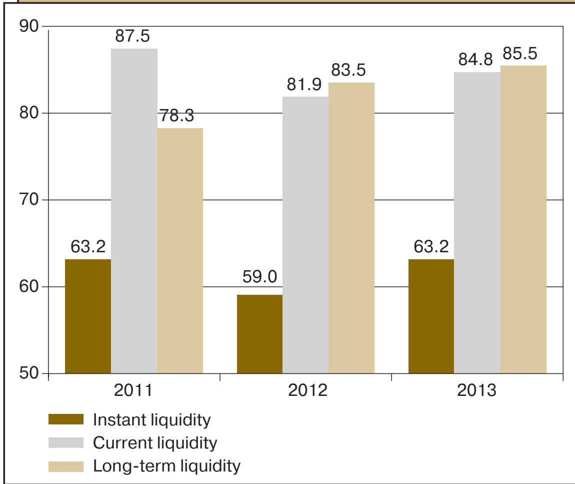


[1] Cash, precious metals, correspondent account balances, and balances in correspondent and deposit accounts with the Bank of Russia.
[2] The analysis is based on the components of the long-term liquidity (N4) ratio, including chronological averages for long-term loans, banking sector liabilities with maturities of over one year, and capital, in accordance with Bank of Russia Instruction No. 139-I, dated 3 December 2012, 'On Banks' Required Ratios'.
[3] According to bank balance sheets.

namics allow credit institutions to maintain a sufficiently balanced structure of long-term assets and liabilities. However, taking into account the maximum permissible long-term liquidity ratio (120%), credit institutions have the opportunity to extend additional long-term loans to the economy.

During 2013, only a few credit institutions failed to comply with required liquidity ratios, and these banks only did so occasionally. Of the credit institutions that were in operation as of 1 January 2014, seven credit institutions breached the instant liquidity (N2) ratio on certain dates (five credit institutions in 2012); fifteen credit institutions violated the current liquidity (N3) ratio (seven credit institutions in 2012). Two credit institutions breached the long-term liquidity ratio (N4) (in 2012, there were no violations).

Banking sector liquidity ratios (annual chronological averages), % *CHART 2.10*

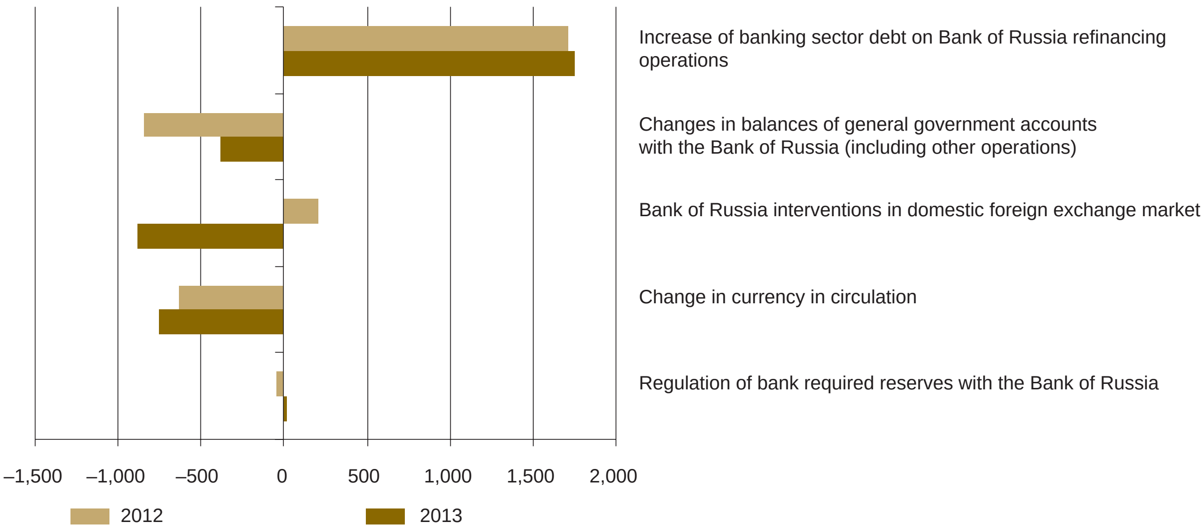


Bank of Russia operations to regulate banking sector liquidity

In 2013, against the backdrop of an increasing structural liquidity deficit, growth continued in bank demand for Bank of Russia refinancing.

The main factors driving the withdrawal of liquidity from the banking sector in 2013 were a higher volume of money in circulation and the sale of foreign currency by the Bank of Russia in the domestic foreign exchange market within the context of the implementation of its exchange-rate policy mechanism. The accumulation of funds in government accounts with the Bank of Russia during the year also contributed to the outflow of liquidity. The combined effect of these factors led to the growth of the banking sector's need for the Bank of Russia refinancing, which reached its peak in the last week of December 2013. Gross credit extended to credit institutions by the Bank of Russia in 2013[1] grew by 1.8 trillion rubles to 4.5 trillion rubles.

Liquidity drivers and changes in the banking sector debt on Bank of Russia refinancing operations, billions of rubles *CHART 2.11*



[1] Excluding Sberbank subordinated loans and Bank of Russia deposits with credit institutions.

Under these circumstances, Bank of Russia basic operations to provide liquidity, as before, were '1-week' auction-based repos. Bank demand for auction-based liquidity for longer terms remained at a relatively low level. On average, repos accounted for about 80% of the total debt of credit institutions on Bank of Russia refinancing operations, or about 1.9 trillion rubles in 2013 (1.1 trillion rubles in 2012), where the share of '1-week' auction-based repos constituted 84%.

Given the limited character of market security in 2013, loans secured with non-marketable assets became an important source of refinancing. In the reporting period, the Bank of Russia began to provide these loans on an auction basis at a floating rate. The minimum bid at the auctions was set at 25 basis points above the minimum bid at auctions for a '1-week' repo (key rate). In July 2013, the Bank of Russia held an auction for the provision of loans secured with non-marketable assets and guarantees for a term of '1 year', as a result of which banks received 0.3 trillion rubles. In October, an auction was held to provide loans secured with non-marketable assets at a floating rate for a term of '3 months' for an amount totaling 0.5 trillion rubles.

The inclusion of the above transactions in the system of Bank of Russia instruments contributed to the reduction in bank demand for loans secured with non-marketable assets and guarantees at a fixed rate. The average debt on these loans decreased from 0.6 trillion rubles in 2012 to 0.2 trillion rubles in 2013.

In the context of the uneven distribution of marketable collateral and growth in the ratio of its utilization, the value of 'currency swap' transactions increased. In 2013, the average value of these transactions on the day of their execution amounted to 99 billion rubles (53 billion rubles in the second half of 2012). Bank demand for Bank of Russia 'currency swap' transactions was the highest in the periods of major tax payments.

The volume of other refinancing operations (Lombard loans, overnight loans, and loans secured with gold) was insignificant in 2013.

Bank demand for Bank of Russia liquidity absorption tools in 2013 remained at a low level – the average value of the Bank of Russia debt on deposit operations during the period amounted to 0.1 trillion rubles.

As part of the transition to inflation targeting, in 2013, the Bank of Russia adopted a number of decisions to change the current system of instruments and system of interest rates for the formation of a clearer signal of a change in the stance of the monetary policy and improvement of the transmission mechanism efficiency.

1. Decisions on changed interest rates adopted in 2013

Introduction of the key rate of the monetary policy through the alignment of the minimum and maximum interest rates on '1-week' auction-based operations to provide and absorb liquidity. Formation of the Bank of Russia interest rate corridor with a width of 2 percentage points, the boundaries of which are symmetric with respect to the key rate and are determined by overnight rates on standing facilities to provide and absorb liquidity	September
A fall in the rate on overnight loans and loans secured with non-marketable assets and guarantees, at a fixed rate for a term of 'one day' to the level of a short-term rate on standing facilities to provide liquidity	September
Unification of rates for some instruments starting on 1 February 2014: – on loans secured with non-marketable assets and guarantees, at fixed interest rates for terms lasting from 2 to 365 days; – on loans secured with gold, at fixed interest rates for terms lasting from 2 to 365 days	December

2. Decisions on changed refinancing instruments adopted in 2013

Inclusion of the auction to provide loans secured with non-marketable assets and guarantees, at a floating interest rate for a term of '12 months' into the system of Bank of Russia tools	July
Introduction into the system of Bank Russia tools of fine-tuning instruments to provide liquidity in the form of repo auctions for a term of '1–6 days' with a minimum rate equal to the Bank of Russia key rate	September
Inclusion of the auction to provide loans secured with non-marketable assets and guarantees, at a floating interest rate for a term of '3 months' on a quarterly basis into the system of Bank of Russia tools The transition to holding these auctions on a monthly basis starting with 2014	September December
Termination of '1 day' repos on a daily basis from 1 February 2014 Suspension of some instruments from 1 February 2014: – Lombard auctions for all terms; – repo auctions for terms of '3 months' and '12 months'; – Lombard loans for terms of over 1 day; – standing deposit operations for periods of over 1 day; – deposit auctions for terms of over 1 week	September September December

II.3.3. The Structure of Bank Assets and Liabilities by Maturity

The share of assets maturing in excess of one year in the total assets assigned to Quality Category I[1] increased from 28.5% to 39.5% in 2013. The share of liabilities maturing in excess of one year in total liabilities also grew, from 23.0% to 24.7%.

The liquid coverage deficit (LCD)[2] fell by more than half, from 18.9% as of 1 January 2013 to 8.6% as of 1 January 2014.

II.3.4. Bank Dependence on the Interbank Market and Interest Rate Dynamics

A general upward trend in interbank loan costs in 2013 was accompanied by the rather high volatility of these costs: in April–June and from the end of September to the end of December, interest rates for overnight ruble interbank loans (MIACR) exceeded 6.2% p.a. on some days. In 2013, the MIACR on overnight ruble loans ranged between 4.7% and 6.7% p.a. (Chart 2.13).

Customer deposits to loans (coverage ratio)

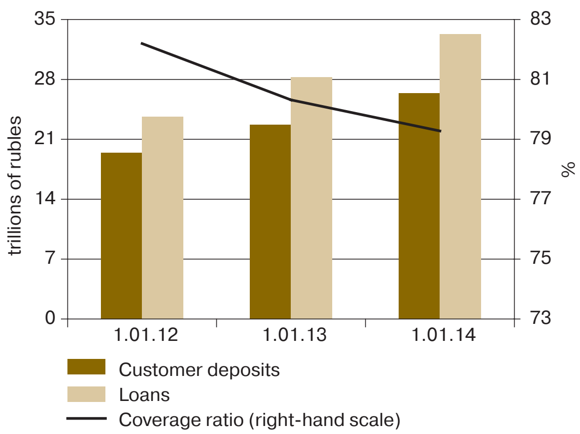
The coverage ratio is calculated as the ratio of customer deposits to customer loans. An increase in the ratio indicates an improved balance between loans to customers and their sources of funding for the same maturity. The international practice is to use the loan-to-deposit ratio for analytical purposes.

As of 1 January 2014, customer deposits[1], the most stable source of a bank resource base, provided 79.3% of coverage for loans granted[2], which was one percentage point lower than the 80.3% rate of coverage recorded on 1 January 2013 (Chart 2.12). The growth rate of loans extended to customers (17.8%) exceeded the growth rate of deposits (16.3%).

The coverage ratio calculated by a medium and long-term component (one-year-plus maturity)[3] rose slightly, from 60.7% as of 1 January 2013 to 62.6% as of 1 January 2014. The growth rate of loans with maturities exceeding one year was lower than the growth rate of deposits with the same maturity (19.6% as against 23.2%).

In 2013, the number of credit institutions with coverage ratios that were well below the banking sector average decreased. As of 1 January 2014, 178 credit institutions had a coverage ratio that was half that of the banking sector average. They accounted for 3.0% of banking sector total assets. For comparison: as of 1 January 2013, 187 credit institutions had a coverage ratio that was half that of the banking sector average, their share in total assets equaled 2.8%. Coverage ratios that were a quarter or less of the banking sector average were registered as of 1 January 2014 in 104 credit institutions, which accounted for a 1.4% share of total assets (116 credit institutions with a 1.4% share as of 1 January 2013).

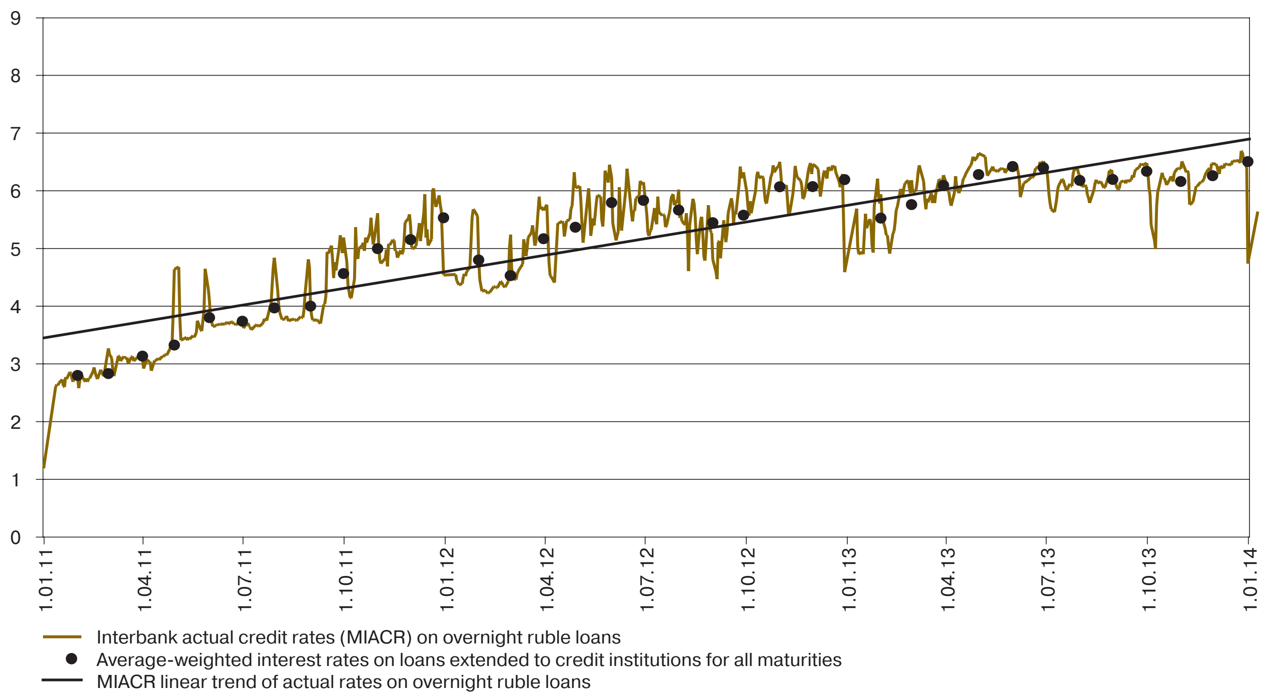
Banking sector loans to borrowed funds *CHART 2.12*



[1] Customer deposits include those taken by credit institution s from corporate entities and individuals (except resident banks and financial institutions), as well as other funds raised from resident and non-resident creditors, excluding balances of current and settlement accounts.
[2] Loans include credit extended by credit institutions to corporate entities and individuals (except resident banks and financial institutions), as well as other funds extended to resident and non-resident debtors.
[3] Calculated as the ratio of customer deposits with maturities in excess of one year to loans extended to them with the same maturity. An increase in the ratio can be interpreted as an improvement in the balance between medium- and long-term loans and their sources of funding that have the same maturity.

[1] Pursuant to Bank of Russia Regulation No. 254-P, dated 26 March 2004, 'On the Procedure for Making by Credit Institutions Provisions for Possible Losses on Loans, Loan and Similar Debts' and Bank of Russia Regulation No. 283-P, dated 20 March 2006, 'On the Loss Provision Procedure for Credit Institutions'.
[2] The liquid coverage deficit (LCD) is calculated as the ratio of the excess of demand liabilities and liabilities with maturities of up to 30 days over the value of (liquid) assets with the same maturities, to the total value of these liabilities.

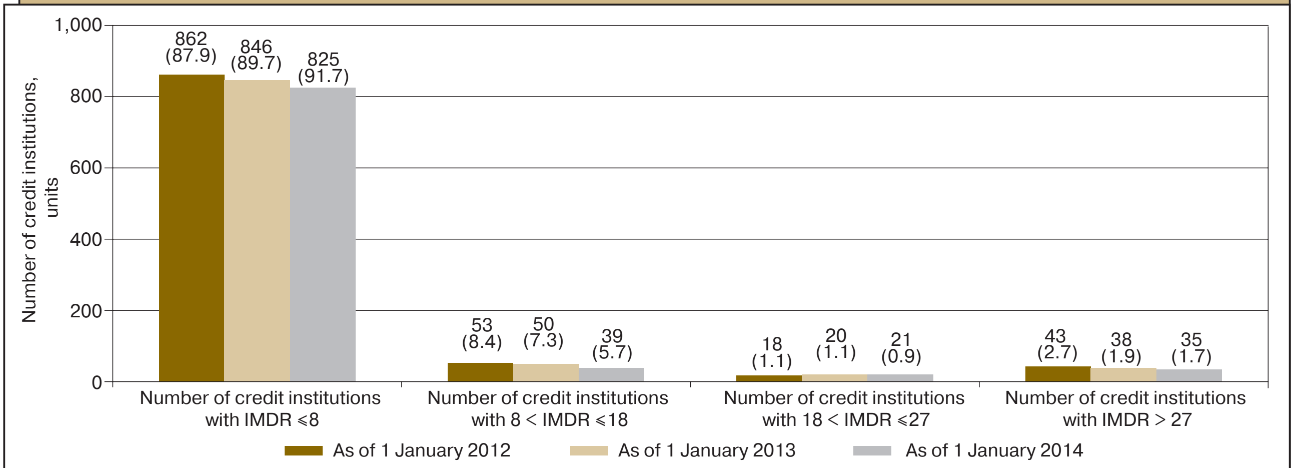
Ruble interbank credit rate (MIACR), % p.a. CHART 2.13



The bank interbank market dependence ratio (IMDR) is calculated as the percentage ratio of the difference between interbank loans (deposits) taken and placed to funds raised (net of accrued interest). The higher the ratio, the more a credit institution is dependent on the interbank market. The methodology of calculating the IMDR generally complies with the methodology used for calculating the PL5 ratio established by Bank of Russia Ordinance No. 20 05-U of 30 April 2008, 'On the Assessment of Banks' Economic Situation', which defines the threshold values of the IMDR at 8%, 18% and 27%.

The dependence of credit institutions on the interbank market reduced from 1.2% as of 1 January 2013 to –0.7% as of 1 January 2014, primarily due to the decreased dependence of foreign-controlled banks on the interbank market: from 0.2% to –1.2%, whereas that decrease was less pronounced (from 2.5% to 1.9%) among banks which were under the material influence of Russian residents. The largest share of banking sector total assets (91.7% as of 1 January 2014) belonged to the group of credit institutions with an IMDR that was no higher than 8.0% (see Chart 2.14).

Credit institutions ranked in terms of interbank market dependence ratio (IMDR) CHART 2.14



Note: Figures in brackets denote % share of credit institutions in banking sector assets.

II.3.5. Bank Debt to Non-Residents

By the end of 2013, the total debt of the Russian banking sector to non-residents[1] amounted to 5.9 trillion rubles, a 10.9% increase over the year. Russian bank claims to non-residents grew by 18.2% to 7.6 trillion rubles. Thus, the value of net claims to non-residents[2] also increased from 1.1 trillion rubles as of 1 January 2013 to 1.7 trillion rubles as of 1 January 2014. These dynamics were mainly caused by the environment in the interbank loan market: beginning from 1 February 2013, Russian banks became net lenders in that market.

The analysis of banks ranked by the level of debt to non-residents showed that the average ratio of this debt to banking sector liabilities stood at 10.4% as of 1 January 2014. That level was exceeded by 133 credit institutions, 58 of which were foreign-controlled banks. Five of them were foreign banks under the material influence of Russian residents (Chart 2.15).

As of 1 January 2014, 178 credit institutions raised loans from non-resident banks. They accounted for 89.9% of banking sector total assets (183 credit institutions accounting for 89.2% of banking sector total assets as of 1 January 2013). As of 1 January 2014, 204 credit institutions extended loans to non-resident banks, with their share of banking sector total assets equaling 90.3% (213 credit institutions as of 1 January 2013, accounting for 90.3% of banking sector total assets).

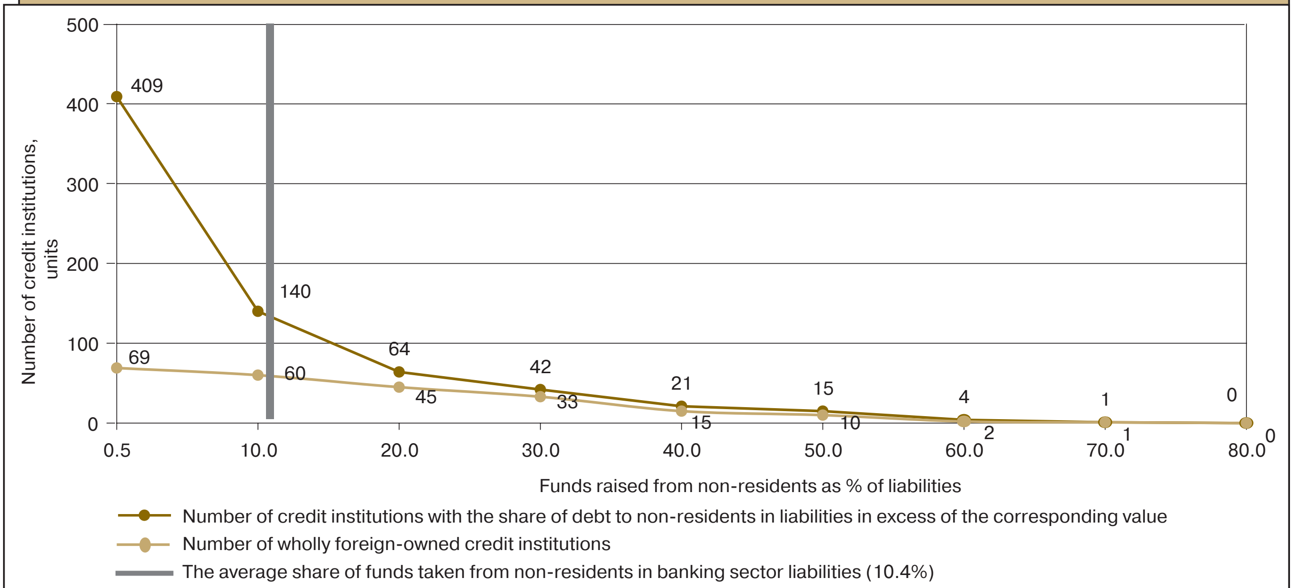
Interbank transactions with non-residents were concentrated in Russia's largest credit institutions as usual. One half of interbank loans raised from abroad were obtained by five credit institutions, four of which were among Russia's top 20 banks in terms of assets. Three credit institutions were responsible for granting half of the total value of interbank loans to non-residents; these three ranked among the top 20 largest in terms of assets.

In February 2013, foreign-controlled banks moved from the category of net borrowers from **non-residents** (the ratio of net debt to non-residents to the liabilities of such banks equaled 1.2% as of 1 January 2013) into the category of net lenders to non-residents and maintained that position throughout the year. However, at the end of December 2013, that group of banks again became net borrowers (net debt to non-residents amounted to 53 billion rubles, or 0.6% of liabilities), although that change was of a local and seasonal nature. Whereas, as of the year-end 2013, banks under the material influence of Russian residents retained the position of net lenders to non-residents (the share of net claims equaled 0.1% of assets). Banks from other groups were also stable net lenders.

With regards to **interbank transactions with non-residents**, foreign-controlled banks transformed from net borrowers (net debt to non-resident banks as of 1 January 2013 amounted to 51 billion rubles) into net lenders (net claims to non-resident banks as of 1 January 2014 amounted to 42 billion rubles).

Banking sector debt to non-residents as of 1 January 2014

CHART 2.15



[1] Including correspondent accounts and other accounts held by non-resident credit institutions, loans received, deposits, funds in the accounts of other non-resident corporate entities and individuals.

[2] The balance of debt to non-residents and funds deposited with them, including correspondent accounts with credit institutions, loans, deposits and other fund placements.

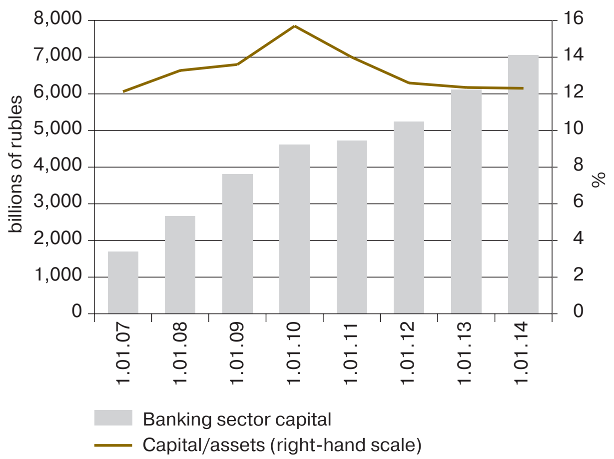
II.4. Capital Adequacy

II.4.1. Banking Sector Capital Dynamics and Structure

In 2013, the capital of operating credit institutions increased by 15.6% (16.6% in 2012) and as of 1 January 2014 reached 7,064 billion rubles (Chart 2.16). The intensive growth of bank capital, which outpaced the growth of the nominal gross domestic product, resulted in a higher ratio of banking sector capital to GDP from 9.8% to 10.6% over the year.

Capital has been building up progressively. The absolute growth of banking sector capital totaled 951 billion rubles in 2013 compared to 871 billion rubles in 2012.

Banking sector capital CHART 2.16



The structure of capital growth drivers changed slightly in 2013 year on year (see Chart 2.17, the Statistical Appendix, Table 17). As in 2012, the main driver was profits and funds created from them (growth stood at 519 billion rubles, or 49.5% of total capital growth sources). Subordinated loans[1] were the second most important driver, their increase amounted to 246 billion rubles, or 23.4% of total capital growth sources (290 billion rubles, or 25.3% in 2012). Growth in authorized capital and share premiums also totaled 246 billion rubles, or 23.4% of the total drivers (224 billion rubles, or 19.6% in 2012).

Capital growth factors differed somewhat by group of credit institutions.

In 2013, the capital decrease was mainly caused by subordinated loans granted by credit institutions to other credit institutions, including residents (52 billion rubles), and bank portfolios of the shares of subsidiaries and affiliated legal entities (29 billion rubles).

Although capital grew across the banking sector in general, a capital reduction was registered in 145 credit institutions (Table 2.6) for a total amount of 45 billion rubles, or by 11.3% of the capital of those credit institutions as of the year-end (in 2012, capital reduced in 126 credit institutions for a total of 44 billion rubles, or by 10.1% of their capital as of 1 January 2013).

Core capital went up by 24.9% to 4,762 billion rubles in 2013. The share of core capital in total capital increased by 5 percentage points and as of 1 January 2014 amounted to 67.4%. The ratio of core capital to risk-weighted assets grew from 8.5% to 9.1% during the reporting year.

State-controlled banks have increased their capital mainly due to profits and funds created from them (52.1% of the value of total drivers), and also subordinated loans (20.2%).

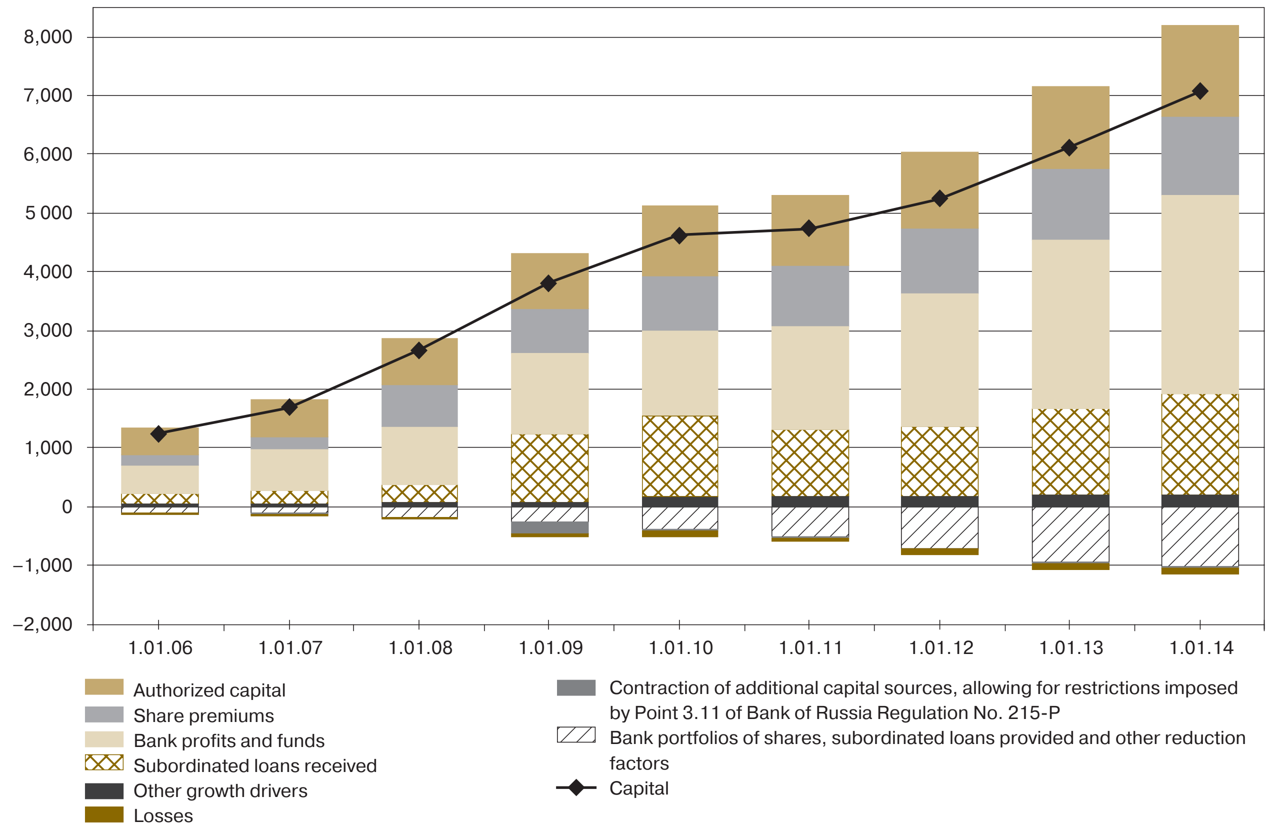
The capitalization of foreign-controlled banks rose mainly due to profits and funds created from those profits (47.0%), authorized capital growth (16.0%), and lower additional capital deductions given the restrictions stipulated by Point 3.11 of Regulation No. 215-P (24.1%). The capitalization of large private banks grew primarily due to profits and funds created from them (40.1%), subordinated loans (31.2%), authorized capital and share premiums (27.4% in total).

As for the group of small and medium-sized banks based in the Moscow Region, their capital increased due to profits and funds created from them (69.2%), subordinated loans (24.6%), and revaluation surplus (5.1%).

The main drivers of capitalization among small and medium-sized regional banks were profits and funds created out of those profits (86.3%), and also share premiums (4.2%).

[1] Included in capital, pursuant to requirements established by Bank of Russia Regulation No. 215-P, dated 10 February 2003, 'On the Methodology for Calculating Bank Capital' (hereinafter Regulation No. 215-P).

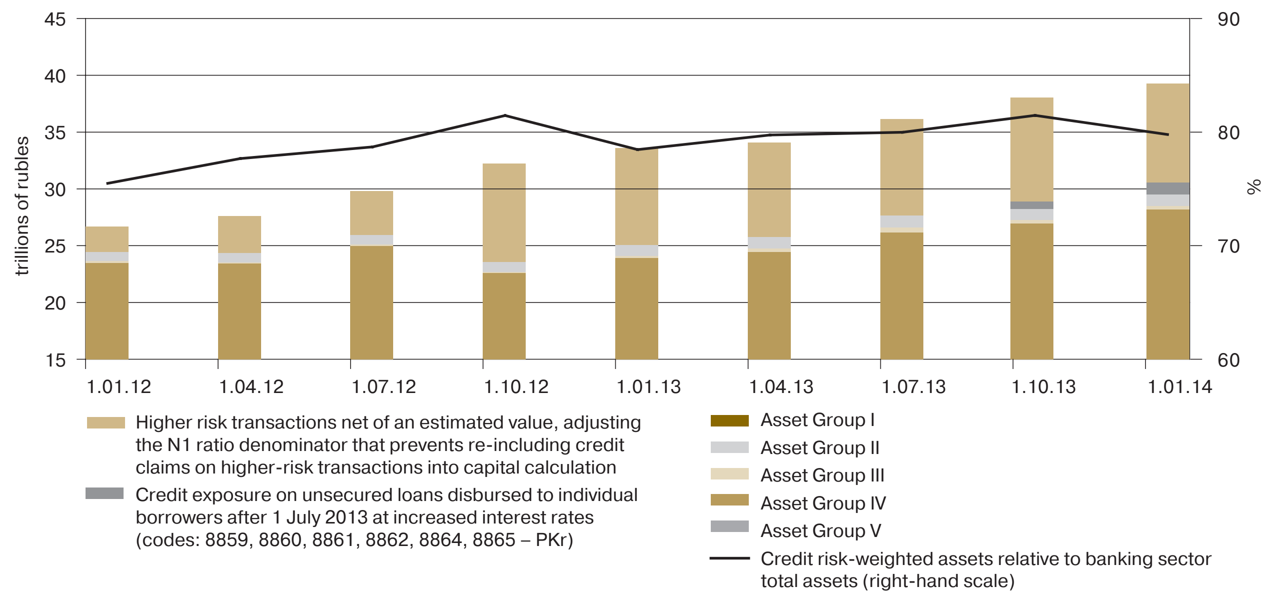
Banking sector total capital structure, billions of rubles *CHART 2.17*



Data on capital reduction (by group of banks) *TABLE 2.6*

Group	Number of credit institutions with capital reduction	Capital reduction as of 1 January 2014		Capital of banks which witnessed capital reduction as of 1 January 2014	
		billions of rubles	as % of capital of respective group banks which experienced capital reduction	as % of group	as % of banking sector
State-controlled banks	3	0.5	11.2	0.1	0.1
Foreign-controlled banks	32	25.9	14.5	14.6	2.5
of which: banks under the material influence of Russian residents	8	6.5	10.1	21.0	0.9
Large private banks	8	14.6	8.8	8.4	2.4
Small and medium-sized banks based in the Moscow Region	41	2.9	9.5	14.0	0.4
Small and medium-sized regional banks	50	1.1	5.6	10.6	0.3
Non-bank credit institutions	11	0.4	27.1	8.9	0
Total	**145**	**45.4**	**11.3**	–	**5.7**

Credit risk-weighted balance-sheet assets of credit institutions *CHART 2.18*



II.4.2. Risk-Weighted Assets

The ratio of credit risk-weighted assets of banks to total balance-sheet assets went up from 78.5% in 2012 to 79.8% in 2013 (see Chart 2.18).

Risk-weighted assets[1] increased by 17.5% in 2013 (24.8% in 2012). In the structure of risk-weighted assets, the share of credit exposures recorded in balance-sheet accounts decreased from 75.2% to 73.5% during the year, while the share of market risk remained unchanged at 5.9%. The share of credit risk of contingent credit liabilities fell from 7.7% to 7.6%. The share of related party risk remained unchanged at 4.0%.

Structure of bank risk-weighted balance-sheet assets (%) *TABLE 2.7*

	As of 1 January 2013	As of 1 January 2014
Asset Group I	0	0
Asset Group II	2.90	2.58
Asset Group III	0.63	0.85
Asset Group IV	71.14	73.76
Asset Group V	0.02	0.02
Higher-risk transactions	25.31	22.78[2]

The structure of risk-weighted assets changed in 2013 (Table 2.7). The share of Asset Group IV increased by 2.6 percentage points of risk-weighted balance-sheet assets. As of 1 January 2014, higher-risk transactions accounted for 22.78%[2] of risk-weighted balance-sheet assets.

During 2013, the amount of higher-risk transactions increased by 2.4%, reaching 8,704 billion rubles as of 1 January 2014.

The share of credit exposure on unsecured loans disbursed to individual borrowers after 1 July 2013 at higher interest rates[3] equaled 2.1% of risk-weighted assets as of 1 January 2014.

Credit exposure dominated the structure of risk-weighted assets of all bank groups: its share varied from 52.3% to 90.0%. The largest share of market risk was registered among small and medium-sized banks based in the Moscow Region (9.4%), while the smallest share was observed among small and medium-sized regional banks (6.7%).

II.4.3. Bank Capital Adequacy

The capital adequacy ratio decreased across the banking sector in general from 13.7% as of 1 January 2013 to 13.5% as of 1 January 2014. The decline was caused by the high growth of risk-weighted assets which resulted, among other factors, from regulatory adjustments, whereas the capital growth rate slowed down.

The capital adequacy ratio fell over the year for almost all groups of credit institutions (except foreign-controlled banks, see Table 2.8), while the regulatory capital

[1] Used to calculate the capital adequacy (N1) ratio.
[2] With account of the adjustment that prevents re-including credit claims on higher-risk transactions into capital calculation (started to be applied in the fourth quarter of 2013).
[3] The full cost of such loans is calculated in compliance with Bank of Russia Ordinance No. 2008-U, dated 13 May 2008, 'On the Procedure for Calculating and Informing an Individual Borrower about the Full Cost of a Loan'.

ratios in foreign-controlled banks under the material influence of Russian residents, as well as state-controlled and large private banks exceeded the minimum requirement of 10% by respective 2.0 percentage points and 2.8 percentage points.

The capital adequacy ratios subject to Basel III requirements were calculated by credit institutions from 1 April 2013 until 1 January 2014 within the monitoring procedure. Those standards became effective in the Russian Federation for prudential purposes on 1 January 2014. The first official statements which complied with Basel III were filed starting from 1 February 2014.

The top five banks in terms of assets saw their capital adequacy ratios decrease from 13.0% to 12.7% in 2013 (see Table 2.9). Those banks had the lowest ratio of core capital to risk-weighted assets.

The high capital adequacy ratio of non-bank credit institutions was due to their assets' lower level of risk.

The number of banks with the capital adequacy ratio that is below 12% fell from 142 as of 1 January 2013, to 112 as of 1 January 2014. The share of such banks in banking sector total assets decreased by 1.8 percentage points (from 20.5% to 18.8%).

As of 1 January 2014, 185 credit institutions (142 as of 1 January 2013) had capital adequacy ratios that ranged between 12% and 14%. Their share of banking sector total assets increased in 2013 by 12.5 percentage points to 64.7% as of 1 January 2014.

The capital adequacy ratio of more than 14% was maintained by 610 credit institutions (662 as of 1 January 2013). The share of credit institutions with capital adequacy ratios of between 14% and 28% fell from 24.6% to 14.7% of banking sector total assets during the year (see Chart 2.19 and Chart 2.20).

The capital adequacy (N1) ratio was breached by 15 credit institutions[1] during the reporting period (10 in 2012). The licenses of seven out of those 15 credit institutions were revoked, and one institution was reorganized.

Capital adequacy (N1) ratio by group of credit institutions, % *TABLE 2.8*

	1 January 2013	1 January 2014
State-controlled banks	13.2	12.8
Foreign-controlled banks	15.1	15.5
of which: banks under the material influence of Russian residents	12.0	12.5
Large private banks	12.9	12.8
Small and medium-sized banks based in the Moscow Region	18.8	17.4
Small and medium-sized regional banks	18.1	18.1
Non-bank credit institutions	36.9	34.6

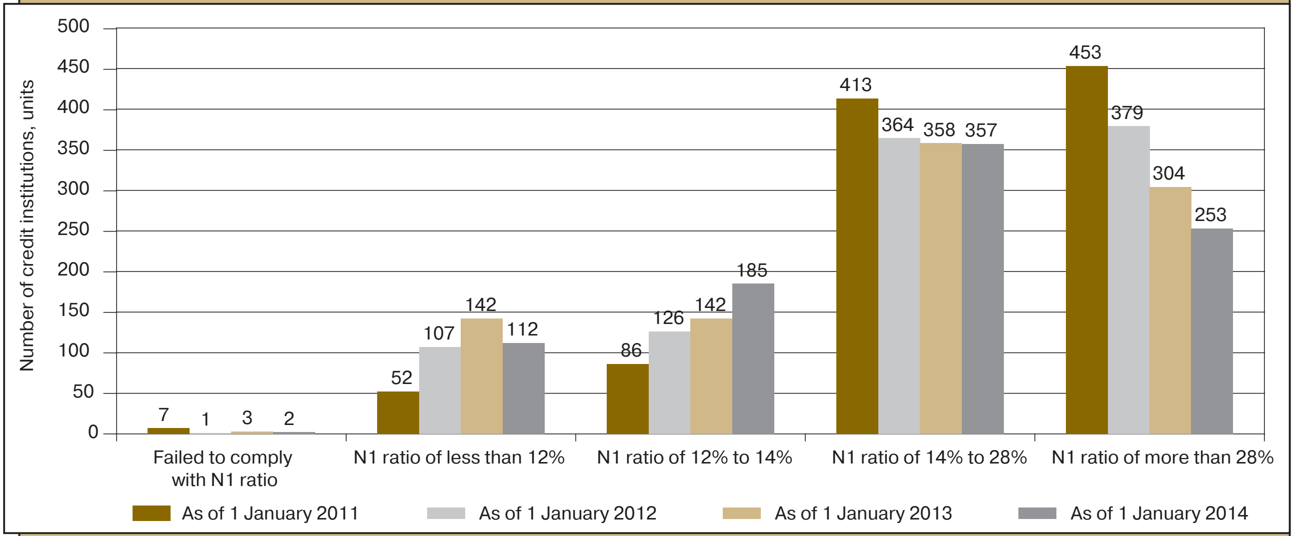
Capital adequacy (N1) ratio by group of credit institutions ranked by the value of assets, % *TABLE 2.9*

Credit institutions ranked by the value of assets (in descending order)	Capital adequacy (N1) ratio		Core capital to risk-weighted asset ratio	
	1 January 2013	1 January 2014	1 January 2013	1 January 2014
Top 5	13.0	12.7	7.0	8.0
6th to 20th	12.8	12.8	8.5	8.5
21st to 50th	13.3	13.6	8.6	9.5
51st to 200th	15.9	15.7	11.7	11.8
201st down	19.9	19.2	15.6	15.1
Banking sector	13.7	13.5	8.5	9.1

[1] Among credit institutions active in 2012.

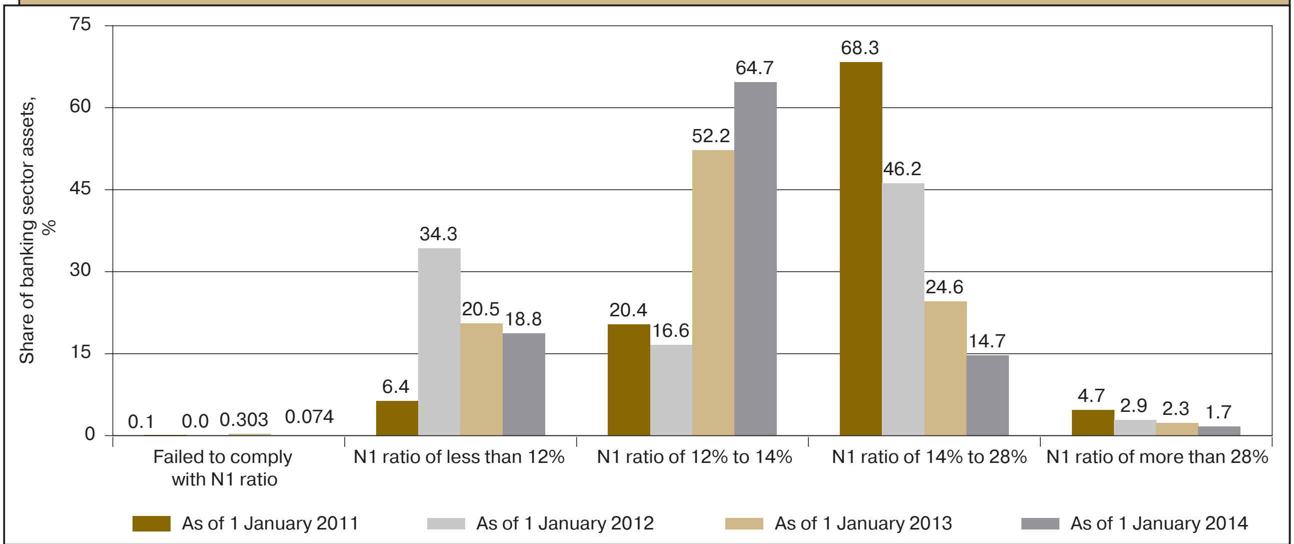
Credit institutions grouped by capital adequacy ratio (by number of banks)

CHART 2.19



Credit institutions grouped by capital adequacy ratio (by share of banking sector total assets)

CHART 2.20



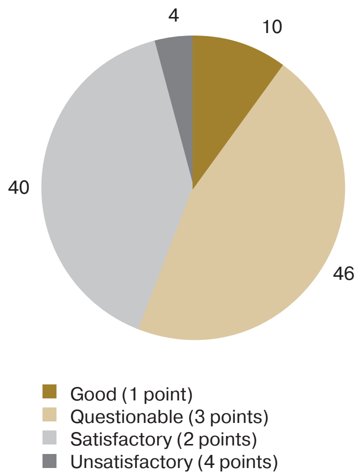
II.5. Bank Management Quality

Within the implementation of the BCBS Principles for Enhancing Corporate Governance (October 2010) and in compliance with Federal Law No. 146-FZ, dated 2 July 2013, 'On Amending Some Russian Laws', the competence of the board of directors (supervisory board) of a credit institution was expanded. It now comprises, in particular, the duties to approve the strategy for managing risks and capital of a credit institution, the procedure for applying banking risk management methods and quantitative risk assessment models, including the development of the scenarios of stress testing and the analysis of its results, the interest conflict prevention procedure, a financial recovery plan in the event of the material deterioration of a bank's financial standing, and an action plan aimed at ensuring the continuity of business and (or) the recovery of a credit institution in case any abnormal or extraordinary situations occur.

In the fourth quarter of 2013, in accordance with Bank of Russia Ordinance No. 2005-U, dated 30 April 2008, 'On the Evaluation of Bank Economic Situation', the first assessment of employee incentive risk management (PU7) was performed. The results of this generally reflected a positive level of Russian bank compliance with the Financial Stability Board's principles and standards of sound compensation practices (Chart 2.21).

For the purpose of implementing Article 57^{3} of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter referred to as Federal Law No. 86-FZ), as well as Article 11$^{1-1}$ and Article 24 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' (the above articles became effective on 1 January 2014), the Bank of Russia drafted an instruction establishing the procedure for assessing a remuneration system in a credit institution, and the procedure for sending an order to a credit institution requiring it to rectify violations in its remunerations system.

Results of the PU7 assessment in Russian banks as of 1 October 2013, % *CHART 2.21*



II.6. Banking Sector Stress Testing

In 2013, the Bank of Russia continued its efforts to refine stress testing as a tool for analyzing and assessing banking sector stability. Stress testing helps evaluate changes in the structure of banking risks, identify the credit institutions that are the most exposed to particular risks, and also determine the potentially necessary capitalization of the banking sector if the assumed stress scenarios materialize.

The Bank of Russia uses key stress-testing methods that have been developed in the international banking practices, such as a sensitivity analysis and a scenario analysis. The simultaneous use of both of these methods ensures the comprehensive analysis of potential risks for individual credit institutions and for the banking sector as a whole.

Stress testing based on a macro-model

When performing a scenario analysis, the Bank of Russia opts to apply a macroeconomic model, which is a system of regression equations that allow it to assess the impact of the macroeconomic environment (macro-parameters) on banking sector indicators. The macro-parameters typically might include GDP, the U.S. dollar exchange rate, inflation, household real income, etc. The banking sector indicators include the balances of corporate accounts, individual and corporate deposits, interbank loans taken and placed with resident and non-resident banks, the value (revaluation) of securities, household and corporate loans, changes in the ratio of bad loans to total loans, etc.

Taking into account the impact of macro-factors on key banking indicators for each credit institution during the projected period (quarterly for a year horizon), calculations are made on the basis of a simulated balance model that reflects the possible behavior of a bank during the assumed stress conditions and assesses its financial performance, which helps to adjust possible losses. Modeling leads to the assessment of a credit institution's total losses due to all types of risk in stress conditions, and its possible deficit of capital[1].

To assess the systemic soundness of the banking sector, the Bank of Russia has performed a stress test, applying the macro-model as of 1 January 2014. The assessment was performed for all operating credit institutions based on two macro-scenarios, with parameters that were calculated to evaluate the possible impact of negative global economic developments on the Russian economy. The **pessimistic scenario** assumes a substantial slowdown of the Russian economy due to a decrease in the global GDP growth rate and a 25% to 30% drop in the price of oil and other Russian exports, accompanied by the moderate growth of interest rates in the Russian financial market and a certain drop in stock indices. The **extreme scenario** (the worst possible development for the Russian economy) includes a 6.1% drop in GDP and a large-scale financial market stress. For key parameters, see Table 2.10.

Due to stable energy prices and the increased importance of internal economic growth factors in Russia, the probability of the proposed extreme scenario occurring within the coming year appears to be low.

Bank losses were assessed in relation to three main types of risks: credit risk, market risk, and liquidity risk. Additionally, a conservative estimate of credit risk on rolled-over loans assumed additional loan loss provisions (LLPs) for these loans' portfolios, that was based on provision amounts which were calculated to include 50% or 100% of the portfolio value, depending on the scenario.

The results of the macro-model-based stress test showed that as of 1 January 2014, estimated losses from all types of risks would total 2.6 trillion rubles (35% of banking sector capital) under the pessimistic scenario, and 4.0 trillion rubles (55% of banking sector capital) under the extreme scenario. The banking sector's financial performance, including income earned by banks under stress conditions, may approximately amount to 0.5 trillion rubles under the pessimistic scenario and 0.1 trillion rubles under the extreme scenario.

Most losses can be attributed to credit risk (1.5 trillion rubles and 2.3 trillion rubles for the respective scenarios). The average share of bad loans in the loan portfolio would grow from 6% to 12% under the pessimistic scenario and to 15% under the extreme scenario. Losses after additional provisions for possible losses on rolled-over loans would amount to 0.3–0.4 trillion rubles, depending on the scenario.

If market risk materializes, estimated losses to the banking sector, depending on a particular scenario, would total 0.4 trillion rubles to 0.6 trillion rubles, respectively; the major portion of losses would be due to interest rate risk (about 60%), about 30% would be due to equity position risk and about 10% would be due to foreign exchange risk.

[1] Capital deficit means funds that would be needed by credit institutions to comply with the capital adequacy ratio.

Key indicators of stress test scenarios

TABLE 2.10

Indicator	Pessimistic scenario	Extreme scenario	For reference: 2013 data
GDP growth rate, %	–1.0	–6.1	1.3
CPI, %	5.0	5.6	6.5
Growth rate of fixed capital investments, %	–3.0	–9.8	–0.3
Growth rate of household real income, %	0	–0.5	3.3
Growth of interest rates on government securities (a parallel shift of the yield curve), bp	200.0	350.0	–
Growth of interest rates on corporate securities (a parallel shift of the yield curve), bp	500.0	1,000.0	–
Dual-currency basket growth rate, %	20.0	30.0	9.9

Losses due to interest rate risk materializing on the balance sheet would amount to 0.4 trillion rubles to 0.6 trillion rubles, depending on the scenario.

Under the pessimistic scenario, 184 credit institutions (22% of banking sector assets) would witness a capital deficit amounting to 0.4 trillion rubles, of which 18 banks (0.6% of assets) would see their capital adequacy ratio decrease below 2%. Under the extreme scenario, 285 credit institutions (40% of assets) would have a capital deficit amounting to 1.3 trillion rubles, of which 53 banks (2.3% of assets) would see their capital adequacy ratio decrease below 2%.

Based on the stress testing results, the capital adequacy ratio for the banking sector in general falls to 12.5% under the pessimistic scenario and to 10.6% under the extreme scenario, which proves that the Russian banking sector is able to sustain large shocks in the event of a crisis.

Additionally, a contagion (domino effect) risk assessment in the interbank market was performed.

In case this risk materializes, depending on the given scenario, 71 and 120 banks (accounting for 6.1% and 10.3% of banking sector assets, respectively) would suffer a capital deficit, while 73 and 123 banks (7.2% and 12.3% of banking sector assets, respectively) may experience a liquidity deficit. The capital deficit varies depending on the scenario from 0.1 trillion rubles to 0.2 trillion rubles, and the liquidity deficit ranges from 0.3 trillion rubles to 0.5 trillion rubles.

Analysis of Russian bank sensitivity to liquidity risk

As mentioned above, the Russian banking sector operated amid a structural liquidity deficit in 2013. For that reason, the stress test of liquidity risk using a sensitivity analysis remained relevant. This type of analysis allows for the assessment of the response of banks to a shock that is determined by expert assessment, which can be more severe than the one assumed in the macro-model[1]. In addition, the sensitivity analysis assesses possible

Analysis algorithm for a 'domino effect' in the interbank market

The modeling of possible losses due to a domino effect is performed according to the following algorithm. Based on calculated balance model analysis results, a list of the so called problem banks – bankrupt banks (whose capital adequacy ratio is below 2%) and banks that are in a technical default (with a liquidity deficit) is compiled. Then their lenders are identified; the losses of these banks are registered by their exposure to the problem banks, and the same amount is deducted from their liquid assets inflow/repayment in the current iteration.

After establishing losses and adjusting net liquidity flows, the lending bank capital adequacy ratio is checked and their ability to withstand the outflow of customer funds (based on the calculations of macroeconomic and balance models) is tested. Banks that fail to comply with the capital adequacy ratio or banks which experience a technical default are included in the list of problem banks that trigger further contagion. The calculation process continues until no additional problem banks are identified.

To cover the outflow of their funds (repay customer deposits), banks use their assets (securities, loans, etc.) primarily as collateral for refinancing that is provided by the central bank. If a bank does not have assets that are acceptable as collateral for central bank's funds, it sells its securities at determined discounts.

The model is calculated for a stress period of one year.

[1] In this particular case, shocks assumed by expert assessment were based on the actual data from the 2008–2009 crisis.

losses without taking mitigating factors into consideration (in this particular case, without factoring in access to Bank of Russia refinancing or to the interbank loan market), which provides a more conservative estimate of various risks.

The liquidity risk sensitivity analysis revealed that as of 1 January 2014, 58 banks would experience a liquidity deficit. The size of that deficit would total about 61 billion rubles if a shock materialized, given the assumption of negative conditions. Those banks accounted for 6.1% of banking sector total assets. As of 1 January 2014, the impact of the banks experiencing a liquidity deficit on banking sector stability was assessed as limited. For comparison: based on the stress test results as of early 2013, 35 banks experienced a liquidity deficit totaling 110 billion rubles. Those banks accounted for 8.5% of banking sector total assets.

Considering that the stress test based on the sensitivity analysis did not factor in bank opportunities to obtain from Bank of Russia refinancing and interbank loans, it is fair to say that the actual negative impact of the shock would be more moderate.

A stress-test method based on a sensitivity analysis

The sensitivity analysis assesses the possible outflow of customer funds that can be triggered by growing instability during a crisis. Assumptions concerning the monthly outflows of customer/lender funds are based on actual outflows that were registered during the peak period of the 2008 financial crisis. The outflow level (%), determined in this way, is applied to each bank's balance sheet.

Outflows in the 10% to 30% range are differentiated according to the source of funds: individual deposits, corporate deposits, settlement accounts and interbank loans from non-residents. The outflows are covered by monetary funds (cash in vaults and in a correspondent account with the Bank of Russia), and also from the sale of liquid assets with pre-set discounts varying from 5% to 30% (the discount depends on asset liquidity). Liquid assets used to cover the outflow include LAM, LAT[1], and securities outside the aforementioned groups of liquid assets. Losses sustained by banks due to liquidity risk are calculated as a sum of discounts in case of an asset fire-sale.

If liquid assets are not sufficient to cover outflows, the bank is considered to be in a technical default, and the amount of uncovered outflow represents the liquidity deficit.

[1] See Bank of Russia Instruction No. 139-I, dated December 3, 2012, 'On Banks' Required Ratios'.

III

Banking Regulation and Supervision in Russia

III.1. Upgrading the Legal and Regulatory Framework for Bank Activities, in Line with International Standards

III.1.1. Upgrading the Legal Framework for Credit Institutions

The year 2013 saw the adoption of the following federal laws, which were drafted with the involvement of the Bank of Russia.

1. Federal Law No. 146-FZ, dated 2 July 2013, 'On Amending Some Russian Laws' (hereinafter Federal Law No. 146-FZ):

– provides for the migration from the standard methods of regulatory assessment of banking capital adequacy to an advanced approach (based on internal ratings);
– clarifies the term 'banking group', including in it all legal entities which are under the control or material influence of one credit institution, regardless of their business line, and also the term 'bank holding company' with regards to classifying legal entities with the participation of a credit institution, as such an association, provided that the banking activity's share in such an association is at least 40%;
– expands the powers of the Bank of Russia in relation to bank holding companies: the Bank of Russia is entitled to establish the forms, procedure and time for preparation by the bank holding company's parent organization of statements and other information on bank holding company's risks and for the submission of such data to the Bank of Russia. It is also entitled to prohibit or restrict transactions with the bank holding company's parent organization or participants in the event that the parent organization fails to comply with banking legislation;
– specifies requirements for the contents of the individual statements of credit institutions and consolidated statements of banking groups and bank holding companies, including the procedure for disclosing these statements to a large user community;
– expands the powers of the Bank of Russia with respect to imposing requirements for risk and capital management systems, as well as the internal audit and internal control systems of a credit institution, to the assessment by the Bank of Russia of their quality, and to requests for the elimination of discovered violations;
– expands the powers of the Bank of Russia related to the assessment of remuneration systems in credit institutions by entitling the Bank of Russia to demand the elimination of violations discovered in their remuneration systems;
– stipulates the powers of the Bank of Russia to assess the qualification and business reputation of a credit institution's sole executive body, his/her deputies, collegiate executive body members, a chief accountant and his/her deputies, the chief executive, chief accountant of a credit institution's branch, including persons temporarily appointed to perform duties or certain duties of the above officers, providing for the right to manage funds in accounts held by a credit institution with the Bank of Russia (hereinafter chief executives of a credit institution (branch)). The powers of the Bank of Russia also apply to the assessment of the business reputation of (supervisory) board members and candidates for the above positions, and also the founders (members) of a credit institution, purchasers (owners) of over 10% of credit institutions' shares, and persons imposing (exercising) control over the shareholders (members) of a credit institution holding over 10% of shares (hereinafter controllers, control over shareholders (members) of a credit institution), and their sole executive bodies. The Bank of Russia is also empowered to set fitness and propriety requirements for the heads of the risk management service, internal audit service, and the internal control service of credit institutions, as well as of the parent credit organization of a banking group. The conformity of the business reputation of the above persons with established requirements is assessed, subject to a list of regular criteria. In case chief executives and (supervisory) board members of a credit institution fail to comply with the qualification and business reputation requirements stipulated by federal law, the Bank of Russia is entitled to demand their replacement;
– establishes the system of measures and powers of the Bank of Russia to restrict the participation in the management of a credit institution of holders of over 10% of its shares and for controllers whose business reputation and financial position do not conform with the requirements established by law, and also to process personal data and to maintain a database on the aforementioned persons, other employees of credit institutions and other persons involved in damaging a credit institution's financial standing, breaching Russian legislation and Bank of Russia regulations, according to the procedure stipulated by the Bank of Russia;
– replaces the term 'persons materially influencing (whether directly or indirectly) the decisions made by bank management bodies' with the term 'persons controlling or materially influencing a bank';
– establishes a new required maximum exposure per borrower or group of related borrowers ratio;

– empowers the Bank of Russia to make a professional judgment on the existence of relationship between a credit institution and legal entities and individuals;
– expands the competence and the powers of a credit institution's board of directors (supervisory board) related to risk and capital management, remuneration and personnel policy in a credit institution;
– brings a list of sanctions against credit institutions and their shareholders into compliance with international practices; entitles the Bank of Russia to establish a procedure for imposing sanctions against credit institutions and their shareholders in the event that any violations are detected in their activity;
– removes restrictions on information exchange between the members of banking groups and bank holding companies and their parent organizations, and also between the Bank of Russia and the banking supervisors of foreign states (including data constituting a banking secret), provided that the parties comply with requirements ensuring the safety of the supplied information;
– lowers the threshold for acquiring shares of a credit institution that requires Bank of Russia prior consent from 20% to 10%.

2. Federal Law No. 184-FZ, dated 2 July 2013, 'On Amending Article 13 and Article 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter Federal Law No. 184-FZ) providing for the use of Bank of Russia authorized representatives as a tool for the risk-based supervision of systemically important credit institutions. Federal Law No. 184-FZ empowers the Bank of Russia to appoint its authorized representatives not only to credit institutions which have received state support, but also to credit institutions which have assets totaling or exceeding 50 billion rubles or which have raised funds from individuals under bank deposit and bank account agreements totaling or exceeding 10 billion rubles, and also to independently establish the procedure for their appointment.

3. Federal Law No. 335-FZ, dated 2 December 2013, 'On Amending the Federal Law on the Insurance of Household Deposits with Russian Banks, the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), and on Invalidating Some Provisions of Russian Laws' (which becomes effective on 3 April 2014), that is aimed at standardizing supervisory requirements for assessing credit institutions' soundness and requirements for their participation in the deposit insurance system, based on international principles regulating supervision and sanctions, and lifting a ban on the withdrawal of founders from a bank during the first three years after its state registration.

4. Laws aimed at improving the relations between borrowers (individuals) and lenders under consumer loan agreements, particularly Federal Law No. 353-FZ, dated 21 December 2013, 'On Consumer Lending' and Federal Law No. 363-FZ, dated 21 December 2013, 'On Amending Some Russian Laws and on Invalidating Certain Provisions of Russian Laws in Connection with the Adoption of the Federal Law on Consumer Lending' (which become effective on 1 July 2014).

5. Federal Law No. 251-FZ, dated 23 July 2013, 'On Amending Some Russian Laws in Connection with the Delegation of the Powers to Regulate, Control, and Supervise Financial Markets to the Central Bank of the Russian Federation'.

6. Federal Law No. 266-FZ, dated 30 September 2013, 'On Amending Article 18 of the Federal Law on Banks and Banking Activities' (with regards to the non-application of the 'principal of reciprocity' to foreign states, with whom the Russian Federation has international agreements (including to the member countries of the World Trade Organization and the Organization for Economic Cooperation and Development).

7. Federal Law No. 379-FZ, dated 21 December 2013, 'On Amending Some Russian Laws' regulating, in particular, the rules for registering notices of pledge of movable property.

8. Federal Law No. 410-FZ, dated 28 December 2013, 'On Amending the Federal Law on Non-Government Pension Funds and Some Russian Laws' (with regards to the application of the household deposit insurance system to the accounts of unincorporated entrepreneurs).

9. Federal Law No. 422-FZ, dated 28 December 2013, 'On Guaranteeing the Rights of Insured Persons Within the Russian Compulsory Pension Insurance System When Creating and Investing in Pension Assets, Assigning and Making Payments out of Pension Assets'.

10. Federal Law No. 29-FZ, dated 14 March 2013, 'On Amending Some Russian Laws' (with regards to prohibiting foreign banks from opening their branches in Russia).

III.1.2. The State Registration of Credit Institutions and the Licensing of Banking Operations

In 2013, the Bank of Russia continued to improve its regulatory framework for the state registration of credit institutions and the issuance of banking licenses.

In connection with the adoption of Federal Law No. 146-FZ, the following regulations were issued:

1. Bank of Russia Instruction No. 146-I, dated 25 October 2013, 'On the Procedure for Obtaining Bank of Russia Prior Permission to Acquire Shares (Stakes) in a Credit Institution', provides for the following:
– a reduction of the threshold for acquiring shares (stakes) in a credit institution that requires Bank of Russia prior consent from 20% to 10% of a credit institution's authorized capital;
– implementation of the procedure for granting Bank of Russia prior permission not only for acquiring shares (stakes) in a credit institution, but also for imposing control over shareholders (members) of a credit institution who hold over 10% of the shares (stakes) in a credit institution. Additionally, the Instruction stipulates that control is to be defined according to International Financial Reporting Standards;

- introduction of the procedure for granting Bank of Russia subsequent permission to acquire shares (stakes) in a credit institution, as well as to exercise control over shareholders (members) of a credit institution who hold over 10% of the shares (stakes) in a credit institution;
- implementation of the procedure for drawing up and mailing Bank of Russia orders requiring the rectification of violations committed in the course of acquiring shares (stakes) in a credit institution and (or) exercising control over shareholders (members) of a credit institution;
- refusal to grant Bank of Russia prior or subsequent permission, including in cases where the business reputation has been found to be unsatisfactory.

2. Bank of Russia Regulation No. 408-P, dated 25 October 2013, 'On the Procedure for Assessing the Compliance with Fitness and Propriety Requirements for Persons Listed in Article 11[1] of the Federal Law on Banks and Banking Activities and Article 60 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia), and the Procedure for Maintaining the Database Provided for by Article 75 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)' that establishes:

- the procedure for assessing the business reputation of the chief executives of a credit institution (branch) (candidates for these positions), members of the board of directors (supervisory board), the purchasers (holders) of over 10% of shares (stakes) in a credit institution and controllers, as well as the sole executive bodies of the above entities;
- the procedure for sending Bank of Russia orders requiring the replacement of chief executives of a credit institution (branch), members of the board of directors (supervisory board), whose business reputation does not conform to the requirements established by law, as well as orders requiring the rectification of violations related to the unsatisfactory business reputation of holders of over 10% of the shares (stakes) in a credit institution and controllers, their sole executive bodies;
- the procedure for maintaining a database.

3. Bank of Russia Ordinance No. 3124-U, dated 26 November 2013, 'On Amending Bank of Russia Instruction No. 135-I, Dated 2 April 2010, on the Bank of Russia's Decision-Making Procedure Regarding the State Registration of Credit institutions and Licensing Banking Operations'.

The amendments to Bank of Russia Instruction No. 135-I, dated 2 April 2010, are connected with the following:

- establishment by Federal Law No. 146-FZ of fitness and propriety requirements of persons listed in Article 11[1] of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' (hereinafter Federal Law No. 395-1) and Article 60 of Federal Law No. 86-FZ;
- cancellation of the requirement for approving candidates for the positions of the deputy chief executive and deputy chief accountant of a credit institution's branch by the Bank of Russia;
- reduction of the growth rate of a credit institution's authorized capital (from 20% to 10% of its earlier registered value), the excess of which requires an inspection by the Bank of Russia of the credit institution with respect to the sources of funds used to pay for its shares (stakes);
- creation of the Department for Supervision of Systemically Important Banks within the Bank of Russia structure.

4. Bank of Russia Ordinance No. 3101-U, dated 25 October 2013, 'On Amending Bank of Russia Regulation No. 386-P, Dated 29 August 2012, on the Reorganization of Credit Institutions through Merger and Acquisition'.

5. Bank of Russia Ordinance No. 3102-U, dated 25 October 2013, 'On Amending Bank of Russia Regulation No. 275-P, Dated 11 August 2005, on the Procedure for Issuing a Bank of Russia Banking License to a Credit Institution against which the Bankruptcy Proceedings are Closed Due to its Settlement of its Obligations by Founders (Members) or a Third Party (Third Parties)'.

6. Bank of Russia Ordinance No. 3103-U, dated 25 October 2013, 'On Amending Bank of Russia Regulation No. 271-P, Dated 9 June 2005, on the Consideration of Documents Submitted to a Bank of Russia Regional Branch for Making a Decision on the State Registration of Credit Institutions, Issuance of Banking Licenses, and on Maintaining Databases on Credit Institutions and Their Units'.

Bank of Russia Ordinances No. 3101-U, No. 3102-U and No. 3103-U contain amendments corresponding to the amendments introduced by Ordinance No. 3124-U to Bank of Russia Instruction No. 135-I, dated 2 April 2010. Additionally, Ordinance No. 3103-U provides for amendments connected with the centralization of Bank of Russia inspection activities.

7. Bank of Russia Ordinance No. 3100-U, dated 25 October 2013, 'On Amending Bank of Russia Regulation No. 197-P, Dated 19 September 2002, on the Procedure for Submitting Information about Bank Holding Companies' provides for the replacement of the term 'material influence' when used to define the members of a bank holding company with the term 'control and material influence'. Additionally, the Ordinance stipulates that control and material influence are to be defined according to International Financial Reporting Standards.

8. Bank of Russia Ordinance No. 3126-U, dated 27 November 2013, 'On Amending Bank of Russia Regulation No. 345-P, Dated 27 October 2009, on the Procedure for Disclosure on the Bank of Russia Website of Information on Persons who Materially Influence (whether Directly or Indirectly) Decisions Made by the Management Bodies of Banks Participating in the Insurance System of Household Deposits with Russian Banks', which introduces the amendments providing for the replacement of the term 'persons materially influencing (whether directly or indirectly) decisions made by management bodies of

a bank' with the term 'persons controlling or materially influencing a bank', in compliance with Article 44 of Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Household Deposits with Russian Banks' (hereinafter Federal Law No. 177-FZ), that establishes the requirement to comply with the procedure set by the Bank of Russia for disclosing information on the above persons to the public. Additionally, the Ordinance also stipulates that control and material influence are to be defined according to International Financial Reporting Standards.

In addition, the Bank of Russia adopted in 2013:

– Bank of Russia Ordinance No. 3028-U, dated 22 July 2013, 'On the Procedure for Opening (Closing) and Organizing the Operation of a Mobile Banking Vehicle of a Credit Institution (Branch)', which expands a list of service points for individual customers using a mobile banking vehicle (hereinafter MBV) by including territorially detached sectors of cities, which have areas with an undeveloped banking infrastructure, new building areas, venues for national and regional public events, official national and international tournaments, emergency zones, and also places for the temporary accommodation of evacuees from such areas. Additionally, a possibility is provided for opening MBVs in close proximity to the location of a bank and its units in order to reduce the peak loads, as well as in the event of repair works;
– Bank of Russia Ordinance No. 3029-U, dated 22 July 2013, 'On Amending Bank of Russia Instruction No. 135-I, Dated 2 April 2010, on the Procedure for Making a Decision by the Bank of Russia on the State Registration of Credit Institutions and the Issue of Banking Licenses' that provides for a possibility to locate additional offices in quickly erected buildings (modular facilities) not referred to as real estate, as well as cancels the requirement for approval by Russia's Ministry of Finance of banks' applications for licenses to attract deposits and place precious metals.

III.1.3. Bank Regulation

Bank regulatory issues

Implementation of documents recommended by the Basel Committee on Banking Supervision (BCBS)

In 2013, the Bank of Russia made significant efforts to implement international documents aimed at enhancing the financial soundness of credit institutions and financial market stability, primarily BCBS documents.

The Bank of Russia issued ordinances:

establishing rules governing the activities of banking groups, as well as the procedure for how the parent credit organizations of banking groups should disclose information on their activities to a large user community, including:

– Bank of Russia Ordinance No. 3090-U, dated 25 October 2013, 'On Calculating the Value of Capital, Required Ratios and Amounts (Limits) of the Open Foreign Currency Positions of Banking Groups' establishing the methods for the calculation by banking groups of the value of capital, required ratios and amounts (limits) of open foreign currency positions, as well as numerical values of required ratios and amounts (limits) of open foreign currency positions;
– Bank of Russia Ordinance No. 3080-U, dated 25 October 2013, 'On the Forms, Procedure and Time for the Disclosure by the Parent Credit Organizations of Banking Groups of Information on Assumed Risks and Procedures for their Assessment, and Risk and Capital Management' stipulating the forms, content, procedure and time for the disclosure of information by the parent credit organizations of banking groups according to Basel II Pillar 3 'Market Discipline', including information on assumed risks, and procedures for their assessment, and risk and capital management;
– Bank of Russia Ordinance No. 3084-U, dated 25 October 2013, 'On Amending Bank of Russia Ordinance No. 2923-U, Dated 3 December 2012, on Publishing and Submitting Consolidated Financial Statements by Credit Institutions', which establishes the procedure for the mandatory disclosure by credit institutions of their interim consolidated financial statements, prepared according to International Financial Reporting Standards, to a large user community;

establishing the procedure for regulating the activities of bank holding companies, including:

– Bank of Russia Ordinance No. 3086-U, dated 25 October 2013, 'On the Method for Measuring the Assets and Income of Credit Institutions-Members of a Bank Holding Company and a Bank Holding Company Itself', establishing the method for measuring assets and the income of credit institutions that are members of a bank holding company and of a bank holding company itself to classify an association of legal entities, including at least one credit institution, as a bank holding company;
– Bank of Russia Ordinance No. 3087-U, dated 25 October 2013, 'On Disclosing and Submitting Consolidated Financial Statements by Bank Holding Companies', establishing the procedure and time frames for how parent organizations (management companies) of bank holding companies should disclose their consolidated financial statements and submit them to the Bank of Russia;
– Bank of Russia Ordinance No. 3083-U, dated 25 October 2013, 'On Preparing Information on the Risks of a Bank Holding Company and its Submission to the Bank of Russia', stipulating the form, procedure and time frames for the preparation by parent organizations (management companies) of bank holding companies and submission to the Bank of Russia of the information required to assess the risks of a bank holding company and to supervise credit institutions which are members of a bank holding company.

For the purpose of comprehensive implementation into the Russian supervisory practice of the most up-to-

date international requirements for the prudential regulation of bank activities, as stipulated by Basel III, the Bank of Russia issued:

- Bank of Russia Ordinance No. 3096-U, dated 25 October 2013, 'On Amending Bank of Russia Regulation No. 395-P, Dated 28 December 2012, on the Methods for Measuring and Assessing Bank Capital Adequacy' (hereinafter Ordinance No. 3096-U), stipulating the methods for measuring the value of bank capital according to Basel III requirements for prudential purposes;
- Bank of Russia Ordinance No. 3092-U, dated 25 October 2013, 'On Amending Bank of Russia Regulation No. 387-P, Dated 28 September 2012, on the Procedure for Market Risk Calculation by Credit Institutions' (hereinafter Bank of Russia Ordinance No. 3092-U) to reflect changes in capital and capital adequacy ratio measurement in the market risk calculation procedure;
- Bank of Russia Ordinance No. 3093-U, dated 25 October 2013, 'On Amending Bank of Russia Regulation No. 215-P, Dated 10 February 2003, on the Methods for Measuring Bank Capital'. The provisions of Regulation No. 215-P have been amended, given the fact that since 1 January 2014, it will only be applied for the purposes of Article 20 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities', Bank of Russia Ordinance No. 2005-U, dated 30 April 2008, 'On the Evaluation of Banks' Economic Situation', and Bank of Russia Ordinance No. 1379-U, dated 16 January 2004, 'On the Assessment of Bank Financial Soundness for Qualifying it as Adequate for Participation in the Deposit Insurance System';
- Bank of Russia Ordinance No. 3097-U, dated 25 October 2013, 'On Amending Bank of Russia Instruction No. 139-I, Dated 3 December 2012, on Banks' Required Ratios' (hereinafter Ordinance No. 3097-U) provides for:

the replacement of bank capital adequacy (N1) ratio with three new capital adequacy ratios: the common equity Tier 1 capital adequacy (N1.1) ratio (minimum requirement: 5%), core capital adequacy (N1.2) ratio (minimum requirement: 5.5%, starting from 1 January 2015 6.0%), and bank capital adequacy ratio (N1.0). The minimum requirement for the bank total capital adequacy ratio remains at 10%;

a change in the operational risk ratio from 10 to 12.5;

an inclusion, starting from 1 October 2014, into the capital adequacy ratio calculation of the risk of changes in the credit claim value in the event that the credit quality of a counterparty is deteriorated for over-the-counter derivatives agreements concluded without the central counterparty;

- Bank of Russia Ordinance No. 3094-U, dated 25 October 2013, 'On Amending Bank of Russia Instruction No. 129-I, Dated 26 April 2006, on Banking Operations and Other Transactions of Settlement Non-Bank Credit Institutions, their Required Ratios, and the Specifics of the Bank of Russia Supervision of their Compliance', and Bank of Russia Ordinance No. 3095-U, dated 25 October 2013, 'On Amending Bank of Russia Instruction No. 137-I, Dated 15 September 2011, on Required Ratios for Non-Bank Credit Institutions Having the Right to Transfer Funds Without Opening Bank Accounts and to Conduct Related Banking Operations, and on the Specifics of the Bank of Russia Supervision of the Compliance with These Ratios'. These provide for the amendments needed for making regulations comply with the amendments introduced by Ordinances No. 3096-U and No. 3097-U.

Within the implementation of Basel III standards with regards to the approaches for calculating the financial leverage ratio (the ratio of core capital value to non-risk-weighted assets and off-balance-sheet instruments), the Bank of Russia issued Letter No. 142-T, dated 30 July 2013, 'On Calculating the Financial Leverage Ratio'. It describes the recommended method for calculating the financial leverage ratio, the form for disclosing information on its components, and the procedure for filling in that form. Starting from statements as of 1 August 2013, the Bank of Russia has been collecting data on the results of the calculation of this ratio.

Implementation of documents within the improvement of the Russian regulation practice

Credit risk

To increase the requirements for the quality of assessing banking risks (including the one in the unsecured consumer lending market to stop the practice of hiding overdue debts and non-core assets), amendments were introduced to Bank of Russia Instruction No. 139-I, dated 3 December 2012, 'On Banks' Required Ratios' (Ordinance No. 3097-U), as well as to the following regulations governing the formation of loan loss provisions:

- Bank of Russia Regulation No. 254-P, dated 26 March 2004, 'On the Procedure for Making by Credit Institutions Provisions for Possible Losses on Loans, Loan and Similar Debts' (Bank of Russia Ordinance No. 2993-U, dated 15 April 2013, Bank of Russia Ordinance No. 3098-U, dated 25 October 2013, and Bank of Russia Ordinance No. 3058-U, dated 6 September 2013);
- Bank of Russia Ordinance No. 283-P, dated 20 March 2006, 'On the Procedure for Making by Credit Institutions Loan Loss Provisions' (Bank of Russia Ordinance No. 3130-U, dated 3 December 2013).

Market risk

In addition to amendments to Bank of Russia Regulation No. 387-P, dated 28 September 2012, 'On the Procedure for Market Risk Calculation by Credit Institutions' which were driven by Basel III implementation, Bank of Russia Ordinance No. 3092-U introduced some amendments to the procedure for calculating the equity position and interest rate risks, including a requirement for calculating special equity position risk associated with derivatives whose underlying asset are stock indices.

Additionally, changes were made to a list of agreements (transactions) that were subject to the market risk calculation requirement in connection with the updated procedure for accounting forward transactions specified in Bank of Russia Regulation No. 385-P, dated 16 July 2012, 'On Accounting Rules Used by Credit Institutions Located in the Russian Federation'.

The financial rehabilitation and liquidation of credit institutions

In connection with the adoption of Federal Law No. 146-FZ, the Bank of Russia issued Ordinance No. 3145-U, dated 18 December 2013, 'On Amending Point 1.1 and Point 4.5 of Bank of Russia Regulation No. 279-P, Dated 9 November 2005, on the Provisional Administration for Managing a Credit Institution'. Bank of Russia Regulation No. 279-P was amended due to the changes in the terms used in Federal Law No. 40-FZ, dated 25 February 1999, 'On the Insolvency (Bankruptcy) of Credit Institutions' (the terms 'direct and indirect control' and 'direct and indirect material influence' were replaced with 'control' or 'material influence').

The improvement of disclosure by credit institutions of information on their activities to a large user community

To make the structure of bank annual and interim accounting (financial) reports, which are disclosed to a large user community, comply with Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting', and in connection with the entry into force of Federal Law No. 146-FZ, which requires credit institutions to disclose information on assumed risks, risk assessment procedures, risk and capital management, the Bank of Russia issued Ordinance No. 3081-U, dated 25 October 2013, 'On the Disclosure by Credit Institutions of Information on their Activities', which provides, among other things, for the following:

- that the structure of annual and interim accounting (financial) reports disclosed by credit institutions comply with the provisions of International Financial Reporting Standards, and requirements of Basel II Pillar 3 'Market Discipline' and Basel III;
- an opportunity for credit institutions to disclose information on their activities via the mass media and (or) on their websites.

Further efforts were made to improve the transparency of the banking sector by getting credit institutions to report information in Form 0409134, 'Calculation of Capital' and Form 0409135, 'Information on Required Ratios'. As of 1 January 2014, 878 credit institutions, or 95% of the total number, had agreed to disclose information pursuant to Bank of Russia Letter No. 72-T, 'On the Disclosure of Information by Credit Institutions in Form 0409134 and Form 0409135'.

Additionally, the information in Form 0409101, 'The Bank Chart of Accounts' shall also be disclosed. By 1 January 2014, 888 credit institutions, or almost 96% of the total number, had agreed to disclose information pursuant to Bank of Russia Letter No. 165-T of 21 December 2006, 'On the Disclosure of Information by Credit Institutions'.

The on-site inspection of credit institutions

In 2013, the Bank of Russia continued its efforts to improve the regulatory and methodological framework for its inspection activities.

In connection with the completion of the **phased centralization of its inspection activities**, the Bank of Russia issued Instruction No. 147-I, dated 5 December 2013, 'On the Procedure for Inspecting Credit Institutions (their Branches) by Authorized Representatives of the Central Bank of the Russian Federation (Bank of Russia)'. It stipulates the powers for organizing inspections in banks that are members of banking groups and bank holding companies, as well as inspections in credit institutions which are cross-border institutions.

To **enhance the efficiency and results of inspections**, the Bank of Russia issued Ordinance No. 3017-U, dated 18 June 2013, 'On the Procedure for Interaction between Bank of Russia Structural Units When Preparing Proposals and Making Decisions on Imposing Sanctions against Credit Institutions in the Process of Inspecting them and Considering Inspection Results'. In December 2013, amendments were made to the Ordinance[1] providing for the reduction of time limits for supervisory regulatory actions performed by Bank of Russia regional branches and structural units of the headquarters.

To **improve the process of organizing and carrying out inspections** in credit institutions (their branches), the Bank of Russia issued Ordinance No. 2978-U, dated 14 March 2013, 'On Amending Point 1 of Bank of Russia Ordinance No. 2493-U, Dated 3 September 2010, on Organizing the Phased Centralization of Bank of Russia Inspection Activities', and also Ordinance No. 2979-U, dated 14 March 2013, 'On Amending Point 3.3 of Bank of Russia Instruction No. 108-I, Dated 1 December 2003, on Organizing the Inspection Activities of the Central Bank of the Russian Federation (Bank of Russia)'. It aimed to specify the powers of the head of a Bank of Russia regional branch and the inspector general of an interregional inspectorate when decisions were made on changing the month when the inspection was scheduled to commence, according to the Summary Plan.

[1] Bank of Russia Ordinance No. 3170-U, dated 31 December 2013, 'On Amending Bank of Russia Ordinance No. 3017-U, Dated 18 June 2013, on the Procedure for Interaction between Bank of Russia Structural Units When Preparing Proposals and Making Decisions on Imposing Sanctions against Credit Institutions In the Process of Inspecting them and Considering Inspection Results'.

To **improve its methodological support for inspection activities**, the Bank of Russia issued letters[1] explaining the specifics of inspecting the internal structural units of authorized banks (their branches) which conduct foreign currency transactions, as well as the specifics of inspecting the compliance of a credit institution with the rules for cash transactions and foreign currency safekeeping, transportation and collection.

III.1.4. Methodology of On-Going Supervision

Within the work aimed at enhancing the efficiency of banking supervision, including supervision conducted on a consolidated basis, and also in connection with the entry into force of Federal Law No. 146-FZ, the Bank of Russia issued Ordinance No. 3089-U, dated 25 October 2013, 'On the Procedure for Supervising Banking Groups'. It established a procedure for how the Bank of Russia should supervise banking groups, including a procedure for creating supervisory groups and organizing their work, carrying out the quarterly assessment of the compliance by a banking group (members of a banking group) with required ratios, the limits of open foreign-currency positions, and imposed requirements, and the procedure for collecting and storing information about the activity of a banking group and its major members. That Bank of Russia regulation went into effect on 1 January 2014.

To improve the supervisory assessment of bank activities, the Bank of Russia issued Ordinance No. 3085-U, dated 25 October 2013, 'On Amending Bank of Russia Ordinance No. 2005-U, Dated 30 April 2008, on the Evaluation of Banks' Economic Situation' (hereinafter Ordinance No. 3085-U) and Ordinance No. 3091-U, dated 25 October 2013 'On Amending Bank of Russia Ordinance No. 1379-U, Dated 16 January 2004, on the Assessment of the Financial Soundness of a Bank for Qualifying it as Adequate for Participation in the Deposit Insurance System'. These provide, among other things, for the following:

- a tightening of the approaches to the assessment of banks' economic situation (financial soundness). These documents stipulate that a bank's economic situation may not be qualified as satisfactory (financial soundness may not be qualified as adequate for participation in the deposit insurance system), if the internal control rules of a bank which aimed at anti-money laundering and counter-financing of terrorism (AML/CFT) fail to comply with Bank of Russia requirements, or if the Bank of Russia reveals that a bank does not comply with these rules, or if the internal control system aimed at AML/CFT does not enable a bank to pay closer attention to transactions with customers involving higher risk;
- bringing the method for assessing the ownership transparency level into compliance with the provisions of Federal Law No. 146-FZ;
- bringing the procedure for calculating capital-based ratios into compliance with Bank of Russia Regulation No. 395-P, dated 28 December 2012, 'On the Method for Measuring Bank Capital (Basel III)' and Bank of Russia Instruction No. 139-I, dated 3 December 2012, 'On Banks' Required Ratios';
- changing thresholds used when assigning a numerical score to the PK1 ratio;
- establishing the rule on the possibility to calculate capital-based ratios until 1 January 2015 relying on capital value according to Provision No. 215-P.

In addition, Ordinance No. 3085-U provides the possibility for Bank of Russia regional branches and the Department for Supervision of Systemically Important Banks, in case of documentary confirmation of corrective actions taken by banks, to make a decision on inclusion into sub-group 2.2 of banks, with regard to which there exist reasons for inclusion into lower classification groups. These Ordinances became effective on 1 January 2014.

Within the implementation of the rules stipulated by Federal Law No. 184-FZ, the Bank of Russia issued:

- Bank of Russia Ordinance No. 3057-U, dated 6 September 2013, 'On the Procedure for Appointing Bank of Russia Authorized Representatives in the Case Stipulated by Point 7 of Part 1 of Article 76 of the Federal Law on the Central Bank of the Russian Federation (Bank of Russia)';
- Bank of Russia Ordinance No. 3122-U, dated 25 November 2013, 'On Amending Bank of Russia Ordinance No. 2181-U, Dated 9 February 2009, on the Procedure for Submission by Credit Institutions of Information and Documents to Bank of Russia Authorized Representatives'. This stipulates that the procedure for submitting information by credit institutions to Bank of Russia authorized representatives established by Bank of Russia Ordinance No. 2181-U is applicable to Bank of Russia authorized representatives appointed to credit institutions according to Point 7 of Part 1 of Article 76 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'; and also provides for canceling the rule obliging credit institutions, before making deals (transactions), submit information about their intention to make deals (transactions) to a Bank of Russia authorized representative, but retaining the possibility for the Bank of Russia authorized representative to obtain such information on demand;

[1] Bank of Russia Letter No. 10-T, dated 30 January 2013, 'On the Specifics of Inspecting the Internal Structural Units of Authorized Banks (Branches) with Regards to Conducting Certain Types of Bank Transactions with Foreign Currency and Checks (Including Traveler's Checks) Whose Face Value is Expressed in Foreign Currency, with the Participation of Individuals'; Bank of Russia Letter No. 235-T, dated 9 December 2013, 'On Methodological Recommendations for Monitoring the Compliance with the Procedure for Conducting Cash Transactions and with the Rules for Cash and Foreign Currency Safekeeping, Transportation and Collection by a Credit Institution (its Branch)'.

– Bank of Russia Ordinance No. 3123-U, dated 25 November 2013, 'On Amending Bank of Russia Ordinance No. 2182-U, Dated 9 February 2009, on the Procedure for Appointing Authorized Bank of Russia Representatives, Carrying Out and Terminating Their Activities'. This specifies that Ordinance No. 2182-U establishes the procedure for appointing Bank of Russia authorized representatives to credit institutions in cases stipulated by Points 1–6 of Part 1 of Article 76 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', as well as a list of data and documents demanded by a Bank of Russia authorized representative from a credit institution.

To enhance the efficiency of banking supervision by its regional branches, the Bank of Russia issued:

– Bank of Russia Letter No. 37-T, dated 6 March 2013, 'On the Measures for Controlling the Accuracy of Recognition by Credit Institutions of Assets at Fair Value' containing recommendations to Bank of Russia regional branches on the assessment of the accuracy of recognition by credit institution of assets evaluated at fair value in compliance with Bank of Russia regulations and International Financial Reporting Standards;

– Bank of Russia Letter No. 69-T, dated 15 April 2013, 'On Urgent Measures for a Prompt Supervisory Response' containing a list of situations (circumstances) requiring closer attention from Bank of Russia regional branches and recommendations on actions to be taken by Bank of Russia regional branches after revealing such situations (circumstances) in bank activities, as well as Bank of Russia Order No. OD-209, dated 24 April 2013, 'On Urgent Measures for Prompt Supervisory Response'. This Order stipulates the time which Bank of Russia regional branches and structural units of the head office should take to complete the actions provided for by Bank of Russia Letter No. 69-T, dated 15 April 2013, 'On Urgent Measures for a Prompt Supervisory Response'.

Bank of Russia regional branches were informed about the new Chapter 5 of the Supervisory Guidance for Curators of a Credit Institution, 'Specifics of Organizing Supervision of the Activities of Multi-Branch Credit Institutions', which contains recommendations on supervising the activities of credit institutions which are composed of branches (internal structural units) and include those located in different Russian regions.

III.2. The State Registration of Credit Institutions and the Licensing of Banking Operations

In 2013, the total number of operating credit institutions with banking licenses dropped from 956 as of 1 January 2013, to 923 as of 1 January 2014 (by 3.5%) due to license revocations and a reorganization.

In the reporting year:

– ten newly founded credit institutions were registered (including three banks with non-resident holdings, one of which became a participant in the deposit insurance system; and seven non-bank credit institutions were registered, six of which applied for licenses to transfer funds without opening bank accounts and conduct related bank operations, including two of them which did so with non-resident shareholding) as compared to nine credit institutions in 2012 (among them six non-bank credit institutions specialized in transferring funds without opening bank accounts and conducting related bank operations). Thus, the process of founding credit institutions continued in 2013, primarily due to the entry into force of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System' and Federal Law No. 162-FZ, dated 27 June 2011, 'On Amending Some Russian Laws in Connection with the Adoption of the Federal Law on the National Payment System' (hereinafter Federal Law No. 162-FZ). The laws provided for the possibility to found payment non-bank credit institutions;

– eleven banks dropped out after being reorganized through mergers (as against seven credit institutions which merged in 2012, including six banks);

– four credit institutions changed their form of incorporation, including two banks which were reorganized from limited-liability companies into joint-stock companies and two banks which were reorganized from joint-stock companies into limited-liability companies (in 2012, six credit institutions were reorganized from limited-liability companies into joint-stock companies).

In 2013, 26 credit institutions, or 2.8% of the total number of operating credit institutions, expanded their business by obtaining banking licenses (as against 27 credit institutions in 2012), of which:

– seven banks obtained general banking licenses (two banks in 2012), of which one bank received a general banking license together with a license for attracting deposits and placing precious metals;

– seven banks were granted licenses to attract deposits and place precious metals (that number remained unchanged compared to 2012), of which one bank obtained it together with a general banking license;

– five banks obtained licenses for taking household deposits in rubles and in foreign currency (as compared with seven banks in 2012), of which one bank obtained it together with a license for banking operations with ruble and foreign-currency funds (without the right to attract household deposits);

– three banks participating in the deposit insurance system, which had been licensed to conduct banking operations in rubles (without the right to take household funds on deposit) and to take ruble-denominated household deposits, were issued licenses to conduct the corresponding transactions in foreign currency;

– one bank, a participant in the deposit insurance system that held a license for banking operations with ruble funds (without the right to take household deposits) which had a license for taking household deposits in rubles, obtained a license for banking operations with ruble and foreign currency funds (without the right to take household deposits);

– one bank that held a license for banking operations with ruble funds (without the right to take household deposits) was granted a license for performing the relevant operations in foreign currency (two banks in 2012);

– three banks received licenses for banking operations with ruble and foreign-currency funds (without the right to take household deposits) in connection with the cancellation of a restriction barring them from establishing correspondent relations with foreign banks (five banks in 2012), of which one bank obtained such license as a result of its reorganization by acquisition.

In 2013, 125 credit institutions had their banking licenses replaced in connection with a change in the names of certain banking operations, pursuant to Federal Law No. 162-FZ.

Federal Law No. 391-FZ, dated 3 December 2011, 'On Amending the Federal Law on Banks and Banking Activities' requires operating banks to increase their capital to 300 million rubles by 1 January 2015. As of 1 January 2014, 175 banks[1] had capital totaling less than 300 million rubles and needed about 11 billion rubles for capitalization support, which as of the said date equaled 27.4% of capital value of those banks (as of 1 January 2013, 246 banks, 17 billion rubles, and 29.9%, respectively).

The aggregate registered authorized capital of operating credit institutions increased from 1,341.4 billion rubles to 1,463.9 billion rubles, or by 9.1% in 2013.

[1] Banks managed by the DIA and banks that had their licenses revoked in January–February 2014 are not included.

As of 1 January 2014, the Bank of Russia accredited 84 representative offices of foreign credit institutions. Over the reporting period, the Bank of Russia accredited seven representative offices of foreign credit institutions in the territory of the Russian Federation, and extended the validity of the earlier issued permits for the operation of 29 representative offices.

Non-resident total investments in the aggregate authorized capital of operating credit institutions rose from 366.1 billion rubles to 404.8 billion rubles, or by 10.6%, in 2013[1] (by 26.3 billion rubles, or by 7.8%, in 2012[2]). The non-resident shareholding in the Russian banking system increased from 26.1% to 26.4% (in 2012, that share dropped by 0.7%). The number of operating credit institutions with non-resident shareholding grew from 244 to 251 (in 2012, from 230 to 244). The number of credit institutions with foreign shareholding of more than 50% grew from 117 to 122 (from 113 to 117 in 2012), while foreign investments in the authorized capital of these credit institutions rose by 11 billion rubles (23.1 billion rubles in 2012).

Credit institutions with foreign investments are located in 41 Russian regions. These include 161 credit institutions (64.1% of the total number) in Moscow and the Moscow Region, and 12 credit institutions, or 5.3% in St. Petersburg.

The downward trend in the number of bank branches persisted in 2013 (their number decreased from 2,349 to 2,005, or by 14.6%). This was caused by the reorganization of stand-alone units into internal structural units, which featured more promptness and simplicity of opening/closing, as well as a minimum headcount and, therefore, minimal administration costs.

The Bank of Russia registered 250 issues of securities by credit institutions in the reporting year. This increase in comparison with 2012 (224 issues) was due to a growth in the number of share issues in the reporting period (from 170 to 199).

In 2013, the par value of shares issued to increase credit institutions' authorized capital through subscription to ordinary and preferred shares totaled 138.6 billion rubles for 165 issues (in 2012, 95.7 billion rubles for 136 issues). The par value of share issues paid up with bank own funds stood at five billion rubles for thirteen issues (in 2012, 13.5 billion rubles for 16 issues). Seven share issues worth 78.6 billion rubles were made when credit institutions were reorganized by acquisition; four issues worth 1.6 billion rubles were made when credit institutions were reorganized from limited-liability companies into joint-stock companies (in 2012, five issues worth four billion rubles and four issues worth 2.6 billion rubles, respectively). Two share issues worth 0.2 billion rubles that were registered were made to convert bonds which had been issued earlier by a credit institution into shares (in 2012, no such issues were registered), six issues worth 0.3 billion rubles were made to convert preferred shares into shares with other rights (in 2012, three issues worth less than 0.1 billion rubles), two issues worth less than 0.1 billion rubles were made due to a decrease in the par value of shares (four issues totaling 0.5 billion rubles in 2012).

In 2013, 51 bond issues with a nominal value of 189.6 billion rubles were registered (54 bond issues worth 200 billion rubles in 2012).

According to the reports registered and notices on the placement of securities issues received in 2013, the nominal value of placed shares totaled 198 billion rubles (118.1 billion rubles in 2012), the value of placed bonds amounted to 108.9 billion rubles (158.4 billion rubles in 2012).

In the reporting year, sixteen share issues worth 5.8 billion rubles and twelve bond issues worth 43 billion rubles were cancelled as a result of the issuer's failure to sell a single security per issue or due to non-compliance with Russian securities legislation (sixteen share issues worth 4.1 billion rubles and sixteen bond issues worth 55.6 billion rubles in 2012).

[1] Starting from 1 January 2013, data are given for paid-in authorized capital (with registered issues taken into account).
[2] The non-resident share in 2012 was calculated based on registered authorized capital.

III.3. Off-Site Supervision and Supervisory Response

In 2013, in the context of the implementation of the banking sector's rehabilitation and strengthening policy, the Bank of Russia carried out measures to intensify banking supervision, including by enhancing the compliance of banks with legislation. Those measures were aimed at ensuring banking system stability, as well as enhancing the protection of the interests of bank creditors, depositors and customers.

Banking supervision continued to prioritize increasing credit institutions' soundness, assessing the actual quality of banks' assets and capital, as well as ensuring the reliability of reporting submitted by credit institutions. In the course of supervision of credit institutions' activities, risk-based approaches were being developed which were intended to foster the early detection, adequate assessment and prudential limitation of risks assumed by credit institutions and banking groups.

Supervisors paid closer attention to banks experiencing financial difficulties, and also to banks involved in shady large-scale transactions.

Supervision of credit institutions' activities in 2013 focused on the aggressive fund-raising and investment policy of credit institutions, lack of business transparency, and high risk concentration.

To timely reveal the situations threatening the interests of creditors and depositors of banks participating in the deposit insurance system in 2013, the Bank of Russia organized a system for responding to changes in credit institutions which were caused by sharp fluctuations in the value of assets (liabilities) or by the replacement of people who materially influenced the bank's activity. To make possible the application of efficient preventive supervisory response measures, a daily reporting system was introduced among banks. To mitigate the risks of creditors and depositors and to limit additional risks assumed by a bank until the remediation of the situation, measures prescribed by law were applied, including informing bank managers and owners about their responsibility for ensuring the financial soundness of a credit institution, and unscheduled inspections. If there were legal grounds, restrictions (bans) were imposed on some banking transactions; with respect to non-viable banks, their activities were terminated (banking licenses revoked).

When necessary, the Bank of Russia made suggestions to the owners and executives of credit institutions that they developed plans for the prompt improvement of their soundness. Within those plans, owners should have immediately resolved the most severe problems.

In 2013, banking supervision remained focused on the issues of studying the adequacy of the value appraisal of a number of assets, particularly securities, including shares in closed-end unit investment funds (ZPIFs) and real estate that it was whether an independent asset on the bank's balance sheet, or included in ZPIF property, or used as collateral. In the course of supervision, bank transactions with ZPIF shares were also analyzed, the ZPIF structure was studied, and the adequacy of provisions created for those investments of credit institutions was assessed. The collaboration between bank supervisors and the Bank of Russia Financial Markets Service contributed to the enhancement of the efficiency of the market appraisal of securities, including with respect to the detection of incidences of pricing manipulation.

Taking household deposits by banks and unsecured household lending were kept under special control; interest rates on household deposits and retail loans were monitored on a permanent basis. If household deposits were taken on non-market terms and if there were relevant grounds, such measure as the limitation of bank deposit interest rates was applied. The inadequate quality of services provided to individuals and incomplete disclosure of relevant information by credit institutions were proved by a large number of people's complaints that were filed with the Bank of Russia.

In the reporting year, the Bank of Russia paid closer attention to monitoring the actual level of banking risk concentration in the businesses of bank owners. If an increased concentration of the said risks was typical for some banks, the Bank of Russia used measures aimed at lowering the risk exposure of owners' businesses to the level it recommended.

Given that a new banking ratio (maximum risk exposure per related person or a group of related persons) will be introduced on 1 January 2015, bank supervisors should intensify their work with credit institutions to reduce the risk exposure of the said persons to a level not exceeding the ratio required by law (no higher than 20% of bank capital).

Taking into account potential transactions aimed at concealing toxic assets, camouflaging the actual risk concentration in the businesses of owners, as well as implementing fictitious capital increase schemes, supervisors analyzed credit institutions' transactions with non-resident companies and banks, especially those registered in offshore zones: lending transactions with non-public companies, the placement of funds by banks on nostro accounts or in the form of interbank loans, transactions with securities the rights on which were recorded in non-resident depositories, and the existence of requirements for non-residents associated with trust management of assets.

Within the financial regulation reform approved in 2013 by the G20, the Bank of Russia continued to implement a complex set of measures to enhance the soundness of credit institutions that were systemically important for the stable financial system and the economy in general.

The criteria based on which credit institutions are classified as systemically important are the following: the size of a credit institution, interconnection and interchangeability with credit institutions and other financial institutions, household deposit value, the amount of funds raised from individuals totaling ten billion rubles or more, and a credit institution being a member of a banking group (bank holding company). The systemically important infrastructure organizations of the financial market are also included in this group. The above criteria were developed taking into account the operational specifics of the Russian banking market, the recommendations of the BCBS and the Financial Stability Board, as well as the foreign practice of implementing those recommendations.

To ensure the concentration of Bank of Russia supervisory resources on systemically important credit institutions and to enhance the efficiency of supervision of them, the Department for Supervision of Systemically Important Banks was established on 1 October 2013 within the structure of the Bank of Russia head office. Additionally, relevant units are being created in some Bank of Russia regional branches.

Moreover, supervisors also analyzed banks' financial standing based on consolidated approaches to the assessment of their activities. They focused on transactions with credit institutions that were members of banking groups and also with non-resident credit institutions, as well as the economic nature of settled transactions, where relevant. To ensure the transparency of international banking operations and determine a supervisory regime for credit institutions that were members of banking groups, Bank of Russia representatives took part in international supervisory colleges in 2013.

In case Bank of Russia supervisors revealed any actions of credit institutions aimed at concealing the actual level of assumed risks, material misstatement of reporting submitted to the Bank of Russia, they took measures to specify the profile and level of risks assumed by banks, applied preventive and, when necessary, compulsory supervisory response measures.

Within the implementation of the Bank of Russia policy intended to prevent shady transactions via credit institutions involving encashment and cash withdrawal abroad, 115 credit institutions were subject to severe restrictive/prohibitive supervisory response measures in 2013 to stop such transactions.

The measures that the Bank of Russia took regarding credit institutions were predominantly preventive: the management of 896 banks received information on various breaches; Bank of Russia regional branches carried out meetings on diverse issues with 524 banks. Compulsory measures in the form of orders to eliminate violations were applied to 575 banks; and fines were imposed on 171 banks. Restrictions on certain transactions were placed in 194 banks; some bank transactions were prohibited in 45 banks; and 51 banks were forbidden to open branches.

In 2013, regional specialized meetings were carried out with Bank of Russia regional branches on the issues of off-site banking supervision. Among the topics discussed were: the vital tasks of banking supervision, certain operations for creating capital sources requiring increased attention, major changes in bank risk regulation, work with problem credit institutions, inspection activities, and legal issues arising in supervision. The issues related to supervisory efforts were considered based on case studies.

In the reporting year, the Bank of Russia sent information on elicited facts when principals provided guarantees, the issue of which was not confirmed, to beneficiaries under state orders to the Federal Anti-Monopoly Service within its work for maintaining the register of bad-faith suppliers.

III.4. Bank On-Site Inspections

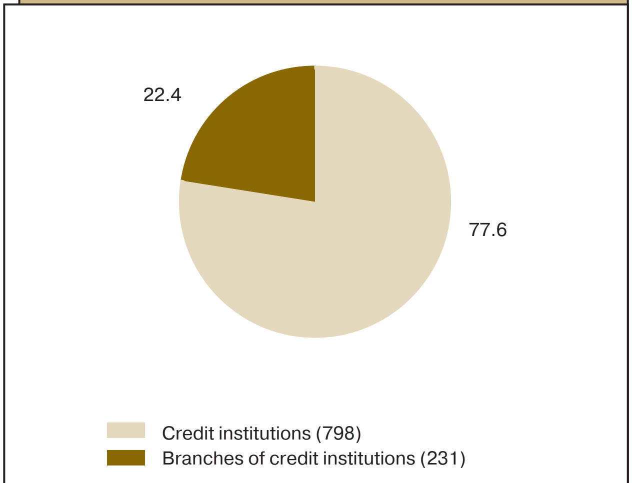
In 2013, the Bank of Russia continued to implement measures to increase the quality of on-site inspections, including the creation of the necessary organizational and legal conditions. The Ban k of Russia completed its organization of the centralization of inspection activities[1].

In 2013, Bank of Russia authorized representatives started 1,029 inspections[2] of 648 credit institutions[3] (Chart 3.1). The inspection units primarily focused their efforts on profiling risks, assessing their concentration (including the risk concentration of owners and affiliated parties), asset quality and capital adequacy, and compliance with regulatory requirements. In this connection, the inspections were mainly of a thematic type (855, or 83.1% of the total number of inspections).

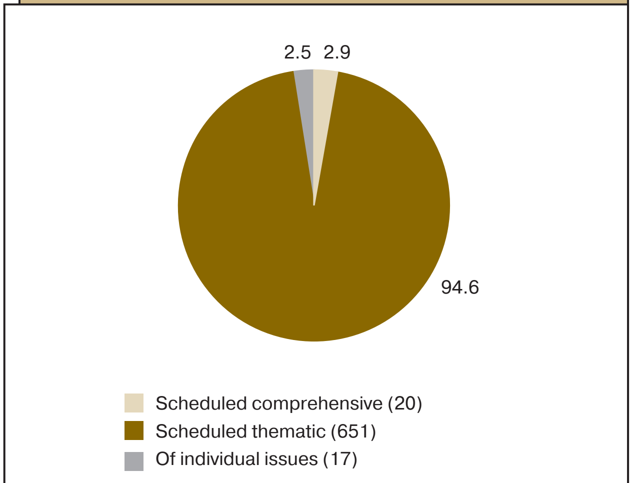
Most inspections (688, or 66.9% of the total number) were carried out under the Summary Plan; 341 of the inspections which were performed (33.1%) were unscheduled (Chart 3.2 and Chart 3.3). Seventy-four of the total number of unscheduled inspections were carried out at the behest of the Bank of Russia management, due to reported information about a high involvement of credit institutions in illegal transactions or about the deterioration of their financial standing and solvency problems. The Bank of Russia performed 267 inspections subject to the decisions of executives from its regional branches, of which 136 inspections concerned particular issues[4]; 112 inspections were made due to an increase of over 20% in credit institutions' authorized capital. Ten inspections were carried out in connection with banks' applications for licenses to expand their businesses. Four inspections were conducted because there were grounds for implementing insolvency (bankruptcy)-prevention measures, three were carried out due to the reported non-compliance of credit institutions with Bank of Russia regulations on cash circulation, and two inspections were made due to credit institutions' reorganization (Chart 3.4).

The most commonly detected violations were those found during inspections of the quality of banks' assets. Inspections revealed instances where money had been lent to legal entities (including affiliated parties) that did not carry out any actual business and had submitted unreliable reporting to credit institutions. There were instances where collateral was accepted that did not

Inspections of credit institutions and their branches, % *CHART 3.1*



Scheduled inspections by type, % *CHART 3.2*



[1] The Interregional Inspectorate for the Moscow Region, comprising five inspectorates, was established during the fourth stage of centralization.

[2] Of these, 798 inspections (77.6% of the total number of inspections) were carried out in single-office credit institutions and in the head offices of multi-branch credit institutions; 231 inspections (22.4%) were conducted in branches.

[3] Some credit institutions were inspected several times, including their head offices and/or branches or internal structural units.

[4] On the issues of compliance with required reserve ratios and the accurate accounting of liabilities on the balance sheets of branches, organization, conducting and accounting of foreign currency and check transactions.

comply with the established requirements or the value of the collateral was overstated. To conceal the actual risk level, credit institutions replaced impaired loans with investments into shares in ZPIFs, in relation to which they used mechanisms for the artificial creation of current (fair) value, carried out settlements between clients on loans and bills of exchange[1]; and allowed for the non-transparent assessment of risks associated with acquired debt claims[2].

Inspections of consumer lending organization revealed instances where the actual period of overdue debt had been concealed, and where banks had failed to evaluate the financial position of individual borrowers.

Inspections also detected incidents where banks had created their income using inappropriate assets (e.g. through the extension of additional loans to card holders for repaying interest or through the payment of insurance premiums by borrowers out of the loans they had obtained). Additionally, some credit institutions were revealed to have delayed the fulfillment of customer payment claims due to their lack of money in correspondent accounts; moreover, that was not recorded in the financial statements in a number of cases (the files had been concealed). Inspections also revealed incidents when banks which were experiencing severe problems in their businesses had created fictitious liabilities on household deposits.

In the course of inspecting banks falling within the 'second-line' of supervision, off-site supervision divisions held meetings with banks' executives and (or) owners. Inspections detected incidents where unfair owners had provided financial support to credit institutions without confirmed sources of financing.

Based on the inspection results, credit institutions were subject to incurring penalties, including compulsory measures, which ranged in severity up to the revocation of their licenses (the licenses of 14 credit institutions were revoked).

Bank of Russia inspectors conducted 419 inspections with the intention of checking whether or not credit institutions were complying with AML/CFT laws. They detected breaches of the laws and circumstances that evidenced inadequate money-laundering risk management, including multiple instances where bank internal control rules related to AML/CFT did not comply with legislation, and the involvement of some credit institutions in different kinds of illegal transactions.

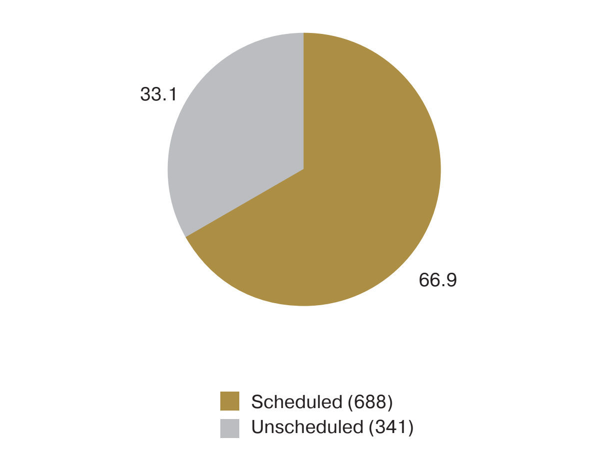
According to Article 32 of Federal Law No. 177-FZ, 70 inspections were carried out with the participation of DIA officers.

To assess the level of risks to multi-branch banks on a consolidated basis, 40% of scheduled inspections of branches were performed simultaneously with the inspections of bank head offices. Simultaneous inspections were carried out in three groups of credit institutions (including those that were not legally included in banking groups, but had close economic ties).This approach enabled inspectors to identify systemic defects in bank risk management and problem areas in the operation of such credit institutions.

To enhance the quality of inspections, the practice of monitoring their organization and performance continued. Information on the current results of inspections was sent to Bank of Russia regional branches for appropriate supervisory decisions to be made. The Bank of Russia head office applied extra measures to control the quality of on-site inspection monitoring in relation to 349 inspections in 191 'second-line' supervision banks

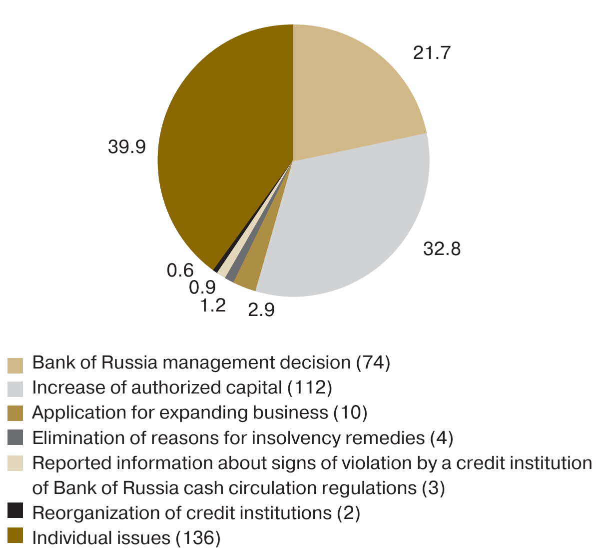
Scheduled and unscheduled inspections, %

CHART 3.3



Grounds for unscheduled inspections, %

CHART 3.4



[1] Loans extended by a credit institution were used by borrowers to purchase third parties' bills of exchange, whereas loans were repaid by selling those bills of exchange.

[2] Including in connection with the selling bank's failure to submit a complete set of documents on assigned debt claims to the buying bank.

and 158 inspections of the branches of such banks, as well as 56 banks involved in illegal transactions.

Measures implemented within internal controls organization were an additional driver which improved the quality of the inspection divisions' work, especially remote inspection units. Twenty-three inspection divisions located in six federal districts[1] carried out on-site inspections. During hearings of the regional branches' reports, issues related to drafting risk-based inspection assignments, pre-inspection preparation quality and the approaches to asset quality evaluation were considered.

Inspection divisions exchanged information with supervisory, controlling and law-enforcement authorities. In compliance with Decree of Russia' President No. 224, dated 3 March 1998, 'On the Interaction of State Bodies Fighting Economic Crimes', thirty-seven informational messages were sent to the Prosecutor General's Office on the transactions and trades of credit institutions and their customers, which showed signs of infractions of financial and economic legislation. Twenty-eight messages were sent to the Federal Financial Monitoring Service that regarded the illegal transactions and trades of credit institutions and their customers.

The Bank of Russia received 109 requests for information from law enforcement and controlling authorities. The information given in 29 messages was taken into account when organizing and conducting inspections, while data from fifteen messages was used within off-site supervision. Information on inspection results was given in 61 cases. Consulting support was provided in four cases.

During the course of thirteen inspections, the Bank of Russia requested information from law-enforcement authorities concerning bank customers and their possible involvement in illegal activity.

To enhance cooperation between inspection divisions in light of the centralization of inspection activities, the Main Inspectorate's computer system was upgraded; in particular, a new communication scheme was arranged between inspection units. The system for automating an inspector's workstation was modified, also with respect to testing the methodological approaches and solutions being implemented to automate inspection activities.

[1] In the Central, North-Western, North-Caucasian, Urals, Siberian, and Far Eastern Federal Districts.

III.5. The Financial Rehabilitation and Liquidation of Credit Institutions

As part of the efforts to implement Federal Law No. 175-FZ, dated 27 October 2008, 'On Additional Measures to Strengthen the Stability of the Banking System until 31 December 2014' (hereinafter referred to as Federal Law No. 175-FZ), the Bank of Russia, jointly with the DIA took measures to prevent the bankruptcy of seven banks in 2013.

Due to the fact that two banks showed signs of financial instability and were a real threat to the interests of their depositors and creditors, and also threatened the enterprises and organizations that ensured employment in the regions, the Bank of Russia decided on the DIA participation in the implementation of measures aimed at preventing their bankruptcy. Those banks are critical to the economic and social development of the regions, are primarily focused on financing their real economy, and have a significant value of household deposits. The plans for participating in the prevention of the two banks from going bankrupt, prepared by the DIA, were coordinated by the Bank of Russia Banking Supervision Committee and approved by the Board of Directors (with regards to the use of Bank of Russia's funds).

In 2013, measures were taken to prevent the bankruptcy of two banks, one of those banks was reorganized through a merger with another bank, and the second bank is operating in accordance with a standard procedure.

As of 1 January 2014, five banks continued to engage in scheduled activity as part of the DIA's intervention plans to prevent them from going bankrupt.

Financial recovery programs were funded under Federal Law No. 175-FZ with assets contributed to the DIA by the Russian Federation or with Bank of Russia loans extended to the DIA.

As of 1 January 2014, the DIA owed 300 billion rubles to the Bank of Russia for loans it had granted under Federal Law No. 175-FZ. Funds repaid by the DIA to the Bank of Russia in 2013 amounted to 46 billion rubles.

All the key aspects of the DIA's intervention plans to prevent bank failures approved by the Bank of Russia are disclosed by the Bank of Russia and the DIA through the publication of relevant information.

The DIA regularly reports on its progress to the Bank of Russia from the date of approval of a DIA intervention plan to the date of its fulfillment (the completion of the action to prevent bank failure).

In 2013, 70 credit institutions qualified for bankruptcy interventions under Article 4 of Federal Law No. 40-FZ, dated 25 September 1999, 'On the Bankruptcy (Insolvency) of Credit institutions' (hereinafter Federal Law No. 40-FZ).

Of these:

- four credit institutions carried out their activity within the action plans for financial rehabilitation, the control over three of them with regards to the implementation of the action plans was discontinued;
- three banks carried out insolvency (bankruptcy) prevention measures according to Federal Law No. 175-FZ, of which one bank ceased its activity due to its reorganization through a merger with another bank;
- 28 credit institutions eliminated the reasons for the occurrence of the grounds for bankruptcy intervention by themselves (without relevant requirements from the Bank of Russia);
- eleven credit institutions were not required to bring their capital value and authorized capital value into compliance with required ratios pursuant to Paragraph 7 of Article 4 of Federal Law No. 40-FZ because they had been conducting their activities for less than two years after obtaining their banking licenses (seven credit institutions eliminated the grounds);
- for two credit institutions, it was too early in the reporting period to require them to bring their capital value and authorized capital value into compliance with required ratios;
- for one credit institution, the deadline for the fulfillment of the requirement that it brings its capital value and authorized capital value into compliance with required ratios did not come in the reporting period;
- the Bank of Russia received an application for the withdrawal of its banking license from one credit institution.

The Bank of Russia issued orders to revoke the banking licenses of 19 credit institutions that had grounds for implementing insolvency (bankruptcy) prevention measures. In addition, the license of one credit institution was canceled.

According to an analysis of the reports of Bank of Russia regional branches, the number of Russian regions where problem banks operated has been falling: it decreased from 24 in 2010 to sixteen in 2013.

As of 1 January 2014, sixteen credit institutions had grounds for implementing insolvency (bankruptcy) prevention measures, including two banks that were carrying out insolvency (bankruptcy) prevention measures in accordance with Federal Law No. 175-FZ.

Pursuant to Federal Law No. 177-FZ, in 2013, the Bank of Russia supervised banks to make sure that they complied with the deposit insurance system's requirements.

As of 1 January 2014, there were 873 banks participating in the deposit insurance system (891 banks as of 1 January 2013), including 111 banks which had had their licenses revoked (canceled) previously. There were also six operating banks which formally remained in the deposit insurance system but had lost their right to take individual deposits or open new personal accounts after a Bank of Russia ban. For four of these banks, this occurred in accordance with Article 48 of Federal Law No. 177-FZ. Another bank voluntarily refused to service individuals, and the sixth lender changed its status from that of a bank to that of a non-bank credit institution.

In 2013, five banks joined the deposit insurance system and twenty three banks dropped out (nine of these banks because of their reorganization and fourteen as a result of their liquidation).

In the reporting period, two banks which were participants in the deposit insurance system were prohibited from taking private deposits and opening personal accounts, in compliance with Article 48 of Federal Law No. 177-FZ. These included one bank which was affected due to the sanction imposed on it according to Point 4 of Part 2 of Article 74 of Federal Law No. 86-FZ that had continuously remained effective for three consecutive months. The other bank was prohibited because of its failure to comply with the requirements for participation in the deposit insurance system; it didn't meet several groups of evaluation parameters regarding the management quality of the bank, its operations and risks for three consecutive months. The two banks eventually had their banking licenses revoked.

During 2013, insured events occurred in 27 credit institutions which participated in the deposit insurance system (banking licenses were withdrawn from 26 banks and the license of one bank was revoked due to its decision on voluntary liquidation). The provisional administrations appointed by the Bank of Russia provided the DIA with lists of obligations to depositors arising from all insured events within seven days, as envisaged by Federal Law No. 177-FZ. That allowed the DIA to initiate insurance payments to depositors in a timely manner (within three business days from the date of the submission by a depositor of the required documents to the DIA, but no earlier than 14 days from the date of the insured event).

In the reporting period, the Bank of Russia and the DIA cooperated, coordinated their activities and exchanged information on the functioning of the deposit insurance system, bank participation and premiums, the payment of deposit compensation, Bank of Russia inspections of banks participating in the deposit insurance system, penalizing banks, and other issues related to the operation of the deposit insurance system, in accordance with Federal Law No. 177-FZ and agreements signed.

In the year under review, the Bank of Russia revoked the banking licenses of 32 credit institutions (22 in 2012) in accordance with Article 74 of Federal Law No. 86-FZ and Article 20 of Federal Law No. 395-1.

Banking licenses were revoked on the following grounds:

non-compliance with federal banking laws, as well as Bank of Russia regulations, in case a credit institution had been repeatedly subject to the measures stipulated by Federal Law No. 86-FZ: 30 cases (in 2012 , 21 cases);

repeated violation during one year of the requirements provided for by Article 6 and Article 7 (except Point 3) of Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalization (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (hereinafter Federal Law No. 115-FZ): eight cases (in 2012, one case);

established facts of patently inaccurate reports: seven cases (also seven cases in 2012);

bank capital falling below the minimal required level established by the Bank of Russia as of the date of its state registration: six cases (also six cases in 2012);

capital adequacy ratio falling below 2%: 5 cases (seven cases in 2012);

failure to satisfy claims of creditors on money obligations within 14 days of the due date: two cases (in 2012, ten cases);

failure to meet the deadline established by Federal Law No. 40-FZ for the fulfillment of the requirement to make the capital value and authorized capital value comply with required ratios: one case (in 2012, no such cases were registered);

delayed submission of monthly reporting by over 15 days: one case (in 2012, no such cases were registered);

conducting (including one-time) banking operations not provided for by the issued license: one case (in 2012, no such cases were registered).

Additionally, one credit organization's license was canceled due to its shareholders' decision to liquidate it voluntarily (also one in 2012).

More than half of the credit institutions (17 out of 32) that had their licenses revoked in the reporting year were registered in the Moscow Region.

In 2013, the Bank of Russia made consistent efforts to remove from the financial services market credit institutions that violated Federal Law No. 115-FZ, were involved in illegal transactions and unlawful activity, breached banking legislation, falsified information on their financial standing, did not comply with Bank of Russia requirements, and used unfair practices for raising funds from creditors and depositors, thus creating a real threat to their interests.

Over the reporting year, in almost half of the cases (14 of 32), last-resort sanctions were imposed when credit institutions submitted false reporting that concealed decapitalization and actual bankruptcy. In such cases, the license revocation was a measure primarily aimed at preserving assets for subsequent settlements with creditors. In nine cases, the Bank of Russia executed its duty to revoke licenses provided for by banking legislation.

To protect the legitimate interests of banks' creditors (depositors), in 2013, the Bank of Russia appointed 32 provisional administrations to manage credit institutions after their licenses had been revoked. In total, 38 provisional administrations operated in 2013. They were appointed based on the specified grounds; 29 of them included the DIA's officers as members, in compliance with Point 2 of Article 19 of Federal Law No. 40-FZ.

As of 1 January 2014, there were seventeen provisional administrations in place which had been appointed after the credit institutions had been stripped of their licenses.

Additionally, in 2013, according to Federal Law No. 175-FZ and based on the approved plans for the DIA's participation in the prevention of banks' bankruptcy, the Bank of Russia vested the DIA with the provisional administration functions in two banks.

As of 1 January 2014, liquidation was pending at 148 credit institutions; their licenses had been revoked (canceled) and the Bank of Russia had not yet received certificates of their removal from the state register. There was ongoing liquidation at 135 credit institutions, the relevant court rulings were not made as of the reporting date with respect to thirteen credit institutions following the revocation of their banking licenses.

The majority of credit institutions undergoing liquidation (123) were declared insolvent (bankrupt), and bankruptcy proceedings were initiated against them (including seventeen credit institutions which declared bankruptcy in 2013). As of 1 January 2014, forced liquidation was being executed in ten credit institutions subject to arbitration court rulings (in 2013, rulings on forced liquidation were rendered with regard to ten credit institutions, of which one credit institution was declared bankrupt). In addition, two credit institutions had filed for voluntary liquidation, based on decisions taken by their founders (members) (in 2013, the founders of one credit institution decided to file for voluntary liquidation).

Liquidation procedures were implemented in most of the liquidated credit institutions (128) as of 1 January 2014, by the liquidator, the DIA, which was appointed under Point 2 of Article 50.11 of Federal Law No. 40-FZ and Article 23.2 of Federal Law No. 395-1. The DIA performed the receiver's functions in 119 credit institutions and the liquidator's functions in nine credit institutions.

As of 1 January 2014, the DIA was appointed as receiver (liquidator) in 316 credit institutions. Of these, 188 credit institutions that had been liquidated by the DIA were taken off the state register of legal entities[1].

As of 1 January 2014, over the entire history of the operation of the Russian banking system, 1,616 credit institutions had been taken off the state register of legal entities due to their liquidation. According to reports filed with the Bank of Russia, the average percentage of satisfied creditor claims on these credit institutions amounted to 10.9%, including 71.5% of the claims of first-ranking creditors.

Over the period since 2004, when the functions of the receiver (liquidator) were assigned to the DIA, bankruptcy (liquidation) proceedings were completed in 174 credit institutions, where the DIA performed the functions of the receiver (liquidator). The average percentage of satisfied creditor claims on these credit institutions amounted to 27.8%, including 54.8% of the claims of first-ranking creditors, 39.2% of the claims of second-ranking creditors, and 15.7% of the claims of third-ranking creditors and other creditors whose claims were to be satisfied after those listed in the register of creditor claims.

In 2013, the Bank of Russia conducted seventeen inspections to check on the performance of the receivers (liquidators) of credit institutions. Sixteen inspections dealt with the DIA's activities, and one inspection was focused on the operations of a provisional administrator.

During the reporting year, the Bank of Russia accredited seventeen provisional administrators as the receivers of credit institutions; the accreditation of 26 provisional administrators was extended. Additionally, accreditation or its extension was denied to six provisional administrators due to their ineligibility.

As of 1 January 2014, 43 provisional administrators were accredited with the Bank of Russia.

In 2013, the Bank of Russia Board of Directors did not pass any resolutions to make Bank of Russia payments, pursuant to Federal Law No. 96-FZ, dated 29 July 2004, 'On Bank of Russia Compensation Payments for Household Deposits with Russian Bankrupt Banks Uncovered by the Deposit Insurance System'.

As of 1 January 2014, the Bank of Russia had passed resolutions to pay 40,308 depositors a total of 1,264,696,400 rubles; the Bank of Russia payments were received by 36,173 depositors (89.74% of those eligible) and totaled 1,231,258,700 rubles (97.36% of the total funds allocated for Bank of Russia payments).

As of 1 January 2014, receivers had satisfied Bank of Russia claims on credit institutions in which the depositors had received payments from the Bank of Russia totaling 432,637,000 rubles, or 35.14% of the total claims it had gained as a result of its payments. In 2013, the Bank of Russia received 1,822,900 rubles in claims payable to the Bank Russia that resulted from its payments.

The authorized registrar made entries registering liquidation in the single state register of legal entities with respect to 29 of all credit institutions where depositors had received payments from the Bank of Russia. The Bank of Russia claims on such credit institutions that remained unsatisfied during receivership due to the insufficient funds of debtors, totaling 722,107,200 rubles, were written off the Bank of Russia balance sheet (in 2013, there were no funds debited from the Bank of Russia balance sheet).

[1] This information was prepared based on the data reported by the registrar to the Bank of Russia as of 1 January 2014.

III.6. Countering the Legalization (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism

In 2013, the Bank of Russia continued to exercise the powers stipulated by Federal Law No. 115-FZ, paying closer attention to enhancing the efficiency of the AML/CFT system as a critical factor helping to mitigate banking risks and to ensure banking sector stability.

Those efforts relied on a risk-based approach, implemented in the activity of credit institutions and the Bank of Russia, according to the principles set in the International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation (approved by the FATF[1] in February 2012).

Within that context, an important event in 2013 was the adoption of Federal Law No. 134-FZ, dated 28 June 2013, 'On Amending Some Russian Laws as Related to Countering Illicit Financial Operations' (hereinafter Federal Law No. 134-FZ)[2]. It was drafted, among others, taking account of the proposals of the Bank of Russia that significantly improved the quality of and enlarged both the set of tools of credit institutions used for AML/CFT purposes and the scope of its authority to establish procedural measures for them.

In particular, the Law expanded a list of grounds for the refusal to conclude a bank account (deposit) agreement with an individual or a legal entity, and also for a refusal to fulfill a customer's instruction for a transaction. Additionally, credit institutions were empowered to cancel a bank account (deposit) agreement with a customer on their own initiative if they made two or more decisions during a calendar year to refuse the fulfillment of a customer's instruction for a transaction.

New provisions of AML/CFT legislation enable the improvement of the AML/CFT system, based on measures that prevent the penetration of the proceeds of crime into the banking sector. In this connection, the Bank of Russia paid great attention in 2013 to the creation of conditions that would enable credit institutions to efficiently implement the AML/CFT mechanisms stipulated by Federal Law No. 134-FZ in their activity.

Thus, the Bank of Russia and the Federal Financial Monitoring Service (Rosfinmonitoring) approved and established:

- the procedure for documentation by credit institutions and the submission to Rosfinmonitoring of data on all cases where concluding bank account (deposit) agreements with customers and (or) fulfilling customers' instructions for transactions was refused, as well as on all cases where agreements with customers were cancelled[3];
- the requirements for the procedure credit institutions shall use to inform an authorized body on measures they take to freeze (block) the funds or other assets of legal entities and individuals, as well as the results of their customer screening for legal entities and individuals, that are subject or shall be subject to measures aimed to freezing (blocking) their funds or other assets[4];
- the requirements for how a credit institution should submit, at the behest of Rosfinmonitoring, information about the transactions of its customers, the beneficial owners of customers, and data on the movement of funds in its customer accounts (deposits) in an electronic form or otherwise[5].

Another important task of the Bank of Russia in 2013 was the monitoring and control of the efficiency with which credit institutions used new tools for AML/CFT purposes. Those efforts were focused not as much on the assessment of formal measures taken by credit institutions, but rather on the adequacy of how credit institutions used their new powers to prevent the flow of the proceeds of crime and to manage risks associated with money laundering and terrorism financing in order to mitigate them.

The efforts of the Bank of Russia and the Russian banking community in enhancing the AML/CFT system were highly appreciated at the international level. In October 2013, at the FATF plenary meeting on the results

[1] Financial Action Task Force.

[2] Became effective on 30 June 2013.

[3] Bank of Russia Ordinance No. 3041-U, dated 23 August 2013, 'On the Procedure for Submission by Credit Institutions to an Authorized Body of Information on Cases of Refusal to Conclude a Bank Account (Deposit) Agreement with a Customer, Refusal to Fulfill a Customer's Instruction for a Transaction, and on Cases of Cancellation of a Bank Account (Deposit) Agreement with a Customer at the Initiative of a Credit Institution' (registered with the Ministry of Justice of the Russian Federation on 6 November 2013 under registration number 30321).

[4] Bank of Russia Ordinance No. 3063-U, dated 19 September 2013, 'On the Procedure for Credit Institutions Informing an Authorized Body about Measures Taken to Freeze (Block) Funds or Other Assets of Legal Entities and Individuals, and about the Results of their Customer Screening for Legal Entities and Individuals that Are Subject or Shall Be Subject to Measures Aimed to Freeze (Block) Funds or Other Assets' (registered with the Ministry of Justice on 6 November 2013 under registration number 30320).

[5] Bank of Russia Regulation No. 407-P, dated 2 September 2013, 'On Submission by Credit Institutions at the Behest of the Federal Financial Monitoring Service of Information on Customer Transactions, Beneficial Owners, and Movement of Funds in Accounts (Deposits) in an Electronic Form' (registered with the Ministry of Justice on 14 November 2013 under registration number 30372).

of defending the Sixth Progress Report on Russia, which addressed the deficiencies in the Russian AML/CFT system with the participation of Bank of Russia representatives, the FATF made a decision to replace the regular (annual) reporting regime with an easier biennial reporting regime.

In 2013, based on the analysis of information received within the supervisory framework, the Bank of Russia prepared recommendations for credit institutions which were intended to facilitate the detection of specific customer transactions and adopt measures limiting the risks associated with such transactions[1].

Along with that, the Bank of Russia intensified its efforts in 2013 to reduce the involvement of some credit institutions in servicing customers who conducted illegal financial transactions. To efficiently prevent situations that threaten not only the interests of creditors and depositors of credit institutions, but the banking system in general, the Bank of Russia implemented measures in compliance with its Letter No. 172-T, dated 4 September 2013, ‘On Priorities in Banking Supervision’.

The results of work performed by the Bank of Russia demonstrate a gradual reduction in 2013 of illegal transactions conducted by credit institutions in the interests of their customers. The majority of credit institutions adequately responded to the measures taken by the Bank of Russia and used options stipulated by legislation to mitigate AML/CFT risk. At the end of 2013, over 50 credit institutions stopped conducting illegal customer transactions. However, based on the entire data set available, the Bank of Russia had to take severe supervisory response measures against some credit institutions, including the revocation of banking licenses.

Within their supervisory functions, the Bank of Russia and its regional branches completed 1,005 inspections of credit institutions in 2013. Issues related to AML/CFT laws were considered in 43% of cases upon the completion of all scheduled and unscheduled inspections of credit institutions.

During 2013, the Bank of Russia regional branches initiated 1,233 administrative offense cases against 415 credit institutions, including 457 cases against executives, although 81 administrative offense cases were closed at the investigation stage. As a result, during 2013, the consideration of 1,146 administrative offense cases was completed: 290 rulings mandated the imposition of fines (including 57 rulings with regards to the executives of credit institutions), 482 rulings called for issuing warnings (including 239 rulings with regards to the executives of credit institutions), and 374 rulings recommended closing administrative cases (including 144 rulings with regards to the executives of credit institutions).

In 2013, the Bank of Russia head office, the Ministry of Internal Affairs, Rosfinmonitoring and Rosfinnadzor carried out nine training sessions for 473 employees of Bank of Russia regional branches. Additionally, over 200 representatives of the Bank of Russia head office and regional branches participated in the All-Russian Meeting ‘Topical Supervisory Issues of the Compliance by Credit Institutions with AML/CFT and Foreign Exchange Legislation. Practical Application by the Bank of Russia of Parts 1–3 of Article 15.27 of the Code on Administrative Offenses’.

[1] Bank of Russia Letters No. 73-T, dated 17 April 2013, No. 104-T, dated 10 June 2013, No. 110-T, dated 19 June 2013, and No. 150-T, dated 7 August 2013, ‘On Increased Bank Attention to Certain Operations by Their Customers’.

III.7. The Central Catalogue of Credit Histories

On the whole, the reporting year was characterized for the credit history system by a moderate increase in the number of credit history titles accumulated at the Central Catalogue of Credit Histories (CCCH) and the number of inquiries from credit history makers and users.

During 2013, the CCCH carried out its activity in accordance with Federal Law No. 218-FZ, dated 30 December 2004, 'On Credit Histories'. It received about 33 million credit history titles[1] (18.8% growth as compared with early 2013); their number as of the end of the reporting year totaled 207.9 million.

As of the beginning of 2014, the number of credit history titles of individual borrowers totaled 207.2 million, having increased by 18.7% in 2013, while the number of credit history titles of corporate borrowers as of 1 January 2014 totaled 658,200, having risen by 47.3% as compared with early 2013. Thus, the number of credit history titles of corporate borrowers submitted to the CCCH over the reporting period grew by 80% as against 2012. That proves that the process for compiling the credit histories of credit history makers – corporate borrowers, which had started in 2012, continued in the reporting year.

The number of information inquiries addressed to the CCCH by credit history makers and users about the credit history bureaus (CHBs) in which their credit histories were filed and the number of requests for creating or cancelling credit history maker codes grew by 2.3 million (19.2%) in the reporting year and reached 14.3 million since the CCCH launch. The number of inquiries addressed to the CCCH by credit history makers on CHBs keeping credit histories increased by 31.5% over the reporting year and totaled 1.5 million in absolute terms. Credit history makers addressed such inquiries mainly by applying to credit institutions: the number of such inquiries grew by 31% over the reporting year to 1.2 million.

In 2013, the CCCH was able to provide information in response to 75.0% of inquiries from credit history makers and users about CHBs in which their credit histories were filed (72.3% in 2012, 71.0% in 2011, 60.7% in 2010). This confirms the fact that the majority of borrowers had had their credit histories put on file.

In 2013, the number of CHBs fell by two, of which one CHB was excluded from the state register of CHBs, one CHB merged with another CHB; and one CHB was listed in the state register of CHBs. Thus, the number of CHBs as of 1 January 2014 totaled 25 (26 as of 1 January 2013).

[1] The number of credit history titles is defined as a sum of all credit history titles transferred to the CCCH by all credit history bureaus (data on the same borrower can be kept in several credit history bureaus), including credit history titles filed only following a lender's request.

III.8. Cooperation with Russia's Banking Community

In recent years, working groups on the key business lines of credit institutions and the main areas of the banking system functioning in the national economy have become an important form of cooperation between the Bank of Russia and credit institutions. Within this format, the teamwork is being carried out on the following issues:

– mortgage and consumer lending[1];
– the preparation of the roadmap 'Increasing the Availability of Bank Loans, State Guarantees and Other State Support Instruments';
– enabling Russian banks to use the IRB-approach for regulatory capital assessment;
– optimization of bank reporting;
– defining the approaches to accounting and reporting with regards to financial market players;
– the organization of the electronic document flow and documentation support for maintaining electronic document archives in the Russian banking system.

The Bank of Russia drafted its banking regulations while in active consultation with the Association of Russian Banks (ARB) and the Association of Regional Banks of Russia (the Russia Association), as well as with major credit institutions.

The section 'Answers to Frequently Asked Questions from Credit Institutions and Bank of Russia Regional Branches Concerning Banking Regulation and Supervision' was regularly updated on the Bank of Russia website. Thus, the Bank of Russia published responses to questions frequently asked by credit institutions related to the application of Bank of Russia Regulation No. 387-P, dated 28 September 2012 'On the Procedure for Market Risk Calculation by Credit Institutions', that became effective on 1 February 2013.

In 2013, the Bank of Russia continued its active cooperation with credit institutions within the context of traditional banking forums, conferences and meetings. Among the most important of them were: the All-Russian Banking Conference 'The Banking System in 2013: Growth Potential and its Implementation Scenarios' (Moscow), the 28th General Assembly of the Russia Association (Moscow), the annual autumn meeting of bankers with the Bank of Russia management regarding the issue 'Regulation of Bank Activities by the Bank of Russia' (Moscow). The 22nd International Banking Congress, 'Financial Stability: Micro and Macro Aspects' was held in St. Petersburg.

[1] Including those on the development of suggested terms (standards) of consumer loan agreements.

III.9. Cooperation with International Financial Organizations, Foreign Central Banks and Supervisors

In 2013, Bank of Russia representatives participated in the activities of the Basel Committee on Banking Supervision (BCBS) and its working groups and sub-groups on the implementation of standards (including the Quantitative Impact Study), macro-prudential supervision, supervisory college activities, capital, and liquidity. In 2013, it also worked to prepare information and other material requested by the Secretariat of the BCBS Group of Bank Supervisors from Central and Eastern Europe. The Bank of Russia also participated in the mutual assessment of the compliance of the BCBS member countries with BCBS documents.

In 2013, as part of its cooperation with the G20, the Bank of Russia contributed to quarterly reports on the implementation of Russia's commitments under the Framework for Strong, Sustainable and Balanced Growth and the Seoul Plan of Action with respect to building additional capacity and enhancing the transparency of the financial market; improving legal regulation of the financial market; and on the creation of an international financial center in Russia.

Efforts were continued to update the information on banking laws and regulations for the IMF electronic database on a regular basis. This information is placed quarterly on the Bank of Russia website. Within the framework of consultations on Article IV of the IMF's Articles of Agreement, the Bank of Russia met with IMF experts; additionally, an IMF advisor on banking regulation and supervision worked with the Bank of Russia on a regular basis.

Within the cooperation with the Organization for Economic Cooperation and Development (OECD), Bank of Russia representatives participated in the preparation of comments and suggestions on draft reviews of the Russian Federation prepared by the OECD Committee on Financial Markets and by the OECD Committee on Investments, and in preparation of analytical materials for the OECD project 'Services Trade Restrictiveness Indices (STRIs) for OECD Member and Partner Countries', with regard to non-residents' access to the Russian banking market.

The Bank of Russia attaches great importance to cooperation and information exchange with the banking supervisory authorities of foreign countries and has signed 37 cooperation agreements (memoranda of understanding) with foreign bank supervisors so far.

In the reporting year, to expand cooperation in the area of banking supervision of credit institutions and supervisory information exchange (including the supervision of cross-border establishments of Russian and foreign banks with respect to BCBS recommendations), the Bank of Russia continued its efforts to coordinate draft memoranda (agreements) with the supervisory bodies of a number of countries, given the approved amendments to Russian legislation[1]. In particular, foreign supervisory bodies were informed about the powers of the Bank of Russia with regards to the provision of data constituting banking secrets, guaranteeing confidentiality of data supplied to the Bank of Russia, as well as issues related to foreign supervisory bodies conducting inspections of relevant Russian subsidiary banks. The cooperation with foreign regulators also continued in terms of the submission to the Bank of Russia of information letters on the results of their inspections of Russian banks' subsidiaries abroad.

In 2013, the Bank of Russia arranged meetings to discuss topical issues that were relevant to banking regulation and supervision with representatives of the supervisory bodies of Austria, China and the Netherlands.

To coordinate the activities of authorities supervising banking groups' cross-border establishments, the Bank of Russia cooperated with foreign supervisors in international supervisory colleges. During the reporting period, Bank of Russia representatives participated in the work of supervisory colleges organized by the supervisors of Austria, Hungary, the Netherlands and Italy.

Bank of Russia representatives participated in the fourth meeting of the Working Group on Banking and Securities within the Russia–EC dialogue on financial and macroeconomic policy. The Banks/Financial Services Sub-Group of the Russian-German Inter-Governmental Working Group on Strategic Cooperation in Economics and Finance continued its operation. The Sub-Group carried out a regular meeting where it discussed issues related to the activity of central counterparties and of trade repositories, financial center development, and the U.S. Foreign Account Tax Compliance Act (FATCA).

In its cooperation with the Eurasian Economic Community (EurAsEC) and with the member states of the Common Economic Space (CES), the Bank of Russia participated in the coordination of the draft agreement on the Eurasian Economic Union, the draft agreement on requirements for the operations of the CES member states in financial markets, and the draft agreement on the exchange of information, including confidential data, in the banking sphere, securities markets, and insurance

[1] As related to the amendments introduced by Federal Law No. 146-FZ to Articles 51 and 73 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

business. The Bank of Russia prepared material for the meetings of the EurAsEC integration bodies and the Council of heads of the central (national) banks of the EurAsEC member states on cooperation, banking sector development and banking supervision in EurAsEC member states.

In compliance with the Professional Training Program for EurAsEC Central (National) Banks, international workshops were carried out with Bank of Russia participation in 2013 in Tula, and also in the national banks of the Republic of Belarus, the Republic of Armenia, and the Republic of Kazakhstan. The Bank of Russia organized a training session on the 'Monitoring of Enterprises' for representatives of the national banks of the Kyrgyz Republic and the Republic of Kazakhstan.

III.10. Outlook for Banking Regulation and Supervision in Russia

III.10.1. The State Registration of Credit Institutions and the Licensing of Banking Operations

In 2014, the Bank of Russia will continue to work on drafting federal laws:

– 'On Amending Article 18 of the Federal Law on Banks and Banking Activities' (with regards to legislative stipulation of the quota on foreign shareholding in the total authorized capital of credit institutions having banking licenses);
– 'On Amending Article 8 of the Federal Law on Banks and Banking Activities' (with regards to establishing the obligation of credit institutions to disclose information on executives' professional qualifications and expertise to the public);
– 'On Amending Some Russian Laws' (with regards to specifying a single procedure for the accreditation of branches (except for foreign banks' branches) and the representative offices of foreign legal entities operating in the Russian Federation);
– 'On Amending Article 11 and Article 11^2 of the Federal Law on Banks and Banking Activities' (with regards to establishing a single requirement for the minimum authorized capital of all types of newly registered non-bank credit institutions and requirements for their capital value).

Additionally, the Bank of Russia will continue to improve its regulatory framework. In particular, it intends to:

– continue amending Bank of Russia regulations aimed at maintaining an electronic document flow within the procedures for the state registration of credit institutions and issuance of banking licenses;
– amend Bank of Russia Ordinance No. 3028-U, dated 22 July 2013, 'On the Procedure for Opening (Closing) and Organizing the Operation of the Mobile Banking Vehicle of a Bank (Branch)', so as to expand the area of a mobile banking vehicle's operation to the territory of a federal district and bordering Russian regions;
– accomplish drafting Bank of Russia regulations establishing the procedure and criteria for the assessment of the financial standing of legal entities and individuals that are founders (members) of a credit institution and legal entities and individuals making transactions aimed at acquiring shares (stakes) of a credit institution and (or) exerting control over shareholders (members) of a credit institution – revised Bank of Russia Regulation No. 337-P, dated 19 June 2009, 'On the Procedure and Criteria for Assessing the Financial Standing of Legal Entities which Are Founders (Members) of Credit Institutions' and Regulation No. 338-P, dated 19 June 2009, 'On the Procedure and Criteria for Assessing the Financial Position of Individuals who Are Founders (Members) of Credit Institutions';
– in connection with the entry into force on 1 January 2014 of Article 11^{1-2} of the Federal Law 'On Banks and Banking Activities', and Article 57^1 and Article 57^2 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' (enacted by Federal Law No. 146-FZ), the Bank of Russia plans to issue in 2014 a regulation setting qualification requirements for persons who exercise the function of head of the risk management service, internal control service, internal audit service of a credit institution, for persons appointed to these positions; to clarify the requirements for business reputation of the above persons as stipulated by the Federal Law 'On Banks and Banking Activities'. Additionally, the Bank of Russia is to determine the procedure for the confirmation by a credit institution of its compliance with the above requirements.

In 2014, the Bank of Russia will focus on ensuring compliance with the new requirements of Russian legislation stipulated in Bank of Russia Instruction No. 146-I, dated 25 October 2013, 'On the Procedure for Obtaining Bank of Russia's Prior Permission to Acquire Shares (Stakes) in a Credit Institution'. It will control over compliance with the procedure for acquiring over 10% of shares (stakes) in a credit institution and (or) exerting control over shareholders (members) of a credit institution holding over 10% of shares (stakes) in a credit institution, and will require credit institutions to rectify violations committed when making the above transactions.

In addition, within Bank of Russia Regulation No. 345-P, dated 27 October 2009, 'On the Procedure for the Disclosure on the Bank of Russia Website of Information on Persons Controlling or Materially Influencing Banks Participating in the System for the Insurance of Household Deposits with Russian Banks', the Bank of Russia will enhance the procedure for disclosing to the public information on persons controlling or materially influencing a bank.

III.10.2. Banking Regulation

In 2014, the Bank of Russia will continue its efforts for implementing Basel II Pillar 2, 'Supervisory Review Process' into the Russian banking practice.

The legal framework needed to implement Pillar 2 was created by adopting Federal Law No. 146-FZ that, among other things, entitles the Bank of Russia to establish risk and capital management standards for credit institutions, to make them develop and implement internal capital adequacy assessment procedures (ICAAP), and also to stipulate the standards for disclosure by credit institutions of information on their activities, including assumed risks and risk and capital management procedures.

The Bank of Russia intends to develop a regulation establishing requirements for credit institutions regarding how they should implement ICAAP. After the issuance of this regulation, the Bank of Russia will demand that credit institutions, beginning with major credit institutions, develop and implement ICAAP. Additionally, the Bank of Russia plans to issue in 2014 a regulation stipulating the method for supervisory assessment of the ICAAP quality and amendments to certain Bank of Russia regulations that will allow it to take into account the ICAAP quality when conducting a supervisory assessment.

In 2014, the Bank of Russia will continue implementing the financial leverage index into the regulation practice in accordance with Basel III: it plans to schedule the start date for public disclosure by credit institutions of an index value and its components according to a standard and to notify credit institutions about the procedure for preparing and disclosing such information. The Bank of Russia will continue monitoring the financial leverage index level and its components. For prudential purposes, the financial leverage index is planned to be used starting from 1 January 2018 in compliance with Basel III.

To implement new approaches to banking sector liquidity regulation in accordance with Basel III, the Bank of Russia plans to issue in 2014 a regulation on the procedure for calculating the liquidity coverage ratio (LCR) that will stipulate the method for calculating it and also to introduce the LCR calculation reporting form together with the procedure for its preparation and submission to the Bank of Russia.

It is planned that in 2014 banks will calculate the LCR for monitoring, measuring the quantitative effect of and setting values of certain coefficients used in the calculation of the LCR whose particular values were not set by the BCBS. This case is similar to that of the Basel III implementation stages, with regards to redefinition of capital and capital adequacy ratios in compliance with Bank of Russia Regulation No. 395-P, dated 28 December 2012, 'On the Method for Measuring and Assessing Banks' Capital (Basel III)'.

Subject to the internationally approved time for Basel III implementation, the LCR is to become effective as a regulatory requirement starting from 1 January 2015. In 2014, the Bank of Russia will work to develop alternative options for calculating the LCR ratio to the one provided for by the BCBS.

In 2014, the Bank of Russia will continue its efforts to implement an approach to credit risk assessment that is based on internal bank ratings into the Russian banking industry. The Bank of Russia plans to publish its regulations stipulating the procedure for evaluating credit risk using internal ratings and the procedure for how the Bank of Russia should consider banks' applications to use internal ratings in credit risk calculations. The Bank of Russia plans for these documents to become effective as of 1 January 2015.

Within the framework of implementing Federal Law No. 146-FZ, the Bank of Russia plans to issue:

- Regulation 'On Consolidated Reporting', establishing the procedure for how credit institutions should prepare statements needed to supervise credit institutions on a consolidated basis, and also other information on the activities of a banking group, the procedure for their submission to the Bank of Russia and using consolidated reporting data in the supervision of banks;
- Ordinance 'On Identifying Signs of the Potential Relationship of a Party (Parties) to a Credit Institution and on Controlling the Compliance of Credit Institutions with the Measurement of Maximum Risk per Related Party (Parties)'. This establishes the procedure for identifying signs of the potential relationship of a party (parties) to a credit institution and for the activity of Bank of Russia structural units supervising bank activities aimed at revealing the persons who can be qualified as those who are related to a credit institution;
- Ordinance 'On the Procedure for the Disclosure by Credit Institutions of Interest Rates under Personal Deposit Agreements', which establishes the procedure for how credit institutions should disclose information on interest rates maintained in household deposit agreements according to the form approved by the Bank of Russia, broken down by deposit maturity and currency;
- Ordinance 'On Amending Bank of Russia Regulation No. 242-P, Dated 16 December 2003, on Organization of Internal Controls in Credit Institutions and Banking Groups', which stipulates the functions of the internal audit and internal control services of a credit institution;
- Instruction 'On the Procedure for Imposing Sanctions Against Credit Institutions', which regulates the procedure for sanctioning credit institutions in compliance with Article 74 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)';
- the Instruction that establishes the procedure for assessing the remuneration system in a credit institution, and also the procedure for requiring a credit institution to eliminate violations in its remuneration system;
- amendments to its Instruction No. 139-I, dated 3 December 2012, 'On Banks' Required Ratios' with regards to how the procedure for calculating the maximum risk ratio per borrower or group of related borrowers should be specified, and a method for calculating maximum risk per related party (parties) should be established.

III.10.3. Off-Site Supervision and Supervisory Response

In 2014, supervisory activities will focus on the following key areas:

1. Further efforts will be made to develop risk-based practices of supervision, including on a consolidated basis, of banking groups, bank holding companies and other groups of financial market participants.

2. With respect to banking groups, the main form of supervision will be supervisory groups, which will be created from the employees of the Bank of Russia head office and regional branches.

An important task will be the expansion of cooperation with foreign banking and financial supervisors under the effective interstate cooperation agreements and the practice of holding international supervisory colleges with respect to international banking groups that include Russian credit institutions.

3. Working with credit institutions, which have a non-transparent ownership structure, in an attempt to identify ultimate beneficiaries will remain a supervisory priority.

4. Efforts will be continued to determine the level of credit risks of shareholders (owners) that are assumed by banks, and, if necessary, to develop and approve action plans for mitigating the concentration of owner-related risks.

5. Methodological approaches and practices will be further developed within the supervisory activity to facilitate the detection of problems of credit institutions at early stages and enable the Bank of Russia to enhance the efficiency of supervisory actions aimed at preventing potentially quick deterioration of banks' financial standing, and stabilizing and improving their performance.

6. Particular attention will be paid to systemically important banks, in line with approaches to the identification of risks and the assessment of their profiles, as established by IFRSs and BCBS documents.

In 2014, the powers of direct supervision of major credit institutions from among systemically important ones will be delegated to the Department for Supervision of Systemically Important Banks. Direct supervision of other systemically important credit institutions will be carried out by specialized units of Bank of Russia regional branches. In 2014, the Bank of Russia plans to develop additional prudential requirements for systemically important credit institutions and to discuss them with the banking community.

7. When organizing supervision of multi-branch credit institutions, the Bank of Russia will improve the efficiency and the informative component of cooperation between the units of the Bank of Russia head office and regional branches in areas where the offices of such credit institutions are located.

Particular attention will be paid to improving methods of and approaches to the off-site supervision of the internal structural divisions of banks and enhancing cooperation between the Bank of Russia regional branches.

8. The institution of Bank of Russia authorized representatives will be further developed and enlarged, taking into account additional rights given to the Bank of Russia by legislation.

9. In light of BCBS recommendations, higher attention will be paid to the quality of bank capital.

10. The Bank of Russia will continue to thoroughly examine bank assets and to assess their quality, including fair value recognition in banks' statements. Additionally, assets in unit investment funds owned by credit institutions and assets used as collateral covering credit risks will be studied to determine whether they comply with market-value requirements.

In this connection, the Bank of Russia will maintain the practice of conducting expert evaluations of the market value of banks' assets, including the revaluation of assets that is included in capital calculation, and also of collateral accepted under credit deals.

11. The Bank of Russia plans to enhance its level of control over Russian banks' cross-border operations, the accuracy of reports on their nature and counterparties in transactions under examination. Special attention will be paid to banks carrying out transactions with offshore residents and to the identification of the economic nature of these transactions and deals.

12. Further efforts will be made to improve macroprudential analysis, based on the calculation and publication (jointly with the IMF) of financial soundness indicators.

13. To improve the systemic risks assessment based on the stress testing of the Russian banking sector, the Bank of Russia will actively use the approaches recommended by international organizations (the IMF, the BCBS, etc.) in this area. In 2014, further efforts will be made to assess the risks of the Russian banking sector, considering the entry into force of Basel III capital adequacy requirements. Additionally, tools for assessing the 'contagion effect' ('domino effect') in the interbank loan market will be improved.

III.10.4. On-Site Inspection

The Bank of Russia plans to further develop regulatory support for inspection activities in the following areas:

– improving the legal framework regulating the issues of organizing and conducting on-site inspections of credit institutions (their branches) for the purpose of risk assessment on a consolidated basis, together with inspecting credit institutions and non-credit financial organizations which are members of banking groups (holding companies);
– upgrading the legal framework stipulating the process for how credit institutions (their branches) are to be inspected and the procedure for interaction between Bank of Russia structural units, given the creation of Bank of Russia regional branches by federal district principle;

– improving information and analytical support for inspection activities and developing new techniques for inspecting specific business lines (issues) of credit institutions (their branches) to standardize the inspection process and enhance the efficiency of inspections;
– improving existing methodological support and developing new one for inspecting particular business lines of credit institutions (their branches).

III.10.5. Household Deposit Insurance

To implement measures aimed at reducing risks to the deposit insurance system, the Bank of Russia will further participate in drafting federal law 'On Amending the Federal Law on the Insurance of Household Deposits with Russian Banks' and the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' (No. 298254-6). This draft law was approved by the State Duma of the Federal Assembly of the Russian Federation in its first reading.

As part of the preparation of the draft law for its second reading, it is proposed that an even more significant differentiation of premiums to the deposit insurance fund be stipulated, depending on the household deposit rate established by banks. It is also proposed that as of 1 January 2015, the mechanism of differentiating insurance premium rates based on deposit rates should be replaced with a mechanism of differentiating insurance premium rates based on the measurement of risks associated with a bank's activities, based in turn on the method stipulated by a Bank of Russia regulation.

Within the implementation of the action plan for creating an international financial center in the Russian Federation, the Bank of Russia will continue participating in drafting the federal law 'On Amending Part 2 of the Civil Code of the Russian Federation and Some Russian Laws'. The draft law provides for the introduction of a new type of a bank deposit which lacks the right to early withdrawals (full or in part), or a new type of bank deposit certified by a savings certificate (certificate of deposit) which doesn't give the certificate holder the right to present it for payment before its maturity date.

III.10.6. The Financial Rehabilitation of Credit Institutions

In 2013, the Bank of Russia continued developing proposals regarding improved procedures for the financial rehabilitation and bankruptcy (liquidation) of credit institutions, strengthening their responsibility for illegal activity committed prior to the bankruptcy.

Thus, the Bank of Russia participated in drafting the Law 'On Amending Some Russian Laws and the Annulment of Some Russian Laws (Provisions of Laws)'. This proposed law complies with the G20's approaches and the recommendations of the Financial Stability Board regarding rehabilitation regulation and the orderly liquidation of financial institutions.

The aforementioned draft federal law is intended to consolidate the federal laws on bankruptcy and provides for amending Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' by adding laws on the bankruptcy of credit institutions and certain provisions of Federal Law No. 175-FZ. The draft federal law will not only enable the maintenance of measures for the financial rehabilitation of systemically important banks which proved their efficiency in the recovery from the 2008 financial crisis, but will also provide the Bank of Russia and the DIA with new tools for preventing the bankruptcy of banks or their liquidation in a way that depositors would sustain only minimal losses.

Thus, the draft federal law entitles the DIA to participate, at the Bank of Russia suggestion, in preventing the bankruptcy of a bank participating in the insurance system if it shows signs of financial instability or if any situations are detected that threaten creditors' interests and (or) banking system stability.

The draft law provides for a mechanism for transferring deposits and assets from a problem bank to a financially sound bank, which complements the mechanisms for liquidating banks that already exist. This measure was added to enhance the protection of bank creditors and to maintain confidence in Russian banks in general.

In addition, the aforementioned draft law provides for a range of measures which are designed to enhance the mechanisms which focus the responsibility for problem banks on their executives and owners. It prevents bonus payments to the executives of the problem banks which are undergoing financial rehabilitation procedures, and deals similarly with the executives of bankrupt banks.

In 2014, to continue implementing the key recommendations of the Financial Stability Board with regards to efficient ways of rehabilitating/liquidating financial institutions, the Bank of Russia, pursuant to the approved action plan for implementing the Key Attributes of Effective Resolution Regimes for Financial Institutions, will continue carrying out the already-started measures and intends to:
– introduce amendments to Russian legislation, including Bank of Russia regulations, which are aimed at establishing requirements for systemically important credit institutions to develop and regularly update financial rehabilitation plans, and also entitling the Bank of Russia to monitor the development of financial rehabilitation plans and their submission to the Bank of Russia;
– assess the possibilities and forms of introducing in Russia new tools for resolving bank insolvency (bankruptcy) that are not currently in use nor provided for in current legislation (bridge banks, 'bail-in' mechanisms, imposing a moratorium on payments to some lenders, etc.).

III.10.7. Liquidation of Credit Institutions

In 2014, work will be continued on drafting the federal law that provides for amending the Criminal Code of the Russian Federation by adding therein provisions establishing criminal responsibility for introducing deliberately incomplete or inaccurate information in the documents of a financial organization (including a credit institution). The draft law also provides for confirming the accuracy of such information, its submission to the Bank of Russia, and its publication or disclosure according to the procedure stipulated by Russian legislation. This will be done in compliance with a List of Assignments of Russian President No. Pr-3086, dated 27 December 2013, in order to implement the Message of Russian President to the Federal Assembly of the Russian Federation, dated 12 December 2013, and also as part of the implementation of the Russian Banking Sector Development Strategy until 2015.

The definition of an offense involves the existence of a purpose for committing the aforementioned illegal acts: the hiding of legally-stipulated signs of a financial organization's bankruptcy, or the grounds for a mandatory revocation of a credit institution's license.

These amendments should be introduced to the Criminal Code of the Russian Federation due to a widely spread practice among credit institutions of preparing materially inaccurate information and statements and submitting them to the competent bodies and the Bank of Russia.

The known cases of deliberate falsification by credit institutions of their statements prove the inefficiency of the existing sanctions that are imposed against credit institutions according to the administrative, criminal and banking laws of the Russian Federation and their inadequacy in counteracting the submission by credit institutions of inaccurate information to the Bank of Russia or other parties.

The proposed amendments to Russian criminal legislation are intended to enhance the protection of the rights and legitimate interests of the customers of such institutions, and also to increase confidence in the banking sector in general.

III.10.8. Countering the Legalization (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism

In 2014, the efforts of the Bank of Russia in the AML/CFT sphere will be focused on implementing the tasks and performing functions stipulated as part of the process to reform the Russian financial market's regulation system and the creation of a single regulator based on the Bank of Russia.

Moreover, a key task for the Bank of Russia and its regional branches in 2014 will be to ensure the effective introduction in credit institutions of a risk-based approach in the AML/CFT sphere. This is intended to mitigate the risk of credit institutions' involvement in money laundering and terrorism financing.

Additionally, the Bank of Russia will continue its efforts to:

– enhance the implementation of the requirement stipulated by Federal Law No. 115-FZ that transactions be revealed, reported and subject to the mandatory control of an authorized body with respect to the legislative segregation of relevant duties between all entities that implement the requirements set by Federal Law No. 115-FZ, depending on the type of their activities;
– improve requirements for identification (including by regulating the identification level, depending on the risk degree (level) of transactions);
– legally increase the Bank of Russia powers to revoke banking licenses from credit institutions and restrict the grounds for the imposition by the Bank of Russia of administrative sanctions against credit institutions, pursuant to Article 15.27 of the Code on Administrative Offenses, with a focus on imposing sanctions stipulated by Article 74 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

III.11. Bank of Russia Supervisors

The Bank of Russia supervisory divisions employ 4,473 executives and specialists, of whom 41.5% work at the head office and 58.5% are engaged in regional branches. The vast majority of specialists (98.6%) possess a higher education, are between 30 and 50 years old (63.3%), and have worked in the banking system for more than three years (82.5%).

In 2013, 336 training sessions were carried out for 2,467 employees of banking supervision units. A special interest was taken in short workshops and refresher courses held by highly qualified university professors and experts in the corporate governance of credit institutions, the analysis and assessment of the financial standing of a bank's corporate customers, banks' securities transactions, e-banking technology, the peculiarities of inspections of a credit risk management system in banks, control over the compliance by credit institutions with AML/CFT legislation, etc.

As in the previous years, much attention was given to implementation of projects for the professional retraining of curators, inspectors, provisional administrators and advisers on credit institutions' financial rehabilitation. In 2013, four groups of attendees (76 people) accomplished their training; the training of another group started which will be completed in 2014. Additionally, for the enhanced study of international financial reporting standards, nine basic courses and 32 short-term special courses were carried out on particular standards and on issues related to preparing financial reports by credit institutions using IFRSs (274 employees attended the courses).

To acquire knowledge and skills and consolidate them in practice and exchange professional work experience, training sessions were organized for the representatives of Bank of Russia regional branches in the Banking Supervision Department, the Main Inspectorate of Credit Institutions and the Financial Monitoring and Foreign Exchange Control Department. During 2013, Bank of Russia specialists held lectures arranged by the Human Resources and Personnel Management Department and by Bank of Russia training centers.

In 2013, the Bank of Russia continued the practice of consulting employees of banking supervision units to improve their knowledge in computer technology and foreign languages, as well as the practice of holding workshops and training sessions on the development of management and social competence, as well as personal qualities which can help them be successful in their professional activity.

As part of its international cooperation, the Bank of Russia trained 144 executives and specialists of banking supervision units in the reporting year. International workshops were held for experience exchange with foreign experts in Russia (together with the ECB, the IMF, the Bank of France and the Bank of England) and on-site (in the ECB, central banks of European countries, the U.S. Federal Reserve, the IMF, the BIS, and the Study Center in Gerzensee), and also in compliance with the Vocational Training Program for employees of the central (national) banks of EurAsEC member states. Foreign experience was also studied remotely using the online learning tool FSI Connect, developed by the Financial Stability Institute of the Bank for International Settlements (Basel) for financial sector supervisors around the world. In 2013, 182 employees of banking supervision units successfully passed their final tests.

Annexes

IV

IV.1. Monitoring Banking Sector Stability

The monitoring of liquidity risk, risks associated with lending to non-financial organizations and households, capital adequacy and market risk was performed in 2013 to identify negative trends in the banking sector at an early stage, including individual banks whose transactions make a decisive contribution to these trends. In addition to monitoring the key financial risks, potential systemic risks were also analyzed with respect to the assets and liabilities structure of major credit institutions and the banks with the largest volume of household deposits, the effect of the stock market's situation on credit institutions' financial standing, transactions for taking and placing interbank loans and deposits at high interest rates, large loans granted to companies which had experienced technical defaults on their publicly traded debt instruments, the reliance of banks' funding on Bank of Russia funds, and also restructured and extended loans.

The Bank of Russia continued its work to assess the financial stability indicator of the Russian banking sector on a quarterly basis within the development of a risk map.

Russian banking sector risk map

The Bank of Russia makes an assessment of banking sector financial stability every quarter based on a risk map. When building it, the Bank of Russia uses the experience of the International Monetary Fund, the European Central Bank, the regulators and central banks of various countries. The risk map of the Russian banking sector has been built to determine the overall level of risk and its dynamics. The map comprises seven groups of indicators (vectors) with a risk level ranging from 0 to 10: industry-specific risk factors are liquidity, credit risk, profitability, capital, market risk; and external risk factors include macroeconomics and external risks.

Each vector comprises a set of indicators, and to determine the risk level using these indicators, the dynamics of relative indicators, including their annual growth, is assessed. To ensure the comparability of data, each indicator is standardized given its maximum and minimum values.

After a data set is built, a percentile is calculated to which the index value for the analyzed period refers. The risk level of a particular vector is calculated as a sum of percentiles of the indices it comprises. These percentiles are weighted with respect to their influence on the final risk level of a particular vector.

Based on the risk map's development results, the overall risk level of the banking sector is calculated as the final financial stability indicator.

IV.2. The National Payment System

In 2013, the structure of entities of the national payment system continued to take form in the Russian Federation as they met a rising consumer demand for advanced payment services and technological solutions ensuring highly available and secure payment services. Bank of Russia efforts to regulate and develop the national payment system according to Federal Law No. 161-FZ also contributed to that.

As of early 2014, the activities of national payment system entities were conducted by 922 money transfer operators (the Bank of Russia, Vnesheconombank and 920 credit institutions); 30 payment system operators (the Bank of Russia, 19 credit institutions and 10 non-credit institutions); payment infrastructure service operators (34 operations centers, 31 payment clearing centers, 26 settlement centers); 82 electronic money operators; the Federal State Unitary Enterprise ‘Russian Post’ (hereinafter FSUE Russian Post); payment agents, and bank payment agents (as of 1 January 2014, they had opened 32,100 accounts with credit institutions).

In 2013, 4.2 billion payments[1] were effected through the national payment system, their value totaling 1,929.5 trillion rubles (3.8 billion and 1,591.0 trillion rubles in 2012, respectively). On average, 17.0 million payments totaling 7.8 trillion rubles were effected daily. The average payment value increased by 8.9% to 459,400 rubles.

Thirty-one payment systems operated in the territory of the Russian Federation (20 payment systems in 2012), of which two payment systems were systemically important (the Bank of Russia payment system and the Non-Banking Credit Organization Closed Joint-Stock Company National Settlement Depository), and four payments systems were socially important (CONTACT, Visa, Golden Crown, and MasterCard).

In 2013, 1.3 billion money transfers were effected via the Bank of Russia payment system, their value totaling 1,224.9 trillion rubles (a 6.5% increase, both in volume and in value). The ratio of the value of payments made through the Bank of Russia payment system to GDP amounted to 18.3 (as against 18.5 in 2012); 5.4 million transfers totaling 5.0 trillion rubles were executed daily (5.1 million transfers totaling 4.6 trillion rubles in 2012).

The transfers made by credit institutions dominated the structure of money transfers, which were effected via the Bank of Russia payment system, representing 85.5% in terms of volume and 78.0% in terms of value. The share of transfers of Bank of Russia customers other than credit institutions amounted to 14.4% in volume and 8.8% in value, while the transfers of the Federal Treasury and its regional branches, as participants in the electronic message exchange with the Bank of Russia, accounted for a vast majority of transfers. In 2013, they effected 195.5 million transfers through the Bank of Russia payment system, their value totaling 74.6 trillion rubles, which is a 6.3% increase in volume and a 19.2% rise in value on the previous year.

The use of the Banking Electronic Speedy Payment System (BESP) continued to increase in 2013. As of early 2014, 2,776 organizations were its participant (of which 412 were direct settlement participants, 2,280 were associated settlement participants, and 84 were special settlement participants). During the year, the BESP processed 2.1 million transfers which represented a total value of 504.1 trillion rubles, which is a 80% increase in volume and a 12% rise in value as compared with the previous year. The share of transfer s of credit institutions (branches) amounted to 90.1% in volume and 61.9% in value in the structure of money transfers effected through the BESP (95.5% and 60.4%, respectively, in 2012). Money transfers of over one million rubles accounted for 42.2% of the total volume of transfers executed through the BESP, the share of such transfers in value stood at 99.96%.

Money transfer operators – credit institutions and Vnesheconombank – broadened the scope of their payment services. In addition to head offices, their network included 2,000 branches and 43,200 internal structural units[2]. In 2013, money transfer operators made 2.9 billion payments for a total of 704.6 trillion rubles (as compared with 2.5 billion transactions for a total of 440.5 trillion rubles in 2012). Own payments of credit institutions and payments of their customers other than credit institutions (both individuals and legal entities) increased over the year by 9.4% and 15.3%, respectively. Credit transfers[3] continued to dominate the structure of

[1] Including payments in rubles from the customer accounts of the Bank of Russia and credit institutions (individuals, credit institutions, and legal entities other than credit institutions, including the FSUE ‘Russian Post’); own payments of the Bank of Russia and credit institutions; as well as remittances made by individuals without opening bank accounts. Payments made using payment cards and the financial market transactions of credit institutions’ customers are not included.

[2] Mobile banking vehicles are excluded.

[3] A credit transfer is a payment service involving one-off or periodic write-downs from the payer’s account initiated by the payer.

the latter: they accounted for 59.5% of the volume of transactions and 97.2% of the value. The share of direct debit payments[1] remained insignificant as in the previous year, at about 2.0% in volume and in value. However, their share of the total value of payments increased more than five-fold as compared with 2012 (from 0.3% to 1.6%).

The development of the money transfer operators' payment infrastructure contributed to further growth in offering remote banking services. Almost all Russian credit institutions offered their customers the opportunity to remotely access their accounts for making payments. The number of accounts with remote access for customers who were individuals and legal entities other than credit institutions increased by 11.6% to 111.5 million during 2013. The rate of growth in the number of accounts accessible via the Internet (46.5%) and mobile phones (20.6%) remained high. Their share of the total number of remotely accessible accounts amounted to 40.4% and 27.7%, respectively, as of early 2014 (30.8% and 25.7% a year before).

As in the previous years, credit institutions' customers actively took advantage of electronic technology for making payments. The volume and value of non-cash payments made using payment instructions that were issued remotely by customers to credit institutions (including with the use of payment cards) increased by 70.0% and by 23.0%, respectively, and amounted to 6.8 billion transactions for a total of 392.7 trillion rubles, 25.5% and 73.5% of which accounted for payments via the Internet and mobile phones, respectively.

As of early 2014, the number of payment cards issued by Russian credit institutions grew by 13.6% to 217.5 million. Settlement (debit) cards, as usual, made up the largest number of them (86.6%); credit cards accounted for 13.4%, although the growth rate of the latter was higher (29.8% as against 11.4%).

The trend toward the more active use of payment cards issued by Russian credit institutions continued in 2013: the volume and value of transactions conducted by card holders in the Russian Federation and abroad increased by respective 35.4% (to 7.7 billion rubles) and 26.3% (to 29.6 trillion rubles), while the growth of non-cash transactions using payment cards (60.0% in terms of volume and value) considerably exceeded the growth of cash withdrawals (by 10.3% and 18.0%, respectively). That caused a further reduction in the share of cash withdrawals (from 50.1% to 40.8% of the total volume and from 77.7% down to 72.5% of the total value), while the share of non-cash transactions increased (to 59.2% and 27.5%, respectively).

In addition, 63.3 million transactions totaling 244.3 billion rubles were conducted in the Russian payment infrastructure in 2013 by holders of cards issued beyond the territory of the Russian Federation; 72 of 100 such transactions were made to pay for goods (works and services), which amounted to 56.6% of their total value.

An increased number of sales and services organizations accepting cards for payment contributed to the dynamic growth of non-cash transactions using payment cards. The number of point-of-sale terminals and imprinters rose by one third over the year and amounted to 986,300 as of early 2014. The number of ATMs, the majority (97%) of which are also intended for non-cash transactions, grew by almost 10% to 188,800.

As remote technology evolves in the Russian Federation, electronic money is becoming more popular as a payment instrument. As of 1 January 2014, 82 credit institutions notified the Bank of Russia that they had started providing electronic money transfer services (as compared with 38 as of early 2012). During 2013, the number of electronic payment instruments (EPIs) intended for electronic money transfers, including prepaid cards, totaled 304.1 million, 95.5% of which were non-personalized EPIs. Over the year, 338.2 million electronic money transfers were conducted using EPIs for a total of 429 billion rubles, while non-personalized EPIs were used most actively: they accounted for 78.2% and 50.3% in terms of the volume and value of transactions, respectively. The share of personalized EPIs in the total volume and value of transactions amounted to 21.8% and 48.6%, respectively. The share of corporate EPIs was minor. The average value of an electronic money transfer using non-personalized, personalized and corporate EPIs equaled 800 rubles, 2,800 rubles and 23,900 rubles, respectively.

A key entity of the Russian national payment system is the FSUE Russian Post – an organization with a widely geographically distributed network of post offices (41,400 post offices as of 1 January 2014)[2]. In 2013, 651 million postal transfers and individuals' payments totaling 582 billion rubles were made through FSUE Russian Post offices and payment terminals, both within the Russian Federation and abroad (a decrease by 8.5% and 7.1%, respectively, as compared with 2012). The majority of them were personal payments accepted by the FSUE Russian Post, which acted as a payment agent (89.6% and 64.2%, respectively).

Payment agents and bank payment agents continued to develop activities for the acceptance of payments from individuals. The value of payments made by individuals through them to legal entities increased by 23.5% (to 1.2 trillion rubles), of which payment agents accounted for 88.2% of payments and bank payment agents 11.8%. A high demand for this service is made clear by the several years of growth in the share of payments made via payment agents and bank payment agents (including FSUE Russian Post) in the total value of personal payments made without opening a bank account[3]. At year-end 2013, their share amounted to 21.2%.

[1] Payments under payment claims and collection orders are included.

[2] According to FSUE Russian Post.

[3] Including payments made by individuals through the infrastructure of credit institutions, FSUE Russian Post, and also payment agents and bank payment agents.

In 2013, the Bank of Russia continued its efforts towards the implementation of Federal Law No. 161-FZ in compliance with the National Payment System Development Strategy enacted in pursuance thereof.

To ensure the Bank of Russia coordinating role in the national payment system, the advisory council for its development was formed. It includes representatives of the state authorities of the Russian Federation, professional associations of payment services market players, banking associations, and other associations of profit-making organizations.

A comprehensive analysis of Russian legislation and Bank of Russia regulations was performed within the preparation for the assessment of the compliance of important Russian payment systems with international principles for financial market infrastructures.

In the course of Bank of Russia's work aimed at including the Russian ruble into a list of settlement currencies of the CLS system, there were resolved issues related to money transfers for national currency exchange transactions between Russian and foreign credit institutions through the Bank of Russia payment system.

The Bank of Russia significantly contributed to the promotion of non-cash payments for public services, particularly to the cooperation between credit institutions and the State Information System on State and Municipal Payments.

To boost public confidence in non-cash payment services and new payment instruments, the Bank of Russia and credit institutions completed their joint work aimed at ensuring their readiness for the full implementation of Article 9 of Federal Law No. 161-FZ, which establishes, starting from 1 January 2014, the procedure for mandatory reporting to customers about each transaction performed using an electronic payment instrument and the refund procedure in case of unauthorized transactions performed using electronic payment instruments.

IV.3. Improving the Central Catalogue of Credit Histories

In 2014, the Bank of Russia will continue its efforts to enhance the efficiency of the Central Catalogue of Credit Histories (CCCH) and credit history bureaus (CHBs), and will also start exercising its powers to supervise the activity of CHBs.

During the spring session of 2014, the State Duma of the Federal Assembly of the Russian Federation plans to consider the draft Federal Law 'On Amending the Federal Law on Credit Histories and Some Russian Laws'. The draft Law was prepared together with the Bank of Russia to improve the legal regulation of the credit history compilation process (in pursuance of Point 9 of the Action Plan for the Implementation of the Russian Banking Sector Development Strategy until 2015). The relevant Law is expected to become effective in 2014. In addition, there are plans to improve the automated system of the CCCH so as to make it comply with the Law.

The draft Law is aimed at improving the legal regulation of the activities of CHBs and the CCCH and provides as follows:

- to submit data on borrowers (sureties) to CHBs without their consent, but provided that a loan or surety agreement contains information about the submission of these data to CHBs;
- to specify a procedure for transferring credit histories in the event of transfers of claims on loan agreements (credit contracts);
- to create a credit history for a surety;
- to include information into a credit history on the total loan value and the loan security;
- to terminate the practice of compiling credit histories containing no information on the liabilities of a credit history's subject;
- to authorize organizations, if there exist legally effective court decisions rendered in their favor, to collect money under civil agreements (other than loan agreements) from indebted individuals or legal entities, to submit data on the specified debts and individuals/legal entities to CHBs;
- to provide a notary with a credit report due to the necessity to examine inherited assets;
- to establish the obligation of receivers and liquidation commissions to submit data on borrowers to CHBs;
- to establish the possibility of canceling a credit history based on a court decision, and on the results of the examination of a credit history maker's application.

In compliance with Federal Law No. 251-FZ, dated 23 July 2013, 'On Amending Some Russian Laws Associated with the Delegation of the Powers to Regulate, Control, and Oversee Financial Markets to the Central Bank of the Russian Federation', the Bank of Russia obtained the power to regulate, control and oversee the financial industry, including non-credit financial organizations such as CHBs. Having obtained these powers, the Bank of Russia plans to prepare and issue normative acts in 2014 regulating:

- the procedure for how the Bank of Russia should maintain the state register of CHBs, as well as its requirements regarding the financial position and business reputation of CHBs' participants;
- the procedure for the inspection of CHBs by Bank of Russia authorized representatives.

IV.4. Statistical Appendix

Key macroeconomic indicators in comparable prices, as % of previous year

TABLE 1

	2006	2007	2008	2009	2010	2011	2012	2013
GDP, billions of rubles	26,917.2	33,247.5	41,276.8	38,807.2	46,308.5	55,967.2	62,218.4	66,755.3
GDP growth rate	108.2	108.5	105.2	92.2	104.5	104.3	103.4	101.3
Federal budget surplus (+)/ deficit (–), as % of GDP	7.4	5.4	4.1	–6.0	–3.9	0.8	–0.1	–0.5
Industrial output index	106.3	106.8	100.6	89.3	107.3	105.0	103.4	100.4
Agricultural output	103.0	103.3	110.8	101.4	88.7	123.0	95.2	106.2
Retail trade turnover	114.1	116.1	113.7	94.9	106.5	107.1	106.3	103.9
Fixed capital investment	117.8	123.8	109.5	86.5	106.3	110.8	106.8	99.8
Household real disposable money income	113.5	112.1	102.4	103.0	105.9	100.5	104.6	103.3
Unemployment rate, as % of economically active population (average for period)	7.0	6.0	6.2	8.2	7.3	6.5	5.5	5.5
Consumer price index (December as % of previous December)	109.0	111.9	113.3	108.8	108.8	106.1	106.6	106.5
Average nominal US dollar/ruble rate over period	27.2	25.6	24.8	31.7	30.4	29.4	31.1	31.8
Current account, billions of US dollars	92.3	72.2	10.4	50.4	67.5	97.3	71.3	32.8
Net capital import/export by the private sector, billions of US dollars	43.7	87.8	–133.6	–57.5	–30.8	–81.4	–53.9	–59.7

Russian banking sector macroeconomic indicators

TABLE 2

	1 January 2010	1 January 2011	1 January 2012	1 January 2013	1 January 2014
Banking sector assets (liabilities), billions of rubles	29,430	33,805	41,628	49,510	57,423
as % of GDP	75.8	73.0	74.4	79.6	86.0
Banking sector capital, billions of rubles	4,621	4,732	5,242	6,113	7,064
as % of GDP	11.9	10.2	9.4	9.9	10.6
as % of banking sector assets	15.7	14.0	12.6	12.3	12.3
Loans and other funds provided to non-financial organizations and households, including overdue debt, billions of rubles	16,115	18,148	23,266	27,708	32,456
as % of GDP	41.5	39.2	41.6	44.5	48.6
as % of banking sector assets	54.8	53.7	55.9	56.0	56.5
Securities acquired by banks, billions of rubles	4,309	5,829	6,212	7,035	7,822
as % of GDP	11.1	12.6	11.2	11.3	11.7
as % of banking sector assets	14.6	17.2	14.9	14.2	13.6
Household deposits, billions of rubles	7,485	9,818	11,871	14,251	16,958
as % of GDP	19.3	21.2	21.2	22.9	25.4
as % of banking sector liabilities	25.4	29.0	28.5	28.8	29.5
as % of household income	26.1	30.2	33.3	36.0	38.6
Funds raised from organizations*, billions of rubles	9,557	11,127	13,996	15,648	17,787
as % of GDP	24.6	24.0	25.0	25.2	26.6
as % of banking sector liabilities	32.5	32.9	33.6	31.6	31.0

* Including deposits, funds in settlement and other accounts, government and other extra-budgetary funds, funds of the Ministry of Finance, fiscal authorities, individual unincorporated entrepreneurs, customers in factoring and forfeiting operations, certificates of deposit, float, and funds written off from customer accounts but not passed through a credit institution's correspondent account (net of funds raised from credit institutions).

The registration and licensing of credit institutions as of 1 January 2014*

TABLE 3

Registration of credit institutions	
Credit institutions[1] registered by the Bank of Russia or registration authority, in line with decisions made by Bank of Russia, total[2]	**1,071**
of which: – banks	999
– non-bank credit institutions	72
Registered wholly foreign-owned credit institutions	76
Credit institutions that have been registered by the Bank of Russia but have not yet paid authorized capital and have not received a license (within the time period established by law)	0
of which: – banks	0
– non-bank credit institutions	0
Operating credit institutions	
Credit institutions licensed to conduct banking operations, total[3]	**923**
of which: – banks	859
– non-bank credit institutions	64
Credit institutions holding licenses (permits): – to take household deposits	756
– to conduct operations in foreign currency	623
– general licenses	270
– to conduct operations with precious metals	209
Credit institutions with a foreign stake in authorized capital, total	251
of which: – wholly foreign-owned credit institutions	76
– credit institutions with a 50%-plus foreign stake	46
Credit institutions registered with the deposit insurance system[4]	762
Registered authorized capital of operating credit institutions, millions of rubles	**1,463,914**
Branches of operating credit institutions in Russia, total	**2,005**
of which: – Sberbank branches[5]	95
– branches of wholly foreign-owned credit institutions	95
Branches of operating credit institutions abroad, total[6]	**6**
Branches of non-resident banks in Russia	**0**
Representative offices of Russian operating credit institutions, total[7]	**344**
of which: – in Russia	300
– in non-CIS countries	30
– in CIS countries	14

* Information is based on data received from the registration authority as of the reporting date.

END 3

Additional offices of credit institutions, total	**24,486**
of which: – Sberbank	11,880
External cash desks of credit institutions, total	**7,845**
of which: – Sberbank	5,243
Cash and credit offices of credit institutions, total	**2,463**
of which: – Sberbank	0
Operations offices of credit institutions (branches), total	**8,436**
of which: – Sberbank	669
Mobile banking vehicles of credit institutions (branches), total	**146**
of which: – Sberbank	141
License revocation and liquidation of corporate entities	
Credit institutions that had their banking licenses revoked (cancelled) but have not been struck off the state register[8]	**148**
Liquidated credit institutions struck off the state register, total[9]	**2,088**
of which: – liquidated due to license revocation (cancellation)	1,616
– liquidated due to reorganization	471
of which: – by merger	2
– by acquisition	469
of which: – by being transformed into other banks' branches	382
– by being merged with other banks (without setting up a branch)	87
– liquidated due to an infraction of law in respect of payment of authorized capital	1

[1] The term 'credit institution' in this Table denotes one of the following:
– a corporate entity registered by the Bank of Russia (prior to 1 July 2002) or the registration authority and having the right to conduct banking operations;
– a corporate entity registered by the Bank of Russia (prior to 1 July 2002) or the registration authority, which had but lost the right to conduct banking operations.

[2] Credit institutions that have the status of a corporate entity as of the reporting date, including credit institutions that have lost the right to conduct banking operations but have not yet been liquidated as corporate entities.

[3] Credit institutions registered by the Bank of Russia (prior to 1 July 2002) or the registration authority and holding the right to conduct banking operations.

[4] Based on data provided to the Bank of Russia by the DIA as of the reporting date.

[5] Sberbank branches put on the state register of credit institutions and assigned a serial number.

[6] Branches opened by Russian credit institutions abroad.

[7] The representative offices of Russian credit institutions abroad include the offices of whose opening abroad the Bank of Russia has been notified.

[8] Total credit institutions that had their banking licenses revoked (cancelled), including liquidated credit institutions struck off the state register – 1,764.

[9] After 1 July 2002, the liquidated credit institution is struck off the state register as a corporate entity only after its liquidation has been registered by the registration authority.

Credit institutions by form of incorporation

TABLE 4

	As of 1 January 2013		As of 1 January 2014	
	number	% share	number	% share
Operating credit institutions licensed to conduct banking operations, total	956	100	923	100
of which: – joint-stock companies	634	66.3	607	65.8
of which: – closed joint-stock companies	254	26.6	246	26.7
– open joint-stock companies	380	39.8	361	39.1
– limited liability companies	322	33.7	316	34.2

Number of credit institutions and their branches by region as of 1 January 2014

TABLE 5

	Number of credit institutions in region	Number of branches in region		
		total	credit institutions with head office in given region	credit institutions with head office in another region
1	2	3	4	5
CENTRAL FEDERAL DISTRICT	**547**	**397**	**75**	**322**
Belgorod Region	4	11	1	10
Bryansk Region	0	11	0	11
Vladimir Region	3	13	0	13
Voronezh Region	3	31	0	31
Ivanovo Region	6	12	0	12
Kaluga Region	4	11	0	11
Kostroma Region	5	7	0	7
Kursk Region	2	9	0	9
Lipetsk Region	1	11	1	10
Moscow Region	9	47	0	47
Orel Region	1	13	0	13
Ryazan Region	4	11	0	11
Smolensk Region	2	13	6	7
Tambov Region	1	4	0	4
Tver Region	4	14	1	13
Tula Region	4	14	1	13
Yaroslavl Region	5	25	2	23
Moscow	489	140	19	121
Moscow Region (for reference)	*498*	*187*	*63*	*124*
NORTH-WESTERN FEDERAL DISTRICT	**70**	**288**	**8**	**280**
Republic of Karelia	1	13	2	11
Komi Republic	1	15	2	13
Arkhangelsk Region	2	22	0	22
of which: Nenets Autonomous Area	0	1	0	1
Vologda Region	10	13	3	10
Kaliningrad Region	2	25	1	24
Leningrad Region	5	13	0	13
Murmansk Region	3	16	0	16
Novgorod Region	2	9	0	9
Pskov Region	3	6	0	6
Saint Petersburg	41	156	0	156
SOUTHERN FEDERAL DISTRICT	**46**	**224**	**15**	**209**
Republic of Adygeya (Adygeya)	4	5	1	4
Republic of Kalmykia	2	3	0	3
Krasnodar Territory	15	72	1	71
Astrakhan Region	5	17	2	15
Volgograd Region	4	35	0	35
Rostov Region	16	92	11	81
NORTH-CAUCASIAN FEDERAL DISTRICT	**43**	**155**	**72**	**83**
Republic of Daghestan	21	76	63	13
Republic of Ingushetia	2	7	0	7
Kabardino-Balkaria Republic	5	12	3	9
Karachai-Cherkess Republic	5	4	0	4
Republic of North Ossetia – Alaniya	4	9	1	8
Chechen Republic	0	3	0	3
Stavropol Territory	6	44	5	39

END 5

	Number of credit institutions in region	Number of branches in region		
		total	credit institutions with head office in given region	credit institutions with head office in another region
1	2	3	4	5
VOLGA FEDERAL DISTRICT	**102**	**389**	**67**	**322**
Republic of Bashkortostan	10	33	0	33
Republic of Mari El	2	13	4	9
Republic of Mordovia	4	5	1	4
Republic of Tatarstan (Tatarstan)	22	66	46	20
Udmurt Republic	2	11	0	11
Chuvash Republic – Chuvashia	4	8	0	8
Perm Territory	5	37	0	37
Kirov Region	3	7	0	7
Nizhny Novgorod Region	12	78	3	75
Orenburg Region	8	15	0	15
Penza Region	1	15	0	15
Samara Region	17	52	3	49
Saratov Region	9	38	10	28
Ulyanovsk Region	3	11	0	11
URALS FEDERAL DISTRICT	**42**	**231**	**74**	**157**
Kurgan Region	3	8	0	8
Sverdlovsk Region	16	67	4	63
Tyumen Region	15	83	32	51
of which: Khanty-Mansi Autonomous Area – Yugra	8	22	4	18
Yamalo-Nenets Autonomous Area	0	13	0	13
Chelyabinsk Region	8	73	38	35
SIBERIAN FEDERAL DISTRICT	**51**	**225**	**21**	**204**
Republic of Altai	2	6	1	5
Republic of Buryatiya	1	9	2	7
Republic of Tyva	1	3	0	3
Republic of Khakassia	2	4	0	4
Altai Territory	7	18	5	13
Trans-Baikal Territory	0	6	0	6
Krasnoyarsk Territory	5	35	3	32
Irkutsk Region	8	25	2	23
Kemerovo Region	9	16	0	16
Novosibirsk Region	8	61	0	61
Omsk Region	6	24	0	24
Tomsk Region	2	18	8	10
FAR EASTERN FEDERAL DISTRICT	**22**	**96**	**7**	**89**
Republic of Sakha (Yakutia)	4	14	0	14
Kamchatka Territory	3	8	3	5
Primorsky Territory	6	19	2	17
Khabarovsk Territory	2	30	0	30
Amur Region	2	6	0	6
Magadan Region	0	6	0	6
Sakhalin Region	5	8	2	6
Jewish Autonomous Region	0	4	0	4
Chukchee Autonomous Area	0	1	0	1
Total for Russian Federation	**923**	**2,005**	**339**	**1,666**

Notes:
1. The number of credit institutions indicated for Saint Petersburg and the Leningrad Region (column 2) and their branches (column 3) pertains to credit institutions and their branches registered by the Bank of Russia regional branch for Saint Petersburg and the Bank of Russia regional branch for the Leningrad Region, respectively.
2. In line 'Moscow Region', figures in column 4 and column 5 indicate the number of branches whose parent credit institution is located in the given region (Moscow and the Moscow Region) and in other regions.

Credit institutions grouped by registered authorized capital as of 1 January 2014

TABLE 6

Region	Up to 3 m rubles	3 m to 10 m rubles	10 m to 30 m rubles	30 m to 60 m rubles	60 m to 150 m rubles	150 m to 300 m rubles	300 m to 500 m rubles	500 m to 1 bn rubles	1 bn to 10 bn rubles	10 bn rubles and over	Total
Russian Federation	**15**	**15**	**45**	**36**	**143**	**251**	**116**	**116**	**161**	**25**	**923**
CENTRAL FEDERAL DISTRICT	**4**	**8**	**28**	**23**	**63**	**141**	**60**	**82**	**117**	**21**	**547**
Belgorod Region	0	0	0	0	1	0	2	1	0	0	4
Bryansk Region	0	0	0	0	0	0	0	0	0	0	0
Vladimir Region	0	0	0	0	1	1	0	1	0	0	3
Voronezh Region	0	0	0	1	1	0	1	0	0	0	3
Ivanovo Region	0	0	1	0	3	2	0	0	0	0	6
Kaluga Region	0	0	0	1	0	3	0	0	0	0	4
Kostroma Region	0	0	0	0	1	1	2	0	1	0	5
Kursk Region	0	0	1	0	1	0	0	0	0	0	2
Lipetsk Region	0	0	0	0	0	0	0	1	0	0	1
Moscow Region	0	1	0	0	1	2	2	1	2	0	9
Orel Region	0	0	0	0	0	0	1	0	0	0	1
Ryazan Region	0	0	0	3	0	1	0	0	0	0	4
Smolensk Region	0	0	0	0	1	0	1	0	0	0	2
Tambov Region	0	0	0	0	1	0	0	0	0	0	1
Tver Region	0	0	0	1	1	2	0	0	0	0	4
Tula Region	0	0	1	0	1	2	0	0	0	0	4
Yaroslavl Region	0	0	1	2	1	0	0	1	0	0	5
Moscow	4	7	24	15	49	127	51	77	114	21	489
Moscow Region (for reference)	*4*	*8*	*24*	*15*	*50*	*129*	*53*	*78*	*116*	*21*	*498*
NORTH-WESTERN FEDERAL DISTRICT	**3**	**3**	**5**	**3**	**15**	**17**	**7**	**8**	**9**	**0**	**70**
Republic of Karelia	0	0	0	0	1	0	0	0	0	0	1
Komi Republic	0	0	0	0	1	0	0	0	0	0	1
Arkhangelsk Region	0	0	1	0	0	1	0	0	0	0	2
of which: Nenets Autonomous Area	0	0	0	0	0	0	0	0	0	0	0
Vologda Region	0	0	1	0	3	4	0	1	1	0	10
Kaliningrad Region	0	0	0	0	0	1	0	0	1	0	2
Leningrad Region	0	0	1	0	0	2	1	1	0	0	5
Murmansk Region	1	0	0	0	0	1	0	1	0	0	3
Novgorod Region	0	1	0	0	0	1	0	0	0	0	2
Pskov Region	0	0	0	0	2	0	1	0	0	0	3
Saint Petersburg	2	2	2	3	8	7	5	5	7	0	41

CONT. 6

Region	Up to 3 m rubles	3 m to 10 m rubles	10 m to 30 m rubles	30 m to 60 m rubles	60 m to 150 m rubles	150 m to 300 m rubles	300 m to 500 m rubles	500 m to 1 bn rubles	1 bn to 10 bn rubles	10 bn rubles and over	Total
SOUTHERN FEDERAL DISTRICT	**1**	**1**	**3**	**0**	**8**	**21**	**7**	**4**	**1**	**0**	**46**
Republic of Adygeya (Adygeya)	0	0	2	0	0	2	0	0	0	0	4
Republic of Kalmykia	0	0	0	0	2	0	0	0	0	0	2
Krasnodar Territory	0	0	1	0	3	5	3	2	1	0	15
Astrakhan Region	1	1	0	0	0	2	1	0	0	0	5
Volgograd Region	0	0	0	0	0	4	0	0	0	0	4
Rostov Region	0	0	0	0	3	8	3	2	0	0	16
NORTH-CAUCASIAN FEDERAL DISTRICT	**2**	**1**	**1**	**1**	**11**	**17**	**8**	**2**	**0**	**0**	**43**
Republic of Daghestan	1	1	1	0	4	10	3	1	0	0	21
Republic of Ingushetia	0	0	0	0	0	2	0	0	0	0	2
Kabardino-Balkaria Republic	0	0	0	0	3	2	0	0	0	0	5
Karachai-Cherkess Republic	0	0	0	1	1	0	2	1	0	0	5
Republic of North Ossetia – Alaniya	0	0	0	0	1	0	3	0	0	0	4
Chechen Republic	0	0	0	0	0	0	0	0	0	0	0
Stavropol Territory	1	0	0	0	2	3	0	0	0	0	6
VOLGA FEDERAL DISTRICT	**2**	**1**	**2**	**2**	**17**	**25**	**20**	**10**	**20**	**3**	**102**
Republic of Bashkortostan	0	0	0	0	1	2	4	1	2	0	10
Republic of Mari El	0	0	2	0	0	0	0	0	0	0	2
Republic of Mordovia	0	0	0	0	0	1	3	0	0	0	4
Republic of Tatarstan (Tatarstan)	0	1	0	0	2	6	1	3	7	2	22
Udmurt Republic	0	0	0	0	0	0	2	0	0	0	2
Chuvash Republic – Chuvashia	0	0	0	0	1	2	1	0	0	0	4
Perm Territory	1	0	0	0	1	1	0	0	2	0	5
Kirov Region	0	0	0	1	0	0	0	1	1	0	3
Nizhny Novgorod Region	0	0	0	0	4	2	4	0	2	0	12
Orenburg Region	0	0	0	0	3	0	1	2	2	0	8
Penza Region	0	0	0	0	0	1	0	0	0	0	1
Samara Region	1	0	0	0	2	5	1	3	4	1	17
Saratov Region	0	0	0	1	2	3	3	0	0	0	9
Ulyanovsk Region	0	0	0	0	1	2	0	0	0	0	3

END 6

Region	Up to 3 m rubles	3 m to 10 m rubles	10 m to 30 m rubles	30 m to 60 m rubles	60 m to 150 m rubles	150 m to 300 m rubles	300 m to 500 m rubles	500 m to 1 bn rubles	1 bn to 10 bn rubles	10 bn rubles and over	Total
URALS FEDERAL DISTRICT	**1**	**0**	**2**	**3**	**8**	**12**	**3**	**3**	**9**	**1**	**42**
Kurgan Region	0	0	0	1	1	1	0	0	0	0	3
Sverdlovsk Region	0	0	0	1	4	6	0	1	4	0	16
Tyumen Region	1	0	1	1	3	3	1	0	4	1	15
of which: Khanty-Mansi Autonomous Area – Yugra	0	0	1	1	2	0	1	0	2	1	8
Yamalo-Nenets Autonomous Area	0	0	0	0	0	0	0	0	0	0	0
Chelyabinsk Region	0	0	1	0	0	2	2	2	1	0	8
SIBERIAN FEDERAL DISTRICT	**2**	**1**	**3**	**2**	**16**	**10**	**10**	**3**	**4**	**0**	**51**
Republic of Altai	0	0	1	0	1	0	0	0	0	0	2
Republic of Buryatiya	0	0	0	0	0	0	1	0	0	0	1
Republic of Tyva	0	0	0	0	0	1	0	0	0	0	1
Republic of Khakassia	0	0	0	0	0	1	1	0	0	0	2
Altai Territory	0	0	0	1	4	1	0	0	1	0	7
Trans-Baikal Territory	0	0	0	0	0	0	0	0	0	0	0
Krasnoyarsk Territory	0	0	1	0	1	1	2	0	0	0	5
Irkutsk Region	0	0	0	0	4	3	1	0	0	0	8
Kemerovo Region	0	0	1	1	3	1	2	1	0	0	9
Novosibirsk Region	2	0	0	0	1	0	1	2	2	0	8
Omsk Region	0	1	0	0	2	1	1	0	1	0	6
Tomsk Region	0	0	0	0	0	1	1	0	0	0	2
FAR EASTERN FEDERAL DISTRICT	**0**	**0**	**1**	**2**	**5**	**8**	**1**	**4**	**1**	**0**	**22**
Republic of Sakha (Yakutia)	0	0	0	0	1	1	0	1	1	0	4
Kamchatka Territory	0	0	1	1	0	0	0	1	0	0	3
Primorsky Territory	0	0	0	0	2	4	0	0	0	0	6
Khabarovsk Territory	0	0	0	0	1	1	0	0	0	0	2
Amur Region	0	0	0	0	0	0	0	2	0	0	2
Magadan Region	0	0	0	0	0	0	0	0	0	0	0
Sakhalin Region	0	0	0	1	1	2	1	0	0	0	5
Jewish Autonomous Region	0	0	0	0	0	0	0	0	0	0	0
Chukchee Autonomous Area	0	0	0	0	0	0	0	0	0	0	0

Density of banking services in Russian regions as of 1 January 2014

TABLE 7.1

Region	Number of credit institutions branches, additional, operations, and cash and credit offices	Loans extended to resident organizations and households and other placements, millions of rubles[1]	Household deposits, millions of rubles[1]	Gross Regional Product (GRP) in 2013 (estimate), billions of rubles	Population (Rosstat preestimate), thousands	Average monthly per capita income in 2013 (estimate), rubles	Institutional density of banking services (by population)[2]	Financial density of banking services (by volume of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
1	2	3	4	5	6	7	8	9	10	11
CENTRAL FEDERAL DISTRICT	**10,607**	**13,563,031**	**8,465,219**	**18,809**	**38,820**	**33,057**	**1.02**	**1.25**	**1.42**	**1.22**
CENTRAL FEDERAL DISTRICT without Moscow (for reference)	*6,503*	*4,428,486*	*2,206,921*	*7,396*	*26,712*	*23,133*	*0.91*	*1.04*	*0.77*	*0.90*
Belgorod Region	337	327,281	126,099	589	1,544	23,156	0.82	0.96	0.76	0.84
Bryansk Region	226	122,174	67,906	226	1,243	19,799	0.68	0.94	0.59	0.72
Vladimir Region	368	159,572	113,159	308	1,413	18,713	0.98	0.90	0.92	0.93
Voronezh Region	558	400,272	205,593	613	2,329	22,017	0.90	1.13	0.86	0.96
Ivanovo Region	289	90,624	75,304	147	1,043	18,307	1.04	1.07	0.85	0.98
Kaluga Region	274	149,316	87,591	311	1,005	23,555	1.02	0.83	0.80	0.88
Kostroma Region	191	72,946	44,453	142	656	17,280	1.09	0.89	0.84	0.94
Kursk Region	278	218,386	67,699	274	1,119	20,627	0.93	1.38	0.63	0.93
Lipetsk Region	301	150,697	82,372	318	1,160	21,810	0.97	0.82	0.70	0.82
Moscow Region	1,779	1,689,242	751,024	2,633	7,134	31,056	0.94	1.11	0.73	0.91
Orel Region	194	89,661	48,865	158	770	18,229	0.94	0.99	0.75	0.89
Ryazan Region	250	144,467	87,684	267	1,141	19,307	0.82	0.94	0.86	0.87
Smolensk Region	203	122,336	62,317	217	968	19,602	0.79	0.98	0.71	0.82
Tambov Region	218	125,161	56,635	219	1,069	19,950	0.76	0.99	0.57	0.76
Tver Region	268	139,738	94,652	289	1,325	19,092	0.76	0.84	0.81	0.80
Tula Region	343	227,432	110,661	334	1,521	20,659	0.85	1.18	0.76	0.91
Yaroslavl Region	426	199,181	124,907	350	1,272	20,740	1.26	0.99	1.02	1.08
Moscow	4,104	9,134,546	6,258,298	11,413	12,108	54,949	1.27	1.39	2.03	1.53
NORTH-WESTERN FEDERAL DISTRICT	**4,141**	**3,440,162**	**1,880,564**	**5,674**	**13,801**	**25,936**	**1.13**	**1.05**	**1.13**	**1.10**
Republic of Karelia	193	92,481	52,265	175	634	20,591	1.14	0.92	0.86	0.97
Komi Republic	287	115,553	92,935	519	872	28,238	1.23	0.39	0.81	0.73
Arkhangelsk Region	317	200,099	106,231	506	1,192	25,441	1.00	0.69	0.75	0.80
Vologda Region	428	204,290	93,931	384	1,193	19,571	1.34	0.92	0.87	1.02
Kaliningrad Region	286	227,781	98,038	286	963	21,041	1.11	1.38	1.04	1.17
Leningrad Region	411	335,774	105,645	727	1,764	19,206	0.87	0.80	0.67	0.78
Murmansk Region	252	119,115	116,708	302	771	31,752	1.23	0.68	1.03	0.95
Novgorod Region	203	91,828	41,434	186	622	20,722	1.22	0.86	0.69	0.90
Pskov Region	190	71,439	37,599	117	657	17,653	1.09	1.06	0.70	0.93
Saint Petersburg	1,574	1,981,803	1,135,779	2,473	5,132	31,951	1.15	1.39	1.49	1.34

CONT. 7.1

Region	Number of credit institutions branches, additional, operations, and cash and credit offices	Loans extended to resident organizations and households and other placements, millions of rubles[1]	Household deposits, millions of rubles[1]	Gross Regional Product (GRP) in 2013 (estimate), billions of rubles	Population (Rosstat preestimate), thousands	Average monthly per capita income in 2013 (estimate), rubles	Institutional density of banking services (by population)[2]	Financial density of banking services (by volume of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
1	2	3	4	5	6	7	8	9	10	11
SOUTHERN FEDERAL DISTRICT	**4,007**	**2,083,782**	**979,434**	**3,413**	**13,964**	**21,521**	**1.08**	**1.06**	**0.70**	**0.93**
Republic of Adygeya (Adygeya)	109	41,895	15,171	70	446	18,589	0.92	1.03	0.39	0.72
Republic of Kalmykia	55	30,156	6,899	37	282	11,190	0.73	1.43	0.47	0.79
Krasnodar Territory	1,731	977,406	437,078	1,552	5,404	25,080	1.20	1.09	0.69	0.97
Astrakhan Region	222	100,165	58,093	228	1,017	19,838	0.82	0.76	0.62	0.73
Volgograd Region	525	273,681	160,302	619	2,569	17,870	0.77	0.77	0.75	0.76
Rostov Region	1,365	660,478	301,891	907	4,246	20,675	1.21	1.26	0.74	1.04
NORTH-CAUCASIAN FEDERAL DISTRICT	**1,200**	**572,721**	**271,635**	**1,311**	**9,590**	**18,829**	**0.47**	**0.76**	**0.32**	**0.49**
Republic of Daghestan	257	62,596	41,032	408	2,964	21,638	0.33	0.27	0.14	0.23
Republic of Ingushetia	27	12,864	4,161	40	453	14,002	0.22	0.56	0.14	0.26
Kabardino-Balkaria Republic	114	75,650	24,278	114	858	14,962	0.50	1.15	0.41	0.62
Karachai-Cherkess Republic	54	50,618	10,741	64	470	14,301	0.43	1.37	0.34	0.59
Republic of North Ossetia – Alaniya	76	48,017	26,148	108	704	18,924	0.40	0.77	0.42	0.51
Chechen Republic	51	30,955	7,763	112	1,346	16,915	0.14	0.48	0.07	0.17
Stavropol Territory	621	292,021	157,511	465	2,795	19,470	0.83	1.09	0.62	0.83
VOLGA FEDERAL DISTRICT	**7,825**	**4,409,395**	**2,217,662**	**8,535**	**29,739**	**21,661**	**0.99**	**0.90**	**0.74**	**0.87**
Republic of Bashkortostan	1,129	549,090	245,236	1,245	4,070	23,861	1.04	0.77	0.54	0.76
Republic of Mari El	147	88,107	31,245	127	689	14,735	0.80	1.20	0.66	0.86
Republic of Mordovia	213	126,528	39,315	143	812	14,188	0.98	1.54	0.73	1.04
Republic of Tatarstan (Tatarstan)	1,119	724,897	348,449	1,550	3,838	26,259	1.09	0.81	0.74	0.87
Udmurt Republic	432	249,539	88,593	401	1,517	18,411	1.07	1.08	0.68	0.92
Chuvash Republic – Chuvashia	268	147,045	68,861	234	1,240	15,113	0.81	1.09	0.79	0.89
Perm Territory	881	525,194	221,309	968	2,636	25,728	1.25	0.94	0.70	0.94
Kirov Region	338	132,205	76,900	229	1,311	18,203	0.97	1.00	0.69	0.88
Nizhny Novgorod Region	886	519,095	292,758	905	3,281	23,985	1.01	1.00	0.80	0.93
Orenburg Region	510	251,360	115,928	679	2,009	19,264	0.95	0.64	0.65	0.73
Penza Region	292	130,202	78,286	259	1,361	18,085	0.80	0.87	0.68	0.78
Samara Region	822	511,182	362,315	1,016	3,211	25,778	0.96	0.87	0.94	0.92
Saratov Region	504	273,600	172,087	515	2,497	15,454	0.76	0.92	0.96	0.88
Ulyanovsk Region	284	181,351	76,381	264	1,268	18,277	0.84	1.19	0.71	0.89
URALS FEDERAL DISTRICT	**3,644**	**2,806,779**	**1,221,915**	**7,651**	**12,234**	**28,240**	**1.12**	**0.64**	**0.76**	**0.81**
Kurgan Region	191	83,177	35,341	156	877	17,201	0.82	0.92	0.50	0.72
Sverdlovsk Region	1,222	1,015,909	450,251	1,602	4,321	30,535	1.06	1.10	0.73	0.95
Tyumen Region	1,241	1,083,678	490,030	4,983	3,546	35,391	1.31	0.38	0.84	0.75
Chelyabinsk Region	990	624,016	246,293	910	3,490	21,001	1.06	1.19	0.72	0.97

END 7.1

Region	Number of credit institutions branches, additional, operations, and cash and credit offices	Loans extended to resident organizations and households and other placements, millions of rubles[1]	Household deposits, millions of rubles[1]	Gross Regional Product (GRP) in 2013 (estimate), billions of rubles	Population (Rosstat preestimate), thousands	Average monthly per capita income in 2013 (estimate), rubles	Institutional density of banking services (by population)[2]	Financial density of banking services (by volume of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
1	2	3	4	5	6	7	8	9	10	11
SIBERIAN FEDERAL DISTRICT	**4,996**	**3,004,513**	**1,254,090**	**5,554**	**19,293**	**20,024**	**0.97**	**0.94**	**0.70**	**0.86**
Republic of Altai	55	26,779	6,042	32	212	14,169	0.97	1.45	0.43	0.85
Republic of Buryatiya	312	147,804	37,667	180	974	19,941	1.20	1.42	0.42	0.89
Republic of Tyva	60	26,900	6,399	41	312	12,699	0.72	1.15	0.35	0.66
Republic of Khakassia	174	55,285	23,715	141	534	17,621	1.22	0.68	0.54	0.77
Altai Territory	489	274,249	114,593	400	2,391	15,798	0.77	1.19	0.65	0.84
Trans-Baikal Territory	278	106,742	46,938	243	1,090	19,701	0.96	0.76	0.47	0.70
Krasnoyarsk Territory	858	566,650	207,645	1,287	2,853	23,724	1.13	0.76	0.66	0.83
Irkutsk Region	622	382,503	167,807	802	2,418	19,971	0.96	0.83	0.75	0.84
Kemerovo Region	591	547,156	171,477	774	2,734	19,626	0.81	1.23	0.69	0.88
Novosibirsk Region	712	447,628	259,636	712	2,731	21,553	0.98	1.09	0.95	1.00
Omsk Region	552	257,294	127,922	538	1,974	21,207	1.05	0.83	0.66	0.83
Tomsk Region	293	165,525	84,250	404	1,070	19,609	1.03	0.71	0.86	0.86
FAR EASTERN FEDERAL DISTRICT	**1,891**	**1,163,829**	**647,051**	**2,913**	**6,227**	**28,173**	**1.14**	**0.69**	**0.79**	**0.86**
Republic of Sakha (Yakutia)	327	247,389	71,520	583	955	30,768	1.28	0.74	0.52	0.79
Kamchatka Territory	126	64,008	47,994	137	320	32,717	1.48	0.81	0.99	1.06
Primorsky Territory	543	325,923	195,379	599	1,939	24,484	1.05	0.94	0.89	0.96
Khabarovsk Territory	369	273,148	161,815	468	1,340	28,220	1.03	1.01	0.92	0.99
Amur Region	228	112,071	56,654	252	811	23,563	1.05	0.77	0.64	0.80
Magadan Region	59	36,444	25,659	83	150	40,239	1.47	0.76	0.91	1.01
Sakhalin Region	166	79,528	70,275	692	491	39,788	1.27	0.20	0.77	0.58
Jewish Autonomous Region	51	15,421	8,854	46	170	19,692	1.12	0.58	0.57	0.72
Chukchee Autonomous Area	22	9,898	8,900	53	51	44,897	1.63	0.33	0.84	0.77
Total for Russian Federation	**38,311**	**31,044,214**	**16,937,570**	**53,860**	**143,667**	**25,381**	**1.00**	**1.00**	**1.00**	**1.00**

[1] Based on data reported in Form 0409302.
[2] The ratio of the number of bank units (column 2) to the number of population (column 6) is calculated for each region and divided by the value of the same indicator calculated for Russia as a whole.
[3] The ratio of total loans (column 3) to GRP (column 5) is calculated for each region and is divided by the value of the same indicator calculated for Russia as a whole.
[4] The ratio of per capita deposits (column 4/ column 6) to per capita money income (column 7) is calculated for each region and divided by the value of the same indicator calculated for Russia as a whole.
[5] Calculated as a geometric average of three special density indices (columns 8–10).

Density of banking services in Russian regions as of 1 January 2013

TABLE 7.2

Region	Number of credit institutions branches, additional, operations, and cash and credit offices	Loans extended to resident organizations and households and other placements, millions of rubles[1]	Household deposits, millions of rubles[1]	Gross Regional Product (GRP) in 2012, billions of rubles	Population, thousands	Average monthly per capita income in 2012, rubles	Institutional density of banking services (by population)[2]	Financial density of banking services (by volume of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
1	2	3	4	5	6	7	8	9	10	11
CENTRAL FEDERAL DISTRICT	**10,268**	**11,849,064**	**7,082,699**	**17,433**	**38,679**	**29,721**	**1.05**	**1.29**	**1.43**	**1.25**
CENTRAL FEDERAL DISTRICT without Moscow (for reference)	*6,250*	*3,805,144*	*1,869,524*	*6,855*	*26,699*	*21,241*	*0.93*	*1.05*	*0.77*	*0.91*
Belgorod Region	325	321,622	104,933	546	1,541	21,563	0.83	1.11	0.73	0.88
Bryansk Region	224	95,152	55,312	210	1,254	17,422	0.71	0.86	0.59	0.71
Vladimir Region	357	134,670	95,494	286	1,422	16,136	0.99	0.89	0.97	0.95
Voronezh Region	543	301,310	175,219	569	2,330	18,885	0.92	1.00	0.93	0.95
Ivanovo Region	261	75,634	62,729	137	1,049	15,930	0.98	1.05	0.87	0.97
Kaluga Region	271	127,350	72,911	288	1,006	20,621	1.07	0.83	0.82	0.90
Kostroma Region	181	59,480	37,661	132	659	15,808	1.09	0.85	0.84	0.92
Kursk Region	266	189,999	59,809	254	1,119	18,808	0.94	1.42	0.66	0.96
Lipetsk Region	288	142,587	72,563	295	1,162	19,777	0.98	0.91	0.73	0.87
Moscow Region	1,638	1,431,592	638,128	2,440	7,048	29,699	0.92	1.11	0.71	0.90
Orel Region	183	83,973	41,076	146	776	16,762	0.93	1.09	0.73	0.91
Ryazan Region	246	122,893	73,629	247	1,145	17,664	0.85	0.94	0.85	0.88
Smolensk Region	228	116,130	54,958	201	975	18,250	0.92	1.09	0.72	0.90
Tambov Region	213	118,008	47,811	203	1,076	17,470	0.78	1.10	0.59	0.80
Tver Region	279	119,737	77,896	268	1,334	17,247	0.83	0.85	0.79	0.82
Tula Region	353	199,431	95,828	309	1,532	19,291	0.91	1.22	0.75	0.94
Yaroslavl Region	394	165,577	103,566	325	1,272	18,513	1.22	0.96	1.02	1.07
Moscow	4,018	8,043,920	5,213,175	10,578	11,980	48,622	1.33	1.44	2.08	1.58
NORTH-WESTERN FEDERAL DISTRICT	**3,962**	**3,003,155**	**1,577,572**	**5,259**	**13,718**	**23,403**	**1.14**	**1.08**	**1.14**	**1.12**
Republic of Karelia	193	76,427	43,458	162	637	20,037	1.20	0.89	0.79	0.95
Komi Republic	229	89,807	78,053	481	881	26,787	1.03	0.35	0.77	0.65
Arkhangelsk Region	281	155,400	88,982	469	1,202	23,636	0.92	0.63	0.73	0.75
Vologda Region	410	197,915	79,966	356	1,196	18,125	1.36	1.05	0.86	1.07
Kaliningrad Region	287	191,997	89,812	265	955	19,371	1.19	1.37	1.13	1.23
Leningrad Region	407	293,540	89,824	674	1,751	17,925	0.92	0.82	0.67	0.80
Murmansk Region	256	98,545	97,331	280	780	28,604	1.30	0.66	1.01	0.96
Novgorod Region	200	79,084	34,476	172	626	19,649	1.26	0.87	0.65	0.89
Pskov Region	187	61,548	31,131	108	662	16,412	1.12	1.08	0.67	0.93
Saint Petersburg	1,512	1,758,892	944,539	2,292	5,028	27,795	1.19	1.45	1.57	1.39

CONT. 7.2

Region	Number of credit institutions branches, additional, operations, and cash and credit offices	Loans extended to resident organizations and households and other placements, millions of rubles[1]	Household deposits, millions of rubles[1]	Gross Regional Product (GRP) in 2012, billions of rubles	Population, thousands	Average monthly per capita income in 2012, rubles	Institutional density of banking services (by population)[2]	Financial density of banking services (by volume of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
1	2	3	4	5	6	7	8	9	10	11
SOUTHERN FEDERAL DISTRICT	**3,747**	**1,761,607**	**808,130**	**3,163**	**13,910**	**18,603**	**1.06**	**1.05**	**0.73**	**0.93**
Republic of Adygeya (Adygeya)	96	34,906	12,293	65	444	17,025	0.85	1.01	0.38	0.69
Republic of Kalmykia	50	24,513	5,737	34	284	10,184	0.70	1.36	0.46	0.76
Krasnodar Territory	1,597	827,976	354,733	1,438	5,330	21,077	1.18	1.09	0.73	0.98
Astrakhan Region	220	79,594	48,992	211	1,014	17,773	0.86	0.71	0.63	0.73
Volgograd Region	523	229,988	135,444	574	2,583	16,066	0.80	0.76	0.76	0.77
Rostov Region	1,261	564,630	250,930	840	4,255	17,987	1.17	1.27	0.76	1.04
NORTH-CAUCASIAN FEDERAL DISTRICT	**1,230**	**469,357**	**225,438**	**1,215**	**9,541**	**17,076**	**0.51**	**0.73**	**0.32**	**0.49**
Republic of Daghestan	289	53,742	28,131	378	2,946	20,648	0.39	0.27	0.11	0.22
Republic of Ingushetia	27	12,179	3,367	37	442	12,375	0.24	0.62	0.14	0.28
Kabardino-Balkaria Republic	107	64,204	20,831	106	859	13,681	0.49	1.15	0.41	0.61
Karachai-Cherkess Republic	48	40,207	11,241	60	472	13,354	0.40	1.28	0.41	0.60
Republic of North Ossetia – Alaniya	83	42,055	24,026	100	706	16,185	0.46	0.80	0.49	0.57
Chechen Republic	52	24,286	7,850	104	1,325	15,257	0.16	0.44	0.09	0.18
Stavropol Territory	624	232,684	129,992	431	2,791	16,877	0.88	1.02	0.64	0.83
VOLGA FEDERAL DISTRICT	**7,161**	**3,612,536**	**1,875,063**	**7,911**	**29,772**	**19,597**	**0.95**	**0.86**	**0.75**	**0.85**
Republic of Bashkortostan	1,032	448,081	202,745	1,154	4,061	21,259	1.00	0.73	0.55	0.74
Republic of Mari El	127	68,254	25,357	118	690	12,538	0.73	1.10	0.68	0.82
Republic of Mordovia	209	109,863	33,800	132	819	13,063	1.01	1.57	0.73	1.05
Republic of Tatarstan (Tatarstan)	1,078	636,362	294,903	1,437	3,822	24,010	1.12	0.84	0.75	0.89
Udmurt Republic	359	138,856	73,255	371	1,518	16,411	0.94	0.71	0.68	0.77
Chuvash Republic – Chuvashia	246	132,135	56,848	217	1,243	13,755	0.78	1.15	0.77	0.89
Perm Territory	631	461,467	186,510	898	2,634	23,270	0.95	0.97	0.71	0.87
Kirov Region	330	108,210	66,133	212	1,319	16,530	0.99	0.96	0.70	0.88
Nizhny Novgorod Region	825	421,441	252,129	839	3,290	21,518	0.99	0.95	0.83	0.92
Orenburg Region	494	193,438	100,812	629	2,016	16,539	0.97	0.58	0.70	0.73
Penza Region	281	106,265	65,237	240	1,369	15,765	0.81	0.84	0.70	0.78
Samara Region	776	447,255	306,241	942	3,213	24,683	0.95	0.90	0.90	0.92
Saratov Region	487	207,102	147,616	477	2,503	14,243	0.77	0.82	0.96	0.85
Ulyanovsk Region	286	133,806	63,478	244	1,274	16,351	0.89	1.04	0.71	0.87

END 7.2

Region	Number of credit institutions branches, additional, operations, and cash and credit offices	Loans extended to resident organizations and households and other placements, millions of rubles[1]	Household deposits, millions of rubles[1]	Gross Regional Product (GRP) in 2012, billions of rubles	Population, thousands	Average monthly per capita income in 2012, rubles	Institutional density of banking services (by population)[2]	Financial density of banking services (by volume of loans)[3]	Savings index[4]	Composite banking services density index by region[5]
1	2	3	4	5	6	7	8	9	10	11
URALS FEDERAL DISTRICT	**3,422**	**2,220,501**	**1,038,898**	**7,091**	**12,198**	**26,175**	**1.11**	**0.59**	**0.76**	**0.79**
Kurgan Region	179	66,769	29,005	145	886	16,019	0.80	0.87	0.48	0.69
Sverdlovsk Region	1,163	843,873	380,761	1,484	4,316	27,709	1.07	1.07	0.74	0.95
Tyumen Region	1,126	779,721	419,965	4,619	3,511	33,281	1.27	0.32	0.84	0.70
Chelyabinsk Region	954	530,138	209,167	843	3,485	19,763	1.08	1.19	0.71	0.97
SIBERIAN FEDERAL DISTRICT	**4,696**	**2,546,128**	**1,061,417**	**5,147**	**19,278**	**18,322**	**0.96**	**0.94**	**0.70**	**0.86**
Republic of Altai	58	24,346	5,478	30	210	14,278	1.09	1.55	0.42	0.90
Republic of Buryatiya	288	114,475	31,137	167	972	17,119	1.17	1.30	0.43	0.87
Republic of Tyva	52	19,832	4,852	38	310	11,933	0.66	1.00	0.30	0.59
Republic of Khakassia	172	44,353	18,929	131	533	15,991	1.28	0.64	0.52	0.75
Altai Territory	488	231,863	93,922	371	2,399	13,629	0.80	1.18	0.67	0.86
Trans-Baikal Territory	265	86,537	38,002	226	1,095	17,336	0.96	0.73	0.47	0.69
Krasnoyarsk Territory	829	503,596	171,833	1,193	2,846	22,138	1.15	0.80	0.63	0.84
Irkutsk Region	601	325,387	141,661	744	2,422	17,720	0.98	0.83	0.77	0.85
Kemerovo Region	564	462,071	160,637	718	2,742	18,386	0.81	1.22	0.74	0.90
Novosibirsk Region	702	396,885	218,429	660	2,709	20,637	1.02	1.14	0.91	1.02
Omsk Region	387	201,825	106,442	499	1,974	19,469	0.78	0.77	0.64	0.73
Tomsk Region	290	134,960	70,095	374	1,064	17,876	1.08	0.68	0.86	0.86
FAR EASTERN FEDERAL DISTRICT	**1,774**	**937,323**	**552,895**	**2,700**	**6,251**	**25,326**	**1.12**	**0.66**	**0.81**	**0.84**
Republic of Sakha (Yakutia)	259	202,128	61,600	540	956	28,457	1.07	0.71	0.53	0.74
Kamchatka Territory	123	54,940	39,897	127	321	31,482	1.52	0.82	0.92	1.04
Primorsky Territory	532	253,628	166,755	555	1,947	21,300	1.08	0.86	0.93	0.96
Khabarovsk Territory	364	215,376	142,597	434	1,342	25,649	1.07	0.94	0.96	0.99
Amur Region	223	97,640	46,308	234	817	21,469	1.08	0.79	0.61	0.81
Magadan Region	59	29,683	22,979	77	152	36,576	1.53	0.73	0.96	1.02
Sakhalin Region	147	63,128	58,596	642	493	33,459	1.18	0.19	0.83	0.57
Jewish Autonomous Region	51	11,472	7,155	42	173	18,151	1.17	0.51	0.53	0.68
Chukchee Autonomous Area	16	9,327	7,008	49	51	47,857	1.25	0.36	0.67	0.67
Total for Russian Federation	**36,260**	**26,399,670**	**14,222,112**	**49,920**	**143,347**	**23,058**	**1.00**	**1.00**	**1.00**	**1.00**

[1] Based on data reported in Form 0409302.
[2] The ratio of the number of bank units (column 2) to the number of population (column 6) is calculated for each region and divided by the value of the same indicator calculated for Russia as a whole.
[3] The ratio of total loans (column 3) to GRP (column 5) is calculated for each region and divided by the value of the same indicator calculated for Russia as a whole.
[4] The ratio of per capita deposits (column 4/column 6) to per capita money income (column 7) is calculated for each region and divided by the value of the same indicator calculated for Russia as a whole.
[5] Calculated as a geometric average of three special density indices (columns 8–10).

Banking sector key indicators

TABLE 8

	2013												1 January 2014
	1 January	1 February	1 March	1 April	1 May	1 June	1 July	1 August	1 September	1 October	1 November	1 December	
Assets													
Assets (liabilities)	49,510	48,429	49,165	49,839	50,693	51,587	52,744	53,353	53,876	54,348	54,981	56,259	57,423
Growth, %: for one month	3.9	–2.2	1.5	1.4	1.7	1.8	2.2	1.2	1.0	0.9	1.2	2.3	2.1
for twelve months	18.9	17.7	20.3	20.0	20.3	19.3	19.2	18.3	18.4	18.5	16.7	18.0	16.0
Loans to non-financial organizations	19,971	19,925	20,003	20,192	20,612	20,748	21,030	21,442	21,767	21,993	22,307	22,665	22,499
Growth, %: for one month	0.8	–0.2	0.4	0.9	2.1	0.7	1.4	2.0	1.5	1.0	1.4	1.6	–0.7
for twelve months	12.7	13.5	15.0	13.9	13.6	11.8	11.8	12.9	12.3	12.8	12.8	14.3	12.7
Share of foreign currency loans, %	21.9	21.7	21.8	22.1	22.9	23.1	23.4	23.3	23.4	22.8	22.9	23.1	24.0
Loans to resident financial institutions (other than credit institutions)	946	911	939	936	960	995	1,031	1,075	1,097	1,174	1,193	1,265	1,179
Growth, %: for one month	1.5	–3.7	3.0	–0.2	2.5	3.7	3.6	4.2	2.1	7.1	1.6	6.1	–6.8
for twelve months	38.0	36.5	36.8	25.8	27.6	32.7	29.0	30.5	28.8	33.9	32.4	35.8	24.6
Share of foreign currency loans, %	12.4	12.6	11.7	11.6	11.8	11.3	10.7	10.3	11.0	10.2	9.8	9.1	8.1
Household loans	7,737	7,796	7,924	8,098	8,355	8,579	8,798	9,043	9,271	9,402	9,614	9,768	9,957
Growth, %: for one month	2.3	0.8	1.7	2.2	3.2	2.7	2.6	2.8	2.5	1.4	2.3	1.6	1.9
for twelve months	39.4	39.6	39.1	37.4	36.5	34.8	33.9	33.8	32.5	31.0	30.1	29.1	28.7
Share of foreign currency loans, %	3.2	3.1	3.0	3.0	2.9	2.8	2.9	2.8	2.8	2.7	2.6	2.6	2.4
Unsecured household loans*	4,472	4,528	4,602	4,722	4,890	5,049	5,184	5,322	5,469	5,582	5,701	5,778	5,872
Growth, %: for one month	2.6	1.3	1.6	2.6	3.6	3.2	2.7	2.7	2.8	2.1	2.1	1.3	1.6
for twelve months	53.0	52.4	50.1	47.3	45.4	43.0	41.2	39.4	37.3	35.7	34.3	32.6	31.3

END 8

	2013												1 January 2014
	1 January	1 February	1 March	1 April	1 May	1 June	1 July	1 August	1 September	1 October	1 November	1 December	
Capital and financial result													
Capital	6,113	6,134	6,188	6,300	6,339	6,385	6,568	6,626	6,713	6,798	6,895	6,975	7,064
Growth, %: for one month	1.2	0.3	0.9	1.8	0.6	0.7	2.9	0.9	1.3	1.3	1.4	1.2	1.3
for twelve months	16.6	16.3	17.5	17.1	17.5	16.8	20.1	18.9	18.1	20.4	18.8	15.4	15.6
N1 capital adequacy, %	13.7	13.6	13.4	13.4	13.4	13.5	13.5	13.4	13.2	13.4	13.3	13.2	13.5
Credit institutions having N1 ratio below 11%	31	34	56	52	50	54	52	68	64	57	63	57	20
Current-year profits	1,012	80	151	239	324	391	491	571	654	751	820	884	994
Return on assets, %**	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0	1.9	1.9
Return on equity, %**	18.2	17.6	17.2	17.0	17.0	16.6	16.6	16.3	15.9	16.1	15.7	15.0	15.2
Liabilities													
Household deposits	14,251	14,069	14,396	14,739	15,210	15,227	15,632	15,797	15,946	15,946	16,062	16,261	16,958
Growth, %: for one month	6.1	–1.3	2.3	2.4	3.2	0.1	2.7	1.1	0.9	0.0	0.7	1.2	4.3
for twelve months	20.0	20.9	22.1	23.0	24.1	21.7	21.8	23.1	22.4	22.1	21.7	21.0	19.0
Share of foreign currency loans, %	17.5	17.7	17.6	17.8	17.6	17.7	17.9	18.3	18.5	18.5	18.5	18.6	17.4
Loans extended by the Bank of Russia	2,691	2,198	2,194	2,227	2,222	2,476	2,321	2,592	2,829	3,140	3,299	3,707	4,439
Share of liabilities, %	5.4	4.5	4.5	4.5	4.4	4.8	4.4	4.9	5.3	5.8	6.0	6.6	7.7

* On homogeneous loans.
** For 12 months preceding the reporting date.

Bank assets grouped by investment, billions of rubles

TABLE 9

Assets	2013				1 January 2014
	1 January	1 April	1 July	1 October	
Money, precious metals and gemstones, total	1,554	1,233	1,248	1,262	1,609
of which: money	1,424	1,117	1,160	1,164	1,523
Accounts with the Bank of Russia and authorized bodies of other countries, total	2,160	1,638	1,737	1,885	2,265
Of which: bank correspondent accounts with the Bank of Russia	1,249	909	1,020	1,115	1,221
bank required reserves transferred to the Bank of Russia	426	449	498	505	402
deposits and other funds placed with the Bank of Russia	462	263	203	249	619
Correspondent accounts with credit institutions, total	1,483	1,709	1,591	1,366	1,497
Of which: correspondent accounts with correspondent credit institutions	316	304	297	294	398
correspondent accounts with non-resident banks	1,168	1,406	1,294	1,072	1,098
Securities acquired by credit institutions, total	7,035	7,202	7,436	7,453	7,822
Of which: debt obligations	5,265	5,451	5,718	5,742	6,163
equities	792	732	734	785	790
discounted bills	399	432	382	338	274
shares of subsidiaries and affiliated joint-stock companies	579	586	601	589	595
Other stakes in authorized capital	333	332	341	356	354
Financial derivatives	164	139	189	180	176
Loans, total	33,993	34,854	37,412	38,950	40,535
Of which: loans, deposits and other placements	33,960	34,803	37,341	38,863	40,418
of which: overdue debt	1,257	1,305	1,340	1,399	1,398
loans and other placements with non-financial organizations	19,971	20,192	21,030	21,993	22,499
of which: overdue debt	924	939	944	956	934
loans and other funds extended to individuals	7,737	8,098	8,798	9,402	9,957
of which: overdue debt	313	344	374	423	440
loans, deposits and other placements with credit institutions	4,230	4,573	5,325	4,988	5,131
of which: overdue debt	5	8	8	7	11
Fixed assets, other real estate, Intangible assets and inventories	1,091	1,113	1,137	1,152	1,148
Of which: real estate temporarily unused in core activities	97	105	107	106	65
Disposition of profits	210	83	97	142	192
Of which: profit tax	204	83	95	139	189
Other assets, total	1,486	1,537	1,555	1,601	1,826
Of which: float	648	604	611	606	790
debtors	210	246	241	266	312
deferred expenses	122	124	123	118	123
Total	**49,510**	**49,839**	**52,744**	**54,348**	**57,423**

Bank liabilities grouped by source of funds, billions of rubles

TABLE 10

Liabilities	2013				1 January 2014
	1 January	1 April	1 July	1 October	
Bank funds and profits, total	5,911	5,942	6,086	6,363	6,629
Of which: funds,	3,050	3,080	3,162	3,224	3,261
profits (losses), including previous-year financial results	2,861	2,862	2,924	3,139	3,368
of which: current-year profits (losses)	1,012	239	491	751	994
Loans, deposits and other funds received by credit institutions from the Bank of Russia	2,691	2,227	2,321	3,140	4,439
Bank accounts, total	463	486	497	456	584
Of which: correspondent banks' correspondent accounts	290	260	252	263	366
non-resident banks' correspondent accounts	146	114	150	116	123
Loans, deposits and other funds received from other credit institutions, total	4,738	4,564	4,793	4,728	4,806
Customer funds, total*	30,120	30,810	32,988	33,592	34,931
Of which: budget funds in settlement accounts	39	45	49	47	42
government and extra-budgetary funds in settlement accounts	2	3	4	5	0
organizations' funds in settlement and other accounts	5,707	5,982	6,250	6,068	6,516
customer float	296	397	395	425	400
deposits and other funds raised by corporate entities other than credit institutions	9,620	9,446	10,493	10,918	10,838
household deposits	14,251	14,739	15,632	15,946	16,958
customer funds in factoring and forfeiting operations	37	35	34	32	44
Bonds	1,037	1,117	1,133	1,161	1,213
Bills and bank acceptances	1,149	1,219	1,221	1,071	1,004
Financial derivatives	135	116	174	145	135
Other liabilities, total	3,265	3,358	3,532	3,692	3,682
Of which: provisions	2,441	2,565	2,701	2,836	2,852
float	395	296	288	274	309
creditors	72	86	112	115	96
deferred income	10	8	7	7	8
accrued interest and interest/coupon liabilities on securities	346	403	423	460	417
of which: overdue interest	0	1	0	0	0
Total	**49,510**	**49,839**	**52,744**	**54,348**	**57,423**

* Including certificates of deposit and savings certificates.

Quality of the banking sector's loan portfolio

TABLE 11

	2013												1 January 2014
	1 January	1 February	1 March	1 April	1 May	1 June	1 July	1 August	1 September	1 October	1 November	1 December	
Legal entities													
Share of overdue loans in total value of loans, %: to non-financial organizations	4.6	4.7	4.7	4.6	4.6	4.7	4.5	4.5	4.4	4.3	4.4	4.4	4.2
to resident financial institutions (other than credit institutions)	1.6	1.7	1.6	1.5	1.5	1.4	1.4	1.2	1.2	1.1	1.1	1.0	1.1
Share of Quality Category IV and Quality Category V loans in total value of loans to legal entities (other than credit institutions)	7.0	7.1	7.2	7.2	7.3	7.4	7.3	7.2	7.1	7.1	7.0	6.9	6.5
Provisions for loans to legal entities (other than credit institutions), as % of total value of such loans	7.2	7.3	7.3	7.3	7.2	7.1	7.0	6.9	6.9	6.8	6.7	6.6	6.4
Individuals													
Share of overdue loans in total value of household loans	4.0	4.2	4.2	4.2	4.3	4.4	4.3	4.4	4.4	4.5	4.5	4.5	4.4
Share of loans not repaid on the due date in a month preceding the reporting date	8.8	10.4	10.4	11.3	11.8	11.6	11.6	13.0	12.1	11.9	11.7	12.1	11.5
Share of Quality Category IV and Quality Category V loans in total loan value, %:	6.5	6.8	6.8	7.0	7.0	7.3	7.2	7.3	7.4	7.6	7.6	7.6	7.5
Provisions for loans, as % of total value of such loans	6.6	6.8	6.9	7.0	7.1	7.2	7.2	7.3	7.4	7.5	7.6	7.6	7.5
Provisions for loans with arrears exceeding 90 days, as % of total value of such loans	82.0	82.3	84.2	84.1	83.7	83.2	82.6	82.4	82.4	82.3	82.4	82.4	81.9

Data on housing mortgage loans (HML)*

TABLE 12

	2013												1 January 2014
	1 January	1 February	1 March	1 April	1 May	1 June	1 July	1 August	1 September	1 October	1 November	1 December	
HMLs, total	1,997	2,011	2,053	2,095	2,161	2,214	2,275	2,341	2,397	2,399	2,481	2,560	2,649
Growth, %: for one month	3.0	0.7	2.1	2.0	3.2	2.4	2.8	2.9	2.4	0.1	3.4	3.2	3.5
for twelve months	35.0	36.0	36.8	36.0	36.2	34.9	34.9	35.8	34.8	31.8	31.8	32.1	32.6
HML share in foreign currency, %	6.2	6.0	5.8	5.7	5.5	5.3	5.3	5.1	5.0	4.8	4.6	4.5	4.2
Including overdue HMLs	*42*	*42*	*42*	*42*	*42*	*42*	*42*	*42*	*43*	*41*	*40*	*40*	*40*
Growth, %: for one month	–5.6	1.2	–0.1	0.2	0.6	–0.3	–0.6	1.2	0.3	–4.5	–0.8	–0.8	–1.0
for twelve months	–8.3	–6.1	–7.0	–5.4	–5.1	–8.4	–8.6	–6.9	–6.6	–8.2	–9.5	–9.0	–4.6
Share of overdue loans in total HMLs, %	2.1	2.1	2.0	2.0	2.0	1.9	1.8	1.8	1.8	1.7	1.6	1.6	1.5
Share of overdue loans in foreign currency in total overdue HMLs, %	33.7	32.8	33.0	33.7	33.9	34.3	36.2	35.6	35.7	35.3	35.1	36.0	35.8
Value of HMLs extended year-to-date	1,032	52	133	227	341	435	543	664	785	906	1,042	1,175	1,354
Volume of HMLs extended year-to-date, thousands	692	34	84	142	211	270	336	411	486	558	639	719	825
HMLs in rubles	1,874	1,891	1,934	1,976	2,042	2,096	2,154	2,222	2,277	2,284	2,367	2,444	2,537
Growth, %: for one month	3.7	0.9	2.3	2.2	3.4	2.6	2.8	3.1	2.5	0.3	3.7	3.2	3.8
for twelve months	42.6	42.6	42.4	41.2	40.9	40.4	40.0	40.6	39.1	35.4	35.4	35.2	35.3

* Housing mortgage loans extended to borrowers according to the procedure stipulated by Federal Law No. 102-FZ, dated 16 July 1998, 'On Mortgage (Mortgage Security)'. Source: reporting Form 0409316.

END 12

	2013												1 January 2014
	1 January	1 February	1 March	1 April	1 May	1 June	1 July	1 August	1 September	1 October	1 November	1 December	
Value of HMLs in rubles extended year-to-date	1,017	51	131	224	336	429	535	655	775	895	1,029	1,161	1,339
Average-weighted interest rate on ruble HMLs extended year-to-date, %	12.3	12.7	12.8	12.8	12.8	12.7	12.7	12.7	12.6	12.6	12.6	12.5	12.4
Average-weighted loan term of ruble HMLs extended year-to-date, months	179.5	181.6	180.6	180.5	180.0	179.0	178.5	178.2	177.8	177.4	176.0	176.4	176.4
HMLs in foreign currency	123	120	120	119	119	118	121	120	121	116	114	116	112
Growth, %: for one month	–5.9	–2.2	–0.5	–0.2	–0.2	–0.9	2.6	–0.6	0.2	–3.9	–1.3	1.6	–3.5
for twelve months	–25.4	–21.4	–16.6	–15.5	–13.2	–20.3	–18.3	–16.1	–14.9	–13.8	–15.2	–11.1	–8.8
Value of foreign-currency HMLs extended year-to-date	15	1	2	3	5	6	7	9	10	12	13	15	15.2
Average-weighted interest rate on foreign-currency HMLs extended year-to-date, %	9.8	9.0	9.8	9.7	10.0	10.1	9.8	9.8	9.6	9.6	9.5	9.6	9.6
Average-weighted loan term of foreign-currency HMLs extended year-to-date, months	135.1	115.9	146.4	156.4	149.7	148.6	158.1	155.3	161.7	155.9	152.3	151.0	151.9

Household deposits in 2013

TABLE 13

	2013												1 January 2014	Growth for 2013, %
	1 January	1 February	1 March	1 April	1 May	1 June	1 July	1 August	1 September	1 October	1 November	1 December		
Total, billions of rubles	**14,251**	**14,069**	**14,396**	**14,739**	**15,210**	**15,227**	**15,632**	**15,797**	**15,946**	**15,946**	**16,062**	**16,261**	**16,958**	*19*
Growth for one month, %	6.1	−1.3	2.3	2.4	3.2	0.1	2.7	1.1	0.9	0	0.7	1.2	4.3	
Ruble deposits, billions of rubles	11,764	11,576	11,868	12,117	12,526	12,526	12,828	12,907	12,994	12,999	13,094	13,236	14,001	*19*
Growth for one month, %	7.4	−1.6	2.5	2.1	3.4	0	2.4	0.6	0.7	0	0.7	1.1	5.8	
Foreign-currency deposits, billions of rubles	2,488	2,493	2,528	2,622	2,684	2,702	2,804	2,890	2,952	2,947	2,968	3,024	2,957	*0*
billions of dollars	81.9	83.0	82.6	84.3	85.9	85.5	85.7	87.9	88.8	91.1	92.6	91.1	90.3	*10.3*
Growth for one month, %	2.6	1.4	−0.6	2.2	1.8	−0.4	0.2	2.5	1.0	2.6	1.6	−1.6	−0.8	
Share of foreign-currency deposits in total deposit value, %	17.5	17.7	17.6	17.8	17.6	17.7	17.9	18.3	18.5	18.5	18.5	18.6	17.4	*0*

TABLE 14

Average-weighted interest rates on funds raised and placed in 2013 with maturities of over one year

	2013											
	January	February	March	April	May	June	July	August	September	October	November	December
Ruble funds												
Loans to non-financial organizations	12.2	12.2	11.8	11.9	11.8	11.3	11.3	11.2	11.2	11.4	10.9	10.6
Deposits of non-financial organizations	9.4	8.7	8.6	7.6	8.0	7.4	7.9	8.1	8.0	8.1	7.7	8.1
Loans to credit institutions	8.5	9.8	8.6	10.0	9.0	8.3	9.3	8.4	8.9	8.3	8.9	8.7
Deposits of credit institutions	8.3	8.5	9.5	8.8	8.5	8.3	8.2	8.2	8.5	7.8	8.7	8.6
Household loans	20.8	20.5	20.4	20.2	20.1	19.3	19.3	18.7	18.6	17.9	17.8	17.3
Household deposits	8.5	8.3	8.2	8.2	8.0	7.8	7.7	7.5	7.7	7.6	7.4	7.4
US dollar funds												
Loans to non-financial organizations	7.4	7.3	7.1	5.7	7.2	6.7	6.4	6.8	6.6	6.5	7.0	6.2
Deposits of non-financial organizations	5.4	5.3	3.4	3.4	3.4	5.0	3.0	2.8	2.5	3.7	3.4	2.6
Loans to credit institutions	5.8	7.4	4.0	3.6	3.8	5.1	4.1	6.2	5.4	3.7	3.5	5.7
Deposits of credit institutions	5.7	4.1	4.7	3.7	2.9	3.0	2.7	3.4	3.6	3.3	3.0	2.4
Household loans	10.4	11.2	8.3	11.3	11.5	11.0	11.3	10.6	11.4	11.3	11.9	11.0
Household deposits	4.2	4.4	4.3	4.1	3.9	3.5	3.7	3.6	3.6	3.4	3.3	3.1
Euro funds												
Loans to non-financial organizations	8.4	8.0	8.5	7.8	8.6	7.3	6.4	4.9	6.6	6.8	7.2	6.1
Deposits of non-financial organizations	4.6	3.9	3.5	3.6	3.8	3.0	3.2	3.6	3.6	3.1	2.4	1.8
Loans to credit institutions	3.6	5.3	2.6	5.8	5.7	2.3	4.6	2.4	3.2	2.6	2.4	4.9
Deposits of credit institutions	8.5	2.8	4.6	3.5	3.2	2.7	1.5	2.4	3.4	1.9	2.2	1.5
Household loans	13.6	13.3	12.2	11.6	11.2	10.4	10.6	11.9	11.8	8.7	10.2	10.2
Household deposits	4.1	4.2	4.0	3.7	3.5	2.7	3.3	3.1	3.3	3.1	2.8	2.8

Categorized performance indicators on credit institutions with foreign interest in authorized capital relative to indicators on operating credit institutions, %

TABLE 15

	1 January 2010	1 January 2011	1 January 2012	1 January 2013	1 January 2014
Credit institutions with a 50%-plus foreign stake in authorized capital					
Assets	18.3	18.0	16.9	17.8	15.3
Capital	17.0	19.1	17.6	19.3	17.3
Correspondent accounts with non-resident banks	15.6	20.3	14.3	21.7	18.6
Loans and other placements with non-financial organizations	14.8	15.1	14.0	14.2	12.0
Loans and other funds provided to households	25.1	25.7	22.0	22.6	21.0
Loans, deposits and other funds provided to credit institutions	31.7	25.1	30.0	27.3	19.9
Household deposits	12.0	11.5	11.4	13.5	12.5
Funds raised from organizations*	18.5	17.6	17.4	18.6	15.6
Current-year profits (losses)	29.8	20.7	17.4	19.6	15.2
Number of credit institutions, units (for reference)	*108*	*111*	*113*	*117*	*122*
Credit institutions with a 100% foreign stake in authorized capital					
Assets	11.3	11.0	10.0	9.8	9.0
Capital	11.0	12.1	11.1	11.4	11.1
Correspondent accounts with non-resident banks	9.0	9.2	6.9	15.2	12.8
Loans and other placements with non-financial organizations	9.1	9.2	8.3	7.5	7.2
Loans and other funds provided to households	15.6	14.9	10.7	11.1	10.8
Loans, deposits and other funds provided to credit institutions	23.8	20.0	24.2	20.0	16.4
Household deposits	6.2	5.3	5.4	6.1	6.2
Funds raised from organizations*	11.1	11.0	10.7	11.0	10.3
Current-year profits (losses)	27.4	15.1	12.0	13.4	12.7
Number of credit institutions, units (for reference)	*82*	*80*	*77*	*73*	*76*

* These include deposits, funds in settlement and other accounts, government and other extra-budgetary funds, funds of the Ministry of Finance, fiscal authorities, individual unincorporated entrepreneurs, and customers in factoring and forfeiting operations, certificates of deposit, float, and funds written off from customer accounts but not passed through a credit institution's correspondent account (net of funds raised from credit institutions).

Indicators of individual groups of credit institutions*

TABLE 16

Group of credit institutions	Number of credit institutions		Share of banking sector total assets, %		Share of banking sector total capital, %	
	1 January 2013	1 January 2014	1 January 2013	1 January 2014	1 January 2013	1 January 2014
State-controlled banks	25	26	50.4	51.4	48.2	48.6
Foreign-controlled banks,	112	115	17.8	15.3	19.2	17.3
including banks under material influence of Russian residents	25	26	5.9	4.5	5.4	4.3
Large private banks	128	127	26.6	28.8	26.1	28.2
Small and medium-sized banks based in Moscow Region	291	279	2.4	2.3	3.3	3.0
Small and medium-sized regional banks	341	313	2.4	2.0	3.0	2.6
Non-bank credit institutions	59	64	0.3	0.3	0.2	0.3
Total	**956**	**923**	**100.0**	**100.0**	**100.0**	**100.0**

* Criteria for such grouping and indicators of the above groups of credit institutions are used solely for the purposes of analysis within this Report.

Banking Sector Capital Structure, %*

TABLE 17

Indicator	2013				1 January 2014
	1 January	1 April	1 July	1 October	
Capital growth factors	**117.4**	**117.5**	**117.2**	**116.3**	**116.1**
Authorized capital	22.8	22.3	22.0	21.5	21.7
Share premiums	20.3	19.8	20.2	19.8	19.1
Profits and funds of credit institutions	46.8	47.8	46.7	47.5	47.8
Subordinated loans	24.2	24.1	24.9	24.2	24.4
Revaluation surplus	3.3	3.4	3.4	3.3	3.1
Other factors	0	0	0	0	0
Capital reducing factors	**17.4**	**17.5**	**17.2**	**16.3**	**16.1**
Losses	1.7	2.0	1.7	1.7	1.6
Intangible assets	0.1	0.1	0.1	0.1	0.2
Own shares bought out (stakes)	0	0	0	0	0
Sources of capital formed from improper assets	0.1	0.1	0.1	0.1	0.1
Reduced sources of additional capital with account of restrictions imposed by Point 3.11 of Bank of Russia Regulation No. 215-P of 10 February 2003	0.5	0.7	0.2	0.1	0.1
Bank share portfolio (stakes)	14.5	14.1	13.9	13.3	12.9
Other factors	0.4	0.4	1.1	1.0	1.1
Capital, total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Calculated using bank reporting Form 0409134.

Categorized indicators on credit institutions ranked by capital value

TABLE 18

Credit institutions by capital value	Number of credit institutions		Return on equity*, %		Return on assets*, %	
	1 January 2013	1 January 2014	1 January 2013	1 January 2014	1 January 2013	1 January 2014
Up to 300 million rubles	301	240	6.0	–4.4	1.2	–0.9
300 million rubles to 500 million rubles	163	176	10.4	9.0	1.6	1.6
500 million rubles to one billion rubles	145	140	10.6	11.7	1.5	1.8
One billion rubles to three billion rubles	176	183	12.9	11.1	1.7	1.6
Three billion rubles to five billion rubles	52	61	14.2	13.1	1.9	1.9
Five billion rubles to ten billion rubles	46	41	17.6	12.8	2.1	1.6
Ten billion rubles and over	72	82	21.4	16.1	2.4	2.0
Total for banking sector	**956**	**923**	**18.2**	**15.2**	**2.3**	**1.9**

* For 12 months preceding the reporting date.

TABLE 19

Quantitative and qualitative characteristics of supervisors of the Bank of Russia head office and regional branches as of 1 January 2014

Name of unit	Total number of employees as of 1 January 2014 (excluding employed under fixed-term contract and part-timers)	of whom:							
		age			educational status		duration of work in banking system		women
		under 30 years	50 years and more	of whom women aged 55 years and more and men aged 60 years and more	higher education	secondary vocational training	up to 3 years	15 years and more	
Head office									
Credit Institution Licensing and Financial Rehabilitation Department	138	8	44	17	135	3	5	92	102
Banking Supervision Department	125	21	37	21	123	2	24	57	69
Banking Regulation Department	73	15	19	6	73	–	15	25	52
Department for Supervision of Systemically Important Banks	33	8	6	–	33	–	8	14	23
Main Inspectorate of Credit Institutions	1,389	204	299	92	1,374	11	526	567	809
Financial Monitoring and Foreign Exchange Control Department	100	10	29	10	96	2	8	52	58
Head office, total	**1,858**	**266**	**434**	**146**	**1,834**	**18**	**586**	**807**	**1,113**
Regional branches									
Division (Department) for Licensing of Credit Institutions	348	41	82	19	344	4	17	232	295
Division (Department) for Supervision of Credit Institutions	1,335	182	282	71	1,315	15	93	840	1,082
Financial Monitoring and Foreign Exchange Control Division (Department, Section)	590	77	127	28	586	3	44	369	410
Moscow branch divisions	342	104	47	23	330	11	41	139	269
Regional branches, total	*2,615*	*404*	*538*	*141*	*2,575*	*33*	*195*	*1,580*	*2,056*
Bank of Russia, total	**4,473**	**670**	**972**	**287**	**4,409**	**51**	**781**	**2,387**	**3,169**