

THE CENTRAL BANK OF THE RUSSIAN FEDERATION



A N N U A L **2 0 1 3** R E P O R T



Approved by the Bank of Russia Board of Directors on 25 April 2014

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# OPENING REMARKS

**Dear Readers,**

Over the course of 2013, there were some significant changes in the work of the Central Bank of the Russian Federation.

The Bank of Russia was declared a mega-regulator, started to move towards an inflation targeting regime, approved a symbol for the ruble following extensive public consultations, and was involved in work to improve the pension and insurance markets.

Qualitative changes are taking place across the entire financial system, affecting the lives of the majority of Russian citizens. It is important to ensure that these changes are not only positive, but are expected, understood and predictable for both businesses and households alike.

It is for this very reason that the Bank of Russia adheres to the principle of transparency and develops its information policy taking into account the growing public interest in its activities.

The notion of information transparency has been fully upheld in the Bank of Russia's Annual Report which follows.

Governor of the Bank of Russia



Elvira S. Nabiullina

## INTRODUCTION

The Bank of Russia Annual Report for 2013 reflects the results of the Bank's performance conducted in accordance with the duties assigned to it by law, and contains an analysis of external and internal conditions under which the Bank of Russia has been operating, its annual financial statements, the auditor's report and a statement by the Audit Chamber of the Russian Federation.

In 2013, the Russian economy faced a weak foreign demand and a low investment activity. The main factor bolstering growth in the output of goods and services was the domestic consumer demand, although this slowed somewhat as compared with 2012.

GDP growth dropped from 3.4% in 2012 to 1.3% in 2013. The slowdown in economic growth was structural, linked to exhausting opportunities for extensive development. For the first time since 2010, there was a fall in the number of employed amid a stable low unemployment rate. According to estimates, the negative output gap remained small in 2013.

Despite the demand constraints noted, inflation was 6.5%, exceeding the target range of 5–6% set for 2013 by the 'Guidelines for the Single State Monetary Policy in 2013 and for 2014 and 2015'. The main reason for inflation increasing beyond the target range was the rise in prices for foodstuffs and services.

In 2013, the Bank of Russia undertook active steps to transition to an inflation targeting regime, which gives precedence to price stability over all other monetary policy objectives. Thus, in 2013, to strengthen the effectiveness of its interest rate policy, the Bank of Russia increased the exchange rate flexibility using a mechanism of a

floating operational band of the ruble value of the dual-currency basket. Changes were made to the monetary policy decision-making procedure and measures were implemented to increase its transparency.

From September 2013, the monetary policy stance started to be characterised by a key rate: the interest rate on one-week auction-based Bank of Russia operations. The Bank of Russia's decisions on the key rate are based on a comprehensive analysis of the economic situation and forecasts for its further development and are aimed at bringing about a slowdown in inflation in line with the targets set three years in advance.

In 2013, inflation risks from monetary factors remained moderate. With the continued low growth rates of the Russian economy and a significant impact of non-monetary factors on inflation processes the Bank of Russia decided not to tighten its monetary policy.

Measures were adopted in 2013 to improve the interest rate policy parameters and further expand credit institutions' access to refinancing operations. The Bank of Russia's rates on overnight standing facilities to provide and absorb liquidity were used to establish an interest rate corridor with bounds set symmetrically with respect to the key rate. Auctions were held on a regular basis to provide 3-month loans secured with non-marketable assets at a floating interest rate linked to the key rate. The list of bonds included in the Bank of Russia Lombard List was expanded and measures aimed at increasing the abilities of credit institutions to manage securities portfolios used as collateral in operations with the Bank of Russia were also taken.

The need to create conditions to support a sustainable economic growth required the Bank of Russia to undertake active steps to further intensify banking supervision with a view to forming a reliable and healthy banking sector. A decision was made to increase oversight of credit institutions, whose activities are of particular significance to the country or a region, including systemically important banks. Risk-based approaches to supervision have been developed, aimed at a timely detection, adequate assessment and prudent reduction of risks assumed by credit institutions. At the same time, the Bank of Russia has improved its approaches to assessing the stability of credit institutions and defining the actual quality of their assets and capital, in addition to the reliability of statements that they provide. In 2013, systemic risks in the Russian banking sector were relatively low, contributing to its financial stability.

2013 saw credit institutions continuing to build up their loan portfolios, largely affected by the state of the economy and demand from non-financial organisations and households for loans. The annual rate of growth in loans to non-financial organisations remained at the same level as the previous year, with loans to households actually falling. In 2013, the Bank of Russia introduced further regulatory requirements for consumer loans, especially unsecured loans, which had an impact on the slowing of growth in the retail loans portfolio. Lending to small- and medium-sized enterprises continued to outpace lending to corporate borrowers. Interest rates on long-term ruble loans to non-financial organisations and households fell significantly in 2013.

The funding base of credit institutions expanded in 2013, largely thanks to internal sources of funding, such as household savings and corporate funds. Given capital outflow from emerging markets, including Russia, and the uneven im-

part of budgetary flows on the banking sector liquidity, a strong demand from credit institutions for Bank of Russia refinancing instruments continued over the course of the year.

The development of settlement infrastructure has contributed to further advancement of cashless payments. The Bank of Russia, together with credit institutions, has intensified its work to increase public trust in cashless payment services and new payment facilities. There have also been further developments in the regulation of supervision and oversight in the national payment system, including the payment services security and the prevention of unauthorised use of funds in credit institutions' customer accounts.

In relation to the amendments introduced in 2013 to a number of federal laws, the Bank of Russia has been granted the authority to regulate, control and oversee the financial markets. The objectives of the Financial Markets Service set up within the Bank of Russia included the development of the financial market and the fostering of a competitive environment, protecting the rights and legal interests of shareholders, investors, insurers and insured parties, and monitoring compliance with the Russian Federation legislation to counter the illegal use of insider information and market manipulation.

In 2013, changes took place to the structure of the Bank of Russia head office and work commenced on the reform of its regional branches.

A decision was taken to create, on the basis of seven out of 79 Bank of Russia regional branches, main branches of the Bank of Russia and transform the remaining regional branches into divisions and national bank divisions, at the same time liquidating main cash settlement centres. In addition, a gradual centralisation of the Bank of Russia inspection activities and the Bank of Russia Chief Auditor' Service was completed.



**THE ECONOMIC AND  
FINANCIAL SITUATION  
IN RUSSIA**

I



## I.1. THE GLOBAL ECONOMY AND INTERNATIONAL MARKETS

*In* 2013, the global economy underwent a period of gradual recovery. The growth of Russia's trading partners, which slowed in 2012, showed some acceleration in 2013, although growth rates remained low. According to International Monetary Fund (IMF) estimates, there was a negligible change in the growth rate of the global economy, valued at 3.0% in 2013 (3.2% in 2012), with the second half of 2013 seeing more active recovery in key advanced economies.

Inflationary pressure in the majority of advanced countries remained low, which was one of the factors that enabled central banks to maintain a loose monetary policy in 2013. At the same time, in view of the improving situation in the US economy, including in the labour market, the US Federal Reserve System (Fed) decided in late 2013 to curtail the scope of its quantitative easing from January 2014.

The situation in the financial markets of advanced countries and emerging markets differed from one another in 2013. Amid the recovery in economic activity, stock indices in advanced countries rose significantly. Funding conditions improved for many European countries, having experienced some difficulties in previous years. Emerging market indicators were hit badly in 2013 by the uncertainty surrounding the time-

frame for initiating the curtailment of the Fed asset acquisition programme and its after-effects, as well as the worsening economic growth prospects in certain developing countries.

The strongest global economies showed contrasting economic growth rates in 2013. US GDP growth slowed from 2.8% in 2012 to 1.9% in 2013 as a result of the fall in demand for investment goods and the curtailment of government spending. Alongside unfavourable weather conditions, a temporary suspension of work by certain government institutions in October 2013 had a negative impact on the economy towards the end of the year, as a result of which the federal budget for the 2014 fiscal year was not adopted on time. Nonetheless, in the second half of 2013 the US economy showed a confident growth. In conjunction with the improved situation in the labour market, this allowed the Fed to begin tapering its quantitative easing of the economy: from January 2014 the value of securities purchased was reduced by \$10 billion a month, which was announced at the end of the session of the Fed Open Market Committee on 17–18 December 2013.

In 2013, the situation in the euro area improved compared with 2012, with the slowdown in GDP amounting to 0.4% (in 2012 it was 0.7%)<sup>1</sup>. From 2013 Q2, the euro area's GDP

<sup>1</sup> Figures based on Eurostat data.



## GROWTH IN OUTPUT OF GOODS AND SERVICES (percent)\*

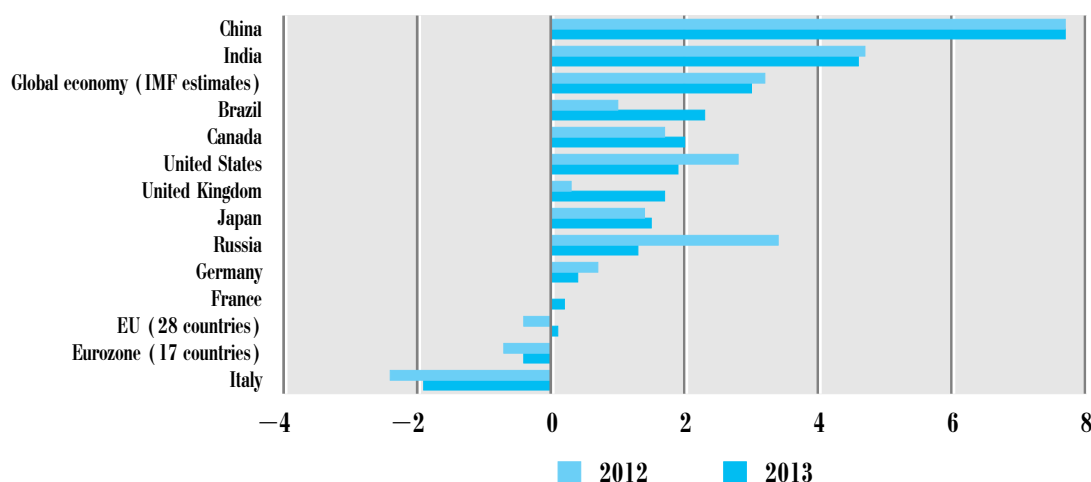


Chart 1

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

improved, but still showed significant differences in the economic situation of various countries in the region. Thus, 2013 saw a slump in eight euro area countries<sup>1</sup>: Cyprus (−5.4%), Greece (−3.9%), Spain (−1.2%), Italy (−1.9%), the Netherlands (−0.8%), Portugal (−1.4%), Slovenia (−1.1%) and Finland (−1.4%). The continued high rates of unemployment were a serious problem for the euro area (11.9% at the end of 2013), especially among the younger population. In this regard, Spain and Greece saw unemployment reach its high: 25.8% and 27.5% respectively, while in Germany, Austria and Luxembourg it was around 5–6%. Faced with a weak business activity and a low inflation, the European Central Bank (ECB) twice — in May and November 2013 — cut the refinancing rate, fixing it at its low of 0.25%.

Monetary incentives also contributed to the increase in economic activity in other major economies. Increased growth was witnessed in 2013 in the United Kingdom (from 0.3% to 1.7%) and Japan (from 1.4% to 1.5%). The Bank of England continued its Funding for Lending Scheme in 2013. To achieve its inflation target of 2%, in April 2013 the Bank of Japan abandoned its operational indicator of the money market rate and switched to using its monetary base in this capacity, announcing its intention to double it by 2015 through increasing acquisitions

of Japanese government bonds and higher risk assets.

Despite favourable export dynamics, according to the IMF, GDP growth in emerging markets slowed from 5.0% in 2012 to 4.7% in 2013 as a result of a weakening domestic demand and the deterioration of financial conditions in the global market in the second half of 2013. There was a significant slowdown in the CIS countries (from 3.4% to 2.1%), Latin America and the Caribbean (from 3.1% to 2.7%) and developing countries in Asia (from 6.7% to 6.5%). Economic growth rates in developing European countries increased in 2013, according to the IMF, from 1.4% to 2.8%. GDP growth in China in 2013 was unchanged at 7.7% compared with 2012.

Growth in the international trade of goods and services was 3.0% in 2013 compared with 2.8% in 2012, according to the IMF. In this regard, growth in the import of goods and services by advanced countries increased from 1.1% to 1.4%, whereas emerging market economies and developing countries witnessed the opposite, with a fall from 5.8% to 5.6%.

Brent, Dubai and West Texas crude oil prices remained fairly stable in 2013 and on average dropped by 0.9% (in 2012 they rose by 1.0%). The annual average prices for foodstuffs in the global markets (index published by the UN Food

<sup>1</sup> Figures based on Eurostat data.

GROWTH IN EXCHANGE RATES OF SOME CURRENCIES AGAINST THE US DOLLAR IN 2013  
(December 2013 as a percentage of December 2012)\*

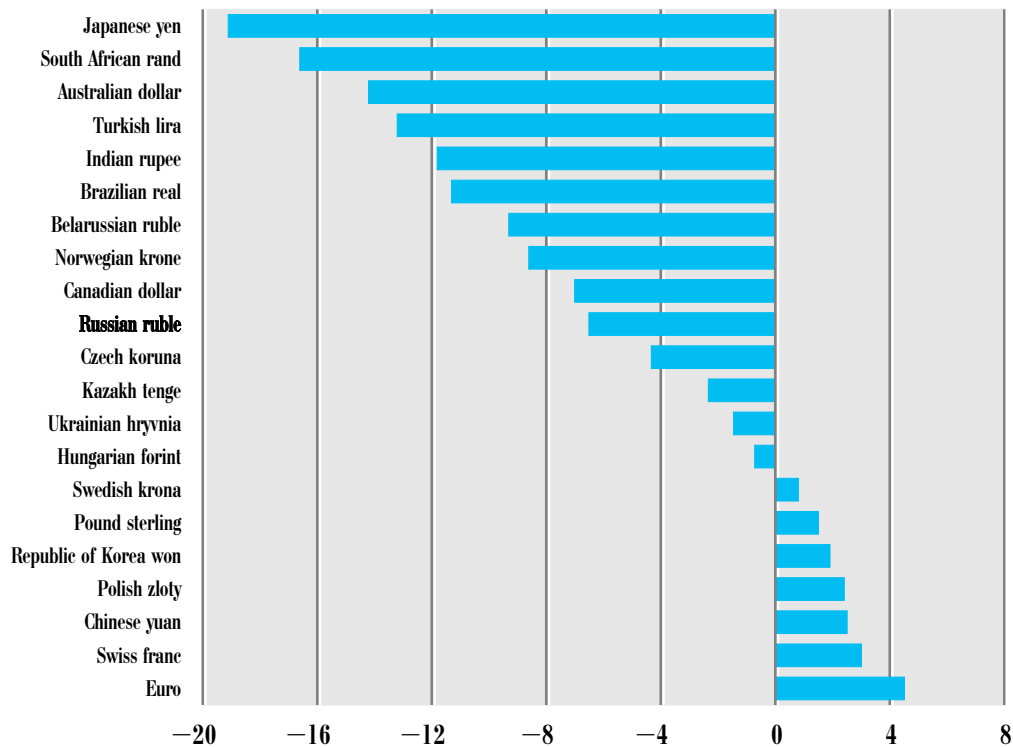


Chart 2

\* A '−' denotes the appreciation of the US dollar, while '+' denotes the depreciation of the US dollar.

and Agriculture Organisation, the FAO) dropped by 1.6% in 2013 (in 2012 it fell by 7.3%) due to the fall in prices for grain, vegetable oil and sugar alongside increased quantities and improved production forecasts. The fall in prices for energy commodities and foodstuffs combined with a continued weak economic activity contributed to inflation reduction in many countries around the world. As a result, differing inflation risks continued to reign in different economies. The Consumer price growth slowed both in the US and in the euro area in 2013: in the US inflation dropped from 2.1% in 2012 to 1.5% in 2013, and in the euro area from 2.5% to 1.4%. At the same time, inflation rates in a number of developing countries remained relatively high. These inflation risks gave rise to increases in key rates by central banks in India, Indonesia and Brazil.

The situation in the financial markets of advanced countries improved in 2013. Stock indices were observed to grow during this period. The improvement of macroeconomic forecasts and the

continued low interest rates ensured more favourable funding conditions for the euro area countries. The heightened trust of market participants in the European financial system can be attributed to measures implemented by European regulators to establish an effective unified banking oversight mechanism, in particular through the elaboration of a single resolution mechanism. Over the course of the year, there has been a marked decrease in yield spreads on the sovereign securities of Greece, Portugal, Spain, Ireland and Italy against the yields of German bonds. December 2013 saw the official end of the European Union and IMF financial support programme for Ireland.

The stability achieved in the financial markets of advanced countries did not fully spread to the markets of developing countries. Influenced by the anticipated curtailment of the Fed asset acquisitions from May 2013, the majority of emerging markets witnessed large-scale capital outflows and a fall in asset prices. There was

a sharp decrease in the value of currencies of countries whose economies were dependent on inflows of foreign capital to finance the current account deficit. According to the BIS estimates, in 2013 the nominal effective exchange rate of the South African rand fell on average by 14.0%

relative to 2012, the Turkish lira by 6.5%, the Indian rupee by 8.5%, and the Brazilian real by 7.3%. The central banks of a number of countries took measures to stabilise their national currencies, including interventions in the foreign exchange market.

## I.2. THE ECONOMIC SITUATION IN RUSSIA

*In* 2013, the growth in the Russian economy slowed down. **GDP growth** dropped from 3.4% in 2012 to 1.3% in 2013. The economic slowdown was structural, linked to the exhausting opportunities for recovery growth. The impact of the majority of internal factors shaping the upsurge of the economy in the post-crisis period (the recovery of demand, increase in production capacity utilisation, wider employment, high growth in wages and consumer lending) faded out. The investment activity fell. The deterioration of the external economic situation and a weak foreign demand had a moderate constraining impact on the development of the Russian economy.

In 2013, the GDP growth was driven mainly by financial activity, the wholesale and retail trade and transactions with real estate. A good harvest of key crops encouraged an overall increase in agricultural output by 6.2%, compared to the fall in 2012.

The contraction of investment demand contributed to a fall in the construction output, as well as a significant drop in the output of investment-oriented manufacturing industries. Overall, industrial production in 2013 rose by 0.4%. Its efficiency was low, with a weak growth in output resulting from a high production capacity and labour force utilisation. In the course of the

year, industrial producer sentiment indicators remained low, while in the manufacturing industries they showed clear downward trends (seasonally adjusted).

The financial position of Russian organisations deteriorated<sup>1</sup>. In 2013, the positive net **financial result** dropped by 14.3% compared with 2012. The share of loss-making enterprises rose from 25.9% to 26.8%. The increased growth (relative to receipts) in the cost of production of goods, works and services has led to a marked drop in sales profitability. Moreover, a sharp increase in the negative balance of other incomes and expenditures has had an adverse impact on the net financial result. The cut in profits has been one of the factors behind the continued reduction in the share of equity capital in organisations' financial resources observed since 2012. The level of organisations' equity capital remained insufficient.

The diversion of a portion of working assets from production rose. The growth in working assets was to a large extent conditioned by the increase in accounts receivable, with the share of arrears rising. Expenditures for work in progress and inventories for resale also increased.

Despite this, the share of arrears in total liabilities remained low in 2013. The overdue accounts payable was 5.3% of the total amount outstanding and the overdue loans stood at 0.6%.

<sup>1</sup> Excluding small businesses, banks, insurance companies and budget-financed organisations.

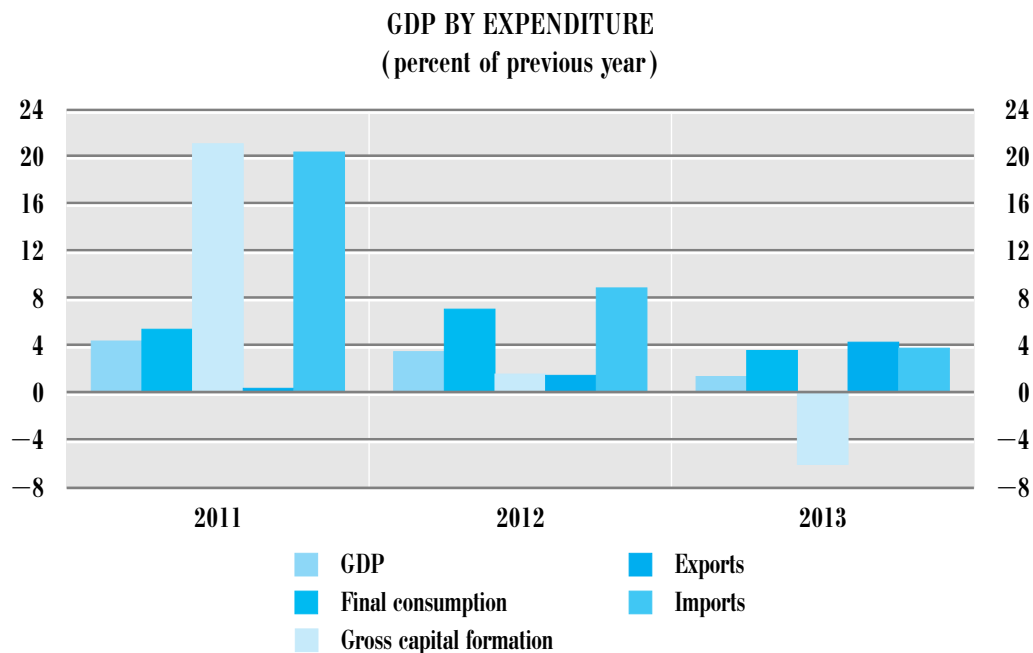


Chart 3

In 2013, for the first time since 2010 Russia witnessed a fall in the number of **employed in the economy**. Seasonally adjusted, the rate of unemployment in the first half of 2013 showed a weak growth, and in the second half of the year stabilised at 5.5—5.6%. These low levels were formed amid a narrowing labour supply and changes to its structure as a result of long-term demographic factors. The labour market reaction to the weakening economic dynamics was reflected through a fall in the labour force utilisation (growth in part-time work, the number of unpaid leaves), an increase in overdue wage arrears and a slowing growth of wages.

The growth in household real money income declined. The expansion of retail lending slackened and the consumer sentiment worsened. Together, these had an effect on the curtailed growth in final consumption expenditures by households in 2013 compared with 2012 (from 7.9% to 4.7%). Nonetheless, a rise in consumer demand, as in 2012, was a key driver of economic growth.

There were no marked shifts in household behaviour in 2013 with the structure of household income use undergoing no substantial changes. Households' propensity for organised

savings<sup>1</sup> was virtually unchanged at 9.9% compared with 2012.

Expenditures on final consumption of the general government increased, whereas that of non-profit institutions serving households fell.

The growth in exports along with the slowdown in import growth as a result of the ruble depreciation and the narrowing of aggregate demand in the economy meant that net exports of goods and services in 2013 made a positive contribution to GDP.

The uncertainty over the economic growth outlook and a significant deterioration of the financial position of organisations had a negative impact on investment activity in 2013. The gross fixed capital formation fell compared with 2012 by 0.1% (in 2012 it increased by 6.5%). Inventories contracted. Overall, the gross capital formation dropped by 6.1% (in 2012 it increased by 1.5%) and its contribution to economic growth was negative.

According to estimates, the output gap remained slightly negative in 2013. Demand constraints had a marked impact on price dynamics in the economy. **Producer price** indices in construction and corporate communications services

<sup>1</sup> Savings include growth (drop) in deposits, acquisition of securities, changes in funds in the accounts of individual entrepreneurs, changes in overdue loans, purchasing of real estate, and purchasing of livestock and poultry by households.

INFLATION, CORE INFLATION, AND CHANGE IN ADMINISTERED SERVICE PRICES\*  
(growth as a percentage of corresponding month of previous year)

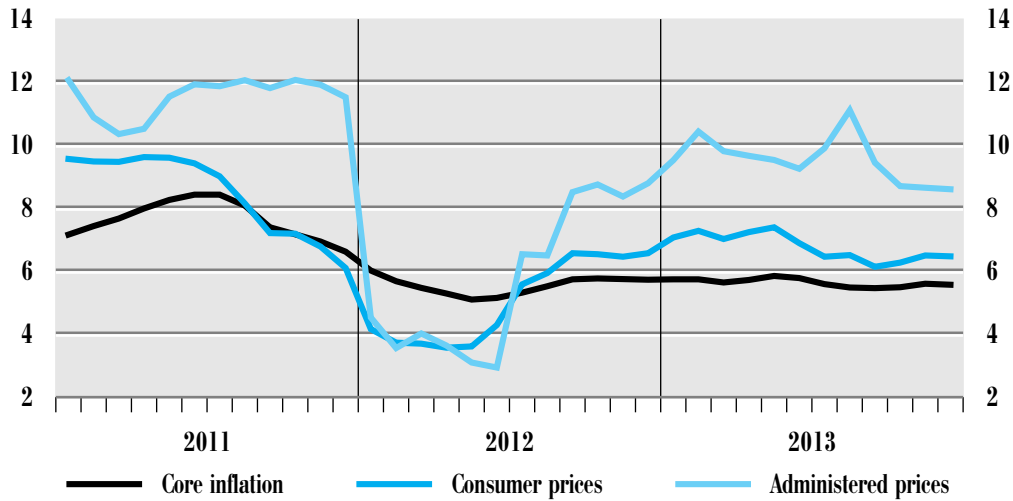


Chart 4

\* Estimate.

were lower than in 2012. The producer price index of industrial goods fell, with producer price growth in manufacturing industries<sup>1</sup> reaching its all-time low (1.6%). Producer prices in electricity, gas and water production and distribution rose higher than in 2012, influenced by a greater indexation of administered prices and tariffs.

A good harvest resulted in a fall in producer prices in the crop production. However, in the livestock industry, the rise in expenditures (partly resulting from a rise in prices for fodder due to the poor harvest of 2012 and ruble depreciation) and the reduction in production led to an acceleration of the producer price growth. On the whole, the producer price index in agriculture was significantly lower in 2013 than in 2012.

**The consumer price** dynamics were influenced by different factors. The fall in the ruble exchange rate largely caused by external factors had a pro-inflationary effect, especially in the second half of the year. Nonetheless, the constraining impact on consumer market prices as a result of slackening demand and slowing growth in producer prices prevailed over the effect of ruble depreciation, which is testified by a downward trend in annual growth rates of non-food prices (from 5.2% in December 2012 to 4.5% in December 2013) observed since late 2011. Growth rates of

prices for non-food goods, excluding petrol, which are least exposed to administrative and event-triggered factors, also fell.

Throughout 2013, temporary factors in the food market substantially affected inflation. At the start of the year and again in autumn, a rise in livestock prices in the domestic market; increased prices for foodstuffs and agricultural commodities in certain global markets; and unfavourable weather conditions for fruit and vegetable harvesting, all gave rise to an accelerated growth in consumer prices for foodstuffs. Overall, in the course of the year the most marked price increases were seen for milk, dairy products, cheese and eggs. By the end of the year, food prices had increased by 7.3%, or 0.2 percentage points less than in 2012.

Prices and tariffs for housing and utility services, passenger transport, alcohol and tobacco rose more than in 2012, partly due to higher administered tariffs and excise duties.

Overall, inflation was 6.5% in December 2013 as compared with December of the previous year, which was only 0.1 percentage point lower than the same indicator a year earlier. It exceeded the target range set out for 2013 in the 'Guidelines of the Single State Monetary Policy in 2013 and for 2014 and 2015' at 5–6%. Core inflation

<sup>1</sup> For goods to be sold in the domestic market.

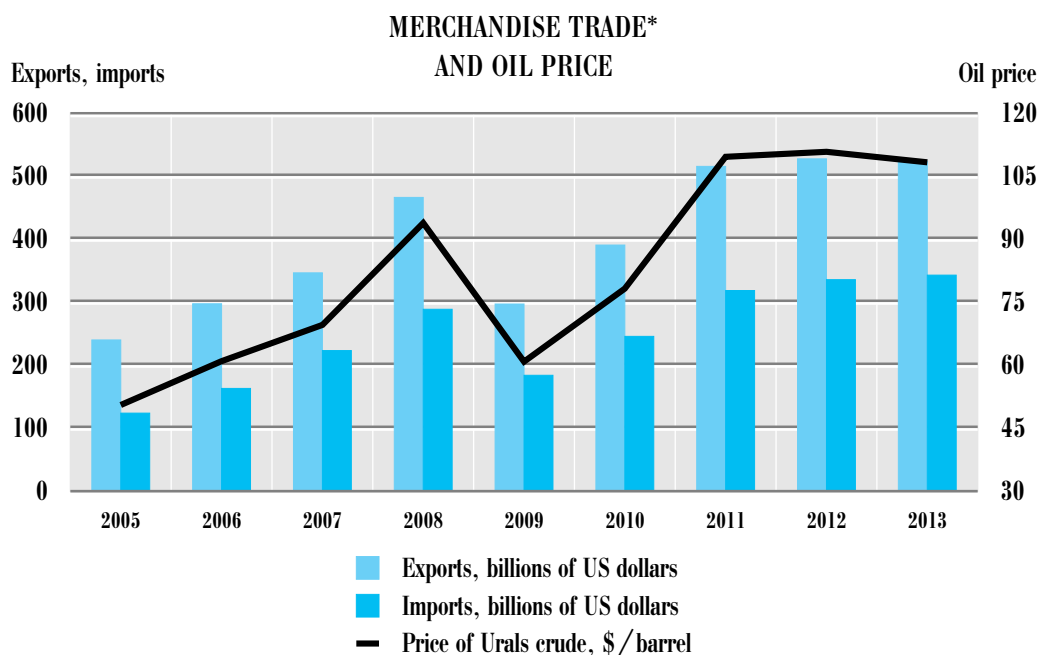


Chart 5

\* According to balance of payments data.

slowed over the year by 0.1 percentage points to 5.6%.

**The price situation in global commodity markets** in 2013 was less favourable for Russian exporters compared with the previous year. Together with the continued positive dynamics of import prices, this caused a deterioration in external trade conditions for the Russian Federation in 2013 compared with 2010—2012. A fall in contract prices was observed in the majority of large-scale Russian export positions, in particular for mineral products and metals, including goods thereof, which accounted for about 80% of total exports. The annual average price for Urals crude in the global market was 2.2% lower than in 2012: \$108.3 per barrel. The price of natural gas in the European market rose by 2.7%, according to the World Bank. Over the course of 2013, there were quarterly falls in prices for exported metals and metal-working products. The global market saw significant drops in prices for nickel (by 14.3%), aluminium (by 8.7%) and copper (by 7.9%). The cumulative fall in export prices for chemical industry products was the most marked at the end of the year. Global prices for food products, including agricultural raw materials, were somewhat lower on average in 2013 than in the previous year. Goods accounting for

an insignificant proportion of Russian exports, such as hides, furs and articles thereof, enjoyed positive price dynamics.

Exports of Russian goods, defined according to the balance of payments methodology, contracted by 0.8% in 2013 largely due to pricing factors. With the gradual recovery of external demand, export quantities of certain Russian goods increased. The share of three main fuel and energy goods as a percentage of total exports rose which, with the negative dynamics of the value of Russian oil supplied abroad, was a consequence of the increase in exports of natural gas and oil products. Exports of timber and pulp-and-paper goods rose. At the same time, 2013 saw a continued reduction in exports of chemicals as a result of the fall in prices for this group of products, while export quantities rose. After a significant increase in 2012, exports of food products and agricultural raw materials dropped.

In 2013, the downward trend in goods import growth persisted, which was linked to a decline in consumer and investment demand growth. The value of imported products, according to balance of payments data, rose by 2.1% (by 5.4% a year earlier). Imports of chemicals and food products, including agricultural raw materials, increased. At the same time, the value of imports of machin-

ery, equipment and transport vehicles fell compared with 2012, with the share of these items in total imports not exceeding 50%. Amid moder-

ate growth in prices for this group of products the negative dynamics of this indicator were conditioned by a reduction in import quantities.



## I.3. THE FINANCIAL SECTOR

### I.3.1. CREDIT INSTITUTIONS

The slowing growth in the Russian economy in 2013 did not have a significant impact on the development of the banking sector with its main indicators remaining stable. Russian banks built up their resource base, primarily through household savings and corporate funds, with banks maintaining a high level of demand for Bank of Russia refinancing instruments over the course of the year. Lending in 2013 was shaped by the demand for business loans and, in many respects, regulatory factors. Banks' capital adequacy levels stabilised. The role of the banking sector in the Russian economy increased considerably in 2013.

Banking sector assets rose over 2013 by 16.0% (18.9% in 2012) to 57.4 trillion rubles with the

ratio to GDP increasing from 79.6% to 86.0%. The banking sector equity capital increased by 15.6% (16.6% in 2012) to 7.1 trillion rubles. As a result of the more intensive growth in bank capital compared with nominal GDP, the ratio of banking sector capital to GDP increased over 2013 from 9.8% to 10.6%.

In view of the objective advantages of major organisations, including economies of scale and access to work with government programmes, credit institutions continued to build up their capital. The number of credit institutions with capital exceeding 1 billion rubles rose in 2013 from 346 to 367.

The number of operating credit institutions was 923, a decline of 33 in 2013.

## KEY BANKING SECTOR INDICATORS

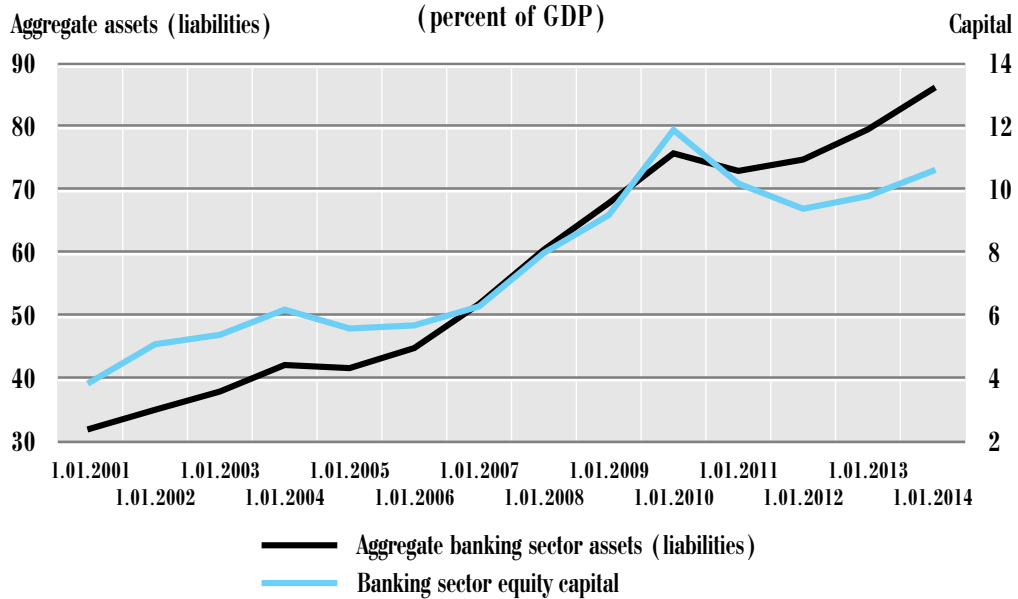


Chart 6

## CREDIT INSTITUTION LIABILITY STRUCTURE

As before, customer funds took pride of place among the resource base of banks<sup>1</sup>: the balances in their accounts over 2013 rose by 16.0% to 34.9 trillion rubles, while the share of these funds as a percentage of banking sector liabilities remained unchanged over the course of the year (60.8% as of 1 January 2014).

The amount of corporate sector resources in bank liabilities dropped somewhat, whereas the share of the household sector rose. Nonetheless, the total amount of funds taken from organisations (excluding banks) rose by 13.7% over 2013 (11.8% in 2012) to 17.8 trillion rubles, with the share of these funds amounting to 30.9% of the banking sector liabilities at the start of 2014.

Household deposits<sup>2</sup> increased by 19.0% over 2013 (20.0% in 2012) to 17.0 trillion rubles, and their share of banking sector liabilities rose from 28.8% to 29.5%. The share of foreign currency

deposits rose from 17.5% at the start of the year to 18.6% at the end of November, however, December saw a rapid growth in ruble deposits, resulting in the share of foreign currency deposits falling to 17.4% as of 1 January 2014.

In December 2013, amid an overall growth in household deposits by 4.3%, there was a cross-flow of deposits within the banking sector, and with the general continuation of a recent trend towards OJSC Sberbank of Russia's shrinking share in the deposit market, in December 2013 this share rose again to 46.7% as of 1 January 2014. The number of banks with deposits exceeding 1 billion rubles increased by two over the year to 439.

In 2013, interest rates on ruble deposits by non-financial organisations with terms over one year saw some fluctuation: the lowest rate was in June 2013 — 7.4% p.a. However, in December the rate increased to 8.1% p.a. (in January

<sup>1</sup> Corporate account balances (including funds of budgets of all levels and government extra-budgetary funds), household funds, as well as customer float, for factoring and forfailing transactions, and funds written off from customers' accounts but not accounted for in the correspondent account of a credit institution.

<sup>2</sup> Including savings certificates.

2013 it was 9.4% p.a.). Interest rates on household ruble deposits for terms over one year fell on the whole: from 8.5% p.a. in January to 7.4% p.a. in December 2013. OJSC Sberbank of Russia had a considerable downward impact on interest rates on household deposits. Overall, the cost of funding in 2013 fell, in part due to the slowdown in inflationary processes.

Against the backdrop of a structural liquidity deficit in 2013, banks showed a high demand for Bank of Russia's refinancing instruments. The total funds taken out from the Bank of Russia over 2013 rose 1.7-fold due to a significant (1.9-fold) growth in the second half of the year, with their share in the banking sector liabilities rising from 5.4% to 7.7%.

### CREDIT INSTITUTION ASSET STRUCTURE

Russian banks' growth indicators were shaped by lending dynamics, primarily in consumer lending. The total volume of loans to non-financial organisations and households went up in 2013 by 17.1% to 32.5 trillion rubles, coupled with an increase in their share in the banking sector assets by 0.5 percentage points to 56.5%. Relative to GDP, growth in the aggregate lending portfolio was quite noticeable (from 44.5% to 48.6%).

Over 2013, the volume of loans and other funds provided by banks to non-financial organisations increased, as in 2012, by 12.7%. The lending portfolio value reached 22.5 trillion rubles, while its share in the banking sector assets amounted to 39.2% as of 1 January 2014 (at the start of 2013 it was 40.3%). Overall, bank lending to small and medium-sized businesses in 2013 grew faster than lending to non-financial organisations, rising by 14.8% to 5.2 trillion rubles as of 1 January 2014 (by 16.9% a year earlier).

In 2013, high growth rates in household lending continued, with the value increasing by 28.7% (39.4% in 2012) to 10 trillion rubles. One factor behind the slowdown in household lending was the introduction by the Bank of Russia in 2013 of additional regulatory requirements<sup>1</sup> in relation to consumer lending, primarily with regard to unsecured lending. The goal of the measures

introduced was to keep the consumer lending growth in line with changes in the household income and to increase the quality of banks' retail lending portfolios.

The improvement in the structure of retail transactions was reflected in the continuing growth in mortgage lending: the number of housing mortgage loans increased to 825,000, a rise of 19% over the course of 2013. The total amount outstanding on such loans in 2013 increased by 32.6% to 2.6 trillion rubles (35.0% in 2012).

In 2013, there was a significant fall in ruble lending interest rates: household lending rates for terms over one year dropped from 20.8% p.a. in January to 17.3% p.a. in December 2013, with mortgage lending rates falling from 12.7% to 12.1% p.a. and lending to non-financial organisations with terms over one year falling from 12.2% to 10.6% p.a.

The securities portfolio increased in 2013 by 11.2% (13.3% in 2012) to 7.8 trillion rubles. Investment in debt rose in 2013 by 17.1%, while investment in equity and discounted promissory notes actually fell (by 0.2% and 31.3% respectively).

The assets of credit institutions in foreign currency increased by 13.2% over 2013 in dollar terms, and their share in total assets went up from 21.0% to 22.1%.

<sup>1</sup> Risk-to-benefit ratios were increased for consumer loans with a high effective interest rate taking into account capital adequacy, and reserve requirements were raised for portfolios of unsecured homogenous consumer loans.

## CLAIMS AND OBLIGATIONS ON INTERBANK LOANS

For the majority of 2013, the interbank market<sup>1</sup> showed higher growth rates than in 2012, primarily due to increased transaction activity with non-residents. Interbank lending increased over 2013 by 21.3% (6.9% in 2012) to 5.1 trillion rubles, with their share in banking sector assets rising from 8.5% to 8.9%. Lending to resident banks increased by 3.7%, and to non-resident banks by 37.3%. At the same time, the volume of interbank lending increased by 1.4% (3.9% in 2012) to

4.8 trillion rubles, with their share in the banking sector liabilities falling from 9.6% to 8.4%.

At the start of 2013 the Russian banking sector acted as a net borrower from non-resident banks, with net outstanding loans of 23 billion rubles. From February 2013, the banking sector became a net creditor in operations with non-resident banks; at the start of 2014 net claims to non-residents in the interbank market amounted to 792 billion rubles (1.4% of assets).

## THE FINANCIAL STANDING OF CREDIT INSTITUTIONS

In 2013, the net profit of operating credit institutions was 994 billion rubles (1,012 billion rubles in 2012). The main factor behind this fall in profits compared with 2012 was the more conservative assessment of the risks assumed by banks and the creation of additional loan loss provisions: the annual growth in provisions over 2013 was 315 billion rubles (99 billion rubles in 2012).

The share of profit-making credit institutions over the course of the year fell from 94.2% to 90.4%. As many as 88 credit institutions incurred a combined total of 19 billion rubles in losses.

The most significant item influencing the financial result of banks in 2013 continued to be the net interest income. Its share in the profit growth factors was 67.3% (67.8% in 2012). In 2013, this income rose by 395 billion rubles, or by 21.6% (21.3% in 2012). The net interest income in 2013 was shaped by its growth on operations with individuals, accounting for 58.9% of the factors of growth in the net interest income. As for other operations, including investment in debt and interbank lending, there was a reduction in the net interest income.

A key source of profit was the net fee income, which also saw a highly dynamic growth. Over 2013, the increase in the fee income compared with the previous year was 89 billion rubles, or

15.7% (13.4% in 2012). The share of the net fee income in the structure of profit growth factors fell slightly over 2013 from 20.9% to 19.8%.

In contrast with previous years, in 2013 credit institutions suffered a net loss from securities operations amounting to 3.5 billion rubles, caused by an unfavourable revaluation in the second half of 2013.

The share of net income from foreign currency operations, including revaluation, in the banking sector profit growth factors rose in 2013 by 1.1 percentage points year on year to 3.3%. In addition, in 2013 banks witnessed an increase in the share of net other income in profit growth factors from 7.4% to 9.6%, largely due to the growth in income from derivatives.

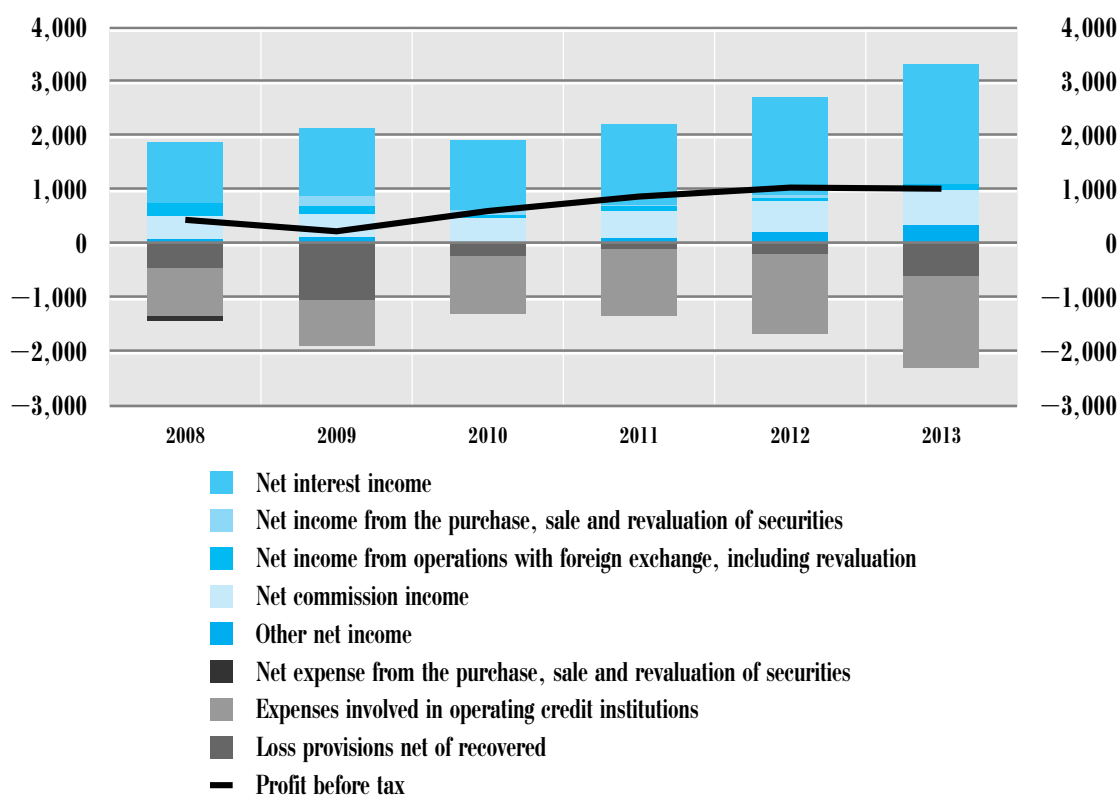
Expenses related to the support of credit institutions' operations increased in 2013 by 14.7% year on year, which is largely in line with the growth rate for banking operations.

In connection with the growth in the banking sector assets and the fall in profits compared with 2012, the return on assets dropped from 2.3% to 1.9%. The return on equity as of 1 January 2014 was 15.2% (18.2% as of 1 January 2013).

Profit and funds formed from this profit accounted for about a half of the equity increase in 2013 (growth was 519 billion rubles). The next most significant sources of equity increase were

<sup>1</sup> Loans, deposits and other funds placed (raised) in the interbank market.

### BANKING SECTOR PROFIT FACTORS (billions of rubles)



subordinated loans, authorised capital and share premiums, the growth of which was identical, with each gaining 246 billion rubles, or 23.4% of the total sources of growth.

Nevertheless, 145 credit institutions saw a fall in their equity capital by a total of 45 billion

rubles, or 11.3% of the capital of these credit institutions.

The capital adequacy ratio, a key indicator of the banking activity, stabilised, reaching 13.5% as of 1 January 2014 (at the start of 2013 it was 13.7%).

### FOREIGN-CONTROLLED BANKS

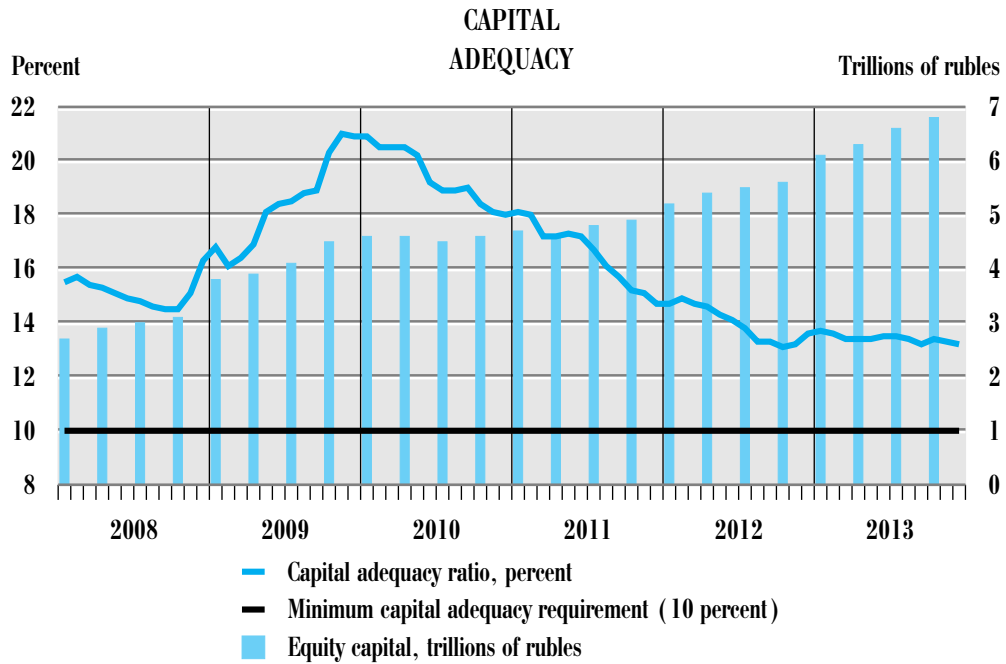
In 2013, the number of foreign-controlled banks<sup>1</sup> grew from 117 to 122 (17 of them rank among Russia's top 50 credit institutions in terms of assets). However, due to a more modest growth in their business, the share of foreign-controlled banks in the banking sector assets fell from 17.8% to 15.3%, and in equity capital from 19.3% to 17.3%. A number of foreign-controlled banks

(18) are part of global systemically important banking groups, which has a positive impact on the sustainability of the Russian banking sector. Among the aforementioned 122 banks, 27 are significantly influenced by residents of the Russian Federation.

The volume of loans provided by foreign-controlled banks to non-financial organisations fell

<sup>1</sup> Credit institutions with foreign stakes in authorised capital exceeding 50%.

Chart 8



by 5.2% over 2013, while loans to households rose by 19.9%. The share of loans provided by foreign-controlled banks to non-financial organisations in the total banking sector loans to non-financial organisations fell over the year from 14.2% to 12.0%, and in the household lending portfolio from 22.6% to 21.0%.

The share of foreign-controlled banks in the household deposit market also fell over the year from 13.5% to 12.5%.

The unstable situation in the global financial markets, and the decrease in financial leverage

by European banks in connection with the introduction of Basel III, led to a substantial reduction in the share of non-resident banks' funds in the liabilities of Russian foreign-controlled credit institutions (from 8.3% to 6.9% in 2013). At the same time, there was a shift in the role of this group of banks in interbank transactions with non-residents: from net borrowers (the total net borrowing from non-resident banks as of 1 January 2013 was 51 billion rubles) they turned into net creditors (the total net claims to non-resident banks as of 1 January 2014 was 42 billion rubles).

### I.3.2. OTHER FINANCIAL INSTITUTIONS

**INSURANCE COMPANIES.** The number of registered insurance entities (insurance companies, mutual insurance and insurance broker companies) decreased from 641 to 597 in 2013. Operating insurance companies were issued 186 licences in 2013 to carry out additional types of insurance activities (51 licences in 2012). Of these, 65 licences were issued to provide compulsory third-party liability carrier insurance for causing harm to life, health and the property of passengers during carriage, brought about by changes in federal legislation<sup>1</sup>.

Key insurance market indicators rose more slowly than in 2012. The total authorised capital of insurance companies<sup>2</sup> rose by 1.2% in 2013 (12.2% in 2012) to 210.6 billion rubles as of 1 January 2014. There were only minor changes to the structure of insurance premiums and indemnities in 2013. The share of life insurance premiums rose from 7% to 9% through the active use of the banking channel to promote insurance products. The share of compulsory types of insurance rose from 21% to 23% in the structure of insurance indemnities.

According to data set out in statements submitted to the Bank of Russia<sup>3</sup>, between January and September 2013 the rate of growth in insurance reserves, the main source of financial investment for insurers, was 23.0%.

Insurers' total assets over the first nine months of 2013 rose by 11.6%. As of 1 October 2013, investment in securities and bank deposits accounted for 31.7% and 27.7% of total assets respectively.

As of 1 October 2013, investments in the banking system dominated insurers' assets

(37.4%). The share of insurers' investments in the non-financial sector was 20.8% of total assets as of 1 October 2013 (investment in the securities of non-financial organisations accounted for 10.9% of assets), while the proportion of insurers' investments in financial instruments of the other financial organisations sector was 12.0% (of which 4.3% of assets were invested in the securities of these organisations). Insurers invested 7.8% of their total assets in the general government instruments (of which government securities accounted for 6.3% of assets) and 10.7% in foreign assets (of which 7.7% of assets in non-residents' debt securities).

#### NON-GOVERNMENTAL PENSION FUNDS (NPFs).

Despite the fall in the number of operating NPFs in 2013 from 134 to 120, the rates of growth in NPFs' own property and its components in the reporting period exceeded the indicators of 2012.

The increase in the values of NPFs' pension reserves and pension savings came to be a key source of growth for their financial investments. According to reports on NPF financial operations<sup>4</sup>, NPF assets from January to September 2013 rose by 22.4%. As of 1 October 2013, securities investments dominated in the structure of NPF assets (65.2%).

As of 1 October 2013, investments in the banking system accounted for the biggest share of NPF assets: 35.6% (of which deposits accounted for 27.4% of assets, debt portfolios 6.6%, and equity portfolios 1.6%). Investments in other financial organisations sector accounted for 32.3% of NPFs' total assets as of 1 October 2013

<sup>1</sup> The new licences were issued to implement Federal Law No. 67-FZ, dated 14 June 2012, 'On Compulsory Third-Party Liability Carrier Insurance for Causing Harm to Life, Health and the Property of Passengers and on the Procedure for Compensating Such Harm Caused when Carrying Passengers by the Underground'.

<sup>2</sup> According to data from the Single State Register of Insurance Entities.

<sup>3</sup> Starting from statements as of 1 October 2013, the amended reporting form No. 1-FS (SK) was brought into effect, as approved by Rosstat (the Federal State Statistics Service) Order No. 179, dated 13 May 2013, 'On the Approval of Statistical Tools for Organising Statistical Surveillance by the Bank of Russia of Borrowings and Placements Made by Insurers'. The changes make it possible to further break down the data by economic sector and to reduce the number of unclassified items.

<sup>4</sup> Statements submitted in accordance with Rosstat Order No. 308, dated 10 December 2008, 'On the Approval of Statistical Tools for Organising Statistical Surveillance by the Bank of Russia of Borrowings and Placements Made by Insurance Companies, and the Financial Operations of Non-Governmental Pension Funds' with regard to NPF transactions.



(of which 8.3% of assets were invested in debt portfolios and 19.8% in equity portfolios) and investments in the non-financial organisations sector accounted for 22.1% (of which 15.4% of assets were invested in debt portfolios and 6.7% in equity portfolios). As of 1 October 2013, the share of NPF investments in financial instruments of the general government sector was 6.2% of NPF assets (these investments were entirely made up of investments in government securities). Foreign assets did not exceed 1% of NPFs' total assets and were represented by non-resident debt portfolios.

**UNIT INVESTMENT FUNDS (PIFs).** According to the Bank of Russia data, in 2013 the number of operating<sup>1</sup> PIFs increased by 24, largely due to the funds for qualified investors. At the end of 2013, there were 1,571 PIFs in the Russian Federation, of which 1,491 funds had completed their formation. The number of operating funds for qualified investors rose by 22 and, by the end of 2013, had reached 676 (of which 633 had completed their formation).

The total net asset value (NAV) of PIFs increased by 16.8% in 2013 to 1,865.9 billion rubles as of 31 December 2013. The NAV of funds for qualified investors rose by 20.4%, reaching 1,274.3 billion rubles as of 31 December 2013.

The total number of individual accounts in the registers of PIF unit holders as of 31 December 2013 was 2,033,841 (of which 888,370 were in the registers of open-end funds, 1,135,743 of interval funds<sup>2</sup>, and 9,728 closed-end funds). In 2013, the total number of individual accounts fell by 752, or by 0.04%.

**JOINT-STOCK INVESTMENT FUNDS (AIFs).** The number of AIFs has remained unchanged over the past 10 years, at seven as of 31 December 2013. Of these, only five AIFs were actually operating (three mixed investment funds, one real estate fund and one direct investment fund). There were no funds for qualified investors among these AIFs.

The total NAV of AIFs contracted over 2013 by 4.3% to 5.8 billion rubles as of 31 December 2013.

The number of **microfinance organisations (MFOs)** in the state register of MFOs rose by 1,356 in 2013, to 3,860 as of 1 January 2014. The largest growth was witnessed over January—October 2013. The ensuing fall in growth rates in the number of MFOs was due to the withdrawal of the option for MFOs to use a simplified taxation system, as well as simplified accounting methods, including simplified accounting (financial) statements<sup>3</sup>. In 2013, two self-regulatory MFOs started to operate.

The number of **consumer credit cooperatives (CCCs)** rose in 2013 by 11.7% to 3,602 as of 1 January 2014 (of which 325 were in the stages of liquidation or reorganisation). As of 1 January 2014, there were 10 self-regulatory CCCs in operation.

The register of **housing savings cooperatives (HSCs)** contained 88 HSCs as of 1 January 2014, or six less than as of 1 January 2013. A fall in the number of HSCs has been observed since 2011.

In 2013, the total number of **professional securities market participants** conducting broker, dealer, and depositary activities and securities management fell compared with 2012 to 1,149 organisations. In 2013, the number of clearing houses remained unchanged, whereas the number of management companies and specialised depositories changed only slightly. At the end of 2013, 401 organisations had licences of a management company of investment funds, PIFs, and NPFs and 44 had licences of a specialised depository of investment funds, PIFs, and NPFs.

In 2013, eight operating stock exchanges received new licences to implement Federal Law No. 325-FZ, dated 21 November 2011, 'On Organised Trading', which sets out the requirement to obtain a trading system or stock exchange licence to engage in offering organised trading services in the commodity and (or) financial markets.

<sup>1</sup> Operating PIFs are understood to mean those listed in the register net of terminated funds.

<sup>2</sup> Of these, more than 1 billion individual accounts were registered in one interval PIF converted from a voucher investment fund.

<sup>3</sup> Federal Law No. 301-FZ, dated 2 November 2013, 'On Amending Certain Laws of the Russian Federation' and Federal Law No. 292-FZ, dated 2 November 2013, 'On Amending the Federal Law 'On Accounting'' were repealed.



## I.3.3. FINANCIAL MARKETS

In 2013, the Russian **money market** operated amid growth in the structural liquidity deficit, which had an effect on the dynamics of its turnover and interest rates. The interdealer repo market remained one of the key mechanisms of liquidity distribution in the banking sector. The average daily volume of overnight repo transactions with bonds (MICEX BORR sample) in 2013 was 100 billion rubles, while the volume of overnight repo transactions with equities (MICEX EQRR sample) was 86 billion rubles.

The situation in the money market was primarily shaped by banks' demand for liquidity, as well as the interest rates on Bank of Russia refinancing operations. The average MIACR on overnight ruble-denominated interbank loans was 6.1% p.a. in 2013 (5.5% p.a. in 2012). Repo rates over a large part of the reporting year changed directly in line with interbank rates. The average spread between the rate on overnight repos with bonds (the MICEX BORR index) and the overnight ruble-denominated MIACR was less than 0.1 percentage point in 2013, compared with 0.3 percentage points in 2012. The volatility of the money market rates remained moderate in 2013.

In 2013, the money market was largely dominated by short-term operations (mostly overnight or one-week). There was also a marked change in the structure of collateral on interdealer repos: a sharp fall in the proportion of interdealer repos secured by federal government bonds (OFZs), sub-federal and municipal bonds, while the proportion of deals secured by stocks and corporate bonds increased as a result of the growth in credit institutions' borrowing from the Bank of Russia, where securities with the least discount (government and regional bonds) are mostly used.

In 2013, there was a prevailing trend towards ruble depreciation against key global currencies in the Russian **foreign exchange market**. As of 31 December 2013, the official US dollar/ruble exchange rate was 32.7292 rubles, the euro/ruble exchange rate was 44.9699 rubles, and the value of the dual currency basket was 38.2375 rubles, representing increases of 7.8%, 11.8% and 9.9% respectively, compared with figures as of 31 December 2012.

The average daily turnover in the interbank exchange and OTC spot FX market in 2013 amounted to \$63.6 billion, having increased by 12% compared with 2012. The average daily turnover in forward foreign exchange transac-

INTEREST RATES ON RUBLE-DENOMINATED INTERBANK LOANS (MIACR)  
IN 2013 BY TERM (percent p.a.)

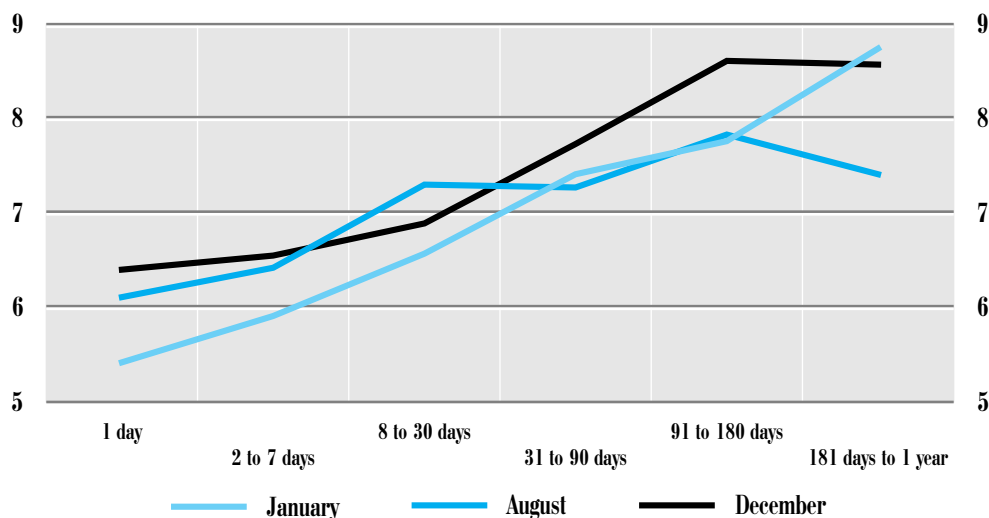


Chart 9

**INTERBANK FOREIGN EXCHANGE MARKET TURNOVER IN 2013 BY CURRENCY**  
(percent) \*

	Spot operations	Forward operations
US dollar	90.0	93.2
Russian ruble	80.8	66.3
Euro	23.8	28.5
Pound sterling	2.1	3.6
Swiss franc	0.9	3.4
Other	2.4	5.0

\* As each transaction involves two currencies, the sum of the shares of all currencies equals 200%.

**OFFICIAL US DOLLAR / RUBLE AND EURO / RUBLE EXCHANGE RATES**

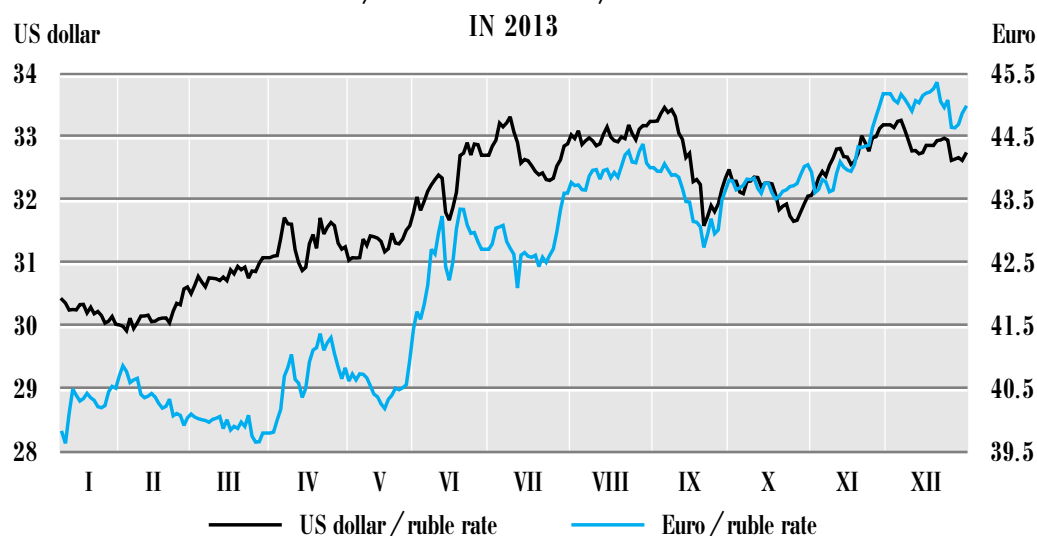


Chart 10

tions rose by 88% to \$3.3 billion. The share of forward transactions in the total volume of interbank foreign exchange transactions increased to 4.9% over the reporting period.

Ruble/US dollar transactions prevailed in the currency structure of the interbank FX market. Their share grew from 70.9% in 2012 to 71.7% in 2013 for spot operations and fell from 65.5% to 63.6% for forward operations. The share of exchange transactions in the total turnover of the interbank FX market increased somewhat to 29.3%.

In January—March 2013, the debt securities market yield dynamics were mostly determined by the money market conditions. Large

amounts of ruble liquidity in the banking sector in January—February and the policy of primary market issuers contributed to a certain reduction in OFZ and corporate bond yields. From March 2013, amid the outflow of non-residents' funds from the secondary market, OFZ yields predominantly increased, while corporate bond yields fluctuated within a horizontal band. As of the end of 2013, OFZ yields (the RGBEY index<sup>1</sup>) increased to 7.15% from 6.58% p.a. as of the end of 2012, and corporate bond yields (the IFX-Cbonds index<sup>2</sup>) fell to 8.39% from 8.56% p.a. Nominal volumes of OFZ issues<sup>3</sup> and corporate bond issues<sup>4</sup> in circulation rose by 14% and 25% at the end of 2013, reaching 3.6 trillion rubles

<sup>1</sup> An indicator of the effective yield of government bonds calculated by the Moscow Exchange.

<sup>2</sup> An indicator of the effective yield of corporate bonds calculated by the news agencies Interfax and Cbonds.ru.

<sup>3</sup> According to Bank of Russia data.

<sup>4</sup> According to data of the news agency Cbonds.ru.

and 5.2 trillion rubles respectively. Secondary trading volumes in OFZs and corporate bonds at the Moscow Exchange increased by 31.3% and 16.7% compared with 2012 to 6.0 trillion rubles and 6.2 trillion rubles respectively.

In 2013, a slowdown in the Russian economic growth and the worsening financial position of a number of domestic real sector enterprises, combined with increased volatility in the global stock market and the increase in global investors' risk aversion, had a negative impact on **stock market** price dynamics. Alongside this, high oil prices in the global commodity market contributed to a continued stability in the Russian stock market. By the end of 2013, the MICEX index had risen by 2.0% compared with the end of 2012 to 1,504.08 points. The stock market capitalisation at the Moscow Exchange increased by 0.4% to 25.3 trillion rubles. The turnover of secondary trading in stocks and Russian depository receipts at the Moscow Exchange dropped by 26.4% compared with 2012 to 8.5 trillion rubles.

2013 saw an outflow of non-residents' capital from all segments of the Russian secondary

securities market. The balance of operations by non-residents (total purchases minus total sales) in the secondary trading at the Moscow Exchange was negative, with figures for OFZs, corporate bonds and stocks transactions<sup>1</sup> at 114.6, 183.9 and 18.5 billion rubles respectively.

**Securities issued by credit institutions.** In 2013, the Bank of Russia registered 250 issues of credit institutions' securities. The nominal value of equity issues amounted to 224.4 billion rubles with 199 issues<sup>2</sup> (in 2012, 170 issues with a value of 116.7 billion rubles) and the nominal value of bond issues amounted to 189.6 billion rubles with 51 issues (in 2012, 54 issues with a value of 200.0 billion rubles).

Reports on 229 issues of securities were registered (in 2012, 217 issues), resulting in the nominal value of floated equities amounting to 198.0 billion rubles (in 2012, 118.1 billion rubles) and bonds to 108.9 billion rubles (in 2012, 158.4 billion rubles).

In 2013, 28 securities issues (amounting to a total of 48.8 billion rubles) were cancelled as a

RUSSIAN SECURITIES MARKET INDICATORS  
IN 2013

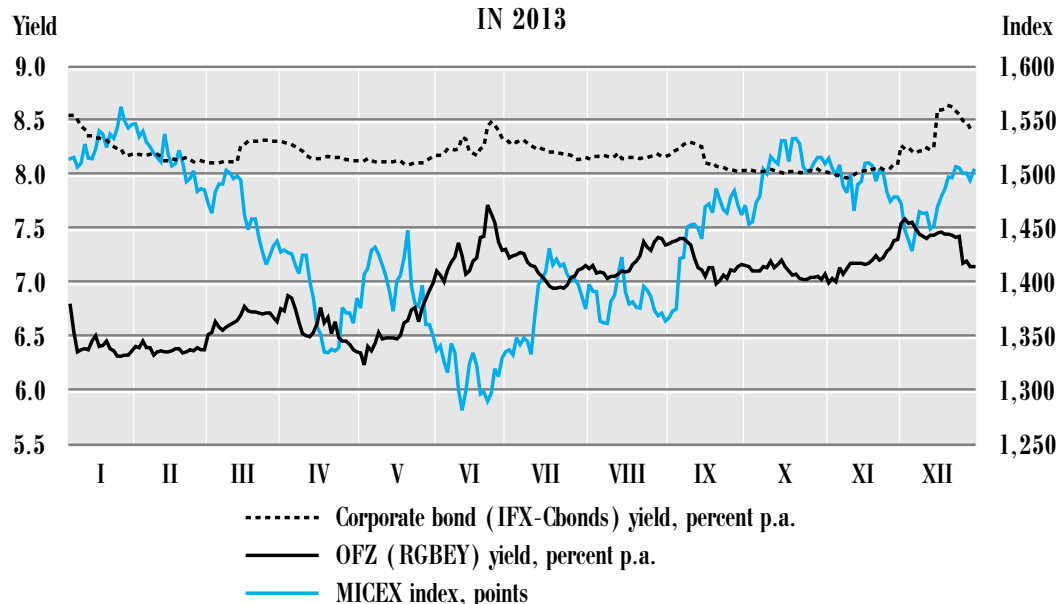


Chart 11

<sup>1</sup> Including operations with Russian depository receipts (RDR) for stocks of foreign issuers.

<sup>2</sup> Of which, the nominal value of equity issues linked to increases in the authorised capital of credit institutions was 222.4 billion rubles, with 187 issues; two equity issues for less than 0.1 billion rubles were registered with a view to reducing the nominal value of stocks; and the nominal value of equity issues not governing a change in the size of the authorised capital of credit institutions amounted to 1.9 billion rubles, with 10 issues (in 2012, 159 issues totalling 113.6 billion rubles, 4 issues totalling 0.5 billion rubles and 7 issues totalling 2.7 billion rubles).

result of no securities being placed during the issue or due to infringement of Russian Federation laws on securities (in 2012, 32 issues totalling 59.7 billion rubles).

The share of credit institutions' equities in the total volume of secondary equity trading at the Moscow Exchange in 2013 remained at the level of 2012, at about 40%. In 2013, credit institutions' bonds accounted for 37% of all secondary

trades in corporate bonds at the Moscow Exchange (in 2012, 35%).

In 2013, the Bank of Russia registered 11 terms of issue and trade for certificates of deposit and 33 terms of issue for savings certificates. As in 2012, most of the certificates of deposit and savings certificates (678.7 billion rubles) were issued by credit institutions based in Moscow and the Moscow region.

## 1.4. GOVERNMENT FINANCE AND DOMESTIC GOVERNMENT DEBT

According to the Federal Treasury's report, Russia's general government revenues in 2013 was 24,082.4 billion rubles, or 36.1% of GDP. This figure was 1.6 percentage points lower than the corresponding value for 2012, which can be explained by a falling share, relative to GDP, of both non-oil and gas revenues (by 1.0 percentage point) as a result of a slowdown in economic activity growth and oil and gas revenues (by 0.6 percentage points), mainly due to a decrease in the average price of Urals crude over the corresponding period from \$110.8 to \$108.3 per barrel. Russia's general government expenditures in 2013 were 0.1 percentage point higher than in 2012 at 24,931.1 billion rubles, or 37.3% of GDP. As a result, the general government deficit in 2013 totalled 848.7 billion rubles, or 1.3% of GDP, compared with a surplus of 260.4 billion rubles, or 0.4% of GDP, in 2012.

Federal budget revenues in 2013 totalled 13,019.9 billion rubles, or 19.5% of GDP, which is 1.2 percentage points lower than a similar figure for 2012. Federal budget expenditures in 2013 totalled 13,342.9 billion rubles, or 20.0% of GDP, which is 0.7 percentage points lower than the corresponding figure for 2012. Federal budget deficit in 2013 was 323.0 billion rubles, or 0.5% of GDP, compared with a deficit of 39.4 billion rubles, or 0.1% of GDP, in 2012.

The revenues and expenditures of the consolidated budgets of the constituent territories of the Russian Federation in 2013 stood at 8,164.7 billion rubles and 8,806.7 billion rubles respectively, and the deficit amounted to 642.0 billion rubles (12.2%, 13.2% and 1.0% of GDP). The revenues of the Russian Federation Pension Fund in 2013 totalled 6,388.4 billion rubles and its expenditures 6,378.5 billion rubles, giving a surplus of 9.8 billion rubles. The corresponding figures for the Federal Compulsory Medical Insurance Fund were 1,101.4, 1,048.7 and 52.6 billion rubles, and, for the Social Insurance Fund of the Russian Federation, 603.5, 566.2 and 37.3 billion rubles respectively.

According to the Ministry of Finance, Russia's total domestic government and municipal debt as of 1 January 2014 was 7,730.3 billion rubles, or 11.6% of GDP, an increase over the year by 17.8% in absolute terms, or 1.0 percentage point. The share of domestic debt in the total government and municipal debt was 80.7%, which is 0.1 percentage point lower than a corresponding value as of 1 January 2013.

The amount of the Russian government domestic debt as of 1 January 2014 was 5,722.2 billion rubles, or 8.6% of GDP, which is 0.6 percentage points higher than as of 1 January 2013. Government securities of the Russian Federation accounted for 4,432.4 billion rubles, or 77.5% of the Russian government domestic debt, an in-

### GENERAL GOVERNMENT EXPENDITURES (billions of rubles)

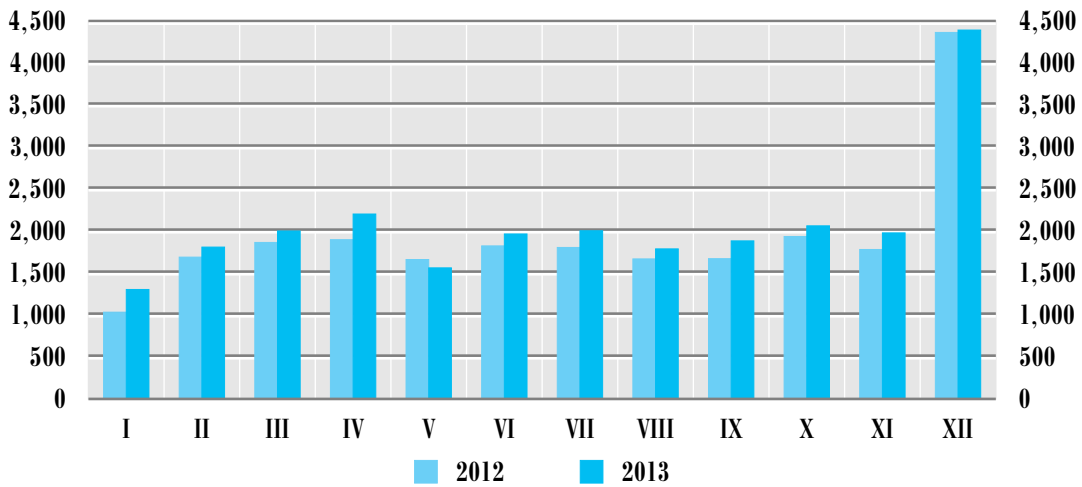


Chart 12

### FEDERAL BUDGET ACCOUNTS WITH THE BANK OF RUSSIA (billions of rubles)

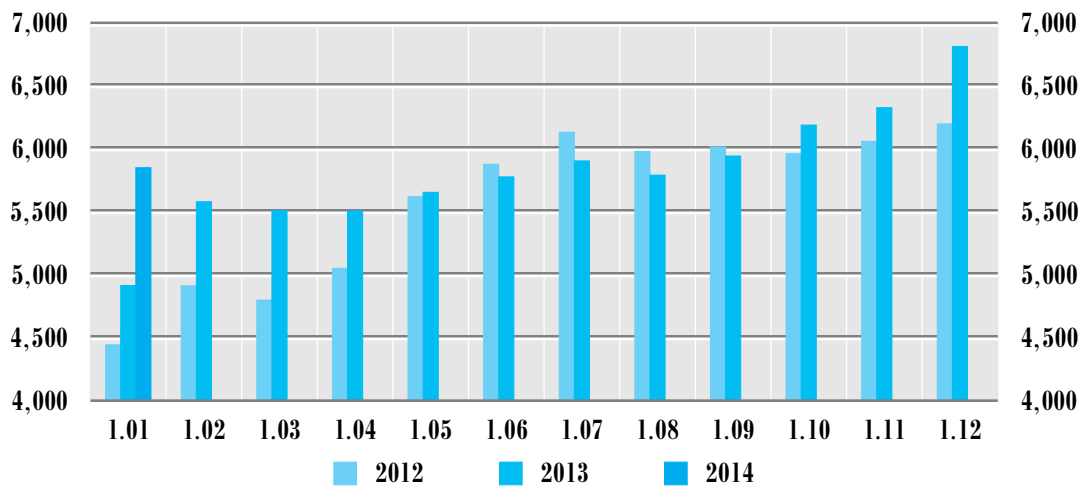


Chart 13

crease of 368.1 billion rubles, or 9.1%, while government guarantees accounted for 1,289.9 billion rubles, or 22.5%, an increase of 383.2 billion rubles, or 42.3%. The volume of outstanding government securities in the domestic securities market increased over the year by 13.6% and, as of 1 January 2014, totalled 3,631.0 billion rubles, or 81.9% of government securities.

The Ministry of Finance's ruble-denominated liabilities to the Bank of Russia measured at the nominal value of government securities, including government securities purchased by the Bank of Russia under repo transactions, grew by 24.3%

over 2013 and stood at 1,604.1 billion rubles, while excluding repos, it fell by 0.2 billion rubles to 259.0 billion rubles.

The Ministry of Finance's foreign currency denominated liabilities to the Bank of Russia in ruble terms, including repo transactions, as of 1 January 2014, increased 2.3 times and accounted for 221.8 billion rubles at the nominal value of government securities, while excluding repos, it increased by 7.8% to 103.2 billion rubles.

Federal budget funds held in the currency of the Russian Federation in accounts with the Bank

of Russia amounted to 678.4 billion rubles as of 1 January 2014, a reduction over the year by 199.4 billion rubles, or 22.7%. Federal budget funds held in foreign currencies in ruble terms totalled 5,170.3 billion rubles as of 1 January 2014, an increase over the year by 1,134.4 bil-

lion rubles, or 1.3 times, of which the funds of the Reserve Fund and the National Wealth Fund (excluding accrued interest) totalled 2,859.7 billion rubles and 2,123.7 billion rubles (increasing by 974.0 billion rubles and 97.1 billion rubles respectively).

## I.5. THE NATIONAL PAYMENT SYSTEM

*In* 2013, the Russian Federation saw a continuing formation of the structure of national payment system (NPS) agents in response to a growing consumer demand for modern payment services and technological solutions guaranteeing a high level of access and security for payment services. This was also supported by the activities of the Bank of Russia to regulate and develop the NPS in line with the provisions set out in Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'.

As of 1 January 2014, there were 922 money transfer operators, 30 payment system operators, 34 operations offices, 31 payment clearing centres, 26 settlement centres, 82 electronic money operators, the Federal State Unitary Enterprise Russian Post (FSUE Russian Post), payment agents and bank payment agents operating as NPS entities (as of 1 January 2014, they opened 32,100 accounts with credit institutions).

The development of the NPS institutional and payment infrastructure and the increase in NPS entities' supply of high-tech payment services to retail and corporate customers have contributed to the growth in cashless payment turnover. In

2013, 4.2 billion payments<sup>1</sup> were made in the NPS, totalling 1,929.5 trillion rubles (in 2012, 3.8 billion payments totalling 1,591.0 trillion rubles). On average, 17.0 million payments were made daily, amounting to 7.8 trillion rubles. The average payment amount rose from 421,900 to 459,400 rubles.

Thirty one payment systems were in operation in the Russian Federation, of which two were systemically important (the Bank of Russia payment system and the National Settlement Depository (NKO ZAO National Settlement Depository)) and four were socially important (CONTACT, Visa, Golden Crown, MasterCard).

Over the course of the year, the Bank of Russia payment system processed 1.3 billion money transfers for a total of 1,224.9 trillion rubles (the number and value of which increased by 6.5%). The ratio of money transfers made through the Bank of Russia's payment system to GDP was 18.3 (in 2012, 18.5). On average, 5.4 million transfers for a total of 5.0 trillion rubles were made daily (in 2012, 5.1 million totalling 4.6 trillion rubles).

The number of customers serviced by the Bank of Russia over the year fell by more than a quar-

<sup>1</sup> Including ruble-denominated payments from the accounts of Bank of Russia customers and credit institutions (households, credit institutions, legal entities other than credit institutions, including FSUE Russian Post), own payments of the Bank of Russia and credit institutions, and transfers conducted by households without opening a bank account. Payments involving the use of payment cards and the transactions of credit institutions' customers in financial markets are not included.



ter, dropping to 6,495 as of 1 January 2014. The fall in customer numbers is linked to the transfer of accounts intended for cash deposits and withdrawals for organisations with accounts held with Federal Treasury bodies and financial bodies of constituent territories of the Russian Federation and municipalities from Bank of Russia branches to be serviced at credit institutions.

The credit institutions' transfers accounted for most of the total number and value of money transfers through the Bank of Russia payment system (85.5% in terms of number and 78.0% in terms of value). Transfers made by Bank of Russia customers other than credit institutions accounted for 14.4% and 8.8% respectively. Of these, the overwhelming number were transfers by Federal Treasury bodies which are involved in electronic message exchanges with the Bank of Russia. In 2013, they made 195.5 million transfers totalling 74.6 trillion rubles through the Bank of Russia payment system (an increase of 6.3% in number and 19.2% in value).

The use of the banking electronic speedy payment (BESP) system continued to grow, with the number of participants amounting to 2,776 as of 1 January 2014, of which 412 were direct settlement participants, 2,280 were associated settlement participants, and 84 were special settlement participants. In 2013, 2.1 million transfers were made through the BESP system, totalling 504.1 trillion rubles (growing 1.8-fold in number and by 12% in value). The BESP system was used actively by the Federal Treasury: 44% of the total transfers by the organisation were made using this system.

In 2013, money transfers through the inter-regional electronic settlement (MER) system were characterised by high growth rates, both in terms of number (up by 21.1% to 404.3 million transfers) and value (up by 12.4% to 116.3 trillion rubles). This was largely down to credit institutions switching to the use of the MER system when making payments between internal di-

visions, the network of which grew in part due to the transformation of credit institutions' branches into them. The number and value of money transfers through the intraregional electronic settlement (VER) system remained virtually unchanged at 934.6 million transfers and 604.4 trillion rubles.

The accessibility ratio of the Bank of Russia payment system<sup>1</sup> ranged from 99.80% to 99.99% in 2013 (in 2012, from 99.85% to 99.99%) and the accessibility ratio of BESP system services<sup>2</sup> changed from 99.53% to 100%.

The NKO ZAO National Settlement Depository payment system mainly provided for money settlements in the stock market in 2013. The turnover of funds in bank clearing accounts held with NKO ZAO National Settlement Depository used to make settlements after clearing liabilities in the stock market stood at 328 trillion rubles<sup>3</sup>.

Credit institutions effecting money transfers expanded the supply of payment services. In 2013, they executed 2.9 billion payments for 704.6 trillion rubles (in 2012, 2.5 billion payments for 440.5 trillion rubles). Own payments of credit institutions and payments of their customers other than credit institutions, the number and value of which increased over the year by 9.4% and 15.3% respectively, continued to be dominated by credit transfers (about 60% of the total number and over 97% of the total value). Payments in the form of direct debits accounted for only a small proportion (less than 2%). At the same time, their share in total payments increased more than fivefold compared with 2012 (from 0.3% to 1.6%), which was the result of expanded opportunities for using electronic document exchanges within direct debits: in terms of number, almost 65% of customer payments based on payment orders were made electronically.

The development of credit institution payment infrastructure contributed to further growth in the supply of remote banking services. The num-

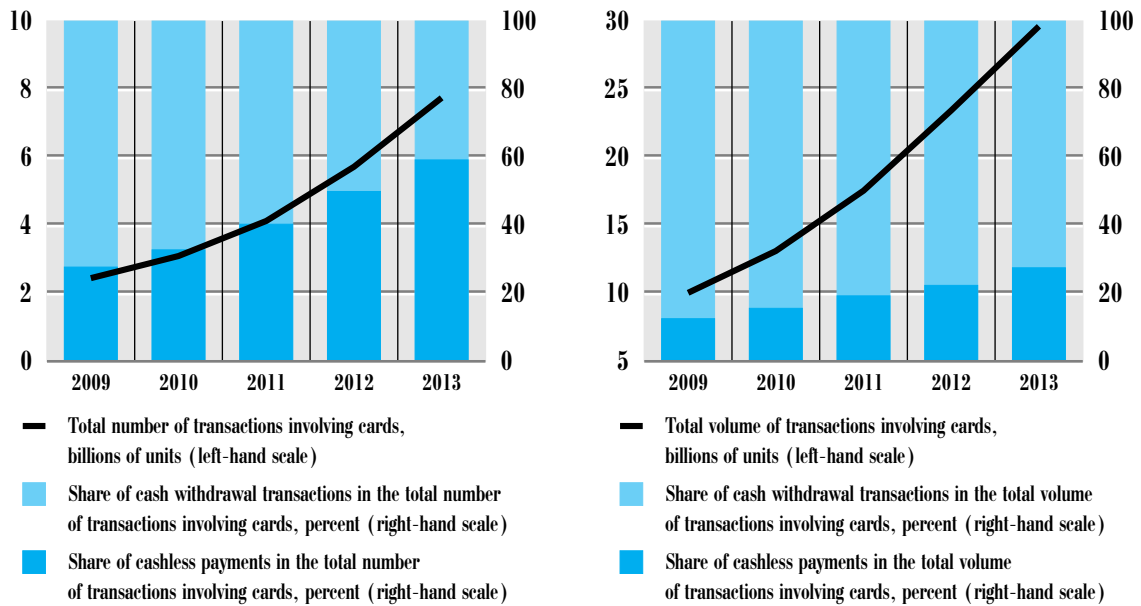
<sup>1</sup> The readiness to execute money transfer orders from Bank of Russia customers making intraregional and inter-regional electronic settlements.

<sup>2</sup> The ability of Bank of Russia regional branches to offer services defined by Bank of Russia regulations to BESP system participants on any working day at any given time, as set by the operational regulations of the BESP system.

<sup>3</sup> According to NKO ZAO National Settlement Depository data. The methodology for calculating the indicator changed in 2013 due to the coming into effect of Bank of Russia Regulation No. 385-P, dated 16 July 2012, 'On Rules of Accounting in Credit Institutions Located on the Territory of the Russian Federation'.

### TRANSACTIONS INVOLVING PAYMENT CARDS ISSUED BY CREDIT INSTITUTIONS (by number and volume of transactions)

Chart 14



ber and value of money transfers based on orders sent electronically (including using payment cards) to credit institutions by individuals and legal entities other than credit institutions increased 1.7-fold and by 23.0% respectively, with 6.8 billion transactions and 392.7 trillion rubles. Of these, 25.5% of the number and 73.5% of the value of payments were made using the Internet and mobile telephones.

During 2013, the number of payment cards issued by Russian credit institutions increased by 13.6% to 217.5 million. These were primarily dominated by settlement (debit) cards (86.6%), with the remaining 13.4% made up of credit cards; though credit card growth rates were higher (29.8% compared with 11.4%).

In 2013, the trend towards an increased use of payment cards issued by Russian credit institutions continued: the number of transactions using such cards within the Russian Federation and abroad increased by 35.4% (to 7.7 billion transactions) and the value increased by 26.3% (to 29.6 trillion rubles). The dynamics of transactions using cards were characterised by a faster growth compared with cash withdrawal transactions (1.6 times higher in terms of both number and value; or up by 10.3% and 18.0% respectively). This resulted in a further increase in the

share of cashless transactions (from 49.9% to 59.2% in the total number and from 22.3% to 27.5% in the total value) and a corresponding fall in the share of cash withdrawal transactions.

In 2013, there were 63.3 million transactions using cards issued outside of the Russian Federation amounting to a total of 244.3 billion rubles. Out of every 100 such transactions 72 were payments for goods (work and services), accounting for 56.6% of the total value.

The growth in card transactions was supported by the active adoption of the associated infrastructure by trade and services organisations. Over the course of the year, the number of point-of-sale terminals and imprinters increased by one-third (to 986,300 devices). The number of ATMs, the majority of which are also intended to be used for cashless transactions, grew by almost 10% (to 188,800 devices).

With the development of remote technologies, electronic money was the most popular method of payment. In 2013, the number of credit institutions notifying the Bank of Russia of their adoption of electronic money transfer operations more than doubled (to 82 organisations). During the course of the year, there were 304.1 million electronic payment facilities (EPFs), including prepaid cards, of which 95.5% were non-persona-

lised EPFs. Over the year these were used to make 338.2 million transactions totalling 428.6 billion rubles, with non-personalised EPFs being most actively used (78.2% in terms of number and 50.3% in terms of value). The share of transactions using personalised EPFs was 21.8% and 48.6% respectively, while the share of corporate EPFs was negligible.

One of the most important NPS agents is FSUE Russian Post, which has a large and geographically well-distributed network of post offices (41,400 offices as of 1 January 2014)<sup>1</sup>. In 2013, the number and value of postal transfers and payments by individuals through FSUE Russian Post divisions and payment terminals, both in Russia and abroad, amounted to 651.0 million transactions totalling 582.2 billion rubles (a fall

by 8.5% and 7.1% respectively). The majority of these were household payments taken by FSUE Russian Post in its capacity as a payment agent (89.6% and 64.2% respectively).

In 2013, payment agents and bank payment agents continued to expand their operations as intermediaries for household payments. The value of household payments sent to legal entities through intermediaries increased by 23.5% (to 1.2 trillion rubles), of which 88.2% were through payment agents and 11.8% through bank payment agents. The increase in the value of funds transferred through intermediaries by individuals to pay for services, as a percentage of total transfers by individuals without opening a bank account<sup>2</sup> (up to 21.2% in 2013), indicates that such services are in great demand.

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<sup>1</sup> According to FSUE Russian Post data.

<sup>2</sup> Including transfers by individuals without opening a bank account made through the infrastructure of credit institutions, FSUE Russian Post, as well as payment agents and bank payment agents.

## I.6. BALANCE OF PAYMENTS AND EXTERNAL DEBT

### BALANCE OF PAYMENTS<sup>1</sup>

*In* 2013, the balance of payments developed amid a deterioration of the foreign economic situation, reflected in part through the reduction in the trade and current account surplus. Amid an increased private capital outflow, the Bank of Russia took a more active part in shaping the foreign exchange market situation, preventing any sharp fluctuations in the ruble exchange rate.

#### CURRENT ACCOUNT AND CAPITAL ACCOUNT

**The current account** surplus declined from \$71.3 billion in 2012 to \$32.8 billion in 2013 with a simultaneous reduction in trade surplus by \$11.3 billion to \$180.3 billion and a growing deficit of the balance of services and primary and secondary income.

**The export of goods** fell from \$527.4 billion in 2012 to \$523.3 billion in 2013 because of a decline in contract prices, which was not offset by an increase in the quantity of shipments.

Exports of the main fuel and energy goods rose by 1.0% due to a 9.9% increase in the supply of

natural gas and a 9.7% growth in the supply of petroleum products. However, the export of crude oil in kind decreased by 1.4%. The share of crude oil, petroleum products and natural gas supplied abroad in the export structure increased from 65.8% to 66.9%.

The further deterioration of the situation in the global metal market caused a fall in exports of ferrous and non-ferrous metals, as well as their corresponding products, by 8.0%, while their share in exports fell from 8.5% to 7.8%.

The share of chemical industry products fell from 6.1% to 5.8% as a result of a fall in external supplies of mineral fertilisers, while the share of foodstuffs and raw materials for their production also dropped from 3.2% to 3.1% mostly as a result of falling grain exports. The share of machinery, equipment and transportation vehicles in total exports increased from 5.1% to 5.5%.

Geographically, the export share of EU countries increased by 0.9 percentage points to 53.7% and the share of APEC countries increased by 1.5 percentage points to 18.9%, while the share of Customs Union countries fell to 7.2%. The larg-

<sup>1</sup> The balance of payments of the Russian Federation is developed using the methodology of the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6); the use of symbols corresponds to BPM5.

### RUSSIA'S MAJOR BALANCE OF PAYMENTS COMPONENTS AND INTERNATIONAL RESERVES (billions of US dollars)

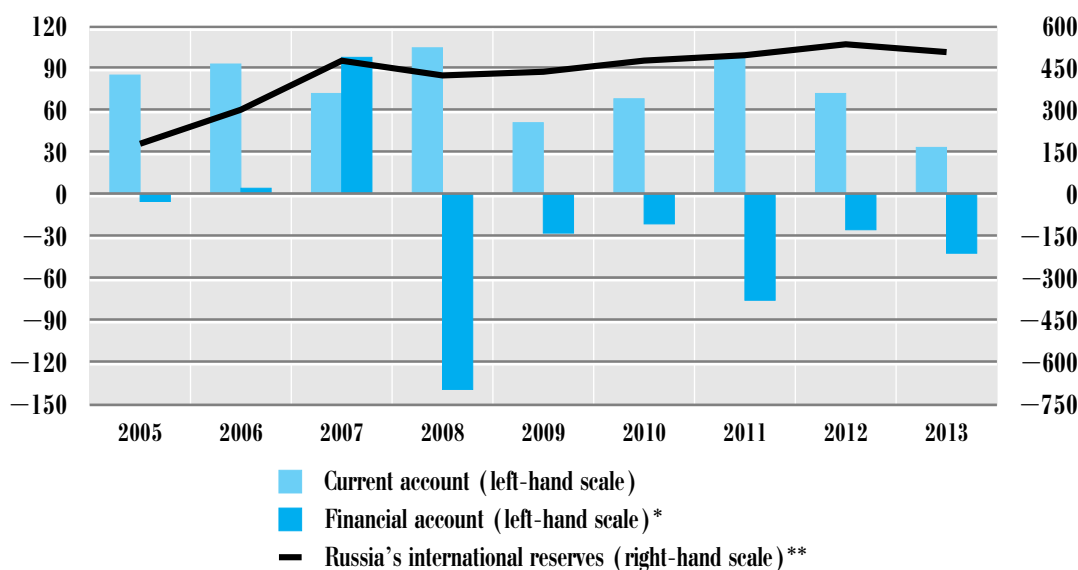


Chart 15

\* Net of change in reserves.

\*\* As of end of year.

est volumes went to the Netherlands (13.3%), Italy (7.5%), Germany (7.0%) and China (6.8%).

**The import of goods** amounted to \$343.0 billion (\$335.8 billion in 2012). The 2.1% growth was due to an increase in import prices; import quantities remained unchanged.

The positive import dynamics were largely down to increased imports of consumer goods.

Revenues from foodstuffs, including raw materials for their production, rose by 6.1% to reach \$43.1 billion, with their share accounting for 13.6% of total revenues. The import of chemical and related industries' products increased by 4.6% to \$50.1 billion amid an accelerated growth in imports of pharmaceutical products and perfumes. The share of chemical industry goods increased from 15.3% to 15.8%. The import of light industry products amounted to \$18.7 billion (an increase of 3.6%) with the share of this commodity group reaching 5.9% of total imports.

Amid a slump in investment demand, imports of the most significant commodity group — machinery and equipment — fell by 2.5%, leading to a reduction in its share of imports from 49.9% in 2012 to 48.6% in 2013.

In terms of geographical distribution of imports, in 2013 the share of the European Union

countries increased to 42.2%, that of APEC countries remained the same at 34.3%, while the share of Customs Union countries fell to 7.2%. Russia's most important trading partners were China (16.7%), Germany (11.9%), the USA (5.2%) and Ukraine (5.0%).

The deficit in **the balance of external trade in services** increased from \$46.6 billion in 2012 to \$58.6 billion in 2013. The stable high rates of growth in provided and acquired services were maintained amid accelerated import dynamics.

**The export of services** increased from \$62.3 billion in 2012 to \$69.9 billion. The bulk of this — \$37.1 billion — was made up of other services (construction services, operational leasing and others). Exports of these services accelerated, while their share reached 53.1%. The cost of transportation services increased in 2013 by 8.3% year on year to \$20.7 billion, and their share accounted for 29.7%. The increase in services provided under the export item 'Trips' was 11.4% with their share reaching 17.2%.

**The import of services** totalled \$128.5 billion (\$108.9 billion in 2012). Over half of the growth came from services under the 'Trips' item, the cost of which reached \$53.5 billion. The share of this category in services rendered to residents increased to 41.6% (39.3% a year earlier). Other

business services continued to play the key role, totalling \$57.5 billion or 44.8% of services imports. Transportation services, totalling \$17.5 billion, accounted for 13.6% of total services imports.

The deficit in **the compensation of employees' balance** in 2013 stood at \$13.2 billion (\$11.8 billion in 2012). Payments to non-residents working in Russia for less than one year increased to \$17.4 billion (\$15.7 billion in 2012), reflecting growth in the average compensation of migrants in dollar terms with a 1% decrease in the number of non-residents brought into the economy. The amount payable to Russian citizens working abroad increased to \$4.3 billion (\$3.9 billion a year earlier).

The deficit in **the balance of investment income** increased to \$66.7 billion (\$56.8 billion in 2012). Increased payouts of dividends to foreign investors and payments to service external liabilities of credit institutions made the largest contribution (41%). The deficit in the balance of income of other sectors<sup>1</sup> registered an increase from \$54.8 billion to \$58.5 billion. The deficit of general government income, including constituent territories of the Russian Federation, exceeded \$2.7 billion. The net income of the Bank of Russia as a result of the fall in the yields on key reserve asset management instruments decreased to \$1.9 billion (from \$2.7 billion).

**The deficit in the balance of secondary income** increased to \$9.2 billion in 2013 (from \$6.1 billion a year earlier). This was mostly as a result of growing remittances by households to non-residents.

In 2013, in the absence of any major deals on government external debt forgiveness, **the capital account** was reconciled with a deficit of \$0.4 billion.

The cumulative **balance from the current and capital account** in 2013 stood at \$32.3 billion (or 1.5% of GDP). At the end of the year, Russia's net lending to the rest of the world halved.

## FINANCIAL ACCOUNT

The negative **financial account balance** (excluding reserve assets) at the end of 2013

increased to \$42.5 billion (\$25.7 billion in 2012).

**The net incurrence of liabilities** by the Russian economy in 2013 amounted to \$132.4 billion (\$92.4 billion in 2012).

The growth in the government's foreign liabilities slowed to \$9.3 billion (\$15.8 billion in 2012). The placement of \$7.0 billion worth of Eurobonds in foreign markets by the Russian Ministry of Finance (of which foreign investors acquired securities for a total of \$6.5 billion) was accompanied by a reduction in the amount of purchases by non-residents of financial instruments in the secondary market.

Payments related to the repayment and servicing of external government debt increased from \$5.2 billion in 2012 to \$5.8 billion in 2013. The debt burden on the economy increased somewhat: the coefficient that characterises the ratio of payments on external government debt to the export of goods and services was 1.0%, and the ratio of payments on external government debt to the income of the consolidated budget was 0.8%.

The net incurrence of liabilities by the private sector was \$122.6 billion.

In 2013, the banking sector's foreign liabilities increased by \$20.5 billion (\$33.3 billion in 2012). The main instrument used to attract foreign capital was the placement of Eurobonds, carried out on behalf of major Russian credit institutions. At the end of the year, the value of Eurobond loans was \$18.1 billion (\$31.5 billion in 2012).

Other sectors expanded their external borrowing in 2013 to \$102.1 billion (\$39.8 billion in 2012). A substantial proportion of borrowing was in the form of direct investments in the amount of \$70.1 billion, the inflow of which was largely provided by the funds from Eurobond placement by associated foreign corporations.

An unstable situation in the financial markets caused a continued outflow of institutional investor funds from Russian corporate instruments: net sales of securities issued by domestic non-financial organisations by non-residents amounted to \$11.5 billion (\$8.1 billion in 2012).

The growth in outstanding loans of other sectors in net terms exceeded \$44.2 billion (\$6.7 billion in 2012). The dynamics of this indicator were

<sup>1</sup> Other sectors include other financial institutions (other than banks), non-financial organisations, households and non-profit organisations providing services to households.



shaped by the demand for funding resident transactions in the mergers and acquisitions market.

**The net acquisition of financial assets**, excluding reserve assets, reached \$174.9 billion in 2013 (\$118.1 billion a year earlier).

The operations of government authorities with foreign assets in 2013 amounted to \$4.2 billion (the fall in claims by \$0.4 billion in 2012 was predominantly a result of Russia's debt forgiveness of loans issued by the former USSR to emerging market countries, which, in terms of amount, prevailed over the granting of new government loans). In 2013, the amount of new government loans granted totalled \$1.8 billion. Besides, Ukrainian sovereign bonds were acquired for \$3.0 billion.

In 2013, the private sector increased its foreign assets by \$170.3 billion (\$116.6 billion in 2012).

The growth in external claims of banks rose in 2013 to \$28.1 billion (\$14.8 billion in 2012). A distinctive feature of 2013 was the lack of any clear trend in bank operations: from significant capital exports in the first half of the year (\$38.2 billion) to a fall in foreign assets in Q3 and a moderate recovery of investments in foreign, predominantly long-term, financial instruments in Q4.

Other sectors increased their external claims by \$142.3 billion (\$101.8 billion in 2012). This growth consisted of direct investments abroad in the amount of \$93.6 billion (\$42.5 billion in 2012), raised mostly during a large one-off transaction in the mergers and acquisitions market in 2013 Q1. Russian residents' investments in foreign real estate continued to be significant.

The small reduction in foreign currency cash balances of residents (non-banks) by \$0.3 billion in 2013 resulted from the rising household demand for cash currency at the end of the second half of the year, which compensated for exten-

sive reductions in savings in the first half of the year.

The value of suspicious operations<sup>1</sup> dropped to \$26.1 billion (\$38.8 billion in 2012), predominantly as a result of a fall in the amount of sham transactions under foreign trade contracts.

**Net outflow of private capital** in 2013 increased to \$59.7 billion (from \$53.9 billion a year earlier) as a result of a more intensive incurrence of foreign liabilities by banks and other sectors.

## INTERNATIONAL RESERVES

The international reserves of the Russian Federation as of 1 January 2014 amounted to \$509.6 billion. From the beginning of the year, they fell by \$28.0 billion, in part attributable to operations recognised in the balance of payments, and the reduction in reserve assets stood at \$22.1 billion. The rise in spending on foreign exchange interventions was partially offset by substantial revenues dominated by the receipt of funds from the placement of Eurobonds by the Russian Ministry of Finance, as well as a transfer of customs duties within the Customs Union. About one-third of the changes in reserves were caused by a negative revaluation, resulting mainly from a fall in gold prices.

The value of monetary gold as of 1 January 2014 was \$40.0 billion. At the end of the year, despite the continued acquisition of this metal by the Bank of Russia in the domestic market, gold stocks in terms of value fell by \$11.0 billion due to the negative revaluation. As a result, since the start of the year, the share of gold in the international reserves fell by 1.6 percentage points to 7.8%, while the share of foreign currency rose to 92.2%.

As of 1 January 2014, the international reserves were sufficient to finance the import of goods and services for 13 months (as of 1 January 2013 it was 15 months).

<sup>1</sup> *Suspicious operations include those showing signs of being forged and those related to trading in goods and services, the sale/purchase of securities, the issuance of loans and the transfer of funds to own accounts outside Russia with the purpose of cross-border money transferring.*

## EXTERNAL DEBT

The external debt of the Russian Federation (to non-residents) increased over 2013 by \$90.6 billion and reached \$727.1 billion as of 1 January 2014. As a result of operations recorded in the balance of payments, outstanding loans increased by \$106.7 billion, but due to other changes, including exchange rate and monetary revaluations, it decreased by \$16.0 billion.

The external debt obligations of the private sector rose to \$649.2 billion (89.3% of the total external debt of the Russian Federation), while the external debt of the general government and the Bank of Russia amounted to \$77.8 billion (10.7%). The external debt of the extended government<sup>1</sup> increased to \$376.0 billion and its share stood at 51.7%.

The liabilities of the federal government reached \$61.0 billion. The share of the debt accepted by the

Russian Federation as the successor of the former USSR continued to fall. In the new Russian debt structure, the share of the most significant component — securities — rose to 92.0% (\$56.8 billion), of which the share of instruments denominated in a foreign currency fell to 45.0% and the share of ruble-denominated liabilities increased to 47.0%.

The external debt of the Russian Federation's constituent territories fell as of 1 January 2014 to \$0.8 billion due to the scheduled redemption of regional and municipal securities issues.

The Bank of Russia's liabilities to the IMF<sup>2</sup>, on SDR distributed to the Russian Federation, accounted for 54.4% of its liabilities totalling \$16.1 billion, cash rubles held by non-residents as well as accounts and deposits accounted for 34.2%, and liabilities on repo transactions with non-residents stood at 11.4%.

RUSSIA'S EXTERNAL DEBT  
(billions of US dollars)

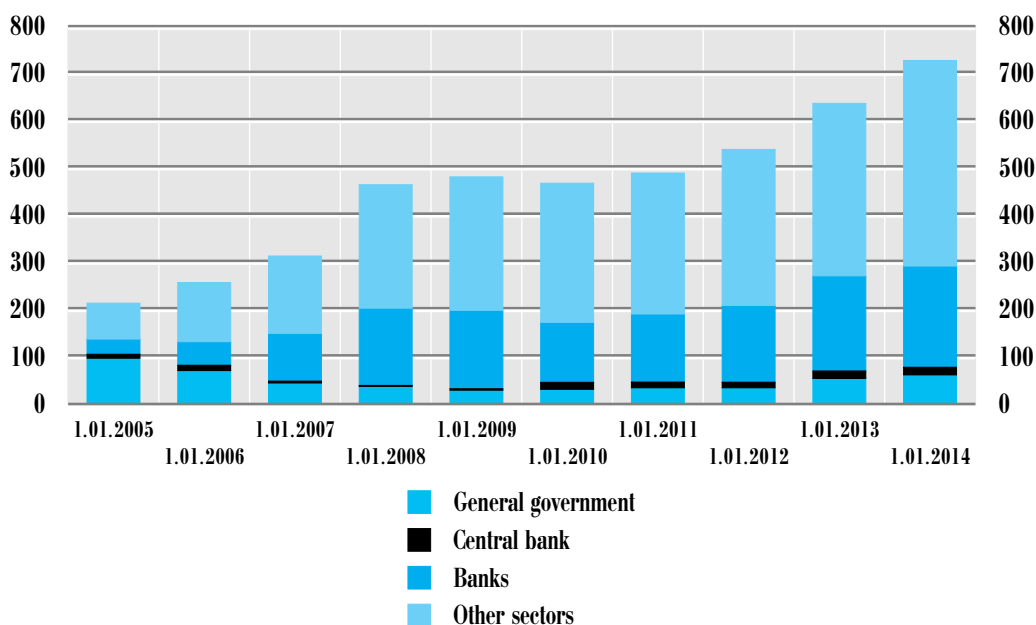


Chart 16

<sup>1</sup> The extended government embraces, apart from the general government and the central bank, banks and non-bank corporations in which the general government and the central bank hold, directly or indirectly, 50% or more of the capital or control them otherwise.

<sup>2</sup> Previously, the sums were recorded as the debt of monetary authorities: before 2010, in the liabilities of the Russian Ministry of Finance, and from 2011, in the operations of the Bank of Russia, as it had been assigned with the functions of performing operations and transactions with the IMF.



### RUSSIA'S EXTERNAL DEBT (percent of GDP)

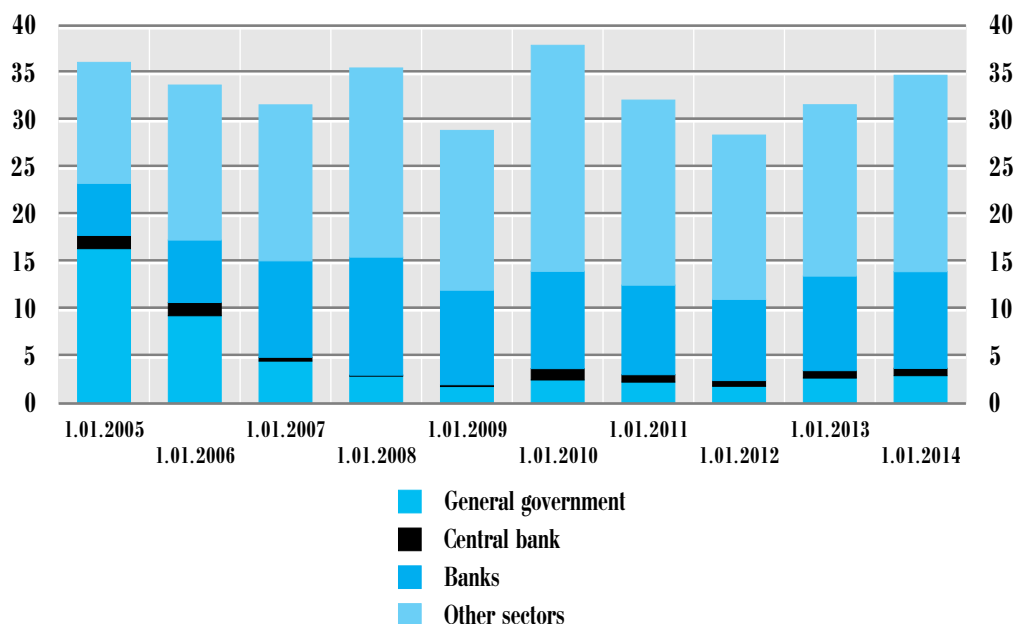


Chart 17

The external debt of banks grew in 2013 by \$12.8 billion and, as of 1 January 2014 reached \$214.4 billion. The markedly lower growth in this category compared with other components of private debt was a consequence of falling growth rates in the main category — non-resident current accounts and deposits with Russian credit institutions. The share of Russian banking sector debt in the structure of foreign borrowing fell from 31.7% to 29.5%.

The external debt of other sectors increased by \$70.0 billion to \$434.8 billion. The most active growth was demonstrated by outstanding foreign loans, increasing by \$37.6 billion to \$268.1 billion. Debt to direct investors and direct investment companies reached \$151.3 bil-

lion. The share of other sectors' debt increased to 59.8% of the total external debt.

In terms of maturity, long-term liabilities prevailed with 88.4% (\$643.1 billion); short-term liabilities accounted for 11.5% (\$84.0 billion). Ruble-denominated external debt constituted 25.6% of the total debt (\$186.0 billion), while foreign currency-denominated debt accounted for 74.4% (\$541.1 billion).

As of 1 January 2014, the Russian Federation's debt sustainability indicators remained moderate, according to international standards: the ratio of external debt to GDP was 35% (32% at the beginning of 2013), and the ratio of external debt of the general government to GDP remained at the level of 2012 — 3%.



**BANK OF RUSSIA  
ACTIVITIES**

**III**

## II.1. MONETARY POLICY

### II.1.1. MONETARY POLICY OBJECTIVES AND RESULTS

*In* the medium term, the main objective of the Bank of Russia's monetary policy is to ensure price stability. Price stability is understood to mean achieving and maintaining stable, low rates of inflation, which is essential to guarantee a balanced and sustainable economic growth. In accordance with the Guidelines for the Single State Monetary Policy in 2013 and for 2014 and 2015, the target range for consumer price growth in 2013 was set at 5—6%.

Since the impact of monetary policy on the economy is distributed over time, the Bank of Russia made decisions on interest rates on its operations based on a macroeconomic forecast and an assessment of the risks of inflation deviating from the target. In 2013, amid low rates of growth in the Russian economy, and taking into account the short-term nature of factors causing an acceleration of consumer price growth, the Bank of Russia left the interest rates on its main operations unchanged.

#### KEY MONETARY POLICY DECISIONS

In the first half of 2013, the Bank of Russia kept the interest rates on its main operations intact<sup>1</sup>, noting that the observed acceleration in inflation was caused by non-monetary factors — the food price growth and the dynamics of certain administered prices and tariffs. Given the lack of any pronounced inflationary pressure from the aggregate demand, the Bank of Russia forecast that inflation would return to

the target range if there are no negative shocks in the food market.

In June—September 2013, the consumer price growth slowed down. At the same time, in the last few months of 2013 inflation began to accelerate again, predominantly as a result of the increased food price growth. According to Bank of Russia estimates, the impact of the factors causing the acceleration in inflation was only short-

<sup>1</sup> *In April—June 2013, the Bank of Russia consecutively reduced the interest rates on certain operations for longer terms (by 0.50—0.75 percentage points in general). Data on interest rate changes on all Bank of Russia operations are shown in Section IV.1 'Principal measures taken by the Bank of Russia to implement the single state monetary policy in 2013'.*

term. A renewed fall in the annual consumer price growth rates was anticipated. Under these conditions, in the second half of 2013, the Bank of Russia did not change interest rates on its main operations. At the end of 2013, inflation was 6.5%, exceeding the set target range.

In 2013, the Bank of Russia implemented a number of measures aimed at improving the system of monetary policy instruments and broadening the access of credit institutions to refinancing operations.

In September 2013, the Bank of Russia Board of Directors decided to equal the maximum interest rate on auction-based one-week deposit operations and the minimum interest rate on auction-based one-week liquidity provision operations. The Bank of Russia declared a single interest rate on these operations as its key rate — an indicator of the monetary policy stance. The Bank of Russia plans to align the refinancing rate with the key rate by 1 January 2016. Prior to this date, the refinancing rate will be for reference only.

The Bank of Russia also decided to reduce interest rates on overnight loans and one-day loans secured with non-marketable assets or guaran-

tees to the level of the interest rate on other one-day standing liquidity provision facilities.

These changes resulted in the creation of an interest rate corridor, whose borders are symmetric with respect to the Bank of Russia's key rate and are determined by the rates on Bank of Russia one-day standing facilities to provide and absorb liquidity. The width of the interest rate corridor — 2 percentage points — is optimal to limit interest rate volatility while maintaining incentives for the redistribution of funds in the interbank money market.

Taking into account the forecast increase in demand for refinancing operations in the medium term, in 2013 the Bank of Russia added floating-rate loan auctions to its instruments. In July, it took the decision to commence auctions to provide 12-month loans secured with non-marketable assets or guarantees at a floating interest rate. These auctions are held irregularly. In September, regular auctions were introduced to provide three-month loans secured with non-marketable assets at a floating interest rate. In December 2013, the decision was made to hold these auctions on a monthly basis (until this time the auctions were only

**BANK OF RUSSIA INTEREST RATES ON MAIN OPERATIONS AND OVERNIGHT MIACR**  
(percent p.a.)

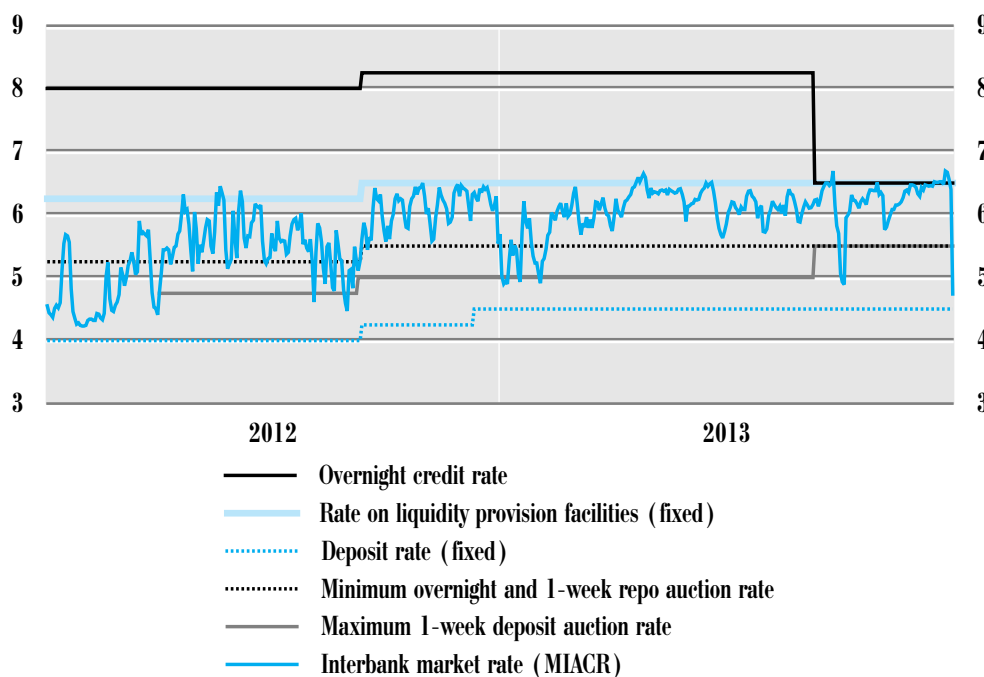


Chart 18

proposed to be held quarterly). The minimum spread on the Bank of Russia key rate for three-month and 12-month floating-rate loan auctions was set at 0.25 percentage points. These floating-rate auctions are aimed at boosting the efficiency of the monetary policy transmission mechanism due to the fact that a change in the Bank of Russia key rate translates into a change in the cost of funds provided previously to credit institutions. The use of such operations by credit institutions contributes to the release of market collaterals received by the Bank of Russia through liquidity provision operations, the improved functioning of the interbank lending market and increased manageability of money market rates.

In September 2013, the Bank of Russia Board of Directors also announced a number of changes to the system of monetary policy instruments for 2014. In particular, it decided to terminate from 1 February 2014 one-day repo auctions held daily and to use one- to six-day auction-based repo operations as ‘fine-tuning’ instruments. These operations are conducted by the Bank of Russia in the event of a need to offset any significant changes in the level of banking sector liquidity resulting from the impact of autonomous factors or changes in the demand from credit institutions for liquidity.

The decision to terminate daily repo auctions was taken with a view to establishing conditions for credit institutions to actively redistribute funds in the interbank market and to increase the efficiency of management of their own liquidity. In order to adapt to liquidity fluctuations in the period between key one-week auction-based operations, credit institutions can also use the required reserves averaging mechanism. To expand the opportunities for credit institutions to use this mechanism, in November 2013 the Bank of Russia decided to increase the required reserves averaging ratio used by credit institutions<sup>1</sup> from 0.6 to 0.7 effective from 10 December 2013.

In September 2013, the Bank of Russia decided to suspend Lombard auctions for all terms and three-month and 12-month repo auctions effective from 1 February 2014. In addition, in December 2013 the decision was made to set interest rates on loans secured with non-marketable assets or guarantees and loans secured with gold with terms ranging from two to 365 days at 7.25% and 7.00% p.a. respectively effective from 1 February 2014. The retention of these instruments is linked to the need of certain credit institutions to use them in the event of impossibility to obtain funds in the interbank market or at Bank of Russia repo auctions amid the uneven distribution of market collateral in the banking sector.

## MONEY SUPPLY

For most of 2013, money supply growth rates increased on an annualised basis, which was caused by a sharp slowdown in the annual growth of balances of general government accounts with the Bank of Russia in January—August 2013. As the inflow of funds to general government accounts with the Bank of Russia recovered, the annual growth of the M2 monetary aggregate dropped slightly. As a result, the M2 monetary aggregate increased by 14.6% over 2013 (11.9% over 2012).

In 2013, household deposits continued to be the fastest growing component of the M2 mon-

etary aggregate. Despite a fall in interest rates on household deposits for most of the year (the average interest rate on household ruble deposits with terms over one year in 2013 Q4 was 7.4% p.a., compared with 8.2% p.a. in the same period of 2012), the annual rates of growth in household ruble deposits during 2013 ranged from 18% to 22%, persistently exceeding the growth rates of other components. Over 2013, the volume of household ruble deposits increased by 18.2% and that of ruble deposits by non-financial and financial organisations (excluding credit

<sup>1</sup> The required reserves averaging ratio for non-bank settlement credit institutions and non-bank credit institutions with the right to transfer funds without opening bank accounts and carry out associated banking operations is set at 1.0.

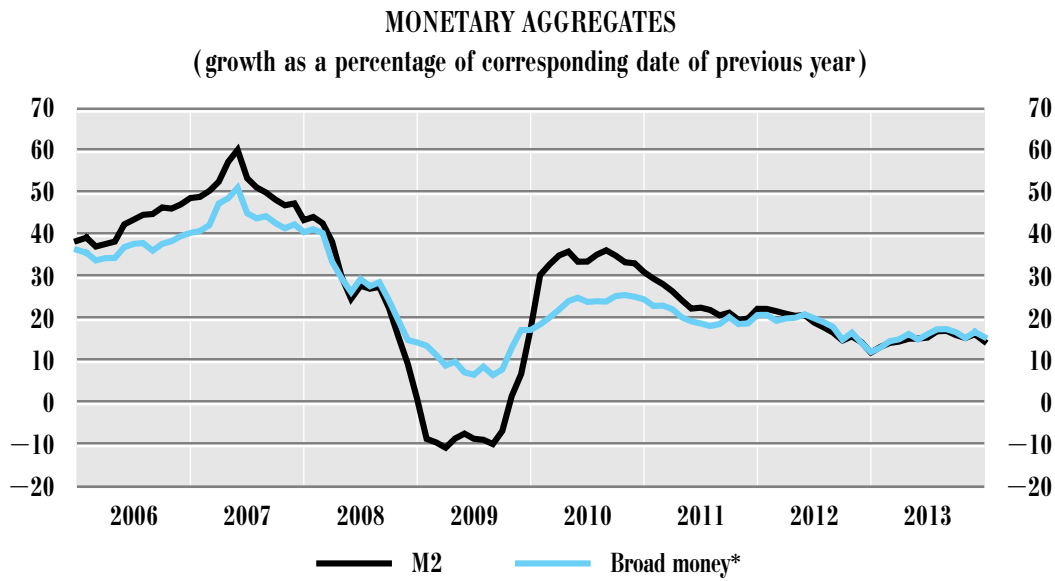


Chart 19

\* Broad money includes all the components of the M2 monetary aggregate and foreign currency deposits.

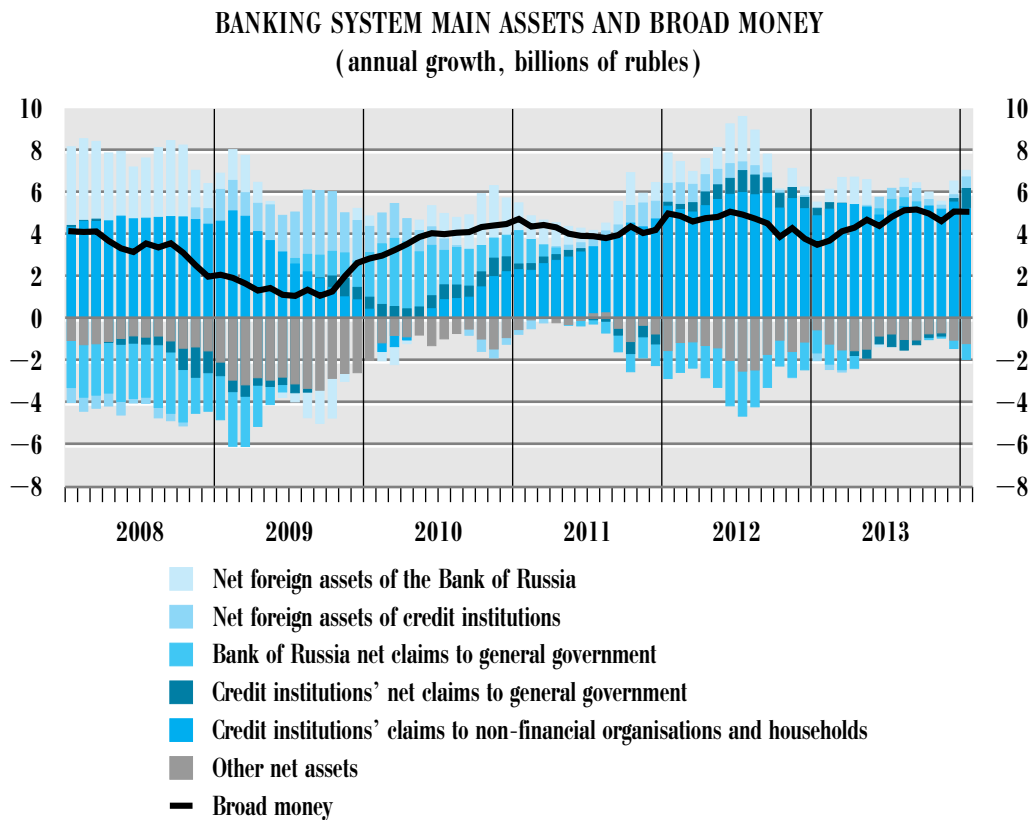


Chart 20

institutions)<sup>1</sup> rose by 14.2%. The volume of cash outside the banking system (the M0 monetary aggregate) over the same period increased by

8.6%. Household deposits tended to dominate the ruble money supply, with their share increasing from 33.4% to 34.5% over 2013. At the same

<sup>1</sup> Hereinafter, organisations.



LOANS TO NON-FINANCIAL ORGANISATIONS AND HOUSEHOLDS IN RUBLES  
AND FOREIGN CURRENCY (growth as a percentage of corresponding date of previous year)

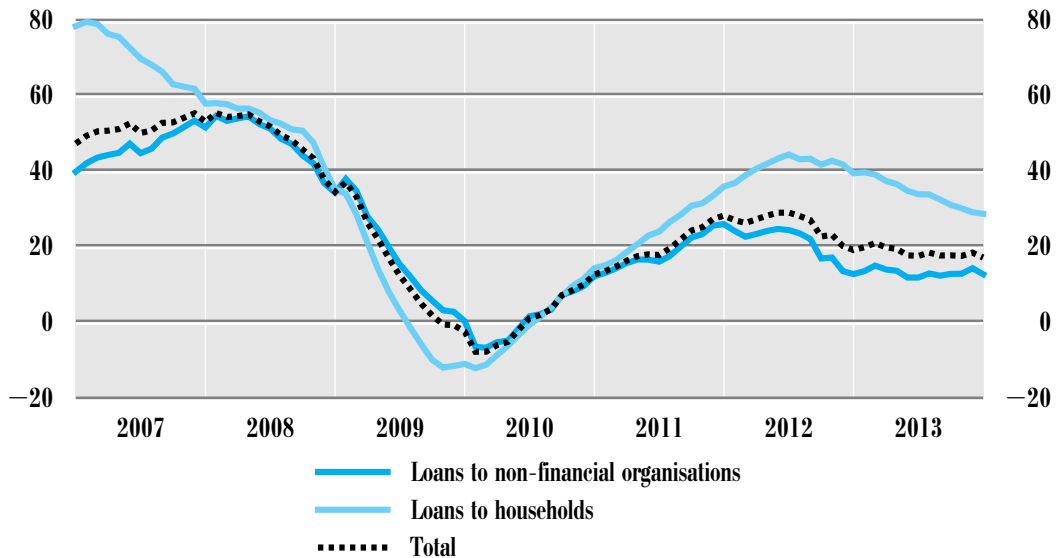


Chart 21

time, the share of cash in circulation dropped from 23.5% to 22.2%.

Foreign currency-denominated deposits by households and organisations (in ruble terms) increased by 21.7% over 2013, with the volume of deposits in dollar terms increasing by 12.9%. As of 1 January 2014, the share of foreign currency deposits in the total volume of banking sector deposits (deposit dollarisation) was 19.4% compared with 18.7% at the start of 2013. Annual growth rates in broad money during most of 2013 were close to the dynamics of the M2 monetary aggregate. In the last few months of 2013, the growth in broad money persistently outstripped the growth in the M2 monetary aggregate due to the revaluation of foreign currency deposits. Over 2013, broad money increased by 15.7% (12.1% in 2012).

Growth in lending to the economy continued to be the major source of broad money growth in 2013. The importance of other sources to money supply dynamics was limited: changes in the net foreign assets of the Russian banking sector and the banking sector's net claims to the general government in 2013 were not considerable.

For most of 2013, credit institutions reduced rates on loans to the main categories of borrowers. The average rate on ruble loans to non-financial organisations with terms over one year dropped from 11.4% p.a. in 2012 Q4 to

11.0% p.a. in 2013 Q4 and on household loans, from 19.7% to 17.7% p.a. respectively. There was no marked decrease in rates in the short-term lending segment in 2013. Along with reducing rates credit institutions tightened their non-price lending conditions. First of all, they introduced tougher requirements for the financial standing of borrowers and loan collateral, which held back the expansion of banks' loan portfolios. The requirements for non-financial organisations were tightened the most, while at the end of 2013 the requirements for households were almost unchanged.

The differing requirements for these categories of borrowers could be one of the causes for the growth in household loans continuing to exceed the growth in loans to non-financial organisations in 2013. At the same time, the gap between the growth rates in loans to these categories of borrowers gradually fell in 2013. The slowdown in the annual rates of growth in loans to non-financial organisations witnessed in 2012 came to a halt. At the close of 2013, the annual growth in the volume of loans to non-financial organisations stood at 12.7%, showing no change compared with the same indicator as of 1 January 2013. At the same time, the annual growth in the volume of household loans continued to fall. Over 2013, the volume of outstanding loans to households grew by 28.7% (39.4% in 2012).



OVERDUE LOANS BY TYPE OF ECONOMIC ACTIVITY AND MODE OF APPLICATION OF FUNDS  
(percent)

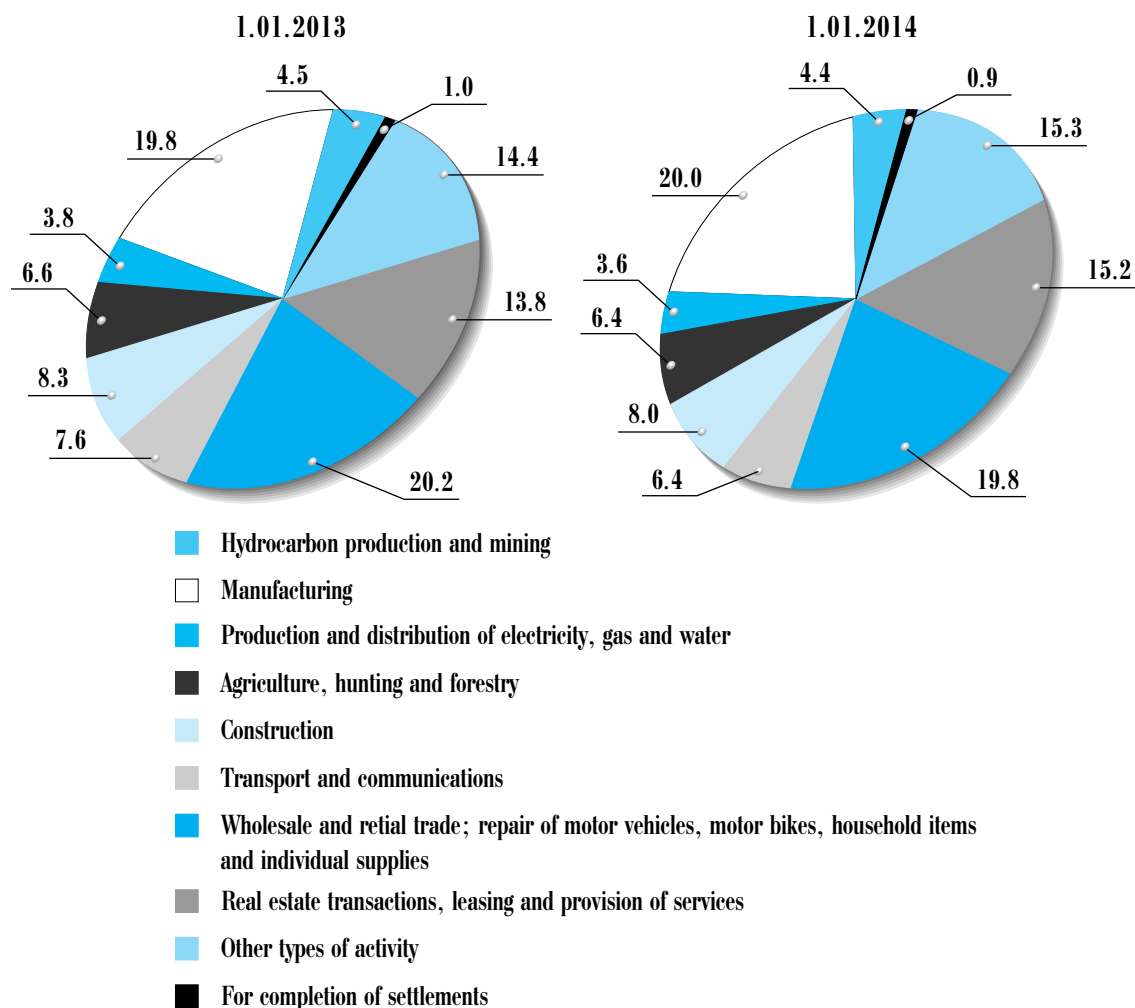


Chart 22

As a result, the growth in the total volume of outstanding loans issued to non-financial organisations and households for 2013 was 17.1% compared with 19.1% for 2012.

In terms of the industry structure of the corporate loan portfolio in 2013, loans to manufacturing industries continued to dominate (20.0% at the end of 2013 compared with 19.8% at the start of the year), as well as loans to the wholesale and retail trades (19.8% at the end of 2013 compared with 20.2% at the start of the year).

In 2013, the volume of loans issued by credit institutions to small and medium-sized enterprises continued to increase. At the end of 2013, the total volume of loans provided to this category of

borrowers exceeded a similar indicator at the end of 2012 by 14.8%. The average rate on ruble loans to small and medium-sized enterprises for terms over one year was 12.9% p.a. in 2013 Q4.

Consumer lending still dominated retail lending in 2013. In the last few months of 2013, banks showed increased interest in mortgage lending, which became apparent from the loosening of price and non-price mortgage lending conditions. The average interest rate on housing mortgage loans in 2013 Q4 was 12.1% p.a. compared with 12.6% p.a. in 2012 Q4. As a result, in the last few months of 2013, the rates of growth in mortgage lending increased slightly amid a slowdown in growth in other aspects of household lending.

## II.1.2. MONETARY INDICATORS AND MONETARY POLICY INSTRUMENTS

A key element of the implementation of the Bank of Russia's monetary policy is operations to manage the banking sector liquidity. As a precaution, the Bank of Russia keeps the total amount of banking sector liquidity at a level ensuring that the reserve requirements are fulfilled, credit institutions' settlement and

payment needs are met and their demand for liquidity is satisfied. Banking sector liquidity management, in addition to ensuring the normal operation of the money market and smooth settlements and payments, is aimed at maintaining one-day money market rates at a level consistent with achieving the inflation target.

### BANKING SECTOR LIQUIDITY INDICATORS

The change in banking sector liquidity indicators in 2013 was shaped by the dynamics of autonomous liquidity factors and by increased demand of credit institutions for bank reserves, causing a rise in the banking sector's outstanding amount due to the Bank of Russia.

In 2013, the outflow of liquidity from the banking sector as a result of the change in balances of the extended government's accounts with the Bank of Russia amounted to 383.5 billion rubles (846.0 billion rubles in 2012). As a result, the impact of fiscal flows on banking sector liquid-

ity continued to be erratic throughout the year. Thus, from January to November 2013, the excess of federal budget revenue over expenditure (excluding Federal Treasury deposits and OFZ operations) led to an outflow of funds from the banking sector, however, in the second half of November and in December, as a result of the rise in federal budget expenditure, there was a significant inflow of funds to the banking sector. The additional outflow of liquidity, amounting to 243.0 billion rubles over the year, was linked to operations conducted by the Russian Ministry of

### LIQUIDITY FACTORS AND GROWTH IN OUTSTANDING AMOUNT ON BANK OF RUSSIA OPERATIONS (billions of rubles)

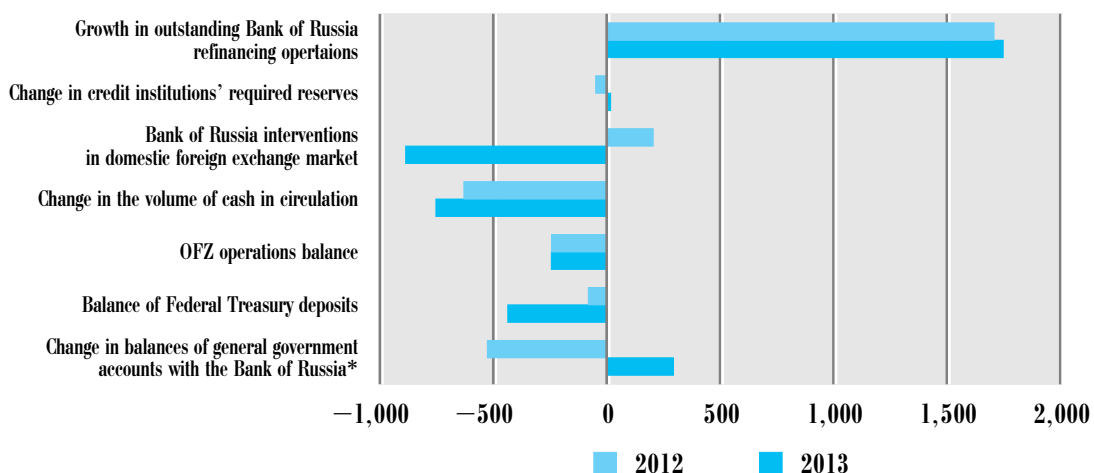


Chart 23

\* Net of Federal Treasury deposits and OFZ operations.

Finance with OFZs. The intrayear withdrawal of funds through the fiscal channel was offset by an active policy to place temporarily free funds of the federal budget, the Pension Fund of the Russian Federation and local authorities in deposits with credit institutions.

The dynamics of cash in circulation in 2013 were generally in line with the seasonal trends of previous years. The slowdown in the growth of cash in circulation amid a gradual increase in cashless payments led to a reduction in the outflow of funds from the banking sector to 467.0 billion rubles (628.2 billion rubles in 2012).

Starting from summer 2013, the intensified expectations of the tapering of the Fed's quantitative easing programme contributed to the depreciation of emerging market currencies, including the Russian ruble, which, under the current exchange rate policy mechanism, led to the Bank of Russia's sales of foreign currency in the domestic foreign exchange market. As a result, the

total outflow of liquidity from the banking sector in 2013 was 884.8 billion rubles (the previous year saw an inflow of 204.1 billion rubles).

In 2013, the average balance of credit institutions' correspondent accounts with the Bank of Russia, characterising their demand for liquidity, was 887.4 billion rubles, a rise of 146.4 billion rubles on the previous year, which was largely caused by an increase in the averaged value of required reserves.

The increase in the required reserves averaging ratio from 0.6 to 0.7 in December 2013 contributed to a release of reserves deposited by credit institutions in their required reserve accounts in the amount of 101.3 billion rubles, as well as growth in the averaged value of required reserves by a comparable amount. In this regard, in 2013 the required reserves deposited with the Bank of Russia fell by 16.8 billion rubles, while the averaged value of the required reserves increased by 224.6 billion rubles.

## MONETARY POLICY INSTRUMENTS

The Bank of Russia's gross credit to the banking sector increased over the year by 1.8 trillion rubles, totalling 5.0 trillion rubles as of 1 January 2014. The amount of operations to absorb liquidity remained negligible.

The intrayear dynamics of credit institutions' demand for Bank of Russia refinancing operations in 2013 were similar to those of 2012. At the start of 2013, there was a seasonal reduction in structural liquidity deficit and a fall in the demand for Bank of Russia refinancing operations. Then, influenced by autonomous liquidity factors, banks exhibited a high demand for refinancing instruments.

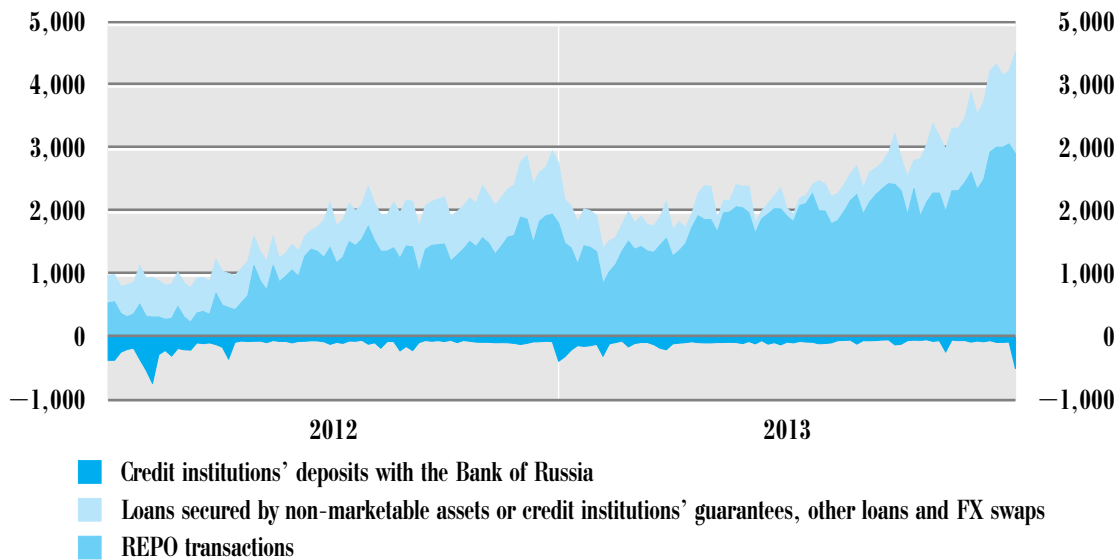
In 2013, the Bank of Russia supplied liquidity to credit institutions predominantly through auctions. The Bank of Russia set limits on the amount of liquidity provided through auctions based on the comparison of the liquidity demand and supply estimates according to the overall liquidity forecast.

The Bank of Russia continued to use repo auctions as the main instrument of providing

funds to credit institutions. In 2013, the Bank of Russia's claims to credit institutions on these operations increased by 1.1 trillion rubles to 2.9 trillion rubles as of 1 January 2014. On some days in December 2013, the total claims on the auction-based repo operations reached 3.1 trillion rubles — the highest value over the entire operational period of the instrument. The bulk of the claims came from one-week repo auctions. In 2013, the average amount of liquidity provided using this instrument was 1.6 trillion rubles. The corresponding figure for one-day auctions was 0.3 trillion rubles. The amount of auction-based repo operations with longer terms (three months, one year) remained low in 2013.

As the overall demand of credit institutions for liquidity increased, together with the uneven distribution of eligible marketable collateral accepted by the Bank of Russia for repo operations, and the insufficiently active redistribution of funds in the Russian money market, credit institutions showed sustained demand for operations where

**BANK OF RUSSIA MAIN LIQUIDITY PROVIDING AND ABSORBING OPERATIONS**  
(billions of rubles)



non-marketable assets or guarantees could be used as collateral, as well as for FX swaps.

Credit institutions' outstanding amount to the Bank of Russia on loans secured with non-marketable assets or guarantees increased over 2013 by 642.3 billion rubles and as of 1 January 2014 totalled 1,292.3 billion rubles. At the start of 2013, the entire outstanding amount was composed of fixed-rate loans. In July 2013, the Bank of Russia held its first auction to provide 12-month loans secured with non-marketable assets or guarantees at a floating rate. In October 2013, an auction was held to provide three-month loans secured with non-marketable assets at a floating rate. The amount of funds provided through these auctions was 307 billion rubles and 500 billion rubles respectively. Loans provided at a floating interest rate, as a percentage of the outstanding amount on loans secured with non-marketable assets or guarantees, accounted for 45.7% at the end of 2013, or 590.2 billion rubles.

Credit institutions' demand for FX swaps was mostly irregular though peaked in periods of increased demand for liquidity from certain money market participants, in particular on the days when tax payments were made. The share of FX swaps concluded during the last ten days of each month in 2013 was 60.6% of the total volume of

such operations. The average value of FX swaps on the days when transactions were concluded in 2013 amounted to 94.9 billion rubles.

The amount of other fixed-rate refinancing operations (overnight loans, Lombard loans, loans secured with gold, as well as repo operations) remained negligible in the period under review.

Amid a persistently high demand of credit institutions for liquidity provision operations in 2013, the Bank of Russia continued to expand the list of assets eligible as collateral for operations. Thus, in 2013, the Bank of Russia put on its Lombard List 232 new issues of securities with a total nominal value of about 1.6 trillion rubles (excluding bonds issued on behalf of the Russian Federation). The potential amount of collateral on Bank of Russia operations in the form of Lombard List securities increased by 662.0 billion rubles in 2013 to 4.7 trillion rubles, and in the form of non-marketable assets by 126.2 billion rubles to 1.4 trillion rubles.

In addition, to expand credit institutions' opportunities to manage their portfolio of securities eligible as collateral on Bank of Russia operations, from 15 April 2013 the Bank of Russia started to conduct OTC repo operations with a basket of securities from its Lombard List with a possible substitution of collateral. In 2013 Q2, repo auc-

tions started to be held using a partial bid satisfaction mechanism, which enabled the Bank of Russia to provide credit institutions with funds in full within the established limit by the end of the first (morning) auction (if there is sufficient demand). From 1 July 2013, the second (daily) one-day repo auction was cancelled.

In 2013, the Bank of Russia continued to use reserve requirements as an instrument to manage the banking sector liquidity. The increased exchange rate flexibility, as well as the developing external and internal macroeconomic trends led to a reduction in the use of required reserve ratios for the purpose of restricting the inflow of speculative capital. In this regard, in February 2013 the Bank of Russia set the required reserve ratios for all categories of credit institution liabilities at 4.25%. This decision had a neutral impact

on the monetary policy stance or on banking sector liquidity.

As of 1 January 2014, the amount of required reserves deposited by credit institutions in their required reserve accounts with the Bank of Russia amounted to 408.8 billion rubles, decreasing by 3.9% over the year. The decrease in the amount of required reserves deposited in these accounts was caused by an increase in the averaging ratio and the active use of this mechanism by credit institutions. The averaged value of required reserves during the averaging period from 10 December 2013 to 10 January 2014 was 794.1 billion rubles, an increase of 39.4% since the start of 2013. During this period, 594 credit institutions, or 64.1% of the total number of operating credit institutions, exercised the right to average their required reserves.

### II.1.3. EXCHANGE RATE POLICY

In 2013, the Bank of Russia continued to implement its exchange rate policy under the managed floating exchange rate regime. The Bank of Russia smoothed the fluctuations of the ruble exchange rate without hindering the trends in the ruble exchange rate dynamics that resulted from fundamental macroeconomic factors. No target values or limitations were set on the exchange rate or on its rate of change. The ruble value of the dual-currency basket (0.55 US dollars and 0.45 euros) continued to be used as an operational indicator for the exchange rate policy. The permissible range of the dual-currency basket values was determined by the floating operational band, whose borders were automatically adjusted by 5 kopeks when a certain level of cumulative volume of Bank of Russia interventions was reached, net of the amount of daily target interventions.

The Bank of Russia carried out foreign exchange interventions aimed at smoothing the fluctuations of the ruble exchange rate when the value of the dual-currency basket was outside the 'neutral' range situated in the middle of the operational band. As the value of the basket moved further away from this 'neutral' range, the volume of interventions increased. When the value of the

dual-currency basket hit the border of the operational band, the Bank of Russia performed FX interventions without quantitative limitations until the value of the dual-currency basket returned to the operational band or was within the new borders of the operational band after their automatic shift.

From 1 October 2013, the volumes of foreign currency purchases and sales aimed at smoothing the fluctuations of the ruble exchange rate were increased or decreased by the amount of the Federal Treasury operations related to the accumulation or spending of the sovereign funds in foreign currencies. In 2013, the Federal Treasury conducted operations related to the Reserve Fund accumulation in October in the total amount of \$308 million.

In 2013, the Bank of Russia continued to increase the flexibility of the ruble exchange rate in order to create conditions to raise the efficiency of the interest rate policy and to prepare for the transition to the inflation targeting regime in 2015. From 7 October 2013, the Bank of Russia expanded from 1.0 to 3.1 rubles the range of its operational band within which foreign exchange interventions aimed at smoothing the fluctuations of the ruble exchange rate were not held. To in-

#### EXCHANGE RATE POLICY PARAMETERS (as of 31 December 2013)

	Width	Interventions aimed at smoothing ruble exchange rate fluctuations*, millions of US dollars per day	Operations connected with the replenishment (spending) of sovereign funds**, millions of US dollars per day
Upper border of the operational band — 40.05 rubles	0.95 rubles	–400	Defined depending on the volume of operations to purchase (sell) foreign currency by the Federal Treasury from (to) the Bank of Russia +
	1 ruble	–200	
Technical range	0.1 rubles	0	
Neutral range	3 rubles	0	
	1 ruble	200	
Lower border of the operational band — 33.05 rubles	0.95 rubles	400	

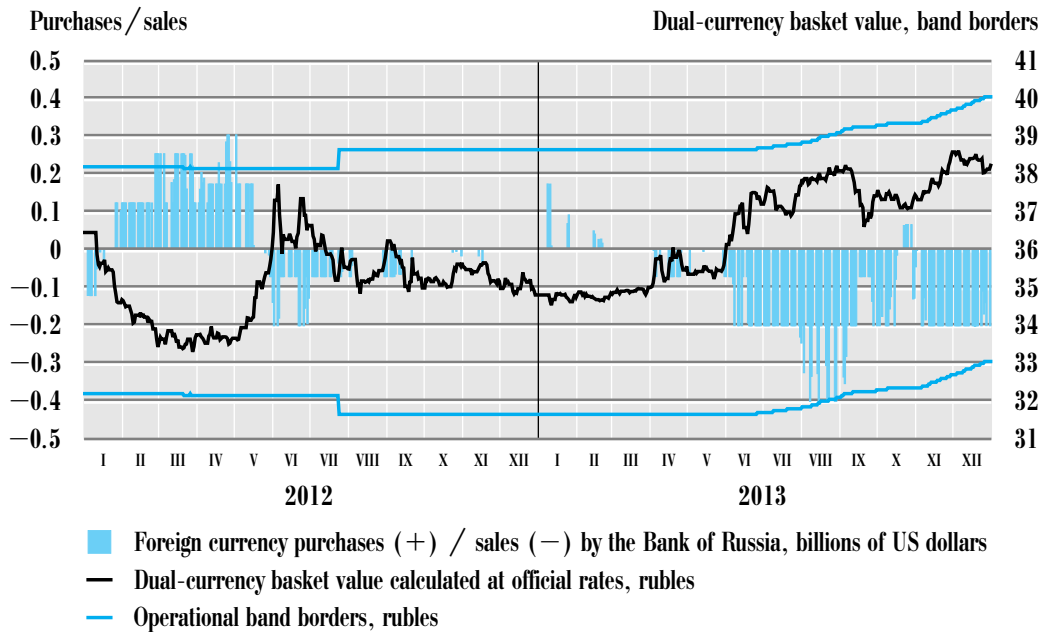
\* '+' — foreign currency purchases by the Bank of Russia, '-' — foreign currency sales by the Bank of Russia.

\*\* The volume of these operations does not depend on the situation of the dual-currency basket ruble value inside the operational band.

The exception is the technical range where the Bank of Russia does not conduct any operations.



**BANK OF RUSSIA INTERVENTIONS IN DOMESTIC FOREIGN EXCHANGE MARKET  
AND DUAL-CURRENCY BASKET VALUE**



*Chart 25*

crease the sensitivity of the operational band borders to the volume of foreign exchange interventions, the Bank of Russia reduced the cumulative volume of interventions triggering a shift in its borders on two occasions: on 9 September 2013 (from \$450 million to \$400 million) and on 10 December 2013 (to \$350 million). In addition, from 21 October 2013, the Bank of Russia decreased the volume of its target FX interventions to \$60 million per day.

The value of the dual-currency basket stayed within the operational band of the exchange rate policy in 2013 and did not reach its borders. With the depreciation of the ruble against major global currencies, the Bank of Russia predominantly sold foreign currency in the domestic foreign exchange market, with net sales totalling \$27 billion by the end of 2013 (in 2012, the Bank of Russia reported net purchases of foreign currency totalling \$7.6 billion).

## II.2. RESERVES MANAGEMENT<sup>1</sup>

The Bank of Russia's reserves comprise foreign exchange reserve assets and gold reserves. The Bank of Russia's foreign exchange reserve assets are net claims on foreign counterparties<sup>2</sup> and the securities of foreign issuers<sup>3</sup> denominated in US dollars, euros, pounds sterling, Canadian dollars, Australian dollars, yen, Swiss francs and special drawing rights (SDR) (hereinafter, eligible currencies).

The Bank of Russia's objective for foreign exchange reserves management is to ensure an optimal trade-off between safety, liquidity and return.

While managing foreign exchange reserve assets, the Bank of Russia takes into account other assets which are denominated in eligible currencies but not belonging to the reserve category<sup>4</sup> (non-reserve assets); it also takes foreign currency liabilities<sup>5</sup> into account. The gold assets of the Bank of Russia are managed separately from its foreign exchange reserve assets.

In 2013, the safety of foreign exchange reserve assets was ensured through the use of an

integrated risk management framework based on using high-quality financial instruments, making high demands on the reliability of counterparties and reducing risks associated with each of them depending on the assessment of their solvency, as well as conducting operations in accordance with agreements concluded with foreign counterparties to protect Bank of Russia interests.

An optimal trade-off between liquidity and return of foreign exchange reserve assets was achieved by combining short-term instruments (deposits, repo transactions, short-term securities) and long-term securities of foreign issuers. Investment decisions were based on the current conditions in the global financial market and forecast market conditions.

Over 2013, Bank of Russia foreign exchange reserve assets decreased by \$14.5 billion, largely as a result of the Bank of Russia selling foreign currency in the domestic foreign exchange market.

<sup>1</sup> All the distributions and indicators provided in this section are based on management accounting data.

<sup>2</sup> In previous reports the Bank of Russia's claims have been provided net of the claims of foreign counterparties on the Bank of Russia (including foreign counterparties' claims for the repayment of money obtained by the Bank of Russia through repo transactions). This report does not make such an adjustment.

<sup>3</sup> Excluding foreign issuers' securities denominated in eligible currencies obtained by the Bank of Russia through reverse repo transactions.

<sup>4</sup> Mostly Bank of Russia investments in Eurobonds issued by the Russian Federation.

<sup>5</sup> Balances of customers' accounts, mostly of the accounts of the Federal Treasury with the Bank of Russia.



### FACTORS BEHIND CHANGES IN BANK OF RUSSIA FOREIGN EXCHANGE RESERVE ASSETS IN 2013 (billions of US dollars)

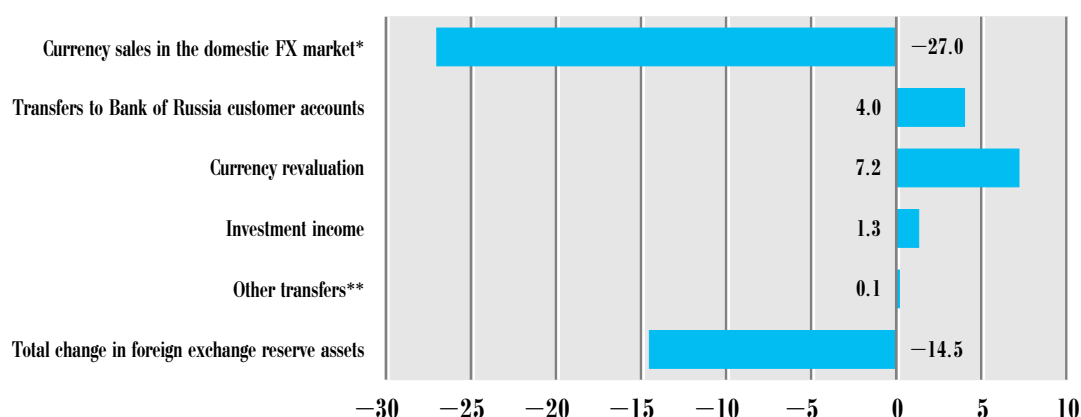


Chart 26

\* The figure includes transactions settled over the reporting period; the amounts in currencies other than the US dollar were converted in the US dollars at the exchange rate, as of the settlement date.

\*\* 'Other transfers' include transfers from other operations, including operations with precious metals.

### RISK MANAGEMENT FOR BANK OF RUSSIA FOREIGN EXCHANGE RESERVE ASSETS

Foreign exchange reserve asset management is linked to the Bank of Russia taking on certain financial risks, the main types of which are foreign exchange, credit and interest rate risks. The risk management of the Bank of Russia's foreign exchange reserve assets includes the identification of risks, risk assessment, the setting of risk limits, as well as compliance monitoring.

Since the US dollar is the base currency for the calculation of the total amount and composition of the Bank of Russia's foreign exchange assets and liabilities, **the foreign exchange risk** is the probability of a decrease in the value of foreign exchange assets resulting from changes in foreign currencies' exchange rates against the US dollar. The exposure to the foreign exchange risk is equal to net foreign exchange assets, which is the sum of the foreign exchange reserve and non-reserve assets of the Bank of Russia, net of its liabilities in eligible currencies. The Bank of Russia sets limits on the level of foreign exchange risk by specifying a benchmark currency structure of net foreign exchange assets with target weights

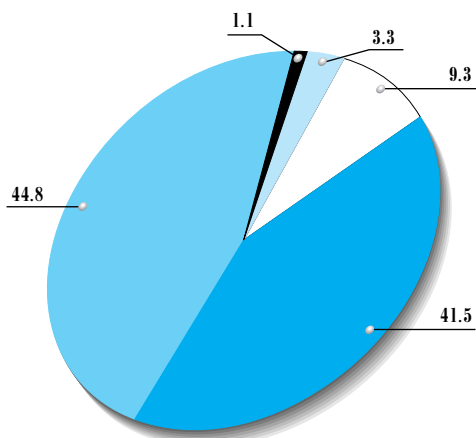
of eligible currencies and the limits of their deviations.

As of 1 January 2014, 44.8% of the Bank of Russia's foreign exchange reserve assets were denominated in US dollars (45.4% as of 1 January 2013); 41.5% were in euros (40.6%); 9.3% were in pounds sterling (9.4%); 3.3% were in Canadian dollars (2.5%); and 1.1% were in Australian dollars (1.1%)<sup>1</sup>. Reserve assets in Japanese yen and Swiss francs were negligible at the end of 2013. To calculate the currency structure, the Russian Federation's position with the IMF, denominated in SDR, is considered as assets in eligible foreign currencies in the proportions defined by the IMF to calculate the SDR value (0.66 US dollars, 0.423 euros, 0.111 pounds sterling, and 12.1 Japanese yen).

In order to manage **credit risk** during the reporting period, the Bank of Russia limited exposure on counterparties and set requirements for the credit quality of issuers and securities eligible for the Bank of Russia's foreign exchange reserve assets. The minimum required long-term credit

<sup>1</sup> The data on the distribution of foreign exchange reserve assets for 2012 were re-calculated taking into account the change in the calculation methodology for the total amount of foreign exchange reserve assets (excluding the adjustment for the amount of claims by foreign counterparties against the Bank of Russia).

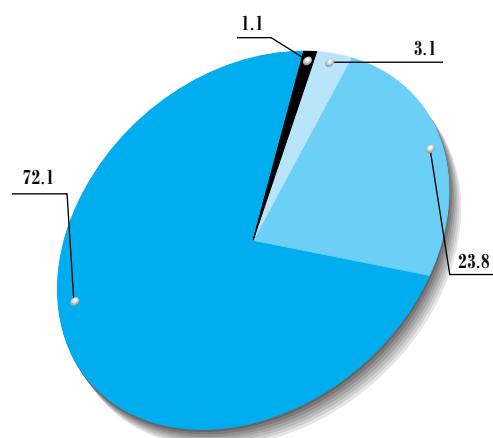
**BANK OF RUSSIA  
FOREIGN EXCHANGE RESERVE ASSETS  
BY ELIGIBLE CURRENCY\*  
AS OF 1 JANUARY 2014  
(as a percentage of their market value)**



■ US dollar  
■ Euro  
■ Pound sterling  
■ Canadian dollar  
■ Australian dollar

\* The distribution of Bank of Russia foreign exchange reserve assets by eligible currency includes conversion transactions not settled as of 1 January 2014.

**BANK OF RUSSIA  
FOREIGN EXCHANGE RESERVE ASSETS  
BY CREDIT RATING  
AS OF 1 JANUARY 2014  
(percent)\***



■ AAA     ■ AA  
■ A     ■ Without rating\*\*

\* The total amount exceeds 100% due to the rounding to decimal values.  
\*\* Assets without rating are mostly the Russian Federation's position with the IMF.

Charts 27, 28

rating<sup>1</sup> of the Bank of Russia's counterparties for operations involving the Bank of Russia's foreign exchange reserve assets was 'A' (Fitch Ratings and Standard & Poor's), or 'A2' (Moody's Investors Service). The minimum rating of securities (or the long-term credit rating of the issuer, if a securities issue has no rating) was 'AA-' (Fitch Ratings and Standard & Poor's), and 'Aa3' (Moody's Investors Service).

As of 1 January 2014, 'AAA'-rated assets accounted for 23.8% of all of the Bank of Russia's

foreign exchange reserve assets, followed by 'AA'-rated assets, which accounted for 72.1%, and 'A'-rated assets, which accounted for 3.1%<sup>2</sup>. The share of assets without any rating was 1.1%. The reduction in the share of 'AAA'-rated assets in 2013 (32.2% as of 1 January 2013) and the growth in the share of 'AA'-rated assets (64.0% as of 1 January 2013) largely resulted from the downgrading of the United Kingdom's long-term credit rating in the first half of 2013<sup>3</sup>.

**The interest rate risk** is the probability of a decrease in the value of foreign exchange assets due to an unfavourable change in interest rates (and, correspondingly, the prices of financial as-

<sup>1</sup> The long-term credit ratings of the relevant countries were used as the credit ratings of counterparties that are central banks without any assigned credit ratings.

<sup>2</sup> The distribution of Bank of Russia foreign exchange reserve assets by credit risk is based on the long-term credit ratings by Fitch Ratings, Standard & Poor's and Moody's Investors Service of foreign counterparties and foreign issuers' securities. The ratings are used in the main rating categories, 'AAA', 'AA', and 'A', without further specification. If the ratings of a counterparty or an issuer by the above-mentioned rating agencies differed, the lowest rating was applied.

<sup>3</sup> Moody's Investors Service cut the United Kingdom's rating from 'Aaa' to 'Aa1' on 22 February 2013. Fitch Ratings cut the United Kingdom's rating from 'AAA' to 'AA+' on 19 April 2013.

sets). The benchmark portfolios of each of the eligible currencies reflect the target distribution of the Bank of Russia’s assets and are used to compare the risk and rate of return on the Bank of Russia’s assets.

The level of interest rate risk for the assets and corresponding benchmark portfolios was measured by duration<sup>1</sup>. The Bank of Russia interest rate risk exposure was limited by setting the minimum and maximum durations allowed in each of the eligible currency portfolios.

The rate of return on the Bank of Russia’s foreign exchange assets was calculated as the total (realised and unrealised) return on investment as a percentage p.a. for each of the eligible currencies. The cumulative rates of return on the Bank of Russia’s foreign exchange reserve assets over 2013 are given in Chapter IV ‘Addenda’ (Section IV.5 ‘Statistical tables’).

As of 1 January 2014, the Bank of Russia’s foreign exchange reserve assets were invested in the following instruments: the government securities of foreign issuers (83.3%), the non-government securities of foreign issuers (0.8%), deposits and cash balances of correspondent accounts with foreign banks (13.7%), reverse repo transactions (1.3%), and net position with the IMF (1.0%).

**BANK OF RUSSIA  
FOREIGN EXCHANGE RESERVE ASSETS  
BY INSTRUMENT  
AS OF 1 JANUARY 2014  
(percent) \***

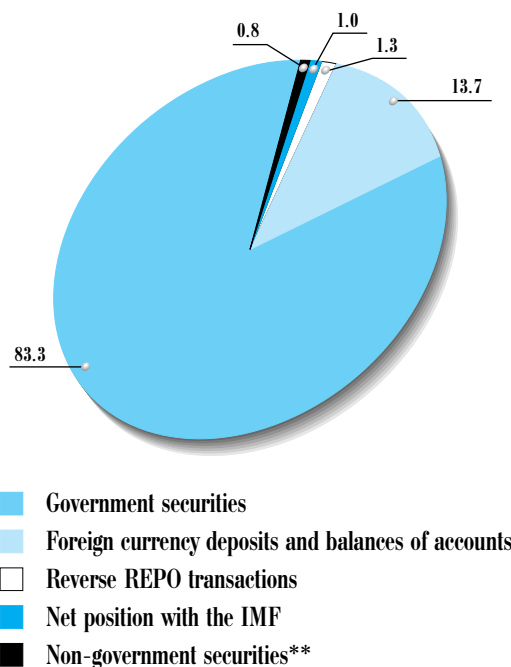


Chart 29

\* The total amount exceeds 100% due to the rounding to decimal values.  
\*\* Non-government debt securities guaranteed by the government have been categorised as government securities.

**BANK OF RUSSIA FOREIGN EXCHANGE RESERVE ASSETS BY COUNTRY  
AS OF 1 JANUARY 2014 (percent)**

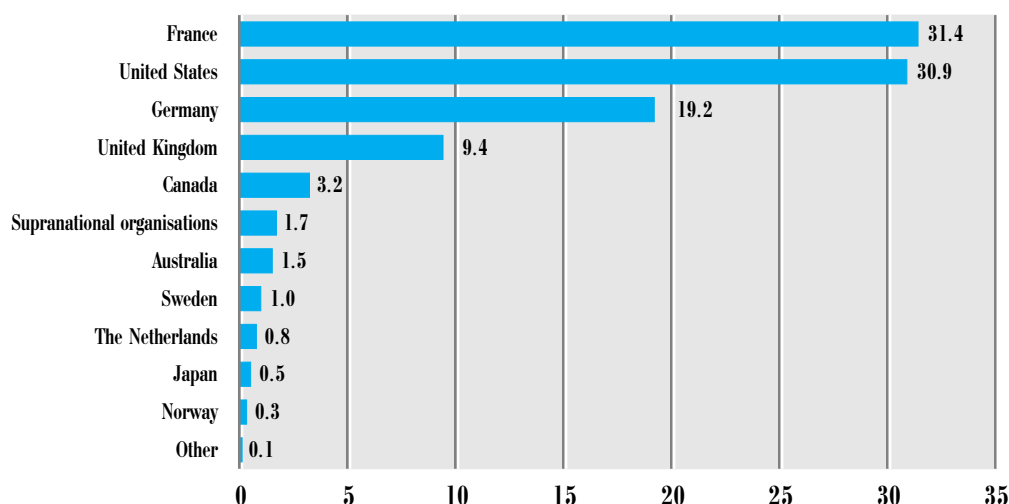


Chart 30

<sup>1</sup> Duration is a measure of the relative sensitivity of the value of an instrument or a class of instruments to changes in the corresponding interest rates by 1 percentage point.

Foreign issuers' securities mostly consisted of US treasuries, government bonds and bills of France, Germany, the United Kingdom, Canada, Australia, the Netherlands, Finland, Denmark, Sweden and Austria, non-government bonds guaranteed by the aforementioned governments, and the bonds of international financial institutions.

The geographical distribution of foreign exchange reserve assets<sup>1</sup> as of 1 January 2014 was as follows. France accounted for 31.4% of assets,

the USA accounted for 30.9%, Germany accounted for 19.2%, the United Kingdom accounted for 9.4%, and other countries accounted for 9.1%.

Over 2013, the Bank of Russia's gold reserves grew by 80.0 tonnes and amounted to 1,091.1 tonnes as of 1 January 2014. Reflecting the purchase of gold in the domestic market, the amount of monetary gold increased in 2013 by 79.8 tonnes to 1,012.6 tonnes as of 1 January 2014.

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<sup>1</sup> The distribution is based on the country of domicile (registration) of Bank of Russia counterparties or issuers of securities included in the foreign exchange reserve assets of the Bank of Russia.

## II.3. ENSURING FINANCIAL STABILITY

### II.3.1. GLOBAL RISKS AND THEIR IMPACT ON THE RUSSIAN FINANCIAL SECTOR

**2013** was characterised by reduced risks and accelerated economic growth in advanced countries amid a slowdown in growth and increase in vulnerability in emerging market economies. The publication of the US Federal Reserve's plans to taper its quantitative easing programme in mid-2013 led to a sharp change in investor sentiment and a reconsideration of the outlook of investing capital in emerging market instruments. The prospects of this programme's tapering were, in essence, the main factor of rising volatility in capital flows and the global financial market situation in 2013.

Market participants' expectations of monetary conditions tightening in 2013 were reflected in increased interest rates. Continuing growth in interest rates will mostly have a negative influence on the debt burden of sovereign borrowers with large amounts of accumulated debt. In this regard, the most vulnerable are problem countries in the euro area, which, though they have achieved a notable success in reducing their budget deficits and government debt, currently have the most limited opportunities for further budgetary consolidation due to high unemployment.

After the 2008 crisis, there was a significant increase in the debt burden in many emerging economies, not only in the public sector, but also in the private one. Some of these countries (Brazil, Argentina, Mexico, and South Africa) will have to refinance large amounts of debt in the coming years, and so they could face significant increases in the cost of borrowing. The private sector debt burden, which in a number of countries (China, India, and South Africa) is a substantial amount relative to GDP, could pose a threat to the solvency of borrowers if the cost of borrowing rises.

The greatest uncertainty lies with the state of the financial system in China amid excessive growth in the shadow banking sector and the start of large-scale economic reforms by the authorities. The uncertainty over the future economic and financial prospects of China was one of the main threats to the global economy in 2013.

The Russian financial sector was affected by these global risks in 2013. The tightening of monetary conditions in the global markets and growth in interest rates from May 2013 caused a fall in the value of Russian financial assets, partly due to the fall in demand for them from non-residents. Thus, from May to the end of 2013 the Russian

ruble exchange rate dropped by 4.5% against the US dollar and by 9.2% against the euro, while the yields on 10-year OFZs increased by 113 basis points during this period. However, the state of the balance of payments and government finances in Russia was comparatively better than in a number of other emerging market economies, which was reflected in the increased stability of

the Russian financial market. In addition, support for the OFZ market came from its liberalisation at the start of 2013, as a result of which non-residents were able to operate in the Russian market through the global settlement and clearing systems Euroclear and Clearstream (custody accounts were opened at NKO ZAO National Settlement Depository for foreign nominee holders).

## II.3.2. FINANCIAL STABILITY OF THE NON-FINANCIAL SECTOR

**In** 2013, the non-financial sector developed amid a slowdown in the Russian economic growth and a deterioration of the situation in the global commodity market.

A growing debt burden and a falling profitability of many companies posed the main risks to the stability of the non-financial sector in 2013. To carry out a more thorough analysis of the systemic risks of non-financial organisations, in 2013 the Bank of Russia set about monitoring the financial state of nearly 50 companies on a group basis, all operating in various economic fields and all of systemic importance to the economy<sup>1</sup>. The consolidated revenue of these companies accounted for over 40% of GDP, and their assets almost 60% of GDP.

According to banks' statements at the end of 2013, the quality of the loans provided to non-financial organisations improved slightly. The share of overdue loans in total loans provided to non-financial organisations decreased over 2013 from 4.6% to 4.2%. The growth in the share of overdue loans was only observed in certain types of economic activity in agriculture and the manufacturing industry. Nonetheless, amid the slowdown in economic growth, a number of Russian non-financial organisations could find themselves in a vulnerable position as a result of their high debt burden and a low profitability of their activity which, in turn, could affect the quality of banks' loan portfolios.

During the course of 2013, there was a slowdown in the growth in the majority of basic types of economic activity, in particular in the manufacturing and construction industries, lending to which accounted for more than 40% of banks' loan portfolios. According to Rosstat data, growth rates in the manufacturing industry dropped by 4.6 percentage points to 0.5% in 2013 and growth rates in the hydrocarbon production and

mining remained virtually unchanged from 2012. The volume of construction decreased by 1.5%, while in 2012 the growth was 2.4%.

**Hydrocarbon production and mining.** According to Rosstat data, oil production increased by 0.8% in 2013 and gas production by 2.3%. The deterioration of the market situation, namely a fall in the prices for oil and export petroleum products in the global market, had a negative impact on the financial results of Russian oil companies.

Gas consumption in the domestic market fell, caused mainly by a fall in business activity in the metallurgy industry, one of the main consumers of gas, as well as a fall in electricity production at thermal power plants. As a result, exports and income from exports of gas from Russia increased. Despite the deterioration of external conditions, Russian oil and gas companies maintained a low level of debt burden and a sufficiently high profitability (the average level of debt burden among the six largest companies, measured as the ratio of debt to operating result, was 0.7, while the average level of return on sales was about 18.8%<sup>2</sup>), i.e. they maintained a certain margin of safety in the event of a deterioration in the situation.

**Metallurgy industry.** One of the manufacturing industries showing the greatest slowdown in growth rates was the metallurgy industry. The fall in its growth rates (at the end of 2013 growth was zero, while the year before it was 4.8%) is largely linked to the deterioration of the situation in the global metal market, which witnessed a falling demand for metal products and growing supply. The excess supply was largely caused by over-production of aluminium and steel in China and the stepping-up of metal exports from China. As a result, the excess supply in the global market led to a significant fall in prices for most metals in 2013. Since Russian metallurgical compa-

<sup>1</sup> The financial state of organisations is assessed on the basis of consolidated statements compiled in accordance with International Financial Reporting Standards and Generally Accepted Accounting Principles (USA).

<sup>2</sup> Here and below calculations of indices for the largest companies are based on consolidated statements. The debt burden indicator is calculated as a ratio of loans, net of monetary funds and their equivalents, to operating result. The operating result is calculated as the companies' EBITDA. The profitability indicator represents the ratio of sales profit to revenue.

nies export a substantial share of their metal products, this had a direct impact on their financial results. The average debt burden indicator among the seven largest metallurgy companies rose from 4.2 to 5.8, while the average return on sales remained low at about 6.9%.

The slump in metal prices mainly affected companies with high debt burdens: the operating cash flows of these companies fell, and these turned out to be insufficient to service their outstanding debts. Amid these unfavourable conditions, metallurgical companies sought to increase the efficiency of their business to maintain their stability by selling non-core and loss-making assets, as well as by reducing the amount of capital expenditure planned through investment programmes.

**The chemical industry** was one of the few areas of the manufacturing industry where increased growth rates were characteristic of 2013 (its growth in 2013 was 5.4% compared with 4.1% a year earlier). In this respect, growth in production was also seen in the fertiliser segment, which forms a significant proportion of Russian chemical industry exports.

Also, for a large part of 2013 (excluding Q4), conditions in the fertiliser market remained unfavourable and witnessed a fall in prices for companies' core products, in part due to an increased supply from China as a result of low export duties. Despite a growth in production in the majority of large Russian producers of fertilisers, the fall in prices had a negative impact on the financial results of these companies at the end of 2013. In particular, the average debt burden of the three largest fertiliser producers rose from 1.2 to 1.7, while the average return on sales fell from 33.3% to 28.3%.

**Construction.** Despite an overall fall in construction, in 2013 residential construction saw a continuing positive growth (new homes increased by 5.5% compared with 2012). Prices for core construction materials increased slower than inflation which, together with increased sales vol-

umes, contributed to an increase in the operating profits of the largest construction companies and a fall in their debt burden. Thus, the average debt burden, calculated for three public companies in the residential construction sector, fell from 3.1 to 1.9, while the average return on sales increased from 18.6% to 26.9%.

Equally, the Russian residential construction market is highly fragmented and has a relatively low transparency (up-to-date consolidated statements are only published by a small number of construction companies). The debt burden of the non-public companies could be more than an average calculated for a limited number of public companies, and this factor could make companies vulnerable if the market situation worsens.

The exposure of non-financial organisations to **foreign exchange and interest rate risks** remained at an acceptable level on the whole. Over the course of 2013, growth rates for outstanding corporate sector loans owed to foreign creditors increased considerably — by 9.4 percentage points, to 20.0%<sup>1</sup>. Nonetheless, the majority of companies with a substantial proportion of debt owed to foreign creditors are export-oriented and have a high proportion of revenue in foreign currencies. Consequently, the foreign exchange risk can be minimised by balancing revenue and debt in the corresponding currency. At the same time, amid the growing debt burden of some organisations, there is a continued exposure to the risk of not complying with financial covenants — loan parameters limiting the amount of debt, which could lead to demands from foreign creditors for an early settlement of outstanding loans and the need for Russian banks to refinance the debt.

The impact of the interest rate risk on company activities was limited by the fact that the share of instruments with floating interest rates in the debt portfolios of the largest non-financial organisations was relatively low. Moreover, a large share of external debt (about 75%) is long-term (over one year), which lowers the risk of refinancing at higher rates in the short term.

<sup>1</sup> To determine growth rates, assessment data on the Russian Federation's external debt as of 1 January 2014 were used — see the heading 'Other sectors'.



### II.3.3. FINANCIAL STABILITY AND BANKING SECTOR RISKS

**In** 2013, the systemic risks of the banking sector were low as a whole, enabling the banking sector to maintain its financial stability.

**Capital adequacy.** Capital adequacy dynamics stabilised: the average value of the N1 ratio for the banking sector during the reporting period exceeded 13%, reaching 13.5% by the end of the year. At the same time, the potential increase in capital held back the continuing fall in the banking sector profitability (over the year the asset profitability fell by 0.4 percentage points to 1.9%) as a result of growing bank expenditure on establishing loan loss provisions, linked in part to the deterioration in the quality of household loans.

**Credit risk.** Credit risk still dominated banking sector risks. The share of the loan portfolio in banking sector assets was over 70%; credit risk at the start of 2014 accounted for 87% of the total amount of risks taken into account when calculating capital adequacy.

As a result of Bank of Russia macroprudential measures implemented in 2013<sup>1</sup>, the dynamics of household loans gradually returned to normal. The rates of growth in unsecured consumer loans<sup>2</sup>, forming the majority of banks' retail loan portfolios and characterised by higher risks, fell from 53.0% in 2012 to 31.3% in 2013.

At the same time, the quality of household loans gradually decreased. Over 2013, overdue household loans increased by 40.7%, significantly surpassing the growth rate of such loans (28.7%). As a result, the share of overdue loans in this portfolio increased from 4.0% to 4.4%. The quality of unsecured consumer loans is worthy of special attention: 8.0% of this portfolio is made up of loans with payments which are overdue by more than 90 days. Nevertheless, prob-

lem consumer loans were more than adequately covered by loan loss provisions.

A deterioration in the loan quality of the retail portfolio occurred mainly in banks with a higher concentration of activities in the consumer lending market. This situation was largely the result of a high risk policy by banks when providing unsecured consumer loans.

The Bank of Russia's measures in relation to loans issued by banks from 1 January 2014, such as a further increase in the minimum amount of provisions (1.5 times for loan portfolios without any payments overdue and for loan portfolios with payments overdue by one to 30 days) and the risk ratio on unsecured loans with a higher full value when calculating capital adequacy, will contribute to reducing risks in the consumer lending market. In addition, the setting of limits on the maximum full value of loans in accordance with Federal Law No. 353-FZ, dated 21 December 2013, 'On Consumer Loans', which will enter into force from 1 July 2014, will make it possible to reduce loans being issued to borrowers with a high risk profile.

On the other hand, according to bank statements, the quality of loans issued to non-financial organisations improved somewhat. In 2013, amid a 12.7% growth in lending to non-financial organisations, the growth rate of overdue loans was 1.0%. Nonetheless, amid the slowdown in economic growth, the expected outlook for the loan portfolio quality worsened.

**Liquidity risk.** A structural liquidity deficit caused an increase in outstanding debt owed by banks to the Bank of Russia, amounting to 7.7% of banks' liabilities at the end of 2013. The growth in outstanding debt owed by credit institutions to the Bank of Russia outstripped the growth in the value of assets deemed eligible by the Bank of Russia for use as collateral in banks' portfolios,

<sup>1</sup> The twofold increase in the minimum amount of loss provisions on unsecured consumer loans issued after 1 January 2013 (on loans without overdue payments and loans with amounts outstanding overdue by no more than 30 days) and the increase in the risk ratios when calculating capital adequacy in relation to unsecured consumer loans.

<sup>2</sup> Here and below 'unsecured loans' are understood to mean bank claims to households referred to 'Other consumer loans' in accordance with bank reporting form 0409115 (Section 3, amounts outstanding on other consumer loans, grouped into a portfolio of homogeneous loans).

which resulted in an increase in the encumbrance on banks' assets. The value of encumbered marketable assets rose the most in 2013 (from 1.8 trillion rubles to 2.9 trillion rubles), since the largest amount of refinancing came through repo operations with the Bank of Russia; the share of pledged banking sector marketable assets was 62% by the end of 2013.

In 2013, systemic risks in the money market remained at acceptable levels. The activation of the Bank of Russia's policy to reinvigorate the banking sector at the end of the year did not have a major impact on money market stability; there were hardly any unfulfilled transactions and rates were mainly situated within the Bank of Russia's interest rate corridor. The growing tension only really had an impact on small and medium-sized banks whose market shares were small from the outset.

Counterparty risks in the repo market in 2013 fell as a result of the increase in the share of repos with a central counterparty (CC). In such transactions, the CC guarantees that the parties will fulfil their obligations under the transaction, as a result of which counterparty risks are significantly reduced. The possibility to complete repo transactions with the CC at the Moscow Exchange occurred in February 2013; by December 2013 the share of repos with the CC in open positions in the interdealer repo stock market had already reached 11%. Despite this, counterparty risks still remained significant due to the high share of borrowing by customers of banks and non-bank financial institutions, in particular non-resident customers, and the relatively high leverage (the ratio of open positions in the market to the value of their equity capital) held by non-bank financial organisations.

**Market risk.** Over 2013, the level of market risks grew by 17.2% (11.3% in 2012). The share of market risks in total banking sector risks was virtually unchanged compared with the start of the year, amounting to 5.9%. Traditionally, the greatest share of market risk tended to come from the interest rate risk: its share increased from 76.0% as of 1 January 2013 to 82.9% as of 1 January 2014. In terms of structure of the banking sector market risks, as of 1 January 2014, equity risk accounted for 7.3% and foreign exchange risk accounted for 9.8%.

In 2013, market risks in the repo market fell slightly due to an increase in discounts on transactions where corporate and exchange bonds served as collateral. On average, market discounts exceeded the daily depreciation of securities witnessed during the 2008 crisis.

Overall, in 2013 the banking system was relatively stable to the effects of any potential shock in the securities market. Stress tests have shown that, as of 1 January 2014, a significant shock in the stock market (a fall in equity value by 20% and growth in bond yields by 200 basis points, accompanied by a ruble depreciation by 15%) could lead to losses of about 0.3 trillion rubles and a fall in the NI capital adequacy ratio for the banking sector as a whole by 0.4 percentage points. A negative revaluation of securities portfolios on such a scale does not pose any systemic risk to the banking sector.

Assessments of the banking sector resilience to external shocks using stress testing show that banking sector capital adequacy as a whole does not fall below 10% in any of the stress scenarios. This suggests that the Russian banking sector is reasonably resilient.

## II.4. BANKING REGULATION AND SUPERVISION

### II.4.1. REGULATION OF CREDIT INSTITUTIONS' ACTIVITIES

*In* 2013, work continued to incorporate the international principles and standards set out by the Basel Committee on Banking Supervision (BCBS) into the Russian legislative framework to improve the financial stability of credit institutions and the financial market as a whole.

Taking into account the powers granted to the Bank of Russia under Federal Law No. 146-FZ, dated 2 July 2013, 'On Amending Certain Laws of the Russian Federation', the following regulations were enacted:

*On the regulation of the activities of banking groups, setting out:*

- a methodology to calculate the amount of equity capital, required ratios and sizes (limits) for open currency positions, as well as numerical values for required ratios and sizes (limits) for open currency position;
- the formats, content, procedure and timeframe for information disclosures by the parent credit institutions of banking groups, including information on risks assumed, risk assessment procedures, and risk and capital management procedures;
- the procedure for mandatory disclosure by credit institutions of their interim consolidated financial statements, compiled in accordance

with the International Financial Reporting Standards (IFRS), to a wide range of users;

- the procedure for the Bank of Russia to supervise the activities of banking groups, including the procedure for setting up and organising work of supervision groups, the procedure for quarterly appraisals of banking groups' (members of banking groups') fulfilment of their required ratios, compliance with open currency position limits and due claims, and the procedure for collecting and storing information on the activities of banking groups and major members of banking groups;

*on the regulation of the activities of bank holding companies, including:*

- a methodology to determine the amount of assets and income of credit institutions, which are members of bank holding companies, and of bank holding companies. This methodology helps determine whether to include associations of legal entities with at least one credit institution into a bank holding company;
- the procedure and timeframe for parent organisations (management companies) of bank holding companies to disclose their consolidated financial statements and to submit them to the Bank of Russia, as well as the

form, procedure and timeframe for parent organisations (management companies) of bank holding companies to compile and provide the Bank of Russia with the information required to assess the risks of bank holding companies and supervise credit institutions, which are members of bank holding companies.

The Bank of Russia also enacted the following regulations in 2013:

*On the prudential regulation of credit institutions' activities, taking into account the international approaches stipulated in Basel II and Basel III, setting out:*

- the replacement of the equity capital adequacy ratio for banks with three new capital adequacy ratios: common equity adequacy ratio (minimum permissible value of 5.0%), core capital adequacy ratio (minimum permissible value of 5.5% (6.0% from 1 January 2015)), and equity capital adequacy ratio. The level of the requirements for the total capital adequacy of credit institutions, set at 10%, remains a minimum ratio value; the factor applied in relation to operational risk has been changed from 10 to 12.5;
- the methodology for determining the amount of equity capital of credit institutions has been complied with the principles of Basel III (in this respect, the methodology for determining the amount of capital which was in effect until 1 January 2014 can be used temporarily if there are grounds to revoke a banking licence, as well as to determine a credit institution's compliance with the requirements for participation in a deposit insurance system (DIS) and to assess its economic position);
- the record of risks of changes in the value of a credit claim as a result of a deterioration in the credit quality of a counterparty in OTC transactions with derivatives concluded without the involvement of a qualified central counterparty, for use for prudential purposes with effect from 1 October 2014, and for analytical purposes with effect for reporting from 1 February 2014;
- certain changes to the procedure for calculating equity and interest rate risks, including

establishing a requirement to calculate the specific equity risk on derivatives (the base assets for which are equity indices), as well as specifying the list of agreements (transactions) affected by the requirement to calculate market risk, in relation to a change in the procedure for accounting forward transactions;

- clarification of the requirements to cover operational risk with equity capital in order to calculate banks' capital adequacy ratios;
- changes to the procedure for calculating the amount of market risk in terms of the procedure for including investment in shares in relation to changes to the calculation of the amount of equity capital and capital adequacy ratios;
- approaches to determine the financial leverage ratio (capital adequacy to assets and off-balance-sheet not risk-weighted instruments — 'leverage') and the corresponding methodology for calculating this indicator, the form of information disclosure on its components and the procedure for completing this form by credit institutions adopting such a decision before 1 January 2015<sup>1</sup>. With effect from statements as of 1 August 2013, the Bank of Russia started to collect data on the results of calculations of this ratio;

*on improving the disclosure by credit institutions of information on their activities to a wide range of users by establishing requirements for credit institutions to disclose information about risks assumed, risk assessment procedures, and risk and capital management procedures, setting out, inter alia:*

- the content of information disclosed by credit institutions in their annual and interim accounting (financial) statements in compliance with IFRS provisions, and Pillar 3 'Market Discipline' of Basel II and Basel III;
- the disclosure by credit institutions of their activities in the media and (or) on the official websites of credit institutions on the Internet.

The Bank of Russia continued to introduce the standards set out in Pillar I of Basel II, with regard to the approach to measure credit risk on

<sup>1</sup> Bank of Russia Letter No. 142-T, dated 30 July 2013, 'On Calculating the Financial Leverage Ratio'.

the basis of internal ratings (IRB approach) to be used by Russian banks to calculate capital adequacy ratios. With a view to assessing the readiness of banks for the transition to the IRB approach, the Bank of Russia analysed data provided by the interested credit institutions in the form of a voluntary report in accordance with the published in 2013 Bank of Russia Letter No. 192-T, dated 29 December 2012, 'On Methodological Recommendations for the Implementation of the IRB Approach to Calculate Credit Risk'.

Significant attention was paid in 2013 to improving the current regulation to guarantee a more accurate assessment of risks taking into account the lessons of the crisis and the specifics of the Russian banking system:

- to tighten requirements relating to the quality of banking risk assessment (including risks arising in the unsecured consumer lending market) and to suppress the practice of concealing outstanding problem loans and non-core assets, provisions have been made to tighten requirements<sup>1</sup> to ensure that unsecured consumer loans with high full values issued after 1 January 2014 are covered by capital;
- the procedure for calculating the ratios was supplemented by a procedure for assessing the risk of claims against counterparties under transactions where the fulfilment of obligations to a bank (excluding claims on syndicated loans, letters of credit, mortgage securities, securitisation transactions) is dependent on the fulfilment of obligations by a third party — the end recipient of the funds.

To improve the supervisory assessment of credit institutions' activities, regulations were enacted in 2013 setting out:

- the tightening of approaches to the assessment of the economic position of banks (assessment of their financial stability). Provisions have been made so that the economic position of a bank cannot be recognised as satisfactory (the financial stability of a bank is sufficient for participation in the deposit insurance system) if the bank's internal control regulations to counter the legalisation (laundering) of criminally obtained incomes and the financing of terrorism (hereinafter, AML/CFT) do not meet the Bank of Russia's requirements or if these regulations, according to the Bank of Russia, are not observed, or the internal AML/CFT control system does not allow to pay increased attention to the operations of customers with a high degree (level) of risk;
- the compliance of the methodology for assessing the transparency indicators of ownership structure and the procedure for calculating the capital-inclusive indicators with the regulatory framework;
- a change in the threshold values used when assigning a numerical score to an equity capital adequacy ratio.

To improve the institution of authorised representatives of the Bank of Russia, taking into account the amendments to Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Federal Law No. 86-FZ), a procedure has been established to appoint authorised representatives not only to credit institutions that have received government funding, but also to credit institutions whose assets are valued at 50 billion rubles or more and (or) whose funds attracted from households based on bank deposit agreements and bank account agreements total 10 billion rubles or more.

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<sup>1</sup> *Bank of Russia Instruction No. 139-I, dated 3 December 2012, 'On Banks' Required Ratios'.*

## II.4.2. REGISTRATION AND LICENSING OF BANKING ACTIVITIES

In order to fulfil the objectives of the Russian Banking Sector Development Strategy until 2015 in terms of increasing its stability and reinforcing protection of the interests of creditors (primarily depositors) of credit institutions, in 2013 practical and methodological work to register and license banking activity continued. The main changes were aimed at clearing the banking services market of financially weak, poorly managed credit institutions and at increasing banking sector capitalisation.

In 2013, the number of operating credit institutions with banking licences declined (in part due to reorganisation procedures) by 33, or by 3.5%, to 923 as of 1 January 2014 (by 22, or by 2.2%, to 956 in 2012). The number of registered credit institutions fell by 23 in 2013, or by 2.1%, to 1,071 as of 1 January 2014 (by 18, or by 1.6%, to 1,094 in 2012).

In 2013, 10 newly-established credit institutions were registered, including seven non-bank credit institutions (in 2012, nine and six respec-

tively). Thus, in 2013 the process of establishing non-bank credit institutions continued, primarily in connection with 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 Certain Laws of the Russian Federation in Connection with the Adoption of the Federal Law 'On the National Payment System'' allowing for the creation of non-bank settlement credit institutions.

Over the reporting period, the Bank of Russia decided to refuse state registration to the founders of seven newly-established credit institutions, including the founders of five non-bank credit institutions (two of which twice), in connection with the non-conformity of candidates for the position of the head of a credit institution with the qualification criteria set by federal laws and Bank of Russia regulations adopted in accordance with these laws, the unsatisfactory financial standing of the founders, as well as non-compliance of the docu-

NUMBER OF REGISTERED OPERATING CREDIT INSTITUTIONS  
AND BANKING LICENCES GRANTED TO THEM

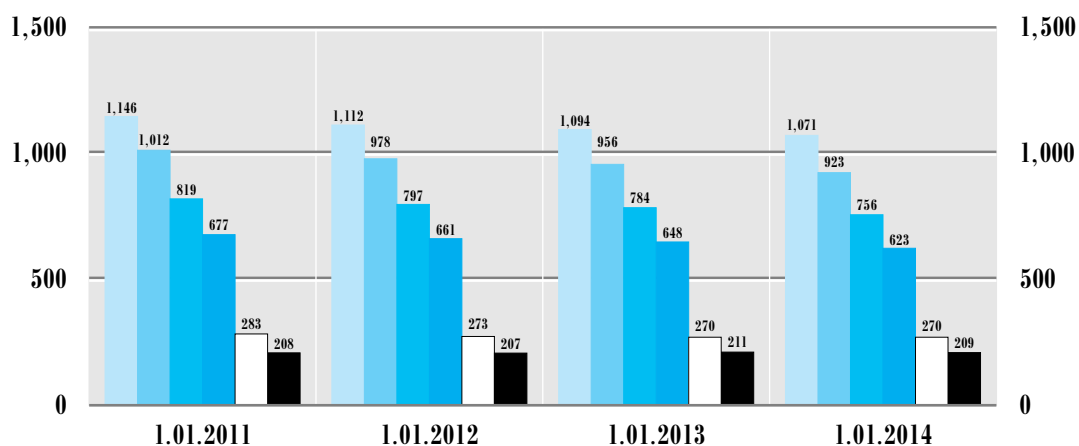


Chart 31

- Total registered credit institutions
- Operating credit institutions
- Credit institutions licensed to take household deposits
- Credit institutions holding forex licences
- Credit institutions holding general licences
- Credit institutions licensed to conduct operations with precious metals

**OPERATING CREDIT INSTITUTIONS BY AUTHORISED CAPITAL**  
(share of total operating credit institutions, percent)

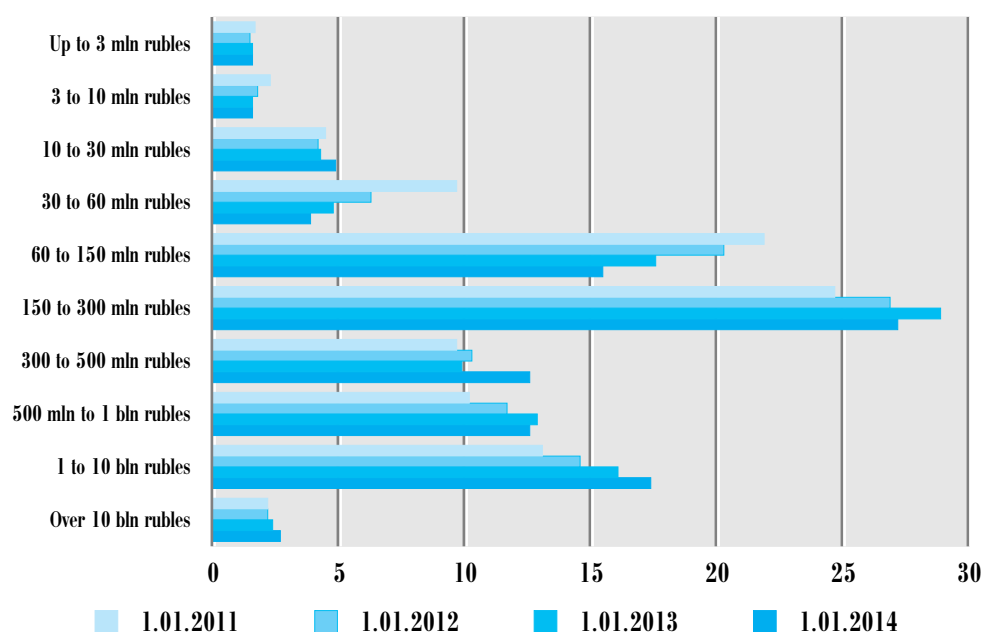


Chart 32

ments submitted to the Bank of Russia for state registration of credit institutions and obtaining banking licences with the requirements set by federal laws and Bank of Russia regulations adopted in accordance with these laws.

In 2013, 11 banks ceased their operations as a result of a merger, while four banks changed their form of incorporation as a result of reorganisation (in 2012, seven and six banks respectively).

In 2013, 26 credit institutions, or 2.8% of the total number of operating credit institutions, expanded their business by obtaining banking licences (27 institutions, or 2.8% in 2012).

In 2013, three credit institutions were refused expansion of their business through licences to take precious metals on deposit and licences to take ruble- and foreign currency-denominated household deposits due to non-compliance with regulations set out by the Bank of Russia.

Federal Law No. 391-FZ, dated 3 December 2011, 'On Amending the Federal Law 'On Banks

and Banking Activities'' provided for an increase of the operating banks' minimum equity capital to 300 million rubles from 1 January 2015.

As of 1 January 2014, 175 banks<sup>1</sup> had their equity capital below 300 million rubles; their recapitalisation required about 11 billion rubles, or 27.4% of these banks' equity capital (as of 1 January 2013, the corresponding figures were 246 banks, 17 billion rubles, and 29.9% respectively).

In 2013, the operating credit institutions increased their total authorised capital from 1,341 billion rubles to 1,464 billion rubles (an increase of 122.5 billion rubles, or 9.1%). The share of credit institutions with authorised capital exceeding 300 million rubles was 45% of the total number of operating credit institutions.

The total stake of non-residents in the authorised capital of operating credit institutions increased from 366 billion rubles to 405 billion rubles over 2013<sup>2</sup>, or by 10.6% (over 2012<sup>3</sup>, their

<sup>1</sup> Excluding banks with revoked licences, restructured banks and banks managed by the state corporation Deposit Insurance Agency.

<sup>2</sup> From 1 January 2013, data relate to paid-up authorised capital (including registered issues).

<sup>3</sup> The stake of non-residents in 2012 was calculated on the basis of registered authorised capital.



stake increased by 26 billion rubles, or 7.8%). The stake of non-residents in the banking system of the Russian Federation increased from 26.1% to 26.4% (in 2012, it fell by 0.7%).

In 2013, the number of branches of operating credit institutions decreased by 344, or by 14.6%, to 2,005 as of 1 January 2014 (2,349 as of 1 January 2013).

In 2013, the total number of internal divisions of credit institutions (branches) increased by 618 to 43,376 as of 1 January 2014, of which: the number of mobile cash offices increased by 23.7% from 118 to 146; the number of credit and cash

offices increased by 14% from 2,161 to 2,463; the number of operations offices increased by 13.3% from 7,447 to 8,436; and the number of additional offices increased by 4.9% from 23,347 to 24,486.

The coverage of households with internal divisions per 100,000 people increased from 29.9 at the end of 2012 to 30.3 at the end of 2013.

In 2013, the Bank of Russia accredited seven representative offices of foreign credit institutions on the territory of the Russian Federation and extended the validity of operations permits previously issued to 29 representative offices.



### II.4.3. OFF-SITE SUPERVISION

*In* 2013, as part of its policy to reinvigorate and strengthen the banking sector, the Bank of Russia adopted measures to intensify banking supervision with a view to ensuring the stability of the banking system and increasing the level of protection in the interests of lenders, depositors and bank customers, in part through increasing the degree of bank compliance with legislation.

The primary focus was placed on the stability of credit institutions, the actual quality of credit institutions' assets and capital, and reliability of statements provided by credit institutions. In order to supervise credit institutions' activities, risk-based approaches were developed aimed at the timely exposure, adequate assessment and prudent limitation of the risks assumed by credit institutions and banking groups.

Increased supervisory attention was paid to:

- banks whose activity is significant to the country or the region, including systemically important banks;
- banks experiencing financial straits;
- banks involved in large-scale suspicious transactions.

To effectively expose situations posing a threat to the interests of creditors and depositors of banks — DIS participants, in 2013 the Bank of Russia set up a system to respond to changes observed in credit institutions and linked to a sharp fluctuation in assets (liabilities) or a change in persons having a significant influence on bank activities. To ensure that effective preventive supervisory response measures can be adopted, banks saw the introduction of a daily reporting regime. Legislative measures were used to reduce the risks faced by creditors and depositors and to prevent banks from taking on further risks until the situation was resolved, including: informing executives and owners of credit institutions of their responsibility for guaranteeing the financial stability of the credit institution; and unscheduled inspections. Where there was a legal justification for doing so, restrictions (bans) were imposed on certain banking operations,

and non-viable banks were forced to cease their operations (their banking licences were revoked).

Where justified, the owners and management of credit institutions were required to develop plans to effectively increase the stability of credit institutions, under which the owners were to immediately resolve the most acute problems.

In 2013, the main problems focused on during the supervision of the activities of credit institutions were:

- errors in the business policy of credit institutions (unjustifiably aggressive policy, excessively optimistic assessments of borrowers' solvencies);
- increased risk concentration, including on the business of owners, on the industry or on the region; concentration of investments in non-core assets;
- deliberate actions by owners (management) leading to a deterioration in assets, as well as involvement in servicing the shadow economy.

One of the most acute problems continues to be unreliable reporting.

In 2013, issues related to exposing the accuracy of valuations of a number of assets remained at the centre of attention of banking supervision, notably: securities, including units of closed-end unit investment funds (hereinafter, ZPIFs), and real estate which is both a separate asset on a bank's balance sheet and a part of ZPIF property or acting as collateral. In the course of supervision additional attention was paid to banks' operations with ZPIF units, the structure of ZPIFs was scrutinised, and the adequacy of the provisions established for these investments by credit institutions was also assessed. In 2013, collaboration between banking supervision and the Bank of Russia's Financial Markets Service contributed to the effectiveness of the work to assess the market value of securities, in part with a view to revealing price manipulation facts.

Taking into account the possibility of transactions carried out to cover up problem assets, camouflage the real concentration of risks on the business of owners, or engage in fictitious capital in-

crease schemes, in the course of supervision credit institutions' operations with non-resident companies and banks were analysed, primarily those registered in off-shore zones: lending to privately held companies; investment of bank funds in nostro accounts or in the form of interbank loans; operations involving securities registered with non-resident depositories; and claims to non-residents linked to asset trust management.

Cases of banks taking household funds on deposit and unsecured consumer lending were under special scrutiny, while interest rates on household deposits and retail loans were subject to ongoing monitoring. If household funds were attracted under non-market conditions and where there was sufficient justification, measures such as restricting interest rates on bank deposits were adopted. A large number of consumer complaints to the Bank of Russia suggests the inadequate quality of services provided to households and the incomplete disclosure of relevant information by credit institutions.

Under financial regulation reforms approved by the G20, in 2013 the Bank of Russia continued to introduce a set of measures aimed at increasing the stability of those credit institutions which are important to a stable functioning of the economy and the financial system as a whole.

The Bank of Russia issued Ordinance No. 3174-U, dated 16 January 2014, 'On Defining the List of Systemically Important Credit Institutions', drafted taking into account the specific functioning of the Russian banking services market, the recommendations of the BCBS and the Financial Stability Board, and foreign practices implementing these recommendations.

To concentrate the Bank of Russia's supervisory resources on systemically important credit institutions and intensify supervision of such institutions, on 1 October 2013, the Bank of Russia set up the Systemically Important Banks Supervision Department. Corresponding divisions are also being set up in some Bank of Russia regional branches.

To ensure the transparency of international banking operations and establish a supervision regime for credit institutions forming banking groups, in 2013 Bank of Russia representatives

participated in international supervisory college meetings held by the supervisory authorities of the Netherlands, Hungary, Italy and Austria.

Within the framework of its efforts to increase the transparency of the banking sector, the Bank of Russia continued to work with banks on information disclosure. As of 1 January 2014, 878 credit institutions (or 95% of the total number of credit institutions) gave their consent to disclosing information on the structure of their equity capital and compliance with the required ratios. Reports in the form of a trial balance of financial accounts and income statements were also disclosed by 888 credit institutions (96%).

As part of its efforts to maintain banking sector stability, the Bank of Russia launched measures to suppress unfair competition. Taking into account the current restrictions set out in legislation, the Bank of Russia put into practice measures to refute false negative information on certain credit institutions. The Bank of Russia informed law-enforcement agencies of any instances of negative and destabilising information being disseminated.

To increase the transparency of the Bank of Russia's activities, changes to banking regulation were prepared in close cooperation with the banking community. Consultations with the banking community, including banking associations, were held in the form of working meetings and through the uploading of draft regulations to the Bank of Russia's official website to collect suggestions and comments. The final versions of the documents were prepared based on a summary of the responses received and were uploaded to the Bank of Russia's official website for formal anti-corruption appraisal. To reflect the specifics of individual segments of the financial market, the changes were also developed with the involvement of members of working groups created by the Bank of Russia and banking associations, for instance, on issues of managing mortgage, consumer and syndicated lending risks.

The section 'Answers to the Standard Queries of Credit Institutions and Bank of Russia Regional Branches on Banking Sector Regulation and Supervision' is kept up-to-date on the Bank of Russia's official website, and a new sub-section 'Information on Credit Institutions Meeting

the Requirements Set out by the Housing Code of the Russian Federation and the Federal Law ‘On the Support Fund for Housing and Utilities Reform’ has also been created.

In order to improve the quality of supervision activity, in 2013 the information on the non-financial organisations, which borrow from credit institutions, was assessed.

## II.4.4. INSPECTION OF CREDIT INSTITUTIONS

*In* 2013, the organisational part of work to centralise the Bank of Russia's inspection activity was completed<sup>1</sup>.

Authorised representatives of the Bank of Russia conducted 1,029 inspections<sup>2</sup> of 648 credit institutions<sup>3</sup> in 2013, of which 976 were completed (53 inspections are reported as 'carried over'<sup>4</sup>). Out of the total number of inspections, 688 were conducted in accordance with the Consolidated Plan, while 341 were unscheduled. Based on the results of the inspection activities, infringements mainly related to credit risk underestimation (40.2% of all infringements) as well as AML/CFT (14.2%) were registered. Certain infringements were linked to accounting (7.7%).

To make an assessment of risks faced by multi-branch banks on a consolidated basis, 40% of scheduled inspections of branches were conducted simultaneously with inspections of the head offices of credit institutions. Simultaneous inspections were carried out at credit institutions participating in banking groups, including non-formalised institutions, those exhibiting some financial dependence and (or) those engaging in counter trading operations. This approach made it possible to reveal systemic shortcomings in the management of banking risks and problem areas in the activities of a number of credit institutions.

The largest number of infringements was revealed when investigating the quality of credit institutions' assets. There were cases of lending to legal entities (including entities affiliated with

credit institutions) not exercising any real activity and submitting unreliable statements to credit institutions, as well as cases of accepting pledges of collateral which did not meet the set requirements or at an excessive cost. In order to conceal the real level of risk, credit institutions replaced devalued debt with investment in ZPIF units, for which they used artificial current (fair) value formation mechanisms; they also allowed for loan and promissory note settlements between customers<sup>5</sup>; the organisation of work to assess the risks of acquired receivables was also opaque<sup>6</sup>.

During the course of inspections of consumer lending, cases of camouflaging the real duration of overdue loans were uncovered, as well as cases where the financial standing of individual borrowers was not assessed.

During the inspections, working groups uncovered cases of banks raising income using unsuitable assets<sup>7</sup>, as well as certain credit institutions not fulfilling customers' payment requests on time due to the insufficiency of funds in correspondent accounts. In a number of cases these facts were not reflected in reports, with so-called 'concealed records' being kept.

The compliance of credit institutions with AML/CFT legislative requirements was examined in 419 inspections. Some infringements of legislation and circumstances indicating improper management by credit institutions of the risk of legalising (laundering) criminally obtained incomes were uncovered, including numerous in-

<sup>1</sup> Stage four of this centralisation involved the creation of an Interregional Inspectorate for Moscow and the Moscow Region comprising five inspectorates.

<sup>2</sup> Of which:

- 798 inspections (77.6%) were conducted in credit institutions having no branches and in the head offices of credit institutions having branches;
- 231 inspections (22.4%) were conducted in branches.

<sup>3</sup> Some credit institutions were subject to several inspections, including head offices and (or) branches and internal divisions.

<sup>4</sup> Started in 2013 and are to be completed in 2014.

<sup>5</sup> Borrowers used loans provided by credit institutions to acquire third-party promissory notes, and the debt was paid off in turn through the sale of these promissory notes.

<sup>6</sup> Including in connection with the vendor bank not providing a full set of documents to the buyer bank in relation to the assigned receivables.

<sup>7</sup> For example, by issuing additional loans to bank card holders to pay off interest, and through paying insurance premiums by borrowers using the loans received.

stances where banks' internal control rules on AML/CFT did not comply with legislative requirements and a number of credit institutions were found to be involved in various forms of doubtful transactions.

To improve the quality of inspections, their organisation and performance monitoring practices underwent further development. Information on the current results of the inspections was sent to Bank of Russia regional branches for undertaking the necessary supervisory decisions. In relation to 349 inspections, involving 191 banks subject to the 'second line' of supervision and 158 inspections of branches of these banks, as well as 56 banks involved in doubtful transactions, the

Bank of Russia's head office exercised additional controls with regard to the quality of the monitoring of on-site inspections.

Measures carried out as part of an internal control system were an important factor in exerting influence on the quality of the work of inspectorates, especially in remote regions. On-site visits to 23 inspectorates situated in six federal districts<sup>1</sup> were made. Issues related to the drawing up of risk-based inspection programmes, the quality of pre-audit preparations, and asset quality assessment approaches were considered within the context of regional branches' reports.

Information was shared with supervisory, controlling and law-enforcement authorities.

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<sup>1</sup> *In the Central, North-Western, North Caucasus, Urals, Siberian and Far Eastern Federal Districts.*

## II.4.5. FINANCIAL RECOVERY AND LIQUIDATION OF CREDIT INSTITUTIONS

*In* 2013, the Bank of Russia took steps to prevent the insolvency (bankruptcy) of credit institutions under Federal Law No. 175-FZ, dated 27 October 2008, ‘On Additional Measures to Strengthen the Stability of the Banking System in the Period until 31 December 2014’ (hereinafter, Federal Law No. 175-FZ) and Federal Law No. 40-FZ, dated 25 February 1999, ‘On the Insolvency (Bankruptcy) of Credit Institutions’ (hereinafter, Federal Law No. 40-FZ).

As part of the implementation of the measures set out in Federal Law No. 175-FZ, in 2013 the Bank of Russia, together with the state corporation Deposit Insurance Agency (hereinafter, DIA), carried out measures to prevent the bankruptcy of seven banks, for two of which the Bank of Russia proposed that the DIA take part in preventing their bankruptcy in 2013; the bankruptcy prevention measures at two banks were completed, with one of the banks being merged with another bank, while the other is operating in accordance with the established procedure. As of 1 January 2014, five banks continued to carry out planned measures as part of the approved plans involving the DIA in the prevention of their bankruptcy.

The financial recovery measures under Federal Law No. 175-FZ were funded with the Russian Federation’s property contribution to the DIA or with Bank of Russia loans that were extended to the DIA. In 2013, the volume of funds repaid to the Bank of Russia by the DIA was 46 billion rubles. As of 1 January 2014, the DIA’s debt to the Bank of Russia on loans provided under Federal Law No. 175-FZ totalled 300 billion rubles.

In 2013, 70 credit institutions had grounds for the implementation of the bankruptcy prevention measures provided for in Article 4 of Federal Law No. 40-FZ, of which 19 credit institutions had their banking licences revoked, one had its licence cancelled, and 28 credit institutions independently eliminated the causes of these grounds (without any corresponding claims from the Bank

of Russia). As for the remaining credit institutions, the Bank of Russia initiated measures stipulated by the insolvency (bankruptcy) prevention laws, including for three credit institutions, in accordance with Federal Law No. 175-FZ.

As of 1 January 2014, 16 credit institutions had grounds for the implementation of insolvency (bankruptcy) prevention measures, including two banks which implemented bankruptcy prevention measures under Federal Law No. 175-FZ.

With a view to protecting the legitimate interests of credit institutions’ creditors (depositors), during the course of 2013, the Bank of Russia appointed 32 provisional administrations to manage credit institutions (hereinafter, provisional administration) with regard to the revocation of their licences. Overall, in 2013, there were 38 provisional administrations appointed on this basis, of which 29 administrations included DIA employees among their members, in accordance with Clause 2 of Article 19 of Federal Law No. 40-FZ. As of 1 January 2014, there were 17 provisional administrations appointed with regard to the revocation of credit institutions’ licences. In addition, in 2013 in accordance with Federal Law No. 175-FZ, in line with the approved plans for DIA participation in the prevention of banks’ bankruptcy, the Bank of Russia entrusted the DIA with the duty of provisional administration at two banks.

As of 1 January 2014, 148 credit institutions were subject to liquidation, all of which had their licences revoked (cancelled), and the Bank of Russia did not receive any certificates of their state registration from the authorised registration body in relation to their liquidation. In this regard, liquidation procedures were carried out at 135 credit institutions. As of 1 January 2014, no court rulings had been handed down in relation to the remaining 13 credit institutions following the revocation of their licences.

The majority of credit institutions undergoing liquidation (123) were declared insolvent

(bankrupt) and bankruptcy proceedings had been initiated against them (in 2013, 17 credit institutions were declared bankrupt). Based on the rulings of arbitration courts, 10 credit institutions were undergoing forced liquidation (in 2013, court rulings on forced liquidation were handed down in relation to 10 credit institutions, of which one credit institution was declared bankrupt in 2013). In addition, two credit institutions are undergoing voluntary liquidation based on the decision of their founders (participants) (in 2013, the founders of one credit institution decided to enter into voluntary liquidation).

At the majority of credit institutions undergoing liquidation as of 1 January 2014 (128), liquidation proceedings were conducted by the DIA, of which at 119 credit institutions the DIA acted as a receiver and at nine as liquidator pursuant to Clause 2 of Article 50.11 of Federal Law No. 40-FZ and Article 23.2 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' (hereinafter, Federal Law No. 395-1).

As of 1 January 2014, 1,616 records of state registration had been made in the Single State Register of Legal Entities in relation to the liquidation of credit institutions. According to reporting data, the average percentage of satisfied creditor claims at these credit institutions was 10.9%. For those liquidated credit institutions where the DIA acted as a receiver (liquidator), the average percentage of satisfied creditor claims was 27.8%.

In order to exercise the powers granted to the Bank of Russia under Article 50.22 of Federal Law No. 40-FZ to control the activity of credit institutions' receivers (liquidators), the Bank of Russia conducted 17 inspections of their activity in 2013.

In 2013, 17 receivers were accredited with the Bank of Russia as receivers in bankruptcy proceedings in credit institutions, 26 receivers had their accreditation extended, and six receivers were denied accreditation or refused an extension of their accreditation due to a failure to meet the accreditation criteria. As of 1 January 2014, 43 receivers were accredited with the Bank of Russia.

## II.4.6. HOUSEHOLD DEPOSIT INSURANCE

*In* 2013, the Bank of Russia supervised banks to make sure they complied with the deposit insurance system's (DIS) requirements, pursuant to Federal Law No. 177-FZ, dated 23 December 2003, 'On Insurance of Household Deposits with Russian Banks' (hereinafter, Federal Law No. 177-FZ) and took measures envisaged by Federal Law No. 177-FZ for non-compliance with these requirements.

In 2013, the ban on taking household funds on deposit and opening household bank accounts pursuant to Article 48 of Federal Law No. 177-FZ was imposed on two DIS participant banks: one was subject to the measures stipulated by Clause 4 of Part 2 of Article 74 of Federal Law No. 86-FZ for three consecutive months; and the other did not comply with the requirements for participation in the DIS in terms of indicators for assessing the quality of bank management, and its operations and risks for three consecutive months. The banking licences of these banks were subsequently revoked.

Pursuant to Federal Law No. 177-FZ and previous agreements, in 2013 the Bank of Russia interacted, coordinated its activities, and exchanged information with the DIA on issues related to the functioning of the DIS; banks' participation in the system and the payment of insurance premiums and deposit compensations; inspections of DIS participant banks by the Bank of Russia and the enforce-

ment of sanctions against such banks; as well as other issues related to the functioning of the DIS.

As of 1 January 2014, there were 873 banks participating in the DIS (as of 1 January 2013, 891 banks), including 111 banks whose banking licences had previously been revoked (cancelled), and six operating banks which officially remained in the DIS, but lost their right to take household funds on deposit and to open household accounts due to the introduction by the Bank of Russia of a respective ban pursuant to Article 48 of Federal Law No. 177-FZ (four banks); in connection with a voluntary renunciation of operations with households (one bank); or in connection with a change in the bank's status to that of a non-bank credit institution (one non-bank credit institution).

In 2013, five banks were included in the DIS and 23 were excluded (of which nine due to restructuring, and 14 due to liquidation ending).

Throughout the period after the launch of the DIS (as of 1 January 2014) insured events occurred at 157 DIS participant banks, while in 2013 such events occurred at 27 DIS participant banks (26 banks had their banking licences revoked and one bank had its licence cancelled in connection with a decision to enter into voluntary liquidation). All banks began paying indemnities to their depositors in the time established by the law, i.e. no later than 14 days after the date of revocation of their licences.



### II.4.7. SUPERVISORY RESPONSE

*In* cases where credit institutions undertook measures to conceal the true level of risk assumed or falsify the statements submitted to the Bank of Russia, the Bank of Russia's supervisory divisions carried out work to more clearly define the profile and level of risks assumed by banks and took preventive and, where necessary, punitive supervisory response measures.

In 2013, it was predominantly preventive measures that were enforced against credit institutions: written notifications were sent to the management of 896 banks and Bank of Russia regional branches held meetings on various matters with 524 banks. Punitive measures, in the form of demands to eliminate violations, were enforced against 575 banks, while fines were imposed on 171 banks. As many as 194 banks had certain operations restricted, 45 banks were prohibited from conducting certain banking operations, and 51 banks were prohibited from opening branches.

In 2013, under the Bank of Russia's policy to prevent credit institutions from conducting dubious transactions linked to converting funds to cash and withdrawing funds abroad, 115 credit institutions saw the imposition of tough restrictive (prohibitive) supervisory response measures with a view to complete cessation of such operations.

In 2013, pursuant to Article 74 of Federal Law No. 86-FZ and Article 20 of Federal Law No. 395-1, the Bank of Russia revoked the banking licences from 32 credit institutions (in 2012, 22 credit institutions).

The grounds for banking licence revocation were as follows:

- failure to comply with federal banking laws and Bank of Russia regulations, if, within one year, the measures set forth in Federal Law No. 86-FZ have repeatedly been enforced against a credit institution: 30 cases (in 2012, 21);

- repeated violations, within one year, of the requirements set out in Articles 6 and 7 (excluding Clause 3 of Article 7) of Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (hereinafter, Federal Law No. 115-FZ): eight cases (2012, one);
- evidence of significant misreporting of data: seven cases (in 2012, seven);
- fall in the size of equity capital of a credit institution below the minimum authorised capital amount set by the Bank of Russia on the date of state registration of the credit institution: six cases (in 2012, six);
- capital adequacy below 2%: five cases (in 2012, seven);
- inability to satisfy creditors' liability claims within 14 days of the due date: two cases (in 2012, 10);
- failure to bring the amount of authorised capital and equity capital in line with the Bank of Russia requirements within the timeframe set by Federal Law No. 40-FZ: one case (in 2012, no such cases);
- delay of more than 15 days in submitting a monthly report: one case (in 2012, no such cases);
- conducting banking operations, including one-time, not covered by the licence issued: one case (in 2012, no such cases).

In addition, in 2013, one credit institution had its licence cancelled after its shareholders decided to place it in voluntary liquidation (as in 2012).

In 2013, the use of extreme enforcement measures in virtually half of cases (14 out of 32) was down to credit institutions submitting unreliable reporting data concealing a loss of capital, as well as actual bankruptcy.

## II.4.8. BANK OF RUSSIA ACTIVITIES AIMED AT PREVENTING MONEY LAUNDERING AND TERRORISM FINANCING

In 2013, the Bank of Russia took further steps to implement its mandate envisaged by Federal Law No. 115-FZ, paying special attention to increasing the effectiveness of the AML/CFT system. This work implied integrating a risk-based approach into credit institutions' and the Bank of Russia's activities in accordance with the principles enshrined in the International Standards on Combating Money Laundering and the Financing of Terrorism and the Financing of Proliferation of Weapons of Mass Destruction (adopted by FATF<sup>1</sup> in February 2012).

The adoption of Federal Law No. 134-FZ, dated 28 June 2013, 'On Amending Certain Laws of the Russian Federation with Regard to Countering Illegal Financial Operations' (hereinafter, Federal Law No. 134-FZ)<sup>2</sup>, drafted in part by taking into account Bank of Russia proposals, was an important event in 2013. The law substantially added to and improved the quality of both the tools used by credit institutions for AML/CFT purposes and the scope of Bank of Russia powers in terms of establishing procedural measures for credit institutions.

In particular, the list of grounds for refusing to enter into a bank account (deposit) agreement with an individual or legal entity was extended, together with the list of grounds for refusing to execute a customer's instructions to carry out a certain operation. Moreover, credit institutions were granted the right to terminate a bank account (deposit) agreement with a customer at their own initiative if two or more decisions on the refusal to execute a customer's instructions to carry out a certain operation were made within the space of one calendar year.

One of the Bank of Russia's most important tasks in 2013 was monitoring and exercising control over the effectiveness of new AML/CFT tools used by credit institutions. The focus was placed

on the adequacy of the new tools to the tasks of combating illegal incomes and managing the risk of legalising (laundering) criminally obtained incomes and financing terrorism with a view to its minimising, rather than on assessment of formal measures taken by credit institutions.

An analysis of the results of this work shows that the banking system as a whole has accepted the new tools and actively applied them in practice. About 90% of cases where credit institutions used these powers were linked to suspicions that the operations were being carried out to launder illegal incomes or finance terrorism. This is suggestive of the high preventive potential of these legislative standards.

In 2013, the Bank of Russia continued to exercise its powers to institute proceedings and consider cases on administrative offences related to the non-compliance of credit institutions and their officers with legislative requirements on AML/CFT<sup>3</sup>. In 2013, 1,233 administrative offence cases were initiated against 415 credit institutions, of which 457 cases were initiated against officers. 81 administrative offence cases were discontinued at the inquiry stage. During the course of the year, the consideration of 1,146 administrative offence cases was completed, with 290 resolutions imposing a fine (of which 57 resolutions were against credit institution officers), 482 resolutions issuing a warning (of which 239 were against officers), and 374 resolutions terminating the proceedings on the administrative cases (of which 144 decisions were against officers).

The Bank of Russia also continued to develop a methodical framework for credit institutions to implement 'counter-legislation' legislation. Based on the analysis of information obtained in the course of its supervisory activities, the Bank of Russia prepared recommendations for credit institutions, designed to assist in the identifica-

<sup>1</sup> *The Financial Action Task Force.*

<sup>2</sup> *This law entered into force from 30 June 2013.*

<sup>3</sup> *As set out by Article 15.27 of the Russian Federation Code of Administrative Offences.*



tion of individual transactions that require attention and to take measures to limit the risks when carrying out such transactions<sup>1</sup>.

In addition, from September 2013, the Bank of Russia started to inform credit institutions electronically on participants in foreign economic activity systematically involved in doubtful transactions<sup>2</sup>. This information allows credit institutions to exercise the right granted to them by Federal Law No. 115-FZ to refuse to sign a bank account agreement, to refuse to execute a resident's instructions to carry out an operation, as well as to terminate a bank account agreement, thereby reducing the risk of being involved in illegal operations.

In order to prevent situations posing a threat not only to the interests of creditors and depositors, but to the banking system as a whole, the Bank of Russia worked actively within the framework of its letter No. 172-T, dated 4 September 2013, 'On Priority Measures when Exercising Banking Supervision'.

When assessing the risk of involvement in doubtful transactions, the Bank of Russia used a complex multi-factor analysis. Credit institutions

were able to further analyse the activities of an individual customer and provide the Bank of Russia with substantiated evidence that transactions which technically show signs of being doubtful are in fact being carried out by customers in accordance with the principles of honesty and logic and are economically justified and legal.

The monitoring work conducted by the Bank of Russia has shown that the majority of credit institutions responded appropriately to the supervisory response measures taken and used the additional opportunities provided for by law to minimise the risk of involvement in doubtful transactions.

Since the Bank of Russia has been entrusted with regulating, controlling and supervising the activities of non-bank financial institutions (hereinafter, NFIs)<sup>3</sup>, in 2013 one of the Bank of Russia's priorities was the incorporation of 'counter-legalisation' mechanisms into the activities of NFIs and smoothing out the effectiveness of regulation and supervision of credit institutions' and NFIs' activities to minimise the risks linked to a spillover of shadow financial flows from the banking system into this sector.

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<sup>1</sup> 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 increasing credit institutions' attention to individual customer transactions.

<sup>2</sup> Bank of Russia Letter No. 193-T, dated 30 September 2013, 'On Reducing the Risk of Losing Goodwill and Involving Authorised Banks in the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

<sup>3</sup> Pursuant to Federal Law No. 251-FZ, dated 23 July 2013, 'On Amending Certain Laws of the Russian Federation Due to the Delegation to the Central Bank of the Russian Federation of the Authority to Regulate, Control and Supervise Financial Markets'.

## II.5. DEVELOPMENT OF THE FINANCIAL MARKETS

### II.5.1. DEVELOPMENT OF THE PENSION SYSTEM

As of 31 December 2013, there were 120 non-governmental pension funds (hereinafter, NPFs) operating in the pension market, of which 93 offered compulsory pension insurance. During the course of 2013, 14 NPFs ceased their activities, of which seven — as a result of restructuring through a merger with another NPF due to stricter requirements for assets to secure the statutory activities of NPFs, and one — at the request of the NPF to cease its activities. The remaining six NPFs had their licences cancelled for infringements of legislative requirements, exposed during scheduled on-site inspections and when analysing the data provided within their financial statements.

The change in the number of NPFs operating in the market in 2013 was primarily down to preparing funds for conversion into joint-stock companies, as well as changes to legislation, placing higher requirements for NPFs (these changes entered into force from 1 January 2014).

The volume of pension savings held by NPFs as of 31 December 2013 was 1,088.78 billion rubles, showing growth of 62.7% over the course of the year, while the number of insured individuals at the end of 2013 reached 22.17 million, increasing by 33.8% over the year. The main causes

of the growth in pension savings over this period were increased consumer confidence in NPFs as qualified investors, capable of increasing household pension savings; changes in the legislation relating to the guarantee of pension savings; work by NPFs to increase financial literacy of the population; and, the end of the deadline on 1 October 2013 for insured individuals to join the State Co-financing Programme.

The amount of pension reserves held by NPFs as of 31 December 2013 was 831.64 billion rubles, an increase of 9.7% compared with the level reached at the end of 2012, largely through investment. The number of NPF members over this period fell by 12,322 to 6,769,148 people.

The low growth in pension reserves and the fall in the number of private pension system members suggest that a private pension cover, being a predominantly an internal tool to motivate employees of large industrial corporations, is not called for by small and medium-sized companies, or individuals. Thus, with the stagnation of private pension cover, a compulsory pension insurance secured its position as the dominant segment of the NPF market in 2013.

At the same time, in 2013 the pension system reform was one of the key objectives aimed at stabilising the socio-economic situation.

NPFs offering compulsory pension insurance must convert from non-profit organisations into joint-stock companies and, before 1 January 2016, undergo inspection by the Bank of Russia and join the insured party rights guarantee system with the Deposit Insurance Agency.

In this respect, before NPFs join the insurance system, new insurance premiums are not transferred to NPFs, but are invested by the Pension Fund of the Russian Federation, and non-governmental pension cover activity will be the only source of new funds arriving into the industry between 1 January 2014 and the date of joining the insurance system.

Moreover, the increase in the requirements for the minimum amount of NPF equity capital to 150 million rubles (and from 1 January 2020 to 200 million rubles<sup>1</sup>), and the channelling of 2014 insurance premiums into the distribution system with the freezing of insurance premiums for 2015 until the date of joining the insurance system, will lead to a consolidation of the NPF market and the strengthening of those NPFs remaining in the market. Thus, it is highly likely that there will be a further expansion of the gap between large NPFs and small and medium-sized NPFs in terms of the amount of pension savings and pension reserves.

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<sup>1</sup> Prior to these changes the minimum monetary value of assets to cover NPFs' statutory activities was 50 million rubles for NPFs not offering compulsory pension insurance, and 100 million rubles for those offering compulsory pension insurance.

## II.5.2. DEVELOPMENT OF THE INSURANCE MARKET

As of 31 December 2013, there were 432 insurance companies listed in the Single State Register of Insurers, of which 420 were insurance companies (a fall by 38 compared with 31 December 2012) and 12 were mutual insurance companies (an increase by one compared with 31 December 2012).

The total volume of insurance premiums and indemnities across all insurance types during 2013 was 904.8 billion rubles and 420.8 billion rubles respectively (representing a growth of 11% and 13% respectively compared with 2012).

As of 31 December 2013, insurance premiums on property insurance accounted for 53% of the total volume of insurance premiums for all voluntary forms of insurance. Over the year this indicator increased by 5%, reaching 393.8 billion rubles. Indemnities for this type of insurance also rose, by 11% to 201.7 billion rubles.

The premiums collected by insurers in 2013 for agricultural insurance rose by 7% to 14.3 billion rubles, while indemnities in this segment dropped by 25% compared with the same figure for 2012, reaching 5.7 billion rubles.

Insurance premiums for surface transport insurance, excluding railway transport, the bulk of which is motor hull insurance, increased by 8% reaching 212.3 billion rubles. Insurance indemnities for this type of insurance also increased, by 24% to 155.8 billion rubles.

Under personal insurance agreements (excluding life insurance), insurance premiums showed positive growth, up by 13% to 208.7 billion rubles. Indemnities for this type of insurance were 103.1 billion rubles, 11% higher than a similar indicator for 2012. There was also a substan-

tial growth in premiums to insure against accidents and illness — up by 24% (93.7 billion rubles) and indemnities — up by 24% (13.2 billion rubles).

Contributions in the life insurance sector continued to rise, and in 2013 the total amount of insurance premiums in this segment increased by 61% to 84.9 billion rubles, while indemnities conversely fell by 8% compared with the similar indicator for 2012 to 12.3 billion rubles.

In 2013, premiums for compulsory third-party liability car insurance increased from 121.4 billion rubles to 134.2 billion rubles (an increase of 10%). Indemnities on compulsory third-party liability car insurance totalled 77.4 billion rubles, up 19%.

In 2013, the total value of insurance premiums for voluntary third-party liability insurance remained virtually the same as in 2012, showing only a minor fall (by 1%) to 29.7 billion rubles, while insurance indemnities conversely increased significantly (by 33%) to 7.1 billion rubles.

Growth rates of around 10% were registered in the business and financial risks insurance sector, with the insurance premiums totalling 21.9 billion rubles and indemnities for this type of insurance continuing to fall. In 2013, indemnities fell by 21% compared with the similar indicator for 2012 to 1.7 billion rubles.

All federal districts are showing positive dynamics in the total value of insurance premiums. The largest growth in insurance premiums was registered in the Central Federal District (13%), as well as in the Far Eastern (12%) and Volga (11%) Federal Districts, while the lowest growth was witnessed in the Urals Federal District (5%).

### II.5.3. DEVELOPMENT OF FINANCIAL MARKET SELF-REGULATION

Currently, various concepts of self-regulation have been implemented in the Russian financial market: membership of a self-regulatory organisation (hereinafter, SRO) is mandatory for non-bank financial institutions in certain segments, while for other segments it is not. In some financial market segments, legislation governing the activities of SROs is entirely lacking. The requirements regarding the functioning of SROs also differ depending on the segment of the financial market.

The reform of the self-regulation system in the financial market was identified as one of the key objectives of creating a single regulator within the Bank of Russia in 2013. The Bank of Russia considers the increased role of self-regulation as an integral part of its overall strategy to develop the financial market in the non-bank financial institution segment.

In this regard, the Russian Ministry of Finance and the Bank of Russia jointly developed a draft federal law 'On Self-regulatory Organisations in the Financial Markets' (hereinafter, the draft law), which defines general approaches to building a system for professional associations from various segments of the financial market to collaborate with the regulator, as well as principles for the involvement of professional associations in regulation, control and supervision in the financial market.

The scope of the draft law extends to SROs in the following segments of the financial market:

- professional participants in the securities market (brokers, dealers, trust managers, depositories, registrars);
- management companies and specialised depositories of investment funds, unit investment funds and non-governmental pension funds;
- joint-stock investment funds;
- non-governmental pension funds;
- insurance agents and actuaries;
- microfinance organisations;
- consumer credit cooperatives, housing savings cooperatives, agricultural consumer credit cooperatives;

- credit history bureaus;

- credit rating agencies.

The draft law stipulates obligatory participation of financial organisations in SROs if there is a SRO for the corresponding market segment. Though the draft law does not establish the exclusivity of a certain type of SROs.

A SRO status is awarded by the Bank of Russia in relation to a certain type of activity. The draft law does not impose a ban for financial market participants to combine duties in various types of activities within a SRO in order to reduce market participants' costs and based on SRO operating practices in Russia.

Under the draft law, an SRO is obliged to develop basic standards, a list of which is established by the Bank of Russia. If there are several SROs in a particular segment, the basic standards must be coordinated between the SROs, making it possible to establish a single set of rules to govern the most important aspects of regulation. The basic standards must be adhered to by all participants in the corresponding segment of the financial market and must be approved by the Bank of Russia. Aside from the obligation to develop these basic standards, SROs also have the right to approve certain internal standards (rules, codes) establishing additional requirements for the corresponding type of activity.

The draft law grants SROs powers to carry out pre-considerations of documents submitted by a financial market participant to obtain a relevant licence (permit) to establish whether the documents meet the licensing criteria. This measure increases SRO responsibility for functional stability of the corresponding financial market segment and allowing only reputable market participants to access the relevant segment.

Moreover, the draft law allows the Bank of Russia to transfer the following powers to SROs, at their initiative:

- supervision of compliance with legislation and regulations;
- collecting mandatory reports from market participants for initial processing and later submission to the Bank of Russia;

— certification of directors and personnel of market participants.

The draft law empowers the Bank of Russia to supervise SRO activities (off-site and on-site supervision), allowing it to enforce sanctions in the form of fines and demands to replace SRO management team, or termination of the SRO status.

Improving the institution of SROs in Russia should lead to increased competition in the Russian financial market, as well as the formation of an integrated regulatory system meeting the interests of professionals in various sectors of the financial market and ensuring an appropriate control over their activity, in addition to protecting the rights of consumers of financial services.



#### II.5.4. CENTRAL COUNTERPARTY ACCREDITATION

*In* 2013, the Bank of Russia continued its work to develop the central counterparty institution.

In 2013, the Bank of Russia assessed the management quality of ZAO AKB National Clearing Centre (hereinafter, NCC) operating as a central counterparty, in accordance with the methodology defined by Bank of Russia Ordinance No. 2919-U, dated 3 December 2012, 'On the Assessment of the Management Quality of a Credit Institution Acting as a Central Counterparty'. Based on the results of the as-

essment carried out by the Bank of Russia on 18 October 2013, a decision was made to recognise NCC's management quality as satisfactory, which allows credit institutions to use a special prudential risk assessment regime of reduced risk coefficients on transactions with NCC (including OTC transactions concluded through NCC) in relation to their claims against NCC when calculating required ratios pursuant to Bank of Russia Instruction No. 139-I, dated 3 December 2012, 'On Banks' Required Ratios'.

## II.5.5. REPOSITORY CREATION

By law<sup>1</sup>, financial market participants are to provide a self-regulatory organisation of professional securities market participants, a clearing organisation or a stock exchange (hereinafter, repository) with information on OTC repo agreements, derivative agreements, and other types of agreements concluded under the general agreement covering securities or foreign currency, while repositories are to maintain registers of such agreements and present them to the Bank of Russia.

From February 2013, the non-bank credit institution, closed joint-stock company, National Settlement Depository (hereinafter, NKO ZAO NSD) took on the role of a repository. At the initial stage (from 6 February to 30 September 2013) NKO ZAO NSD only kept a register of repo and FX swap agreements; from 1 October 2013, NKO ZAO NSD started to keep a register of all agreements requiring information to be sent to the repository by law.

From April 2013, OAO Saint Petersburg Exchange (hereinafter, OAO SPE) started to operate as a repository for repo agreements alongside NKO ZAO NSD. From August 2013, financial market participants were able to submit information on FX swap operations to OAO SPE, and from 1 October 2013 they could submit information on other types of agreements. There were 725 participants in the OTC derivatives and repo market which were customers of the NKO ZAO NSD repository in 2013, while the OAO SPE repository had 37 participants as customers.

Over the course of 2013, the Bank of Russia worked to improve legislation on the regulation of repository activities, focusing in particular on ensuring that the obligations taken on by the Russian Federation under the G20 were fulfilled, as well as on incorporating into the Russian regu-

lation of repository activities provisions of the report 'Principles for Financial Market Infrastructures' (hereinafter, the Report) developed by the Committee on Payment and Settlement Systems of the Bank for International Settlements and the Technical Committee of the International Organisation of Securities Commissions<sup>2</sup>.

The outcome of this work was a draft federal law 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation' (with regard to defining the activities of repositories) (hereinafter, the draft law).

The purpose of this draft law is to allocate repository activities as a separate type of activity, to establish requirements for this activity and for risk management system of repositories, and to specify the list of transactions, information on which should be sent to repositories, and the list of persons responsible for provision of such information.

The draft law defines the entity carrying out repository duties as a legal entity receiving an accreditation at the Bank of Russia to carry out such activities. The draft law sets restrictions on combining repository activities with other types of activity, excluding the activities carried out by a stock exchange, a clearing organisation not operating as a central counterparty, a central depository or a settlement depository, or the repository activities must be the exclusive form of activity.

Based on the key function of a repository — collecting information from financial market participants to allow the financial market regulator to have a reliable amount of data for decision making on financial stability — the draft law proposes a change in the range of transactions to be reported to repositories. Taking into account the systemic importance of the derivatives and repo

<sup>1</sup> Clause 6 of Article 51.5 of Federal Law No. 39-FZ, dated 22 April 1996, 'On the Securities Market', Order of the Russian FFMS No. 11-68/pz-n, dated 28 December 2011, 'On Approving the Procedure for Keeping a Register of Agreements Concluded under the General Agreement (Master Agreement), Providing the Information Required for the Said Register and Information from the Said Register, as well as Presenting the Register of Agreements Concluded under the General Agreement (Master Agreement) to the Federal Executive Body for the Securities Market'.

<sup>2</sup> Principles for Financial Market Infrastructures, CPSS-IOSCO, April 2012.

markets to the stability of the Russian financial market, the draft law requires market participants to provide repositories with information on all repo and derivative transactions concluded not through organised trading (concluded both in accordance with a general agreement (master agreement) and without one). The draft law also provides for the Bank of Russia to establish, through regulations, a list of other sale and purchase agreements concluded not through organised trading and covering securities, foreign currency or precious metals, information on which should be sent to repositories.

One further duty of a repository set out in the Report and reflected in the draft law is the disclosure of information on transactions in aggregate form for all parties concerned. Under the draft law, the Bank of Russia establishes the procedure for disclosing information by the repository and the content of such information.

Unlike the current regulations, the draft law does not require information to be submitted to repositories on transactions concluded on behalf of individuals, excluding instances where the other party to the agreement is a credit institution or a professional securities market participant.

## II.6. REGULATION, CONTROL AND SUPERVISION OF THE ACTIVITIES OF NON-BANK FINANCIAL INSTITUTIONS

*As* part of its control and supervisory measures towards financial market participants (excluding insurance agents, microfinance organisations and consumer credit cooperatives) in 2013, the Russian FFMS/FMS<sup>1</sup> completed 223 on-site inspections (166 inspections of professional securities market participants, 57 inspections of collective investment market participants). Based on the results of these inspections, 59 organisations had their licences revoked.

In total, 151 professional securities market participants' and nine collective investment market participants' licences were revoked; eight professional securities market participants' licences were suspended; and six previously suspended licences were restored. During this period, 11 financial market specialists had their qualification certificates cancelled. Based on the results of considerations of household appeals (in total, 2,047 appeals were considered), as well as within the context of supervisory measures, 2,110 orders were issued, of which: 1,728 were to provide documents; 319 were to eliminate infringements of Russian Federation legislation and adopt mea-

asures to prevent further infringements in subsequent activity; and 67 were to ban all or some operations in the financial market. 384 records of administrative offences were drawn up.

In 2013, the FMS sent 2,747 orders to insurance agents; drew up 1,505 records of administrative offences; carried out 73 on-site inspections; received and processed 14,668 appeals from legal entities and individuals (including complaints); suspended 43 insurance agents' licences; restored 8 insurance agents' licences, and revoked 58 insurance agents' licences. The FMS made no decisions to restrict any insurance agents' licences.

Pursuant to Decree of the President of the Russian Federation No. 693, dated 31 August 2013, 'On Measures to Eliminate the Aftermath of a Large-scale Flood in the Republic of Sakha (Yakutia), Primorsky and Khabarovsk Territories, Amur and Magadan Regions, and the Jewish Autonomous Region', the FMS drew up a letter for insurers on the need to speed up monetary indemnities under insurance agreements. The letter contained specific recommendations on the procedure for insurers to follow in distressed re-

<sup>1</sup> The Federal Financial Markets Service (Russian FFMS). From September 2013, the Bank of Russia's Financial Markets Service (FMS).

gions. The FMS continuously monitored the situation in these regions, including inspecting each case of refused insurance indemnities and monitoring compliance with the timeframe to consider applications from insured parties (beneficiaries).

As part of supervision over microfinance organisations (hereinafter, MFOs) in 2013, the Russian FFMS/FMS removed entries on 109 MFOs from the state MFO register. 72 on-site inspections of MFOs, 21 on-site inspections of consumer credit cooperatives (hereinafter, CCC), and 10 on-site inspections of self-regulatory CCC organisations were carried out.

In 2013, the Russian FFMS/FMS sent 5,552 orders to MFOs, 109 orders to CCCs and 10 orders to self-regulatory CCC organisations. 369 statements of claim relating to the liquidation of CCCs were submitted pursuant to Article 35 of Federal Law No. 190-FZ, dated 18 July 2009, 'On Credit Cooperation'.

As part of supervision over the activities of non-governmental pension funds, the FMS worked to monitor and classify the offences committed by non-governmental pension funds and their management companies when investing pension savings and allocating pension reserve funds.

In 2013, 1,618 notices were received in relation to the discovery, elimination or non-elimination of offences. Following the consideration of these notices, 645 orders to submit documents and 78 orders to eliminate or prohibit offences were issued.

In 2013, as part of off-site supervision, the FMS received and processed 14,084 sets of financial statements from non-governmental pension funds, their management companies and specialised depositories.

Work was carried out to input, classify and analyse the information of specialised depositories and management companies.

In 2013, under measures to supervise the activities of unit and joint-stock investment funds, the FMS collected, checked, classified and analysed over 27,240 sets of financial statements on the activities of PIFs and AIFs and 7,491 notices from specialised depositories on the discovery and elimination or non-elimination of offences by management companies in relation to the activities of PIFs and AIFs. Following the analysis of these documents, the FMS sent 247 orders to financial market participants and drew up 47 records of administrative offences.

## II.7. REGULATION, CONTROL AND SUPERVISION OF CORPORATE RELATIONS IN JOINT-STOCK COMPANIES

Within the context of regulation, control and supervision of corporate relations in joint-stock companies, a new version of the Corporate Governance Code (hereinafter, the Code) was drawn up on the basis of international practices in the field of corporate governance and corporate governance principles devised by the Organisation for Economic Cooperation and Development. The Code is a set of best practices in corporate governance and is advisory in nature. Its main objective is to establish the appropriate conduct of Russian joint-stock companies in relation to shareholders and investors, in line with international standards.

The Bank of Russia's Financial Markets Service carried out work to prepare some explanatory notes on how to practically apply the provisions of Russian Federation legislation on corporate relations with regard to claims from individuals and legal entities, government authorities and other organisations, to examine complaints about infringements of Russian Federation legislation by issuers in the corresponding field and, in the event of infringements being exposed, to draw up records of administrative offences, institute legal

proceedings and take part in consideration of such cases. As part of government controls over the acquisition of shares of open joint-stock companies, the documents submitted in accordance with Chapter XI.1 of Federal Law No. 208-FZ, dated 26 December 1995, 'On Joint-Stock Companies' were examined, together with documents and decisions on discharging (refusing to discharge) issuers of their duty to disclose information.

The FMS also examined 985 appeals from individuals and legal entities and other applicants<sup>1</sup> relating to state registration of securities issues (reports on the outcome of issues) and registration of securities prospectuses; the development of a corporate governance system in joint-stock companies; compulsory disclosure of information on issued securities by issuers; and government controls over the acquisition of shares of open joint-stock companies. 548 complaints from individuals and 181 complaints from legal entities were considered with regard to the actions of issuers and regional authorities in relation to the protection of the rights of investors and minority shareholders, as well as the issuers' compliance with Russian Federation legislation on the securities market and joint-stock companies. 56 sets

<sup>1</sup> Here and below, from 1 September to 31 December 2013.

of documents were considered as part of government controls over the acquisition of shares of open joint-stock companies. The Bank of Russia's Financial Markets Service examined 13 sets of documents submitted for making a decision on discharging issuers of their duty to disclose infor-

mation. During the course of the work, 142 various orders were issued (orders to submit documents and information, to eliminate legislative infringements, etc.) and 31 records of administrative offences were drawn up in relation to the securities market.

## II.8. FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

*In* 2013, pursuant to the provisions of Federal Law No. 173-FZ, dated 10 December 2003, 'On Foreign Exchange Regulation and Foreign Exchange Control' (hereinafter, Federal Law No. 173-FZ)<sup>1</sup>, the Bank of Russia continued its work to develop new regulations and amend and supplement applicable Bank of Russia rules on foreign exchange regulation and foreign exchange control, as well as work to improve foreign exchange control technology to improve its effectiveness.

Thus, the Bank of Russia established a procedure for transferring executed (re-executed, commissioned, closed) operation specifications<sup>2</sup> under foreign trade agreements (contracts) and loan agreements electronically to the tax authorities<sup>3</sup> to perform their functions as foreign exchange control agents.

Information on operation specifications is transferred electronically on a daily basis to the FTS of Russia by authorised banks (authorised

bank branches), as well as Bank of Russia regional branches which, in line with Bank of Russia Instruction No. 138-I, carry out the duties of an authorised bank, including the duties of an operation specification bank.

To reduce the workload of credit institutions, Bank of Russia Regulation No. 402-P provided authorised banks with an opportunity of one-off execution and submission of information on operation specifications under foreign trade agreements (contracts) to several foreign exchange control agents (the FCS of Russia and the FTS of Russia) within the framework of the powers set out by Federal Law No. 173-FZ.

To monitor the implementation of the duties imposed on those subject to Federal Law No. 406-FZ, as well as in relation to the Russian Government Decree No. 1125-r, dated 29 June 2012, which approved an Action Plan (a 'roadmap') 'To Improve Customs Administration', the Bank of Russia repealed the requirement that

<sup>1</sup> As amended by Federal Law No. 406-FZ, dated 6 December 2011, 'On Amending the Federal Law 'On Foreign Exchange Regulation and Foreign Exchange Control' with Respect to Simplifying the Foreign Exchange Control Procedures' (hereinafter, Federal Law No. 406-FZ).

<sup>2</sup> In accordance with Bank of Russia Instruction No. 138-I, dated 4 June 2012, 'On the Procedure for Submitting Documents and Information Related to Foreign Exchange Transactions to Authorised Banks by Residents and Non-Residents, the Procedure for Executing Operation Specifications, and the Procedure for Registering and Monitoring Foreign Exchange Transactions by Authorised Banks' (hereinafter, Bank of Russia Instruction No. 138-I).

<sup>3</sup> Bank of Russia Regulation No. 402-P, dated 21 June 2013, 'On the Procedure for Transferring Electronic Information on Operation Specifications to the Tax Authorities to Perform Their Functions as Foreign Exchange Control Agents' (hereinafter, Bank of Russia Regulation No. 402-P).



residents should submit goods declarations to authorised banks on paper when carrying out foreign exchange operations<sup>1</sup>.

The removal of this requirement became possible after the entry into force from 1 January 2013 of the procedure for transferring by customs authorities electronic information on goods declarations registered by customs authorities to the Central Bank of the Russian Federation and authorised banks<sup>2</sup>. On the one hand, this made it possible to reduce the workload of honest foreign economic participants and, on the other hand, to minimise the risks arising in relation to fictitious goods declarations being submitted as supporting documents to authorised banks by dishonest operators.

The introduction of a system for customs authorities to electronically transfer information on goods declarations registered by them to authorised banks, as well as the removal of the requirement for residents to provide authorised banks with goods declarations on paper made it possible to reduce the number of cases where fictitious goods declarations were provided in 2013 eight-fold compared with 2012.

Bank of Russia Ordinance No. 3016-U also defined the procedure for including information on goods declarations received electronically by authorised banks from customs authorities in the automated banking control sheet for accounting the liabilities under a foreign trade agreement and monitoring the repatriation of foreign currency earnings.

In order for authorised banks to monitor residents' compliance with the requirements of Federal Law No. 173-FZ and Bank of Russia Instruction No. 138-I, Bank of Russia Letter No. 266-T, dated 31 December 2013, 'On the Procedure for Closing Operation Specifications' (hereinafter,

Bank of Russia Letter No. 266-T) was drafted and circulated among credit institutions.

Bank of Russia Letter No. 266-T recommended that authorised banks, when closing operation specifications where a non-resident has amounts outstanding to a resident and provided that the resident has not closed settlement accounts at the authorised bank, should request documents from the resident in relation to the non-resident's obligations under the agreement, according to which the operation specification was closed, and reflect the information in the banking control sheet when closing the operation specification.

In 2013, there was a slight fall in consumer activity in the FX cash market.

The net demand for FX cash (the difference between the amount of FX cash sold to households and issued from their currency accounts and the amount of FX cash purchased from households and credited to their accounts) fell by 7% compared with 2012 to \$16.7 billion in dollar terms.

In 2013, the amount of FX cash purchased by households from authorised banks fell by 4% compared with 2012, to an equivalent of \$59.5 billion, with the amount of FX cash sold to authorised banks increasing by 8%, to an equivalent of \$35.9 billion.

Overall, in 2013, authorised banks imported FX cash in the amount of \$18.1 billion in dollar terms, or 7% more than in 2012. The share of US dollars in the import structure decreased to 38% (58% in 2012), while the share of euros increased to 59% (38% in 2012). The volume of FX cash exported by authorised banks increased 1.6 times compared with 2012, to an equivalent of \$9.5 billion. The share of US dollars in the total volume of exported currency was about 90% in 2013.

<sup>1</sup> *Bank of Russia Ordinance No. 3016-U, dated 14 June 2013, 'On Amending Bank of Russia Instruction No. 138-I, Dated 4 June 2012, 'On the Procedure for Submitting Documents and Information Related to Foreign Exchange Transactions to Authorised Banks by Residents and Non-Residents, the Procedure for Executing Operation Specifications, and the Procedure for Registering and Monitoring Foreign Exchange Transactions by Authorised Banks' (hereinafter, Bank of Russia Ordinance No. 3016-U).*

<sup>2</sup> *This procedure was approved by the Russian Government Resolution No. 1459, dated 28 December 2012, 'On the Procedure for Transferring by Customs Authorities Electronic Information on Goods Declarations Registered by Customs Authorities to the Central Bank of the Russian Federation and Authorised Banks'.*

## II.9. CASH CIRCULATION MANAGEMENT

*In* 2013, the Bank of Russia carried out work to guarantee a continuous supply of banknotes and coins for payment turnover and increase the efficiency of cash circulation, including minimising risks when processing, storing and transporting cash.

Economic demand for cash was met in full and on time.

In 2013, cash issues<sup>1</sup> were 17.2% lower than in 2012, at 639.7 billion rubles, of which banknotes accounted for 630.4 billion rubles and coins — 9.3 billion rubles.

In the period under review, the trend towards growth in the amount of cash in circulation continued (taking into account cash in the cash offices of Bank of Russia establishments). The growth rate for this indicator was 8.3% in 2013 (11.2% in 2012). As of 1 January 2014, 8,315.3 billion rubles in Bank of Russia banknotes and coins were in circulation, including coins made of precious metals, of which 8,246.6 billion rubles were banknotes (6.4 billion pieces), 68.4 billion rubles were coins (57.2 billion pieces), and 0.3 billion rubles were coins made of precious metals. Banknotes accounted for 99.2% of the total value of cash in circulation and coins — 0.8%, while in the total number of cash in cir-

ulation banknotes accounted for 10.1% and coins — 89.9%.

In 2013, the number of banknotes fell by 0.06 billion, while the number of coins (excluding coins made of precious metals) increased by 3.1 billion.

As for the note structure of cash in circulation, the share of 5,000-ruble banknotes expanded from 62.9% to 67.0% in the period under review. At the same time, the shares of 1,000-ruble banknotes, 500-ruble banknotes and 100-ruble banknotes contracted (from 29.3% to 26.2%, from 5.8% to 4.9%, and from 1.5% to 1.4% respectively). The shares of 50-ruble banknotes (0.4%), as well as 10-ruble and 5-ruble banknotes (0.1%) remained virtually unchanged at their 2012 level.

In 2013, 10-ruble banknotes were actively replaced with coins with the same face value, and the number of such coins increased by a factor of 1.2.

The Bank of Russia monitored cash turnover and examined its structure, analysing the note structure of cash in circulation and in the reserves of the Bank of Russia's establishments to make sure that it matched the needs of payment turnover.

In 2013, the Bank of Russia improved its regulations related to the organisation of cash circu-

<sup>1</sup> An increase in the amount of Bank of Russia banknotes and coins, including coins made of precious metals, based on balance-sheet data.

**CASH IN CIRCULATION**  
(billions of rubles)

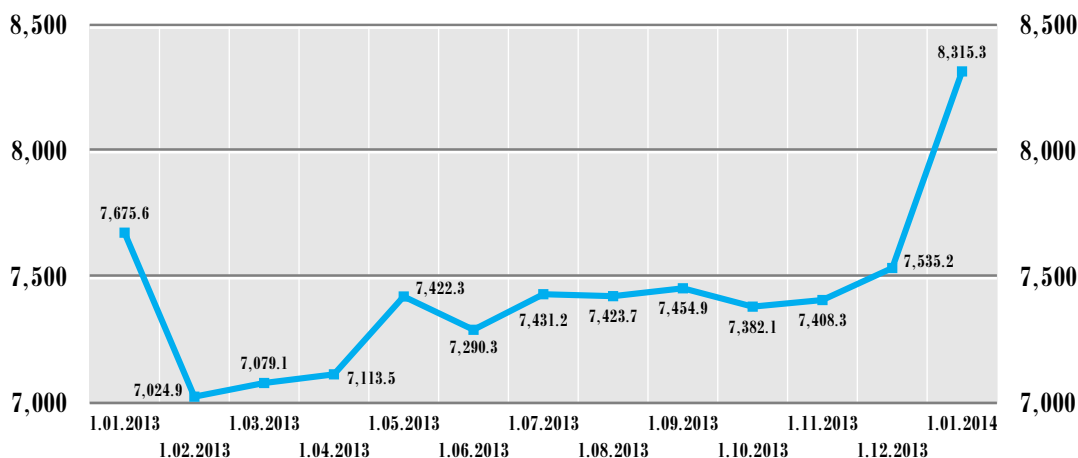


Chart 33

lation, cash issuance and other cash operations, as well as the storage, collection and transportation of cash, considering the changes in the economic conditions and in federal legislation.

As of 1 January 2014, Bank of Russia establishments provided cash services to 8,780 credit institutions and their divisions and 76,860 non-credit institutions. In 2013, the number of credit institutions and their divisions that used the cash services of Bank of Russia establishments increased by 419. The number of non-credit institutions using cash services of Bank of Russia establishments decreased by 21,098 due to the closing of budget organisations' accounts with Bank of Russia establishments.

The Bank of Russia continued its efforts to optimise the number of cash centres and reduce the cost of cash processing, storage and transportation, as well as to increase the productivity of cash clerks. In the reporting year, there were no interruptions in customer cash services at Bank of Russia establishments.

In 2013, work was carried out to draw up materials for public consultations on the ruble symbol on the Bank of Russia's official website. This was accompanied by measures to officially approve and promote the use of the graphical designation of the ruble in the form of a symbol. On 11 December 2013, the Bank of Russia approved the graphical designation of the ruble (the ruble symbol) in the form of the standard letter "P" in the Cyrillic alphabet with

the addition of a horizontal line towards the bottom.

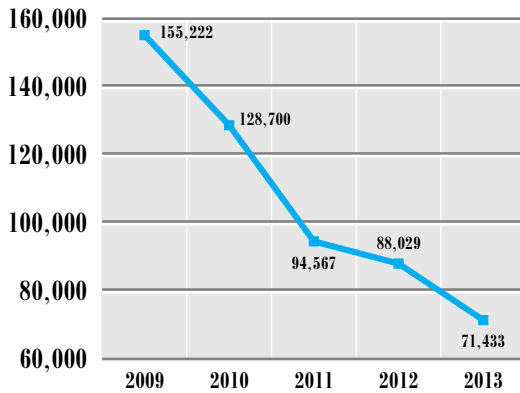
For the first time ever, in 2013, the Bank of Russia released a commemorative 100-ruble banknote. The note was issued in honour of the 22<sup>nd</sup> Winter Olympics and 11<sup>th</sup> Winter Paralympics held in Sochi in 2014. Information on the design and security features of the Bank of Russia's commemorative banknote has been made available on the Bank of Russia's official website.

In 2013, Bank of Russia establishments carried out 1.15 million expert assessments of Bank of Russia notes and coins, including 0.57 million assessments of suspect notes and coins and 0.58 million control assessments of the accuracy with which banknotes and coins were exchanged. According to data reported by Bank of Russia regional branches, 71,433 counterfeit Bank of Russia notes and coins were detected in the Russian banking system, withdrawn from circulation and handed over to law-enforcement authorities in the period under review, which is 18.9% less than in 2012.

The share of counterfeit 1,000-ruble banknotes in the total number of forged banknotes reached 38.8% in 2013 (in 2012, this figure was 60.2%). The share of counterfeit 5,000-ruble banknotes increased by 12.4 percentage points to 49.8%.

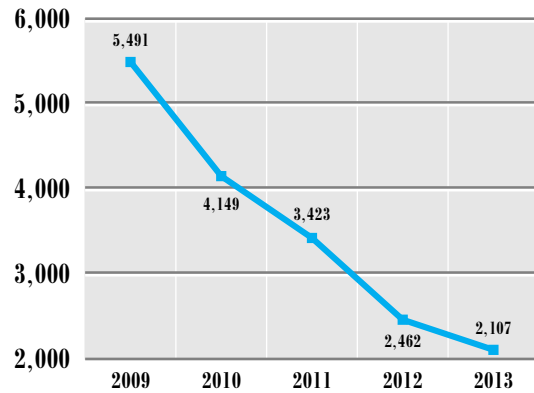
As in previous years, the largest number of counterfeit banknotes and coins was detected in

**DETECTION OF COUNTERFEIT  
BANK OF RUSSIA NOTES AND COINS  
(pieces)**



*Charts 34, 35*

**DETECTION OF COUNTERFEIT  
FOREIGN BANKNOTES  
(pieces)**



the Central, North-Western and Volga Federal Districts.

The share of counterfeit Bank of Russia banknotes and coins identified by credit institutions decreased by 0.7 percentage points compared with 2012 to 38.9% of the total volume of detected forgeries.

In 2013, Bank of Russia establishments and credit institutions identified 2,107 counterfeit banknotes of foreign countries (or a group of for-

eign countries) and delivered them to law-enforcement authorities; this is 14.4% less than the figure for 2012.

In 2013, the Bank of Russia issued 76 types of precious metal coins into circulation (24 gold and 52 silver) and 18 types of commemorative coins made from non-precious metals.

In 2013, the sale of the third and fourth series of the 'Sochi 2014' coin programme commenced.

## II.10. STABILITY AND DEVELOPMENT OF THE NATIONAL PAYMENT SYSTEM

### II.10.1. BANK OF RUSSIA ACTIVITIES TO ENSURE THE STABILITY AND DEVELOPMENT OF THE NATIONAL PAYMENT SYSTEM

*In* 2013, the Bank of Russia adopted the National Payment System Development Strategy, defining the key directions for its development in the long term, and approved the Action Plan to implement the National Payment System Development Strategy, specifying the measures within the scope of the adopted directions and the timeframes for their implementation.

To develop the national payment system (NPS) and its structural elements, work continued to further improve legislation on the NPS. The Bank of Russia took part in preparing conclusions and revising draft amendments to Federal Law No. 161-FZ, dated 27 June 2011, ‘On the National Payment System’ (hereinafter, Federal Law No. 161-FZ), including in relation to the use of electronic payment facilities and electronic money transfers.

NPS regulation was improved in terms of ensuring that Russian legislative provisions are adhered to and settlements are improved, including

for government payments, and in particular in terms of:

- credit institutions fulfilling the requirements set out in Article 9 of Federal Law No. 161-FZ requiring money transfer operators to inform customers of every operation being completed using electronic payment facilities;
- establishing conditions for comprehensive automated processing and administration of government and municipal payments using a unique payer and payment identifier, including in the information on government and municipal payments sent by banks to the State Information System;
- allowing credit institutions to use the details of payment messages applied in accordance with ISO 20022<sup>1</sup>;
- credit institutions disclosing information on their lending conditions when customers use debit cards with overdrafts and credit cards;

<sup>1</sup> ISO 20022 is an open standard containing a methodology for the formalised description of business processes involving the exchange of electronic financial messages and for designing the schemes and formats of such messages.

— informing customers on the specifics of electronic money transfer services with a view to reducing risks when using them.

To improve approaches in the regulation and development of the retail payment services market, the Bank of Russia and the National Agency for Financial Studies carried out a joint sociological study on ‘The Retail Payment Services Market: Consumer Conduct’<sup>1</sup>. From the all-Russia survey of the population, information was obtained on the most widespread forms of payment services, current consumer expectations, and the level of confidence and financial literacy of consumers.

In 2013, the Bank of Russia implemented a series of measures to regulate the activities of payment agents. Proposals were submitted to the Russian Federation Government on vesting the Bank of Russia with the duties of regulating and monitoring the activities of payment operators, as well as on the procedure for carrying out these duties.

In carrying out its supervisory and control powers within the NPS, the Bank of Russia monitored the payment services market to reveal schemes involving electronic fund transfers that violated Federal Law No. 161-FZ. Based on the results of this work, 27 organisations were identified which showed signs of infringing legislative requirements through their activities. The Bank of Russia worked together with these organisations as they were exposed in order to bring their activities into line with the established requirements.

During the course of its work to ensure compliance with the provisions of Federal Law No. 161-FZ, the Bank of Russia identified 169 organisations which were not registered in the payment system operator register, but yet still used the words ‘payment system’ in the name of their company. Based on the results of the measures carried out by the Bank of Russia, the majority of these organisations brought their activities in line with legislative requirements. Information on those organisations whose activity was not brought in line with legislative requirements was sent to the General Prosecutor’s Office of the Russian Federation.

The Bank of Russia and credit institutions worked together to prepare credit institutions for the entry into force of Article 9 of Federal Law No. 161-FZ from 1 January 2014, establishing the procedure for using electronic payment facilities, which allowed 97% of credit institutions to be fully ready for the implementation of the provisions set out in this article.

As part of its activities to register payment system operators, during the reporting year the Bank of Russia entered information into the register on 11 payment system operators, of which three were non-credit institutions.

Work was done to recognise the payment systems as systemically important and/or socially important with a view to setting out the NPS structure and agents whose functioning would have a significant impact on stability in the NPS. By the end of this work, over the year four payment systems were recognised as socially important.

In 2013, the Bank of Russia set about exercising its NPS supervisory powers in practice by carrying out inspections. Scheduled thematic inspections of three supervised organisations were carried out, resulting in letters on the need to eliminate certain exposed shortcomings and infringements related to ensuring the continuous functioning of payment systems, information security during money transfers and revising payment system rules and other internal documents.

The Bank of Russia’s international cooperation with central banks and other supervisory and oversight bodies operating within the national payment systems of foreign states received further development. A Memorandum of Understanding was signed with the National Bank of Belgium to exchange information when carrying out the oversight of the MasterCard Europe payment system.

As part of its collaboration with the central (national) banks of member states of the Eurasian Economic Community and the Commonwealth of Independent States, a Memorandum of Recommendations for credit institutions carrying out money transfers to foreign countries on the basis of orders from consumers without opening a bank account was signed with a view to ensuring the

<sup>1</sup> The analytical report on the results of the study has been published on the Bank of Russia’s official website (<http://os.cbr.ru/publ/PRS/prs42.pdf>).

transparency of the money transfer services market and consumer protection.

In order to implement the provisions set out in the CPSS — IOSCO<sup>1</sup> 'Principles for Financial Market Infrastructures' (hereinafter, Principles), aimed at increasing the efficiency of key infrastructural organisations' operations to maintain monetary and financial stability, the first stage of monitoring the implementation of the Principles was carried out in countries whose central banks are members of the CPSS. The Bank of Russia and other bodies regulating the activities of financial market infrastructures carried out a comprehensive analysis of Russian legislation for the purpose of incorporating the provisions set out in the Principles, the results of which have been published in the CPSS — IOSCO report 'Implementation Monitoring of the Principles for Financial Market Infrastructures — Level I Assessment'.

The activities of the Technical Committee for Standardisation, 'Financial Transaction Stan-

dards' (TC 122), operating under the coordinating role of the Bank of Russia and with its direct involvement, are aimed at further developing the NPS. As part of TC 122, the public discussions of the draft national standard GOST R 'Financial Transactions. Payment and Settlement Systems. Terms and Definitions' were completed. The national standard GOST R 'Financial Transactions. Universal Scheme of Financial Messages. Part 1. Metamodel' was submitted for registration to the Federal Agency for Technical Regulation and Metrology.

To secure the Bank of Russia's coordinating role in the NPS, 2013 saw the creation of an Advisory Council on the Development of the National Payment System under the Bank of Russia Governor. This Council comprised members of executive authorities of the Russian Federation, professional payment services market participants, banking associations, and other professional associations.

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<sup>1</sup> CPSS is the Committee on Payment and Settlement Systems of the Bank for International Settlements; IOSCO is the International Organisation of Securities Commissions.





## II.10.2. DEVELOPMENT AND UPGRADING OF THE BANK OF RUSSIA PAYMENT SYSTEM

*In* 2013, the Bank of Russia payment system was developed in line with the Concept of the Bank of Russia Payment System's Development until 2015, whereby a regulatory framework was established for the federal component of the Bank of Russia payment system, and work was carried out to unify the non-speedy money transfer service across all regional components of the Bank of Russia payment system.

Pursuant to Federal Law No. 161-FZ, regulatory requirements were established for the Bank of Russia's activities as a payment infrastructure services operator.

In order to centralise managing functions in the Bank of Russia payment system, certain necessary changes were introduced to the Bank of Russia payment system rules and regulations governing collaboration between the Bank of Russia's structural divisions.

Work continued to optimise the Bank of Russia's cash settlement centre network (Bank of Russia CSCs). In 2013, 65 Bank of Russia CSCs were liquidated together with Division No. 5 of the Bank of Russia Moscow Branch.

Recommendations were drawn up for Bank of Russia regional branches regarding the terms and conditions of correspondent account agreements concluded with credit institutions (their branches) and electronic message exchange agreements between the Bank of Russia and its customers, making it possible to reduce risks for the parties when transferring money through the Bank of Russia payment system.

The regulatory framework of the Bank of Russia payment system underwent further development in terms of collaboration with federal executive bodies. In particular, in relation to the transition of the Pension Fund and the Social Insurance Fund of the Russian Federation to cash servicing of budget execution of government extra-budgetary funds by Federal Treasury bodies, the Bank of Russia changed the procedure for inspecting authorities to send

an electronic order to a credit institution to pay insurance premiums.

To assist the Federal Treasury in adhering to the requirements set out in Federal Law No. 104-FZ, dated 7 May 2013, 'On Amending the Budgetary Code of the Russian Federation and Certain Laws of the Russian Federation in Relation to the Improvement of the Budgetary Process' and to ensure that the monetary funds of government extra-budgetary funds are safely and fully deposited in Federal Treasury accounts, in 2013 the Bank of Russia granted the right to its customers (government extra-budgetary funds and regional government extra-budgetary funds), when filing an application with a Bank of Russia division, to transfer the funds at the end of the banking day from accounts held by the customer with the Bank of Russia to similar accounts opened for Federal Treasury bodies.

Changes were made to the Bank of Russia's regulations to assist Federal Treasury bodies, budget revenue administrators and government (municipal) institutions in improving automated processing procedures for information contained in money transfer orders to make payments to the Russian Federation budget system, as well as payments for government and municipal services and notices of charges (annulment/adjustment) on monetary sanctions (fines).

For more efficient management of funds in a single federal budget account, in 2013 the Bank of Russia, in consultation with the Federal Treasury, increased the number of regional Federal Treasury accounts from which Bank of Russia establishments transfer unused balances to the single Federal Treasury account, and the number of Federal Treasury bodies to which this provision applies.

To further improve the Bank of Russia's procedure for managing receipts of various types of federal budget revenue, as well as due to the vesting of the Bank of Russia with the duties of the Federal Financial Markets Service, changes were introduced to establish the procedure for the Bank



of Russia to manage the receipt of various types of budget revenue into the Russian Federation budget system.

In relation to the Bank of Russia's work to include the Russian ruble among the currencies of the CLS system, a solution was found to the issue of transferring money along conversion transactions with the national currency between Russian and foreign credit institutions through the Bank of Russia payment system. In particular, the duration of BESP system operation will be increased by two hours from 30 June 2014, provisions have been made for the use of S.W.I.F.T.-compatible interbank orders (MT202), the involvement of external organisations as payment infrastructure services operators in the Bank of Russia payment system has been regulated, and provisions have been made to assign a foreign credit institution a banking identification code (BIC) in line with Russia's BIC directory.

To expand the use of electronic settlements in the Bank of Russia payment system, certain necessary measures have been carried out to introduce a speedy transfer service to all Bank of Russia regional branches. Some divisions of Bank of Russia regional branches in the North Caucasus Federal District have been included among the BESP system participants as special settlement parties, which has made it possible to include credit institutions from the said region among the BESP system participants as direct or associated parties.

Postal and telegraph advising has been improved in terms of incorporating elements previously only used in electronic settlements.

Work has been carried out to comprehensively transform the existing Bank of Russia payment system in terms of centralising its architecture and increasing the specialisation of its money transfer services, as well as increasing its reliability and security. To this end, a set of functional requirements entitled 'The Prospective Bank of Russia Payment System' was developed and approved to define the aims of creating and setting basic principles for the formation and

functioning of the prospective Bank of Russia payment system.

To improve the stability of the Bank of Russia payment system, it developed the systems and technological infrastructure of collective data processing centres CDPC-1 (Nizhny Novgorod) and CDPC-MR (Moscow). The computing power of the systems and technological infrastructure of the collective data processing centres was increased in view of the growth in the amount of documents being circulated within the Bank of Russia payment system, as well as to protect and develop the redundancy and fault-tolerance of CDPCs' technological infrastructure. To increase the level of control over the actions of IT staff from the viewpoint of security divisions and the automation of information security processes at collective data processing centres, work was carried out to develop Information Security Systems of CDPCs (ISS CDPC-1, ISS CDPC-2, ISS CDPC MR).

With regard to guaranteeing information security of the Bank of Russia payment system, work continued to establish a set of protection methods and measures (information security sub-systems).

In 2013, the modernisation of the existing standard software package (SSP) RABIS-NP was completed with a view to ensuring that CDPC-1 and CDPC-MR were provided with a single structure of services offered to all Bank of Russia customers.

To guarantee a stable functioning of applied transportation systems, components of the Bank of Russia Electronic Settlement Transportation System were upgraded at seven Bank of Russia regional branches. To ensure the continuous operation of payment processing using the BESP — SWIFT gateway as a federal component of the Bank of Russia payment infrastructure and the continuous provision of services from the Bank of Russia to credit institutions, as well as to meet the requirements of connecting CLS Bank International as a direct settlement agent to the BESP system, work started to create a BESP — SWIFT gateway at a reserve site (Nudol Technical Centre).

## II.11. IMPROVING THE ACCOUNTING AND REPORTING OF CREDIT INSTITUTIONS

The Bank of Russia's priority objectives for 2013 were to develop industry accounting standards for credit institutions based on IFRS and to consolidate practices in terms of applying these standards, including drafting accounting recommendations, as provided for by Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting', which entered into force from 1 January 2013. For credit institutions, a procedure was established for recording deferred tax liabilities and deferred tax assets; the procedure for recording equity securities, for which a fair value cannot be determined reliably, and units of unit investment funds was clarified; forward transactions are to be recorded in line with IFRS; a change was made to the procedure for recording items in accounts under Heading G 'Accounts for claims and liabilities on derivatives and other agreements (transactions), where settlements and delivery are executed no sooner than the day after the agreement (transaction) was concluded' of the Chart of Accounts of credit institutions.

To ensure correct application of industry standards for the banking system, methodological rec-

ommendations were released for credit institutions to test assets subject to impairment checks, as well as on the procedure for recording deferred tax liabilities and deferred tax assets.

A procedure was defined for credit institutions to submit and publish their annual financial statements (excluding annual consolidated financial statements) in line with IFRS. In connection with the introduction of the new IFRS and the current practice of applying the existing IFRS, the methodological recommendations for credit institutions to compile and submit financial statements in line with IFRS were re-issued.

Pursuant to Federal Law No. 251-FZ, dated 23 July 2013, 'On Amending Certain Laws of the Russian Federation Due to the Delegation to the Central Bank of the Russian Federation of the Authority to Regulate, Control and Supervise Financial Markets', the Bank of Russia was vested with the duties of approving industry accounting standards for non-bank financial institutions, in relation to which in 2013 the Bank of Russia started developing the said standards for these organisations.

## II.12. IMPROVING LEGISLATION

*In* 2013, a number of important laws aimed at the improvement of the legal framework of banking activity and financial market regulation were approved.

The most important for the Bank of Russia was Federal Law No. 251-FZ, dated 23 July 2013 ‘On Amending Certain Laws of the Russian Federation Due to the Delegation to the Central Bank of the Russian Federation of the Authority to Regulate, Control and Supervise Financial Markets’, which set out the delegation of powers from the FFMS of Russia to the Bank of Russia, as a result of which the Bank of Russia’s activities were expanded to include new objectives: developing the financial market of the Russian Federation and ensuring its stability. With the adoption of this law, the Bank of Russia came to have control over a significant number of new financial market participants, as well as credit institutions, referred to in Article 76<sup>1</sup> of the new Chapter X<sup>1</sup> of Federal Law No. 86-FZ, dated 10 July 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia)’ (hereinafter, Federal Law No. 86-FZ) as non-bank financial institutions (hereinafter, NFIs). Aside from a group of supervised NFIs, Chapter X<sup>1</sup> also defines the objectives of regulating, controlling and supervising the activities of these NFIs. The changes to the Bank of Russia’s functions brought about a change in the Bank of Russia’s governing bodies. Thus, the National Banking Board was re-

named the National Financial Board, the authority of which was extended to cover the development and improvement of the Russian financial market.

The Financial Supervision Committee was a new body comprising the directors of Bank of Russia structural offices and performing the regulatory, control and supervisory duties of the Bank of Russia in the financial markets.

The delegation of regulatory, control and supervisory powers over the financial markets required amendments to 47 federal laws.

Federal Law No. 184-FZ, dated 2 July 2013 ‘On Amending Articles 13 and 76 of the Federal Law ‘On the Central Bank of the Russian Federation (Bank of Russia)’ expanded the Bank of Russia’s ability to appoint authorised representatives to credit institutions. The law defined cases where the amount of assets of a credit institution is 50 billion rubles or more and (or) the amount of funds attracted from households based on bank deposit agreements and bank account agreements totals 10 billion rubles or more as new grounds for appointing authorised representatives.

The changes provided for by Federal Law No. 29-FZ, dated 14 March 2013, ‘On Amending Certain Laws of the Russian Federation’ were aimed at ensuring that the necessary conditions were in place to comply with the national interests and priorities of the banking sector and the

financial market as a whole, as well as increasing the competitiveness of Russian banks amid integration into the global financial system. This law removed from the Federal Law ‘On Banks and Banking Activities’, Federal Law No. 86-FZ and the Federal Law ‘On Foreign Exchange Regulation and Foreign Exchange Control’ provisions allowing foreign banks to open branches in the Russian Federation.

Federal Law No. 146-FZ, dated 2 July 2013, ‘On Amending Certain Laws of the Russian Federation’ made amendments to the Federal Law ‘On Banks and Banking Activities’, Federal Law No. 86-FZ, the federal laws ‘On the Insolvency (Bankruptcy) of Credit Institutions’ and ‘On Insurance of Household Deposits in Russian Banks’ by specifying the procedure for consolidated supervision and information disclosure by credit institutions, banking groups and bank holding companies.

The changes made to certain laws by Federal Law No. 134-FZ, dated 28 June 2013, ‘On Amending Certain Laws of the Russian Federation with Regard to Countering Illegal Financial Operations’ are particularly important to the banking and financial market. These changes granted banks the right to terminate bank account agreements should a customer be repeatedly refused certain transactions due to his/her failure to provide the required documents or due to attempts to carry out suspicious transactions.

The Federal Law No. 335-FZ, dated 2 December 2013 ‘On Amending the Federal Law ‘On Insurance of Household Deposits in Russian Banks’, the Federal Law ‘On the Central Bank of the Russian Federation (Bank of Russia)’ and Recognising as Null and Void Certain Provisions of Laws of the Russian Federation’ standardised the supervisory requirements regarding assessments of the financial stability of credit institutions and the requirements regarding participation in the deposit insurance system.

Federal Law No. 353-FZ, dated 21 December 2013, ‘On Consumer Loans’, which entered into force from 1 July 2014, set out regulations for relations arising when offering consumer loans to households for purposes not connected with entrepreneurial activity, based on a credit agreement, loan agreement and performance of the corresponding agreement.

The Bank of Russia is responsible for supervising the compliance of credit institutions and non-bank financial institutions with the requirements set out in this law.

To enact the provisions of the Federal Law ‘On Consumer Loans’, Federal Law No. 363-FZ, dated 21 December 2013, ‘On Amending Certain Laws of the Russian Federation and Recognising as Null and Void Certain Provisions of Laws of the Russian Federation Due to the Adoption of the Federal Law ‘On Consumer Loans’ was adopted, introducing changes to 11 federal laws. The amendments made to the federal laws ‘On Agricultural Cooperatives’, ‘On Pawnbrokers’, ‘On Credit Cooperatives’, and ‘On Microfinance Activities and Microfinance Organisations’ meant that credit cooperatives, pawnbrokers and microfinance organisations would carry out their professional activities — providing consumer loans — according to the procedure set out in the Federal Law ‘On Consumer Loans’.

The objective behind the adoption of Federal Law No. 422-FZ, dated 28 December 2013, ‘On Guaranteeing the Rights of Insured Entities in the Compulsory Pension Insurance System of the Russian Federation when Forming and Investing Pension Savings Funds and Determining and Paying Indemnities Using Pension Savings Funds’ is to protect the rights and legal interests of insured persons in the compulsory pension insurance system of the Russian Federation when forming and investing pension savings funds and determining and paying indemnities using pension savings funds. The law set up a system to guarantee the rights of insured persons (actually similar to the deposit insurance system), the key principles of which are as follows: protecting the rights and legal interests of insured persons if an insured event occurs; requiring insurers to participate in the system to guarantee the rights of insured persons; and the cumulative nature of the pension savings guarantee fund’s formation.

This law also set up the organisational and financial framework for the insured persons’ rights guarantee system, the framework for cooperation between participants in the insured persons’ rights guarantee system, and the procedure for non-governmental pension funds to participate in the insured persons’ rights guarantee system.

To further develop the activities of NPFs, Federal Law No. 410-FZ, dated 28 December 2013, 'On Amending the Federal Law 'On Non-governmental Pension Funds' and Certain Laws of the Russian Federation' set out the legal opportunities to create new NPFs in the form of joint-stock companies, as well as to convert existing non-profit NPF organisations into joint-stock companies. In particular, this law stipulates that any NPFs which are non-profit organisations and operate as insurers of compulsory pension insurance must be converted into joint-stock NPF companies or liquidated before 1 January 2016. Any NPFs which are non-profit organisations and do not operate as insurers of compulsory pension insurance must be converted into joint-stock NPF companies or liquidated before 1 January 2019. From 1 January 2016, non-profit pension funds are forbidden to carry

out any activities involving compulsory pension insurance.

Along with the work on the preparation and consideration of the aforementioned federal laws and the consideration of other draft federal laws, the Bank of Russia issued 235 regulatory documents during the period from 1 January to 31 December 2013: nine Bank of Russia instructions, 16 Bank of Russia regulations, and 210 Bank of Russia ordinances.

Of those issued, 111 Bank of Russia regulatory documents, including four instructions, nine regulations and 98 ordinances, were submitted to the Ministry of Justice of the Russian Federation and formally registered.

The Bank of Russia prepared and sent out 270 letters to its regional branches for informative, methodological, organisational and instructive purposes.

## II.13. INTERNAL AUDITING

*In* 2013, in line with the Concept for the Improvement of Activities of the Bank of Russia Chief Auditor's Service (hereinafter, the service), as approved by the Bank of Russia Board of Directors in January 2011, seven internal auditing centres were set up at certain Bank of Russia regional branches (in St Petersburg, Vladivostok, Yekaterinburg, Novosibirsk, Saratov, Krasnodar, and Voronezh), which made it possible to ensure internal audit independence through centralising the management and changing the structure of the service and implement a risk-based approach focusing internal audits on those activities carried out by the Bank of Russia with heightened risks. Steps were taken to improve the internal auditing system for Bank of Russia field institutions. After these steps have been completed, the service's structure will comprise an Internal Auditing Department and seven internal auditing centres.

These improvements to the internal audit organisational structure and approaches have made it possible to increase its efficiency. The main focus was on Bank of Russia activities involving inherent reputational, financial, operational or other risks.

The internal auditing was conducted through audit inspections of Bank of Russia divisions and monitoring certain Bank of Russia transactions and functions.

In 2013, the service conducted 808 audit inspections of Bank of Russia divisions, including 121 comprehensive inspections and 687 thematic inspections.

The service continued its independent daily control (monitoring) of transactions conducted by the Bank of Russia involving assets in foreign currency and precious metals within the context of managing Bank of Russia gold and foreign exchange reserves. Emergencies in the Bank of Russia's information and telecommunications system were also monitored.

The audit of monetary policy functions was geared towards inspecting credit institution refinancing operations, including domestic market repo operations and FX swaps by the Bank of Russia, as well as deposit operations and operations to buy and sell foreign currency in the domestic FX market. Special attention was paid to organising the management of risks inherent in such operations, including credit and operational risks.

The main objective during audit inspections of banking regulation and supervision, in view of the legal, reputational and operational risks, was to assess the effectiveness and quality of off-site supervision, the efficiency of the supervisory response measures adopted, and the efficiency of cooperation between supervisory divisions.

The audit of money transfers and customer service was aimed at inspecting the validity of

account operations, the fulfilment of the Bank of Russia's obligations to customers, and the continuity of operations.

With regard to cash circulation, the audit's priority was to inspect the integrity of the Bank of Russia's banknotes. Amid the increased automation of cash processes, inspections were focused on the functioning of the automated systems used in cash operations in relation to the associated operational risks.

The internal audit addressed such issues as ensuring the functioning of the Bank of Russia's system, including the efficiency of Bank of Russia asset management and spending, business and tax accounting reliability, the smooth operation of the Bank of Russia's information and telecommunications system, and data and internal security.

The results of these audit inspections show that audited Bank of Russia divisions have been carrying out the functions entrusted to them and complied with Russian Federation legislation and Bank of Russia regulatory and other documents. The internal control and risk management sys-

tem was in line with the nature and scale of the operations carried out.

Taking into account the results of the audit inspections and the recommendations of the internal audit, in order to minimise risks in the Bank of Russia's activities, changes were made to Bank of Russia regulatory documents, software was improved and the organisation of the work of structural divisions was optimised, together with the internal control and risk management system. The service monitored the implementation of the management decisions adopted based on the results of the audit inspections and also monitored the elimination of any identified infringements and shortcomings.

The service ensured cooperation between the Bank of Russia and the Audit Chamber of the Russian Federation in the course of its control and expert assessment measures at the Bank of Russia. Together with the Accounting and Reporting Department, steps were taken to ensure the involvement in any collaboration with the audit organisation, which audits the Bank of Russia's annual financial statements.

## II.14. OTHER BANK OF RUSSIA ACTIVITIES

### II.14.1. CHANGES IN THE BANK OF RUSSIA'S ORGANISATIONAL STRUCTURE

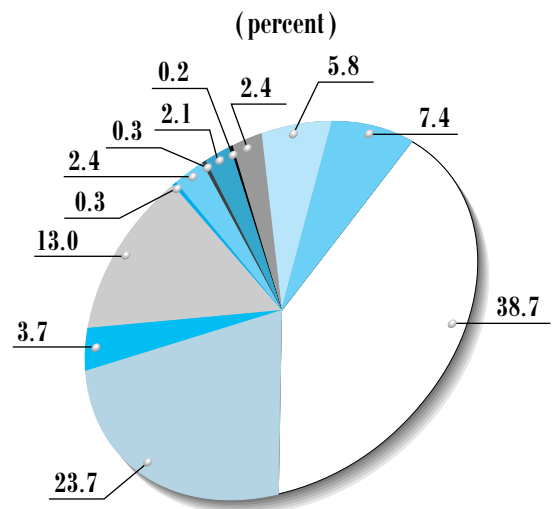
*In* 2013, the organisational structure of the Bank of Russia underwent some significant changes. Steps were taken to restructure the head office and information and telecommunications system divisions. New divisions were formed: the Systemically Important Banks Supervision Department; the Monetary Policy Department; the National Payment System Department; the IT and Telecommunications Department; the Bank of Russia Press Service, and others. Work also began to reform the network of Bank of Russia regional branches.

The measures put in place in 2013 allowed the Bank of Russia to strengthen its supervisory unit and divisions carrying out its monetary policy duties and involved in the national payment system; to improve the Bank of Russia's information transparency and the efficiency of its information systems; and to cut back the number of Bank of Russia divisions by closing the Bank of Russia's Main Communications Centre.

In 2013, the Bank of Russia completed the phased centralisation of its inspection activities, in the course of which work was carried out in the reporting period to set up an Interregional Inspectorate for Moscow and the Moscow Region from 1 January 2014, together with the simultaneous closure of the inspection divisions of the Bank of Russia's Moscow Branch.

In relation to the delegation to the Bank of Russia of the authority to regulate, control and supervise the financial markets, the Bank of Russia's Financial Markets Service was set up as a separate division from 1 September 2013. Work was carried out to further integrate it into the Bank of Russia's structure. Following its closure,

NUMBER OF BANK OF RUSSIA EMPLOYEES BY DIVISION AS OF 1 JANUARY 2014



- Head office
- Central Depository
- Field institutions
- Internal audit centres of Bank of Russia
- Chief Auditor Service
- Bank of Russia Financial Markets Service
- First Operations Department
- IT divisions
- Training centres
- Social amenities divisions
- Divisions providing logistical support for the head office and Bank of Russia divisions in Moscow and the Moscow Region
- Structural divisions within regional branches (main cash settlement centres, cash settlement centres, cash centres, and branches and the Operations Department of the Moscow Branch)
- Regional branches

Chart 36



from March 2014 its duties were entrusted to nine divisions set up within the head office and regional branches.

In 2013, the decision was taken to create, on the basis of seven out of the 79 Bank of Russia regional branches, main branches of the Bank of Russia and transform the remaining regional branches into divisions and national bank divisions, with the simultaneous liquidation of the main cash settlement centres. In 2013, the Bank of Russia worked to establish the Main Branch for the Central Federal District, to begin operations on 23 January 2014.

According to the schedule of the liquidation of cash settlement centres in 2011—2015 (which had been approved by the Bank of Russia Board of Directors), 65 cash settlement centres were closed during the reporting period. In addition, Division No. 5 of the Bank of Russia Moscow

Branch and one Bank of Russia field institution were closed.

As of 1 January 2014, the Bank of Russia's structure comprised 832 divisions, including: the head office, the First Operations Department, 79 regional branches, 78 main cash settlement centres and 355 cash settlement centres, four outlets and the Operations Department of the Bank of Russia Moscow Branch, 10 divisions of the Bank of Russia's Financial Markets Service, seven internal auditing centres, the Interregional Security Centre, three Central Depository divisions, 94 field institutions, three IT divisions and other auxiliary divisions.

In general, as a result of the organisational and staffing optimisation measures in 2013, the staff of the Bank of Russia decreased by 600 employees or by 1.0% to 65,300 employees as of the beginning of 2014.

## II.14.2. STAFFING AND PERSONNEL TRAINING

*In* 2013, the Bank of Russia's human resources policy was aimed at improving staff performance and motivation for quality work amid the reform of the Bank of Russia's functions and the optimisation of its structure.

In 2013, the number of executive and specialist positions at the Bank of Russia remained unchanged, while the staffing level at those positions fell by 1.7 percentage points to 96.9% as of 1 January 2014. The number of employees under

30 years of age increased by 0.7 percentage points to reach 10.4%, while the share of employees of pensionable age decreased by 2.2 percentage points to 11.3%. More than half of the Bank of Russia's personnel are between 30 and 50 years old (55.9%).

The share of employees with 3 to 15 years' experience of work at the Bank of Russia decreased from 32.4% to 31.7% during the reporting period. The number of staff with more than 15 years' experience of work at the Bank

AGE STRUCTURE OF BANK OF RUSSIA EXECUTIVES AND SPECIALISTS  
(percent)

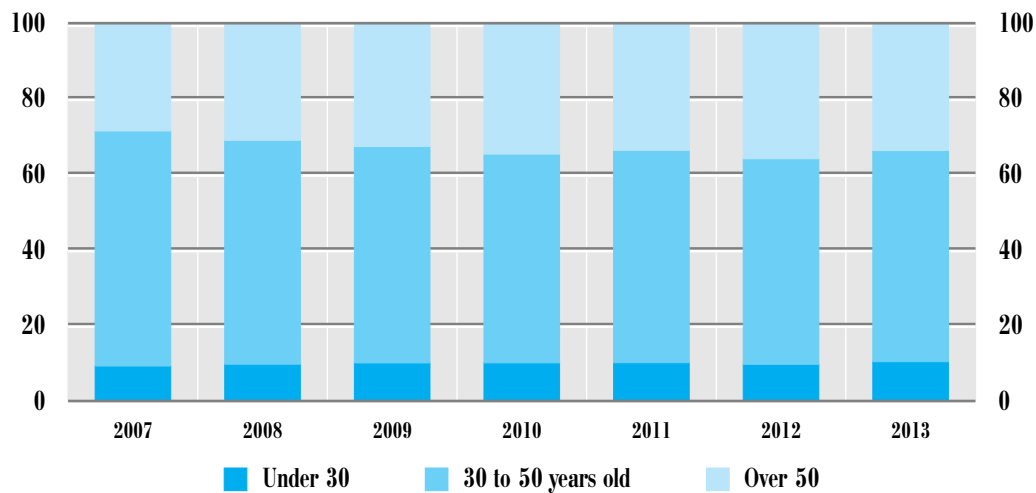


Chart 37

RATIO OF EXECUTIVES AND SPECIALISTS WITH HIGHER PROFESSIONAL EDUCATION  
(as a percentage of total executives and specialists)

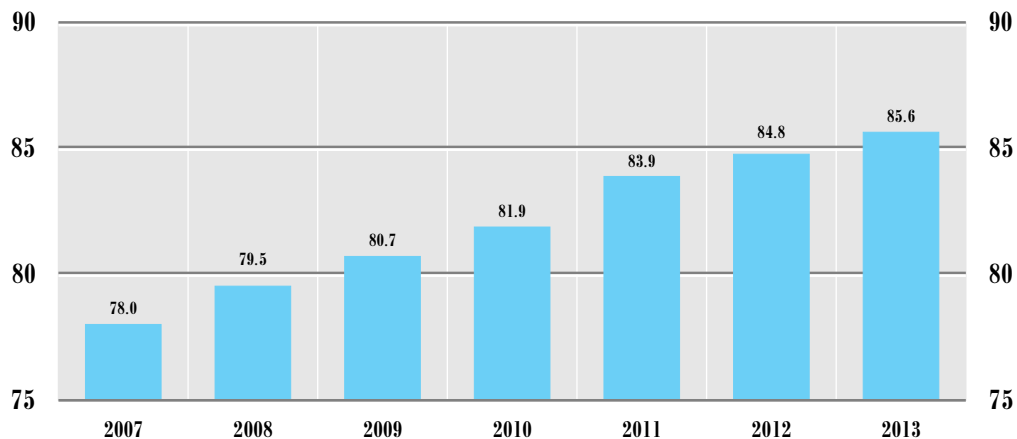


Chart 38

of Russia decreased by 1 percentage point to 59.4%.

In the last few years, the number of executives and specialists with a higher professional education continued to increase.

Monitoring and the creation of a motivating environment played a significant role in personnel management. In the reporting period, 79 regional branches and five other divisions of the Bank of Russia conducted regular staff appraisals. Overall, 98.4% of the executives and specialists at regional branches were involved in appraisal procedures and their results were taken into account in more than 32,000 management decisions. The results of a comprehensive appraisal as one of the forms of monitoring, involving 1,661 employees, showed that the professional competence of virtually all employees complied with the qualifying standards and they were characterised by stable efficiency, emotional stability, commitment and loyalty towards the organisation. Over 63% of employees expressed satisfaction with their working conditions.

To increase employee efficiency at the Bank of Russia, in November 2013 a decision was made to certify employees working at Bank of Russia regional branches. Preparatory work was carried out in November and December before the certification of executives at regional branches in the Central Federal District began, with the process finishing in January 2014.

An important component of the work carried out at the human resources department in 2013 was the professional development of the Bank of Russia employees to ensure that personnel are of the required professional level. Over the reporting year, about 37,500 Bank of Russia specialists and executives attended more than 4,000 training events.

Training priorities included specialist training programmes on monetary policy, international financial reporting standards, banking supervision, foreign exchange control and anti-money laundering and combating the financing of terrorism, the development and functioning of payment systems, and programmes to improve managerial competence.

Moreover, to integrate the Federal Financial Markets Service into the Bank of Russia, 32 specialised training events were organised for

**BANK OF RUSSIA PERSONNEL TRAINING  
IN 2013**

(as a percentage of total trainees)

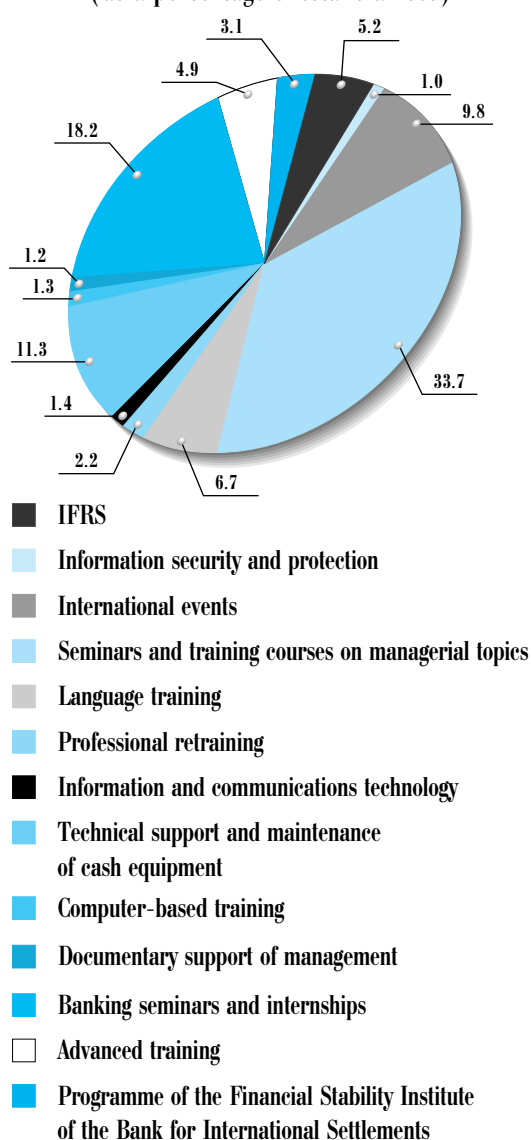


Chart 39

employees of the head and regional offices of the Bank of Russia Financial Markets Service on legal, documentation, financial, human resources, social and software issues relating to the Bank of Russia's functioning. Training was conducted by representatives of the Bank of Russia head office divisions, as well as the best qualified specialists of Bank of Russia regional branches.

To establish a modern team of banking sector analysts and regulators, for already 10 years the Bank of Russia has been implementing a large-scale professional retraining programme for its execu-

tives and specialists, including Master of Business Administration programmes. In 2013, 152 Bank of Russia employees completed their training under these programmes, including curators, inspectors, provisional administration executives and credit institution financial recovery consultants, as well as monetary policy, payment systems and settlement specialists and security service employees. In addition, 13 employees working at Bank of Russia head office divisions completed MBA 'Banking' training programmes, receiving Master of Business Administration degrees.

In collaboration with leading audit companies, Bank of Russia employees continued to receive training on international financial reporting standards. In 2013, about 1,000 people attended 43 specialised IFRS events. Specialised in-depth training programmes on the application of selected standards were of particular practical importance.

To develop and consolidate professional skills and exchange professional experience, the practice of holding internships for regional branch executives and specialists at core departments continued in 2013 (173 regional branch employees took part).

As in previous years, technical assistance through international channels to train specialists and learn from foreign experience to adapt and apply it to the Bank of Russia's activities was used. About 900 Bank of Russia employees attended 215 international training events, of which 118 were held abroad. In this respect, the Bank of Russia expanded the geography of its collaboration with foreign central banks in 2013.

According to the Programme of Professional Training of the Personnel of Central (National) Banks of the EurAsEC Member States, 23 international seminars were held in 2013, 10 of which were hosted by the Bank of Russia. Fourteen internships were organised for members of EurAsEC banks at various Bank of Russia divisions. More than 260 representatives of foreign central (national) banks participated in international seminars. About 80 Bank of Russia executives and specialists attended training sessions, and representatives of the Bundesbank, National Bank of Poland, Austrian National Bank, Bank of Japan, Hungarian National Bank, National Bank of Bulgaria, Bank of Spain, Bank of Finland, National Bank of Serbia and European Central Bank participated in certain seminars.

### II.14.3. BANK OF RUSSIA INFORMATION AND TELECOMMUNICATIONS SYSTEM DEVELOPMENT

*In* 2013, the Bank of Russia carried out work to develop its Corporate Data Depository used to supply information on government and municipal payments to the State Information System and to the analytical sub-system of the automated banking electronic speedy payment system.

To guarantee the continuity of operations at the Bank of Russia's structural divisions, a Reserve Operations Office of the Market Operations Department, Market Services Department, General Economic Department, and the Bank of Russia's First Operations Department was brought into operation.

During the period under review, an Information Support System for the activities of the Bank of Russia's chief auditor was developed and put into trial operation. Work continued to develop the internal control system of IT support of Bank of Russia activities and the project activities management system.

The hardware and software architecture of the regional integrated telecommunications and information resources management system at Bank of Russia regional branches was upgraded. Work was undertaken to create an operational management system for the Bank of Russia's information and telecommunications system (ITS) in 25 regional branches.

Within the framework of developing the Single Information Support System for Bank of Russia Banking Sector Regulation and Development, applied software suites were prepared for installation, offering analytical data on the activities of credit institutions, foreign exchange operations, affiliated persons, founders, participants and enforcement measures.

In 2013, as part of the work to automate in-house activities, 43 Bank of Russia divisions were switched over to using the 'In-house Activities' automated system (IHA AS) implemented on the 'IC:Enterprise Version 8' platform. Work continued to convert Bank of Russia organisations to using IHA AS.

In 2013, an organisational and technical system was developed to manage collective information processing, allowing joint operation of its facilities. A centralised model of the Bank of Russia's information support continued being developed, together with the creation of the corporate automated system 'Planning Bank of Russia Capital Expenditure'. Work was done to develop functional capabilities of the 'Estimated Planning and Financing' automated system developed for the Finance Department and used at 102 structural divisions and core Bank of Russia departments. Further efforts were made to improve the Bank of Russia's ITS operating system. Work to create 73 IT division control centres at regional branches was also completed.

In 2013, work continued on the development of centralised information and analytical systems to automate the activities of Bank of Russia operations departments, including: a publication system for credit institutions and branches; the 'Central Catalogue of Credit Histories' automated system; the data collection, control and storage system developed to monitor enterprises; the analytical data processing system developed for the Bank of Russia to monitor enterprises; the 'Bank Financial Standing Analysis' system; and the system of 'Analysis of Aggregate Indicators of the Activities of Credit Institutions and Banking Services Development in the Region'.

A range of measures were carried out to connect Bank of Russia divisions set up as successors to the Federal Financial Markets Service to the Bank of Russia's information and telecommunications infrastructure. Work continued on the creation and modernisation of departmental telephone communications networks, satellite links, local computer networks, cross-linked cable systems, and basic primary networks at Bank of Russia regional branches and the head office, which allows for the exchange of integrated information over high-speed telecommunications channels with dynamic resource allocation.

Work was also done to create consolidated data server systems and terminal access systems at Bank of Russia organisations, as well as work to improve the regulatory and procedural guidelines for the Bank of Russia's ITS operating system and the emergency response of IT divisions.

## II.14.4. INTERNATIONAL COOPERATION

The Bank of Russia's cooperation with international financial and economic organisations in 2013 was shaped around the priorities of Russia's presidency of **the G20**. The Bank of Russia was involved in the drafting of the Leaders' Declaration on the results of the summit in St Petersburg, as well as a G20 communique and discussion materials. The G20 meeting communique in July 2013 took into account and incorporated the Bank of Russia's proposals regarding the need to assess the impact of the financial regulation reform on economic growth and the effect of structural measures in the banking sectors of individual countries on financial stability.

One of the most important areas of the G20's work was reforming the international financial architecture, including **the International Monetary Fund (IMF)**. The development of this issue was entrusted to the G20 Working Group (with the involvement of representatives from the Bank of Russia).

It was not possible to achieve the expected results in reforming the IMF during the reporting year due to the failure to complete the reform of the management system and quotas blocked by the US Congress. This prevented the G20 from moving on to the preparation and approval of a new formula to calculate IMF quotas, which would have taken into account the growing role of emerging market economies in the global economy and increase their quotas and their number of votes at the IMF. The Bank of Russia will continue to push for the quota review to be completed.

In 2013, the Bank of Russia and the IMF signed a bilateral credit agreement to supply the IMF with \$10 billion under an arrangement reached by the leaders of the G20 nations on the replenishment of the IMF's funds.

The Bank of Russia took part in IMF sessions addressing such issues as changes to monetary policy in advanced countries, budgetary uncertainty in the USA, international financial regulatory reform and the reform of the IMF. Following a number of meetings with the IMF's Statis-

tical Department, certain work priorities were formulated in order to improve statistical data.

Bank of Russia representatives took part in working groups at **the BRICS** forum on the creation of the Pool of Foreign Exchange Reserves and the BRICS Development Bank. Significant progress was made during the reporting year on agreeing the practical aspects of these initiatives.

The Bank of Russia participated in central bank governor meetings at **the Bank for International Settlements (BIS)**, where capital flow dynamics and foreign exchange interventions were discussed, together with risks to the global economy and emerging market economies, central bank policies on collateral provision, the structure of the financial system, and other issues. The Bank of Russia took part in a number of BIS studies into microprudential supervision and financial risk management at central banks.

Representatives of the Bank of Russia participated in the work of **the Basel Committee on Banking Supervision (BCBS)** and its working groups on developing and introducing standards, macroprudential supervision, capital, liquidity, the activities of supervisory colleges, as well as assessing the quantitative impact of the new BCBS regulatory standards.

Over the reporting year, the Bank of Russia continued to collaborate actively with **the Financial Stability Board (FSB)**. As the successor of the Russian Federal Financial Markets Service in terms of involvement (membership) with international organisations, from 1 September 2013, the Bank of Russia became a member of the FSB's Standing Committee on Regulatory and Supervisory Cooperation, a direct member of the Regulatory Oversight Committee for the Global Legal Entity Identifier System (GLEIS), as well as a member of the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

Over 2013, the Bank of Russia prepared summary reports from the Russian Federation within the framework of the FSB's thematic surveys on reducing dependency on rating agency assessments and the implementation of OTC derivatives

market reform, as well as the annual report on the scale of the shadow banking system. Within the context of implementing the FSB's Principles on reducing dependency on rating agency assessments, the Bank of Russia prepared and published a relevant action plan for the period up to 2015.

Representatives of the Bank of Russia took part in all of the key measures through the Plenary Meeting and other FSB working bodies. In November 2013, under Russia's presidency of the G20, the Plenary Meeting was held at the Bank of Russia.

In December 2013, following examination of an application from the Bank of Russia and the necessary documents from the non-bank credit institution National Settlement Depository (a closed joint-stock company) (NKO ZAO NSD), the Regulatory Oversight Committee for GLEIS decided to integrate NKO ZAO NSD into the GLEI system as a globally recognised preliminary Local Operations Division.

In 2013, within the framework of the three year Memorandum of Understanding between **the European Central Bank** and the Central Bank of the Russian Federation, over ten measures were implemented in the spheres of financial stability, monetary policy and banking supervision.

Through **the Russia — EU Dialogue on Financial and Macroeconomic Policy**, sessions of the Working Group on Banking and Securities were held (co-chaired by the Bank of Russia) as well as the VIII Plenary Session of the Dialogue.

The Bank of Russia took part in **the Asia-Pacific Economic Cooperation (APEC)** forum, which resulted in decisions to intensify efforts to establish a system of market-oriented foreign exchange rates and to guarantee their flexibility, as well as the need to refrain from competitive devaluation and the use of foreign exchange rates to increase the competitiveness of national economies.

During the reporting year, Bank of Russia representatives continued to participate within the Russian delegation in negotiations on Russia's accession to **the Organisation for Economic Cooperation and Development (OECD)**. Its main efforts were concentrated on bringing Russia's banking legislation in line with the OECD's requirements and reviewing its negotiating position.

The Bank of Russia continued to participate in the work of **the WTO's** standing authorities (its Council for Trade in Services and its Committee on Trade in Financial Services). The Doha round of multilateral trade negotiations were also monitored to identify approaches for participation in terms of financial services.

One of the Bank of Russia's priorities remained **the development of integration processes** in the banking and financial spheres within **the Customs Union and the Single Economic Space**.

During 2013, active work was carried out on the 'financial' sections of the draft Eurasian Economic Union Agreement, which is due to be signed in May 2014 to enter into force from 1 January 2015.

With the Bank of Russia's involvement, two draft agreements were also drawn up, aimed at improving the financial market integration of three countries (Republic of Belarus, Republic of Kazakhstan and the Russian Federation): the Agreement on the Implementation of Activities in the Financial Markets and the Agreement on the Exchange of Information, including confidential information, between the signatories to the Agreement on Coordinated Principles of Currency Policy dated 9 December 2010.

Based on earlier arrangements enshrined in the Agreement on the Creation of an Integrated Foreign Exchange Market (drafted with the participation of the Bank of Russia), in 2013 the integrated foreign exchange market of EurAsEC member states began operation. From February 2013, to further develop the integrated foreign exchange market, resident banks of EurAsEC states were granted access to the foreign exchange market at the Moscow Exchange.

During 2013, the Bank of Russia took part in bilateral **intergovernmental committees (IGC)** and their core structures on financial and banking cooperation. It collaborated actively with the national banks of Armenia, Brazil, Vietnam, Kazakhstan, Kyrgyzstan, China, Tajikistan, Turkey, India, and Iran. Attention was focused on an increase in mutual settlements in national currencies, the expansion of the correspondent network of commercial banks, and collaboration in the set-up of direct links between partner-state banks.



Through **interbank collaboration in supervisory activities**, work continued to approve draft memoranda (agreements) with supervisory bodies in a number of countries, including in relation to the changes in Russian banking legislation governing the disclosure of information constituting bank secrecy, the guarantees to ensure the confidentiality of information provided to the Bank of Russia, and inspections of corresponding subsidiary Russian banks by foreign supervisory bodies. At present, the Bank of Russia has signed

37 cooperation agreements (memoranda of understanding) with banking supervisory bodies in foreign countries.

In 2013, bilateral meetings on pressing issues in the field of banking regulation and supervision were held with representatives of Austrian, Chinese and Dutch supervisory authorities. Bank of Russia representatives also participated in the work of supervisory colleges organised by the supervisory authorities of Austria, Hungary, the Netherlands and Italy.

## II.14.5. BANK OF RUSSIA STAKEHOLDINGS IN THE CAPITAL OF RUSSIAN AND FOREIGN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS

Pursuant to Article 8 of Federal Law No. 86-FZ, the Bank of Russia participated in the capital of Sberbank of Russia, an open joint-stock company (Sberbank of Russia) and in the capital of resident organisations that supported the operations of the Bank of Russia. These included the MICEX-RTS Moscow Exchange, an open joint-stock company (Moscow Exchange), and the St Petersburg Currency Exchange, a closed joint-stock company (SPCEX). The Bank of Russia was involved in these resident organisations through its representatives in their management and controlling bodies for the purpose of implementing the strategic objectives of the economic policy of the state and consistently upgrading the financial market's infrastructure for successful open market operations.

The Bank of Russia's stake in Sberbank of Russia's authorised capital remained unchanged at 50% plus one voting share in 2013. The Bank of Russia's dividends received in the reporting year from Sberbank of Russia increased, to more than 29.0 billion rubles (27.0 billion rubles in 2011), due to the growth in the net profit of Sberbank of Russia in 2012.

In 2013, the Supervisory Board of Sberbank of Russia summarised the results of its Development Strategy up to 2014 and approved the Development Strategy for 2014—2018. The successful fulfilment of its strategic objectives in 2013 resulted in the overfulfilment of the set profit and return-on-equity targets, consolidation of its market positions, setting up a customer-oriented service company, introduction of a leading risk-management system, modernisation of its human resource management system, expansion of its international presence by acquiring banks in Turkey and Eastern Europe (DenizBank A.S. and Sberbank Europe AG), and the development of its banking network in 22 countries around the world. In 2013, foreign assets accounted for more

than 12% of total assets of the Sberbank Group. The main targets in terms of the bank's modernisation during the new strategic period were retaining its positions in the household deposits market in Russia, effective spending management, and improving the reliability of IT and management systems and processes.

In 2013, the Bank of Russia's stake in the authorised capital of the Moscow Exchange decreased from 24.33% to 22.47% due to the increase in the authorised capital of the Moscow Exchange following the initial public offering of shares, in which the Bank of Russia did not participate. The successful public offering allowed the Moscow Exchange to attract funds from major international investment institutions (currently over 150 major international investors from the USA, UK, Germany, France, Luxembourg, China, Japan, the Republic of Korea, Cyprus and other countries around the world are among its shareholders).

In November 2013, an extraordinary general shareholders' meeting of the Moscow Exchange decided to reduce the authorised capital of the exchange by buying and retiring Moscow Exchange shares to cut their total number. A report on the results of the acquisition of Moscow Exchange shares, in the total number of 99,852,660, was approved by the Exchange's Supervisory Board in March 2014. After the introduction and registration of corresponding changes to the Moscow Exchange's charter, the exchange registrar (the closed joint-stock company Status) retired the Moscow Exchange shares, resulting in the Bank of Russia's stake in the authorised capital of the Moscow Exchange increasing from 22.47% to 23.46% as of 1 January 2014.

Over the reporting year, the Moscow Exchange's collegial bodies focused their efforts on improving the image of the Moscow Exchange as a major international financial instruments trad-

ing floor by expanding the range of competitive products and services on offer, improving and minimising spending on post-trading services on the basis of a consolidated modern IT platform, and complying with high corporate governance standards. In 2013, non-residents and a number of securities from foreign issuers were listed on the stock exchange, the plan for leading global banks to provide customers with direct access to the stock market was implemented, precious metal trading was launched and the Code of Corporate Conduct started to be observed.

The dividends paid to the Bank of Russia by the Moscow Exchange for 2012 amounted to 594 million rubles (151 million rubles for 2011). The dividend policy of the Moscow Exchange for the coming three years, adopted in February 2013, provides for dividend payments of at least 40% for 2013 and of at least 50% for 2014 of the net profit of the Moscow Exchange Group according to International Financial Reporting Standards.

The Bank of Russia's stake in the capital of the SPCEX did not change in 2013 and stood at 8.9%. The Bank of Russia holds a stake in the SPCEX because St Petersburg is the country's

second largest financial centre and the SPCEX may be used as a reserve trading floor.

Pursuant to Article 9 of Federal Law No. 86-FZ, in 2013 the Bank of Russia participated in the capital and activities of international organisations such as the Basel-based Bank for International Settlements (0.57% of the authorised capital), the Moscow-based Interstate Bank (50.0% of the authorised capital), and the Belgium-based Society for Worldwide Interbank Financial Telecommunications, or S.W.I.F.T. (0.006% of the authorised capital).

Moreover, in accordance with Article 4 of Federal Law No. 86-FZ, the Bank of Russia is the depository of the International Monetary Fund (IMF) in the Russian currency and performs operations and transactions according to the provisions of the IMF Articles of Agreement and agreements with the IMF. That is why the Russian Federation's quota with the IMF, which amounts to 5,945.4 million SDRs, has been included in the Bank of Russia's balance sheet from 2011. The Bank of Russia's stake in the IMF's aggregate quotas (capital) did not change in 2013 and amounted to 2.5%, representing 2.39% of the total number of its member countries' votes.

## II.14.6. MANAGING LAWSUITS AND CLAIMS

*In* 2013, the Bank of Russia's regional branches received 161 property-related lawsuits and claims for a total amount of 52.74 million rubles, of which 42 lawsuits and claims (for a total amount of 1.90 million rubles) were satisfied, indicating that most of the lawsuits and claims were unfounded.

In 2013, 13 labour relations lawsuits were initiated against the Bank of Russia.

Some credit institutions disputed the sanctions used against them by the Bank of Russia. Twenty-five out of the 110 claims filed were satisfied.

The Bank of Russia's regional branches made claims and brought lawsuits as part of their supervision of credit institutions. 1,564 claims and 41 lawsuits were initiated against credit institutions, for an amount totalling 27.37 million rubles, of which 1,492 claims and lawsuits, for a total amount of 24.83 million rubles, were satisfied by the end of the reporting period.

In 2013, together with the Bank of Russia Financial Markets Service (prior to 1 September 2013, FFMS of Russia) courts of law examined 2,362 administrative offence cases, of which 180 cases were found against the Bank of Russia Financial Markets Service and 554 administrative offence cases were declared minor by the court.

Disputes were filed against non-regulatory documents of the Bank of Russia Financial Markets Service with only 96 out of 672 claims submitted being satisfied.

The Bank of Russia Financial Markets Service initiated 743 administrative offence cases within the context of exercising control and supervision over the activities of non-bank financial institutions, with 636 of these resulting in resolutions finding the institutions liable under administrative law.

The Bank of Russia Financial Markets Service filed 10 bankruptcy cases against financial institutions and three cases to protect investor rights.

**BANK OF RUSSIA ANNUAL  
FINANCIAL STATEMENTS  
AS OF 1 JANUARY 2014**



## INTRODUCTION

The Annual Financial Statements include operations conducted by the Bank of Russia to fulfil its principal purposes and functions, as stipulated by Federal Law No. 86-FZ, dated 10 July 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia)’, as amended (hereinafter, the Federal Law ‘On the Central Bank of the Russian Federation (Bank of Russia)’).

The Annual Financial Statements presented below (hereinafter, the financial statements) as of 1 January 2014 are comprised of:

- Annual Balance Sheet;
- Profit and Loss Account;
- Statement of Profit and its Allocation;
- Statement of Bank of Russia Reserves and Funds;
- Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of

Organisations Constituting Bank of Russia Property;

- Statement of the Volume of Bank of Russia Securities Trading on Organised Trading Venues;
- Statement of Bank of Russia Personnel Costs;
- Statement of Capital Investment Budget Performance.

The principal objectives of the Bank of Russia are:

- to protect the ruble and ensure its stability;
- to upgrade and strengthen the Russian banking system;
- to ensure the stability and development of the national payment system;
- to develop the Russian financial market;
- to ensure the stability of the Russian financial market.

## ANNUAL BALANCE SHEET AS OF 1 JANUARY 2014

*(millions of rubles)*

	Note	2013	2012
<b>ASSETS</b>			
<b>1. Precious metals</b>	3	<b>1,394,150</b>	<b>1,646,187</b>
<b>2. Funds placed with non-residents and foreign securities</b>	4	<b>15,091,147</b>	<b>14,525,911</b>
<b>3. Loans and deposits</b>	5	<b>4,881,376</b>	<b>3,164,226</b>
<b>4. Securities, of which:</b>	6	<b>450,306</b>	<b>456,314</b>
4.1. Federal government debt obligations		364,063	370,182
<b>5. Claims on the IMF</b>	7	<b>645,964</b>	<b>592,948</b>
<b>6. Other assets, of which:</b>	8	<b>99,468</b>	<b>245,158</b>
6.1. Fixed assets		76,252	76,276
6.2. Profit tax advanced payments		153	159
<b>Total assets</b>		<b>22,562,411</b>	<b>20,630,744</b>
<b>LIABILITIES</b>			
<b>1. Cash in circulation</b>	9	<b>8,307,755</b>	<b>7,667,950</b>
<b>2. Funds in accounts with the Bank of Russia, of which:</b>	10	<b>10,358,984</b>	<b>9,433,035</b>
2.1. Federal government funds		5,848,761	4,941,658
2.2. Funds of resident credit institutions		2,196,821	2,185,475
<b>3. Float</b>	11	<b>5,680</b>	<b>158</b>
<b>4. Securities issued</b>	12	<b>0</b>	<b>0</b>
<b>5. Obligations to the IMF</b>	13	<b>500,028</b>	<b>447,716</b>
<b>6. Other liabilities</b>	14	<b>108,785</b>	<b>110,102</b>
<b>7. Capital, of which:</b>		<b>3,151,918</b>	<b>2,724,457</b>
7.1. Authorised capital		3,000	3,000
7.2. Reserves and funds		3,148,918	2,721,457
<b>8. Reporting year profit</b>	15	<b>129,261</b>	<b>247,326</b>
<b>Total liabilities</b>		<b>22,562,411</b>	<b>20,630,744</b>

Governor of the Bank of Russia



E.S. Nabiullina

Bank of Russia Chief Accountant



A.V. Kruzhalov

25 April 2014

## PROFIT AND LOSS ACCOUNT

		<i>(millions of rubles)</i>	
	Note	2013	2012
<b>INCOME</b>			
Interest income	16	251,947	238,494
Income from securities trading	17	12,579	33,341
Net income from the sale of OJSC Sberbank of Russia shares		0	149,657
Income from stakeholdings in credit institutions and other organisations	18	29,668	27,253
Net income from the recovery of provisions	19	3,376	0
Other income	20	18,943	18,060
<b>Total income</b>		<b>316,513</b>	<b>466,805</b>
<b>EXPENSES</b>			
Interest expenses	21	11,326	34,820
Expenses on securities trading	22	9,704	4,320
Cash turnover management expenses	23	11,354	19,797
Expenses on negative revaluation of securities available for sale	24	7,826	473
Net expenses from the creation of provisions	19	0	14,239
Other operating expenses	25	51,235	55,412
Bank of Russia personnel costs	26	95,807	90,418
<b>Total expenses</b>		<b>187,252</b>	<b>219,479</b>
<b>Financial result: profit</b>		<b>129,261</b>	<b>247,326</b>



## CAPITAL, FUNDS AND PROFIT ALLOCATION

*(millions of rubles)*

	Authorised capital	Reserves	Social fund	Accrued revaluation of precious metals	Accrued foreign currency exchange rate differences	Positive revaluation of securities available for sale	Growth in property value due to revaluation	Total capital	Profit for the year
<b>Balance as of 1 January 2011, after taxation and allocation of profit for 2010 in 2011</b>	<b>3,000</b>	<b>256,036</b>	<b>7,454</b>	<b>1,002,098</b>	<b>1,065,491</b>	<b>67,857</b>	<b>7,965</b>	<b>2,409,901</b>	<b>0</b>
Profit for 2011	0	0	0	0	0	0	0	0	21,903
Transferred to funds in 2011	0	0	2	197,709	593,010	69,555	1	860,277	0
Paid from funds in 2011	0	0	(2,719)	0	0	(32,076)	0	(34,795)	0
<b>Balance as of 1 January 2012, before taxation and allocation of profit for 2011</b>	<b>3,000</b>	<b>256,036</b>	<b>4,737</b>	<b>1,199,807</b>	<b>1,658,501</b>	<b>105,336</b>	<b>7,966</b>	<b>3,235,383</b>	<b>21,903</b>
Taxes and duties paid from Bank of Russia profit for 2011	0	0	0	0	0	0	0	0	(168)
Transferred to the federal budget	0	0	0	0	0	0	0	0	(16,301)
Allocation of profit for 2011 retained by the Bank of Russia	0	5,217	217	0	0	0	0	5,434	(5,434)
<b>Balance as of 1 January 2012, after taxation and allocation of profit for 2011 in 2012</b>	<b>3,000</b>	<b>261,253</b>	<b>4,954</b>	<b>1,199,807</b>	<b>1,658,501</b>	<b>105,336</b>	<b>7,966</b>	<b>3,240,817</b>	<b>0</b>
Profit for 2012	0	0	0	0	0	0	0	0	247,326
Transferred to funds in 2012	0	0	4	0	0	38,341	0	38,345	0
Paid from funds in 2012	0	0	(750)	(2,583)	(498,457)	(52,915)	0	(554,705)	0
<b>Balance as of 1 January 2013, after taxation and allocation of profit for 2012</b>	<b>3,000</b>	<b>261,253</b>	<b>4,208</b>	<b>1,197,224</b>	<b>1,160,044</b>	<b>90,762</b>	<b>7,966</b>	<b>2,724,457</b>	<b>247,326</b>
Taxes and duties paid from Bank of Russia profit for 2012	0	0	0	0	0	0	0	0	(162)
Funds transferred to the federal budget in 2012 from the proceeds of sale of OJSC Sberbank of Russia shares according to Art. 1 of Federal Law No. 247-FZ, dated 3 December 2012	0	0	0	0	0	0	0	0	(149,657)
Funds transferred to the federal budget according to Clause 8 Art. 24 of Federal Law No. 216-FZ, dated 3 December 2012	0	0	0	0	0	0	0	0	(73,130)
Allocation of profit for 2012 retained by the Bank of Russia	0	23,402	975	0	0	0	0	24,377	(24,377)



(millions of rubles)

	Authorised capital	Reserves	Social fund	Accrued revaluation of precious metals	Accrued foreign currency exchange rate differences	Positive revaluation of securities available for sale	Growth in property value due to revaluation	Total capital	Profit for the year
<b>Balance as of 1 January 2013, after taxation and allocation of profit for 2012 in 2013</b>	<b>3,000</b>	<b>284,655</b>	<b>5,183</b>	<b>1,197,224</b>	<b>1,160,044</b>	<b>90,762</b>	<b>7,966</b>	<b>2,748,834</b>	<b>0</b>
Profit for 2013	0	0	0	0	0	0	0	0	129,261
Transferred to funds in 2013	0	0	42	0	828,707	4,025	0	832,774	0
Paid from funds in 2013	0	0	(3,337)	(385,733)	0	(40,620)	0	(429,690)	0
<b>Balance as of 1 January 2014, before taxation and allocation of profit for 2013</b>	<b>3,000</b>	<b>284,655</b>	<b>1,888</b>	<b>811,491</b>	<b>1,988,751</b>	<b>54,167</b>	<b>7,966</b>	<b>3,151,918</b>	<b>129,261</b>
Taxes and duties paid in advance in 2013 from Bank of Russia profit for 2013	0	0	0	0	0	0	0	0	(153)
Taxes and duties levied additionally in 2014 after final settlement from Bank of Russia profit for 2013	0	0	0	0	0	0	0	0	(7)
Profit after tax and duty payments effected under the Tax Code of the Russian Federation	0	0	0	0	0	0	0	0	129,101
Contribution to the compulsory deposit insurance fund transferred to the Deposit Insurance Agency (DIA), a state-owned corporation, according to Federal Law No. 40-FZ, dated 2 April 2014	0	0	0	0	0	0	0	0	(60,000)
Funds to be transferred to the federal budget	0	0	0	0	0	0	0	0	(51,826)
Allocation of profit for 2013 retained by the Bank of Russia	0	16,584	691	0	0	0	0	17,275	(17,275)
<b>Balance as of 1 January 2014, after taxation and allocation of profit for 2013 in 2014</b>	<b>3,000</b>	<b>301,239</b>	<b>2,579</b>	<b>811,491</b>	<b>1,988,751</b>	<b>54,167</b>	<b>7,966</b>	<b>3,169,193</b>	<b>0</b>



The negative unrealised differences resulting from the revaluation of precious metal balances in 2013 due to the change in the book price of precious metals, totalling 385,733 million rubles (2012: 2,583 million rubles) are written off against a previously accrued revaluation recorded to the balance sheet account *Accrued revaluation of precious metals* as part of capital which, as of 1 January 2014, totalled 811,491 million rubles (2012: 1,197,224 million rubles) (Note 1 (c) and Statement of Bank of Russia Reserves and Funds).

In 2013, there was an excess of positive unrealised foreign currency exchange rate differences over negative unrealised foreign currency exchange rate differences. This excess, totalling 828,707 million rubles (2012: the excess negative unrealised foreign currency exchange rate differences over positive ones was 498,457 million rubles) is recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital. As of 1 January 2014, accrued foreign currency exchange rate differences as part of capital amounted to 1,988,751 million rubles (2012: 1,160,044 million rubles) (Note 1 (d) and Statement of Bank of Russia Reserves and Funds).

In 2013, there was a 36,595 million ruble decrease in the accrued revaluation of securities available for sale (due to writing off the excess of the negative revaluation of available for sale securities of the corresponding issue) over the positive revaluation not exceeding the previously accrued revaluation, recorded as capital, of the issue and previously accrued revaluation, recorded as capital, for securities sold in 2013, to the total amount of 40,620 million rubles (2012: 52,915 million rubles). It was also due to the recording of the excess of the surplus revaluation of available for sale securities of the corresponding issue over the negative revaluation of the issue, including the one recorded as expenses in previous years, to the total amount of 4,025 million rubles (2012: 38,341 million rubles). As of 1 January 2014, the accrued revaluation of securities available for sale and accounted for as capital totalled 54,167 million rubles (2012: 90,762 million rubles) (Note 1 (e) and Statement of Bank of Russia Reserves and Funds).

In 2013, the Bank of Russia paid 160 million rubles in profit taxes, including 153 million rubles in advance payments for 2013 (Note 8 and Statement of Profit and Its Allocation).

## NOTES TO ANNUAL FINANCIAL STATEMENTS AS OF 1 JANUARY 2014

### 1. ACCOUNTING AND FINANCIAL REPORTING PRINCIPLES

The Bank of Russia's accounting and financial reporting practices conform to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Federal Law 'On Accounting', Bank of Russia Regulation No. 66-P, dated 1 January 2006, 'On Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Regulation No. 66-P) and other Bank of Russia regulations issued pursuant to these federal laws.

#### *(a) Accounting principles*

Accounting is based on the principle of recording balance sheet items at their initial value at the time assets are acquired, and when obligations arise, under contractual terms and conditions. The principles used for revaluing individual asset and liability items are described below.

#### *(b) Financial reporting principles*

These financial statements have been compiled on the basis of the balance sheet data provided by the Bank of Russia, its regional branches, and other divisions incorporated in the Bank of Russia as a legal entity.

These financial statements have been compiled exclusive of the financial statements of credit institutions and other organisations within and outside Russia in which the Bank of Russia holds a stake, and/or which it controls. Under Russian law, the Bank of Russia is not required to compile a consolidated financial statement that includes financial statements of credit institutions and other organisations in which it holds a stake, and/or which it controls.

These financial statements have been compiled in the currency of the Russian Federation, the Russian ruble (hereinafter, the ruble), in millions of rubles.

Figures shown in the Tables in brackets denote negative values.

For the purposes of these financial statements, Bank of Russia operations with credit institutions and the Bank for Development and Foreign Economic Affairs (Vnesheconombank), a state corporation, are referred to as operations with resident banks.

#### *(c) Precious metals*

Precious metals are recorded at their book price and revalued as the book prices of precious metals are set in accordance with Bank of Russia regulations.

The Bank of Russia calculates book prices on the basis of the current fixed prices of precious metals on the London Metal Exchange. The fixed prices of precious metals, denominated in US dollars, are recalculated into rubles at the official US dollar/ruble exchange rate, effective as of the day following the day the book prices are fixed, which in turn also become effective as of the following day.

The excess of positive unrealised differences that arise from the revaluation of precious metal balances, due to the change in the book prices of precious metals, over negative unrealised differences is recorded to the balance sheet account *Accrued revaluation of precious metals* as part of capital and is not included in the profit and loss account.

In cases where the negative unrealised difference exceeds the positive unrealised difference in the results of the full-year performance, the excess is compensated for from previously accrued unrealised differences recorded to the balance sheet account *Accrued revaluation of precious metals* as part of capital, in accordance with a decision of the Bank of Russia Board of Directors. If there are no funds in the balance sheet account *Accrued revaluation of precious metals* (or the funds are insufficient), the negative unrealised differences are entirely (or in the amount of the excess of the credit balance of

the aforementioned balance sheet account) booked to Bank of Russia operating expenses for the corresponding reporting year, by a decision of the Bank of Russia Board of Directors.

The realised differences (income or expenses) that arise when trade operations with precious metals are conducted at a price different from the book price of such precious metals, are calculated individually for each operation. The realised difference is the difference between the actual value of a transaction and the value based on the book price of a corresponding precious metal. The realised differences in operations with precious metals are calculated as of the transfer date of the title to the precious metal to which the transaction relates. Net positive realised differences are recorded as other income, while net negative realised differences are recorded as other operating expenses.

From 1 July 2013, by a decision of the Bank of Russia Board of Directors, precious metals in commemorative and investment coins in the currency of the Russian Federation, old coins, samples of commemorative and investment coins in the currency of the Russian Federation and sample old coins are revalued and recorded to the Bank of Bank of Russia balance sheet daily at their book prices.

Over the year, any unrealised revaluation of precious metals in coins is recorded to separate sub-accounts of the balance sheet accounts: *Revaluation of precious metals — positive differences* and *Revaluation of precious metals — negative differences*.

At the end of the year, the accrued revaluation of precious metals in coins is transferred to the balance sheet account *Accrued revaluation of precious metals*.

In accordance with a decision of the Bank of Russia Board of Directors, any funds recorded to a separate sub-account of balance sheet account *Accrued revaluation of precious metals* may be used at the end of the year to offset a negative unrealised revaluation of precious metals in coins formed through the negative unrealised revaluation of precious metals in coins exceeding the positive unrealised revaluation of precious metals in coins.

If there are no funds in the separate sub-account of the balance sheet account *Accrued revaluation of precious metals* (or the funds are insufficient), the negative unrealised revaluation of precious metals in coins may be booked to Bank of Russia operating expenses, in accordance with a decision of the Bank of Russia Board of Directors.

The value of any precious metals in coins used to conclude a purchase and sale transaction and their nominal value on the date of the specification are entered to the balance sheet account for the retirement (sale) of assets without any further revaluation of the precious metals being carried out.

Precious metals placed on deposits or unallocated metal accounts in non-resident credit institutions are accounted for at their book price, revalued under Bank of Russia regulations, and posted to *Funds placed with non-residents and foreign securities* together with accrued interest.

Bank of Russia claims and obligations with respect to the delivery of precious metals in forward transactions under signed contracts are recorded to off-balance sheet accounts from the transaction date to the settlement date, and revalued as the book prices of precious metals are set.

Book prices used to recalculate assets and liabilities in precious metals as of 1 January 2014, were as follows: 1,264.3000 rubles per gram of gold (2012: 1,618.5600 rubles per gram of gold); 20.9600 rubles per gram of silver (2012: 29.4400 rubles per gram of silver); 1,434.2400 rubles per gram of platinum (2012: 1,491.1200 rubles per gram of platinum); 745.0100 rubles per gram of palladium (2012: 687.4600 rubles per gram of palladium).

#### *(d) Foreign currency assets and liabilities*

Foreign currency assets and liabilities are accounted for in rubles at the official rates of exchange of the ruble against foreign currencies set by the Bank of Russia (hereinafter, official exchange rates) as of the balance sheet compilation date. Foreign currency assets and liabilities are revalued daily at the official exchange rates. Income and expenditure relating to Bank of Russia foreign currency operations are accounted for on the balance sheet in rubles at the official exchange rates, as of the day income is received or expenses are incurred.

The excess of positive unrealised exchange rate differences that arise in the course of revaluing the balances in debit and credit balance sheet accounts, where funds in foreign currency are recognised, over negative unrealised exchange rate differences due to changes in the official exchange rates, is recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital and is not included in the profit and loss account.

Should the negative unrealised exchange rate differences exceed the positive unrealised exchange rate differences accrued over the year, such excess is offset by previously accrued exchange rate differences accounted for in the balance sheet account as *Accrued foreign currency exchange rate differences* as part of capital in accordance with a decision of the Bank of Russia Board of Directors. If there are no funds in the balance sheet account *Accrued foreign currency exchange rate differences* or if the funds are insufficient, the negative unrealised exchange rate differences are entirely (or in the amount that exceeds the credit balance of the above balance sheet account) posted to Bank of Russia expenses for the corresponding reporting year in accordance with the decision of the Bank of Russia Board of Directors.

Realised exchange rate differences that arise in foreign exchange transactions conducted at a rate that differs from the official exchange rates are calculated individually for each transaction, and are posted to Bank of Russia income or expenses. The total excess of the positive realised exchange rate differences from foreign exchange operations over the negative realised exchange rate differences is recorded as part of other income to *Net positive foreign currency exchange rate differences*, whereas the total excess of the negative realised exchange rate differences from foreign exchange operations over the positive realised exchange rate differences is recorded as part of other operating expenses to *Net negative realised foreign currency exchange rate differences*.

Bank of Russia claims and obligations under foreign currency purchase and sale forward contracts are recorded to off-balance sheet accounts from the transaction date to the settlement date and are revalued at the official exchange rates.

The official exchange rates used in recalculating foreign currency assets and liabilities as of 1 January 2014, were as follows: 32.7292 rubles to the US dollar (2012: 30.3727 rubles to the US dollar); 44.9699 rubles to the euro (2012: 40.2286 rubles to the euro); 53.9574 rubles to the pound sterling (2012: 48.9638 rubles to the pound sterling); 30.5452 rubles to the Canadian dollar (2012: 30.5407 rubles to the Canadian dollar); 31.0568 rubles to 100 Japanese yen (2012: 35.1516 rubles to 100 Japanese yen); 50.5735 rubles to the SDR (special drawing rights) (2012: 46.8189 rubles to the SDR); and 28.9555 rubles to the Australian dollar (2012: 31.5481 rubles to the Australian dollar).

#### *(e) Securities*

Securities are accounted for at the purchase price, inclusive of coupon income paid, increased by material additional expenses (costs) directly related to their purchase. Expenses exceeding 5% of the transaction value are recognised as material.

Securities are accounted for in the currency in which they are issued.

The price of securities purchased in a currency other than that in which they were issued is calculated at the Bank of Russia's official exchange rate as of the purchase date, or at a cross rate set for corresponding currencies.

Investments in securities other than promissory notes are categorised as follows, depending on the purpose of the purchase:

Debt obligations valued at fair value through profit or loss. These include securities purchased for a short-term sale (up to one year), whose current (fair) value can be determined;

Debt held until redemption. This includes securities that the Bank of Russia intends to hold to redemption, regardless of the period between the purchase date and the redemption date;

Debt obligations available for sale. This includes securities that are not categorised when purchased as 'valued at fair value through profit or loss' or 'held to redemption'.

The balance sheet value of securities after their initial recognition is altered by the amount of the discount (premium) and coupon (interest) income accrued and received from their initial recognition until retirement.

The amount of the discount (premium) and coupon (interest) income on securities is recognised as interest income accrued in the period to maturity.

Interest income on securities is recognised as income on the last working day of the month in which the securities are retired (sold) or when interest income is paid by the issuer.

Securities categorised as securities valued at fair value through profit or loss and securities categorised as available for sale are revalued at current (fair) value.

Market prices from the latest organised trades are used to evaluate the current (fair) value of securities traded in the domestic financial market (excluding eurobonds). Alternatively, the latest available representative purchase prices quoted by Bloomberg are used if the securities are traded in a foreign financial market (including eurobonds traded in the domestic financial market). Valuations based on market data are used if it is impossible to determine the market price of securities from independent external sources.

The securities revaluation amount is the difference between the fair price of securities and their balance sheet price, inclusive of accrued interest income. Revaluation amounts that arise during the year due to a change in the current (fair) value are recorded to the accounts, reflecting a positive or negative revaluation of securities.

The revaluation of securities categorised as securities valued at fair value through profit or loss is recorded for the year to the accounts reflecting the income from securities trading (positive differences) or to the accounts reflecting expenses incurred in securities trading (negative differences).

At year end, the excess of the positive revaluation over the negative revaluation of securities available for sale is written down to the account recording income on securities within the limits of the negative revaluation of the corresponding issue (issuer), recorded to the account showing the expenses on securities trading in previous years, and in the absence of the negative revaluation of the corresponding issue (issuer), it is recorded to the expenses incurred in previous years or, in the amount exceeding it, — to the account *Positive revaluation of securities available for sale* as part of capital. With respect to securities available for sale that are acquired in the reporting year, the positive revaluation of such securities of the corresponding issue (issuer) is recorded to the balance sheet account *Positive revaluation of securities available for sale* as part of capital.

At year end, the excess of the negative revaluation over the positive revaluation of securities available for sale of the corresponding issue (issuer) is written down against the positive revaluation of securities available for sale, and accounted for as capital within the limits of the previously accrued positive revaluations of this issue (issuer). In the absence (or shortage) of previously accrued positive revaluations of this issue (issuer) accounted for as capital, it is recorded to the account showing expenses on securities trading. With respect to securities available for sale and acquired in the reporting year, the negative revaluation of such securities of the corresponding issue (issuer) is written down to the account reflecting expenses on the negative revaluation of securities available for sale in the profit and loss account.

The financial result of the retirement of securities available for sale is calculated as the difference between the balance sheet price of the security as of the retirement date (inclusive of accrued interest income and accrued revaluation as of the retirement date) and the retirement (selling) price set by the contract.

Realised income and expenses on the sale of securities are recorded as income and expenses on securities trading to the profit and loss account.

Securities received by the Bank of Russia in repo transactions with resident or non-resident credit institutions are recorded to off-balance sheet accounts as securities received as collateral in repos, and revalued at their current (fair) value. The funds provided through repos with resident or non-resident credit institutions are recorded to the Bank of Russia balance sheet as operations to provide



funds against collateral in the form of securities, including the accrued interest. Income from these placements is recorded as interest income.

Securities transferred by the Bank of Russia in reverse transactions, including securities transferred as collateral in repo transactions with resident or non-resident credit institutions, continue to be recognised on the Bank of Russia balance sheet in the same category of securities as they were recognised before the transaction, in separate balance sheet accounts. The raising of funds through repos with resident or non-resident credit institutions is accounted for on the Bank of Russia balance sheet as fund-raising operations against collateral in the form of securities, including the accrued interest. The cost of raising funds through repos is recorded as interest expenses.

Securities received by the Bank of Russia as dividends paid with property (in a cashless form) are recognised as of the date of transfer of title to the relevant securities.

Promissory notes issued by credit institutions are accounted for at their purchase price net of depreciation provisions.

#### *(f) Bank of Russia bonds*

Bank of Russia bonds (OBRs), when placed and sold, are accounted for at a nominal value net of the discount (the difference between their nominal value and the actual placement or selling price) inclusive of accrued interest.

The amount of the discount is recognised as interest expenses accrued during the OBR's period to maturity and recorded to the expense accounts on the last working day of the month when the bonds are bought back or redeemed.

When OBRs are bought back by the Bank of Russia, securities that were placed first are written off the Bank of Russia balance sheet, while the difference between the balance sheet price of the securities (inclusive of accrued interest expenses) and the amount paid is recorded to the profit and loss account as expenses (income) relating to securities trading.

OBR repos are accounted for in the same way as securities repos. OBRs received by the Bank of Russia in repos with resident credit institutions are recorded to off-balance sheet accounts as securities received as collateral in repos. Funds received in repos with resident credit institutions are recorded to the Bank of Russia balance sheet as placements made against collateral in the form of securities. Income from these placements is recorded as interest income.

#### *(g) Investments*

Bank of Russia investments in the authorised capital of credit institutions and other organisations inside and outside Russia are accounted for at their purchase price.

#### *(h) Loans and deposits*

Loans and deposits extended to credit institutions and state corporations, including those extended pursuant to federal laws and decisions made by the Bank of Russia Board of Directors, are recorded to the principal debt, net of depreciation provisions and inclusive of accrued interest whose receipt is regarded as certain.

The Bank of Russia extends loans against gold, a collateral (blocking) of securities, and assets or guarantees of credit institutions.

The Bank of Russia placed deposits and extended subordinated and unsecured loans in rubles and foreign currency in accordance with certain federal laws and decisions of the Bank of Russia Board of Directors.

Foreign currency-denominated deposits placed with non-resident banks are recorded to the principal debt, net of depreciation provisions and inclusive of accrued interest.



*(i) Bank of Russia loss provisions*

To cover the risks (probable losses) to which it may be exposed when conducting its operations or fulfilling its obligations, the Bank of Russia, pursuant to the applicable laws of the Russian Federation, makes provisions for: probable losses on credit and other similar exposure; claims on interest income related to loans and other similar exposure; securities held to redemption; the Ministry of Finance's debt to the Bank of Russia (except debt in the form of government securities); Bank of Russia compensation payments to household depositors of bankrupt banks not covered by the compulsory household deposit insurance system; other Bank of Russia operations in rubles and foreign currency; deferred expenditure involved in guaranteeing obligations to the participants in the Bank of Russia's pension programme; deferred expenses related to streamlining the Bank of Russia's structure and the need to cover losses due to the shortage of its reserves and funds; and for the contingent credit obligations of the Bank of Russia. The Bank of Russia may make provisions for other assets and probable losses if there is any reason to believe that losses may occur.

Provisions for credit and other similar exposures of the Bank of Russia in rubles and foreign currency are made according to a uniform scale for measuring credit risk on an individual basis and/or for homogenous loan portfolios with similar credit exposure characteristics.

Loss provisions for the homogeneous credit portfolio consisting of similar credit claims are made for the portfolio as a whole and reflect the amount of probable losses that may result from the overall depreciation of homogeneous credit claims pooled (grouped) in the portfolio. When determining which credit exposure characteristics are similar, the Bank of Russia may take into account types of credit claims; claims emerging from transactions under a single agreement; placements of funds in compliance with certain federal laws; the net settlement of debt obligations in several transactions; and other transaction characteristics.

Provisions are made in rubles. Bank of Russia provisions are made on the basis of decisions of the Bank of Russia Board of Directors and recorded as Bank of Russia expenses. When the amount of the provisions made decreases as a result of: a full or partial redemption of loans and repayment of deposits, settlement of interest claims, repayment of promissory notes and other debts, retirement of other assets, reduction of obligations and/or expenses, termination of contingency obligations, return of funds that remain unclaimed by the depositors of a bankrupt bank and are transferred to the Bank of Russia by the agent bank after the completion of Bank of Russia payments, or the settlement by the receiver of a bankrupt bank of the Bank of Russia's claims, change of the official rate of exchange of foreign currencies to the ruble, improvement of asset quality and mitigation of the risk of probable losses for Bank of Russia assets (contingency obligations), the corresponding part of provisions is to be recovered to Bank of Russia income.

Provisions are used to write off assets the Bank of Russia cannot recover after it has undertaken necessary and adequate legal and actual measures to recover them and to exercise the rights arising from the availability of collateral for Bank of Russia assets and to cover other losses and guarantee pension obligations and/or expenses.

The risk of probable losses on the Bank of Russia's assets (for which provisions are made) is assessed by determining the probability of losing funds placed by the Bank of Russia, and the amount of probable losses according to its approved provisioning procedure.

Provisions for credit and similar exposure, and for exposure to credit interest income and other similar exposure are made by the Bank of Russia when the risk of probable losses (credit risk) arises in ruble- and foreign currency-denominated operations with credit institutions and other borrowers. Such risks are due to the non-fulfilment or inappropriate fulfilment (if there is a threat of such non-fulfilment or inappropriate fulfilment) by borrowers of their obligations with respect to Bank of Russia loans (deposits) and other placements, under the terms and conditions of agreements or other relevant documents that confirm the provision of loans (placement of deposits) and the placement of other funds by the Bank of Russia, its other claims, and non-payment of the promissory note.

The Bank of Russia assesses credit risk associated with the following credit and similar exposures: loans extended (deposits placed) by the Bank of Russia; promissory notes; and other claims exposed to credit risks. When assessing credit risk, the Bank of Russia evaluates the financial condition of a borrower and the quality of its debt servicing. The amount of provisions is determined, taking into account the cost (value) of collateral provided under concluded agreements, and calculated using adjustment ratios (discounts), unless the Bank of Russia Board of Directors decides otherwise. The debt on credit exposures is not adjusted for the value of collateral provided for a loan if the Bank of Russia has neither possibility of recourse nor the right to recover the corresponding collateral.

Provisions for Bank of Russia compensation payments for household deposits in bankrupt banks, not covered by the compulsory deposit insurance system (hereinafter, Bank of Russia compensation payments), are made in the amount of the funds the Bank of Russia actually transferred to the agent bank to effect Bank of Russia compensation payments, and also in the amount of debt the bankrupt bank owes to the Bank of Russia on obligations that arose in connection with the transfer of funds to the bankrupt bank's depositors by the Bank of Russia.

Provisions to guarantee Bank of Russia obligations to participants in its pension programme are made for the purpose of ensuring the fulfilment of the supplementary pension obligations to Bank of Russia employees, under the terms and conditions of the pension plan. The amount of provision to be made is determined by the excess of the forecast value of pension obligations over the forecast balance of funds in the pension account as of the year end following the reporting year.

Loss provision for the funds deposited by the Bank of Russia with a credit institution to compensate for part of the losses (expenses) sustained by the credit institution in transactions with other credit institutions that had their banking licenses revoked (pursuant to Federal Law No. 173, dated 13 October 2008, 'On Additional Measures to Support the Financial System of the Russian Federation') are made when the credit institution writes off the compensation deposit in whole or in part.

Bank of Russia assets for which provisions are made are accounted for on the balance sheet net of the amount of the provisions made.

#### *(j) Fixed assets*

The Bank of Russia's fixed assets are defined as its property with a service life in excess of 12 months and a value in excess of the limit set by the Bank of Russia for the recognition of property as fixed assets. As of 1 January 2012, this limit was set at 40,000 rubles.

Fixed assets are recognised at their residual value, i.e. at the purchase price inclusive of revaluation and exclusive of accrued depreciation.

Bank of Russia fixed assets have been revalued in compliance with Russian Federation Government resolutions. The latest revaluation was made as of 1 January 1997.

Depreciation allowances are made each month, on the first day of the month following the month the fixed assets were put into operation, at the rate of one-twelfth of the annual amount, and are continued throughout their entire service life (except in cases when the asset is in the process of reconstruction or modernisation lasting longer than 12 months or has been deactivated for more than three months following a decision of the Bank of Russia), and discontinued from the first day of the month following the month during which the cost of the asset was completely repaid or written off the books.

The maximum amount of accrued depreciation should equal the balance sheet value of the fixed asset.

Fixed assets acquired and put into operation prior to 1 January 2002 are depreciated at the official rates of depreciation set by USSR Council of Ministers Resolution No. 1072, dated 22 October 1990, 'On Standard Rates of Depreciation Allowances for the Complete Restoration of Fixed Assets of the National Economy of the USSR':

	%
Buildings and other facilities	1—7
Equipment (including computers, furniture, transport vehicles, etc.)	1—8

The fall in the maximum annual depreciation rate occurred due to the retirement of fully depreciated fixed assets during the reporting year.

Fixed assets put into operation after 1 January 2002, are depreciated according to Bank of Russia Order No. OD-715, dated 28 September 2011, 'On Approving the List of Bank of Russia Depreciated Fixed Assets, Categorised by Depreciation Group and Having their Service Life Indicated, and the Procedure for Using the List of Bank of Russia Depreciated Fixed Assets Categorised by Depreciation Group and Having their Service Life Indicated', issued pursuant to Russian Federation Government Resolution No. 1, dated 1 January 2002, 'On the Classification of Fixed Assets Included in Depreciation Groups' (revised by Russian Federation Government Resolutions No. 415, dated 9 July 2003; No. 476, dated 8 August 2003; No. 697, dated 18 November 2006; No. 676, dated 12 September 2008; No. 165, dated 24 February 2009; and No. 1011, dated 10 December 2010):

	%
Buildings and other facilities	1—39
Equipment (including computers, furniture, transport vehicles, etc.)	2—80

The increase in the maximum annual depreciation rate mostly occurred as a result of modernisation of fixed assets, increasing their value without changing their life service span or increasing it only slightly.

Fixed assets' repair and maintenance expenses are recorded to the profit and loss account as other operating expenses.

Profit and loss due to the retirement of fixed assets are calculated as the difference between their balance sheet value and retirement value, including accrued depreciation, and recorded to the profit and loss account as other income or other operating expenses.

#### *(k) Intangible assets*

Intangible assets are identifiable objects which do not possess physical form, are intended for long-term use, and which the Bank of Russia has the exclusive right to use.

Intangible assets are accounted for at their residual value, that is, at the purchase price net of accrued depreciation.

A change in the value of an intangible asset is possible if it is revalued. Intangible assets are revalued by recalculating their residual value.

Intangible assets have not been revalued before.

Depreciation allowances are made each month, on the first day of the month following the month the intangible assets were put into operation, at the rate of one-twelfth of the annual sum, and are continued throughout their entire service life. They are discontinued from the first day of the month following the month during which the cost of the asset was completely repaid or written off the books.

The maximum amount of accrued depreciation should equal the balance sheet value of the intangible asset.

The following rates of depreciation are used for intangible assets put into operation from 1 January 2002:

	%
Intangible assets	10—50

The annual depreciation rate increased due to the retirement of intangible assets that were subject to the minimum depreciation rates in the preceding reporting year.

The Bank of Russia establishes the service life of its intangible assets in compliance with Bank of Russia Ordinance No. 2581-U, dated 22 February 2011, 'On the Service Life of Software Products and/or Databases Used by the Bank of Russia, and on Procedures for Recording the Acquisition of Software Licenses to Bank of Russia Expenses'.

Profit and losses arising from the retirement of intangible assets are calculated as the difference between their balance sheet value and retirement value, inclusive of accrued depreciation, and recorded to the profit and loss account as other income or other operating expenses.

*(l) Cash in circulation*

The Bank of Russia is the sole issuer of cash and organiser of cash circulation. The banknotes and coins put into circulation are accounted for on the balance sheet at their nominal value, exclusive of ruble cash at Bank of Russia cash desks and cash in transit.

*(m) Funds in accounts with the Bank of Russia*

Funds in accounts with the Bank of Russia are comprised of federal government funds, credit institutions' correspondent accounts and required reserves deposited with the Bank of Russia, credit institutions' and other organisations' deposits taken by the Bank of Russia, as well as regional and local government budget funds and government extra-budgetary funds. Funds in accounts with the Bank of Russia are accounted for on the balance sheet at their nominal value, inclusive of interest accrued.

*(n) Float*

As of the year end, float includes the balances of funds connected with the completion of settlement operations across electronic and letter of advice settlement accounts, and balances of funds resulting from operations between Bank of Russia establishments connected with the transfer of payments of Bank of Russia establishments and their customers. Float is accounted for on the balance sheet at its nominal value.

*(o) Capital*

Bank of Russia capital consists of:

- authorised capital. Under Article 10 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia has authorised capital of 3 billion rubles;
- various reserves and funds created to enable the Bank of Russia to fulfil the functions assigned to it by the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. Information about the sources and use of Bank of Russia reserves and funds is contained in the Statement of Bank of Russia Reserves and Funds, which is part of these Annual Financial Statements as of 1 January 2014.

*(p) Reporting year profit*

Bank of Russia profit is calculated as a difference between total income from the transactions stipulated by Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and income from stakeholdings in the capital of credit institutions, and expenses involved in the Bank of Russia's fulfilment of the functions assigned to it by Article 4 of this Federal Law.

A reporting year profit, accounted for on the Bank of Russia's balance sheet, is a financial result of its performance during the reporting year.

Financial result, i.e. profit or loss, is defined as a difference between total income and total expenses relating to the core and non-core activities of the Bank of Russia, recognised in the books for the reporting year.

*(q) Recognition of Bank of Russia income and expenses*

Income and expenses are recorded to the profit and loss account on an accrual basis, if the amounts of income or expenses can be established, and there is no uncertainty concerning their receipt or payment; that is, they are recorded as soon as they occur rather than after the funds (or their equivalents) have been actually received or paid.

Income from stakeholdings in credit institutions or other organisations' capital is recorded to the profit and loss account after the funds have been actually received.

Expenses on the replenishment of supplementary pension funds for Bank of Russia employees are recorded to the profit and loss account, after they have been actually made based on the actuarial appraisal of pension obligations of the Bank of Russia.

Income (expenses) received (incurred) and accrued in previous reporting periods is recorded to the corresponding items of the profit and loss account for the reporting period.

The receipt of interest income on all credit and other similar claims with regard to borrowers, which depending on the risk and according to the provisioning procedure are assigned to substandard loan groups, or the receipt of interest income on operations that are pooled to homogeneous loan portfolios, is recognised as uncertain from the date of assignment. Interest on such loans and other similar claims is recorded to off-balance sheet accounts.

Income and expenses are recorded in the period to which they relate.

#### *(r) Taxation of the Bank of Russia*

The Bank of Russia pays taxes and duties in compliance with the Tax Code of the Russian Federation. It has drawn up and approved its accounting policy for the purposes of taxation, which sets out the tax accounting principles, together with the methods and rules on and the procedure for creating a tax base for the calculation of taxes and duties paid by the Bank of Russia.

#### *(s) Transfer of profit to the federal budget*

Pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia transfers 50% of the actual annual profit retained after the payment of taxes and duties under the Tax Code of the Russian Federation to the federal budget.

Article 5 of Federal Law No. 245-FZ, dated 30 September 2010, 'On Amending the Budget Code and Other Laws of the Russian Federation' (as amended), suspended Part 1 of Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' until 1 January 2016. The suspended portion relates to the percentage of actual profit received for the year and remaining after the payment of taxes and duties under the Tax Code of the Russian Federation, which the Bank of Russia must transfer to the federal budget.

Article 6 of Federal Law No. 245-FZ, dated 30 September 2010, 'On Amending the Budget Code and Other Laws of the Russian Federation' (as amended), stipulated that 75% of actual profit received by the Bank of Russia for 2010, 2011, 2013 and 2014 and remaining after the payment of taxes and duties under the Tax Code of the Russian Federation should be transferred to the federal budget, after the approval of the Bank of Russia Annual Financial Statements by its Board of Directors.

In compliance with Clause 12 (c) Article 1 of Federal Law No. 247-FZ, dated 3 December 2012, 'On Amending the Federal Law 'On the Federal Budget for 2012 and the Plan Period of 2013 and 2014'', part of funds received by the Bank of Russia in 2012 from the sale of its Sberbank shares, defined as the difference between sales proceeds and the balance sheet value of the above-mentioned shares net of transaction costs, was transferred by the Bank of Russia to the federal budget.

In compliance with Clause 8 Article 24 of Federal Law No. 216-FZ, dated 3 December 2012, 'On the Federal Budget for 2013 and the Plan Period of 2014 and 2015', in 2013 the Bank of Russia transferred to the federal budget a part of the profit, in the amount of 73,130,300,200 rubles, from the 2012 year-end profit received by the Central Bank of the Russian Federation after paying taxes and duties in accordance with the Tax Code of the Russian Federation.

In accordance with Federal Law No. 40-FZ, dated 2 April 2014, 'On the Specifics for Transferring the Profit for 2013 Received by the Central Bank of the Russian Federation in 2014', funds totalling 60,000,000,000 rubles are to be transferred by the Bank of Russia to the 'Deposit Insur-

ance Agency', a state-owned corporation (hereinafter, the DIA), as property contribution to the compulsory deposit insurance fund, from its actual profit received for 2013 and retained after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation. Once the Annual Financial Statements for 2013 have been approved by the Board of Directors, the Bank of Russia must transfer to the federal budget 75% of the actual annual profit for 2013 retained after the payment of taxes and duties under the Tax Code of the Russian Federation and after the transfer of the funds serving as a property contribution to the DIA.

*(t) Claims on the IMF and obligations to the IMF*

Pursuant to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia serves as a depository for the Russian ruble funds of the IMF and performs operations and transactions stipulated by the IMF's Articles of Agreement and in line with agreements with the IMF.

The Bank of Russia keeps records of the Russian Federation's claims on the IMF (including the Russian Federation's quota in the Fund) and the Russian Federation's debt to the IMF.

Claims on the IMF include the Russian Federation's quota in the Fund; funds in the Russian Federation account with the IMF's Special Drawing Rights Department (hereinafter, the SDR Department); loans extended by the Bank of Russia to the IMF according to the New Arrangements to Borrow; and funds in the Russian Federation provisional administered account with the IMF, inclusive of accrued interest.

The IMF quotas are subscriptions of all member states, which are paid in national and foreign currencies. The part of the quota paid in foreign currency constitutes a position on the IMF reserve tranche. Quotas are denominated in Special Drawing Rights (SDRs).

SDRs are reserve assets created by the IMF. The SDR value is posted daily based on a basket of four currencies, consisting of the US dollar, euro, Japanese yen, and pound sterling.

The New Arrangements to Borrow (NAB) are a lending facility to provide funds to the IMF, based on credit arrangements between the IMF and a group of member countries with sustainable balances of payments and sufficient international reserves. In 2012, upon agreement with member countries, the maximum maturity of NAB claims, including previously issued loans, was extended from five to 10 years, while other terms and conditions remained unchanged. The Bank of Russia can recall its committed funds at any time, if necessary.

Obligations to the IMF are represented by ruble balances in the IMF's Number 1 and 2 Accounts with the Bank of Russia; by the promissory note issued by the Bank of Russia in rubles to the IMF; and by the amount of obligations on SDRs received by the Russian Federation during previous issues of SDRs by the IMF, inclusive of accrued interest.

The IMF's Number 1 Account is used for financial operations and trading. The IMF's Number 2 Account is used to pay for administrative expenses of the IMF representative office in the Russian Federation and is replenished by withdrawing funds from the IMF's Number 1 Account.

The recording of claims on the IMF and obligations to the IMF, as well as interest accrual, is performed in line with IMF recommendations. In order to maintain the total of the Russian Federation ruble-denominated obligations to the IMF in SDR terms at the ruble exchange rate set by the IMF, the Bank of Russia promissory note and the balance in the IMF's Number 1 and 2 Accounts are revalued on a regular basis. Total exchange rate differences accrued on the mentioned promissory note and on the Number 1 Account, are recognised in correspondence with the account for the part of the quota paid in rubles. Total exchange rate differences accrued to the Number 2 Account are recorded to the Bank of Russia's income or expenses. Revaluation at the rate of exchange of the SDR to the ruble, as set by the IMF, is accrued by the Bank of Russia monthly on the first working day of the month following the reporting month. At the end of the IMF fiscal year (30 April), at the request of the IMF or the Bank of Russia, the amount of the accrued revaluation rate differences (related to Bank of Russia promissory note and the Number 1 Account) is recorded to the increase (decrease) of



obligations on the promissory note and/or Number 1 Account balance; the revaluation of the Number 2 Account is recorded to the increase (decrease) of this account balance.

SDR-denominated claims on the IMF and obligations to the IMF are revalued at the official rate of exchange of the SDR to the ruble set by the Bank of Russia.

*(u) Changes to comparative data*

To implement the provisions stipulated by Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting', which set the use of international accounting standards to be one of the principles regulating accounting and to serve as a basis for the development of federal and industry-specific accounting and (financial) reporting standards, and pursuant to a decision of the Bank of Russia Board of Directors the following changes are introduced. All claims (obligations) to receive (pay) interest are included in respective items under which interest accrued on respective Bank of Russia balance sheet assets (liabilities) are recorded. Under the Agreement between the Bank of Russia and the Russian Ministry of Finance on returning remaining balances of funds, used for payments on bonds in circulation and not transferred to bond-holders, and subject to be transferred to the Ministry of Finance on maturity dates of each corresponding bond issue, these funds are moved from the *Other liabilities* item to the *Funds in accounts with the Bank of Russia* item. And finally, in connection with the opening of a new off-balance sheet account for unused limits set to provide funds in the form of 'overdraft' and 'against the debt limit' loans in the Chart of Accounts of the Bank of Russia, the total unused credit lines in the Table *Other claims and obligations recorded to off-balance sheet accounts* are moved from the *Unused lines of credit facilities* item to the *Unused limits on credit facilities in the form of 'overdrafts' and 'against the debt limit' loans* item.

(millions of rubles)

Balance sheet items	Note	2012 (previously recorded amounts)	Changes	2012 (recalculated amounts)
<b>ASSETS</b>				
2. Funds placed with non-residents and foreign securities	4	14,525,436	475	14,525,911
3. Loans and deposits	5	3,158,355	5,871	3,164,226
5. Claims on the IMF	7	592,903	45	592,948
6. Other assets, of which:	8	251,549	(6,391)	245,158
<b>LIABILITIES</b>				
2. Funds in accounts with the Bank of Russia, of which:	10	9,404,984	28,051	9,433,035
2.1. Federal government funds		4,913,764	27,894	4,941,658
2.2. Funds of resident credit institutions		2,185,349	126	2,185,475
5. Obligations to the IMF	13	447,686	30	447,716
6. Other liabilities	14	138,183	(28,081)	110,102

(millions of rubles)

<b>Items on Note 4 Funds placed with non-residents and foreign securities</b>	<b>Note</b>	<b>2012 (previously recorded amounts)</b>	<b>Changes</b>	<b>2012 (recalculated amounts)</b>
Balances in correspondent accounts and deposits placed with non-resident banks	A	1,709,390	451	1,709,841
Funds placed with non-residents in repo transactions	A	74,915	24	74,939
<b>Total</b>		<b>14,525,436</b>	<b>475</b>	<b>14,525,911</b>

(A) The item *Funds placed with non-residents and foreign securities* of the balance sheet assets includes interest claims on deposits placed by the Bank of Russia with non-resident banks, totalling 451 million rubles, of which: 263 million rubles are in foreign currency and 188 million rubles are precious metals, recorded under sub-item *Balances in correspondent accounts and deposits placed with non-resident banks*, and 24 million rubles are interest claims on other funds placed with non-resident banks, recorded under sub-item *Funds placed with non-residents in repo transactions*.

(millions of rubles)

<b>Items on Note 5 Loans and deposits</b>	<b>Note</b>	<b>2012 (previously recorded amounts)</b>	<b>Changes</b>	<b>2012 (recalculated amounts)</b>
Other funds placed with credit institutions (in repo transactions)	B	1,784,610	1,948	1,786,558
Loans and deposits with resident banks (in rubles), of which:	B	1,201,892	3,943	1,205,835
— extended and placed under certain federal laws	B	300,000	3,330	303,330
Provisions	B	(176,679)	(20)	(176,699)
<b>Total</b>		<b>3,158,355</b>	<b>5,871</b>	<b>3,164,226</b>

(B) The item *Loans and deposits* of the balance sheet assets includes: interest claims on other funds placed with credit institutions (repo transactions) totalling 1,948 million rubles; interest claims on loans and deposits totalling 3,943 million rubles, of which 613 million rubles are on loans and deposits with resident banks and 3,330 million rubles are on a subordinated loan to Sberbank; and provisions for interest income claims on loan and other similar funds totalling 20 million rubles included in this item.



(millions of rubles)

<b>Items on Note 7 <i>Claims on the IMF</i></b>	<b>Note</b>	<b>2012 (previously recorded amounts)</b>	<b>Changes</b>	<b>2012 (recalculated amounts)</b>
Remuneration on the reserve tranche position	C	0	10	10
Funds in the Russian Federation account with the SDR Department	C	266,252	30	266,282
Loans to the IMF extended by the Bank of Russia under the NAB	C	48,294	5	48,299
<b>Total</b>		<b>592,903</b>	<b>45</b>	<b>592,948</b>

(C) The item *Claims on the IMF* of the balance sheet assets includes interest claims on the IMF reserve tranche position totalling 10 million rubles, on funds in the Russian Federation account with the SDR Department totalling 30 million rubles, and on loans to the IMF extended by the Bank of Russia under the NAB totalling 5 million rubles.

(millions of rubles)

<b>Items on Note 8 <i>Other assets</i></b>	<b>Note</b>	<b>2012 (previously recorded amounts)</b>	<b>Changes</b>	<b>2012 (recalculated amounts)</b>
Bank of Russia interest claims	D	6,414	(6,414)	0
Other	D	5,995	3	5,998
Provisions	D	(1,222)	20	(1,202)
<b>Total</b>		<b>251,549</b>	<b>(6,391)</b>	<b>245,158</b>

(D) The item *Other assets* of the balance sheet assets excludes Bank of Russia interest claims totalling 6,414 million rubles due to the inclusion of interest claims in the respective Bank of Russia balance sheet asset items under which accrued interest is recorded. Interest claims on reverse transactions to provide securities, carried out with non-resident banks, totalling 3 million rubles were moved from the sub-item *Bank of Russia interest claims* to the sub-item *Other*. Provisions for interest income claims on loans and other similar funds totalling 20 million rubles were moved to the item *Loans and deposits* due to the fact that these claims are included in this item.

(millions of rubles)

<b>Items on Note 10 <i>Funds in accounts with the Bank of Russia</i></b>	<b>Note</b>	<b>2012 (previously recorded amounts)</b>	<b>Changes</b>	<b>2012 (recalculated amounts)</b>
Federal government funds, of which:	E	4,913,764	27,894	4,941,658
— National Wealth Fund	E	2,026,657	14,924	2,041,581
— Reserve Fund	E	1,885,676	12,969	1,898,645
Non-resident banks' funds raised in repo transactions	E	128,984	19	129,003
Deposits taken by the Bank of Russia from credit institutions	E	403,142	126	403,268
Other	E	595,688	12	595,700
<b>Total</b>		<b>9,404,984</b>	<b>28,051</b>	<b>9,433,035</b>

(E) The item *Funds in accounts with the Bank of Russia* of the balance sheet liabilities includes: funds not transferred to bond-holders, used for payments on bonds in circulation, subject to be transferred to the Russian Ministry of Finance on maturity dates of each corresponding bond issue, totalling 1 million rubles; interest obligations for the use of funds in Reserve Fund and National Wealth Fund accounts, totalling 27,893 million rubles; interest obligations on non-resident banks' funds raised in repo transactions, totalling 19 million rubles; interest obligations on deposits taken by the Bank of Russia from credit institutions, totalling 126 million rubles; and interest obligations on deposits taken by the Bank of Russia from the DIA, a state-owned corporation, totalling 12 million rubles.

(millions of rubles)

<b>Items on Note 13 <i>Obligations to the IMF</i></b>	<b>Note</b>	<b>2012 (previously recorded amounts)</b>	<b>Changes</b>	<b>2012 (recalculated amounts)</b>
Liabilities on the funds provided to the Russian Federation as a result of the SDR allocation by the IMF	F	265,547	30	265,577
<b>Total</b>		<b>447,686</b>	<b>30</b>	<b>447,716</b>

(F) The item *Obligations to the IMF* of the balance sheet liabilities includes interest obligations on liabilities on the funds provided to the Russian Federation as a result of the SDR allocation by the IMF, totalling 30 million rubles.

(millions of rubles)

<b>Items on Note 14 <i>Other liabilities</i></b>	<b>Note</b>	<b>2012 (previously recorded amounts)</b>	<b>Changes</b>	<b>2012 (recalculated amounts)</b>
Interest obligations	G	28,080	(28,080)	0
Other	H	1,083	(1)	1,082
<b>Total</b>		<b>138,183</b>	<b>(28,081)</b>	<b>110,102</b>

(G) The sub-item *Interest obligations* of the item *Other liabilities* of the balance sheet liabilities excludes interest obligations totalling 28,080 million rubles due to the inclusion of interest obligations in the respective Bank of Russia balance sheet liabilities items under which the accrued interest is recorded.

(H) The sub-item *Other* of the item *Other liabilities* of the balance sheet liabilities excludes funds not transferred to bond-holders, used for payments on bonds in circulation, subject to transferring to the Russian Ministry of Finance on maturity dates of each corresponding bond issue, totalling 1 million rubles, which are moved to the item *Funds in accounts with the Bank of Russia*.

(millions of rubles)

<b>Item of the Table <i>Other Claims and obligations recorded to the off-balance sheet accounts of Note 27 Off-balance sheet claims and obligations accounts</i></b>	<b>Note</b>	<b>2012 (previously recorded amounts)</b>	<b>Changes</b>	<b>2012 (recalculated amounts)</b>
Unused lines of credit facilities	I	363,459	(360,942)	2,517
Unused limits to provide funds in the form of 'overdraft' and 'against the debt limit' loans	I	0	360,942	360,942
<b>Total</b>		<b>363,459</b>	<b>0</b>	<b>363,459</b>

(I) The total unused limits to provide loans to the IMF under the New Arrangements to Borrow were moved from the item *Unused lines of credit facilities* to the item *Unused limits to provide funds in the form of 'overdraft' and 'against the debt limit' loans*, in relation to the issue of Bank of Russia Regulation No. 389-P, dated 12 November 2012, 'On the Procedure for the Bank of Russia to Carry Out Operations and Transactions with the International Monetary Fund' and the opening, from 1 January 2013, of a new off-balance sheet account in the Bank of Russia Chart of Accounts for unused limits to provide funds to customers if their settlement (current) account is empty ('overdrafts') or has insufficient funds ('against the debt limit' loans).

*(v) Influence of changes to accounting policy on the Bank of Russia's annual balance sheet as of 1 January 2014*

From 1 July 2013, precious metals in commemorative and investment coins in the currency of the Russian Federation, old coins, and samples of commemorative and investment coins in the currency of the Russian Federation, are revalued daily at their book prices (Note 1 (c)).

The effect of these changes on the Bank of Russia's annual balance sheet as of 1 January 2014 is shown in the table below:

(millions of rubles)

<b>Balance sheet item</b>	<b>2013</b>
(Decrease) in the item <i>Precious metals</i>	(3,087)

## 2. IMPACT OF ECONOMIC CONDITIONS ON BANK OF RUSSIA FINANCIAL STATEMENTS

In the year under review, the annual balance sheet of the Bank of Russia and its financial performance were affected by internal and external economic conditions and by the actions and decisions of the Russian Federation Government and the Bank of Russia.

2013 saw a slowdown in economic growth rates, with GDP growth at 1.3% at year-end compared with 3.4% the year before. The downturn in production dynamics in domestic industries was mainly due to restrictions posed by production factors, with employment and production capacity utilisation rates remaining high. The main factor shaping economic growth continued to be domestic household consumption. As in 2012, foreign economic conditions were not conducive to economic growth. The dynamics of foreign demand for Russian exports and export prices remained moderate amid a relatively low economic activity of Russia's trading partners (in particular, in the euro area), while heightened uncertainty continued to reign in the global financial markets.

For most of the year, inflation tended to slow against the backdrop of moderate domestic demand dynamics and the lack of pressure from monetary factors. At the same time, in the last few months of 2013 inflation began to accelerate slightly, coupled with a short-term increase in prices for food. In December 2013, annual inflation was 6.5%, down slightly on the previous year.

Taking into account the balance of inflation risks and economic growth prospects, in 2013 the Bank of Russia kept its interest rates unchanged for key short-term liquidity providing operations, at the same time continuing its efforts to improve the system of interest rate refinancing instruments.

Demand among economic agents for settlement funds increased in line with economic activity and price dynamics. Growth in cash in circulation over the year was 8.3% (2012: 11.2%), while the share of cash in circulation in the liabilities structure fell slightly to 36.8%. Balances of credit institutions' funds in accounts with the Bank of Russia were almost unchanged (growth was 0.5%), and their share in the annual balance sheet liabilities decreased from 10.6% to 9.7%.

In 2013, the consolidated budget of the Russian Federation and the budgets of government extra-budgetary funds showed a deficit of 1.3% of GDP. However, the balance in the *Federal government funds* item increased over the reporting year by 907,103 million rubles, with National Wealth Fund and Reserve Fund balances increasing by an equivalent of 1,049,829 million rubles. The share of the *Federal government funds in accounts with the Bank of Russia* item in the consolidated annual balance sheet liabilities grew from 24.0% to 25.9%.

In 2013, current account surplus of Russia's balance of payments continued to fall, together with financial account capital outflows and the depreciation of the ruble. The Bank of Russia continued to execute its exchange rate policy within a managed floating exchange rate regime, selling foreign currency for most of the year in order to smooth out fluctuations in the ruble exchange rate.

In 2013, Russia's international reserves decreased by 5.2% to 509.6 billion US dollars, whereas the nominal effective exchange rate of the ruble against foreign currencies dropped by 6.4%, or 6.5% against the US dollar. Due to this, the balance in the *Funds placed with non-residents and foreign securities* item increased (by 3.9%) alongside a fall in the balance in the *Precious metals* item (by 15.3%). Overall, the decrease in these accounts amounted to 313,199 million rubles, causing their share in the Bank of Russia's consolidated annual balance sheet assets to fall from 78.4% to 73.1%.

In 2013, amid a continued structural liquidity deficit in the banking sector, credit institutions' demand for Bank of Russia refinancing demonstrated a steady growth. As a result, the balance in the *Loans and deposits* item increased by more than half, with the item's share in the consolidated annual balance sheet assets growing from 15.3% to 21.6%.

All of the internal and external conditions outlined above also had an impact on the Bank of Russia's income and expenses in 2013. As interest rates continued to be low in the global financial markets, income from the placement of reserve assets was below 2012 levels, and the interest expenses on federal budget funds in accounts with the Bank of Russia decreased. At the same time, the Bank of Russia's interest income from standard refinancing operations (primarily, repo operations) grew due to the ever mounting demand for liquidity in the banking sector, especially in the second half of the year.

## 3. PRECIOUS METALS

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Precious metals in physical form	1,384,289	1,629,114
Precious metals in coins and commemorative medals	9,861	17,073
<b>Total</b>	<b>1,394,150</b>	<b>1,646,187</b>

The decrease in the *Precious metals in physical form* item was due to the revaluation of precious metals at the Bank of Russia's book prices. There was an increase in terms of quantitative accounting units, due to the acquisition of gold through purchase and sale transactions with Russian credit institutions under master agreements.

The decrease in the *Precious metals in coins and commemorative medals* item was mainly due to the sale of coins in the Russian Federation currency made from precious metals in the domestic and foreign financial markets and the revaluation of precious metals at the Bank of Russia's book prices.

## 4. FUNDS PLACED WITH NON-RESIDENTS AND FOREIGN SECURITIES

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Foreign securities	12,711,640	12,741,131
Balances in correspondent accounts and deposits placed with non-resident banks	2,189,690	1,709,841
Funds placed with non-residents in repo transactions	189,817	74,939
<b>Total</b>	<b>15,091,147</b>	<b>14,525,911</b>

Foreign securities are categorised as securities available for sale. Foreign securities are mostly US Treasuries and government debt obligations of France, Germany, the United Kingdom, Canada, Australia, Sweden, the Netherlands, Finland, Denmark, and Austria, as well as debt obligations issued by supranational financial organisations, and non-government debt securities guaranteed by the governments of the above countries.

As of 1 January 2014, foreign securities had maturities ranging from 2014 to 2023 and were either coupon-free or had coupon income rates between 0% and 11.25% p.a.

As of 1 January 2013, foreign securities had maturities ranging from 2013 to 2022 and were either coupon-free or had coupon income rates between 0% and 11.25% p.a.

The current (fair) value of foreign securities in the Bank of Russia's portfolio as of 1 January 2014, totalled 12,711,640 million rubles (2012: 12,741,131 million rubles) (Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property).

The change in the item was mostly due to decreased Bank of Russia investments in foreign securities during the reporting period and a growth in the exchange rates of foreign currencies in which the securities were denominated.

This item includes securities passed by the Bank of Russia in reverse transactions in international markets, with a total current (fair) value of 359,391 million rubles (2012: 234,856 million rubles), including those passed in repos, with a total current (fair) value of 136,842 million rubles (2012:

128,962 million rubles) (Note 10), those passed as additional collateral (margin) in repos, with a total current (fair) value of 47 million rubles (2012: 4 million rubles), and those passed as a loan, with a total current (fair) value of 222,502 million rubles (2012: 105,890 million rubles).

The latest representative purchase quotations provided in the Bloomberg system were used to determine the current (fair) value of foreign securities.

The increase in the *Balances in correspondent accounts and deposits placed with non-resident banks* item is mostly due to the increase in the amount of foreign currency deposits placed with non-resident banks and the revaluation of funds in foreign currencies linked to the growth in foreign currency exchange rates against the ruble.

As of 1 January 2014, the *Balances in correspondent accounts and deposits placed with non-resident banks* item includes interest claims amounting to 677 million rubles (2012: 451 million rubles).

In accordance with Customs Union agreements between the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation, the central (national) banks of one party are to sell US dollars to the central (national) banks of another party for a sum in the national currency equal to the amount of allocated customs duties in the national currency in favour of the other party. Settlements between the parties are made by offsetting a sum equal to the difference between the parties' counter obligations in US dollars.

According to the bilateral agreements signed by the Bank of Russia with the National Bank of the Republic of Belarus and the National Bank of the Republic of Kazakhstan, correspondent accounts were opened in the national currencies of the member states of the Customs Union.

As of 1 January 2014, a total of 286 million rubles (2012: 699 million rubles) were accounted for in the correspondent accounts of the Bank of Russia with the National Bank of the Republic of Belarus and the National Bank of the Republic of Kazakhstan within the framework of the Customs Union.

The item *Funds placed with non-residents in repo transactions* shows the funds placed with non-resident banks in transactions to purchase foreign securities with an obligation to resell (reverse repos) and interest claims on these transactions, totalling 16 million rubles (2012: 24 million rubles). These funds also include funds placed totalling 77,036 million rubles (2012: 38,297 million rubles) which were received in transactions to sell securities with an obligation to repurchase (repo transactions) concluded with the same counterparty (Note 10).

Securities received by the Bank of Russia in reverse repos with non-residents are recorded to off-balance sheet accounts at the current (fair) value and total 190,076 million rubles (2012: 74,986 million rubles) (Note 27), of which, securities received in reverse repos concluded for the purpose of placing funds received in repo transactions have a current (fair) value of 77,199 million rubles (2012: 38,313 million rubles) (Notes 10 and 27).

The increase in the item *Funds placed with non-residents* in repo transactions is due to the growth in the total amount of funds provided by the Bank of Russia in repos as of the year end, as well as growth in foreign exchange rates against the ruble.

## 5. LOANS AND DEPOSITS

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Loans to and deposits with resident banks (in rubles),	1,848,914	1,205,835
of which:		
— extended and placed under certain federal laws	303,366	303,330
— unsecured loans	2,559	2,559
Other funds placed with credit institutions (in repo transactions)	2,891,194	1,786,558
Other,	314,523	348,532
of which:		
— extended and placed under certain federal laws	302,623	337,747
Provisions	(173,255)	(176,699)
<b>Total</b>	<b>4,881,376</b>	<b>3,164,226</b>

The item *Loans to and deposits with resident banks (in rubles)* shows the debt on the Bank of Russia's loans secured with pledges of gold, promissory notes, credit claims under loan agreements or guarantees of credit institutions, as well as pledges of securities from the Bank of Russia Lombard List. The item also reflects the debt on an unsecured loan extended to a credit institution, on the subordinated loans extended to Sberbank in 2008 as part of the legislative measures implemented by the Russian Federation to support Russia's financial system, and deposits placed in 2008—2009 with Vnesheconombank in accordance with decisions by the Bank of Russia Board of Directors, as well as interest claims, totalling 4,016 million rubles (2012: 3,943 million rubles).

The debt on loans and deposits (in rubles) with resident banks with a 50% to 100% government stake in their authorised capital amounts to 1,545,958 million rubles (2012: 1,013,210 million rubles), including interest claims of 3,841 million rubles (2012: 3,694 million rubles).

In 2013, the increase in the *Loans to and deposits with resident banks (in rubles)* item was caused by a substantial demand among credit institutions for Bank of Russia loans that were secured by pledges of credit claims under loan agreements or guarantees of credit institutions.

Additionally, the item *Loans to and deposits with resident banks (in rubles)* includes restructured loans originally extended to credit institutions as unsecured loans in the context of measures taken in compliance with the federal laws of the Russian Federation to support the Russian financial system pursuant to Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', as amended by Federal Law No. 171-FZ, dated 13 October 2008, 'On Amending Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', and by Federal Law No. 317-FZ, dated 30 December 2008, 'On Amending Articles 46 and 76 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

The debt on restructured loans amounts to 30,384 million rubles (2012: 30,384 million rubles). All borrowers who have defaulted on restructured loans are currently subject to bankruptcy proceedings due to the revocation of their banking licences.

The item *Loans to and deposits with resident banks (in rubles), of which: extended and placed under certain federal laws* lists operations to provide 303,366 million rubles in subordinated loans to Sberbank (2012: 303,330 million rubles), including interest claims of 3,366 million rubles (2012: 3,330 million rubles), in the authorised capital of which the Bank of Russia owns a 50% stake plus one voting share.

The item *Loans to and deposits with resident banks (in rubles), of which: unsecured loans* reflects the overdue debt on the unsecured loan to a credit institution, totalling 2,559 million rubles



(2012: 2,559 million rubles), which was extended as part of the measures taken pursuant to federal laws to support the Russian financial system.

The item *Other funds placed with credit institutions (through repo transactions)* reflects funds placed with credit institutions in transactions to purchase securities with an obligation to resell, amounting to 2,891,194 million rubles (2012: 1,786,558 million rubles), including interest claims on these transactions of 1,338 million rubles (2012: 1,948 million rubles).

The increase in this item is attributable to the growth of the overall amount of funds provided by the Bank of Russia in the domestic market in transactions to buy securities with an obligation to resell.

Securities received by the Bank of Russia as collateral in repos with credit institutions are recorded to off-balance sheet accounts at their current (fair) value, amounting to 3,228,101 million rubles (2012: 1,970,173 million rubles) (Note 27).

The amount of other funds placed with credit institutions (through repo transactions) in the authorised capital of which the government holds a 50%-plus stake totals 1,435,202 million rubles (2012: 809,833 million rubles), including interest claims of 851 million rubles (2012: 1,155 million rubles).

The item *Other* mainly reflects the debt on loans extended to the Deposit Insurance Agency (DIA), a state-owned corporation, in the amount of 300,364 million rubles (2012: 335,446 million rubles) and the compensation deposit of 2,259 million rubles (2012: 2,301 million rubles). This was placed by the Bank of Russia with a credit institution in compliance with Federal Law No. 173-FZ, dated 13 October 2008, 'On Additional Measures to Support the Financial System of the Russian Federation', in order to partially compensate for this credit institution's losses (expenses) that had been caused by a default of a borrower whose banking licence had been revoked. The item also lists a foreign currency deposit placed with the Interstate Bank amounting to 982 million rubles (2012: 911 million rubles), and a subordinated loan of 1,500 million rubles (2012: 1,500 million rubles) extended to the Interstate Bank in accordance with a decision by the Bank of Russia Board of Directors.

Additionally, as of 1 January 2014, the *Other* item also included:

- the Bank of Russia's claim on the re-established debt owed to the Bank of Russia on unsecured loans, pursuant to the Moscow Court of Arbitration ruling. In 2013, due to funds transferred to the Bank of Russia by the receiver when satisfying claims of third-ranking creditors whose claims were included in the register of creditors' claims, the above-mentioned claim was reduced by 42 million rubles, and as of 1 January 2014, it totalled 860 million rubles (2012: 902 million rubles);
- the Bank of Russia's claim for 2 million rubles (2012: 0 million rubles) arising as a result of its obligations coming to an end in repo transactions pursuant to clearing rules. This was done in accordance with Article 4.1 of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)', following the revocation of the banking licence of one credit institution.

The decrease in the *Other* item was mostly caused by a declining debt on the loans the Bank of Russia extended to the DIA as part of measures to prevent the bankruptcy of credit institutions.

Securities and gold bars received as loan collateral and accepted for the reduction of required provisions are valued at market value of the securities and at the value of the gold bars calculated by the book price of gold set by the Bank of Russia, as of the transfer date of the collateralised property on Bank of Russia loans, using adjustment ratios established by the Bank of Russia.

The value of collateral on Bank of Russia loans provided against credit institution guarantees is calculated as the amount of loans increased by the interest to be paid in the period remaining to maturity, in accordance with the loan agreement signed with the Bank of Russia.

The collateral value, including guarantees, received for the loans extended by the Bank of Russia, amounts to 1,442,660 million rubles (2012: 692,143 million rubles).

Available collateral accepted by the Bank of Russia to reduce the amount of provisions helped bring down the amount of provisions for loans made by resident banks (in rubles) by 321,528 million rubles (2012: by 238,756 million rubles).



Provisions totalling 173,255 million rubles were made for loans, deposits and other funds placed in rubles and foreign currency (2012: 176,699 million rubles). Of these:

- provisions for the debt on collateralised ruble-denominated loans extended by the Bank of Russia to resident banks and deposits placed by the Bank of Russia with Vnesheconombank in rubles totalled 74,628 million rubles (2012: 70,915 million rubles);
- provisions for the debt on restructured loans, initially extended to credit institutions as unsecured loans, totalled 30,384 million rubles (2012: 30,384 million rubles);
- provisions for the debt on the unsecured ruble-denominated loan extended to a credit institution totalled 2,559 million rubles (2012: 2,559 million rubles);
- provisions for the debt on funds provided by the Bank of Russia to finance bankruptcy prevention measures totalled 60,073 million rubles (2012: 67,089 million rubles);
- provisions for the debt on other loans and deposits and repo transactions totalled 5,611 million rubles (2012: 5,752 million rubles).

## 6. SECURITIES

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
<b>Russian federal government debt obligations</b>		
Federal government bonds (OFZ)	215,638	217,324
Russian government external foreign currency-denominated loan bonds (Russian eurobonds)	148,425	152,858
<b>Total</b>	<b>364,063</b>	<b>370,182</b>
Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)	85,818	85,709
Other Russian issuers' debt obligations	413	411
Credit institutions' promissory notes acquired by the Bank of Russia	23	23
Provisions	(11)	(11)
<b>Total</b>	<b>450,306</b>	<b>456,314</b>

Debt obligations in the Bank of Russia's portfolio are categorised as securities available for sale.

### *Federal government bonds (OFZs)*

The OFZ portfolio of the Bank of Russia results from the 2003—2005 restructuring of government securities, pursuant to federal budget laws, as well as from the purchase and subsequent sale of securities in the domestic market in 2007—2009. In addition, in 2013, the Bank of Russia received OFZs in connection with its obligations under repo transactions coming to an end in accordance with Article 4.1 of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' (end of obligations pursuant to clearing rules) following the revocation of a banking licence of one credit institution. The characteristics of the securities received as a result of the restructuring comply with federal legal requirements and agreements between the Ministry of Finance of the Russian Federation and the Bank of Russia.

As of 1 January 2014, the Bank of Russia had in its portfolio OFZ bonds maturing from 2014 to 2036, with coupon income rates of 0% to 10% p.a. Zero-coupon-income bonds were set to mature from 2019 to 2027 and accounted for 40% in terms of nominal value or 24% at current (fair) value of the total OFZ portfolio.

As of 1 January 2013, the Bank of Russia had in its portfolio OFZ bonds maturing from 2018 to 2036, with coupon income rates of 0% to 10% p.a. Zero-coupon-income bonds were set to mature from 2019 to 2027 and accounted for 40% in terms of nominal value or 24% at current (fair) value of the total OFZ portfolio.

As of 1 January 2014, the current (fair) value of OFZs was 215,638 million rubles (2012: 217,324 million rubles).

The change in this item is due to the revaluation of securities at their current (fair) value and to the Bank of Russia receiving OFZs as a result of its repo transaction obligations coming to an end.

The current (fair) value of OFZ issues was determined on the basis of market prices provided by the trade organiser MICEX Stock Exchange or on the basis of a model for the assessment of future cash flows which were discounted using zero-coupon yield rates on government securities, calculated by the trade organiser as of the last trading day.

As of 1 January 2014, the current (fair) value of OFZs valued at market prices totalled 132,658 million rubles (2012: 134,477 million rubles).

As of 1 January 2014, the current (fair) value of OFZs valued using a model for the valuation of future cash flows totalled 82,980 million rubles (2012: 82,847 million rubles).

#### *Russian government external foreign currency-denominated loan bonds (Russian eurobonds)*

Russian government external foreign currency-denominated loan bonds (Russian eurobonds) are US dollar-denominated government securities issued by Russia's Ministry of Finance. As of 1 January 2014 and 1 January 2013, these Russian eurobonds are due between 2018 and 2030, and have a coupon income of 7.5% to 12.75% p.a.

The current (fair) value of Russian eurobonds as of 1 January 2014 was 148,425 million rubles (2012: 152,858 million rubles).

The change in the value of Russian government external foreign currency-denominated bonds is mainly due to the revaluation of Russian eurobonds at current (fair) value and the growth of the US dollar exchange rate against the ruble.

The current (fair) value of Russian eurobonds is determined using their latest representative quoted purchase prices, as cited by the financial news and data service Bloomberg.

#### *Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)*

The structure of Bank of Russia investments in the shares of credit institutions and other organisations is shown in the Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property.

The increase in the item *Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)* is due to the revaluation of the Bank of Russia's stake in the authorised capitals of the Bank for International Settlements, Basel, and the Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T.), Belgium, in view of the changing foreign currency interest rates against the ruble.

#### *Other Russian issuers' debt obligations*

Other Russian issuers' debt obligations as of 1 January 2014 and 1 January 2013 were represented by ruble-denominated bonds issued by regional governments of the Russian Federation.

As of 1 January 2014, Russian regional government bonds in the Bank of Russia's portfolio mature in 2014 or 2015 and have a coupon income of 5.5% to 8% p.a. As of 1 January 2013, Russian regional government bonds were set to mature in 2014 or 2015 and had a coupon income of 7% to 8% p.a.

The current (fair) value of other Russian issuers' debt obligations as of 1 January 2014 was 413 million rubles (2012: 411 million rubles).

To determine the current (fair) value of other Russian issuers' debt obligations, the Bank of Russia used the latest market prices quoted by the trade organiser (MICEX Stock Exchange).

*Credit institutions' promissory notes acquired by the Bank of Russia*

This item includes debt on a promissory note acquired by the Bank of Russia in 2001 under the terms and conditions of an Amicable Agreement.

The item *Provisions* shows provisions made for the promissory note issued by a credit institution in the amount of 11 million rubles (2012: 11 million rubles).

## 7. CLAIMS ON THE IMF

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
The Russian Federation's quota with the IMF	300,680	278,357
— quota with the IMF paid in rubles	213,133	182,137
— position on the IMF reserve tranche	86,826	95,679
— revaluation of the Russian Federation's quota with the IMF paid in rubles (positive differences)	721	541
Remuneration on the reserve tranche position	14	10
Funds in the Russian Federation account with the IMF SDR Department	287,755	266,282
Loans to the IMF extended by the Bank of Russia under the New Arrangements to Borrow	57,515	48,299
Funds in the Russian Federation provisional administered account with the IMF	0	818
Provisions	0	(818)
<b>Total</b>	<b>645,964</b>	<b>492,948</b>

The Russian Federation's quota with the IMF (in SDRs) (5,945.4 million SDRs or 2.5% of all IMF quotas) did not change in 2013 (the increase in the ruble equivalent of the quota was due to the growth in the official exchange rate of the SDR against the ruble). The change in the components of the Russian Federation's quota with the IMF, increasing the size of its quota paid in rubles and causing a corresponding fall in its reserve tranche position, was mainly due to the IMF returning funds to the Bank of Russia, which had previously been received by the IMF in operations carried out within the limits of the quota.

Due to the Russian Federation's participation in the IMF credit facility under the New Arrangements to Borrow (the NAB), in 2013 the Bank of Russia issued loans to the IMF totalling 199.4 million SDRs (2012: 438.8 million SDRs) and received from the IMF 93.8 million SDRs in repayment of the debt (2012: 8.5 million SDRs). As of 1 January 2014, claims on the IMF under the NAB totalled 1,137 million SDRs or 57,505 million rubles (2012: 1,031.5 million SDRs or 48,294 million rubles), interest claims totalled 10 million rubles (2012: 5 million rubles) and the undrawn balance of a credit line totalled 7,603.8 million SDRs or 384,549 million rubles (2012: 7,709.3 million SDRs or 360,942 million rubles) (Note 27).

In 2012, the Russian Federation received 17.5 million SDRs to the Russian Federation provisional administered account with the IMF. These funds represented a part of the IMF's general reserve generated by windfall gold sales profits that were allocated to member countries in proportion to their quota shares.

In 2013, the Government of the Russian Federation decided to transfer the funds received in 2012 (17.5 million SDRs) to the Poverty Reduction and Growth Trust (the PRGT), together with accrued investment income and funds received by the Russian Federation from the second allocation of profits following the windfall gold sales by the IMF (43.7 million SDRs). In October—November 2013, these funds, totalling 61.2 million SDRs, were transferred on a gratuitous basis to the PRGT. As a result, the funds recorded under the item *Funds in the Russian Federation provisional administered account with the IMF* were written off using the provisions previously created in 2012.

## 8. OTHER ASSETS

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
<b>Fixed assets (at residual value)</b>		
Buildings and other facilities	42,776	42,146
Equipment (including computers, IT and data processing systems, furniture, transport vehicles, etc.)	33,476	34,130
<b>Subtotal fixed assets</b>	<b>76,252</b>	<b>76,276</b>
Construction projects in progress	14,247	8,928
Settlements with suppliers, contractors and buyers	2,081	3,627
Intangible assets (at residual value)	1,529	1,448
Till cash	211	187
Profit tax advance payments	153	159
Funds transferred by the Bank of Russia to agent banks for payments to the depositors of bankrupt banks	77	78
Bank of Russia correspondent accounts	3	2
Funds received from the sale of Sberbank shares and transferred to the federal budget in 2012 according to Article 1 of Federal Law No. 247-FZ, dated 3 December 2012	0	149,657
Other	6,133	5,998
Provisions	(1,218)	(1,202)
<b>Subtotal other assets</b>	<b>23,216</b>	<b>168,882</b>
<b>Total</b>	<b>99,468</b>	<b>245,158</b>

The table below shows the movement of fixed assets:

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
<b>Fixed asset value net of accrued depreciation</b>		
Balance as of 1 January	151,840	144,081
Receipt	12,241	12,012
Retirement	(4,644)	(4,253)
<b>Balance as of end of year</b>	<b>159,437</b>	<b>151,840</b>
<b>Accrued depreciation</b>		
Balance as of 1 January	75,564	68,652
Depreciation allowances due to expenses	12,045	10,953
Depreciation allowances due to other sources	3	3
Accrued depreciation of retired fixed assets	(4,427)	(4,044)
<b>Balance as of end of year</b>	<b>83,185</b>	<b>75,564</b>
<b>Fixed assets residual value as of end of year</b>	<b>76,252</b>	<b>76,276</b>

Fixed asset structure and value net of accrued depreciation:

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Buildings and other facilities	53,187	51,588
Equipment	47,622	44,989
Computers, office equipment and furniture	29,614	27,911
IT and data processing systems	24,521	23,128
Transport vehicles	3,616	3,375
Other	877	849
<b>Total</b>	<b>159,437</b>	<b>151,840</b>

The increase in *Buildings and other facilities* is largely due to the construction and reconstruction of Bank of Russia office buildings.

The increase in *Equipment* is due to the purchase of technical equipment for the development and upgrading of the engineering equipment for the Bank of Russia's IT and telecommunications system.

The increase in *Computers, office equipment and furniture* is due to the purchases of computer equipment, hardware systems and devices of various modifications supporting the operation of accounting systems, including equipment supporting the technical framework of Collective Data Processing Centres, the development of Bank of Russia information analysis and data storage systems, as well as additional computer equipment, copiers and printers.

The increase in *IT and data processing systems* is mostly due to the purchase of telecommunications equipment, including equipment for the trunk line component of the Unified Banking Telecommunications Network, communication facilities, and also the creation and upgrading of local computer networks aimed at the development of Bank of Russia IT and communications systems.

The increase in *Construction projects in progress* is mainly due to the expanded construction and renovation of Bank of Russia administrative buildings, Olympic venues construction pursuant to Federal Law No. 310-FZ, dated 1 December 2007, ‘On the Organisation and Hosting of the XXII Olympic Winter Games and XI Paralympic Winter Games 2014 in the City of Sochi, the Development of the City of Sochi as a Mountain Climate Resort and on Amending Certain Laws of the Russian Federation’, and Russian Government Resolutions No. 991, dated 29 December 2007, ‘Program of Olympic Venues Construction and Development of the City of Sochi as a Mountain Climate Resort’, and No. 108, dated 25 February 2011, ‘On Amending the Program of Olympic Venues Construction and Development of the City of Sochi as a Mountain Climate Resort’, the creation and development of information analysis systems, and also banking information protection tools and security equipment.

The increase in *Intangible assets* is associated with the purchase of software products to which the Bank of Russia has exclusive rights.

The item *Till cash* reflects monetary funds in foreign currencies.

The item *Profit tax advance payments* reflects profit tax advance payments for 2013.

The item *Other* mostly reflects expenses related to the purchase and acquisition of software products, licences and certificates, as well as shares of a closed unit investment fund which the Bank of Russia retained pursuant to an Agreement on an out-of-court foreclosure of received collateral for partial repayment of debt on a restructured loan in the amount of 837 million rubles (2012: 819 million rubles).

The item *Provisions* reflects provisions totalling 1,218 million rubles (2012: 1,202 million rubles), consisting of the following:

- 77 million rubles for transfers to the agent banks, for the payment of compensation to the depositors of bankrupt banks (2012: 78 million rubles);
- 1,141 million rubles for other assets (2012: 1,124 million rubles), of which 837 million rubles were allocated for investments in shares of the closed unit investment fund (2012: 819 million rubles).

## 9. CASH IN CIRCULATION

The increase in ‘Cash in circulation’ is attributable to the increase in cash demand among households and economic entities.

## 10. FUNDS IN ACCOUNTS WITH THE BANK OF RUSSIA

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Federal government funds, of which:	5,848,761	4,941,658
— Reserve Fund	2,863,574	1,898,645
— National Wealth Fund	2,126,481	2,041,581
Credit institutions' funds in correspondent accounts, of which:	1,270,381	1,356,621
— foreign currency funds in correspondent accounts	18	13
Government and other extra-budgetary funds	895,605	1,026,094
Deposits taken by the Bank of Russia from credit institutions	517,631	403,268
Regional and local budget funds	468,647	555,105
Required reserves deposited with the Bank of Russia	408,809	425,586
Non-resident banks' funds raised in repo transactions	136,851	129,003
Other	812,299	595,700
<b>Total</b>	<b>10,358,984</b>	<b>9,433,035</b>

The increase in the balance of the *Federal government funds* mainly results from the growth of balances in foreign currencies in the Reserve Fund accounts. In order to comply with the federal government's resolutions, the Bank of Russia concluded bank account agreements with the Federal Treasury, whereby the Bank of Russia opened foreign currency accounts to record Reserve Fund and National Wealth Fund assets.

The item *Credit institutions' funds in correspondent accounts, of which: foreign currency funds in correspondent accounts* reflects the balances of resident banks' foreign currency correspondent accounts opened under bank account agreements.

The fall in *Government and other extra-budgetary funds* is mostly due to a reduction in the account balances of the Pension Fund of the Russian Federation.

The item *Deposits taken by the Bank of Russia from credit institutions* is comprised of balances of funds raised from resident credit institutions in Russian rubles, including deposits from credit institutions in whose authorised capital the government holds a stake from 50% to 100%, inclusive, totalling 103,702 million rubles (2012: 16,270 million rubles), including interest obligations of 2 million rubles (2012: 4 million rubles).

The reduction in *Required reserves deposited with the Bank of Russia* is mostly due to the fact that from 10 December 2013 the Bank of Russia has increased its required reserve averaging ratio from 0.6 to 0.7 for credit institutions which are not settlement non-bank credit institutions and non-bank credit institutions which have the right to transmit funds without opening bank accounts and conduct related banking operations.

*Non-resident banks' funds raised in repo transactions* are the funds raised from non-resident banks in deals to sell foreign securities with an obligation to repurchase them (repo transactions) and interest obligations on these transactions. The Bank of Russia concludes repos to bridge cash gaps and to lend securities to a foreign counterparty.



The lending takes the form of repos and reverse repos that are simultaneously concluded with a counterparty. Under a repo transaction the counterparty is provided with securities of interest to the latter, with an obligation of the counterparty to return the securities to the Bank of Russia. Under a reverse repo transaction, the Bank of Russia places the funds received in a repo transaction at a higher interest and receives other securities as collateral. The reverse repos and repos are concluded for the same tenor. The Bank of Russia benefits from the difference between the repo and reverse repo interest rates. The amount of funds raised in repos and placed in reverse repos opened by the end of the year totalled 77,036 million rubles (2012: 38,297 million rubles). Foreign securities provided in these deals have a total current (fair) value of 77,042 million rubles (2012: 38,313 million rubles) (Note 4). Foreign securities received in these deals as collateral have a total current (fair) value of 77,199 million rubles (2012: 38,313 million rubles) (Note 27).

The interest income received from these repos amounted to 636 million rubles (2012: 175 million rubles); it is recognised in *Interest income from foreign currency loans, deposits and other placements* to the amount of 632 million rubles (2012: 166 million rubles), and *Other* to the amount of 4 million rubles (2012: 9 million rubles) in Note 16 *Interest income*. The interest expenses amounted to 559 million rubles (2012: 128 million rubles); they are recognised in *Interest expenses on funds raised against the collateral of foreign currency-denominated securities in international markets* in Note 21 *Interest expenses*.

The increase in the balance of *Non-resident banks' funds raised in repo transactions* is due to an increase in the value of funds raised by the Bank of Russia in deals to sell securities with an obligation to repurchase as of the end of the year and growth in foreign currency exchange rates against the ruble.

Foreign securities provided in repos with a total current (fair) value of 136,842 million rubles (2012: 128,962 million rubles) are accounted for as foreign securities in *Foreign securities* in Note 4.

*Other* includes balances in accounts of government, non-profit, and non-governmental organisations, and other clients, as well as deposits taken from the DIA, a state-owned corporation, and funds in correspondent accounts of the National Bank of the Republic of Belarus and the National Bank of Kazakhstan which were opened with the Bank of Russia within the framework of the Customs Union, to the amount of 191 million rubles (2012: 518 million rubles).

The increase in this item is mainly caused by the growth of the funds of non-governmental financial organisations and state-owned financial organisations, as well as deposits with the Bank of Russia taken from the DIA.

Pursuant to Article 23 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia conducts operations with federal budget funds, government extra-budgetary funds, and regional and local government budget funds without charging a commission.

## 11. FLOAT

The growth of the balance in this item was due to the completion of interregional electronic fund transfers in operations between Bank of Russia establishments associated with the transfer of payments by Bank of Russia establishments and customers serviced by these establishments in the final days of 2013. Interregional electronic fund transfers processed in the final days of 2012 were completed prior to 1 January 2013.



## 12. SECURITIES ISSUED

Given the money market situation and the banking system's liquidity condition in 2013 and 2012, the Bank of Russia did not conduct any OBR placement operations. Thus, as of 1 January 2014 and as of 1 January 2013, the Securities issued item balance equalled zero.

## 13. OBLIGATIONS TO THE IMF

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Liabilities on the funds provided to the Russian Federation as a result of the SDR allocation by the IMF	286,893	265,577
Bank of Russia ruble promissory note in favour of the IMF	0	129,736
Balances in IMF Number 1 and Number 2 Accounts with the Bank of Russia	198,941	52,403
Bank of Russia liabilities arising as a result of the revaluation by the IMF of its account balances with the Bank of Russia and the promissory note in favour of the IMF	14,194	0
<b>Total</b>	<b>500,028</b>	<b>447,716</b>

In 2013, the liabilities on the funds provided to the Russian Federation as a result of the SDR allocation by the IMF did not change in SDR terms, totalling 5,671.8 million SDRs (286,843 million rubles) (the increase in the ruble value of the liabilities is due to a growth in the official exchange rate of the SDR against the ruble), and interest obligations amounted to 50 million rubles (2012: 30 million rubles).

In 2013, the Bank of Russia changed the form of its obligations to the IMF in the currency of the Russian Federation by paying off the Bank of Russia's promissory note in favour of the IMF in rubles. These funds, totalling 129,736 million rubles, were transferred to the IMF Number 1 Account with the Bank of Russia.

The item *Bank of Russia liabilities arising as a result of the revaluation by the IMF of its account balances with the Bank of Russia and the promissory note in favour of the IMF* reflects the revaluation of the IMF's Number 1 and Number 2 Accounts with the Bank of Russia, totalling 14,194 million rubles, accrued over the period from May to December 2013, which, on 1 January 2014, was credited to the IMF's Number 1 and Number 2 Accounts. This revaluation for the period from January to April 2013, totalling 667 million rubles, was recorded to the IMF's Number 1 and Number 2 Accounts in 2013.

## 14. OTHER LIABILITIES

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Supplementary pension provision funds for Bank of Russia employees	96,202	97,605
Other	1,168	1,082
Provisions	11,415	11,415
<b>Total</b>	<b>108,785</b>	<b>110,102</b>

Under the Federal Law ‘On the Central Bank of the Russian Federation (Bank of Russia)’, the Bank of Russia has the right to set up a supplementary pension fund for its employees. The Bank of Russia is implementing a pension plan with defined payments regulated by its own instructions. These take into account the fact that Bank of Russia employees are not covered by guarantees to which civil servants are entitled, and that similar pension arrangements are widely used by other central banks. The volume of funds allocated for supplementary pension payments to Bank of Russia employees is determined on the basis of the actuarial appraisal, which is made by a certified actuary. As of 1 January 2014, based on the results of the actuary’s appraisal of Bank of Russia pension obligations, no funds were added to the supplementary pension fund for Bank of Russia employees (2012: 7,143 million rubles).

The decrease in this item is due to operations to make supplementary pension payments to former employees of the Bank of Russia system.

*Other* mostly reflects the amounts of taxes and duties accrued, payable to the federal budget and extra-budgetary funds; accrued obligations of the Bank of Russia under intra-bank agreements; the funds of educational institutions (banking schools/colleges and secondary educational institutions founded by the Bank of Russia), and funds withdrawn by pre-trial inquiry and investigation authorities.

The item *Provisions* reflects provisions set up to meet the obligations to the participants in the Bank of Russia’s Pension Programme, created as per the decision of the Bank of Russia Board of Directors, in the amount of 11,415 million rubles, on the basis of indicative evaluation of the Bank of Russia pension obligations as of 1 January 2014, conducted by independent professional actuaries.

## 15. REPORTING YEAR PROFIT

Reporting year profit is a balance-sheet item recognising the Bank of Russia’s financial result for the year 2013. It shows the recognition in the accounts of the income received and accrued as definitive, as well as the expenses paid and accrued (where there is no uncertainty with respect to the performance of contractual obligations).

The Bank of Russia’s 2013 financial result was below 2012 levels due to the deal in 2012 by the Bank of Russia to sell the 1,712,994,999 ordinary shares that it held in Sberbank, constituting 7.58% of the authorised capital of Sberbank to implement a decision adopted by the National Banking Council, dated 22 March 2011, on reducing the Bank of Russia’s stakeholding in the authorised capital of Sberbank in 2011—2013. The item *Net income from the sale of OJSC Sberbank of Russia shares* in the profit and loss account for 2012 shows the funds received in 2012 by the Bank of Russia from the sale of the shares it held in Sberbank, defined as the difference between the proceeds from the sale of the shares and their balance sheet value, net of costs linked to the sale of the shares (Table *Capital, funds and profit allocation* in the Statement of Profit and its Allocation).

Ignoring the impact of the above operations, the Bank of Russia's financial result for 2013 was above 2012 levels, mainly on account of:

- an increase in interest income (Note 16);
- an increase in net income from the recovery of provisions (Note 19);
- a decrease in interest expenses with regard to the Reserve Fund and National Wealth Fund, and with regard to deposits attracted from credit institutions in the domestic market (Note 21);
- a decrease in income from securities operations (Note 17).

## 16. INTEREST INCOME

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Interest income from ruble loans, deposits and other placements with resident banks,	167,664	129,976
of which:		
— extended and placed under certain federal laws	19,500	19,500
Interest income from securities	73,774	98,401
Interest income from foreign currency loans, deposits and other placements	6,090	5,004
Interest income from Bank of Russia claims on the IMF	330	414
Other,	4,089	4,699
of which:		
— extended and placed under certain federal laws	3,632	4,297
<b>Total</b>	<b>251,947</b>	<b>238,494</b>

*Interest income from ruble loans, deposits and other placements with resident banks* reflects interest income from Bank of Russia loans extended against the collateral of securities from the Bank of Russia Lombard List, gold, rights of claim under credit institutions' loan agreements or guarantees; subordinated loans extended in 2008 to Sberbank in the context of measures designed to support the financial system of the Russian Federation, as prescribed by Russian federal legislation; ruble deposits placed with Vnesheconombank in 2008—2009 pursuant to the decisions of the Bank of Russia Board of Directors; and repo transactions.

*Interest income from ruble loans, deposits and other placements with resident Banks, of which: extended and placed under certain federal laws* reflects interest income from subordinated loans extended to Sberbank, totalling 19,500 million rubles (2012: 19,500 million rubles).

The increase in *Interest income from ruble loans, deposits and other placements with resident banks* was driven by a high demand among credit institutions for liquidity from the Bank of Russia in 2013.

*Interest income from securities* consists of 54,189 million rubles in interest income from foreign issuers' debt obligations acquired for the purpose of managing foreign exchange reserves (2012: 80,911 million rubles), and of 19,585 million rubles in interest income from Russian issuers' debt obligations (2012: 17,490 million rubles).

*Interest income from foreign currency loans, deposits and other placements* recognises interest accrued and received from Bank of Russia placements with non-resident banks, and interest on funds provided in repo transactions with foreign securities and on deposits which were placed with non-resident banks in foreign currency and precious metals.

*Interest income from Bank of Russia claims on the IMF* reflects interest accrued on the funds in the account with the SDR Department; on loans extended under the New Arrangements to Borrow; the amounts of remuneration on the reserve tranche position; and investment income from funds placed in the Russian Federation provisional administered account with the IMF.

*Other* mostly includes interest income from loans extended to the DIA pursuant to Federal Law No. 175-FZ, dated 27 October 2008, amounting to 3,632 million rubles (2012: 4,297 million rubles), from reverse transactions to provide securities to non-resident banks, and also interest income received in accounts opened with non-resident banks.

## 17. INCOME FROM SECURITIES TRADING

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Income from operations with foreign securities, of which:	10,616	18,403
— income from compensation for previous years' expenses relating to securities revaluation	426	405
Income from operations with Russian securities, of which:	1,963	14,938
— income from compensation for previous years' expenses relating to securities revaluation	1,963	14,938
<b>Total</b>	<b>12,579</b>	<b>33,341</b>

*Income from operations with foreign securities* consists of income from the sale and revaluation, at current (fair) value, of retired (sold) foreign government securities, as well as securities issued by non-resident banks and other non-resident debt. This item also includes income from the positive revaluation of foreign securities, which was used to offset the negative revaluation of the relevant issues, recorded to expenses in previous years.

The item *Income from operations with Russian securities* reflects income from the positive revaluation, at current (fair) value, of a Russian debt, which was used to offset the negative revaluation, at current (fair) value, of relevant issues, recorded to expenses in previous years.

**18. INCOME FROM STAKEHOLDINGS IN CREDIT INSTITUTIONS AND OTHER ORGANISATIONS**

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Income from investments in the shares of subsidiary and affiliated credit institutions	29,024	27,053
Income from investments in the shares of subsidiary and affiliated organisations	594	151
Income from investments in the shares of non-resident banks (excluding subsidiary and affiliated banks)	50	49
<b>Total</b>	<b>29,668</b>	<b>27,253</b>

*Income from investments in the shares of subsidiary and affiliated credit institutions* reflects income from the Bank of Russia's stakeholdings in Sberbank.

*Income from investments in the shares of subsidiary and affiliated organisations* includes income from stakeholdings in the capital of Open Joint-Stock Company Moscow Exchange MICEX-RTS (short name: the Moscow Exchange).

*Income from investments in the shares of non-resident banks (excluding subsidiary and affiliated banks)* reflects income from the Bank of Russia's stakeholdings in the Bank for International Settlements (Basel).

## 19. NET INCOME (EXPENSES) FROM THE RECOVERY (CREATION) OF PROVISIONS

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Decrease in provisions for funds provided to the state-owned corporation	7,016	2,192
Decrease in provisions for claims on the withdrawn compensation deposit previously placed by the Bank of Russia with a credit institution	43	0
Decrease/(increase) in provisions for other active operations	24	(1,721)
Decrease in provisions for Bank of Russia compensation payments to the depositors of bankrupt banks	1	1
(Increase) in provisions to secure obligations to participants in the Bank of Russia's Pension Programme	0	(2,348)
Decrease in provisions for restructured loans initially provided as unsecured loans	0	12,588
Decrease in provisions for promissory notes acquired from credit institutions	0	12
(Increase)/decrease in provisions for credit institutions' debt on other operations	(50)	1,956
(Increase) in provisions for possible debit of funds from the Russian Federation provisional administered account with the IMF	(52)	(818)
(Increase) in provisions for ruble loans and deposits with resident banks	(3,606)	(26,101)
<b>Total</b>	<b>3,376</b>	<b>(14,239)</b>

The decrease in provisions for funds provided to the DIA to prevent the bankruptcy of credit institutions is a result of the partial repayment of the debt (Note 5).

The decrease in provisions for claims on the withdrawn compensation deposit is due to a partial repayment of a compensation deposit previously placed by the Bank of Russia with a credit institution in compliance with Federal Law No. 173-FZ, dated 13 October 2008, 'On Additional Measures to Support the Financial System of the Russian Federation', in order to partially compensate for this credit institution's losses (expenses) that had been caused by a default of a borrower whose banking licence had been revoked.

The decrease in provisions for other active operations results from a partial repayment of debt to the Bank of Russia for unsecured loans re-established on the basis of a Court of Arbitration ruling, and from an increase in provisions for a closed unit investment fund's shares acquired by the Bank of Russia.

Provisions for Bank of Russia compensation payments to the depositors of bankrupt banks are made pursuant to Federal Law No. 96-FZ, dated 29 July 2004, 'On Bank of Russia Compensation Payments for Household Deposits with Bankrupt Banks Uncovered by the Deposit Insurance System', and Bank of Russia regulations. This decrease in provisions is associated with a decrease in funds transferred by the Bank of Russia to agent banks for compensation payments to the depositors of bankrupt banks (Note 8).

The increase in provisions for credit institutions' debt on other operations results mainly from an increase in provisions for a foreign currency deposit placed by the Bank of Russia with the Interstate Bank, due to a change in the US dollar exchange rate to the ruble.

The increase in provisions for possible debit of funds from the Russian Federation provisional administered account with the IMF is due to a change in the balance of the provisional administered account and a change in the official exchange rate of the SDR to the ruble (Note 7).

The increase in provisions for ruble loans and deposits with resident banks is a result of an increased volume of Bank of Russia loans secured by the pledge of credit claims under loan agreements or guarantees of credit institutions, as stipulated by Bank of Russia Regulation No. 312-P, dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Covered by Assets or Guarantees to Credit Institutions' (Note 5).

## 20. OTHER INCOME

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Fees for Bank of Russia services provided to customers	8,231	7,640
Net positive realised foreign currency exchange rate differences	5,968	5,912
Income from the sale of coins made from precious metals	1,100	2,226
Fines and penalties received	130	60
Income of previous years (net of interest income) identified in the reporting year	49	51
Income from technological processing of precious metals and other income	6	2
Other	3,459	2,169
<b>Total</b>	<b>18,943</b>	<b>18,060</b>

The item *Fees for Bank of Russia services provided to customers* mostly consists of 8,203 million rubles received in fees for the settlement services provided by the Bank of Russia (2012: 7,609 million rubles) and other fees totalling 28 million rubles (2012: 31 million rubles).

*Net positive realised foreign currency exchange rate differences* reflect those arising from the purchase (sale) of foreign currency in the domestic and international markets at exchange rates that differ from the official rates established by the Bank of Russia.

*Income from the sale of coins made from precious metals* is income from the sale of Russian coins made of precious metals in the domestic and international financial markets. The decrease in this item occurred due to the falling price of gold and silver.

*Other* mainly reflects income resulting from the allocation of IMF windfall gold sales profits in the amount of 2,151 million rubles (2012: 834 million rubles).

## 21. INTEREST EXPENSES

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Interest expenses on federal budget balances, including	4,345	27,455
— Reserve Fund balances	2,802	12,850
— National Wealth Fund balances	1,543	14,605
Interest expenses on deposits taken from credit institutions in the domestic market	5,284	5,749
Interest expenses on deposits taken from the state-owned corporation	901	835
Interest expenses on funds raised against the collateral of foreign currency-denominated securities in international markets	573	141
Interest expenses on Bank of Russia obligations to the IMF	221	284
Other	2	356
<b>Total</b>	<b>11,326</b>	<b>34,820</b>

Pursuant to resolutions of the Government of the Russian Federation, in 2008, the Bank of Russia concluded bank account agreements with the Federal Treasury, whereby the Bank of Russia opened accounts in rubles and foreign currencies for the Reserve Fund and National Wealth Fund, to which the balances of the Stabilisation Fund accounts were transferred on 30 January 2008.

As of 1 January 2014, *Interest expenses on federal budget balances* reflect the interest accrued on the balances of the Reserve Fund and National Wealth Fund foreign currency accounts, in accordance with the bank account agreements, for the period of 16 January to 31 December 2013 totalling 6,592 million rubles, inclusive of a downward adjustment for the period of 1 to 15 January 2012 totalling 2,247 million rubles.

Under the bank account agreements, the Bank of Russia pays an interest based on the yields of indices, each of which is an aggregate of foreign governments' securities that have specific shares in that aggregate. The set of foreign governments' securities that are included in these indices is established and regularly revised in compliance with procedures set forth in the bank account agreements between the Bank of Russia and the Federal Treasury.

A decrease in this item results from decreased yields of securities included in these indices. The impact of this factor on interest expenses on the Reserve Fund account was largely offset by the growth in the balances in the Reserve Fund accounts during the reporting period.

Under the bank account agreements, interest was paid to the federal budget revenue for the period of 16 January 2012 to 15 January 2013 on 21 January 2013, and for the period of 16 January 2013 to 15 January 2014 on 20 January 2014 (Note 28).

A decrease of the item *Interest expenses on deposits taken from credit institutions in the domestic market* is due to a decrease in the volume of monetary funds deposited by credit institutions with the Bank of Russia in 2013.

*Interest expenses on deposits taken from the state-owned corporation* include interest expenses on deposits attracted from the DIA.

*Interest expenses on funds raised against the collateral of foreign currency-denominated securities in international markets* include interest expenses on other funds raised from non-resident banks (repo).

*Interest expenses on Bank of Russia obligations to the IMF* include interest paid and accrued on the balance of the Russian Federation's obligations to the IMF with regard to the allocated SDRs.



**22. EXPENSES ON SECURITIES TRADING**

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Expenses on operations with foreign securities	8,717	3,525
Other	987	795
<b>Total</b>	<b>9,704</b>	<b>4,320</b>

*Expenses on operations with foreign securities* consist of expenses from the sale and negative revaluation, at current (fair) value, of retired (sold) foreign government securities, securities issued by non-resident banks and other non-resident debt obligations.

*Other* includes expenses on fee payments to organisations supporting securities trading in the domestic market.

**23. CASH TURNOVER MANAGEMENT EXPENSES**

This balance sheet item includes expenses involved in the manufacturing, destruction and anti-counterfeit protection of banknotes and coins, as well as the purchase and delivery of packaging materials and accessories necessary for cash processing.

A decrease in expenses in this item is due to the decreased volumes of manufacturing of banknotes and coins in comparison to 2012.

**24. EXPENSES ON NEGATIVE REVALUATION OF SECURITIES AVAILABLE FOR SALE**

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Expenses on negative revaluation of securities available for sale	7,826	473
<b>Total</b>	<b>7,826</b>	<b>473</b>

At the end of 2013, there was a negative unrealised revaluation of securities available for sale for certain issues of foreign debt totalling 5,845 million rubles (2012: 473 million rubles) and federal government debt totalling 1,981 million rubles (2012: 0 million rubles), that was recorded to the expenses of the Bank of Russia (Note 1 (e)).

## 25. OTHER OPERATING EXPENSES

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Depreciation allowances	12,406	11,325
Expenses on IT maintenance and logistics	8,290	7,614
Security expenses	4,955	4,985
Expenses on the delivery of bank documents and valuables	4,377	5,378
Expenses on the maintenance of buildings	3,453	2,985
Repair expenses	3,228	3,729
Expenses involved in the use of titles to intellectual property	2,396	2,388
Taxes and duties paid	1,996	1,960
Postage, telegraph and telephone expenses and expenses on renting communication lines and channels	1,912	1,684
Expenses on operations with precious metals	83	73
Expenses on foreign currency operations	66	32
Net negative realised differences for precious metals	30	624
Expenses on the replenishment of supplementary pension funds	0	7,143
Other	8,043	5,492
<b>Total</b>	<b>51,235</b>	<b>55,412</b>

*Expenses on operations with precious metals* mainly reflect payment for such services as receiving and storing precious metals in non-resident banks and for refining precious metals.

*Expenses on foreign currency operations* are mainly comprised of expenses on commissions paid under relevant agreements to the administrator of the unified trading session of interbank currency exchanges and to the credit institution authorised to buy and sell foreign currency on the exchange, as well as expenses related to the maintenance of Bank of Russia correspondent accounts with non-resident banks.

The item *Net negative realised differences for precious metals* reflects net negative realised differences arising from the purchase (sale) of precious metals in the domestic and international markets.

*Other* mainly reflects personnel training expenses; property retirement/sale expenses; business travel expenses; printing and other expenses for the production, purchase and mailing of blank forms and data media; expenses related to the purchase of equipment and accessories put into operation/use; expenses related to the transfer of funds (owed by the Russian Federation upon the general reserve allocation by the IMF) to the Poverty Reduction and Growth Trust; and the annual charge to compensate the administrative expenses of the IMF SDR Department.

## 26. PERSONNEL COSTS

For explanation, see the Statement of Bank of Russia Personnel Costs.

## 27. OFF-BALANCE SHEET CLAIMS AND OBLIGATIONS ACCOUNTS

Claims and obligations on forward operations recorded to off-balance sheet accounts are as follows:

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
<b>Claims</b>		
Claims for the delivery of rubles in spot transactions	285,210	268,341
Claims for the delivery of foreign currency from non-residents in spot transactions	25,764	11,664
Claims for the delivery of foreign currency-denominated securities from non-residents in spot transactions	14,586	484
Claims for the delivery of foreign currency from non-residents in forward transactions	77,055	27,977
Claims for the delivery of foreign currency-denominated securities from non-residents in forward transactions	23,189	15,143
Unrealised (negative) exchange rate differences from the revaluation of foreign currency	511	26
<b>Total claims</b>	<b>426,315</b>	<b>323,635</b>
<b>Obligations</b>		
Obligations to deliver foreign currency in spot transactions	285,999	268,338
Obligations to deliver foreign currency from non-residents in spot transactions	39,196	11,616
Obligations to deliver foreign currency-denominated securities from non-residents in spot transactions	1,113	484
Obligations to deliver foreign currency from non-residents in forward transactions	99,230	41,825
Obligations to deliver precious metals from non-residents in forward transactions	695	1,283
Unrealised (positive) exchange rate differences from the revaluation of precious metals	82	89
<b>Total obligations</b>	<b>426,315</b>	<b>323,635</b>

An increase in *Claims for the delivery of rubles in spot transactions* and in *Obligations to deliver foreign currency in spot transactions* results from growth, as of the reporting date compared with the previous reporting date, in the volume of foreign exchange swap transactions and the existence of conversion deals as of the reporting date in the domestic financial market.

An increase in *Claims for the delivery of foreign currency from non-residents in spot transactions* is attributable to a growth in spot conversion deals and deals to sell securities in international financial markets as of the reporting date compared with the previous reporting date.

An increase in *Claims for the delivery of foreign currency-denominated securities from non-residents in spot transactions* results from an increase in spot deals to buy securities in international financial markets as of the reporting date compared with the previous reporting date.

An increase in *Claims for the delivery of foreign currency from non-residents in forward transactions* results mainly from a growth in the volume of forward conversion deals in the period between the previous and current reporting dates, as well as the existence of currency swap deals in international financial markets.

An increase in *Claims for the delivery of foreign currency-denominated securities from non-residents in forward transactions* results from a growth in the volume of deals to buy securities in international financial markets as of the reporting date compared with the previous reporting date.

An increase in *Obligations to deliver foreign currency from non-residents in spot transactions* results from a growth in the volume of spot conversion deals and deals to buy securities in international financial markets in the period between the previous and current reporting dates.

An increase in *Obligations to deliver foreign currency-denominated securities from non-residents in spot transactions* results from a growth in the volume of spot deals to sell securities in international financial markets as of the reporting date compared with the previous reporting date.

An increase in *Obligations to deliver foreign currency from non-residents in forward transactions* as of the reporting date compared with the previous reporting date results from an increase in the volume of conversion deals and deals to buy securities in international financial markets, as well as the existence of foreign exchange swap deals in international financial markets as of the reporting date.

A decrease in *Obligations to deliver precious metals from non-residents in forward transactions* results from a decrease, as of the reporting date, in put options for precious metals contracted in international financial markets in the course of placing precious metals in conditional deposits.

Other claims and obligations recorded to the off-balance sheet accounts include:

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Securities accepted as collateral for funds placed	14,619	13,813
Securities received on a repo basis	3,418,216	2,045,257
Guarantees and sureties received	477,722	369,065
Assets accepted as collateral for funds placed, except securities and precious metals	995,537	366,664
Unused lines of credit facilities	16,968	2,517
Guarantees and sureties issued	351,906	325,780
Unused lines of credit facilities in the form of 'overdraft' and 'against the debt limit' loans	717,311	360,942
Settlements with the IMF related to servicing funds raised and placed	4,342	4,018
Arrears in interest payments on the principal debt not written off the balance sheet	2,439	3,820

Securities accepted as collateral for funds placed are securities accepted by the Bank of Russia from credit institutions as collateral for the loans extended by it (Note 5).

Securities received by the Bank of Russia on a repo basis are mainly securities accepted as collateral in repos with credit institutions in the domestic securities market and with non-residents in international markets, and foreign securities received by the Bank of Russia as additional collateral (margin) in repos with non-residents in international markets.

Securities received by the Bank of Russia as collateral in repos with resident credit institutions in the domestic securities market are accounted for at their current (fair) value, totalling 3,228,101 million rubles (2012: 1,970,173 million rubles) (Note 5).

Securities received by the Bank of Russia as collateral in repos with non-residents are accounted for at their current (fair) value, totalling 190,076 million rubles (2012: 74,986 million rubles), of these securities received in reverse repos that match repos have a current (fair) value of 77,199 million rubles (2012: 38,313 million rubles) (Notes 4 and 10).

Besides, as of the end of 2013, the Bank of Russia received additional collateral (margin) in the form of foreign securities in repos with non-residents in international markets, with the total current (fair) value of 39 million rubles (2012: 98 million rubles). These securities were received due to the excess of the total volume of Bank of Russia counterparty's obligations over the total volume of Bank of Russia obligations in all repos with that counterparty.

The increase in this item results from a growth in the volume of repos concluded in the domestic market.

Guarantees and sureties received by the Bank of Russia are credit institutions' guarantees accepted as collateral on loans extended by it (Note 5).

Assets accepted as collateral for funds placed, except for securities and precious metals, constitute claims under loan agreements accepted by the Bank of Russia as mostly collateral for loans extended to credit institutions; these assets total 995,537 million rubles (2012: 366,664 million rubles) (Note 5).

Unused lines of credit facilities amounting to 16,968 million rubles (2012: 2,517 million rubles) are deposit transactions conducted in international markets, which had not been placed by 1 January 2014, and which consist of foreign currency deposits totalling 12,446 million rubles (2012: 0 million rubles) and deposits with precious metals totalling 4,522 million rubles (2012: 2,517 million rubles).

Guarantees and sureties issued are Bank of Russia contingent liabilities to the IMF to pay for the increase in the Russian Federation's quota with the IMF in line with the 14th General Review of Quotas, amounting to 6,958.3 million SDRs or 351,906 million rubles (2012: 6,958.3 million SDRs or 325,780 million rubles). The decision to increase country quotas with the IMF raises the new Russian Federation's quota to 12,903.7 million SDRs or to 2.7% of the total of all IMF quotas. The payment for the increased quotas will take place after ratification by the majority of IMF member states.

Unused limits to provide funds in the form of 'overdrafts' and 'against the debt limit' loans are mainly unused lines of IMF credit facilities within the framework of the New Arrangements to Borrow, amounting to 7,603.8 million SDRs or 384,549 million rubles (2012: 7,709.3 million SDRs or 360,942 million rubles), and an unused line of credit facility lines under a 2013 bilateral credit agreement between the Bank of Russia and the IMF, amounting to \$10 million or 327,292 million rubles (2012: 0 million rubles).

As an IMF member country, the Russian Federation participates in the burden-sharing mechanism relating to debt arrears. Under this mechanism, in order to offset third party defaults on their debt to the IMF, IMF borrower countries pay a mark-up on the SDR interest rate, while a deduction on this rate is withheld from creditor countries. Settlements with the IMF related to servicing raised and placed funds represent amounts of the Russian Federation claims on the IMF for paid interest rate surcharges and charged interest rate deductions that accrued in 1993—2005 and in 2009—2013 within the framework of the burden-sharing mechanism, and totalled 85.9 million SDRs or 4,342 million rubles as of 1 January 2014 (2012: 85.8 million SDRs or 4,018 million rubles).

Arrears in interest payments on the principal debt not written off the balance sheet are mainly comprised of accrued interest on loans and other funds placed, provided by the Bank of Russia to credit institutions, whose receipt is uncertain.

## 28. POST-ACCOUNTING DATE EVENTS

The adjustment of the amount of taxes and duties after the final settlement for the reporting tax period is recognised in Bank of Russia accounting records in 2014. Taxes and duties after the final settlement, paid on 26 March 2014, from the Bank of Russia's 2013 profit, amounted to 7 million rubles (Statement of Profit and its Allocation and Table *Capital, funds and profit allocation*).

In accordance with Article 1 of Federal Law No. 40-FZ, dated 2 April 2014, 'On the Specifics to Transfer in 2014 the Profit for 2013 Received by the Central Bank of the Russian Federation', funds totalling 60,000 million rubles were transferred by the Bank of Russia to the Deposit Insurance Agency on 3 April 2014 as a property contribution and allocated to the compulsory deposit insurance fund from the actual profit received by the bank for 2013 after the payment of taxes and duties in accordance with the Tax Code of the Russian Federation.

Pursuant to Article 5 of Federal Law No. 245-FZ, dated 30 September 2010, 'On Amending the Budget Code and Other Laws of the Russian Federation' (as amended), Part 1 of Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' was suspended until 1 January 2016. The suspended portion relates to the percentage of actual profit received for the year which remains after the payment of taxes and duties under the Tax Code of the Russian Federation, which the Bank of Russia is to transfer to the federal budget. Pursuant to Article 2 of Federal Law No. 40-FZ, dated 2 April 2014, 'On the Specifics to Transfer in 2014 the Profit for 2013 Received by the Central Bank of the Russian Federation', once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia transfers 75% of the actual annual profit for 2013 which remains after the payment of taxes and duties under the Tax Code of the Russian Federation to the federal budget and after the transfer of funds serving as a property contribution to the DIA pursuant to Article 1 of the aforementioned law, or 51,826 million rubles (Statement of Profit and its Allocation and Table *Capital, funds and profit allocation*).

Of the profits retained by the Bank of Russia, the Bank of Russia Board of Directors decided to allocate: 16,584 million rubles to the Bank of Russia Reserve Fund and 691 million rubles to the Bank of Russia Social Fund (Statement of Profit and its Allocation, Statement of Bank of Russia Reserves and Funds and Table *Capital, funds and profit allocation*).

In January 2014, the Bank of Russia paid to the federal budget interest on the assets of the Reserve Fund and National Wealth Fund for the period of 16 January 2013 to 15 January 2014, totalling 8,959 million rubles, with the amount of interest for the period of 16 January to 31 December 2013 amounting to 6,592 million rubles and the amount of interest for the period of 1 to 15 January 2014 amounting to 2,367 million rubles.

At an extraordinary general shareholders meeting of the Moscow Exchange on 14 November 2013, a decision was made to reduce the authorised capital of the exchange by buying and retiring 99,852,660 the Moscow Exchange shares in order to reduce the total number of shares. The report on the results of the Moscow Exchange share purchase was approved by the exchange's Supervisory Board in March 2014.

After the introduction and registration of the respective changes in the Moscow Exchange's corporate charter, the exchange registrar (the closed joint-stock company Status) retired the Moscow Exchange shares in March 2014, resulting in the exchange's authorised capital consisting of 2,278,636,493 shares and the Bank of Russia's stake in the authorised capital of the Moscow Exchange increasing from 22.47% to 23.46% as of 1 April 2014.

On 26 March 2014, the Bank of Russia Board of Directors decided to reduce the previously formed provisions to cover obligations to Bank of Russia Pension Programme participants by 6,395 million rubles with this amount being recovered to Bank of Russia's 2014 income (Note 14).

## STATEMENT OF PROFIT AND ITS ALLOCATION

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
1. Actual profit for the year	129,261	247,326
2. Taxes and duties paid from Bank of Russia profit under the Tax Code of the Russian Federation, total:	160	162
of which:		
— advance payments in the reporting year	153	159
— after the final settlement for the reporting year*	7	3
3. Profit after the payment of taxes and duties under the Tax Code of the Russian Federation	129,101	247,164
4. Funds transferred from 2013 profit to the DIA*	60,000	
5. Proceeds received from the sale of Sberbank shares and transferred to the federal budget in 2012		149,657
6. Funds to be transferred to the federal budget pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia) '*	51,826	73,130
7. Profit remaining at the Bank of Russia, total*:	17,275	24,377
of which, allocated to:		
— Reserve Fund	16,584	23,402
— Social Fund	691	975

In accordance with Article 11 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', Bank of Russia profit is determined, at the end of the year, as a difference between total income from banking operations and transactions stipulated by Article 46 of the aforementioned Federal Law and income from the stakeholdings in the capital of credit institutions, and expenses involved in the Bank of Russia's fulfilment of the functions assigned to it by Article 4 of this Federal Law.

The Bank of Russia's financial result for 2013 was above 2012 levels (excluding the net income from the partial sale of Sberbank shares owned by the Bank of Russia in 2012). As interest rates continued to be low in the global financial markets, income from the placement of reserve assets and the interest expenses on federal budget funds in accounts with the Bank of Russia were lower than in the previous year. At the same time, the Bank of Russia's interest income from standard refinancing operations (primarily, repo operations) grew due to the ever growing demand for liquidity in the banking sector.

The Bank of Russia's profit for the year is allocated according to the procedure established by Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. This article stipulates that after the Bank of Russia's Annual Financial Statements have been approved by its Board of Directors, the Bank of Russia must transfer 50% of its actual year profit remaining after the payment of taxes and duties under the Tax Code of the Russian Federation to the federal budget. The Bank of Russia Board of Directors transfers retained profit to reserves and various funds.

\* The payment of taxes and duties from the reporting year's profit pursuant to the Tax Code of the Russian Federation after the final calculation of profit for the reporting tax period, and the allocation of the reporting year's actual profit retained after the payment of taxes and duties are recognised in the Bank of Russia's balance sheet for the current year (Note 28).

Pursuant to Article 5 of Federal Law No. 245-FZ, dated 30 September 2010, 'On Amending the Budget Code and Other Laws of the Russian Federation' (as amended), Part 1 of Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' was suspended until 1 January 2016. The suspended portion relates to the percentage of actual profit received for the year which remains after the payment of taxes and duties under the Tax Code of the Russian Federation, which the Bank of Russia must transfer to the federal budget.

In accordance with Federal Law No. 40-FZ, dated 2 April 2014, 'On the Specifics to Transfer in 2014 the Profit for 2013 Received by the Central Bank of the Russian Federation', on 3 April 2014, funds totalling 60,000 million rubles were transferred by the Bank of Russia to the Deposit Insurance Agency as a property contribution and allocated to the compulsory deposit insurance fund. Once the Annual Financial Statements for 2013 were approved by the Board of Directors, the Bank of Russia transferred 75% of the actual annual profit for 2013 retained after the payment of taxes and duties under the Tax Code of the Russian Federation to the federal budget and after the transfer of the funds serving as a property contribution to the DIA.



## STATEMENT OF BANK OF RUSSIA RESERVES AND FUNDS

*(millions of rubles)*

	Reserve fund	Social fund	Accrued precious metal revaluation	Positive revaluation of securities available for sale	Accrued foreign currency exchange rate differences	Growth in the value of property after revaluation	Total
<b>Opening balance of the reporting year, inclusive of funds received as a result of profit allocation for the year preceding the reporting year</b>	<b>284,655</b>	<b>5,183</b>	<b>1,197,224</b>	<b>90,762</b>	<b>1,160,044</b>	<b>7,966</b>	<b>2,745,834</b>
Transferred to funds from other sources	0	42	0	4,025	828,707	0	832,774
Funds used	0	(3,337)	(385,733)	(40,620)	0	0	(429,690)
Opening balance of the year following the reporting year	284,655	1,888	811,491	54,167	1,988,751	7,966	3,148,918
Transferred from reporting year profit*	16,584	691	0	0	0	0	17,275
<b>Total, inclusive of funds received as a result of reporting year profit allocation</b>	<b>301,239</b>	<b>2,579</b>	<b>811,491</b>	<b>54,167</b>	<b>1,988,751</b>	<b>7,966</b>	<b>3,166,193</b>

\* The allocation of the actual profit for the reporting year is recognised in the Bank of Russia balance sheet for the current year (Note 28).



Pursuant to Article 26 of the Federal Law ‘On the Central Bank of the Russian Federation (Bank of Russia)’, once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia allocates a part of its profit, retained after the payment of taxes and duties under the Tax Code of the Russian Federation, to the federal budget, and to reserves and funds. The procedure for the allocation of Bank of Russia retained profit is established by the Bank of Russia Regulation ‘On the Procedure for Allocating Profit Retained by the Bank of Russia’.

In accordance with Federal Law No. 40-FZ, dated 2 April 2014, ‘On the Specifics to Transfer in 2014 the Profit for 2013 Received by the Central Bank of the Russian Federation’, the Bank of Russia’s profit for 2013 retained after the payment of taxes and duties pursuant to the Tax Code of the Russian Federation and prior to its transfer to the federal budget and to Bank of Russia funds and reserves, totalling 60,000 million rubles, was transferred by the Bank of Russia to the Deposit Insurance Agency on 3 April 2014 and allocated to the compulsory deposit insurance fund as a property contribution.

Pursuant to the Bank of Russia Regulation ‘On the Bank of Russia Reserve Fund’, the Reserve Fund was created for the purpose of ensuring stability for the fulfilment by the Bank of Russia of the functions assigned to it by law. The Bank of Russia Reserve Fund is formed from its profit. According to a decision of its Board of Directors, the Bank of Russia may also transfer money from other funds and reserves that are part of Bank of Russia capital to the Reserve Fund.

In accordance with the procedure for allocating the Bank of Russia’s retained profit and a decision of the Bank of Russia Board of Directors 16,584 million rubles of profit for 2013 were allocated to the Reserve Fund (2012: 23,402 million rubles).

The Bank of Russia Social Fund was set up to provide financing for the social needs of Bank of Russia employees and, in some cases, pensioners registered with the Bank of Russia.

Money from the Social Fund is mainly used on one-off social benefits to Bank of Russia employees. The Social Fund is formed from Bank of Russia retained profit.

The procedure for creating and using the Social Fund is governed by the Bank of Russia Regulation ‘On the Social Fund of the Central Bank of the Russian Federation’.

In accordance with the procedure for allocating the Bank of Russia’s retained profit and a decision of the Bank of Russia Board of Directors, 691 million rubles of profit for 2013 were allocated to the Bank of Russia Social Fund, or 4% (2012: 975 million rubles or 4%) out of the Bank of Russia’s retained profit.

According to a decision of the Bank of Russia Board of Directors, beginning from 1 January 2007, precious metals are recognised in the accounting records at their book price and revalued daily. In 2013, the negative unrealised differences exceeded the positive ones by 385,733 million rubles (2012: 2,583 million rubles). This excess was written off on account of the previously accrued revaluation recorded to the balance sheet account *Accrued precious metal revaluation* as part of the Bank of Russia capital.

The accrued foreign currency exchange rate differences result from the revaluation of foreign currency funds, caused by changes in the official rate of foreign currencies against the ruble. In 2013, the positive unrealised foreign currency exchange rate differences exceeded the negative ones by 828,707 million rubles. This excess was recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of the Bank of Russia capital (in 2012, the negative unrealised foreign currency exchange rate differences exceeded the positive ones by 498,457 million rubles).

In compliance with the Bank of Russia’s accounting rules, beginning from 1 January 2008, securities available for sale have been evaluated (revalued) at their current (fair) value. In 2013, the accrued positive revaluation of securities available for sale, totalling 4,025 million rubles was recorded to the balance sheet account *Positive revaluation of securities available for sale* as part of Bank of Russia capital (2012: 38,341 million rubles). The positive revaluation accrued in previous years was written off, as the securities of corresponding issues (issuers) were retired (sold) in 2013,

and also used to settle the negative unrealised revaluation of the securities of corresponding issues (issuers) accrued in 2013 and totalling 40,620 million rubles (2012: 52,915 million rubles).

The fixed asset revaluation fund is the increase in the value of property due to the revaluation of fixed assets, made in compliance with the Russian Federation Government Resolutions in 1992, 1994, 1995, 1996 and 1998.

**STATEMENT OF BANK OF RUSSIA MANAGEMENT OF SECURITIES  
AND STAKEHOLDINGS IN THE CAPITAL OF ORGANISATIONS  
CONSTITUTING BANK OF RUSSIA PROPERTY**

**BANK OF RUSSIA INVESTMENTS IN DEBT OBLIGATIONS**

*(millions of rubles)*

	<b>2013</b>	<b>2012</b>
<b>Foreign issuers' debt obligations, of which:</b>		
US and Canadian issuers' debt obligations	5,030,034	5,235,903
— denominated in US dollars	4,568,372	4,907,346
— denominated in euros	0	0
— denominated in Canadian dollars	460,041	328,557
— denominated in pounds sterling	1,621	0
EU issuers' debt obligations	7,451,817	7,151,246
— denominated in US dollars	122,049	151,485
— denominated in euros	6,047,858	5,731,152
— denominated in pounds sterling	1,281,465	1,267,730
— denominated in Australian dollars	445	879
Japanese issuers' debt obligations	0	134,474
— denominated in Japanese yen	0	134,474
Australian issuers' debt obligations	116,022	147,193
— denominated in Australian dollars	116,022	147,193
Debt obligations of international organisations	113,767	72,315
— denominated in US dollars	69,153	67,281
— denominated in euros	42,072	3,136
— denominated in pounds sterling	0	1,328
— denominated in Australian dollars	2,542	570
<b>Subtotal</b>	<b>12,771,640</b>	<b>12,741,131</b>
<b>Russian issuers' debt obligations, of which:</b>		
Russian federal government debt obligations	364,063	370,182
— denominated in rubles	215,638	217,324
— denominated in US dollars	148,425	152,858
Other Russian issuers' debt obligations (excluding promissory notes)	413	411
— denominated in rubles	413	411
Promissory notes issued by credit institutions	23	23
<b>Subtotal</b>	<b>364,499</b>	<b>370,616</b>
<b>Total</b>	<b>13,076,139</b>	<b>13,111,747</b>

Foreign issuers' debt is mostly US Treasuries and government debt of France, Germany, the United Kingdom, Canada, Australia, Sweden, the Netherlands, Finland, Denmark, and Austria, as well as debt issued by supranational financial organisations, and non-government debt securities guaranteed by the governments of the above countries.

Change in this item was mostly due to a decreased Bank of Russia investment in foreign issuers' securities during the reporting period, which was offset by an increased value of securities following growth in the official exchange rates of the foreign currencies in which the foreign securities were denominated.

In 2013, the Bank of Russia did not perform any operations with its own portfolio securities in the domestic securities market. In 2013, the Bank of Russia's portfolio recorded federal government bonds (OFZs) received in relation to its obligations under repo transactions coming to an end in accordance with Article 4.1 of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' (end of obligations pursuant to clearing rules), following the revocation of a banking licence of one credit institution.

The Ruble-denominated Russian government debt is known as OFZ bonds (federal government bonds). The change in this item is due to revaluation of securities at current (fair) value and the Bank of Russia receiving OFZs as a result of its repo transaction obligations coming to an end.

The US dollar-denominated Russian government debt is known as external foreign currency bonds. The decrease in the balance in this item results mainly from revaluation of securities at current (fair) value and a change in the exchange rate of the US dollar to the ruble.

The debt of other Russian issuers denominated in rubles are securities issued by the regional governments of the Russian Federation. The increase in the balance of this item results from the revaluation of securities at current (fair) value.

**BANK OF RUSSIA INVESTMENTS IN AUTHORISED CAPITAL OF BANKS  
AND OTHER ORGANISATIONS**

(millions of rubles)

Title	2013		2012	
	Investment amount (at purchase price)	Share in authorised capital, percent (at par)	Investment amount (at purchase price)	Share in authorised capital, percent (at par)
<b>Investment in resident shares, of which:</b>	<b>84,362</b>		<b>84,362</b>	
Sberbank of Russia, Moscow	72,938	50.00% + 1 voting share	72,938	50.00% + 1 voting share
Moscow Exchange (MICEX-RTS), Moscow	11,421	22.47	11,421	24.33
St. Petersburg Currency Exchange (SPCEX)	3	8.90	3	8.90
<b>Investment in non-resident shares, of which:</b>	<b>1,456</b>		<b>1,347</b>	
Bank for International Settlements, Basel	1,455	0.57	1,346	0.57
Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.), Belgium	0.724	0.006	0.648	0.006
<b>Other investment, of which:</b>	<b>10</b>		<b>10</b>	
Interstate Bank, Moscow	10	50.00	10	50.00

The Bank of Russia holds stakes in the capital of credit institutions and other organisations pursuant to Articles 8 and 9 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

In 2013, the Bank of Russia did not perform any operations with Russian Federation resident and non-resident organisations' shares (excluding repos with shares of resident organisations in the domestic securities market).

The Bank of Russia's stake in the authorised capital of the Moscow Exchange decreased from 24.33% to 22.47% due to an increase in the authorised capital of the Moscow Exchange following an initial public offering of shares, in which the Bank of Russia did not participate.

The change in the items *Investment in non-resident shares and Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)* (Note 6) was caused by revaluation of the Bank of Russia's investment in the authorised capitals of the Basel-based Bank for International Settlements and the Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.), Belgium, as a result of a change in the exchange rate of foreign currencies against the ruble.

In addition, the Russian Federation's quota with the IMF, which amounts to 5,945.4 million SDRs, has been included on the Bank of Russia's balance sheet. The Bank of Russia's stake in the IMF's aggregate quotas (capital) did not change in 2013 and amounted to 2.5%, representing 2.39% of the total number of its member countries' votes (Note 7).

## STATEMENT OF THE VOLUME OF BANK OF RUSSIA SECURITIES TRADING ON ORGANISED TRADING VENUES

(millions of rubles)

Trade organizer	Volume of Bank of Russia own securities trading (including repos)		Volume of Bank of Russia securities trading at the instruction of its customers		Volume of Bank of Russia sales of collateral for Lombard loans and repos	
	2013	2012	2013	2012	2013	2012
Moscow Exchange*	0	1,750,712	0	717,758	0	0
MICEX Stock Exchange	129,129,273	85,486,211	838,948	93,290	0	0
St Petersburg Currency Exchange (SPCEX)	105	6,946	0	0	0	0
	<b>129,129,378</b>	<b>87,243,869</b>	<b>838,948</b>	<b>811,048</b>	<b>0</b>	<b>0</b>

The column *Volume of Bank of Russia own securities trading (including repos)* shows summary data on the volumes of securities purchased in the first leg of repos by the Bank of Russia. In 2012 and 2013, the Bank of Russia did not perform any operations with securities from the Bank of Russia's portfolio or operations with its bonds in the domestic securities market. The change in the volume of transactions was mostly caused by a significant increase in repo trading.

The column *Volume of Bank of Russia securities trading at the instruction of its customers* shows summary data on the sale of Russian government securities by the Bank of Russia at the instruction of the Ministry of Finance under agency agreements.

In 2012 and 2013, the Bank of Russia did not sell collateral for Lombard loans and repos.

\* From 2013, due to a change in legislation in the Russian Federation and the liberalisation of the federal government securities market, the operations of the Sector for Government Federal Securities Settlements at the Moscow Exchange were discontinued. In view of the above, in 2013 the Bank of Russia did not conduct any securities trading at the Moscow Exchange.

## STATEMENT OF BANK OF RUSSIA PERSONNEL COSTS

	<i>(millions of rubles)</i>	
	<b>2013</b>	<b>2012</b>
Compensation	80,358	76,265
Compensation charges	15,449	14,153
<b>Total Bank of Russia personnel costs</b>	<b>95,807</b>	<b>90,418</b>

The Bank of Russia's personnel costs grew by 5,389 million rubles, or 6.0%, against 2012, with compensation-related expenses up by 4,093 million rubles, or 5.4%, and compensation charges up by 1,296 million rubles, or 9.2%.

Compensation expenses include: salary payments; seniority bonuses for the length of service with the Bank of Russia; additional payments for participation in audits and inspections; other increments and benefits established by Bank of Russia regulations; monthly and year-end bonuses; regular paid leaves and study leaves; one-off allowances for annual paid leaves; emergency allowances; benefits for employees living or working in regions affected by the Chernobyl nuclear power plant disaster; benefits for employees taking leave to care after children under the age of three; allowances for temporary disability due to a disease or injury paid in the first three days of disability; and other benefits.

Bank of Russia employees receive other benefits under applicable legislation of the Russian Federation and Bank of Russia regulations. These are as follows: hardship bonus payments (regional premiums and percentage increments) to employees working in the Extreme North and similar regions, compensation for holiday travel expenses to these employees and their non-working family members for the payment of their round-trip tickets, and for the expenses incurred in moving to a new place of residence in a different region upon the expiration of their labour contracts or due to retirement.

The average number of Bank of Russia employees was 63,500 people in 2013, and despite the formation of the Bank of Russia Financial Markets Service (1,400 people) in September 2013, the average number of employees decreased by almost 1,000 people compared with 2012 (1.5%). The decrease resulted from measures to optimise the Bank of Russia's structure and staff size.

The average monthly income of a Bank of Russia employee in 2013 was 105,458 rubles (2012: 98,572 rubles).

Insurance contributions to government extra-budgetary funds constituted 19.0% of total compensation-related expenses (2012: 18.4%). Charges to the Social Insurance Fund for compulsory insurance against on-the-job accidents and occupational disease were made at the fixed rate of 0.2%.

Expenses for the remuneration of key management personnel (members of the Bank of Russia Board of Directors, the Deputy Governors of the Bank of Russia, and the Chief Auditor of the Bank of Russia — 24 persons) amounted to 294.4 million rubles, or 0.4% of the total Bank of Russia personnel costs, including 61.9 million rubles in year-end bonuses for 2012 (2012: 17 persons, 258.1 million rubles or 0.3%, including 48.3 million rubles in year-end bonuses for 2011).



## STATEMENT OF CAPITAL INVESTMENT BUDGET PERFORMANCE

*(millions of rubles)*

<b>Capital investment</b>	<b>Approved for 2013</b>	<b>Actual amount in 2013</b>	<b>Actual amount in 2012</b>
<b>Capital investment</b>	<b>20,331</b>	<b>16,478</b>	<b>16,185</b>
Capital investment in fixed assets, of which:	18,340	15,849	15,514
— capital investment in information technology	7,094	6,103	6,354
— capital investment in construction (reconstruction) and logistics (except cash turnover management)	6,225	5,128	5,394
— capital investment relating to cash turnover management	3,591	3,220	2,602
— capital investment relating to security and protection of Bank of Russia facilities	1,430	1,398	1,164
Capital investment in intangible assets	998	629	671
Centralised capital investment reserve	993	0	0
Memo item:			
<b>Other capital expenses</b>	<b>2,236</b>	<b>1,941</b>	<b>1,819</b>
<b>Total capital expenses</b>	<b>22,567</b>	<b>18,419</b>	<b>18,004</b>

Capital investment in information technology made up the largest part of Bank of Russia capital investment (37.0%), followed by construction (reconstruction) and logistics (31.1%). The share of capital investment in cash turnover management was 19.6%, capital investment in the security and protection of Bank of Russia facilities made up 8.5%, and capital investment in intangible assets was 3.8%.

Capital investment in information technology in 2013 fell by 251 million rubles, or by 3.9%, and was used for the following purposes: to maintain the existing operation of accounting systems; to develop soft- and hardware infrastructure of the Collective Data Processing Centres in Moscow and in Nizhny Novgorod with a view of supporting a stable operation of the Bank of Russia payment system. The funds were also used to develop IT and data analysis systems of the Bank of Russia, the consolidation framework of computing resources in IT systems, the transport system of electronic settlements (including transport environment for electronic interaction between Bank of Russia regional branches and their clients), transport systems for information analysis systems and Intranet, and for systems and facilities ensuring the information security of Bank of Russia IT system; to develop the technical infrastructure (including engineering systems) supporting the operation of Bank of Russia IT system; and to ensure data security and protection.

The Bank of Russia's capital investment in construction (reconstruction) and logistics (except for cash turnover management) decreased by 266 million rubles or by 4.9%, and was used to build (reconstruct) 108 office buildings and other facilities; to set up engineering and technical systems and installations for building operation and maintenance; to purchase replacement equipment, tools and furniture; and to additionally equip operating facilities, refurbish facilities, and purchase vehicles.

Capital investment in cash turnover management grew by 618 million rubles, or by 23.8%. The funds were used to build (reconstruct) 6 cash depositories and cash centres; to modernise cash processing equipment and re-equip the Bank of Russia's offices with modern and highly efficient systems, including the continuation of efforts to create modular facilities based on banknote processing systems; and to develop (modernise) video systems for the surveillance and recording of operations with valuables.

Capital investment relating to the security and protection of Bank of Russia facilities increased by 234 million rubles, or 20.1%. The funds were used to establish and develop fire-alarm systems, video security and surveillance systems, control and access systems, as well as to replace expired and obsolete facilities.

In 2013, capital investment in intangible assets decreased by 42 million rubles, or 6.3%. It was used to purchase and develop software products (constituting the intellectual property of the Bank of Russia) for information technology support and to ensure the security and protection of information.

Other capital expenses include expenses for the purchase of the right to use certain software products (not categorised as intangible assets), as well as licences, certificates and permits with validity terms exceeding one year. Compared to 2012, these expenses increased by 122 million rubles, or 6.7%.



## *Auditor's report*

*on the Bank of Russia Annual Financial Statements as of 1 January 2014*

**To the management of the Central Bank of the Russian Federation:**

### **Audited Entity**

Full title of the Bank: The Central Bank of the Russian Federation (Bank of Russia).

Domicile: 12 Neglinnaya Street, Moscow 107016, Russian Federation.

State registration certificate: 77 No. 006996300 issued on 10 January 2003.

The Bank of Russia performs its functions pursuant to the Constitution of the Russian Federation, Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (as amended) and other federal laws.

### **Auditors**

Auditors

- 1) PricewaterhouseCoopers Audit, a closed joint-stock company (PwC Audit), located at: 10 Butyrsky Val Street, Moscow 125047, Russian Federation.

The joint-stock company's state registration certificate No. 008.890 was issued by the Moscow Registration Chamber on 28 February 1992.

The certificate of registration of a legal entity registered before 1 July 2002, in the Single State Register of Legal Entities No. 1027700148431, dated 22 August 2002, was issued by Moscow Interdistrict Inspectorate No. 39 of the Russian Federation Ministry of Taxes and Duties.

PwC Audit is a member of the Russian Audit Chamber (NP APR), a non-profit partnership and self-regulated organisation of auditors; it has registration number 870 in the NP APR members' register.

PwC Audit is included in the register of auditors and audit organisations under main registration entry number (MREN) 10201003683.

- 2) Financial and Accounting Consultants, a limited liability company (FBK), located at: Bldg. 2AB, 44/1 Myasnitskaya Street, Moscow 101990, Russian Federation.

Certificate of state registration YuZ 3 No. 484.583 was issued by the Moscow Registration Chamber on 15 November 1993.

The certificate of registration in the Single State Register of Legal Entities was issued on 24 July 2002 under main state number 1027700058286.

FBK is a member of the Russian Audit Chamber, a non-profit partnership (NP APR). Its registration number in the NP APR members' register is 5353.

FBK's MREN in the register of auditors and audit organisations is 10201039470.

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*PricewaterhouseCoopers Audit (PwC Audit),  
a closed joint-stock company  
(PwC Audit)  
White Square Business Centre,  
10 Butyrsky Val Street, Moscow 125047, Russia  
Tel: +7 (495) 967-6000, Fax: +7 (495) 967-6001,  
www.pwc.ru*

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*Financial and Accounting Consultants,  
a limited liability company  
(FBK)  
Bldg. 2AB, 44/1 Myasnitskaya Street,  
Moscow 101990, Russia  
Tel: +7 (495) 737-5353, Fax: +7 (495) 737-5347,  
www.fbkr.ru*



### *Auditor's report*

We have conducted an audit of the attached Annual Financial Statements of the Central Bank of the Russian Federation (hereinafter, the Bank of Russia) for the period from 1 January to 31 December 2013. Pursuant to Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (as amended), the Bank of Russia Annual Financial Statements consist of: an annual balance sheet, a profit and loss account (including the statement of profit and its allocation), the statement of Bank of Russia reserves and funds, a statement of Bank of Russia management of securities and stakeholdings in the capital of organisations constituting Bank of Russia property, a statement of Bank of Russia personnel costs, a statement of capital investment budget performance, and a statement of the volume of Bank of Russia securities trading on organised trading venues (hereinafter all these statements are collectively referred to as the Annual Financial Statements). The Annual Financial Statements were drawn on the basis of financial reporting that was compiled according to the requirements of the legislation of the Russian Federation and regulations of the Bank of Russia. The Annual Financial Statements prepared on that basis differ from financial reporting prepared according to the International Financial Reporting Standards.

#### **Responsibility of the Audited Entity for the Annual Financial Statements**

The management of the Bank of Russia bears responsibility for the compilation and credibility of the Annual Financial Statements in accordance with the requirements of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (as amended), Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting' (as amended), and also according to Bank of Russia Regulation No. 66-P, dated 1 January 2006, 'On the Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia)' (as amended), and bears responsibility for the internal control system required for preparing Annual Financial Statements that are free of material distortions which could result from malpractice or errors.

#### **Responsibility of the Auditor**

Our duty is to express our opinion, based on the audit we have conducted, with regard to the credibility of these Annual Financial Statements in every material respect. We have conducted the audit in compliance with the Russian federal standards that govern auditing activities. These standards mandate that we comply with all applicable ethical norms, and the audit was planned and conducted in such a way as to allow us to become reasonably convinced that the Annual Financial Statements contain no material distortions.

The audit includes auditing procedures which are aimed at obtaining audit evidence confirming the numerical indicators of the Annual Financial Statements and disclosure of information. The choice of auditing procedures is subject to our judgement, which is based on our assessment of the risk of material distortions, which may result from malpractice or errors. In the process of assessing this risk, we examined the internal control system that ensures the compilation and credibility of the Annual Financial Statements in order to select relevant auditing procedures and not for the purpose of expressing an opinion on the efficiency of the internal control system. The audit also includes an assessment of the Bank of Russia's compliance with accounting principles, rules used and the validity of reference indicators obtained by the management, as well as an assessment of the general presentation of the Annual Financial Statements. We believe that the evidence we have obtained in the course of the audit gives us sufficient grounds to formulate a conclusive opinion on the credibility of the Annual Financial Statements, given the limited scope of the audit.



### Opinion

In our opinion, the Annual Financial Statements present a reliable reflection, in all material respects, of the Bank of Russia's financial situation as of 1 January 2014 and the outcomes of its financial and economic activity for the period from 1 January 2013 to 31 December 2013, inclusive, as required by Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (as amended), Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting' (as amended), and Bank of Russia Regulation No. 66-P, dated 1 January 2006, 'On the Accounting Rules in the Central Bank of the Russian Federation (Bank of Russia)' (as amended).

### Other information

Without changing the opinion about the credibility of the Annual Financial Statements, we would like to draw attention to the fact that, pursuant to Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (as amended), the reliability of restricted-access data, in line with the provisions of Federal Law No. 5485-1, dated 21 July 1993, 'On State Secrecy' (as amended), which are included in the balance sheet and profit and loss account items constituting the Bank of Russia's Annual Financial Statements, has been confirmed by the Audit Chamber of the Russian Federation in its Statement dated 18 April 2014 as a result of the examination of the accounts and operations of the Central Bank of the Russian Federation, and also data covered by Federal Law No. 5485-1, dated 21 July 1993, 'On State Secrecy' (as amended), as of 1 January 2014, for the period from 1 January 2013 to 31 December 2013 inclusive.

Ye.V. Filippova  
Auditor qualification certificate  
No. 01-000195  
General Director  
Pricewaterhouse Coopers Audit, CJSC

S.M. Shapiguzov  
Auditor qualification certificate  
No. 01-001230  
President  
Financial and Accounting Consultants, LLC

25 April 2014



# THE AUDIT CHAMBER OF THE RUSSIAN FEDERATION

2 Zubovskaya St., Moscow 119991

Tel.: 986-05-09, fax: 986-09-52

18 April 2014

No. 06-61/06-02

To the Governor of the Central Bank  
of the Russian Federation

E.S. NABIULLINA

## STATEMENT

**on the Results of the Examination of the Accounts and Operations  
of the Central Bank of the Russian Federation (Bank of Russia)  
and Data for 2013 Covered by the Federal Law ‘On State Secrecy’  
(approved by the decision of the Collegium of the Audit Chamber of the Russian Federation  
of 18 April 2014, protocol No. 20K (966))**

The Audit Chamber of the Russian Federation has examined the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and data for 2013 covered by the Federal Law ‘On State Secrecy’ at the Bank of Russia’s structural divisions and regional branches, pursuant to the provisions of Article 25 of the Federal Law ‘On the Central Bank of the Russian Federation (Bank of Russia)’ and in accordance with the Work Plan of the Audit Chamber of the Russian Federation for 2014.

The management of the Bank of Russia is responsible for assigning information to the category of data covered by the Federal Law ‘On State Secrecy’, and for delineating the competences of the Audit Chamber of the Russian Federation and the auditing organisations PricewaterhouseCoopers Audit, CJSC, and Financial and Accounting Consultants, LLC (the auditors of the Bank of Russia Annual Financial Statements as of 1 January 2014).

Under applicable legislation, the Audit Chamber’s duty is to present to the Bank of Russia a statement, compiled as a result of the examination of the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and data for 2013, covered by the Federal Law ‘On State Secrecy’, and to express an opinion on the credibility in all material aspects of the Bank of Russia Annual Financial Statements as of 1 January 2014, and on the compliance of the accounting procedure with Russian federal legislation and Bank of Russia regulations.

The Audit Chamber of the Russian Federation has conducted an examination of Bank of Russia accounts and operations, and also data for 2013 covered by the Federal Law 'On State Secrecy', in the structural divisions and regional branches of the Central Bank of the Russian Federation (Bank of Russia) in such a way as to become sufficiently convinced that the Bank of Russia's consolidated annual balance sheet (with respect to sub-accounts and off-balance sheet accounts) as of 1 January 2014, and its consolidated income statement for 2013, falling within the scope of competence of the Audit Chamber of the Russian Federation, do not contain any material errors and adequately recognise in all material aspects the assets and liabilities of the Central Bank of the Russian Federation (Bank of Russia) as of 1 January 2014, and the income and expenses of the Central Bank of the Russian Federation (Bank of Russia) for 2013, in line with the Bank of Russia's accounting policy.

Having examined the Bank of Russia's accounts and operations and data for 2013, covered by the Federal Law 'On State Secrecy', the Audit Chamber of the Russian Federation confirms, within the scope of its competence, the following data:

The Bank of Russia annual balance sheet as of 1 January 2014 (balance sheet assets totalling 61,259 million rubles and balance sheet liabilities totalling 0 million rubles), the profit and loss account as of 1 January 2014 (income totalling 0 million rubles and expenses totalling 9,519 million rubles);

precious metals revaluation for the reporting year and as of 1 January 2014: positive unrealised differences from the revaluation of precious metals totalling 4,513.8 million rubles;

consolidated annual balance sheet as of 1 January 2014 (with respect to sub-accounts and off-balance sheet accounts) and the consolidated income statement for 2013;

data on the total number of Bank of Russia notes and coins of 1997 (exclusive of commemorative coins containing precious metals), which should be in circulation as of 1 January 2014.

According to the accounting data of the Central Bank of the Russian Federation relating to the accounts and operations covered by the Federal Law 'On State Secrecy', a total of 8,315,018.0 million rubles in Bank of Russia notes and coins of 1997 should be in circulation as of 1 January 2014 (exclusive of commemorative coins containing precious metals).

Over the period from 1 January 2013 to 31 December 2013, the Bank of Russia put into circulation banknotes and coins of 1997 (exclusive of commemorative coins containing precious metals) totalling 11,781,354.3 million rubles, and withdrew from circulation Bank of Russia banknotes and coins of 1997 (exclusive of commemorative coins containing precious metals) totalling 11,141,723.3 million rubles.

Consequently, in the period under review, the amount of Bank of Russia notes and coins of 1997 (exclusive of commemorative coins containing precious metals) in circulation increased by 639,631.0 million rubles.

The Audit Chamber of the Russian Federation confirms the credibility, in all material aspects, of the Bank of Russia Annual Financial Statements as of 1 January 2014, and the compliance of the accounting procedure with Russian federal legislation and Bank of Russia regulations.

Auditor

A.V. Perchyan





**ADDENDA**

**IV**

## IV.1. PRINCIPAL MEASURES TO IMPLEMENT THE SINGLE STATE MONETARY POLICY IN 2013

### MONETARY POLICY INSTRUMENTS AND MEASURES

**INTEREST RATES.** In 2013, the Bank of Russia Board of Directors decided to maintain the minimum seven-day repo auction interest rate at 5.50% p.a.

In 2013, the Bank of Russia Board of Directors set the following minimum repo auction interest rates for other terms:

- One-day: 5.50% p.a.;
- Three-month: 7.00% p.a. as of the beginning of 2013, 6.75% p.a. from 3 April 2013, and 6.50% p.a. from 16 May 2013;
- Six-month<sup>1</sup>: 7.50% p.a. as of the beginning of 2013, 7.25% p.a. from 3 April 2013, and 7.00% p.a. from 16 May 2013;
- Twelve-month: 8.00% p.a. as of the beginning of 2013, 7.75% p.a. from 3 April 2013, 7.50% p.a. from 16 May 2013, and 7.25% p.a. from 11 June 2013.

The Bank of Russia Board of Directors set the minimum interest rate on auctions to provide loans secured by non-marketable assets or guarantees that were provided pursuant to Bank of Russia Regulation No. 312-P, dated 12 November 2007, at a 12-month floating interest rate, at 5.75% p.a. from 15 July 2013. If there is a change in the Bank of Russia's key rate, the minimum interest rate on auctions to provide loans secured by non-marketable assets or guarantees will be adjusted by a corresponding amount.

The Bank of Russia Board of Directors set the minimum interest rate on auctions to provide loans secured by non-marketable assets that were provided pursuant to Bank of Russia Regulation No. 312-P, dated 12 November 2007, at a three-month floating interest rate, at 5.75% p.a. from 16 September 2013. If there is a change in the Bank of Russia's key rate, the minimum interest rate on auctions to provide loans secured by non-marketable assets or guarantees will be adjusted by a corresponding amount.

In 2013, the Bank of Russia Board of Directors set the following minimum interest rates on Lombard loan auctions conducted pursuant to Bank of Russia Regulation No. 236-P, dated 4 August 2003:

- Seven-day: 5.50% p.a.;
- Three-month: 7.00% p.a. as of the beginning of 2013, 6.75% p.a. from 3 April 2013, and 6.50% p.a. from 16 May 2013;
- Six-month<sup>1</sup>: 7.50% p.a. as of the beginning of 2013, 7.25% p.a. from 3 April 2013, and 7.00% p.a. from 16 May 2013;
- Twelve-month: 8.00% p.a. as of the beginning of 2013, 7.75% p.a. from 3 April 2013, 7.50% p.a. from 16 May 2013, and 7.25% p.a. from 11 June 2013.

In 2013, the Bank of Russia Board of Directors set the following fixed interest rates on repo operations:

- One-day and seven-day<sup>1</sup>: 6.50% p.a.;
- Twelve-month<sup>1</sup>: 8.00% p.a. as of the beginning of 2013, 7.75% p.a. from 3 April 2013, 7.50% p.a. from 16 May 2013, and 7.25% p.a. from 11 June 2013.

In 2013, the Bank of Russia Board of Directors set the following fixed interest rates on overnight loans provided under Bank of Russia Regulation No. 236-P, dated 4 August 2003: 8.25% p.a. as of the beginning of 2013, and 6.50% p.a. from 16 September 2013.

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<sup>1</sup> These operations were suspended as of the beginning of 2013.

In 2013, the Bank of Russia Board of Directors set the following fixed interest rates on Lombard loans extended pursuant to Bank of Russia Regulation No. 236-P, dated 4 August 2003:

— One-day, seven-day<sup>1</sup> and 30-day<sup>1</sup>: 6.50% p.a.;

In 2013, the Bank of Russia Board of Directors set the following fixed interest rates on loans secured by non-marketable assets or guarantees, that were provided under Bank of Russia Regulation No. 312-P, dated 12 November 2007:

— One-day: 7.25% p.a. as of the beginning of 2013, 7.00% p.a. from 3 April 2013, 6.75% p.a. from 16 May 2013, and 6.50% p.a. from 16 September 2013;

— Two-day to 90-day: 7.25% p.a. as of the beginning of 2013, 7.00% p.a. from 3 April 2013, and 6.75% p.a. from 16 May 2013;

— 91-day to 180-day: 7.75% p.a. as of the beginning of 2013, 7.50% p.a. from 3 April 2013, and 7.25% p.a. from 16 May 2013;

— 181-day to 365-day: 8.25% p.a. as of the beginning of 2013, 8.00% p.a. from 3 April 2013, 7.75% p.a. from 16 May 2013, and 7.50% p.a. from 11 June 2013.

In 2013, the Bank of Russia Board of Directors set the following interest rates on loans secured by gold provided under Bank of Russia Regulation No. 362-P, dated 30 November 2010:

— One-day: 7.00% p.a. as of the beginning of 2013, 6.75% p.a. from 3 April 2013, and 6.50% p.a. from 16 May 2013;

— Two-day to 90-day: 7.00% p.a. as of the beginning of 2013, 6.75% p.a. from 3 April 2013, and 6.50% p.a. from 16 May 2013;

— 91-day to 180-day: 7.50% p.a. as of the beginning of 2013, 7.25% p.a. from 3 April 2013, and 7.00% p.a. from 16 May 2013;

— 181-day to 365-day: 8.00% p.a. as of the beginning of 2013, 7.75% p.a. from 3 April 2013, 7.50% p.a. from 16 May 2013, and 7.25% p.a. from 11 June 2013.

In 2013, the Bank of Russia Board of Directors set US dollar and euro one-day interest rates for the ruble leg of foreign exchange swaps at 6.50% p.a.

In 2013, the Bank of Russia Board of Directors set the following maximum interest rates on deposit auctions:

— Seven-day: 5.00% p.a. as of the beginning of 2013, and 5.50% p.a. from 16 September 2013;

— One-month<sup>1</sup>: 5.75% p.a.;

— Three-month<sup>1</sup>: 6.75% p.a. as of the beginning of 2013, and 6.50% p.a. from 16 May 2013.

In 2013, the Bank of Russia Board of Directors set the following fixed interest rates on deposit operations:

— One-day, seven-day<sup>1</sup>, one-month and call: 4.50% p.a.

In 2013, the Bank of Russia Board of Directors kept the refinancing rate unchanged at 8.25% p.a.

Under the transition to the inflation targeting regime, on 13 September 2013, the Bank of Russia Board of Directors decided to implement a package of measures to improve the system of monetary policy instruments:

— the maximum interest rate on seven-day auction-based deposit operations was aligned with the minimum interest rate on seven-day auction-based liquidity-providing operations. The Bank of Russia declared the single interest rate on these operations as its key rate, i.e. an indicator of the monetary policy stance.

— the interest rate on overnight loans and one-day loans secured by non-marketable assets and guarantees was decreased to the same level as the interest rate on other one-day standing liquidity-providing operations. These changes eventually shaped an interest rate corridor. The interest rates on the Bank of Russia's one-day liquidity-providing and liquidity-absorbing standing facilities form symmetrical upper and lower borders of the interest rate corridor with respect to the key

<sup>1</sup> These operations were suspended as of the beginning of 2013.

rate. If the Bank of Russia decides to change its key rate, the borders of the corridor will be automatically shifted in line with the change. The width of the interest rate corridor — two percentage points — is optimal to limit the volatility of money market interest rates, while maintaining incentives for the redistribution of funds in the interbank market.

- the role of the refinancing rate in the Bank of Russia's instruments system was changed: it will be of secondary importance to the monetary policy and will serve for reference purposes until 1 January 2016, when it will be brought in line with the key rate.

**REFINANCING OF CREDIT INSTITUTIONS.** 1. Given credit institutions' growing demand for refinancing, the uneven distribution of securities included on the Bank of Russia Lombard list in the banking sector, and the insufficiently active redistribution of liquidity in the Russian money market in 2013, the Bank of Russia supplemented the set of its instruments with loan auctions at a floating rate under its Regulation No. 312-P, dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Covered by Assets or Guarantees to Credit Institutions':

- On 12 July 2013, a decision was made to start auctions to provide 12-month loans secured by non-marketable assets or guarantees at a floating interest rate. The minimum spread relative to the Bank of Russia's key rate for these loan auctions was set at 0.25 percentage points;
- On 16 September 2013, regular auctions were introduced to provide three-month loans secured by non-marketable assets at a floating interest rate. The minimum spread relative to the Bank of Russia's key rate for these auctions was set at 0.25 percentage points;
- On 13 December 2013, a decision was made to hold auctions to provide three-month loans secured by non-marketable assets at a floating interest rate on a monthly basis in 2014.

2. From 15 April 2013, the Bank of Russia began to conduct over-the-counter basket repos with securities included on the Bank of Russia Lombard List with the option of collateral substitution. This measure was aimed at increasing the abilities of credit institutions to manage securities portfolios used as collateral in operations with the Bank of Russia. The National Settlement Depository, a non-bank credit institution and closed joint-stock company, is acting as collateral management agent, undertaking the duties of selecting and substituting securities in transactions, calculating collateral value and margining transactions.

3. From 2 May 2013, the Bank of Russia started auction-based repos using a partial bid settlement mechanism, which allowed it to fully satisfy credit institutions' demand for funds within a set limit even during the first auction (in case of a sufficient demand).

4. In May 2013, to improve its banking liquidity regulation mechanism, the Bank of Russia decided not to hold the second session (conducted in the afternoon) of its one-day repo auction from 1 July 2013.

5. On 10 April 2013, the Bank of Russia Board of Directors decided to expand the list of financial instruments included on the Bank of Russia Lombard List by adding the following securities:

- non-resident corporate bonds placed within the Russian Federation;
- Russian depository receipts for the shares of non-resident legal entities.

The aforementioned Bank of Russia Board of Directors' decision was implemented by Bank of Russia Ordinance No. 2992-U, dated 10 April 2013, 'On Amending Bank of Russia Ordinance No. 2861-U, Dated 10 August 2012, 'On the Securities Included on the Bank of Russia Lombard List'.

6. In 2013, due to the introduction of the mechanism of releasing (unblocking) securities using the counter order method, i.e. without making a corresponding application in hard copy to the Bank of Russia, there was a significant increase in the number of operations carried out by the Bank of Russia (including within one business day) to release (unblock) and also to add securities under the 'Blocked by the Bank of Russia' section of credit institutions' custody accounts. This highlights the recent ability of credit institutions to effectively manage securities portfolios, the securities in which have been blocked in order to obtain Bank of Russia loans (to substitute securities by adding certain

bonds and releasing others) without affecting intraday lending by the Bank of Russia through the main account of the credit institution.

By the end of 2013, those credit institutions whose main accounts were opened with Bank of Russia divisions in the Moscow region had almost entirely switched to releasing securities using the counter order method from the 'Blocked by the Bank of Russia' sections corresponding to the indicated main accounts.

**REQUIRED RESERVES.** 1. In order to offer equal terms and create a competitive environment for residents and non-residents of the Russian Federation, from 1 March 2013, the Bank of Russia set a single required reserve ratio for all categories of credit institution liabilities at 4.25%. Bank of Russia Ordinance No. 2970-U, dated 12 February 2013, 'On Setting Bank of Russia Required Reserve Ratios (Reserve Requirements)' was drawn up (entering into force from 1 March 2013).

2. To expand the ability of credit institutions to regulate and use free liquidity, as of 10 December 2013, the Bank of Russia set the averaging ratio used by credit institutions (excluding settlement non-bank credit institutions and non-bank credit institutions licensed to transfer funds without opening bank accounts and carry out associated banking operations) at 0.7 to calculate an averaged amount of required reserves; Bank of Russia Ordinance No. 3116-U, dated 18 November 2013, 'On Setting Averaging Ratio', was drawn up.

3. Within the framework of improving the required reserve mechanism, the Bank of Russia prepared the following documents:

- Ordinance No. 2963-U, dated 15 January 2013, 'On Amending Bank of Russia Regulation No. 342-P, Dated 7 August 2009, 'On Credit Institutions' Required Reserves' (entering into force from 1 March 2013), specifying the structure of the balance accounts of credit institutions used for calculating the amount of required reserves, due to the entry into force, from 1 January 2013, of Bank of Russia Regulation No. 385-P, dated 16 July 2012, 'On Accounting Rules in Credit Institutions Located in the Russian Federation';
- Ordinance No. 3115-U, dated 18 November 2013, 'On Amending Bank of Russia Regulation No. 342-P, Dated 7 August 2009, 'On Credit Institutions' Required Reserves', (entering into force from 1 January 2014, and its certain provisions entering into force from 1 February 2014), specifying the set of credit institutions' obligations to create required reserves and outlying certain provisions concerning the mandate to hold unscheduled examinations of credit institutions' compliance with required reserve ratios, and, in the event of a stress situation, the possibility for credit institutions to use required reserve funds deposited in Bank of Russia accounts.

**DEPOSIT OPERATIONS.** 1. From 10 June 2012, the Bank of Russia Monetary Policy Committee (meeting minutes No. 5, dated 11 March 2013) decided to extend a pilot project to credit institutions in the Novosibirsk and Sverdlovsk Regions (alongside credit institutions in the Primorsky Territory), whereby they would have the right to settle deposit dealings concluded using the Moscow Exchange Electronic Trading System, via the credit institutions' correspondent accounts opened with the Bank of Russia, along with opening deposit accounts with Bank of Russia regional branches in the Novosibirsk and Sverdlovsk Regions, respectively.

2. In order to streamline the Bank of Russia's regulations governing its procedure of conducting deposit operations with credit institutions, Bank of Russia Regulation No. 404-P, dated 9 August 2013, 'On Deposit Operations with Credit Institutions by the Bank of Russia', was drafted, together with its other acts prepared in pursuance of the above document.

These Bank of Russia acts entered into force from 1 February 2014. They define types and terms of Bank of Russia deposit operations, its criteria for credit institutions participating (or potentially participating) in deposit operations; the possibility for the Bank of Russia to conduct a fixed-rate deposit auction; the possibility for the Bank of Russia and credit institutions to use electronic document workflow when conducting deposit operations; and also, they govern other matters related to such operations.

**NATIONAL PAYMENT SYSTEM.** In order to streamline the implementation of instructions drawn up by various Bank of Russia divisions on the subject of its loan and deposit operations (hereinafter, instructions) in the Bank of Russia payment system, the regulator issued Order No. OD-1137, dated 31 December 2013, ‘On Arranging Instruction Forwarding by Bank of Russia Divisions on the Initial Setting of an Intraday Loan and Overnight Loan Limits, on Funds Transfers when the Bank of Russia Conducts Deposit and Loan Operations and on Funds Transfers into Required Reserves Deposited with the Bank of Russia’.

This order establishes a detailed sequence of actions for implementing instructions and contains directions for Bank of Russia structural divisions on how to carry out necessary preparatory measures to properly implement the above instructions, taking into account the change to the operating regulations of the Bank of Russia payment system.

### EXCHANGE RATE POLICY MEASURES

In 2013, seeking to increase the flexibility of the exchange rate and to ensure a gradual transition to the inflation targeting regime, the Bank of Russia made the following changes to the parameters of its exchange rate policy mechanism:

- From 9 September 2013, the cumulative volume of interventions triggering a 5-kopeck shift in the operational band was reduced from \$450 to \$400 million;
- From 1 October 2013, the volume of Bank of Russia foreign exchange interventions aimed at smoothing fluctuations in the ruble exchange rate was defined with account of the value of operations by the Federal Treasury to replenish or spend sovereign funds in foreign currencies;
- From 7 October 2013, the Bank of Russia widened the range of its floating operational band within which foreign exchange interventions aimed at smoothing fluctuations in the ruble exchange rate would not take place, from 1.0 to 3.1 rubles;
- From 21 October 2013, the volume of targeted interventions was reduced from \$120 to \$60 million per day;
- From 10 December 2013, the cumulative volume of interventions triggering a 5-kopeck shift in the operational band was reduced from \$400 to \$350 million.

### FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

Within its mandate established by Federal Law No. 173-FZ, dated 10 December 2003, ‘On Foreign Exchange Regulation and Foreign Exchange Control’ (hereinafter, Federal Law No. 173-FZ), in 2013, the Bank of Russia continued to improve foreign exchange control mechanisms in order to increase its efficiency.

Pursuant to Federal Law No. 406-FZ, dated 6 December 2011, ‘On Amending the Federal Law ‘On Foreign Exchange Regulation and Foreign Exchange Control’ to Simplify Foreign Exchange Control Procedures’ (hereinafter, Federal Law No. 406-FZ), the Bank of Russia drafted and issued Regulation No. 402-P, dated 21 June 2013, ‘On the Procedure for Transferring Operation Identifications in Electronic Form to Tax Authorities to Enable them to Carry out Foreign Exchange Control Agent Functions’. This document sets out the procedure for transferring information about operation identifications on foreign trade agreements (contracts) and credit agreements (loan agreements) in electronic form to the Russian Federal Tax Service. In order to reduce the burden on credit institutions, provisions were made for authorised banks to draw up and send information about operation identifications on foreign trade agreements (contracts) to several foreign exchange control agents on a non-recurrent basis.

In accordance with Clause 17c of the Action Plan (Roadmap) ‘On Improving Customs Administration’, approved by Directive of the Government of the Russian Federation No. 1125-r, dated 29 June 2012, and pursuant to Federal Law No. 406-FZ, the Bank of Russia drafted and issued



Directive No. 3016-U, dated 14 June 2013, 'On Amending Bank of Russia Instruction No. 138-I, Dated 4 June 2012, 'On the Procedure for Submitting Documents and Information Related to Foreign Exchange Transactions to Authorised Banks by Residents and Non-Residents; the Procedure for Executing Operation Specification and the Procedure for Registering and Monitoring Foreign Exchange Transactions by Authorised Banks'. This removed the requirement that residents provide authorised banks with hard copies of goods declarations, and set out the procedure for the inclusion of information on goods declarations received in an electronic form by authorised banks from customs authorities, automatically in bank control records, to record foreign trade contract liabilities and monitor the repatriation of foreign currency earnings.

To increase the efficiency of foreign exchange control by authorised banks over residents' operations, the Bank of Russia drafted and distributed the following documents for the attention of credit institutions:

- Letter No. 36-T, dated 4 March 2013, 'On Authorised Banks' Use of Information Received from Customs Authorities on the Goods Declarations Registered by Them', which sets out recommendations on authorised banks' use of information received from customs authorities on registered goods declarations, as well as on the steps authorised banks should take if they identify any discrepancy between the information received from customs authorities and the information received from residents;
- Letter No. 266-T, dated 31 December 2013, 'On the Procedure for Closing Operation Specifications', which recommends that authorised banks, when closing operation identifications on grounds stipulated by law, where there exists a non-resident's debt to a resident (and provided that the resident has not closed current accounts at the authorised bank), are advised to request from the resident documents relating to the non-resident's obligations under the agreement according to which the operation identification was closed, and include information on documents received in the banking control sheet when closing such operation identification.

## IV.2. PRINCIPAL MEASURES TO UPGRADE BANKING REGULATION AND SUPERVISION IN 2013

### LICENSING OF CREDIT INSTITUTIONS' ACTIVITIES

In 2013, the Bank of Russia continued its efforts to improve the regulatory framework for the licensing, state registration and financial rehabilitation of credit institutions.

With the adoption of Federal Law No. 146-FZ, dated 2 July 2013, 'On Amending Certain Laws of the Russian Federation' (hereinafter, Federal Law No. 146-FZ), a package of regulatory acts on licensing activity and the financial rehabilitation of credit institutions were approved. These include:

— Bank of Russia Instruction No. 146-I, dated 25 October 2013, 'On the Procedure for Obtaining the Bank of Russia's Approval to Purchase the Shares (Stakes) of a Credit Institution', which provides for:

- a reduction in the threshold value to be approved by the Bank of Russia for purchasing shares (stakes) of a credit institution from 20% to 10% of its authorised capital;
- the introduction of a procedure for the Bank of Russia to give its approval not only to purchase the shares (stakes) of a credit institution, but also to set up controls on shareholders (stakeholders) of the credit institution holding more than 10% of the credit institution's shares (stakes). In this regard, the Instruction specifies that the controls must be determined in accordance with the International Financial Reporting Standards (IFRS);
- the introduction of a procedure for the Bank of Russia to give subsequent approvals;
- the introduction of a procedure for the Bank of Russia to draw up and send out instructions on eliminating violations committed during the purchase of shares (stakes) of a credit institution and (or) the establishment of controls on shareholders (stakeholders) of the credit institution;
- a refusal to give preliminary or subsequent Bank of Russia approval, including in case an unsatisfactory business reputation has been identified.

— Bank of Russia Regulation No. 408-P, dated 25 October 2013, 'On the Procedure of Assessing the Compliance with Qualifying Requirements and Requirements to the Business Reputation of Entities Listed in Article 11.1 of the Federal Law 'On Banks and Banking Activities' and in Article 60 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', and on the Procedure of Maintaining Databases Stipulated by Article 75 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)':

- sets out the procedure for assessing business reputation of credit institution (branch) executives (or applicants for such roles), members of a credit institution's board of directors (supervisory board), as well as buyers (owners) of more than 10% of a credit institution's shares (stakes), entities establishing (carrying out) controls over credit institution shareholders (stakeholders) owning more than 10% of shares (stakes), and credit institutions' sole executive bodies;
- specifies the procedure for issuing Bank of Russia instructions regarding the replacement of a credit institution's (branch) executives (or applicants for such roles) and members of a credit institution's board of directors (supervisory board) whose business reputation does not meet the statutory requirements, as well as regarding the elimination of identified violations, where it has been established that buyers (owners) of more than 10% of a credit institution's shares (stakes), entities establishing (carrying out) controls on credit institution shareholders (stakeholders) owning more than 10% of shares (stakes), and credit institutions' sole executive bodies do not have a satisfactory business reputation;
- specifies the procedure for maintaining databases.



- 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 Disclosing Information on the Bank of Russia Official Internet Site about Persons Exerting Material (Direct or Indirect) Influence on the Decisions Taken by the Management of Banks Participating in the Compulsory Household Deposit Insurance System’, made changes replacing the notion of a ‘person exerting material (direct or indirect) influence on the decisions taken by the management of a bank’ with the notion of a ‘person with control or a significant influence over a bank’, in line with Article 44 of Federal Law No. 177-FZ, dated 23 December 2003, ‘On the Insurance of Household Deposits in Russian Banks’, which establishes the compliance requirements specified by the Bank of Russia for disclosing information on such persons to the general public.

In 2013, the following documents were also drafted:

- Bank of Russia Ordinance No. 3028-U, dated 22 July 2013, ‘On the Procedure for Opening (Closing) and Managing a Mobile Cash Office of a Bank (Branch)’ (the new version of Bank of Russia Ordinance No. 1548-U, dated 7 February 2005), which expands the list of locations where banking services can be provided to consumers using mobile cash offices by moving to geographically isolated districts of towns and cities with underdeveloped banking infrastructure, new districts, venues of national and regional public events and official national and international sporting competitions, emergency zones, and locations where people who have been evacuated from such zones have been moved to. It also made it possible to open a mobile cash office in the immediate vicinity of a bank’s registered office and its divisions to reduce peak periods in operations, as well as during 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 Bank of Russia’s Decision-Making Procedure for the State Registration and Licensing of Credit Institutions’, which:
  - makes it possible to set up additional offices in pre-fabricated buildings (modular facilities) which are not part of real estate;
  - excludes the requirement to obtain approval from the Russian Ministry of Finance of banks’ applications to obtain a licence from the Bank of Russia to deposit and place precious metals;
  - establishes a procedure for inspecting the validity of paying up a credit institution’s authorised capital when a credit institution provides a notice of the outcome of the additional issue of equities instead of a report on the outcome of the additional issue of equities;
  - cancels the requirement that an inspection be conducted on the origin of funds used to pay for a credit institution’s shares (stakes), when increasing the authorised capital using the credit institution’s assets alone;
  - establishes a requirement providing for an independent inquiry of the Bank of Russia addressed to the Federal Tax Service on the state registration of the founders of a credit institution to be created and on their possible debt towards the budget (if such information has not been provided by the founders of the credit institution).

#### MEASURES TO UPGRADE BANKING RISK ASSESSMENT, MANAGEMENT AND SUPERVISION METHODOLOGIES

In order to implement Basel III, with respect to calculating the capital of credit institutions and the adequacy of their capital components from 1 March 2013, the Bank of Russia issued Regulation No. 395-P, dated 29 December 2012, ‘On the Methodology for Calculating the Amount and Assessing the Adequacy of Credit Institutions’ Capital (Basel III)’ (hereinafter, Regulation No. 395-P).

Regulation No. 395-P establishes a methodology for determining the amount and assessing the adequacy of credit institutions’ equity capital in accordance with the requirements of Basel III, and in particular:

- identifying the so-called Common Equity Tier 1 capital within Tier 1 capital;
- establishing a single mandatory criterion for each capital instrument (which is not part of Common Equity Tier 1 capital) requiring that the instrument be bound by a mandatory condition under which it should be written off or converted into common stock of a credit institution if any signs (conditions) threatening the credit institution's viability, as determined in advance by a supervisory body, should arise;
- establishing mandatory conditions allowing the instrument to be qualified as a certain capital tier;
- establishing requirements on gradual (during 10 years) de-recognition of capital instruments within the capital which do not satisfy the list of mandatory requirements;
- determining features reducing the total value of capital sources.

In accordance with Regulation No. 395-P, banks are to disclose capital components and capital adequacy ratios within their statements submitted to the Bank of Russia for monitoring purposes, with effect to statements starting from 1 April 2013.

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 Methodology for Calculating the Amount and Assessing the Adequacy of Credit Institutions' Capital (Basel III)' (hereinafter, Ordinance No. 3096-U), set 1 January 2014 as the start date for using the Basel III capital standards calculation to calculate banks' equity capital for prudential purposes.

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 Methodology for Calculating the Equity Capital of Credit Institutions' (hereinafter, Regulation No. 215-P), makes changes to the provisions of Regulation No. 215-P, in view of its application from 1 January 2014 solely 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 Assessment of the Economic Situation of Banks', and Bank of Russia Ordinance No. 1379-U, dated 16 January 2004, 'On the Assessment of Financial Soundness of a Bank for the Purpose of Ascertaining its Adequacy for Participating 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), introduces the following principal changes:

- the introduction of three varying levels of capital adequacy ratios of banks for risk weighted assets (Common Equity Tier 1 capital, Tier 1 capital and overall Tier 1 capital adequacy ratios have been set at minimum allowable levels of 5.0%, 5.5% (6.0% for Tier 1 capital adequacy ratio from 1 January 2015) and 10.0%, respectively, excluding capital buffers);
- the application of higher risk requirements to calculate banks' capital adequacy ratios (1000% for substantial bank investments in common shares (stakes) of non-financial organisation and 250% for substantial bank investments in common shares (stakes) of financial organisations and deferred tax liabilities not dependent on the bank's future profitability and not taken into account in Common Equity Tier 1 capital deductions);
- the introduction of credit valuation adjustment associated with a deterioration in the creditworthiness of a counterparty in OTC derivative transactions concluded without the involvement of qualifying central counterparties (for analytical purposes with effect for reporting from 1 February 2014 and for prudential purposes — with effect from 1 October 2014);
- the establishment of a procedure to assess credit risk and accrued (accumulated) interest risk on counterparties across transactions where the fulfilment of obligations towards a bank (excluding obligations on syndicated loans, letters of credit, mortgage securities and securitisation transactions) is dependent on the fulfilment of obligations towards a third party — the end recipient of funds;
- clarifications of the methodology used for calculating the risk on syndicated loans (the risk is assessed independently of the structure of transactions in relation to a person considered to be the source of risk under the loan);

- the disclosure of the concept of ‘bank insiders’;
- a change of the methodology to calculate the credit risk of derivatives in forward transactions;
- the introduction of increased requirements to capital coverage ratios for large-value consumer loans extended after 1 January 2014;

For prudential purposes, the new regulation has been in force from 1 January 2014, while credit institutions started to submit reporting as of 1 February 2014.

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 Non-bank Settlement Credit Institutions, Required Ratios for Non-bank Settlement Credit Institutions and the Specifics of Bank of Russia Oversight of Compliance with These Requirements’, 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 of Non-bank Credit Institutions with the Right to Transfer Funds without Opening Bank Accounts and Carry Out Associated Banking Operations, and the Specifics of Bank of Russia Supervision of Compliance with such Requirements’, set out changes aimed at bringing the provisions of the instructions in line with the amendments stipulated by Ordinances No. 3096-U and No. 3097-U.

To tighten requirements relating to the quality of risk assessment (including risks arising in the unsecured consumer lending market) and to suppress the practice of concealing outstanding problem loans and non-core assets, amendments have been made to regulatory documents on the loss provisioning procedure:

in Bank of Russia Regulation No. 254-P, dated 26 March 2004, ‘On the Procedure for Making Loss Provisions by Credit Institutions for Loans, Loan and Similar Debts’:

Bank of Russia Ordinance No. 2993-U, dated 15 April 2013:

- established the requirement that credit institutions include in their internal documents methods allowing them to verify the existence of corporate borrowers’ activities;
- for loans extended to corporate borrowers not engaged in any real activity, set out requirements that they should not be classified higher than Quality Category III (doubtful loans — significant credit risk) with an estimated provisioning of at least 50% (the provisioning amount can be reduced by the amount of a highly liquid collateral);
- granted credit institutions the right to make other decisions in relation to the classification of the aforementioned loans subject to a subsequent notification of the Bank of Russia on the decision taken so that the supervisory body can assess its compliance with Bank of Russia requirements;
- increased the size of loans which can be included in a portfolio of homogenous loans, extended to small- and medium-sized businesses, whose financial standing is assessed as average, as well as the size of loans which may remain in a portfolio of homogenous loans in case the financial standing of such small- and medium-sized businesses deteriorates (to poor), to five million rubles;
- cut back the requirements whereby credit institutions cannot accept collateral to reduce the size of provisions, i.e. if the procedures set out in insolvency (bankruptcy) legislation are undertaken in relation to a pledger, and also in cases, when as a result of collateral being rightfully transferred to a third party by the bank, the pledger may initiate procedures prescribed by insolvency (bankruptcy) legislation;
- expanded the rights of credit institutions to classify loans, used by borrowers directly or indirectly (through third parties) to pay off other borrowers’ liabilities to this credit institution or to other credit institutions, i.e.: they can decide to classify such loans higher than Quality Category III (doubtful loans — significant credit risk) when assessing the financial standing of a borrower as average or good, subject to further informing the relevant Bank of Russia regional branch;
- replaced the requirement to use quarterly accounting (financial) statements of a legal entity (not prescribed by law) to analyse the financial standing of borrowers with an analysis of the information submitted to Rosstat on a quarterly basis within federal statistical supervision forms (for the purposes of assessing the financial standing of a corporate borrower);

- set the regularity of preparing professional opinions on loans on quarterly dates, depending on deadlines by which legal entities are to submit their income tax declarations to the tax authorities;
- set the minimum size of provisions for loans classified as non-performing for more than one year, depending on how long payments have not been made (after the first year — at least 5% of the amount outstanding; after the second year — at least 10% of the amount outstanding; after the third year — at least 25% of the amount outstanding; after the fourth year — at least 50% of the amount outstanding; and after the fifth year — at least 75% of the amount outstanding);
- for loans exceeding 0.1% of the equity capital of a credit institution and extended under non-market conditions, required that such loans are not be classified higher than Quality Category II (non-standard loans — moderate credit risk);

Bank of Russia Ordinance No. 3058-U, dated 6 September 2013, made it possible for credit institutions indebted by borrowers affected by an emergency to preserve the provisions actually formed for the loans extended to such borrowers, should the financial standing of the borrowers or the quality of debt servicing deteriorate, or should the quality of collateral on the loans provided deteriorate.

Bank of Russia Ordinance No. 3098-U, dated 25 October 2013:

- expanded the list of other significant factors which may influence decisions taken by credit institutions on downgrading Quality Category of loans, with a country risk assessment factor;
- increased the minimum loss provisions on unsecured consumer loans extended to households and grouped together into a portfolio of homogenous loans without any overdue payments from 2% to 3%, and loans with payments that are overdue by one to 30 calendar days from 6% to 8% (for a combined portfolio of homogenous loans without overdue payments and with payments in overdue by one to 30 calendar days — from 3% to 5%);

Bank of Russia Regulation No. 283-P, dated 20 March 2006, 'On the Procedure for Making Loan Loss Provisions by Credit Institutions', was amended by Bank of Russia Ordinance No. 3130-U, dated 3 December 2013, which:

- cancelled the requirement to make loss provisions for forward transactions;
- specified that any securities whose current (fair) value cannot be reliably determined shall be subject to the requirement to make loss provisions;
- specified that investments in unit investment funds shall be subject to inclusion in the calculation of loss provisions if the number of units acquired allows the holder to exercise control over the management of the funds or to exert a significant influence on the activities thereof;
- increased the threshold of loss provision calculation elements which cannot be excluded (included) from a portfolio (in a portfolio) of homogenous claims (contingent credit obligations) when there are individual signs of their depreciation from 100,000 to 1 million rubles.

Bank of Russia Ordinance No. 3092-U, dated 25 October 2013, made amendments to the calculation used for credit institutions' equity capital and capital adequacy ratios in Bank of Russia Regulation No. 387-P, dated 28 September 2012, 'On the Procedure for Calculating Market Risk by Credit Institutions' (hereinafter, Regulation No. 387-P). Besides amending the methodology to calculate the market risk conditioned by Basel III, Regulation No. 387-P introduced certain changes to the procedure for calculating stock market risks and interest rate risks, including the following changes: establishing a requirement to calculate a specific stock market risk on derivatives (the underlying assets for which are stock indices); specifying the procedure for offsetting balance sheet securities positions and opposite derivatives positions; cancelling the requirement to calculate specific stock market risk on deposit receipts in relation to the issuer of shares serving as the underlying basis for such receipts; specifying the procedure for including positions resulting from repo transactions in the market risk calculation; and defining the list of agreements (transactions) affected by the requirement to calculate the market risk, in relation to a change in the procedure for the accounting of forward transactions.

Pursuant to the mandate granted by Federal Law No. 146-FZ, within the framework of its efforts to improve the regulation of credit institutions and increase the effectiveness of banking supervision,

including on a consolidated basis, in 2013, the Bank of Russia issued the following ordinances setting out, from 1 January 2014:

- standards for the regulation of credit institutions' activities on a consolidated basis, the procedure for parent credit institutions in banking groups to disclose information on their activities to a wide range of users, as well as the procedure for the Bank of Russia to supervise the activities of banking groups, including:
  - No. 3090-U, dated 25 October 2013, 'On Calculating Banking Groups' Equity Capital, Required Ratios and the Values (Limits) of Open Foreign Exchange Positions', setting out the scope of prudential consolidation for banking groups using control and material influence criteria established by the IFRS, as well as a procedure for calculating equity capital and required ratios on a consolidated basis (until 1 October 2014, the procedure will operate in a monitoring mode only, with no enforcement action being taken);
  - No. 3080-U, dated 25 October 2013, 'On the Forms, Procedure and Timeframes for Parent Credit Institutions of Banking Groups to Disclose Information on Risks Assumed, Risk Assessment Procedures, and Risk and Capital Management Procedures', setting out a procedure for parent credit institutions of banking groups to disclose annual and interim (half-year) information on the risks assumed, risk assessment procedures, risk and capital management, in accordance with the provisions set out in Pillar 3 Market Discipline of Basel II;
  - 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'', setting out a procedure for a mandatory disclosure by credit institutions of their interim consolidated financial statements, compiled in accordance with the IFRS, to a wide range of users;
  - No. 3089-U, dated 25 October 2013, 'On the Supervision Procedure of Banking Groups', establishing a procedure for the Bank of Russia to supervise the activities of banking groups, including a procedure for setting up and organising the work of supervision groups, a procedure for quarterly appraisals of the compliance with required ratios by banking groups (members of banking groups), compliance with open currency position limits and due claims, and a procedure for collecting and storing information on the activities of banking groups and major members of banking groups;
- a procedure to regulate the activities of bank holding companies, including:
  - No. 3086-U, dated 25 October 2013, 'On the Methodology for Determining the Assets and Income of Credit Institutions — Members of a Bank Holding Company and Bank Holding Company', setting out a methodology to determine the amount of assets and income of credit institutions, which are members of bank holding companies, and of the bank holding company to determine whether to qualify associations of legal entities with at least one credit institution as a bank holding company;
  - No. 3087-U, dated 25 October 2013, 'On Disclosing and Submitting Consolidated Financial Statements by Bank Holding Companies', setting out a procedure and timeframe for parent organisations (management companies) of bank holding companies to disclose their consolidated financial statements and to submit them to the Bank of Russia;
  - No. 3083-U, dated 25 October 2013, 'On Compiling and Submitting Information on Bank Holding Company Risks to the Bank of Russia', setting out a procedure and compilation template for the information required to assess the risks of bank holding companies and supervise credit institutions which are members of bank holding companies, and subsequent provision of such information to the Bank of Russia.

Pursuant to Federal Law No. 184-FZ, dated 2 July 2013, 'On Amending Articles 13 and 76 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Federal Law No. 184-FZ), in 2013, the Bank of Russia issued the following ordinances governing the activities of Bank of Russia authorised representatives:



- No. 3057-U, dated 6 September 2013, ‘On the Procedure for Appointing Bank of Russia Authorised Representatives in Cases Stipulated for by Clause 7, Part 1 of Article 76 of the Federal Law ‘On the Central Bank of the Russian Federation (Bank of Russia)’, and Conducting and Terminating their Activities’, setting out a procedure for appointing Bank of Russia authorised representatives at credit institutions, conducting and terminating their activities in cases stipulated by Clause 7, Part 1 of Article 76 of Federal Law No. 86-FZ, dated 10 July 2002, ‘On the Central Bank of the Russian Federation (Bank of Russia)’ (hereinafter, Federal Law No. 86-FZ);
- 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 Bank of Russia Authorised Representatives, the Conducting and Terminating their Activities’, specifying the procedure for appointing Bank of Russia authorised representatives at credit institutions in cases stipulated by Clauses 1—6, Part 1 of Article 76 of Federal Law No. 86-FZ;
- No. 3122-U, dated 25 November 2013, ‘On Amending Bank of Russia Ordinance No. 2181-U, Dated 9 February 2009, ‘On the Procedure for Presenting Information and Documents by Credit Institutions to Bank of Russia Authorised Representatives’, extending the procedure to present information by credit institutions to Bank of Russia authorised representatives onto Bank of Russia authorised representatives appointed at credit institutions in accordance with Clause 7, Part 1 of Article 76 of Federal Law No. 86-FZ, as well as excluding requirements for credit institutions to present information regarding their plans to carry out transactions (operations) to a Bank of Russia authorised representative before carrying out transactions (operations), while preserving Bank of Russia authorised representatives’ right to obtain such information on request.

To bring the contents of credit institutions’ annual and interim accounting (financial) statements disclosed to a wide range of users in line with the provisions of Federal Law No. 402-FZ, dated 6 December 2011, ‘On Accounting’, and in relation to the entry into force of Federal Law No. 146-FZ setting out the requirement that credit institutions disclose information on risks assumed, risk assessment procedures and risk and capital management, the Bank of Russia issued Ordinance No. 3081-U, dated 25 October 2013, ‘On Disclosing Information on Activities by Credit Institutions’, which:

- brought the contents of information disclosed by credit institutions in their annual and interim accounting (financial) statements in line with IFRS provisions, Pillar 3 Market Discipline of Basel II and Basel III;
- granted credit institutions the right to disclose information on their activities through the mass media and (or) on their official Internet sites.

To improve the assessment of credit institutions’ activities, the Bank of Russia published the following ordinances: No. 3085-U, dated 25 October 2013, ‘On Amending Bank of Russia Ordinance No. 2005-U, Dated 30 April 2008, ‘On the Assessment of the Economic Situation of Banks’ (hereinafter, Ordinance No. 3085-U) and No. 3091-U, dated 25 October 2013, ‘On Amending Bank of Russia Ordinance No. 1379-U, Dated 16 January 2004, ‘On the Assessment of Financial Soundness of a Bank for the Purpose of Ascertaining its Adequacy for Participating in the Deposit Insurance System’, which:

- tightened requirements for the supervisory assessment of banks. Provisions have been made so that the economic situation (financial soundness) of a bank cannot be recognised as satisfactory, if the bank’s internal control rules designed to counter the legalisation (laundering) of criminally obtained incomes and the financing of terrorism (hereinafter, AML/CFT) do not meet the Bank of Russia’s requirements or if these rules, according to the Bank of Russia, are not observed, or an internal AML/CFT control system does not make it possible to devote enhanced attention to the operations of customers with a heightened degree (level) of risk;
- brought a methodology to assess transparency indicators of ownership structure in line with the provisions of Federal Law No. 146-FZ;
- brought a procedure for calculating capital-related indicators in line with Bank of Russia Regulation No. 395-P and Bank of Russia Instruction No. 139-I, dated 3 December 2012, ‘On Statutory Requirements for Banks’;

— changed the threshold values used when assigning a numerical score to the capital adequacy ratio ('PK1' or N1.0).

In addition, Ordinance No. 3085-U allows Bank of Russia regional branches (Systemically Important Banks Supervision Department) to decide to classify banks under sub-group 2.2 even if there are grounds for qualifying them under a lower classification group if there is documentary evidence that banks are implementing measures to eliminate violations.

These ordinances entered into force on 1 January 2014.

In Q4 2013, the Bank of Russia drafted approaches to defining systemically important credit institutions and put them forward for discussion with the banking community; these approaches were developed taking into account the specifics of the Russian banking services market, the recommendations of the Basel Committee on Banking Supervision and the recommendations of the Financial Stability Board. Corresponding approaches were incorporated into Bank of Russia Ordinance No. 3174-U, dated 16 January 2014, 'On Defining the List of Systemically Important Credit Institutions'.

It is assumed that the first list of systemically important credit institutions will be compiled by the Bank of Russia in 2014.

### MEASURES TO IMPROVE ON-SITE INSPECTS

In 2013, efforts continued to improve the regulatory and methodological framework underpinning the Bank of Russia's on-site inspections.

In relation to the completion of the Bank of Russia's inspection activities phased centralisation, the Bank of Russia issued Instruction No. 147-I, dated 5 December 2013, 'On the Procedure for Authorised Representatives of the Central Bank of the Russian Federation (Bank of Russia) to Carry out Inspections of Credit Institutions (their Branches)', setting out powers to organise inspections of banks which are members of banking groups and bank holding companies and inspections of cross-border credit institutions.

To improve the procedure for organising and carrying out inspections of credit institutions (their branches), the Bank of Russia issued Ordinance No. 2978-U, dated 14 March 2013, 'On Amending Clause 1 of Bank of Russia Ordinance No. 2493-U, Dated 3 September 2010, 'On Organising the Phased Centralisation of the Bank of Russia's Inspections', as well as Bank of Russia Ordinance No. 2979-U, dated 14 March 2013, 'On Amending Clause 3.3 of Bank of Russia Instruction No. 108-I, Dated 1 December 2003, 'On Organising Inspections by the Central Bank of the Russian Federation (Bank of Russia)', specifying the mandates of Bank of Russia regional branch heads and inspectors general of interregional inspectorates when deciding to change the inspection start month set out in a Consolidated Plan.

To improve the effectiveness of inspections, the Bank of Russia issued Ordinance No. 3017-U, dated 18 June 2013, 'On the Procedure for Interaction among Bank of Russia Divisions when Preparing Proposals and Making Decisions to Apply Corrective Measures Against Credit Institutions when Conducting Inspections and Examining Results Thereof'. In December 2013, changes were made to the ordinance, providing for a reduction in the maximum timeframe for supervisory measures applied by regional branches and Bank of Russia divisions.

To improve the methodological framework underpinning its inspection activities, the Bank of Russia issued letters explaining the specifics of inspections of authorised banks' (their branches') internal structural divisions carrying out operations to buy and sell foreign cash, as well as inspections of credit institutions' compliance with the procedure on cash operations and rules for storing, transporting and collecting cash money and foreign cash:

— No. 10-T, dated 30 January 2013, 'On the Specifics of Organising and Carrying out Inspections of Internal Structural Divisions of Authorised Banks (Branches of Authorised Banks) in Relation to Certain Types of Banking Operations with Households Involving Foreign Cash and Cheques (Including Traveller's Cheques) Whose Face Value is Indicated in Foreign Currency';

- No. 235-T, dated 9 December 2013, ‘On Methodological Recommendations for Inspecting Credit Institutions’ (their Branches’) Compliance with the Procedure for Cash-Desk Operations and Rules on the Storage, Transportation and Collection of Cash Money and Foreign Cash’.

## COUNTERING THE LEGALISATION (LAUNDERING) OF CRIMINALLY OBTAINED INCOMES AND THE FINANCING OF TERRORISM

In 2013, the Bank of Russia took further steps to implement its mandate envisaged by Federal Law No. 115-FZ, dated 7 August 2001, ‘On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism’. As part of its efforts, the Bank of Russia issued the following documents:

- Ordinance No. 3041-U, dated 23 August 2013, ‘On the Procedure for Credit Institutions to Provide Authorised Bodies with Information on Instances Where They Refuse to Enter into a Bank Account (Deposit) Agreement with a Customer, Refuse to Execute a Customer’s Order to Carry Out an Operation and on Instances Where They Terminate a Bank Account (Deposit) Agreement with a Customer at the Initiative of the Credit Institution’, setting out a procedure for credit institutions to keep formal records and submit them to the Federal Financial Monitoring Service (hereinafter, Rosfinmonitoring) on all instances where they refuse to enter into agreements with customers and (or) refuse to execute customers’ orders to carry out operations, as well as instances where they terminate agreements with customers;
- Regulation No. 407-P, dated 2 September 2013, ‘On Submitting Information in Electronic Format on Customer Operations, Beneficial Owners of Customers and Cash Flows Across Customer Accounts (Deposits) by Credit Institutions at the Request of the Federal Financial Monitoring Service’, setting out requirements approved by Rosfinmonitoring regarding the forms of information in electronic format submitted by a credit institution to Rosfinmonitoring, at the latter’s request, on customer operations of a credit institution, beneficial owners of customers and cash flows across credit institutions’ customer accounts (deposits), as well as requirements regarding the procedure for credit institutions to provide Rosfinmonitoring, at the latter’s request, with information on cash flows across credit institution customers’ accounts (deposits);
- Ordinance No. 3063-U, dated 19 September 2013, ‘On the Procedure for Credit Institutions to Inform an Authorised Body of Measures Taken to Freeze (Block) Funds or Other Assets of Organisations or Households and of the Results of Inspections to Ascertain Whether There are any Organisations and Households Which Have Had or Should Have Their Funds or Other Assets Frozen (Blocked) among Their Customers’, setting out requirements regarding the procedure for credit institutions to inform an authorised body of measures taken to freeze (block) funds or other assets of organisations and households, as well as the results of inspections to ascertain whether there are any organisations and households which have had or should have their funds or other assets frozen (blocked) among their customers;
- Ordinance No. 3148-U, dated 23 December 2013, ‘On Amending Bank of Russia Regulation No. 375-P, Dated 2 March 2012, ‘On Requirements for a Credit Institution’s Internal Control Rules Designed to Prevent the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism’, setting out requirements for internal AML/CFT control rules in terms of defining the procedure for credit institutions to follow, should their customers transfer funds to the accounts of persons, which are not residents of the Republic of Belarus or the Republic of Kazakhstan, and act on their own behalf or on the instruction of third parties (hereinafter, non-resident counterparties) under foreign trade agreements (contracts) concluded with such non-resident counterparties;
- Letter No. 32-T, dated 28 February 2013, ‘On Informing the Federal Tax Service of Russia of Legal Entities Which Cannot be Contacted at the Address (Registered Office Location) Indicated by them and Recorded in the Unified State Register of Legal Entities’, containing recommenda-



tions for credit institutions to use information from the Internet data resource set up online by the 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 enhancing attention of credit institutions towards certain customer operations, setting out recommendations for credit institutions regarding certain operations by their customers, aimed at identifying such operations and mitigating related risks.

### UPGRADING THE LEGISLATIVE FRAMEWORK OF CREDIT INSTITUTIONS' OPERATIONS

In 2013, the following federal laws were adopted with the involvement of the Bank of Russia:

- Federal Law No. 29-FZ, dated 14 March 2013, 'On Amending Certain Laws of the Russian Federation' (with respect to banning foreign banks from opening branches in the Russian Federation);
- Federal Law No. 146-FZ (with respect, among other things, to consolidated supervision, specifying Bank of Russia mandates to apply measures to credit institutions, to set requirements for credit institutions' risk and capital management systems, to monitor large-value purchases of credit institutions' shares (stakes), and to specify requirements for credit institution officials and founders);
- Federal Law No. 184-FZ (with respect to the appointment and activities of Bank of Russia authorised representatives at credit institutions);
- Federal Law No. 251-FZ, dated 23 July 2013, 'On Amending Certain Laws of the Russian Federation due to the Delegation to the Central Bank of the Russian Federation of the Authority to Regulate, Control and Supervise Financial Markets';
- Federal Law No. 266-FZ, dated 30 September 2013, 'On Amending Article 18 of the Federal Law 'On Banks and Banking Activities' (with respect to the reciprocity provision not being applied to foreign states with which the Russian Federation has signed international agreements (including member states of the World Trade Organisation and Organisation for Economic Cooperation and Development));
- Federal Law No. 335-FZ, dated 2 December 2013, 'On Amending the Federal Law 'On Insurance of Household Deposits in Russian Banks', the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and on Invalidating Certain Provisions of Russian Laws' (with respect to the unification of supervisory requirements to assess the financial soundness of credit institutions and requirements for the participation in the deposit insurance system (hereinafter, DIS) according to international supervision principles and the application of corrective measures, and cancelling the prohibition against bank founders' leaving their positions within first three years from the date of the state registration of such bank);
- Federal Law No. 353-FZ, dated 21 December 2013, 'On Consumer Loans' (setting out procedure for extending household consumer loans for purposes not connected with entrepreneurial activities);
- Federal Law No. 363-FZ, dated 21 December 2013, 'On Amending Certain Laws of the Russian Federation and on Invalidating Certain Provisions of Russian Laws due to the Adoption of the Federal Law 'On Consumer Loans';
- Federal Law No. 379-FZ, dated 21 December 2013, 'On Amending Certain Laws of the Russian Federation' (with respect to registering movable property pledge notices);
- Federal Law No. 410-FZ, dated 28 December 2013, 'On Amending the Federal Law 'On Non-governmental Pension Funds' and Certain Laws of the Russian Federation' (with respect to the extension of the household DIS to individual entrepreneurs' accounts);
- Federal Law No. 422-FZ, dated 28 December 2013, 'On Guaranteeing the Rights of Insured Persons in the Compulsory Pension Insurance System of the Russian Federation When Forming and Investing Pension Accumulations, and Determining and Making Payments Using Pension Accumulations'.

### IV.3. PRINCIPAL MEASURES TO IMPROVE REGULATION IN THE NATIONAL PAYMENT SYSTEM IN 2013

To improve the regulation of the national payment system, the Bank of Russia issued the following regulatory documents:

- Regulation No. 406-P, dated 29 August 2013, ‘On the Procedure for Administering Certain Types of Budget Revenues by the Central Bank of the Russian Federation’;
- Ordinance No. 2962-U, dated 11 January 2013, ‘On Amending Bank of Russia Regulation No. 320-P, Dated 27 August 2008, ‘On the Procedure for Administering Certain Types of Budget Revenues by the Central Bank of the Russian Federation’;
- Ordinance No. 2980-U, dated 15 March 2013, ‘On the Procedure for Sending to a Bank an Electronic Order by an Agency Monitoring the Payment of Insurance Contributions’;
- Ordinance No. 2981-U, dated 15 March 2013, ‘On Amending Bank of Russia Regulation No. 384-P, Dated 29 June 2012, ‘On the Bank of Russia Payment System’;
- Ordinance No. 2999-U, dated 13 May 2013, ‘On Amending Bank of Russia Ordinance No. 2390-U, Dated 29 January 2010, ‘On the Procedure for Transferring Unused Balances of Federal Budget Funds’;
- Ordinance No. 3005-U, dated 31 May 2013, ‘On Amending Bank of Russia Regulation No. 320-P, Dated 27 August 2008, ‘On the Procedure for Administering Certain Types of Budget Revenues by the Central Bank of the Russian Federation’;
- Ordinance No. 3007-U, dated 5 June 2013, ‘On Amending Bank of Russia Regulation No. 382-P, Dated 9 June 2012, ‘On Requirements to Protect Information Related to Funds Transfers and on the Procedures of Bank of Russia Control over the Compliance with the Requirements to Protect Information Related to Funds Transfers’;
- Ordinance No. 3009-U, dated 7 June 2013, ‘On Amending Clause 1.2 of Bank of Russia Ordinance No. 2815-U, Dated 2 May 2012, ‘On Setting Criteria Values for Qualifying Payment Systems as Important’ (registered with the Russian Ministry of Justice under No. 28852 on 20 June 2013), with respect to specifying the criteria values for the importance of payment systems;
- Ordinance No. 3025-U, dated 15 July 2013, ‘On Amending Bank of Russia Regulation No. 383-P, Dated 19 June 2012, ‘On Funds Transfer Rules’;
- Ordinance No. 3026-U, dated 15 July 2013, ‘On Special Account at the Bank of Russia’;
- Ordinance No. 3031-U, dated 26 July 2013, ‘On Invalidating Certain Regulatory Acts of the Bank of Russia’;
- Ordinance No. 3035-U, dated 14 August 2013, ‘On Amending Bank of Russia Ordinance No. 2548-U, Dated 27 December 2010, ‘On the Procedure for Making Decisions on Refunding Interest for Late Refunds of Overpayments (Collections) to the Budget, Administered by the Central Bank of the Russian Federation, and Interest Accrued on the Overpaid Sums’;
- Ordinance No. 3040-U, dated 20 August 2013, ‘On Amending Clause 3.2 of Bank of Russia Ordinance No. 2958-U, Dated 28 December 2012, ‘On the Procedure for the Bank of Russia to Implement Various Requirements Set Out in Federal Law No. 161-FZ, Dated 27 June 2011, ‘On the National Payment System’;
- Ordinance No. 3064-U, dated 23 September 2013, ‘On Numbering Customer Accounts to Record Funds Received for Temporary Use’;
- Ordinance No. 3079-U, dated 25 October 2013, ‘On Amending Bank of Russia Regulation No. 384-P, Dated 29 June 2012, ‘On the Bank of Russia Payment System’;
- Ordinance No. 3120-U, dated 21 November 2013, ‘On Numbering Customer Accounts Opened for Federal Treasury Regional Branches to Record Funds of the Pension Fund of the Russian Federation’;

- Ordinance No. 3150-U, dated 23 December 2013, ‘On the Bank of Russia’s Activities as a Payment Infrastructure Service Operator’;
- Ordinance No. 3154-U, dated 23 December 2013, ‘On Amending Bank of Russia Ordinance No. 2485-U, Dated 2 August 2010, ‘On the Correspondence Directory of Bank Identification Codes of Credit Institutions (Branches) Making Payments Via the Settlement System of the Bank of Russia and International SWIFT BIC Bank Identification Codes’;
- Ordinance No. 3155-U, dated 24 December 2013, ‘On the Procedure for Including (Excluding) Bank of Russia Divisions in (from) the VER system, MER System and BESP System’;
- Order No. 3156-U, dated 24 December 2013, ‘On Amending Regulation of the Ministry of Finance of the Russian Federation and of the Central Bank of the Russian Federation No. 127n/328-P, Dated 12 November 2008, ‘On the Procedure for Completing Operations on Federal Budget Accounts, Opened with Divisions of the Bank of Russia’s and Credit Institutions’ (Branches’) Settlement System in the Current Fiscal Year’;
- Ordinance No. 3160-U, dated 27 December 2013, ‘On Amending Bank of Russia Ordinance No. 2980-U, Dated 15 March 2013, ‘On the Procedure for Sending to a Bank an Electronic Order by an Agency Monitoring the Payment of Insurance Contributions’;
- Ordinance No. 3165-U, dated 30 December 2013, ‘On the Procedure for Making Decisions on Refunding Interest for Late Refunds of Overpayments of State Duties’.

## IV.4. PRINCIPAL MEASURES TO PERFORM THE MAIN FUNCTIONS OF THE BANK OF RUSSIA FINANCIAL MARKETS SERVICE IN 2013

In accordance with Decree of the President of the Russian Federation No. 645, dated 25 July 2013, from 1 September 2013 the mandate of the Federal Financial Markets Service to regulate, control and supervise financial markets was transferred to the Bank of Russia.

Pursuant to Federal Law No. 251-FZ, dated 23 July 2013, ‘On Amending Certain Laws of the Russian Federation due to the Delegation to the Central Bank of the Russian Federation of the Authority to Regulate, Control and Supervise Financial Markets’, which entered into force on 1 September 2013, the Bank of Russia became a single body regulating, controlling and supervising the activities of credit institutions, as well as non-bank financial institutions. To guarantee stability in the regulation, control and supervision of non-bank financial institutions and the performance of other functions previously carried out by the FFMS of Russia, the Financial Markets Service (FMS) of the Bank of Russia was set up within the Bank of Russia with the following main objectives:

- to assist in the development of the financial market in the Russian Federation and its infrastructure;
- to create a competitive environment in the financial market of the Russian Federation;
- to regulate, control and supervise non-bank financial institutions;
- to protect the rights and legal interests of shareholders and investors in the financial markets, insurers, insured persons and beneficiaries recognised as such in accordance with insurance laws, as well as insured persons under compulsory pension insurance system, and depositors and participants in non-governmental pension funds for non-governmental pension provision;
- to ensure compliance with the Russian legislation to counter the illegal use of insider information and market manipulation.

To further develop the regulation of the financial markets, in 2013, Russia’s FFMS and the FMS assisted in the preparation and revision of draft federal laws and other regulatory documents, the approval of such acts, as well as the implementation and analysis of practices to enforce adopted laws and regulatory documents governing all segments of the financial market, excluding banking and audit activities. Significant changes were introduced to legislation on the pension system and insurance. The key aspect of the FMS activities related to controlling pension accumulations investments and supervising the activities of non-governmental pension funds was participation in the drafting of regulatory and legislative acts designed to lay the foundations for converting non-governmental pension funds into joint-stock companies and launching the system of guaranteed pension accumulations.

The mandate to carry out insurance supervision was expanded by insurance legislative acts. As a result, the Bank of Russia received the right to revoke a licence without suspending its validity if an insurer fails to comply with requirements on the amount of authorised capital or repeatedly fails to submit statements during one year or repeatedly violates reporting submission deadlines during one year by more than 15 working days. The Bank of Russia was also granted the right to set out minimum (standard) requirements in its regulatory documents in relation to the conditions and procedure for certain types of voluntary insurance. Changes were made to increase the transparency of activities and the quality of insurance companies’ risk management, the opportunities for using electronic document workflow were expanded during insurance companies’ licensing, and other changes were introduced, aimed at improving the regulation of the insurance market<sup>1</sup>. Amendments were also

<sup>1</sup> Amendments to Federal Law No. 4015-1, dated 27 November 1992, ‘On the Organisation of Insurance Business in the Russian Federation’, were introduced by Federal Law No. 134-FZ, dated 28 June 2013, and No. 234-FZ, dated 23 July 2013.

made to insurance legislation<sup>1</sup> to unambiguously identify the insurer bound to take liability for insured events occurring during one year after an insured person is dismissed from military service, as well as to change the procedure for calculating the insurance tariff for this type of insurance. The FMS played an active role in drafting Federal Law No. 293-FZ, dated 2 November 2013, 'On Actuarial Activities in the Russian Federation', which establishes legal foundations for the institute of actuaries required to assess the sufficiency of insurance and pension reserves.

Insurers were allowed to submit all forms of reports to the Bank of Russia in electronic format, signed by an enhanced qualified electronic signature, without the use of paper documents.

The Bank of Russia's Financial Markets Service played an active role in the drafting of federal laws aimed at improving consumer lending and microfinance institutions' activities<sup>2</sup>. The FMS' efforts to establish the legal foundations for improving the securitisation of financial assets were enshrined in Federal Law No. 379-FZ, dated 21 December 2013, 'On Amending Certain Laws of the Russian Federation'.

In 2013, the FMS and the Bank of Russia Statistics Department carried out work to exclude duplication in reporting forms submitted by credit institutions — professional securities market participants to the Bank of Russia. To decrease the administrative and regulatory impact, as well as the burden on professional participants, proposals were drafted to amend regulatory acts, seeking to reduce the number of reports being submitted, simplify the form of reports submitted by professional participants, and establish a new procedure for submitting thereof only in electronic format.

In terms of regulating professional activities in the securities market, equity capital adequacy ratios were set at 5 million rubles for professional securities market participants engaged in brokerage solely to conclude agreements constituting derivatives with goods serving the underlying asset<sup>3</sup>. A set of Uniform Requirements were adopted, establishing rules for broker activities when carrying out certain transactions for their customers<sup>4</sup>. To a large extent, these rules link the further regulation of financial market participants with modern settlement systems and the migration of certain key goods at the Moscow Exchange to the T + 2 settlement mode.

In the course of FMS efforts to combat unfair practices in the open market, three particularly significant cases of manipulation (i.e. market manipulation) were identified. Administrative corrective measures were applied to the persons involved in market manipulation.

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<sup>1</sup> Amendments to Federal Law No. 52-FZ, dated 28 March 1998, 'On Obligatory State Life and Health Insurance for Military Personnel, Citizens Called up for Military Reservist Training, Enlisted Men and Commanding Officers in Russian Internal Affairs Bodies, State Fire-Control Service, Drugs and Psychotropic Substance Control Bodies, and Staff of Criminal Correctional System Institutions and Bodies'. were introduced by Federal Law No. 165-FZ, dated 2 July 2013.

<sup>2</sup> Federal Law No. 353-FZ, dated 21 December 2013, 'On Consumer Loans'; Federal Law No. 363-FZ, dated 21 December 2013, 'On Amending Certain Laws of the Russian Federation and on Invalidating Certain Provisions of Russian Laws due to the Adoption of the Federal Law 'On Consumer Loans'; Federal Law No. 375-FZ, dated 21 December 2013, 'On Amending Certain Laws of the Russian Federation' (with respect to improving the mechanism to protect the rights of consumers of microfinance services and increase the effectiveness of state control over credit cooperation and microfinance activities).

<sup>3</sup> Bank of Russia Ordinance No. 3132-U, dated 3 December 2013, 'On Setting Equity Capital Adequacy Ratios for Professional Securities Market Participants Engaged in Brokerage Solely to Conclude Agreements Constituting Derivatives with Goods Being the Underlying Asset'.

<sup>4</sup> FFMS Order No. 13-71/pz-n 'On the Uniform Requirements for the Rules of Broker Activities When Carrying Out Certain Transactions for Their Customers, as well as on Invalidating Certain Regulatory Acts of the Federal Financial Markets Service'.

## IV.5. STATISTICAL TABLES

Table 1

KEY MACROECONOMIC INDICATORS  
(percent of previous year)

	2011	2012	2013
Gross domestic product	104.3	103.4	101.3
of which:			
— agriculture, hunting and forestry	114.7	96.2	103.0
— hydrocarbon production and mining	103.4	101.6	100.9
— manufacturing	106.3	102.8	101.2
— production and distribution of electricity, gas and water	100.0	100.6	97.7
— construction	107.6	102.6	97.6
— wholesale and retail trade, and other	103.2	103.8	101.1
— transport and communications	106.5	103.9	101.0
GDP deflator index	115.9	107.5	105.9
Consumer price index (December on previous December)	106.1	106.6	106.5
Fixed capital investment	110.8	106.8	99.8
Retail trade turnover	107.1	106.3	103.9
Unemployment rate according to ILO methodology (annual average), percent of economically active population	6.5	5.5	5.5
External trade (per balance of payments methodology) <sup>1</sup>			
— export of goods	131.3	102.3	99.2
— import of goods	129.7	105.4	102.1
— export of services	118.1	107.4	112.1
— import of services	121.5	119.1	118.0

<sup>1</sup> Bank of Russia data.

Notes. Possible minor discrepancies between the total and the sum of components in tables are due to the rounding of data.

Tables 1 and 2 are based on Rosstat data as of 2 April 2014.

Table 3 is based on Rosstat data as of 2 April 2014 and Bank of Russia calculations (data for 2012 have been specified due to changes in the calculation methodology).

Table 2

**CONSUMER PRICES BY GROUP OF GOODS AND SERVICES**  
**(growth, December as a percentage of previous December)**

	2011	2012	2013
Consumer prices, total	6.1	6.6	6.5
of which:			
— food prices	3.9	7.5	7.3
of which:			
— food prices exclusive of fruit and vegetables	7.4	7.1	7.1
— fruit and vegetable prices	-24.7	11.0	9.3
— non-food prices	6.7	5.2	4.5
— paid services provided to the public	8.7	7.3	8.0
Prices of goods and services included in calculation of core consumer price index (CCPI)	6.6	5.7	5.6

Table 3

**CONSUMER PRICE INFLATION STRUCTURE**

	2012		2013	
	Growth in percentage points	Contribution to growth, percent	Growth in percentage points	Contribution to growth, percent
<b>Headline inflation (December on December)</b>	<b>6.6</b>	<b>100.0</b>	<b>6.5</b>	<b>100.0</b>
Inflation growth due to:				
— change in prices of goods and services included in CCPI calculation	4.6	70.3	4.5	68.8
— change in prices of goods and services not included in CCPI calculation	1.9	29.7	2.0	31.2
of which:				
— change in fruit and vegetable prices	0.4	5.7	0.3	5.2
— change in administered service and fuel prices	1.2	18.5	1.2	18.9

Table 4

**BALANCE OF HOUSEHOLD MONEY INCOME AND EXPENSES (millions of rubles)<sup>1</sup>**

	2012	2013	2013 as a percentage of 2012
<b>Money income</b>	<b>39,623,363.1</b>	<b>43,884,338.2</b>	<b>110.8</b>
Wages and salaries	26,051,473.8	28,902,387.2	110.9
Share, percent	65.7	65.9	
Social allowances	7,319,347.2	8,068,320.1	110.2
Share, percent	18.5	18.4	
Income from entrepreneurial activities	3,413,918.6	3,677,048.4	107.7
Share, percent	8.6	8.4	
Income from property	2,046,156.2	2,368,177.6	115.7
Share, percent	5.2	5.4	
Other income	792,467.3	868,404.9	109.6
Share, percent	2.0	1.9	
<b>Money expenses</b>	<b>33,770,730.1</b>	<b>37,442,413.8</b>	<b>110.9</b>
— consumer expenses	29,330,868.5	32,408,721.6	110.5
— compulsory payments and contributions	4,439,861.6	5,033,692.2	113.4
<b>Growth in savings and cash on hand, purchase of foreign currency</b>	<b>5,852,633.0</b>	<b>6,441,924.4</b>	<b>110.1</b>
— savings <sup>2</sup>	3,946,166.8	4,367,200.6	110.7
of which:			
— deposits and securities	2,467,141.4	2,807,871.5	113.8
— foreign currency purchase	1,903,390.8	1,874,564.9	98.5
— cash on hand	3,075.4	200,158.9	6,508.4
<b>Memo item</b>			
<b>Share of money income, percent</b>			
— consumer expenses	74.0	73.8	
— compulsory payments and contributions	11.2	11.5	
— savings	10.0	9.9	
of which:			
— deposits and securities	6.2	6.4	
— foreign currency purchase	4.8	4.3	
— cash on hand	0.0	0.5	
<b>Disposable money income</b>	<b>35,308,930.3</b>	<b>38,923,403.7</b>	<b>110.2</b>
Share of, percent			
— consumer expenses	83.1	83.3	
— savings	11.2	11.2	
of which:			
— deposits and securities	7.0	7.2	
— foreign currency purchase	5.4	4.8	
— cash on hand	0.0	0.5	
— remittances	0.3	0.2	

<sup>1</sup> The table is based on Rosstat data as of 28 February 2014.

<sup>2</sup> Savings include increase (decrease) in deposits, purchase of securities, change in accounts of individual entrepreneurs, change in debt on loans, purchase of real estate and cattle and poultry.



Table 5

**RUSSIA'S DOMESTIC GOVERNMENT DEBT AS OF 1 JANUARY 2014**  
**(at face value, billions of rubles)**

Debt instruments	Total within domestic government debt	Of these, traded on domestic securities market
Permanent coupon-income federal government bonds (OFZ-PD)	2,688.9	2,688.9
Debt depreciation federal government bonds (OFZ-AD)	1,046.0	942.1
Government savings bonds (GSO)	607.6	—
MinFin bonds (OVOZ)	90.0	—
Russian government guarantees in national currency	1,289.9	—
<b>Total</b>	<b>5,722.2</b>	<b>3,631.0</b>

Table 6

**FINANCE MINISTRY DEBT TO THE BANK OF RUSSIA AS OF 1 JANUARY 2014 (millions of rubles)<sup>1</sup>**

	At face value
Russian government debt obligations	362,141
of which:	
— Russian government debt obligations available for sale, in national currency	258,973
— Russian government debt obligations available for sale, in foreign currency	103,167

<sup>1</sup> Exclusive of repo transactions.

Table 7

**VOLUME (TURNOVER) OF RESIDENT OPERATIONS WITH NON-RESIDENTS TO BUY AND SELL  
RUSSIAN GOVERNMENT OUTSTANDING FOREIGN CURRENCY DEBT OBLIGATIONS IN SECONDARY MARKET  
(at market prices, billions of US dollars)**

	Currency	Q1	Q2	Q3	Q4	2013
Eurobonds due in 2015	US dollar	0.07	0.25	0.12	0.25	0.69
Eurobonds due in 2017	US dollar	0.05	0.28	0.16	0.06	0.55
Eurobonds due in 2018 (issued in the course of restructuring GKO)	US dollar	0.04	0.01	0.00	0.03	0.08
Eurobonds due in 2019	US dollar	—	—	0.20	0.35	0.54
Eurobonds due in 2020	US dollar	0.10	0.02	0.03	0.08	0.22
Eurobonds due in 2020	euro	—	—	0.27	0.23	0.50
Eurobonds due in 2022	US dollar	0.03	0.23	0.03	0.10	0.39
Eurobonds due in 2023	US dollar	—	—	0.30	0.55	0.85
Eurobonds due in 2028	US dollar	0.15	0.31	0.07	0.08	0.61
Eurobonds due in 2030 (issued in the course of the second restructuring of debt to the London Club of commercial bank creditors)	US dollar	1.11	3.21	3.98	4.48	12.79
Eurobonds due in 2042	US dollar	0.47	0.97	0.47	0.44	2.34
Eurobonds due in 2043	US dollar	—	—	0.12	0.10	0.21

Note. Tables 7, 9 to 17, and 22 are based on data as of 3 April 2014, while Table 23 is based on data as of 7 April 2014.

Table 8

INSTITUTIONALISED FINANCIAL INTERMEDIARIES (units)<sup>1</sup>

	1.01.2013	1.01.2014
Credit institutions with the right to conduct banking operations, total	956	923
of which:		
— banks	897	859
— non-bank credit institutions	59	64
Credit institutions with foreign stakes in authorised capital	244	251
Branches of credit institutions operating in Russia	2,349	2,005
Representative offices of operating Russian credit institutions	415	344
Insurance market entities	641	597
of which:		
— insurance companies	458	420
— mutual insurance companies	11	12
— insurance brokers	172	165
Credit and non-credit institutions licensed as professional securities market participants, total	1,231	1,149
of which:		
— brokers	956	885
— dealers	959	887
— trust managers	854	782
— depositories	639	615
— register holders	40	37
Clearing organisations	6	6
Exchanges <sup>2</sup>	0	8
Non-governmental pension funds	134	120
Unit investment funds <sup>3</sup> , total	1,547	1,571
of which:		
— open-end	450	466
— interval	73	58
— closed-end	1,024	1,047
Joint-stock investment funds	7	7
Management companies of investment funds, unit investment funds and non-governmental pension funds	409	401
Specialised depositories of investment funds, unit investment funds and non-governmental pension funds	43	44
Microfinance organisations		
Microfinance organisations	2,504	3,860
Self-regulatory organisations of microfinance organisations	0	2
Housing savings cooperatives	94	88
Credit consumer cooperatives		
Credit consumer cooperatives	3,225	3,602
Self-regulatory organisations of credit consumer cooperatives	10	10
Credit history bureaus	25	25
Rating agencies	8	9

<sup>1</sup> According to reporting data submitted to the Bank of Russia (to the Bank of Russia Financial Markets Service).

<sup>2</sup> In compliance with Article 29 of Federal Law No. 325-FZ, dated 21 November 2011, 'On Organised Trading', organisations having as of 1 January 2013 licences of securities market trade organisers, including stock exchange licences, should receive a licence stipulated by this law or terminate the trade organiser activity before 1 January 2014.

<sup>3</sup> Funds registered in the register of unit investment funds net of terminated funds.

Table 9

BALANCE OF PAYMENTS OF THE RUSSIAN FEDERATION<sup>1</sup> (analytical presentation, millions of US dollars)

	Q1	Q2	Q3	Q4	2013	Memo item: 2012
<b>Current account</b>	<b>24,302</b>	<b>1,080</b>	<b>-1,504</b>	<b>8,883</b>	<b>32,761</b>	<b>71,282</b>
Goods	48,012	42,275	42,814	47,214	180,314	191,663
<i>Export</i>	<i>125,150</i>	<i>127,291</i>	<i>131,052</i>	<i>139,801</i>	<i>523,294</i>	<i>527,434</i>
oil	43,243	40,742	43,997	45,688	173,670	180,930
oil products	25,525	29,330	27,067	27,414	109,335	103,624
natural gas	18,107	13,925	16,408	18,792	67,232	62,253
other	38,276	43,294	43,579	47,908	173,057	180,627
<i>Import</i>	<i>-77,138</i>	<i>-85,016</i>	<i>-88,238</i>	<i>-92,588</i>	<i>-342,980</i>	<i>-335,771</i>
Services	-10,521	-13,778	-19,857	-14,466	-58,622	-46,587
<i>Export</i>	<i>15,187</i>	<i>17,782</i>	<i>18,338</i>	<i>18,558</i>	<i>69,865</i>	<i>62,340</i>
transportation	4,505	5,328	5,582	5,331	20,747	19,161
travel	2,535	3,066	3,657	2,731	11,988	10,759
other services	8,147	9,389	9,099	10,496	37,130	32,421
<i>Import</i>	<i>-25,708</i>	<i>-31,560</i>	<i>-38,195</i>	<i>-33,023</i>	<i>-128,487</i>	<i>-108,927</i>
transportation	-3,684	-4,424	-4,712	-4,685	-17,505	-16,443
travel	-9,425	-13,530	-18,937	-11,560	-53,453	-42,798
other services	-12,600	-13,606	-14,546	-16,778	-57,530	-49,686
Compensation of employees	-2,892	-2,853	-3,552	-3,873	-13,170	-11,831
Investment income	-8,810	-23,313	-17,675	-16,873	-66,672	-56,838
Receivable	10,881	8,037	9,731	9,011	37,660	42,801
Payable	-19,691	-31,351	-27,406	-25,885	-104,332	-99,639
<i>General government</i>	<i>-379</i>	<i>-806</i>	<i>-652</i>	<i>-845</i>	<i>-2,682</i>	<i>-1,435</i>
Receivable	498	134	228	100	961	1,140
Payable	-877	-940	-880	-946	-3,643	-2,575
<i>Local government (payable)</i>	<i>-8</i>	<i>-8</i>	<i>-6</i>	<i>-34</i>	<i>-56</i>	<i>-59</i>
<i>Central bank</i>	<i>544</i>	<i>472</i>	<i>443</i>	<i>417</i>	<i>1,875</i>	<i>2,722</i>
Receivable	546	473	444	419	1,882	2,732
Payable	-2	-2	-2	-2	-7	-10

Cont.

	Q1	Q2	Q3	Q4	2013	Memo item: 2012
<i>Banks</i>	-1,980	-1,838	-2,100	-1,406	-7,325	-3,291
Receivable	2,492	2,959	2,490	3,247	11,188	11,265
Payable	-4,472	-4,797	-4,590	-4,653	-18,512	-14,555
<i>Other sectors<sup>2</sup></i>	-6,987	-21,133	-15,360	-15,005	-58,484	-54,775
Receivable	7,345	4,471	6,569	5,245	23,630	27,664
Payable	-14,332	-25,604	-21,928	-20,250	-82,113	-82,439
Rent	12	33	10	25	81	1,008
Secondary income	-1,499	-1,284	-3,244	-3,144	-9,171	-6,133
<b>Capital account</b>	<b>-3</b>	<b>-34</b>	<b>-232</b>	<b>-145</b>	<b>-415</b>	<b>-5,218</b>
<b>Balance from current and capital account</b>	<b>24,299</b>	<b>1,045</b>	<b>-1,736</b>	<b>8,738</b>	<b>32,346</b>	<b>66,065</b>
<b>Financial account (excluding reserve assets)</b>	<b>-12,619</b>	<b>-6,543</b>	<b>-4,109</b>	<b>-19,244</b>	<b>-42,514</b>	<b>-25,677</b>
<b>Net incurrence of liabilities ('+' — increase, '-' — decrease)</b>	<b>86,658</b>	<b>27,798</b>	<b>7,881</b>	<b>10,096</b>	<b>132,432</b>	<b>92,435</b>
<i>Federal government</i>	3,584	379	6,007	-474	9,496	16,021
Portfolio investment	3,704	592	6,179	-369	10,106	17,095
Issue	0	0	6,503	0	6,503	6,640
Redemption	-1,763	-639	-1,771	-607	-4,780	-3,676
principal	-627	0	-544	-5	-1,176	-1,135
coupons	-1,135	-639	-1,227	-603	-3,604	-2,541
Interest reinvestment	863	922	870	932	3,586	2,489
Secondary market	4,604	310	578	-694	4,797	11,643
Loans	-185	-185	-178	-131	-679	-1,024
Other liabilities	65	-28	6	26	70	-50
<i>Local government</i>	38	-73	-77	-37	-150	-231
<i>Central bank</i>	4,383	-494	-1,768	-1,616	506	3,608
<i>Banks</i>	7,325	9,175	-4,429	8,387	20,458	33,278
Direct investment	3,554	1,656	1,947	2,026	9,183	7,786
Loans and deposits	4,373	7,418	-3,302	8,678	17,167	29,215
Other liabilities	-603	101	-3,074	-2,317	-5,893	-3,723

End

	Q1	Q2	Q3	Q4	2013	Memo item: 2012
<i>Other sectors<sup>2</sup></i>	71,328	18,811	8,147	3,836	102,123	39,759
Direct investment	37,066	14,301	12,198	6,514	70,079	42,801
Portfolio investment	-1,208	-648	-3,187	-6,449	-11,492	-8,128
Loans	35,838	1,457	1,603	5,347	44,245	6,652
Other liabilities	-368	3,702	-2,467	-1,576	-709	-1,566
<b>Net acquisition of financial assets, excluding reserve assets (‘+’ — decrease, ‘-’ — increase)</b>	<b>-99,277</b>	<b>-34,340</b>	<b>-11,990</b>	<b>-29,340</b>	<b>-174,947</b>	<b>-118,111</b>
<i>General government</i>	-634	-1,234	457	-2,751	-4,163	418
Loans	-239	-229	53	78	-337	255
Other assets	-396	-1,005	403	-2,829	-3,826	163
<i>Central bank</i>	305	47	114	168	634	-46
<i>Banks</i>	-24,689	-13,551	15,299	-5,141	-28,081	-14,769
Direct investment	-311	-461	-458	-58	-1,288	-6,244
Loans and deposits	-21,694	-11,882	15,145	-7,156	-25,586	-19,404
Other assets	-2,684	-1,209	612	2,073	-1,207	10,878
<i>Other sectors<sup>2</sup></i>	-74,259	-19,602	-27,860	-21,616	-143,337	-103,714
Direct investment	-65,409	-5,799	-9,855	-12,547	-93,610	-42,546
Portfolio investment	280	-237	-839	-1,355	-2,151	-1,786
Cash foreign currency	1,904	1,992	-656	-2,974	266	-1,370
Trade credits and advances	-592	-4,336	-3,803	1,085	-7,646	-7,946
Indebtedness on supplies under intergovernmental agreements	479	620	-758	-1,412	-1,070	-1,928
Fictitious transactions <sup>3</sup>	-9,244	-8,021	-5,663	-3,162	-26,089	-38,816
Other assets	-1,678	-3,821	-6,287	-1,250	-13,037	-9,321
<b>Net errors and omissions</b>	<b>-6,734</b>	<b>1,053</b>	<b>-1,527</b>	<b>-4,702</b>	<b>-11,909</b>	<b>-10,371</b>
<b>Change in reserve assets (‘+’ — decrease, ‘-’ — increase)</b>	<b>-4,946</b>	<b>4,444</b>	<b>7,372</b>	<b>15,207</b>	<b>22,077</b>	<b>-30,017</b>

<sup>1</sup> The balance of payments is compiled on the basis of the methodology set out in the 6<sup>th</sup> edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). The use of signs corresponds to the 5<sup>th</sup> edition of the Balance of Payments Manual (BPM5).

<sup>2</sup> Other sectors include other financial corporations (except banks), non-financial corporations, households, and non-profit institutions servicing households.

<sup>3</sup> Fictitious transactions include fictitious operations related to trade in goods and services, securities trading, lending to non-residents and fictitious transactions with money transfers to residents' accounts abroad aimed at keeping cross-border cash flow.

Table 10

**PRIVATE SECTOR NET CAPITAL INFLOW (OUTFLOW)**  
(according to balance of payments data, billions of US dollars)

	Private sector net capital inflow (outflow), total	Banking sector net capital inflow (outflow)			Other sectors' net capital inflow (outflow)			
		total	of which		total	of which		
			foreign assets	foreign liabilities		foreign assets <sup>1</sup>	foreign liabilities	balance of payments net errors and omissions <sup>2</sup>
2005	-0.3	5.9	-13.4	19.2	-6.2	-56.4	55.2	-5.0
2006	43.7	27.5	-23.5	51.1	16.1	-56.3	61.2	11.2
2007	87.8	45.8	-25.1	70.9	42.0	-93.6	145.4	-9.7
2008	-133.6	-55.2	-63.3	8.1	-78.3	-174.2	98.9	-3.1
2009	-57.5	-32.2	10.0	-42.1	-25.3	-53.3	34.3	-6.4
2010	-30.8	15.9	-1.7	17.6	-46.7	-62.9	25.4	-9.1
2011	-81.4	-23.9	-31.8	7.8	-57.4	-107.7	58.9	-8.7
2012	-53.9	18.5	-14.8	33.3	-72.4	-101.8	39.8	-10.4
Q1	-33.6	-9.7	-10.2	0.4	-23.9	-28.0	10.4	-6.3
Q2	-4.6	11.6	4.7	6.9	-16.2	-19.9	6.0	-2.3
Q3	-7.6	7.7	-7.5	15.3	-15.3	-22.2	7.0	-0.1
Q4	-8.1	8.9	-1.8	10.7	-17.0	-31.8	16.4	-1.6
2013	-59.7	-7.6	-28.1	20.5	-52.1	-142.3	102.1	-11.9
Q1	-27.5	-17.4	-24.7	7.3	-10.1	-74.7	71.3	-6.7
Q2	-4.7	-4.4	-13.6	9.2	-0.4	-20.2	18.8	1.1
Q3	-9.6	10.9	15.3	-4.4	-20.5	-27.1	8.1	-1.5
Q4	-17.8	3.2	-5.1	8.4	-21.1	-20.2	3.8	-4.7

<sup>1</sup> Excluding debt for goods supplied under intergovernmental agreements.

<sup>2</sup> Net errors and omissions item fully relates to other sectors' operations. It is assumed that accounting for financial operations of these sectors is most complicated for balance of payments compilation.

Note: '-' signifies capital outflow, '+' signifies capital inflow.

Table 11

PRIVATE SECTOR NET CAPITAL INFLOW (OUTFLOW) BY TYPE OF INVESTMENT  
(according to balance of payments data, billions of US dollars)

	Q1	Q2	Q3	Q4	2013	Memo item: 2012
Direct investment	-25.1	9.7	3.8	-4.1	-15.6	1.8
Liabilities	40.6	16.0	14.1	8.5	79.3	50.6
Banks	3.6	1.7	1.9	2.0	9.2	7.8
Other sectors	37.1	14.3	12.2	6.5	70.1	42.8
Assets	-65.7	-6.3	-10.3	-12.6	-94.9	-48.8
Banks	-0.3	-0.5	-0.5	-0.1	-1.3	-6.2
Other sectors	-65.4	-5.8	-9.9	-12.5	-93.6	-42.5
Portfolio investment	-5.0	-0.3	-5.1	-8.3	-18.6	0.1
Liabilities	-0.7	1.5	-3.8	-6.7	-9.6	2.4
Banks	0.5	2.2	-0.6	-0.2	1.9	10.6
Other sectors	-1.2	-0.6	-3.2	-6.4	-11.5	-8.1
Assets	-4.3	-1.8	-1.3	-1.6	-9.0	-2.3
Banks	-4.5	-1.6	-0.4	-0.3	-6.8	-0.5
Other sectors	0.3	-0.2	-0.8	-1.4	-2.2	-1.8
Derivatives	-0.1	-0.3	-0.2	0.3	-0.3	-1.4
Liabilities	-2.3	-2.5	-2.1	-2.0	-8.8	-18.1
Banks	-1.9	-2.1	-1.9	-1.8	-7.7	-16.1
Other sectors	-0.3	-0.4	-0.3	-0.2	-1.2	-2.0
Assets	2.1	2.2	2.0	2.3	8.5	16.7
Banks	1.9	1.9	1.8	2.1	7.7	15.2
Other sectors	0.3	0.3	0.1	0.1	0.8	1.5
Other investment	9.4	-14.9	-6.7	-1.1	-13.2	-44.1
Liabilities	41.0	13.0	-4.5	12.3	61.8	38.1
Banks	5.2	7.5	-3.9	8.3	17.1	31.0
Other sectors	35.8	5.5	-0.6	4.0	44.7	7.0
Assets	-31.6	-27.9	-2.2	-13.4	-75.0	-82.2
Banks	-21.7	-13.4	14.4	-6.9	-27.7	-23.2
Other sectors <sup>1</sup>	-9.9	-14.4	-16.6	-6.4	-47.3	-59.0
Balance of payments net errors and omissions	-6.7	1.1	-1.5	-4.7	-11.9	-10.4
<b>Private sector net capital inflow (outflow), total</b>	<b>-27.5</b>	<b>-4.7</b>	<b>-9.6</b>	<b>-17.8</b>	<b>-59.7</b>	<b>-53.9</b>

<sup>1</sup> Excluding debt for goods supplied under intergovernmental agreements.

Note: '-' signifies capital outflow, '+' signifies capital inflow.



Table 12

CROSS-BORDER TRANSACTIONS OF INDIVIDUALS (RESIDENTS AND NON-RESIDENTS)<sup>1</sup>

	Q1	Q2	Q3	Q4	2013	Memo item: 2012
<b>Total, millions of US dollars</b>						
<b>Money transfers from the Russian Federation by individuals</b>	<b>11,698</b>	<b>13,894</b>	<b>15,287</b>	<b>18,112</b>	<b>58,991</b>	<b>48,588</b>
to non-CIS countries	7,936	8,593	8,557	12,180	37,264	29,384
to CIS countries	3,762	5,301	6,731	5,932	21,726	19,205
<b>Money transfers to the Russian Federation for the benefit of individuals</b>	<b>5,728</b>	<b>4,641</b>	<b>4,706</b>	<b>4,722</b>	<b>19,798</b>	<b>14,056</b>
from non-CIS countries	4,856	3,638	3,554	3,495	15,543	10,735
from CIS countries	872	1,003	1,152	1,227	4,255	3,321
<b>Balance<sup>2</sup></b>	<b>-5,970</b>	<b>-9,252</b>	<b>-10,581</b>	<b>-13,390</b>	<b>-39,193</b>	<b>-34,532</b>
with non-CIS countries	-3,079	-4,955	-5,003	-8,684	-21,721	-18,649
with CIS countries	-2,890	-4,298	-5,578	-4,705	-17,471	-15,884
<b>Average amount of transaction, US dollars</b>						
<b>Money transfers from the Russian Federation by individuals</b>	<b>876</b>	<b>803</b>	<b>760</b>	<b>706</b>	<b>771</b>	<b>837</b>
to non-CIS countries	4,894	5,327	5,057	1,298	2,604	3,877
to CIS countries	321	338	365	364	350	380
<b>Money transfers to the Russian Federation for the benefit of individuals</b>	<b>4,096</b>	<b>3,200</b>	<b>3,463</b>	<b>2,305</b>	<b>3,163</b>	<b>2,602</b>
from non-CIS countries	7,408	5,380	5,761	3,105	5,053	4,109
from CIS countries	1,174	1,296	1,553	1,329	1,336	1,191

<sup>1</sup> Money transfers to Russia for the benefit of resident and non-resident individuals and money transfers from Russia of resident and non-resident individuals made via credit institutions (with or without opening an account), including remittances via money transfer systems.

<sup>2</sup> Negative balance reflects excess in the amount of remittances from the Russian Federation over the amount of remittances to the Russian Federation.

Table 13

**NET INCURRENCE OF LIABILITIES BY RUSSIAN FEDERATION RESIDENTS BY TYPE OF INVESTMENT**  
(according to balance of payments data, billions of US dollars)

Type of investment	Q1	Q2	Q3	Q4	2013	Memo item: 2012
Direct	40.6	16.0	14.1	8.5	79.3	50.6
Portfolio	3.0	2.0	2.3	-7.0	0.4	19.3
Derivatives	-2.3	-2.5	-2.1	-2.0	-8.8	-18.1
Other	45.3	12.3	-6.5	10.6	61.6	40.6
<b>Total</b>	<b>86.7</b>	<b>27.8</b>	<b>7.9</b>	<b>10.1</b>	<b>132.4</b>	<b>92.4</b>

Note: '-' signifies decrease in residents' foreign liabilities.

Table 14

**NET ACQUISITION OF FINANCIAL ASSETS BY RUSSIAN FEDERATION RESIDENTS,  
EXCLUDING RESERVE ASSETS, BY TYPE OF INVESTMENT**  
(according to balance of payments data, billions of US dollars)

Type of investment	Q1	Q2	Q3	Q4	2013	Memo item: 2012
Direct	65.7	6.3	10.3	12.6	94.9	48.8
Portfolio	4.3	1.8	1.3	4.6	11.9	2.3
Derivatives	-2.1	-2.2	-2.0	-2.3	-8.5	-16.7
Other	31.4	28.4	2.3	14.4	76.6	83.7
<b>Total</b>	<b>99.3</b>	<b>34.3</b>	<b>12.0</b>	<b>29.3</b>	<b>174.9</b>	<b>118.1</b>

Note: '-' signifies decrease in residents' foreign assets.

Table 15

**RUSSIAN BANKING SECTOR INTERNATIONAL INVESTMENT POSITION STATEMENT**  
(millions of US dollars)

	Balance as of 1.01.2013	Transactions	Valuation changes	Other adjustments	Total changes	Balance as of 1.01.2014
	1	2	3	4	5	6
<b>Assets</b>	<b>246,847</b>	<b>28,081</b>	<b>694</b>	<b>-1,534</b>	<b>27,241</b>	<b>274,089</b>
<b>Direct investment</b>	<b>11,825</b>	<b>1,288</b>	<b>-473</b>	<b>57</b>	<b>873</b>	<b>12,697</b>
Equity (including reinvestment of earnings)	10,064	1,383	-424	128	1,087	11,151
Debt instruments	1,761	-95	-49	-71	-215	1,546
<b>Portfolio investment</b>	<b>34,888</b>	<b>6,815</b>	<b>-4,352</b>	<b>-243</b>	<b>2,219</b>	<b>37,107</b>
Equity	3,982	-654	-704	-16	-1,374	2,608
Debt securities	30,905	7,469	-3,648	-227	3,593	34,498
Short-term	1,277	-842	-88	10	-920	357
Long-term	29,628	8,311	-3,560	-238	4,513	34,141
<b>Derivatives</b>	<b>5,483</b>	<b>-7,677</b>	<b>8,122</b>	<b>0</b>	<b>445</b>	<b>5,928</b>
Options	1,120	81	276	0	358	1,477
Forward-type contracts	4,364	-7,758	7,846	0	88	4,451
<b>Other investment</b>	<b>194,652</b>	<b>27,655</b>	<b>-2,603</b>	<b>-1,348</b>	<b>23,705</b>	<b>218,356</b>
Foreign currency	6,049	-299	132	-56	-223	5,826
Current accounts and deposits	115,162	17,152	-1,796	-1,152	14,204	129,366
Short-term	81,108	7,448	-1,538	-962	4,948	86,055
Long-term	34,054	9,705	-258	-190	9,257	43,311
Loans	65,195	8,434	-1,182	447	7,700	72,895
Short-term	18,158	-2,764	-331	98	-2,996	15,161
Long-term	47,037	11,198	-850	349	10,696	57,734
Other accounts receivable	8,246	2,368	242	-587	2,023	10,270
Short-term	3,444	1,247	417	-469	1,196	4,640
Long-term	4,802	1,121	-175	-118	828	5,630

End

	Balance as of 1.01.2013	Transactions	Valuation changes	Other adjustments	Total changes	Balance as of 1.01.2014
	1	2	3	4	5	6
<b>Liabilities</b>	<b>271,251</b>	<b>20,458</b>	<b>-4,815</b>	<b>-1,873</b>	<b>13,769</b>	<b>285,021</b>
<b>Direct investment</b>	<b>35,883</b>	<b>9,183</b>	<b>-9,291</b>	<b>376</b>	<b>268</b>	<b>36,150</b>
Equity (including reinvestment of earnings)	33,880	7,320	-9,242	-317	-2,240	31,640
Debt instruments	2,003	1,863	-48	693	2,507	4,510
<b>Portfolio investment</b>	<b>40,641</b>	<b>1,867</b>	<b>-96</b>	<b>-50</b>	<b>1,721</b>	<b>42,362</b>
Equity	31,540	3,233	-171	32	3,094	34,633
Debt securities	9,102	-1,366	75	-82	-1,373	7,729
Short-term	4,266	-1,662	-3	0	-1,665	2,601
Long-term	4,836	296	78	-82	292	5,128
<b>Derivatives</b>	<b>4,265</b>	<b>-7,658</b>	<b>7,747</b>	<b>0</b>	<b>89</b>	<b>4,354</b>
Options	82	269	-3	0	265	347
Forward-type contracts	4,183	-7,927	7,750	0	-177	4,006
<b>Other investment</b>	<b>190,462</b>	<b>17,066</b>	<b>-3,175</b>	<b>-2,198</b>	<b>11,692</b>	<b>202,154</b>
Current accounts and deposits	185,376	16,142	-3,065	-2,001	11,075	196,451
Short-term	47,917	4,451	-1,380	-1,500	1,570	49,487
Long-term	137,459	11,691	-1,685	-501	9,506	146,964
Loans <sup>1</sup>	937	1,026	5	-67	963	1,901
Short-term	937	1,026	5	-67	963	1,901
Other accounts payable	4,149	-102	-115	-130	-347	3,803
Short-term	3,320	-412	-68	-84	-564	2,756
Long-term	830	310	-47	-46	217	1,047
<b>International investment position, net</b>	<b>-24,404</b>	<b>7,623</b>	<b>5,510</b>	<b>339</b>	<b>13,472</b>	<b>-10,932</b>

<sup>1</sup> Liabilities to non-residents which are not banks on reverse transactions, including securities repurchase agreements.

Notes.

1. The banking sector international investment position statement is compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

2. The table covers data compiled by credit institutions, excluding non-bank credit institutions, and Vnesheconombank.

3. Forward-type contracts include forwards, swaps and futures.

4. '+' in columns 2 to 5 denotes net growth in assets and liabilities, '-' denotes their net decrease.

5. Column 4 shows, inter alia, assets and liabilities of credit institutions that had their banking licences revoked in the period under review.

Table 16

**CURRENCY STRUCTURE OF RUSSIAN BANKING SECTOR FOREIGN ASSETS AND LIABILITIES (percent)**

	Foreign assets					Foreign liabilities				
	US dollar	euro	ruble	other currencies	total	US dollar	euro	ruble	other currencies	total
1.01.2002	80.6	6.6	4.5	8.3	100.0	75.5	5.1	17.7	1.7	100.0
1.01.2003	78.2	10.3	4.9	6.6	100.0	79.7	8.2	11.0	1.1	100.0
1.01.2004	76.0	11.4	6.0	6.6	100.0	80.5	5.5	12.7	1.3	100.0
1.01.2005	70.8	15.7	5.2	8.3	100.0	80.9	7.0	11.0	1.1	100.0
1.01.2006	76.2	14.1	3.9	5.8	100.0	85.0	7.0	7.0	1.0	100.0
1.01.2007	69.2	15.6	10.5	4.7	100.0	72.9	9.2	17.0	0.9	100.0
1.01.2008	66.5	17.2	11.7	4.6	100.0	67.5	10.2	20.9	1.4	100.0
1.04.2008	64.0	18.9	12.5	4.6	100.0	66.3	10.3	21.9	1.5	100.0
1.07.2008	63.0	19.1	13.1	4.8	100.0	64.3	11.5	22.6	1.6	100.0
1.10.2008	63.9	18.8	12.9	4.4	100.0	64.3	11.2	22.7	1.8	100.0
1.01.2009	62.6	20.1	13.7	3.6	100.0	67.0	13.5	17.4	2.1	100.0
1.04.2009	56.6	22.6	16.8	4.0	100.0	69.5	13.0	15.5	2.0	100.0
1.07.2009	55.2	22.6	17.6	4.6	100.0	66.9	13.6	17.5	2.0	100.0
1.10.2009	54.0	26.1	15.8	4.1	100.0	64.1	14.6	18.9	2.4	100.0
1.01.2010	56.2	23.3	16.4	4.1	100.0	62.3	15.1	20.0	2.6	100.0
1.04.2010	53.6	24.7	17.2	4.5	100.0	61.4	13.8	22.9	1.9	100.0
1.07.2010	60.9	18.1	15.9	5.1	100.0	62.5	12.5	22.8	2.2	100.0
1.10.2010	65.1	17.4	13.0	4.5	100.0	64.4	12.1	20.7	2.8	100.0
1.01.2011	63.8	16.4	15.0	4.8	100.0	65.5	10.6	20.9	3.0	100.0
1.04.2011	60.0	18.0	17.0	5.0	100.0	65.0	9.9	21.9	3.2	100.0
1.07.2011	60.8	18.6	16.6	4.0	100.0	64.5	9.4	22.8	3.4	100.0
1.10.2011	60.4	17.9	17.0	4.7	100.0	67.9	9.6	19.8	2.8	100.0
1.01.2012	59.9	16.9	18.7	4.5	100.0	66.1	11.0	20.1	2.8	100.0
1.04.2012	56.5	19.6	18.5	5.4	100.0	67.2	8.0	21.8	3.0	100.0
1.07.2012	59.6	17.5	17.9	5.1	100.0	70.3	7.3	19.9	2.5	100.0
1.10.2012	57.7	16.6	18.6	7.1	100.0	68.8	6.7	20.9	3.5	100.0

End

	Foreign assets					Foreign liabilities				
	US dollar	euro	ruble	other currencies	total	US dollar	euro	ruble	other currencies	total
1.01.2013	59.1	14.0	20.4	6.5	100.0	66.1	7.0	20.2	6.7	100.0
1.04.2013	62.3	14.4	17.5	5.8	100.0	66.3	7.9	19.3	6.5	100.0
1.07.2013	67.0	11.4	16.0	5.6	100.0	67.0	8.1	18.5	6.4	100.0
1.10.2013	65.2	12.0	16.2	6.5	100.0	67.9	8.6	17.7	5.9	100.0
1.01.2014	65.6	11.2	17.0	6.2	100.0	68.0	8.7	17.3	6.1	100.0

Note. Excluding data for derivatives.

Table 17

**RUSSIAN BANKING SECTOR FOREIGN ASSETS AND LIABILITIES BY GROUP OF COUNTRIES AS OF 1 JANUARY 2014**  
(millions of US dollars)

	Foreign assets						Foreign liabilities						Balance of foreign assets and liabilities		
	on interbank operations		on other operations		total		on interbank operations		on other operations		total		short-term	long-term	
	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term			
<b>Total</b>	<b>97,383</b>	<b>57,081</b>	<b>21,199</b>	<b>98,425</b>	<b>118,583</b>	<b>155,506</b>	<b>35,491</b>	<b>96,138</b>	<b>29,229</b>	<b>124,163</b>	<b>64,720</b>	<b>220,301</b>	<b>53,863</b>	<b>-64,795</b>	
of which:															
<b>CIS countries</b>	<b>5,023</b>	<b>10,378</b>	<b>1,307</b>	<b>5,785</b>	<b>6,330</b>	<b>16,163</b>	<b>2,446</b>	<b>1,452</b>	<b>1,687</b>	<b>1,244</b>	<b>4,133</b>	<b>2,696</b>	<b>2,197</b>	<b>13,467</b>	
of which:															
EurAsEC countries	3,079	3,771	996	2,597	4,075	6,368	1,377	574	792	625	2,169	1,199	1,906	5,169	
of which:															
Customs Union countries	3,012	3,770	856	2,553	3,868	6,324	1,072	543	507	433	1,579	976	2,289	5,347	
Other countries	1,944	6,607	311	3,188	2,255	9,795	1,069	878	896	619	1,965	1,497	291	8,299	
<b>Non-CIS countries</b>	<b>92,361</b>	<b>46,703</b>	<b>19,785</b>	<b>91,333</b>	<b>112,145</b>	<b>138,036</b>	<b>33,045</b>	<b>94,686</b>	<b>26,578</b>	<b>120,596</b>	<b>59,623</b>	<b>215,282</b>	<b>52,522</b>	<b>-77,245</b>	
of which:															
EU countries	56,877	40,540	16,358	76,915	73,234	117,456	22,501	60,421	17,446	110,543	39,947	170,965	33,288	-53,509	
APEC countries	29,013	1,140	1,335	2,543	30,349	3,684	3,467	29,741	1,819	6,675	5,287	36,416	25,062	-32,733	
Other countries	6,470	5,022	2,092	11,874	8,562	16,897	7,077	4,524	7,313	3,377	14,390	7,900	-5,827	8,996	
<b>International organisations</b>	<b>—</b>	<b>—</b>	<b>107</b>	<b>1,307</b>	<b>107</b>	<b>1,307</b>	<b>—</b>	<b>—</b>	<b>963</b>	<b>2,323</b>	<b>963</b>	<b>2,323</b>	<b>-856</b>	<b>-1,017</b>	
<b>Memo item</b>															
OECD countries	80,140	44,777	5,018	47,926	85,158	92,703	24,955	88,296	11,738	103,948	36,693	192,244	48,465	-99,542	

Table 18

## RUSSIA'S INTERNATIONAL RESERVES (billions of US dollars)

	2013												2014
	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.01
Reserve assets	537.6	532.2	526.2	527.7	533.2	518.4	513.8	512.8	509.7	522.6	524.3	515.6	509.6
Foreign currency assets	486.6	480.2	475.6	477.3	486.3	473.4	475.2	470.2	464.2	479.5	480.2	474.9	469.6
Monetary gold	51.0	52.0	50.5	50.4	46.9	45.0	38.5	42.6	45.5	43.1	44.0	40.6	40.0



Table 19

**RETURN<sup>1</sup> ON BANK OF RUSSIA FOREIGN EXCHANGE RESERVES IN 2013<sup>2</sup> (percent p.a.)**

	Actual	Standard
US dollar	0.25	0.26
Euro	0.04	0.03
Pound sterling	0.20	0.18
Yen	0.08	0.06
Canadian dollar	1.20	1.20
Australian dollar <sup>3</sup>	2.85	2.82

<sup>1</sup> Percentage change in the value of the portfolio during one business day.

The daily portfolio rate of return is calculated according to this formula:

$$R = \frac{MV_1 - MV_0 \pm CF}{MV_0}, \text{ where}$$

$R$  is the daily portfolio rate of return;

$MV_0$  is the market value of the portfolio as of the end of the previous day;

$MV_1$  is the market value of the portfolio as of the end of the day;

$CF$  is the cash flows in or out of the portfolio during the day.

<sup>2</sup> Cumulative portfolio rate of return is calculated on the basis of the chained indices method. The rate of return over period is calculated according to this formula:

$$R = (1 + R_1) * (1 + R_2) * \dots * (1 + R_n) - 1, \text{ where}$$

$R_i$  is the portfolio rate of return over day  $i$ .

<sup>3</sup> The foreign exchange reserve portfolio denominated in Australian dollars was created in the middle of 2010 and its rate of return is not representative.

Table 20

## BANK OF RUSSIA FOREIGN EXCHANGE INTERVENTIONS IN 2013

Reporting period	Bank of Russia US dollar operations, millions of US dollars				Bank of Russia euro operations, millions of euros			
	purchases		sales		purchases		sales	
	total	target	total	target	total	target	total	target
January	595.96	595.96	0.00	0.00	47.89	47.89	0.00	0.00
February	118.96	118.96	0.00	0.00	24.68	24.68	0.00	0.00
March	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
April	0.00	0.00	663.06	663.06	0.00	0.00	45.05	45.05
May	0.00	0.00	236.81	236.81	0.00	0.00	18.65	18.65
June	0.00	0.00	2,707.63	2,125.89	0.00	0.00	245.73	199.59
July	0.00	0.00	4,182.51	3,074.66	0.00	0.00	376.47	286.70
August	0.00	0.00	5,455.92	3,054.57	0.00	0.00	475.63	296.47
September	0.00	0.00	3,178.40	2,190.95	0.00	0.00	214.96	147.76
October	255.42	0.00	1,909.30	1,280.63	38.48	0.00	171.84	113.51
November	0.00	0.00	3,328.13	1,023.66	0.00	0.00	284.06	86.89
December	0.00	0.00	3,569.93	1,117.34	0.00	0.00	326.44	104.12

Table 21

## BASIC INDICATORS OF RUBLE'S EXCHANGE RATES IN 2013

	January	February	March	April	May	June	July	August	September	October	November	December
Nominal exchange rate of US dollar against ruble, end of period	30.03	30.62	31.08	31.26	31.59	32.71	32.89	33.25	32.35	32.06	33.19	32.73
Nominal exchange rate of US dollar against ruble, period averages	30.26	30.16	30.80	31.33	31.24	32.28	32.74	33.02	32.63	32.06	32.64	32.89
Nominal exchange rate of US dollar against ruble, period averages from the start of the year	30.26	30.21	30.40	30.63	30.75	31.00	31.24	31.46	31.59	31.64	31.73	31.82
Nominal exchange rate of euro against ruble, end of period	40.51	40.04	39.80	40.84	40.97	42.72	43.61	44.01	43.65	44.06	45.19	44.97
Nominal exchange rate of euro against ruble, period averages	40.26	40.39	39.95	40.75	40.57	42.58	42.82	43.96	43.52	43.73	44.06	45.03
Nominal exchange rate of euro against ruble, period averages from the start of the year	40.26	40.32	40.20	40.33	40.38	40.74	41.03	41.39	41.62	41.82	42.02	42.27
<b>Percent change over December 2012<sup>1</sup></b>												
Index of nominal exchange rate of ruble against US dollar	1.6	1.9	-0.2	-1.9	-1.6	-4.8	-6.1	-6.9	-5.8	-4.1	-5.8	-6.5
Index of nominal exchange rate of ruble against euro	0.1	-0.2	0.9	-1.1	-0.7	-5.4	-5.9	-8.3	-7.4	-7.9	-8.6	-10.5
Index of nominal effective exchange rate of ruble vis-a-vis foreign currencies	1.1	1.5	1.3	-0.4	0.1	-3.6	-4.2	-5.9	-4.7	-4.4	-5.3	-6.4
Index of real exchange rate of ruble against US dollar	2.3	2.4	0.3	-0.8	0.0	-3.0	-3.7	-4.5	-3.3	-0.7	-1.7	-2.0
Index of real exchange rate of ruble against euro	1.3	1.2	1.9	0.5	1.5	-2.9	-3.0	-5.4	-4.3	-4.1	-4.1	-5.9
Index of real effective exchange rate of ruble vis-a-vis foreign currencies	1.8	2.3	2.2	0.8	1.9	-1.5	-1.5	-3.2	-2.1	-1.5	-1.8	-2.8

End

	January	February	March	April	May	June	July	August	September	October	November	December
<b>Percent change over previous period<sup>1</sup></b>												
Index of nominal exchange rate of ruble against US dollar	1.6	0.3	-2.1	-1.7	0.3	-3.2	-1.4	-0.8	1.2	1.8	-1.8	-0.8
Index of nominal exchange rate of ruble against euro	0.1	-0.3	1.1	-2.0	0.4	-4.7	-0.6	-2.6	1.0	-0.5	-0.8	-2.2
Index of nominal effective exchange rate of ruble vis-a-vis foreign currencies	1.1	0.4	-0.1	-1.7	0.5	-3.6	-0.6	-1.8	1.2	0.3	-0.9	-1.2
Index of real exchange rate of ruble against US dollar	2.3	0.1	-2.0	-1.1	0.8	-3.1	-0.7	-0.9	1.3	2.6	-1.0	-0.3
Index of real exchange rate of ruble against euro	1.3	-0.1	0.8	-1.4	1.0	-4.4	0.0	-2.5	1.2	0.3	0.0	-1.9
Index of real effective exchange rate of ruble vis-a-vis foreign currencies	1.8	0.5	-0.1	-1.4	1.1	-3.3	0.0	-1.8	1.1	0.7	-0.3	-1.1
<b>Percent change over corresponding period of 2012<sup>1</sup></b>												
	January	January— February	January— March	January— April	January— May	January— June	January— July	January— August	January— September	January— October	January— November	January— December
Index of nominal exchange rate of ruble against US dollar	4.1	1.6	-0.5	-1.9	-1.9	-1.3	-1.2	-1.4	-1.7	-1.8	-2.0	-2.4
Index of nominal exchange rate of ruble against euro	1.2	-0.5	-1.3	-2.2	-2.3	-2.5	-3.1	-4.0	-4.3	-4.7	-5.0	-5.5
Index of nominal effective exchange rate of ruble vis-a-vis foreign currencies	2.6	1.0	-0.2	-1.1	-1.2	-0.9	-1.1	-1.6	-1.8	-2.0	-2.2	-2.6
Index of real exchange rate of ruble against US dollar	9.8	7.0	4.8	3.5	3.6	4.2	4.1	3.8	3.5	3.4	3.2	2.7
Index of real exchange rate of ruble against euro	6.1	4.4	3.6	2.8	2.7	2.5	1.8	0.8	0.4	0.0	-0.3	-0.8
Index of real effective exchange rate of ruble vis-a-vis foreign currencies	6.4	4.9	3.7	2.8	2.9	3.1	2.8	2.2	2.0	1.7	1.5	1.2

<sup>1</sup> '+' denotes appreciation of the Russian ruble vis-a-vis foreign currencies, '-' denotes depreciation of the Russian ruble vis-a-vis foreign currencies.

Table 22

## EXTERNAL DEBT OF THE RUSSIAN FEDERATION (millions of US dollars)

	1.01.2013	1.04.2013	1.07.2013	1.10.2013	1.01.2014
<b>Total</b>	<b>636,435</b>	<b>691,556</b>	<b>707,555</b>	<b>715,940</b>	<b>727,062</b>
<b>General government</b>	<b>54,426</b>	<b>57,495</b>	<b>55,950</b>	<b>62,695</b>	<b>61,761</b>
<b>Federal government</b>	<b>53,485</b>	<b>56,551</b>	<b>55,083</b>	<b>61,887</b>	<b>60,980</b>
<i>New Russian debt</i>	<i>51,334</i>	<i>54,420</i>	<i>53,017</i>	<i>59,802</i>	<i>58,944</i>
Multilateral creditors	2,027	1,880	1,771	1,631	1,566
<i>IBRD</i>	<i>1,611</i>	<i>1,473</i>	<i>1,382</i>	<i>1,251</i>	<i>1,206</i>
<i>Other</i>	<i>415</i>	<i>407</i>	<i>389</i>	<i>380</i>	<i>360</i>
Other credits	321	249	223	179	157
Foreign currency bonds	24,661	23,894	23,607	28,876	27,821
<i>Eurobonds due in 2015, 2017, 2018, 2019, 2020, 2022, 2023, 2028, 2042 and 2043</i>	<i>11,146</i>	<i>10,953</i>	<i>10,354</i>	<i>16,054</i>	<i>15,404</i>
<i>Eurobonds due in 2030 (issued in the course of the second restructuring of debt to the London Club of commercial bank creditors)</i>	<i>13,514</i>	<i>12,941</i>	<i>13,254</i>	<i>12,822</i>	<i>12,417</i>
Ruble-denominated bonds	24,018	28,028	27,074	28,764	29,023
<i>OFZ</i>	<i>21,582</i>	<i>25,691</i>	<i>25,023</i>	<i>26,860</i>	<i>27,325</i>
<i>Eurobonds due in 2018</i>	<i>2,436</i>	<i>2,337</i>	<i>2,051</i>	<i>1,904</i>	<i>1,699</i>
Other	307	369	342	350	377
<i>Debt of former USSR</i>	<i>2,151</i>	<i>2,131</i>	<i>2,066</i>	<i>2,085</i>	<i>2,036</i>
Paris Club member countries	6	6	5	5	—
Debt owed to former socialist countries	1,004	983	954	973	964
Other official creditors	1,096	1,096	1,061	1,061	1,026
Other	46	46	46	46	46
<b>Local government</b>	<b>941</b>	<b>945</b>	<b>867</b>	<b>808</b>	<b>781</b>
Loans	564	546	557	574	559
Ruble-denominated bonds	377	398	311	233	222

End

	1.01.2013	1.04.2013	1.07.2013	1.10.2013	1.01.2014
<b>Central bank</b>	<b>15,639</b>	<b>19,545</b>	<b>18,968</b>	<b>17,591</b>	<b>16,058</b>
Loans	2,986	6,951	5,962	3,848	1,827
Currency and deposits	3,935	4,090	4,475	5,041	5,494
Other (cumulative SDR allocations)	8,718	8,504	8,531	8,702	8,736
<b>Banks</b>	<b>201,567</b>	<b>205,864</b>	<b>211,923</b>	<b>207,084</b>	<b>214,394</b>
Debt liabilities to direct investors and to direct investment enterprises	2,003	3,232	4,920	4,591	4,510
Loans	937	497	946	924	1,901
Demand and term deposits	185,376	188,390	192,843	189,489	196,451
Debt securities	9,102	8,842	8,426	7,908	7,729
Other	4,149	4,902	4,788	4,173	3,803
<b>Other sectors</b>	<b>364,803</b>	<b>408,651</b>	<b>420,714</b>	<b>428,570</b>	<b>434,849</b>
Debt liabilities to direct investors and to direct investment enterprises	118,223	129,029	139,973	147,585	151,323
Loans	230,512	263,123	261,324	264,295	268,098
Debt securities	9,605	10,081	9,000	8,585	8,756
Commercial loans	2,932	2,889	2,844	3,033	3,115
Financial leases	2,238	2,228	2,233	2,177	2,105
Other	1,293	1,301	5,340	2,894	1,453

*Notes.*

- 1. Included is the external debt in both domestic and foreign currencies.*
- 2. Government securities are accounted for in the part of the debt owed to non-residents at face value.*
- 3. The external debt data are compiled on the basis of the methodology set out in the 6<sup>th</sup> edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).*
- 4. Data on the banking sector include Vnesheconombank data.*

Table 23

## EXTERNAL DEBT OF THE RUSSIAN FEDERATION (analytical presentation, millions of US dollars)

	1.01.2013	1.04.2013	1.07.2013	1.10.2013	1.01.2014
<b>External debt of the Russian Federation</b>	<b>636,435</b>	<b>691,556</b>	<b>707,555</b>	<b>715,940</b>	<b>727,062</b>
Short-term	81,493	84,777	91,320	82,093	83,961
Long-term	554,942	606,779	616,235	633,847	643,101
<b>Public sector external debt<sup>1</sup></b>	<b>298,935</b>	<b>355,064</b>	<b>365,872</b>	<b>371,627</b>	<b>376,032</b>
Short-term	28,953	36,541	39,479	33,746	34,940
Long-term	269,982	318,523	326,393	337,882	341,092
<b>General government</b>	<b>54,426</b>	<b>57,495</b>	<b>55,950</b>	<b>62,695</b>	<b>61,761</b>
Short-term	300	361	334	343	370
Long-term	54,126	57,134	55,616	62,352	61,391
<b>Central bank</b>	<b>15,639</b>	<b>19,545</b>	<b>18,968</b>	<b>17,591</b>	<b>16,058</b>
Short-term	6,921	11,041	10,437	8,889	7,322
Long-term	8,718	8,504	8,531	8,702	8,736
<b>Banks</b>	<b>115,372</b>	<b>124,769</b>	<b>129,557</b>	<b>127,666</b>	<b>133,037</b>
Short-term	21,045	24,517	26,544	23,625	26,560
Long-term	94,328	100,252	103,013	104,041	106,478
<b>Other sectors</b>	<b>113,497</b>	<b>153,254</b>	<b>161,397</b>	<b>163,676</b>	<b>165,175</b>
Short-term	688	621	2,164	889	689
Long-term	112,810	152,633	159,233	162,787	164,487
<b>Private sector external debt<sup>1</sup></b>	<b>337,500</b>	<b>336,492</b>	<b>341,684</b>	<b>344,312</b>	<b>351,030</b>
Short-term	52,540	48,236	51,842	48,347	49,021
Long-term	284,960	288,255	289,842	295,965	302,009
<b>Banks</b>	<b>86,194</b>	<b>81,095</b>	<b>82,367</b>	<b>79,418</b>	<b>81,356</b>
Short-term	35,396	29,946	31,078	27,931	30,185
Long-term	50,799	51,150	51,289	51,488	51,171
<b>Other sectors</b>	<b>251,306</b>	<b>255,396</b>	<b>259,317</b>	<b>264,894</b>	<b>269,674</b>
Short-term	17,144	18,291	20,764	20,417	18,836
Long-term	234,162	237,106	238,553	244,477	250,838

<sup>1</sup> Public sector external debt covers liabilities of the general government, central bank, and banks and non-bank corporations in which the government and the central bank hold, directly or indirectly, 50% or more of shares or control them through other means. Liabilities to non-residents owed by other residents, which do not fall under this definition, are classified as private sector external debt.

Note. Included is the external debt in both domestic and foreign currencies.

Table 24

## MONEY SUPPLY (NATIONAL DEFINITION) AND ITS STRUCTURE

	As of 1.01.2013		As of 1.01.2014		1.01.2014 as a percentage of 1.01.2013
	billions of rubles	percent	billions of rubles	percent	
<b>Money supply (M2), total</b>	<b>27,405.4</b>	<b>100.0</b>	<b>31,404.7</b>	<b>100.0</b>	<b>114.6</b>
of which:					
— cash in circulation (M0) <sup>1</sup>	6,430.1	23.5	6,985.6	22.2	108.6
— cashless funds	20,975.3	76.5	24,419.1	77.8	116.4
of which:					
— funds of non-financial and financial organisations <sup>2</sup>	9,250.0	33.8	10,564.6	33.6	114.2
— household deposits	11,725.3	42.8	13,854.5	44.1	118.2

<sup>1</sup> Cash in circulation outside the banking system.

<sup>2</sup> Except credit institutions.

Table 25

## MONETARY BASE AND ITS STRUCTURE

	As of 1.01.2013		As of 1.01.2014		1.01.2014 as a percentage of 1.01.2013
	billions of rubles	percent	billions of rubles	percent	
<b>Monetary base (broad definition)</b>	<b>9,852.8</b>	<b>100.0</b>	<b>10,503.9</b>	<b>100.0</b>	<b>106.6</b>
of which:					
— cash in circulation, including balances in credit institutions' cash vaults <sup>1</sup>	7,667.7	77.8	8,307.5	79.1	108.3
— credit institutions' correspondent accounts with the Bank of Russia <sup>2</sup>	1,356.3	13.8	1,270.0	12.1	93.6
— required reserves <sup>3</sup>	425.6	4.3	408.8	3.9	96.1
— credit institutions' deposits with the Bank of Russia	403.3	4.1	517.6	4.9	128.4

<sup>1</sup> Excluding cash in Bank of Russia establishments' cash vaults as well as coins made of precious metals in circulation.

<sup>2</sup> Balances of ruble-denominated accounts, including the average amount of required reserves.

<sup>3</sup> Balances of required reserve accounts deposited by credit institutions with the Bank of Russia on funds attracted in rubles and foreign currency.



Table 26

## BANK OF RUSSIA INTEREST RATES IN 2013 (percent p.a.)

Purpose	Type of instrument	Instrument	Maturity	As of 1.01.2013	Rate from:			
					3.04.2013	16.05.2013	11.06.2013	16.09.2013
Liquidity provision	Standing facilities (fixed rates)	Overnight loans	1 day	8.25	8.25	8.25	8.25	6.50
		FX swap (ruble rate)	1 day	6.50	6.50	6.50	6.50	6.50
		Lombard loans, REPO	1 day, 1 week <sup>1</sup>	6.50	6.50	6.50	6.50	6.50
		Lombard loans	30 days <sup>1</sup>	6.50	6.50	6.50	6.50	6.50
		REPO	12 months <sup>1</sup>	8.00	7.75	7.50	7.25	7.25
		Loans secured with gold	Up to 90 days	7.00	6.75	6.50	6.50	6.50
			From 91 to 180 days	7.50	7.25	7.00	7.00	7.00
			From 181 to 365 days	8.00	7.75	7.50	7.25	7.25
		Loans secured with non-marketable assets or guarantees	1 day	7.25	7.00	6.75	6.75	6.50
			From 2 to 90 days	7.25	7.00	6.75	6.75	6.75
	From 91 to 180 days		7.75	7.50	7.25	7.25	7.25	
	From 181 to 365 days		8.25	8.00	7.75	7.50	7.50	
	Open market operations (minimum interest rates)	REPO auctions	1 day	5.50	5.50	5.50	5.50	5.50
		Auctions to provide loans secured with non-marketable assets <sup>2</sup>	3 months	—	—	—	—	5.75
		Auctions to provide loans secured with non-marketable assets or guarantees <sup>2</sup>	12 months	—	—	—	5.75 <sup>3</sup>	5.75
		Lombard and REPO auctions	1 week	5.50	5.50	5.50	5.50	5.50
			3 months	7.00	6.75	6.50	6.50	6.50
6 months <sup>1</sup>			7.50	7.25	7.00	7.00	7.00	
12 months	8.00		7.75	7.50	7.25	7.25		

End

Purpose	Type of instrument	Instrument	Maturity	As of 1.01.2013	Rate from:			
					3.04.2013	16.05.2013	11.06.2013	16.09.2013
Liquidity absorption	Open market operations (maximum interest rates)	Deposit auctions	1 week	5.00	5.00	5.00	5.00	5.50
			1 month <sup>1</sup>	5.75	5.75	5.75	5.75	5.75
			3 months <sup>1</sup>	6.75	6.75	6.50	6.50	6.50
	Standing facilities (fixed rates)	Deposit operations	1 day, 1 week <sup>1</sup> , 1 month and call	4.50	4.50	4.50	4.50	4.50
<b>Memo item</b>								
Refinancing rate				8.25	8.25	8.25	8.25	8.25

<sup>1</sup> Operations were suspended.

<sup>2</sup> Loans provided at a floating interest rate pegged to the Bank of Russia key rate.

<sup>3</sup> The interest rate was set from 15 July 2013.

Table 27

## BANK OF RUSSIA OPERATIONS TO PROVIDE AND ABSORB LIQUIDITY AND CHANGE IN DEBT ON THEM (billions of rubles)

Purpose	Type of instrument	Instrument	Operations in		Change in debt in	
			2012	2013	2012	2013
Liquidity provision	Standing facilities (fixed rates)	Intraday loans	52,673.7	57,773.1	—	—
		Overnight loans	172.3	146.5	-2.4	0.0
		REPO	1,816.5	576.7	1.5	12.6
		Lombard loans	52.7	15.2	-1.1	0.8
		FX swaps	2,607.4	12,809.0	267.8	10.3
		Loans secured with non-marketable assets or guarantees	1,520.4	1,097.3	268.0	52.1
		Loans secured with gold	2.2	2.1	0.5	-0.1
	Open market operations	REPO auctions	88,029.4	145,535.2	1,269.4	1,089.8
		Lombard auctions	158.6	209.7	-0.4	0.0
		Loans secured with non-marketable assets or guarantees	—	806.8	—	590.2
Operations to buy government securities by the Bank of Russia		—	—	—	—	
Liquidity absorption	Standing facilities (fixed rates)	Fixed-rate deposits	25,906.0	20,555.5	32.1	114.3
	Open market operations	Deposit auctions	89.9	0.0	-17.2	0.0
		Operations with Bank of Russia bonds <sup>1</sup>	—	—	—	—
		Operations to sell government securities from Bank of Russia portfolio	—	—	—	—

<sup>1</sup> Placement at market value.

Table 28

## BANKING SECTOR SURVEY (billions of rubles)

	1.01.2013	1.01.2014	1.01.2014 as a percentage of 1.01.2013
Net foreign assets	17,314.4	18,180.0	105.0
Claims on non-residents	23,722.4	25,527.7	107.6
Obligations to non-residents	6,408.0	7,347.7	114.7
Domestic claims	26,579.4	32,234.1	121.3
Net claims on government	-5,201.6	-5,006.7	—
Claims on government	3,229.7	3,888.9	120.4
Obligations to government	8,431.2	8,895.6	105.5
Claims on other sectors	31,781.0	37,240.8	117.2
Other financial organisations	1,488.9	1,746.8	117.3
Non-financial government organisations	385.2	442.9	115.0
Other non-financial organisations	21,493.9	24,256.0	112.9
Households	8,413.0	10,795.2	128.3
Obligations included in broad money	32,226.4	37,271.9	115.7
Cash outside banking system	6,430.1	6,985.6	108.6
Transfer deposits	7,323.5	8,551.0	116.8
Other financial organisations	372.5	539.6	144.9
Non-financial government organisations	542.5	691.4	127.4
Other non-financial organisations	3,823.2	4,304.3	112.6
Households	2,585.3	3,015.7	116.6
Other deposits	18,472.8	21,735.3	117.7
Other financial organisations	1,239.8	1,398.4	112.8
Non-financial government organisations	209.8	174.3	83.1
Other non-financial organisations	5,472.8	6,477.3	118.4
Households	11,550.4	13,685.3	118.5
Deposits not included in broad money	573.1	853.8	149.0
Securities other than shares not included in broad money	1,120.0	1,411.2	126.0
Shares and other stakeholdings in capital	8,753.0	9,916.2	113.3
Other items (net)	1,221.4	961.0	78.7
Other liabilities	5,053.0	5,800.0	114.8
Other assets	3,482.2	4,350.2	124.9
Consolidating correction	-349.4	-488.8	—

Note. In Tables 28 and 29 data as of 1 January 2013 are provided as of 7 October 2013.

Table 29

## SURVEY OF CREDIT INSTITUTIONS (billions of rubles)

	1.01.2013	1.01.2014	1.01.2014 as a percentage of 1.01.2013
Net foreign assets	1,218.1	1,769.2	145.2
Claims on non-residents	7,268.9	8,769.7	120.6
Foreign currency	183.9	192.0	104.4
Deposits	3,537.7	4,391.9	124.1
Securities other than shares	923.3	1,179.3	127.7
Loans	2,056.4	2,470.8	120.2
Other	567.6	535.7	94.4
Obligations to non-residents	6,050.8	7,000.5	115.7
Deposits	5,743.3	6,717.9	117.0
Securities other than shares	237.1	210.1	88.6
Loans	33.8	70.3	208.0
Other	36.6	2.3	6.3
Claims on the central bank	3,423.0	3,516.4	102.7
Cash foreign currency	1,237.6	1,321.9	106.8
Deposits	2,185.4	2,194.5	100.4
Securities other than shares	0.0	0.0	—
Net claims on government	1,298.1	2,244.4	172.9
Claims on government	2,859.0	3,524.3	123.3
Securities	2,306.6	2,685.0	116.4
Other claims	552.4	839.2	151.9
Obligations to government	1,560.8	1,279.9	82.0
Deposits	1,533.8	1,252.0	81.6
Other obligations	27.0	27.9	103.3
Claims on other sectors	31,432.3	36,927.3	117.5
Other financial organisations	1,142.0	1,435.0	125.7
Non-financial government organisations	385.2	442.9	115.0
Other non-financial organisations	21,492.1	24,254.3	112.9
Households	8,413.0	10,795.2	128.3
Obligations to the central bank	3,006.2	4,744.6	157.8
Deposits included in broad money	25,754.2	30,177.8	117.2
Transfer deposits	7,281.4	8,442.4	115.9
Other financial organisations	351.4	461.8	131.4
Non-financial government organisations	522.0	661.2	126.7
Other non-financial organisations	3,822.7	4,303.6	112.6
Households	2,585.3	3,015.7	116.6
Other deposits	18,472.8	21,735.3	117.7
Other financial organisations	1,239.8	1,398.4	112.8
Non-financial government organisations	209.8	174.3	83.1
Other non-financial organisations	5,472.8	6,477.3	118.4
Households	11,550.4	13,685.3	118.5

*End*

	1.01.2013	1.01.2014	1.01.2014 as a percentage of 1.01.2013
Deposits not included in broad money	573.1	853.8	149.0
Securities other than shares not included in broad money	1,120.0	1,411.2	126.0
Shares and other stakeholdings in capital	6,028.5	6,764.3	112.2
Other items (net)	889.5	505.6	56.8
Other liabilities	4,360.8	4,978.4	114.2
Other assets	3,183.5	4,052.8	127.3
Consolidating correction	-287.7	-420.0	—

Table 30

## CORRECTIVE MEASURES TAKEN AGAINST CREDIT INSTITUTIONS IN 2013

No.	Description of measures	Number of credit institutions
<b>Preventive measures</b>		
1	Notifying in writing management and/or board of directors (supervisory board) of a credit institution on shortcomings in its work, and recommending remedial action	896
2	Calling a meeting	524
3	Other (recommendations to draw up a plan of remedial actions, tighten control over reporting, make a realistic assessment of credit risks, avoid misstatements in reports, etc.)	380
<b>Punitive measures</b>		
4	Fines <sup>1</sup>	171
	of which:	
4.1	for non-compliance with reserve requirements	31
4.2	for breaches of federal laws and Bank of Russia rules and regulations issued in pursuance of these laws and for non-reporting, under-reporting, or false reporting	145
5	Restrictions on individual banking operations conducted by credit institutions <sup>1</sup>	194
	of which:	
5.1	taking household funds on deposit	92
5.2	settlements on behalf of corporate entities relating to transfer of funds to budgets of all levels and government extra-budgetary funds	8
5.3	opening bank accounts to corporate entities and households	80
5.4	interest rate on bank deposit agreements concluded (prolongated) in the restriction period	16
6	Prohibiting credit institutions from conducting certain banking operations <sup>1</sup>	45
	of which:	
6.1	taking household funds on deposit	25
6.2	opening bank accounts to households, including unallocated metal accounts (demand and time accounts)	21
6.3	other	41
	<b>Memo item:</b> Bans on taking household funds on deposit and opening bank accounts to households imposed on credit institutions pursuant to Article 48 of Federal Law No. 177-FZ, dated 23 December 2003	2
7	Prescriptive orders <sup>1</sup>	574
	of which:	
7.1	orders to comply with Bank of Russia required ratios	6
7.2	orders to replace persons whose positions are indicated in Article 60 of Federal Law No. 86-FZ, dated 10 July 2002	3
7.3	orders to reclassify receivables	344
7.4	orders to build up loan loss provisions	378
8	Prohibiting credit institutions from opening branches	51
9	Appointing provisional administrations to credit institutions without revoking their licences	— <sup>2</sup>
10	Banking licence revocation	32

<sup>1</sup> The number of credit institutions indicated under points 4 to 7 differs from the sub-points total, as in some cases banks have been subjected to several corrective actions and placed under several sub-points.

<sup>2</sup> In 2013, the Deposit Insurance Agency state corporation was vested with the powers of provisional administration at two banks.

As of 1 January 2014, a ban on carrying out settlements on behalf of corporate entities, such as transferring funds to budgets of all levels and government extra-budgetary funds, was in effect with regard to three credit institutions.

As of 1 January 2014, there were no credit institutions with a backlog of non-executed settlement documents on payments to budgets of all levels.

Table 31

## STRUCTURE OF BANK OF RUSSIA BANKNOTES IN CIRCULATION

Denomination, rubles	Total in circulation, millions of rubles		Percent of 1.01.2013	Share, percent	
	as of 1.01.2013	as of 1.01.2014		as of 1.01.2013	as of 1.01.2014
5,000	4,790,626.6	5,523,593.7	115.3	62.9	67.0
1,000	2,230,522.3	2,163,714.2	97.0	29.3	26.2
500	441,356.4	403,241.7	91.4	5.8	4.9
100	115,158.7	118,483.8	102.9	1.5	1.4
50	32,369.2	32,310.5	99.8	0.4	0.4
10	6,145.5	5,202.9	84.7	0.1	0.1
5	35.6	35.6	100.0	0.0	0.0
<b>Total balance sheet number of banknotes of 1997</b>	<b>7,616,214.3</b>	<b>8,246,582.4</b>	<b>108.3</b>	<b>100.0</b>	<b>100.0</b>

Table 32

STRUCTURE OF BANK OF RUSSIA COINS IN CIRCULATION<sup>1</sup>

Denomination	Total in circulation, millions of rubles		Percent of 1.01.2013	Share, percent	
	as of 1.01.2013	as of 1.01.2014		as of 1.01.2013	as of 1.01.2014
1 kopeck	72.7	72.7	100.0	0.1	0.1
5 kopecks	288.3	288.2	100.0	0.5	0.4
10 kopecks	2,176.7	2,298.1	105.6	3.7	3.4
50 kopecks	2,798.7	3,073.1	109.8	4.7	4.5
1 ruble	5,872.6	6,240.7	106.3	9.9	9.1
2 rubles	5,056.8	5,416.0	107.1	8.5	7.9
5 rubles	10,341.0	10,781.1	104.3	17.5	15.8
10 rubles	32,301.5	39,173.0	121.3	54.6	57.2
25 rubles	264.4	1,092.7	413.3	0.5	1.6
<b>Total balance sheet number of coins of 1997</b>	<b>59,172.7</b>	<b>68,435.6</b>	<b>115.6</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Excluding coins made of precious metals.



Table 33

## NATIONAL PAYMENT SYSTEM KEY INDICATORS

	2012	2013
<b>National payment system participants<sup>1</sup></b>		
Number of money transfer operators	954	922
of which:		
— Bank of Russia	1	1
— Vnesheconombank	1	1
— credit institutions	952	920
Number of payment system operators	20	30
of which:		
— Bank of Russia	1	1
— credit institutions	12	19
— organisations other than credit institutions	7	10
Number of operators of payment infrastructure services		
— operating centres	23	34
— payment clearing centres	21	31
— settlement centres	22	26
Number of e-money operators	38	82
FSUE Russian Post	1	1
<b>Memo item</b>		
Number of Bank of Russia establishments	505	439
Number of branches of credit institutions	2,349	2,005
Number of internal divisions of credit institutions (branches)	42,641	43,231
of which:		
— additional offices	23,347	24,486
— operations offices	7,447	8,436
Number of post offices of FSUE Russian Post <sup>2</sup>	41,556	41,420
Number of payment systems operating in the Russian Federation	20	31
of which:		
— Bank of Russia payment system	1	1
— payment systems registered by the Bank of Russia	19	30
<b>Payments effected by national payment system<sup>3</sup></b>		
Number of payments <sup>4</sup> , million	3,771.3	4,200.4
Volume of payments, trillions of rubles	1,591.0	1,929.5
<b>Money transfer operators — credit institutions</b>		
Number of payments effected using cashless payment instruments by credit institutions and their customers other than credit institutions <sup>5</sup> , million	4,056.8	4,436.2
of which:		
— credit transfers <sup>6</sup>	2,516.2	2,639.9
— direct debits <sup>7</sup>	82.1	84.8
— other payment instruments <sup>8</sup>	1,458.5	1,711.5
Volume of payments effected using cashless payment instruments by credit institutions and their customers other than credit institutions <sup>5</sup> , trillions of rubles	401.5	462.9
of which:		
— credit transfers <sup>6</sup>	395.2	450.1
— direct debits <sup>7</sup>	1.3	7.4
— other payment instruments <sup>8</sup>	5.0	5.4

End

	2012	2013
Number of payment cards issued by Russian credit institutions <sup>1</sup> , million	191.5	217.5
of which:		
— debit cards	169.0	188.3
— credit cards	22.5	29.2
Number of payment card operations in Russia and abroad <sup>9</sup> , million	5,718.6	7,744.7
of which:		
— debit cards	5,402.9	7,181.9
— credit cards	315.7	562.8
Volume of payment card operations in Russia and abroad <sup>9</sup> , trillions of rubles	23.4	29.6
of which:		
— debit cards	22.5	28.3
— credit cards	0.9	1.3
<b>E-money transfer operators</b>		
Number of electronic payment instruments to transfer e-money used since start of year, million	—	304.1
Number of operations using electronic payment instruments to transfer e-money, million	—	338.2
Volume of operations using electronic payment instruments to transfer e-money, billions of rubles	—	428.6
<b>FSUE Russian Post<sup>2</sup></b>		
Number of money orders and household payments accepted by FSUE Russian Post as a payment agent, million	711.8	651.0
Volume of money orders and household payments accepted by FSUE Russian Post as a payment agent, billions of rubles	626.7	582.2
<b>Payment agents and bank payment agents</b>		
Number of accounts opened with credit institutions for payment agents and bank payment agents <sup>1</sup> , thousand	—	32.1
of which:	—	
— payment agents	—	29.6
— bank payment agents	—	2.5
Volume of operations effected through payment agents and bank payment agents, billions of rubles	974.6	1,203.6
of which:		
— payment agents	872.2	1,062.1
— bank payment agents	102.4	141.5

<sup>1</sup> As of end of year.

<sup>2</sup> According to data of FSUE Russian Post.

<sup>3</sup> Including ruble payments from accounts of customers of the Bank of Russia and credit institutions (individuals, credit institutions and corporate entities other than credit institutions, including FSUE Russian Post); own payments of the Bank of Russia and credit institutions; and remittances without opening an account of an individual payer. Excluding payments using payment cards and operations in financial markets by customers of credit institutions.

<sup>4</sup> Orders of customers of credit institutions are accounted for in cumulative orders of credit institutions.

<sup>5</sup> In compliance with the methodological recommendations of the Bank for International Settlements.

<sup>6</sup> Including payments effected using payment orders and letters of credit as well as remittances without opening a bank account.

<sup>7</sup> Including payments effected using payment requests and collection orders.

<sup>8</sup> Including payments effected using cheques and bank orders.

<sup>9</sup> Including operations to withdraw cash, pay for goods and services, customs payments and other operations (for example, payments from one bank account to another) using payment cards issued by Russian credit institutions.

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2012.

Table 34

## BANK OF RUSSIA PAYMENT SYSTEM

	2012	2013
Number of customers served <sup>1</sup>	8,887	6,495
of which:		
— credit institutions	963	931
— branches of credit institutions	1,953	1,760
— customers other than credit institutions	5,971	3,804
Number of remittances effected, million	1,259.0	1,341.2
of which:		
— by credit institutions (branches)	1,068.0	1,147.0
— by customers other than credit institutions	190.2	193.5
— by Bank of Russia divisions	0.8	0.7
including via settlement systems:		
— via the intraregional settlement system	923.4	934.6
— via the interregional settlement system	333.9	404.3
— via the BESP system	1.2	2.1
— settlements effected on paper using letters of advice	0.5	0.2
Volume of remittances effected, trillions of rubles	1,150.5	1,224.9
of which:		
— by credit institutions (branches)	879.7	955.4
— by customers other than credit institutions	94.1	107.4
— by Bank of Russia divisions	176.7	162.1
including via settlement systems:		
— via the intraregional settlement system	599.2	604.4
— via the interregional settlement system	103.5	116.3
— via the BESP system	447.3	504.1
— settlements effected on paper using letters of advice	0.5	0.1
Total number of customers exchanging electronic messages <sup>1</sup>	4,875	4,005
of which:		
— credit institutions (branches)	2,859	2,653
— Federal Treasury bodies	224	192
— customers other than credit institutions	1,792	1,160

<sup>1</sup> As of end of year.

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2012.

Table 35

## STRUCTURE OF BANK OF RUSSIA CUSTOMERS OTHER THAN CREDIT INSTITUTIONS AND NUMBER OF ACCOUNTS OPENED FOR THEM (thousand)

	Number of customers			Number of accounts		
	as of 1.01.2013	as of 1.01.2014	change over 2013	as of 1.01.2013	as of 1.01.2014	change over 2013
<b>Total</b>	<b>6.0</b>	<b>3.8</b>	<b>-2.2</b>	<b>61.8</b>	<b>56.5</b>	<b>-5.3</b>
Federal Treasury	0.5	0.4	-0.1	50.1	48.8	-1.3
Regional and local budget management bodies	1.3	1.0	-0.3	5.1	4.3	-0.8
State-owned institutions financed from budgets of all levels	0.6	0.6	0.0	0.7	0.6	-0.1
Government and other extra-budgetary funds	2.4	0.8	-1.6	4.2	1.4	-2.8
Election commissions (referendum commissions)	0.2	0.2	0.0	0.2	0.2	0.0
Other organisations	1.0	0.8	-0.2	1.5	1.2	-0.3

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