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Bank of Russia

The Central Bank of the Russian Federation

ANNUAL REPORT 2016



Bank of Russia

The Central Bank of the Russian Federation

**BANK OF RUSSIA
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LIST OF ABBREVIATIONS

- AIF** – joint-stock investment fund
- AML/CFT** – anti-money laundering and countering the financing of terrorism
- APEC** – Asia-Pacific Economic Cooperation
- Bank of Russia PS** – Bank of Russia payment system
- BCBS** – Basel Committee on Banking Supervision
- BESP** – banking electronic speedy payment system
- BIS** – Bank for International Settlements
- BPM6** – the 6th edition of the IMF's Balance of Payments and International Investment Position Manual
- BRICS** – Brazil, Russia, India, China, South Africa
- CC** – Bank of Russia cash centre
- CCC** – consumer credit cooperative
- CCP** – central counterparty
- CI** – credit institution
- CIS** – Commonwealth of Independent States
- CMTPLI** – compulsory motor third party liability insurance
- CPMI** – Committee on Payments and Market Infrastructures at the Bank for International Settlements
- CSC** – Bank of Russia cash settlement centre
- DIA** – Deposit Insurance Agency
- EAEU** – Eurasian Economic Union
- EBITDA** – earnings before interest, taxes, depreciation and amortisation
- ECB** – European Central Bank
- EME** – emerging market economies
- EurAsEC** – Eurasian Economic Community
- EXIAR** – Russian Agency for Export Credit and Investment Insurance
- FAO** – UN Food and Agriculture Organisation
- FAS** – Federal Antimonopoly Service
- FMTS** – financial message transmission system
- FSAP** – Financial Sector Assessment Program
- FSB** – Financial Stability Board
- FSUE** – federal state unitary enterprise
- FTS** – Federal Tax Service
- GDP** – gross domestic product
- GKO** – government short-term bonds
- GSO** – government savings bonds
- HML** – housing mortgage lending
- IAIS** – International Association of Insurance Supervisors
- IBL** – loans, deposits and other funds placed (raised) in the interbank market
- ICL** – irrevocable credit line
- IFRS** – International Financial Reporting Standards
- IFX-Cbonds** – Russian corporate bond index (calculated by Interfax and Cbonds.ru news agencies)
- IOSCO** – International Organization of Securities Commissions
- IRBA** – internal ratings-based approach to calculating credit risk
- ISB** – Interstate Bank
- ISO** – International Organization for Standardization
- IT** – information technology
- LCR** – liquidity coverage ratio

LIBOR – London Interbank Offered Rate
MFO – microfinance organisation
MIACR – Moscow Interbank Actual Credit Rate
MOEXREPO – MOEX CCP Bond Repo Rate
MOEXREPOEQ – MOEX CCP Equity Repo Rate
NCC – National Clearing Centre
NCI – nonbank credit institution
NFI – nonbank financial institution
NGPS – Bank of Russia next-generation payment system
NPCS – national payment card system
NPF – non-governmental pension fund
NPS – national payment system
NSD – National Settlement Depository
NSD PS – NSD payment system
OECD – Organisation for Economic Cooperation and Development
OFZ – federal government bonds
OFZ-AD – debt depreciation federal government bonds
OFZ-IN – inflation-indexed federal government bonds
OFZ-PD – permanent coupon-income federal government bonds
OFZ-PK – variable coupon-income federal government bonds
OPEC – Organisation of the Petroleum Exporting Countries
OVOZ – MinFin bonds
PIF – unit investment fund
PPP – public-private partnership
PSO – payment system operator
RGBEY – Russian Government Bonds Effective Yield to Redemption
RTS – Russian trading system
RUONIA – Ruble OverNight Index Average
SDR – special drawing rights
SICI – systemically important credit institutions
SPCEX – Saint Petersburg Currency Exchange
SRO – self-regulatory organisation
SWIFT – Society for Worldwide Interbank Financial Telecommunications
UN – United Nations
US Fed – US Federal Reserve System
USRIE – Unified State Register of Individual Entrepreneurs
USRLE – Unified State Register of Legal Entities
VAT – value added tax

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OPENING REMARKS

2016 was a year marked by stabilisation of the Russian economy and its financial sector and a year that saw the transition from decline to the recovery of growth. It was the retention of macroeconomic stability that was key in curbing the decline and enabling recovery to start earlier than expected.

Price and financial stability is necessary but this alone is not enough for sustainable economic growth: for this, structural transformations are vital. A consistently low inflation rate will support the Russian economy's transition to a new model of economic growth based not only on the export of hydrocarbons but also on domestic investment, economy diversification, and increased labour productivity. That is why the Bank of Russia continued its policy of gradually lowering inflation in 2016. It is important that inflation slows down amid the recovery of economic activity and the reduction of long-term interest rates. This is evidence that business has increased confidence in the future and there is a greater readiness for long-term investment.

In 2017, the monetary policy stance will remain unchanged. The Bank of Russia estimates that the inflation target of 4% will be achieved by the end of 2017.

A sound financial system is no less important for increased national welfare. The Bank of Russia continues to work methodically on the development of all financial market sectors.

The banking sector recovered its profitability and accumulated sufficient capital to step up lending to the economy. However, positive trends do not signify the absence of problems: the process of purging the system of unscrupulous and unstable banks is not yet complete.

In order to develop competition in the banking sector and improve the stability of credit institutions, in 2016 the Bank of Russia announced drastic changes in regulation: the transition to a three-tier banking system. As a result, small banks will be subject to simplified regulatory requirements, and they will focus on the provision of services to small businesses and households.

In 2016, the Bank of Russia initiated changes to the mechanism of financial rehabilitation of credit institutions. These changes are aimed at increasing its transparency and reducing the cost, as well as raising investors' interest in the banking business and the overall stability of the banking system.

In 2016, a number of large projects to build a full-fledged financial market infrastructure were completed. A national reinsurance company was established, the pension savings guarantee system was formed, and the infrastructure for the acceptance of Mir national payment cards was fully unveiled throughout Russia.

The Bank of Russia continues to prioritise improved financial literacy nationwide and the protection of financial consumers' rights. In order to improve the response time and quality of feedback to complaints and inquiries from the public, the Bank of Russia significantly upgraded its online services and hotline.

In 2016, a financial literacy course was included in the school curriculum for the first time, and as of 2017 financial education programmes will also be included at other levels of the education system.

In 2016, the Bank of Russia made significant internal changes: a number of key areas of activity underwent reorganisation to increase overall efficiency. The changes in question primarily concerned supervision – in order to accelerate the identification of problems in banks and provide adequate supervisory response, new specialised divisions were formed to analyse risks pertaining to credit institutions, and supervision procedures are undergoing gradual centralisation.

The Bank of Russia operates within a wide range of lines of business. This report will provide in-depth information on outcomes achieved and future aims. The objectives we are pursuing in various market sectors, be it the banking sector, insurance, or microfinancing, are different but the strategic goal is the same – to develop a sound financial system that promotes economic growth, provides consumers with access to necessary services and steadfastly protects their rights.

Governor of the Bank of Russia



Elvira S. Nabiullina

I. THE STATE OF THE RUSSIAN FEDERATION ECONOMY

SUMMARY

In 2016, the decline of the Russian economy slowed down and the second half of the year saw the transition to recovery growth. Industrial and agricultural production volumes grew. Unemployment remained at a consistently low level. The inflation rate slowed down considerably thanks, inter alia, to the monetary policy pursued by the Bank of Russia, which promoted both saving among the population as well as furthering the formation of recovery trends in manufacturing.

However, the external conditions for Russia's economic development in 2016 remained, on the whole, rather unfavourable. The rate of economic growth in Russia's major trading partners saw a slight downturn. Restrictions imposed on Russia by a number of foreign countries as well as Russian countersanctions continued to persist. In the beginning of the year, oil prices reached their ten-year low. However, some positive trends were noted during the year. A cut in oil output outside the Organisation of the Petroleum Exporting Countries (OPEC) followed by the expectation and achievement of a consensus on a joint oil production cut by OPEC and non-OPEC countries led to growth in global energy prices. The global financial markets experienced increased volatility during the year yet, overall, positive investor sentiments prevailed. Investments in the Russian economy expanded, while Russian companies decreased their payments on external debt. The Russian financial market also enjoyed rather favourable conditions. Against this backdrop, exchange rate volatility abated and over the year the ruble mostly appreciated after its notable weakening in January–February.

Nevertheless, the ruble exchange rate in 2016 was much lower on average than the year before. This contributed to further reduction in imports and their substitution with domestic products, which supported output: primarily in the manufacturing and agricultural sectors of the economy. Increased exports, including non-commodity exports, also contributed to the recovery of economic activity. Production growth in certain areas and increased producer optimism led to the resumption of growth in inventories.

Real wages started to grow. However, real disposable household income continued to decline. Households continued to favour the savings model due to the rather high real interest rates on deposits and loans.

Against the backdrop of elevated economic uncertainty, investment activity remained rather weak. Budget expenditures made a small negative contribution to economic dynamics. However, domestic demand contracted less significantly than the previous year. GDP decline in 2016 slowed down to 0.2%¹.

Monetary policy played a major part in the slowdown of inflation, which decreased by 7.5 pp over the year and reached 5.4% in December (against December 2015). The slowdown of inflation was also influenced by the exchange rate dynamics, which changed from pro-inflationary to neutral, and by an expanded supply of foodstuffs. The temporary nature of these factors determined the continuation of inflation risks throughout the year. Other risks were primarily linked to the elevated inflation expectations held by economic agents. However, moderate dynamics of monetary and credit aggregates did not pose any material inflation risks on the part of money supply.

The persistently low risk appetite in the light of economic uncertainty, high debt burden in a number of sectors of the real economy, and inflow of funds into the economy as a result of budget deficit financing from the Reserve Fund led to the nonfinancial sector's low demand for borrowed funds and banks' low lending activity, with moderate growth in deposits. Credit risks stabilised thanks to the economic invigoration and the conservative credit policy implemented by banks. The second half of the year saw the growth in the share of overdue loans observed since the beginning of 2015 come to a stop. The stabilised quality of banks' loan portfolio through allocations to loan loss provisions had a positive effect on financial performance. As a result, while taking into account the effect of other factors, the banking sector's profit in 2016 was close to the level in 2013.

¹ Here and below, the GDP data updated by Rosstat (as of 31 March 2017) are used.

In 2016, all segments of the financial market were characterised by increased demand for the services provided by nonbank financial institutions; their key performance indicators grew and the financial market infrastructure underwent further development.

The considerable reduction in inflation against the backdrop of the economy's transition to recovery growth and the sustainable activity of the financial sector proved that the policy pursued by the Bank of Russia was in line with the existing conditions.

I.1. THE MACROECONOMIC SITUATION

I.1.1. External economic conditions

In 2016, the external conditions for the Russian economy improved somewhat due to the recovery of oil prices but still remained unfavourable. Global prices for the main Russian exports remained rather low and sanctions against Russia were extended. Growth in goods and services output globally decreased in 2016 to 3.1% from 3.4% in 2015¹, as estimated by the International Monetary Fund (IMF). GDP growth in developed countries declined to 1.7% in 2016 from 2.1% in 2015 but remained almost unchanged in emerging market economies (EME) (4.1% in 2016 vs. 4.2% in 2015).

Economic growth in the US and the euro area in 2016 slowed down to 1.6%² and 1.7%³ respectively (after 2.6% and 2.0% in 2015). Among the largest developed countries the UK retained the highest growth rate, with GDP growth of 1.8% (vs. 2.2% in 2015).

Consumer expenditures made the biggest contribution to US economy growth in 2016. Government consumption impact remained insignificant, and investment and net export dynamics were rather unstable during the year. Given the economic growth slowdown compared to the previous year, the US Federal Reserve (Fed) implemented a rather cautious strategy as part of the monetary policy stabilisation, as a result of which the federal funds rate was raised for the second time over the past few years only in December 2016. The Fed's policy was also affected by the ambivalent development of the situation in the global economy (in particular, the slowdown of growth in China and volatility in the financial and commodity markets). Nevertheless, inflation in the US came close to the target of 2%⁴, and employment was almost 100%. Consequently, a gradual rate rise in 2017–2018 is considered to be justified.

Low energy prices facilitated economic growth in the euro area. The accommodative policy of the European Central Bank (ECB), under which the key rate was reduced to zero and the deposit rate to –0.40% in 2016, played an important role in supporting growth.

Furthermore, the ECB decided to increase the QE programme amount to €80 billion per month and to extend this programme to the end of 2017 (with a reduction in repurchase amounts to €60 billion per month starting from April 2017). These actions improved lending to economic agents and made it possible to bring inflation closer to the target.

Among the EMEs, economic growth continued to slow down in China (to 6.7% vs. 6.9% in 2015), although it accelerated somewhat in Q4 (to 6.8% vs. 6.7% in Q1–Q3) amid active economic support measures in the first half of the year. Risks associated with the increased debt burden intensified. According to IMF estimates, GDP growth in India slowed down compared to 2015; GDP of Latin American countries decreased by 1.0% after 0.1% growth in 2015. CIS countries (excluding Russia) saw economic growth recover. Economic growth in Russia's major trading partners decelerated slightly and was around 2%.

Growth in the international trade in goods and services, as estimated by the IMF, slowed down from 2.7% in 2015 to 2.2% in 2016. Growth in the imports of goods and services by developed countries decreased, whereas emerging markets witnessed the opposite, which correlates with economic growth dynamics in developed countries and EMEs.

Amid the reduced growth in global GDP, the expansion of global oil consumption slowed down, as a result of which the demand-side support of energy prices turned out to be rather poor. The drop in the average annual price of Urals crude in 2016 was less significant (by 18.3%) than in 2015 (by 47.5%) thanks to contraction of excess supply due to production cuts outside OPEC against the backdrop of reduced investments. The downward pressure on prices was associated with an increase in production by OPEC countries. In January 2016, the price of oil went down to an over ten-year low due, among other things, to the lift of sanctions against Iran and the subsequent increase in oil produc-

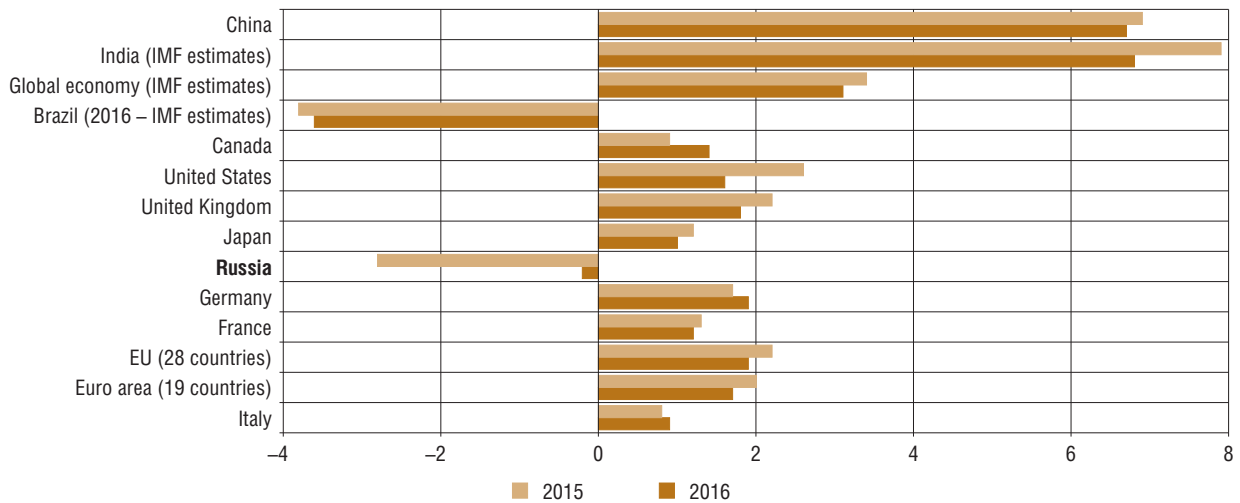
¹ Here and below, data on economic growth and inflation in various countries and regions are from the World Economic Outlook (IMF), unless indicated otherwise.

² Data provided by the Bureau of Economic Analysis.

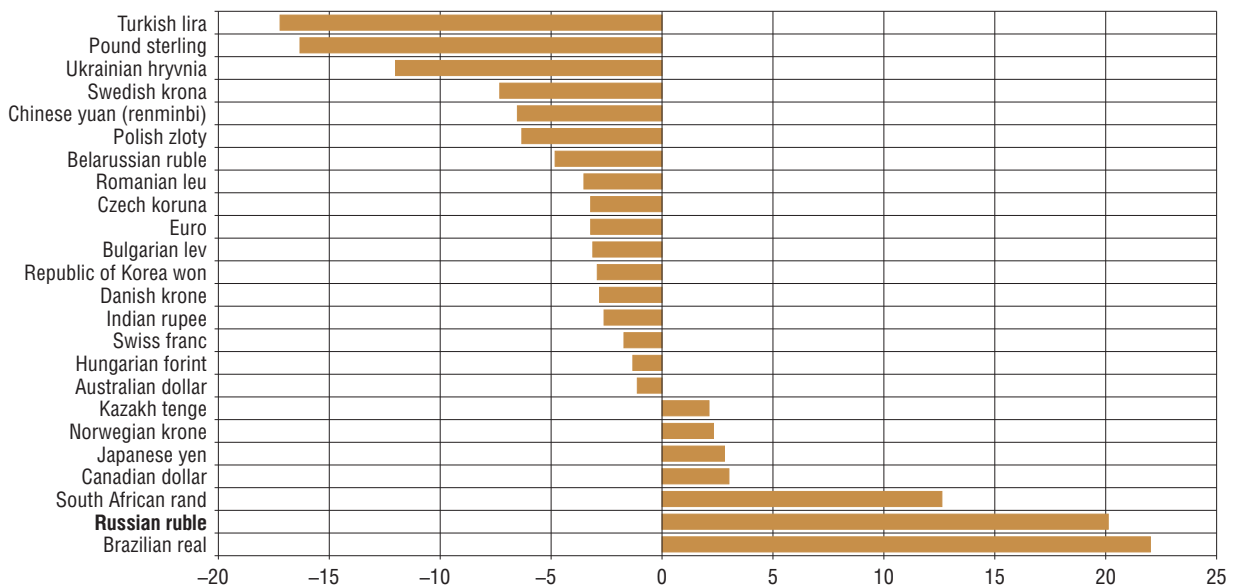
³ Data on the euro area countries and the UK are from Eurostat.

⁴ The inflation target used by the US Fed is calculated as the personal consumption expenditures price index (PCE Price Index).

Growth in output of goods and services (percent)*



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

Growth in exchange rates of certain currencies against the US dollar in 2016*
(December 2016 as a percentage of December 2015)

* A '-' denotes the appreciation of the US dollar; '+' – its depreciation; Bloomberg data.

tion and exports from that country. However, amid the expectations of oil-producing countries to limit oil supply and the agreement reached in December on a joint production cut by OPEC countries and some non-OPEC countries, the price of oil rose by more than 50% by the end of 2016 as compared with the beginning of the year. Temporary interruptions in supplies from Canada, Nigeria, Libya, and other countries also contributed to the increase in oil prices.

The average annual prices for food products in the global markets (the FAO food price index) in 2016 went down by 1.5% due to decreased prices for grain crops thanks to a record-breaking harvest and considerable

reserves, as well as due to decreased prices for meat and dairy products. Meanwhile, the decline in the average annual global prices for food products slowed down (in 2015 it was 18.7%). In December 2016, food prices gained 11% against December 2015 following the increase in oil prices (and, as a result, in fuel and fertiliser prices).

The recovery of energy and food prices in 2016 contributed to the moderate growth of inflation in developed countries, from 0.3% in 2015 to 0.8% in 2016, as estimated by the IMF. Over the same period, EMEs witnessed a slight slowdown in price growth, from 4.7% to 4.4%. Inflation in the euro area grew from 0.2% in 2015

to 1.1% in 2016, and in the US it grew from 0.7% to 2.1% over the past year. The growth of prices in China accelerated from 1.6% in 2015 to 2.1% in 2016.

In 2016, global financial markets were characterised by high volatility due to political events. In June 2016, the VIX volatility index went up following the outcome of the referendum on Great Britain's exit from the EU. In November 2016, high volatility in the markets was associated with the US presidential elections. Nevertheless, positive investor sentiment generally prevailed in the markets in 2016, and MSCI World Index gained 9%.

The geopolitical situation determined largely the capital flows last year. For most of the year an inflow of portfolio investment to BRICS countries was observed.

Over 2016, as reported by Emerging Portfolio Fund Research Global (EPFR), the cumulative net capital inflow to funds that invest in EMEs reached \$35 billion after a considerable outflow in 2015. As estimated by the Institute of International Finance (IIF), the cumulative inflow of nonresidents' funds to EMEs in 2016 amounted to \$676 billion.

Following the recovery of oil prices and the Russian private sector's reduced external debt payments, the real effective exchange rate of the ruble against foreign currencies grew by 20.4% in December 2016 against the similar period of the previous year. Furthermore, the decline in the average annual real effective exchange rate of the ruble slowed down from 16.5% in 2015 to 0.5% in 2016.

I.1.2. Inflation and economic activity

In 2016, the Russian economy continued adjusting to external conditions, which remained rather unfavourable. The sentiment and expectations of economic agents stabilised, and sensitivity to external shocks decreased. The situation in the labour market remained calm, performance indicators improved, and certain industries, including manufacturing, saw growth. Amid moderate growth in the global economy and relatively stable internal financial conditions, the Russian economic slump slowed down, and the second half of the year was characterised by a transition to recovery growth. Over 2016, the decline in GDP slowed down to 0.2% compared with the previous year (2.8% in 2015). Meanwhile, structural factors and economic uncertainty continued to constrain economic development.

The reduction in gross value added in trade and construction made the major negative contribution to GDP dynamics in 2016. As in 2015, an increase in agricultural output made a notable positive contribution to GDP growth thanks, inter alia, to a good harvest. The decline in gross value added in 2015 gave way to growth in manufacturing, as well as the financial activity and operations with real estate, which provided a considerable support to economic dynamics. The output in mining and quarrying continued to increase.

Output growth in the manufacturing industry amid poor domestic demand in 2016 resulted partially from the substitution of imported products with domestic ones, as the share of imports in the domestic market went down after a sharp rise in import prices in the beginning of 2015 and the imposition of sanctions against Russia and countersanctions. The expansion of domestic production to restore market supply was observed largely in industries oriented to consumer demand (the food, textile, clothing, and leather and footwear industries). The output of nonfood consumer goods was partially supported by deferred demand of the population for durable goods, the consumption of which decreased considerably over the previous year. Import substitution was observed in the production of certain kinds of investment and intermediate goods (in metallurgy and in a number of mechanical engineering and chemical production processes) and animal products. The expansion of production in the manufacturing and agricultural sectors was accompanied by an increase in freight turnover and in electricity, gas, and water supply.

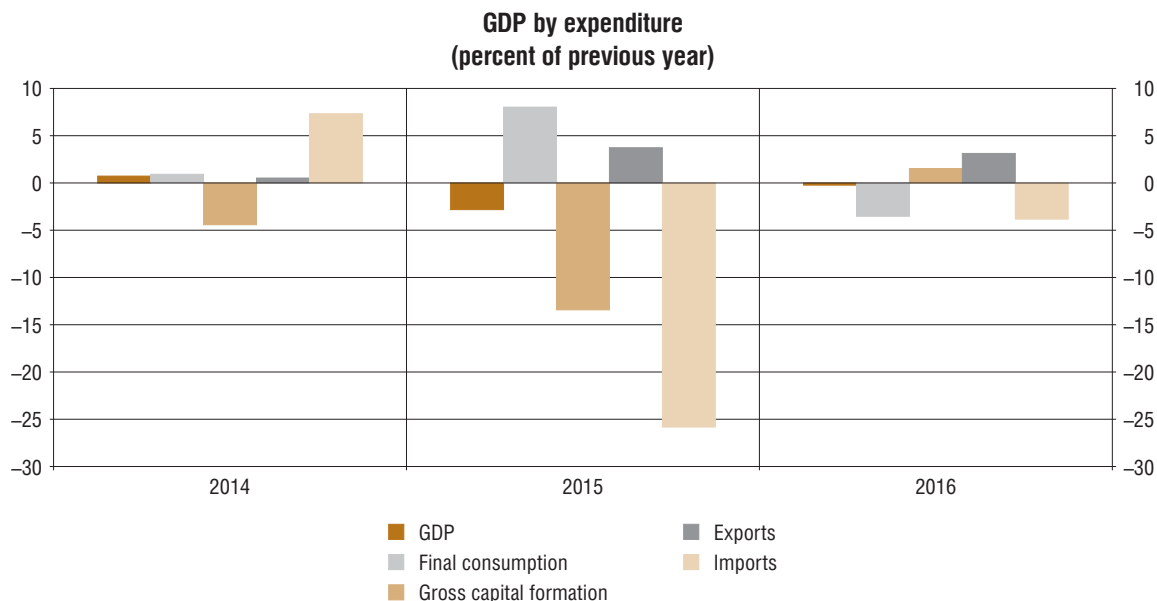
Industrial output growth was also facilitated by an increase in external demand for certain goods manufactured in Russia, which is associated, among other things, with the increase in their price competitiveness (gas, coal, heavy chemicals, and products of the forest industry). Growth in exports together with a decline in imports caused net exports to make a positive contribution to GDP.

Recovery in production activity caused growth in real wages (by 0.7% in 2016). It grew at a higher rate than in the economy on average in the activities which made a positive contribution to GDP (financial activity, real estate operations, manufacturing industry, mining and quarrying). However, due to the reduction in other income components, apart from compensation of employees, the household real disposable income decreased in 2016 (by 5.9%). Along with a fairly high positive level of real interest rates as a result of a moderately tight monetary policy, this ensured the retention of conservative consumer strategies and a high propensity of the population to save: lending remained weak, and retail deposits in banks continued to grow. In 2016, household final consumption expenditures fell by 4.5% against 2015, having slowed down more than twofold compared to 2015.

Despite a considerable budget deficit, general government expenditures on final consumption in 2016 made a small negative contribution to aggregate demand. Final consumption in 2016 decreased by 3.5% as compared with 2015.

In 2016, investment activity remained rather weak. As before, among the factors that suppressed growth in fixed capital investment were the conservative investment policy of companies amid the uncertainty about future demand dynamics and a comparatively high debt burden in a number of sectors. Furthermore, banks continued their cautious lending policy by reducing loan rates gradually and maintaining strict requirements for borrowers' financial position and security for loans. Gross fixed capital formation decreased by 1.8% with its negative contribution to economic dynamics diminishing almost sixfold compared to 2015.

The slowing slump in demand is indicative of positive shifts in sentiments of consumers, investors, and producers. In particular, the completion of the inventory reduction cycle indicates producers' growing optimism. As a result, the contribution of gross capital formation to



GDP dynamics was positive for the first time since 2012 (the growth rate was 1.5%).

2016 saw the improved financial position of enterprises in the sectors that showed growth. Manufacturing accounted for a major part of the profit and loss surplus among the key types of activity. The net profits in the economy¹ in 2016 exceeded those of 2015 by 45.9%.

Given demand restrictions, the improved corporate finance was associated, among other things, with measures to look for effective business areas and optimise costs. Under these conditions, growth in prices of industrial goods manufacturers slowed down. Low indexation of administered prices for goods and tariffs for natural monopoly services contributed to this. Cost growth in industries engaged in agricultural raw materials processing was also limited by low growth in agricultural producer prices, which was largely caused by the record high harvest and favourable situation in the global market of grain crops.

Restrained demand that created incentives for the competition between producers and suppliers of goods and services, high food supply, slowing growth in producer prices, and low indexation of tariffs for housing and utility services hampered consumer price growth. Inflation slowdown was also associated with the exchange rate dynamics: in 2016 its contribution was close to zero, while in 2015 it was estimated at 4.5–5%. As a result, inflation in 2016 stood at 5.4% vs. 12.9% in 2015. There was a notable slowdown in growth of prices for all major components of the consumer basket – for food (up to 4.6% in December 2016

year-on-year), services (up to 4.9%), and nonfood goods (up to 6.5%).

However, the dynamics of prices for different goods and services in the year under review were generally heterogeneous, especially in the group of food products. For example, over the year the prices for fruit and vegetables decreased by 6.8% due to greater supply as a result of a good harvest in the past two years and the development of greenhouse farms. Eggs and sugar became cheaper. Growth in prices for milk and dairy products slowed down the least, but the rise in cheese prices accelerated as a result of a decline in dairy production and deterioration of the global market environment. In 2016, price growth for foodstuffs, excluding vegetables and fruit, stood at 6.0%.

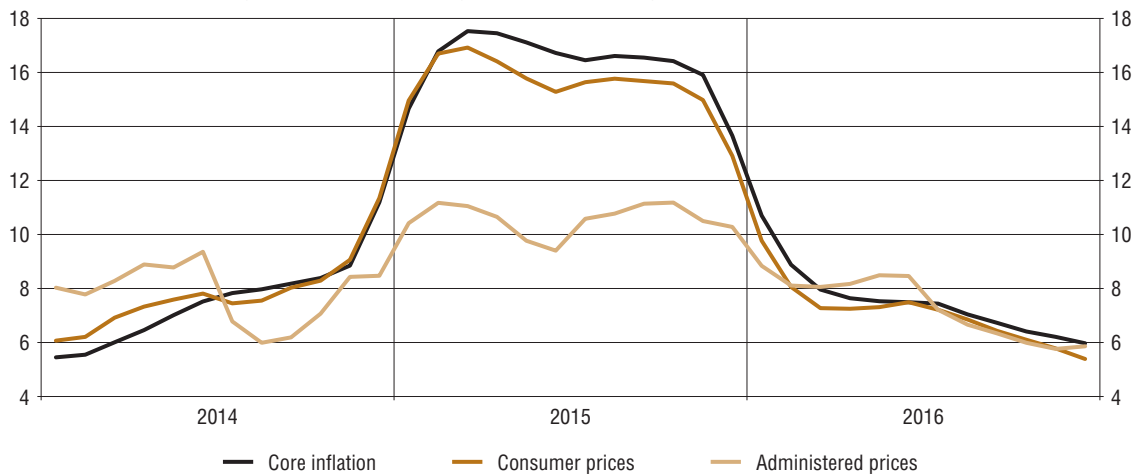
Nonfood prices went up at a similar pace. Among them, tobacco prices grew the most as a result of the government policy to increase excise duties. Price growth for everyday goods (household chemicals, clothing, footwear) was rather high. Prices for durable goods (primarily household appliances and furniture) went up the least, and some items (smartphones) even went down in price.

The variation in price dynamics was not great among the main groups of services. Prices for medical services increased the most, while those for communications services – the least.

Core inflation in 2016 went down significantly as well, to 6.0% vs. 13.7% in 2015. Its higher level compared to the increased prices for the entire set of goods and services included in the consumer basket for calculating

¹ Excluding small businesses, banks, insurance companies, and budget-financed organisations.

Inflation, core inflation, and change in administered services prices*
(growth as a percentage of corresponding month of previous year)



* Bank of Russia estimate.

inflation is associated with a lower rise in prices of consumer basket components with volatile or administered prices as compared with the bulk of goods and services. This points to the notable role played by temporary factors in the inflation slowdown, i.e., the high supply of fruit and vegetables and the ruble appreciation in the second half of 2016. Inflation reduction could have been less pronounced, if the restraining impact of these factors

had been weaker. Inflation expectations were a major risk factor for a sustainable inflation reduction, as they remained high throughout 2016 in spite of the prevailing downward trend. Nevertheless, economic development in 2016, primarily the absence of the demand-side inflationary pressure against the backdrop of moderately tight monetary conditions, created the necessary basis for achieving the inflation target in 2017.

I.1.3. Fiscal policy, government finance, and domestic government debt

In 2016, the fiscal policy continued adjusting to the foreign economic conditions that worsened in late 2015 – early 2016. The structural (non-oil and gas) deficit stopped expanding, which points to a gradual reduction in the positive contribution of the fiscal policy to the economic activity dynamics.

The budget system revenues went down by 0.1 pp of GDP, while the federal budget revenues decreased by 0.8 pp of GDP. Furthermore, budget revenues underwent certain reallocation: oil and gas revenues decreased by 1.4 pp of GDP and non-oil and gas revenues went up by 1.3 pp of GDP. Non-oil and gas revenues grew amid increased GDP in nominal terms and certain measures taken by the Russian Government, including indexation of excise duties for fuel in early 2016, introduction of a 50% requirement of dividend deduction from public companies and federal state unitary enterprises¹, and also due to the receipts from privatisation of PJSC Rosneft Oil Company². The increasing proceeds from procyclical taxes and duties (profit tax, income tax, social insurance fees, comprehensive income tax), inter alia, amid the positive dynamics of household income in nominal terms, contributed to a significant reduction in budget deficits of the constituent territories of the Russian Federation and government extra-budgetary funds.

The budget system expenditures grew by 0.2 percentage points of GDP over 2016 mainly due to an increase in appropriations in the areas of national defence, healthcare, and environmental protection. Given the moderately tight monetary policy and increased government debt denominated in securities, the interest expenditures of the budget system also grew significantly over 2016; however, they still remain at a low level, below 1% of GDP. The conservative policy of in-

dexation of public sector salaries, pensions, and allowances in 2016 had a restraining influence on inflation expectations and contributed to inflation risk mitigation.

The deficit of the consolidated and federal budgets was financed mostly from the Reserve Fund (₽2,136.9 billion), internal borrowings (₽524.4 billion), and proceeds from privatisation (₽412.8 billion). In 2016, under the privatisation programme, blocks of shares of other Russian companies were sold in addition to the sale of a block of Rosneft shares (19.5% of shares for €10.2 billion). Among them there were shares of ALROSA (10.9% of shares for ₽52.2 billion) and Bashneft (50.1% of shares for ₽329.7 billion). Apart from the use of the Reserve Fund, the balance of sovereign funds declined by 4.5 pp of GDP due to the exchange rate revaluation.

The aggregate government debt grew in 2016 in nominal terms and against GDP mainly due to internal ruble components. Internal federal debt increased due to positive net placement of federal loan bonds (OFZs) and a rise in the volume of government guarantees. Meanwhile, the external debt in ruble terms went down largely due to the exchange rate revaluation. In order to partially absorb the liquidity inflow associated with the budget deficit financing from the Reserve Fund, the Bank of Russia sold OFZs from its own portfolio in the secondary market for a total of ₽143.2 billion.

According to Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019', fiscal consolidation (i.e., a reduction in the budget deficit in nominal terms and as a percentage of GDP) is scheduled for the period of 2017–2019 for the purpose of gradually stabilising public finances. This will help enhance their stability and mitigate inflation risks.

¹ The 50% dividend deduction rate did not apply to certain public companies.

² Funds from the privatisation of Rosneft were accounted as profit of the public company PJSC Rosneftgaz, i.e., as revenue and not as a source of deficit financing.

I.1.4. Balance of payments and external debt

Balance of payments

In 2016, the continued shrinkage of the balance on trade surplus caused the reduction in the current account surplus. Net private capital outflow took shape amid low intensity of external liabilities repayment along with the recovered demand for foreign assets.

The **current account** surplus in 2016 amounted to \$25.0 billion (against \$68.9 billion in 2015). The contraction of the current account surplus resulted from the significant weakening of the balance on trade, which was not offset by a decrease in the negative contribution of other current account items. The shrinkage of the external merchandise trade surplus to \$90 billion (from \$148.5 billion in 2015) was stipulated by a decline in exports value with imports stabilising at the previous year level.

Merchandise exports went down to \$281.7 billion with the decline rates slowing down to 17.5% compared to 31.3% in 2015. The exports' dynamics were defined by continued falling of global prices for major Russian export commodities. The export prices deflator was 0.79, with natural gas and petroleum products prices falling most rapidly (by 30.2% and 24.9% respectively). As a result, the price index of the three main fuel and energy products in 2016 stood at 0.76.

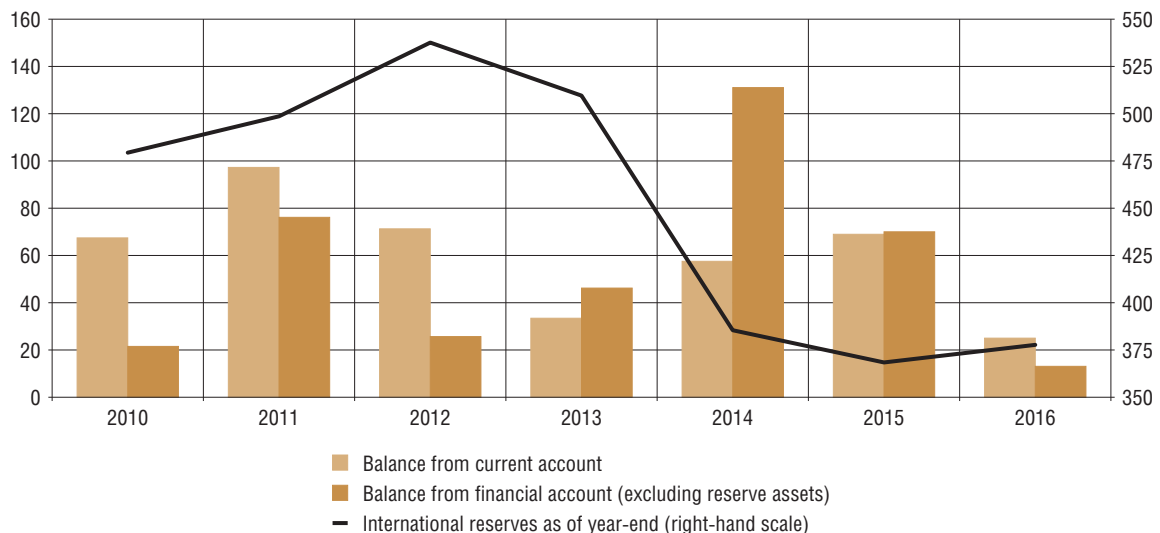
Nevertheless, Russian exporters offset in part the impact of the unfavourable price conditions by increasing supply quantities: the physical volume index for all

commodity groups was 1.04. Growth in supplies in kind was observed primarily in non-energy goods segment as their exports increased by 8.7%, while the export quantities of the main energy products remained almost unchanged.

Exports of other products, in terms of value, went down slower than those of energy products, which caused an increase in the share of most other commodity groups in the exports composition. Exports of ferrous and non-ferrous metals, including items made of them, decreased to \$28.9 billion or by 12.1%, with the group's share rising to 10.1% (from 9.6% in 2015). Exports of chemicals decreased by 18.0% to \$20.8 billion, and their share went down to 7.3% (from 7.4%). Exports of manufactured products decreased at a slower pace (by 4.0%, to \$24.4 billion), while the share of the group grew by 1.1 pp to 8.5%. Exports of food products and raw materials for their production registered positive dynamics: growth by 5.3% to \$17.1 billion caused the commodity group's share to increase to 6.0% (from 4.7%).

The share of EU countries in the geographical breakdown of exports fell to 45.7% (from 48.2% in 2015) due to the decline in energy exports. In contrast, the share of supplies to APEC countries grew to 23.6% (from 22.8%), and the share of exports to Russia's EAEU partners grew to 9.0% (from 8.3%). The largest export volumes went to the Netherlands (10.2%), China (9.8%), Germany (7.4%), Belarus (5.0%), and Turkey (4.8%).

Russia's major balance of payments components and international reserves
(billions of US dollars)



Merchandise imports in 2016 remained almost unchanged from the basis period's level reaching \$191.7 billion compared to \$193 billion in 2015 (the decline a year before was 37.3%).

The indicator's dynamics were determined by the mutually offsetting influence of a 4.5% drop in prices and a 4.1% increase in import quantities.

Machinery and transport equipment remained the most significant commodity group in the composition of imports (47.2% of the total against 44.8% in 2015). Their imports in the reporting year grew by 5.2% to \$86.1 billion. Imports of chemicals and related products remained almost at the same level as in the basis period amounting to \$33.8 billion (18.5% of merchandise imports in 2016). Imports of food products, including raw materials for their production, went down by 5.9% to \$25.0 billion, and the share of this group decreased by 0.9 pp to 13.7%.

In 2016, the share of EU countries in the geographical distribution of imports remained almost unchanged (38.3%). The position of APEC countries strengthened to 40.0% (from 38.0%). The share of EAEU partners remained the same (7.6%). Russia's most important counterparties still were China (20.9%), Germany (10.7%), USA (5.9%), Belarus (5.3%), and France (4.7%).

The deficit in **the balance of external trade in services** decreased from \$36.9 billion in 2015 to \$23.9 billion in 2016 due to a significant decline in the volume of services received.

Exports of services amounted to \$50.5 billion (against \$51.7 billion in 2015). The value of transport services stood at \$17.0 billion against \$16.7 billion a year before. A certain decline in the value of services rendered under the 'Travel' item (by \$0.6 billion to \$7.8 billion) was explained by both the reduction in the number of foreign citizens who entered the country and by their reduced spending in dollar terms associated with their stay in Russia. Demand for other services provided to nonresidents fell somewhat reaching \$25.7 billion (against \$26.6 billion in the preceding year).

Imports of services decreased to \$74.4 billion or by 16.1%. The most significant decline was observed under the 'Travel' item (by 31.4% to \$24.0 billion) as a result of a decrease in both the average expenses of residents abroad per one trip and the number of trips abroad. Imports of other services in 2016 decreased to \$38.9 billion against \$42.0 billion a year earlier. The volume of services provided by foreign transport companies remained almost unchanged amounting to \$11.6 billion.

The deficit in **the compensation of employees' balance** shrank 2.4-fold to \$2.2 billion. Payments to nonresidents decreased from \$8.6 billion to \$5.8 billion as a result of a reduction in the number of migrants employed in the Russian economy for less than one year. Compensation of employees receivable by Russian citizens working abroad remained almost the same as in 2015 amounting to \$3.6 billion.

The deficit in **the balance on investment income** grew from \$31.8 to \$32.6 billion. The deficit in other sectors' investment income amounted to \$35.7 billion in 2016 compared to \$33.5 billion a year earlier, and its dynamics were shaped as a result of a predominant growth in income payable. The surplus in the balance on investment income of the banking sector grew to \$3.4 billion against \$1.6 billion a year earlier due to increased receipts from nonresidents. Investment income of general government and central bank registered a slight deficit (\$0.2 billion).

The deficit in **the balance on secondary income** in 2016 grew by \$0.7 billion reaching \$6.4 billion as a result of a decline in tax receipts from nonresidents.

The capital account deficit stood at \$0.8 billion; the forgiveness of debt on government loans previously extended by the Russian Federation to nonresidents was the determining factor.

Net lending to the rest of the world (combined balances from current and capital accounts) decreased in 2016 to \$24.2 billion (from \$68.6 billion in 2015). The ratio of net lending to GDP contracted from 5.0% in 2015 to 1.9% in 2016.

Net lending to the rest of the world as reflected in the financial account (excluding reserve assets) dropped in 2016 to \$13.1 billion (from \$70.0 billion in 2015) and was formed largely through the accumulation of external assets.

External liabilities shrank by \$4.3 billion (by \$71.1 billion in 2015).

The general government's net foreign liabilities increased by \$4.5 billion (in 2015, they decreased by \$7.7 billion). In 2016, the Russian Federation Government issued new Eurobonds for a total amount of \$3 billion, of which \$2.6 billion worth of securities were purchased by nonresidents. Given the ruble appreciation, foreign investors stepped up their purchases of ruble-denominated sovereign securities in the secondary market.

Payments related to the repayment and servicing of external government debt remained almost the same as in the preceding year – \$3.6 billion.

A \$0.6-billion growth in central bank's external liabilities (which increased by \$2.0 billion in 2015) was associated with repo transactions with nonresident banks.

The net reduction in private sector liabilities amounted to \$9.4 billion (\$65.4 billion a year earlier).

The decline in the banking sector's external liabilities in 2016 slowed down more than twofold to \$27.2 billion.

Other sectors acted as net borrowers in the international market, and their external liabilities grew by \$17.8 billion (in 2015 net repayment amounted to \$5.4 billion). The reporting period was characterised by the implementation of a number of major transactions to expand foreign stakes in Russian companies (direct investment amounted to \$31.4 billion). Meanwhile, the increase in Russian issuers' financial instruments' volume in foreign investors' portfolios, which was registered in the first half of 2016, was virtually offset by non-residents' sale of securities in the second half of 2016. Net repayment of external outstanding loans by other sectors increased to \$12.2 billion (in 2015, \$4.8 billion worth of net loan liabilities were repaid).

Financial assets, excluding reserve assets, grew by \$8.8 billion in 2016 (in 2015 they fell by \$1.1 billion).

General government's foreign assets rose by \$0.9 billion (by \$2.2 billion in 2015). The reporting period saw an increase in the newly issued government loans (\$2.8 billion) and the provision of official funding within the framework of Russia's participation in organisations for regional economic integration cooperation. However, the total increase in the general government's assets was lower than a year earlier due to the forgiveness of debt on previously extended loans.

The net increase in the private sector's financial assets¹ in 2016 amounted to \$7.0 billion (against a decrease of \$4.1 billion in 2015).

The reduction in banks' foreign assets was \$28.3 billion (against \$25.8 billion in 2015). The withdrawal of assets in the form of loans and deposits in the amount of \$30.1 billion was the decisive factor. Direct investment abroad, on the contrary, grew to \$2.2 billion (from \$1.7 billion in 2015) as a result of the recapitalisation of foreign subsidiaries of Russian credit institutions.

Net acquisition of financial assets by other sectors grew to \$35.3 billion (from \$21.7 billion a year earlier)¹. Demand for foreign assets in the form of direct invest-

ment (\$20.4 billion) remained at the 2015 level. Direct investment composition was characterised by growing contributions to the equity of foreign companies amid a significant reduction in the share of transactions associated with investment in debt instruments of affiliated foreign enterprises. A major contribution to accelerated growth in external liabilities was made by other assets' dynamics as acquisition thereof rose to \$15.9 billion, largely, as a result of a major one-off privatisation transaction.

The volume of cash foreign currency held by other sectors' residents as a result of transactions with non-residents shrank by \$4.9 billion.

The amount of fictitious transactions² halved to \$0.8 billion.

Net private capital outflow in the reporting year contracted to \$19.2 billion (from \$58.2 billion in 2015).

International reserves of the Russian Federation as of 31 December 2016 totalled \$377.7 billion. In 2016, they rose by \$9.3 billion (compared with a reduction of \$17.1 billion a year earlier).

The increase in international reserves resulting from transactions reflected in the balance of payments amounted to \$8.2 billion (against \$1.7 billion in 2015). The main contribution was made by the repayment of foreign currency funding which had previously been provided by the Bank of Russia to credit institutions. The negative exchange rate and market price revaluations for a total of \$6.6 billion were shaped as a result of the US dollar strengthening in the international foreign exchange market and the corresponding decline in the dollar value of reserve assets denominated in other currencies.

The value of monetary gold as of 31 December 2016 stood at \$60.2 billion. The increase in gold stocks of \$11.6 billion, or by almost one quarter, was determined by the cumulative effect of positive revaluation (by \$3.6 billion) and replenishment of Bank of Russia's physical holdings (by \$8.1 billion). The share of gold in the international reserves grew from 13.2% as of the beginning of the year to 15.9% as of 31 December 2016.

As of 31 December 2016, the international reserves were sufficient to finance imports of goods and services for 17 months (16 months as of 31 December 2015).

¹ Excluding debt for supplies under intergovernmental agreements.

² Fictitious transactions include transactions showing signs of being fictitious and associated with trade in goods and services, securities trading, lending, and money transfers to own accounts abroad for the purpose of cross-border money flow.

External debt

The external debt of the Russian Federation decreased in 2016 by \$5.6 billion, or by 1.1%, standing at \$513.5 billion as of 31 December 2016. As a result of transactions recorded in the balance of payments, the debt decreased by \$25.3 billion, whilst due to other changes, including exchange rate and price revaluations, it increased by \$19.6 billion.

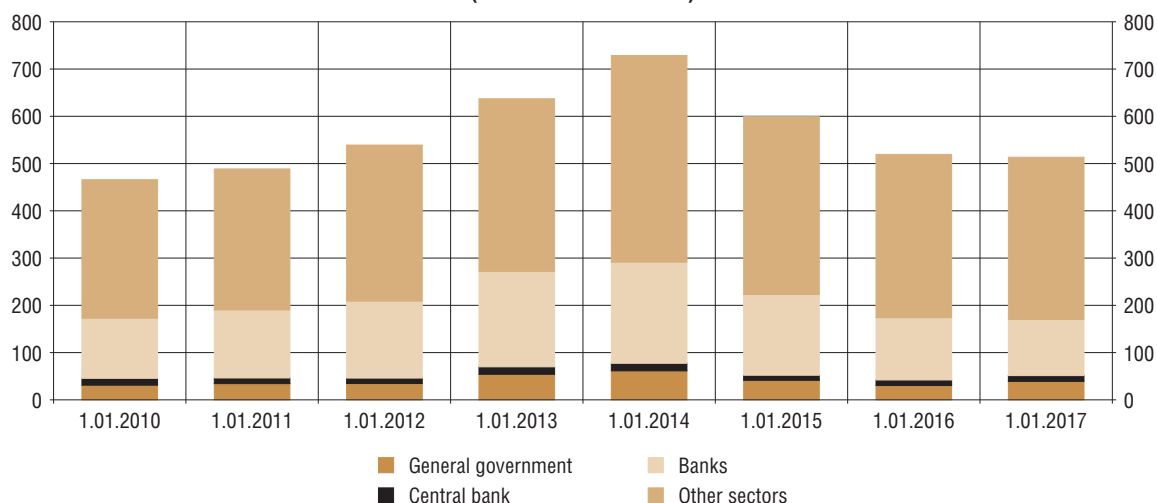
External liabilities of the private sector totalled \$462.0 billion as of 31 December 2016 representing 90.0% of total external debt of the Russian Federation.

The share of general government and central bank liabilities stood at 10.0% (\$51.4 billion), whereas the external debt of the public sector broadly defined¹

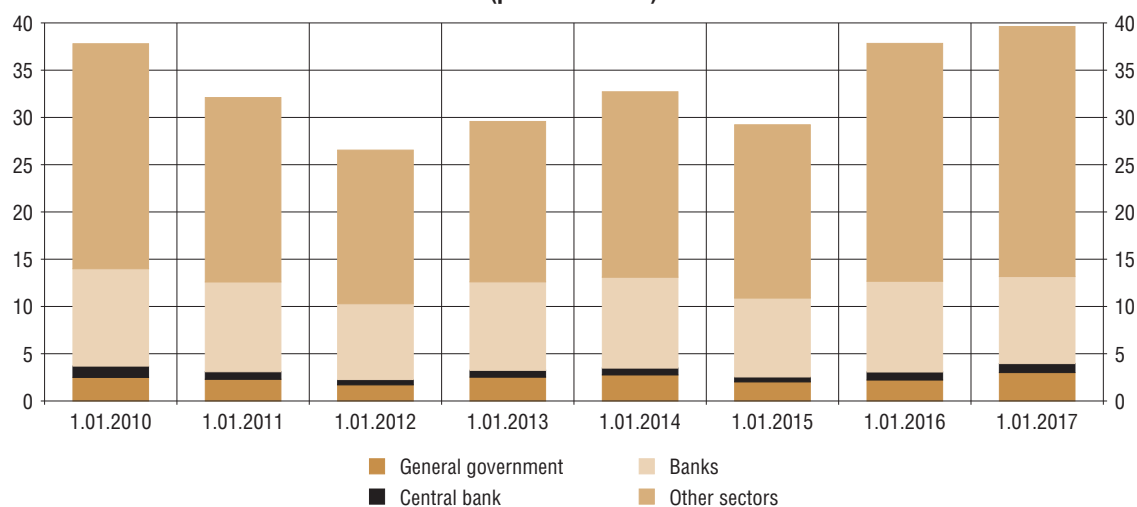
accounted for 49.6% of the total external debt of the Russian Federation (\$254.8 billion).

The federal government's debt grew by \$9.0 billion to \$39.0 billion. The liabilities assumed by the Russian Federation as the legal successor to the former USSR decreased by \$0.2 billion. Within the new Russian debt, growth was registered in the segment of outstanding traded sovereign debt instruments denominated in rubles (by \$10.3 billion); on the contrary, the component of foreign currency-denominated securities decreased by \$1.0 billion due to the residents' acquisition of Eurobonds in the secondary market. External debt liabilities of local governments of the Russian Federation contracted by \$0.4 billion as a result of loan repayment.

**Russia's external debt
(billions of US dollars)**



**Russia's external debt
(percent of GDP)**



¹ The public sector broadly defined, apart from general government and central bank, covers banks and nonbank corporations in which general government and central bank hold, directly or indirectly, 50% and more of the equity or control them otherwise.

The Bank of Russia's external debt, totalling \$12.3 billion, included liabilities to the IMF on Special Drawing Rights (SDRs) allocated to the Russian Federation (representing 62.2%), liabilities under repo transactions with nonresidents (20.8%), and cash rubles held by nonresidents, as well as their accounts and deposits (17.0%).

Banks' external debt liabilities shrank in 2016 by \$12.3 billion, or by 9.4%, to \$119.4 billion. The external debt of other sectors decreased by \$2.5 billion to \$342.6 billion.

In 2016, the share of short-term liabilities in total external debt grew insignificantly from 9.4% to 9.9%

reaching \$51.1 billion, and the share of long-term liabilities went down to 90.1% (\$462.4 billion). External debt denominated in Russian currency amounted to \$110.5 billion with its share growing from 16.0% to 21.5% of the total, while foreign currency-denominated debt amounted to \$403.0 billion.

As of 31 December 2016, the debt burden of the Russian economy remained moderate according to international criteria: the external debt to GDP ratio stood at 40% (against 38% at the beginning of 2016), and general government's external debt to GDP ratio was 3% (against 2% at the beginning of 2016).

I.2. THE FINANCIAL SECTOR

I.2.1. Monetary aggregates and financial and commodity market conditions

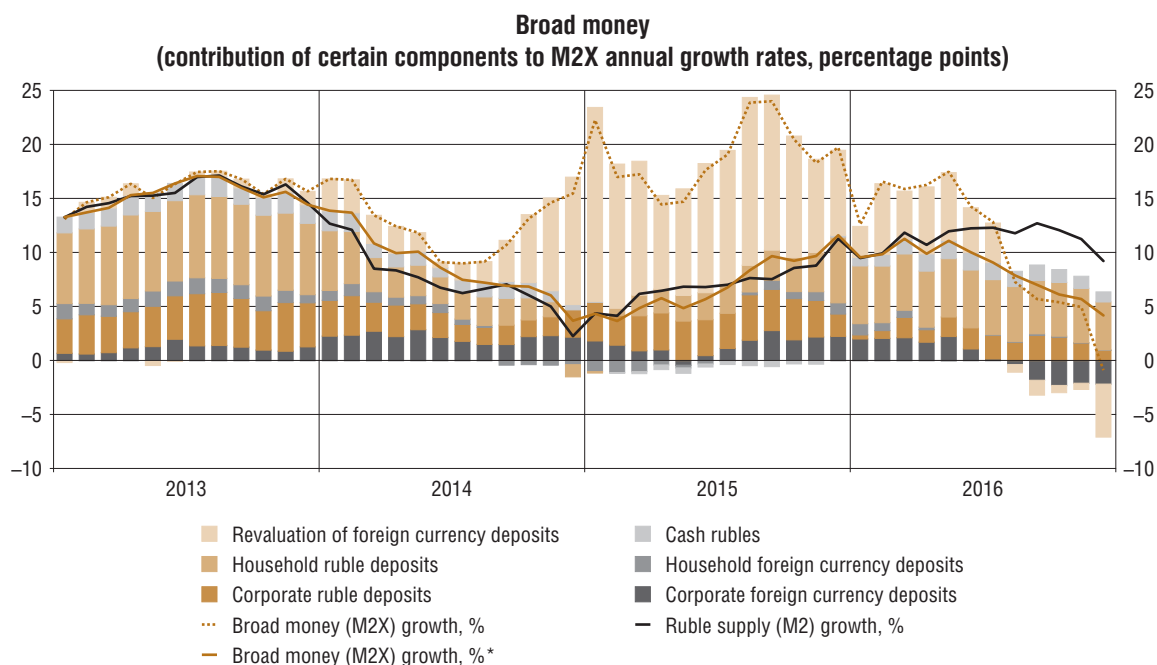
The moderate dynamics of **monetary aggregates** did not pose any significant supply-side pro-inflationary risks in 2016.

Over 2016, money supply in the national definition¹ (the M2 aggregate) rose by 9.2% (11.3% over 2015). Growth in broad money (the M2X aggregate) was exposed to great fluctuations due to the revaluation of foreign currency deposits: in 2016 it stood at –0.9% vs. 19.7% in 2015. Excluding the factor of foreign currency revaluation, the increase in the M2X aggregate was 4.2% vs. 11.6% in 2015.

In 2016, households stuck to the savings behaviour model. Therefore, household deposits were the main component of broad money showing positive dynamics in 2016. Their share in broad money in 2016 grew by 2.8 pp, and in the M2 aggregate – by 2.1 pp.

Furthermore, de-dollarisation of deposits continued: over the reporting period ruble-denominated household deposits grew by 14.2%, while foreign currency household deposits in dollar terms grew by 0.4%. In 2016, organisations replaced their foreign currency deposits with ruble-denominated ones: foreign currency corporate deposits in dollar terms decreased by 13.6%, while corporate deposits in rubles grew by 4.0% over the same period.

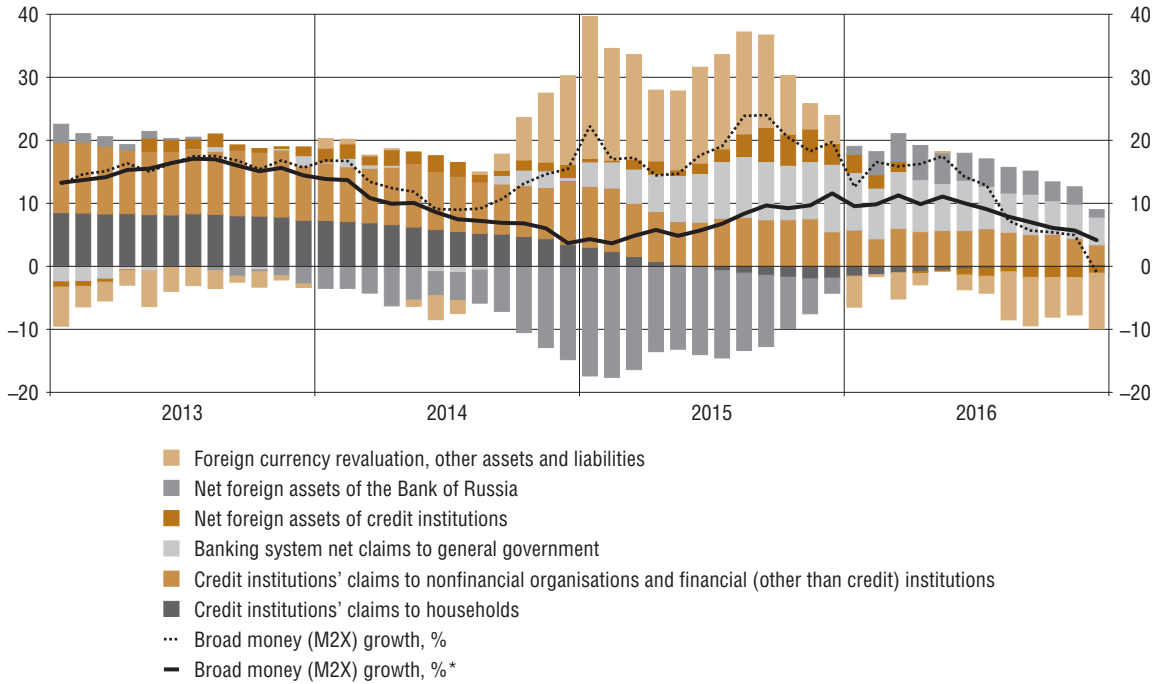
Although banks' lending activity was low in 2016, it was one of the main sources of growth in money supply. Ruble-denominated claims of the Russian banking system on organisations in 2016 grew by 10.8% (by 7.6% in 2015), and the increase in ruble-denominated claims on households became positive again and amounted to 2.0% (compared to a 5.8% reduction in



* Excluding foreign currency revaluation.

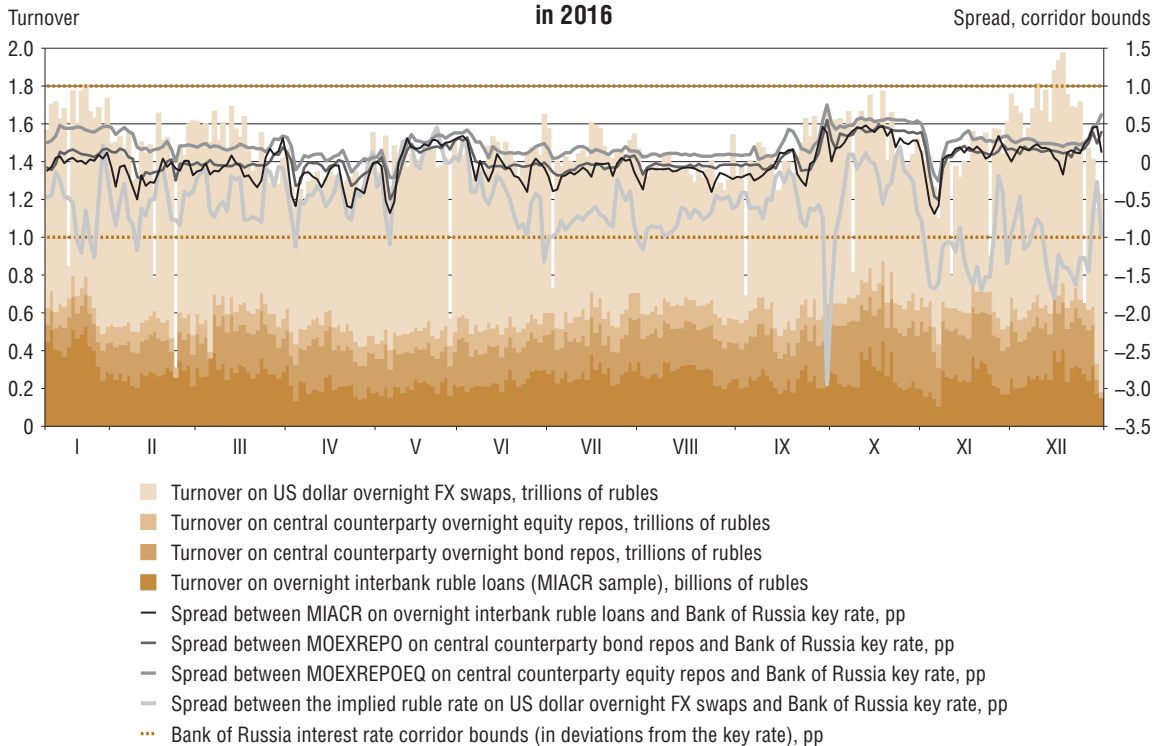
¹ In 2016, the methodology for calculating money supply components underwent changes associated with the formation of an integrated information basis for compiling monetary statistics indicators, sectoral balance sheets of financial assets and liabilities, and financial accounts of the System of National Accounts. For this reason the data on money supply increase in 2015, as given in this Annual Report, differ from the data given in the Bank of Russia Annual Report for 2015. Indicators of the Central Bank Overview, Credit Institutions Overview, and Banking System Overview have been calculated according to the updated methodology only for the period from 1 January 2015. Therefore, the annual growth values of the indicators for 2013–2015, as shown in the charts, have been measured based on data calculated in accordance with the methodology that had been in effect before the changes were adopted.

**Factors affecting broad money
(contribution to M2X annual growth rates, percentage points)**



* Excluding foreign currency revaluation.

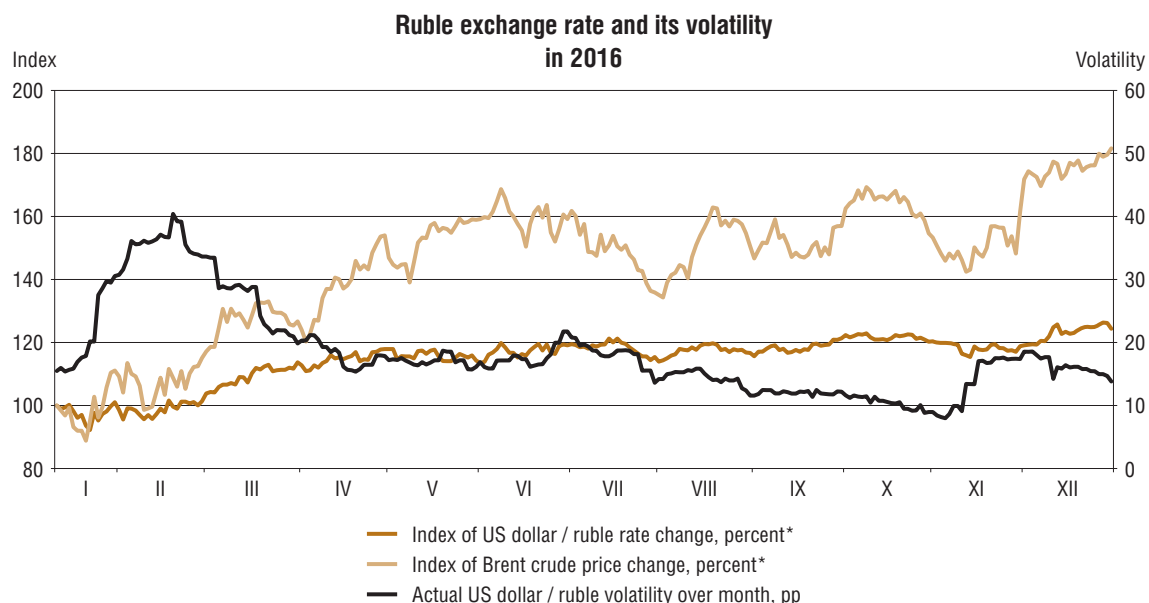
**Spreads between interest rates and Bank of Russia key rate
and turnovers in certain segments of money market
in 2016**



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

2015). Furthermore, the total claims on households and organisations in foreign currency in dollar terms shrank by 12.7% in 2016 compared to a 2.1% increase in 2015.

The banking system's net claims on general government amid budget deficit financing from the Reserve Fund also made a major contribution to the increase in the M2X aggregate in 2016 (for details, see



* Indicators as of 11 January 2016 equal 100 percent.
Source: Thomson Reuters.

Clause I.1.3. Fiscal policy, government finance, and domestic government debt).

The rates on overnight ruble-denominated interbank loans (IBL) in the **money market** in 2016 were close to the Bank of Russia key rate. Amid the continued reduction in the structural liquidity deficit, the Bank of Russia held deposit auctions to absorb short-term excess liquidity generated as a result of cash inflow via the budget channel (for details, see Clause II.1.2. Monetary policy instruments). Using these operations along with other monetary policy instruments allowed the Bank of Russia to keep overnight market rates on ruble-denominated operations close to the key rate, regardless of changes in the situation with ruble liquidity.

In certain periods the Russian money market suffered a deficit of FX liquidity as a result of the decline in dollar liquidity supply in the external markets. During these periods the ruble liquidity supply in the FX swap segment increased, and the implied ruble rate on FX swaps was below the lower bound of the Bank of Russia's interest rate corridor, but it did not affect overnight ruble rates on IBLs.

The ruble appreciated in the **foreign exchange market** in 2016 due to the rise in global oil prices, retention of a moderately tight monetary policy by the Bank of Russia, and the inflow of foreign portfolio investments in Russian securities. The tightening of the Fed's monetary policy put a downward pressure on the ruble exchange rate. The volatility of the US dollar / ruble exchange rate continued to decrease and came close to the average value of this indicator for such curren-

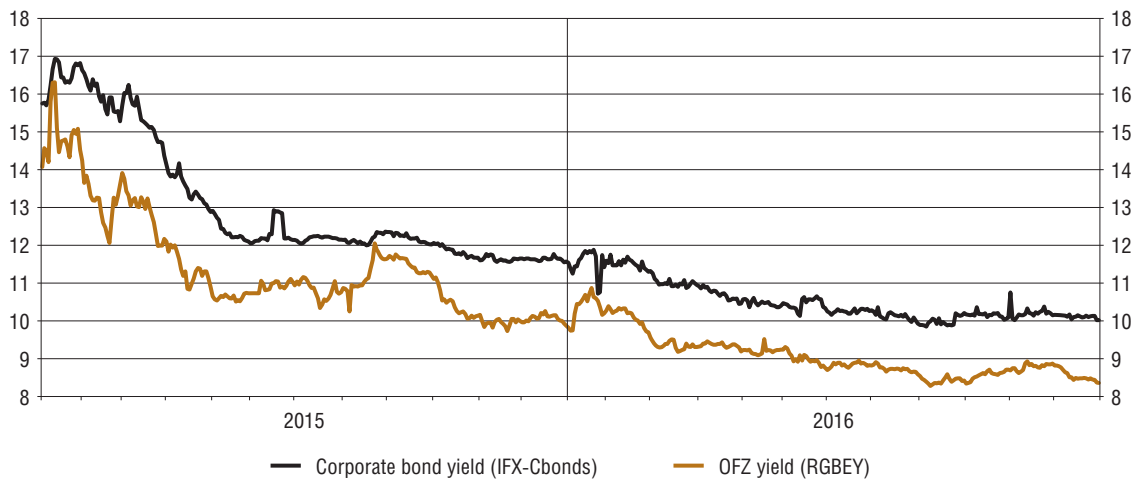
cies as the Canadian dollar, Norwegian krone, Mexican peso, South-African rand, Turkish lira, Brazil real, Indian rupee, and Indonesian rupiah. In certain periods the volatility of the US dollar / ruble exchange rate went down to the level observed before the transition to the floating exchange rate regime.

In 2016, the official US dollar / ruble exchange rate decreased by 16.8% relative to 31 December 2015, to ₺60.6569 per dollar as of 31 December 2016 and the euro/ruble exchange rate fell by 19.9% to ₺63.8111 per euro.

Amid the decline in the exchange rate volatility, the activity of foreign exchange traders subsided. The average daily trading turnover in the spot segment of the FX market for the US dollar / ruble and euro/ruble currency pairs reduced in 2016 by 5% compared to 2015, to \$6.0 billion.

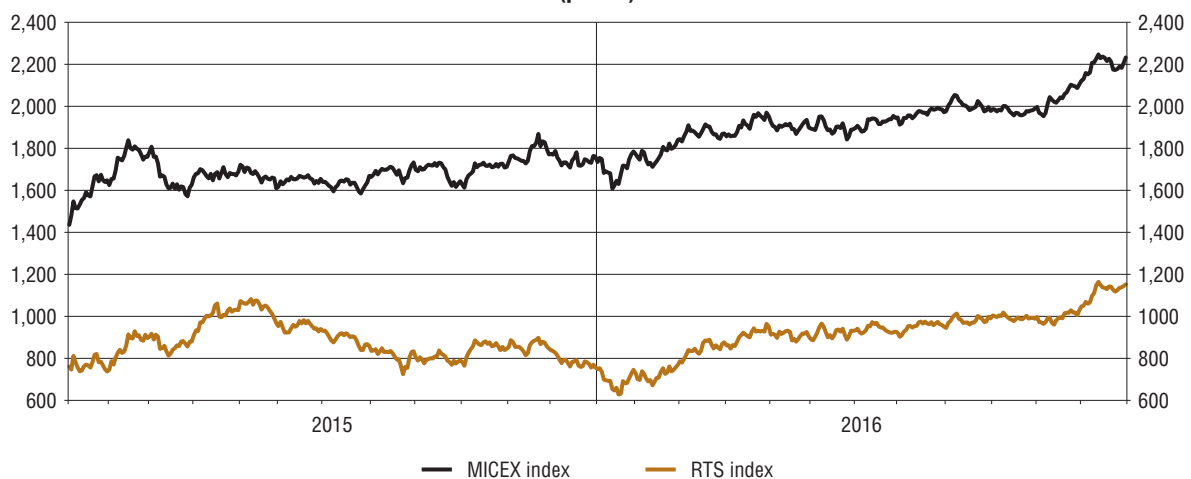
The situation in the Russian **debt securities market** in 2016 was relatively favourable. The yields of government and corporate bonds largely went down amid the improved foreign economic environment, investors' growing risk appetite, the decreased ruble exchange rate volatility, the slowing inflation, and the reduced Bank of Russia key rate. In September 2016, the yields of bonds stopped falling as a result of the Bank of Russia signalling its intention to keep its key rate unchanged until the end of 2016, which facilitated the retention of the tight monetary policy to further reduce inflation. In October–November 2016, the yields of bonds were also affected by the growing price uncertainty in the global financial and commodity markets associated

Bond yields in secondary market (percent p.a.)



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

Stock price indices in secondary market (points)



Source: PJSC Moscow Exchange.

with heightened expectations of the Fed rate hike and with the US presidential elections. OFZ yields (RGBEY index¹) decreased from 9.9% p.a. at the end of 2015 to 8.4% p.a. at the end 2016, and corporate bond yields (IFX-Cbonds index²) fell from 11.6% p.a. to 10.0% p.a. respectively.

Compared with 2015, the issuing activity of Russian borrowers increased in 2016 given the decline in the cost of borrowings. In 2016, the Russian Ministry of Finance continued its regular auctions to place various OFZs in the primary government securities market. The market portfolio of OFZ issues outstanding at the end of 2016 increased by 13.9% to ₺5.5 trillion³ at face value.

The market portfolio of corporate bond issues outstanding in the domestic market grew by 17.0% at the end of 2016 compared with the end of 2015 to ₺9.4 trillion at face value.

Secondary trading volumes in OFZs on the PJSC Moscow Exchange rose by 38.9% to ₺5.0 trillion and those of corporate bonds decreased by 6.9% to ₺4.2 trillion.

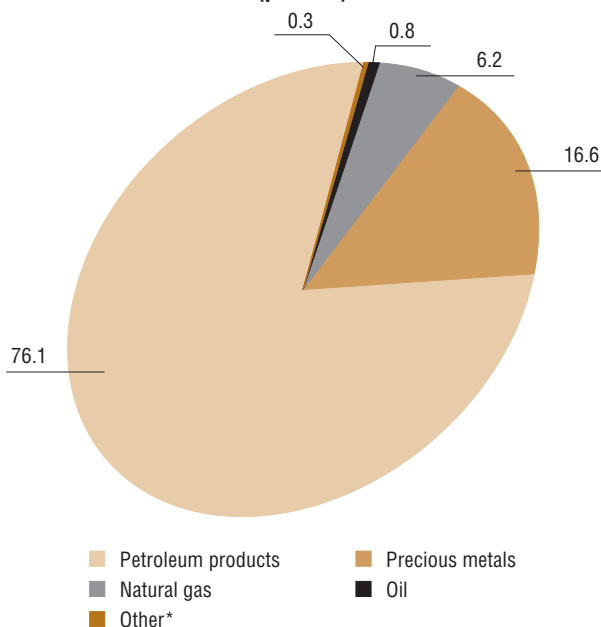
In May and September 2016, the Ministry of Finance, for the first time since September 2013, placed a new issue of Russian sovereign Eurobonds for a total of \$3 billion at face value. Given foreign investors' high demand for these bonds, the cost of borrowings was notably

¹ Based on data from PJSC Moscow Exchange data.

² Based on data from LLC Cbonds.ru.

³ Including the OFZ issues (totalling ₺846.0 billion) transferred by the DIA to 34 Russian banks in May 2015 – December 2016.

**Structure of organised commodity trading in 2016
(percent)**



* Carriages, timber, metal scrap, agricultural products, building materials, amber.

lower than in 2013. At the end of 2016, the portfolio of outstanding Russian sovereign Eurobonds grew by 4.7% compared to the end of 2015 to \$37.6 billion at face value. The issuers of corporate Eurobonds also took advantage of the favourable situation and stepped up placement of such securities in the second half of 2016.

The stock market also showed positive price dynamics. In 2016, the RTS index (calculated based on the prices of shares denominated in US dollars) rose

by 52.2% amid the ruble appreciation, and the MICEX index (calculated based on the prices of shares denominated in rubles) increased by 26.8%. Stock market capitalisation on the PJSC Moscow Exchange grew by 31.5% to ₴37.8 trillion in ruble terms over 2016. The turnover of secondary trading in stocks and Russian depository receipts on the PJSC Moscow Exchange gained 0.2% in 2016 compared with 2015 and amounted to ₴9.2 trillion.

The organised commodity market in 2016 remained a major mechanism to redistribute commodity flows in the Russian economy. The total volume of trading in the organised commodity market in 2016 increased by 2.2% relative to 2015, to ₴748.6 billion, which corresponds to 0.9% of Russia's GDP for the year. Organised commodity trading took place on six exchanges like in 2015.

The range of exchange-traded commodities was quite wide. The organised commodity market in Russia is represented by the following commodity groups: petroleum products, oil, natural gas, timber, agricultural products (wheat), construction materials, and ferrous, non-ferrous, and precious metals.

The petroleum products segment continued to prevail in the trading structure (76.1% of the total volume of commodity trading), and the precious metals segment made up a significant portion (16.6%). The trading volume in the natural gas segment increased 2.2-fold owing to the introduction of a new 'day-ahead' trading schedule.

I.2.2. Financial market participants

I.2.2.1. Financial institutions

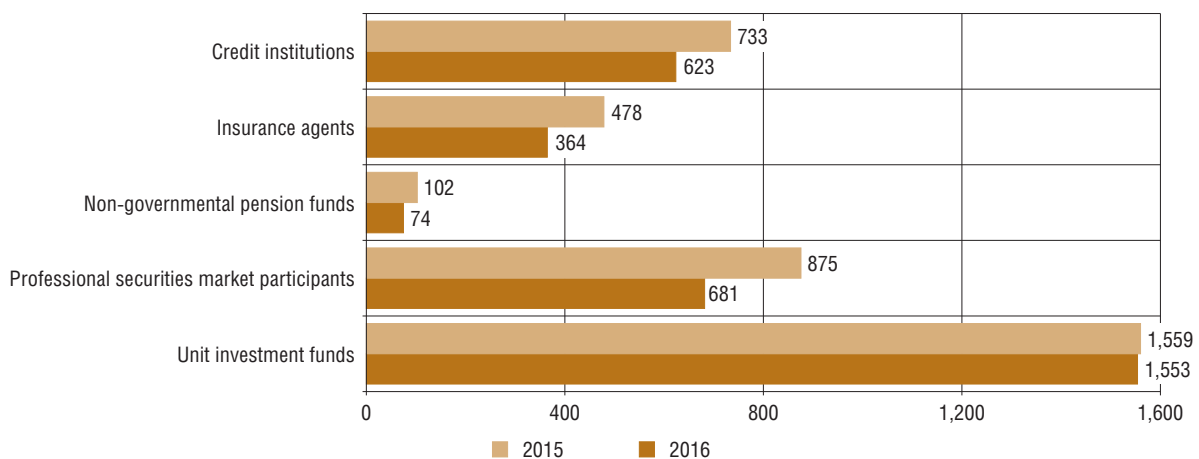
Credit institutions continued to dominate the Russian financial sector despite the presence of a substantial number of nonbank financial institutions¹. In 2016, the banking sector assets to GDP ratio exceeded 90%, while that of other major financial market participants² assets was slightly above 10%.

In 2016, households and businesses continued to give preference to comprehensive banking services. Nevertheless, services of nonbank financial institutions were in great demand.

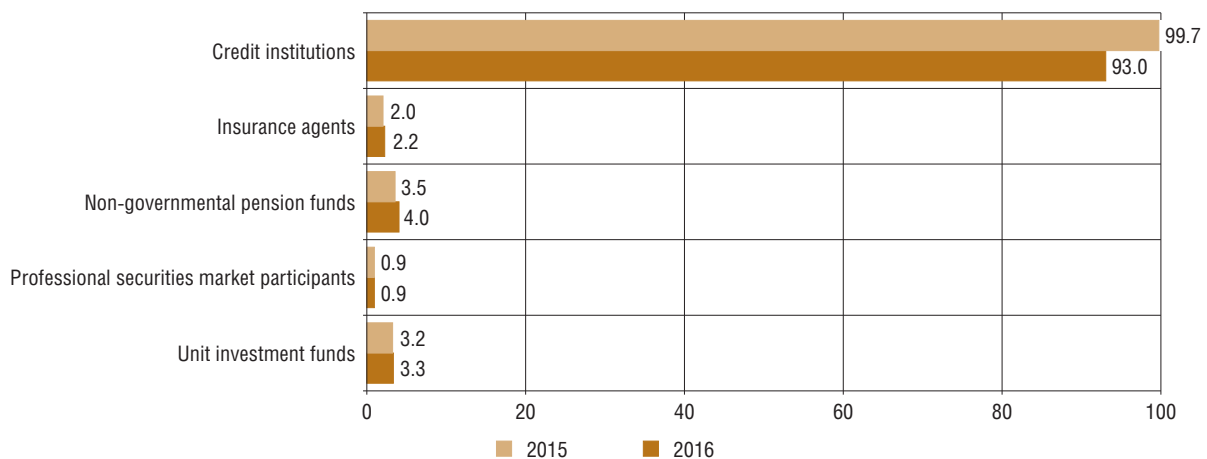
Credit institutions

In 2016, the banking sector functioned against the backdrop of economic activity recovery: a number of sectors were growing at a rapid pace, real wages went up, and signs of reinvigorated demand were observed. The situation in the banking sector also stabilised after the shocks of 2014–2015. Growth in profit, inter alia, due to the recovered growth in net interest income, is a positive signal indicating the improvement of the

**Number of major financial market participants
(units)**



**Assets of major financial market participants
(as a percentage of GDP)**



¹ For details, see Table 9 of subsection VI.3. Statistical tables.

² Insurance agents, non-governmental pension funds, professional securities market participants, and unit investment funds.

situation in banks; banks' profitability improved significantly. The banking sector capital rose in 2016. It was assessed as sufficient to further increase lending and develop the banking sector. A smooth reduction in the key rate and the cost of funding made a favourable impact on the financial indicators of the banking sector.

An improvement in borrowers' payment discipline and, accordingly, an improvement in credit portfolio quality were observed. In 2016, overdue loans to the economy decreased in absolute terms. Risk stabilisation was reflected in provisioning dynamics, which proceeded as usual. Bad loans were adequately covered by provisions.

During the year, foreign exchange revaluation had a significant influence on the nominal indicators of the banking sector. Thus, reduction in loans to the economy largely occurred due to revaluation of the foreign currency component of corporate loans, which was traditionally higher than that of retail loans.

In 2016, there was a considerable increase in lending activity in the domestic interbank market. The ongoing inflow of household savings into credit institutions, indicating the continued trust of the population towards banks, was also a positive characteristic of the year.

Banking sector assets in 2016 decreased by 3.5% to ₹80.1 trillion; excluding foreign exchange revaluation, they grew by 1.9% (in 2015 they grew by 6.9%, and net of revaluation they decreased by 1.6%). Owing to the decrease in assets in nominal terms, their ratio to GDP over the year changed from 99.7%¹ to 93.0%.

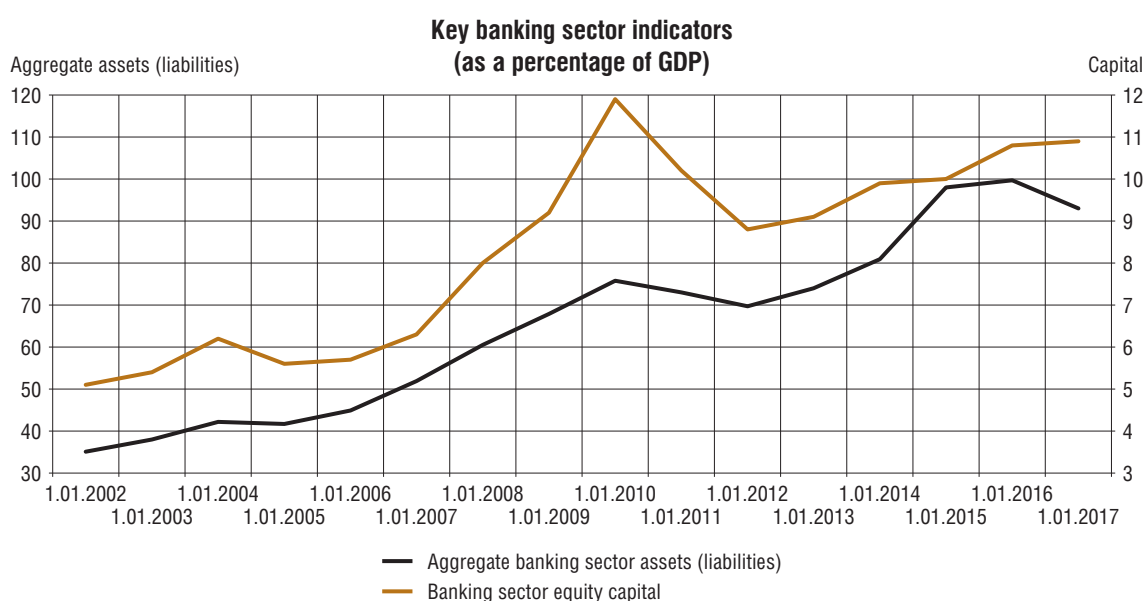
The total assets of systemically important credit institutions (SICIs) in 2016 decreased by 2.2% to ₹50.1 trillion.

During the year, banking sector equity capital increased by 4.2% to 9.4 trillion (in 2015 it grew by 13.6%, inter alia, thanks to the funds received under the additional capitalisation programme through the state corporation Deposit Insurance Agency). The banking sector capital to GDP ratio grew from 10.8% to 10.9% over the year.

Credit institution liability structure. The banking sector funding in 2016 was fairly balanced; the share of corporate deposits and funds in accounts and that of household deposits in credit institutions' liabilities were almost equal (30.4% and 30.2% respectively). The amount of household deposits increased, testifying to the retention of trust in the banking sector.

The total amount of corporate deposits and funds in accounts in 2016 dropped by 10.1% (by 2.8%, excluding foreign exchange revaluation); as of 1 January 2017 they amounted to ₹24.3 trillion. Apart from the decline in dollarisation and foreign exchange revaluation, the dynamics of corporate funds in bank liabilities were affected by the more active use of resources by organisations amid the industrial output recovery.

Total household deposits² in 2016 grew by 4.2% (by 25.2% in 2015) to ₹24.2 trillion (an increase of 9.2%, excluding foreign exchange revaluation). The share of foreign currency deposits in the total volume of deposits decreased from 29.4% to 23.7% over the year. The



¹ Due to GDP data update, its value as of the beginning of the year differs from the value given in the Bank of Russia Annual Report for 2015.

² Including savings certificates.

share of Sberbank in the household deposit market grew insignificantly in 2016, from 46.0% to 46.6%.

Against the backdrop of cash inflow into the banking sector due to the utilisation of the Reserve Fund, in 2016 credit institutions reduced their borrowings from the Bank of Russia significantly (by 49.2%). The decline in the share of these funds in bank liabilities from 6.5% to 3.4% demonstrates that banks have mostly started using market sources of funding. The amounts outstanding on deposits placed with banks by the Federal Treasury decreased by 28.5% in 2016, and their share in banking sector liabilities contracted from 0.5% to 0.4%.

The total amount of funds raised by SICs in 2016 decreased by 4.6% to ₹40.4 trillion. The amount of corporate deposits and funds in accounts contracted by 8.6% to ₹17.2 trillion, while the amount of household deposits grew by 14.6% to ₹15.1 trillion.

The smooth lowering of the Bank of Russia key rate facilitated the reduction in the weighted average interest rate on ruble deposits of nonfinancial organisations with maturity of over one year from 10.1% p.a. in January to 9.2% p.a. in December 2016, and on household ruble deposits, from 9.4% to 7.6% respectively.

Credit institutions' liabilities in foreign currency (in dollar terms) decreased by 7.5% over 2016, and their share in total banking sector liabilities contracted to 26.5% (27.8% as of 1 January 2016).

Credit institution asset structure. The total amount of lending to the economy (nonfinancial organisations and households) in 2016 dropped by 6.9% (in 2015 it increased by 7.6%) to ₹40.9 trillion (excluding foreign exchange revaluation, it decreased by 2.4%). The ratio of lending to the economy to GDP diminished from 52.8% to 47.7% over the year.

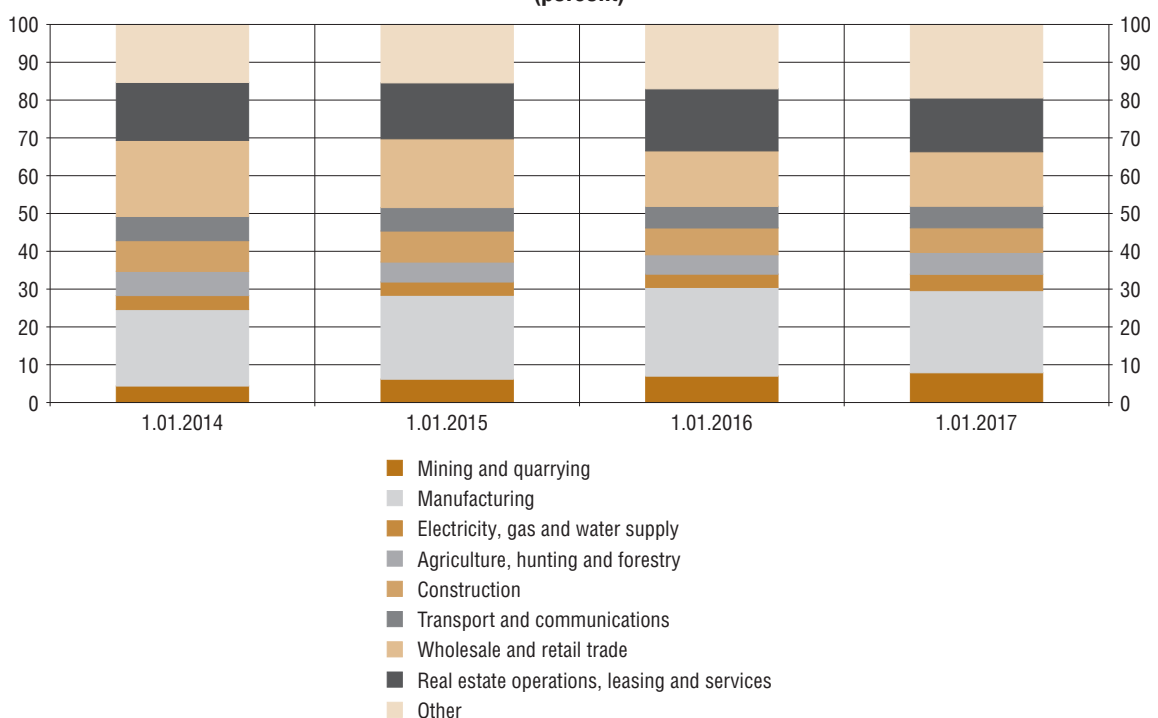
The decrease in lending to the economy by banks operating as of year-end 2016 was less (–0.8%, excluding the impact of the exchange rate dynamics). The decline in corporate lending growth was facilitated by the reclassification of sectoral membership of counterparties under repo transactions.

The corporate credit portfolio of SICs decreased by 4.5% to ₹24.4 trillion, while the household credit portfolio grew by 9.3% to ₹6.1 trillion.

The amount of loans and other funds placed by nonfinancial organisations decreased by 9.5% over 2016 (against growth of 12.7% in 2015) to ₹30.1 trillion (excluding foreign exchange revaluation, it decreased by 3.6%). The share of these loans in banking sector assets contracted from 40.1% to 37.6% over 2016.

Loans to small and medium-sized enterprises (SMEs) totalled ₹4.5 trillion, or 14.8% of banks' total corporate credit portfolio as of 1 January 2017. In 2016, the amount of loans to SMEs decreased by 8.5% (by 5.7% in 2015).

Structure of banking sector corporate lending portfolio by economic activity (percent)



Broken down by type of economic activity, loans to manufacturing enterprises accounted for the largest share (21.7% of the corporate credit portfolio as of 1 January 2017 against 23.5% as of 1 January 2016)¹. The share of loans to wholesale and retail trade enterprises decreased from 14.7% to 14.4% over 2016.

The dynamics of loans to various types of enterprises in 2016 were different. Loans to agricultural and forest enterprises increased by 7.0% over the year (by 8.7%, excluding the exchange rate impact). Loans to enterprises engaged in electricity, gas and water supply grew significantly, by 17.1% (by 17.2% adjusted for exchange rate dynamics). Meanwhile, loans extended to construction organisations² decreased by 13.7%, and to manufacturing businesses, by 12.9% (or by 11.0% and 7.5% respectively, adjusted for foreign exchange revaluation).

The share of foreign currency loans in total loans to nonfinancial organisations in 2016 decreased from 39.8% to 32.2% primarily due to foreign exchange revaluation. The share of the foreign currency component dropped on loans to organisations of all types of economic activity. The largest decline in this share was observed in the mining and quarrying enterprises (from 61.4% to 49.1%). Nevertheless, these enterprises retained the highest share of outstanding foreign currency loans, which may be explained by their significant foreign exchange earnings.

Loans to households grew by 1.1% over 2016 (they decreased by 5.7% in 2015) to ₹10.8 trillion or 13.5% of the banking sector assets as of 1 January 2017 (an increase of 1.4%, excluding foreign exchange revaluation). Foreign exchange revaluation affected retail loan growth insignificantly due to the extremely low share of the foreign currency component. In the first half of 2016, growth in household loans went down. As in 2015, this was largely due to the reduction in unsecured consumer loans: by 3.1% in 2016 (by 12.4% in 2015), to ₹5.4 trillion.

Outstanding housing mortgage loans grew by 12.8% in 2016 (by 12.9% in 2015) to ₹4.5 trillion, which was facilitated by government subsidies for the interest rate on these loans. Outstanding ruble-denominated loans continued to dominate – ₹4.4 trillion (with a share of 98.4% in total housing mortgage loans). In 2016, about

856,000 mortgage loans were issued (vs. 700,000 loans in 2015).

Given the absence of liquidity problems in banks, credit institutions' claims against the Bank of Russia (on deposits and correspondent accounts) in 2016 grew by 22.2% (decreased by 25.9% in 2015) to ₹2.6 trillion; the share of these claims in banking sector assets increased from 2.5% to 3.2%.

The weighted average interest rate on ruble-denominated loans to nonfinancial organisations for terms over one year amounted to 11.7% p.a., which was 2.0 pp less than in January. The rate on ruble loans to households with the same maturity decreased from 18.1% p.a. in January to 15.5% p.a. in December. The weighted average interest on housing mortgage loans issued in rubles went down from 12.5% p.a. in January to 11.6% p.a. in December.

The securities portfolio in 2016 decreased by 2.8% (grew by 21.1% in 2015) to ₹11.5 trillion, and its share in banking sector assets grew from 14.2% to 14.3%. Investments in debt liabilities, the amount of which decreased to ₹9.4 trillion, continued to have the greatest share (81.8%) in this portfolio. Equities rose by 21.1%, and their share in the securities portfolio increased from 2.5% to 3.1%.

The securities portfolio of SICs decreased by 0.3% to ₹7.1 trillion during the reporting period.

Credit institutions' foreign currency assets (in dollar terms) decreased by 7.2% over 2016.

Claims and obligations on interbank loans. In 2016, Russian banks were on firm ground from the point of view of risks, which was conducive to the IBL market revival. The total IBL portfolio³ in 2016 grew by 5.6% (by 24.9% in 2015) to ₹9.1 trillion, and their share in banking sector assets increased from 10.4% to 11.4%. IBLs granted to resident banks grew by 41.5%, and IBLs granted to nonresident banks decreased by 45% (by 35%, excluding foreign exchange revaluation).

The amount of IBLs raised grew by 20.7% (by 7.5% in 2015) to ₹8.6 trillion, and their share in banking sector liabilities rose from 8.5% to 10.7%. IBLs raised from nonresident banks decreased by 37.3% (by 32.0%, excluding foreign exchange revaluation).

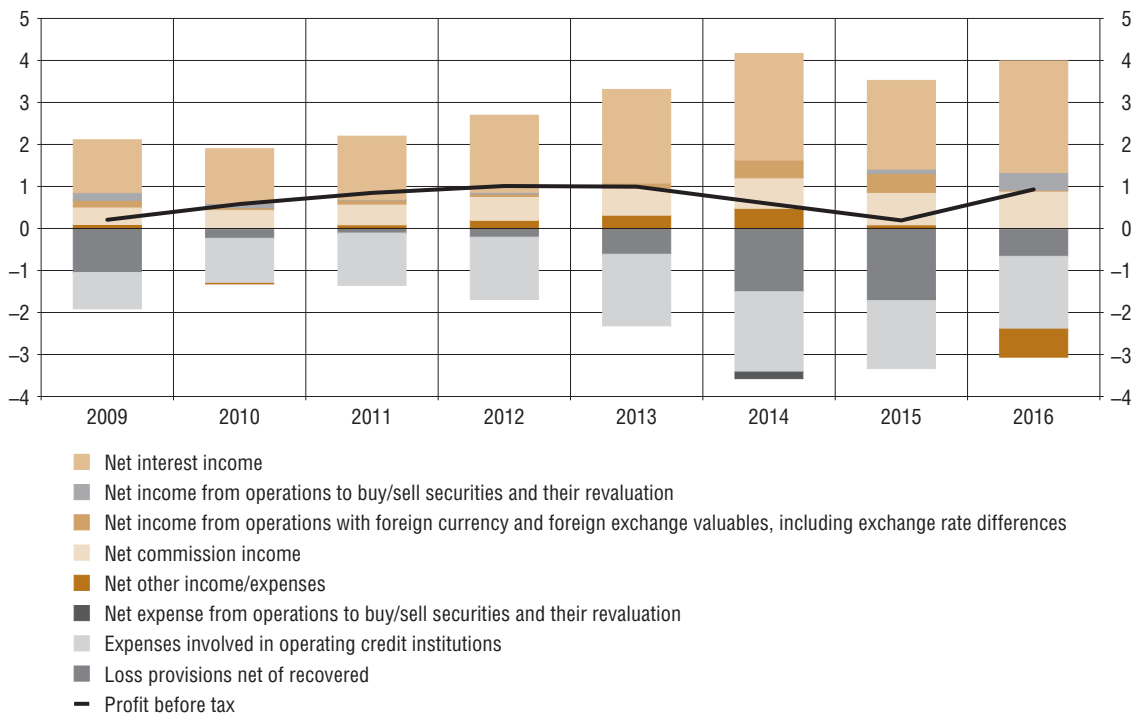
At the end of 2016, the Russian banking sector remained a net creditor in operations with nonresident

¹ For loans extended to resident legal entities and individual entrepreneurs, excluding loans for settlements. Here and below, the lending figures broken down by type of economic activity are presented taking into account data on the state corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank).

² For details, see subclause II.2.1.1. Monitoring of financial stability risks.

³ IBLs mean loans, deposits, and other funds placed (raised) in the interbank market, including repo transactions.

Banking sector profit factors (trillions of rubles)



banks: net claims to nonresidents in the interbank market was P0.7 trillion (P1.5 trillion a year earlier).

Banking sector financial results and capital. In 2016, the net profit of operating credit institutions stood at P929.7 billion (P192.0 billion in 2015). The main factors causing this growth in profits were the increase in net interest income (by P544.8 billion, or by 25.8%) and a significant reduction in loss provisions (by P1.1 trillion, or by 61.3%).

Net interest income remained the most significant item in banks' financial results: its share in factors contributing to profit growth increased to 66.5% (59.8% in 2015). The ratio of banks' net interest income to gross interest income rose from 32.4% as of 1 January 2016 to 40.9% as of 1 January 2017.

Net interest income on operations with households grew by P31.7 billion, or by 9.3%, over the year. Interest income on household loans decreased by 4.4%, while interest expenditures on operations with households decreased by 7.6%, reflecting the trend towards quicker reduction in interest rates on household deposits than on retail loans.

The net fee income¹ in 2016 grew by P121.0 billion, or by 15.7% (by 6.5% in 2015). The share of this item in the structure of income growth factors went up from 21.9% to 22.4% over the year.

Net income from operations with securities in 2016 increased fourfold; its share in the structure of income growth factors amounted to 10.4% (2.9% in 2015).

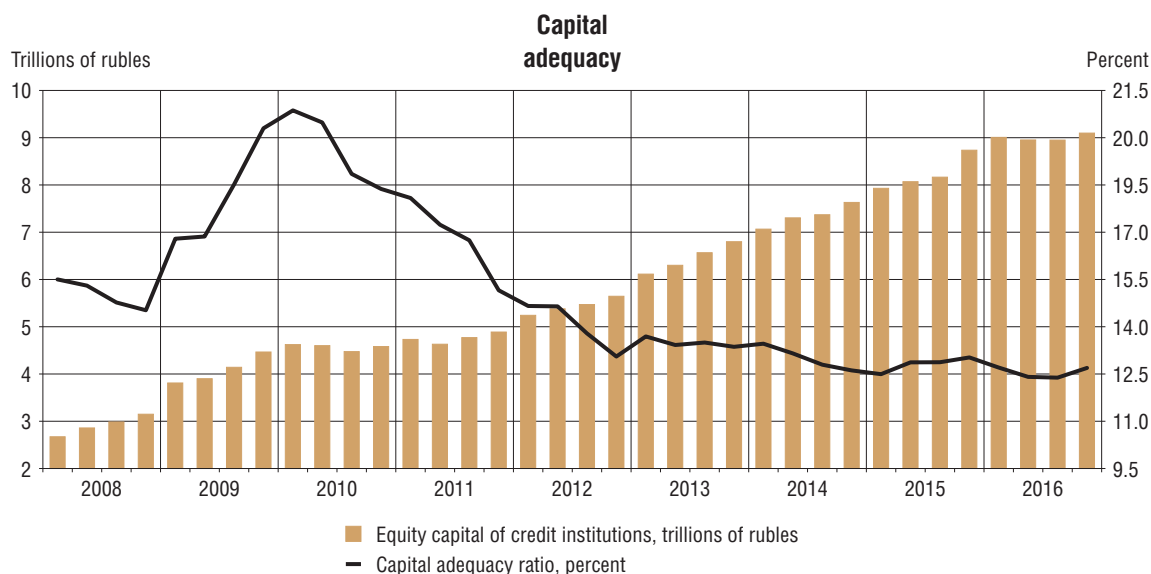
The share of net income from foreign currency operations (primarily, revaluation) in the structure of income growth factors went down from 12.8% to 0.6% over the year.

The financial result for 2016 was decreased by net expenditures on credit institutions' other operations in the amount of P663.7 billion, which made up 21.7% in the structure of profit reducing factors (in 2015 these operations yielded net income in the amount of P92.0 billion). This indicator included, among other things, net expenditures (excluding interest income/expenditures) resulting from operations with loans (and loans whose claims have been acquired) granted to non-governmental commercial institutions and citizens in the amount of P480.8 billion. This may imply that banks sold loan portfolios with poor debt quality at prices much lower than their book value. In addition, net expenditures from operations with financial derivatives amounted to P90.1 billion.

Expenditures related to the activities of credit institutions grew by 7.1% over 2016.

In 2016, SICs earned total profits in the amount of P779.5 billion, and the activity of all SICs was profitable.

¹ Including fee income/expenditures on operations that yield interest income/expenditures.



Banking sector profitability improved significantly: the return on assets grew from 0.3% to 1.2% over the year, and the return on equity grew from 2.3% to 10.3%. The share of 445 profit-making credit institutions decreased from 75.4% to 71.4% over the year, and their profit totalled ₹1.3 trillion. As many as 178 credit institutions reported losses totalling ₹362.2 billion in 2016.

The dynamics of banking sector capital, profit, and profitability in 2016 are shown in Table 36 of subsection VI.3. Statistical tables.

The equity capital of credit institutions increased by 4.2% in 2016, fixed capital by 9.7%, and core capital by 9.4%. The share of core capital in the total capital structure rose from 65% to 68% in 2016.

During the year, 403 credit institutions augmented their equity capital to total ₹1 trillion; 218 credit institutions decreased their capital by ₹449 billion; and 112 credit institutions (with capital amounting to ₹202 billion as of 1 January 2016) terminated their activity for various reasons (revocation of licences, reorganisation). Equity capital increased by ₹0.12 billion due to the credit institutions established in 2016. With regard to the credit institutions that decreased their capital, 41% of such decrease was due to banks undergoing bankruptcy-prevention measures as of 1 January 2017. The number of credit institutions with capital exceeding ₹1 billion was 312 as of 1 January 2017 (337 as of 1 January 2016).

The increase in equity capital in 2016 was mainly due to the ₹753-billion increase in credit institutions' financial result recorded in the capital (₹609 billion were allocated to raise credit institutions' profit, and ₹144 billion to reduce losses). A major capital growth factor was the reduced (by ₹208 billion) deductions from capital as of the year-end associated with investments in equities

of financial institutions (including subsidiaries and affiliates). Moreover, in 2016 subordinated debt recorded in the capital sources decreased by ₹394 billion, and deductions from the capital sources associated with credit institutions' investments in intangible assets grew by ₹237 billion.

The banking sector equity capital adequacy ratio (N1.0) increased in 2016 from 12.7% to 13.1%. The core capital adequacy ratio (N1.1) grew from 8.2% to 8.9% and the fixed capital adequacy ratio (N1.2), from 8.5% to 9.2%.

The capital reserve of Russian banks calculated as banks' capital in excess of the level required for them to comply with the capital adequacy ratios and with the requirements effective as of the date of capital adequacy support buffer and systemic importance buffer amounted to ₹2.2 trillion as of 1 January 2017 (a year earlier the capital reserve calculated net of such buffer stood at ₹1.8 trillion).

Foreign-controlled banks. There are a large number of foreign-controlled banks operating in the Russian banking sector. The share of these banks in the total number of operating credit institutions grew from 27.1% to 27.9%, although their number decreased from 199 to 174. The nonresidents' stake in the Russian banking sector decreased insignificantly over the year, from 16.9% to 16.6%.

Foreign-controlled banks' share in the total authorised capital of operating credit institutions, calculated by the Bank of Russia in accordance with the procedure stipulated by Article 18 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities', remained almost unchanged: 13.5% as of 1 January 2017 (13.4% as of 1 January 2016).

As of 1 January 2017, operating credit institutions with the nonresidents' stake were located in 34 constituent territories of the Russian Federation, including 121 credit institutions (or 69.5% of their total number) in Moscow, six in Saint Petersburg, four in the Republic of Tatarstan, three in Primorye Territory, and two institutions in each of the following: Krasnodar and Krasnoyarsk Territories, and the Rostov, Kirov, Nizhny Novgorod, Samara, Sverdlovsk, Chelyabinsk, and Amur Regions. Twenty-two constituent territories have one credit institution each with the nonresidents' stake.

In 2016, the share of banks with the nonresidents' stake in excess of 50% (hereinafter, foreign-controlled banks) in the total number of operating credit institutions increased from 13.6% to 14.8%, while their number decreased from 106 to 92. Foreign investments in the authorised capitals of such credit institutions decreased by ₺3.9 billion. As of 1 January 2017, 14 foreign-controlled banks were among Russia's top 50 credit institutions by the size of assets, and three banks were among the SICs. The share of foreign-controlled banks in the Russian banking sector assets decreased from 13.0% to 12.7%, and in the equity capital from 16.7% to 16.1%. In 22 out of the 92 aforementioned banks, their nonresident owners were controlled by Russian residents.

The amount of loans issued to nonfinancial organisations by foreign-controlled banks decreased by 18.3% in 2016, and household loans by 6.6%. The share of loans to nonfinancial organisations issued by this group of banks in the total amount of such loans in the banking sector decreased from 10.9% to 9.9% over the year, and in the total amount of household loans, from 15.7% to 14.5%.

Investments in securities made by foreign-controlled banks grew by 3.3% over 2016, which made the share of such investments in the total banking sector indicator increase from 10.7% to 11.4%.

The share of foreign-controlled banks in the household deposit market rose over the year from 11.4% to 12.8%.

In 2016, the share of IBLs of nonresident banks in Russian foreign-controlled banks' liabilities continued to go down (from 5.6% to 3.8%). The role of this group of banks in interbank operations with nonresidents changed; however, these operations were generally

balanced: they turned from net creditors (the total net claims against nonresident banks equalled ₺111 billion as of 1 January 2016) into net borrowers (the total net obligations to nonresident banks stood at ₺2 billion as of 1 January 2017).

In 2016, foreign-controlled banks earned profit in the amount of ₺140 billion, which exceeded the 2015 result 1.6 times.

Insurance entities

In 2016, the number of insurance market participants continued to decline. The total number of insurance agents decreased by 23.8% over the year and amounted to 364 as of 1 January 2017¹.

The total assets held by insurers as of 31 December 2016 was ₺1,871.4 billion² (₺1,624.9 billion as of 31 December 2015). The total capital held by insurers was ₺462.0 billion (₺395.1 billion as of 31 December 2015), and the total insurance reserves amounted to ₺1,136.1 billion (₺972.9 billion as of 31 December 2015). Insurers' net profit was ₺81.9 billion (₺91.7 billion as of 31 December 2015).

In 2016, demand for insurers' services was on the rise. Over the year, the number of insurance agreements grew by 17% to 167.8 million, of which 154.1 million agreements were signed with households (by 19.1% more than in 2015) and 13.7 million agreements were signed with individual entrepreneurs and legal entities (a decrease of 2.5%).

The insurance premiums collected in 2016 grew by 15.3% against 2015 and amounted to ₺1,180.6 billion. The 20 largest insurers accounted for 78.1% of premiums collected in 2016 (77.5% in 2015) and the 100 largest insurers – for 97.8% (96.2% in 2015). Total indemnities to insurance policy holders decreased by 0.7% over the year to ₺505.8 billion at the end of 2016.

The segment of compulsory motor third party liability insurance (CMTPLI) was the largest market segment in 2016 despite the fact that its share in total collected premiums declined to 19.9% (vs. 21.4% a year earlier). However, the insurance premiums in this segment increased by 7.2% against 2015. The amount of insurance premiums collected under CMTPLI in 2016 was ₺234.4 billion. The amount of indemnities grew by 40% against 2015 and exceeded ₺172.6 billion.

¹ For details, see Table 9 of subsection VI.3. Statistical tables.

² Here and below, we present statistical data on the insurers' activity for 2016 as of 17 February 2017. Accounting (financial) data as of 31 December 2016 are given based on the information as of 5 April 2017. Data for the previous reporting periods are provided based on the Bank of Russia Annual Report for 2015.

Life insurance in 2016 was the key driver of market growth: the annual growth in premiums on this type of insurance in 2016 accelerated to 66.3% (vs. 19.1% in 2015). The total collected premiums reached ₺215.7 billion. The share of life insurance premiums in the total amount of insurance premiums also continued to grow and reached 18.3% at the end of 2016 (vs. 12.7% in 2015). Total indemnities stood at ₺30.0 billion.

For the market as a whole, the sliding indemnity ratio for 2016 reached 42.8%, which is 6.9 percentage points lower than the figure for 2015, including: 73.7% for CMTPLI (an increase of 17.2 percentage points), 73.0% for voluntary medical insurance (a decrease of 4.3 percentage points), and 57.1% for land-based transport (excluding railway transport) insurance (a decrease of 19.8 percentage points).

Reinsurance premiums grew proportionately to the insurance market. Thus, the amount of premiums under reinsurance agreements was 132.1 billion at the end of 2016 (an increase of 9.5% over the year). The share of reinsurers in the total amount of insurance premium was 11.2%.

Non-governmental pension funds (NPFs)

The number of operating NPFs decreased by 27.5% over the year and amounted to 74 as of 1 January 2017, over half of which (41 funds) are participants in the system guaranteeing the rights of insured persons and engage in compulsory pension insurance. The reduction in the number of NPFs is explained by the cancellation of licences for violations (18 licences), three NPF licences were cancelled upon request, one licence was cancelled as a result of the NPF's bankruptcy, and six NPFs terminated their activity due to reorganisation through merger.

In 2016, the number of insured persons in NPFs grew by 13.3% and by the end of 2016 had amounted to 29,839,400 persons; the number of insured persons who receive pensions decreased by 11.3% to 444,300 persons; the amount of pension payments under compulsory pension insurance decreased by 5.6% to ₺5.6 billion; the amount of pension payments under non-governmental pension support increased by 8.3% to ₺53.4 billion; and the number of voluntary pension

system participants decreased by 9.0% and amounted to 5,283,800 persons.

As of 31 December 2016, the total amount of NPF assets was ₺3,422.2 billion, and the amount of NPF equity capital and assets for statutory activities grew by 12.7% against 31 December 2015 to ₺180.7 billion. The total amount of pension reserves and pension savings (balance sheet value) held by NPFs (pension funds) increased by 19.0% to ₺3,211.4 billion. The amount of pension savings held by NPFs (balance sheet value) grew by 23.9% to ₺2,114.6 billion; the amount of pension reserves held by NPFs grew by 10.6% to ₺1,096.8 billion. The increase in pension funds was provided for by their investment. In 2016, the weighted average return on the investment of NPF pension reserves amounted to 10.0% p.a., and that on the investment of NPF pension savings amounted to 9.6% p.a.

Net profit stood at ₺282.6 billion as of 31 December 2016, having increased by 21.6% in 2016.

In 2016, the NPF investment portfolio for compulsory pension insurance grew by 23.9% to ₺2,148.7 billion.

The NPF investment portfolio for non-governmental pension support grew by 11.1% and stood at ₺1,111.5 billion as of 31 December 2016.

Unit and joint-stock investment funds

As of 1 January 2017, the number of unit investment funds (PIFs) decreased by 6, to 1,553 funds¹: 1,150 closed-end PIFs, 356 open-end PIFs, and 47 interval PIFs.

In 2016, the net inflow of investments into PIFs amounted to ₺148.0 billion, including a significant net investment inflow of ₺140.4 billion into closed-end PIFs. The net investment inflow into open-end PIFs amounted to ₺12.3 billion. Interval PIFs registered net investment outflow of ₺4.7 billion.

The value of net assets of PIFs as of 31 December 2016 stood at ₺2,579.9 billion (8.3% growth over 2016). The total value of PIF assets for 2016 increased by 6.0% and amounted to ₺2,835.2 billion as of 31 December 2016.

The number of joint-stock investment funds (AIFs) in the register of joint-stock investment funds as of 1 January 2017 was three (as of 1 January 2016 there were four). The NAV of AIFs in 2016 decreased to ₺4.5 billion.

¹ The number of funds registered and not struck off from the register of unit investment funds.

Professional securities market participants

During 2016, the number of credit and nonbank financial institutions holding licences of professional securities market participants continued to decline. The number of such institutions decreased by 22.2% over the year to 681¹ as of 1 January 2017.

The total assets of professional securities market participants – nonbank financial institutions (hereinafter, professional participants – NFIs) grew by 2.5% against 31 December 2015 and amounted to ₹781.2 billion as of 31 December 2016.

The equity capital of professional participants – NFIs (excluding trust managers who also hold a licence to manage investment funds, unit investment funds, and non-governmental pension funds²) amounted to ₹205.0 billion as of 31 December 2016.

Net profit of professional participants – NFIs grew by 55.9% over 2016 and stood at ₹36.1 billion as of 31 December 2016.

Microfinance market participants

The number of microfinance organisations (MFOs) in 2016 decreased by 29.8% to 2,588 organisations as of 1 January 2017; consumer credit cooperatives (CCCs), by 12.6% to 3,059 organisations; housing savings cooperatives, by 10.4% to 69 entities; pawnshops,

by 11.9% to 7,415; and agricultural CCCs, by 15.4% to 1,470 entities³.

The decline in the number of MFOs is mainly associated with the work performed by the Bank of Russia to remove dishonest and nonviable participants from the market. However, demand for microloans continued to grow. This resulted in a significant increase in the total number of concluded contracts and the amount of microloans issued during the reporting period.

In 2016, the number of concluded contracts was 19.0 million (an increase of 67.9% over 2016). The total amount of microloans issued in 2016 was ₹195.1 billion (an increase of 39.4%). Microloans issued to individuals remained the main driver of market growth, comprising 87.6% of the segment.

As of 31 December 2016, the MFO portfolio amounted to ₹88.1 billion, an increase of 25.3% compared with the same indicator at the end of 2015 (₹70.3 billion). The total number of MFO borrowers grew by 54.9% to 5.1 million borrowers.

The total amount of funds raised by MFOs in 2016 grew by 13.5% compared to 2015 to ₹60.5 billion.

In 2016, the Bank of Russia calculated and published average market figures for full cost of loans (FCL) in the microfinance market on a quarterly basis.

Due to the ongoing growth in competition among MFOs, in 2016 the average market FCL in the category of unsecured loans with maturity of up to one month for an amount of up to ₹30,000 decreased by 46.982 percentage points to 613.177%.

¹ For details, see Table 9 of subsection VI.3. Statistical tables.

² From 1 September 2016, this type of participants became subject to a different procedure for equity capital calculation within the framework of collective investment management.

³ For details, see Table 9 of subsection VI.3. Statistical tables.

1.2.2.2. Financial market infrastructure

In 2016, the financial market infrastructure was represented by the following institutions: exchanges, the repository, the central depository, specialised depositories, clearing houses, including those performing the functions of a central counterparty, operators of commodity supplies, and the national payment system entities, primarily money transfer operators (mainly credit institutions), payment system operators, and operators of the payment infrastructure services.

In 2016, the number of operating clearing houses remained unchanged (five organisations), and the number of trade organisers (exchanges) decreased from nine to eight due to reorganisation of MICEX Stock Exchange through a merger with Moscow Exchange. In 2016, the Bank of Russia accredited one operator of commodity supplies. As of 1 January 2017, three commodity supply operators were duly accredited. The number of organisations acting as a specialised depository in the collective investment market did not change in 2016 and amounted to 39¹.

In 2016, development of the financial market infrastructure became one of the priorities of the Bank of Russia's activity for the purpose of strengthening stability and enhancing transparency of the financial market and increasing the trust of financial services consumers in different institutes of financial mediation.

In 2016, the key performance indicators of systemically important financial market infrastructures (SIFMIs) went up. The volume of trading on operations with the qualified central counterparty (CC), represented by the National Clearing Centre Bank (Joint-stock Company) (NCC), increased by 31% to ₹638 trillion due to the growth in repo operations with the CC. This was facilitated by the admission of new instruments and the expansion of the list of services provided by the CC.

The value of assets kept in the central depository (CD), the functions of which are performed by the Nonbank Credit Institution – Joint-stock Company National Settlement Depository (NSD), increased by 13% to ₹40 trillion, which was mainly caused by growth in the value of shares kept in custody and by the inflow of securities for servicing.

The number of registered transactions in the repository NSD increased more than fivefold to 2.4 mil-

lion mostly due to the launch of mandatory reporting on transactions outside the framework of general agreements starting from 1 November 2016.

The reporting year was characterised by the launch of new products, projects and the expansion of the line of services provided by SIFMIs. Thus, 2016 saw a new segment of the money market at Moscow Exchange start operating with the clearing participation certificate, a brand new financial instrument, used in that segment as collateral for transactions. The main advantages of repos with clearing participation certificates include wider opportunities to manage collateralised assets, the homogeneous universal nature of the instrument for market participants to manage their own liquidity, and retention of the right to participate in corporate actions with regard to the assets included in the property pool.

In 2016, the NSD launched a new settlement service – money transfer based on the 'payment versus payment' principle – in order to ensure cross-currency settlements of NSD customers in Russian rubles, US dollars, Swiss francs, pounds sterling, Chinese yuan, and Hong Kong dollars.

In 2016, the NSD was acknowledged to be the centre for keeping and distributing official reliable information on corporate actions (corporate information / corporate action centre). The NSD worked to standardise corporate procedures, introduce universal formats of documents, and use electronic document turnover corresponding to international standards and introduced an electronic voting procedure for joint-stock companies.

The activity of the national payment system (NPS) entities in 2016 was aimed at the development of payment services that meet the growing customer demand for high-quality and widely available payment services. Special attention was paid to the development of remote banking services systems and to IT-based services supporting cashless operations.

As of 1 January 2017, 625 money transfer operators (including 99 e-money operators), 35 payment system operators², 47 payment infrastructure operators, the Federal State Unitary Enterprise Russian Post, payment agents, and bank payment agents performed their activities as NPS entities. As of the beginning of 2017, there were 35 payment systems functioning in the

¹ For details, see Table 9 of subsection VI.3. Statistical tables.

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

Russian Federation (including two systemically important ones, six socially important ones, and 18 nationally important ones)¹.

The Bank of Russia payment system (Bank of Russia PS), which is a key infrastructure element of the NPS, satisfied the needs of the banking system and a wide range of its customers in making money transfers, including operations for the purpose of monetary policy implementation, settlements in the interbank and financial markets and on operations using payment cards. During 2016, 1.4 billion money transfers were made through the Bank of Russia PS for an amount of ₹1,340.0 trillion (which exceeds GDP 15.6 times). In order to finalise settlements² on operations using cards issued by international payment systems, 31,900 money transfers were made through the Bank of Russia PS for an amount of ₹2.1 trillion, which exceeds the 2015 indicators four times over.

The volume of money transfers made through NSD payment system (NSD PS), Russia's second most important payment system, increased by 3.3% against 2015 to ₹160.5 trillion (the ratio to GDP was 1.9). Money transfers under deals concluded at organised trading prevailed in the structure of money transfers made through NSD PS (77.1%), as in 2015. The share of money transfers made in the OTC market was 17.0%.

NPCS JSC is one of the most important Russian operators of the payment infrastructure services, providing credit institutions with the services to process payment card operations in the territory of the Russian Federation. In 2016, the payment clearing centre Joint-stock Company National Payment Card System (NPCS JSC) increased the number and volume of payment card operations 1.9 times (up to 5.4 billion for an amount of ₹7.7 trillion³) as part of the transition to a full-fledged operation.

In the reporting year, credit institutions made 99.1 million payments by order of their customer credit institutions for an amount of ₹600.3 trillion (an increase of 27.8% and 7.7% respectively against 2015). The number and volume of cashless payments of credit institution customers⁴ and of their own operations increased by 31.0% and 0.7% respectively and at the end of 2016 reached 20.3 billion payments for an amount

of ₹622.8 trillion. Furthermore, the number of payments made by individuals increased by 35.5%, and the amount of payments, by 25.9%, which evidences their active involvement in cashless money circulation.

Along with office services, credit institutions' customers used more actively the opportunity of settling operations through remote access channels. This trend resulted in a growing number of customer accounts with remote access and operations settled using those accounts. Over the year, the share of such accounts in the active accounts of credit institutions' customers increased to 79%, and their number grew by 17.7% (to 194.7 million). The number of payments made using digital technologies grew by more than a third, to 18.7 billion payment orders.

Payment cards are one of the most in-demand and promising retail payment instruments. In 2016, the payment card market continued to develop dynamically mostly due to the enhanced efficiency of their use. Along with a 4.5% increase in the number of payment cards issued by Russian credit institutions over the year (to 254.8 million as of 1 January 2017), operations using such cards settled in Russia and outside it increased by 36.2% in number and by 23.4% in volume (17.9 billion operations for an amount of ₹51.2 trillion). Over the year, a citizen settled over 120 operations for an amount of ₹349,700 on average.

The share of cashless operations in the total number of operations using payment cards grew to 80.7%, and in the total volume it grew to 46.6%. Furthermore, their growth rates significantly exceeded similar indicators characterising cash withdrawal operations (47.0% vs. 4.3% by number, and 45.6% vs. 9.0% by volume). The larger portion of cashless operations using payment cards included payment for goods and services (90.3% and 52.1% respectively).

The infrastructure for accepting payment cards continued to develop. During 2016, the number of POS terminals in trade and services sector increased by 19.7% to 1.8 million, and 24.2 million operations for an amount of ₹23.1 billion were made through them on a daily basis. The number of ATMs, most of which are designed for cashless operations, was 201,400 as of 1 January 2017.

¹ For details, see Table 41 of subsection VI.3. Statistical tables.

² Settlements on operations using bank cards are effected on a net basis.

³ Based on NPCS JSC data. Including money transfer orders submitted for execution to the payment clearing centre. Excluding orders cancelled by the payment system participant and/or cancelled by the payment clearing centre.

⁴ Individuals and legal entities other than credit institutions.

The number of electronic means of payment to transfer e-money issued in 2016 by e-money operators amounted to 315.5 million. During the year, 1.4 billion operations were settled using these means for an

amount of ₹999.0 billion¹ (an increase of 24.3% in number and 10.6% in volume), of which non-personalised electronic means of payment accounted for the largest share (87.6% and 61.8% respectively).

¹ Including operations to transfer e-money or e-money balances, including balances issued in cash.

I.2.2.3. Other participants

Since 11 January 2016, the Bank of Russia has been keeping the register of credit rating agencies¹ and the unified register of self-regulatory organisations in the financial market².

In 2016, four applications were submitted to the Bank of Russia to enter the details of the legal entities in the register of credit rating agencies, following the review of which the Bank of Russia decided to enter the details of two organisations in the register of credit rating agencies: the Analytical Credit Rating Agency (Joint-stock Company) and Expert RA Rating Agency Joint-stock Company.

In 2016, self-regulatory organisations of actuaries, with the Bank of Russia's involvement in the attestation commission, performed four attestations, following the results of which three actuaries received the status of a responsible actuary. As of 1 January 2017, the unified register of responsible actuaries included information on 104 responsible actuaries.

Detailed information on the number of self-regulatory organisations (SROs) and their members is given in Table 10 of subsection VI.3. Statistical tables.

In 2016, the total number of associations of insurance agents decreased by seven and as of 1 January 2017, there were 36 associations of insurance agents (43 as of 1 January 2016).

As of 1 January 2017, the number of management companies of specialised associations was 17, and that of bondholders' representatives was 43.

In order to mitigate the risks of manipulation of prices for financial instruments and enhance financial market transparency, and to develop financial market infrastructure and instruments, the Bank of Russia decided to assess the quality of price centres' operation, which agreed to undergo such assessment on a voluntary basis, starting from March 2016.

The work of price centres resulted in determining the fair value of financial instruments. The Bank of Russia assesses the quality of price centres' operation to check for the absence of possibilities for manipulation or conflict of interest and the achievement of the maximum transparency of price setting, including all stages from the receipt of information from contributors to its publication, and to ensure business process continuity. The quality of the price calculation methodology undergoes assessment, inter alia, with respect to potential risks of critical deviations of the estimated values from fair values³.

In 2016, the Bank of Russia received two requests for voluntary quality assessment of price centres' operation, which are being considered.

¹ Due to the enactment of Federal Law No. 222-FZ, dated 13 July 2015, 'On the Activities of Credit Rating Agencies in the Russian Federation, on Amending Article 76' of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', and Invalidating Certain Provisions of Russian Laws'.

² Due to the enactment of Federal Law No. 223-FZ, dated 13 July 2015, 'On Self-regulatory Organisations in the Financial Market and on Amending Articles 4 and 6 of the Federal Law 'On Amending Certain Laws of the Russian Federation'.

³ For the purpose of conducting this activity, in 2016 the Bank of Russia issued: information letter No. IN-06-51/15, dated 29 March 2016, 'On Assessing the Quality of Price Centres' Operation,' which sets the requirements for price centres to undergo quality assessment on a voluntary basis; Order No. OD-1382, dated 28 April 2016, 'On Setting up a Working Group to Assess the Quality of Price Centres' Operation', according to which the Working Group was set up at the Bank of Russia.

II. THE BANK OF RUSSIA'S ACTIVITIES

SUMMARY

The Bank of Russia conducts its activity in compliance with the objectives established by 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). In 2016, to fulfil the legislative requirements effectively, the Bank of Russia started concentrating on strategic goal-setting that focuses on achieving its performance targets.

The Bank of Russia, as a mega-regulator, sees its mission in ensuring financial and price stability and facilitating the development of a competitive financial market. This is the contribution the central bank makes towards creating an environment for sustainable economic growth and improved welfare and quality of life for Russian citizens. To implement this mission the Bank of Russia set five strategic goals: ensuring price stability; ensuring financial market resilience; expanding financial inclusion; developing the national payment system; and developing information technology and supporting financial market innovations.

Section II of the Bank of Russia Annual Report for 2016, which reflects the core activities of the Bank of Russia, has, for the first time, been structured in accordance with the aforementioned strategic goals. This approach will allow the public to gain a practical oversight of the effectiveness of Bank of Russia activities.

To ensure price stability, the Bank of Russia strives to achieve sustainably low consumer price growth. Taking into account the specifics of the Russian economy, the mid-term inflation target has been set at 4%.

Monetary policy in 2016 was aimed at reducing inflation to the target level in 2017 and then maintaining it in the future. The Bank of Russia continued to focus its attention on inflation risks associated primarily with external factors and fiscal policy uncertainty as well as increased inflation expectations especially in the first months of the year. That is why the regulator refrained from easing the policy early on. In mid-2016, it became increasingly evident that the inflation target was achievable in 2017, which made it possible to cut the key rate from June to the end of 2016 by a total of 1.0 percentage point, to 10% per annum. Given the slowing of inflation, real interest rates remained sufficiently high to support savings incentives against the backdrop of zero infla-

tionary pressure on the part of demand. As a result of a moderately tight monetary policy and a number of favourable short-term factors, annual inflation decreased to 5.4% in December 2016. The inflation dynamics that took shape in 2016 are consistent with the achievement of the 4% target in 2017.

The operating procedure of the monetary policy remained effective in 2016 making it possible to keep overnight rates on ruble interbank loans at a level that would secure the achievement of the inflation target and thus continued practically unchanged. Over the year, the banking sector liquidity deficit went down mainly due to the utilisation of the Reserve Fund of the Russian Federation. Moreover, the current excess liquidity was observed in the second half of the year. In light of this, the Bank of Russia reduced the amounts of funds provided at repo auctions and credit auctions and, as of September, mainly held one-week deposit auctions. The rise in the required reserve ratios in 2016 facilitated a smoother transition of the banking sector to a structural liquidity surplus.

Comparatively high ruble-denominated interest rates bolstered the attractiveness of assets denominated in the national currency. The floating exchange rate regime allowed the Russian economy to adjust to the unfavourable external environment by supporting the competitiveness of Russian goods. During the year, the Bank of Russia did not conduct any currency interventions but continued to provide refinancing in foreign currency.

Following its strategic goal to ensure financial market stability, the Bank of Russia monitored financial stability risks and developed macroprudential measures to mitigate their threats, implemented international approaches to the regulation of credit institutions, initiated an extensive reform of banking supervision, improved the financial market admission and licensing procedures for credit and nonbank financial institutions, took systemic measures to identify weak and unscrupulous financial institutions and withdraw them from the market, and developed the market infrastructure. Important areas of work towards ensuring financial market stability included countering unscrupulous conduct in the financial market, foreign exchange regulation and foreign exchange control, and countering the legalisation (laun-

dering) of criminally obtained incomes and the financing of terrorism.

In 2016, the reports on the results of the Regulatory Consistency Assessment Programme (RCAP) were published. For the first time, Russian regulation of banking risks had been awarded the highest rating of conformity to the standards of the Basel Committee on Banking Supervision. The results of the Financial Sector Assessment Programme (FSAP) of the mission of the International Monetary Fund and the World Bank in respect of the Russian Federation in 2015–2016 were positive. Banking sector resilience was also confirmed by regular stress tests conducted by the Bank of Russia.

Implementation of international approaches towards regulation and supervision of credit institutions called for the drafting of key laws for the Russian banking sector: on proportionate regulation and a new bank resolution mechanism.

The banking supervision reform was initiated to optimise business processes and shape the proactive nature of supervisory work, and to foster the early identification of credit institutions' risks and the adoption of preventive measures to mitigate them. In order to create an effective and unified system of ongoing supervision over credit institutions in the regions, the Bank of Russia set up a supervision hierarchy providing for the establishment of a centre of responsibility for supervision results at the Bank of Russia's head office as well as the reassignment of supervisory functions from all regional branches to a newly established unit of the Bank of Russia's head office – the Service for Ongoing Banking Supervision.

As for off-site supervision, the Bank of Russia intensified coordination in the supervisory process, identified 'risk zones' in the system, took measures to create a unified database of the consolidated risks of credit and nonbank financial institutions, and increased its supervisory activity, inter alia, with respect to the group of systemically important credit institutions (SICIs).

In 2016, the Bank of Russia continued the practice of risk-based approaches towards organising and conducting inspections of financial institutions, including SICIs, and identifying risks on a consolidated basis. A cross-sectoral approach made it possible to identify high-risk operations that had previously not been transparent to the mega-regulator.

One of the key events of 2016 for the Bank of Russia in its aim to protect the interests of retail depositors of banks and persons insured in the compulsory pension

insurance system was entering non-governmental pension funds into the system guaranteeing the rights of insured persons.

The Bank of Russia is working to expand financial inclusion. In 2016, the Bank of Russia published *Guidelines for the Development of the Russian Financial Market in 2016–2018*, a cross-sectoral document describing the efforts planned by the Bank of Russia to promote the mid-term development of all sectors of the financial market.

To protect financial service consumers' rights, the Bank of Russia facilitated the expansion of the financial services in the greatest demand among households and small- and medium-sized enterprises. Automated complaint processing methods were implemented under the project entitled *Complaint as a Gift*, and two regional complaint processing centres and the Public Reception Office of the Bank of Russia were opened. The Bank of Russia developed and implemented standards for financial services provision in conjunction with the self-regulatory organisations of the financial market.

Significant results were achieved in the field of improving the financial literacy nationwide. With the active participation of the Bank of Russia, a module on this topic was introduced into the mandatory school curriculum as part of social studies. Educational materials entitled *Financial Literacy Fundamentals* were created and a nationwide academic competition was organised to enhance the financial literacy of pupils. To achieve its aim of increasing financial literacy, the Bank of Russia made use of both conventional communication channels, as well as online resources, and social networks.

In 2016, the Bank of Russia continued to use specialised refinancing instruments to support individual areas of lending that are important in terms of structural transformations in the economy and whose development cannot currently be fully provided for by way of market mechanisms (e.g., supporting lending to small- and medium-sized enterprises).

The effective performance of financial markets, their conformity to modern international standards, interaction and integration into the global financial system, and, as a result, reduction in the costs of accessing financial sector services that Russian businesses and citizens face would be impossible without the development of technology and the implementation of innovations in the financial market.

A significant result achieved by the Bank of Russia in this field was the implementation of key measures to develop electronic interaction in the financial market

in four main areas: legal issues, elimination of process barriers, countering legal offences, and identification. At the same time, the Bank of Russia headed the drafting of a Road Map to digitalise the financial market and develop financial technology.

The Bank of Russia placed special emphasis on ensuring the cyber stability of credit and financial institutions. Legislation on regulation and the Bank of Russia's control over information protection in financial institutions and on countering fraud in the financial market was refined, the Bank of Russia put information protection requirements into effect in its payment system, and the avenues for interaction with law enforcement bodies in the field of investigation of cybercrimes were improved.

The Bank of Russia continued its work to develop the National Payment System (NPS), including the national payment card system, a financial messaging system, the Bank of Russia payment system, regulation, monitoring, and supervision within the NPS, as well as interaction with the Federal Treasury in developing government payments and administering certain kinds of income.

In 2016, the development of remote service channels for bank clients and high-tech payment services and products enjoyed continued success, which made payment services more accessible and expanded the scope of cashless payments. Key priority activity areas included the promotion of national payment instruments, i.e., Mir cards.

II.1. ENSURING PRICE STABILITY

II.1.1. Monetary policy objectives and key measures

In 2016, the Bank of Russia implemented monetary policy as part of the inflation targeting regime¹. This means that the main objective of the Bank of Russia's monetary policy was to ensure price stability, namely, to reduce annual inflation to 4% in 2017 and maintain it close to that level in future. Furthermore, the Bank of Russia took into account the need to ensure the financial stability and resilience of the economy as a whole amid mostly unfavourable external factors.

The key rate remained the main instrument of monetary policy. The Bank of Russia made decisions on its level based on the mid-term economy development forecast², which was updated and specified on a regular basis. The main focus was not on short-term factors but on sustainable long-term trends in the economy. Amid a changeable environment in the global markets such an approach made it possible to avoid unjustified fluctuations of the interest rates, while contributing to the inflation target achievement. In 2016, the Bank of Russia compiled its forecasts based on conservative assumptions as regards the external environment, supposing the persistently low growth rates of the global economy and low oil prices, and took into account the structural constraints of the economy. Apart from the basic scenario, the Bank of Russia also developed alternative scenarios and assessed possible inflation risks. The forecasts were published in the Monetary Policy Report on a quarterly basis.

In late 2015 – early 2016, the situation in the global oil market deteriorated significantly, which increased the relevance of the risk scenario; however, the situation soon improved and subsequently economic development fitted into the framework of the basic scenario. Inflation slowed down over the year; however, inflation risks remained in the focus of increased attention of the Bank of Russia, especially during the first months of the year. Along with external factors, the said risks were primarily associated with continuously high inflation expectations and fiscal policy uncertainty, including indexation of wages and pensions. Early policy easing

in such conditions would lead to quicker growth in consumer prices and higher inflation expectations, thus hampering the achievement of the inflation target not only in 2017 but also in future. Furthermore, the positive influence of such a policy on economic growth could only be short-term, as the factors limiting output growth are mostly of a structural and institutional nature. These limitations cannot be eliminated with monetary policy measures; decisions in the respective areas would be necessary. An unjustified key rate cut would result in low attractiveness of national assets and the ruble depreciation, which in conjunction with accelerated inflation and related uncertainty would have an unfavourable effect on investment decision-making. Moreover, such stimulation of lending would also result in excessive growth in the debt burden and the accumulation of imbalances in the financial sector. In order to preclude the developments according to this scenario, throughout 2016 the Bank of Russia adhered to a balanced approach when making monetary policy decisions.

Closer to the middle of the year, confidence in achieving the inflation target in 2017 increased, which allowed the Bank of Russia to reduce the key rate by 0.5 percentage points twice (in June and September), as a result of which it reached 10.00% at the end of the year. This path of the key rate affected the dynamics of bank interest rates and yields on financial instruments accordingly. Nominal interest rates decreased, but, considering the inflation slowdown, real rates remained positive and continued to stimulate the savings behaviour of households and companies. Thus, despite a decrease in rates, there was no demand-side inflationary pressure. As a result, annual inflation went down from 12.9% in December 2015 to 5.4% in December 2016, which was close to historical lows. Apart from reduced demand, the inflation slowdown was also facilitated by a number of short-term factors, such as a good harvest and moderate indexation of tariffs for goods and services of infrastructure companies. After a noticeable weakening in January–February, during the following

¹ The Bank of Russia switched to the inflation targeting regime in 2015.

² The forecast horizon was three years.

months the ruble mostly strengthened, which was encouraged by the moderately tight monetary policy along with more favourable external conditions. In 2016, the exchange rate dynamics did not make a significant contribution to the inflation rate, while in 2015 due to the weakening of the national currency this contribution was 4.5–5 percentage points. The slowing price growth was observed for a wide range of goods and services, which would not have been possible due to temporary factors alone. According to Bank of Russia estimates, the inflation dynamics and monetary conditions in 2016 formed the prerequisites for achieving the 4% target in 2017.

The cautious policy pursued by the Bank of Russia had a positive impact not only on inflation dynamics. Comparatively high ruble interest rates supported the attractiveness of assets denominated in the national currency, which along with inflation stabilisation strengthened confidence in the ruble. In 2016, the ruble exchange rate volatility decreased as compared to the previous year. Judging by retail demand for foreign currency and by the structure of bank deposits, the households' response to the exchange rate dynamics was rather moderate, which testifies to a certain adaptation to the floating exchange rate. The Bank of Russia did not perform any foreign exchange interventions during the year but continued refinancing operations in foreign

currency in the form of FX repos (auction-based) and FX swaps to sell US dollars for rubles (on fixed terms). As credit institutions' demand for them declined, the Bank of Russia gradually reduced their supply at auctions, and by the end of the year the amount of Bank of Russia claims for auction-based operations had almost halved to \$11 billion¹. Fixed-term operations were performed only on certain days, and the debt on them was not regular.

Functioning amid the floating exchange rate allowed the Russian economy to adapt to the unfavourable external environment and to support the competitiveness of Russian goods. As a result, the decline in domestic demand was largely offset by demand for imported goods. The dynamics of key economic indicators in 2016 were somewhat better than predicted under the basic scenario, as oil prices were close to those forecast. Although the economic growth was negative in 2016, one can speak of an improved situation in certain industries and in the labour market. According to Bank of Russia estimates, output growth in the second quarter of 2016 was positive on a quarterly basis, and further recovery of economic activity should be expected in 2017. Consistent implementation of the monetary policy aimed at inflation reduction forms a basis for greater economic stability and improved welfare of the public at large in the future.

¹ The decline in the Bank of Russia's claims under FX repos had been even more pronounced by the end of December: as of 28 December 2016, it amounted to \$7 billion. Supply was increased at the last two auctions in 2016 in order to help banks avoid problems with FX liquidity and hold back growth in dollar interest rates in the Russian money market. The difficulties described above were associated with the end of the year and were short-term in nature. In the beginning of 2017, the volume of foreign-currency refinancing operations continued to decline.

II.1.2. Monetary policy instruments

In 2016, the banking sector was functioning largely amid a structural liquidity deficit. This means that banks' outstanding amount on refinancing operations, except for several days in the middle of November, exceeded their claims to the Bank of Russia on liquidity-absorbing operations¹. However, starting from the middle of 2016 Q3, as a result of cash inflow via the budget channel, the amount of funds in banks' accounts often exceeded the level they needed to comply with the required reserve ratios and to conduct their daily activity. In order to maintain the conditions for reallocation of funds between banks and keep interest rates in the overnight segment of the money market close to the key rate, the Bank of Russia mopped up excess liquidity through deposit auctions.

The main reason for the banking sector's low demand for Bank of Russia refinancing in 2016 was the receipt of funds via the budget channel due to the utilisation of the Reserve Fund of the Russian Federation. The total amount of this utilisation was ₺2.1 trillion. Before the planned budget expenditures were made, a considerable part of the temporarily free funds of the federal budget was placed by the Federal Treasury with credit institutions on deposit accounts and under repo agreements. This helped smooth the influence of budget flows on the banking sector demand for liquidity. The parameters of the operations conducted by the Federal Treasury were agreed upon with the Bank of Russia and were in line with the monetary policy implemented by the latter. However, in November, the Ministry of Finance of the Russian Federation increased capital requirements for banks participating in the Federal Treasury deposit auctions. This and the requirement for banks' credit rating², which came into effect, caused a decline in banks' outstanding amount on Federal Treasury operations and their switch to Bank of Russia operations.

Privatisation transactions and OFZ placement by the Russian Ministry of Finance were conducive to a temporary liquidity outflow from the banking sector and increased demand for balances of correspondent accounts of certain banks with the Bank of Russia (for details, see Clause I.1.3. Fiscal policy, government finance, and domestic government debt). Funds from these operations were first deposited to the federal budget single account with the Bank of Russia and then were returned to the banking sector in the form of budget expenditures.

Additional sources to increase banking sector liquidity, as in 2015, were the Bank of Russia transfer of funds of the state corporation Deposit Insurance Agency (DIA) for the resolution of troubled banks and payment of insurance indemnities to depositors, as well as Bank of Russia purchases of monetary gold in the domestic market. Bank of Russia OFZ sales from its own portfolio in the stock market helped absorb a portion of excess liquidity from the banking sector.

As a result, at the end of the reporting period the liquidity inflow into the banking sector due to the change in balances of general government accounts with the Bank of Russia and other operations³ amounted to ₺3.2 trillion.

In 2016, liquidity outflow was formed due to the increased cash in circulation in the amount of ₺0.1 trillion. The small volume of cash issue was explained by the retention of negative rates of economic growth in 2016 and the predominant savings model, as well as by the development of cashless payment technologies.

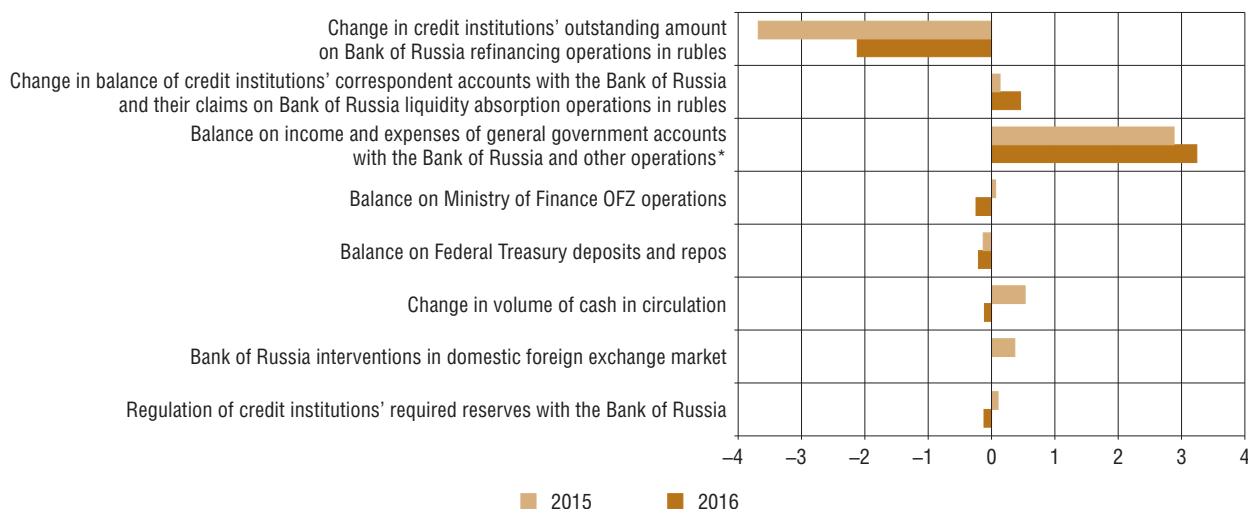
In 2016, the Bank of Russia raised required reserve ratios, which was conducive to the banking sector's growing demand for liquidity, i.e., funds in correspondent accounts with the Bank of Russia. Thus, in March 2016 the Bank of Russia decided to increase required reserve ratios from 1 April 2016 by 1 percentage point

¹ The refinancing and liquidity-absorbing operations, which are accounted for in the assessment of structural liquidity deficit/surplus, include standard monetary policy instruments and other Bank of Russia regular operations on a reverse basis (Bank of Russia specialised refinancing instruments; loans provided by the Bank of Russia as irrevocable credit lines; USD/RUB and EUR/RUB FX swaps).

² From 12 November 2016, the amount of equity capital of a credit institution where federal budget funds are placed on bank deposits should be no less than ₺250 billion according to the statements available in the Central Bank of the Russian Federation as of the date of verification of the credit institution compliance with the requirements of the Rules for Placing Federal Budget Funds on Bank Deposits, approved by Resolution of the Government of the Russian Federation No. 1121, dated 24 December 2011, 'On the Procedure for Placing Federal Budget Funds on Bank Deposits'. From 25 November 2016, a bank participating in the selection of applications for Federal Treasury deposit operations should have a minimum credit rating of 'A+(RU)' according to the national rating scale of the Analytical Credit Rating Agency (ACRA).

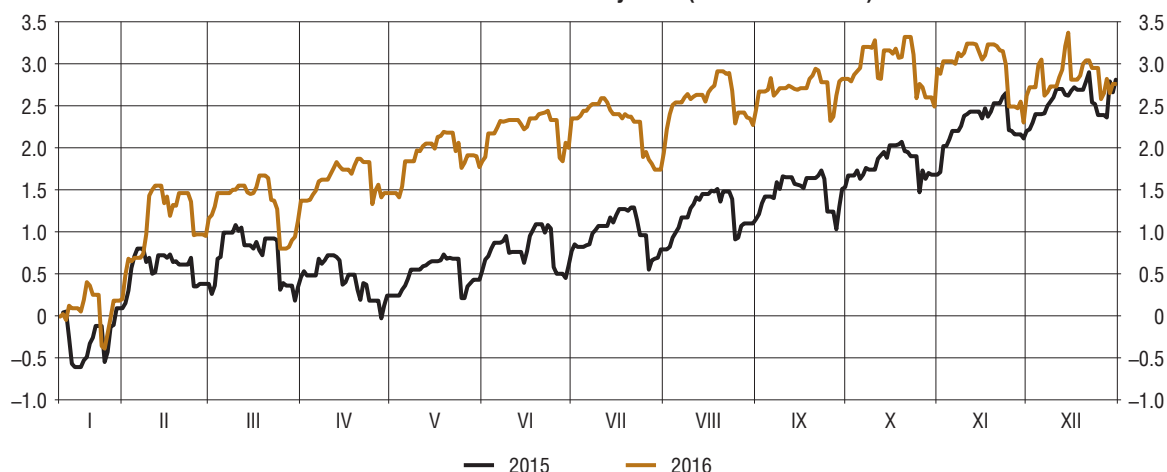
³ This includes interest payments on Bank of Russia refinancing and liquidity-absorbing operations and settlements on USD/RUB FX swaps, excluding deposit operations and repos with the Federal Treasury and the Russian Ministry of Finance operations with OFZs.

Liquidity factors and change in outstanding amount on refinancing operations and claims on liquidity absorption operations of the Bank of Russia in rubles (trillions of rubles)



* Net of Federal Treasury deposits and Ministry of Finance OFZ operations, taking account of interest payments on Bank of Russia refinancing and liquidity absorption operations and settlements on USD/RUB FX swaps.

Change in balances of general government accounts with the Bank of Russia and other operations*, on accrual basis since start of year** (trillions of rubles)



* Taking account of interest payments on Bank of Russia refinancing and liquidity absorption operations and settlements on USD/RUB FX swaps.

** '+' signifies decrease, '-' signifies increase.

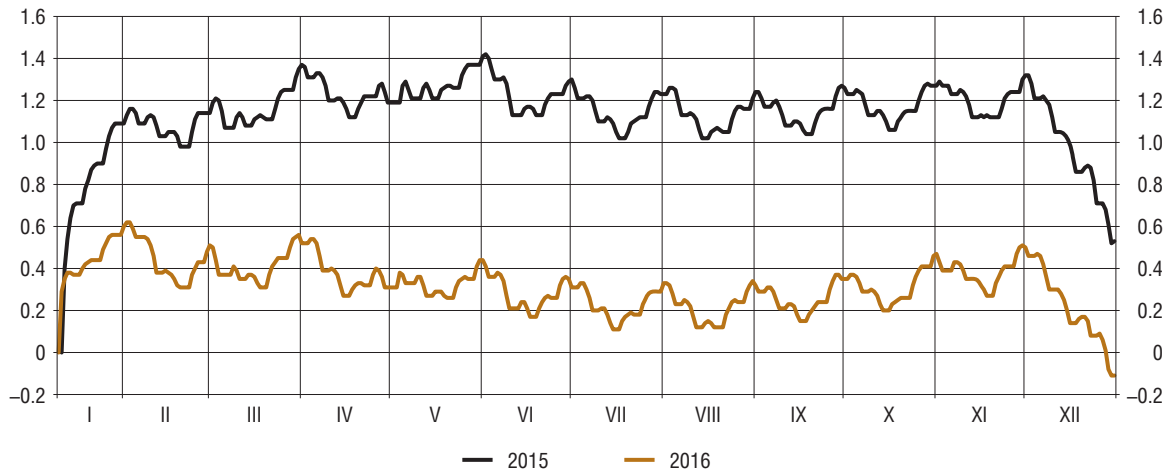
for liabilities in foreign currency, except for liabilities to households. In June, the Bank of Russia decided to increase required reserve ratios from 1 July 2016 by 1 percentage point for all liabilities in foreign currency, and from 1 August 2016, by 0.75 percentage points for all reservable liabilities of credit institutions. This measure allowed it to partially mop up the liquidity inflow associated with the financing of the federal budget deficit from the Reserve Fund and helped discourage growth in foreign currency liabilities in the structure of credit institutions' liabilities.

As a result of these decisions, the need to maintain additional funds in accounts with the Bank of Russia led

to growth in banks' demand for liquidity of ₺0.5 trillion. Furthermore, the averaged part of the required reserves in 2016 grew by ₺0.4 trillion to ₺1.7 trillion. Balances of the required reserve accounts over the same period grew by ₺0.1 trillion to ₺0.5 trillion. The rise in the required reserve ratios facilitated a smoother transition of the banking sector to the structural liquidity surplus in the beginning of 2017.

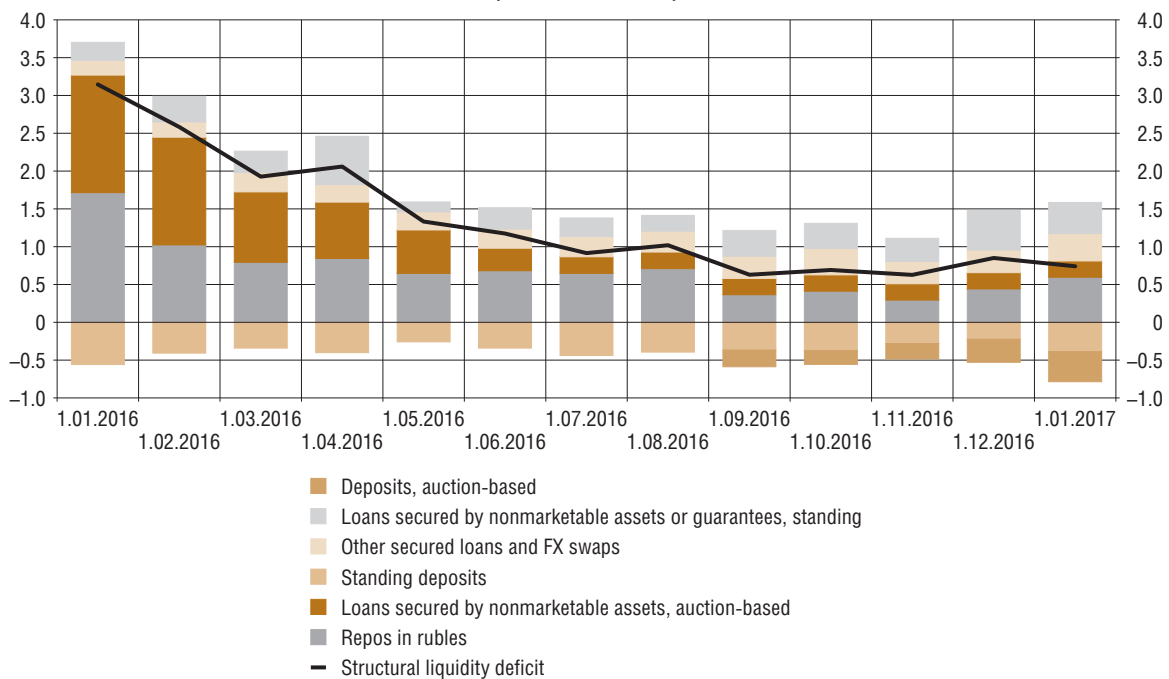
As a result of the effect of the aforesaid factors, banks' outstanding amount on Bank of Russia refinancing operations decreased by ₺2.1 trillion over 2016 to ₺1.6 trillion, and credit institutions' claims to the Bank of Russia on deposit operations grew by ₺0.2 trillion to

Change in volume of cash in circulation, on accrual basis since start of year*
(trillions of rubles)



* '+' signifies decrease, '-' signifies increase.

Structure of Bank of Russia operations
(trillions of rubles)



₽0.8 trillion. As a result, the banking sector's structural liquidity deficit decreased by ₽2.4 trillion over 2016 to ₽0.7 trillion.

To satisfy credit institutions' demand for provision and absorption of liquidity and create the conditions for its reallocation in the money market at a rate close to the key rate, the Bank of Russia conducted one-week auction-based operations. The scope and direction of operations were determined on the basis of banking sector liquidity forecast. Before the middle of 2016 Q3, the Bank of Russia used repos to provide funds to credit institutions.

Starting from August 2016, liquidity inflow via the budget channel resulted in the short-term excess cash in the banking sector. To withdraw it, the Bank of Russia held one-week deposit auctions. As a result of these operations, a part of the excess cash from the banking sector was deposited to accounts with the Bank of Russia. This made it possible to bring liquidity demand and supply in the banking sector closer together. Excess liquidity in the banking sector does not mean an excess of funds in the economy and is not associated with banks' lending activity. Loan dynamics are determined by corporate and household demand for mone-

tary funds, which in its turn depends on interest rates, banks' claims to borrowers, and other factors. The Bank of Russia partially influences demand for loans through changing the key rate. Lending to the real sector hardly changes total liquidity in the banking sector but only leads to reallocation of funds between the accounts of different banks with the central bank.

In some periods when liquidity supply exceeded demand the Bank of Russia held fine-tuning operations, i.e., one- to six-day deposit auctions. Demand for these operations occurred in September, October, and November 2016.

When determining the parameters of auction-based operations, the Bank of Russia took into account the demand for liquidity in the entire banking sector, and not in individual credit institutions. Given the transition from liquidity deficit to liquidity surplus, the banking sector faced a situation when some banks had no longer stable demand for funds raised from the Bank of Russia and placed their excess liquidity in the money market and on deposit accounts with the Bank of Russia. The majority of banks (and, as a result, the whole banking sector) continued to suffer a liquidi-

ty deficit. This led to the growing demand of certain banks for Bank of Russia standing facilities to both provide and absorb liquidity.

Nevertheless, the operating procedure of the monetary policy in 2016 remained effective. During the reporting period, overnight rates on ruble-denominated interbank loans were close to the key rate: the average absolute deviation of the MIACR from the Bank of Russia key rate in 2016 was 19 basis points, while in 2015 it was 39 basis points. The influence of the increased banking sector demand for foreign currency liquidity in certain periods on overnight IBL rates was insignificant (for details, see Clause 1.2.1. Monetary aggregates and financial and commodity market conditions).

In 2016, securities with a total par value of ₺2.6 trillion were included on the Bank of Russia Lombard List. As of 1 January 2017, the amount of potential marketable collateral under Bank of Russia refinancing operations was ₺9.3 trillion, and the amount of potential nonmarketable collateral and nonmarketable assets that were pledged on Bank of Russia loans equalled ₺5.9 trillion.

II.2. ENSURING FINANCIAL MARKET RESILIENCE

II.2.1. Ensuring financial stability

II.2.1.1. Monitoring of financial stability risks

External risks

In 2016, the situation in the global financial markets was generally stable despite some intensification of political risks (growing uncertainty because of Brexit and possible changes in the US economic policy after the presidential elections). Growth in prices for primary commodities, including oil, produced a favourable impact on the Russian economy. The price of Brent crude grew by 52.4% over the year to \$56.8 per barrel, and the Russian ruble strengthened against the US dollar by 20.2%¹ over the same period. The continued normalisation of the US Fed monetary policy did not have any negative outcome for the Russian financial market. While the yield curve of treasury bonds shifted up by 18 basis points on average, the yields of government bonds in Russia decreased. Global investors' perception of Russia's risks improved leading to a decline in the premium on Russia's sovereign 5-year CDS² (by 130 basis points, to 175 basis points). The share of foreign investors in the OFZ market grew from 21.5% to 26.9% over the year. According to Bank of Russia estimate, the private capital outflow from Russia in 2016 amounted to \$15.4 billion, which is the lowest value since 2008.

Banking sector

In 2016, the performance indicators of the banking sector recovered gradually. The profit gained by banks in 2016 amounted to ₹929.7 billion (vs. ₹192.0 billion in 2015), and the return on capital in 2016 was 10.3%. The banking sector equity, core and fixed capital adequacy ratios increased (from 12.7% to 13.1%, from 8.2% to 8.9%, and from 8.5% to 9.2% respectively). In 2016, the banking sector retained its stability, which was attested, among other things, by the results of regular stress

tests: taking into account recapitalisation measures the aggregate capital adequacy of the banking sector did not fall below the regulatory minimum even in the pessimistic scenario (when the average price of oil went down to \$25 per barrel).

Credit risk continued to prevail in the bank risk portfolio. The share of the total loan portfolio in banking sector assets was 69.5% as of 1 January 2017. In 2016, the quality of the loan portfolio improved: overdue loans to the economy decreased by 6.5% (in 2015 they grew by 53.3%); the share of overdue loans in total loans to the economy against the backdrop of the decreased portfolio of such loans remained at 6.7%. The share of troubled and bad loans (of quality categories IV and V) in total loans to all categories of borrowers grew from 8.3% to 9.4% in 2016; the coverage of these loans with loss provisions was adequate (68.5% as of 1 January 2017).

Bank risks on loans to nonfinancial organisations. In 2016, the share of foreign currency in loan portfolios to nonfinancial organisations was observed to decline due to Bank of Russia measures aimed at curbing credit risks and the banks' reassessment of foreign currency loan risks. Banks reduced the amount of foreign currency loans issued to companies whose foreign currency earnings were not sufficient to service their debts. These measures helped stabilise overdue loans in the banking sector at 6.3% as of 1 January 2017. The share of loans of quality categories IV and V, after increasing in the first half of 2016, remained stable in the second half of the year.

The quality of loans issued to nonfinancial organisations was differentiated by type of borrowers' business activity. The largest share of overdue loans was typical of the following segments: construction (19.8% as of 1 January 2017), scheduled and non-scheduled air transport (25.4%), and wholesale and retail trade³ (11.8%).

¹ Change in the official exchange rate of the Russian ruble to the US dollar for the period from 1 January 2016 to 31 December 2016.

² CDS: Credit Default Swap.

³ Wholesale and retail trade, as well as repairs of cars, motorcycles, household appliances, and personal goods.

Overdue loans in construction grew (by 1.9 percentage points in 2016) against the backdrop of an accelerated reduction in the volume of commissioning of residential buildings¹ and a continued decline in the cost of apartments in the secondary housing market. The main problem in the construction segment was still the debt burden, which was one of the highest among other types of economic activity.

The high overdue debt in air transport was mainly associated with the insolvency and withdrawal from the market of the second largest Russian airline as well as the overall unprofitability of the sector. Nevertheless, 2016 saw gradual improvement of the situation, in particular the reduction in air carriers' losses as a result of cost optimisation, as well as freight transportation growth amid decreased passenger traffic.

Overdue debt growth in wholesale and retail trade (by 1.7 percentage points in 2016) was observed against the backdrop of the reduced trade turnover of food and nonfood goods². According to Rosstat, wholesale and retail trade enterprises showed a decrease in their profitability in 2016 (from 6.6% to 5.0%) and an increase in their debt burden (the ratio of outstanding loans to proceeds from sales increased from 3.2 to 4.4).

Loans to borrowers from export-oriented sectors had the highest credit quality: the share of overdue loans in mining and quarrying was 2.1% as of 1 January 2017 and that in the manufacturing sector was 4.7%. The ruble depreciation in certain periods of 2016 did not offset the decline in the average annual price for Urals crude in the oil and gas sector, which caused a decrease in the annual ruble earnings of the largest companies. The decline in operating income along with small growth in net debt³ resulted only in insignificant increase of the debt burden of a sample of the largest companies⁴: the net debt to EBITDA⁵ ratio was 1.1 (1.0 in 2015). The overall debt burden of the largest oil and gas companies remained rather low compared to other sectors, which testified to their firm financial position.

The revenues and output volumes of most metallurgical companies decreased in 2016 compared to the previous year largely due to the negative trends of the first half of the year, namely, the prices for metallurgical products hitting long-time lows, which was not offset by the ruble depreciation in certain periods of 2016. The situation in the metallurgical sector was differentiated depending on the segment (ferrous or non-ferrous metallurgy). Ferrous metallurgy companies were supported by the recovery of prices for steel and the drastic growth in prices for coke coal in the second half of 2016. Along with the optimisation of operating costs implemented by metallurgical companies during the period of low prices, the profitability of large companies⁶ based on EBITDA grew by 1.1 percentage points to 23.1%. The reduction or stabilisation of capital expenditures along with EBITDA growth allowed companies to reduce their net debt, which also alleviated the debt burden: the median ratio of net debt to EBITDA decreased from 3.3 to 2.8.

Prices for the main non-ferrous metals also started to grow in the second half of 2016; however, unlike steel, this did not fully offset the decline (the average prices in 2016, except for prices for gold, turned out to be lower than in 2015). Along with revenues, the companies of the sector also suffered a decline in their profitability based on EBITDA (from 39.8% to 37.2%), while their debt burden (the median ratio of net debt to EBITDA) grew from 1.2 to 1.9. Despite decreased profitability and some increase in the debt burden, the financial position of most companies in that segment remained stable.

Bank risks on loans to households. The unsecured consumer lending market in 2016 was characterised by the overcoming of the negative phenomena of 2014–2015 caused by the excessive growth in lending activity in 2011–2013. The share of loans overdue for over 90 days, after achieving peak values in the first half of 2016, continued to decline consistently during the second half of the year (falling from 16.9% to 15.7% in 2016). The credit quality improved due to the height-

¹ According to Rosstat, in 2016, the volume of commissioning of residential buildings decreased by 6.5% (by 0.5% in 2015).

² According to Rosstat, the retail trade turnover of food goods in comparable prices decreased in 2016 by 5.3% year on year and the retail trade turnover of nonfood goods decreased by 5.1%. Wholesale trade turnover in 2016 grew by 1.3%, while the wholesale trade turnover of wholesale trade enterprises decreased by 0.7%.

³ Net debt means long-term and short-term loans and borrowings net of cash and its equivalent.

⁴ The sample includes the eight largest oil and gas companies that publish their consolidated financial statements; indicators were calculated for the last 12 months based on the data available as of 3 March 2017.

⁵ EBITDA: Earnings before interest, taxes, depreciation, and amortisation.

⁶ The sample includes the eight largest ferrous metallurgy companies that publish their consolidated financial statements; indicators were calculated for the last 12 months based on the data available as of 3 March 2017.

ened lending standards of banks and a rise in borrowers' payment discipline, rather than an increase in new loan issues, which was typical of the 2010–2011 period. The unsecured consumer loan portfolio decreased by 3.1% in 2016 (by 12.4% in 2015). The leading indicators of credit quality of consumer loans showed that risks on loans granted in the first half of 2016 were the lowest since 2011: the expected share of loans overdue for over 90 days was less than 5% by the 12th month after their issuance (10–12% in 2014).

Apart from the reduced share of non-performing loans, the year 2016 was characterised by the significantly cheaper borrowings and a decrease in borrowers' debt burden. For example, the weighted average full cost of loans (FCL) with respect to newly issued loans in the segment of cash loans dropped below 20% p.a. for the first time since 2014 and reached 18.6% p.a. in 2016 Q4. The weighted average debt burden of new borrowers, which is defined as the ratio of monthly payments on loans to the monthly income of the borrower, decreased from 45% to 42% over the year¹.

In general, the state of the unsecured consumer lending market does not bear any systemic risk for the banking sector.

The trend towards growth in lending activity of banks along with the simultaneous improvement of the credit quality of the loan portfolio was observed in the segment of residential (housing mortgage) lending. The outstanding amount on residential (housing mortgage) loans in 2016 rose by 12.1% (a year before it increased by 10.7%). The main factors that stimulated growth in lending were the government programme to subsidise mortgage interest rates (37.6% of the amount of loans issued²) and the general reduction in interest rates on loans by 0.9 percentage points to 12.5% p.a. (the average level of 2014).

Loans secured by a pledge of claims under co-investment agreements accounted for a major part of loans issued (38.5% of all loans issued in 2016; the share of such loans in the mortgage loan portfolio as of 1 January 2017 amounted to 20.4%).

The quality of the mortgage loan portfolio continued to improve. The amounts of loan repayment testified

to the improved payment capacity of the population. The share of bad loans (with payments overdue for over 90 days) in the segment as a whole decreased by 0.3 percentage points to 1.5% in 2016.

Nonbank financial institutions

Insurers. The main problem for the insurance market in 2016 was the strengthening of negative trends in the segment of compulsory motor third party liability insurance (CMTPLI). The problem of availability of CMTPLI policies affected a third of Russian regions where the insurers limited their sales because of high judicial costs and insurance fraud. In August 2016, the Russian Association of Motor Insurers launched a system of agency sales allocation ('RAMI Unified Agent') in the troubled regions as a temporary stabilisation measure. Starting from 1 January 2017, insurers must provide for uninterrupted sale of electronic policies. Furthermore, the introduction of the priority of indemnification in kind should facilitate the reduction of non-insurance expenses of market participants³.

Non-governmental pension funds (NPFs). Credit risk remained the key risk in the NPF segment. In 2016, the credit quality of the investment portfolio of NPF pension assets improved notably: the share of rating-free assets in the portfolio of NPF pension savings decreased by 5 percentage points to 8%, and in pension reserves it decreased by 8 percentage points to 42%. The NPF investments in banking system assets⁴ in 2016 decreased by 38% to ₴403 billion, which was associated with the gradual toughening of the Bank of Russia's requirements with respect to the permissible share of investments of pension savings in credit institutions' assets. The sector continued to consolidate: in the first nine months of 2016, the share of the top 10 NPFs by the amount of pension assets grew by 14 percentage points to 84%.

Microfinance organisations (MFOs). MFOs affiliated with large retail banks were the main driver of microfinance market growth in 2016 (growth of 21.1%⁵). However, the share of microloan portfolios of these MFOs was less than 1% of banks' unsecured consumer

¹ Based on the results of the Bank of Russia quarterly survey of the largest banks specialising in retail lending.

² According to the Russian Ministry of Finance.

³ In accordance with Federal Law No. 49-FZ, dated 28 March 2017, 'On Amending the Federal Law 'On the Compulsory Motor Third Party Liability Insurance'.

⁴ Deposits, funds in settlement accounts, shares and bonds of credit institutions.

⁵ Data as of 30 September 2016.

loans. The amount of funds raised from individuals that were not MFO founders increased by 8.7% in 2016¹. Against this backdrop, Bank of Russia increased re-

quirements for capital, ratios, and supervisory reports of MFOs raising funds from individuals are of particular importance².

¹ Correlation of data for the first nine months of 2016 and those for the same period of 2015.

² Federal Law No. 407-FZ, dated 29 December 2015, 'On Amending Certain Laws of the Russian Federation and Invalidating Certain Provisions of Laws of the Russian Federation'.

II.2.1.2. Macroprudential regulation measures to ensure financial stability

In 2016, the Bank of Russia used a number of macroprudential instruments aimed at curbing systemic credit risks on loans issued in foreign currency, as well as liquidity risks. Furthermore, starting from 1 January 2016, the Bank of Russia set the buffers to capital adequacy ratios in compliance with Basel III.

Measures to curb credit risks. To improve the banking system's resilience to ruble exchange rate fluctuations, the Bank of Russia raised the risk ratio (from 100% to 110%) on foreign-currency loans issued after 1 May 2016 to legal entities without a sufficient volume of FX earnings. Similar measures were taken in respect to investments in debt securities denominated in foreign currency. The total amount of claims subject to the increased risk ratio was ₺2,196.0 billion as of 1 January 2017, or 22.7% of the total debt of nonfinancial organisations in foreign currency.

The risk ratio was increased (from 100% to 130%) for credit claims on foreign-currency loans issued after 1 May 2016 to legal entities for the purchase of real estate. This type of lending is characterised by a relatively large share of loans of quality categories IV and V. Thus, with respect to foreign-currency claims against companies engaged in real estate operations, leasing, and provision of services, the share of troubled and bad loans in the total amount of loans to all categories of borrowers was 15.7% as of 1 January 2017¹. The total amount of credit claims subject to the increased risk ratio was ₺3.8 billion as of 1 January 2017.

Amid the decline in foreign-currency deposits of nonfinancial organisations and Bank of Russia measures and actions by banks themselves aimed at mitigating the risk associated with lending in foreign currency, the total amount of banks' claims in foreign currency against nonfinancial organisations in 2016, net of the currency revaluation factor, dropped by 12.0% to ₺9,693.0 billion.

Measures to curb liquidity risks. In 2016, the phased-in implementation of the liquidity coverage ratio (liquidity coverage ratio of a banking group N26, li-

quidity coverage ratio of a credit institution N27) began with respect to systemically important credit institutions (SICIs) in compliance with Basel III. This ratio is aimed at providing a reserve of high-quality liquid assets sufficient to cover the expected cash outflow amid the instability associated with potential negative factors in both the activity of individual credit institutions and the financial system as a whole.

In order to replenish a shortage of high-quality liquid assets as determined in accordance with Basel III, the Bank of Russia concluded agreements with some SICIs in 2016 to open irrevocable credit lines (ICLs), which were to be included in the calculation of the liquidity coverage ratio under Basel III. ICLs are secured with assets accepted under refinancing operations. In 2016, the Bank of Russia opened ICLs to five SICIs, the total amount of which at the end of 2016 stood at ₺687.8 billion. No loans were issued under this refinancing mechanism.

The Bank of Russia regularly assessed the availability of high-quality liquid assets in the financial system, which would conform to the Basel III criteria, evaluated the amount of the fixed fee for opening an ICL and the premium on the Bank of Russia key rate for loans under this mechanism, and monitored the compliance of SICIs, which had obtained ICLs, with the requirements of Basel III.

Measures to support banking system capital adequacy. From 2016, in compliance with Basel III the Bank of Russia established the following buffers for banks' capital adequacy ratios: a capital conservation buffer, a systemic importance buffer, and a countercyclical buffer. The values of the capital conservation buffer and the systemic importance buffer will be increased gradually in compliance with Basel III requirements until 2019. In 2016, the capital conservation buffer was set at 0.625 as a percentage of risk-weighted assets, and the systemic importance buffer was 0.15. The Bank of Russia established the national countercyclical buffer at zero percent due to the restrained lending activity in the economy.

¹ According to reporting form 0409303 'Information on loans granted to legal entities'.

II.2.2. Access to the financial market

II.2.2.1. Credit institutions

In 2016, the number of operating credit institutions with banking licences shrank by 110, or by 15%, to 623 as of 1 January 2017.

The reporting year saw the registration of three new nonbank credit institutions created through incorporation (including one with nonresident stake holding) and one bank set up as a result of reorganisation through spin-off and subsequent merger with another bank.

During the reporting period, the Bank of Russia decided to deny state registration to four newly created credit institutions due to the poor financial position of their founders and nonconformity of the documents submitted to the Bank of Russia for the state registration of a credit institution and obtaining a banking licence with the requirements of federal laws and Bank of Russia regulations adopted in pursuance thereof (in 2015 the Bank of Russia decided to deny state registration to six newly created credit institutions, one of which was turned down twice).

In 2016, 13 banks terminated their activity as a result of reorganisation through merger, and one bank changed its form of incorporation as a result of reorganisation through transformation (in 2015, eight banks and four banks respectively).

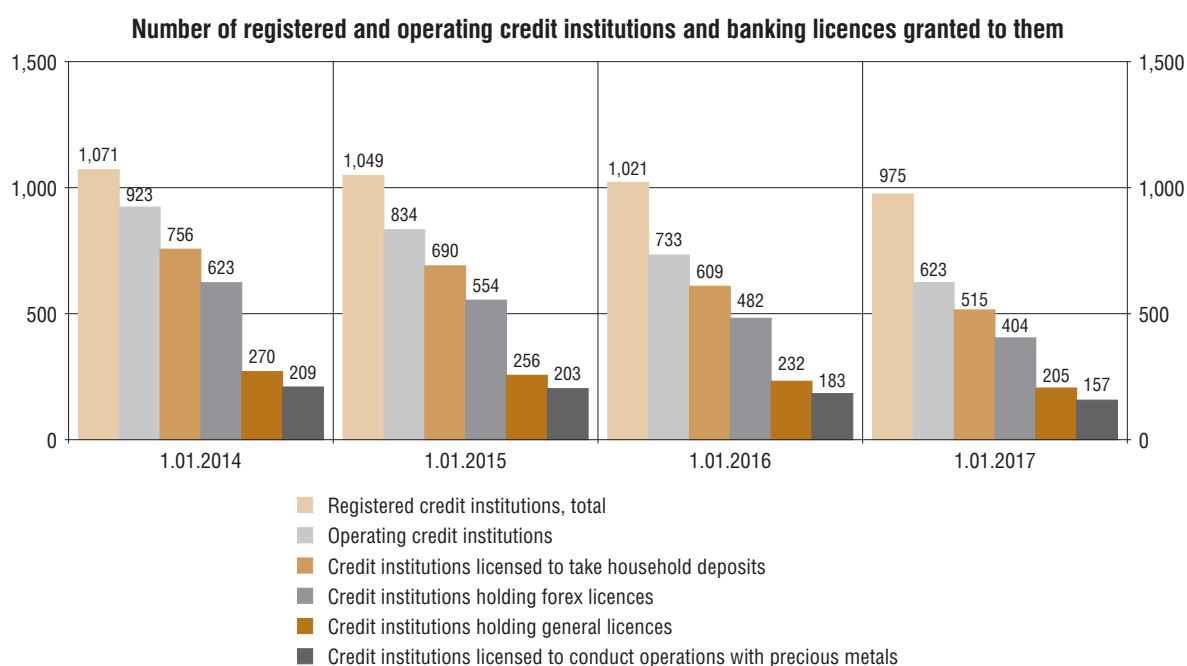
During the reporting period, one credit institution changed its status from that of a nonbank credit institution to that of a bank, and one bank changed its status to that of a nonbank credit institution (in 2015, five banks).

In 2016, six credit institutions expanded their activity by obtaining banking licences.

In 2016, the Bank of Russia decided to deny the expansion of the activity of one credit institution because of its failure to comply with the requirements established by Bank of Russia regulations.

Based on the decisions made by the Bank of Russia in 2016, amendments to the articles of association of 110 credit institutions were registered, including amendments that entailed the reissuance of banking licences to 64 credit institutions in order to bring their names in line with Federal Law No. 99-FZ, dated 5 May 2014, 'On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation and Invalidating Certain Provisions of Russian Laws'.

The total authorised capital of operating credit institutions in 2016 increased by ₹54 billion to ₹2,383 billion as of 1 January 2017. The share of credit institutions whose authorised capital exceeded ₹300 million in the total



number of operating credit institutions increased by 3.7% as compared with 2015 to 53.9% as of 1 January 2017.

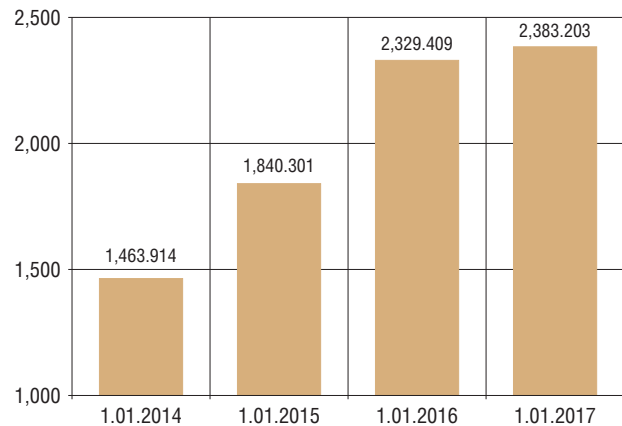
As of 1 January 2017, the Bank of Russia accredited 59 representative offices of foreign credit institutions. In 2016, the Bank of Russia accredited four representative offices of foreign credit institutions for operation in the Russian Federation and extended the accreditation of 24 representative offices of foreign credit institutions. Accreditation of 11 representative offices of foreign credit institutions on the territory of the Russian Federation was terminated.

As of 1 January 2017, nonresidents' total investments in the total paid-up authorised capital of operating credit institutions amounted to ₴407.3 billion, or 16.6% of the total paid-up authorised capital of the banking system (16.9% as of 1 January 2016). The number of operating credit institutions with nonresident stake holdings was 174 as of 1 January 2017 (199 as of 1 January 2016). The number of operating credit institutions with nonresident stake holdings in excess of 50% in the authorised capital was 92 as of 1 January 2017.

The share of foreign capital in the total authorised capital of credit institutions holding a banking licence, calculated by the Bank of Russia in compliance with the procedure determined by Article 18 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities', stood at 13.5% as of 1 January 2017 (13.4% as of 1 January 2016).

Operating credit institutions with nonresident stake holdings are located in 34 constituent territories of the

Changes in registered authorised capital of operating credit institutions (billions of rubles)

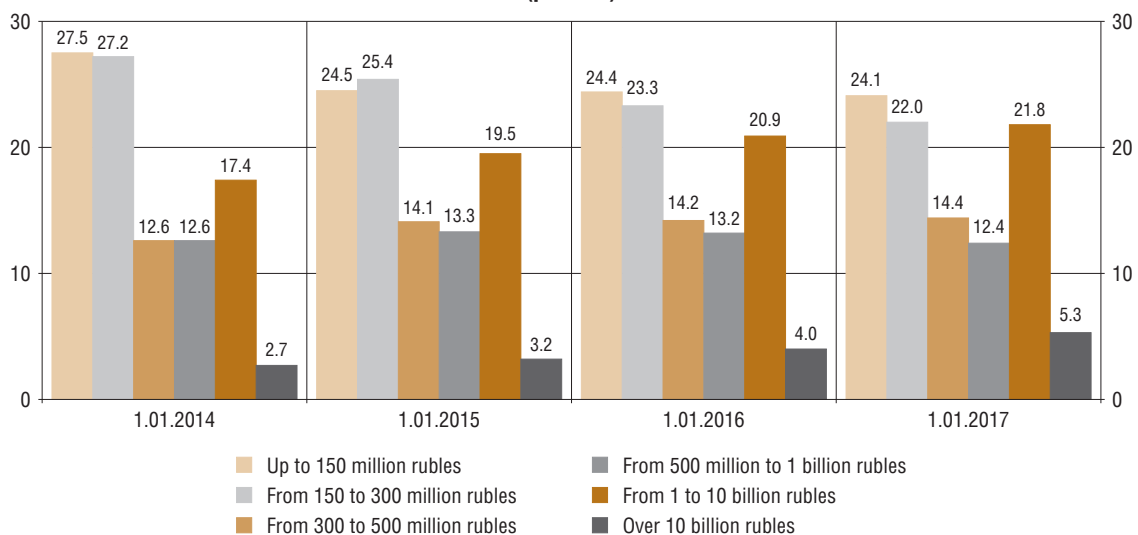


Russian Federation, including 121 credit institutions (or 69.5% of their total number) in Moscow.

Over the reporting year, the number of branches of operating credit institutions decreased by 21.5% to 1,098 as of 1 January 2017.

The total number of internal divisions of credit institutions and their branches decreased by 8.1% to 34,200 as of 1 January 2017 (by 10.9% to 37,221 a year earlier). The number of mobile cash offices decreased by 12.3% to 4,995; additional offices, by 9.4% to 19,776; operations offices, by 5% to 7,230, while the total number of mobile banking vehicles increased by 12.8% to 256, and the total number of credit and cash offices increased by 4.9% to 1,943.

Number of operating credit institutions grouped by authorised capital (percent)



II.2.2.2. Non-governmental pension funds

In 2016, the Bank of Russia did not issue any new licences to non-governmental pension funds.

In 2016, five reorganisations of non-governmental pension funds were approved, including two of them in the form of transformation of a non-commercial non-governmental pension fund into a joint-stock non-governmental pension fund, and three reorganisations in the form of a merger of joint-stock non-govern-

mental pension funds. As a result of the said reorganisations, the activities of six joint-stock non-governmental pension funds were terminated.

During 2016, the Bank of Russia considered 15 requests for obtaining its preliminary approval of transactions to acquire more than 10% of shares of non-governmental pension funds (including 2 requests from individuals) and satisfied 12 requests.

II.2.2.3. Insurance entities

In 2016, the Bank of Russia issued the following to insurance entities:

- four insurance licences;
- two licences to perform mediation activity as an insurance broker;
- two mutual insurance licences;
- two reinsurance licences.

Decisions were made to change the licence forms in order to bring them into line with the requirements of Federal Law No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Activities in the Russian Federation' (hereinafter, the Law on Insurance

Activities) with respect to two insurance companies (nine licences were replaced).

As many as 93 decisions on the re-issuance of licences to insurance entities were made (217 licences were re-issued).

As many as 5,492 entries were made in the Unified State Register of Insurance Entities on changes to data contained in the register.

In 2016, a licence was issued to the Joint-Stock Company Russian National Reinsurance Company set up in accordance with Article 13¹ of the Law on Insurance Activities.

II.2.2.4. Other participants

During 2016, five management companies and two specialised depositories received licences.

Information on 25 persons who may be appointed (elected) as representatives of the owners of corporate bonds was entered in the list of bondholders' representatives.

Information on two entities was entered in the register of management companies of specialised entities.

In 2016, the Bank of Russia issued five forex dealer licences, one customer broker licence, seven broker licences, six dealer licences, six securities management licences, and four depository licences.

Due to the enactment on 11 January 2016 of Federal Law No. 223-FZ, dated 13 July 2015, 'On Self-regulatory Organisations in the Financial Market', the Bank of Russia entered information on 20 nonprofit organisations in the Unified Register of Self-regulatory Organisations in the Financial Market.

Due to the entry into force in 2016 of amendments to Federal Law No. 151-FZ, dated 2 July 2010, 'On Microfinance Activities and Microfinance Organisations',

which divided microfinance organisations into two types: microfinance companies and microcredit companies, the data on 695 microcredit companies were entered in the state register of microfinance organisations, and one microfinance company was assigned status; the type of activity of four operating microfinance organisations was changed from that of a microcredit company to that of a microfinance company. Thus, in 2016 the status of a microfinance company was assigned to five organisations.

In 2016, the Bank of Russia for the first time assigned the status of a credit rating agency. Two organisations had received this status by the end of the year.

The total number of accredited organisations that perform attestation of financial market specialists decreased by one and amounted to 12 organisations as of 1 January 2017.

In 2016, the Bank of Russia issued the first repository licence and accredited one organisation as an entity performing the functions of a commodity supply operator.

II.2.2.5. Financial instruments

In 2016, the Bank of Russia registered 2,766 issues of securities (3,326 issues in 2015). The nominal value of equity issues amounted to ₺2,649.9 billion with 2,672 issues (₺3,669.9 billion with 3,161 issues in 2015), and the nominal value of bond issues was ₺381.8 billion and \$0.06 billion with 94 issues (₺858.5 billion and \$0.06 billion with 165 issues in 2015). In 2016, 3,090 issues of securities¹ were admitted to the Russian market, or 511 issues less than in 2015.

In general, in 2016 the number of issues of exchange-traded and commercial bonds admitted to the financial market by the exchanges² and the central depository increased (324 issues for the year, or 18% more than in 2015).

The total amount of securities admitted to the market at their par value was ₺8,686.1 billion and \$1.66 billion (₺5,399.5 billion, \$0.26 billion, and ¥2.9 billion in 2015). They included equity issues admitted by the Bank of Russia and bond issues admitted by the Bank of Russia, the exchanges and the central depository. The nominal value of bond issues admitted to the financial market was ₺6,036.2 billion and \$1.66 billion with 418 issues (₺1,252.8 billion, \$0.26 billion, and ¥2.9 billion with 440 issues in 2015).

The total value of securities placed in 2016 at their par value was ₺5,485.8 billion and \$3 billion (₺1,810.5 billion in equities, ₺3,675.4 billion and \$3 billion in bonds, including exchange-traded and commercial bonds) (in 2015, the value of equities placed was ₺1,847.4 billion, and the value of bonds placed was ₺2,174.4 billion and \$0.26 billion).

In 2016, 77 bond programmes appeared in the market (four of which were registered by the Bank of Russia); the total number of registered bond programmes in the Russian financial market was 114, and their total value reached ₺15,576.6 billion, \$10.5 billion, and €5 billion.

During the reporting period, the Bank of Russia cancelled 163 securities issues totalling ₺413.6 billion and \$10.6 billion as a result of non-placement of securities during the issue, due to violation of Russian Federation laws on securities, and as part of DIA bankruptcy-prevention measures (184 issues totalling ₺427.3 billion in 2015).

In 2016, a commercial bond issue and a commercial bond programme were admitted to the market for the first time. Furthermore, in 2016, a programme of mortgage-backed housing bonds was registered for the first time, and a bond issue was placed under this programme.

The value of corporate bonds traded on the Moscow Exchange increased by 19% as of 31 December 2016 against 31 December 2015 and amounted to ₺8,632.5 billion.

During the reporting period, the Bank of Russia registered 31 agreements to issue and circulate certificates: six – for registered certificates of deposit, six – for bearer certificates of deposit, six – for registered savings certificates, and 13 – for bearer savings certificates (in 2015, 72 agreements to issue and circulate certificates were registered: 22 – for registered certificates of deposit, 14 – for bearer certificates of deposit, 13 – for registered savings certificates, and 23 – for bearer savings certificates).

In 2016, the Bank of Russia registered 170 rules for the trust management of unit investment funds and 1,628 amendments and supplements thereto, as well as 20 amendments and supplements to the rules of trust management of mortgage coverage and one new rule of trust management of mortgage coverage.

In 2016, the number of operating unit investment funds was 1,553, including 356 open-end unit investment funds, 47 interval unit investment funds, and 1,150 closed-end unit investment funds. The number of existing registered rules of trust management of mortgage coverage remained unchanged at 70.

In 2016, the Bank of Russia registered 25 specifications of contracts that are financial derivatives and 19 amendments thereto (64 specifications and 58 amendments in 2015).

In 2016, the Bank of Russia continued to improve the regulation of securities admission to the financial market, including improvement of the regulatory framework for individual admission procedures. For example, the Bank of Russia published amendments to the Securities Issue Standards³, which es-

¹ Equities and bonds, including exchange-traded and commercial bonds.

² Here and throughout this section, exchanges shall mean Public Joint-Stock Company Moscow Exchange MICEX-RTS and Public Joint-Stock Company Saint Petersburg Exchange.

³ Bank of Russia Ordinance No. 4171-U, dated 28 October 2016, 'On Amending Bank of Russia Regulation No. 428-P, Dated 11 August 2014, 'On Securities Issue Standards, the Procedure for State Registration of Issues (Additional Issues) of Issue-grade Securities, State Registration of Reports on the Results of Issues (Additional Issues) of Issue-grade Securities and Registration of Prospectuses of Securities'.

establish, in particular, the possibility of the issuance of mortgage-backed housing bonds under a bond programme, the possibility of the issuance of bonds with an indexed par value, the possibility to refuse

purchase of shares by several shareholders under a shareholder agreement, and the procedure for registering the prospectus of shares when a joint-stock company acquires public status.

II.2.2.6. National payment system participants

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

The Bank of Russia and Joint-Stock Company National Payment Cards System (JSC NPCS) are the operators of the Bank of Russia payment system and the Mir payment system respectively based on Federal Law No. 161-FZ, and they were not subject to registration and inclusion in the register of payment system operators.

Compared to 2015, the number of payment system operators that were registered and entered in the register¹ did not change and amounted to 33. However, the list of payment system operators underwent changes.

In 2016, the Bank of Russia received applications from four organisations for registration as a payment system operator. Two of them were refused registration because of their non-conformity to the requirements of Federal Law No. 161-FZ, two organisations were registered as payment system operators, and two organisations were struck off from the register of payment system operators at their request.

¹ Published on the Bank of Russia's official website.

II.2.3. Regulation and supervision

II.2.3.1. Credit institutions

Regulation of credit institutions' activities

2016 saw the publication of reports based on outcomes of the Regulatory Consistency Assessment Programme (RCAP) to recognise the conformity of banking regulation in the Russian Federation to the Basel II, Basel 2.5, and Basel III standards. For the first time, Russian regulation of banking risks received the highest score of its conformity to the Basel Committee on Banking Supervision (BCBS) standards.

In the reporting year, the results of the Financial Sector Assessment Programme of the International Monetary Fund and the World Bank in 2015–2016 were summed up, including the mission for the evaluation of conformity to the BCBS document 'Core Principles for Effective Banking Supervision'. The conformity of Russian regulation and supervisory practice was rated highly by experts for 25 out of 29 core principles. However, implementation of 'Major acquisitions', 'Transactions with related parties', 'Country and transfer risks', and 'Financial reporting and external audit' in Russia does not comply with international approaches in many aspects. The Bank of Russia started eliminating the non-conformities discovered.

The Bank of Russia continues to consistently implement international approaches towards the regulation and supervision of credit institutions.

In particular, while improving its approaches towards consolidated supervision, the Bank of Russia prepared and published a consultative report 'On improving regulation of banking groups, bank holding companies, and other associations of legal entities with the participation of financial institutions', which stipulates the procedure for the Bank of Russia to exercise supervision over bank holding companies.

Taking into account the complexity of the international standards to be implemented, the Bank of Russia developed the concept of proportionate regulation of the banking sector, which is based on the division of banks according to the list of permissible operations into those with a universal licence and those with a basic licence. The minimum amount of bank equity capital constitutes the key criterion for determining the type of licence. The minimum amount of equity capital is proposed to

be set at ₱1 billion for a newly registered bank with a universal licence and at ₱300 million for a bank with a basic licence. The type of banking licence determines the specifics of the bank's activities and the regulatory load: banks with a universal licence will be subject to requirements in full, while simplified regulation is to be introduced for banks with a basic licence, and, as a general rule, new technically complicated standards will not apply to them.

In 2016, the Bank of Russia prepared amendments to the mechanism of financial rehabilitation of banks which supplemented the procedure of bank resolution with a new instrument – recapitalisation of banks undergoing resolution by the Bank of Russia. The financing of bank resolution will be ensured from the Banking Sector Consolidation Fund, which is formed with the Bank of Russia's funds separated from other assets of the Bank of Russia. The Bank of Russia will establish a management company to manage banks' assets acquired in the course of resolution and implement measures for their rehabilitation on behalf of the Bank of Russia. Implementation of the new mechanism will make it possible to minimise public expenditures on financial rehabilitation measures.

In 2016, the Bank of Russia continued to improve regulation of banks' required ratios.

In order to curb risks on entities affiliated with the credit institution (the ratio of maximum risk per entity or a group of entities affiliated with the bank, N25), the Bank of Russia adopted a package of documents that established the signs of possible affiliation for the Bank of Russia Banking Supervision Committee to adopt a resolution, based on informed judgement, to recognise entities as affiliated with the credit institution and the procedure for adopting the resolution.

The N25 ratio will be calculated by stages with respect to entities affiliated with the credit institution whose activity is recognised as fully transparent and is confirmed with an available credit rating, amount of taxes paid, etc. The debt of such entities to the bank will be included in the N25 ratio calculation with a coefficient of 20% during 2017, and 50% during 2018.

In order to provide additional capital coverage of the banking sector's currency risks and make it less dependent on the currency volatility when calculating the

capital adequacy ratios of banks, the requirements for the application of increased risk ratios under corporate loans and transactions with securities in foreign currencies came into effect on 1 May 2016 (110%, 130%, and 150%, depending on the type of transaction/object of investment/quality of the depository certifying the rights to the securities).

In 2016, as part of preparing its regulations the Bank of Russia performed the following tasks:

- harmonising the procedure for making loss provisions and the procedure for making provisions for possible losses on loans, loan and similar debt, including the procedure for verification of real activity of corporate counterparties;
- extending the term for the sale of pledged property from 180 to 270 calendar days, in compliance with which the security may be taken into account for the purpose of making provisions adjusted for discounting;
- expanding the requirements for the disclosure of information that could be used by counterparties of credit institutions when concluding contracts with them concerning, in particular, encumbered assets of credit institutions, assets classified by the credit institution into a higher quality category than the category arising out of the formal credit risk assessment criteria, securities (the rights to which are certified with depositories) which satisfy Bank of Russia criteria for making increased loss provisions, and credit institutions' operations with nonresident counterparties.

In 2016, credit institutions with assets exceeding ₪500 billion first applied the internal capital adequacy assessment procedures (ICAAP) which they had developed in 2015. In 2017, the Bank of Russia will assess the quality and results of the ICAAP of these credit institutions. For this purpose, in 2016 the Bank of Russia started to develop a standardised methodology for Bank of Russia regional branches to assess the ICAAP quality and capital adequacy of credit institutions; the reporting forms on the organisation and results of the ICAAP of credit institutions; and the software for the ICAAP quality assessment.

The Bank of Russia took part in preparing amendments to laws regulating auditing which would allow the supervisory body to promptly take response actions based on information obtained from external auditors and the external auditors to use information obtained from the supervisory body to form an opinion on the accuracy of the accounting (financial) statements of

the audited entities. Furthermore, it was proposed that the powers of regulation and supervision in the field of auditing be assigned to the Bank of Russia. The implementation of the said initiatives is intended to improve the quality of auditing services provided to financial institutions, which would contribute to stable development of the Russian economy as a whole and make it attractive for investors.

Certain credit institutions and parent organisations of bank holding companies will be obliged starting from 1 January 2018 to audit their interim financial statements compiled in compliance with the International Financial Reporting Standards and disclose the auditor's report on the accuracy of these statements to the public.

Off-site supervision

In 2016, the Bank of Russia launched a large-scale banking supervision reform based on its centralisation with the aim to optimise business processes and intensify the proactivity of supervisory work, to identify risks of credit institutions at early stages, and to take preventive measures for risk mitigation.

The previous supervision model became exhausted: a retrospective analysis of information received in the course of inspections often hampered supervisory response measures. The Risk Analysis Service was set up to build up competences for analysing credit and market risks of credit institutions on an ongoing basis, which will make it possible to identify emerging risks in real time in the future. The centralised supervision and uniform standards for evaluating assets, transactions, and operations of credit institutions will accelerate the analysis and improve its quality, as well as ensure uniform assessment of borrowers' financial position on the balance sheets of different credit institutions through the implementation of a modern uniform IT system and data warehouse, which accumulate the details of all transactions and operations of banks.

On 16 December 2016, the Bank of Russia Board of Directors decided to establish as of 1 March 2017 the Service for Ongoing Banking Supervision in its head office with a phased delegation of the supervisory functions over credit institutions from Bank of Russia regional branches to the said unit in 2017–2018.

In 2016, the Bank of Russia continued to actively exercise consolidated supervision over banks and banking groups, which enabled it, among other things, to identify systemic risks and take measures for their mit-

igation. The improved information exchange between the structural units of the Bank of Russia and between the Bank of Russia and other agencies and organisations (including the FTS of Russia, exchanges, and depositories) has expanded the range of tools to identify schemes aimed at concealing individual banking risks. The Bank of Russia has initiated and is implementing a number of projects with an IT component to automate analytical supervisory work and optimise interaction between Bank of Russia divisions.

Bank of Russia divisions engaged in supervision of the financial markets continued to cooperate in exercising consolidated supervision over financial groups (including informal ones), which include nonbank financial institutions. Information exchange was carried out for the purpose of assessing the mutual influence of various participants of groups on the financial state of other participants.

In order to assess risks in the activity of credit institutions from international groups, the Bank of Russia's representatives took part in international supervisory colleges.

In 2016, some banks took household funds on deposit without executing the required documents and reports (the so-called 'off-balance sheet deposits'). The Bank of Russia developed methodological recommendations for the identification and prevention of such criminal activities.

The Bank of Russia also took measures to prevent schemes for the withdrawal of assets before the revocation of banking licences, including those associated with the issue of fraudulent loans, bank guarantees and the removal of liquid real estate from the balance sheets.

Supervisory attention was focused on transactions under import letters of credit and lending to nonresident companies with regard to the real activity of counterparties and the appropriate use of funds. It is difficult for the Bank of Russia to obtain this information due to the counterparty's jurisdiction. Signs of assets withdrawal from credit institutions, including for the purpose of financing the owners' business and the fictitious increase in the equity capital of the banks, were also identified under operations with nonresidents.

Major supervisory efforts were focused on studying nontransparent sources of capital, in particular, fraud-

ulent income (including fees and interest accrued, but not actually paid, or paid using funds allocated by the credit institution) and contribution of assets to the capital at an overestimated value. As part of agreements between the Bank of Russia and foreign supervisory bodies, the sources of capital received from nonresidents were scrutinised.

In 2016, the Bank of Russia in collaboration with the Risk Analysis Service measured the fair value of subjects of pledge and assets on the balance sheets of credit institutions. The results of this work were used to evaluate the adequacy of provisions made and sources of equity capital of credit institutions.

As part of the consistent implementation in supervisory activity of the principle of consultative supervision in respect of credit institutions, in 2016 the Bank of Russia adopted measures to improve the supervisory environment. In particular, regular consultations and work meetings were held with the top management and beneficiaries of banks to discuss the existing risk profile and the implemented business model. Bank of Russia authorised representatives developed prompt interaction with banks, they maintained regular communications with the internal auditing units, internal control units, treasury offices, and risk management units of banks while performing their functions. This approach towards organisation of supervisory work with banks provided an understanding of the internal configuration of business processes of the bank (banking group) as a whole.

Supervisory work with regard to systemically important credit institutions (SICIs) was focused on the following matters:

- the state of liquidity and its main components, including those associated with compliance with the liquidity coverage ratio, and a substantive analysis of the use of an irrevocable credit line of the Bank of Russia;
- preliminary assessment of capital management procedures¹, including with due regard to the phased implementation and increase of buffers to capital adequacy ratios, analysis of risk-appetite parameters, and risk management strategy;
- analysis within the framework of consolidated supervision, including assessment of the impact of material events and operations of major banking group and/or bank holding participants on the consolidated indicators.

¹ The first ICAAP quality assessment for the largest credit institutions and the assessment of their capital adequacy to cover major risks in accordance with the requirements of Bank of Russia Ordinance No. 3883-U, dated 7 December 2015, 'On the Procedure for the Bank of Russia to Assess the Quality of Risk and Capital Management Systems, and Capital Adequacy of a Credit Institution or a Banking Group' will be carried out in 2017 based on the results of their initial application of ICAAP in 2016.

**Summary data on number of credit institutions consented to disclose information as of 1 January 2017
(percent of the total number of operating credit institutions)**

Reporting form	Disclosure (percent of the total number of operating credit institutions)
0409101 'The Trial Balance of a Credit Institution'	97
0409102 'Statement of Financial Performance of a Credit Institution'	97
0409135 'Information on Credit Institutions' Required Ratios and Other Performance Indicators'	96
0409123 'Calculation of Equity Capital (Basel III)'	95
All reporting forms (0409101, 0409102, 0409135, 0409123)	95

In addition, the Bank of Russia, with the participation of SICIs, ensured as part of quantitative studies the testing and fine tuning of new regulatory requirements suggested for implementation, such as limitation of the maximum risk per entity affiliated with the bank (a group of entities affiliated with the bank) and a methodology for measuring a bank's capital for the purpose of excluding 'nontransparent' sources directly or indirectly funded by the bank itself.

An important part of activities to enhance banking sector transparency was the disclosure of information on the Bank of Russia website, including publication of balance sheets and financial statements of credit institutions as well as values of their equity capital and required ratios.

The following data were calculated and published on the Bank of Russia website:

- the average market value of full cost of loans by category of consumer loans for the purpose of measuring the maximum full cost of loans in accordance with Federal Law No. 353-FZ, dated 21 December 2013, 'On Consumer Loans' (on a quarterly basis);
- the basic rate of return on ruble and foreign currency deposits in order to establish which banks pay insurance premiums into a deposit insurance fund at an additional rate or at a higher additional rate, in accordance with Federal Law No. 177-FZ, dated 23 December 2003, 'On Insurance of Household Deposits in Russian Banks' (on a monthly basis).

Every ten days the Bank of Russia published the final results of monitoring of the maximum interest rates on ruble deposits for the ten credit institutions that raised the greatest amount of household deposits.

Inspection of credit institutions

In 2016, authorised representatives of the Bank of Russia carried out the total of 585 inspections of credit

institutions and their branches, including 132 inspections of credit institutions subject to the 'second line' of supervision and 35 inspections of SICIs and their branches. About 70% of the total number of inspections were scheduled for the purpose to supply the supervisory body with the information on credit institutions' activity. Half of unscheduled inspections were carried out by the decision of Bank of Russia management due to the need of prompt investigation of operations capable of generating a high level of risk, including due to the signs of 'manipulation' of household deposits.

The practice of using risk-based approaches to organising inspections was continued: all inspections were carried out by individual lines of business or by types of banking operations and transactions.

When organising and carrying out the inspections, the Bank of Russia focused its attention on identifying consolidated risks, both in a credit institution (including its branches) and in banking groups (bank holding companies) comprising credit institutions and/or non-bank financial institutions related by formal criteria or proceeding from the economic nature of transactions. For these purposes the practice of simultaneous performance and coordination of inspections of such entities was used.

Adoption of a cross-sectoral approach enabled the identification of high-risk operations performed in the interests of the groups' beneficiaries and ultimately financed at the cost of the population and the pension savings of non-governmental pension funds; the use of various fraudulent operations performed between the group participants for the purpose of formal improvement of their performance indicators or formal compliance with the requirements of laws and Bank of Russia regulations, including those concerning the transfer of troubled assets from the balance sheets of some group participants to the balance sheets of other participants, which only 'watered down' the risk of the group without

mitigating it; and cases of price manipulation in the securities market through transactions involving the related parties.

The analysis of inspection results showed that the main share of violations was associated with the underestimation of credit risk (51.7%). For example, banks ignored the negative threatening phenomena in borrowers' activity; made unreasonable administrative decisions to formally improve the quality of loans, including cases bearing signs that the borrower was not engaged in real activity; or banks used to minimise the provisions by the cost of security that does not meet the set requirements. Inspections of consumer lending revealed instances of provision by borrowers of incorrect information on their income, concealment by banks of the real duration of overdue loans, and the absence of original loan agreements for loans acquired under assignment agreements.

The failure to comply with the requirements of law on anti-money laundering and countering the financing of terrorism (AML/CFT) accounted for 25.3% of the violations. Instances of banks' failure to submit (untimely submission of) information to the authorised body on operations subject to mandatory control and cases of the non-performance of the duty to take reasonable measures to identify beneficiary owners were registered. A number of credit institutions were involved in conducting fictitious transactions of customers, including those aimed at transferring money abroad or 'transit' of various levels ('accumulating imports', 'high-risk' transit operations).

The compliance of 27 banks with the requirements of the law on the state defence order was studied. The inspections identified instances of the breach of the procedure for opening and using an individual account; cases of performing individual operations on these accounts which make no apparent economic sense or fraudulent operations aimed at cashing out funds; and non-compliance with the deadlines for sending messages to the unified information system.

Together with DIA representatives the Bank of Russia evaluated the adequacy of the assets of 10 banks for settling liabilities. Based on the results of such evaluation, the Bank of Russia decided on the expediency of the financial rehabilitation of the bank.

At all stages of inspection activities the Bank of Russia maintained active information interaction with supervisory, monitoring, and law-enforcement agencies. Measures to improve inspection activities were taken on a continuous basis.

Supervisory response

In 2016, the Bank of Russia's supervisory response was primarily geared towards early identification of negative trends in the activities of credit institutions and adoption of adequate measures to prevent the development of these trends. Information on the measures applied to credit institutions in 2016 is shown in Table 37 of subsection VI.3. Statistical tables.

As part of the early response procedures, the management and (or) boards of directors (supervisory boards) of 713 credit institutions received written information on shortcomings in their activities and recommendations on how to correct them.

Supervisory meetings were held with representatives of 580 credit institutions to demonstrate to the management and owners of the credit institutions the problems identified and the need to remedy them independently.

In 57 cases, recommendations were sent on the development of an action plan to eliminate the shortcomings discovered, improve reporting controls, and adequately assess credit risks, among other things.

Where required, the following punitive measures were imposed on banks:

- fines (302 credit institutions);
- restrictions on certain types of transactions carried out by credit institutions (213 credit institutions, of which 150 banks saw restrictions on taking household funds on deposit and 134 banks saw restrictions on opening corporate and household bank accounts);
- bans on certain types of banking transactions carried out by credit institutions (61 credit institutions) imposed in pursuance of Article 74 of Federal Law No. 86-FZ;
- bans on taking household funds on deposit and opening household bank accounts (one credit institution) imposed in pursuance of Article 48 of Federal Law No. 177-FZ, dated 23 December 2003, 'On Insurance of Household Deposits in Russian Banks';
- demands (on 610 credit institutions, including demands to reclassify their loan debt – on 432 credit institutions and to supplement their loan loss provisions – on 448 credit institutions);
- bans on opening branches (65 credit institutions).

When the owners did not adopt effective measures to eliminate the violations identified and restore financial stability, the Bank of Russia took an extreme measure, i.e., the revocation of a banking licence, if there were grounds to do so.

In 2016, in pursuance of Article 74 of Federal Law No. 86-FZ and Article 20 of Federal Law No. 395-1, dated 2 December 1990, 'On Banks and Banking Activities' ('Federal Law No. 395-1') the Bank of Russia revoked the licences of 97 credit institutions (93 in 2015).

The grounds for revoking the banking licences 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 had been enforced against a credit institution more than once: 96 cases (83 in 2015);
- repeated violations, within one year, of the requirements set out in Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and Bank of Russia regulations issued in accordance therewith: 35 cases (34 in 2015);
- evidence of significant misreporting of data: 5 cases (11 in 2015);
- capital adequacy below 2%: 39 cases (27 in 2015);
- a credit institution's equity capital falling below the minimum authorised capital amount established as of the date of the credit institution's state registration: 36 cases (26 in 2015);
- inability to satisfy creditors' claims under monetary obligations within 14 days of the due date: 15 cases (13 in 2015);
- a bank's equity capital falling, within three consecutive months, below the minimum required amount stipulated by part seven of Article 11.2 of Federal Law No. 395-1, in the absence of a request to change its status to that of a nonbank credit institution: 2 cases (there were no such cases in 2015).

The total assets of credit institutions whose banking licences had been revoked by the Bank of Russia in 2016 amounted to ₹1.1 trillion, or 1.3% of total banking sector assets; their total deposits raised from the population amounted to ₹477 billion, or 2.1% of banking sector deposits¹.

During the reporting period, the Bank of Russia cancelled the licences of three credit institutions following their shareholders' decision to liquidate voluntarily.

Most credit institutions (67 out of 97) whose licences had been revoked during the reporting period were registered in Moscow and the Moscow Region.

¹ The shares were calculated using credit institutions' performance indicators registered as of the last reporting date before revocation of banking licences and aggregate indicators of the banking sector as of 1 January 2016.

II.2.3.2. Non-governmental pension funds

For the purpose of improving the regulation of the activity of non-governmental pension funds, the Bank of Russia:

- introduced requirements for internal documents, procedures for risk identification and management (including the establishment of risk limits), risk measurement and assessment, risk control, and elimination of violations¹ identified;
- set limits on the inclusion of poor-quality and non-liquid assets in the calculation of equity capital of non-governmental pension funds².

In 2016, the process of non-governmental pension funds joining the system guaranteeing the rights of insured persons was completed.

The Bank of Russia issued 47 positive resolutions on the conformity of NPFs to the requirements for participation in the system guaranteeing the rights of insured persons and 23 negative resolutions. Starting from August 2014, the Bank of Russia carried out 88 inspections of 70 NPFs³ as well as 50 inspections of management companies and 10 inspections of specialised depositories and their structural units. These inspections were performed in coordination with the inspections of NPFs to more promptly and systematically identify risks in the activity of the inspected NPFs. Following the results of the campaign, as well as mergers and takeovers that took place in the market, as of 31 December 2016 the system guaranteeing the rights of insured persons included 41 NPFs; the amount of the pension savings insurance fund was ₪868.23 million.

In 2016, the Bank of Russia took the following measures based on identified violations of the pension laws of the Russian Federation:

- sent 250 orders to eliminate violations to NPFs and their management companies;
- imposed bans on operations of 18 NPFs (operations related to compulsory pension insurance, 15 NPFs; and those related to non-governmental pension insurance, 3 NPFs);
- issued eight resolutions on administrative penalties with regard to NPFs and ten resolutions with regard to NPF management companies;
- cancelled the licences of 18 NPFs and three NPF management companies for the repeated violations of the requirements of pension laws;
- cancelled the qualification certificates of 13 financial market specialists in charge of the management of investments funds, unit investment funds, and NPFs.

The licences of three NPFs were cancelled based on the request of the licensees to give up their licences. One licence was cancelled due to the NPF bankruptcy.

In the course of inspections with regard to NPFs, Bank of Russia authorised representatives inspected 39 NPFs⁴ from 1 January 2016 to 31 December 2016, of which inspections of 13 NPFs were coordinated by time and subject matter with the inspections of three management companies.

The aforementioned inspections in a number of NPFs revealed material risks of investment of pension reserves and pension savings in assets with low investment quality and violations of laws on non-governmental pension funds, licence requirements regarding the provision and disclosure by NPFs of unreliable information, as well as the requirements for internal controls and identification of NPF customers.

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

² Bank of Russia Ordinance No. 4028-U, dated 30 May 2016, 'On the Procedure for Calculating the Capital of Non-governmental Pension Funds'.

³ Inspections of 16 NPFs were carried out twice, and inspections of two NPFs – thrice.

⁴ On-site inspections of five NPFs were continued in 2017.

II.2.3.3. Insurance entities

For the purpose of improving the regulation of the activity of insurance entities, the following work was done in 2016.

With due regard to the amendments made to the law on compulsory motor third party liability insurance (CMTPLI)¹ concerning the establishment as of 1 January 2017 of the insurers' duty to ensure the uninterrupted possibility to conclude CMPTLI agreements in the form of electronic documents, the Bank of Russia issued regulations² setting the requirements for the use of electronic documents, the procedure for electronic information exchange, and the requirements for ensuring the uninterrupted possibility to conclude CMPTLI agreements in the form of electronic documents. In 2016, 329,727 CMTPLI agreements were concluded in the form of electronic documents, which was almost six times more than in 2015 (55,867 agreements). The share of such agreements in 2016 remained insignificant and amounted to 0.86% of the total amount of CMTPLI agreements (0.14% in 2015). In 2017 Q1, 759,886 CMTPLI agreements were concluded electronically. Their share in the total number of CMTPLI agreements concluded over the same period increased to 9%.

To ensure the financial stability of Russian insurers and protect the property interests of the Russian Federation and its constituent territories and municipalities, as well as legal entities and individuals, given the external political environment and in accordance with Federal Law No. 363-FZ, dated 3 July 2016, 'On Amending the Law of the Russian Federation 'On the Insurance Business in the Russian Federation', the Russian National Reinsurance Company, a joint-stock company (JSC RNRC), was established in 2016. The authorised capital of JSC RNRC was formed with the

asset contribution of the Bank of Russia. JSC RNRC started its activity in 2016 Q4 and concluded the first reinsurance agreements; the total amount of premiums equalled ₺148.2 million. JSC RNRC was established with the aim of increasing the reinsurance capacity for Russian insurers, enhancing the transparency of reinsurance operations, countering capital outflow from the Russian Federation, and creating the possibility of getting more competitive reinsurance conditions than abroad.

From 1 January 2016, the United All-Russian Association of Insurers was engaged in agricultural insurance. The Bank of Russia approved the assignment of the status of a United Association to the National Association of Agricultural Insurers (NAAI), approved the insurance rules and operating rules of the United Association, and prepared the necessary regulatory framework³. Having been entitled with the authority the Bank of Russia started work in 2016 to supervise the activity of the NAAI, including the creation of a compensation fund by the NAAI and making compensation payments. The effectiveness of the measures taken was proved by growth in the segment of agricultural insurance with government support by 31% in 2016 year-on-year (the premiums amounted to ₺8.5 billion in 2016 vs. ₺6.5 billion in 2015).

For the purpose of regulating the financial stability and solvency of insurance companies, in 2016 the Bank of Russia developed and adopted regulations governing the accumulation of insurance reserves⁴. The regulations provide for a considerable expansion of the possibilities of using actuarial methods to calculate insurance reserves, including data grouping to calculate the reserves.

¹ Federal Law No. 214-FZ, dated 23 June 2016, 'On Amending the Federal Law 'On Compulsory Motor Third Party Liability Insurance'.

² Ordinance No. 4190-U, dated 14 November 2016, 'On the Requirements for the Use of Electronic Documents and the Procedure to Exchange Information Electronically in the Process of Compulsory Third Party Liability Insurance of Vehicle Owners'; Ordinance No. 4191-U, dated 14 November 2016, 'On the Requirements for the Smooth and Uninterrupted Functioning of the Websites of Insurers and the Professional Association of Insurers for the Purpose of Concluding Compulsory Insurance Agreements in the Form of Electronic Documents'.

³ Bank of Russia Ordinance No. 3837-U, dated 3 November 2015, 'On the Procedure and Terms for Insurers' Associations to Transfer to the United All-Russian Association of Insurers Compensation Funds, Claims to Insurers, Obligations of Insurers' Associations to Satisfy the Claims of Insurants and Beneficiaries Regarding Compensation Payments, Other Rights and Obligations, and Also Accumulated Statistics, and on Approving an Agent to Publish the Notice on the Transfer of Compensation Funds'; Bank of Russia Ordinance No. 3849-U, dated 16 November 2015, 'On the Requirements for the Insurers' Association to Invest Compensation Funds in Agricultural Insurance with Government Support'; Bank of Russia Regulation No. 528-P, dated 28 December 2015, 'On the Procedure for the Bank of Russia to Supervise the Activity of the United All-Russian Association of Insurers Engaged in Agricultural Insurance with Government Support, Including the Creation of Compensation Fund and Compensation Payments'.

⁴ Bank of Russia Regulation No. 557-P, dated 16 November 2016, 'On the Rules for Accumulating Life Insurance Reserves'; Bank of Russia Regulation No. 558-P, dated 16 November 2016, 'On the Rules for Accumulating Insurance Reserves for Insurance Other than Life Insurance'.

In order to timely identify insurer insolvency risks the Bank of Russia issued Ordinance No. 3935-U, dated 18 January 2016, 'On the Procedure for the Bank of Russia to Monitor Insurers' Activities', which provides for the application of financial indicators (ratios) characterising insurers' financial position and resilience to internal and external risk factors.

On 21 December 2016, a new wording of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency (Bankruptcy)' (hereinafter, Federal Law No. 127-FZ) came into force. It stipulated that the functions of the provisional administration of an insurance company were to be performed by the Bank of Russia, and the functions of a receiver, by the state corporation Deposit Insurance Agency. The new wording specified the grounds for appointment of a provisional administration and cancelled the 'oversight' procedure for insurance companies in bankruptcy proceedings.

In 2016, the Bank of Russia decided to include the data on the All-Russian Union of Insurers (ARUI) in the unified register of self-regulatory organisations in the financial market (the first SRO in the insurance market). Establishment of a SRO in the insurance market is aimed at increasing the effectiveness and social responsibility of the insurance business and maintaining high standards of operation and business ethics in the industry.

The compiling of dossiers on insurance companies, which make it possible to specify the risk groups of insurers and supervision modes, was a key focus of the Bank of Russia's supervisory activity in the insurance market in 2016. The dossier of an insurance company includes a set of information updated on a continuous basis by the supervisor of the insurance company about the supervised entity, which includes information on the ownership structure of the insurance company, corporate governance, and the internal control and risk management system; analysis of the financial position of the insurance company, including analysis of assets, liabilities, and factors that shape the financial result of the insurance company; analysis of the financial planning system; and monitoring of the accomplishment of business plans. The compiling of dossiers allows the Bank of Russia to gain a comprehensive notion of the insurance company, the risk factors in its work, and the prospects of its activity with due regard to its business model and to take prompt supervisory measures to prevent the development of negative trends in the activity of insurance companies.

In 2016, the number of insurance market participants continued to decline. This trend was largely due to work to verify the availability of insurance companies' assets started in 2014.

The number of insurance brokers decreased considerably along with an increase in the number of licences voluntarily surrendered by insurance brokers, which was particularly associated with amendments to the insurance laws and the planned transition by insurance brokers to a new chart of accounts and sectoral accounting standards for nonbank financial institutions.

In 2016, 47 provisional administrations were appointed to insurance companies; 91 provisional administrations were terminated, including seven administrations due to the recovery of solvency. The results of financial analysis performed by provisional administrations supported the findings of off-site supervision in all cases.

In 2016, work to counter malpractices in the insurance market intensified. Under the Bank of Russia's control, heads of provisional administrations and receivers filed 68 complaints with law-enforcement agencies against 19 insurance companies, and 10 criminal cases were initiated.

During the reporting period, none of the Bank of Russia's decisions were found invalid by the court when its decisions to apply licence sanctions or appoint provisional administrations to insurance companies were litigated.

In 2016, the Bank of Russia monitored the compliance of insurance entities with the plans for transition to new accounting and reporting standards based on the principles of International Financial Reporting Standards (IFRS). The results of studying test reports submitted by insurance companies from the focus group did not reveal any additional factors of the risk of loss of financial stability and solvency.

With respect to the insurance companies that concentrate their risks in socially significant types of insurance (agricultural insurance with government support, tour operators liability insurance, property developers public liability insurance), the Bank of Russia continues monitoring of insurers' performance indicators in the said segments, analyses risk concentrations and balance-sheet indicators, and evaluates possible coverage of these risks.

In the course of their inspection activity with regard to insurance entities, in 2016 Bank of Russia autho-

rised representatives completed on-site inspections of 113¹ insurance companies and their structural units², which was 2.4 times more than the year before³, and of one mutual insurance company. One inspection of an insurance company was terminated during the said period because of its opposition to inspection. Moreover, the Bank of Russia continued the practice of coordinated inspections of financial group participants, including those connected by mutual non-transparent operations. In the year under review, the terms and subject matters of six inspections of insurance companies were coordinated.

The main violations discovered in the course of inspections of a number of insurance entities in 2016 in-

cluded violations related to the financial stability and solvency of insurance companies in respect of investment of funds in financial instruments of suspicious quality and high risk, regular failures to comply with the rules for accumulating insurance reserves, and breaches of the procedure for concluding and performing insurance agreements and organising the internal control system. Furthermore, inspections of individual insurance companies revealed violations of the requirements of laws and regulations in the field of countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism and instances of submission of unreliable information and/or reports to the Bank of Russia.

¹ Including four unscheduled inspections.

² On-site inspections of five insurance companies were continued in 2017.

³ 48 on-site inspections of insurance companies.

II.2.3.4. Other participants

Professional securities market participants. For the purpose of improving the regulation of the activity of professional securities market participants, in 2016 the Bank of Russia issued regulations that provided for the following amendments:

- as part of licence requirements for admission to and conducting professional activity in the securities market, a requirement was set for taking measures to prevent, identify, and settle conflict of interest in the professional participant's activity;
- as part of equity capital requirements for professional securities market participants, qualitative criteria were established for including assets in the equity capital (from the point of view of their liquidity and reliability);
- as part of the requirements for information disclosure by professional participants:
 - the procedure was specified for disclosing information on the calculation of the amount of equity capital and litigations;
 - requirements were set for the composition of information disclosed by registrars about economic entities that are of strategic importance for the defence and industrial complex and the security of the Russian Federation;
 - the procedure was specified for disclosing information by professional participants – securities issuers to exclude excessive regulation;
- as part of the requirements for a depository's activity:
 - requirements were set for the depository's registers, the procedure for registering documents, and the procedure for protecting and storing records;
 - time and quantitative limitations were introduced for the issue during the depository's operating day of statements certifying the ownership right to securities; requirements were specified for the duration of the depository's operating day; and the provisions binding the depository to disclose information on the duration of its operating day on the website were abolished;
 - alternative methods were adopted to identify the persons exercising rights under the securities (by their address or by international code of legal entity identification);

- uniform requirements were set for depository accounting by credit and noncredit institutions;
- as part of the requirements for the maintenance of the register, requirements were set for the registers of the register holder, the procedure for making records in the internal accounting of the register holder, the procedure for registering documents, and the procedure for protecting and storing account records.

For the purpose of determining the priority lines of professional activity regulation in the securities market, a report for public consultations, 'Improvement of Brokerage Activity Regulation', was prepared and published.

Throughout 2016, the Russian financial market saw the trend towards a decreased number of credit and noncredit organisations holding professional securities market participant licences (hereinafter, the professional participants) to continue. Their number decreased from 875 organisations as of 1 January 2016 to 681 organisations as of 1 January 2017¹. During the reporting period, the Bank of Russia issued 29 and cancelled 682 professional participant licences. In 2015, 493 qualification certificates of 270 officials of the professional securities market participants were cancelled.

While supervising professional participants' activity in 2016, the Bank of Russia carried out 156 off-site inspections and sent 447 orders and 465 requests for information, as well as 60 orders to eliminate violations of Russian laws and take measures to prevent such violations in their future activity. Sixty-four reports on administrative offences were drawn up against professional participants, and 16 resolutions on the imposition of administrative penalties were issued. As many as 1,441 replies to the citizens' and organisations' communications related to the activity of professional participants and infrastructure organisations of the financial market (hereinafter, the infrastructure organisations) were prepared. Dossiers on all operating market participants were compiled containing all the required details of their activity and financial standing.

To improve its supervisory activity and enhance the effectiveness of off-site supervision over the professional participants' activity, the Bank of Russia has initiated and is currently implementing projects for business

¹ For details, see Table 9 of subsection VI.3. Statistical tables.

process automation, including the project 'File Card of a Supervised Entity', which will provide for the automated maintenance of supervised entities' dossiers and implementation of business processes of off-site supervision and inspection activity with regard to the supervised entities, including the creation of a single window for information exchange with financial market participants and a centralised system of corporate data management.

Collective investment market entities. For the purpose of improving the regulation of the activity of collective investment entities, the Bank of Russia:

- established requirements for the composition and structure of assets of investment funds¹:
 - two categories of funds for non-qualified investors (market financial instruments fund and real estate fund) and three categories of funds for qualified investors (financial instruments fund, real estate fund, joint fund) were provided for;
 - the list of assets that may be acquired in a fund of one category was expanded;
- improved the procedure for calculating equity capital of the management companies of investment funds, PIFs, and NPFs².

In 2016, the Bank of Russia took the following measures based on revealed violations of laws of the Russian Federation:

- 808 orders to eliminate violations were sent to the management companies of investment funds, PIFs, and NPFs (hereinafter, the management companies);
- 63 orders to eliminate violations were sent to specialised depositories of investment funds, PIFs, and NPFs (hereinafter, the specialised depositories);
- one order to eliminate a violation was sent to a joint-stock investment fund;
- orders prohibiting certain operations were sent in respect to two management companies;
- 82 resolutions to impose administrative sanctions were adopted in respect to management companies, and 9 resolutions, in respect to specialised depositories;
- licences of 27 management companies and three specialised depositories were cancelled for repeated violations of the requirements of Russian laws;
- qualification certificates of financial market specialists to manage investment funds, PIFs, and NPFs were cancelled from 39 certified persons.

Based on the licence holders' applications for surrender of the licence, the licences of 15 management companies and one joint-stock investment fund were cancelled.

Microfinance entities. For the purpose of improving the regulation of microfinance entities, the Bank of Russia participated directly in preparing amendments to the laws of the Russian Federation which came into effect in 2016 and provided for the following:

- establishment of the principle of proportionate regulation when controlling the activity of MFOs, CCCs, and agricultural CCCs;
- limitation of interest and other fees for MFO borrowers under a consumer loan agreement under which the term of consumer loan repayment does not exceed one year, if the amount of interest and other fees accrued under the agreement reaches three times the amount of the loan, and a prohibition on accrual from the moment when the total amount of interest due reaches double the amount of the outstanding loan, until the borrower makes a partial repayment of the loan amount and/or pays interest accrued.

The Bank of Russia issued regulations that provided for the following:

- applying the methodology for measuring the equity capital of a microfinance company;
- specifying the procedure for microfinance organisations to make loan loss provisions;
- establishing the criteria for microfinance organisations financing entrepreneurs to comply with;
- establishing the procedure for microfinance organisations to submit applications on the removal of their details from the state register of microfinance organisations.

Throughout 2016, the Bank of Russia worked hard to identify microfinance organisations that violated the requirements of Russian laws and remove them from the microfinance market, including organisations that did not submit their reports, were not members of self-regulatory organisations in the financial market, or whose activities showed signs of being pyramid schemes.

In 2016, the Bank of Russia struck off from the state register of MFOs the details of 1,714 legal entities; 1,169 organisations lost their MFO status because of repeated violations of Russian laws, and 545 organisations, based on applications.

¹ Bank of Russia Ordinance No. 4129-U, dated 5 September 2016, 'On the Composition and Structure of Assets of Joint-stock Investment Funds and Unit Investment Funds'.

² Bank of Russia Ordinance No. 4075-U, dated 19 July 2016, 'On the Capital Requirements for Management Companies of Investment Funds, Unit Investment Funds, and Non-governmental Pension Funds and for Applicants for Management Company Licence'.

In 2016, the Bank of Russia continued its systemic work to apply supervisory response measures in respect to the insolvency (bankruptcy) of consumer credit cooperatives (CCCs), which were the main microfinance market participants, as a result of which two provisional administrations were appointed.

As of 31 December 2016, applications for liquidation were filed or were being reviewed by courts against 585 CCCs; FTS of Russia was reviewing the Bank of Russia's communications with respect to 150 CCCs regarding their absence at the address specified in the Unified State Register of Legal Entities and with respect to CCCs showing signs of being an invalid legal entity; and 725 CCCs are going through winding up (voluntary or forced) or bankruptcy proceedings.

Applications for liquidation were filed or were being reviewed by courts against 836 pawnshops; FTS of Russia was reviewing the Bank of Russia's communications with respect to 924 pawnshops regarding their absence at the address specified in the Unified State Register of Legal Entities and with respect to pawnshops showing signs of being an invalid legal entity; and 893 pawnshops are going through winding up (voluntary or forced) or bankruptcy proceedings.

For the purpose of improving the effectiveness of control and supervision over the activity of nonbank financial institutions, in 2016 the Bank of Russia started a project for compiling a dossier containing all necessary information important for supervisory purposes about the entity, its business model, and its activity in the financial market. As of the end of 2016, such dossiers were compiled for the largest microfinance market participants.

In 2016, the Bank of Russia also continued work to identify organisations involved in illegal activities in the field of consumer lending.

For example, in 2016 the Bank of Russia sent 707 letters with respect to 1,378 organisations to the authorised government bodies of the Russian Federation, including 469 letters against 965 organisations sent to prosecution bodies.

Credit rating agencies. For the purpose of improving the regulation of credit rating agencies' activity, in 2016 the Bank of Russia adopted nine regulations that established, in particular:

- the requirements for expertise and experience of rating analysts;
- the requirements for information safety and security;
- the requirements for the procedure for organising and ensuring the functioning of internal control bodies;
- the procedure for disclosing information about rating actions;
- the procedure for submitting documents, information, and data of credit rating agencies;
- the procedure for disclosing information about the causes of deviations from the established dates for revision and disclosure of sovereign credit ratings;
- the procedure for the Bank of Russia to approve of the list of additional services provided by a credit rating agency;
- the procedure for the Bank of Russia to send orders for the elimination of breaches of the requirements;
- the procedure for credit rating agencies to compile and submit statements to the Bank of Russia.

In 2016, the Bank of Russia reviewed the documents of foreign legal entities that filed applications for registration in the register of credit rating agencies. Following the results of such review, the Bank of Russia decided to enter the details of Analytical Credit Rating Agency (Joint-Stock Company) and Joint-Stock Company Expert RA Rating Agency in the register of credit rating agencies.

In 2016, the Bank of Russia also worked on elaborating the approaches towards comparing the rating scales of credit rating agencies. On 5 December 2016, the Bank of Russia published a report for public consultations 'Establishing a System to Compare Rating Scales of Credit Rating Agencies (Mapping)' for the purpose of collecting the comments and proposals of financial market participants.

Throughout 2016, the Bank of Russia clarified the use and economic sense of credit ratings; in particular, on 29 December 2016 the Bank of Russia published an information letter on its website on the use of credit ratings by the Bank of Russia for regulatory purposes.

Actuaries. For the purpose of improving the regulation of actuarial activity, in 2016 the Actuarial Activity Board under the Bank of Russia adopted, and the Bank of Russia approved federal standards for actuarial activity which set the requirements for the procedure for assessing and verifying the adequacy of the amount of insurance liabilities by an actuary.

As part of supervisory measures, the Bank of Russia sent the self-regulatory organisations of actuaries its requests for inspection of individual members, following which four actuaries were subject to disciplinary measures in the form of fines.

In 2016, the Bank of Russia held a qualification exam for persons wishing to join self-regulatory organisations of actuaries, which was successfully passed by three

applicants. Within the framework of the procedures required to obtain the status of a responsible actuary, in 2016 the Bank of Russia took part in four attestations held by self-regulatory organisations of actuaries, following which three actuaries received the status of a responsible actuary. As a result, as of 1 January 2017, the unified register of responsible actuaries included information on 104 responsible actuaries.

Self-regulatory organisations in the financial market. For the purpose of improving the regulation of the activity of self-regulatory organisations in the financial market, in 2016 the Bank of Russia adopted seven regulations, which established, among other things:

- the procedure for submitting documents for the Bank of Russia to decide on the entry of the details of a non-commercial organisation into the unified register of self-regulatory organisations in the financial market and the procedure for submitting to the Bank of Russia the documents and information stipulated by Part 7 of Article 29 of Federal Law No. 223-FZ, dated 13 July 2015, 'On Self-Regulatory Organisations in the Financial Market';
- the requirements for business reputation of a nominee to the position of the head of a self-regulatory organisation in the financial market;
- the procedure for the Bank of Russia to approve of the position of the head of a self-regulatory organisation in the financial market;
- the requirements for compiling a cost estimate;
- the procedure for maintaining the register of members of a self-regulatory organisation in the financial market;
- the list of basic standards and requirements for their content, which are binding upon self-regulatory organisations in the financial market which comprise brokers, dealers, managers, depositories, registrars, microfinance organisations, and consumer credit cooperatives, and the list of operations in the financial market that are subject to standardisation.

For the purpose of establishing the committees for standards in the respective type of activity of financial institutions, the main tasks of which include coordination of basic standards developed by self-regulatory organisations and elaboration of proposals for further development of financial institutions' activity, the Bank of Russia issued Order No. OD-3580, dated 18 October 2016, 'On Approving the Sample Regulation on the Committee for Standards in the Respective Type of Activity of Financial Institutions under the Bank of Russia'.

Based on this order eight committees for standards were set up: a committee for broker activity, a committee for dealer activity, a committee for registrar activity, a committee for manager activity, a committee for forex dealer activity, a committee for depository activity, a committee for standards of consumer credit cooperatives, and a committee for standards of microfinance organisations.

Infrastructure organisations of the financial market. For the purpose of improving the regulation of the activity of infrastructure organisations, in 2016 the Bank of Russia issued documents that provided for the following:

- a new procedure for admitting securities to organised trading, which, compared to the previous version, contained a number of amendments concerning requirements for the corporate governance of issuers whose securities are included in quotation lists; a more flexible approach for determining requirements for the credit ratings used for including securities in a higher quotation list, and an improved procedure for information disclosure by trade organisers on the securities admitted to organised trading;
- recommendations for determining the maximum amounts of the positions of customers of the participants in organised FX trading when settling certain types of transactions, including recommendations for the continuous measurement of the total value of the customer's portfolio, including all assets and liabilities therein, and the measurement of the indicators with which the total portfolio value is compared;
- recommendations for developing plans for financial stability recovery by infrastructure organisations;
- recommendations for ensuring the business continuity of nonbank financial institutions (including certain recommendations for infrastructure organisations), including recommendations for the availability and regular testing of a business continuity plan, development of additional internal documents within the framework of the risk management system, and availability of a back-up office.

For the purpose of the continuous and stable functioning of the financial market, in 2016 the Bank of Russia continued improving the regulation of such infrastructure organisations as the central counterparty (CC) and the repository.

In pursuance of the provisions of the Federal Law No. 403-FZ, dated 29 December 2015, 'On Amending Certain Laws of the Russian Federation' aimed at adoption of a comprehensive risk-based approach towards

regulation of a nonbank credit institution – central counterparty (NCI-CC), the Bank of Russia:

- established permissible combinations of banking operations for the NCI-CC, numerical values and the methodology for calculating the required ratios of the NCI-CC, and the procedure for the Bank of Russia to exercise supervision over their compliance¹;
 - determined the list of mandatory elements of NCI-CC activity, the effectiveness of which is assessed in the course of an operational audit²;
 - established requirements for risk management in the NCI-CC, rules for organising the risk management system, individual and collective clearing security, property placement and formation of assets of the NCI-CC, for the number of entities where the NCI-CC is entitled to open commercial and clearing accounts; and for the methodology for determining the allocated capital of the NCI-CC³;
 - established requirements for the methodologies for risk stress testing and assessment of the accuracy of the NCI-CC model, for risk stress testing and assessment of the accuracy of the NCI-CC model, and for the procedure and timeframes for information disclosure on the results of NCI-CC risk stress testing to clearing participants⁴;
 - established requirements for the content, procedure, and timeframes for submitting to the Bank of Russia the plan for the NCI-CC business continuity assurance, the procedure for assessing the plan for the NCI-CC business continuity assurance, requirements for the software and hardware and network communications of the NCI-CC, and the procedure for creating, maintaining, and storing the databases with the information on the assets and liabilities of the NCI-CC and on their movements⁵.
- The innovations in the regulation of the CC are aimed at mitigating infrastructure risks in the Russian financial market and expanding the operational capabilities of the CC.
- For the purpose of implementing Federal Law No. 430-FZ, dated 30 December 2015, 'On Amending the Federal Law 'On the Securities Market' and Certain Laws of the Russian Federation', the Bank of Russia:
- established requirements for the identification, monitoring, assessment, and management of the repository's major risks and provided for the assessment of the effectiveness of the repository's risk management system for the purpose of its improvement⁶;
 - established a requirement for the content, approval, and updating of the business continuity assurance plan and the repository's financial stability assurance plan, the determination of the factors of the occurrence of nonstandard and emergency situations, and performance of load tests and information protection of the repository's software and hardware⁷;
 - established requirements for the rules of internal controls and internal auditing of the repository⁸;
 - established requirements for the types of contracts settled outside of organised trading and for the entities, procedure, content, form, and terms of provision of information to the repository, as well as

¹ Bank of Russia Instruction No. 175-I, dated 14 November 2016, 'On Banking Operations of Nonbank Credit Institutions – Central Counterparties, on the Required Ratios of Nonbank Credit Institutions – Central Counterparties, and the Specifics of Exercising Supervision over Their Compliance by the Bank of Russia'.

² Bank of Russia Regulation No. 556-P, dated 11 November 2016, 'On the Procedure for Conducting Operational Audit by the Central Counterparty'.

³ Bank of Russia Regulation No. 575-P, dated 30 December 2016, 'On the Requirements for Risk Management, Rules for Organising the Risk Management System, Clearing Security, Property Placement, and Formation of Assets of the Central Counterparty and for the Number of Entities Where the Central Counterparty Is Entitled to Open Commercial and Clearing Accounts, and for the Methodology for Determining the Allocated Capital of the Central Counterparty'.

⁴ Bank of Russia Regulation No. 576-P, dated 30 December 2016, 'On the Requirements for the Methodologies for Risk Stress Testing and Assessment of the Accuracy of the Central Counterparty Model, for Risk Stress Testing and Assessment of the Accuracy of the Central Counterparty Model, and for the Procedure and Timeframes for Information Disclosure on the Results of Risk Stress Testing of the Central Counterparty to Clearing Participants'.

⁵ Bank of Russia Ordinance No. 4258-U, dated 30 December 2016, 'On the Requirements for the Content, Procedure, and Timeframes for Submitting to the Bank of Russia the Plan for the Central Counterparty's Business Continuity Assurance and Amendments Introduced Thereto, on the Procedure for Assessing the Plan of the Central Counterparty's Business Continuity Assurance, on the Requirements for the Software and Hardware and Network Communications of the Central Counterparty, and on the Procedure for Creating, Maintaining, and Storing Databases with Information on the Assets and Liabilities of the Central Counterparty and on Their Movements'.

⁶ Bank of Russia Ordinance No. 4144-U, dated 29 September 2016, 'On the Requirements for the System of Risk Management Related to Repository Operations and for the Rules for the Repository's Risk Management'.

⁷ Bank of Russia Ordinance No. 4148-U, dated 6 October 2016, 'On the Requirements for the Development and Approval of the Repository's Business Continuity Assurance Plan and the Repository's Financial Stability Assurance Plan'.

⁸ Bank of Russia Ordinance No. 4145-U, dated 30 September 2016, 'On the Requirements for the Rules of Internal Controls and Internal Auditing of the Repository'.

requirements for the maintenance of the register of contracts by the repository¹.

For the purpose of exercising its powers in the field of supervision over the activity of infrastructure organisations (trade organisers, clearing organisations, including clearing organisations performing the functions of a central counterparty, and repositories), in 2016 the Bank of Russia performed the following activities and took the following supervisory response measures.

The Bank of Russia carried out one comprehensive and eight targeted inspections of the trade organisers and one targeted inspection of the clearing organisation. Based on the results of the inspections, the Bank of Russia sent the infrastructure organisations orders to eliminate and prevent further violations similar to those discovered during the inspections as well as information letters with recommendations for the organisations to take measures to improve their mechanisms of business conduct.

Reports on the imposition of administrative sanctions were executed with respect to 38 legal offences.

In 2016, in the course of implementing routine supervisory activities the Bank of Russia sent infrastructure organisations 43 instructions to supply documents, five instructions to eliminate and/or prevent further violations of Russian laws, and four letters with recommendations, as well as registered 145 internal documents of infrastructure organisations.

The first licence for repository activity was issued.

Within the framework of monitoring NCC Bank (JSC) and NCI JSC NSD (hereinafter, NCC and NSD) as systemically important infrastructure organisations, the Bank of Russia, given the continued financial sanctions, paid special attention to the analysis of the influence of financial risks on the activity of NCC and NSD, trends in securing clearing participants, and concentration of NCC investments in unsecured assets², as well as to stress testing and reverse stress testing of NCC and NSD, which showed that these organisations preserved

their financial stability with no threat to their business continuity.

In the course of **inspection activity** from 1 January 2016 to 31 December 2016 the authorised representatives of the Bank of Russia completed on-site inspections³ of the central counterparty, trade organiser, and 162⁴ professional securities market participants, collective investment entities, MFOs, CCCs, SRO CCC⁵, and pawnshops⁶, of which 105 inspections were performed in a coordinated manner. In 2016, inspection of a forex dealer was also performed in connection with amendments to the laws of the Russian Federation that established regulatory requirements for the forex market.

Inspections in a number of nonbank financial institutions (NFIs) revealed risks related to ensuring financial stability and solvency in the audited organisations, repeated provision of unreliable data to the Bank of Russia as part of NFI reports, investment of funds of the audited organisation (its customers) in assets with high investment risks, and settlement of fraudulent transactions (operations) by NFIs.

Inspections of NFIs mostly revealed violations of Russian laws and Bank of Russia regulations that govern the respective activity of NFIs and individual violations of the requirements for internal controls, including for the purpose of countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism.

The Bank of Russia conducted a large-scale campaign to verify that the specialised depositories of bond mortgage coverage perform their duties to keep the pledge instruments, which constitute the mortgage coverage, for the purpose of assessment of risks assumed by investors in the financial market when making investments in bonds with mortgage coverage of a high reliability declared. During this campaign the Bank of Russia organised concurrent (coordinated) unscheduled inspections of four specialised depositories of

¹ Bank of Russia Ordinance No. 4104-U, dated 16 August 2016, 'On the Types of Contracts Settled outside of Organised Trading Information on Which Is to Be Submitted to the Repository, on the Entities Submitting Information on Such Contracts to the Repository, the Procedure, Content, Form, and Terms of Provision of Information to the Repository, Additional Requirements for the Maintenance of the Register of Contracts by the Repository, the Procedure for and Terms of Provision of Information by the Repository, and the Procedure, Content, Form, and Terms for the Repository to Submit the Register of Contracts to the Bank of Russia'.

² Interbank loans and deposits, funds in correspondent accounts, securities.

³ Four inspections were terminated because of the absence of the supervised organisations at the addresses available to the Bank of Russia.

⁴ Inspections of 107 professional securities market participants, 20 collective investment entities (excluding inspections of NPFs), 16 microfinance organisations, 15 consumer credit cooperatives, two self-regulatory organisations of consumer credit cooperatives, and two pawnshops.

⁵ Self-regulatory organisations of consumer credit cooperatives.

⁶ On-site inspections of one pawnshop and one CCC were continued in 2017.

bond mortgage coverage and 90 depositories involved by the latter all over the Russian Federation to perform their duties to keep the pledge instruments constituting the mortgage coverage. The aforesaid inspections re-

vealed numerous violations of Russian laws as regards execution of pledge instruments and breaches of the procedure for maintaining the mortgage coverage registers.

II.2.3.5. National payment system participants

In accordance with Article 31 of Federal Law No. 161-FZ, the Bank of Russia exercises oversight in the national payment system over money transfer operators that are credit institutions, payment system operators, or operators of payment infrastructure services, as well as monitoring of money transfer operators, payment system operators, operators of payment infrastructure services, and other national payment system participants (Federal State Unitary Enterprise Russian Post, bank payment agents, payment agents).

As of 1 January 2017, the number of payment system operators conducting their business in the Russian Federation did not change as compared with 2015 and totalled 35 entities (including the Bank of Russia and NSPC JSC).

The number of operators of payment infrastructure services under the payment systems decreased by 10% against 2015 and totalled 47 entities as of 1 January 2017¹. They included 29 entities performing the functions of settlement centres (Bank of Russia, 28 credit institutions), 31 entities performing the functions of payment clearing centres (Bank of Russia, 13 credit institutions, 17 organisations other than credit institutions), and 31 entities performing the functions of operational centres (Bank of Russia, 12 credit institutions, 18 organisations other than credit institutions).

In 2016, 51 credit institutions were recognised by the Bank of Russia as significant in the market of payment services, of which 43 institutions have become individual participants in the Mir payment system as of 1 January 2017.

During 2016, the authorised representatives (employees) of the Bank of Russia carried out inspections of national payment system participants to check their compliance with the requirements of Federal Law No. 161-FZ and Bank of Russia regulations adopted in pursuance thereof: 55 inspections of credit institutions (their branches), including 51 scheduled inspections and four un-

scheduled ones, as well as five inspections of organisations other than credit institutions. The Bank of Russia sent letters, recommendations, and instructions to eliminate the discovered violations within the prescribed timeframes to the management of the national payment system participants who committed such violations.

One of the lines of supervision in the national payment system is control of the integrity and timeliness of security deposit payment by the operators of payment systems that are not nationally important payment systems in accordance with the requirements of Federal Law No. 86-FZ.

In 2016, operators of the above payment systems continued to form security deposits: as of 1 January 2017, all operators of the payment systems that are not nationally important and that are engaged in money transfers made their contributions. Furthermore, four payment system operators completed forming the security deposit in full, as established in Article 82.5 of Federal Law No. 86-FZ.

For the purpose of improving the methodological support of supervisory activity in the national payment system, in 2016 the Bank of Russia issued methodological recommendations for money transfer operators to enhance control over the activity of involved bank payment agents as well as methodological recommendations to improve the activity of payment system operators and operators of settlement centres of payment systems when making money transfers without opening a bank account.

Within the framework of monitoring the national payment system, in 2016 the Bank of Russia continued to develop international cooperation with the central (national) banks of the Eurasian Economic Union (EAEU) member states (under bilateral agreements on cooperation in the field of supervision (oversight) / monitoring of payment systems) for the purpose of sharing their experience in payment systems development.

¹ An organisation may be an operational centre, a payment clearing centre, or a settlement centre for several payment systems at once.

II.2.4. Financial rehabilitation of credit institutions

In 2016, the Bank of Russia performed work to prevent the insolvency (bankruptcy) of credit institutions under Federal Law No. 127-FZ.

When deciding on the expediency of financial rehabilitation of a bank, the Bank of Russia considered its systemic importance for the banking sector of the country or specific region, the economic expediency of bank resolution, including from the point of view of evaluating possible losses upon payment of indemnities, and readiness of investors (major creditors) to take part in the financial rehabilitation of the bank.

In 2016, the Bank of Russia performed work to monitor the activity of 110 credit institutions that had grounds for implementing bankruptcy prevention measures in accordance with Article 189¹⁰ of Federal Law No. 127-FZ, of which:

- 14 credit institutions eliminated the said grounds on their own;
- one credit institution started eliminating the said grounds in 2016 and continued in 2017 on its own;
- three credit institutions decided on their own to implement financial rehabilitation measures;
- three credit institutions, which had allowed their equity (capital) to drop below the registered authorised capital in the reporting month, did not receive an order to bring their equity (capital) in line with the authorised capital because they had been conducting their activity for less than two years from the date of issue of their banking licences;
- six credit institutions received orders to bring their equity (capital) in line with their authorised capital;
- 22 banks, which had violated one or several equity (capital) adequacy ratios or the current liquidity ratio in 2016, continued to be subject to bankruptcy prevention (financial rehabilitation) measures within the framework of DIA Participation Plans involving investors and funds of the DIA;
- one bank, which had violated one or several equity (capital) adequacy ratios in 2016, completed bankruptcy prevention (financial rehabilitation) measures within the framework of a DIA Participation Plan involving an investor and funds of the DIA by joining the bank within the investor's banking group;
- in four credit institutions the functions of provisional administration to manage these credit institutions were assigned to the DIA;
- 56 credit institutions had their banking licences revoked.

In 2016, the Bank of Russia, together with the DIA, implemented bankruptcy prevention measures under approved DIA Participation Plans, as provided for by Article 189⁴⁹ of Federal Law No. 127-FZ, with regard to 37 banks, of which:

- 22 banks violated one or several equity (capital) adequacy ratios or the current liquidity ratio in 2016;
- two banks conducted their activity without violating one or several equity (capital) adequacy ratios or the current liquidity ratio;
- in two banks the functions of provisional administration to manage the credit institution were assigned to the DIA;
- six banks completed implementation of bankruptcy prevention measures;
- five banks had their banking licences revoked.

In 2016, bankruptcy prevention measures with the participation of the DIA continued to be implemented in 26 banks within the framework of approved participation plans, of which:

- with regard to 24 banks, investors and funds of the DIA were involved (financial rehabilitation);
- in two banks the functions of provisional administration to manage the credit institution were assigned to the DIA.

The DIA's outstanding debt to the Bank of Russia under loans received for bankruptcy prevention measures amounted to ₱1,067.8 billion as of year-end. Information on the total debt of the DIA to the Bank of Russia is given in Table 38 of subsection VI.3. Statistical tables.

In 2016, the Bank of Russia appointed 10 provisional administrations to manage credit institutions before their banking licences were revoked, including seven provisional administrations appointed to banks according to the approved plans of DIA participation in the implementation of bankruptcy prevention measures in banks, of which four provisional administrations had their functions and operating period changed later on due to the revocation of the banking licences.

In three credit institutions provisional administrations were appointed in accordance with Clause 4 of Article 74 of Federal Law No. 86-FZ with two of them had their functions and operating period changed later on due to the revocation of the banking licences.

In 2016, the Bank of Russia monitored the activity of 21 provisional administrations appointed until the revocation of the banking licences, of which in 17 credit institutions the functions of provisional administration were exercised by the DIA according to approved plans of participation in bankruptcy prevention measures in banks.

The Bank of Russia developed a package of draft regulations for the implementation of a new mechanism of financial rehabilitation of banks which involves a transition from lending to direct participation of the regulator in the capital of rescued institutions (for details, see subclause II.2.3.1. Credit institutions). The Bank of Russia plans to perform bank resolutions under the new mechanism without DIA involvement.

Monitoring by the Bank of Russia of utilisation of funds received by credit institutions under recapitalisation programme through the DIA

In connection with resolution of the State Duma of the Federal Assembly of the Russian Federation No. 5807-6 GD, dated 19 December 2014, 'On Draft Federal Law No. 298254-6 'On Amending Article 11 of the Federal Law 'On Insurance of Household Deposits in Russian Banks' and Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia carried out regular monitoring of the utilisation of funds received by banks under Federal Law No. 451-FZ, dated 29 December 2014, 'On Amending Article 11 of the Federal Law 'On Insurance

of Household Deposits in Russian Banks' and Article 46 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

As of 1 January 2017, a total of ₺837 billion was allocated through the DIA for recapitalisation of 34 banks¹ (₺526 billion by way of purchasing preference shares of banks and ₺311 billion by investing in the subordinated liabilities of banks).

Banks that received funds for recapitalisation through the DIA² are making a major contribution to economic lending growth, as expected. In accordance with the applicable procedure³, banks are obliged to report to the DIA starting from the first full month after receiving the said funds. Based on the reporting data of banks, after they received the OFZs, they mostly provided housing mortgage loans and made investments in mortgage bonds (27% of total growth in the claims portfolio) and loans to manufacturing enterprises (16%), as well as transportation and communications enterprises (15%)⁴.

As of 1 January 2017, since the start of the programme of bank recapitalisation through the DIA, the increase in lending and in the investment of funds by the participating banks in bonds of the priority sectors of the economy, small- and medium-sized enterprises, housing mortgage lending (HML), and the constituent territories of the Russian Federation totalled ₺1,340 billion.

Proceeding from the analysis of the results of monitoring the utilisation of funds by the recapitalised banks the Bank of Russia noted that these banks generally complied with the requirements for increasing the aggregate portfolio: as of 1 January 2017, the average

¹ PJSC Sovcombank, PJSC Bank FC Otkritie, OJSC MOSCOW CREDIT BANK, PJSC AK BARS BANK, JSC Commercial Bank NOVIKOMBANK, JSC Commercial Bank Absolut Bank (PJSC), VTB Bank (PJSC), GPB (JSC), PJSC Promsvyazbank, PJSC BINBANK, PJSC Bank ZENIT, PJSC Saint Petersburg Bank, PJSC Commercial Bank Svyaz-Bank, PJSC MDM Bank, Vozrozhdeniye Bank (PJSC), JSC Commercial Bank ROSSIYSKY CAPITAL (PJSC), JSC Rosselkhozbank, PJSC MTS-Bank, PJSC MlnBank, JSC ALFA-BANK, RNKB Bank (PJSC), JSC Bank Rusky Standart, OJSC MBSP, OJSC Joint-Stock Bank RUSSIA, PJSC Tatfondbank, PJSC Zapsibcombank, PJSC BANK URALSIB, JSC SME Bank, JSC GENBANK, TKB BANK PJSC, JSC Commercial Bank RosEuroBank (JSC), JSC Commercial Bank PERESVET (JSC), OJSC Petrokommerts Bank, and PJSC Pervobank. Later on three credit institutions that had received funds for recapitalisation were reorganised through merger: OJSC Petrokommerts Bank was merged with PJSC Bank FC Otkritie from 15 June 2015; PJSC Pervobank was merged with PJSC Promsvyazbank from 1 July 2016; PJSC BINBANK (Reg. No. 2562) was merged with PJSC BINBANK (Reg. No. 323) (formerly PJSC MDM-Bank) from 18 November 2016. Furthermore, three subsidiary banks (PJSC BM-Bank, VTB 24 Bank (PJSC), PJSC Khanty-Mansiysk Bank Otkritie (merged with PJSC Bank FC Otkritie from 22 August 2016) received funds for recapitalisation through their parent organisations. Thus, as of 1 January 2017, 31 banks reported an increase in lending to priority areas; statements of subsidiary banks (PJSC BM-Bank, VTB 24 Bank (PJSC) were consolidated with the statements of VTB Bank (PJSC).

² One of the main requirements for obtaining these funds was banks' obligation to increase the aggregate volume of ruble lending within three years after the recapitalisation, including mortgage (housing) lending, and/or lending to small and medium-sized enterprises, and/or constituent territories of the Russian Federation, and/or entities conducting their business in one or several sectors of the economy, by no less than 1% per month. Apart from actual loans, calculation of the increase should also include bank investments in the ruble-denominated mortgage bonds and the ruble bonds issued by the aforementioned entities and purchased by banks.

³ The procedure and conditions for investing a property contribution of the Russian Federation to DIA property in the subordinated liabilities and preference shares of banks (approved by resolution of the DIA Board of Directors, dated 13 January 2015, minutes No. 1, section I).

⁴ Based on DIA data as of 1 January 2017.

Average monthly growth rates in lending by group of banks supported by government through the DIA as of 1 January 2017 (as per banks' special statements to the DIA, percent)



monthly growth in lending and investment of funds in bonds of the priority sectors of the economy, small- and medium-sized enterprises, HML, and the constituent territories of the Russian Federation was 1.3%¹, as reported by banks. However, as of 1 January 2017, six out of 31 banks did not comply with the increase requirements set forth in the procedure.

An increase by less than 1% per month was observed with respect to loans and investments in bonds of small- and medium-sized enterprises: as of 1 January 2017, the average monthly growth in lending was 0.5%. The situation with lending in the market of small- and medium-sized enterprises is primarily associated with high risk in this segment of corporate lending.

¹ The average monthly indicators were calculated for each bank for the period starting from their receipt of funds from the DIA.

II.2.5. Liquidation and control over termination of financial institutions

Credit institutions

In accordance with Federal Law No. 127-FZ the Bank of Russia shall appoint a provisional administration to manage a credit institution no later than on the day following the day of revocation of the credit institution's banking licence. The main objectives of a provisional administration to manage a credit institution appointed after revocation of its licence are to ensure the safety of the property and documents of the credit institution and to identify creditors of the credit institution and the amount of their claims on monetary obligations.

In 2016, 96 provisional administrations to manage credit institutions were appointed following the revocation of their licences. One provisional administration appointed in 2015 prior to the revocation of the credit institution's licence had its functions, powers, and operating period changed in 2016 in connection with the revocation of the licence.

The activity of 100 provisional administrations appointed in connection with the revocation of credit institutions' licences was terminated.

As of 1 January 2017, there were 26 provisional administrations to manage credit institutions appointed in connection with the revocation of their licences.

As of 1 January 2017, 351 credit institutions, whose licences had been revoked (cancelled), were subject to liquidation, of which in 329 credit institutions liquidation procedures were implemented, while in 22 credit institutions as of 1 January 2017 no court rulings had been made to this effect after their licences were revoked.

Most (288) of the said 329 liquidated credit institutions were recognised as insolvent (bankrupt), and bankruptcy proceedings were initiated against them (in 2016, 94 credit institutions were recognised as bankrupt, and with regard to three of them the arbitration courts had previously ruled on their forced liquidation). In respect of 37 credit institutions the arbitration courts ruled on their forced liquidation (in 2016 rulings on forced liquidation were made against eight credit institutions). Four credit institutions are being liquidated voluntarily based on the decisions of their founders. As

of 1 January 2017, in 311 credit institutions liquidation procedures were implemented by the DIA, of which in 277 credit institutions the DIA performed the functions of a receiver, and in 34, the functions of a liquidator.

As of 1 January 2017, 1,697 records of state registration were made in the Unified State Register of Legal Entities in relation to the liquidation of credit institutions. According to reporting data submitted to the Bank of Russia, the average percentage of satisfied creditor claims at these credit institutions was 15.8%, including 72.1% of claims of first line creditors. For those liquidated credit institutions where the DIA performed the functions of a receiver (liquidator), the average percentage of satisfied creditor claims was 37.8%, including 68.7% of claims of first line creditors.

In order to monitor the activity of credit institutions' receivers (liquidators), the Bank of Russia under the Russian laws on insolvency (bankruptcy) conducted 56 inspections in 2016 in accordance with the Consolidated Plan of Inspections of Receivers (Liquidators) of Credit Institutions. In 52 cases, the focus of the inspection was the activity of the DIA and in four cases, the activity of court-appointed receivers duly accredited by the Bank of Russia as receivers in the bankruptcy of credit institutions.

In 2016, 27 court-appointed receivers were accredited by the Bank of Russia as receivers in the bankruptcy of credit institutions, and the accreditation of 30 court-appointed receivers was extended. In addition, 11 court-appointed receivers were refused accreditation or extension of accreditation because of their failure to comply with the accreditation requirements.

In October 2016, the Arbitration Court of Moscow considered the lawsuit of one court-appointed receiver who was refused accreditation over the invalidation of the Bank of Russia's decision. The Arbitration Court of Moscow, by its ruling dated 11 October 2016, denied satisfaction of the claims of this court-appointed receiver and found the decision of the Bank of Russia to be justified and lawful.

As of 1 January 2017, 56 court-appointed receivers were accredited with the Bank of Russia.

Nonbank financial institutions

In 2016, the Bank of Russia made decisions on the appointment of 17 provisional administrations to manage NPFs due to the cancellation of their licences; of these eight provisional administrations were appointed to NPFs that conducted their business not only with the funds of pension reserves but also with the funds of pension savings of insured persons. Because of the cancellation of licences, decisions on the appointment of three provisional administrations to management companies and one provisional administration to a specialised depository were made.

In 2016, the activities of 25 provisional administrations to manage NPFs and one provisional administration of a management company were terminated.

As of 1 January 2017, there were four provisional administrations to manage NPFs, four provisional administrations of management companies, and two provisional administrations of specialised depositories which had been appointed because of the cancellation of licences.

As of 1 January 2017, liquidation procedures were underway in 47 NPFs: bankruptcy proceedings were initiated against seven NPFs (in 2016 one NPF was recognised as bankrupt, and bankruptcy proceedings were initiated against it), and in 40 NPFs the procedure of forced liquidation was initiated (in 2016 rulings on forced liquidation were made against 22 NPFs). In 34 NPFs liquidation procedures were implemented by the DIA, in seven of which the DIA performed the functions

of a receiver, and in 27 it performed the functions of a liquidator.

During 2016, in pursuance of Part 6 of Article 23 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 Making Payments out of Pension Savings', the Bank of Russia transferred ₪24.4 billion of pension savings of insured persons to the Pension Fund of the Russian Federation due to the cancellation of NPFs' licences for pension provision and pension insurance activities. In connection with the transfer of the said funds, the Bank of Russia filed 25 applications with the arbitration courts to establish Bank of Russia claims and include claims of creditors of the liquidated NPFs in the first line. As of 1 January 2017, 10.1% of Bank of Russia claims acquired as a result of the transfer of funds to the Pension Fund of the Russian Federation were satisfied.

Eighty termination reports were approved with respect to unit investment funds.

In 2016, the Bank of Russia initiated post-licence monitoring of 43 nonbank financial institutions which are professional securities market participants.

The Bank of Russia introduced reporting forms for professional securities market participants (whose licences had been cancelled) which provided for their disclosure of information on the progress in fulfilling their obligations to the customers. Based on these reporting forms, the Bank of Russia monitored the termination of the professional securities market participants.

II.2.6. Protecting the interests of bank depositors and persons insured in the compulsory pension insurance system

Insurance of household deposits in banks of the Russian Federation

As of 1 January 2017, 808 banks were deposit insurance system (DIS) participants (compared to 842 banks as of 1 January 2016), of which 519 were operating banks and 289 banks were undergoing liquidation.

In 2016, two banks were included in the DIS, and 36 banks were excluded from it.

Insured events in 2016 occurred at 88 banks, of which five banks had a moratorium on meeting creditor claims imposed.

Compulsory pension insurance system

In 2016, the process of non-governmental pension funds joining the system guaranteeing the rights of insured persons was completed. As of 31 December 2016, 41 NPFs were participants in the system guaranteeing the rights of insured persons; the amount of the pension savings guarantee fund was ₴868.2 million.

During the functioning period of the system guaranteeing the rights of insured persons no guarantee events associated with the cancellation of licences of the participating funds occurred.

II.2.7. Regulation, control, and supervision of corporate relations

Increasing the attractiveness of shared financing of public companies by improving their corporate governance is one of the priority areas of development of the financial market of the Russian Federation, which was reflected in the Guidelines for the Development of the Russian Financial Market in 2016–2018, approved by the Bank of Russia Board of Directors on 26 May 2016. During 2016, the Bank of Russia worked actively to improve corporate law and the general situation in the field of corporate governance and implement the best standards adopted in international markets to enhance the performance of public joint-stock companies, secure shareholders' and investors' rights, and improve the image and investment attractiveness of Russian companies.

In order to elaborate an optimally balanced approach towards the regulation of corporate relations in public joint-stock companies, which would take into account the interests of various parties to these relations, in early 2016 the Bank of Russia analysed the opinions submitted to the report for public consultations 'On Improving Corporate Governance in Public Joint-stock Companies' (hereinafter, the Report). The Report included the Bank of Russia's proposals and initiatives associated with amendments to Russian laws concerning such aspects of corporate governance as the competence of the management bodies of public companies, the responsibility of members of the management bodies of public companies, the organisation of the work of the board of directors (supervisory board) of a public company, the rights of shareholders of public companies, ensuring an equal and fair attitude towards all shareholders, countering abuses by major shareholders (or by entities controlling them) against minority shareholders of public companies, and the auditing and reporting of a public company. Analysis of the opinions made it possible to discover a number of priority issues and ways to resolve them, which were used by the Bank of Russia to prepare proposals for amending Russian laws. For example, the results of public discussion of the issues included in the Report were taken into account when developing the Action Plan ('road map') for Improvement of Corporate Governance, approved by Resolution of the Government of the Russian Federation No. 1315-r, dated 25 June 2016, which was aimed at implementing measures to increase the level of legal protection of minority shareholders and the

quality of corporate governance in Russian economic entities.

A new version of Chapter 4 of the Civil Code of the Russian Federation (hereinafter, the Civil Code) was enforced on 1 September 2014, which substantially changed the system of Russian legal entities and the procedure for their operation and governance and entailed the revision of a great number of legislative acts. This work was continued in 2016. For example, in order to bring Russian laws in line with the new version of the Civil Code, the Bank of Russia took an active part in developing the draft federal laws 'On Amending Certain Laws of the Russian Federation (to Bring Them in Line with the New Version of Chapter 4 of the Civil Code of the Russian Federation)' and 'On Amending Certain Laws of the Russian Federation to Bring the Provisions on the Reorganisation of Economic Entities in Line with the New Version of Chapter 4 of the Civil Code of the Russian Federation', which were aimed at detailed regulation of the new institutions introduced by the Civil Code.

To eliminate problems identified in law enforcement associated with the purchase of major blocks of shares of public joint-stock companies, to ensure the balance of interests of all parties to the takeover procedure by changing the range of entities and securities subject to regulation, and to update the procedure for purchasing securities, the Bank of Russia worked to improve legal regulation of the procedure for purchasing major blocks of shares of public companies. For example, in June 2016 the State Duma of the Federal Assembly of the Russian Federation, with the active participation of the Bank of Russia, adopted the first reading of draft Federal Law No. 1036047-6 'On Amending the Federal Law 'On Joint-stock Companies' and Certain Other Laws of the Russian Federation' (with regard to improvement of the legal regulation of the purchase of major blocks of shares of public joint-stock companies).

In 2016, one of the most important areas of improving corporate relations for the Bank of Russia was to ensure the participation of securities owners in corporate actions in the least burdensome manner which would at the same time ensure quick and accurate processing and transmission of information. To accomplish this task, the Bank of Russia introduced a multistage procedure for corporate information transmission and the exercise of rights by securities owners which would make

it possible to forward information and to exercise rights on securities through the recording system by way of sending an order (instruction) to the person in charge of recording the rights to the securities (participation in the general meeting of shareholders, payment of dividends, purchase and repurchase of securities by the issuer or a person consolidating a major block of shares, etc.). These innovations were implemented by means of amendments to Federal Law No. 39-FZ, dated 22 April 1996, 'On the Securities Market', which came into effect from 1 July 2016, and the corresponding requirements of Bank of Russia Regulation No. 546-P, dated 1 June 2016, 'On the List of Information Related to the Exercise of Rights on Securities to Be Disclosed by Issuers to the Central Depository, on the Procedure and Terms for its Disclosure, and on the Requirements for the Procedure for the Central Depository to Grant Access to Such Information'. The possibility of electronic voting at the general meeting of shareholders by filling in an online electronic form of the voting ballot on a website was introduced.

In 2016, the Bank of Russia developed regulations that established the procedure for information disclosure by the issuer in case of change of the holder of the register of securities owners, as well as additional requirements for the preparation, convening, and holding of the general meeting of shareholders. The requirements for the number of an issuer's shares in free circulation were clarified, so were the requirements for organising the function of internal auditing, compliance with which is required for the shares to be included in the quotation list.

As part of implementation of the action plan, the Bank of Russia developed amendments to Bank of Russia Regulation No. 454-P, dated 30 December 2014, 'On Disclosing Information by Securities Issuers', in accordance with which the composition of information about the execution of a related-party transaction, which is to be disclosed by the issuer in the form of a notice of material fact and as part of the annual report, was supplemented with information on such related party, the grounds for such party's interest, and the party's equity interest in the authorised (share) capital of the issuer and the legal entity which is a party to the transaction. These amendments allow shareholders and investors to receive timely and full information on transactions which may involve a conflict of interest.

In order to clarify numerous issues concerning the practical application of the new provisions of the Civil Code and Federal Law No. 208-FZ, dated 26 December

1995, 'On Joint-stock Companies' (hereinafter, the Federal Law on Joint-stock Companies), the Bank of Russia issued a number of information letters about the most common situations and complications faced by joint-stock companies and parties to corporate relations.

As part of its activity to improve corporate governance, in 2016 the Bank of Russia continued to implement the provisions of the Code of Corporate Governance (hereinafter, the Code) in the routine work of Russian joint-stock companies.

For the purposes of implementing the fundamental principle of the Code 'observe or explain', the Bank of Russia developed and published information letter No. IN-06-52/8, dated 17 February 2016, 'On Disclosing the Report on Compliance with the Principles and Recommendations of the Code of Corporate Governance in the Annual Report of a Public Joint-stock Company', which includes methodological recommendations for compiling and filling in the report on compliance with the principles and recommendations of the Code, including the report form and a description of its contents with explanations of the procedure for preparing clarifications on the causes of failure to comply with the principles and recommendations of the Code.

In 2016, the Bank of Russia monitored implementation by Russian public joint-stock companies of the recommendations of the Code and evaluated the quality of explanations of their non-observance (partial observance). Based on the results of monitoring performed on the basis of public data disclosed by the companies in their annual reports for 2015, the Bank of Russia prepared an overview of the practical corporate governance of the companies whose shares were included in the tier 1 and tier 2 quotation lists of PJSC Moscow Exchange.

For the purpose of methodological support of the activity of public joint-stock companies in implementing the provisions of the Code in practical corporate governance, the Bank of Russia developed and published sample regulations on the board of directors of a public company and regulations on the audit, nominations, and remunerations committees of the board of directors. The model documents were recommended for use by companies as a basis for preparing their own regulations on the board of directors and on the audit, nominations, and remunerations committees of the board of directors. The application of these documents, which were developed in accordance with the principles and

recommendations of the Code, facilitates the implementation of the best corporate governance practices by public joint-stock companies.

Over the course of 2016, the Bank of Russia considered over 2,000 queries of individuals and legal entities on corporate relations and information disclosure. As part of state oversight of the purchase of shares of joint-stock companies, the Bank of Russia considered 392 packages of documents received in accordance with Chapter XI.1 of the Federal Law on Joint-stock

Companies. The Bank of Russia also received and processed over 2,800 notices of the right to dispose of a certain number of votes, of changes to the proportion of shares in ownership, of controlling entities, and of the powers to convene and hold an extraordinary general meeting of shareholders. It also considered 329 applications of joint-stock companies for release from the duty to disclose information in accordance with Article 30 of Federal Law No. 39-FZ, dated 22 April 1996, 'On the Securities Market'.

II.2.8. Countering malpractice in the financial market

In accordance with the Guidelines for the Development of the Russian Financial Market in 2016–2018, the Bank of Russia is implementing a comprehensive programme for discouraging malpractice in the financial market.

The work performed by the Bank of Russia to discover and suppress abuses in organised trading in the form of misuse of insider information and market manipulation resulted in the successful completion of the Financial Sector Assessment Program (FSAP) (hereinafter, the Program) of the joint mission of the International Monetary Fund and the World Bank by the system built by the Bank of Russia for countering such violations. Within the framework of the Program, IMF and World Bank experts positively evaluated the work performed by the Bank of Russia to discover the said violations and to take administrative measures following the results of inspections.

In 2016, the Bank of Russia continued to further improve and refine regulation of the system for countering the misuse of insider information and market manipulation. The Bank of Russia took part in the development of draft Federal Law No. 925980-6 'On Amending the Federal Law 'On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation', which was aimed at improving the effectiveness of regulation in this area and optimising the administrative load on market participants.

In order to involve the professional community in countering malpractice and to provide expert and consultative support, the Bank of Russia published Order No. OD-951, dated 22 March 2016, 'On Setting the Bank of Russia Expert Board on Material Market Deviations'. Members of the said board give expert opinions on whether certain transactions with nonliquid securities resulted in material deviation of the price, demand, supply, or trade volume of these securities from the level that would have formed without these transactions.

In exercising its powers of oversight of compliance with the requirements of Russian laws on countering the misuse of insider information and market manipulation, the Bank of Russia performed relevant inspections during which it sent 1,110 requests (queries) for information. In 2016, the Bank of Russia performed inspections to check for possible abuses in 550 organised

markets of financial instruments, foreign currencies, and goods.

During the reporting period, the Bank of Russia uncovered information on instances of market manipulation involving 66 securities, including three instances when the actions performed by individuals and classified as market manipulation were associated with the deriving of income in large and especially large amounts.

In order to mitigate risks associated with malpractices in the open market, in 2016 the Bank of Russia applied the following response measures based on the results of inspections:

- three licences for professional activity in the securities market, and 28 certificates of financial market specialists were cancelled for repeated violations of the requirements of Russian laws;
- 48 orders to eliminate violations of Russian laws and take measures to prevent further violations similar to the ones discovered were sent;
- 31 resolutions were adopted to impose fines for offences the liability for which is established in Article 15.30 of the Code of Administrative Offences of the Russian Federation 'Market Manipulation', and four resolutions were adopted under Article 15.35 of the Code of Administrative Offences 'Breach of the Requirements of Laws on Countering the Misuse of Insider Information and Market Manipulation'.

Based on the results of three inspections, the Bank of Russia submitted to law-enforcement agencies materials relating to the persons whose activities showed signs of a criminal offence.

In 2016, the Bank of Russia continued to actively develop the exchange of information, including confidential information, with foreign financial market regulators. After signing the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information with the International Organisation of Securities Commissions (IOSCO MMoU), the Bank of Russia gains access to information that was inaccessible before, which will considerably improve the quality of inspections (primarily those concerning insider trading and market manipulation). The number of foreign jurisdictions from which the Bank of Russia received the required information and documents in reply to its queries almost doubled in 2016 compared to the previous year.

In 2016, the Bank of Russia continued to cooperate with foreign financial market regulators in the field of assessing the business reputation of the executives, owners, and employees of Russian and foreign financial companies, which helps form a fuller and more accurate picture when making decisions on approving a person for a position or on the conformity of a financial institution to the established requirements.

In total, in 2016 the Bank of Russia received replies to 97 inquiries for information and documents under the IOSCO MMoU. Among them there were 19 inquiries related to the business reputation of financial market participants (their owners, executives, and employees). In turn, the Bank of Russia received 21 inquiries for assistance, including 15 inquiries related to business reputation.

In order to develop a risk-based approach towards countering the creation of fictitious value of assets in the open market, in 2016 the Bank of Russia improved the procedure for admitting securities to organised trades (Bank of Russia Regulation No. 534-P, dated 24 February 2016, 'On Securities Admittance to Organised Trades'). In pursuance of the new regulatory requirements PJSC Moscow Exchange, with the participation of the regulator, set up the Expert Council for Listing, a special advisory body with the competence to include securities in the list of securities admitted to organised trades. The task of this Expert Council is to hedge risks of the use of organised trading as a site for creating fictitious value in order to then reflect it in the statements of financial institutions. The Council consists of the Bank of Russia's representatives (four persons out of 37), representatives of financial market participants who have the required competence and positive business reputation, as well as representatives of auditing, consulting, and appraisal firms.

It should be noted that for the purpose of developing the mechanism of interaction between the Bank of Russia and law-enforcement agencies, in particular increasing the promptness of submission and consideration of documents to prevent and suppress malpractice in the financial market, the Bank of Russia and the Ministry of Internal Affairs concluded an updated cooperation agreement.

In conjunction with law-enforcement agencies the Bank of Russia started implementing a programme for advanced training of employees of the law-enforcement agencies in the field of finance; joint working groups in different areas of interaction are being set up.

For the purpose of suppressing malpractice, in 2016, 76 appeals were sent to law-enforcement agencies with respect to the actions of the employees, executives, and owners of nonbank financial institutions.

In 2016, the Bank of Russia continued work to counter financial pyramid schemes at the level of both the head office and regional branches.

In 2016, with the participation of the Bank of Russia, federal laws were adopted to establish criminal and administrative responsibility for organising financial pyramids (Article 172.2 of the Criminal Code of the Russian Federation 'Organisation of Activity to Raise Funds and/or Other Property' and Article 14.62 of the Code of Administrative Offences of the Russian Federation 'Activity to Raise Funds and/or Other Property').

In 2016, the Bank of Russia uncovered over 180 organisations whose activity showed signs of a financial pyramid (over 200 organisations in 2015). In most cases attributes of a crime were also discovered (Article 172.2 of the Criminal Code), and information about that was sent to law-enforcement agencies.

Thanks to the work done in this area, along with a decline in the total number of pyramid schemes, a decline in the amount of damage inflicted by them was observed. While in 2015, as estimated by the Bank of Russia and law-enforcement agencies, the amount of damage inflicted on citizens by financial pyramids was about ₹5.5 billion, in 2016, according to preliminary estimates, the damage decreased to ₹1.5 billion.

Another area for discouraging malpractice is work on monitoring the financial market for the provision of services to Russian consumers by entities (including foreign companies) without the appropriate licences (permissions). As such unscrupulous market participants often conduct their activity on the Internet, in 2016 the Bank of Russia stepped up its work to restrict dissemination of information about the activity of such entities on the Web. As part of this work, the Bank of Russia concluded agreements enabling the prompt banning of access to websites related to phishing, unauthorised access to third parties' information systems, and distribution of malicious software.

The purpose of the implementation of a comprehensive programme by the Bank of Russia in 2016 for countering malpractice in the financial market is not only to remove unscrupulous participants from the financial market but also to enforce the principle of the inevitability of punishment for committed offences.

II.2.9. Foreign exchange regulation and foreign exchange control

In 2016, the Bank of Russia worked on detailed accounting of operations executed by individuals (both residents and nonresidents) who transferred money without opening bank accounts in the Russian Federation¹, which allowed the Bank of Russia to obtain information from the authorised banks on the amounts of such money transfers and their currency.

The Bank of Russia transmits information to the Federal Tax Service (FTS of Russia) and the Federal Customs Service (FCS of Russia) about violations of the foreign exchange laws of the Russian Federation and by-laws of foreign exchange regulation bodies by the customers of authorised banks on an ongoing basis; this information is used by the FTS of Russia and the FCS of Russia to perform the functions of foreign exchange control bodies.

In 2016, the amount of FX cash purchased by households from authorised banks fell by 12% compared with

2015, to \$33.1 billion (here and up to the end of this section, figures are given in dollar terms). The amount of FX cash sold to authorised banks dropped by 49% to \$17 billion.

Net demand for FX cash (the difference between the amount of FX cash sold to households and withdrawn from their foreign currency accounts and the amount of FX cash purchased from households and credited to their accounts) grew almost threefold compared to 2015, to about \$16 billion.

Amid growing net demand of households for FX cash, authorised banks increased its imports into the country and decreased its exports. Overall, in 2016, \$23 billion of FX cash was imported, which was 18% more than in 2015. The volume of FX cash exported by authorised banks decreased by a factor of 2.2 compared with 2015, to \$8.1 billion.

¹ Bank of Russia Ordinance No. 3994-U, dated 13 April 2016, 'On Amending Bank of Russia Instruction No. 136-I, Dated 16 September 2010, 'On the Procedure for Authorised Banks (Branches) to Conduct Certain Operations with Foreign Currencies and Foreign Currency Denominated Cheques (Including Traveller's Cheques) Involving Households'.

II.2.10. Countering the legalisation (laundering) of criminally obtained incomes and the financing of terrorism

In 2016, the Bank of Russia continued to exercise the powers granted by Federal Law No. 115-FZ, dated 7 August 2001, 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (hereinafter, Federal Law No. 115-FZ). Special attention was paid to enhancing the effectiveness of the system of anti-money laundering and countering the financing of terrorism (AML/CFT).

As part of the Bank of Russia's activity to improve the legislative framework of the Russian AML/CFT system, including for the purpose of reducing the regulatory burden on financial market participants without compromising the effectiveness of their 'anti-legalisation' control procedures, in 2016 a number of conceptual amendments were introduced to Federal Law No. 115-FZ with the direct participation of the Bank of Russia:

- the list of operations¹ was extended, and the threshold amounts of certain operations² for which identification of the customer or the customer's repre-

sentative and/or beneficiary is not performed or is performed in a simplified manner were increased;

- the requirement for the personal presence of a legal entity's representative when opening a bank account was established, the conditions under which bank accounts may be opened remotely were stipulated, and the procedure for identification of customers using electronic documents was established³;
- the duty of legal entities to dispose of information on their beneficiary owners and to provide such information upon the request of the authorised bodies was introduced⁴.

With due account of these amendments, in 2016 the Bank of Russia paid special attention to bringing the regulatory framework of AML/CFT in line with the new legislative requirements in this field⁵.

In 2016, the Bank of Russia continued to take measures to reduce the amounts of transactions to illegally withdraw funds abroad and to reduce the number of fictitious transactions in the banking sector⁶.

¹ Federal Law No. 423-FZ, dated 30 December 2015, 'On Amending Article 7 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (in effect from 10 January 2016).

² Federal Law No. 263-FZ, dated 3 July 2016, 'On Amending Articles 7 and 7.3 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

³ Federal Law No. 191-FZ, dated 23 June 2016, 'On Amending Article 5 of the Federal Law 'On Banks and Banking Activities' and Article 7 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

⁴ Federal Law No. 215-FZ, dated 23 June 2016, 'On Amending the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and the Code of Administrative Offences of the Russian Federation'.

⁵ Bank of Russia Regulation No. 550-P, dated 20 July 2016, 'On the Procedure for Communicating to Credit Institutions and Nonbank Financial Institutions Information on Cases of Refusal to Fulfil a Customer's Instruction to Perform a Transaction, Refusal to Conclude and/or Terminate a Bank Account (Deposit) Agreement with a Customer'.

Bank of Russia Ordinance No. 4077-U, dated 20 July 2016, 'On the Procedure for Submitting by Credit Institutions to the Authorised Body Information on Cases of Refusal to Conclude and/or Terminate a Bank Account (Deposit) Agreement with a Customer on the Initiative of a Credit Institution and on Cases of Refusal to Fulfil a Customer's Instruction to Perform a Transaction'.

Bank of Russia Ordinance No. 4078-U, dated 20 July 2016, 'On the Requirements for Credit Institutions, Which May be Tasked with an Identification or a Simplified Identification, and for Microfinance Companies, Which May Task Credit Institutions with an Identification or a Simplified Identification'.

Bank of Russia Ordinance No. 4079-U, dated 20 July 2016, 'On Amending Bank of Russia Regulation No. 499-P, Dated 15 October 2015, 'On the Identification by Credit Institutions of Customers, Customer Representatives, Beneficiaries and Beneficiary Owners for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

Bank of Russia Ordinance No. 4086-U, dated 28 July 2016, 'On Amending Bank of Russia Regulation No. 445-P, Dated 15 December 2014, 'On the Requirements for Internal Control Rules of Nonbank Financial Institutions for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

Bank of Russia Ordinance No. 4087-U, dated 28 July 2016, 'On Amending Bank of Russia Regulation No. 375-P, Dated 2 March 2012, 'On the Requirements for Internal Control Rules of a Credit Institution for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

Bank of Russia Ordinance No. 4088-U, dated 28 July 2016, 'On Amending Bank of Russia Ordinance No. 3484-U, Dated 15 December 2014, 'On the Procedure for Nonbank Financial Institutions to Submit to the Authorised Body Information Stipulated by the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

Bank of Russia Ordinance No. 4105-U, dated 18 August 2016, 'On Amending Bank of Russia Regulation No. 444-P, Dated 12 December 2014, 'On Identifying by Nonbank Financial Institutions Customers, Customer Representatives, Beneficiaries and Beneficiary Owners for the Purpose of Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

⁶ Bank of Russia methodological recommendations and letters No. IN-01-41/21, dated 7 April 2016; No. 10-MR, dated 13 April 2016; and No. 014-12-1/4609, dated 14 June 2016.

The work performed by the Bank of Russia resulted in a sustainable reduction in the amounts of fictitious transactions of credit institutions' customers aimed at withdrawing funds abroad and cashing them. The amount of illegal withdrawal of funds abroad in 2016 decreased 2.7-fold compared to 2015 (from ₴501 billion to ₴183 billion), and the amount of funds cashed in the banking sector decreased by 13% (from ₴600 billion to ₴521 billion).

In the course of exercising their supervisory functions in 2016 the Bank of Russia and its regional branches completed 557 inspections of credit institutions. Legislative issues in the field of AML/CFT were considered in 40% of all completed scheduled and unscheduled inspections of credit institutions.

In 2016, 35 credit institutions had their banking licences revoked for a breach of legislative requirements, including in the field of AML/CFT (97 licences were revoked in 2016 in total).

One supervised nonbank financial institution had its licence of a professional securities market participant cancelled in 2016 for a breach of legislative requirements, including in the field of AML/CFT.

In 2016, 385 preventive measures (letters of deficiencies, consultations) were applied with regard to 287 credit institutions for the breach of regulations in the field of AML/CFT and for the breach of the requirements of Federal Law No. 115-FZ¹, and 1,351 punitive measures² were applied with regard to 560 credit institutions.

In 2016, the Bank of Russia continued to exercise its powers related to the initiation and consideration of cases of administrative offences associated with the failure by nonbank financial institutions and their officers and by the officers of credit institutions to comply with the requirements of laws on AML/CFT³.

In 2016, Bank of Russia regional branches initiated 545 cases against the officers of 279 credit institutions⁴. One case of administrative offences against an officer was closed at the stage of investigation. As a result, 550 cases of administrative offences were considered in 2016 (including cases initiated in 2015); under these cases 105 rulings on imposition of fines, 252 rulings on issuance of warnings, and 193 rulings on the termination of proceedings in cases of administrative offences were issued with regard to officers of credit institutions.

During 2016, Bank of Russia regional branches initiated 1,791 cases of administrative offences against nonbank financial institutions, including 756 cases against officers. As a result, 1,867 cases of administrative offences were considered in 2016 (including cases initiated in 2015); under these cases 207 rulings on imposition of fines (including 73 rulings with regard to NFI officers), 1,461 rulings on issuance of warnings (including 623 rulings with regard to NFI officers), and 199 rulings on the termination of proceedings in cases of administrative offences (including 92 rulings with regard to NFI officers) were issued.

¹ Except for Clause 3 of Article 7 of Federal Law No. 115-FZ.

² Including 188 requests to eliminate violations of regulations in the field of AML/CFT with regard to 145 credit institutions.

³ Stipulated by Article 15.27 of the Code of Administrative Offences of the Russian Federation.

⁴ Due to the entry into force of Federal Law No. 484-FZ, dated 29 December 2014, 'On Amending Certain Laws of the Russian Federation', administrative sanctions shall be imposed on credit institutions for violations in the field of AML/CFT stipulated only by Part 1¹ of Article 15.27 of the Code of Administrative Offences.

II.2.11. Management of reserve assets in foreign currency and gold¹

Asset structure

The foreign currency reserve assets of the Bank of Russia² include government and nongovernment debt securities; deposits and balances of nostro accounts; funds invested under reverse repo transactions³; the net position of the Russian Federation in the IMF (net claims on the IMF); and other claims on counterparties under executed transactions. The said instruments are denominated in US dollars, euros, pounds sterling, Canadian and Australian dollars, Swiss francs, yen, yuan, and special drawing rights (SDRs)⁴ (hereinafter, eligible currencies).

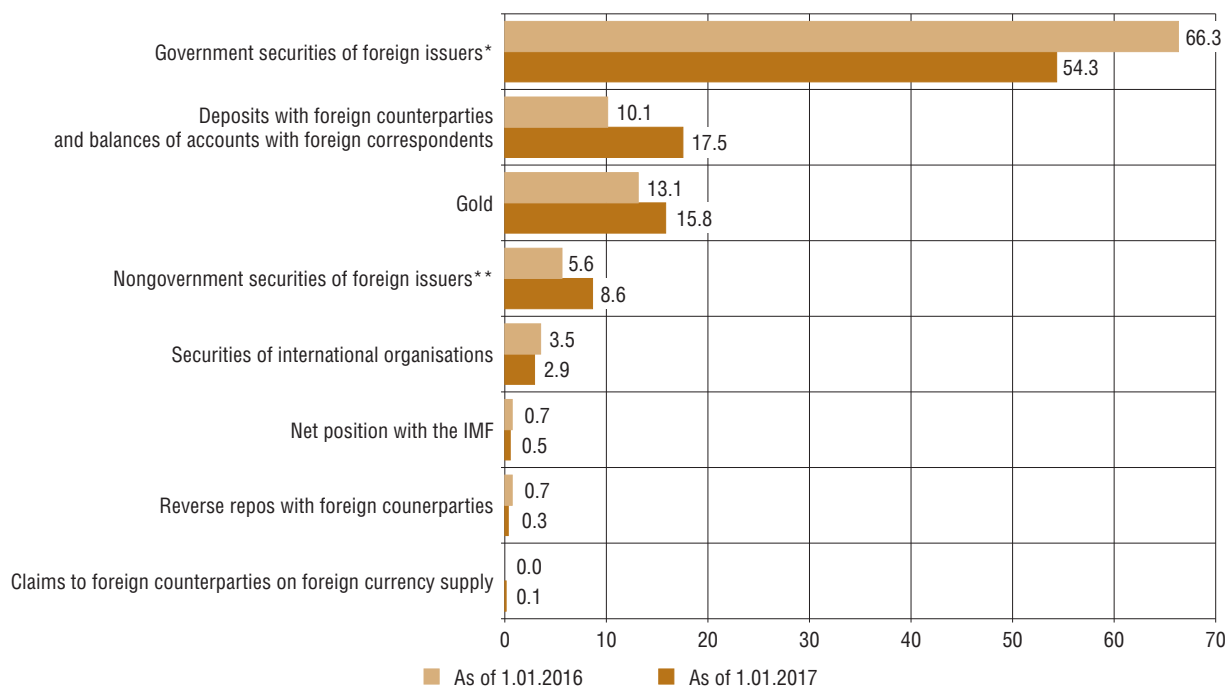
Unlike in previous annual reports, in this text information about assets in gold is included in all the breakdowns and indicators of this section. Bank of Russia

assets in gold consist of monetary gold available in the territory of the Russian Federation.

As of the end of 2016, the amount of Bank of Russia reserve assets in foreign currency and gold stood at \$373 billion, of which \$314 billion were foreign currency reserve assets and \$59 billion – gold assets. During 2016, the Bank of Russia's gold assets increased by 200.2 tonnes and as of 31 December 2016 amounted to 1,582.8 tonnes.

Securities of foreign issuers are mostly represented by debt instruments of the US Treasury, government debt instruments of France, the United Kingdom, Germany, and Canada, nongovernment debt securities the obligations under which are guaranteed by the governments of foreign states or imply such a guarantee, and debt instruments of international organisations.

Bank of Russia assets in foreign currency and gold by instrument (percent)



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

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

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

² Belong to the category of International Reserves of the Russian Federation.

³ Transactions for the purchase of securities with the obligation to repurchase (sell) them in a certain period of time at a price agreed upon in advance. Securities purchased by the Bank of Russia with the obligation to sell them back under reverse repo transactions are not included in foreign currency assets.

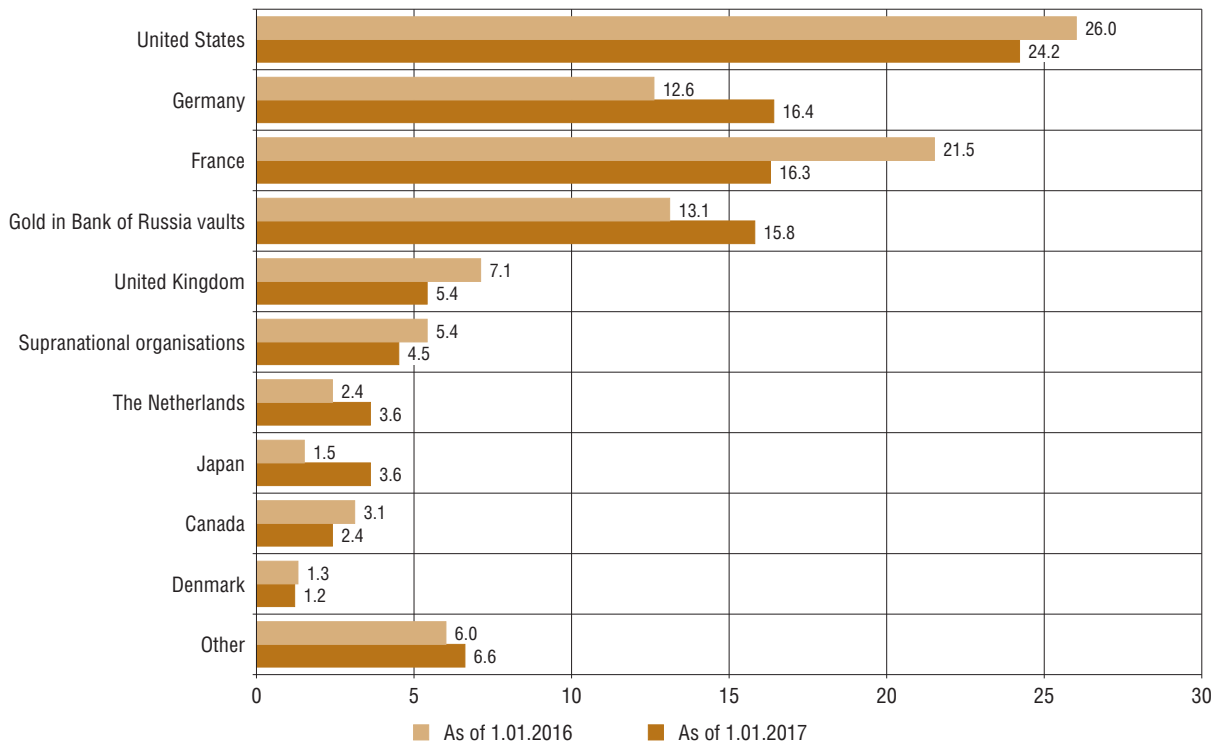
⁴ Unit of calculation used in IMF operations. The exchange rate of SDR is determined based on the dollar value of a basket consisting of five currencies: the US dollar, the euro, the yen, the pound sterling, and the yuan (since 1 October 2016).

The geographic breakdown of foreign currency assets is based on the location (place of registration) of the legal entities which are Bank of Russia counterparties or foreign issuers of securities.

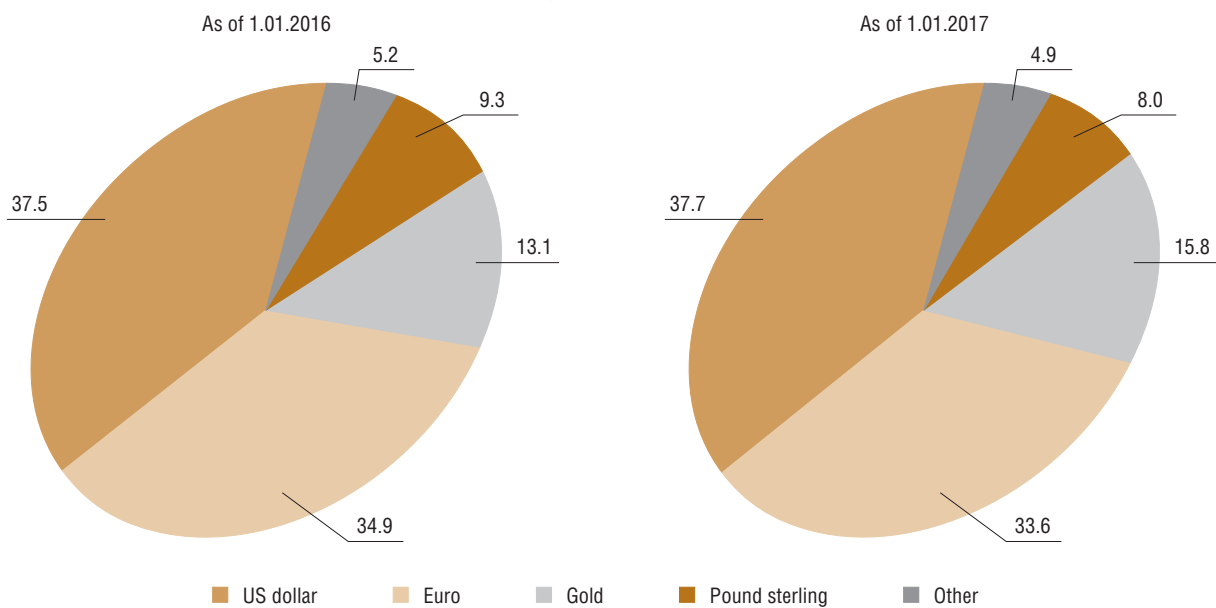
In 2016, assets denominated in US dollars and euros retained their dominant position in the structure

of Bank of Russia reserve assets in foreign currency and gold. The category 'Other' includes, among other things, assets in Canadian (3.5%) and Australian (1.1%) dollars, as well as assets in Japanese yen (0.1%) and yuan (0.1%), and Swiss francs (0.0%)¹. For the purpose of calculation, the SDR-denominated position of the

Bank of Russia assets in foreign currency and gold by country (percent)



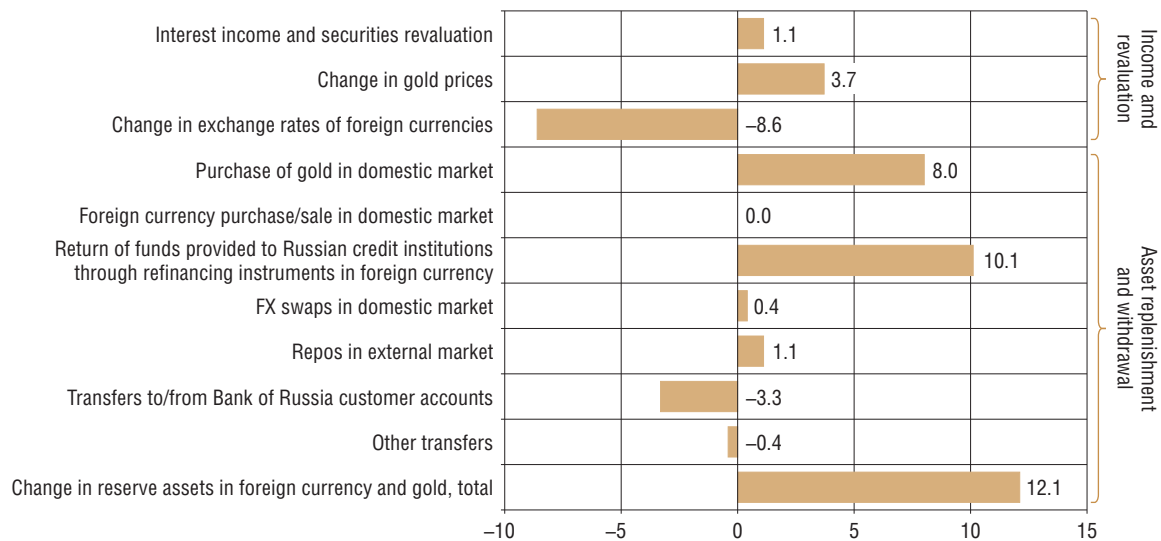
Bank of Russia assets in foreign currency and gold* (as a percentage of their market value)



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

¹ Insignificant balances of accounts.

Factors behind changes in Bank of Russia assets in foreign currency and gold in 2016 (billions of US dollars)



Russian Federation in the IMF is accounted as assets in foreign currencies in the proportions determined by the IMF for calculating the SDR¹ value.

In 2016, the amount of Bank of Russia reserve assets in foreign currency and gold increased by \$12.1 billion. The main factors of their growth were the repayment by Russian credit institutions of funds granted to them by the Bank of Russia under refinancing instruments in foreign currency and the purchase of gold from Russian credit institutions and its revaluation in dollar terms. The growth in assets was partially offset by the change in the currency exchange rates against the US dollar (currency revaluation) and the outflow of customer funds².

Management of assets

The objective of the management of Bank of Russia foreign currency reserve assets is to achieve an optimal trade-off between their safety, liquidity, and profitability. Management of Bank of Russia foreign currency reserve assets is carried out with due regard to assets owned by the Bank of Russia which are denominated

in foreign currencies and do not belong to the category of reserve assets (i.e., nonreserve assets³) and with due regard to the Bank of Russia's liabilities in foreign currency (balances of currency accounts of customers, mainly government funds⁴). The gold assets of the Bank of Russia are managed separately from foreign currency assets.

Management of foreign currency assets is associated with the assumption of the following financial risks by the Bank of Russia: credit, foreign exchange, interest rate, and liquidity risks. The risk management of foreign currency reserve assets includes the identification of risks, risk assessment, the setting of risk limits, as well as monitoring compliance with the limits.

Foreign exchange risk means the risk of a decrease in the value of net foreign currency assets (assets net of liabilities) resulting from changes in foreign currencies' exchange rates. The exposure to the foreign exchange risk is equal to net foreign currency assets, which is the sum of the foreign currency reserve and nonreserve 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 cur-

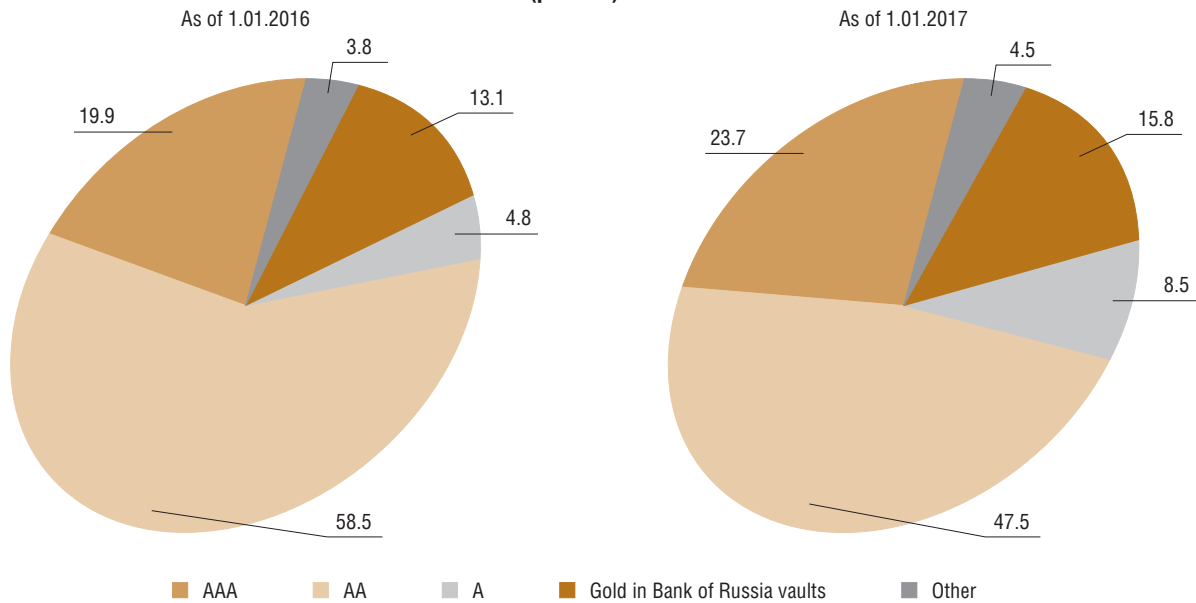
¹ Before 1 October 2016: USD 0.66; EUR 0.423; GBP 0.111; JPY 12.1, since 1 October 2016: USD 0.58252; EUR 0.38671; GBP 0.085946; JPY 11.9; CNY 1.0174.

² In 2016, the Bank of Russia sold foreign currency-denominated securities which remained at its disposal as a result of settlement of Bank of Russia claims on counterparties under refinancing operations. These operations did not produce a significant impact on the amount of foreign currency reserve assets of the Bank of Russia.

³ Claims in foreign currency on Russian credit institutions (including repo transactions and foreign currency loans) or issuers (mainly on the Russian Federation government).

⁴ The Reserve Fund and the National Wealth Fund of the Russian Federation, whose funds are managed by the Ministry of Finance of the Russian Federation, including through their placement on accounts in foreign currency (US dollars, euros, and pounds sterling) with the Bank of Russia.

**Bank of Russia assets in foreign currency and gold by credit rating
(percent)**



rency structure of net foreign currency assets with target weights of eligible currencies and the limits of their deviations.

Credit risk means the risk of default by a counterparty or securities issuer on their liabilities to the Bank of Russia. Credit risk is restricted by various limits and requirements for the credit quality of foreign counterparties and issuers. The minimum required long-term credit rating¹ of the Bank of Russia's foreign counterparties under operations with Bank of Russia foreign currency assets was established at 'A' (Fitch Ratings and S&P Global Ratings), or 'A2' (Moody's Investors Service). The minimum rating of securities issues of foreign issuers (or the long-term credit rating of the issuer, if a securities issue has no rating) was established at 'AA-' (Fitch Ratings and S&P Global Ratings) or 'Aa3' (Moody's Investors Service).

Interest rate risk means the risk of a decline in the value of foreign currency assets as a result of unfavourable changes in interest rates. The level of interest rate risk assumed by the Bank of Russia in each of the eligible currencies is determined by the target duration² of assets. For the purpose of interest rate risk management, the minimum and maximum duration of assets in each of the eligible currencies is established, and the time left to maturity of securities

and the terms of deposits and repo transactions are limited.

Liquidity risk means the risk of loss as a result of the lack of funds for the Bank of Russia to discharge its current liabilities in eligible currencies. In order to mitigate the risk, the amount of liquid assets in each of the currencies is maintained at a level exceeding the amount of liabilities in the respective currency. Government securities, which make up the greatest share of foreign currency assets, remain the most liquid assets. Sources of liquidity also include the balances of nostro accounts, credit facilities, short-term deposits and repo transactions, and cash inflow from coupon payments and redemption of securities in eligible currencies.

The Bank of Russia accrues interest on the balances of foreign currency accounts of government funds which is equivalent to the yield of the indices formed from the debt liabilities of foreign states. Liabilities related to interest payment are discharged by the Bank of Russia in Russian rubles. The Bank of Russia is the issuing bank that is why the said liabilities do not create any interest rate risk or liquidity risk for it.

Foreign currency assets are grouped into portfolios by the respective currency. For the purpose of evaluating the effectiveness of the management of the said portfolios, their yield is compared with the yield

¹ 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.

² The percent change in the value of a financial instrument or a class of instruments against the change in the corresponding interest rates by 1 percentage point.

of standard portfolios¹. The rate of return on the Bank of Russia's foreign currency reserve assets was calculated as the total (realised and unrealised) return on investment as a percentage per annum for each of the eligible currencies. The cumulative rates of return on the Bank of Russia's foreign currency reserve assets for 2016 are given in subsection VI.3. Statistical tables.

The Bank of Russia has a multi-tiered collegial system of investment decision-making. The Bank of Russia Board of Directors determines the objectives of foreign

currency reserve assets management, the list of eligible investment instruments, and the target level of foreign exchange risk. A collegial body of the Bank of Russia accountable to the Board of Directors and responsible for the investment strategy makes decisions on the level of interest rate and credit risks and determines the list of counterparties and issuers. Investment decisions are implemented by the structural units of the Bank of Russia. External organisations are not involved in the management of reserve assets in foreign currency and gold.

¹ The set of instruments in each of the eligible currencies taken with certain weights. Standard portfolios reflect the target allocation of Bank of Russia assets in each of the eligible currencies.

II.2.12. Improving the accounting and the accounting (financial) statements of financial institutions

The priority areas to improve the accounting and the accounting (financial) statements of nonbank financial institutions in 2016 were as follows:

- issue of regulations aimed at implementing the requirements of International Financial Reporting Standard (IFRS) 9 'Financial Instruments';
- preparing sectoral standards for the accounting and the accounting (financial) statements of certain non-bank financial institutions;
- developing Methodological Recommendations for non-governmental pension funds and insurance companies.

As a result of the work done the Bank of Russia Board of Directors approved 20 ordinances on amendments to regulations aimed at the implementation of the requirements of International Financial Reporting Standard (IFRS) 9 'Financial Instruments'.

In 2016, the Bank of Russia issued Methodological Recommendations for the accounting of operations of non-governmental pension funds related to their activity as an insurer under compulsory pension insurance and their non-governmental pension support activity and Methodological Recommendations for the accounting of insurers' operations related to their insurance, co-insurance, reinsurance, and compulsory medical insurance activity. The Bank of Russia also prepared a draft sectoral accounting standard which reflected specific aspects of the activity of microfinance organisations as well as a draft sectoral accounting standard for compiling the accounting (financial) statements of microfinance companies, consumer credit cooperatives, second-tier consumer credit cooperatives, agricultural consumer credit cooperatives of the next tier, and housing savings cooperatives.

During 2016, a sectoral accounting standard for credit institutions regarding operations associated with the fulfilment of mandatory reserve requirements was released. The procedure for accounting of items of fixed assets and intangible assets was simplified from the mo-

ment a decision is made to terminate their use and sell them and in cases when items of fixed assets and intangible assets are fully depreciated. The regulation governing the procedure for compiling annual accounting (financial) statements was amended. Amendments to regulations aimed at the implementation of the requirements of International Financial Reporting Standard (IFRS) 9 'Financial Instruments' were prepared.

The following measures were taken in 2016 as part of the project 'Transition of nonbank financial institutions to the electronic reporting data collection and processing format based on XBRL specifications' (hereinafter, the XBRL Project).

A basic and then an extended taxonomy of the accounting (financial), supervisory, and statistical statements of insurance entities, non-governmental pension funds, and professional securities market participants was developed, validated, and published. The basic taxonomy was posted on the Bank of Russia website on 31 March 2016, and the extended taxonomy was posted on 31 October 2016.

In December 2016, financial market participants involved in the pilot group for submitting statements in the new electronic XBRL format started forwarding their test reporting data to the Bank of Russia.

All the existing XBRL specifications were translated into Russian.

As part of the XBRL Project the functional requirements were developed and approved for the XBRL Taxonomy Administration System, the System for Collecting and Storing Reporting Data of Nonbank Financial Institutions in XBRL Format, the System of Analytical Supplements, the Corporate Data Warehouse and Transaction Data Base and ETL in Terms of XBRL, the System of Prompt Analysis of XBRL Data, and the Software for Conversion of Reporting Data of Nonbank Financial Institutions.

In 2016 Q4, a test version of the software which converts data into XBRL format was developed.

II.3. EXPANDING FINANCIAL INCLUSION

II.3.1. Financial market development

In 2016, the Bank of Russia published the Guidelines for the Development of the Russian Financial Market in 2016–2018 (hereinafter, the Guidelines for the Financial Market Development), the first cross-sectoral document describing the Bank of Russia's planned actions to develop the financial market in the medium term. Elaboration of this document once in three years is stipulated by Federal Law No. 86-FZ.

The most important aims of financial market development are to increase the level and quality of life of Russian citizens using financial market instruments, facilitate economic growth by granting Russian economic entities competitive access to debt and equity funding, and create the necessary conditions for the financial industry to grow. Thus, the document reflects the interests of the Russian population, the financial industry, and the Russian economy as a whole.

For the purpose of implementing measures under the Guidelines for the Financial Market Development, the Bank of Russia in conjunction with the Government of the Russian Federation developed the Action Plan ('road map') 'Key Measures to Develop the Financial Market of the Russian Federation in 2016–2018'.

To provide a detailed description of the measures stipulated by the Guidelines for the Financial Market Development, the Action Plan ('road map') for the implementation of the Guidelines for the Financial Market Development was developed for 2016, which included the specific objectives and actions of the Bank of Russia to develop the financial market of the Russian Federation for the calendar year. The most important results of the measures under the Guidelines for the Financial Market Development in 2016 are described below.

To ensure that the rights of financial services consumers are properly protected, the Bank of Russia launched a more effective system for processing the complaints of financial services consumers. For example, hubs for processing typical requests of citizens were set up in Vladimir and Saratov. In order to im-

prove the work of the Online Reception and the Contact Centre of the Bank of Russia, standard questions were elaborated, and answers to them were updated. The Bank of Russia opened the Public Reception to ensure direct interaction with financial services consumers.

When implementing the task of increasing the financial literacy of the population, over 2,000 open lessons were held at educational institutions with the participation of Bank of Russia employees, as well as a series of lectures, seminars, workshops, and other activities for students. A set of teaching aids on financial literacy was published for pupils (Years 9–11), and a series of textbooks on Social Science under the editorship of L.N. Bogolyubov was updated to include a financial literacy module for Years 7, 8, and 11.

For the purpose of monitoring and comprehensive analysis of financial inclusion, the Bank of Russia prepared the first issue of the Review of Financial Inclusion in the Russian Federation. Such reviews are to be published on an annual basis.

To expand financial inclusion the Bank of Russia in conjunction with the Ministry of Telecom and Mass Communications of the Russian Federation and the Federal Financial Monitoring Service and with the involvement of a number of credit institutions developed approaches to the remote identification of individuals when receiving financial services in the Russian Federation, including the remote opening of bank accounts.

A priority project 'Small Business and Support for Individual Entrepreneurial Initiative' supervised by the Russian Federation Government was launched with the participation of the Bank of Russia. In 2017, the development and approval of SME lending standards are planned under this project.

To counter malpractice in the financial market, the Bank of Russia participated in updating a draft federal law¹ aimed at establishing a uniform approach towards evaluation of business reputation and the financial position of the founders (participants), management bod-

¹ Draft Federal Law No. 779566-6 'On Amending Certain Laws of the Russian Federation to Improve Mandatory Requirements for Founders (Members), Management Bodies, and Officers of Financial Institutions'.

ies, and officials of NFIs and towards the qualification requirements established for the management bodies and officials of NFIs. The Bank of Russia also participated in updating a draft federal law¹ aimed at enhancing the effectiveness of regulation in the field of misuse of insider information and preparing it for the second reading as well as in optimising the administrative load on market participants in connection with the need for their compliance with measures intended to counter the misuse of insider information.

For the purpose of protecting shareholders' rights, the Bank of Russia is working² to improve the effectiveness of legal regulation of takeovers and to create a system of effective measures to protect investors' interests from unscrupulous takeovers.

In order to further improve the quality of corporate governance, the Bank of Russia is taking part in improving a draft federal law³ aimed at ensuring the protection of shareholders' rights to access information on company activity and preparing it for the second reading.

For the purpose of ensuring the further growth of the bonds market, in 2016 the Bank of Russia prepared a concept for a simplified issuance of corporate bonds and a draft federal law amending Federal Law No. 39-FZ, dated 22 April 1996, 'On the Securities Market', which were aimed at considerably increasing the attractiveness of borrowings in the form of bonds for Russian issuers.

The Bank of Russia also developed mechanisms for attracting the funds of Chinese investors to Russian issuers' bonds. On 25 June 2016, the Bank of Russia and the People's Bank of China signed an agreement under which Moscow became an international centre for settlements in yuan. As a result of the issuance by the Bank of Russia of licences for broker, dealer, and depository activity to the Moscow branch of the Chinese bank ICBC on 18 August 2016, Chinese investors are now able to record their rights to Russian securities directly.

The Bank of Russia continued implementation of the principle of proportionate regulation.

A separate group of larger market participants (microfinance companies, consumer credit cooperatives (CCCs), and agricultural consumer credit cooperatives

(ACCCs) with over 3,000 unit holders) was singled out in the segment of microfinance organisations, CCCs, and ACCCs. This group of larger market participants is subject to continuous oversight by the Bank of Russia and simultaneous oversight by self-regulatory organisations (SROs). A mechanism of prompt response by the Bank of Russia upon discovery of violations of the requirements of specialised laws and ongoing oversight by SROs were introduced for smaller participants (with a smaller scope of powers).

The Bank of Russia is implementing the mechanism of professional judgement. In particular, the Bank of Russia is taking part in preparing a draft federal law⁴ aimed at determining the corrective measures which may be imposed by the Bank of Russia's decision based on reasonable assumption of existing risks in the credit institution's activity. Furthermore, the Bank of Russia initiated the preparation of a consultation report concerning other segments of the financial market.

For the purpose of advanced training of its employees, the Bank of Russia developed a comprehensive programme for improving the competences of employees of its regional branches and a concept for improving methodological materials for financial market specialists and for the localisation of foreign training programmes.

The Financial Sector Computer Emergency Response Team (FinCERT) continued to work actively and the Bank of Russia developed information security standards for financial market participants and prepared proposals to make amendments to laws aimed at enhancing information security in the financial sector and improving the mechanisms for prosecuting cybercrimes.

For the purpose of mitigating risks in the financial sector, the Bank of Russia is implementing a project for transferring standardised financial derivatives to clearing with the participation of the central counterparty. The Bank of Russia published a report 'On the Phased Introduction of the Requirement for Mandatory Centralised Clearing of Standardised OTC Financial Derivatives' and initiated work to prepare a draft ordinance of the Bank of Russia 'On Cases When Contracts Being Financial Derivatives Are Concluded Outside of

¹ Draft Federal Law No. 925980-6 'On Amending the Federal Law 'On Countering the Misuse of Insider Information and Market Manipulation and on Amending Certain Laws of the Russian Federation'.

² Draft Federal Law No. 1036047-6 'On Amending the Federal Law 'On Joint-stock Companies' and Some Other Laws of the Russian Federation' (with respect to improving legal regulation of the purchase of large blocks of shares of public joint-stock companies).

³ Draft Federal Law No. 558976-5 'On Amending Certain Laws of the Russian Federation to Improve Mechanisms for Exercising the Rights of Economic Entities' Participants to Information'.

⁴ Draft Federal Law 'On Amending the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

Organised Trading Only Provided that the Other Party to Such Contracts Is an Entity Performing the Functions of a Central Counterparty'. At the same time, the Bank of Russia worked on improving the procedures of liquidation netting and financial collateral¹.

In pursuance of the requirements for regulating the systems of national financial indicators, which have been developed by the Financial Stability Board and the International Organisation of Securities Commissions, the Bank of Russia evaluates the quality of the formation of financial indicators and the quality of the activity of the organisations forming them².

In 2016, the Bank of Russia received petitions from the Moscow Exchange for the accreditation and verification of the quality of formation of the USD/RUB fixing (MOEX USD / RUB FX FIXING). Having considered these petitions the Bank of Russia found the quality of formation of this financial indicator and the quality of functioning of the Moscow Exchange as its administrator to be satisfactory and in compliance with Bank of Russia requirements.

The results of monitoring the quality of formation of the financial indicator MOEX USD / RUB FX FIXING and the quality of the functioning of its administrator performed in 2016 confirmed that the disclosed values of the indicator corresponded to the state of the market, and its calculation methodology was sufficiently transparent.

The Bank of Russia continued to improve regulation of the rating industry. In 2016, the Bank of Russia Board

of Directors approved the lists of credit rating agencies and the levels of credit ratings for the purposes of:

- listing³;
- investment of pension savings⁴;
- investment of an insurer's equity and insurance reserve funds⁵;
- determination of the amount of equity of professional securities market participants⁶;
- determination of the amount of equity of non-governmental pension funds⁷ and management companies⁸;
- calculation of financial ratios⁹ and investment of funds from the reserve funds of consumer credit cooperatives¹⁰.

These decisions provide for the use of credit ratings assigned by credit rating agencies included in the register of credit rating agencies of the Bank of Russia according to the national rating scale for the Russian Federation.

Starting 1 July 2017, the Bank of Russia plans to stop using credit ratings which were assigned by credit rating agencies based on methodologies whose conformity to legislative requirements has not been confirmed by the Bank of Russia.

In 2016, the Bank of Russia took an active part in the development of the exchange trade in commodities. One of the most significant events was the launch of trading in deliverable futures contracts for exported Urals crude. This market has a huge growth potential. The increase in market liquidity will make it possible

¹ Draft federal laws 'On Amending Certain Laws of the Russian Federation to Develop Financial Market Instruments', 'On Amending the Federal Law 'On the Securities Market' to Improve Regulation of Certain Financial Contracts', and 'On Amending Part 2 of the Tax Code of the Russian Federation'.

² Bank of Russia Information Letter No. 06-51/8518, dated 30 September 2015, 'On Evaluating the Quality of Formation of Financial Indicators and the Quality of the Functioning of Organisations Forming Financial Indicators'.

³ Bank of Russia Regulation No. 534-P, dated 24 February 2016, 'On Securities Admittance to Organised Trades'.

⁴ Bank of Russia Regulation No. 451-P, dated 25 December 2014, 'On Setting Additional Limitations on the Investment of Pension Savings of a Non-governmental Pension Fund Providing Compulsory Pension Insurance, Additional Requirements for Credit Institutions where Pension Savings and Savings for Housing Provision for Servicemen are Placed, and Additional Requirements which Management Companies Must Comply with during the Effective Period of a Pension Savings Trust Management Agreement'.

⁵ Bank of Russia Ordinance No. 3444-U, dated 16 November 2014, 'On the Procedure for Investing Insurance Reserve Funds and the List of Assets Eligible for Investment'; Bank of Russia Ordinance No. 3445-U, dated 16 November 2014, 'On the Procedure for Investing Insurer's Equity Capital and the List of Assets Eligible for Investment'; Bank of Russia Ordinance No. 3849-U, dated 16 November 2015, 'On the Requirements for the Insurers' Association to Invest Funds from Government-support Agricultural Insurance Compensation Payments'.

⁶ Bank of Russia Regulation No. 548-P, dated 19 July 2016, 'On the Procedure for Calculating the Equity Capital of Professional Securities Market Participants and Also of Applicants for Professional Securities Market Participant's Licence'.

⁷ Bank of Russia Ordinance No. 4028-U, dated 30 May 2016, 'On the Procedure for Calculating the Equity Capital of Non-governmental Pension Funds'.

⁸ Bank of Russia Ordinance No. 4075-U, dated 19 July 2016, 'On the Equity Capital Requirements for Management Companies of Investment Funds, Unit Investment Funds, Non-governmental Pension Funds, and Applicants for Management Company Licence'.

⁹ Bank of Russia Ordinance No. 3916-U, dated 28 December 2015, 'On the Procedure for Calculating the Financial Ratios of Consumer Credit Cooperatives and Their Numerical Values'.

¹⁰ Bank of Russia Ordinance No. 3805-U, dated 24 September 2015, 'On the Procedure for Investing Reserve Funds of Consumer Credit Cooperatives'.

to obtain an indicator that may become a recognised benchmark along with the globally recognised oil grades Brent and WTI, making Urals crude a Russian benchmark grade for both the domestic and export markets.

Amendments to Federal Law No. 325-FZ, dated 21 November 2011, 'On Organised Trading' allowed nonresidents to participate directly in the organised trading in commodities and derivatives where commodities are an underlying asset.

II.3.2. Protecting the rights of financial services consumers and expanding financial inclusion

In 2016, the Bank of Russia continued to systematically develop and enhance the functions of protecting the rights of financial services consumers and ensuring financial inclusion and financial literacy. The Service for Consumer Protection and Financial Inclusion comprised three key components: protecting the rights of financial services consumers, enhancing financial literacy of the population, and ensuring financial inclusion for individuals and SMEs. The main objectives of the functioning of such a system are to expand the possibility for the population and SMEs to obtain financial services that are needed, easy-to-understand, and useful and to increase consumers' trust in the financial system as an underlying condition for its sustainable development.

As before, the effective processing of citizens' complaints remains one of the main priorities. In 2016, the Service and the divisions in charge of protection of the rights of financial services consumers and investors at the Bank of Russia regional branches received 100,200 complaints against nonbank financial institutions, which was 1.5 times more than in 2015. The share of complaints against insurance companies in the complaint structure was the greatest compared with other sectors (78%). Complaints against microfinance organisations ranked second (12%).

During 2016, 100,300 replies were sent to applicants, over 8,000 orders to eliminate violations and/or prevent violations of Russian laws were issued to the supervised organisations with respect to discovered violations, and 5,100 reports on administrative offences were executed.

In view of the predicted considerable growth in the number of complaints and the increased load on employees, existing business processes were reorganised, and automated methods of complaint processing were implemented under the project 'Complaint as a Gift', which became active in 2016. A prototype of the automated system for comprehensive complaint processing was launched, and in 2016 Q2–Q3 two regional complaint processing centres started functioning on the basis of this system (in Saratov and Vladimir, which

reduced the time for processing standard complaints considerably.

In August 2016, the Public Reception of the Bank of Russia was set up to provide live consultations to financial services consumers.

In 2016, the Bank of Russia developed the concept of behavioural supervision in the field of protecting the rights of financial services consumers, which may be defined as oversight of the behavioural models of market participants associated, in particular, with the evaluation of whether there is interaction between suppliers and consumers of financial services, evaluation of the quality of services offered, compliance with the requirements for product and service parameters, and the subsequent comprehensive interaction between the Bank of Russia and supervised organisations aimed at improving the quality of services and increasing the consumer satisfaction level.

It should also be noted that the Bank of Russia started interacting actively with SROs in the financial market: they developed draft requirements for the scope of an underlying standard for protecting the rights and interests of the recipients of financial services provided by microfinance organisations and forex dealers.

Much work was done to analyse and facilitate financial inclusion, including monitoring of financial services accessibility, development and implementation of the Financial Inclusion Strategy, as well as development and implementation of proportionate regulation standards. In 2016, a large-scale study 'Overview of Financial Inclusion in the Russian Federation in 2015' was prepared, and proposals were elaborated with respect to the list of financial inclusion indicators, taking into account the expansion of the list of financial services and a detailed geographic breakdown of measurements.

For the purpose of increasing the quality of life of Russian citizens by using financial market instruments, the Bank of Russia developed measures under the project 'Improving the System of Investor Protection in the Financial Market by Introducing Regulation of the Investor Categories and Defining Their Investment Profile' ('Investprofile').

II.3.3. Increasing financial literacy of the population

Knowledge of one's rights and duties, an understanding of the essence and purpose of financial products and services and the basic principles of personal financial security, and the culture of using different financial instruments in accordance with personal needs and goals – all of these largely determine the level of trust in the financial system as a whole and contribute to the development of financial markets and ultimately to the improvement of the quality of life of Russian citizens. That is why increasing financial literacy is one of the key long-term objectives of the Bank of Russia.

Financial literacy involves not only access to general knowledge but also formation of a responsible attitude towards management of personal funds and consolidation of basic skills in the practical use of financial instruments.

The objectives of increasing financial literacy may be attained only by ensuring the widest possible coverage of the population (i.e., the creation of training programmes at all levels of the Russian educational system and an active use of public communication mechanisms for the delivery of practically important information to the population).

The first step towards the accomplishment of this objective was the introduction by the Ministry of Education and Science of the Russian Federation of a financial literacy module in the compulsory curriculum as a part of Social Studies (Years 10–11) in 2016, with the active participation of the Bank of Russia. The relevant proposals were prepared to include financial literacy in the state educational standard for elementary general education.

A training and methodological package 'Basics of Financial Literacy' was developed with the active participation of the Bank of Russia and was made available for teachers and pupils all over the country. The textbook was published by Prosveshcheniye publishing

house. In 2016, the first 1,765 packages were delivered to 124 main schools chosen based on recommendations of the executive bodies of constituent territories of the Russian Federation. Three waves of training were held, as a result of which 236 teachers and tutors completed advanced training in the field of financial literacy.

In 2016, the first all-Russia competition of educational programmes aimed at enhancing the financial literacy of pupils was organised. It showed the high interest of schools in the development of this area of training.

The Bank of Russia continued its active work on holding courses and demonstration lessons at schools and higher education establishments: over 2,500 such measures were organised and held all over the country.

Financial literacy has become one of the priorities in the information policy of the Bank of Russia. To promote this topic among various generations with due regard to the specifics of their information behaviour, the Bank of Russia is actively using both traditional communications channels (mass media) and modern ones (online resources, social networks). Throughout 2016, the Bank of Russia held various information campaigns in federal and regional mass media which were aimed at enhancing the financial literacy of the population in various areas and warned of the risks associated with possible fraudulent operations in the financial markets, including with the use of bank cards. In 2016, the Bank of Russia hosted the first all-Russia Open Door Day dedicated to choosing the symbols for the new 200- and 2,000-ruble banknotes, during which an outreach campaign was organised in each of the constituent territories.

In 2017, the Bank of Russia will continue its financial education activity both in the field of expanding educational programmes for children and adults and in the field of expanding the channels and means of communication on financial literacy issues.

II.3.4. Specialised refinancing facilities

In 2016, the Bank of Russia continued to use specialised refinancing facilities to support individual lines of credit which are significant from the point of view of structural transformations in the economy, the development of which cannot currently be fully ensured through market mechanisms. Those lines included financing of investment projects¹, non-commodity exports², lending to small- and medium-sized enterprises (SMEs)³, and mortgage lending (the Military Mortgage programme)⁴. In early 2016, for the purpose of supporting the financing of industrial equipment leasing, a refinancing facility for loans granted to leasing companies⁵ was introduced with the participation of the Ministry of Industry and Trade of Russia. In June 2016, a decision was made to establish a new specialised mechanism to refinance loans granted for the implementation of projects selected by the Expert Board of the Industry Development Fund.

The Bank of Russia ensured the privileged nature of specialised refinancing facilities by establishing an interest rate below the rates on primary liquidity provision operations, a longer period of loans granted by the Bank of Russia (up to 3 years), and a simplified and expedited procedure for credit institutions to refinance loans in the Bank of Russia which provides for decision-making by the Bank of Russia on the possibility of loan refinancing within two to three days based on a minimum set of documents submitted by credit institutions.

In general, the rates on most specialised facilities were not revised in 2016 despite the decline in the key rate. The ratio of rates on specialised facilities to the key rate came close to the level existing before December 2014, when the key rate was raised significantly due to increased inflation risks. In particular, the rate on Bank of Russia loans secured by the mortgage certificates issued under the Military Mortgage programme became equal to the key rate in June 2016 and subsequently changed along with the key rate.

In 2016, the Bank of Russia continued to proceed from the fact that provision of a considerable volume of funds to credit institutions at a rate that differs significantly from the key rate may decrease the precision of the main signal of the monetary policy, limit the effectiveness of the monetary policy transmission mechanism, or introduce distortion in the operation of market mechanisms. Should this principle be violated, the Bank of Russia, all else equal, would have to maintain the key rate and interest rates on other refinancing instruments at a higher level in order to ensure the moderate tightness of the monetary policy, which was necessary for lowering inflation. Therefore, the amount of funds granted under specialised mechanisms in 2016 remained limited.

However, the Bank of Russia increased the maximum amount of funds provided under the instruments that were in greatest demand among the credit institutions and the previously established limits on which had almost been disbursed. In particular, the Bank of Russia increased limits on loans granted under the mechanism of lending support for SMEs, non-commodity exports, and investment projects⁶ (for more details see Addendum VI.1). In 2016, the debt under specialised refinancing facilities increased by ₹142.7 billion to reach ₹324.0 billion as of 31 December 2016⁷.

The active support of lending to SMEs was encouraged by the joint work of the Bank of Russia and JSC Russian Small and Medium Business Corporation, including on increasing the number of credit institutions participating in this specialised mechanism of the Bank of Russia. In 2016, the number of credit institutions participating in the support mechanism of lending to SMEs grew from 11 to 30 mainly owing to regional credit institutions (14 out of 19 credit institutions included in the list of participants in the mechanism in 2016).

Most specialised facilities of the Bank of Russia were used as part of government support programmes

¹ Loans secured by the pledge of claims under loans issued for investment project financing and loans secured by the pledge of bonds issued for the purposes of investment project financing and included in the Bank of Russia Lombard List.

² Loans secured by the pledge of claims under loan agreements secured by insurance agreements with JSC EXIAR.

³ Loans secured by the pledge of claims under loan agreements concluded by SME Bank JSC with credit institutions, microfinance organisations, leasing companies and loans secured by the guarantees of JSC Russian Small and Medium Business Corporation.

⁴ Loans secured by mortgage certificates issued under the Military Mortgage programme.

⁵ Loans secured by the pledge of claims under loans granted to leasing companies.

⁶ In order to limit the potential amount of loan refinancing by credit institutions in the Bank of Russia with regard to loans granted for investment project implementation, the selection of investment projects by the Interdepartmental Commission in 2016 was stopped.

⁷ Information on the main specialised refinancing facilities is given in Table 33 of subsection VI.3. Statistical tables.

for individual industries and sectors of the economy and were implemented together with other government bodies and development institutes. Therefore, they were only a part of the entire complex of measures which included fiscal, tax, and regulatory incentives. Implementation of these measures in 2016 was

one of the factors restraining the lending slowdown in some segments and facilitating the emergence of positive trends in others. However, a longer time horizon is needed for the full effect of these programmes to be felt, as the financed projects are mostly of a long-term nature.

II.4. TECHNOLOGY DEVELOPMENT AND INNOVATION SUPPORT IN THE FINANCIAL MARKET

II.4.1. Development of financial technologies

The Bank of Russia together with general government and financial market participants is working continuously to study and develop promising technologies in the financial market of the Russian Federation.

In order to comprehensively discuss modern financial technologies and innovations in the financial market as well as to present the latest domestic and foreign products and solutions, the regular Forum of Innovative Financial Technologies, Finopolis 2016, (hereinafter, the Forum) was held in Kazan on 13–14 October 2016. Over 1,400 participants from different countries took part in the Forum, including representatives of the Bank of Russia, general government, professional and R&D communities, technology companies, and startups. During the Forum an all-Russia competition of FinTech startups was held with 17 projects (out of over 170 applications) taking part, following which three winners were chosen and awarded.

For the purpose of developing and implementing new process solutions in the financial market of the Russian Federation, the Bank of Russia together with the largest financial institutions of the Russian Federation set up the Association for Financial Technology Development (hereinafter, the Association) on 28 December 2016. The main lines of activity of the Association were defined, including distributed ledger technology (development of the Masterchain prototype), open interfaces (open APIs), digital identification, and creation of a single area for household payments.

In collaboration with the interested government bodies (the Ministry of Telecom and Mass Communications

of the Russian Federation and the Federal Financial Monitoring Service) the Bank of Russia developed and approved approaches to implementation of a remote identification mechanism which would enable individuals to receive financial services remotely using the Unified System of Identification and Authentication (USIA) and biometric data.

The Bank of Russia studied distributed ledger technology. Based on the results a prototype for transmission of financial messages was created and tested together with the largest financial institutions. A new prototype, Masterchain, which is a tool for interaction between financial market participants based on distributed ledger technology, was developed. It may serve as the basis for verifying details about a customer or a transaction and for quickly creating various financial services. Masterchain will speed up information exchange between counterparties and ensure the necessary level of confidence under financial transactions. At the moment, the Association is working on its development.

The Bank of Russia maintains active interaction with higher education establishments (RANEPA, Higher School of Economics, Financial University under the Government of the Russian Federation, and other) and provides training to students and teachers, in particular, to increase the number of FinTech projects by involving students in their development. The Bank of Russia also implements measures to enhance the financial literacy of students in the field of financial technologies.

II.4.2. Development of information technology

Development of information technology (IT) in 2016 was carried out in compliance with the Guidelines for IT Strategy of the Bank of Russia for 2016–2020 approved by the Bank of Russia Board of Directors.

The target IT architecture of the Bank of Russia was outlined, and projects for creating open module-based applied platforms and the Bank of Russia's Private Cloud were initiated.

A number of important projects with an IT component were implemented for the purpose of enhancing the effectiveness of functions and tasks performed by the Bank of Russia, including:

- centralisation of accounting at the level of regional branches;
- automated processing of standard complaints;
- expanded service of analytical applications for the NFI block with regard to professional securities market participants and microfinance organisations;
- automated accounting of enforcement actions against non-financial institutions;
- creation of an analytical application to analyse credit institutions' loan portfolios;
- collection of reports on direct investment through personal accounts;
- automated formation of financial accounts;
- unification of the information and news website;
- information exchange between the Central Election Commission and credit institutions through personal accounts;
- continuous operation of software and hardware designed for Bank of Russia operations in the financial market;
- creation of a unified crowdsourcing platform to manage Bank of Russia initiatives;
- creation of a new electronic service of the Bank of Russia on credit histories for interaction with the Federal Bailiff Service of Russia;
- automation of the main business processes of the Chief Auditor's Service of the Bank of Russia.

Works to develop and improve communications channels and telephone, satellite, radio mobile, and video conference communication systems continued. Costs for the lease of frequency and energy resources of relay satellites were reduced, and the satellite communication networks were transferred to one relay satellite (except for the Far East regions).

A targeted System of Mobile Access to the Bank of Russia's Information Resources (SMA) was created to allow the use of mobile devices for prompt decision-making by the Bank of Russia management.

In 2017, work on IT development will be continued as part of the IT Strategy of the Bank of Russia for 2016–2020 approved by the Bank of Russia Board of Directors.

II.4.3. Development of electronic interaction mechanisms

In order to stimulate electronic interaction in the financial market, the Bank of Russia continued implementation of the Action Plan (Road Map) for Development of Electronic Interaction in the Financial Market (hereinafter, the Road Map) in 2016. The Road Map provides for project implementation in four main areas: legal issues, elimination of technological barriers, countering offences, and identification. The Bank of Russia also led execution of the Road Map for digitalisation of the financial market and financial technology development within the subgroup 'Internet + Finance' of the working group under the Administration of the President of the Russian Federation for using the Internet in the national economy during the formation of its new technology basis and in the social sphere.

The Bank of Russia is working actively to expand the list of data contained in the public information resources available to financial institutions using the unified system of interdepartmental electronic interaction (SIEI) or the unified portal of public and municipal services (functions) (UPPS). In November 2016, the Government of

the Russian Federation approved the list of the most significant data the access to which will be granted to credit institutions¹.

The Bank of Russia prepared a draft concept for storing and using electronic documents while ensuring their legal effect for the financial market, which is aimed at expanding electronic document management and the consistent reduction in the share of paper documents.

In order to ensure the possibility of receiving Bank of Russia services on the UPPS, regulatory grounds were prepared, and the relevant technological infrastructure is being developed. For the purpose of enhancing the effectiveness of interdepartmental electronic interaction, a list of the most up-to-date data was compiled.

The Bank of Russia introduced a uniform interaction procedure for a number of categories of nonbank financial institutions, which provides for forwarding of electronic documents to the Bank of Russia and receipt of such documents from the latter using the personal accounts of the financial market participants.

¹ Minutes of the meeting of the Government of the Russian Federation No. Pr-8243, dated 2 December 2016.

II.4.4. Enhancing cyber resilience

Ensuring cyber resilience in credit and financial institutions is an important area of the Bank of Russia's activity.

The amount of unauthorised money transfers in 2016 totalled ₺2.98 billion (vs. ₺4.95 billion in 2015). In 2016, the Bank of Russia identified nine attempts of misappropriation of funds from correspondent accounts of credit institutions opened in the Bank of Russia payment system in the amount of ₺2.18 billion, under which the Bank of Russia prevented unauthorised money transfers for an amount of ₺0.68 billion.

The following key measures were taken in 2016 to enhance cyber resilience:

- improvement of Russian laws with respect to assignment of powers to the Bank of Russia in the field of regulation and control of information protection in financial institutions and formation of a legal framework for countering fraud in the financial market and creating an automated system to counter misappropriation of funds in the financial market;
- improvement of prompt information exchange between the Bank of Russia, law enforcement agencies, and credit and financial institutions for the purpose of coordinating their activity and optimising interaction mechanisms to counter hacking in the financial market;
- development of draft national standards of the Russian Federation which establish technical requirements for information protection in financial institutions and define the methodology for evaluating the conformity of information protection in financial institutions to the technical requirements of the national standards;
- development and enactment of Bank of Russia Regulation No. 552-P, dated 24 August 2016, 'On the Requirements for Information Protection in the Bank of Russia Payment System' aimed at improving the Bank of Russia's oversight of compliance with information security requirements by the participants in the Bank of Russia payment system;
- development and enactment as of 1 January 2017 of the Bank of Russia sectoral standard which establishes rules for identification and investigation of information security incidents associated with functioning of automated banking systems and applications used in the national payment system in the course of interaction with law enforcement agencies on investigation of cybercrimes.

II.5. DEVELOPMENT OF THE NATIONAL PAYMENT SYSTEM

II.5.1. Cash circulation management

The Bank of Russia's most important tasks are to ensure the continuous supply of banknotes and coins, increase the efficiency of cash circulation management through re-engineering of individual business processes, and mitigate risks.

In 2016, the economy's demand for cash was met in full and on time.

The reporting year saw the amount of cash in circulation (taking into account cash in cash offices at Bank of Russia establishments) increase¹ by ₺270.9 billion, of which the amount of banknotes increased by ₺264.7 billion, and the amount of coins increased by ₺6.2 billion. The growth rate of this indicator in 2016 was 3.2% (2015 saw the withdrawal of cash from circulation).

As of 31 December 2016, there was ₺8,802.3 billion worth of the Bank of Russia's token money in circulation, including coins made of precious metals, of which ₺8,713.1 billion were banknotes (6.1 billion pieces), ₺88.9 billion were coins (64.4 billion pieces), and ₺0.3 billion were coins made of precious metals. Banknotes accounted for 99.0% of the total value of cash in circulation and coins 1.0%, while in the total number of cash in circulation banknotes accounted for 8.6% and coins 91.4%.

In 2016, the number of banknotes fell by 0.1 billion, while the number of coins (excluding coins made of precious metals) increased by 1.9 billion.

In the note structure of cash in circulation, the share of ₺5,000 banknotes expanded from 70.5% to 72.4% over the reporting period. At the same time, the shares of ₺1,000 banknotes and ₺500 banknotes both contracted (from 23.6% to 22.2% and from 4.1% to 3.6% respectively). The respective shares of ₺100, ₺50, ₺10 and ₺5 banknotes essentially remained at 2015 levels.

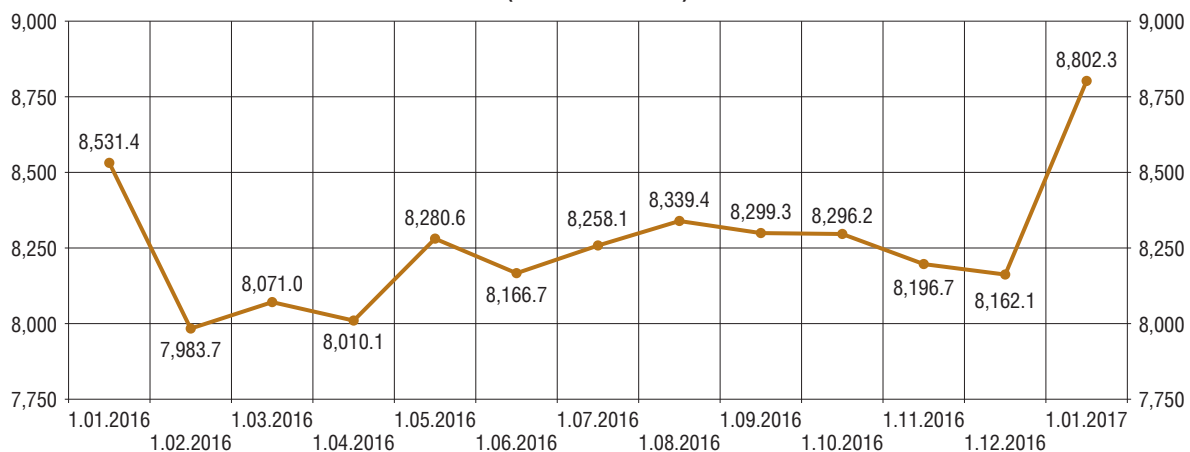
In 2016, ₺10 banknotes were replaced with coins with the same face value, and the number of such coins increased by 8.8%.

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

In 2016, cash turnover through the cash offices of Bank of Russia establishments and credit institutions increased by 0.5% compared with the previous year to ₺99.4 trillion, while in 2015 this indicator went down by 2.7%.

The Bank of Russia Board of Directors approved the Strategy for Cash Circulation Development in Russia in

**Cash in circulation
(billions of rubles)**



¹ An increase in the amount of currency units of the Bank of Russia, including coins made of precious metals, based on balance-sheet data.

2016–2020, which outlined the key milestones of cash circulation development for the mid-term perspective.

In 2016, the Bank of Russia improved its regulations related to the organisation of cash circulation, cash issuance and other cash operations, as well as the storage, collection and transportation of cash, in view of the changes in the economic conditions and Russian legislation.

As of 1 January 2017, Bank of Russia establishments provided cash services to 5,535 credit institutions and their divisions and 11,212 non-credit institutions. In 2016, the number of credit institutions and their divisions that used the cash services of Bank of Russia establishments decreased by 983 as a result of structural changes in the banking sector. The number of non-credit institutions using cash services of Bank of Russia establishments decreased by 3,823, which is explained by the closing of public 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 improve the working conditions of cash clerks. In 2016, 33 cash settlement centres of the Bank of Russia were shut down.

In 2016, the Bank of Russia decided to extend the line of banknotes with ₺200 and ₺2,000 banknotes. For the first time the symbols for new banknotes were chosen based on the results of the national public voting arranged by the Bank of Russia. The ₺200 banknote will feature the symbols of Sevastopol (the Monument to the Sunken Ships and the view of Tauric Chersonesus) and the ₺2,000 banknote will feature the symbols of the Far East (the bridge to Russky Island and Vostochny spaceport).

In 2016, Bank of Russia establishments carried out 0.94 million expert assessments of Bank of Russia's token money, including 0.49 million assessments of suspect token money and 0.45 million control assessments of the accuracy with which banknotes and coins were exchanged. In the reporting year, 61,046 counterfeit Bank of Russia notes and coins were detected in the Russian banking system, withdrawn from circulation and handed over to law-enforcement agencies, which is 15.2% less than in 2015. The number of counterfeit ₺1,000 banknotes increased from 16,557 in 2015 to 22,321 in 2016, while the number of counterfeit ₺5,000 banknotes decreased from 52,690 in 2015 to 36,184 in 2016.

The share of counterfeit ₺1,000 banknotes in the total number of forged banknotes was 36.6% in 2016 (23.0% in 2015). The share of counterfeit ₺5,000 banknotes decreased by 13.9 percentage points to 59.3%.

The largest number of counterfeit token money was detected in the Central and North-Western Federal Districts.

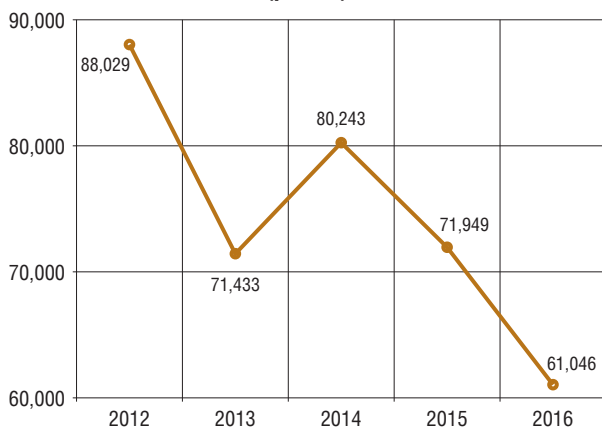
The share of counterfeit Bank of Russia token money identified by credit institutions increased by 3.4 percentage points compared with 2015 to 38.8% of the total volume of detected forgeries.

In 2016, Bank of Russia establishments and credit institutions identified 4,546 counterfeit banknotes of foreign countries (or a group of foreign countries) and delivered them to law-enforcement agencies; this is 39.6% more than the figure for 2015.

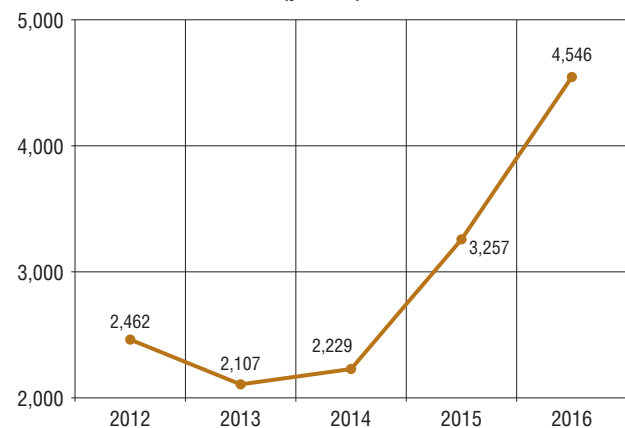
In 2016, the Bank of Russia issued 61 types of precious metal coins into circulation (eight gold and 53 silver) and 27 types of commemorative coins made from non-precious metals.

The implementation of the 'Football 2018' coin programme was started.

Detection of counterfeit Bank of Russia notes and coins (pieces)



Detection of counterfeit foreign banknotes (pieces)



II.5.2. Development of cashless payments and the national payment card system

In 2016, positive dynamics in the development of remote banking services for customers and high-tech payment services and products that improve the availability of payment services and the expansion of cashless payments, which had been observed over recent years, continued.

In the reporting year, 95 out of 100 cashless payments were made by the customers of credit institutions¹ using electronic technology. If compared with 2015, the number of such operations increased by more than a third (to 18.7 billion orders), and their value grew by 0.8% (to ₺536.6 trillion). This was achieved mainly owing to transactions of individuals, the annual growth of which made up almost 40% both in terms of number and value. Furthermore, one out of four payments was made by individuals using the Internet or mobile communication devices; their share in the total value of electronic payments was above 20%.

Payment cards were one of the main payment instruments in the segment of cashless payments; their number increased by 4.5% over the year and as of 1 January 2017 stood at 254.8 million cards, or 1.7 cards per person, which corresponds to the level in developed countries.

The share of cashless operations in the structure of operations using payment cards grew to 80.7% in number and to 46.6% in value of operations. Growth rates of such operations significantly exceeded growth rates of cash withdrawal operations (47.0% vs. 4.3% in number, and 45.6% vs. 9.0% in value).

Ninety out of 100 cashless operations with payment cards were made to pay for goods and services, making up 52.1% of their total value. The share of such operations in the aggregate volume of retail trade, public catering, and paid services to the population grew from 22.4% in 2015 to 30.5% in 2016.

Cashless money transfers from one bank account to another account using payment cards, which are offered by credit institutions, become more popular with users. In 2016, Russians made such operations 1.8 times more often than a year earlier (1.4 billion transfers for an amount of ₺10.7 trillion).

Promotion of the national payment instruments, Mir cards, was one of the priority lines of Bank of Russia activity to develop the national payment card system (NPCS).

As of the end of 2016, 169 credit institutions were participating in the Mir payment system, of which 120 accepted Mir payment cards in their infrastructure, and 65 credit institutions issued them. By the beginning of 2017, over 1.8 million Mir cards had been issued.

In 2016, the banking community took efforts to expand the networks of ATMs and payment terminals accepting Mir cards in order to be prepared for their mass issuance. By the end of the year, over 97% of ATMs of the banks participating in the Mir payment system and over 75% of POS terminals installed in trade and services organisations accepted Mir cards.

In 2016, agreements on cooperation were reached with Moscow and Saint Petersburg, the Republics of Tatarstan and Mordovia, Yekaterinburg, the Karachay-Cherkess Republic, Rostov-on-Don, and other regions with respect to placing non-finance applications on the Mir card.

For the purpose of promoting Mir cards outside the Russian Federation, the NPCS signed co-branding agreements with the payment systems Union-Pay (China), JCB (Japan), and American Express (USA).

The central (national) banks of Russia, Armenia, Belarus, Kyrgyzstan, Kazakhstan, and Tajikistan reached an agreement in 2016 to develop intersystem interaction based on the Mir payment system.

For the purpose of improving the laws on the national payment system, the Bank of Russia took an active part in preparing amendments to Federal Law No. 161-FZ. The draft law, which provides for clarifying the terms of discharge by credit institutions of their obligations to ensure acceptance of Mir cards in their networks and their issuance to the budget sector customers as well as a number of other provisions, was submitted for review to the State Duma of the Federal Assembly of the Russian Federation in late 2016.

¹ Individuals and legal entities other than credit institutions.

II.5.3. Development of the Bank of Russia payment system

Within the Bank of Russia payment system, the banking electronic speedy payment (BESP) system accounted for about 42% of the total volume of payments made in 2016 (3.4 million payments for an amount of ₺563.6 trillion), while the number of BESP system participants decreased 1.2-fold (to 1,741 participants) due to the Bank of Russia's financial resolution measures, the liquidation of credit institutions, and credit institutions' measures to optimise their branch network.

In order to meet growing demand for speedy payments within the Bank of Russia payment system, its rules were amended to set an earlier starting time of the functioning of the BESP system and regional components of the payment system as of 1 January 2017 as well as to allow the concentration of large-value payments in the BESP system. The rules of the Bank of Russia payment system were amended to speed up large-value money transfers (over ₺100 million), including with respect to settlements under transactions performed in the financial market. Credit institutions directly participating in the BESP system got an additional option for liquidity management. The first results of the said changes show an increase in the use of the BESP

system in early 2017 (an almost twofold increase in the volume of payments in January–February 2017 compared to the same period of 2016).

According to the Bank of Russia settlement network optimisation programme, 33 cash settlement centres were shut down in 2016 (17.6% of the total number of centres operating as of the beginning of the year).

In order to improve the quality of filling in the details of money transfer orders by their compilers and to create the necessary conditions for correct identification of budget receipts by the budget revenue administrators, the Bank of Russia jointly with the Ministry of Finance of Russia and the Federal Treasury amended the rules for control and acceptance of orders to allow automation of accounting of budget receipts.

In 2016, the project to develop the financial message transmission system (FMTS) of the Bank of Russia was implemented successfully. It enables transmission of financial messages on the operations within Russia through the Bank of Russia as an alternative channel which ensures independence and guarantees the settlement of transactions within the country. Over 300 FMTS participants used this service for 23 hours a day five days a week at competitive tariffs.

II.5.4. Development of other payment systems

In 2016, compared to 2015, the volume of operations within 33 payment systems included in the register of payment system operators¹ grew by 6% (from ₱170.7 trillion to ₱180.3 trillion). The structure of payments made throughout 2016 did not undergo any material changes compared to 2015. Over 99% of the total number of money transfers in 2016 (6.1 billion) were transfers made via socially important payment systems, over 87% of which were transfers made using payment cards of the socially important payment systems MasterCard and Visa. Large-value payments made via the systemically important payment system of the NSD (89%) and the socially important payment system of Sberbank (5%) comprised the main share of the total transfers in the payment systems in 2016.

In 2016, the mission of the International Monetary Fund and the World Bank finished its assessment of the Russian financial sector (FSAP), including the aforesaid payment systems. In general, the experts of the mission emphasised the high level of development of the NPS in the Russian Federation.

In accordance with Federal Law No. 161-FZ, the Bank of Russia carries out monitoring of payment sys-

tems, within the framework of which the first cycle of evaluation of systemically important payment systems and their conformity to the Principles for Financial Market Infrastructures of the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions was completed in 2016.

Based on the evaluation results the Bank of Russia gave recommendations to the operators of evaluated payment systems for improving their activity in the Russian Federation, which were included in the action plans for changes in activity developed by the payment system operators and approved by the Bank of Russia.

In 2016, the Nonbank Credit Institution Joint-stock Company National Settlement Depository, the operator of the systemically important payment system NSD, fulfilled the action plan for improving the NSD payment system's operation; the operators of the socially important payment systems Zolotaya Korona and International Money Transfers LIDER (evaluation finished in 2015) continued the implementation of activities under their respective plans in 2016.

¹ Excluding the Bank of Russia payment system and Mir payment system.

III. OTHER ACTIVITIES

III.1. INFORMATION POLICY

The information policy of the Bank of Russia is aimed at increasing the confidence of citizens and the expert community in the Bank of Russia's policy, keeping people aware of its activities and enhancing financial literacy among the population.

In 2016, the main focus of the Bank of Russia's public communications was on the areas, such as promotion of the monetary policy, reform of the supervisory system and regulation of the banking sector, development of financial markets, positioning of the new national payment system Mir, as well as protecting the rights of consumers by improving their awareness about the specifics of financial products and services.

The key objectives of the monetary policy were to develop tools for communications with the professional community and to increase the confidence of the population in the policy implemented by the Bank of Russia for bringing down inflation and inflation expectations among the population. The Bank of Russia continued to hold press conferences dedicated to the key rate and added simultaneous webcasts on the state TV channel Russia 24 and on the Bank of Russia official website. Broadcasts are available in Russian and English. In 2016, new communication formats were launched to reach various audiences. The Bank of Russia published regular comments on the current economic situation, the information and analytical material 'Financial Review: Monetary Policy Implementation Conditions,' and the bulletin 'Talking Trends' on its website. Explaining the Bank of Russia's monetary policy and the significance of delivering inflation at the target is one of the most important components for anchoring households' inflation expectations. In 2016, seeking to expand its outreach, the Bank of Russia worked actively with mass media. Materials created as part of this initiative on the state of the economy and on various aspects of monetary policy were released regularly in mass-circulation federal and regional periodicals and on the news shows at federal and regional TV and radio channels.

A peculiarity of information policy in the field of banking supervision is the need to observe the principle of equal distance between the regulator and market participants. To this end, the Bank of Russia complies with the following basic principles: it does not comment on the activity of operating credit institutions or on su-

perisory measures applied to them; information on decisions is published on the regulator's official website according to strict algorithms and is uniform and equally accessible for all market participants.

In order to make households aware of proper behaviour patterns in non-standard situations and to minimise potential social tensions surrounding decisions to revoke licences from credit institutions, the Bank of Russia is improving its mechanisms of information disclosure, ensuring equal access thereto for all target audiences. This is achieved by publishing information on the Bank of Russia's official website, including on unfair practice discovered by provisional administrations. In addition to the information published on its website, the Bank of Russia explains the reasons for its decisions through the mass media.

Considering the high social relevance of the Bank of Russia's activity in the field of banking supervision and regulation, the Central Bank of the Russian Federation is improving its information policy on an on-going basis, making it as transparent and clear as possible. Regulatory changes are supplemented with discussions with market participants both as part of the adopted procedures for the evaluation of regulatory impact and anti-corruption expert review, and during professional discussions at various platforms and forums, including media resources. In mid-2016, the Bank of Russia proposed the following important initiatives to the market for discussion: introduction of proportional regulation, creation of a multi-tier banking system, and introduction of a new mechanism of financial rehabilitation using the Banking Sector Consolidation Fund. Based on the results of in-depth and thorough discussions, including in different media formats, in late 2016 the respective amendments were included to draft laws before their review by the State Duma.

Virtually any area of the Bank of Russia's activities is ultimately aimed at protecting financial consumers' rights; with the effective communication outreach being its indispensable component. In 2016, some regions of Russia had problems with the availability of compulsory motor third-party liability insurance (CMTPLI) policies. The Bank of Russia took measures to stabilise the situation in the CMTPLI market: it introduced a cooling-off period, the Single RAMI Agent system for agency sales

allocation, and mandatory electronic sales of CMTPLI policies. In order to keep vehicle owners informed of changes introduced to enhance the availability of CMTPLI service, the Bank of Russia organised and held media campaigns both at the federal and regional levels. The situation in the CMTPLI market improved and stabilised in part due to the systemic information support for the innovations adopted in 2016.

When preparing its first strategic document Guidelines for the Development of the Russian Financial Market in 2016–2018, the Bank of Russia held a series of on-site conferences in the regions. A new format of discussion to which a wide range of mass media was invited allowed the regulator to get feedback from the representatives of the financial market, business, and the expert community across different Russian regions. Presentation of the draft document, followed by discussions, was held in Moscow, Saint Petersburg, Nizhny Novgorod, Yekaterinburg, Novosibirsk, Vladivostok, Rostov-on-Don, and Krasnodar. Remarks and recommendations were taken into account when preparing the final version of the Guidelines for the Development of the Russian Financial Market.

In order to keep the public informed of the regulator's position and collect opinions for the adjustment of the proposals being elaborated, throughout 2016, the Bank of Russia published consultative reports on its official website on a wide range of topics, such as new approaches to the classification of investors in the financial market, supervision of banking and financial holdings, reformation of the over-the-counter financial derivatives market, regulation of broker activities, and comparison of rating scales. The results of discussions of consultation papers and remarks and proposals received from market participants and stakeholders are also published on the Bank of Russia's website.

In 2016, the Bank of Russia markedly expanded its presence in the regional mass media. The Bank of Russia's Press Service viewed the work in the regions as its most important area of activity. The availability of information, its integrity and accuracy enabled the regulator to conduct an effective campaign to warn consumers of fraudsters' actions in the field of financial services, dishonest practices and pyramid schemes.

In 2016, the Bank of Russia initiated a multistage outreach campaign explaining to the citizens the main principles of microfinance market operation and informing them of legislative amendments coming into effect which significantly limited the growth of the debt of MFOs' borrowers. The most active and extensive outreach efforts were performed in the regions of the Russian Federation amid a campaign launched in the mass media against MFOs triggered by a number of incidents involving unlawful methods of overdue debt recovery. In that situation, one of the main objectives for the Bank of Russia was to enhance the financial literacy of citizens and to mitigate their risks of becoming the victims of illegal creditors.

Alongside the above, the Bank of Russia engaged in a wide-scale task of enhancing the awareness of the population about opportunities for small- and medium-sized businesses to get microloans, including on preferential terms. Thus, information support for the microfinance market's operation was aimed not only at protecting consumer rights and raising their financial literacy but also at changing the media environment and reducing damage to the image of MFOs, as a part of the national financial system. This work will also continue in 2017.

In 2016, the Bank of Russia, together with the National Payment Card System, launched an information campaign aimed at preparing infrastructure for the acceptance of the national payment instrument, the Mir card, and the start of its mass issue. The Bank of Russia's support enabled Mir to maintain the status of an important public project.

In 2016, the Bank of Russia's information policy underwent significant changes. Bank of Russia official pages on social networks became an important element of an overall communication strategy focusing on expanding the range of tools and formats used. At present, the Bank of Russia is represented on Facebook, Twitter, and YouTube. The total audience of the pages is over 12,000 followers.

In 2017, the Bank of Russia will continue its proactive information policy with the main focus on financial consumer protection and on installing conditions for the mitigation of potential risks to the financial stability of citizens.

III.2. ECONOMIC RESEARCH

The organisation of economic research by the Bank of Russia is aimed at accomplishing a wide range of practical tasks, including:

- conducting economic studies on relevant issues of monetary policy and financial stability policy in order to create the research base for the decision-making by the management of the Bank of Russia;
- elaboration and maintenance of models needed for forecasting key macroeconomic indicators under different scenarios and for the subsequent formulation of recommendations for the Bank of Russia's management on options for monetary policy implementation;
- ensuring the active interaction of the Bank of Russia with the academic and expert community for the discussion of topical research issues, speaking at applied research conferences, and publishing research findings on its own website and in refereed journals.

This will contribute to the promotion of the Bank of Russia as one of the most important competence centres in the field of economic research and as a discussion platform for the research community.

The annual research plan prepared by the Bank of Russia reflects the priority research topics, key areas of model development, and priority matters for cooperation with Russian research institutes and higher educational institutions, and also for international cooperation. Among the most important areas for the evolution of research in 2016 the following can be highlighted.

Development and improvement of modelling tools for economic analysis and forecasting. Bank of Russia employees tested the Dynamic Stochastic General Equilibrium Model (DSGE) for the Russian economy, which makes it possible to build forecasts using different scenario assumptions regarding external economic environment (primarily price trends for energy resources and the global economy) and macroeconomic policy. This class of models has been generally recognised as the most detailed formalisation of the transmission mechanism of monetary policy, the distinctive feature of which is the reflection of different behavioural features of economic agents. Additionally, the Bank of Russia prepared an auxiliary semi-structural econometric general equilibrium model, which makes it

possible to forecast key macroeconomic indicators over short- and medium-term horizon, and to make scenario calculations.

The models developed in 2016 were a good supplement to the set of models used by the Bank of Russia to analyse the Russian economy and to forecast its individual indicators, and served additional means of analytical support for monetary policy decision-making process.

Research on inflation and monetary inflation risks. In 2016, the Bank of Russia issued analytical notes 'Measuring domestically generated inflation' and 'Money stock composition and inflation risks' on this topic, as well as the report 'Inflation forecasting by way combined forecast method in the Bank of Russia' (published on the Bank of Russia website). In 2016, the Bank of Russia, together with the Centre for Economic and Financial Research (CEFIR), started joint research on the real-time calculation of consumer price index based on the analysis of data provided by online shops.

Evaluation of the equilibrium real interest rate in the economy. The main objective of studies on this topic is associated with the search for an interest rate level that could serve as a reference for the Bank of Russia key rate when inflation is maintained near the target. In 2016, the Bank of Russia published the working paper 'Equilibrium interest rate: estimates for Russia' on the website, which described both the author's methodology for calculating the equilibrium interest rate for the Russian economy and the calculation results based on research approaches developed previously and tested on Russian statistical data.

Analysis of the credit cycle and development of leading indicators for the implementation of the countercyclical capital buffer. Formation of tools for analysing the credit cycle and elaboration of leading indicators, key for implementing the countercyclical capital buffer, played a crucial role in 2016. The working paper 'Real-time determination of credit cycle phases in emerging markets', which was published on the Bank of Russia website and included in the programme of the 36th International Symposium on Forecasting, offers a method for improving the reliability of long-standing approaches towards the assessment of a credit cycle's phase. The Bank of Russia also prepared the work 'The

national countercyclical buffer', the purpose of which was to substantiate the parameters of the countercyclical buffer for the provisions created by banks in order to enhance banking system sustainability by accumulating a capital buffer during the periods of accelerated growth in credit supply and, accordingly, by using the buffer during the periods of economic stress.

Analysis of the influence of lending on the financial resilience of the real sector based on microlevel data was another important area of research efforts in this field. The use of microdata (data obtained at the level of individual companies) makes it possible to substantially augment the analysis of trends and regularities in the field of corporate lending by confirming or refuting mutual linkages assessed at the macrolevel, to discover mixed effects that are invisible at the macrolevel, to show differences in the multipliers of the same process for different sectors and groups of companies, etc.

Study of the transmission mechanism in the economy. Studying the channels of the transmission mechanism of the monetary policy in the Russian economy is one of the most important areas, among other priority research areas, of the Bank of Russia. In 2016, the Bank of Russia published the working paper 'The influence of money market rates on loan rates for end borrowers' on its website. The paper described the assessment results of the degree and duration of the influence of money market interest rates on loan rates for non-financial organisations, which were attained using modern modelling tools.

Studying the structure of the banking sector in Russia from the point of view of monetary policy and external shocks' transmission to the key indicators of the Russian economy occupies an important place among the research priorities of the Bank of Russia. In 2016, the Bank of Russia joined the International Banking Research Network (IBRN), a project that constitutes a research network bringing together experts from various central banks and from the Bank for International Settlements and the International Monetary Fund. This project seeks to complete joint research studies of the role of international banking operations and the structure of the global banking sector in the transmission of global shocks onto the state of the economy in an individual country.

Research across industry-specific topics. In 2016, two meetings with experts were organised on the following industry-specific topics:

- 'Prospects of Russian food exports';
- 'Russia's metallurgical sector in light of global trends'.

In October 2016, meetings with 43 sectoral unions and associations were held to obtain first-hand information about the state, problems, and development prospects of respective sectors and to mitigate elevated inflation expectations in the pricing process in the consumer market.

In May 2016, the Bank of Russia conducted a survey of industrial and agricultural enterprises on the topic 'The influence of the ruble exchange rate on the activity of enterprises' with a view to elaborate key solutions in the field of monetary policy. Alongside that, the Bank of Russia is currently implementing a number of projects aimed at studying pricing in Russian companies, the frequency of price revision, the response of prices to exchange rate dynamics, the role of sectoral competition in inflation processes, and a number of other important matters that are of interest for the Bank of Russia. Furthermore, the Bank of Russia holds quarterly surveys of credit institutions as part of the study 'Change in the bank's credit policy'. These surveys enable the qualitative evaluation of the nature of changes in bank lending conditions and the contribution of individual factors to such changes.

A 'Research' section has been created on the main page of the Bank of Russia's website, which shows the results of the research conducted in the Bank of Russia. During 2016, Bank of Russia employees published in that section a total of nine documents in the Working Paper Series, four analytical notes, and 10 issues of the regular macroeconomic bulletin Talking Trends. The results of the research conducted in the Bank of Russia were also incorporated in the following information and analytical materials Monetary Policy Report, Financial Review: Terms of Monetary Policy, Financial Stability Review, and Monetary Market and Derivatives Market Review. A number of research studies in the field of lending and financial stability, prepared on the basis of microdata and broken down by sectors, were included in the articles by Bank of Russia employees in the journals *Voprosy Ekonomiki* (Economic Issues) and *Prikladnaya Ekonometrika* (Applied Econometrics).

Interaction with the research and expert community constituted a separate key area of the Bank of Russia's work in 2016. There were held regular research seminars with the presentation of the findings of work performed both by Bank of Russia staff members and by invited speakers on discussion issues relevant for the Bank of Russia's policy. The list of invited experts includes representatives of higher educational institu-

tions, research organisations, and federal executive authorities.

In 2016, for the purpose of raising the awareness and professional level of employees, for preparing analytical data, and conducting economic research, the Bank of Russia developed its information and library resources. During the reporting year, the reference collection of the library was supplemented with Russian and foreign books across almost all areas of activity and all topics of the research conducted by the Bank of Russia.

The Bank of Russia's first-priority plans concerning the development of existing tools for the analysis and forecasting of macroeconomic indicators include improvement of models through detailed description of the interaction between different economy sectors, and elaboration and testing of tools used to verify and coordinate forecasts on the existing range of models in accordance with the best practices of foreign central banks.

The central focus of economic research will be still on inflation processes in Russia, i.e. the study of their specific features, and also their analysis and forecasting. This implies the development of a complex of models both for short-term inflation forecasts based on a broad and informative set of statistical indicators and for the study of medium- and long-term inflation risks. It is also important to develop an analysis of inflation processes at a more disaggregated level, primarily by sector and by region. As for the analysis of inflation expectations, being the most important contributing factor to price stability

in the context of inflation targeting, the Bank of Russia is determined to continue its efforts in this area by conducting research on households' financial decisions, inflation expectations, and pricing mechanisms employed by manufacturing and trade companies.

Considerable attention will be paid to the analysis of the optimal macroeconomic policy for the purpose of elaborating further recommendations for the interaction of monetary, fiscal, and macroprudential policies, including with regard to possible changes in foreign economic conditions.

Taking into account the existing trends in the global economy, the Bank of Russia's priorities include the in-depth study of the economies considered to be Russia's most important strategic external partners in the long-term perspective. In this setting, analysis of the Chinese economy and the influence of its structural transformation on Russia are of special interest in terms of research. Another important research area is the analysis of the medium- and long-term development trends in energy markets and their pass-through on the Russian economic growth model.

As regards the promotion of research activity, the Bank of Russia will continue to organise regular workshops and panel discussions, and will support the presentation of research findings by the bank staff at key international conferences. The Bank of Russia will seek to implement joint research projects with leading research organisations in Russia and abroad and to publish the results obtained in reputed research journals.

III.3. STATISTICAL ACTIVITIES

Bank of Russia activities in the field of statistics are aimed at the systemic development and improvement of statistical process with an objective of enhancing the effectiveness of data use in the decision-making in the Bank of Russia, timely delivery of statistical data to users in accordance with their needs, and also increasing the relevance of data and improving their quality.

In accordance with the Strategy of Statistical Activity for 2016–2020, in order to further expand the information base for assessing the consolidated picture of the financial situation in the Russian economy, in 2016, the Bank of Russia continued publishing the annual financial accounts and sectoral balance sheets of the financial assets and liabilities of the System of National Accounts of the Russian Federation.

In order to improve monetary statistics and in accordance with the requirements of international standards, in 2016, the Bank of Russia prepared its balance sheet and the consolidated balance sheet of credit institutions in the format of the standardised report forms used by the IMF for information exchange. Publication of the data provided to users additional opportunities for the analysis of assets and liabilities of banking system organisations detailed by financial instrument, currency, and sector of the national economy.

In 2016, the Bank of Russia developed a number of additional statistical indicators for the external sector. In particular, according to the approved IMF templates, regular presentation of an additional memorandum item ‘personal transfers’ was started in the composition of the balance of payments; an upward adjustment of exports’ values was made with regard to goods purchased by nonresidents in the online shops of the Russian Federation. Within the framework of compilation of the currency composition of the international investment position, the Bank of Russia published for the first time information on its website on the currency composition of Russian residents’ debt claims on nonresidents, and expanded detailed information on the international investment position of the banking sector.

In 2016, extended statistical data on the Russian banking sector were compiled for the first time for the inclusion in the international banking statistics developed by the Bank for International Settlements (BIS) to enable the analysis of cross-border risks of large bank-

ing systems. The submitted statistical data were highly commended by BIS experts and were included in the global aggregates characterising financial stability in the international banking market.

To improve methodology used for compiling bilateral balances of payments and to develop methodology for compiling bilateral international investment position, meetings with the representatives of the central (national) banks of the Eurasian Economic Union (EAEU) countries were held. Close information interaction with the National Bank of the Republic of Belarus enabled the analysis of the currency composition of mutual exports and imports by contractual currency and payment currency used in foreign trade contracts of the Russian Federation and the Republic of Belarus. Within the framework of integration interaction under the auspices of the Eurasian Council of Central (National) Banks, data on individual indicators of compensation of employees and personal transfers were matched against similar data from the other EAEU countries and the Republic of Tajikistan. In the course of the video conference organised by the Bank of Russia with the national banks of the EAEU countries and the National Bank of Tajikistan the methodology for estimating personal transfers was discussed.

As part of its efforts to improve direct investment statistics, work has been done to expand the range of regular publications for the purpose of their analytical enrichment, and also work to reduce the time for data compilation has been accomplished. Aggregate quarterly indicators have been supplemented with a presentation on investment transactions in the Russian economy and abroad based on the directional principle. Data on cumulative investment of investors’ countries were published for the first time and broken down by type of economic activities of resident recipients. Direct investment statistics broken down by Russian constituent territories allowed users to compare quarter-by-quarter the participation of each of Russia’s regions in shaping the composition of incoming foreign investment by type of economic activity.

Due attention was paid to the development of other areas of foreign investment statistics. During the second phase of international organisations’ and G20 countries’ Data Gaps Initiative, in 2016, the results of

the Coordinated Portfolio Investment Survey were published in line with the enhanced IMF's special data dissemination standard plus (SDDS+).

In the reporting year, the Bank of Russia paid much attention to the introduction of micro-datasets into the statistical activity as a basis for advanced macroeconomic studies, analysis of financial stability, prudential supervision, and improvement of the methodology and quality of statistical data. The Bank of Russia undertook work to set up the Credit Register of the Bank of Russia based on the organisation of regular collection of bank reports on loans containing detailed information on loan agreements, effective in the reporting year, with legal entities and individual entrepreneurs. During the year, the Bank of Russia worked together with credit institutions to improve the quality of submitted data; however, there was a moratorium on the application of enforcement measures for the violations of reporting re-

quirements. A process was initiated to enrich data provided by credit institutions with information on the place of their registration, main economic activities, corporate accounting data, and information on those belonging to groups of small- or medium-sized businesses. Within the scope of such activities, measures were implemented to harmonise approaches to the compilation of microdata on lending transactions at credit institutions.

Starting from May 2016, the Bank of Russia switched to electronic information interaction with nonbank financial institutions, including communicating its orders and inquiries and receiving replies to them through the personal accounts of financial market participants¹. For the preparation of electronic documents, special questionnaire software elaborating electronic reporting forms with in-built controls checking the correctness of data fields' completion was developed, thus improving the accuracy of reporting.

¹ In accordance with Bank of Russia Ordinance No. 3906-U, dated 21 December 2015, 'On the Procedure for the Bank of Russia to Cooperate with Nonbank Financial Institutions and Other Parties to Information Exchange Via Bank of Russia Information Resources, Including Personal Accounts, and on the Procedure and Timeframe for Other Parties to the Exchange of Information to Notify of the Use/Refusal to Use Personal Accounts'.

III.4. INTERNATIONAL COOPERATION

Participation of the Bank of Russia in the Financial Sector Assessment Programme (FSAP) for the Russian Federation was one of the key international events of 2016¹.

The FSAP analysis also included fulfilment by the Russian Federation of a number of key recommendations of the FSAP mission received after the implementation of the 2011 FSAP measures.

The programme recommendations were implemented in accordance with the Proposed Scope and Timetable agreed upon with the International Monetary Fund and the World Bank in full, with the agreed scope considerably exceeding the 2008 and 2011 programme recommendations.

FSAP results will to a large extent shape the agenda of Bank of Russia international activities for the next five years and its efforts on the implementation of key recommendations and preparation for the next cycle of programme activities in 2021.

The concluding documents of the programme² note considerable progress achieved by the Bank of Russia in the implementation of the recommendations of the 2011 FSAP mission for improving regulation, the adoption of a number of key documents by the mega-regulator aimed at financial market development, and the implementation of requirements for market participants and best supervisory practices.

Effective cooperation of the Bank of Russia and the IMF under FSAP 2015/2016 opened up new opportunities for organising project cooperation with the IMF.

As a result, cooperation between the Bank of Russia and a number of key associations of financial market regulators, such as the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), and the International Organisation of Pension Supervisors (IOPS), became closer and more efficient.

Within the framework of its participation in the work of the associations of national supervisors, in 2016, the Bank of Russia continued to bring its regulation in line with industry-specific standards and recommendations

and carried out self-assessment to verify its compliance with key IAIS principles.

In 2016, the Bank of Russia continued its cooperation with the IMF, maintaining close links with the mission of the European Department during its staff visits to the Russian Federation as part of Article IV Consultations.

In accordance with the decision on the 14th review of quotas of IMF participants, which became effective on 26 January 2016, the Russian Federation's quota was raised from SDR5,945.4 million to SDR12,903.7 million on 17 February 2016 (date of payment for quota increase); at the same time, the maximum liabilities of the Russian Federation under the New Arrangements to Borrow (NAB) were reduced from SDR8,740.8 million to SDR4,440.9 million.

In 2016, the Bank of Russia also expanded its links with the World Bank. To promote cooperation further, based on the 2015/2016 FSAP results, the World Bank elaborated Financial Inclusion Strategy for the Bank of Russia.

As part of interaction with the G20, in 2016, the Bank of Russia continued to update the Russian economic growth strategy approved in 2014 at the G20 Summit in Brisbane (Australia). In the reporting year, country strategies were united with investment strategies and included obligations in the fields of monetary, fiscal, and structural policies. The Bank of Russia also took part in identifying the priority areas of structural reforms and in elaborating guiding principles and the system of indicators for assessing the effectiveness of structural reforms implementation by countries.

In 2016, formation of the Global Legal Entities Identifier System was continued. An application was filed with the Federal Agency on Technical Regulation and Metrology for adoption in the Russian Federation of a standard similar to ISO 17442 (the LEI code standard), which would make it possible to exclude various interpretations of the definition of the 'international legal entity identifier' in the Russian regulation. In the Russian Federation, the need to obtain a LEI code for

¹ The FSAP Programme, developed in 1999 and implemented every five years, is aimed at assessing the development of both the financial sectors of all examined jurisdictions and the financial stability of countries with systemically important financial sectors.

² FSAP documents on the Bank of Russia's website: http://www.cbr.ru/today/print.aspx?file=ms/smo/mwf_n.htm&pid=smo_29_255&sid=ITM_57_822.

the purposes of submitting reporting on OTC derivatives is established at the regulatory level. At present, NKO AO National Settlement Depository (NKO AO NSD, Russian local operator) has assigned over 850 LEI codes to Russian and foreign entities.

As part of cooperation with the Financial Stability Board (FSB), the Bank of Russia participated in preparing the sixth annual review of trends and risks of the parallel banking system, 11 reviews of the results achieved in the field of reforms on the OTC derivatives market, a country review of Japan, and the 2nd report on measures to reduce misconduct risk. The Bank of Russia provided information on the progress in the implementation of the Key Attributes of Effective Resolution Regimes for the banking and insurance sectors, and on changes in correspondent relations. In July 2016, the Bank of Russia hosted a meeting of the FSB Analytical Group on Vulnerabilities.

In December 2016, the Bank of Russia took part in the regular meeting of the FSB Regional Consultative Group for the CIS, where they reviewed FSB priorities for 2017, the effectiveness and the significance of monitoring of financial regulation reforms implementation and deepening, macroprudential policy regulation and stress-testing, and reduction in correspondent banking services.

Within the frames of BRICS, the Bank of Russia continued working on the operationalisation of the BRICS Contingent Reserve Arrangement (CRA) established in 2015 and took part in the meetings of the CRA Standing Committee and the Governing Council in February and October 2016 during India's chairmanship. The Bank of Russia supported the initiative of India to strengthen macroeconomic cooperation via a macroeconomic information exchange system and joined in these efforts.

Cooperation with the BIS is of considerable interest for the Bank of Russia. By means of regular participation in the meetings of the key executive bodies of the BIS, the Bank of Russia continued to strengthen its interaction at the level of core BIS committees, such as the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI), the Irving Fisher Committee on Central Bank Statistics Committee (IFC), and their working bodies.

In March 2016, the BCBS published the results of the evaluation of the Bank of Russia's regulatory framework governing the activity of credit institutions to check its conformity to BCBS documents (Regulatory Consistency Assessment Programme, RCAP) and acknowledged that Bank of Russia regulations were

compliant with the standards of Basel II, Basel 2.5, and Basel III.

In the area of interaction with the CPMI under the aegis of the BIS and the IOSCO, Russian regulation of central counterparties, central depositories, securities settlement systems and repositories was confirmed to be in full compliance with the Principles for Financial Market Infrastructures.

Participation of the Bank of Russia in the activities of the Irving Fisher Committee contributed to the promotion of the second phase of international organisations and G20 Data Gaps Initiative (DGI-2) and to the conduct of other studies associated with the DGI. The Bank of Russia participated in BIS initiatives to advance financial inclusion and the scope of application of the international standard for Statistical Data and Metadata eXchange (SDMX), as well as to search for promising ways to use Big Data.

The Bank of Russia's expert assessments in the field of statistics and information exchange of statistical data of central banks continue to be highly commended by the BIS and remain in demand due, among other things, to the recognition of the professional competence of young specialists of the Bank of Russia and their receipt of professional awards and prizes.

In 2016, numerous BIS research studies and publications prepared with the participation of the Bank of Russia became an important source of international experience for the elaboration of proposals to improve the quality of financial market regulation and to ensure financial stability, including as part of the Bank of Russia's efforts aimed at financial sector protection against threats associated with cyber risks.

In 2016, the Bank of Russia took part in the implementation of the first stage of the World Economic Forum (WEF) initiative 'Shaping the Future of Financial and Monetary Systems', dedicated to finding the balance between financial stability, innovations, and economic growth. The preparation of a report on global risks analysis ('The Global Risks Report 2017, 12th Edition') by the WEF with the involvement of the Bank of Russia was a pivotal result of the stage of the initiative completed in late 2016. In 2017, the WEF is expected to continue improvement of the mechanism for pinpointing systemic risks to the financial system, and the Bank of Russia will be one of the active participants in that work.

In 2016, the Bank of Russia continued its collaboration with the Organisation for Economic Cooperation and Development (OECD). The work was organised on the basis of the Bank of Russia Order 'On the

Implementation in the Bank of Russia of the Action Plan for the Interaction of the Russian Federation with the Organisation for Economic Cooperation and Development (OECD) for 2016'. The Bank of Russia's representatives took part in the meetings of OECD working bodies on the issues of corporate governance, financial markets, insurance and private pensions, codes of liberalisation, pension supervision and taxation, national accounts statistics, financial statistics, international investment statistics, statistical data of international merchandise, and service trade statistics.

Over the reporting period, the Bank of Russia placed priority on advancing integration cooperation within the CIS and the EAEU.

The Bank of Russia took part in elaborating the Main Guidelines of the Macroeconomic Policy of EAEU Member States for 2016–2017 and measures for their implementation.

In 2016, the Bank of Russia contributed to the prompt finalisation of draft documents aimed at the further promotion of integration in foreign exchange and financial areas within the EAEU, specifically, the Treaty on Coordinated Approaches to the Regulation of Currency Relations and Adoption of Liberalisation Measures, the Treaty on the Harmonisation of Financial Market Laws of the Eurasian Economic Union Member States, and the Treaty on Admission of Brokers and Dealers of an EAEU Member State to the Exchanges (of Trade Organisers) of Other Member States.

In the reporting year, the work on harmonisation of the laws of the EAEU member states in the financial area was continued. The first stage of that work implied the assessment of the compliance of the laws and law enforcement practice in the financial area of the EAEU member states with international approaches and standards.

In 2016, among the key results of cooperation of the central banks within the Eurasian Council of Central (National) Banks, of which the Bank of Russia is a member, one can highlight the signing of the Protocol on the Accession of the Central Bank of the Republic of Armenia to the Treaty on the Eurasian Council of Central (National) Banks (hereinafter, the Council), the Protocol on Amending the Memorandum between the Central (National) Banks of EAEU Member States on the Recommendations to Credit Institutions Making Money Transfers to Foreign States by Order of Individuals without Opening a Bank Account for Assuring the Transparency of the Money Transfer Service Market and Protecting Consumers,

dated 18 October 2013, and the Protocol on Amending the Treaty on Cooperation in the Field of Personnel Training of the Central (National) Banks of the EAEU Member States, dated 12 March 2004. The Bank of Russia took part in the approval of the Action Plan of the Council for 2017–2018, and continues to be involved in the coordination of the working bodies set up under the aegis of the Council.

The Bank of Russia participated actively in the work of the Advisory Board on the Foreign Exchange Policy of the central (national) banks of EAEU member states. Board meetings agenda included relevant issues of multilateral cooperation in the field of monetary and foreign exchange policies.

In 2016, the Bank of Russia and other founders of the Interstate Bank (ISB) continued their efforts to transform the ISB into an effective tool for expanding cooperation between the central (national) banks of ISB member states in the monetary, FX, financial, and banking spheres.

Thanks to the effective coordination of ISB member states, the Interstate Bank achieved a positive financial result in 2016.

Cooperation within the framework of other regional integration associations was continued as well. The Bank of Russia participated in the activities of the Shanghai Cooperation Organisation (SCO) and in the meetings of the supreme and coordination bodies of the CIS and CIS bodies of sectoral cooperation on financial and banking issues.

During the year, work on implementing key CIS documents was performed, including the Joint Action Plan of CIS member states for addressing pressing financial and economic issues and the Action Plan for the implementation of Stage 3 (2016–2020) of the CIS economic development strategy with respect to issues falling within the competence of the Bank of Russia.

In 2016, the Bank of Russia chaired the Interstate Coordination Council of the Executives of Insurance Supervisory Bodies of CIS member states, where they approved the Key Provisions on the Procedure for Electronic Document Workflow between insurers, insureds, and victims (beneficiaries) in civil liability insurance of motor vehicle owners in CIS member states, and initiated regular seminars for the heads of the units of insurance supervisory bodies of CIS member states.

Bilateral international cooperation continues to develop at a rapid pace both in the form of interaction with the central (national) banks and national financial

regulators of foreign states and within the framework of intergovernmental commissions with foreign states.

Over 2016, the Bank of Russia signed eight agreements with foreign regulators, including six agreements with the supervisory agencies of the People's Republic of China (PRC). With the signing of the said agreements, cooperation with China reached a new level, opening up legal opportunities for setting up a representative office of the Bank of Russia in the PRC¹ and creating the framework for the cooperation of the Bank of Russia and Chinese financial regulators in such key areas as countering money laundering and the financing of terrorism, settlement and clearing operations in the national currencies through an authorised bank, and cooperation in securities markets and in the field of insurance.

The signing of a Cooperation Agreement between the Central Bank of the Russian Federation and the Central Bank of Cuba in 2016 was an important milestone in the development of bilateral relations with Cuba.

The Memorandum of Understanding signed by the Bank of Russia in 2016 with the Group of the Islamic Development Bank marked a new stage in the development of cooperation in the field of partnership (Islamic) banking.

The Memorandum sets out the mechanism of interaction between the Bank of Russia and the Islamic Development Bank in advancing training and research programmes on partner finances and forms a basis for joint research studies in the field of developing financial operations based on partnership principles in the Russian Federation in line with the Russian legislation.

In 2016, the Bank of Russia took part in the work of intergovernmental commissions with foreign states. Regular meetings of subcommittees (working groups) dedicated to interbank and financial cooperation were held within the framework of intergovernmental commissions with Vietnam, Iran, India, the PRC, Cuba, and Turkey. The use of national currencies in mutual settlements remained one of the key issues addressed by the subcommittees (working groups).

In order to normalise the process of banking support for economic cooperation between countries and mitigate the negative consequences of unilateral Western sanctions against operations across the accounts of Russian financial institutions, the Bank of Russia, jointly with the Russian banking community, prepared clarifications on the nature and scope of restrictions imposed. These clarifications were sent out to the central (national) banks of foreign states.

¹ It was set up in December 2016 and became operational on 16 March 2017.

III.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, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (hereinafter, Federal Law No. 86-FZ), the Bank of Russia participates in the capital of Sberbank of Russia (Sberbank) and resident organisations that support the Bank of Russia's operations: Public Joint-stock Company MICEX-RTS Moscow Exchange (PJSC Moscow Exchange) and Stock Company Saint Petersburg Currency Exchange (SPCEX SC). The Bank of Russia is involved in the activities of these resident organisations through its representatives in their management and controlling bodies for the purpose of implementing the strategic objectives of the state economic policy and consistently upgrading the financial market's infrastructure for successful open market operations.

The Bank of Russia's stake in Sberbank's authorised capital was unchanged in 2016, at 50% plus one voting share. Total dividends received by the Bank of Russia in the reporting year from Sberbank amounted to ₺22.2 billion (₺5.1 billion in 2015). Such material growth in the amount of dividends occurred as a result of the increase from 4% to 20% in the share of net profit under the International Financial Reporting Standards (IFRS) allocated by Sberbank to dividend payment.

Throughout the reporting period, Sberbank's Supervisory Board reviewed amendments to its Charter and approved them at the Annual General Shareholders' Meeting at the end of 2015; these amendments provided, in particular, for the possibility of using information and communication technologies at the Annual General Shareholders' Meeting to enable online participation in general meetings, the discussion of agenda items, and the voting on them. The Supervisory Board also approved Sberbank's Information Policy.

In 2016, the Bank of Russia's stake in the authorised capital of PJSC Moscow Exchange remained unchanged at 11.77%. The dividends paid to the Bank of Russia by PJSC Moscow Exchange for 2015 amounted to ₺1.7 billion in 2016 (₺0.9 billion for 2014 paid in 2015).

On 2 September 2016, PJSC Moscow Exchange's Extraordinary General Meeting of Shareholders passed a resolution on the reorganisation of PJSC Moscow Exchange through the accession of two subsidiary companies (CJSC MICEX SE and MB Technologies LLC) to it. This did not change the Bank of Russia's stake in the authorised capital of PJSC Moscow Exchange. The reorganisation enabled the optimisation of the corporate structure of Moscow Exchange Group, streamlined interaction between the customers and companies of the Group, and cut the costs of customers and Moscow Exchange Group. The reorganisation caused the introduction of amendments to PJSC Moscow Exchange's Charter, which was supplemented with new rules and competences associated with the provision of listing services and organisation of securities trading, as well as a number of information services provided by the joined companies.

The Bank of Russia's stake in the capital of SPCEX SC did not change in 2016 and stood at 8.9%. The Bank of Russia holds a stake in SPCEX SC because Saint Petersburg is the country's second largest financial centre and SPCEX SC may be used as a backup trading floor. Under the decision by the General Shareholders' Meeting of SPCEX SC, the profit generated by the exchange in 2015 was allocated to SPCEX SC funds.

The Annual General Meeting of Shareholders at the end of 2015 decided to rename the company from closed joint-stock company to stock company.

The Bank of Russia is the sole shareholder of National Payment Card System Joint-stock Company (NPCS JSC), which was set up in 2014 pursuant to Parts 1 and 2 of Article 30² of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System'. NPCS JSC's authorised capital did not change in the reporting year and stood at ₺4.3 billion. In 2016, the amount of dividends received by the Bank of Russia from NPCS JSC for 2015 was ₺0.3 billion (in 2015, no decision was made on the payment of dividends for 2014).

Pursuant to Part 1 of Article 13¹ of Federal Law No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation', in 2016, the Bank of Russia set up Joint-stock Company Russian National Reinsurance Company (RNRC JSC) (before December 2016, Joint-stock Company Reinsurance Company NRC (RC NRC JSC) with the authorised capital of ₺21.3 billion. As the sole shareholder, the Bank of Russia acquired 100% of RNRC JSC's shares by way of contributing funds to pay up the company's authorised capital.

RNRC JSC started performing financial operations in September 2016. On 12 October 2016, the Bank of Russia decided to issue a reinsurance licence to RNRC JSC. In the reporting year, RNRC JSC concluded contracts with 33 reinsurance companies and 10 insurance brokers, and accrued reinsurance premium in the amount of ₺148.2 million.

Pursuant to Article 9 of Federal Law No. 86-FZ, in 2016, the Bank of Russia participated in the capital of international organisations, such as the Basel-based Bank for International Settlements (0.57% of the authorised capital) and the Belgium-based Society for Worldwide Interbank Financial Telecommunications (SWIFT) (0.006% of the authorised capital). At the same time, the Russian Federation's stake in the Moscow-

based Interstate Bank also appears on the Bank of Russia's balance sheet. The Russian Federation holds 50% of Interstate Bank's authorised capital and a corresponding percentage of the votes in the bank's board, which is its highest management body.

In accordance with Article 4 of Federal Law No. 86-FZ, the Bank of Russia is the depository of IMF funds in the currency of the Russian Federation and performs the operations and transactions provided for by the IMF Articles of Agreement and contracts with the IMF. Based on the above, the Russian Federation's quota with the IMF has been included on the Bank of Russia's balance sheet since 2011. In 2016 Q1, a decision on the 14th General Review of Quotas of IMF participants came into force. It provided for the increase in country quotas and the simultaneous reduction in country liabilities under the New Arrangements to Borrow. In February 2016, the Bank of Russia paid for the increase of the Russian Federation's quota with the IMF, as a result of which it grew from SDR5,945.4 million to SDR12,903.7 million. The Russian Federation's stake in the aggregate quotas (capital) of the IMF as of 31 December 2016 amounted to 2.71% (2.5% as of 31 December 2015), representing 2.59% of the total number of its member countries' votes (2.39% as of 31 December 2015).

III.6. IMPROVING LEGISLATION

In 2016, over 40 federal laws aimed at improving legislation governing the financial market were approved, with the active involvement of the Bank of Russia. Over half of the said laws were initiated by the Bank of Russia.

The insurance market was a priority area of legislative changes regarding the activity of nonbank financial institutions in 2016.

To support the reinsurance market, Federal Law No. 363-FZ, dated 3 July 2016, 'On Amending the Law of the Russian Federation 'On the Organisation of Insurance Business in the Russian Federation' was adopted. It provided for the establishment of a national reinsurance company which will provide an alternative reinsurance option for Russian insurers and insureds in the context of the existing geopolitical situation and imposed sanctions.

Federal Law No. 214-FZ, dated 23 June 2016, 'On Amending the Federal Law 'On Compulsory Third Party Liability Insurance of Vehicle Owners' was adopted to make it possible to conclude agreements on compulsory third party liability insurance of vehicle owners in electronic form, and to simplify the procedures for concluding these agreements.

For the purpose of improving the mechanism of bankruptcy proceedings for insurance organisations and its alignment with the bankruptcy mechanism for credit institutions and non-governmental pension funds, Federal Law No. 222-FZ, dated 23 June 2016, 'On Amending Certain Laws of the Russian Federation' provides for the involvement of the state corporation Deposit Insurance Agency (DIA) as a receiver in bankruptcy of insurance organisations and installs controls to be used by the Bank of Russia for monitoring the fulfilment of the said duties by the DIA.

The adoption of a number of federal laws was aimed at improving credit institutions' activity. Those included Federal Law No. 88-FZ, dated 5 April 2016, 'On Amending Articles 24 and 40.1 of the Federal Law 'On Banks and Banking Activities' and the Federal Law 'On Voluntary Declaration by Individuals of Assets and Accounts (Deposits) at Banks and on Amending Certain Laws of the Russian Federation', which was intended to ensure the safekeeping of assets, databases on electronic media, and documents of the

credit institution by its sole executive body in the event of their dismissal and to expand the reasons for the Bank of Russia to send a request to a credit institution to create backup copies of the databases maintained by the credit institution and transfer them to the Bank of Russia for storage.

For the purpose of obtaining more reliable information on a borrower's financial position and the value of the object of pledge, Federal Law No. 362-FZ, dated 3 July 2016, 'On Amending Articles 72 and 73 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Article 33 of the Federal Law 'On Banks and Banking Activities' was adopted. The law gave the Bank of Russia the right to examine the object of pledge accepted by a credit institution as collateral under a loan, which assumes the confirmation of the actual availability of the object of pledge and its examination, establishment of its legal status, and judgement on its value made on the basis of appraisal practice.

In order to improve monetary policy, Federal Law No. 340-FZ, dated 3 July 2016, 'On Amending Certain Laws of the Russian Federation', specified that transactions performed by the Bank of Russia with credit institutions for the purposes of implementing the single state monetary policy shall not be covered by the requirements of Chapter XI of Federal Law No. 208-FZ, dated 26 December 1995, 'On Joint-stock Companies', in what concerns the need for preliminary approval of related-party transactions by the board of directors (supervisory board) of a joint-stock company or by a general shareholders' meeting.

Adoption of Federal Law No. 364-FZ, dated 3 July 2016, 'On Amending Article 5 of the Federal Law 'On the Insurance of Household Deposits with Russian Banks', was aimed at excluding money placed by individual entrepreneurs in subordinated deposits from the objects of compulsory insurance.

A number of federal laws adopted in 2016 were intended to improve regulation of the system for countering the legalisation of criminally obtained incomes and the financing of terrorism.

In order to simplify the procedure for opening bank accounts, Federal Law No. 191-FZ, dated 23 June 2016, 'On Amending Article 5 of the Federal Law 'On Banks

and Banking Activities' and Article 7 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism', legalised the possibility of using information received from a customer in the form of an electronic document signed with the customer's enhanced encrypted and certified digital signature for identifying such customer. This law also made it possible to open accounts for individual entrepreneurs and legal entities using information on their registration with the tax agency received from the single state registers of individual entrepreneurs and legal entities (SSRIE, SSRLE) and from the state register of accredited branches in the form of an electronic document signed with an enhanced encrypted and certified digital signature.

Additionally, the law provides for the possibility for a credit institution to open a bank account for a legal entity without the personal presence of its representative, if such representative, an individual authorised to act on behalf of such legal entity without a power of attorney, is a customer of this credit institution.

On 21 December 2016, Federal Law No. 215-FZ, dated 23 June 2016, 'On Amending the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and the Code of Administrative Offences of the Russian Federation', came into force. The law formalised the duty of a legal entity to have information on its beneficiary owners and to take sufficient and reasonable measures for their identification; it also provided for the duty of a legal entity to submit this information to authorised bodies at their request. The breach of the duty to obtain and provide information on beneficiaries entails administrative sanctions.

Federal Law No. 263-FZ, dated 3 July 2016, 'On Amending Articles 7 and 7³ of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism', provides for the increase of the threshold amount of foreign currency purchase/sale operations, which do not require identification of an individual customer, to ₹40,000 (or an equivalent amount in a foreign currency), and the inclusion of foreign currency purchase/sale operations to the amount not exceeding ₹100,000 (or an equivalent amount in a foreign currency) in the list of

operations which allow for the simplified identification of an individual customer.

Special mention should be made of Federal Law No. 230-FZ, dated 3 July 2016, 'On Protecting Rights and Lawful Interests of Individuals When Collecting Overdue Debt and on Amending the Federal Law 'On Microfinance Activities and Microfinance Organisations', which governs debt recovery actions performed by creditors and other entities as well as the activities of legal entities engaged in debt recovery business on an on-going basis and establishes the procedure of interaction between a creditor, an entity acting for or on behalf of the creditor, and an individual for the purpose of ensuring the protection of individuals' rights and lawful interests that may be infringed through the use of unfair debt recovery methods.

Federal Law No. 78-FZ, dated 30 March 2016, 'On Amending the Criminal Code of the Russian Federation and Article 151 of the Code of Criminal Procedure of the Russian Federation', introduced criminal sanctions for the organisation of activities aimed at raising money or other assets from individuals and legal entities in large or extraordinary large amounts, whereby income is paid to those individuals/legal entities whose money or other assets were raised or obtained earlier at the expense of subsequently raised or obtained money / other assets, given there is no evidence of investment or other lawful business activities associated with the use of the money raised or other assets obtained.

Additionally, Federal Law No. 54-FZ, dated 9 March 2016, 'On Amending the Code of Administrative Offences of the Russian Federation', establishes administrative sanctions for similar actions if they do not bear evidence of criminal offence.

Alongside the work associated with the preparation and consideration of the aforementioned federal laws and other draft federal laws, the Bank of Russia issued and registered with the Russian Ministry of Justice 232 its own normative acts during the period from 1 January to 31 December 2016, including four instructions, 27 regulations, and 201 ordinances.

The Bank of Russia prepared and sent out 374 informational and other letters and 49 methodological recommendations to its regional branches for explanatory and methodological purposes.

III.7. ADDRESSING ADMINISTRATIVE, LEGAL AND JUDICIAL ISSUES

In 2016, Bank of Russia's officials initiated 15,671 administrative offence cases and considered 12,141 administrative offence cases, including some left unsettled since 2015. In 2016, the Bank of Russia imposed administrative fines totalling roughly ₱1.8 billion under effective 7,091 resolutions on the imposition of administrative sanctions in the form of an administrative fine; a total of ₱535.6 million in administrative fines was paid (recovered).

The difference in the amounts of administrative fines charged and paid within the said period occurred mainly due to the breach by the persons fined of deadlines set for the payment of administrative fines. This forms grounds for the Bank of Russia to send respective documents to the Federal Bailiff Service of the Russian Federation for the enforcement of rulings ordering administrative sanctions. The mentioned difference in amounts is also explained by the bankruptcy and/or forced winding up of organisations supervised by the Bank of Russia on which administrative sanctions were imposed.

In pursuance of its functions related to the control and supervision of credit institutions and nonbank fi-

ancial institutions, the Bank of Russia filed 2,025 suits in the courts, including 101 suits for the recognition of credit institutions as insolvent (bankrupt) and for their forced winding up, 1,859 suits against nonbank financial institutions, and 65 suits for the application of supervisory measures. As of the end of 2016, 1,701 suits had been satisfied (including unsettled suits of previous periods), of which 103 were against credit institutions, and 1,598 were against nonbank financial institutions.

Based on the results of appeals against the Bank of Russia's actions and decisions, 12 out of 184 appeals of credit institutions and 249 out of 1,219 appeals of nonbank financial institutions were satisfied.

In 2016, 168 property-related claims and suits were brought against the Bank of Russia for a total of ₱912.03 million, of which 18 were settled out of court for a total of ₱1.3 million, and 25 were settled in court for a total of ₱12.07 million.

In 2016, 375 labour relations suits were initiated against the Bank of Russia, of which 57 were satisfied.

IV. ORGANISATIONAL DEVELOPMENT OF THE BANK OF RUSSIA

SUMMARY

Last year the Bank of Russia continued efforts aimed at the renovation of its structure and governance system. As part of preparing the organisational development strategy, the corporate strategy evolved, with Mission, Vision, Goals, and Values as its central elements. These fundamental milestones have become the core of internal transformations targeted at enhancing the external and internal effectiveness of the Bank of Russia's activities.

The reform of the governance system was based on the implementation of process and project approaches in the Bank of Russia. The key business processes subject to re-engineering were identified, and work began to have them transformed. The development of project management in the Bank of Russia made it possible to increase the speed and quality of project implementation.

Changes in the governance structure entailed changes in the structure and staffing numbers of the Bank of Russia. Transformation of the structure was aimed at eliminating duplication and building a clear-cut vertical hierarchy of governance and liability. The reorganisation primarily affected the head-office units. The projected transformation of the Bank of Russia's regional presence rests upon the functions centralisation principle which, in turn, is based on the creation of specialised units (hubs) and competence centres.

Personnel motivation is the most important element of the corporate strategy. In 2016, the Bank of Russia prepared changes to the compensation system

for its employees and implemented them in April 2017. Those changes made it possible to link the bonus part of the compensation to the Bank of Russia's progress in achieving key performance indicators based on the strategic objectives.

In line with the overall reforms, the Bank of Russia revised the principles for the advanced training of the staff. The Bank of Russia set up its Corporate University, which raised the training process onto a new level, primarily with respect to the development of communication, managerial and leadership skills.

In 2016, the Bank of Russia completed a vertically integrated transparent procurement system based on the expanded competition, which helped achieve a considerable cost saving effect.

Another integral part of the Bank of Russia's development became the evolution of the risk management system meant to address risks arising in the course of its activities. In 2016, the Bank of Russia launched the Risk Management Policy, which embodies modern standards and best risk management practices and defines, among other things, the aim, objectives, and principles of risk management at the Bank of Russia; the classification of risks; key processes; and the organisational risk management structure at the Bank of Russia. Taking into account the changes in the structure and business processes of the Bank of Russia and the implementation of new technologies in its activity, the Bank of Russia is set on improving operational risk management procedures.

IV.1. ORGANISATIONAL DEVELOPMENT STRATEGY

At the beginning of 2016, the Bank of Russia launched one of the key stages of its organisational development strategy elaboration, i.e. formulation of the corporate strategy, with Mission, Vision, Goals, and Values as its component parts.

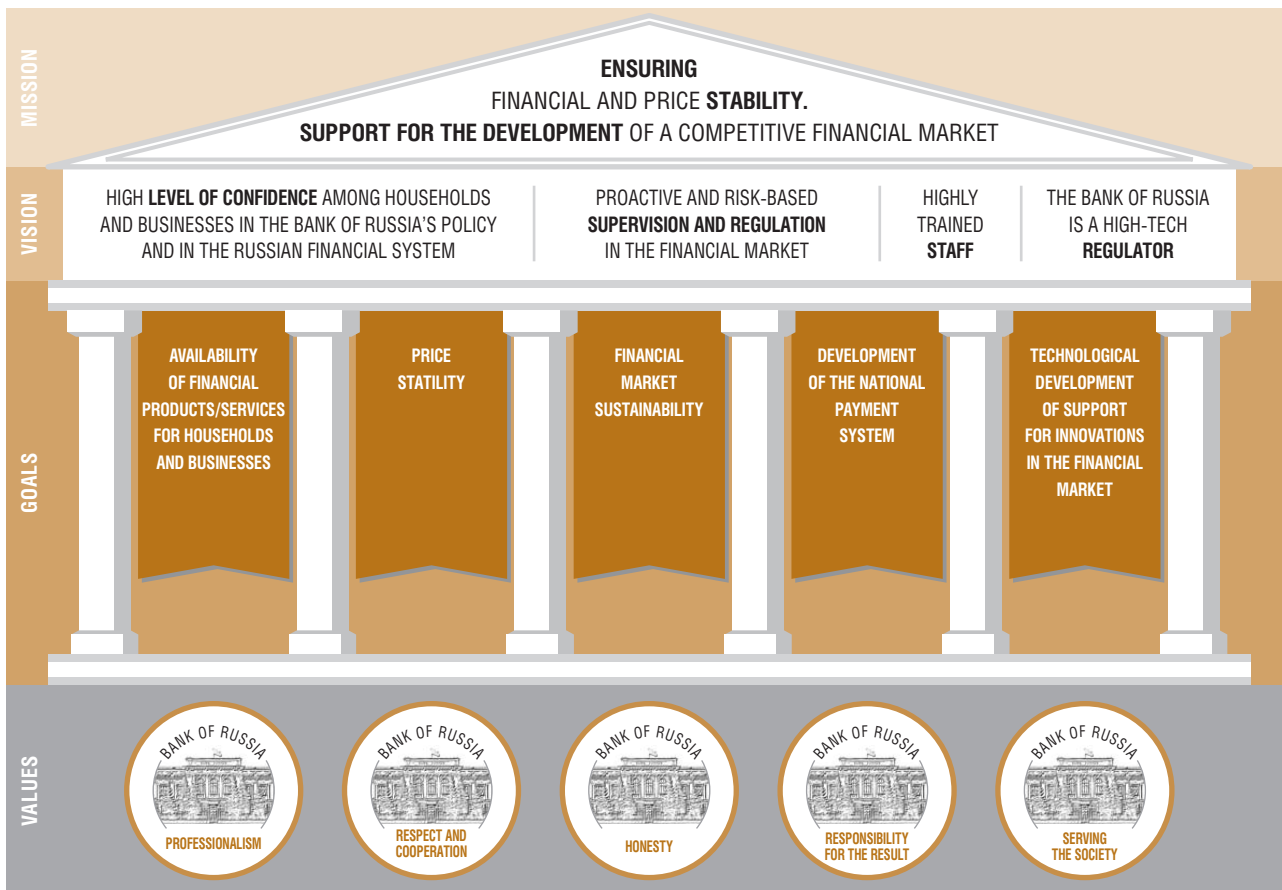
Given that the definition of the Mission, Vision, Goals, and Values was of critical importance and instrumental for the internal transformation processes, this task was directly addressed by the Bank of Russia's top management and heads of key departments.

In 2016, for the purpose of elaborating the corporate strategy, over 15 strategic sessions and focus groups were held with the Bank of Russia's management, in which over 100 individuals took part.

These joint efforts yielded the following results:

1. The Bank of Russia's Mission means ensuring financial and price stability, and support for the development of a competitive financial market.
2. The Bank of Russia's Vision means a high level of confidence among the population and businesses in the Bank of Russia's policy and in the financial system of the Russian Federation, proactive and risk-based supervision and regulation in the financial market, a highly trained staff, and the operation of the Bank of Russia as a high-tech regulator.
3. The Bank of Russia's strategic Goals include: price stability, financial market sustainability, availability of financial products/services for households and businesses, development of the national payment system and associated technologies, and support for innovations in the financial market.
4. The foundation of the corporate culture rests upon the Values guiding the behaviour of employees and setting a single system of coordinates for Bank of Russia staff members: serving the society, respon-

Bank of Russia Mission, Vision, Goals and Values



sibility for the result, respect and cooperation, professionalism and honesty.

Implementation of the Values, one of the most large-scale and important projects, began in the second half of 2016. From July to October, strategic sessions were held in the Bank of Russia's key departments, and starting December, they included the head office. To notify and interact with its staff, the Bank of Russia employed all existing and radically new channels.

Preliminary work was carried out to amend the compensation system in order to link the bonus part of the staff compensation programme to the Bank of

Russia's progress in achieving key performance indicators based on the strategic objectives.

In late 2016, a Recognition Programme was launched with nominations for adherence to the Bank of Russia's Values, which is aimed at selecting the best employees and teams of the year and studying the results of their work to be further shared with colleagues, and at increasing work efficiency and staff engagement.

Further plans suggest the creation of an Ethics Committee, introduction of tools for assessing employees based on the Bank of Russia's Values, including at the stage of recruitment, and the launch of a performance management system.

IV.2. PERSONNEL DEVELOPMENT

The year 2016 marked the beginning of the Bank of Russia Corporate University's operation.

Development of the communicative, managerial, and leadership skills and competences of Bank of Russia employees underwent drastic changes in these settings. Specifically, the university built a process that linked assessment results and training, and developed uniform standards and training programmes. To support its uniform training model, the Corporate University launched an institute of internal trainers, who in 2016 assumed full responsibility for the development and conduct of training based on the model of corporate and managerial competences. On the one hand, this streamlined information delivery across all groups in a single format; on the other hand, it supplied the Corporate University with programmes which were best adapted to the specifics of the Bank of Russia.

In order to develop the professional and corporate competences of Bank of Russia employees, the University trained executives and specialists through contracts for paid educational and consulting services concluded with leading consulting companies, specialised training centres, and higher educational institutions, and also invited the most competent Bank of Russia specialists for teaching purposes.

In 2016, roughly 1,000 training events for 17,000 employees of the Bank of Russia (of which 27% were employees from structural divisions in the head office) were held as part of the centralised training. 14,300 persons (or 84% of the total number of Bank of Russia employees who underwent training) upgraded their qualifications in the framework of the professional competence development programmes.

As in previous years, dedicated short-term training events (workshops, courses, trainings, traineeship programmes) across the most topical areas of Bank of Russia activities and issues related to management and to the development of social competence attracted the biggest attention of Bank of Russia executives and specialists.

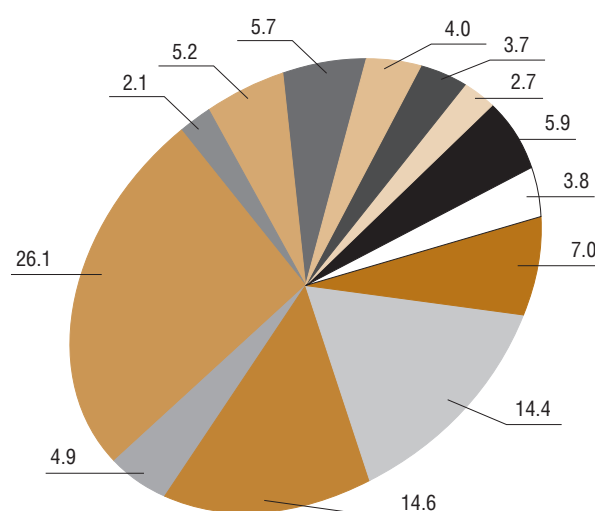
Implementation of training projects also continued with regard to long-term (over 250 academic hours) programmes elaborated on the commission of the Bank of Russia by the leading higher educational institutions of Moscow, i.e. the Banks MBA programme and profes-

sional retraining programmes for specialists in the field of payment systems and banking supervision.

Personnel training in the form of traineeships in the structural divisions of the Bank of Russia's head office and in other regional branches for the purpose of sharing experience and in the form of the regional (territorial, republican) training programme was an important complement to the centralised personnel training in the regional branches of the Bank of Russia. Over 2,300 employees of the regional branches underwent training.

Online technologies were extensively used to train employees in Bank of Russia regional branches on the topics of staff recruitment, application of occupational standards, and HR records management. 642 persons were trained, of which 91% were trained online.

**Centralised Bank of Russia personnel training in 2016
(as a percentage of total number of trainees)**



- Financial market development. Monetary policy
- Regulation and supervision of credit institutions and inspection
- Regulation and supervision of nonfinancial organisations
- Foreign exchange regulation and foreign exchange control. AML/CFT
- Payment systems and settlements
- Cash circulation and cash services
- Information security and protection
- International financial reporting standards (IFRS) and sectoral accounting standards (SAS)
- IT development
- Personnel management and prevention of corruption and other offences
- Risk management. Financial and accounting provision
- Development of managerial and social competencies
- Other

Online training using the FSI Connect programme developed by the Financial Stability Institute of the Bank for International Settlements (Basel) was completed by 99 specialists of the Bank of Russia's banking supervision units.

In 2016, the Bank of Russia continued cooperation with its main foreign partners in sharing experience and training personnel across various areas of central bank activities. Further impetus was given to the cooperation with the Bank of Finland, the Bank of Latvia, the Polish Financial Supervision Authority, the Central Bank of the Philippines, the ISDA (International Swaps and Derivatives Association), the Monetary Authority of Singapore, and the Bank of Indonesia. A total of 229 training events were organised for 624 specialists of the Bank of Russia.

The Bank of Russia's cooperation with central (national) banks under the Agreement on Cooperation in Personnel Training for the Central (National) Banks (hereinafter, the Agreement), signed on 12 March 2004 in Minsk, remains stable. In accordance with the professional personnel training programme prepared under that Agreement, 30 international workshops were held

in 2016, of which 15 were held at the Bank of Russia. Thirteen traineeships were organised in various Bank of Russia divisions for the representatives of the banks from the signatory states of the Agreement. Under the programme, 317 representatives of central (national) banks were trained in 2016.

The Bank of Russia pays much attention to personnel development in the financial sector of the Russian Federation. In the reporting year, implementation of a large-scale training project, 'New Chart of Accounts and Sectoral Accounting and Reporting Standards', was launched. Under that project, 139 training events were held in full-time and online formats in 2016, and 357 Bank of Russia employees and 4,359 representatives of nonbank financial institutions were trained.

The Bank of Russia developed an 'Introductory Course on ISO 20022 Financial (Payment) Messages in the National Payment System' and started training at the Bank of Russia Corporate University. Over 150 individuals from the banking sector, higher educational institutions, state and financial corporations, and IT companies attended three workshops.

IV.3. PROCESS MANAGEMENT DEVELOPMENT

In 2016, the Bank of Russia adopted process management standards which were intended to enhance the efficiency of Bank of Russia business processes.

As part of the adoption of the process management standards, the Bank of Russia developed and launched a process management methodology and uniform tools for describing, analysing, and managing a business process life cycle, and set up a methodology centre, the Process Office, for process management development.

The process management standards have the following implementation goals:

- 1) to raise external efficiency:
 - to increase the efficiency of interaction with financial market participants;
 - to improve the quality of performance of the key Bank of Russia functions;
 - to reduce the administrative load on supervised entities;
- 2) to raise internal efficiency:
 - to reduce the labour-intensity of business processes;
 - to improve the quality of business processes execution;
 - to optimise the staff size and operational expenses;
 - to eliminate duplication of functions;
 - to mitigate operational risks.

In order to achieve the maximum effect from the adoption of the process management standards, the Bank of Russia initiated the Business Process Re-engineering Programme.

The Re-engineering Programme singled out key business processes to be transformed, analysed their current status, and developed target business processes and road maps for their implementation.

The use of the best project management methods for the coordination of work under the Re-engineering Programme along with the adoption of process management standards makes it possible to achieve outstanding results within a short period time on the way towards the transformation of business processes in the key areas of Bank of Russia activities.

IV.4. PROJECT MANAGEMENT DEVELOPMENT

In 2016, the Bank of Russia actively developed its project management: as of end-2016, the project portfolio comprised 181 projects. Employees engaged in project implementation receive training and upgrade their qualifications on an ongoing basis.

Project management development in the Bank of Russia made it possible to increase the speed and quality of project implementation-over 90% of projects are completed according to approved schedules.

In 2016, a single crowd-sourcing platform was created to optimise the process of collecting and processing initiatives for enhancing efficiency across any of Bank of Russia activity areas and for implementing crowd-sourcing projects. The crowd-sourcing platform initiates regu-

lar polls, which are aimed at increasing the performance efficiency of Bank of Russia divisions, and hosts discussions of proposals for addressing pressing issues.

In 2016, the annual 'Project Olympus' Competition for Professional Project Activity Management in the Public Sector recognised the Bank of Russia as the best organisation among participating federal organisations in the category 'Corporate Project Activity Management Systems'.

Within the framework of creating a project management knowledge database, the Bank of Russia accumulates best practices and shares its experience in project management implementation and development with other government agencies.

IV.5. INFORMATION TECHNOLOGY DEVELOPMENT IN THE BANK OF RUSSIA

In the course of the organisational development of information technology (IT) in 2016, the Bank of Russia continued optimisation of the structure of its Information Technology Department (ITD):

- changes were introduced to the structures of the Development Centre and the Operation and Maintenance Centre;
- the Strategy and Architecture Division, which is responsible for the development of the conceptual architecture of IT projects, was set up;
- the functions of budget management and procurement activity were consolidated in the Budgeting and Contracts Division.

The organisational changes enabled the start of implementation of integrated processes for DevOps management and processes for centralised resource management.

In 2016, the unified user support system (UUSS) was set up as a single point of contact between all Bank of Russia IT development divisions and IT-service users. To ensure the 24/7 functioning of the UUSS, the pilot of the system was launched in Voronezh and Krasnoyarsk.

The Bank of Russia centralised the System of Operational Management of its Information and Telecommunication System. Work was done to introduce uniform

processes for the management of incidents, service requests, problems, and changes in all IT development divisions of the central bank. Service level agreements (SLA) were signed with the functional departments of the head office. An information portal with up-to-date information on the current state of IT services was created. A monitoring system for critical IT systems was put in place.

The Bank of Russia is implementing a risk-oriented approach towards IT management and creating a risk management and internal control system in IT as an integral part of the central bank's overall risk management system.

As a result of these measures, the number of contingency situations decreased by 56%, and the average time to eliminate one contingency situation decreased by 18%.

To create a uniform systemic approach towards IT development, the Bank of Russia Board of Directors developed and approved the Bank of Russia IT Strategy for 2016–2020. The IT Strategy is aimed at changing the IT landscape at the Bank of Russia and the operational model of the IT vertical, which supports the creation of regional competence centres in the Bank of Russia for key IT platforms in order to increase the speed and quality of IT services provided for Bank of Russia structural divisions.

IV.6. CHANGES IN THE ORGANISATIONAL STRUCTURE

In 2016, the Bank of Russia continued to improve actively its organisational structure and to optimise staff numbers.

As part of measures taken to improve the structure, the Bank of Russia conducted a comprehensive analysis of functions performed by its divisions in order to eliminate duplication and build a clear management and responsibility vertical.

The reorganisation primarily affected head office divisions. The Bank of Russia set up the Financial Technology, Projects, and Process Management Department to develop and implement tasks for business process re-engineering. Conditional on the material increase in the volume of risk assessment and risk management issues arising in the process of working with credit institutions, the Bank of Russia set up the Risk Analysis Service. The structure of divisions responsible for the market access, registration, and regulation of the activity of credit institutions in the financial markets underwent transformation. As part of these efforts, the following new departments were set up: the Department for Market Access and Activity Termination of Financial Institutions and the Corporate Affairs Department.

In accordance with the Bank of Russia's concept of the personnel training and development system elaborated in 2016, the Bank of Russia Corporate University was set up on the basis of two liquidated training and methodological centres.

For the purpose of interaction with the People's Bank of China and the governmental bodies of the People's Republic of China in the financial and economic fields, the Bank of Russia opened a representative office in the People's Republic of China.

In line with the programme for the optimisation of the settlement network of regional branches, in 2016, the Bank of Russia closed 33 cash settlement centres and completed the next stage of staff optimisation in the social amenities divisions.

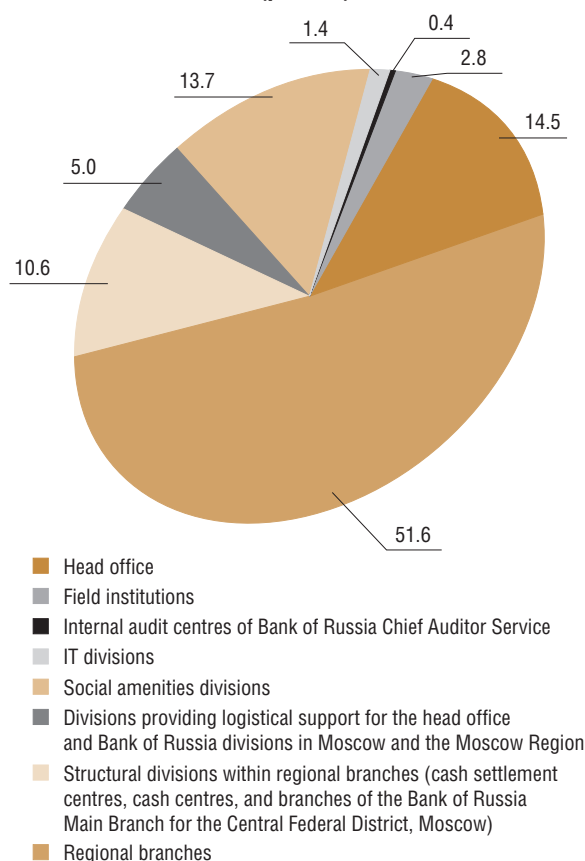
In 2016, the Bank of Russia also finalised the reorganisation of divisions dealing with cash circulation. The Bank of Russia liquidated the Central Depository and the Interregional Depository (Saint Petersburg), on the basis of which the Interregional Depository of the North-Western Main Branch of the Bank of Russia was established.

The status of the Bank of Russia's branches in the Republic of Crimea and Sevastopol was changed; by the beginning of 2017, they had become divisions within the Southern Main Branch of the Bank of Russia.

As of 1 January 2017, the Bank of Russia's structure consisted of 516 divisions, including: the head office; seven main branches, which comprise 74 divisions (divisions – national banks), one interregional depository, 155 cash settlement centres and two divisions of the Bank of Russia Main Branch for the Central Federal District; seven internal audit centres; the Interregional Security Centre; two information technology and computing divisions; 91 field institutions; the representative office of the Bank of Russia in the People's Republic of China; and other ancillary divisions.

As a result of the work performed in 2016, the staff numbers of the Bank of Russia decreased by 4,700 persons, or by 8%, and totalled 54,700 persons in early 2017.

Number of Bank of Russia personnel by structural division as of 1 January 2017 (percent)



IV.7. DEVELOPMENT OF THE BANK OF RUSSIA'S PROCUREMENT SYSTEM

In 2016, the Bank of Russia conducted its procurement activity with due regard to significant changes in the regulatory framework, development of information support, and creation of the vertically integrated procurement system of the Bank of Russia. The Bank of Russia's Single Information System for Procurement (SISP) was commissioned to automate procurement processes in the Bank of Russia from the emergence of demand for goods (work, services) to the discharge of contractual obligations, including seamless integration with the external e-trading platform Sberbank-AST. Information on the procurement activity of the Bank of Russia, including the Bank of Russia Procurement Plan, is published on the Bank of Russia website. Competitive procurement procedures were held using open bidding for choosing suppliers (contractors) and an electronic procurement form.

Subject to those transformations, in 2016 information on 2,238 procedures for choosing suppliers (contractors) with a starting (maximum) contract price of ₱18.34 billion was included in the SISP.

The streamlining of the procurement system and implementation of measures aimed at expanding competition yielded a cost effect of ₱1.03 billion. The relative indicator of the reduction of the starting (maximum) contract price owing to competitive procedures was 8% on average. At the same time, optimisation of technical solutions and price indices during the expert review of procurement documents saved ₱1.08 billion of the Bank of Russia's funds allocated for the purchase of goods (work, services).

The following key areas for the development of the Bank of Russia's procurement have been defined and reflected in the Bank of Russia's Procurement Activity Development Strategy until 2020, elaborated

in 2016 and approved by the Bank of Russia Board of Directors:

- introduction of category management approaches for procurement purposes as regards the elaboration of methodological support and formation of category-based strategies for optimising the cost of purchased of goods (work, services), as well as the unification and standardisation of procurement requirements;
- improvement of the system for interaction with suppliers (contractors) for informing the market of the Bank of Russia's procurement activity and attracting a wider range of potential suppliers;
- optimisation of the system of accreditation with the Bank of Russia;
- implementation of centralised management and performance of procurement in order to set up competence centres for the organisation and performance of procurement activity, and for the elimination of the conflict of interest by separating the functions of customers and buyers;
- harmonisation and synchronisation of the processes of financial planning, project management, and procurement activity in order to build a uniform cross-functional process for ensuring optimal conditions for the supply of goods (work, services) of adequate quality within the pre-set timeframes and at the best price allowing the Bank of Russia to achieve its strategic goals and accomplish its objectives;
- formation of an integral system of control, monitoring, and management reporting in order to enhance the efficiency of procurement activity, reduce the probability of risk materialisation and the occurrence of negative consequences, and monitor the key performance indicators for procurement activity.

IV.8. INTERNAL AUDITING

In 2016, in order to enhance the efficiency of internal auditing and identify the main areas for its development in light of ongoing structural changes, the Bank of Russia elaborated the Bank of Russia's Internal Audit Development Concept for 2016–2020¹, which defined the priorities of internal auditing development in the Bank of Russia, particularly including introduction of remote audit, pre-project audit of the Bank of Russia's strategic projects, shifting the focus from the audit of divisions to the audit of business processes in the Bank of Russia based on a risk-based approach, development of the risk management system, and setup of analytical and expert information systems and educational programmes in the field of internal auditing within the Bank of Russia Chief Auditor Service (hereinafter, the Service).

In the reporting year, internal auditing was focused on evaluating the efficiency of the most important business processes, and of functional and structural transformations in the Bank of Russia.

In 2016, internal auditing was performed with respect to all key business processes within the scope of the Bank of Russia's remit. The Service carried out 86 internal audits, including 68 audit inspections, four analytical measures, 13 monitoring measures, and one project audit.

The audited subjects comprised divisions in the Bank of Russia's head office, Bank of Russia regional branches, including their structural divisions, the Bank of Russia Central Depository, the Bank of Russia Interregional Security Centre, Bank of Russia field institutions, the Interregional Data Processing Centre, and the Russian Collection Association (ROSINKAS).

The Service continued the daily monitoring of transactions conducted by the Bank of Russia involving assets in foreign currency and precious metals.

In the reporting year, the key focus in the field of banking supervision was on the organisation and performance of supervisory functions with regard to credit institutions' activity and on the organisation of Bank of Russia inspections and work in the field of countering the legalisation (laundering) of criminally-obtained incomes and the financing of terrorism (AML/CBT) in or-

der to reduce the involvement of top banks in dubious transactions.

In the course of auditing the business processes related to control and supervision over nonbank financial institutions (NFIs), the Service focused on the evaluation of the quality of work of supervisory divisions, as well as on the identification of problems affecting their performance and the search for solutions to them.

During the audit of cash circulation processes, the central attention was on the implementation of the objectives stipulated by the Russian Cash Circulation Development Strategy in 2016–2020.

The Service continued auditing of the Bank of Russia's work to ensure the stability and development of the national payment system (NPS), including the processes for the organisation and functioning of the Bank of Russia payment system; market access, supervision, and monitoring in the NPS; and administration of the receipt of certain types of income by the budget system of the Russian Federation. Special attention was paid to the monitoring, initiated in 2015, of activities aimed at creating the future payment system of the Bank of Russia.

In the context of auditing the digitising of the Bank of Russia's activity, attention was paid to the most significant and critical systems and complexes that directly affect the execution of the main functions of the Bank of Russia, to the provision of services to the users of the Bank of Russia's information and telecommunication system (ITS), and to the compliance with the established requirements for the organisation and performance of work at all stages of the life cycle of ITS elements.

Auditing of the reorganisation of the Bank of Russia's accounting system was performed with due regard to the development of a new model of accounting system management, which is focused on the maximum application of information technology, adoption of a process approach, elimination of the duplication of functions performed, and enhancement of the efficiency of cross-functional interaction between various divisions.

The audit covered business processes surrounding the organisation of the Bank of Russia's procurement

¹ Approved by the Bank of Russia Board of Directors (minutes of meeting No. 13, dated 13 May 2016).

activity in light of the new regulatory framework, as well as the Bank of Russia's assets management and involvement of unused property belonging to the Russian Federation in business turnover.

In the course of the Service's auditing of business processes underlying information security (IS), particular attention was paid to the creation, introduction, and operation of ITS elements used in payment technologies and in systems for processing restricted information and personal data.

During the audit of IS business processes, central attention was on the implementation of actions under the Mid-term Plan for Improving the System for Antiterrorist Protection and Enhancing the Stability of the Operation of Bank of Russia Facilities for 2015–2017 (the Antiterrorist Plan) and the reassignment of the function of protecting Bank of Russia facilities from the independent security divisions of the police under the Russian Ministry of Internal Affairs to ROSINKAS and FSUE Okhrana under the Russian Ministry of Internal Affairs.

The findings of the internal auditing confirm that the audit divisions have carried out the duties entrusted to them in line with the Russian Federation legislation, regulatory and other Bank of Russia documents, and

that the internal control and risk management system corresponds to the nature of the operations.

The internal auditing results were communicated to the National Financial Board and the Bank of Russia's management, and appropriate administrative decisions were made. Based on the internal auditing results, for the purposes of mitigating risks to the Bank of Russia's activity, changes were made to Bank of Russia regulatory documents, software was upgraded, and the workflow in structural divisions was optimised, along with the internal control and risk management system. Control measures were taken to check the fulfilment of management decisions, adopted based on the audit results, by audit divisions and divisions of the Bank of Russia's head office. During the reporting period, the Service took an active part in interaction with the auditor of the Bank of Russia's annual financial statements.

Support was also provided for the interaction of the Bank of Russia with the Audit Chamber of the Russian Federation in the course of controlling and expert analytical measures, inter alia, during the audit of financial and economic activities of the Bank of Russia.

The Bank of Russia continued to monitor the interaction of its divisions with the government authorities in countering legal offences in the economic sphere.

**V. BANK OF RUSSIA
ANNUAL FINANCIAL STATEMENTS
AND AUDITORS' REPORTS**

INTRODUCTION

The Annual Financial Statements include information on banking operations and other transactions conducted by the Bank of Russia to fulfil its duties set out in Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', as amended (hereinafter, the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)').

The Annual Financial Statements for 2016 presented below (hereinafter, the financial statements) are comprised of:

- Annual Balance Sheet;
- Statement of Financial Performance;
- Statement of Profit and its Allocation;
- Statement of Bank of Russia Reserves and Funds;
- Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property;
- Statement of Volume of Bank of Russia Securities Trading on Organised Trading Venues;
- Statement of Bank of Russia Personnel Costs;
- Statement of Capital Investment Budget Performance.

The principal objectives of the Bank of Russia are:

- to protect the ruble and ensure its stability;
- to upgrade and strengthen the Russian banking system;
- to ensure the stability and development of the national payment system;
- to develop the Russian financial market;
- to ensure the stability of the Russian financial market.

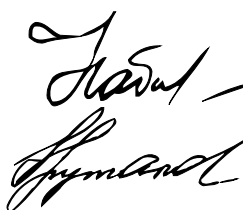
ANNUAL BALANCE SHEET AS OF 31 DECEMBER 2016*(millions of rubles)*

	Note	2016	2015
ASSETS			
1. Precious metals	4	3,747,462	3,647,255
2. Funds placed with nonresidents and foreign securities	5	18,005,132	21,995,155
3. Loans and deposits	6	4,175,075	6,400,256
4. Securities, of which:	7	528,853	719,867
4.1. Federal government debt obligations		311,787	512,720
5. Claims on the IMF	8	1,504,140	1,264,249
6. Other assets, of which:	9	1,013,444	920,403
6.1. Fixed assets		77,543	75,192
6.2. Profit tax advance payments		150	189
Total assets		28,974,106	34,947,185
LIABILITIES			
1. Cash in circulation	10	8,790,093	8,522,509
2. Funds in accounts with the Bank of Russia, of which:	11	9,985,488	12,573,294
2.1. Federal government funds		4,662,005	8,130,708
2.2. Funds of resident credit institutions		3,093,328	2,528,346
3. Float	12	2,771	414
4. Securities issued	13	0	0
5. Obligations to the IMF	14	1,392,851	1,074,275
6. Other liabilities	15	111,393	160,371
7. Capital, of which:		8,647,765	12,503,747
7.1. Authorised capital		3,000	3,000
7.2. Reserves and funds		8,644,765	12,500,747
8. Reporting year profit	16	43,745	112,575
Total liabilities		28,974,106	34,947,185

Governor of the Bank of Russia

Bank of Russia Chief Accountant

28 April 2017



E.S. Nabiullina

A.V. Kruzhalov

STATEMENT OF FINANCIAL PERFORMANCE

(millions of rubles)

	Note	2016	2015
INCOME			
Interest income	17	355,044	789,930
Income from securities trading	18	39,758	100,246
Income from stakeholdings in credit institutions and other organisations	19	24,272	6,038
Other income	20	11,118	11,942
Total income		430,192	908,156
EXPENSES			
Interest expenses	21	106,068	89,855
Expenses on securities trading	22	33,704	73,250
Cash turnover management expenses	23	9,750	7,600
Net expenses on the creation of provisions	24	29,649	466,286
Other operating expenses	25	95,775	52,028
Bank of Russia personnel costs	26	111,501	106,562
Total expenses		386,447	795,581
Financial result: profit		43,745	112,575

CAPITAL, FUNDS AND PROFIT ALLOCATION

(millions of rubles)

	Authorised capital	Reserves	Social fund	Accrued revaluation of precious metals	Accrued foreign currency exchange rate differences	Positive revaluation of securities available for sale	Growth in asset value upon revaluation	Total capital	Profit for the year
Balance as of 31 December 2013, after tax and allocation of profit for 2013 in 2014	3,000	301,239	2,579	811,491	1,988,751	54,167	7,966	3,169,193	0
Profit for 2014	0	0	0	0	0	0	0	0	183,508
Transferred to funds in 2014	0	0	1	1,141,562	4,764,965	20,167	0	5,926,695	0
Paid from funds in 2014	0	0	(185)	0	0	(41,602)	0	(41,787)	0
Balance as of 31 December 2014, before tax and allocation of profit for 2014	3,000	301,239	2,395	1,953,053	6,753,716	32,732	7,966	9,054,101	183,508
Taxes and duties paid from Bank of Russia profit for 2014	0	0	0	0	0	0	0	0	(163)
Transferred to the state corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) in accordance with Federal Law No. 109-FZ, dated 2 May 2015	0	0	0	0	0	0	0	0	(27,502)
Transferred to the federal budget	0	0	0	0	0	0	0	0	(137,509)
Allocation of profit for 2014 retained by the Bank of Russia	0	17,601	733	0	0	0	0	18,334	(18,334)
Balance as of 31 December 2014, after tax and allocation of profit for 2014 in 2015	3,000	318,840	3,128	1,953,053	6,753,716	32,732	7,966	9,072,435	0
Profit for 2015	0	0	0	0	0	0	0	0	112,575
Transferred to funds in 2015	0	0	1	462,078	2,953,341	31,201	0	3,446,621	0
Paid from funds in 2015	0	0	(204)	0	0	(15,105)	0	(15,309)	0
Balance as of 31 December 2015, before tax and allocation of profit for 2015	3,000	318,840	2,925	2,415,131	9,707,057	48,828	7,966	12,503,747	112,575
Taxes and duties paid from Bank of Russia profit for 2015	0	0	0	0	0	0	0	0	(195)
Transferred to the federal budget	0	0	0	0	0	0	0	0	(101,142)
Allocation of profit for 2015 retained by the Bank of Russia	0	10,788	450	0	0	0	0	11,238	(11,238)

	Authorised capital	Reserves	Social fund	Accrued revaluation of precious metals	Accrued foreign currency exchange rate differences	Positive revaluation of securities available for sale	Growth in asset value upon revaluation	Total capital	Profit for the year
Balance as of 31 December 2015, after tax and allocation of profit for 2015 in 2016	3,000	329,628	3,375	2,415,131	9,707,057	48,828	7,966	12,514,985	0
Profit for 2016	0	0	0	0	0	0	0	0	43,745
Transferred to funds in 2016	0	0	0	0	0	18,558	0	18,558	0
Paid from funds in 2016	0	0	(225)	(420,647)	(3,446,902)	(18,004)	0	(3,885,778)	0
Balance as of 31 December 2016, before tax and allocation of profit for 2016	3,000	329,628	3,150	1,994,484	6,260,155	49,382	7,966	8,647,765	43,745
Taxes and duties, including those paid in advance in 2016 from Bank of Russia profit for 2016	0	0	0	0	0	0	0	0	(150)
Taxes and duties levied additionally and paid in 2017 after final settlement from Bank of Russia profit for 2016	0	0	0	0	0	0	0	0	(3)
Profit after the payment of taxes and duties under the Tax Code of the Russian Federation	0	0	0	0	0	0	0	0	43,592
Funds to be transferred to the federal budget	0	0	0	0	0	0	0	0	(39,233)
Allocation of profit for 2016 retained by the Bank of Russia	0	4,185	174	0	0	0	0	4,359	(4,359)
Balance as of 31 December 2016, after tax and allocation of profit for 2016 in 2017	3,000	333,813	3,324	1,994,484	6,260,155	49,382	7,966	8,652,124	0

The information on funds and the allocation of Bank of Russia profit is disclosed in the Statement of Profit and its Allocation and Statement of Bank of Russia Reserves and Funds.

NOTES TO ANNUAL FINANCIAL STATEMENTS FOR 2016

1. Accounting and financial reporting, Accounting Policy 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)', Federal Law No. 402-FZ, dated 6 December 2011, '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)', Bank of Russia Regulation No. 522-P, dated 21 December 2015, 'Bank of Russia Accounting Policy for Accounting Purposes' (hereinafter, the Accounting Policy), and other Bank of Russia regulatory documents issued pursuant to these federal laws.

Assets (claims) and liabilities are recorded at their initial value at the moment of their acquisition or occurrence. The initial value does not change until their retirement, sale, or redemption, unless otherwise provided for by the Russian legislation, the Accounting Policy, and/or Bank of Russia regulations or other by-laws.

The specifics of any subsequent appraisal (revaluation) of the value of assets (claims) and liabilities are described in Note 2.

These financial statements have been compiled on the basis of the annual 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 of Russia in which the Bank of Russia holds a stake and/or whose activities it controls, as well as of legal entities established by the Bank of Russia. Under Russian law, the Bank of Russia is not required to compile consolidated financial statements that include the financial statements of credit institutions and other organisations in which it holds a stake and/or whose activities it controls, as well as of legal entities established by the Bank of Russia.

These financial statements have been compiled in the currency of the Russian Federation, the Russian ruble (hereinafter, rubles), or in millions of rubles.

The financial statements cover a period from 1 January through 31 December 2016 inclusive.

Bracketed figures in tables are 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 jointly referred to as operations with resident banks.

2. Accounting items and methods of their appraisal

(a) Precious metals

Assets (claims) and liabilities denominated in precious metals, including those in commemorative and investment coins and placed in metals accounts (custody accounts and unallocated metals accounts) of the Bank of Russia opened with nonresident and resident banks, and precious metals in deposit accounts are entered in the books at the value of the precious metals according to the book prices for refined precious metals (hereinafter, the book price) as of the date of an operation (transaction) with precious metals (the date of the assignment of title (date of delivery of precious metals) and shall be revalued according to changes in book prices. The Bank of Russia calculates book prices on the basis of the current fixed prices of precious metals on the London Metal Exchange.

Assets (claims) and liabilities denominated in precious metals are reflected in the books as of the end of the reporting year at their fair value adjusted for the closing balance of precious metals. The fair value of precious metals as of the end of the reporting year is the last price for the precious metals as fixed in the London metals

spot market in the reporting year and recalculated based on the official US dollar/ruble exchange rate effective as of the reporting date.

The excess of positive unrealised differences, which arise from the revaluation of precious metal balances due to the change in the book prices of precious metals, as well as from adjustment at fair value, over negative unrealised differences is recorded in the balance sheet account *Accrued revaluation of precious metals* as part of capital, and is not included in the statement of financial performance.

If the negative unrealised difference exceeds the positive unrealised exchange difference in the results of the year's activities, the excess is compensated for from previously accrued unrealised differences recorded to the balance sheet account *Accrued revaluation of precious metals* as part of capital, in accordance with a decision by the Bank of Russia Board of Directors. If there are no funds in the balance sheet account *Accrued revaluation of precious metals* or if the funds are insufficient, the negative unrealised difference is entirely (or in the amount that exceeds the credit balance in the aforementioned balance sheet account) attributed to Bank of Russia operating expenses for the corresponding reporting year in accordance with a decision by the Bank of Russia Board of Directors.

The realised differences (income or expenditure) that arise when trade operations with precious metals are conducted at a price different from the book price of such precious metals are calculated individually for each operation. The realised difference is the difference between the actual value of a transaction and the value based on the book price of the corresponding precious metal.

The realised differences in operations with precious metals are calculated as of the transfer date of the title to the precious metal to which the transaction relates. Net positive realised differences are recorded in financial statements as other income, while net negative realised differences are recorded as other operating expenses.

The value of any precious metals in coins used to conclude a purchase and sale transaction and their nominal value on the date when the specification is prepared are entered to the balance sheet account for the retirement (sale) of assets. No further revaluation of the indicated precious metals is performed.

Bank of Russia claims and liabilities with respect to the delivery of precious metals in forward transactions under signed contracts are recorded to off-balance sheet accounts from the transaction date to the settlement date, and revalued as the book prices of the precious metals change.

The value of precious metals used to recalculate assets (claims) and liabilities in precious metals as of the reporting date was as follows: ₺2,260.4300 per gram of gold (2015: ₺2,502.1000 per gram of gold); ₺31.6700 per gram of silver (2015: ₺32.6400 per gram of silver); ₺1,768.8000 per gram of platinum (2015: ₺2,080.7900 per gram of platinum); ₺1,318.3100 per gram of palladium (2015: ₺1,298.1500 per gram of palladium).

(b) Foreign currency assets and liabilities

Foreign currency assets (claims) and liabilities are entered in the books as of the date of the operation or transaction in foreign currency (on the first date of settlements, as set forth by the transaction terms) at the official rate of exchange of the foreign currency against ruble set by the Bank of Russia as of that date (hereinafter, the official exchange rate). The procedure for setting official exchange rates is established by Bank of Russia regulations and other acts.

Foreign currency assets (claims) and liabilities are revalued according to changes in the official exchange rate.

The excess of the positive unrealised exchange rate differences that arise when revaluing the balances in balance sheet accounts, where funds in foreign currency are reflected, over the negative unrealised exchange rate differences due to changes in the official exchange rates, is recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital and is not included in the statement of financial performance.

If the negative unrealised exchange rate differences exceed positive unrealised exchange rate differences accrued over the year, the excess is offset by previously accrued unrealised exchange rate differences recorded to the balance sheet account *Accrued foreign currency exchange rate differences* as part of capital in accordance with a decision by the Bank of Russia Board of Directors. If there are no funds in the balance sheet account *Accrued foreign currency exchange rate differences*, or if the funds are insufficient, the negative unrealised exchange rate differences are posted entirely (or in the amount that exceeds the credit balance of the above balance sheet account)

to Bank of Russia other operating expenses for the corresponding reporting year in accordance with a decision by the Bank of Russia Board of Directors.

Realised exchange rate differences that arise in foreign exchange transactions conducted at rates that differ from official exchange rates are calculated individually for each transaction and are posted to Bank of Russia income or expenses as of the transaction date. The total excess of positive realised exchange rate differences from foreign exchange operations over negative realised exchange rate differences is recorded as part of other income, whereas the total excess of negative realised exchange rate differences from foreign exchange operations over the positive realised exchange rate differences is recorded as part of other operating expenses.

The amounts of advances and down payments received and paid under business transactions with nonresident entities (for goods supplied, work performed, and services provided) and the amounts of down payment under Bank of Russia operations related to its stakeholdings in the capital of companies are not subject to revaluation.

Bank of Russia claims and obligations under foreign currency purchase and sale forward contracts are posted 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 to recalculate assets (claims) and liabilities in foreign currency as of the reporting date were as follows: ₴60.6569 to the US dollar (2015: ₴72.8827 to the US dollar); ₴63.8111 to the euro (2015: ₴79.6972 to the euro); ₴74.5595 to the pound sterling (2015: ₴107.9830 to the pound sterling); ₴44.9710 to the Canadian dollar (2015: ₴52.5735 to the Canadian dollar); ₴51.8324 to 100 Japanese yen (2015: ₴60.5087 to 100 Japanese yen); ₴81.2857 to the SDR (special drawing right) (2015: ₴101.2377 to the SDR); ₴43.8064 to the Australian dollar (2015: ₴53.1242 to the Australian dollar); and ₴87.2824 to 10 Chinese renminbi (2015: ₴112.2980 to 10 Chinese renminbi).

(c) Securities

Investments in securities other than promissory notes are categorised as follows, depending on the purpose of the purchase:

- *Appraised at fair value through profit or loss*. These include securities purchased for short-term sale (up to one year) whose fair value can be determined reliably;
- *Held to redemption*. These include securities that the Bank of Russia intends to hold to maturity, regardless of the period between the purchase date and the redemption date;
- *Available for sale*. These include securities that are not categorised as *Appraised at fair value through profit or loss* or *Held to redemption* when purchased.

The securities are accounted for at their initial value, which includes the purchase price (purchase value) or, when the securities are purchased on terms other than market terms, the fair value as of the purchase date, and, for securities *Available for sale* or *held to redemption*, material additional expenses (costs) directly associated with their purchase. Expenses exceeding 5.0% of the transaction value are recognised as material.

When debt obligations are purchased on terms other than market terms, the difference between the purchase price (purchase value) and the fair value is posted to the accounts for income on or expenses from securities trading.

Securities are entered in the accounts in the currency in which they are issued.

The price of securities purchased in a currency other than that in which they were issued is determined at the official exchange rate as of the purchase date, or at a cross rate calculated using official exchange rates.

The balance-sheet value of securities after their initial recognition is altered by the amount of interest income (interest expenses) accrued, amounts of partial redemption of the nominal value of securities and coupon payment, and, for the securities *Appraised at the fair value through profit or loss* and *Available for sale*, with due regard to their revaluation at the fair value.

The amount of discount and interest (coupon) income less the premium amount is recognised as part of interest income. A discount on the security means a positive difference between the nominal value (current face value) of the security and its initial value less interest (coupon) income included in the purchase price.

The amount of premium in excess of the interest (coupon) income is recognised as interest expense. A premium on the security means a negative difference between the nominal value (current face value) of the security and its initial value less interest (coupon) income included in the purchase price.

Interest income and expenses are accrued on a uniform basis from the purchase date of securities and during their remaining circulation period, unless otherwise specified in Bank of Russia regulations or other acts.

Interest income on securities where there is no uncertainty as to the receipt of the said income, as well as interest expenses on securities are recognised as income or expenses, respectively, on the last working day of the month in which the securities are retired (sold) or redeemed, and when interest (coupon) income is paid by the issuer. Interest income on securities where the receipt of the income is recognised to be uncertain is recorded to separate off-balance sheet accounts for unearned interest income and is recognised as income when the funds are actually received.

Securities categorised as *Available for sale* whose fair value can be determined reliably are appraised (revalued) at their fair value.

Market prices posted by trading organisers from the latest organised trades are used to evaluate the fair value of securities traded in a foreign financial market in organised (stock exchange) trading and securities eligible for circulation in organised trading in the domestic financial market (excluding Russian Federation Eurobonds). The latest quotations (prices) posted by the financial news and data service Bloomberg are used to evaluate securities traded in non-organised (over-the-counter) trading of a foreign financial market, securities traded in the domestic financial market which are not eligible for circulation in organised trading in the domestic financial market, and Russian Federation Eurobonds. Assessment models based on market data are used to evaluate the fair value of securities that do not have representative quotations (prices).

The securities revaluation amount is the difference between the fair price of securities of a respective issue (issuer) and their balance sheet price, net of the revaluation reflected in corresponding balance sheet accounts.

The revaluation of securities categorised as securities *Available for sale* is posted during the year to the balance sheet accounts *Revaluation of securities available for sale – positive differences* and *Revaluation of securities available for sale – negative differences*.

At year-end, the excess of the positive revaluation over the negative revaluation of securities categorised as *Available for sale* of the corresponding issue (issuer) is written off to the account for income from securities transactions within the limits of the negative revaluation of the corresponding issue (issuer), recorded to the account showing expenses from securities transactions in previous years; in the absence of a negative revaluation of the corresponding issue (issuer), posted to expenses in previous years, or in the amount of its excess, it is recorded to the account *Positive revaluation of securities available for sale* as part of capital. With respect to securities categorised as *Available for sale* that are acquired in the reporting year, the positive revaluation of such securities of the corresponding issue (issuer) is recorded to the balance sheet account *Positive revaluation of securities available for sale* as part of capital.

At year-end, the excess of the negative revaluation over the positive revaluation of securities categorised as *Available for sale* of the corresponding issue (issuer) is written off against the positive revaluation 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 transactions. With respect to securities categorised as *available for sale* and acquired in the reporting year, the sum of the negative revaluation of such securities of the corresponding issue (issuer) is written off to the account showing expenses on securities transactions.

Securities categorised as *Held to redemption* are reflected in the financial statements at their balance sheet value net of depreciation provisions.

Upon the retirement (sale) of securities, the securities purchased first are written off from the Bank of Russia's balance sheet first.

The financial result of the retirement (sale) or redemption of securities is calculated as the difference between the balance sheet price of the security as of the retirement date, inclusive of accrued interest income (for securities in the category *Appraised at fair value through profit or loss*, net of revaluation amounts), and the contractual redemption price or retirement (sale) price and is recorded to the income or expenditure on securities operations in the statement of financial performance. For securities in the category *Available for sale*, alongside showing the retirement (sale) or redemption of securities, the total amount of accumulated revaluation of the retired securities is transferred to the accounts for income on or expenses from securities transactions.

Securities received by the Bank of Russia in reverse transactions (including securities in repo transactions with nonresident banks) continue to be recognised in the same category of securities, in which they were recognised before the transaction, in separate balance sheet accounts. Funds raised in repo transactions with resident or nonresident banks are accounted for in Bank of Russia balance sheet accounts for funds raised.

Securities received by the Bank of Russia in reverse transactions (including securities in repo transactions with resident or nonresident banks) are recorded to off-balance sheet accounts and revalued at the fair price on the last working day of the month. Funds raised in repo transactions with resident or nonresident banks are recorded to Bank of Russia balance sheet accounts for funds placed.

Income received or expenses incurred by the Bank of Russia in reverse transactions are recorded as part of interest income or interest expenses respectively.

Securities received by the Bank of Russia as dividends paid with property (in cashless form) are recognised as of the date of the transfer of title to the respective securities.

Promissory notes issued by credit institutions are accounted for at their purchase price net of depreciation provisions.

(d) Bank of Russia bonds

Bank of Russia bonds (OBRs) are accounted for at the nominal value reduced or increased by the discount or premium (the difference between the nominal value and the placement or selling price) inclusive of accrued interest.

The amount of discount and coupon income due under the OBRs less the premium amount is recognised as interest expenses. Interest expenses accrue starting from the date of OBR placement (sale) throughout the time to their maturity on a uniform basis. Interest expenses are recorded to expense accounts on the last working day of the month when the OBRs are bought back or redeemed and coupon income is paid. When OBRs are bought back by the Bank of Russia, securities that were placed first chronologically are written off the Bank of Russia's 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 statement of financial performance as part of expenses (income) relating to securities trading.

OBRs received by the Bank of Russia in repos with resident banks are recorded to off-balance sheet accounts as securities received in repos.

(e) Investments

Bank of Russia investments in the authorised capital of credit institutions and other organisations inside and outside Russia are accounted for at their initial price as of the date of transfer of title to shares (stakes), as specified in the documents confirming the transfer of title to the shares (stakes).

The initial value of shares (stakes) entered in the books includes the purchase price (purchase value) and additional costs directly associated with their purchase.

Foreign currency investments in the shares (stakes) of legal entities, which are denominated in foreign currency, are accounted for in rubles at the official exchange rate as of the date on which the title to the shares (stakes) is transferred or at the official exchange rate as of the date on which they are paid up with a prepayment.

The value of shares (stakes) denominated in a foreign currency is not subject to further revaluation following a change in the official exchange rate.

(f) Loans and deposits

Loans and deposits provided to credit institutions, state corporations, and other legal entities and deposits placed, inter alia, in accordance with federal laws and decisions by the Bank of Russia Board of Directors, are recognised as part of the principal, including accrued interest whose receipt is regarded as certain, net of depreciation provisions.

The Bank of Russia issues loans against gold, pledge (blocking) of securities, pledge of claims under loan agreements, and/or guarantees.

Securities received as loan collateral are appraised at their market value as of the transfer date of the indicated securities as collateral on a Bank of Russia loan, using the adjustment ratios established by the Bank of Russia and are not subject to further revaluation.

Gold bars received as loan collateral are appraised at the value of gold bars determined by the book price of gold set by the Bank of Russia as of the transfer date of the pledged property as collateral on a Bank of Russia loan, using the adjustment ratios established by the Bank of Russia and are not subject to further revaluation.

Claims under loan agreements received as collateral on loans provided are accounted for in the amount of the accepted collateral using the adjustment ratios established by the Bank of Russia.

The value of collateral under Bank of Russia loans provided against guarantees is calculated as the amount of loan debt plus the interest to be paid for the anticipated period of use of the loan, calculated based on the conditions of the loan agreement signed with the Bank of Russia.

The Bank of Russia places deposits and provides loans and subordinated loans in accordance with certain federal laws and decisions by the Bank of Russia Board of Directors.

Foreign currency-denominated deposits placed with nonresident banks are recognised as part of the principal, including accrued interest.

(g) Loss provisions for Bank of Russia operations

To cover 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 the following: on credit and other similar exposure; claims on interest income under loans and other similar claims; securities held to redemption; Bank of Russia compensation payments for household deposits at bankrupt banks not covered by the Russian Federation's compulsory household deposit insurance system; deferred expenses involved in guaranteeing obligations to the participants in the Bank of Russia's Pension Plan; deferred expenses related to streamlining the Bank of Russia's structure; claims acquired by the Bank of Russia as a result of the transfer of funds in the amount determined in accordance with Parts 1 and 2 of Article 6 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 Making Payments out of Pension Savings' (hereinafter, Federal Law No. 422-FZ, dated 28 December 2013) to the Pension Fund of the Russian Federation, as well as the indemnity reserve funds and pension savings funds of insured persons who are entitled to receive a fixed-term pension payment formed on the cancellation date of licences, in fulfilment by the Pension Fund of the Russian Federation of obligations under compulsory pension insurance agreements.

The Bank of Russia may make provisions for other assets and probable losses in rubles and foreign currency, 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 on an individual basis or on a portfolio basis by including homogeneous credit claims with similar credit exposure profile in the portfolios.

Provisions for credit claims attributed to a homogeneous credit portfolio are made for the portfolio as a whole, and reflect the amount of probable losses that may result from the overall impairment of homogeneous credit claims pooled (grouped) in the portfolio. When determining the criteria for attributing credit claims to the portfolio of homogeneous credit claims, the Bank of Russia may be guided by the following considerations: types of credit claims; claims emerging from transactions under a single agreement; placement of funds in compliance with certain federal laws; the net settlement of debt obligations under several transactions; and other characteristics of transactions.

Provisions are made in rubles. Bank of Russia provisions are made on the basis of decisions by the Bank of Russia Board of Directors and recognised as Bank of Russia expenses.

Given a decrease in the amount of provisions in the event of the full or partial repayment of loans, repayment of deposits, settlement of interest claims, repayment of other debts, change in the official exchange rate of foreign currencies against 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 the provisions should be recovered to Bank of Russia income.

Provisions are used to write off assets the Bank of Russia cannot recover after it has undertaken all and any necessary and sufficient legal and actual measures to recover them and to exercise the rights arising from the availability of collateral for Bank of Russia assets, and to cover other losses and guarantee pension obligations and/or expenses.

The risk of probable losses on Bank of Russia assets (for which provisions are made) is assessed by measuring the probability of losing funds placed by the Bank of Russia, and the amount of its probable losses in accordance with the approved provisioning procedure.

Provisions for credit and similar exposure, for exposures 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 borrowers' default or improper fulfilment (if there is a threat of such default or improper fulfilment) of their obligations with respect to Bank of Russia loans (deposits) and other placed funds, under the terms and conditions of agreements or other relevant documents that confirm the issue of loans (placement of deposits) and the placement of other funds by the Bank of Russia, or under other Bank of Russia claims.

The Bank of Russia assesses credit risk associated with the following credit and similar exposures: loans issued (deposits placed) by the Bank of Russia; other claims exposed to credit risks. When assessing credit risk, the Bank of Russia evaluates the financial standing 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. Debt under credit exposures is not adjusted for the value of collateral provided, if the Bank of Russia has neither the possibility of recourse nor the right to recover the respective collateral.

Provisions for Bank of Russia compensation payments for household deposits in bankrupt banks, which do not participate in the compulsory household deposit insurance system (hereinafter, Bank of Russia compensation payments) are made in the amount of funds actually transferred by the Bank of Russia to agent banks to effect the mentioned compensation payments, and also in the amount of the bankrupt banks' debt to the Bank of Russia under obligations that arose in connection with the transfer of funds to the bankrupt banks' depositors by the Bank of Russia.

Provisions to guarantee Bank of Russia obligations to participants in its Pension Plan are made for the purpose of ensuring the fulfilment of the supplementary pension obligations to Bank of Russia employees in accordance with the terms and conditions of the Pension Plan. The amount of provisions to be made is determined by the excess of the forecast value of pension obligations over the forecast balance of pension funds as of the end of the year following the reporting year.

Provisions for other assets and potential losses are created with regard to the funds deposited by the Bank of Russia pursuant to Federal Law No. 173-FZ, dated 13 October 2008, 'On Additional Measures to Support the Financial System of the Russian Federation', with a credit institution to compensate for a portion of the losses (expenses) sustained by the credit institution in transactions with other credit institutions whose banking licences have been revoked, when the credit institution writes off the compensation deposit in whole or in part; with regard to claims acquired by the Bank of Russia as a result of the funds transfer to the Pension Fund of the Russian Federation in the amount defined in accordance with Parts 1 and 2 of Article 6 of Federal Law No. 422-FZ, dated 28 December 2013, as well as with regard to the indemnity reserve funds and pension savings funds of insured individuals, for whom fixed-term pension payments are set, which have been formed as of the cancellation date of the licences, in fulfilment by the Pension Fund of the Russian Federation of its obligations under compulsory pension insurance agreements, when there are grounds pointing to a possible loss for the Bank of Russia; and with regard to other assets, if the Bank of Russia acquires such assets as a result of borrower credit institutions' obligations coming to an end.

Bank of Russia assets, for which provisions are made, are accounted for in the financial statements net of the amount of provisions made.

(h) Fixed assets

Bank of Russia fixed assets are defined as assets which possess physical form and a service life exceeding 12 months, and a value in excess of the limit set by the Bank of Russia for the recognition of property as fixed assets which are used as tools for the provision of services or management of a Bank of Russia division, as well as in the cases stipulated in public health, technical and maintenance, and other special technical standards and requirements. Since 1 January 2016, the limit of the property value required for such property to be entered into the

books as fixed assets has been set by the Bank of Russia at over 100,000 rubles per accounting unit put into operation from 1 January 2016. Objects entered into the books as fixed assets before 1 January 2016 are accounted for as part of fixed assets.

Fixed assets are recognised in the financial statements at their residual value, i.e. at the purchase price including revaluation less accrued depreciation.

Bank of Russia fixed assets have been revalued in accordance with Russian Federation Government resolutions. The latest revaluation was made as of 1 January 1997.

Depreciation allowances are made each month, on the first day of the month following the month a fixed asset is put into operation, at the rate of one twelfth of the annual sum, and are continued throughout its entire service life (except in cases when the asset is in the process of reconstruction or modernisation for more than 12 months or has been closed down for more than three months by a decision by the Bank of Russia). They are discontinued from the first day of the month following the month during which the cost of the asset has been fully repaid or it has been written off the books.

The maximum amount of accrued depreciation equals the balance sheet value of the fixed asset, which means the initial or current (replacement) value of the asset (including revaluation).

Fixed assets acquired and put into operation prior to 1 January 2002 are depreciated at the official rates of depreciation set by USSR Council of Ministers Resolution No. 1072, dated 22 October 1990, 'On Standard Rates of Depreciation Allowances for the Complete Replacement of Fixed Assets of the National Economy of the USSR':

	%
Buildings and other facilities	1–7
Equipment (including computers, furniture, vehicles, etc.)	1–7

Fixed assets put into operation from 1 January 2002 are depreciated according to Bank of Russia Order No. OD-715, dated 28 September 2011, 'On the Approval of 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' (as amended by Russian Federation Government Resolutions No. 415, dated 9 July 2003; No. 476, dated 8 August 2003; No. 697, dated 18 November 2006; No. 676, dated 12 September 2008; No. 165, dated 24 February 2009; No. 1011, dated 10 December 2010; No. 674, dated 6 July 2015; and No. 640, dated 7 July 2016):

	%
Buildings and other facilities	1–55
Equipment (including computers, furniture, vehicles, etc.)	2–80

The annual depreciation rate increases as a result of the modernisation of the fixed assets whereby their initial value increases without changing their remaining service life.

Expenses for the repair and maintenance of fixed assets are recorded to the financial statement as other operating expenses.

Profit and losses following the retirement of fixed assets are calculated as the difference between their balance sheet value (including accrued depreciation and retirement cost) and are recorded to the statement of financial performance as other income or other operating expenses.

(I) Intangible assets

Intangible assets are identifiable objects whose initial value may be accurately determined. These do not have a physical form and are meant for long-term use (i.e., for a service life of over 12 months). They are not intended for sale within 12 months and are capable of bringing further economic advantages, which advantages the Bank of Russia is entitled to get, unlike other entities enjoying only limited access to such economic advantages.

Intangible assets are accounted for in the financial statements at their residual value, that is, at the purchase price net of accrued depreciation.

A change in the value of an intangible asset is allowed in the event of its revaluation at the current market value. Intangible assets are revalued by recalculating their residual value. The balance sheet value of an intangible asset after revaluation and the amount of accrued depreciation are determined using a recalculation ratio defined as the quotient of the current market value of the tangible asset divided by its residual value. Intangible assets have not been revalued before.

Depreciation allowances are made each month, starting the first day of the month following the month intangible assets are put into operation, at the rate of one twelfth of the annual sum, and are continued throughout their entire service life. They are discontinued from the first day of the month following the month during which the cost of the asset was completely repaid or written off the books.

The maximum amount of accrued depreciation equals the balance sheet value of intangible assets.

The following rates of depreciation are applied to intangible assets put into operation on or after 1 January 2002:

	%
Intangible assets	7–33

The Bank of Russia establishes the service life of its intangible assets in accordance with its Ordinance No. 2581-U, dated 22 February 2011, 'On the Service Life of Software Products and/or Databases Used by the Bank of Russia, and on the Procedure for Recording the Acquisition of Software Licences to Bank of Russia Expenses'.

Profit and loss following the retirement of intangible assets are calculated as the difference between their balance sheet value (including accrued depreciation) and retirement value, and are recorded to the statement of financial performance as other income or other operating expenses.

(j) Cash in circulation

The Bank of Russia is the sole issuer of cash and the organiser of cash circulation. Banknotes and coins put into circulation are shown in the financial statements at their nominal value, exclusive of ruble cash at Bank of Russia tills, Bank of Russia ATMs, and cash in transit.

(k) Funds in accounts with the Bank of Russia

Funds in accounts with the Bank of Russia are comprised of federal government funds, resident banks' correspondent accounts, required reserves of credit institutions deposited with the Bank of Russia, credit institutions' and other organisations' deposits taken by the Bank of Russia, regional and local government budget funds and government extra-budgetary funds, as well as funds raised from nonresident banks in repos executed in the external market. Funds in accounts with the Bank of Russia are reflected in the financial statements at their nominal value, inclusive of interest accrued.

(l) Float

As of the reporting date, float includes the balances resulting from the completion of settlement operations related to money transfers within the Bank of Russia payment system.

Float is reflected in the financial statements at its nominal value.

(m) Capital

The Bank of Russia's capital consists of:

- authorised capital. Under Article 10 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia has authorised capital in the amount of three billion rubles;
- various reserves and funds created to enable the Bank of Russia to perform the functions assigned to it by the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'. Information about the sources and use of Bank of Russia reserves and funds is contained in the Statement of Bank of Russia Reserves and Funds, which is part of these financial statements.

(n) Recognition of Bank of Russia income and expenses

Income and expenses are formed as a result of performing transactions in rubles, in foreign currency, and in precious metals and are recorded on an accrual basis, that is, they are posted as soon as they occur, rather than after the funds (or their equivalents) have been actually received or paid.

Records across accounts for income and expenses are maintained in rubles only.

Income and expenses are recorded in the period to which they relate.

Income and expenses earned (incurred) in foreign currency are converted into rubles at the official exchange rate as of the date of their recognition in the books. Income and expenses earned (incurred) in precious metals are recalculated into rubles at the book prices in effect as of the date of their recognition in the books.

Expenses on the replenishment of supplementary pension funds for Bank of Russia employees are recorded to the statement of financial performance, after they have been incurred, based on the actuarial appraisal of pension obligations of the Bank of Russia.

Income in the form of dividends due for the Bank of Russia's stakeholdings in the authorised capitals legal entities in foreign currency and in the currency of the Russian Federation is recorded in the books based on information on the decision to pay dividends made by the legal entity's authorised body.

Income (expenses) received (incurred) and accrued in previous reporting periods is (are) recorded to the corresponding items of the statement of financial performance for the reporting period.

The receipt of interest income from all credit and other similar claims with regard to borrowers for which claims are assigned to substandard loan groups according to the provisioning procedure, or with regard to operations that are pooled in a homogeneous loan portfolio, is recognised for the purpose of reflection in the book accounts as uncertain from the date of assignment. Interest income from such credit and similar claims, as well as from securities the receipt of which is recognised as uncertain, shall be recorded after they have been actually received.

(o) Reporting year profit

The Bank of Russia's profit is calculated as the difference between total income from banking operations and 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 associated with the Bank of Russia's fulfilment of the functions assigned to it by Article 4 of this Federal Law.

Reporting year profit reflected in the financial statements is the financial result of the Bank of Russia's performance during the reporting year.

(p) Taxation of the Bank of Russia

The Bank of Russia pays taxes and duties in compliance with the Tax Code of the Russian Federation. It has drawn up and approved its accounting policy for the purposes of taxation, which sets out the applicable tax accounting principles and methods, alongside the rules on and procedure for creating a tax base for the calculation of taxes and duties to be paid by the Bank of Russia.

(q) Transfer of profit to the federal budget

Pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia transfers 75% of the actual annual profit retained after the payment of taxes and duties under the Tax Code of the Russian Federation to the federal budget.

According to Article 1 of Federal Law No. 334-FZ, dated 28 November 2015, 'On the Specifics for Transferring the Profit for 2015 and for 2016 Received by the Central Bank of the Russian Federation in 2016 and in 2017', after the Bank of Russia Board of Directors approves the Annual Financial Statements of the Bank of Russia for 2015 and 2016, the Central Bank of the Russian Federation shall transfer to the federal budget 90% of the actual annual profit received in 2015 and 2016, respectively, and retained after the payment of taxes and duties under the Tax Code of the Russian Federation.

(r) Claims on the IMF and obligations to the IMF

Pursuant to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' the Bank of Russia serves as a depository for IMF funds in the currency of the Russian Federation and performs operations and transactions stipulated by the IMF's Articles of Agreement and contracts with the IMF.

The Bank of Russia keeps records of the Russian Federation's claims on the IMF (including the Russian Federation's quota in the Fund) and its debt obligations to the IMF.

Claims on the IMF include the Russian Federation's quota in the Fund; funds in the Russian Federation's account with the IMF's Special Drawing Rights Department (SDR Department); and loans provided by the Bank of Russia to the IMF under the New Arrangements to Borrow (NAB), inclusive of interest accrued.

IMF quotas are subscriptions of all member states, which are paid in national and foreign currencies. The portion of the quota paid in a foreign currency constitutes a position on the 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 currencies, consisting of the US dollar, euro, Chinese renminbi, Japanese yen, and pound sterling (2015: the US dollar, euro, Japanese yen, and pound sterling).

The New Arrangements to Borrow 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 balance of payments and sufficient international reserves. In 2012, upon agreement with member countries, the maximum maturity of NAB claims, including previously issued loans, was extended from five to ten years, while other terms and conditions remained unchanged. The Bank of Russia can recall its committed funds at any time, if necessary.

Obligations to the IMF are represented by the ruble balances in the IMF's Number 1 and 2 Accounts with the Bank of Russia and by the 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 trades. The IMF's Number 2 Account is used to pay for the administrative expenses of the IMF representative office in the Russian Federation and is replenished by withdrawing funds from the IMF's Number 1 Account.

Claims on the IMF and obligations to the IMF, as well as interest accrual, are accounted for in line with IMF recommendations. In order to maintain the total of Bank of Russia ruble-denominated obligations to the IMF in SDR terms at the ruble exchange rate set by the IMF, the balances in the IMF's Number 1 and 2 Accounts are revalued on a monthly basis on the first working day of the month following the reporting month. The total exchange rate differences accrued on the IMF's Number 1 Account are recognised in correspondence with the account for recording the part of the quota paid in rubles. The total exchange rate differences accrued to the IMF's Number 2 Account are recorded to the Bank of Russia's income or expenses. At the end of the IMF's fiscal year (30 April), at the request of the IMF or the Bank of Russia, the amount of the accrued exchange rate differences from the revaluation of the IMF's Number 1 Account is recorded to the increase (decrease) in the balance of the IMF's Number 1 Account; and the revaluation of the IMF's Number 2 Account is recorded to the increase (decrease) in this account's balance.

SDR-denominated claims on the IMF and obligations to the IMF are revalued at the official rate of exchange of the SDR to the ruble set by the Bank of Russia.

(s) Reporting of operations under the Chinese renminbi (RMB) / Russian ruble FX Swap Agreement between the People's Bank of China and the Bank of Russia and operations to provide RMB received under the Agreement to Russian credit institutions through FX swaps

The RMB/RUB bilateral FX Swap Agreement between the People's Bank of China and the Bank of Russia was concluded in 2014 (hereinafter, the National Currency Swap Agreement) to develop bilateral economic relations by funding trade and direct investment. Under this Agreement, the parties can provide their own national currency or obtain the national currency of the other party through swaps within certain maximum limits. The Bank of Russia provides RMB to Russian credit institutions through swaps under agreements between the Bank of Russia and Russian credit institutions.

The current maximum amount in rubles (Chinese renminbi) that may be supplied (received) by the Bank of Russia through swaps under the National Currency Swap Agreement is recorded to off-balance sheet accounts under the item *Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans*. The total of the maximum amount in rubles (renminbi) posted to the account is decreased by the amounts of swaps between the Bank of Russia and the People's Bank of China and is recovered after the deals are complete.

The current amount of rubles (renminbi) that may be provided (received) by the Bank of Russia through swaps between the Bank of Russia and the People's Bank of China in the event that the People's Bank of China (Bank of Russia) requests funds through a swap is recorded to off-balance sheet accounts under the item *Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans*. The respective amount of renminbi (rubles) is posted to the off-balance sheet accounts for the bank guarantees and sureties received (issued) during the effective period of a swap. The total of the current amount in rubles (renminbi) posted to the account under the item *Unused limits to provide (receive) funds in the form of overdrafts and 'against the debt limit' loans* is decreased when the Bank of Russia provides rubles to the People's Bank of China (when the Bank of Russia receives renminbi from the People's Bank of China) by the amount of funds provided (received) and is recovered upon their repayment.

The rubles supplied by the Bank of Russia to the People's Bank of China (renminbi received by the Bank of Russia from the People's Bank of China) under the swaps are recorded to the account for other placed (received) funds.

Claims and liabilities under swaps concluded with Russian credit institutions are accounted for according to the procedure established for forward transactions in foreign currency.

(t) Changes to the Accounting Policy from 1 January 2016

(1) Starting with the statements for 2016, assets and liabilities denominated in precious metals as of the end of the reporting year are recorded at their fair value, which is the most recent fixed price for precious metals quoted by the London Metal Exchange for spot transactions during the reporting year and recalculated based on the official US dollar/ruble exchange rate as of the reporting date (Note 2 (a)).

The data of the financial statements for 2015 as regards assets and liabilities denominated in precious metals are not subject to adjustment. Information on the fair value of precious metals as of 31 December 2015, calculated in accordance with the amended Accounting Policy, is given for the purposes of data comparability in the explanations of Note 4 *Precious metals*.

(2) Starting 1 January 2016, Bank of Russia investments in corporate shares (stakes), denominated in foreign currency, are accounted for in rubles at the official exchange rate as of the date of transfer of the title to the shares (stakes) or at the official exchange rate as of the date on which they are paid up with a prepayment (Note 2 (e)).

The effect of the said changes on the Bank of Russia's annual balance sheet as of 31 December 2016 is shown in the table below:

Balance sheet item	2016
<i>(millions of rubles)</i>	
ASSETS	
Increase in the <i>Precious metals</i> item	697
Decrease in the <i>Securities</i> item (sub-item <i>Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)</i>)	(2,874)
SUBTOTAL FOR ASSETS	(2,177)
LIABILITIES	
Decrease in the <i>Capital</i> item	(2,177)
SUBTOTAL FOR LIABILITIES	(2,177)

(3) Pursuant to the Accounting Policy, starting 1 January 2016, the amount of premium on a security, whose terms of issue do not provide for interest coupon income payment, as well as the excess of premium over interest coupon income due on securities (less interest coupon income included in the purchase price), where the terms of issue provide for interest coupon income payment, is recognised as interest expenses.

Interest expenses accrued on securities acquired with a premium are posted in the financial statements to the item *Interest expenses on acquired debt obligations (premium)* (Note 21).

The data of the financial statements for 2015 regarding interest expenses on acquired debt obligations (premium) are not subject to adjustment. The total interest expenses on acquired debt obligations (premium) of past periods on the securities of foreign issuers which were in the Bank of Russia's portfolio as of 1 January 2016, total ₺3,010 million, including ₺2,995 million for 2015 and ₺15 million for 2014.

Interest expenses for each previous reporting year are calculated for the period from 1 January of the respective reporting year or from the purchase date of securities, if they were purchased during that year, to 31 December of the respective reporting year in ruble terms based on the Bank of Russia's official exchange rate as of the reporting date of 31 December 2015.

Information on interest expenses on securities for 2015 is given for the purposes of data comparability in the explanations to Note 21.

(4) Pursuant to the Accounting Policy, starting 1 January 2016, expenses on the negative revaluation of securities available for sale are included in expenses on securities trading (Note 2 (c)).

(millions of rubles)

Items of the statement of financial performance		2015 (previously recorded amounts)	Changes	2015 (adjusted amounts)
Expenses on securities trading		55,163	+18,087	73,250
Expenses on operations with foreign securities	A	0	+17,412	17,412
Expenses on operations with securities of Russian issuers	A	0	+675	675
Expenses on negative revaluation of securities available for sale	A	18,087	(18,087)	0

(A) Amounts of negative unrealised revaluation of securities available for sale with regard to individual issues of foreign debt obligations totalling ₺17,412 million and debt obligations of Russian issuers totalling ₺675 million are included in the *Expenses on securities trading* item.

3. Impact of economic conditions on Bank of Russia financial statements

The Bank of Russia's annual balance sheet and financial performance in 2016 were shaped by internal and external economic conditions and by current monetary policy measures.

2016 saw a slowdown in the decline of economic activity, as well as the recovery of positive dynamics of individual economic development indicators. According to Rosstat estimates, Russia's gross domestic product (GDP) decreased by 0.2% in real terms in 2016 following a 2.8% drop in 2015. Industrial production picked up by 1.3% in 2016, after a 0.8% decline in 2015. The decline in investment slowed down from 10.1% in 2015 to 0.9% in 2016.

In 2016, falling average annual global oil prices, along with persistent external sanctions against Russia and the tightening of the US Fed's monetary policy, influenced the growth of the average annual exchange rates of the US dollar and euro to the ruble. Conditioned on the annual dynamics, the US dollar/ruble exchange rate decreased from 1 January 2016 to 31 December 2016 by 16.8% to ₺60.6569 for 1 US dollar, and the euro/ruble exchange rate decreased by 19.9% to ₺63.8111 for 1 euro.

In 2016, international reserves in dollar terms grew slightly by \$9,342 million to \$377,741 million mainly due to the increase in the balance of monetary gold. In 2016, the Bank of Russia did not carry out operations to purchase/sell foreign currency in the domestic market to replenish its international reserves or to support the financial stability. Credit institutions reduced their outstanding amounts to the Bank of Russia on foreign currency loans issued on a reverse basis.

At the end of 2016, according to Rosstat estimates, growth in consumer prices was 5.4% (December on December). Taking into account the assessment of the trade-off between inflation risks and economic growth outlook, the Bank of Russia consistently reduced the key rate twice in June and September by 1 percentage point overall, from 11.0 to 10.0% p.a.

In 2016, due to the growth of nominal GDP by 3.4% and expenditures on final consumption by 2.6%, the amount of cash in circulation increased slightly by 3.1% to ₹8,790,093 million as of 31 December 2016 (after falling by 3.6% over the previous year). Furthermore, the share of cash in circulation in the total balance sheet structure of the Bank of Russia grew by 6.0 percentage points to 30.5% in 2016.

With the Reserve Fund being spent to fund the federal budget deficit, the balance of federal government funds held in accounts with the Bank of Russia shrank by ₹3,468,703 million to ₹4,662,005 million. The share of the *Federal government funds in accounts with the Bank of Russia* item in the consolidated balance sheet liabilities fell from 23.2% to 16.1%.

In 2016, amid a marked reduction in the structural liquidity deficit in the banking sector, credit institutions' demand for Bank of Russia refinancing contracted, as did amounts outstanding on those operations. In 2016, the balance in the *Loans and deposits* item dropped by 34.8% to ₹4,175,075 million, and its share in the annual balance sheet assets fell from 18.3% to 14.4%. As a result of the Bank of Russia's liquidity-absorbing operations and the increase in the required reserves of credit institutions, the balance of credit institutions' funds kept in accounts with the Bank of Russia grew by ₹564,982 million to ₹3,093,328 million, and their share in the annual balance sheet structure gained 3.4 percentage points and amounted to 10.7%.

For the purpose of partial absorption of liquidity inflow associated with the funding of federal budget deficit out of the Reserve Fund, the Bank of Russia sold federal government bonds (OFZs) from its own portfolio in the secondary market in April–December 2016. Set against that, in 2016 the *Russian federal government debt obligations* item fell by ₹200,933 million to ₹311,787 million.

In 2016, Bank of Russia income and expenses were shaped by the gradual recovery of economic activity during the year and transition to a structural liquidity surplus. In view of the decline in Bank of Russia interest rates and the reduction of refinancing volumes for the banking sector, the Bank of Russia's interest income decreased significantly compared to the previous year.

Alongside the above, the financial result was also affected by net negative realised foreign currency exchange rate differences at year-end arising from the purchase (sale) of foreign currency in the domestic and international markets at exchange rates that differed from the official exchange rates established by the Bank of Russia, as well as by expenditures on negative revaluation of securities available for sale.

Overall, the said factors shaped the financial result of the Bank of Russia's performance at a lower level compared to 2015. In 2016, the Bank of Russia's profit reduced by ₹68,830 million to ₹43,745 million.

4. Precious metals

(millions of rubles)

	2016	2015
Precious metals in physical form	3,734,727	3,629,367
Precious metals in coins and commemorative medals	12,735	17,888
Total	3,747,462	3,647,255

The change in the *Precious metals in physical form* item was mainly due to the purchase of gold through purchase and sale transactions with Russian credit institutions under master agreements and the revaluation of precious metals at the Bank of Russia's book prices.

The decrease in the *Precious metals in coins and commemorative medals* item was due to the sale of coins made of precious metals in the domestic and foreign financial markets and the revaluation of precious metals at the Bank of Russia's book prices.

As of 31 December 2015, the fair value of precious metals calculated in compliance with the amended Accounting Policy amounted to ₴3,627,348 million (Note 2 (t)).

5. Funds placed with nonresidents and foreign securities

(millions of rubles)

	2016	2015
Funds placed with nonresidents and foreign securities in foreign currency, of which:	17,996,556	21,983,437
– foreign securities	14,878,224	19,917,598
– balances in correspondent accounts and deposits placed with nonresident banks	3,046,489	1,876,183
– other funds placed with nonresidents	71,843	189,656
Funds placed with nonresidents and foreign securities in rubles, of which:	8,576	11,718
– other funds placed with nonresidents	8,576	11,139
– foreign securities	0	579
Total	18,005,132	21,995,155

Funds placed with nonresidents and foreign securities in foreign currency

Foreign securities

Foreign securities in foreign currency are classified as *Securities available for sale* and mostly comprise US treasuries, the government bonds and bills of France, the United Kingdom, Germany, Canada, Austria, Australia, Sweden, the Netherlands, Finland, and China, non-government bonds guaranteed by the aforementioned governments, and debt obligations issued by supranational financial institutions. This item also includes securities issued by the issuers of European countries which remained the property of the Bank of Russia as a result of the settlement of obligations on repo transactions which had been defaulted by Russian credit institutions.

As of 31 December 2016, foreign securities in foreign currency had maturities ranging from 2017 to 2025 and were either coupon-free or had coupon income rates between 0 and 9.125% p.a.

As of 31 December 2015, foreign securities in foreign currency had maturities ranging from 2016 to 2035 and were either coupon-free or had coupon income rates between 0 and 9.5% p.a.

As of 31 December 2016, the fair value of foreign securities in foreign currency in the Bank of Russia's portfolio totalled ₴14,878,224 million (2015: ₴19,917,598 million), of which the fair value of foreign securities that remained the property of the Bank of Russia as a result of the settlement of obligations on repo transactions which had been defaulted by Russian credit institutions was ₴46 million (2015: ₴3,331 million) (Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property).

The fair value of foreign securities in foreign currency was measured using their latest purchase quotes (prices), as shown in the Bloomberg information system, or for coupon-free commercial securities without representative quotes (prices), using the model to assess future cash flows discounted by government security yield rates with respective maturities and denominations adjusted for the credit risk premium (spread).

As of 31 December 2016, the fair value of foreign securities in foreign currency appraised using the quotes (prices) shown in the Bloomberg information system totalled ₴12,838,339 million (2015: ₴18,220,554 million).

As of 31 December 2016, the fair value of foreign securities in foreign currency appraised using the model of future cash flow assessment totalled ₴2,039,885 million (2015: ₴1,697,044 million).

The change in this item was mostly due to decline in the exchange rates of the foreign currencies in which the securities were denominated against the ruble.

This item also includes securities transferred by the Bank of Russia in reverse transactions in international markets, with a total fair value of ₴494,027 million (2015: ₴791,802 million), including those transferred in repos, with a total fair value of ₴226,127 million (2015: ₴223,031 million) (Note 11), those transferred as additional collateral (margin) in repos, with a total fair value of ₴155 million (2015: ₴146 million), and those transferred as a loan, with a total fair value of ₴267,745 million (2015: ₴568,625 million).

Balances in correspondent accounts and deposits placed with nonresident banks

The item includes deposits placed with nonresident banks and funds in correspondent accounts with nonresident banks, plus interest accrued. Among other things, balances in correspondent accounts include funds in Bank of Russia accounts held with the national banks of Eurasian Economic Union member states.

In accordance with the Eurasian Economic Union Treaty, dated 29 May 2014, the central (national) banks of one party are to sell US dollars to the central (national) banks of the other party for a sum in the national currency equal to the amount of distributed customs duties in the national currency in favour of the other party. Settlements between the parties are made by offsetting a sum equal to the difference between the parties' mutual obligations in US dollars.

According to the bilateral agreements signed by the Bank of Russia with the Central Bank of the Republic of Armenia, the National Bank of the Republic of Belarus, the National Bank of the Republic of Kazakhstan, and the National Bank of the Kyrgyz Republic, the Bank of Russia opened correspondent accounts in the mentioned banks in the national currencies of the member states of the Eurasian Economic Union. As of 31 December 2016, money in correspondent accounts held with the said banks totalled ₴296 million (2015: ₴344 million).

The change in the item is associated with the increase as of the reporting date in the balances in correspondent accounts opened with nonresident banks and deposits placed by the Bank of Russia with nonresident banks.

Other funds placed with nonresidents

The item shows funds placed with nonresident banks in transactions for the purchase of foreign securities with an obligation to resell (reverse repo), plus interest accrued on these transactions. As of 31 December 2016, these funds amounted to ₴71,858 million (2015: ₴67,995 million) received in transactions to sell securities with an obligation to repurchase (repo transactions) concluded with the same counterparty (Note 11).

Securities received by the Bank of Russia in reverse repos with nonresidents are recorded to off-balance sheet accounts at the fair value and total ₴71,946 million (2015: ₴189,717 million) (Note 27). Of these, securities received in reverse repos executed to place funds received in repos have a fair value of ₴71,946 million (2015: ₴67,868 million) (Notes 11 and 27).

The decrease in the item is due to the decline in the total amount of funds provided by the Bank of Russia in repos as of year-end.

Funds placed with nonresidents and foreign securities in rubles

Other funds placed with nonresidents

The item reflects Bank of Russia ruble-denominated claims on the People's Bank of China under the National Currency Swap Agreement, including accrued interest.

Foreign securities

As of 31 December 2015, the Bank of Russia's portfolio included foreign securities in rubles which remained the property of the Bank of Russia as a result of settling the outstanding obligations of credit institutions under repo transactions. In 2016, the securities were redeemed.

6. Loans and deposits

(millions of rubles)

	2016	2015
Loans and deposits with resident banks, of which:	1,847,252	2,595,886
– issued and placed under certain federal laws	503,889	503,927
Other funds placed with resident banks (in repo transactions)	1,281,570	3,192,447
Other, of which:	1,628,978	1,135,124
– issued and placed under certain federal laws	1,619,054	1,125,111
Provisions	(582,725)	(523,201)
Total	4,175,075	6,400,256

The item *Loans and deposits with resident banks* shows the ruble debt on Bank of Russia loans secured by receivables under loan agreements or guarantees or by pledge of securities from the Bank of Russia Lombard List, as well as amount outstanding on subordinated loans provided to Sberbank in 2008 and 2014 as part of legislative measures implemented by the Russian Federation to support its financial system.

The decrease in the item *Loans and deposits with resident banks* was linked to the change in banking sector demand for refinancing in 2016 and, mainly, the squeeze in the demand of credit institutions for Bank of Russia loans secured by pledges of receivables under loan agreements.

Outstanding amounts on loans and deposits with resident banks with a 50.0% to 100.0% government stake in their authorised capital amounts to ₱1,710,207 million (2015: ₱2,201,752 million).

The item *Loans and deposits with resident banks, of which: under certain federal laws* lists operations to provide ₱503,889 million in subordinated loans to Sberbank (2015: ₱503,927 million), including interest claims of ₱3,889 million (2015: ₱3,927 million), in whose authorised capital the Bank of Russia owns a 50.0% stake plus one voting share.

The item *Other funds placed with resident banks (in repo transactions)* reflects funds placed by the Bank of Russia with resident banks in repos amounting to ₱1,281,570 million (2015: ₱3,192,447 million), including interest claims on these transactions in the amount of ₱402 million (2015: ₱4,653 million).

These funds also include foreign-currency funds placed by the Bank of Russia with resident banks in repo transactions, amounting to ₱688,959 million (2015: ₱1,489,684 million), including interest accrued on these transactions in the amount of ₱72 million (2015: ₱4,303 million).

The reduction in this item was caused by the decrease in the total value of Bank of Russia refinancing operations linked to the shrinking structural liquidity deficit.

Securities acquired by the Bank of Russia in repos with resident banks are recorded to off-balance sheet accounts at the fair value and amount to ₱1,439,783 million (2015: ₱3,505,918 million), including in foreign currency repo transactions totalling ₱810,051 million (2015: ₱1,635,295 million).

The amount of other funds placed in repo transactions with resident banks with a 50.0% to 100.0% government stake in their authorised capital amounts to ₱443,036 million (2015: ₱732,578 million), including interest claims of ₱262 million (2015: ₱223 million).

The item *Other* mainly reflects outstanding amounts on Bank of Russia loans provided to the state corporation Deposit Insurance Agency (hereinafter, the DIA) in order to implement bankruptcy prevention measures at banks, to ensure the financial sustainability of the deposit insurance system, as well as to fund the payment of indemnities on deposits (to replenish the compulsory deposit insurance fund), totalling ₱1,616,834 million (2015: ₱1,122,891 million) and a compensation deposit of ₱2,220 million (2015: ₱2,220 million) placed by the Bank of Russia with a credit institution in compliance with Federal Law No. 173-FZ, dated 13 October 2008, 'On Additional Measures to Support the Financial System of the Russian Federation', in order to partially compensate for this credit institution's losses (expenses) that had been caused by the default of a borrower whose banking licence had been revoked, and a subordinated loan to the Interstate Bank amounting to ₱2,589 million (in 2015: ₱2,589 million).

The increase in the item *Other* was due to the increase in outstanding amounts on loans provided by the Bank of Russia to the DIA pursuant to Article 189⁵⁶ of Federal Law No. 127-FZ, dated 26 October 2002, 'On Insolvency

(Bankruptcy)' (hereinafter, Federal Law No. 127-FZ, dated 26 October 2002) to conduct bankruptcy prevention measures at banks and pursuant to Federal Law No. 177-FZ, dated 23 December 2003, 'On the Insurance of Household Deposits with Russian Banks', to ensure the financial sustainability of the deposit insurance system and to fund the payment of indemnities on deposits (to replenish the compulsory deposit insurance fund) (hereinafter, Federal Law No. 177-FZ, dated 23 December 2003).

The value of collateral received on Bank of Russia loans, including guarantees, amounts to ₱1,074,946 million (2015: ₱2,348,000 million).

The available collateral accepted by the Bank of Russia made it possible to bring down the value of provisions made for credit claims on resident banks, as well as for ruble and foreign currency repos by ₱278,847 million (2015: ₱1,556,631 million).

Provisions totalling ₱582,725 million rubles were made for loans issued, deposits and other funds placed in rubles and foreign currency (2015: ₱523,201 million), of which:

- provisions for outstanding amounts on secured ruble-denominated loans issued by the Bank of Russia to resident banks and deposits totalling ₱241,243 million (2015: ₱289,975 million);
- provisions for outstanding amounts on funds provided by the Bank of Russia to finance bankruptcy prevention measures at banks and to ensure the financial sustainability of the deposit insurance system, as well as to fund the payment of indemnities on deposits (to replenish the compulsory deposit insurance fund) totalling ₱323,367 million (2015: ₱224,578 million);
- provisions for outstanding amounts on other funds placed with resident banks (in repo transactions) totalling ₱13,306 million (2015: ₱3,839 million);
- provisions for outstanding amounts on other loans and deposits totalling ₱4,809 million (2015: ₱4,809 million).

7. Securities

(millions of rubles)

	2016	2015
Debt obligations Available for sale, of which:		
Russian federal government debt obligations, of which:	311,787	512,720
– federal government bonds (OFZs)	59,804	207,193
– Russian government external foreign currency-denominated loan bonds (Russian Eurobonds)	251,983	305,527
Other Russian issuers' debt obligations	6,075	14,582
Subtotal	317,862	527,302
Debt obligations Held to maturity, of which:		
Other Russian issuers' debt obligations	212,636	212,636
Provisions	(106,318)	(106,318)
Subtotal	106,318	106,318
Shares issued by credit institutions and other organisations (Bank of Russia stakeholdings)	104,661	86,235
Credit institutions' promissory notes acquired by the Bank of Russia	23	23
Provisions	(11)	(11)
Total	528,853	719,867

Debt obligations Available for sale

Federal government bonds (OFZ)

The OFZ portfolio of the Bank of Russia was formed as the result of the restructuring of government securities in 2004–2005 and purchase transactions in the securities market in 2007–2009, including further sale transactions. Additionally, in 2013–2016, the Bank of Russia's portfolio included OFZs that remained the property of the Bank of Russia as a result of the settlement of obligations on repo transactions which had been defaulted by Russian credit institutions or in accordance with Article 4.1 of Federal Law No. 127-FZ, dated 26 October 2002 (termination of obligations pursuant to clearing rules), following the revocation of the banking licence of credit institutions (hereinafter, the termination of obligations on repo transactions).

As of 31 December 2016, the OFZ bonds in the Bank of Russia's portfolio had maturity dates from 2017 to 2036, with coupon income rates between 0 and 11.90% p.a. Zero-coupon-income bonds were set to mature in 2019 and accounted for 6.00% in terms of nominal value or 6.00% at fair value of the total OFZ portfolio.

As of 31 December 2015, the OFZ bonds in the Bank of Russia's portfolio had maturity dates from 2016 to 2036, with coupon income rates between 0 and 14.48% p.a. Zero-coupon-income bonds were set to mature in 2019 and accounted for 2.00% in terms of nominal value or 2.00% at fair value of the total OFZ portfolio.

As of 31 December 2016, the fair value of OFZs was ₺59,804 million (2015: ₺207,193 million).

The change in the item is largely down to the redemption and sale of securities.

As of 31 December 2016 and 31 December 2015, the fair value of OFZ issues was determined on the basis of the latest market prices provided by the trade organiser (PJSC Moscow Exchange).

Russian government external foreign currency-denominated loan bonds

(Russian Eurobonds)

Russian government external foreign currency-denominated loan bonds (Russian Eurobonds) are US dollar-denominated government securities issued by Russia's Ministry of Finance. As of 31 December 2016 and 31 December 2015, Russian Eurobonds are set to mature between 2017 and 2030, and have a coupon income of 3.25 to 12.75% p.a. As of 31 December 2016, the fair value of Russian Eurobonds is ₺251,983 million (2015: ₺305,527 million).

In 2016, the Bank of Russia portfolio included Russian Eurobonds that remained the property of the Bank of Russia as a result of the settlement of obligations on repo transactions which had been defaulted by Russian credit institutions. Furthermore, during 2016, the Bank of Russia sold Russian Eurobonds that remained the property of the Bank of Russia in 2015 and 2016 as a result of the termination of obligations on repo transactions.

The change in this item is largely due to the decline of the US dollar/ruble exchange rate.

The fair value of Russian Eurobonds was determined using their latest purchase quotes (prices) provided in the Bloomberg information system.

Other Russian issuers' debt obligations

Other Russian issuers' debt obligations are ruble-denominated corporate bonds issued by Russian issuers admitted to organised trading. These bonds remained the property of the Bank of Russia as a result of the settlement in 2016 of obligations on repo transactions which had been defaulted by credit institutions.

As of 31 December 2015, other Russian issuers' debt obligations also included ruble-denominated securities issued by the regional governments of the Russian Federation admitted for organised trading, the fair value of which was ₺3,376 million.

As of 31 December 2016, other Russian issuers' bonds were set to mature from 2019 to 2025 and had a coupon income of 8.50 and 15.75% p.a. As of 31 December 2015, other Russian issuers' bonds were set to mature from 2016 to 2033 and had a coupon income of 0.10 to 18.50% p.a.

As of 31 December 2016, the fair value of other Russian issuers' bonds was ₺6,075 million (2015: ₺14,582 million, including ₺3,376 million in securities issued by the regional governments of the Russian Federation).

The change in this item is due to the redemption and sale of other Russian issuers' bonds that remained the property of the Bank of Russia in 2015 and 2016 as a result of the termination of obligations under repo transactions.

To determine the fair value of other Russian issuers' debt obligations, the Bank of Russia used the latest market prices provided by the trade organiser PJSC Moscow Exchange.

Debt obligations Held to maturity

Other Russian issuers' debt obligations

The debt obligations of other issuers consist of Bank for Development and Foreign Economic Affairs (Vnesheconombank) bonds acquired by the Bank of Russia in 2014 to provide funding to Vnesheconombank in connection with Vnesheconombank's early fulfilment of its obligations to return deposits placed by the Bank of Russia at Vnesheconombank in 2008–2009 following the decisions of the Bank of Russia Board of Directors.

These bonds mature in 2021 and have a coupon income of 2.00% p.a.

Provisions in the amount of ₴106,318 million (2015: ₴106,318 million) were created for the acquisition of Vnesheconombank bonds.

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.

Credit institutions' promissory notes acquired by the Bank of Russia

Promissory notes issued by credit institutions are accounted for at their purchase price.

This item includes outstanding amount on a promissory note acquired by the Bank of Russia in 2001 under the terms and conditions of an Amicable Agreement.

The item *Provisions* shows provisions made for the promissory note issued by a credit institution in the amount of ₴11 million (2015: ₴11 million).

8. Claims on the IMF

(millions of rubles)

	2016	2015
The Russian Federation's quota with the IMF, of which:	1,048,886	601,899
– quota with the IMF paid in rubles	931,648	500,026
– IMF reserve tranche position	120,175	100,999
– revaluation of the Russian Federation's quota with the IMF paid in rubles, positive differences	0	874
– revaluation of the Russian Federation's quota with the IMF paid in rubles, negative differences	(2,937)	0
Funds in the Russian Federation's account with the IMF SDR Department	392,162	576,299
Loans to the IMF issued by the Bank of Russia according to the New Arrangements to Borrow	63,057	86,045
Fee for the reserve tranche position	35	6
Total	1,504,140	1,264,249

In 2016, due to the enactment of the decision on the 14th General Review of Quotas of IMF participants, which provided for an increase in the quotas of IMF participants along with the decrease in country liabilities under the New Arrangements to Borrow, and due to the payment by the Bank of Russia for the increase in the quota of the Russian Federation in the IMF, the quota grew from SDR5,945.4 million (2.5% of all IMF quotas) to SDR12,903.7 million (2.71% of all IMF quotas), and the maximum liabilities of the Russian Federation under the NAB dropped from

SDR8,740.8 million to SDR4,440.9 million. The payment of 25% of the quota increase was made with SDRs and foreign currency, and 75% of the quota increase was paid up with rubles by raising the balance in the IMF's Number 1 Account.

The change in the structure of claims under the Russian Federation's quota in the IMF was mostly influenced by increase in the quota size and decline in the official SDR-to-ruble exchange rate, as well as due to increase in the part of the quota paid in rubles and decrease in its reserve tranche position due to the IMF repaying funds previously provided by the Bank of Russia in operations carried out within the limits of the quota (within the framework of participation in the financial transactions plan).

The decrease in the item *Funds in the Russian Federation's account with the IMF SDR Department* is associated with the payment of a part of the quota increase in SDRs from Russia's account with the IMF SDR Department and with the decline in the official exchange rate of the SDR against the ruble.

Due to the Russian Federation's participation in the IMF credit facility under the New Arrangements to Borrow, in 2016, the Bank of Russia received from the IMF SDR74.4 million in repayment of outstanding amounts (2015: SDR283.6 million). In 2016, the Bank of Russia did not provide any loans to the IMF (in 2015, the Bank of Russia issued loans to the IMF amounting to SDR88.8 million).

As of 31 December 2016, claims on the IMF under the NAB totalled SDR775.5 million or ₴63,034 million (2015: SDR849.8 million or ₴86,038 million); the interest accrued on issued loans amounted to ₴23 million (2015: ₴7 million); the credit line's balance undrawn by the IMF is SDR3,665.4 million or ₴297,948 million (2015: SDR7,891 million or ₴798,862 million) (Note 27). Decrease in the balance of the item *Loans to the IMF issued by the Bank of Russia according to the New Arrangements to Borrow* was largely caused by the repayment of loans and decline in the official exchange rate of the SDR against the ruble.

9. Other assets

	(millions of rubles)	
	2016	2015
Fixed assets (at residual value)		
Buildings and other facilities	51,212	46,245
Equipment (including computers, IT and data processing systems, furniture, transport vehicles and other)	26,331	28,947
Subtotal fixed assets	77,543	75,192
Till cash	915,431	810,298
Compensation from the Bank of Russia to the Pension Fund of the Russian Federation for shortfall in pension savings	60,094	42,447
Bank of Russia claims on credit institutions with revoked banking licences	33,553	33,475
Construction projects in progress	8,791	12,924
Bank of Russia correspondent accounts	2,072	1,970
Settlements with suppliers, contractors, and buyers	1,557	2,165
Intangible assets (at residual value)	1,470	1,472
Profit tax advance payments	150	189
Other	7,267	18,083
Provisions	(94,484)	(77,812)
Subtotal other assets	935,901	845,211
Total	1,013,444	920,403

The table below shows the movement of fixed assets:

(millions of rubles)

	2016	2015
Fixed asset value net of accrued depreciation		
Balance as of 1 January	173,098	166,617
Receipt	13,483	11,081
Retirement	(4,743)	(4,600)
Balance as of 31 December	181,838	173,098
Accrued depreciation		
Balance as of 1 January	97,906	91,070
Depreciation allowances due to expenses	10,929	11,291
Depreciation allowances due to other sources	16	4
Accrued depreciation of retired fixed assets	(4,556)	(4,459)
Balance as of 31 December	104,295	97,906
Fixed asset residual value as of 31 December	77,543	75,192

Fixed asset structure and value net of accrued depreciation:

(millions of rubles)

	2016	2015
Buildings and other facilities	65,290	59,010
Equipment	54,385	53,654
Computers, office equipment and furniture	33,120	31,417
IT and data processing systems	25,025	24,815
Transport vehicles	2,975	3,409
Other	1,043	793
Total	181,838	173,098

The overall increase in the item *Fixed assets* was largely due to the category *Buildings and other facilities* and was caused by the commissioning of newly constructed (reconstructed) buildings and other facilities of the Bank of Russia, including in pursuance of the requirements of Russian laws.

The item *Compensation from the Bank of Russia to the Pension Fund of the Russian Federation for shortfall in pension savings* reflects claims acquired by the Bank of Russia as a result of the transfer of funds determined in accordance with Parts 1 and 2 of Article 6 of Federal Law No. 422-FZ, dated 28 December 2013, to the Pension Fund of the Russian Federation, as well as the indemnity reserve funds and pension savings funds of insured persons who are entitled to receive a fixed-term pension payment, formed as of the cancellation date of the licences of the non-governmental pension funds, in fulfilment by the Pension Fund of the Russian Federation of its obligations under compulsory pension insurance agreements.

The increase in the item was due to the transfer in 2016 of the pension savings of insured persons to the Pension Fund of the Russian Federation in connection with the cancellation of licences of non-governmental pension funds.

The item *Bank of Russia claims on credit institutions with revoked banking licences* includes the following monetary claims of the Bank of Russia on credit institutions with revoked banking licences, listed in the register of creditors' claims and subject to settlement using the credit institution's property that constitutes bankruptcy assets, totalling ₴33,553 million (2015: ₴33,475 million):

- claims arising under restructured loans initially provided as unsecured loans, totalling ₴30,384 million (2015: ₴30,384 million);

- claims arising under an unsecured loan provided to a credit institution in 2008, totalling ₹2,559 million (2015: ₹2,559 million);
- claims arising under reinstated debt owed to the Bank of Russia on unsecured loans pursuant to the ruling of the Arbitral Tribunal (Commercial Court) of the city of Moscow, totalling ₹530 million (2015: ₹530 million);
- claims resulting from the termination of obligations under repo transactions pursuant to clearing rules, totalling ₹9 million (2015: ₹2 million). Obligations were terminated in accordance with Article 4.1 of Federal Law No. 127-FZ, dated 26 October 2002, following the revocation of credit institutions' banking licences;
- claim on a credit institution that was the issuer of debt instruments acquired by the Bank of Russia in the amount of ₹71 million (2015: ₹0 million).

Decrease in the *Construction in progress* item is mainly due to commissioned newly constructed (reconstructed) Bank of Russia buildings, and the creation and development of information analysis systems, as well as banking information protection tools and engineering security equipment.

The item *Bank of Russia correspondent accounts* reflects the balances in foreign currencies in the Bank of Russia's correspondent accounts at resident banks.

The item *Profit tax advance payments* reflects profit tax advance payments made in 2016.

The *Other* item mostly reflects expenses related to the purchase and acquisition of software products, licences, and certificates, totalling ₹4,547 million (2015: ₹2,993 million), inventories totalling ₹1,094 million (2015: ₹1,181 million), shares of a closed unit investment fund which the Bank of Russia retained pursuant to the out-of-court agreement to recover collateral in partial repayment of debt on a loan restructured in 2010 in the amount of ₹837 million (2015: ₹837 million), and Russian Federation investment in the authorised capital of the Interstate Bank totalling ₹10 million (2015: ₹10 million) (Statement of Bank of Russia Management of Securities and Stakeholdings in the Capital of Organisations Constituting Bank of Russia Property). Assets in the form of receivable under loan agreements under which the borrower's loan repayment obligations have been terminated were repaid in 2016 (2015: ₹1,053 million).

The item *Provisions* reflects provisions totalling ₹94,484 million (2015: ₹77,812 million) which have been created for:

- claims acquired by the Bank of Russia as a result of the transfer of funds in an amount determined in accordance with Parts 1 and 2 of Article 6 of Federal Law No. 422-FZ, dated 28 December 2013, to the Pension Fund of the Russian Federation, as well as the indemnity reserve funds and pension savings funds of insured persons which are entitled to receive a fixed-term pension payment, formed as of the cancellation date of a licence, in fulfilment by the Pension Fund of the Russian Federation of obligations under compulsory pension insurance agreements, totalling ₹60,094 million (2015: ₹42,447 million);
- Bank of Russia claims on credit institutions whose banking licences have been revoked, totalling ₹33,553 million (2015: ₹33,475 million);
- other assets, totalling ₹837 million (2015: ₹1,890 million), allocated for investment in the shares of a closed unit investment fund in the amount of ₹837 million (2015: ₹837 million). In 2016, provisions on the assets acquired by the Bank of Russia in the form of receivables under loan agreements were recovered to the income of the Bank of Russia in the amount of ₹1,053 million.

10. Cash in circulation

The increase in the item *Cash in circulation* was due to the growing demand for cash funds among households and businesses.

11. Funds in accounts with the Bank of Russia

(millions of rubles)

	2016	2015
Federal government funds,	4,662,005	8,130,708
of which:		
– Reserve Fund	973,285	3,648,239
– National Wealth Fund	2,797,267	3,507,172
Credit institutions' funds in correspondent accounts,	1,822,914	1,600,627
of which:		
– foreign currency funds in correspondent accounts	167	6,677
Funds of federal or public organisations	1,080,342	717,493
Deposits taken by the Bank of Russia from credit institutions	785,635	557,820
Required reserves deposited with the Bank of Russia	484,702	369,820
Regional and local budget funds	401,740	387,109
Government and other extra-budgetary funds	358,735	403,985
Other funds taken from nonresidents	226,279	223,204
Other	163,136	182,528
Total	9,985,488	12,573,294

The change in the item *Federal government funds* is mostly shaped by decrease in foreign currency balances in Reserve Fund accounts and reduction in the exchange rates of foreign currencies, in which those accounts were opened, against the ruble. The Bank of Russia opened foreign currency accounts to record Reserve Fund and National Wealth Fund assets based on bank account agreements with the Federal Treasury in accordance with the Budget Code and federal government resolutions.

The *Credit institutions' funds in correspondent accounts, of which: foreign currency funds in correspondent accounts* item reflects the balances of resident banks' foreign currency correspondent accounts opened under bank account agreements.

The item *Funds of federal or public organisations* includes the balances of the accounts of federal or public organisations.

Growth in the item is mainly down to growth in the funds of the Federal Treasury branches in the Russian constituent territories.

The *Deposits taken by the Bank of Russia from credit institutions* item is comprised of funds raised from resident credit institutions in Russian rubles, including deposits of credit institutions in whose authorised capital the government holds stakes from 50.0% to 100.0%, inclusive, totalling ₺198,090 million (2015: ₺77,087 million).

Increase in the item *Required reserves deposited with the Bank of Russia* is associated with Bank of Russia decisions to increase the required reserve ratios starting 1 April 2016, by 1 percentage point with respect to liabilities in foreign currency, excluding liabilities to individuals; starting 1 July 2016, by 1 percentage point with respect to all liabilities in foreign currency; and starting 1 September 2016, by 0.75 percentage points with respect to all reservable liabilities of credit institutions.

Reduction in the item *Government and other extra-budgetary funds* is mostly caused by a drop in the account balances of the Pension Fund of the Russian Federation.

The *Other funds taken from nonresidents* item is comprised of funds raised from nonresident banks in transactions to sell foreign securities with an obligation to repurchase (repo transactions) amounting to ₺226,279 million (2015: ₺223,091 million), including accrued interest under these transactions. The Bank of Russia concludes repos to bridge cash gaps and to lend securities to foreign counterparties.

The lending takes the form of repos and reverse repos that are simultaneously concluded with counterparty. In a repo transaction, the counterparty receives securities it is interested in, with an obligation for the counterparty to return the securities to the Bank of Russia. In a reverse repo transaction, the Bank of Russia places funds obtained in a repo transaction at a higher interest rate and receives other securities as collateral. The reverse repos and

repos are concluded for the same tenor. The Bank of Russia benefits from the difference between repo and reverse repo interest rates. The amount of funds raised in repos opened by the end of the year and placed in reverse repos totals ₹71,858 million (2015: ₹67,995 million). Foreign securities provided in these transactions have a total fair value of ₹71,821 million (2015: ₹68,023 million) (Note 5). Foreign securities received in these transactions as collateral have a total fair value of ₹71,946 million (2015: ₹67,868 million) (Note 27).

The interest income received from these repos and reverse repos amounted to ₹317 million (2015: ₹172 million) and is recognised in the item *Interest income from foreign currency loans, deposits, and other placements* in the amount of ₹67 million (2015: ₹145 million), and in the item *Other* in the amount of ₹250 million (2015: ₹27 million) (Note 17). Interest expenses amounted to ₹265 million (2015: ₹135 million) and are included in the item *Interest expenses on other foreign currency funds taken from nonresident banks* in the amount of ₹42 million (2015: ₹115 million) and in the item *Other* in the amount of ₹223 million (2015: ₹20 million) (Note 21).

Foreign securities provided in repos with a total fair value of ₹226,127 million (2015: ₹223,031 million) are accounted for as foreign securities in the item *Foreign securities* (Note 5).

Increase in the balance of the item *Other funds taken from nonresidents* is mainly down to increase in the volume of funds raised by the Bank of Russia in transactions to sell securities with an obligation to repurchase at the end of the year.

The item *Other* includes balances in the accounts of non-profit and non-governmental organisations and other clients, deposits taken from the DIA, and funds in correspondent accounts of the Central Bank of the Republic of Armenia, the National Bank of the Republic of Belarus, the National Bank of Kazakhstan, and the National Bank of the Kyrgyz Republic, which were opened at the Bank of Russia within the framework of the Eurasian Economic Union, totalling ₹445 million (2015: ₹230 million).

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.

12. Float

The reduction in the balance of this item was linked to the growth in the last days of 2016 of the money transfer operations made in the Bank of Russia payment system.

13. Securities issued

In 2016 and 2015, the Bank of Russia did not conduct any OBR placement operations; therefore, there was posted a zero balance in the *Securities issued* item as of 31 December 2016 and 31 December 2015.

14. Liabilities to the IMF

(millions of rubles)

	2016	2015
Balances in IMF Number 1 and Number 2 Accounts with the Bank of Russia	931,650	500,027
Liabilities on the funds provided to the Russian Federation as a result of the SDR allocation by the IMF	461,201	574,248
Total	1,392,851	1,074,275

Change in the item *Balances on IMF Number 1 and Number 2 Accounts with the Bank of Russia* was mostly due to the increase in the balance of IMF Account No. 1 following payment with rubles for the increase of Russia's quota and the decrease in the balance of IMF Number 1 and Number 2 Accounts as a result of the revaluation caused by the decline in the exchange rate of the SDR against the ruble set by the IMF.

The obligations on the funds provided to the Russian Federation under an SDR allocation at the IMF did not change in 2016 in SDR terms, totalling SDR5,671.8 million or ₴461,036 million (2015: SDR5,671.8 million or ₴574,200 million), net of accrued interest. Decrease in the ruble equivalent of the obligation resulted from the decline of the official exchange rate of the SDR against the ruble.

15. Other liabilities

(millions of rubles)

	2016	2015
Assets of the Bank of Russia pension fund	89,827	92,319
Other	805	745
Provisions	20,761	67,307
Total	111,393	160,371

Pursuant to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia Board of Directors sets up a supplementary pension fund for its employees. The fund is created without forming a separate legal entity and is financed by the Bank of Russia. This takes into account the fact that Bank of Russia employees are not covered by the guarantees to which civil servants of the Russian Federation are entitled. The Bank of Russia is implementing the Pension Plan with defined payments that are open-ended (lifetime) in nature. The eligibility criteria for receiving a supplementary pension are determined by Bank of Russia regulations.

Obligations under the Bank of Russia pension fund and the fund's adequacy are subject to an annual actuarial assessment carried out by a responsible actuary.

As of 31 December 2016 and 31 December 2015, based on the results of the actuary's assessment of the Bank of Russia's pension obligations, no funds were added to the Bank of Russia pension fund.

Decrease in the *Assets of the Bank of Russia pension fund* item is due to operations to pay supplementary pension benefits to the participants in the Bank of Russia Pension Plan.

The item *Other* mostly reflects the amounts of accrued taxes and duties payable to the federal budget and extra-budgetary funds; accrued liabilities of the Bank of Russia under economic agreements; the funds of educational institutions (banking schools/colleges and secondary educational institutions founded by the Bank of Russia), and funds seized by pre-trial inquiry and investigation authorities.

The *Provisions* item shows the following:

- provisions for the Bank of Russia's potential losses with regard to pension savings funds to be transferred by the Bank of Russia to the Pension Fund of the Russian Federation totalling ₴11,501 million (2015: ₴67,307 million) (Notes 2 (g) and 24);
- provisions to meet obligations to the participants in the Bank of Russia's Pension Plan, totalling ₴9,260 million (2015: ₴0 million) based on the indicative assessment of pension obligations (Notes 2 (g) and 24).

16. Reporting year profit

Reporting year profit is a balance-sheet item reflecting the Bank of Russia's financial performance for the year 2016. It is formed by recognising income (received and accrued) whose receipt is considered to be certain, and expenses (paid and accrued) where there is no uncertainty with respect to the performance of contractual obligations.

17. Interest income

(millions of rubles)

	2016	2015
Interest income from ruble loans, deposits, and other placements, of which:	190,785	663,343
– issued and placed under certain federal laws	32,500	32,500
Interest income from securities	110,819	94,058
Interest income from foreign currency loans, deposits, and other placements	40,792	22,345
Interest income from Bank of Russia claims on the IMF	510	318
Other, of which:	12,138	9,866
– issued and placed under certain federal laws	10,789	9,179
Total	355,044	789,930

The item *Interest income from ruble loans, deposits, and other placements* reflects interest income from Bank of Russia loans issued against the pledge of gold, securities from the Bank of Russia Lombard List, receivables under loan agreements or guarantees, interest income on funds provided to resident banks under repo transactions in rubles, and interest income from other placed ruble funds provided to the People's Bank of China through swaps under the National Currency Swap Agreement.

The item *Interest income from ruble loans, deposits, and other placements, of which: issued and placed under certain federal laws* reflects interest income on subordinated loans provided to Sberbank in 2008 and 2014 as part of measures envisaged by the Russian legislation to support the financial system of the Russian Federation (Note 6).

The item *Interest income from securities* consists of ₱77,170 million in interest income from foreign issuers' debt obligations (2015: ₱57,953 million), and of ₱33,649 million in interest income from Russian issuers' debt obligations (2015: ₱36,105 million).

Interest income from foreign currency loans, deposits, and other placements item reflects interest from Bank of Russia placements with nonresident banks, including interest from funds provided in repo transactions with foreign securities, from deposits which were placed with nonresident banks in foreign currency, as well as interest income from funds provided to resident banks through foreign currency repos and foreign currency loans secured by receivables under foreign currency loans.

The item *Interest income from Bank of Russia claims on the IMF* reflects interest on the funds in the Russian Federation's account with the SDR Department, on loans issued under the New Arrangements to Borrow, and the amounts of remuneration on the reserve tranche position.

The item *Other* mostly includes interest income from loans issued to the DIA amounting to ₱10,789 million (2015: ₱9,179 million), as well as from securities lending to nonresident banks on a reverse basis, and interest income received on accounts opened with nonresident banks.

18. Income from securities trading

(millions of rubles)

	2016	2015
Income from operations with foreign securities	17,653	695
Net income from the retirement (sale) of foreign securities available for sale	12,085	11,529
Net income from the retirement (sale) of Russian issuers' securities available for sale	5,841	0
Income from operations with Russian debt obligations	4,178	88,020
Other	1	2
Total	39,758	100,246

Income from operations with foreign securities item includes income from the positive revaluation of foreign securities at fair value, which was used to offset negative revaluation of the respective issues posted to expenses in previous years.

The item *Net income from the retirement (sale) of foreign securities available for sale* consists of the net income from the retirement (sale) and revaluation, at fair value, of retired (sold) foreign securities.

The item *Net income from the retirement (sale) of Russian issuers' securities available for sale* consists of the net income from the retirement (sale) and revaluation, at fair value, of retired (sold) securities of Russian issuers.

The item *Income from operations with Russian debt obligations* mostly reflects income from positive revaluation, at fair value, of Russian debt obligations, which was used to offset the negative revaluation, at fair value, of corresponding respective issues, posted to expenses in previous years, and in the statements for the year 2015, including expenses on OFZ issues transferred by the Bank of Russia to the Russian Ministry of Finance in 2015 as part of an exchange operation totalling ₺79,304 million.

19. Income from stakeholdings in credit institutions and other organisations

(millions of rubles)

	2016	2015
Income from investment in the shares of subsidiary and affiliated credit institutions	22,248	5,082
Income from investment in the shares of subsidiary and affiliated organisations	1,962	900
Income from investment in the shares of nonresident banks (excluding subsidiary and affiliated banks)	62	56
Total	24,272	6,038

The item *Income from investment in the shares of subsidiary and affiliated credit institutions* reflects income from the Bank of Russia's stakeholdings in Sberbank (Note 28).

Income from investment in the shares of subsidiary and affiliated organisations includes income from the stakeholdings in the Moscow Exchange MICEX-RTS and in the National Payment Card System.

Income from investment in the shares of nonresident banks (excluding subsidiary and affiliated banks) reflects income from the Bank of Russia's stakeholdings in the Bank for International Settlements (Basel).

20. Other income

	<i>(millions of rubles)</i>	
	2016	2015
Fees for Bank of Russia services provided to customers	8,039	8,148
Income from the sale of coins made of precious metals	558	340
Fines and penalties received	119	205
Income of previous years (net of interest income) identified in the reporting year	79	141
Net positive realised foreign currency exchange rate differences	0	1,427
Other	2,323	1,681
Total	11,118	11,942

The item *Fees for Bank of Russia services provided to customers* consists of ₴8,008 million received in fees for settlement services provided by the Bank of Russia (2015: ₴8,119 million) and other fees totalling ₴31 million (2015: ₴29 million).

The item *Other* mainly reflects income resulting from the leasing out of property and from the retirement (sale) of property.

21. Interest expenses

	<i>(millions of rubles)</i>	
	2016	2015
Interest expenses on federal budget balances, of which:	39,736	47,085
– Reserve Fund balances	19,885	28,149
– National Wealth Fund balances	19,851	18,936
Interest expenses on deposits taken from credit institutions in the domestic market	39,954	36,974
Interest expenses on acquired debt obligations (premium)	19,053	0
Interest expenses on deposits taken from the state corporation	3,144	4,815
Interest expenses on Bank of Russia obligations to the IMF	423	246
Interest expenses on other foreign currency funds taken from nonresidents	390	164
Other	3,368	571
Total	106,068	89,855

Pursuant to the Budget Code of the Russian Federation and 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.

The item *Interest expenses on federal budget balances* reflects the interest accrued on the balances of Reserve Fund and National Wealth Fund foreign currency accounts, in accordance with the bank account agreements, for the period of 1 to 15 January 2016, totalling ₴16,088 million, for the period of 16 January to 15 December 2016, totalling ₴19,273 million, and for the period of 16 December to 31 December 2016, totalling ₴4,375 million.

Under the bank account agreements, the Bank of Russia pays interest based on the yields of indices, each of which is an aggregate of foreign government securities (denominated in the currency of the account) that have specific shares in that aggregate. The set of foreign government securities included in these indices is established by the Federal Treasury and is regularly revised in compliance with the procedures set forth in the said agreements.

The decrease in the item *Reserve Fund balances* was caused by the outflow of funds from Reserve Fund accounts (a reduction in the interest accrual base) and the decline in the exchange rates of foreign currencies, in which the said accounts had been opened, against the ruble. The influence of those factors on the change in interest expenses on the Reserve Fund account was slightly offset by an increase in the index yields.

The increase in the item *National Wealth Fund balances* was caused by an increase in the index yields. The influence of this factor on the change in interest expenses on the National Wealth Fund account was levelled down by the decline in the exchange rates of foreign currencies, in which the said accounts were opened, against the ruble.

The *Interest expenses on deposits taken from credit institutions in the domestic market* item reflects expenses on funds deposited by credit institutions with the Bank of Russia.

The item *Interest expenses on acquired debt obligations (premium)* reflects the premium on foreign securities where the terms of their issue do not provide for the payment of interest (coupon) income and the excess of the premium over interest (coupon) income payable on securities (net of interest (coupon) income included in the purchase price) totalling ₺19,053 million, including premium of prior reporting periods totalling ₺3,010 million (2015: ₺2,995 million, and 2014: ₺15 million) (Notes 2 (c, t)).

The item *Interest expenses on deposits taken from the state corporation* includes interest expenses on deposits taken from the DIA.

The item *Interest expenses on Bank of Russia obligations to the IMF* includes the interest paid and accrued on the balance of the Russian Federation's obligations to the IMF with regard to the allocated SDRs.

The item *Interest expenses on other foreign currency funds taken from nonresidents* includes interest expenses on other funds taken from nonresident banks (repo transactions) and interest expenses on other funds received from the People's Bank of China under the National Currency Swap Agreement.

The item *Other* mainly reflects interest expenses incurred when placing funds in correspondent accounts and in deposits with nonresident banks on conditions of a negative interest rate.

22. Expenses on securities trading

(millions of rubles)

	2016	2015
Expenses on operations with foreign securities	26,077	17,412
Expenses on operations with debt obligations of Russian issuers	6,950	675
Net expenses from the retirement (sale) of Russian securities available for sale	0	53,840
Other	677	1,323
Total	33,704	73,250

The item *Expenses on operations with foreign securities* includes the amounts of negative unrealised revaluation as of the end of the reporting year with respect to securities available for sale from individual issues of foreign debt obligations posted to Bank of Russia expenses (Note 2 (c, t)).

The item *Expenses on operations with debt obligations of Russian issuers* includes the amounts of negative unrealised revaluation as of the end of the reporting year with respect to the securities available for sale from individual issues of Russian debt obligations posted to Bank of Russia expenses (Note 2 (c, t)).

The item *Net expenses from the retirement (sale) of Russian securities available for sale* in 2015 mainly reflects net expenses from the retirement (sale) and revaluation, at fair value, of retired (sold) OFZs that were transferred by the Bank of Russia to the Russian Ministry of Finance in 2015 in an exchange operation (Note 18).

The item *Other* mainly includes expenses on fee payments to organisations supporting securities trading in the domestic market.

23. Cash turnover management expenses

This balance sheet item includes expenses involved in the manufacture, destruction, and anti-counterfeit protection of banknotes and coins, as well as the purchase and delivery of packaging materials and accessories necessary for the processing of cash.

The growth in expenses in this item is due to the increase in the price of banknote and coin manufacture and the increase in the volumes of manufactured 1-, 2-, 5-, and 10-ruble coins.

24. Net expenses (income) on the formation (from the recovery) of provisions

	<i>(millions of rubles)</i>	
	2016	2015
Increase in provisions for funds provided to the state corporation	98,789	95,674
Increase in provisions for other funds placed with resident banks (in repos)	9,467	3,697
Increase/(decrease) in provisions to secure obligations to participants in the Bank of Russia's Pension Plan	9,260	(5,020)
Increase in provisions for securities acquired from resident banks	0	63,791
(Decrease)/increase in provisions for other active operations	(977)	1,053
(Decrease)/increase in provisions for the Bank of Russia's compliance with Federal Law No. 422-FZ, dated 28 December 2013	(38,158)	109,754
(Decrease)/increase in provisions for loans to and deposits with resident banks	(48,732)	197,337
Total	29,649	466,286

The increase in provisions for funds provided to the DIA is linked to the rise in the amount of funds provided by the Bank of Russia to the DIA to implement bankruptcy prevention measures at banks, as well as to the issue of loans to ensure the financial sustainability of the deposit insurance system and to fund compensation payments on deposits (Note 6).

The increase in provisions for other funds placed with resident banks is associated with the deterioration of the Bank of Russia's asset quality in terms of its repo operations conducted in the domestic market in rubles and in foreign currencies.

The provisions to secure obligations to participants in the Bank of Russia's Pension Plan were increased in line with a decision by the Bank of Russia Board of Directors.

The decrease in provisions for other active operations was mainly due to the partial repayment of outstanding amounts.

The decrease in provisions to secure the Bank of Russia's compliance with Federal Law No. 422-FZ, dated 28 December 2013, in connection with certain non-governmental pension funds joining the system guaranteeing the rights of insured persons and in connection with the partial repayment of the Bank of Russia's claims on several non-governmental pension funds.

The decrease in provisions for loans to and deposits with resident banks is linked to the decline in the amount of funds placed with credit institutions (Note 6).

25. Other operating expenses

(millions of rubles)

	2016	2015
Net negative realised foreign currency exchange rate differences	32,168	0
Depreciation allowances	11,443	11,797
Expenses on IT maintenance and logistics	10,850	10,899
Expenses on foreign currency operations	9,031	345
Net negative realised differences for precious metals	4,751	3,595
Security expenses	4,512	4,794
Expenses on the maintenance of buildings	3,749	3,743
Repair expenses	2,474	2,527
Expenses involved in the use of titles to intellectual property	2,308	2,085
Expenses on the delivery of bank documents and valuables	2,166	1,954
Taxes and duties paid	2,436	1,543
Postage, telegraph, and telephone expenses, and expenses on renting communication lines and channels	1,688	2,230
Expenses on operations with precious metals	69	81
Other	8,130	6,435
Total	95,775	52,028

The item *Net negative realised foreign currency exchange rate differences* reflects net realised exchange rate differences arising from the purchase (sale) of foreign currency in the domestic and international markets at exchange rates that differ from the official exchange rates established by the Bank of Russia.

The item *Net negative realised differences for precious metals* reflects net negative realised differences arising from the purchase (sale) of precious metals in the domestic and international markets.

The item *Other* mainly reflects business travel expenses, expenses related to the purchase of equipment and accessories put into operation/use, and expenses on special-purpose funding for organisations set up by the Bank of Russia.

26. Personnel costs

For explanation, see the Statement of Bank of Russia Personnel Costs.

27. Off-balance sheet claims and obligations accounts

Claims and obligations on forward operations recorded to off-balance sheet accounts are as follows:

(millions of rubles)

	2016	2015
Claims		
Claims for the delivery of rubles in spot transactions	37,788	14,880
Claims for the delivery of foreign currency in spot transactions	60,657	0
Claims for the delivery of foreign currency from nonresidents in spot transactions	27,346	39,730
Claims for the delivery of foreign currency-denominated securities from nonresidents in spot transactions	54,116	5,397
Claims for the delivery of foreign currency in forward transactions	0	113
Claims for the delivery of foreign currency from nonresidents in forward transactions	405,677	708,883
Claims for the delivery of foreign currency-denominated securities from nonresidents in forward transactions	0	9,485
Unrealised (negative) exchange rate differences from the revaluation of foreign currency	0	92
Total claims	585,584	778,580
Obligations		
Obligations to deliver rubles in spot transactions	60,813	0
Obligations to deliver foreign currency in spot transactions	37,872	14,983
Obligations to deliver foreign currency to nonresidents in spot transactions	81,515	44,768
Obligations to deliver foreign currency-denominated securities to nonresidents in spot transactions	0	209
Obligations to deliver rubles in forward transactions	0	111
Obligations to deliver foreign currency to nonresidents in forward transactions	398,938	708,603
Obligations to deliver foreign currency-denominated securities to nonresidents in forward transactions	262	9,906
Unrealised (positive) exchange rate differences from the revaluation of foreign currency	6,184	0
Total obligations	585,584	778,580

Claims and obligations in spot transactions included in the items are claims and obligations on swaps executed in the domestic financial market, as well as claims and obligations on conversion transactions and securities purchase transactions executed in the international financial market (2015: claims and obligations in spot transactions included in the items are claims and obligations on swaps executed in the domestic financial market, as well as claims and obligations on conversion transactions and securities purchase and sale transactions executed in the international financial market).

Claims and obligations in forward transactions included in the items are claims and obligations on swaps, conversion transactions, and securities sale transactions executed in the international financial market (2015: claims and obligations in forward transactions included in the items are claims and obligations on swaps, conversion transactions, and securities purchase and sale transactions executed in the international financial market).

Other claims and obligations recorded to the off-balance sheet accounts include:

(millions of rubles)

	2016	2015
Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans	3,490,641	3,643,578
Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans	2,393,178	2,996,246
Securities received in reverse transactions	1,511,729	3,695,635
Assets accepted as collateral for funds placed, except for securities and precious metals	931,538	2,189,824
Securities accepted as collateral for funds placed	372,489	650,740
Unused lines of credit facilities	239,331	1,371
Guarantees and sureties received	97,698	147,015
Settlements with the IMF related to servicing funds raised and placed	6,991	8,702
Arrears in interest payments on the principal not written off the balance sheet	2,247	17,726
Guarantees and sureties issued	0	704,442

Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans

Unused limits for the provision of funds in the form of overdrafts and 'against the debt limit' loans totalling ₴3,490,641 million (2015: ₴3,643,578 million) include:

- unused line of Bank of Russia credit facilities to be provided under agreements to open irrevocable credit lines in the amount of ₴687,800 million (2015: ₴0 million; as of 31 December 2015, the Bank of Russia had not concluded any such agreements);
- unused line of Bank of Russia credit facilities to be provided to the IMF under the New Arrangements to Borrow in the amount of SDR3,665 million or ₴297,948 million (2015: SDR7,891 million or ₴798,862 million) (Note 8);
- unused line of Bank of Russia credit facilities to be provided under a bilateral credit agreement between the Bank of Russia and the IMF in the amount of \$10,000 million or ₴606,569 million (2015: \$10,000 million or ₴728,827 million);
- unused limit for the Bank of Russia to provide US dollars under the Treaty for the Establishment of a BRICS Foreign Currency Reserve Pool between the BRICS nations in the amount of \$18,000 million or ₴1,091,824 million (2015: \$18,000 million or ₴1,311,889 million);
- unused ruble limit for the execution of swaps between the Bank of Russia and the People's Bank of China under a bilateral National Currency Swap Agreement in the amount of ₴806,500 million (2015: ₴804,000 million)¹. The said limit constitutes the current maximum amount of rubles which may be provided by the Bank of Russia via swaps. The increase in this item is caused by the reduction of the amount of money as a result of swaps concluded in 2015 for which the Bank of Russia provided funds. These funds are reflected in the item Funds placed with nonresidents and foreign securities (Note 5).

Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans

Unused limits to receive interbank funds in the form of overdrafts and 'against the debt limit' loans totalling ₴2,393,178 million (2015: ₴2,996,246 million) include:

- unused limit for the Bank of Russia to receive US dollars under the Treaty for the Establishment of a BRICS Foreign Currency Reserve Pool between the BRICS nations, totalling \$18,000 million or ₴1,091,824 million (2015: \$18,000 million or ₴1,311,889 million);

¹ In accordance with the bilateral National Currency Swap Agreement, the maximum amount of rubles that may be provided by the Bank of Russia to the People's Bank of China through swaps is ₴815,000 million.

– unused limit in Chinese renminbi to engage in swap transactions between the Bank of Russia and the People's Bank of China under the bilateral National Currency Swap Agreement, totalling RMB149,097 million or ₱1,301,354 million (2015: RMB148,918 million or ₱1,672,321 million). This limit constitutes the current maximum amount of Chinese renminbi which may be obtained by the Bank of Russia through swap transactions².

As of 31 December 2015, this item also showed unused limits in Chinese renminbi under swaps executed with the People's Bank of China under the National Currency Swap Agreement in the amount of RMB1,072 million or ₱12,036 million.

Securities received in reverse transactions

Securities included in the item *Securities received by the Bank of Russia in reverse transactions* are securities received from the counterparties in repos with resident banks in the domestic market and with nonresidents in international markets.

Securities received by the Bank of Russia from counterparties in repos in the domestic market are accounted for at fair value, which, as of 31 December 2016, totals ₱1,439,783 million (2015: ₱3,505,918 million).

Securities received by the Bank of Russia from counterparties in repos in international markets are accounted for at fair value, which, as of 31 December 2016, totals ₱71,946 million (2015: ₱189,717 million), this includes the fair value of securities received in reverse repos that match repo transactions, totalling ₱71,946 million (2015: ₱67,868 million).

The decrease in this item mainly results from the drop in the volume of repos concluded in the domestic market.

Assets accepted as collateral for funds placed, except for securities and precious metals

Assets accepted as collateral for funds placed, except for securities and precious metals, constitute receivables under loan agreements accepted by the Bank of Russia as collateral for loans granted to credit institutions; these assets total ₱931,538 million (2015: ₱2,189,824 million). The decrease in the item is due to the drop in the volume of funds placed (Note 6).

Securities accepted as collateral for funds placed

Securities accepted as collateral for funds placed are securities accepted by the Bank of Russia from credit institutions as collateral for issued loans (Note 6) and securities accepted by the Bank of Russia as collateral in securities lending on a reverse basis in international markets.

Unused lines of credit facilities

Unused credit lines of credit facilities in the amount of ₱188,331 million (2015: ₱1,371 million) are foreign currency-denominated deposit transactions concluded in international markets, which have not yet reached their maturity date as of the reporting date, and Bank of Russia obligations under the lending agreement with the DIA to ensure the financial sustainability of the deposit insurance system and to fund the payment of indemnities on deposits in the amount of ₱51,000 million (2015: ₱0 million).

Guarantees and sureties received

Guarantees and sureties received by the Bank of Russia are predominantly guarantees accepted as collateral for issued loans (Note 6). Additionally, this item includes RMB903 million or ₱7,882 million under the swap concluded by the Bank of Russia and the People's Bank of China in the framework of the National Currency Swap Agreement (Note 2 (s)).

² In accordance with the National Currency Swap Agreement, the maximum amount of Chinese renminbi that may be obtained by the Bank of Russia from the People's Bank of China through swaps is RMB150,000 million.

Settlements with the IMF related to servicing funds raised and placed

As an IMF member country, the Russian Federation participates in a burden-sharing mechanism for debt arrears. Under this mechanism, in order to compensate for third-party defaults on their payments to the IMF, IMF borrower countries pay surcharges on the SDR interest rate, while a deduction on this rate is withheld from creditor countries. Settlements with the IMF related to servicing borrowed and placed funds represent amounts of the Russian Federation's claims on the IMF for paid interest rate surcharges and withheld interest rate deductions that accrued in 1993–2005 and in 2009–2016 under the burden-sharing mechanism and total SDR85.9 million or ₹6,991 million, as of 31 December 2016 (2015: SDR85.9 million or ₹8,702 million).

Arrears in interest payments on the principal not written off the balance sheet

Arrears in interest payments on the principal not written off the balance sheet consist of accrued interest on loans and other funds placed, provided by the Bank of Russia to credit institutions, the receipt of which is uncertain.

Guarantees and sureties issued

The guarantees and sureties issued, as of 31 December 2015, included the Bank of Russia's contingent liability to the IMF to pay for the increase in the Russian Federation's IMF quota in line with the 14th General Review of Quotas conducted by the IMF, amounting to SDR6,958.3 million or ₹704,442 million.

28. Post-accounting date events

From the profit retained by the Bank of Russia, the Bank of Russia Board of Directors decided to allocate: ₹4,185 million to the Bank of Russia Reserve Fund and ₹174 million 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*).

The Bank of Russia Board of Directors made several decisions: on participation in the IMF's financial transactions plans in accordance with the IMF Articles of Agreement within the Russian Federation's quota; on the prolongation of the New Arrangements to Borrow up to 16 November 2022, as proposed by the IMF, and on the amount of the Bank of Russia's commitments under the arrangement not exceeding SDR4,440.91 million; and on entering into a new Bilateral Borrowing Agreement with the IMF for the period till 31 December 2019 and with the possibility of extending it to 31 December 2020, with the amount of the Bank of Russia's commitments under the agreement not exceeding \$10,000 million.

In accordance with Article 2 of Federal Law No. 415-FZ, dated 19 December 2016, 'On the Federal Budget for 2017 and the Plan Period of 2018 and 2019', the Bank of Russia shall transfer the income for 2016 from its stakeholdings in Sberbank, received in 2017, to the federal budget.

In accordance with the decision of the Bank of Russia Board of Directors, dated 14 April 2017, the amount of ₹7,821 million was added to the Bank of Russia's pension fund from previously created provisions to meet obligations to the participants in the Bank of Russia's Pension Plan, covered by expenses in 2017.

In March 2017, the Bank of Russia Board of Directors decided to increase the amount of the Bank of Russia's loan provided to the DIA to ensure the financial sustainability of the deposit insurance system, as well as to fund the payment of indemnities on deposits, by ₹220,000 million (Note 6).

STATEMENT OF PROFIT AND ITS ALLOCATION

(millions of rubles)

	2016	2015
1 Actual profit for the year	43,745	112,575
2 Taxes and duties paid from the Bank of Russia's profit under the Tax Code of the Russian Federation, total:	153	195
of which:		
– advance payments in the reporting year	150	189
– after the final settlement for the reporting year ³	3	6
3 Profit after the payment of taxes and duties under the Tax Code of the Russian Federation	43,592	112,380
4 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)'	39,233	101,142
5 Profit remaining at the disposal of the Bank of Russia, total	4,359	11,238
of which, allocated to:		
– Reserve Fund	4,185	10,788
– Social Fund	174	450

In accordance with Article 11 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia's profit is calculated 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, 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.

In 2016, the Bank of Russia's income and expenses were shaped amid the gradual recovery of economic activity and a transition to the structural liquidity surplus. Taking into account the decline in the Bank of Russia's interest rates and the reduction in refinancing provided to the banking sector, the Bank of Russia's interest income contracted markedly compared to the previous year (Note 17). Alongside the above, the financial result was also affected by net negative realised foreign currency exchange differences at year-end arising from the purchase (sale) of foreign currency in the domestic and international markets at exchange rates that differed from the official exchange rates established by the Bank of Russia, as well as by expenditures on the negative revaluation of securities available for sale. Overall, the said factors determined the formation of the financial result of Bank of Russia's performance at a lower level compared to 2015.

The Bank of Russia's profit for the year is allocated in accordance with 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 75% of its actual annual 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.

Federal Law No. 333-FZ, dated 28 November 2015, 'On Suspending Part 1 of Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Amending Article 2 of the Federal Law 'On Amending Article 26 of the Federal Law On the Central Bank of the Russian Federation (Bank of Russia)', suspended Part 1 of Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', from 1 January 2016 to 1 January 2018, with regard to the percentage share of the actual profit for the year received by the Bank of Russia, which remained after the payment of taxes and duties in accordance with the Tax Code of

³ 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 in accordance with the Tax Code of the Russian Federation are recognised in the Bank of Russia's balance sheet for the current year (Note 28).

the Russian Federation and which must be transferred to the federal budget. Pursuant to Article 1 of Federal Law No. 334-FZ, dated 28 November 2015, 'On the Specifics for Transferring the Profit for 2015 and for 2016 Received by the Central Bank of the Russian Federation in 2016 and in 2017', once the Annual Financial Statements for 2016 have been approved by the Board of Directors, in 2017 the Bank of Russia will transfer 90% 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.

The allocation of the profit retained by the Bank of Russia is decided by the Bank of Russia Board of Directors in accordance with the Bank of Russia Regulation 'On the Procedure for Allocating Profit Retained by the Bank of Russia': up to 4% of the profit retained by the Bank of Russia is allocated to the Bank of Russia Social Fund, and the remainder is allocated to the Bank of Russia Reserve Fund.

STATEMENT OF BANK OF RUSSIA RESERVES AND FUNDS

(millions of rubles)

	Reserve fund	Social fund	Accrued precious metal revaluation	Positive revaluation of securities available for sale	Accrued foreign currency exchange rate differences	Growth in the value of property after revaluation	Total
Opening balance of the reporting year, inclusive of funds received as a result of profit allocation for the year preceding the reporting year	329,628	3,375	2,415,131	48,828	9,707,057	7,966	12,511,985
Transferred to funds from other sources	0	0	0	18,558	0	0	18,558
Funds used	0	(225)	(420,647)	(18,004)	(3,446,902)	0	(3,885,778)
Opening balance of the year following the reporting year	329,628	3,150	1,994,484	49,382	6,260,155	7,966	8,644,765
Transferred from reporting year profit	4,185	174	0	0	0	0	4,359
Total, inclusive of funds received as a result of reporting year profit allocation	333,813	3,324	1,994,484	49,382	6,260,155	7,966	8,649,124

Pursuant to Article 26 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', once the Annual Financial Statements have been approved by the Board of Directors, the Bank of Russia allocates to various reserves and funds its profit, retained after the payment of taxes and duties under the Tax Code of the Russian Federation and after transferring a part of this profit to the federal budget. The procedure for the allocation of the profit retained by the Bank of Russia is established by the Bank of Russia Regulation 'On the Procedure for Allocating Profit Retained by the Bank of Russia'.

Pursuant to the Bank of Russia Regulation 'On the Procedure for Compiling the Bank of Russia Reserve Fund and its Usage', the Bank of Russia created the Reserve Fund to ensure stability in the Bank of Russia's activities for carrying out the functions assigned to it by law. The Bank of Russia Reserve Fund is formed from its profit. According to the decision by the Board of Directors, the Bank of Russia may also transfer money from other funds and reserves that are part of its capital to the Reserve Fund.

In accordance with the procedure for allocating the Bank of Russia's retained profit and the decision by the Bank of Russia Board of Directors on the 2016 profit allocation, ₹4,185 million were transferred to the Bank of Russia Reserve Fund (2015: ₹10,788 million).

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 to provide one-off social benefits to Bank of Russia employees. The Social Fund is formed with the Bank of Russia's 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 the decision by the Bank of Russia Board of Directors on the 2016 profit allocation, ₹174 million or 4.0% of the Bank of Russia's retained profit were transferred to the Bank of Russia Social Fund (2015: ₹450 million or 4.0%).

Pursuant to the Accounting Policy, assets (claims) and liabilities denominated in precious metals, including precious metals in commemorative and investment coins, are entered in the books at the value of precious metals at the book prices for refined precious metals, as established by the Bank of Russia as of the date of titles transfer, and are revalued as book prices are set. In 2016, the negative unrealised differences exceeded the positive differences by ₹420,647 million. This excess was written off by the decision of the Bank of Russia Board of Directors 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 (in 2015, the positive unrealised differences exceeded the negative ones by ₹462,078 million).

Pursuant to the Accounting Policy, accrued foreign currency exchange rate differences result from the revaluation of assets (claims) and liabilities denominated in foreign currency, caused by changes in the official exchange rate of foreign currencies against the ruble. In 2016, the negative unrealised differences exceeded the positive ones by ₹3,446,902 million. This excess was written off by the decision of the Bank of Russia Board of Directors on account of the previously accrued revaluation recorded to the balance-sheet account *Accrued foreign currency exchange rate differences* as part of the Bank of Russia capital (in 2015, the positive unrealised differences exceeded the negative ones by ₹2,953,341 million).

Pursuant to the Accounting Policy, debt obligations categorised as *Available for sale* are subject to revaluation at the fair value of the securities. In 2016, the accrued positive revaluation of debt obligations categorised as *Available for sale* totalling ₹18,558 million was posted to the balance sheet account *Positive revaluation of securities available for sale* as part of the Bank of Russia capital (2015: ₹31,201 million). The positive revaluation of securities accrued in previous years was written off to settle the negative unrealised revaluation of securities of corresponding issue (issuer) accrued in 2016 in the amount of ₹18,004 million (2015: ₹15,105 million).

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)

	2016	2015
Foreign issuers' debt obligations, of which:		
US and Canadian issuers' debt obligations	5,966,832	7,592,061
– denominated in US dollars	5,451,981	6,775,377
– denominated in Canadian dollars	506,774	816,684
– denominated in Australian dollars	8,077	0
EU issuers' debt obligations	8,109,870	11,184,329
– denominated in US dollars	1,144,544	1,146,942
– denominated in Canadian dollars	243,230	0
– denominated in euros	5,090,770	7,771,549
– denominated in pounds sterling	1,561,534	2,218,470
– denominated in Australian dollars	69,792	46,789
– denominated in rubles	0	579
Australian issuers' debt obligations	132,532	193,048
– denominated in Australian dollars	132,532	193,048
Chinese issuers' debt obligations	14,570	14,458
– denominated in Chinese renminbi	14,570	14,458
Debt obligations of international organisations	654,420	934,281
– denominated in US dollars	60,378	36,433
– denominated in Canadian dollars	3,848	0
– denominated in euros	539,436	875,655
– denominated in pounds sterling	38,593	15,749
– denominated in Australian dollars	12,165	6,444
Subtotal	14,878,224	19,918,177
Russian issuers' debt obligations, of which:		
Russian federal government debt obligations	311,787	512,720
– denominated in rubles	59,804	207,193
– denominated in US dollars	251,983	305,527
Other Russian issuers' debt obligations (excluding promissory notes)	218,711	227,218
– denominated in rubles	218,711	227,218
Promissory notes issued by credit institutions ⁴	23	23
Subtotal	530,521	739,961
Total	15,408,745	20,658,138

⁴ The value of securities not accounted for at fair value is indicated net of provisions created (Note 7).

Note. The Bank of Russia's investments in debt obligations comprise securities owned by the Bank of Russia, excluding those acquired in reverse transactions (including repos) and securities transferred by the Bank of Russia in reverse transactions.

The Bank of Russia's investments in debt obligations are mostly categorised under securities available for sale (excluding investments in Vnesheconombank bonds, which are categorised under securities held to maturity) (Notes 5 and 7).

Foreign issuers' debt obligations mostly consist of US Treasuries, the government bonds and bills of France, the United Kingdom, Germany, Canada, Austria, Australia, Sweden, the Netherlands, Finland, and China, non-government bonds guaranteed by the governments of foreign states, and debt obligations of international financial institutions.

As part of its operations to manage foreign-currency assets, the Bank of Russia purchased and sold debt obligations of foreign issuers, conducted repo transactions with the said securities, and provided foreign issuers' securities on a reverse basis.

The change in the balance of this item was mostly caused by the decreased value of foreign securities following the drop in the official exchange rates of the foreign currencies in which those securities were denominated against the ruble and the contraction in Bank of Russia investments in foreign securities.

In 2016, following the settlement of outstanding obligations of Russian credit institutions under repos with the Bank of Russia or their termination as a result of the revocation of the credit institution's banking licence, the Bank of Russia retained securities of Russian and foreign issuers. Most of those securities were sold during the reporting period.

The Russian issuers' debt obligations are Russian government securities (ruble-denominated OFZs and external foreign-currency bonds of the Russian Federation denominated in US dollars) and ruble-denominated corporate securities.

In 2015, Russian issuers' debt obligations also comprised ruble-denominated securities issued by the constituent territories of the Russian Federation which were sold or redeemed in 2016.

In 2016, the Bank of Russia sold OFZs as part of its monetary policy implementation efforts.

The change in the balance of this item is mainly linked to the sale of Russian issuers' debt obligations.

Bank of Russia's investments in the authorised capital of credit institutions and other organisations*(millions of rubles)*

Name	2016		2015	
	Investment amount	Share in authorised capital, %	Investment amount	Share in authorised capital, %
Investment in resident shares, of which:	104,334		83,034	
Sberbank of Russia, Sberbank, Moscow	72,938	50.00% + 1 voting share	72,938	50.00% + 1 voting share
Joint-stock Company Russian National Reinsurance Company, JSC RNRC, Moscow	21,300	100	–	–
Public Joint-stock Company Moscow Exchange MICEX-RTS, Moscow Exchange, Moscow	5,793	11.77	5,793	11.77
National System of Payment Cards Joint-Stock Company, NSPC JSC, Moscow	4,300	100	4,300	100
Stock Company Saint-Petersburg Currency Exchange, SPCEX SC, Saint Petersburg	3	8.90	3	8.90
Investments in nonresident shares, of which:	327		3,201	
Bank for International Settlements, Basel	326	0.57	3,200	0.57
Society for Worldwide Interbank Financial Telecommunications (SWIFT), Belgium	1	0.006	1	0.006

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)', Parts 1 and 2 of Article 30² of Federal Law No. 161-FZ, dated 27 June 2011, 'On the National Payment System', and Part 1 of Article 13¹ of Law of the Russian Federation No. 4015-1, dated 27 November 1992, 'On the Organisation of Insurance Business in the Russian Federation'.

The increase in the item *Investment in resident shares* was caused by the Bank of Russia's acquisition of 100% of the shares in Joint-stock Company Russian National Reinsurance Company (JSC RNRC), established by the Bank of Russia in 2016, as the sole shareholder.

The decrease in the item *Investments in non-resident shares* was conditioned by changes in the Accounting Policy, which stipulated the reflection, starting 1 January 2016, of the cost of investments in the foreign currency-denominated shares (participatory interest) of legal entities in rubles based on the official exchange rate of such foreign currency against the ruble as of the date of their acquisition (Note 2 (e)). In January 2016, the cost of investments in the authorised capitals of the Bank for International Settlements (Basel) and the Society for Worldwide International Financial Telecommunications (SWIFT) (Belgium) was adjusted by the total amount of ₺2,874 million to their value in rubles based on the official rate, as of the purchase date, and totalled ₺327 million.

Additionally, the Bank of Russia's balance sheet also reflects the Russian Federation's stakeholdings in international financial institutions: the International Monetary Fund (IMF) and the Interstate Bank.

In 2016 Q1, the decision on the 14th General Review of Quotas of IMF participants came into force. It provided for the increase of IMF participants' quotas, coupled by cuts in the liabilities of the states under the New Arrangements to Borrow. In February 2016, the Bank of Russia paid for the increase of the Russian Federation's quota with the IMF, as a result of which it grew from SDR5,945.4 million to SDR12,903.7 million. The stake of the Russian Federation in the aggregate quotas (capital) of the IMF amounted to 2.71% (2015: 2.5%) as of 31 December 2016, representing 2.59% of the total number of its member countries' votes (2015: 2.39%).

The Russian Federation's stakeholdings in the authorised capital of the Interstate Bank is 50% of its authorised capital and 50% of the total number of its member states' votes; the cost of the Russian Federation's investment in the authorised capital of the Interstate Bank, which is reflected in the Bank of Russia's balance sheet, equals ₺10 million (2015: ₺10 million).

STATEMENT OF THE VOLUME OF BANK OF RUSSIA SECURITIES TRADING ON ORGANISED TRADING VENUES

(millions of rubles)

Trade organiser	Volume of Bank of Russia own securities trading (including repos)		Volume of Bank of Russia securities trading on the instruction of its customers		Volume of Bank of Russia sales of collateral under Lombard loans and repos	
	2016	2015	2016	2015	2016	2015
Public Joint-Stock Company Moscow Exchange MICEX-RTS, Moscow Exchange, Moscow ⁵	55,192,633	76,958,846	1,146,383	725,833	0	0
Stock Company Saint-Petersburg Currency Exchange, SPCEX SC, Saint Petersburg	0	0	0	0	0	0
	55,192,633	76,958,846	1,146,383	725,833	0	0

The column *Volume of Bank of Russia own securities trading (including repos)* shows summary data on the volumes of the following Bank of Russia operations with securities:

- acquisition of securities in the first leg of repos in the currency of the Russian Federation;
- acquisition of securities in the first leg of repos in a foreign currency (the ruble equivalent of the volume of operations over the year in the foreign currency is given at the exchange rate as of 31 December 2016). These operations amounted to \$143,416 million in their respective settlement currency (2015: \$134,290 million);
- sales of federal government bonds from the Bank of Russia's portfolio;
- sales of securities retained by the Bank of Russia in 2015 and 2016 as a result of the settlement of the outstanding obligations of credit institutions under repos with the Bank of Russia or their termination as a result of the revocation of a credit institution's banking licence.

The column *Volume of Bank of Russia securities trading on the instructions of its customers* shows summary data on the purchase and sale of Russian government securities by the Bank of Russia on the instructions of the Ministry of Finance under agency agreements.

⁵ In 2016, as a result of the reorganisation of Moscow Exchange Group, CJSC MICEX SE was merged with PJSC Moscow Exchange and terminated its activity as of 19 December 2016.

As of the date of the merger, PJSC Moscow Exchange became the legal successor of CJSC MICEX SE with respect to all of its rights and duties. (Information on the reorganisation is published on the official website of PJSC Moscow Exchange at www.moex.com.)

STATEMENT OF BANK OF RUSSIA PERSONNEL COSTS

(millions of rubles)

	2016	2015
Compensation	90,225	86,151
Other benefits to Bank of Russia personnel	1,321	1,303
Charges on compensation and other benefits	19,955	19,108
Total Bank of Russia personnel costs	111,501	106,562

The Bank of Russia's personnel costs grew by ₴4,939 million or 4.6%, relative to 2015, with compensation-related expenses up by ₴4,074 million or 4.7%, and other benefits to Bank of Russia personnel up by ₴18 million or 1.4%. Charges on compensation and other benefits grew by ₴847 million or 4.4%.

Compensation expenses include: salary payments, seniority bonuses for the length of service with the Bank of Russia, additional payments for participation in inspections, other increments and benefits established by Bank of Russia regulations, quarterly and year-end bonuses, regular paid leaves and study leaves, one-off allowances for annual paid leaves, payments of regional coefficients and interest allowances for those working in the Extreme North and similar regions in accordance with the legislation of the Russian Federation, and one-off allowances upon old age retirement.

Other benefits to Bank of Russia personnel under applicable legislation of the Russian Federation and Bank of Russia regulations include: financial support to offset spending on improving living conditions, emergency allowances, benefits for employees living (working) in regions affected by radiation following the Chernobyl nuclear power plant disaster, benefits for employees taking parental leave until their child reaches the age of three, allowances for temporary disability due to a disease or injury paid for the first three days of disability, compensation for holiday travel expenses for employees working in the Extreme North and similar regions and their non-working family members for the payment of their round-trip tickets, and for the expenses incurred in moving to a new place of residence in a different region upon the expiration of their employment agreement (contract) or due to retirement, compensation for the expenses of employees and their family members to move to work at another Bank of Russia establishment located in another region, and other benefits.

In 2016, the average number of Bank of Russia employees fell by 4,476 (7.7%) to 53,634. The decrease resulted from the measures taken to streamline the Bank of Russia's structure.

The average monthly income per one employee was ₴142,239 in 2016 (2015: ₴125,414).

Insurance contributions to government extra-budgetary funds constituted 21.6% of total compensation and other benefit-related expenses (2015: 21.6%). Charges to the Social Insurance Fund for compulsory social insurance against on-the-job accidents and occupational disease were made at the fixed rate of 0.2%.

Expenses for the compensation of key management personnel (members of the Bank of Russia Board of Directors, the Deputy Governors of the Bank of Russia, and the Chief Auditor of the Bank of Russia – 19 persons) amounted to ₴405.3 million or 0.4% of the total Bank of Russia expenses on compensation and other personnel benefits, including ₴93.8 million in year-end bonuses for 2015 (2015: 18 persons, ₴317.8 million or 0.4%, including ₴75.4 million in year-end bonuses for 2014).

STATEMENT OF CAPITAL INVESTMENT BUDGET PERFORMANCE

(millions of rubles)

Capital investment	Approved for 2016	Actual amount in 2016	Actual amount in 2015
Capital investment	14,596	9,531	7,835
Capital investment in fixed assets, of which:	11,615	8,698	7,279
– capital investment in information technology	6,534	5,532	2,866
– capital investment in construction (reconstruction) and logistics (except cash turnover management)	2,721	1,215	2,419
– capital investment relating to cash turnover management	1,375	1,178	1,137
– capital investment relating to security and protection of Bank of Russia facilities	985	773	857
Capital investments in intangible assets	1,546	833	556
Centralised capital investment reserve	1,435	–	–
Memo item:			
Other capital expenses	2,331	1,809	1,005
Total capital expenses	16,927	11,340	8,840

In 2016, the capital expenses of the Bank of Russia increased by ₺2,500 million.

Investment in information technology made up the largest part of capital investment (58.0%). The share of capital investment in construction (reconstruction) and logistics was 12.8%, capital investment in cash turnover management was 12.4%, capital investment in the security and protection of Bank of Russia facilities was 8.1%, and capital investment in intangible assets was 8.7%.

Capital investment in information technology grew by ₺2,666 million or by 93.0%. Funds were used to develop the soft- and hardware infrastructure of information and telecommunications systems to ensure the sustainable and reliable functioning of the Bank of Russia payment system; to develop technologies for online access to Bank of Russia services, including the creation of the system of information exchange with financial market participants; to develop (upgrade) the single telecommunication banking network, terminal access system, and consolidated data server system to support information exchange between main branches and regional divisions in the context of the Bank of Russia's regional network optimisation and the centralisation of accounting services; to support the functioning and development of existing accounting systems and information analysis systems of the Bank of Russia, the system of consolidated computing resources of the information systems, applied transport systems, components and tools ensuring information security of the Bank of Russia's IT system; to develop technical infrastructure (including engineering systems); and to ensure data security and protection.

Capital investment in construction (reconstruction) and logistics to support the Bank of Russia's operations (excluding cash turnover management) shrank by ₺1,204 million or by 49.8%. The funds were used to build (reconstruct) 74 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; to additionally equip and refurbish operating facilities and construction facilities; and to purchase transport vehicles.

Capital investment in cash turnover management increased by ₺41 million or by 3.6%. The funds were used to install in Bank of Russia offices modular complexes based on high-performance banknote processing machines, to purchase cash-office hardware and technological equipment, and to create (upgrade) video systems for the surveillance and recording of operations with valuables.

Capital investment relating to the security and protection of Bank of Russia facilities decreased by ₹84 million or by 9.8%. The funds were used to establish and develop fire alarm systems, video security and surveillance systems, control and access systems, and to replace expired and obsolete facilities.

In 2016, capital investment in intangible assets grew by ₹277 million or by 49.8%. The funds were used to purchase and develop software products (constituting the intellectual property of the Bank of Russia) for information technology support, and also for information security and protection.

The item *Other capital expenses* includes expenses for the purchase of rights to use certain software products meant to develop the system and technical infrastructure of the information and telecommunications system, as well as licences, certificates, and permits that are valid for more than one year.

Compared to 2015, these expenses increased by ₹804 million or by 80.0%.

AUDITORS' REPORTS



Auditor's report

on the Bank of Russia Annual Financial Statements for 2016

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

- 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 self-regulatory organisation of auditors Russian Union of Auditors (Association).

PwC Audit is included in the register of auditors and audit organisations under the main registration entry number (MREN) 11603050547.

- 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 of a limited liability company No. 484.583 was issued by the Moscow Registration Chamber on 15 November 1993.

The certificate of registration of a legal entity registered before 1 July 2002 in the Single State Register of Legal Entities No. 1027700058286, dated 24 July 2002, was issued by Moscow Interdistrict Inspectorate No. 39 of the Russian Federation Ministry of Taxes and Duties.

FBK is a member of the self-regulatory organisation of auditors Association Sodruzhestvo. (NP AAS).

FBK is included in the register of auditors and audit organisations under the main registration entry number (MREN) 11506030481.



FBK

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 2016. Pursuant to Article 25 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', the Bank of Russia Annual Financial Statements consist of: the annual balance sheet, the statement of financial performance (including the statement of profit and its allocation), the statement of Bank of Russia reserves and funds, the statement of Bank of Russia management of securities and stakeholdings in the capital of organisations constituting Bank of Russia property, the statement of Bank of Russia personnel costs, the statement of capital investment budget performance, and the statement of 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 the financial reporting that was compiled according to the requirements of the legislation of the Russian Federation and Bank of Russia regulations. 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 Bank of Russia's management 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)', Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting', Bank of Russia Regulation No. 522-P, dated 21 December 2015, 'Bank of Russia Accounting Policy for Accounting Purposes', and 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)', and also for the internal control system required for preparing the 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 judgment, 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.



FBK

Auditor's report (continuation)

Opinion

In our opinion, the Annual Financial Statements present, in all material respects, a reliable picture of the Bank of Russia's financial standing as of 31 December 2016 and the outcomes of its financial and economic activities for the period from 1 January to 31 December 2016 inclusive, as required by Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', Federal Law No. 402-FZ, dated 6 December 2011, 'On Accounting', Bank of Russia Regulation No. 522-P, dated 21 December 2015, 'Bank of Russia Accounting Policy for Accounting Purposes', and also according to 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)'.

Other information

Without any prejudice to 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)', the reliability of the data, to which access is limited pursuant to the provisions of Federal Law No. 5485-1, dated 21 July 1993, 'On State Secrecy', and which are included in the items of the annual balance sheet and the statement of financial performance constituting the Bank of Russia's Annual Financial Statements, has been confirmed by the Audit Chamber of the Russian Federation in its Statement, dated 27 April 2017, 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', for the year 2016.

Ye.V. Filippova
Auditor qualification certificate
No. 01-000195
General Director
PricewaterhouseCoopers Audit, CJSC

S.M. Shapiguzov
Auditor qualification certificate
No. 01-001230
President
FBK, LLC

28 April 2017



THE AUDIT CHAMBER OF THE RUSSIAN FEDERATION

2 Zubovskaya St., Moscow 119991

Tel: 986-05-09, fax: 986-09-52

27 April 2017

No. 06-168/06-02

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 2016 Covered by the Federal Law 'On State Secrecy'
(approved by the decision of the Collegium of the Audit Chamber
of the Russian Federation of 27 April 2017, protocol No. 23K (1168))**

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 the data for 2016 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 2017.

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 competence of the Audit Chamber of the Russian Federation and the consortium of auditing organisations – PricewaterhouseCoopers Audit JSC and Financial and Accounting Consultants LLC (the Auditor of the Bank of Russia Annual Financial Statements for the year 2016).

Under the applicable legislation, the Audit Chamber's duty is to present to the Bank of Russia a statement on the results of the examination of the accounts and operations of the Central Bank of the Russian Federation (Bank of Russia) and data for 2016, 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 for 2016, 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 2016 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 31 December 2016, and its statement of financial performance for the period from 1 January to 31 December 2016, 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 aspects the assets and liabilities of the Central Bank of the Russian Federation (Bank of Russia) as of 31 December 2016, and the income and expenses of the Central Bank of the Russian Federation (Bank of Russia) for 2016, in line with the Bank of Russia's accounting policy.

Having examined the Bank of Russia's accounts and operations and data for 2016, 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 31 December 2016 (balance sheet assets totalling ₹1,226,032 million and balance sheet liabilities totalling ₹0 million), the statement of financial performance for the period from 1 January to 31 December 2016 (income totalling ₹9,873 million and expenses totalling ₹192,818 million);

precious metals revaluation for the period from 1 January to 31 December 2016: positive unrealised differences from the revaluation of precious metals totalling ₹1,186.9 million;

foreign currency revaluation for the period from 1 January to 31 December 2016: negative unrealised exchange rate differences from the revaluation of foreign currency totalling ₹151,084.8 million;

consolidated annual balance sheet as of 31 December 2016 (with respect to sub-accounts and off-balance sheet accounts) and the consolidated statement of financial performance for the period from 1 January to 31 December 2016;

data on the total number of Bank of Russia notes and coins of 1997 (exclusive of coins containing precious metals), which should be in circulation as of 31 December 2016.

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 ₹8,531,106.1 million in Bank of Russia notes and coins of 1997 should be in circulation as of 1 January 2016 (exclusive of coins containing precious metals).

Over the period from 1 January to 31 December 2016, the Bank of Russia put into circulation banknotes and coins of 1997 (exclusive of coins containing precious metals) totalling ₹12,961,064.1 million, and withdrew from circulation Bank of Russia banknotes and coins of 1997 (exclusive of coins containing precious metals) totalling ₹12,690,171.5 million.

Consequently, in the period under review, the amount of Bank of Russia notes and coins of 1997 (exclusive of coins containing precious metals) in circulation increased by ₹270,892.6 million.

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 ₹8,801,998.7 million in Bank of Russia notes and coins of 1997 should be in circulation as of 31 December 2016 (exclusive of coins containing precious metals).

Provisions for assets covered by the Federal Law 'On State Secrecy' have been created in line with Bank of Russia regulations.

The Audit Chamber of the Russian Federation confirms the credibility, in all material aspects, of the Bank of Russia Annual Financial Statements for 2016, and the compliance of the accounting procedure with the Russian federal legislation and Bank of Russia regulations.

Auditor

A.V. Perchyan

VI. ADDENDA

VI.1. MEASURES TO IMPLEMENT THE SINGLE STATE MONETARY POLICY

The Bank of Russia key rate and the system of interest rates on monetary policy instruments

At the start of 2016, the Bank of Russia key rate stood at 11.00% p.a. Over the course of the year, the Bank of Russia Board of Directors decided to reduce the key rate twice: to 10.50% p.a. starting 14 June 2016 and to 10.00% p.a. starting 19 September 2016. Alongside changes to the key rate, interest rates on monetary policy instruments, the system of which was built as described below, were also reduced.

The minimum interest rate on seven-day repo auctions and the maximum interest rate on seven-day deposit auctions were in line with the key rate. The minimum interest rate on fine-tuning FX swap auctions and fine-tuning repo auctions and the maximum interest rate on fine-tuning deposit auctions were also tied to the key rate. The minimum interest rates on occasional credit auctions were set at 0.25 pp above the key rate, while loans were provided at a floating rate.

The interest rate on one-day liquidity-providing standing facilities (overnight loans, Lombard loans, loans secured by gold, loans secured by non-marketable assets or guarantees, and also repos and FX swaps), which corresponded to the upper bound of the interest rate corridor, was set at 1 pp above the key rate. The interest rate on deposit operations under standard overnight terms, which corresponded to the lower bound of the interest rate corridor, was set at 1 pp below the key rate.

Floating interest rates were used for standing facilities with terms of over one day. Interest rates on loans secured by gold were set at 1.5 pp above the key rate, and interest rates on loans secured by non-marketable assets or guarantees were set at 1.75 pp above the key rate. Interest rates on standard tom/next, spot/next and demand deposit operations were set at 1 pp below the key rate.

The Bank of Russia Board of Directors decided that the refinancing rate would equal the key rate starting 1 January 2016.

Required reserves

On 1 January 2016, Bank of Russia Regulation No. 507-P, dated 1 December 2015, 'On Credit Institutions' Required Reserves', entered into force. It enacted decisions adopted by the Bank of Russia Board of Directors to synchronise the schedule of required reserve averaging periods with the schedule of key Bank of Russia liquidity management operations and to calculate the average balances in credit institutions' correspondent accounts and sub-accounts held with the Bank of Russia to check whether they have averaged their required reserves according to the arithmetic mean formula.

In 2016, the Bank of Russia raised the required reserve ratios three times:

- starting 1 April, by 1 pp for credit institutions' liabilities in foreign currency, excluding liabilities to individuals;
- starting 1 July, by 1 pp for credit institutions' liabilities in foreign currency; and
- starting 1 August, by 0.75 pp for all types of credit institutions' reservable liabilities.

The increase in the required reserve ratios was intended to hamper growth in the share of foreign currency liabilities in the total liabilities of credit institutions and to absorb the emerging excess of liquidity.

In 2016, the required reserves averaging ratio used by credit institutions to calculate the averaged component of required reserves did not change.

As part of the further improvement of the required reserves mechanism, the Bank of Russia adopted Ordinance No. 4217-U, dated 25 November 2016, 'On Amending Bank of Russia Regulation No. 507-P, Dated 1 December

2015, 'On Credit Institutions' Required Reserves'. The amendments, which specified the composition of credit institutions' reservable liabilities, came into force from the date of calculation of required reserves for January 2017. The Bank of Russia also decided that reservable liabilities should not include liabilities under subordinated instruments or issued bonds which mature in no less than three years and which do not imply early repayment. The Bank of Russia also updated the methodology for calculating the amount of required reserves in connection with changes made to the procedure for compiling daily balance sheet by credit institutions and eased measures applicable to credit institutions for not observing their required reserves.

Refinancing instruments

1. In 2016, the Bank of Russia elaborated a new form of the master agreement concluded with credit institutions on repo transactions. The new form unifies the rules for executing repo transactions in the exchange and OTC markets, provides for the possibility of executing transactions in the exchange markets with a securities basket, determines the procedure for settling outstanding repos, and entitles the Bank of Russia to settle repo transactions with credit institutions whose banking licences have been revoked by way of participating in unified close-out netting with respect to transactions conducted in the exchange and OTC markets.

2. Starting 1 July 2016, the Bank of Russia suspended Lombard credit auctions for 36 months and auctions for granting loans secured by non-marketable assets for 18 months and for 1 to 3 weeks.

3. In 2016, amid the emergence of liquidity surplus in the banking sector, the Bank of Russia implemented a number of measures to tighten requirements for securities accepted as collateral under refinancing operations:

- starting 1 February 2016, shares and Russian depository receipts for the shares of nonresident legal entities were removed from the Bank of Russia Lombard List;
- starting 8 July 2016, the requirements for the minimum rating of the issuer (issue) of bonds of resident legal entities and of issue-grade debt securities issued by nonresident legal entities outside the Russian Federation and included in the Bank of Russia Lombard List were raised from B-/B3 to B+/B1 on the scale of the rating agencies S&P Global Ratings and Fitch Ratings/Moody's Investors Service. This decision does not apply to mortgage-backed bonds and bonds of mortgage agencies.

Starting 1 September 2016, the Bank of Russia lowered the adjustment ratios set for adjusting the value of non-marketable assets accepted as collateral for Bank of Russia loans in accordance with Bank of Russia Regulation No. 312-P, dated 12 November 2007, 'On the Procedure for the Extending Bank of Russia Loans Covered by Assets or Guarantees to Credit Institutions', from 0.95–0.7 to 0.8–0.6 (except for credit claims on which the liable party is represented by the Russian Federation, a Russian constituent entity or a municipality).

4. Starting 12 July 2016, the Bank of Russia allowed credit institutions to use issue-grade debt securities which are issued by nonresident legal entities outside the Russian Federation, which are included in the Lombard List of the Bank of Russia and admitted for circulation at MICEX SE, as collateral under loans provided in accordance with Bank of Russia Regulation No. 236-P, dated 4 August 2003, 'On the Procedure for Extending Bank of Russia Loans to Credit Institutions against the Collateral (Blocking) of Securities', and set adjustment ratios for them.

5. In 2016 Q4, the Bank of Russia:

- removed restrictions on receiving intraday loans secured by non-marketable assets by the banks of the Moscow Region;
- allowed the receipt of loans secured by non-marketable assets in the correspondent sub-accounts of credit institutions, regardless of their credit rating and capital amount.

6. In 2016, the \$10 billion-per-day-cup in ruble equivalent on the provision of ruble liquidity to credit institutions through FX swaps remained in effect. This cap was linked to the need to minimise the possibility of credit institutions pursuing high-risk strategies in the domestic foreign exchange market to use these transactions.

7. Starting 23 December 2016, the Bank of Russia set interest rates on the foreign currency leg of USD/RUB and EUR/RUB sell/buy FX swaps with credit institutions to be equal to LIBOR on one-day loans in US dollars and euros respectively.

Deposit operations and Bank of Russia bonds

1. In 2016, the Rules of Bank of Russia deposit operations with credit institutions were clarified, and new forms of the general deposit agreement (GDA) and a supplement to the GDA were developed; these new forms provided for:

- exchange of electronic documents as an independent method of direct document exchange between the Bank of Russia and credit institutions during deposit operations;
- introduction of a unified deposit account (one of GDA essential details) opened by credit institutions with the Bank of Russia;
- updating the list of authorised settlement organisations involved in settlements under Bank of Russia deposit operations.

The work on the centralised support for settlements under deposit operations was performed at the division level at the Bank of Russia's head office.

2. In 2016, in the context of emerging structural liquidity surplus, the Bank of Russia decided it was possible to place Bank of Russia coupon bonds (KOBRS). KOBRS may have 3-, 6- and 12-month terms to mature, and the coupon rate is set as equal to the key rate for each day of the coupon period.

Specialised refinancing facilities

Over the course of the year, the Bank of Russia maintained interest rates unchanged on almost all specialised facilities.

In 2016, interest rates on facilities associated with support for small and medium-sized businesses (loans secured by claims under loan agreements concluded by JSC SME Bank with credit institutions and microfinance and leasing organisations; loans secured by guarantees issued by JSC Russian Small and Medium Business Corporation) were set at the level of 6.50% p.a.

In 2016, interest rates on facilities intended to stimulate other investment (loans secured by claims under loans issued to finance investment projects; loans secured by bonds placed to fund investment project financing and included in the Bank of Russia Lombard List; loans secured by claims under loan agreements which, in turn, were secured by insurance contracts of JSC EXIAR; and loans secured by claims under loans issued to leasing companies) were set at the level of 9.00% p.a.

The Bank of Russia cut the interest rate twice on loans secured by mortgages issued under the Military Mortgage programme (along with key rate cuts): it was 10.75% p.a. as of 1 January 2016; 10.50% p.a. starting 14 June, and 10.00% p.a. starting 19 September.

In 2016, the Bank of Russia raised its lending limits: for facilities supporting small and medium businesses, from ₹50 billion to ₹125 billion; for facilities financing large investment projects, from ₹100 billion to ₹150 billion; and for facilities stimulating non-commodity exports, from ₹50 billion to ₹75 billion.

In 2016, jointly with JSC Russia SMB Corporation, the Bank of Russia extended the range of credit institutions participating in the SME Lending Stimulus Programme by adding regional credit institutions to this programme. As a result of those efforts, in 2016 another 14 regional credit institutions joined the said Programme.

Foreign currency refinancing facilities

1. Over the course of the year, the Bank of Russia did not change the interest rates on repo operations for providing foreign currency to credit institutions.

2. Starting 23 December 2016, the Bank of Russia set interest rates on the foreign currency leg of USD/RUB sell/buy FX swaps with credit institutions on today/tomorrow and tomorrow / day-after-tomorrow settlement terms to be equal to the LIBOR rate for one-day loans in US dollars plus 1.50 pp.

3. Starting 1 April 2016, the Bank of Russia suspended repo auctions held to provide foreign currency to credit institutions for a period of 12 months.

VI.2. IMPLEMENTATION OF THE GUIDELINES FOR THE DEVELOPMENT OF FINANCIAL MARKET

For the purposes of financial market development, the Bank of Russia worked on the 2016 Action Plan ('road map') as part of the implementation of the Guidelines for the Development of the Russian Financial Market in 2016–2018.

To standardise financial operations and financial services, the Bank of Russia issued the following documents:

- Ordinance No. 4026-U, dated 30 May 2016, 'On the List of Mandatory Core Standards and Their Contents, and the List of Financial Market Operations (Activity Types) to be Standardised Depending on the Activity Types of Financial Institutions, and to be Developed by Financial Market Self-regulatory Organisations Comprising Brokers, Dealers, Management Companies, Depositories, and Registrars';
- Ordinance No. 4027-U, dated 30 May 2016, 'On the List of Mandatory Core Standards and Their Contents, and the List of Financial Market Operations (Activity Types) to be Standardised Depending on the Activity Types of Financial Institutions, and to be Developed by Financial Market Self-regulatory Organisations Comprising Microfinance Organisations, and Consumer Credit Cooperatives'.

As part of efforts to improve the regulation of repository activity, as an information source for financial market participants, the Bank of Russia issued the following documents:

- Instruction No. 173-I, dated 8 June 2016, 'On the Procedure and Conditions of Licensing Repository Activities and the Procedure for a Repository to Notify the Bank of Russia of the Appointment or Dismissal of the Head of a Structural Unit Set up to Conduct Repository Activities';
- Ordinance No. 4045-U, dated 16 June 2016, 'On the Procedure for the Bank of Russia to Register Repository Rules, Rules of Internal Controls, Internal Audit and Risk Management, and the Related Amendments, and the Procedure for the Bank of Russia to Approve the Regulation on the Committee of Repository Service Users';
- Ordinance No. 4104-U, dated 16 August 2016, 'On the Types of Agreements Executed Outside Organised Trading Venues and Reported to the Repository; on Persons Submitting Information on Such Agreements to the Repository; on the Procedure, Composition, Form, and Timeframes for the Provision of Information to the Repository; on Additional Requirements for the Repository to Keep a Register of Agreements; on the Procedure and Timeframes for the Repository to Provide Information; and on the Procedure, Composition, Form, and Timeframes for the Repository to Submit the Register of Agreements to the Bank of Russia';
- Ordinance No. 4145-U, dated 30 September 2016, 'On the Requirements for a Repository's Internal Control and Internal Audit Rules'.

To provide financial market participants with access to electronic information on citizens from federal state information systems using the infrastructure supporting IT interaction of information systems used for the provision of state and municipal services and performance of state and municipal functions, the Bank of Russia issued the following documents:

- Ordinance No. 4106-U, dated 23 August 2016, 'On the Procedure for the Free Transfer of Credit Histories to Credit History Bureaus on a Competitive Basis';
- Ordinance No. 4150-U, dated 10 October 2016, 'On the Procedure for Transferring Credit Histories to the Central Catalogue of Credit Histories for Safekeeping'.

Within the framework of improving the system for evaluating the business reputation of management bodies' members and officials of financial institutions and approaches towards the qualification requirements for the said persons, the Bank of Russia issued Ordinance No. 4067-U, dated 12 July 2016, 'On Amending Bank of Russia Ordinance No. 3223-U, Dated 1 April 2014, 'On the Requirements for Heads of Risk Management, Internal Control and Internal Audit Services of a Credit Institution'.

To improve requirements for the information transparency of public entities, Bank of Russia Ordinance No. 4107-U, dated 23 August 2016, 'On the Procedure for an Issuer to Disclose (Submit) Information in the Event of Substitution of Securities Holders' Registrar', was issued.

As regards the improvement of the securities issuance procedure, the Bank of Russia issued Ordinance No. 4171-U, dated 28 October 2016, 'On Amending Bank of Russia Regulation No. 428-P, Dated 11 August 2014, 'On Securities Issue Standards, Procedure for the State Registration of Issues (Additional Issues) of Issue-grade Securities, the State Registration of Reports on Results of Issues (Additional Issues) of Equity Securities and Registration of Prospectuses of Securities'.

To improve regulation of credit rating agencies in the Russian Federation and to ensure, specifically, that they are eventually recognised by foreign regulators, the Bank of Russia issued the following documents:

- Ordinance No. 4097-U, dated 4 August 2016, 'On the Procedure and Timeframe for a Credit Rating Agency to Disclose Information on Reasons Behind Deviations from the Calendar Set Dates for Revising and Disclosing Sovereign Credit Ratings';
- Ordinance No. 4103-U, dated 11 August 2016, 'On the Procedure for the Bank of Russia to Approve the List of Additional Services Provided by a Credit Rating Agency Mentioned in Part 9 of Article 9 of Federal Law No. 222-FZ, Dated 13 July 2015, 'On the Activity of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Invalidating Certain Provisions of Russian Laws';
- Ordinance No. 4156-U, dated 13 October 2016, 'On the Procedure for the Bank of Russia to Issue Orders to Correct Violations of the Requirements Mentioned in Parts 1 and 6 of Article 6 of Federal Law No. 222-FZ, Dated 13 July 2015, 'On the Activity of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and on Invalidating Certain Provisions of Russian Laws'.

To remove duplicate and/or unused information from the statements of financial institutions and to supplement uniform reporting in order to enable the effective simultaneous remote and prudential supervision over different types of activities in the financial market, the Bank of Russia issued the following documents:

- Ordinance No. 4022-U, dated 20 May 2016, 'On Amending Bank of Russia Regulation No. 487-P, Dated 2 September 2015, 'Sectoral Standard for Accounting Income, Expenses and Other Total Return of Nonbank Financial Institutions';
- Ordinance No. 4024-U, dated 25 May 2016, 'On the Form, Timelines and Procedure for a Self-regulatory Organisation of Consumer Credit Cooperatives to Compile and Submit to the Bank of Russia Information on Supervising the Activities of the Members of the Self-regulatory Organisation of Consumer Credit Cooperatives as Part of Their Compliance with Russian Legislative Requirements on Credit Cooperation, Their Statutory Documents, and Also Rules and Standards of the Self-regulatory Organisation of Consumer Credit Cooperatives';
- Ordinance No. 4083-U, dated 25 July 2016, 'On the Forms, Timeframes and Procedure for Compiling and Submitting to the Bank of Russia Documents Containing the Activity Report and the Report on the Composition of the Governing Bodies of a Consumer Credit Cooperative';
- Ordinance No. 4113-U, dated 30 August 2016, 'On Amending Bank of Russia Regulation No. 488-P, Dated 2 September 2015, 'Sectoral Standard for Accounting Financial Derivatives by Nonbank Financial Institutions';
- Ordinance No. 4114-U, dated 30 August 2016, 'On Amending Bank of Russia Regulation No. 502-P, Dated 5 November 2015, 'Sectoral Standard for Non-governmental Pension Funds to Account Operations Related to Their Activities as Insurers in Mandatory Pension Insurance and Non-governmental Pension Provision';
- Ordinance No. 4127-U, dated 5 September 2016, 'On Amending Bank of Russia Regulation No. 526-P, Dated 28 December 2015, 'Sectoral Accounting Standard 'Procedure for Compiling Accounting (Financial) Statements by Insurance Companies and Mutual Insurance Companies';
- Ordinance No. 4128-U, dated 5 September 2016, 'On Amending Bank of Russia Regulation No. 532-P, Dated 3 February 2016, 'Sectoral Accounting Standard 'Procedure for Compiling Accounting (Financial) Statements of Professional Securities Market Participants, Joint-stock Investment Funds, Trade Organisers, Central Counterparties, Clearing Companies, Specialised Depositories of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, Asset Management Companies of Investment Funds, Credit History Bureaus, Credit Rating Agencies, and Insurance Brokers';

- Ordinance No. 4130-U, dated 6 September 2016, 'On Amending Bank of Russia Regulation No. 491-P, Dated 4 September 2015, 'Sectoral Standard for Accounting in Insurance Companies and Mutual Insurance Companies Located in the Russian Federation';
- Ordinance No. 4173-U, dated 31 October 2016, 'On Amending Bank of Russia Regulation No. 527-P, Dated 28 December 2015, 'Sectoral Accounting Standard 'Procedure for Compiling Accounting (Financial) Statements by Non-governmental Pension Funds';
- Ordinance No. 4177-U, dated 3 November 2016, 'On the Contents of Statements of a Credit Rating Agency, its Form, Timeframe and Procedure for Compiling and Submitting to the Bank of Russia';
- Ordinance No. 4178-U, dated 7 November 2016, 'On Amending Bank of Russia Regulation No. 487-P, Dated 2 September 2015, 'Sectoral Standard for Accounting Income, Expenses and Other Total Return of Nonbank Financial Institutions';
- Ordinance No. 4179-U, dated 7 November 2016, 'On Amending Bank of Russia Regulation No. 493-P, Dated 1 October 2015, 'Sectoral Standard for Accounting Operations to Withdraw (Place) Funds under Loan Agreements and Bank Deposit Agreements at Nonbank Financial Institutions';
- Ordinance No. 4180-U, dated 7 November 2016, 'On Amending Bank of Russia Regulation No. 494-P, Dated 1 October 2015, 'Sectoral Standard for Securities Transactions Accounting at Nonbank Financial Institutions';
- Ordinance No. 4181-U, dated 7 November 2016, 'On Amending Bank of Russia Regulation No. 501-P, Dated 5 November 2015, 'Sectoral Standard for Accounting Fund Raising under Loan Agreements, and Bond and Promissory Note Issuance and Redemption (Repayment) by Nonbank Financial Organisations';
- Ordinance No. 4182-U, dated 7 November 2016, 'On Amending Bank of Russia Regulation No. 524-P, Dated 28 December 2015, 'Sectoral Standard for Accounting Lease Agreements by Nonbank Financial Institutions';
- Ordinance No. 4212-U, dated 24 November 2016, 'On the List, Forms and Procedure for Compiling and Submitting Credit Institutions' Reporting Forms to the Central Bank of the Russian Federation';
- Ordinance No. 4247-U, dated 27 December 2016, 'On Amending Bank of Russia Regulation No. 486-P, Dated 2 September 2015, 'On Chart of Accounts for Accounting Purposes in Nonbank Financial Institutions and the Procedure for Using it';

To implement proportional regulation in the financial market, the Bank of Russia issued the following documents:

- Ordinance No. 3964-U, dated 20 February 2016, 'On Microfinance Organisations for Business Financing';
- Ordinance No. 4075-U, dated 19 July 2016, 'On the Capital Requirements for Management Companies of Investment Funds, Unit Investment Funds, Non-governmental Pension Funds, and Applicants for Management Company Licence'.

To formulate approaches to implementing the mechanism of professional judgement on various aspects of financial institutions' activities, alongside efforts to strengthen oversight over decision-making procedures, the Bank of Russia issued the following documents:

- Ordinance No. 4203-U, dated 17 November 2016, 'On the Signs of Potential Interconnectedness between an Entity (Entities) and a Credit Institution';
- Ordinance No. 4205-U, dated 17 November 2016, 'On the Procedure for the Bank of Russia Banking Supervision Committee to Recognise an Entity to be Interconnected with a Credit Institution (to Belong to the Group of Entities Interconnected with a Credit Institution) on the Basis of a Reasoned Judgment, to Send Instructions to the Credit Institution and to Consider Applications from the Credit Institution';

To improve the system of supervision over financial institutions, the Bank of Russia issued the following documents:

- Regulation No. 553-P, dated 22 September 2016, 'On the Procedure for the Bank of Russia to Maintain the Register of Unit Investment Funds and Provide Extracts Therefrom, on the Requirements for the Statement of Consolidated Assets of Unit Investment Funds, Procedure for and Timeframes of its Submitting to the Bank of Russia';
- Ordinance No. 3984-U, dated 28 March 2016, 'On the Procedure for the Bank of Russia to Maintain the State Register of Microfinance Organisations, the Form of Application for Entering Information on a Legal Entity to the State Register of Microfinance Organisations, the Form of Information on the Founders (Members, Shareholders) of the Legal Entity, the Form of a Certificate of Entry of Information on the Legal Entity in the State Reg-

ister of Microfinance Organisations and the Procedure for its Reregistration, Application Forms on Changing the Type of a Microfinance Organisation and on Operation as a Microfinance Organisation or as a Microcredit Company, and the Form and Procedure for Submitting Documents and Information Confirming the Availability of Equity (Capital) and Sources of Funds Contributed by Founders (Members, Shareholders)'.

To improve the existing system of certification and professional evaluation of financial market specialists by the Bank of Russia, the Bank of Russia issued Ordinance No. 4131-U, dated 8 September 2016, 'On Approving the Programme of Qualification Examinations to Certify Individuals in Broker, Dealer, Securities Management and Forex Dealer Activities'.

To improve its analytical capabilities for the identification of threats to financial stability, the Bank of Russia issued the following documents:

- Ordinance No. 4091-U, dated 29 July 2016, 'On Amending Bank of Russia Ordinance No. 3386-U, Dated 22 September 2014, 'On the Procedure for Calculating the Foreign Capital Stake (Quota) in the Authorised Capital of Insurance Companies, and the Lists of Documents Required to Obtain the Bank of Russia's Permits to Alienate the Shares (Stakes in Authorised Capital) of Insurance Companies in Favour of Foreign Investors and/or Their Subsidiaries';
- Ordinance No. 4144-U, dated 29 September 2016, 'On the Requirements for the Risk Management System Related to Repository Activities and the Rules for Repository Risk Management';
- Ordinance No. 4148-U, dated 6 October 2016, 'On the Requirements for the Development and Approval of Plans for Business Continuity and Financial Sustainability of a Repository'.

As part of a full-fledged introduction in the Russian law of internationally recognised approaches to banking regulation, taking into account the timing of their phased-out implementation as set out by the Basel Committee on Banking Supervision, the Bank of Russia issued Ordinance No. 4099-U, dated 4 August 2016, 'On Amending Bank of Russia Regulation No. 283-P, Dated 20 March 2006, 'On the Procedure for Making Loan Loss Provisions by Credit Institutions'.

To clarify approaches used by credit institutions to calculate equity (capital) so as to prevent all and any sources of fictitious capital from being included in the calculation of equity (capital), the Bank of Russia issued the following documents:

- Ordinance No. 4055-U, dated 29 June 2016, 'On Amending Bank of Russia Instruction No. 139-I, Dated 3 December 2012, 'On Banks' Required Ratios';
- Ordinance No. 4098-U, dated 4 August 2016, 'On Amending Bank of Russia Regulation of 28 December 2012 'On the Methodology for Measuring Bank Capital and Assessing its Adequacy (Basel III)'.

As regards the improvement of its payment system, the Bank of Russia issued the following documents:

- Regulation No. 563-P, dated 5 December 2016, 'On the Procedure for the Central Bank of the Russian Federation to Administer Certain Proceeds to the Budgetary System of the Russian Federation';
- Ordinance No. 4199-U, dated 17 November 2016, 'On Amending Bank of Russia Regulation No. 384-P, Dated 29 June 2012, 'On the Bank of Russia Payment System';
- Ordinance No. 4200-U, dated 17 November 2016, 'On Amending Bank of Russia Regulation No. 303-P, Dated 25 April 2007, 'On the Real-time Gross Settlement System of the Bank of Russia';
- Ordinance No. 4201-U, dated 17 November 2016, 'On Amending Bank of Russia Ordinance No. 1822-U, Dated 25 April 2007, 'On the Procedure for Effecting Payments and Settlements in the Bank of Russia Real-time Gross Settlement System'.

To implement the project for building a new payment infrastructure within the Bank of Russia payment system, Bank of Russia issued Regulation No. 552-P, dated 24 August 2016, 'On the Requirements for Data Protection in the Bank of Russia Payment System' (for the participants in the Bank of Russia payment system).

Within the framework of developing requirements for the financial sustainability of professional securities market participants regarding capital requirements and the introduction of certain ratios, Bank of Russia prepared Regulation No. 548-P, dated 19 July 2016, 'On the Procedure for Calculating the Capital of Professional Securities Market Participants and Also of Applicants for Professional Securities Market Participant's Licence'.

To improve requirements for depository activity, the Bank of Russia issued Regulation No. 546-P, dated 1 June 2016, 'On the List of Information Associated with the Exercise of Securities Rights and Provided by Issuers to the

Central Depository, the Procedure and Timeframes for Its Provision, and on the Requirements for the Procedure for the Central Depository to Give Access to Such Information’.

To improve the requirements for the financial stability and solvency of insurers, the Bank of Russia issued the following documents:

- Regulation No. 557-P, dated 16 November 2016, ‘On the Rules for Creating Life Insurance Reserves’;
- Regulation No. 558-P, dated 16 November 2016, ‘On the Rules for Creating Non-life Insurance Reserves’.

To improve the regulation of third-party liability insurance, the Bank of Russia issued the following documents:

- Ordinance No. 4190-U, dated 14 November 2016, ‘On the Requirements for the Use of Electronic Documents and the Procedure for Electronic Information Exchange in the Process of Compulsory Third Party Liability Insurance of Vehicle Owners’;
- Ordinance No. 4191-U, dated 14 November 2016, ‘On the Requirements for the Smooth and Uninterrupted Functioning of the Websites of Insurers and the Professional Association of Insurers for the Purpose of Making Electronic Compulsory Insurance Agreements’;
- Ordinance No. 4192-U, dated 14 November 2016, ‘On Amending Bank of Russia Regulation No. 431-P, Dated 19 September 2014, ‘On the Rules of Compulsory Third Party Liability Insurance of Vehicle Owners’.

To ensure the development of the risk management system in non-governmental pension funds, the Bank of Russia issued the following documents:

- Ordinance No. 4060-U, dated 4 July 2016, ‘On the Requirements for the Organisation of the Risk Management System of a Non-governmental Pension Fund’;
- Ordinance No. 4075-U, dated 19 July 2016, ‘On the Capital Requirements for Management Companies of Investment Funds, Unit Investment Funds, Non-governmental Pension Funds, and Applicants for Management Company Licence’.

For the purpose of expanding the range of investment objects for investment funds with regard to the composition and structure of assets, the Bank of Russia issued Ordinance No. 4129-U, dated 5 September 2016, ‘On the Composition and Structure of Assets of Joint-stock Investment Funds and Unit Investment Funds’.

Within the framework of developing requirements for the financial stability of microfinance organisations, the Bank of Russia prepared the following documents:

- Ordinance No. 4101-U, dated 4 August 2016, ‘On the Organisation and Implementation by Bank of Russia Regional Branches of Off-site Supervision of Microfinance Organisations, Consumer Credit Cooperatives, Agricultural Consumer Credit Cooperatives, Pawnshops, and Housing Savings Cooperatives’;
- Ordinance No. 4155-U, dated 11 October 2016, ‘On the Organisation and Implementation by Bank of Russia Regional Branches of Off-site Supervision of Nonbank Financial Institutions Related to Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism’.

VI.3. STATISTICAL TABLES

Table 1

Key macroeconomic indicators (percent of previous year)

	2014	2015	2016
Gross domestic product ^{1,2}	100.7	97.2	99.8
of which ³ :			
– agriculture, hunting and forestry	102.0	103.0	103.6
– mining and quarrying	102.0	100.2	100.3
– manufacturing	100.8	95.4	101.1
– electricity, gas and water supply	99.4	98.5	102.6
– construction	97.2	98.1	95.8
– wholesale and retail trade, and other	100.7	91.2	96.9
– transport and communications	99.8	99.0	100.4
GDP deflator index ²	...	108.2	103.6
Consumer price index (December on previous December) ²	111.4	112.9	105.4
Fixed capital investment ^{1,2}	98.5	89.9	99.1
Retail trade turnover ^{1,2}	102.7	90.0	94.8
Unemployment rate calculated according to ILO methodology (annual average), percent of economically active population ²	5.2	5.6	5.5
External trade (per balance of payments methodology) ⁴			
– merchandise exports	95.2	68.7	82.5
– merchandise imports	90.2	62.7	99.3
– exports of services	93.8	78.6	97.7
– imports of services	94.3	73.2	83.9

¹ Index of quantity.

² Rosstat data.

³ Gross value added in core prices.

⁴ Bank of Russia data.

Table 2

Consumer prices by group of goods and services¹
(growth, December as a percentage of previous December)

	2014	2015	2016
Consumer prices, total	11.4	12.9	5.4
of which:			
– food prices	15.4	14.0	4.6
of which:			
– food prices exclusive of fruit and vegetables	14.7	13.6	6.0
– fruit and vegetable prices	22.0	17.4	–6.8
– nonfood prices	8.1	13.7	6.5
– paid services provided to the public	10.5	10.2	4.9
Prices of goods and services included in calculation of core consumer price index (CCPI)	11.2	13.7	6.0

¹ Rosstat data.

Table 3

Consumer price inflation structure¹

	2015		2016	
	growth, percentage points	contribution to growth, percent	growth, percentage points	contribution to growth, percent
Headline inflation (December on December)	12.9	100.0	5.4	100.0
Inflation growth due to:				
– change in prices of goods and services included in CCPI calculation	10.0	77.1	4.4	80.7
– change in prices of goods and services not included in CCPI calculation	3.0	22.9	1.0	19.3
of which:				
– change in fruit and vegetable prices	0.7	5.4	–0.3	–5.3
– change in administered service and fuel prices	2.2	17.2	1.3	23.4

¹ Rosstat data, Bank of Russia calculations.

Table 4

Balance of household money income and expenditures¹
(millions of rubles)

	2015	2016	2016 as a percentage of 2015
Money income	53,525,872.1	54,102,486.0	101.1
Wages and salaries	35,104,871	34,980,618.1	99.6
Share, percent	65.6	64.7	
Social allowances	9,768,286.9	10,396,920.6	106.4
Share, percent	18.3	19.2	
Income from entrepreneurial activities	4,244,743.7	4,228,976.8	99.6
Share, percent	7.9	7.8	
Income from property	3,339,869.9	3,413,920.8	102.2
Share, percent	6.2	6.3	
Other income	1,068,100.6	1,082,049.7	101.3
Share, percent	2.0	2.0	
Money expenditures	43,818,953.7	45,435,204.1	103.7
– consumer expenditures	38,003,547.8	39,284,383.6	103.4
– compulsory payments and contributions	5,815,405.9	6,150,820.5	105.8
Growth in savings and cash on hand, purchase of foreign currency	9,706,918.4	8,667,281.9	89.3
– savings ²	7,686,949.0	6,067,384.8	78.9
of which:			
– deposits and securities	3,453,375.5	2,872,684.9	83.2
– foreign currency purchase	2,233,656.5	2,175,333.3	97.4
– cash on hand	–213,687.1	424,563.8	– ³
Memo item			
Share of money income, percent			
– consumer expenditures	71.0	72.6	
– compulsory payments and contributions	10.9	11.4	
– savings	14.3	11.2	
of which:			
– deposits and securities	6.5	5.3	
– foreign currency purchase	4.2	4.0	
– cash on hand	–0.4	0.8	
Disposable money income	47,752,818.7	48,110,497.7	100.7
Share of, percent			
– consumer expenditures	79.6	81.7	
– savings	16.1	12.6	
of which:			
– deposits and securities	7.2	6.0	
– foreign currency purchase	4.7	4.5	
– cash on hand	–0.4	0.9	
– remittances	0.0	0.3	

¹ The table was compiled based on Rosstat data.

² Savings include increase (decrease) in deposits, purchase of securities, change in accounts of individual entrepreneurs, change in outstanding loans, purchase of real estate and cattle and poultry.

³ Opposite trends.

Table 5

Budget system and government debt

	2015		2016	
	billions of rubles	percentage of GDP	billions of rubles	percentage of GDP
Consolidated budget				
Revenue	26,922	32.3	27,747	32.2
– oil and gas revenues	5,863	7.0	4,844	5.6
– nonoil and gas revenues	21,059	25.3	22,903	26.6
Expenditure	29,742	35.7	30,889	35.9
Balance	–2,819	–3.4	–3,142	–3.7
Federal budget				
Revenue	13,659	16.4	13,460	15.6
– oil and gas revenues	5,863	7.0	4,844	5.6
– nonoil and gas revenues	7,797	9.4	8,616	10.0
Expenditure	15,620	18.8	16,416	19.1
Balance	–1,961	–2.4	–2,956	–3.4
– use of sovereign funds to finance deficit	2,623		2,137	
Sovereign funds' balances as of year end, of which	8,868	10.7	5,331	6.2
– Reserve Fund	3,641	4.4	972	1.1
– National Wealth Fund	5,227	6.3	4,359	5.1
Aggregate public debt as of year end	13,614	16.4	13,828	16.1
– aggregate public and municipal domestic debt	9,935	11.9	10,721	12.5
– federal domestic debt	7,308	8.8	8,003	9.3
of which in securities	5,573	6.7	6,100	7.1
– OFZs	4,991	6.0	5,633	6.6
– other securities	583	0.7	468	0.5
– government guarantees	1,735	2.1	1,903	2.2

Table 6

**Russia's domestic government debt as of 1 January 2017
(at face value, billions of rubles)**

Debt instruments	Russia's domestic government debt
Permanent coupon-income federal government bonds (OFZ-PD)	3,051.1
Debt depreciation federal government bonds (OFZ-AD)	680.1
Variable coupon-income federal government bonds (OFZ-PK)	1,738.0
Inflation-indexed federal government bonds (OFZ-IN)	163.6
Government savings bonds (GSO)	377.6
MinFin bonds (OVOZ)	90.0
Russian government guarantees in national currency	1,903.1
Total	8,003.5

Table 7

Ministry of Finance debt to the Bank of Russia as of 1 January 2017¹
(millions of rubles)

	At face value
Russian government debt obligations	264,903
of which:	
– Russian government debt obligations available for sale, in national currency	64,497
– Russian government debt obligations available for sale, in foreign currency	200,406

¹ Exclusive of repo transactions.

Table 8

Volume (turnover) of residents' transactions with nonresidents to buy and sell
Russian government foreign currency bonds in secondary market
(at market prices, billions of US dollars)

	Currency	Q1	Q2	Q3	Q4	2016
Eurobonds maturing in 2017	US dollar	0.33	0.34	0.43	0.10	1.19
Eurobonds maturing in 2018 (issued in the course of restructuring GKO's)	US dollar	0.08	0.12	0.03	0.21	0.44
Eurobonds maturing in 2019	US dollar	0.12	0.50	0.13	0.05	0.81
Eurobonds maturing in 2020	US dollar	0.13	0.50	0.24	0.22	1.09
Eurobonds maturing in 2020	Euro	0.01	0.26	0.19	0.16	0.62
Eurobonds maturing in 2022	US dollar	0.26	0.40	0.09	0.20	0.94
Eurobonds maturing in 2023	US dollar	0.26	0.49	0.55	0.34	1.64
Eurobonds maturing in 2026	US dollar	–	1.44	1.39	1.08	3.91
Eurobonds maturing in 2028	US dollar	0.08	0.36	0.07	0.56	1.07
Eurobonds maturing in 2030 (issued in the course of the second restructuring of debt to the London Club of commercial creditors)	US dollar	1.46	0.30	2.36	4.99	9.12
Eurobonds maturing in 2042	US dollar	0.30	0.38	0.40	0.62	1.70
Eurobonds maturing in 2043	US dollar	0.07	0.13	0.13	0.07	0.40

Table 9

**Institutional financial market participants
(units)**

	As of 1.01.2016	As of 1.01.2017
Credit institutions with the right to conduct banking operations, total	733	623
of which:		
– banks	681	575
– nonbank credit institutions	52	48
Credit institutions with foreign stakes in authorised capital	199	174
Branches of credit institutions operating in Russia	1,398	1,098
Representative offices of operating Russian credit institutions	308	285
Internal divisions of credit institutions (branches), total	37,221	34,200
of which:		
– additional offices	21,836	19,776
– mobile cash offices	5,696	4,995
– credit and cash offices	1,853	1,943
– operations offices	7,609	7,230
– mobile banking vehicles	227	256
Insurance market entities, total	478	364
of which:		
– insurance companies	334	256
– mutual insurance companies	10	12
– insurance brokers	134	96
Professional securities market participants ¹ , total	875	681
of which:		
– brokers	633	449
– dealers	651	479
– forex dealers	1	6
– trust managers	541	348
– depositories	502	397
– register holders	39	35
Infrastructures, total	14	14
of which:		
– clearing organisations	5	5
– exchanges	9	8
– merchandise operators	2	3
– repositories	–	1
– central depository	1	1
Collective investment market entities, total	517	449
of which:		
– non-governmental pension funds	102	74
– joint-stock investment funds	4	3
– management companies	372	333
– specialised depositories	39	39
Unit investment funds, total	1,559	1,553
of which:		
– open-end	372	356
– interval	50	47
– closed-end	1,137	1,150

End

	As of 1.01.2016	As of 1.01.2017
Microfinance agents, total	17,420	14,601
of which:		
– microfinance organisations	3,688	2,588
– consumer credit cooperatives	3,500	3,059
– pawnshops	8,417	7,415
– housing savings cooperatives	77	69
– agricultural consumer credit cooperatives	1,738	1,470
Credit rating agencies	9 ²	2
Responsible actuaries	98	104
Self-regulatory organisations (SROs)		
– SROs in financial market	– ³	20
– SROs of actuaries	2	2

¹ Including credit institutions, which are professional securities market players.

² Information about legal entities, which were engaged as of 1 January 2016 in rating activities as defined by Federal Law No. 222-FZ, dated 13 July 2015, 'On the Activity of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and Invalidating Certain Provisions of Russian Laws'.

³ Since 11 January 2016, the Bank of Russia has been maintaining a single register of SROs in the financial market. As of 1 January 2016, there were nine SROs of consumer credit cooperatives, five SROs of professional securities market participants, and three SROs of microfinance organisations.

Table 10

Self-regulatory organisations (SROs)

Financial market participants	Number of SROs		Number of SRO members as of 1.01.2017, units	Share of SRO members in total number of financial institutions engaged in the respective activity, percent
	as of 1.01.2016, units	as of 1.01.2017, units		
Professional securities market participants (brokers, dealers, managers, depositories, register holders, forex dealers)	5	5	703	100
Joint-stock investment funds and management companies of investment funds, unit investment funds and non-governmental pension funds	0	2	328	100
Specialised depositories	0	1	19	50
Non-governmental pension funds	0	2	73	100
Insurance companies	0	1	129	54
Microfinance organisations	3	3	2,343	80
Consumer credit cooperatives	9	9	1,492	61
Actuaries	2	2	255	100

Table 11

**Balance of payments¹ of the Russian Federation
(analytical presentation, millions of US dollars)**

	Q1	Q2	Q3	Q4	2016	Memo item: 2015
Current account	12,907	1,773	202	10,124	25,006	68,943
Goods	22,321	22,193	18,205	27,292	90,011	148,513
<i>Exports</i>	<i>60,425</i>	<i>67,788</i>	<i>70,882</i>	<i>82,587</i>	<i>281,682</i>	<i>341,467</i>
oil	14,093	18,836	19,277	21,507	73,712	89,588
oil products	9,657	11,466	12,191	12,791	46,106	67,453
natural gas	8,597	6,536	6,604	9,543	31,280	41,844
other	28,077	30,950	32,810	38,745	130,583	142,582
<i>Imports</i>	<i>38,104</i>	<i>45,594</i>	<i>52,677</i>	<i>55,295</i>	<i>191,671</i>	<i>192,954</i>
Services	-4,540	-6,041	-7,180	-6,113	-23,875	-36,920
<i>Exports</i>	<i>10,405</i>	<i>12,643</i>	<i>13,904</i>	<i>13,552</i>	<i>50,504</i>	<i>51,697</i>
transport	3,778	4,218	4,575	4,460	17,032	16,719
travel	1,282	1,842	2,885	1,780	7,788	8,420
other services	5,345	6,583	6,445	7,311	25,684	26,558
<i>Imports</i>	<i>14,945</i>	<i>18,684</i>	<i>21,085</i>	<i>19,665</i>	<i>74,379</i>	<i>88,617</i>
transport	2,394	2,899	3,126	3,141	11,560	11,728
travel	4,361	6,138	7,916	5,537	23,951	34,932
other services	8,190	9,648	10,043	10,987	38,868	41,958
Compensation of employees	-402	-369	-573	-825	-2,169	-5,104
Investment income	-3,252	-12,830	-7,813	-8,669	-32,563	-31,842
Receivable	8,620	7,653	9,113	11,628	37,014	33,652
Payable	11,872	20,482	16,926	20,297	69,577	65,494
<i>Federal government</i>	<i>-64</i>	<i>-378</i>	<i>-320</i>	<i>-481</i>	<i>-1,243</i>	<i>-820</i>
Receivable	376	151	285	148	960	1,097
Payable	440	529	605	630	2,203	1,917
<i>Local government (payable)</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>28</i>	<i>38</i>	<i>32</i>
<i>Central bank</i>	<i>252</i>	<i>256</i>	<i>245</i>	<i>256</i>	<i>1,009</i>	<i>952</i>
Receivable	254	258	247	262	1,021	957
Payable	2	2	2	6	12	5
<i>Banks</i>	<i>652</i>	<i>365</i>	<i>688</i>	<i>1,713</i>	<i>3,419</i>	<i>1,580</i>
Receivable	2,597	3,072	2,764	3,481	11,914	10,240
Payable	1,944	2,707	2,076	1,768	8,495	8,661
<i>Other sectors²</i>	<i>-4,090</i>	<i>-13,069</i>	<i>-8,423</i>	<i>-10,129</i>	<i>-35,711</i>	<i>-33,520</i>
Receivable	5,394	4,173	5,816	7,736	23,119	21,359
Payable	9,484	17,241	14,239	17,866	58,829	54,879
Rent	12	6	13	9	39	17
Secondary income	-1,231	-1,187	-2,449	-1,569	-6,436	-5,720
Capital account	-20	-1,320	62	511	-767	-309
Net lending (+) / net borrowing (-) (balance from current and capital accounts)	12,887	453	265	10,635	24,239	68,634

End

	Q1	Q2	Q3	Q4	2016	Memo item: 2015
Net lending (+) / net borrowing (-) (balance from financial account, excluding reserve assets)	7,367	-1,745	-980	8,477	13,119	69,986
Net incurrence of liabilities ('+' - increase, '-' - decrease)	-8,707	3,288	-5,446	6,542	-4,323	-71,091
<i>Federal government</i>	56	2,796	4,131	-2,116	4,867	-7,723
Portfolio investment	73	3,013	4,154	-2,046	5,194	-6,915
Issue	0	1,313	1,334	0	2,647	0
Redemption	-788	-401	-943	-513	-2,644	-2,586
principal	-259	-17	-223	0	-498	-608
coupons	-529	-384	-720	-513	-2,146	-1,978
Interest reinvestment	436	521	601	621	2,178	1,880
Secondary market	425	1,581	3,161	-2,154	3,013	-6,209
Loans	-24	-211	-16	-83	-333	-789
Other liabilities	6	-6	-7	13	6	-20
<i>Local government</i>	-2	10	64	-449	-377	57
<i>Central bank</i>	-1,169	-197	207	1,714	555	2,007
<i>Banks</i>	-7,573	-4,627	-7,676	-7,321	-27,197	-59,986
Direct investment	-357	664	346	954	1,608	589
Loans and deposits	-4,151	-2,387	-5,372	-4,461	-16,371	-32,252
Other liabilities	-3,065	-2,904	-2,651	-3,815	-12,434	-28,322
<i>Other sectors²</i>	-18	5,305	-2,172	14,714	17,829	-5,445
Direct investment	475	6,780	3,866	20,248	31,369	6,264
Portfolio investment	1,595	525	-354	-1,743	23	-4,686
Loans	-774	-4,514	-2,920	-4,015	-12,223	-4,779
Other liabilities	-1,314	2,514	-2,764	225	-1,339	-2,245
Net acquisition of financial assets, excluding reserve assets ('+' - increase, '-' - decrease)	-1,339	1,543	-6,426	15,020	8,797	-1,105
<i>General government</i>	21	-1,021	51	1,874	925	2,152
Loans	114	-1,552	232	1,202	-3	969
Other assets	-93	531	-182	672	929	1,183
<i>Central bank</i>	-13	-8	3	-55	-73	410
<i>Banks</i>	-9,895	-4,430	-8,325	-5,657	-28,307	-25,814
Direct investment	1,546	870	326	-545	2,197	1,732
Loans and deposits	-11,587	-5,204	-9,846	-3,445	-30,082	-12,444
Other assets	147	-96	1,194	-1,667	-422	-15,102
<i>Other sectors²</i>	8,547	7,001	1,845	18,858	36,251	22,148
Direct investment	6,276	6,391	1,743	5,974	20,384	20,351
Portfolio investment	899	2,236	361	74	3,570	2,973
Cash foreign currency	-830	-1,134	-1,804	-1,119	-4,887	-13,832
Trade credit and advances	200	-1,060	-2,930	3,328	-462	5,376
Indebtedness on supplies according to intergovernmental agreements	377	108	241	263	989	461
Fictitious transactions ³	163	203	225	180	771	1,531
Other assets	1,463	256	4,008	10,158	15,885	5,288
Net errors and omissions	-2,923	2,156	1,896	-4,005	-2,876	3,055
Change in reserve assets ('+' - increase, '-' - decrease)	2,597	4,354	3,141	-1,848	8,244	1,704

¹ The balance of payments is compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). The use of signs corresponds to BPM6.

² Other sectors include other financial corporations (except banks), nonfinancial corporations, households, and nonprofit institutions serving households.

³ Includes fictitious transactions related to foreign trade in goods and services, securities trading, lending to nonresidents and fictitious transactions with money transfers to residents' accounts abroad the purpose of which is transferring money abroad.

Table 12

**Private sector net capital inflows (outflows)
(according to balance of payments data, billions of US dollars)**

	Private sector net capital inflows (outflows), total	Banks			Other sectors			
		Net capital inflows (outflows)	Net acquisition of financial assets	Net incurrence of liabilities	Net capital inflows (outflows)	Net acquisition of financial assets ¹	Net incurrence of liabilities	Balance of payments net errors and omissions ²
2015	58.2	34.2	-25.8	-60.0	24.1	21.7	-5.4	3.1
Q1	33.1	14.2	-10.3	-24.5	18.9	8.9	-7.1	-2.9
Q2	18.7	12.6	1.7	-10.9	6.2	5.5	-1.4	0.8
Q3	-3.2	10.9	-4.3	-15.2	-14.1	-0.6	9.3	4.1
Q4	9.6	-3.5	-12.9	-9.4	13.1	7.8	-6.2	1.0
2016	19.2	-1.1	-28.3	-27.2	20.3	35.3	17.8	-2.9
Q1	8.8	-2.3	-9.9	-7.6	11.1	8.2	0.0	-2.9
Q2	-0.4	0.2	-4.4	-4.6	-0.6	6.9	5.3	2.2
Q3	1.2	-0.6	-8.3	-7.7	1.9	1.6	-2.2	1.9
Q4	9.6	1.7	-5.7	-7.3	7.9	18.6	14.7	-4.0

¹ Excluding the indebtedness on supplies of goods according to intergovernmental agreements.

² Net errors and omissions item entirely relates to the other sectors. It is assumed that most difficulties arise in recording financial transactions of these sectors in the balance of payments.

Note. The use of signs corresponds to BPM6: '+' denotes net capital outflows, '-' denotes net capital inflows.

Table 13

**Private sector net capital inflows (outflows) by type of investment
(according to balance of payments data, billions of US dollars)**

	Q1	Q2	Q3	Q4	2016	Memo item: 2015
Direct investment	7.7	-0.2	-2.1	-15.8	-10.4	15.2
Net incurrence of liabilities	0.1	7.4	4.2	21.2	33.0	6.9
Banks	-0.4	0.7	0.3	1.0	1.6	0.6
Other sectors	0.5	6.8	3.9	20.2	31.4	6.3
Net acquisition of financial assets	7.8	7.3	2.1	5.4	22.6	22.1
Banks	1.5	0.9	0.3	-0.5	2.2	1.7
Other sectors	6.3	6.4	1.7	6.0	20.4	20.4
Portfolio investment	0.8	2.5	0.5	-0.9	2.9	19.3
Net incurrence of liabilities	0.7	0.2	-1.4	-1.8	-2.2	-6.0
Banks	-0.9	-0.3	-1.0	0.0	-2.3	-1.3
Other sectors	1.6	0.5	-0.4	-1.7	0.0	-4.7
Net acquisition of financial assets	1.5	2.7	-0.9	-2.6	0.7	13.3
Banks	0.6	0.4	-1.3	-2.7	-2.9	10.3
Other sectors	0.9	2.2	0.4	0.1	3.6	3.0
Financial derivatives	0.9	0.1	-0.5	0.1	0.5	7.4
Net incurrence of liabilities	-4.0	-2.8	-3.1	-3.6	-13.6	-28.7
Banks	-3.5	-2.5	-2.5	-3.0	-11.5	-26.9
Other sectors	-0.6	-0.4	-0.6	-0.6	-2.1	-1.8
Net acquisition of financial assets	-3.2	-2.8	-3.7	-3.5	-13.2	-21.2
Banks	-2.8	-2.2	-3.3	-2.9	-11.2	-19.7
Other sectors	-0.4	-0.5	-0.4	-0.7	-2.0	-1.5
Other investment	-3.5	-0.6	5.3	22.1	23.4	19.4
Net incurrence of liabilities	-4.4	-4.1	-9.5	-8.4	-26.5	-37.6
Banks	-2.9	-2.5	-4.4	-5.2	-15.0	-32.4
Other sectors	-1.5	-1.6	-5.1	-3.2	-11.5	-5.3
Net acquisition of financial assets	-7.9	-4.7	-4.2	13.7	-3.1	-18.3
Banks	-9.3	-3.5	-4.1	0.4	-16.4	-18.2
Other sectors ¹	1.4	-1.2	-0.1	13.2	13.3	-0.1
Balance of payments net errors and omissions	-2.9	2.2	1.9	-4.0	-2.9	3.1
Private sector net capital inflows (outflows), total	8,8	-0,4	1,2	9,6	19,2	58,2

¹ Excluding the indebtedness on supplies of goods according to intergovernmental agreements.

Note. The use of signs corresponds to BPM6: '+' denotes net capital outflows, '-' denotes net capital inflows.

Table 14

**Cross-border transfers of individuals
(residents and nonresidents)¹**

	Q1	Q2	Q3	Q4	2016	Memo item: 2015
Total, millions of US dollars						
Money transfers from the Russian Federation by individuals	8,057	8,483	9,489	9,899	35,928	35,116
to non-CIS countries	6,499	5,816	6,242	7,241	25,799	24,059
to CIS countries	1,559	2,667	3,246	2,658	10,129	11,057
Money transfers to the Russian Federation for the benefit of individuals	3,837	4,637	4,478	5,410	18,363	18,574
from non-CIS countries	3,190	3,953	3,752	4,620	15,515	14,702
from CIS countries	647	684	726	790	2,847	3,872
Balance²	-4,220	-3,846	-5,011	-4,489	-17,565	-16,542
with non-CIS countries	-3,309	-1,863	-2,490	-2,621	-10,283	-9,357
with CIS countries	-912	-1,982	-2,520	-1,868	-7,282	-7,185
Average amount of transfer, US dollars						
Money transfers from the Russian Federation by individuals	209	203	220	210	211	210
to non-CIS countries	234	209	222	212	219	206
to CIS countries	144	192	216	205	192	220
Money transfers to the Russian Federation for the benefit of individuals	505	590	557	579	560	725
from non-CIS countries	654	742	665	726	699	997
from CIS countries	238	270	303	266	268	356

¹ Money transfers to Russia for the benefit of resident and nonresident individuals and money transfers from Russia of resident and nonresident individuals made via credit institutions (with or without opening an account), including remittances via payment systems.

² Negative balance reflects the excess of the amount of remittances from the Russian Federation over the amount of remittances to the Russian Federation.

Table 15

**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	2016	Memo item: 2015
Direct investment	0.1	7.4	4.2	21.2	33.0	6.9
Portfolio investment	0.8	3.2	2.8	-3.8	3.0	-12.9
Financial derivatives	-4.0	-2.8	-3.1	-3.6	-13.6	-28.7
Other investment	-5.6	-4.5	-9.3	-7.2	-26.7	-36.4
Total	-8.7	3.3	-5.4	6.5	-4.3	-71.1

Note. Net incurrence of liabilities reflects a difference between increase in liabilities and their decrease; '-' denotes net decrease in residents' foreign liabilities.

Table 16

**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	2016	Memo item: 2015
Direct investment	7.8	7.3	2.1	5.4	22.6	22.1
Portfolio investment	1.5	2.7	-0.9	-2.6	0.7	13.6
Financial derivatives	-3.2	-2.8	-3.7	-3.5	-13.2	-21.2
Other investment	-7.5	-5.6	-3.9	15.8	-1.3	-15.5
Total	-1.3	1.5	-6.4	15	8.8	-1.1

Note. Net acquisition of financial assets reflects a difference between increase in assets and their decrease; '-' denotes net decrease in residents' foreign assets.

Table 17

International investment position of the Russian Federation
(millions of US dollars)

	Position as of 31.12.2015	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2016
	1	2	3	4	5	6
Net international investment position	335,101	21,363	-126,187	-3,323	-108,147	226,954
Assets	1,173,322	17,040	33,919	8,393	59,352	1,232,675
Direct investment	367,593	22,581	22,833	6,447	51,861	419,453
Equity and investment fund shares	278,970	19,798	18,592	4,833	43,223	322,192
Debt instruments	88,623	2,783	4,241	1,614	8,638	97,261
Portfolio investment	68,119	652	2,184	1,106	3,942	72,060
Equity and investment fund shares	2,814	171	240	-54	357	3,172
Debt securities	65,304	481	1,943	1,160	3,584	68,888
Financial derivatives (other than reserves) and employee stock options	11,146	-13,166	8,877	0	-4,289	6,857
Other investment	358,066	-1,269	6,658	-6,891	-1,502	356,563
Other equity	5,319	947	-25	7	929	6,249
Currency and deposits	148,089	-12,601	55	182	-12,364	135,725
Loans	161,586	6,219	5,428	5,108	16,755	178,342
Insurance, pension, and standardised guarantee schemes	1,498	233	325	0	558	2,056
Trade credit and advances	30,710	421	281	-8,022	-7,320	23,391
Other accounts receivable	10,863	3,511	593	-4,167	-63	10,800
Reserve assets	368,399	8,244	-6,632	7,731	9,343	377,741
Liabilities	838,221	-4,323	160,106	11,716	167,499	1,005,721
Direct investment	347,690	32,976	72,410	9,621	115,007	462,697
Equity and investment fund shares	207,830	36,319	69,132	8,044	113,495	321,326
Debt instruments	139,859	-3,343	3,279	1,576	1,512	141,371
Portfolio investment	140,487	3,020	68,973	798	72,791	213,278
Equity and investment fund shares	101,855	-1,788	62,715	332	61,259	163,114
Debt securities	38,632	4,808	6,258	466	11,532	50,164
Financial derivatives (other than reserves) and employee stock options	9,245	-13,617	10,827	0	-2,790	6,455
Other investment	340,800	-26,702	7,895	1,298	-17,509	323,291
Other equity	22	-20	14	209	203	225
Currency and deposits	119,332	-16,390	1,863	2,643	-11,884	107,447
Loans	206,019	-12,489	6,028	-398	-6,859	199,160
Insurance, pension, and standardised guarantee schemes	616	-84	112	0	28	645
Trade credit and advances	2,870	56	0	0	56	2,926
Other accounts payable	4,081	2,223	113	-1,156	1,180	5,261
Special drawing rights	7,860	2	-235	0	-233	7,628

Notes. 1. The international investment position of the Russian Federation is compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

2. '+' in columns 2 to 5 denotes net increase in assets or liabilities, '-' denotes their net decrease.

3. Data on portfolio investment (including government securities) are presented at market value.

Table 18

**International investment position of the banking sector of the Russian Federation
(millions of US dollars)**

	Position as of 31.12.2015	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2016
	1	2	3	4	5	6
International investment position, net	75,954	-1,109	-16,921	-13,052	-31,083	44,871
Assets	245,778	-28,307	9,166	-11,684	-30,824	214,954
Direct investment	12,929	2,197	-3,091	467	-427	12,501
Equity and investment fund shares	11,914	1,703	-3,133	213	-1,217	10,697
Debt instruments	1,015	494	42	254	790	1,804
Portfolio investment	47,980	-2,916	1,934	-928	-1,910	46,070
Equity	605	50	117	61	228	833
Debt securities	47,375	-2,966	1,818	-989	-2,138	45,237
Short-term	2,934	-2,765	13	202	-2,550	384
Long-term	44,441	-201	1,805	-1,191	413	44,854
Financial derivatives	11,099	-11,206	6,799	0	-4,407	6,693
Options	2,646	-252	-1,686	0	-1,938	709
Forward-type contracts	8,453	-10,954	8,485	0	-2,469	5,984
Other investment	173,770	-16,382	3,524	-11,223	-24,081	149,689
Other equity instruments	0	0	0	7	7	7
Foreign currency	7,141	11,152	-43	-12,758	-1,649	5,492
Deposits	78,188	-24,040	645	97	-23,298	54,889
Short-term	58,591	-19,525	493	-777	-19,810	38,781
Long-term	19,597	-4,515	152	875	-3,488	16,108
Loans	78,287	-6,042	2,439	4,955	1,352	79,639
Short-term	18,458	477	588	-288	777	19,235
Long-term	59,829	-6,519	1,851	5,243	575	60,404
Other accounts receivable	10,155	2,549	484	-3,525	-492	9,663
Short-term	3,921	2,914	235	-2,392	757	4,678
Long-term	6,234	-366	249	-1,133	-1,250	4,984

End

	Position as of 31.12.2015	Transactions	Valuation changes	Other changes	Total changes	Position as of 31.12.2016
	1	2	3	4	5	6
Liabilities	169,824	-27,197	26,087	1,369	258	170,083
Direct investment	20,352	1,608	2,708	-448	3,867	24,219
Equity	14,853	1,782	2,669	-264	4,187	19,040
Debt instruments	5,499	-174	39	-184	-319	5,179
Portfolio investment	19,744	-2,268	13,087	617	11,436	31,179
Equity	14,023	-1,005	11,863	150	11,008	25,031
Debt securities	5,721	-1,263	1,224	466	427	6,148
Short-term	1,597	-486	13	468	-5	1,592
Long-term	4,124	-777	1,211	-2	432	4,556
Financial derivatives	9,215	-11,537	8,771	0	-2,766	6,449
Options	732	-143	-242	0	-385	347
Forward-type contracts	8,483	-11,394	9,013	0	-2,381	6,102
Other investment	120,514	-15,000	1,521	1,200	-12,278	108,236
Other equity instruments	0	-50	8	209	168	168
Deposits	117,415	-16,310	1,496	2,701	-12,113	105,302
Short-term	21,448	380	1,014	-18	1,377	22,824
Long-term	95,968	-16,690	482	2,718	-13,490	82,478
Loans ¹	1,062	-61	3	-551	-610	451
Short-term	1,062	-61	3	-551	-610	451
Other accounts payable	2,037	1,421	14	-1,158	277	2,314
Short-term	1,153	1,207	58	-567	699	1,852
Long-term	884	214	-44	-592	-422	462

¹ Liabilities of banks on securities repurchase agreements with nonresidents which are not banks.

Notes. 1. The international investment position of the banking sector is compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

2. The table covers data on credit institutions, excluding nonbank credit institutions, and includes data of Vnesheconombank.

3. Forward-type contracts include forwards, swaps and futures.

4. '+' in columns 2 to 5 denotes net increase 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 within the reporting period.

Table 19

**Currency composition of foreign assets and liabilities of the banking sector of the Russian Federation
(in percent of the total)**

	Foreign assets					Foreign liabilities				
	US dollar	Euro	Russian ruble	Other currencies	Total	US dollar	Euro	Russian ruble	Other currencies	Total
31.12.2012	59.1	14.0	20.4	6.5	100.0	49.9	5.3	39.8	5.0	100.0
31.03.2013	62.3	14.4	17.5	5.8	100.0	49.9	6.0	39.2	4.9	100.0
30.06.2013	67.0	11.4	16.0	5.6	100.0	51.5	6.3	37.4	4.9	100.0
30.09.2013	65.2	12.0	16.2	6.5	100.0	51.7	6.5	37.3	4.5	100.0
31.12.2013	65.8	11.2	17.0	6.0	100.0	52.9	7.0	37.3	2.9	100.0
31.03.2014	64.3	12.4	16.6	6.7	100.0	56.0	7.9	32.7	3.3	100.0
30.06.2014	63.7	13.3	16.9	6.2	100.0	52.8	8.8	35.1	3.3	100.0
30.09.2014	63.4	13.4	16.4	6.7	100.0	55.4	9.8	31.3	3.5	100.0
31.12.2014	67.8	15.5	10.8	5.9	100.0	59.9	10.5	26.1	3.5	100.0
31.03.2015	68.6	14.5	11.1	5.8	100.0	59.9	10.0	26.2	3.8	100.0
30.06.2015	67.5	13.6	12.8	6.1	100.0	56.7	10.2	29.1	3.9	100.0
30.09.2015	70.7	13.8	10.1	5.4	100.0	58.6	11.5	26.6	3.4	100.0
31.12.2015	71.1	14.9	8.8	5.3	100.0	58.5	11.3	26.8	3.3	100.0
31.03.2016	69.5	15.1	8.9	6.5	100.0	56.7	11.1	28.5	3.7	100.0
30.06.2016	68.9	14.8	9.8	6.5	100.0	54.1	10.2	32.0	3.7	100.0
30.09.2016	67.8	14.5	10.9	6.8	100.0	52.8	9.9	33.7	3.6	100.0
31.12.2016	67.5	15.5	10.4	6.5	100.0	51.5	8.8	36.8	2.9	100.0

Note. Excluding data on financial derivatives.

Foreign assets and liabilities of the banking sector of the Russian Federation by group of countries as of 31 December 2016
(millions of US dollars)

	Foreign assets						Foreign liabilities						Net international positions	
	interbank positions		other positions		total		interbank positions		other positions		total		short-term	long-term
	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term	short-term	long-term		
Total	49,098.2	27,868.1	26,217.7	111,769.7	75,315.9	139,637.8	15,007.4	45,264.9	18,555.9	91,254.4	33,563.3	136,519.3	41,752.6	3,118.5
of which:														
CIS countries	3,167.1	7,017.9	544.3	7,284.1	3,711.3	14,301.9	1,290.7	389.0	1,475.3	1,327.1	2,766.0	1,716.1	945.3	12,585.8
of which:														
EAEU countries	1,871.2	3,949.2	483.4	6,120.2	2,354.6	10,069.4	1,047.9	232.6	600.8	326.5	1,648.7	559.1	705.9	9,510.3
Other countries	1,295.9	3,068.7	60.8	1,163.8	1,356.7	4,232.5	242.9	156.4	874.5	1,000.6	1,117.3	1,157.0	239.4	3,075.5
Non-CIS countries	45,929.3	20,818.8	25,656.5	104,104.0	71,585.8	124,922.8	13,662.4	44,736.9	16,278.2	89,108.3	29,940.6	133,845.2	41,645.2	-8,922.4
of which:														
EU countries	26,925.2	14,133.0	20,628.3	88,275.7	47,553.5	102,408.7	9,525.0	21,123.6	9,797.8	78,365.0	19,322.8	99,488.5	28,230.7	2,920.2
APEC countries	14,462.0	1,136.6	2,090.0	2,377.6	16,552.0	3,514.2	775.9	20,364.2	776.9	4,690.0	1,552.8	25,054.3	14,999.2	-21,540.0
Other countries	4,542.1	5,549.2	2,938.2	13,450.6	7,480.3	18,999.8	3,361.4	3,249.1	5,703.6	6,053.3	9,065.0	9,302.4	-1,584.7	9,697.4
International organisations	1.8	31.4	17.0	381.6	18.8	413.1	54.3	138.9	802.4	819.1	856.7	958.0	-837.9	-544.9

Table 24

Basic derived indicators of ruble's exchange rate dynamics in 2016

	January	February	March	April	May	June	July	August	September	October	November	December
Nominal exchange rate of US dollar against ruble, end of period	75.17	75.09	67.61	64.33	66.08	64.26	67.05	64.91	63.16	62.90	64.94	60.66
Nominal exchange rate of US dollar against ruble, period averages	76.25	77.22	70.47	66.68	65.66	65.31	64.33	64.92	64.60	62.68	64.36	62.18
Nominal exchange rate of US dollar against ruble, period averages from the beginning of the year	76.25	76.73	74.59	72.53	71.10	70.10	69.24	68.69	68.22	67.65	67.34	66.90
Nominal exchange rate of euro against ruble, end of period	81.91	82.97	76.54	73.30	73.50	71.21	74.38	72.50	70.88	68.68	68.84	63.81
Nominal exchange rate of euro against ruble, period averages	83.03	85.88	78.23	75.58	74.26	73.33	71.23	72.78	72.44	69.16	69.63	65.59
Nominal exchange rate of euro against ruble, period averages from the beginning of the year	83.03	84.44	82.32	80.58	79.27	78.25	77.21	76.64	76.16	75.43	74.88	74.06
Percentage change over December 2015¹												
Nominal exchange rate of ruble against US dollar	-8.6	-9.8	-1.2	4.5	6.1	6.7	8.3	7.3	7.8	11.1	8.2	12.0
Nominal exchange rate of ruble against euro	-8.7	-11.7	-3.1	0.3	2.1	3.4	6.4	4.1	4.6	9.6	8.8	15.6
Nominal effective exchange rate of ruble vis-a-vis foreign currencies	-7.4	-9.0	-1.0	2.6	4.5	5.5	8.2	6.1	6.9	11.4	10.8	17.4
Real exchange rate of ruble against US dollar	-7.9	-8.6	0.3	5.9	7.5	8.2	10.5	9.4	9.9	13.6	11.3	15.6
Real exchange rate of ruble against euro	-7.1	-9.9	-1.3	2.6	4.5	6.3	9.8	7.4	8.2	13.6	13.3	20.3
Real effective exchange rate of ruble vis-a-vis foreign currencies	-6.4	-7.9	0.4	4.2	6.2	7.7	10.8	8.7	9.4	14.0	13.7	20.4
Percentage change over previous period¹												
Nominal exchange rate of ruble against US dollar	-8.6	-1.3	9.6	5.7	1.6	0.5	1.5	-0.9	0.5	3.1	-2.6	3.5
Nominal exchange rate of ruble against euro	-8.7	-3.3	9.8	3.5	1.8	1.3	3.0	-2.1	0.5	4.7	-0.7	6.2
Nominal effective exchange rate of ruble vis-a-vis foreign currencies	-7.4	-1.7	8.8	3.6	1.8	1.0	2.5	-1.9	0.7	4.2	-0.5	5.9
Real exchange rate of ruble against US dollar	-7.9	-0.7	9.6	5.6	1.5	0.6	2.2	-1.0	0.5	3.3	-2.1	3.9
Real exchange rate of ruble against euro	-7.1	-3.0	9.6	3.9	1.9	1.6	3.4	-2.2	0.7	5.0	-0.2	6.1
Real effective exchange rate of ruble vis-a-vis foreign currencies	-6.4	-1.6	9.0	3.8	2.0	1.4	2.9	-1.9	0.6	4.2	-0.2	5.9
Percentage change over corresponding period of 2015¹												
	January	January–February	January–March	January–April	January–May	January–June	January–July	January–August	January–September	January–October	January–November	January–December
Nominal exchange rate of ruble against US dollar	-19.1	-17.7	-16.7	-17.7	-18.8	-18.4	-17.4	-15.4	-13.5	-12.2	-11.0	-9.3
Nominal exchange rate of ruble against euro	-12.6	-13.5	-14.5	-17.1	-18.5	-18.2	-17.3	-15.4	-13.5	-12.0	-10.9	-9.0
Nominal effective exchange rate of ruble vis-a-vis foreign currencies	-8.6	-9.1	-9.6	-11.9	-13.4	-13.2	-12.3	-10.5	-8.8	-7.6	-6.6	-4.8
Real exchange rate of ruble against US dollar	-12.2	-11.2	-10.5	-11.8	-13.1	-12.8	-11.8	-9.7	-7.9	-6.6	-5.6	-4.0
Real exchange rate of ruble against euro	-4.2	-5.9	-7.4	-10.4	-12.1	-11.8	-10.9	-8.9	-7.0	-5.6	-4.6	-2.8
Real effective exchange rate of ruble vis-a-vis foreign currencies	-2.9	-4.0	-4.8	-7.3	-8.8	-8.6	-7.7	-5.8	-4.2	-3.0	-2.2	-0.5

¹ '+' denotes appreciation of the Russian ruble vis-a-vis foreign currencies, '-' denotes depreciation of the Russian ruble vis-a-vis foreign currencies.

Table 25

**External debt of the Russian Federation
(millions of US dollars)**

	31.12.2015	31.03.2016	30.06.2016	30.09.2016	31.12.2016
Total	519,101	521,211	524,545	520,289	513,478
General government	30,551	32,093	35,983	40,391	39,178
Federal government	29,987	31,509	35,392	39,729	38,966
<i>New Russian debt</i>	<i>28,747</i>	<i>30,273</i>	<i>34,311</i>	<i>38,647</i>	<i>37,921</i>
Multilateral creditors	999	979	923	907	858
<i>IBRD</i>	<i>755</i>	<i>741</i>	<i>707</i>	<i>698</i>	<i>671</i>
<i>Other</i>	<i>244</i>	<i>238</i>	<i>216</i>	<i>209</i>	<i>187</i>
Other loans	0	0	0	0	0
Foreign currency bonds	12,646	11,909	11,999	14,456	11,662
<i>Eurobonds</i>	<i>9,679</i>	<i>9,447</i>	<i>9,625</i>	<i>11,518</i>	<i>11,034</i>
<i>Eurobonds (related to the second London Club debt restructuring)</i>	<i>2,967</i>	<i>2,461</i>	<i>2,374</i>	<i>2,938</i>	<i>628</i>
Ruble-denominated bonds	14,735	17,011	21,022	22,924	25,032
<i>OFZ</i>	<i>14,691</i>	<i>16,937</i>	<i>21,010</i>	<i>22,916</i>	<i>25,017</i>
<i>Eurobonds</i>	<i>44</i>	<i>74</i>	<i>12</i>	<i>8</i>	<i>14</i>
Other	366	375	367	360	369
<i>Debt of the former USSR</i>	<i>1,240</i>	<i>1,237</i>	<i>1,081</i>	<i>1,081</i>	<i>1,045</i>
Debt owed to former socialist countries	414	410	396	396	395
Other official creditors	805	805	664	664	629
Other	21	21	21	21	21
Local government	564	583	591	662	212
Loans	445	461	451	457	0
Ruble-denominated bonds	119	123	140	205	212
Central bank	11,716	10,857	10,728	10,960	12,265
Loans	2,128	934	802	1,157	2,546
Currency and deposits	1,728	1,931	1,991	1,886	2,091
Other (SDR allocations)	7,860	7,991	7,935	7,917	7,628
Banks	131,733	129,802	127,734	123,586	119,395
Debt liabilities to direct investors and to direct investment enterprises	5,499	4,863	4,721	4,362	5,179
Loans	1,062	1,207	1,119	983	451
Current accounts and deposits	117,415	115,226	113,468	109,041	105,302
Debt securities	5,721	5,299	5,463	5,444	6,148
Other	2,037	3,207	2,963	3,755	2,314
Other sectors	345,100	348,460	350,100	345,352	342,640
Debt liabilities to direct investors and to direct investment enterprises	134,361	135,679	137,689	136,590	136,192
Loans and deposits	195,254	197,197	193,789	192,700	189,652
Debt securities	5,243	5,982	6,197	5,948	5,987
Trade credits	2,870	2,841	2,919	2,985	2,926
Financial leases	5,100	5,071	4,948	4,854	4,681
Other	2,273	1,691	4,558	2,275	3,202

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 nonresidents at face value.

3. The external debt data are compiled on the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

4. Banks' totals include Vnesheconombank data.

Table 26

**External debt of the Russian Federation
(analytical presentation, millions of US dollars)**

	31.12.2015	31.03.2016	30.06.2016	30.09.2016	31.12.2016
External debt of the Russian Federation	519,101	521,211	524,545	520,289	513,478
Short-term	48,587	46,289	52,961	49,302	51,063
Long-term	470,514	474,922	471,584	470,987	462,415
Public sector external debt¹	268,750	268,793	265,922	264,774	254,846
Short-term	18,302	17,267	19,717	19,114	19,665
Long-term	250,448	251,526	246,205	245,660	235,181
General government	30,551	32,093	35,983	40,391	39,178
Short-term	332	340	333	326	334
Long-term	30,219	31,752	35,650	40,065	38,843
Central bank	11,716	10,857	10,728	10,960	12,265
Short-term	3,856	2,865	2,794	3,043	4,637
Long-term	7,860	7,991	7,935	7,917	7,628
Banks	88,363	87,733	85,142	84,071	79,076
Short-term	12,744	12,784	13,993	14,713	13,682
Long-term	75,619	74,948	71,149	69,359	65,394
Other sectors	138,120	138,112	134,069	129,352	124,327
Short-term	1,370	1,277	2,597	1,033	1,011
Long-term	136,750	136,834	131,472	128,319	123,316
Private sector external debt¹	250,351	252,418	258,623	255,515	258,631
Short-term	30,285	29,022	33,244	30,187	31,398
Long-term	220,066	223,396	225,379	225,327	227,233
Banks	43,371	42,069	42,592	39,514	40,319
Short-term	13,521	13,176	15,207	13,863	13,432
Long-term	29,849	28,893	27,385	25,651	26,886
Other sectors	206,981	210,348	216,031	216,000	218,313
Short-term	16,764	15,845	18,037	16,324	17,966
Long-term	190,217	194,503	197,994	199,676	200,347

¹ Public sector external debt covers liabilities of the general government, central bank, and banks and nonbank corporations in which the government and central bank hold, directly or indirectly, 50% or more of shares or control them through other means. Liabilities to nonresidents 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 27

Money supply (national definition) and its structure

	As of 1.01.2016		As of 1.01.2017		1.01.2017 as a percentage of 1.01.2016
	billions of rubles	percent	billions of rubles	percent	
Money supply (M2), total	35,179.7	100.0	38,417.9	100.0	109.2
of which:					
– currency in circulation (M0) ¹	7,239.1	20.6	7,714.8	20.1	106.6
– deposits	27,940.6	79.4	30,703.1	79.9	109.9
of which:					
– nonfinancial and financial organisations ²	11,895.9	33.8	12,375.3	32.2	104.0
– households	16,044.6	45.6	18,327.9	47.7	114.2

¹ Currency in circulation outside the banking system.

² Except credit institutions.

Table 28

Monetary base and its structure

	As of 1.01.2016		As of 1.01.2017		1.01.2017 as a percentage of 1.01.2016
	billions of rubles	percent	billions of rubles	percent	
Monetary base (broad definition)	11,043.8	100.0	11,882.7	100.0	107.6
of which:					
– currency in circulation, including balances in credit institutions' cash vaults ¹	8,522.2	77.2	8,789.8	74.0	103.1
– credit institutions' correspondent accounts with the Bank of Russia ²	1,594.0	14.4	1,822.7	15.3	114.3
– required reserves ³	369.8	3.3	484.7	4.1	131.1
– credit institutions' deposits with the Bank of Russia	557.8	5.1	785.6	6.6	140.8

¹ Excluding cash in vaults of the Bank of Russia.

² Balances of ruble-denominated accounts, including the average amount of required reserves.

³ Balances of required reserve accounts deposited by credit institutions with the Bank of Russia on funds raised in rubles and foreign currency.

**Interest rates on Bank of Russia operations to provide and absorb ruble liquidity
(percent p.a.)**

Purpose	Type of instrument	Instrument	Maturity	Rate from:		
				3.08.2015	14.06.2016	19.09.2016
Liquidity provision	Standing facilities (fixed interest rates)	Overnight loans; Lombard loans; loans secured by gold, non-marketable assets, and guarantees; FX swaps (ruble leg); repos	1 day	12.00	11.50	11.00
		Loans secured by gold	from 2 to 549 days ¹	12.50	12.00	11.50
		Loans secured by non-marketable assets or guarantees		12.75	12.25	11.75
	Open market operations (minimum interest rates)	Auctions to provide loans secured by non-marketable assets	3 months ¹ , from 1 to 3 weeks ² , 18 months ^{1,2}	11.25	10.75	10.25
		Lombard loan auctions	36 months ^{1,2}			
		Repo auctions	1 week, from 1 to 6 days ³	11.00 (key rate)	10.50 (key rate)	10.00 (key rate)
		FX swap auctions	from 1 to 2 days ³			
Liquidity absorption	Open market operations (maximum interest rates)	Deposit auctions	from 1 to 6 days ³ , 1 week	10.00	9.50	9.00
	Standing facilities (fixed interest rates)	Deposit operations	1 day, call			

¹ Loans provided at a floating interest rate pegged to the Bank of Russia key rate.

² Auctions have been suspended from 1 July 2016.

³ Fine-tuning operations.

Memo item: From 1 January 2016, the refinancing rate has been set equal to the Bank of Russia key rate as of the respective date. From 1 January 2016, the independent value of the refinancing rate has not been set.

Table 30

Interest rates on Bank of Russia operations to provide foreign currency on repayable basis in 2016

Instrument	Maturity	Minimum auction rate (as a spread to LIBOR ¹ , pp); fixed FX swap rate ² , percent p.a.	
		from 14.12.2015	from 23.12.2016
Repo auctions in US dollars and euros	1 week	2.00	2.00
	28 days		
	12 months ³	3.00	3.00
Credit auctions in US dollars and euros	28 days	2.25	2.25
	365 days	3.25	3.25
FX swaps to sell US dollars for rubles	1 day	1.50	LIBOR ¹ + 1.50

¹ LIBOR in corresponding currencies and for comparable terms.

² The rate on US dollar leg; the rate on ruble leg is set equal to the Bank of Russia key rate minus 1 percentage point.

³ 12-month FX repo auctions have been suspended from 1 April 2016.

Table 31

Bank of Russia operations to provide and absorb liquidity in 2016
(billions of rubles)

Purpose	Type of instrument	Instrument	Operations	Change in debt
Liquidity provision	Standing facilities	Intraday loans	49,600.2	–
		Overnight loans	214.5	0.0
		Repos	42,880.7	332.5
		Lombard loans ¹	84.7	–2.3
		FX swaps (ruble leg)	269.8	22.9
		Loans secured by non-marketable assets or guarantees ¹	10,292.7	320.9
		Loans secured by gold	3.3	–0.5
	Open market operations	Repo auctions	13,330.3	–1,448.5
		Lombard loan auctions	–	–
		Auctions to provide loans secured by non-marketable assets	250.0	–1,338.2
		Operations to buy government securities	–	–
Liquidity absorption	Standing facilities	Fixed interest rate deposits	66,947.5	–169.4
	Open market operations	Deposit auctions	6,166.0	396.9
		Operations to sell government securities	133.3	–

¹ Including operations held using Bank of Russia specialised refinancing instruments.

Table 32

Bank of Russia operations to provide foreign currency on repayable basis

Type of instrument	Instrument	Maturity	Bank of Russia claims to credit institutions, billions of US dollars	
			1.01.2016	1.01.2017
Standing facilities	FX swaps to sell US dollars for rubles	1 day	–	1.00
Auction operations	Repos in US dollars and euros ¹	1 week	0.10	2.64
		28 days	5.02	8.72
		12 months	15.55	0.03
	Loans in US dollars and euros	28 days	–	–
		365 days	1.49	–

¹ Operations were conducted in US dollars only.

Table 33

Bank of Russia specialised refinancing instruments

Area of indirect support of bank lending	Maturity	Security	Interest rate, percent p.a.			Bank of Russia claims to credit institutions as of 1.01.2016, billions of rubles	Bank of Russia claims to credit institutions as of 1.01.2017, billions of rubles	Limit as of 1.01.2017, billions of rubles
			from 11.12.2015	from 14.06.2016	from 19.09.2016			
Exports	Up to 3 years	Receivables on loan agreements secured by insurance agreements of JSC EXIAR	9.00	9.00	9.00	39.66	43.38	75.00
Investment projects ¹	Up to 3 years	Receivables on bank loans to implement investment projects, obligations under which are secured by state guarantees of the Russian Federation	9.00	9.00	9.00	53.44	112.62	150.00
		Bonds placed to finance investment projects and included in the Bank of Russia Lombard List	9.00	9.00	9.00	2.85	0.59	
Small and medium-sized businesses	Up to 3 years	Receivables on loan agreements of JSC SME Bank ²	6.50	6.50	6.50	40.10	43.12	125.00
		Guarantees of JSC Federal Corporation for the Development of Small and Medium Enterprise issued under the programme to stimulate lending to small and medium-sized businesses	6.50	6.50	6.50	0.08	48.17	
Military mortgage	Up to 3 years	Mortgages issued under Military Mortgage programme	10.75	10.50	10.00	21.01	29.31	30.00

¹ Projects should be selected in accordance with the rules set by Resolution of the Russian Federation Government No. 1016, dated 14 December 2010, 'On the Approval of Rules to Select Investment Projects and Principals to Provide State Guarantees of the Russian Federation under Loans or Bonded Loans Raised for Investment Projects Implementation' or Resolution of the Russian Federation Government No. 1044, dated 11 October 2014, 'On the Approval of the Programme to Support Investment Projects Implemented in the Russian Federation on a Project Financing Basis'.

² Receivables on loans provided by JSC SME Bank to credit institutions and microfinance organisations for the purposes of lending to small and medium-sized businesses, and also to leasing companies for the purposes of leasing property to small and medium-sized businesses.

Table 34

**Banking sector survey
(billions of rubles)**

	1.01.2016	1.01.2017	1.01.2017 as a percentage of 1.01.2016
Net foreign assets	32,855.8	27,368.4	83.3
Claims on nonresidents	43,309.7	35,250.4	81.4
Monetary gold and SDR	4,115.7	4,043.3	98.2
Foreign currency	1,335.4	1,250.6	93.6
Deposits	7,945.5	6,536.6	82.3
– in rubles	314.7	229.7	73.0
– in foreign currency	7,630.8	6,306.9	82.7
Debt securities	23,419.5	17,681.2	75.5
– in rubles	261.0	189.4	72.6
– in foreign currency	23,158.5	17,491.8	75.5
Loans	5,680.8	4,817.2	84.8
– in rubles	746.6	784.1	105.0
– in foreign currency	4,934.2	4,033.2	81.7
Shares and other equity	794.4	904.1	113.8
– in rubles	5.4	5.4	100.0
– in foreign currency	788.9	898.7	113.9
Other claims	18.4	17.2	93.5
– in rubles	4.2	3.7	88.1
– in foreign currency	14.1	13.5	95.7
Liabilities to nonresidents	10,453.8	7,882.0	75.4
Deposits	9,274.0	6,934.2	74.8
– in rubles	983.6	849.8	86.4
– in foreign currency	8,290.4	6,084.4	73.4
Debt securities	368.9	268.9	72.9
– in rubles	368.9	268.9	72.9
– in foreign currency	0.0	0.0	–
Loans	232.7	214.1	92.0
– in rubles	0.0	0.0	–
– in foreign currency	232.7	214.1	92.0
Liabilities on SDR allocations	574.2	461.2	80.3
Other liabilities	4.0	3.6	90.0
– in rubles	0.5	0.2	40.0
– in foreign currency	3.5	3.4	97.1
Domestic claims	47,320.4	50,187.2	106.1
Net claims on central government	–5,737.8	–2,558.6	44.6
Claims on federal government	4,512.0	4,640.1	102.8
Debt securities	4,512.0	4,640.1	102.8
– in rubles	3,354.6	3,530.2	105.2
– in foreign currency	1,157.4	1,109.9	95.9
Loans	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Other claims	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–

Cont.

	1.01.2016	1.01.2017	1.01.2017 as a percentage of 1.01.2016
Claims on regional government and local self-government bodies	1,483.5	1,474.0	99.4
Debt securities	346.0	437.4	126.4
– in rubles	346.0	437.4	126.4
– in foreign currency	0.0	0.0	–
Loans	1,137.5	1,036.7	91.1
– in rubles	1,137.5	1,036.6	91.1
– in foreign currency	0.0	0.1	–
Other claims	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Liabilities to federal government	10,521.1	7,292.3	69.3
Deposits	10,453.1	7,229.0	69.2
– in rubles	2,566.8	2,919.3	113.7
– in foreign currency	7,886.3	4,309.7	54.6
Other liabilities	68.0	63.3	93.1
– in rubles	0.0	0.0	–
– in foreign currency	68.0	63.3	93.1
Liabilities to regional government and local self-government bodies	1,212.2	1,380.5	113.9
Deposits	1,212.2	1,380.5	113.9
– in rubles	1,212.2	1,380.4	113.9
– in foreign currency	0.1	0.1	100.0
Other liabilities	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Claims on other sectors	53,058.2	52,745.8	99.4
– in rubles	39,869.4	43,167.7	108.3
– in foreign currency	13,188.8	9,578.1	72.6
Claims on other financial corporations	5,916.3	6,708.6	113.4
In rubles	4,332.0	5,036.8	116.3
– debt securities	713.6	657.4	92.1
– loans	2,440.7	3,381.7	138.6
– other claims	1,177.7	997.7	84.7
In foreign currency	1,584.4	1,671.8	105.5
– debt securities	86.4	99.5	115.2
– loans	634.5	1,201.1	189.3
– other claims	863.5	371.2	43.0
Claims on nonfinancial corporations	35,494.8	34,286.6	96.6
In rubles	24,231.3	26,597.6	109.8
– debt securities	1,000.9	1,282.6	128.1
– loans	21,904.8	23,564.5	107.6
– other claims	1,325.5	1,750.5	132.1
In foreign currency	11,263.5	7,689.1	68.3
– debt securities	5.2	11.9	228.8
– loans	11,159.3	7,564.3	67.8
– other claims	99.0	112.9	114.0

End

	1.01.2016	1.01.2017	1.01.2017 as a percentage of 1.01.2016
Claims on households	11,647.1	11,750.6	100.9
In rubles	11,306.2	11,533.3	102.0
– debt securities	0.0	0.0	–
– loans	11,306.2	11,533.3	102.0
– other claims	0.0	0.0	–
In foreign currency	340.9	217.3	63.7
– debt securities	0.0	0.0	–
– loans	340.9	217.3	63.7
– other claims	0.0	0.0	–
Broad money liabilities	51,370.3	50,903.4	99.1
Money supply (national definition)	35,179.7	38,417.9	109.2
– in rubles	0.0	0.0	–
Currency outside depository corporations	7,239.1	7,714.8	106.6
Transferable deposits	9,276.4	9,927.6	107.0
Other financial corporations	532.8	549.0	103.0
Nonfinancial corporations	5,472.9	5,684.2	103.9
Households	3,270.7	3,694.4	113.0
Other deposits	18,664.1	20,775.5	111.3
Other financial corporations	1,385.2	1,379.9	99.6
Nonfinancial corporations	4,505.0	4,762.2	105.7
Households	12,773.9	14,633.5	114.6
In foreign currency	15,614.3	11,997.4	76.8
Transferable deposits	0.0	0.0	–
Other financial corporations	0.0	0.0	–
Nonfinancial corporations	0.0	0.0	–
Households	0.0	0.0	–
Other deposits	15,614.3	11,997.4	76.8
Other financial corporations	256.7	217.3	84.7
Nonfinancial corporations	8,753.6	6,262.0	71.5
Households	6,604.0	5,518.2	83.6
Debt securities included in broad money ¹	576.3	488.0	84.7
Other financial corporations	0.2	0.0	0.0
Nonfinancial corporations	2.7	0.5	18.5
Households	573.5	487.4	85.0
Deposits excluded from broad money	658.0	842.8	128.1
Debt securities excluded from broad money	965.2	977.0	101.2
Shares and other equity	20,244.8	17,703.9	87.4
Other items (net)	6,937.9	7,128.5	102.7
Other liabilities	13,998.4	15,089.4	107.8
Other assets	5,255.4	5,354.6	101.9
Consolidating adjustment	–1,805.1	–2,606.3	144.4

¹ Certificates of deposit and savings certificates.

Table 35

**Survey of credit institutions
(billions of rubles)**

	1.01.2016	1.01.2017	1.01.2017 as a percentage of 1.01.2016
Net foreign assets	6,644.9	5,025.3	75.6
Claims on nonresidents	16,367.5	12,289.8	75.1
Foreign currency	525.1	335.2	63.8
Deposits	6,058.2	3,485.0	57.5
Debt securities	3,504.7	2,803.1	80.0
Loans	5,470.5	4,751.6	86.9
Shares and other equity	794.4	904.1	113.8
Other claims	14.7	10.8	73.5
Liabilities to nonresidents	9,722.7	7,264.4	74.7
Deposits	9,272.2	6,932.2	74.8
Debt securities	368.9	268.9	72.9
Loans	77.6	59.6	76.8
Other liabilities	4.0	3.6	90.0
Claims on central bank	3,811.5	4,168.2	109.4
Currency	1,283.0	1,075.0	83.8
Deposits, of which	2,528.4	3,093.2	122.3
Required reserves	369.8	484.7	131.1
Debt securities	0.0	0.0	–
Net claims on central government	3,461.5	3,708.9	107.1
Claims on federal government	3,997.8	4,328.3	108.3
Debt securities	3,997.8	4,328.3	108.3
– in rubles	3,149.0	3,470.4	110.2
– in foreign currency	848.8	857.9	101.1
Loans	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Other claims	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Claims on regional government and local self-government bodies	1,480.1	1,474.0	99.6
Debt securities	342.6	437.4	127.7
– in rubles	342.6	437.4	127.7
– in foreign currency	0.0	0.0	–
Loans	1,137.5	1,036.7	91.1
– in rubles	1,137.5	1,036.6	91.1
– in foreign currency	0.0	0.1	–
Other claims	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Liabilities to federal government	1,584.0	1,606.7	101.4
Deposits	1,584.0	1,606.7	101.4
– in rubles	1,123.2	1,114.5	99.2
– in foreign currency	460.8	492.1	106.8

Cont.

	1.01.2016	1.01.2017	1.01.2017 as a percentage of 1.01.2016
Other liabilities	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Liabilities to regional government and local self-government bodies	432.5	486.7	112.5
Deposits	432.5	486.7	112.5
– in rubles	432.5	486.7	112.5
– in foreign currency	0.1	0.1	100.0
Other liabilities	0.0	0.0	–
– in rubles	0.0	0.0	–
– in foreign currency	0.0	0.0	–
Claims on other sectors	51,851.2	51,004.0	98.4
– in rubles	38,662.8	41,426.2	107.1
– in foreign currency	13,188.4	9,577.8	72.6
Claims on other financial corporations	4,722.9	4,968.3	105.2
In rubles	3,139.0	3,296.9	105.0
– debt securities	713.5	655.4	91.9
– loans	1,279.2	1,704.7	133.3
– other claims	1,146.3	936.8	81.7
In foreign currency	1,583.9	1,671.5	105.5
– debt securities	86.4	99.5	115.2
– loans	634.5	1,201.1	189.3
– other claims	863.0	370.9	43.0
Claims on nonfinancial corporations	35,481.2	34,285.0	96.6
In rubles	24,217.6	26,596.0	109.8
– debt securities	1,000.1	1,282.6	128.2
– loans	21,904.8	23,564.5	107.6
– other claims	1,312.7	1,748.9	133.2
In foreign currency	11,263.5	7,689.1	68.3
– debt securities	5.2	11.9	228.8
– loans	11,159.3	7,564.3	67.8
– other claims	99.0	112.9	114.0
Claims on households	11,647.1	11,750.6	100.9
In rubles	11,306.2	11,533.3	102.0
– debt securities	0.0	0.0	–
– loans	11,306.2	11,533.3	102.0
– other claims	0.0	0.0	–
In foreign currency	340.9	217.3	63.7
– debt securities	0.0	0.0	–
– loans	340.9	217.3	63.7
– other claims	0.0	0.0	–
Liabilities to central bank	6,074.0	3,392.8	55.9
In rubles	4,456.8	2,700.4	60.6
– deposits, loans, of which	4,233.7	2,477.1	58.5
– repos	1,709.8	593.9	34.7
– debt securities	223.1	223.3	100.1
– other liabilities	0.0	0.0	–

End

	1.01.2016	1.01.2017	1.01.2017 as a percentage of 1.01.2016
In foreign currency	1,617.2	692.4	42.8
– deposits, loans, of which	1,617.2	692.4	42.8
– repos	1,506.3	690.4	45.8
– debt securities	0.0	0.0	–
– other liabilities	0.0	0.0	–
Deposits included in broad money	43,480.3	42,656.8	98.1
In rubles	27,866.0	30,659.3	110.0
Transferable deposits	9,201.9	9,897.9	107.6
Other financial corporations	470.9	532.3	113.0
Nonfinancial corporations	5,460.2	5,671.2	103.9
Households	3,270.7	3,694.4	113.0
Other deposits	18,664.1	20,761.4	111.2
Other financial corporations	1,385.2	1,365.7	98.6
Nonfinancial corporations	4,505.0	4,762.2	105.7
Households	12,773.9	14,633.5	114.6
In foreign currency	15,614.3	11,997.4	76.8
Transferable deposits	0.0	0.0	–
Other financial corporations	0.0	0.0	–
Nonfinancial corporations	0.0	0.0	–
Households	0.0	0.0	–
Other deposits	15,614.3	11,997.4	76.8
Other financial corporations	256.7	217.3	84.7
Nonfinancial corporations	8,753.6	6,262.0	71.5
Households	6,604.0	5,518.2	83.6
Debt securities included in broad money	576.3	488.0	84.7
Deposits excluded from broad money	658.0	842.8	128.1
Debt securities excluded from broad money	965.2	977.0	101.2
Shares and other equity	6,522.4	7,058.2	108.2
Other items (net)	7,492.8	8,490.8	113.3
Other liabilities	13,034.2	14,141.9	108.5
Other assets	4,879.1	4,985.5	102.2
Consolidating adjustment	–662.4	–665.5	100.5

Table 36

**Banking sector capital and profit
(billions of rubles)**

	2016												2017
	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.01
Equity capital	9,009	9,079	9,093	8,953	8,922	8,965	8,948	9,025	9,073	9,098	9,148	9,235	9,387
– monthly growth, percent	1.3	0.8	0.2	–1.5	–0.3	0.5	–0.2	0.9	0.5	0.3	0.5	1.0	1.6
– 12-month growth, percent	13.6	15.7	17.0	10.9	11.2	10.9	9.6	6.7	4.0	4.1	3.7	3.9	4.2
Capital adequacy N1.0, percent	12.7	12.1	12.1	12.4	12.5	12.4	12.4	12.3	12.5	12.7	12.7	12.7	13.1
Loss provisions – balance ¹	5,406	5,505	5,551	5,553	5,587	5,694	5,643	5,749	5,803	5,767	5,792	5,870	5,594
– growth from the start of the year	1,352	98	145	147	181	287	237	343	397	361	386	464	188
Current year profit	192	32	82	109	167	235	360	459	532	632	714	788	930
Return on assets ² , percent	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.8	0.8	0.9	0.9	0.9	1.2
Return on equity ² , percent	2.3	2.9	3.6	3.4	4.3	4.8	5.7	6.9	7.2	7.8	7.9	7.9	10.3

¹ The balance sheet statement does not correspond to the income statement due to the writing-off of a part of bad debt provisions.

² Over 12 months preceding the reporting date.

Table 37

Measures taken against credit institutions in 2016

No.	Measures	Number of credit institutions
Preventive measures		
1	Notifying in writing the management and/or board of directors (supervisory board) of a credit institution of shortcomings in its work, and recommending remedial action	713
2	Calling a meeting	580
3	Other (recommendations to draw up a plan of remedial action, tighten control over reporting, make a realistic assessment of credit risk, avoid misstatements in reports, etc.)	57
Punitive measures		
4	Fines ¹	302
	of which:	
4.1	for non-compliance with reserve requirements	61
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	268
5	Restrictions on individual banking operations conducted by credit institutions ¹	213
	of which:	
5.1	taking household funds on deposit	150
5.2	settlements on behalf of corporate entities relating to transfer of funds to budgets of the budget system of the Russian Federation	12
5.3	opening bank accounts to corporate entities and households	134
5.4	interest rate on bank deposit agreements concluded (prolongated) in the restriction period	11
6	Prohibiting credit institutions from conducting certain banking operations ¹	61
	of which:	
6.1	taking household funds on deposit	42
6.2	opening bank accounts to households, including unallocated metal accounts (demand and time accounts)	36
6.3	other	60
Memo item		
	Bans on taking household funds on deposit and opening bank accounts to households imposed on credit institutions pursuant to Article 48 of Federal Law No. 177-FZ, dated 23 December 2003	1
7	Prescriptive orders ¹	610
	of which:	
7.1	orders to comply with Bank of Russia required ratios	3
7.2	orders to replace persons whose positions are indicated in Article 60 of Federal Law No. 86-FZ, dated 10 July 2002	9
7.3	orders to replace persons holding positions indicated in Parts 4, 6 and 10 of Article 11 ¹ of Federal Law No. 395-1, dated 2 December 1990, made on the basis of Part 4 of Article 60 of Federal Law No. 86-FZ, dated 10 July 2002, due to the failure to comply with fit and proper requirements set by the Russian Federation legislation	27
7.4	orders to reclassify receivables	432
7.5	orders to build up loan loss provisions	448
8	Prohibiting credit institutions from opening branches	65
9	Appointing provisional administrations to credit institutions without revoking their licences	3 ²
10	Banking licence revocation	97

¹ The number of credit institutions indicated under clauses 4 to 7 differs from the sub-clauses total, as in some cases banks have been subjected to several actions and placed under several sub-clauses.

² In 2016, the state corporation Deposit Insurance Agency was vested with the powers of provisional administrations of eight banks.

As of 1 January 2017, there were no credit institutions with regard to which the restriction on settlements on behalf of corporate entities relating to transfer of funds to budgets of the budget system of the Russian Federation was in effect.

As of 1 January 2017, there were no credit institutions with a backlog of non-executed settlement documents on payments to budgets of all levels.

Table 38

**State corporation Deposit Insurance Agency's debt to the Bank of Russia
(millions of rubles)**

	As of 1.01.2016	As of 1.01.2017
Bank of Russia loans, total	1,122,891	1,616,834
of which:		
– to take measures to prevent bankruptcy of credit institutions	1,047,891	1,067,834
– to ensure the financial stability of the deposit insurance system and to finance the payment of indemnities in respect of deposits	75,000	549,000

Table 39

Structure of Bank of Russia banknotes in circulation

Denomination, rubles	Total in circulation, millions of rubles		Percent of 1.01.2016	Share, percent	
	as of 1.01.2016	as of 1.01.2017		as of 1.01.2016	as of 1.01.2017
5,000	5,952,721.5	6,308,252.1	106.0	70.5	72.4
1,000	1,990,986.8	1,936,199.2	97.2	23.6	22.2
500	343,925.4	311,777.9	90.7	4.1	3.6
100	124,599.4	122,725.4	98.5	1.4	1.4
50	31,493.4	29,753.0	94.5	0.4	0.4
10	4,595.9	4,342.7	94.5	0.0	0.0
5	35.6	35.6	100.0	0.0	0.0
Total balance sheet number of banknotes of 1997	8,448,358.0	8,713,085.9	103.1	100.0	100.0

Table 40

Structure of Bank of Russia coins in circulation¹

Denomination	Total in circulation, millions of rubles		Percent of 1.01.2016	Share, percent	
	as of 1.01.2016	as of 1.01.2017		as of 1.01.2016	as of 1.01.2017
1 kopeck	72.8	72.8	100.0	0.1	0.1
5 kopecks	288.4	288.5	100.0	0.3	0.3
10 kopecks	2,492.9	2,541.2	101.9	3.0	2.9
50 kopecks	3,535.1	3,645.7	103.1	4.3	4.1
1 ruble	6,995.4	7,424.9	106.1	8.5	8.3
2 rubles	6,121.5	6,552.0	107.0	7.4	7.4
5 rubles	11,905.4	12,718.1	106.8	14.4	14.3
10 rubles	49,337.7	53,669.6	108.8	59.6	60.4
25 rubles	1,998.9	2,000.0	100.1	2.4	2.2
Total balance sheet number of coins of 1997	82,748.1	88,912.8	107.4	100.0	100.0

¹ Excluding coins made of precious metals.

Table 41

National payment system key indicators

	2015	2016
National payment system participants¹		
Number of money transfer operators	735	625
of which:		
– Bank of Russia	1	1
– Vnesheconombank	1	1
– credit institutions	733	623
Number of payment system operators	35	35
of which:		
– Bank of Russia	1	1
– credit institutions	19	18
– organisations other than credit institutions	15	16
Number of operators of payment infrastructure services	52	47
of which:		
– operating centres	35	31
– payment clearing centres	35	31
– settlement centres	30	29
Number of e-money operators	104	99
FSUE Russian Post	1	1
Memo item		
Number of Bank of Russia establishments	271	239
Number of branches of credit institutions	1,398	1,098
Number of internal divisions of credit institutions (branches)		
of which:		
– additional offices	21,836	19,776
– operations offices	7,609	7,230
– credit and cash offices	1,853	1,943
Number of post offices of FSUE Russian Post ²	41,022	42,068
Number of payment systems operating in the Russian Federation	35	35
of which:		
– Bank of Russia payment system	1	1
– Mir payment system	1	1
– payment systems registered by the Bank of Russia	33	33
of which:		
– nationally important	18	18
– systemically important	2	2
– socially important	5	6

Cont.

	2015	2016
Money transfer operators - credit institutions		
Number of payments effected by credit institution customers being credit institutions, million	77.5	99.1
Number of payments effected by credit institution customers other than credit institutions ³ , million	15,496.9	20,293.8
of which, by payment instrument:		
– credit transfers ⁴	2,581.0	2,582.3
– direct debits ⁵	77.5	92.5
– payment cards ⁶	9,803.5	14,413.5
– electronic means of payment to transfer e-money ⁷	1,145.4	1,427.2
– other payment instruments ⁸	1,889.5	1,778.3
Volume of payments effected by credit institution customers being credit institutions, trillions of rubles	557.2	600.3
Volume of payments effected by credit institution customers other than credit institutions ³ , trillions of rubles	618.7	622.8
of which, by payment instrument:		
– credit transfers ⁴	588.3	583.5
– direct debits ⁵	2.1	2.6
– payment cards ⁶	16.4	23.9
– electronic means of payment to transfer e-money ⁷	0.9	1.00
– other payment instruments ⁸	11.0	11.8
Number of payment cards issued by Russian credit institutions ¹ , million	243.9	254.8
Number of payment card operations in Russia and abroad ⁹ , million	13,117.9	17,871.6
of which:		
– cash withdrawals	3,314.5	3,458.0
– cashless operations	9,803.4	14,413.6
of which payments of goods and services	9,036.1	13,011.3
Volume of payment card operations in Russia and abroad ⁹ , trillions of rubles	41.5	51.2
of which:		
– cash withdrawals	25.1	27.3
– cashless operations	16.4	23.9
of which payments of goods and services	9.1	12.4
Share of payments of goods and services in the total turnover of retail trade, public catering and services	22.4	30.5
E-money transfer operators		
Number of electronic payment instruments to transfer e-money used since start of year, million	318.1	315.5
Number of operations using electronic payment instruments to transfer e-money, million	1,152.4	1,432.9
Volume of operations using electronic payment instruments to transfer e-money, billions of rubles	903.0	998.9
FSUE Russian Post²		
Number of money orders and household payments accepted by FSUE Russian Post as a payment agent and operations effected by FSUE Russian Post as a bank payment agent, million	645.6	661.3
Volume of money orders and household payments accepted by FSUE Russian Post as a payment agent and operations effected by FSUE Russian Post as a bank payment agent, billions of rubles	565.3	561.6

End

	2015	2016
Payment agents and bank payment agents		
Number of accounts opened with credit institutions for payment agents and bank payment agents ¹ , thousand	26.7	24.7
of which:		
– payment agents	23.7	21.3
– bank payment agents	3.0	3.4
Volume of operations effected through payment agents and bank payment agents, billions of rubles	1,480.4	1,698.6
of which:		
– payment agents	1,307.0	1,291.8
– bank payment agents	173.4	406.8

¹ As of end of year.

² According to data of FSUE Russian Post.

³ Including orders of credit institution customers – households and legal entities other than credit institutions and credit institutions' own payments.

⁴ Including payments effected using payment orders and letters of credit as well as household remittances without opening a bank account.

⁵ Including payments effected using payment requests and collection orders.

⁶ Excluding operations to withdraw cash.

⁷ Excluding operations to transfer e-money balance withdrawn in cash.

⁸ Including payments effected using cheques and bank orders.

⁹ 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 2015. Discrepancies between the amounts are due to the rounding of data.

Table 42

Bank of Russia payment system

	2015	2016
Number of customers served ¹	3,562	3,036
of which:		
– credit institutions	738	629
– branches of credit institutions	1,221	950
– customers other than credit institutions	1,603	1,457
Number of remittances effected ² , million	1,398.5	1,435.9
of which:		
– by credit institutions (branches)	1,191.0	1,205.0
– by customers other than credit institutions	206.8	230.4
– by Bank of Russia divisions	0.7	0.5
including via settlement systems:		
– via the intraregional settlement system	894.8	839.9
– via the interregional settlement system	500.4	592.6
– via the BESP settlement system	3.3	3.4
– settlements effected on paper using letters of advice	0.004	0.002
Volume of remittances effected ² , trillions of rubles	1,356.5	1,340.0
of which:		
– by credit institutions (branches)	1,029.0	1,087.2
– by customers other than credit institutions	208.2	141.8
– by Bank of Russia divisions	119.3	111.0
including via settlement systems:		
– via the intraregional settlement system	693	645.2
– via the interregional settlement system	127.8	134.7
– via the BESP settlement system	535.7	560.1
– settlements effected on paper using letters of advice	0.002	0.003

¹ As of end of year.

² Excluding operations to withdraw cash, to transfer funds from one customer account to another, and to transfer balances when closing customer accounts.

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2015. Discrepancies between the amounts are due to the rounding of data.

Table 43

**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 1.01.2016	as of 1.01.2017	change over 2016	as of 1.01.2016	as of 1.01.2017	change over 2016
Total	1.6	1.5	-0.1	52.3	51.6	-0.7
Federal Treasury	0.2	0.2	0.0	49.1	48.6	-0.5
Regional and local budget management bodies	0.7	0.6	-0.1	2.1	2.0	-0.1
State-owned institutions financed from budgets of all levels	0.1	0.1	0.0	0.2	0.2	0.0
Government and other extra-budgetary funds	0.01	0.01	0.0	0.02	0.02	0.0
Election commissions (referendum commissions)	0.1	0.1	0.0	0.2	0.2	0.0
Other organisations	0.5	0.4	-0.1	0.6	0.5	-0.1

Note. Certain indicators are updated as compared with those published in the Bank of Russia Annual Report for 2015. Discrepancies between the amounts are due to the rounding of data.